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Drivers and Barriers for Successful Special Economic Zones (SEZs): Case of SEZs under China Pakistan Economic Corridor

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Abstract: Over the last three decades, special economic zones (SEZs) have given new impetus to the ever-growing export-oriented industrialization in developing countries. Where various economies have benefited from SEZs, many zones have ended up becoming enclaves with trifling advantage. The SEZs in Pakistan have experienced the same fate and failed to contribute to exports, employment and creating linkages with the domestic economy. Recently under China Pakistan Economic Corridor (CPEC), SEZs are proposed to be set up in Pakistan; with a hope to fuel the stuttering economy. However, it is pertinent to first understand the local context and device policies considering stakeholders' perspectives. This study aims to identify the factors for the successful implementation of SEZs derived from the regional context of Pakistan. In-depth interviews are conducted from most relevant stakeholders, who have been involved in the development of SEZs. The results pointed towards the removal of political influence over zones and government taking the lead role in deciding the types of industry to be invited in these zones. Each zone should have a clear vision of development based on its regional advantage. The zone promotions should be based on competitiveness rather than fiscal incentives. Joint ventures and PPP to be encouraged inside the zones for sustainable operations.

Keywords: Special Economic Zones; Small Medium Enterprises; Joint Ventures, Export Lead Industrialization, Developing Economies, Industrial Clusters

1. Introduction

In the past 200 years, countries have focused on industrialization and tried to gain economic independence [1]. While only a few countries could get benefit from it due to resources and skills, others have tried to join in by attracting overseas businesses. A noticeable change can be seen starting from 1900s, and different countries employed different ways to achieve economic growth. Whereas, in post 1950 era, it is extremely hard to find an example where a country has progressed economically without the industrialization. Except for software services in India, no other domain including exports of primary goods, service provision or tourism has played significant role in development of a country like industrialization has done [2], [3]. To change the structure of the economy from agrarian to industrial in developing countries, economists in the 1950s' and 60s recommended import-substitution (ISI) as the first ever model for development. Many developing countries (including Mexico, Brazil, Argentina, Bolivia, Pakistan, India, Philippines, Indonesia, Kenya, etc.) adopted this strategy. while simultaneously Singapore, Taiwan, Hong Kong, and South Korea (the current Asian tigers) adopted export-oriented approach [4].

Import substitution was given up for export-oriented approach in late 1960s to early 1970s as it failed to produce the desired outcomes and created an environment that discouraged learning,

innovation, and growth [4], [5]. Whereas the four countries which adopted export-oriented approach of development experienced tremendous boom in the economy through industrialization and export of manufactured goods [5]. Special Economic zones gained popularity among countries opting for export-oriented development as a tool for attracting foreign capital and advanced technology to its industrial sector by providing in return land, raw material and labor along with industrial infrastructure in a limited geographical area [6]–[8]. Since inside these zones policies of the state are not applicable, a healthy business environment is provided by protecting the foreign industries from the structural weaknesses like deficient market-oriented institutions, financial system backwardness, distorted industrial structure, political upheavals and lack of horizontal and vertical mechanism for coordination and conflict resolution [9]. The host country benefits from the foreign direct investment (FDI), employment opportunities, increased trade and exports and in the long run, forward and backward linkages are strengthened between the zones and the domestic economy resulting in capacity building of the local work force and transfer of technology [9]–[12]. SEZs are viewed as an engine of industrial and economic growth worldwide as it has played a critical role in the regional development of various economies.

Special economic zones have been operationalized in diverse ways in different countries and various terminologies have been used for these zones like export processing zone, free trade zone, industrial parks, economic and technology-development zones, high-tech zones, science and technology parks, free ports etc. [13], [14]. Over time these enclaves have evolved and the purpose of establishing them has differed depending upon the need of the host economy. The objectives for the zone development include different motives like SME development, foreign exchange, economic diversification, investment and trade, foreign currency accumulation sector development, regional development, job creation, industrialization and experimentation laboratory for the application of new policies and approaches [6], [15], [16]. In this paper, here forth, SEZ will be used as an umbrella term to refer to different types of zones.

The first modern day like zone was established in 1959 in Shannon, Ireland. Following its success, the model was replicated in various economies like India, Singapore, Taiwan, Iceland, etc. [17]. Success of these zones in promoting exports and bring industrial transformation in developing countries, led other developing countries to follow the same path. Soon the number of zones increased from 79 in 1975 to 845 in 1997 [18] and by 2019 there were 5400 functioning SEZs in 147 economies of the world , and 500 were in the pipeline [19]. Of these SEZs many have been successful such as in the Republic of Korea, Taiwan, China, Vietnam, Bangladesh, Mauritius, the Dominican Republic, and El Salvador and have paved their way towards industrialization, economic development and growth [20]. At the same time many zones have ended up being ‘white elephant’ for the host economy as the heavy investment in the infrastructure of SEZ was used by industries for taking benefits of tax breaks without producing any export earning or creating employment, like in the case of India, Pakistan and African countries [14], [21]–[23]. Such zones have either remained underdeveloped or underutilized for decades. Some zones which were able to attract investment and produce export and employment have fallen short to extend benefits to the broader economy by failing to create linkages with the local markets and clusters.

Over time these SEZs have evolved into various types and their distribution across region varies. High-income economies host technology parks and innovation districts, upper-middle-income economies are home to technology-based zones (e.g. high-tech, bio-tech), whereas middle-income economies have specialized zones (e.g. automotive, electronics) and low-income economies have multi-activity zones focused on attracting manufacturing industry [19], [24], [25]. The early adopter of SEZ regime like South Korea, Taiwan and China have evolved there zones up the SEZ development ladder over time with their changing national competitive level. These zone programs were started with labor intensive production which were later restructured towards capital and technology intensive products and then towards logistics-oriented zones by offering fiscal incentives to the firms at each stage of transformation. By late 1990s Taiwan had 9 SEZs and was strengthening its logistic industry. South Korea by 2005 had 6 traditional SEZ, four logistic oriented free trade zones and was introducing the concept of free economic zones which unlike the SEZ are not fenced in spaces rather encompass entire

industrial city [26]. Whereas China which host the most successful model of SEZ at Shenzhen was able to increase its export to GDP ratio from than 5% in 1979 [27] to 38.25% in 2018 through its SEZ. China also managed to reduce its poverty rate drastically from 90% of the population earning less than \$1.9 in 1980 to only 6.5% by 2012 through its SEZs [28]. China currently hosts half of the SEZs of the world.

The latecomers to SEZ regime like African countries, Bangladesh, Pakistan haven't been able to take advantage of dynamic potential of SEZ in bringing about structural transformation in the region. Various studies show the reason for this lies in the problematic legal, regulatory and institutional frameworks [14]. The industries inside the zones are not protected from the shortcomings of the host economies and are driven more by political agendas than by strong business case. The host economies fail to provide a business-friendly environment and the industrial operation are halted because of power shortage, poor connectivity and cumbersome procedures of registration, taxation and custom clearances [9], [12], [29], [30]. The zones in Africa are the prime example of such zones and only a handful have been able to succeed while the rest are still struggling to take-off. The SEZs in Bangladesh initially were unsuccessful to attract investment in zones as they were targeting high-tech industries which were not compliant to it national competitiveness, but when it shifted its focus to garment production the zones started attracting significant investment [20]. India on the hand was among one of the first few countries which established SEZs in the 60's but even after 40 years with 6 functional SEZs, its contribution to overall export was less than 4% [21]. By contrast, in a short span of time, SEZ exports accounted for nearly one-fifth and one-third of exports in Bangladesh and Sri Lanka, respectively [26]. Another reason for limited SEZ progress is that economies follow multi-activity approach without promoting any specializations and clustering inside the zones [19]. Such zones end up turning into mere investment promotion tools and fail to develop linkages with the local economy like in India, Pakistan and African countries.

The performance of SEZ not only varies across the countries but from zone to zone as well. For instance, Shenzhen in China has been a very successful zone whereas Hainan only had a limited success. In India, SEZ contribution from state of Gujrat in exports is 33 percent whereas the state of Karnataka generates less than 1% through its SEZs [31]. The success of SEZ is dependent on multiple factors like that strategic focus, regulatory framework, governance and value proposition [19]. With all the factors in place the success of the zone still cannot be guaranteed unless a strong case of development of these SEZ exists which is fully supported by the government and is in line with national developmental objectives.

Investors along with the business-friendly environment look for location specific modalities which distinguish the zone from another zone and make them 'special'. Here the role of government becomes important in identifying the activities on which the SEZ should focus [32]. Most zones rely on fiscal incentives and low-cost unskilled labor as the comparative advantage for investing. These factors play a role in kick-starting a zone program but are not sustainable in the long run. The sustainability of the zone is more dependent on skill training of the labor and pre-existing markets and industries in close vicinity to zones as they support clustering and specialization efforts inside the zone [6], [7], [19], [33]. Moreover, if the comparative advantage is derived from specialized locational advantage, greater are the chances of that SEZ to thrive. Specialized locational advantage is more specific about the type of industries and technological trajectories and takes benefit of host economy's knowledge base and allow the foreign firms to penetrate more in the domestic economy to benefit from its specialties [34]. Locational advantage can also be used to complete a broken value chain to increase the competitiveness of the industry globally.

The factors that once were the basis of competitive advantage in the 60s, 70s and 80s like low labor cost and raw material have been taken over by the changing pattern of international production and the companies are more driven by economic and policy factors than by production advantages. The new industrial revolution and use of digital economy is also influencing the business operations as well as development imperatives [19]. The relaxed environmental and social standards are no longer viewed as an advantage to attract investment. The upcoming SEZs have new challenges which needs to be

addressed through strategic planning and innovative measures by incorporating the modern technology and sustainable development goals in the planning process.

Among the upcoming 500 SEZs, 9 have been proposed in Pakistan under the joint venture between China and Pakistan known as China Pakistan economic corridor (CPEC). It is a subproject of china's One Belt One Road (OBOR) which will connect 60 countries of Asia, Europe and Africa to promote economic integration in the region. CPEC is a 3000-kilometers network of road, railways, and pipelines to transport oil and gas from southern Pakistan's Gwadar port to Kashgar city. It will provide China an alternative and shorter route for its energy imports from the Middle East, thereby reducing shipping costs and transit times. Whereas heavy investment on infrastructure projects have been made in Pakistan which includes roads, railway networks, and energy generation projects which will be fully operational by 2030 [35]. The first phase of infrastructure development is in its final stages. Pakistan is entering the second phase of development of growth corridor under CPEC, which includes establishment of 9 SEZ across the country.

Pakistan's economy is mainly driven by the service sector where industrial and agricultural contribution for the year 2019 is only 20% and 19% respectively (KCCI, 2019). Pakistan in 1960s adopted import industrialization, later in 80's it shifted its focus toward export-oriented development. Since then it's been dwindling between the two. The first SEZ in Pakistan was established in Karachi in 1983 and by 2005 Pakistan had 7 functional SEZs at various locations. But even after 35 years the contribution of these zones in creating employment and generating exports have been minimal. The zones employed only 35,000 local workforce and contributed only 3% to the total exports of the country by 2017 [36]. On the other hand, in Bangladesh eight zones attracted 412 firms which employed 350,000 people and invested \$2.6 billion [14] and the SEZs in Dominican Republic saw a rise in employment from 500 in 1970 to 200,000 in 2007 [30]. A research carried out on SEZs of 22 countries included three SEZs of Pakistan in its dataset. the results showed the absolute and relative SEZ growth to national growth for the period of 2007-2012. Among the 22 countries, only the zones in Pakistan experienced absolute negative growth rates during the period of analysis [37]. Another study carried out on the SEZs in Pakistan concluded that the major impediments in the growth of SEZs in Pakistan are its law and order situation, political instability, lack of security, insufficient infrastructure, frequent power failures and non-availability of skilled labor [23].

Through CPEC Pakistan has an opportunity of experimenting with special economic zones again. The major impediments in the success of SEZs in Pakistan as identified by Mukhtar, like lack of road infrastructure, power shortage have been addressed in the first stage of CPEC as massive road network has been developed connecting the ports of Pakistan in South to China's OBOR network in the north. Various powerplants projects have been built which have already started contributing electricity in the national grid. Political stability and security also have improved in the last 5 years and Pakistan has climbed to the rank of 108 from 136 in the WORLD Bank Group's Doing Business 2020 study. Pakistan has overcome some of the major barriers which were hindering the special economic zones to prosper and is taking measures to improve them further. But as the literature suggests that these are not the only factors which makes a zone successful. Therefore, this study aims to identify the drivers and barriers for successful implementation of SEZs in Pakistan by assessing current policies and practices adopted for CPEC and matching them with successful SEZs across the world. Secondly as the experience of many countries with SEZ suggest that to make SEZ sustainable it should be built with the support of local community and fit with the local needs, constraints, aspirations and local community's vision of development , this paper aims to understand perspective of different stakeholders involved directly or indirectly in the development of SEZs and unleash their vision/perspective of development and strategies for overcoming the constraint of development on these SEZ. This will identify the gap, if any, between the vision of the government and key stakeholders and would help in selecting the appropriate implementation mechanism for the design of upcoming SEZs.

2. Materials and Methods

For this study interviews from academicians, industry experts and policymakers were conducted to better understand the barriers and drivers that are considered critical for the successful implementation of SEZs. Open-ended semi-structured interviews were conducted to extract maximum information from the informants. Standardized interviews help to obtain comparable responses that lead to more elaborated and valid results. For effective data collection open-ended probing questions separated by throw-away questions were asked. Usually throw-away questions are asked to build understanding and cohesion with the informants. The questions revolved around understanding of informants regarding SEZs, their perception about SEZs performance and reason for not performing up to expectations. Further the informants were asked about CPEC and SEZs and chances of their success and step to be taken to make them successful. In the following table informants' profile is provided with numbers, as informants did not allow to use their name, they will be referred to their numbers while quoting an excerpt from their interview.

Table 1: Informants' Profile

| Informant | Affiliation | Designation | Experience |
|--------------|---------------|---|------------|
| Informant 1 | Academia | Professor | 35 Years |
| Informant 2 | Academia | Professor | 41 Years |
| Informant 3 | Academia | Associate Professor | 21 Years |
| Informant 4 | Academia | Associate Professor | 19 Years |
| Informant 5 | Academia | Assistant Professor | 11 Years |
| Informant 6 | Academia | Assistant Professor | 13 Years |
| Informant 7 | Industrialist | Vice President FCCI | 46 Years |
| Informant 8 | Industrialist | Member FCCI | 39 Years |
| Informant 9 | Industrialist | Member SCCI | 24 Years |
| Informant 10 | Industrialist | Director CPEC Study | 40 Years |
| Informant 11 | Industrialist | FCCI Owner | 13 Years |
| Informant 12 | Industrialist | Owner | 8 Years |
| Informant 13 | Industrialist | Owner | 11 Years |
| Informant 14 | Industrialist | Owner | 7 Years |
| Informant 15 | Industrialist | Owner | 4 Years |
| Informant 16 | Policy Maker | CoE-CPEC | 12 Years |
| Informant 17 | Policy Maker | CoE-CPEC | 9 Years |
| Informant 18 | Policy Maker | BOI | 24 Years |
| Informant 19 | Analyst | Member PM advisory council | 39 Years |
| Informant 20 | Analyst | SDPI | 24 Years |
| Informant 21 | Analyst | Chief Auditor UN Audit Committee for Development Projects | 18 Years |

To let informants feel comfortable, they were allowed to respond in 'Urdu' (National language of Pakistan). First the interviews were transcribed in the original language and given to language experts to translate them to English. The transcripts then were reverse translated to make sure the words used are consistent and no loss of information has occurred. As most of the discussion was contextual use of software didn't seem appropriate for the analysis. To do thematic analysis the six-step process proposed by Braun & Clarke (2006) was adopted. The six-step method initiates with familiarizing with the data which is to go through all of the data or interviews and jot down summarized impression of each piece of data. In the second phase codes are generated and data is divided into smaller chunks, while removing the redundant data. Then analysis of the data is conducted and themes are identified.

It is important to consider the themes should make sense and have the support of data. Sometimes, sub-themes can be identified with a theme. In current study the focus has been kept on main themes to avoid replication and lengthy discussion. Lastly the themes are defined and written. Following are the themes identified from the data and a few new ideas have emerged which may contribute to future of SEZs.

3. Results

Political Influence

The point of discussion immediately tilted to the issue of political motives and influence on policymaking. All the informants (except informant 19) said political influence is bad and shall be reduced. For instance, informant 3 said “the politicians try to gain political advantage in every opportunity hence cannot remain impartial and the decisions are subjected to political-bias”. Another similar response from informant 14 was “Politicians do not want country to progress, but their parties and personal positions are important for them. They cannot do anything without their political motives so how can you even think that decision will be made on merit?” Even though the statement is strong and may not reflect true situation, still the desperation and lack of trust over political leaders is evident.

Conversely, informant 19 argued that in a political economy everything is politically motivated, and politics cannot be separated from policymaking. He argued that “... when there is political democracy, there will be political economy as well hence all the policies will be and shall be politically motivated. People have voted for a certain economic, educational, health or policy reform and the government shall do that as well. Yes! You may say that these politically motivated decisions shall be incorporated with honesty, integrity, and motivation to do well for the country and people. But if you want to remove political influence then you will have to bring government of technocrats”. The position is strong and justified according to literature as well.

The informants’ agreement in general over the removal of political influence shall be seen with the one response mentioned in the last para. The government shall choose to make a policy involving the stakeholders and bring transparency in the procedures. It will remove the perception of politically motivated decisions.

Vision and objective of SEZ

The most discussed and emphasized point for SEZs successful implementation was to have a vision and objective for each SEZ. Every SEZ has its own characteristic and needs special attention accordingly, therefore every SEZ shall be looked like a separate entity and before making a policy establishing a core objective for SEZ is important. As informant 2 said “... see you cannot simply say SEZs will be game-changer for industries, government needs to understand that SEZs have to have a specified vision for proper policy-making”, another such response from informant 13 was “what does government want from SEZs? Do you know? No, because there is no specified objective or vision – and even if there is, no one knows”. A few informants, however, claimed that Government has set the objective that is to provide facility to industries and rest will be taken care by industrialists. For instance, informant 18 said “it is not that we do not have objective, we just don’t want to specify it and bound the investors”. The issue seems to be unavailability of a specified objective for each SEZ.

Another point of view was that all the objectives are interrelated, and one cannot simply say that there are distinct objectives. For instance, informant 17 said, “all the objectives, let say creating job, promoting exports, increasing GDP, etc. are interrelated and none of these cannot be achieved by ignoring others – so whatever objective you may have, it serves the purpose”. Such comments are not in line with the literature though, where specified objective is deemed necessary, similarly most of the informants argued that even though the objectives are interrelated there must be a core objective that would ultimately lead your policies. For example informant 12 said “if you want to create jobs, you may look for industries such as textile, sports, leather, etc. which are labor-oriented whereas manufacturing firms may not require these many men to work – or if you want exports to increase you may want high-tech industries with quality products and focus on innovation. Of course, you cannot have the same policies for both”.

Furthermore, all the informants believed that the government should focus on long term vision and objectives rather than looking for objectives set for 4 or 5 years. However, all the informants agreed that there must be an objective but differed in whether to specify it or not. Most of the informants belonging to official set up were of the view that the government has the objective and at this early stage it is not important to specify it. Whereas people from industry and academia believed that a specified objective would not only create transparency but also give investors an idea regarding industries to invest in, which can support government's objective as well. And at the same time, work on skill development can be started on the local workforce.

Leading way

The second most important aspect explored in the interviews was regarding the role of leadership; whether the government will lead the industries to a certain pattern and investment areas, or industry will lead the way and evolve over time and will form clusters inside these SEZs. The informants seem split in two groups, while policymakers, a few industrialists, and government officials believed that an open market will allow industries to grow according to the market need, rest of the academicians and industrialists claim that governments' interference will help achieve the core objective including job creation, increase in export and fill the missing links in supply chain.

An important point to ponder is informants who believed that there should be a specific objective shared common standpoint here as well. Their core concern is that the government knows better and can decide in the larger interest of the country, whereas industrialists may tend to be short-sighted and neglect the overall broader perspective of investment. For instance, informant 1 said "...and more importantly, government wants to establish SEZs to achieve a certain objective, therefore they should guide industry type and nature". Another such response was from informant 4 saying

"Government has to do a lot to create jobs, protect the local investor and increase competition to improve quality, attract FDI and increase GDP – but how are they going to do it? If they have clear policy guidelines regarding investment in each SEZ it will create trust in the investors. Therefore, it is important for government to guide industry through effective policymaking and speedup the work, this will show the seriousness of government in developing SEZs and win trust of industrialists".

Except informants 11, 14, 16,17,18,19, and 21 all agreed that the government must take a lead and play role of anchor to steer this economic game-changer for Pakistan. As informant 13 said "... you see, government can't sit and just watch what investors do and attract the same problems that they faced in SEZs. Handing over to third parties doesn't solve the problems unless coupled with strong involvement of government".

However, the informant who said the industry should be allowed to lead was of the point of view that right now Pakistan is unable to even attract FDI so limiting the options in SEZs will be playing a role to increase such situation. As informant 16 said "at this stage we cannot limit which industry should come to which SEZ, we should keep our options open to ensure SEZs are populated quickly". In this interview, it was assessed that government right now is not in position or not willing to interfere in investment options and believe that over time it will automatically evolve into specialized segments. Another similar response was from informant 19 stating "providing free market environment to industrialists will ensure that government is not interfering and practices that can hurt the industries will be reduced – industries have to look for optimal locations and by doing so they will automatically converge and build a linked industrial zone within SEZs which will be ultimately fruitful for the country". Similarly, informant 17 said "you will hardly find evidence where government has played an active role in guiding the investment in SEZs – it is not in favour of industries; and investors know where to invest and in what to invest".

Apparently, the government seems to adopt the approach of clustering where firms club together and join in to form a cluster of related industries such as Textile in Faisalabad, Leather in Sialkot and Surgical in Wazirabad. Whereas academicians and most of the industrialists believe that government's role is important in leading and guiding the industry type to be invited or allowed in each SEZ. According to them this will ensure local industry protection as well as contribute towards goal-oriented investment in SEZs.

Financial Incentives

Incentives are the biggest attraction in any SEZ, and firms come to such places to enjoy relaxation provided by the government. There was a clear divide in the informants regarding incentives, especially financial incentives. In the quantitative part of this research incentives proved to be significantly controversial among the groups involved in the survey. Similarly, informants from academia, policymakers and analyst shared the point of view which didn't favour incentives in great deal whereas industrialists believed that incentives are core of SEZ and must be provided for longer period.

Firstly, the informants 1, 2, 3, 4, 5, 6, 10, 16, 18, 19, 20, and 21 believed incentives are short term measures and may attract the investors and they fly away once that relaxation time is over. Explaining the situation, informant 1 said "dependence on financial investment creates footloose investment – means industries come and once the honeymoon period is over, they leave by that time they have accumulated enough to look for other such zones from where they can benefit from financial incentives". Another such response was from informant 20 saying "... similarly, financial incentives attract firms who want to get benefit from it and not interested in setting up business in the country. Therefore, they are not as beneficial for the country as assumed or claimed". In the interviews it was assessed that people with exposure from internationally established SEZs believed that financial incentives are of lesser importance in comparison to the value given to them.

Furthermore, according to informants' financial incentives shall be (if given) based on specific activities rather than providing a blanket cover for the whole industry. Informant 19 said "normally what we see is incentives are provided based on industry, such incentives prove to be too large and many companies not directly falling under the policy take advantage of it. The government should give incentives based on particular practice in a value chain – for instance ginning which is a missing link in our textile value chain". Another response from informant 5 was "reduced incentives is the best practice to engage firms in constructive practices rather than just taking advantage of tax holidays – for that each activity and practice needs to be evaluated and comprehensive policy for incentives needs to be put in place". Such responses, in numbers, persuaded that financial incentives shall not be the core of the industrialization rather other factors such as local need, connectivity, and linkages, etc. shall be looked as core competency for attracting FDI.

However, investors and industrialists were of the view that financial incentives are a must to attract FDI and even local investors. For instance, informant 14 said "in the current economic conditions and FATF issues why would the investors be interested to come to Pakistan? We need to attract them and there is no better attraction than financial". Another such response from informant 11 was "why would firms come here? What would attract them? These are the questions that government needs to analyse and understand that unless we incentivize the basic facilities it would be hard for foreign investors to come here. We need to subsidize energy resources, land, tax and imports to attract FDI".

Overall informants agreed that incentives are important but clear distinctions were between groups regarding how much is enough to attract businesses. Furthermore, most of the informants believed the incentives are not long-term measures and may be able to attract FDI, but to sustain them for long time incentives are not enough and other factors may play an important role.

Government Support – Facilitation

Another important aspect of the discussion related to facilitation for investors was provincial and federal government support. All the informants agreed that the government should play facilitator role and ease the ways investors may engage in SEZs. Informant 1 explained the role of government support as "currently if a foreign company wants to invest in Pakistan it would take 256 days to set up and get all the documentation and approvals done, compared to 24 hrs approval mechanism in international market – with such delayed system who would want to come to Pakistan"? on the same lines informant 8 said "with this bureaucratic system you want multinationals to come to Pakistan and start businesses; they will not because they can't afford to spend so much time and efforts in just to take approvals". The issue seemed to be too many hands dealing with the investment process, and this could be seen by the 136th position of Pakistan in the list of ease of doing business compared to international market.

Further probe revealed that a few informants including 2, 3, 4, 7, 8, 11, 17, 18, 19, and 20 believed that one window operation is the solution to create ease of doing business in Pakistan. Informant 4 said “investor has to move around from one corner to another of the country to invest in SEZs, federal to provincial all offices have their own policies and procedure, often different to each other, and investor cannot afford to run here and there – they need one place to get things done”. Another similar response was from informant 11 who said, “...there should be one place where people can go and submit documents – what happens behind that window is government’s issue and they should speed up the work, link the departments and get the work done; otherwise current system is not built to create ease”. Such responses, in numbers and detail, have explicitly mentioned the importance of one window operations.

Even though, all the informants agreed to the importance of one window operations, informants 1, 5, 6, 9, 10, 12, 13, 14, 15, 16, and 21 views one window operation as instrumental yet next to unachievable in current system. Informant 9 said “one window operation is too lucrative and popular to be used in every conversation but is it really applicable in our scenario? Not at the moment – every department thinks they are the boss”. Another such response explaining why it is not possible was from informant 21 claiming “one window is only applicable if there is single authority who has to deal with it – or at least it should be at either provincial level or federal level. Different policies and orientation of provinces lead to conflicts and hence one window operation remains a myth in Pakistan”.

Such responses clearly mention the importance of one window operation yet signify the lack of support mechanism to achieve that efficient approach. To overcome this lack of coordination two important aspects were shared by the informants. First informant 16 said “there has to be single CPEC authority who could deal with all the aspects and can help to bridge the gap departments and can have single orientation towards investment. Provinces, of course, might have issues with this but they need to realize that when SEZs get operational they will be contributing directly in provincial economy”. In this regard, a step has already been taken now by the government and CPEC authority is being made through presidential orders. The second important point from informant 21 stated “every SEZ shall have their own office and investors shall be directed to them instead of going for approvals in various departments – one such example is Faisalabad Industrial State Development and Management Company (FISDM)...”.

Hence, serious efforts are required to overcome the issues associated with one window operations and significant changes are required in the current setup. Documentation and processes need to be reduced and merged to a single point, departments need to collaborate and be on single page.

Joint Ventures and PPP

The current model of investment in SEZs is to attract Chinese and other firms to come and invest, with much less participation from local industry. Informants, in general, had different ideas to attract investment and make it sustainable. A few informants argued that joint ventures between Chinese and Pakistani firms are better options which will have multiple positive effects on local market. Informant 10 argued that “... and whenever big firms came to Pakistan, they never transfer technology, rather they worked in isolation and left whenever wanted to. We have to go for Joint Ventures, it could be between businesses or Public-Private Partnership to increase the stake and speed up the transfer of technology”. Another similar response was from informant 2, who said “with current situation in Pakistan, joint ventures can help international firms establish here and gain some trust or sense of security as local partner will be involved”. With respect to joint venture two important things that could be highlighted from aforementioned excerpts are a) transfer of technology and b) trust or sense of security for international firms.

Adding to the joint venture and its benefits informants argued that it would reduce the issue of footloose investment and they will be bound with local partners. Even though informant 17 claimed that such ventures hardly become successful and often cause slow progress. He said, “If international firms joint venture with local firms they are bound and cannot progress or make policies as they want, hence they tend to leave early or do not excel at the pace they normally do”. Despite the fact that this concern was validated by other responses, still the informant who agreed to this statement claimed that

it better to progress slowly, rather than losing investment after 5 or 10 years. Informant 13 argued for the same saying “joint venture reduces the pace of progress but ensures the transfer of technology and long term investments, even if international firms leave, local firms can get into PPP contract with government and business can be sustained”.

Apparently, the informants believed that the joint venture is good to secure technology transfer and improve PPP, even though it may slow down the progress. Another option is to go for a mix where a certain level of investment has to be under joint ventures and above that limit business can come on their own and be given sole proprietorship. This may create a good mix and help multi-level businesses to enter in the SEZs.

Large business vs SMEs

Continuing the discussion of joint ventures another theme that emerged was of the magnitude of businesses; divided into large vs small scale businesses. A few informants argued that Small and Medium Enterprises (SMEs) should be encouraged to invest. Such arrangement, according to them, will encourage quick investments and will complete value chain of an industry. In the same lines informant 12 said “SMEs can be good options for us to look for in SEZs, these industries will require local support and will try to build their employee base and other resources locally”. Adding to the same informant 7 said “if we look for joint ventures, SMEs can be of great help and our SMEs can easily get in touch with them and make a good deal out of it. It will help create backward and forward linkages as well”. Currently, however, the focus of the government is on large scale self-sufficient firms who can invest at their own.

Contradicting to the SMEs point informant 21 explained that “SMEs cannot afford to come to SEZs, and they may not be fruitful either. SEZs’ have huge investments and cost of that is too much for SMEs to bear – if the Government facilitates the SEZs it will require subsidized energy and other resources and Government may not be able to recover the cost. You can see across globe that mostly large business is attracted towards SEZs and same are helpful in increasing the export potential”. Now, the government has to decide whether to invite SMEs and will it suffice the objective of the SEZs or not. However, for such policies there has to be vision and objective of an SEZ shall be specified beforehand.

Though there were a lot of points which were discussed, a few notable points mentioned by informants are clubbed here. First, five informants argued that SEZs are not short-term projects so looking towards their progress only after 5 years of inception is not a good thing to do. SEZs develop over long times and evolve as successful operative units only if they are given time and continuous support mechanisms. According to informants spreading negative sentiment just based on 5 years is not right and they should be given due time to be populated and rise to their potential. Continuing the issue, informants also said that government should speed up the development of SEZs and improve infrastructural support.

Secondly, informants also argued that launching nine or even three or four SEZs simultaneously will not be helpful in the current scenario and two important issues are associated with it. One, this might increase the competition among the SEZs and as all the SEZs are primarily under provincial authorities, the competition might shape into political rivalry as well. Second, Pakistan is struggling to attract international investors and therefore if we have one or two SEZs to invest in, the investment will concentrate on a single space and speed up the process of investment in SEZ.

4. Conclusions

Most of the informants believed that currently SEZs lack the direction and specific objective. This lack of direction leads to vague or generic policies that cannot be as useful as a specific policy could be. Further the political involvement was also considered sort of barrier by many informants. A few informants provided justification that in a political democracy one cannot avoid the political influence on most of the things. However, despite being politically motivated decision they believed that nepotism can be avoided and right person for the right job may be chosen to reduce the negative political influence on the progress of CPEC and SEZs.

Another important finding was the government's lack of active participation in guiding the industry to be attracted to SEZs. The policymakers informed that government will not try influencing the nature of industry rather it would be open for all and the objective would be to populate it at earliest. Whereas this approach seems fine, industrialist believes that government shall attract specific industries in an SEZ. The natural evolution of industrial clusters cannot be replicated in SEZs hence incentives shall be policy-driven and to attract specific activity in an industry. For incentives, except policymakers, most of the informants believed that instead of providing incentive-based on the industry, it should look for the niche activity in a value chain that can create value become part of global value chain. For instance, one such case is yarn industry, where most of the textile owners want to use imported yarn and claim that locally produced yarn is not of good quality and ginning process is not up to the mark. If government can provide incentives to firms that can invest in ginning and then spinning, the whole value chain of cotton to fabric can be localized. The impact of such incentive will be two-fold, one local industry will become self-sufficient and yarn will be available at low cost, second the imports of yarn will be reduced which will reduce the trade deficit in the country.

Public-Private Partnership (PPP) was another important aspect that informants wanted to be focused by the government. They believed that involvement of government will create trust and encourage investors to be part of SEZs. PPP has been recognized as good mechanism to provide services, but academicians believed that for investment it might not prove to be very fruitful rather it may create resistance due to long operational procedures. However, a few informants claimed that SMEs can be attracted and be provided an opportunity to collaborate with local industries. This will provide a lot of business opportunities as well as it will help in technology transfer. On the other hand, counter argument of such collaboration at SME level is the operational cost of SEZ is too big and SMEs are not the right fit at that level. SEZs will tend to benefit FDI and larger domestic investors most in the short term. They are not a direct solution for local SME development. Most SEZs are designed to attract and larger businesses, with world-class infrastructure, incentives that are usually geared toward exporters, and usually high lease costs relative to what is available in the local market. As a result, attracting local SMEs into SEZs on a large scale may not be a realistic objective. Instead, the emphasis should be on developing effective links between local SMEs and the globally-competitive firms anchored in the zones

Recommendations

The following recommendations are presented based on the data collected through quantitative and qualitative methods of inquiry. These recommendations though follow a general approach but are very specific to the local scenario and based on respondents' and informants' understanding of the scenario.

The current SEZ policy was announced in 2012 when CPEC related SEZs were not even conceived. Therefore, it would be difficult to translate those policies into practices. A new SEZ policy shall be made in consultation with stakeholders, it will help in implementing the policy in an effective manner. Further, this SEZ policy shall be an umbrella cover and each SEZ shall have its own policy as well to cater the specific needs for the investors and local population. The new policy shall also be in tandem with overall country's industrial policy to create uniformity in regulation which can ease out the burden on investors.

Each SEZ needs to have its own vision and mission, and all the policies and regulatory framework shall be based on them. Currently, it appears that SEZs have a single objective that is to populate them which is insufficient to create effective policies. Having different vision, mission and objectives in context to the local scenario will allow different SEZs to create their own comparative advantage and they can extract maximum benefit out of the unique SEZs. The comparative advantage of each SEZ should be validated through detailed strategic planning, feasibility, and master planning process. Further, to avoid conflict or stiff competition only limited SEZs shall be focused and operationalized in short term. Not more than 3 SEZs should be set up and promoted, as by setting up a lot of SEZs at a

time would create competition among SEZs to attract Chinese companies, which would increase bargaining power of Chinese companies.

For maximum utilization of SEZs, specific short term and long terms objectives shall be established, and stakeholders are made part of it so they can realize future potential and plan accordingly. In the long-term goals, there should be measures or Key Performance Indices (KPIs) for continuous up-gradation of the industries by promoting technology transfer and innovation. The progress should be monitored continuously and periodically to ensure that KPIs are met.

The exchange between SEZ and the domestic environment should be promoted through policy measures and administrative reform to promote cohesion between the two. Access to regional production should be facilitated. Regional value chains should be linked to zones. By doing so the zone would develop linkages with local economy and would promote technology transfer. Further to promote and create the capability to absorb that technology transfer and innovation links between universities and industries should be strengthened. Customized and specialized education and training programs should be started for each SEZ to upgrade the skills of the local workforce in the vicinity of zones. This training must be continuously upgraded to meet the pace of changing technology and business demands.

SEZs should be given autonomy to test different reforms at the local or provincial levels. It takes 5-10 years to kick start a zone program. Strong political commitment is needed to create a conducive environment for the zones to flourish. Transparency, accountability, institutional development should be at every level. Continued support for the industries shall be ensured. Such trust can only be built through strong institutional autonomy with very less political or bureaucratic involvement.

Another important factor would be the type of companies investing in the SEZs. It has to be ensured that the industries coming to the SEZ should complement and not substitute local industries. This is because, SEZ companies producing similar goods and benefiting from privileged incentives, will displace Pakistani firms in the international market. To create such value chain links between local SMEs and the globally-competitive firms should be anchored in the zones. Even though, the literature suggests that SMEs are not among the preferred ones in SEZs but still considering the responses from local industrialists and academicians it is presumed that with current huge contribution of SMEs, it may prove to be fruitful initiative. SME's involvement will also help in improving technology transfer and in the case of footloose investment these SMEs would have a good chance to increase their scale and become a big firm themselves.

To further enhance the involvement of SMEs and technology transfer joint ventures between Chinese firms and Pakistani investors should be encouraged. Special incentives should be given on missing links in the existing value chains of the different industries. Such initiative to involve local firms in joint ventures with Chinese firms will help to grow local labor market as well as reduce the chances of footloose investment.

Lastly, the most talked-about issue is one window operation. There is dire need of creating one window operations for SEZs where investors can approach and are guided and their issues are taken care. It would require special arrangements between provincial and federal governments and all other departments that are involved. Automated systems shall be incorporated which play the role of one window and investors may apply for facilities and get information from a single platform. There shall be a customer/business relationship department which should take care of all the issues and play the role of buffer between investors and government departments. Adding in the ease for investors, rapid customs clearance system shall be arranged for investors involved in SEZs. An example of such system is the Green, Yellow and Red categories of importers currently implemented in WBOC system. Importers with Green code must go through a very small time being trusted by the Customs. Similarly, Firms in SEZ shall get a scheme that can expedite the process and help firms to wait less and reduce the lead time.

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