**Economic zones a quick fix?**

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Industrialisation, particularly the development of Special Economic Zones (SEZs), has recently become a ‘buzzword’. Under the CPEC framework, Pakistan has prioritised 10 SEZs comprising Rashakai and Mohmand in Khyber Pakhtunkhwa (KP), Faisalabad in Punjab, Bostan and Gwadar in Balochistan, Port Qasim and Dhabeji in Sindh, Mirpur in Azad Jammu and Kashmir (AJK) Moqpondass in Gilgit-Baltistan (GB), and ICT Model Industrial Zone in Islamabad.

It is expected that CPEC investment in transport infrastructure and industrialisation under SEZs will lead to the transfer of technology and skills, creation of jobs, promotion of trade and alleviation of poverty in the long run. Should we be optimistic that industrialisation and SEZs will achieve the desired outcomes and will transform the country’s industrial outlook? What has Pakistan learnt from its own political economy of industrial development? Is the development of SEZs truly a panacea and can this SEZ experiment be simply replicated in the country with the expectations that it would bear similar fruit as it did in other successful economies?

Pakistan’s earlier experience with industrial estates provides some interesting insights. There are a total of 71 industrial estates across the country including 11 in Khyber Pakhtunkhwa, 26 in Punjab, seven in Balochistan and 27 in Sindh. Regardless of being part of the same institutional and governance settings and work culture, some of these industrial estates have performed quite well while others have faced multiple challenges, resulting in the closure of numerous ‘sick’ units.

For instance, if Faisalabad, Sialkot and Gujranwala are examples of successful industries, Gadoon Amazai in Swabi, KP is one of the famed examples of a failed industrial estate. Established in 1988 to generate employment opportunities and bring socioeconomic development to an area popular for poppy cultivation, the Gadoon Amazai Industrial Estate was a thriving industrial zone attracting over Rs53.83 billion investments before witnessing its dramatic decline.

There were over three hundred functional industrial units employing 14,843 people at one time. However, once the then newly elected government withdrew the incentives in 1992, over a hundred units were shut down, rendering over a thousand people jobless. The zone did not have access to major cities and lacked infrastructure and other allied facilities. Hence, high transportation costs and other expenses made businesses less profitable once the incentives were withdrawn. It is pivotal to have a comprehensive qualitative and quantitative analysis of the success and failure factors before the initiation of new industrial estates and SEZs under CPEC.

At the time of independence, Pakistan lacked a robust industrial base as the country inherited only 34 industrial units out of the total 921 industrial plants operating in the Subcontinent. To promote industrialisation post-independence, the government established the Pakistan Industrial Finance Corporation (PIFC), Pakistan Industrial Credit and Investment Corporation (PICIC) and Pakistan Industrial Development Corporation (PIDC).

The government offered incentives to industrialists including differentiated tariffs, overvalued exchange rate and a substantial amount of credit at subsidised rates. These policies paid off as the share of the industrial sector to the GDP rose from 6.9 percent in 1950 to 11.9 percent in 1965. The pace of industrialisation was adversely affected during the early 1970s due to nationalisation (34 key industrial units were nationalised), political instability and East Pakistan’s debacle.

According to one study, the industrial growth rate declined to two percent in the 1970s from around 11.9 percent in the 1960s due to nationalisation. Since then, the role and performance of the industrial sector has remained lacklustre and uneven due to various factors including political instability, inconsistency of government policies, non-availability of quality hard and soft infrastructure, lack of good governance and the rent-seeking approach of industrialists/investors.

Pakistan can harvest maximum dividends of industrial estates and SEZs, provided it carefully implements industrial and SEZs policies in the right context and in most-appropriate locations. This careful implementation requires a thorough understanding and determination of the key success factors of the respective areas in which these SEZs are being planned to operate. To this end, an analysis of the industrial outputs at the provincial levels provides a thought-provoking scenario. For example, Faisalabad’s contribution to the total production of Punjab is 14 percent, which is just three percent less than the contribution of Lahore (17 percent). Karachi’s four districts (Centre, East, West and Malir) contribute 71 percent of the total production of Sindh.

The industrial production of KP is even more curious as data reveals that Haripur produces three times more than Peshawar (33 percent versus 11 percent). At the same time, more than 65 percent of the production in Haripur is of food products and beverages (41 percent) and non-metallic mineral products (25 percent). Nowshera, where a 1,000-acre Rashakai-prioritised SEZ is being developed, produces 27 percent of the total manufacturing output in KP, of which 95 percent comprises two industries ‘food and tobacco’ (76 percent) and ‘non-metallic mineral products’ (19 percent). As per its website, the Rashakai SEZ is aimed at developing clusters including ‘processing and manufacturing, home appliances, pharmaceuticals, home building materials, automobile and parts, agriculture and horticulture and wholesale market/specialty mills’ (probably it wants to list as many products as possible irrespective of the comparative advantage of the area).

In Balochistan, only Lasbela contributes 87 percent of the total industrial production in the province. These statistics speak volumes of the premier centres of industrial production of respective provinces. Being part of the same institutional settings, some districts have substantially better industrial functioning than others, indicating that the success or failure of industrial estates is a complex phenomenon which needs to be thoroughly examined prior to planning SEZs.

Although every country has its own unique features and one should not blindly follow a one-size-fits-all approach, some lessons from international practices can be discerned and properly tailored to specific needs and circumstances of a particular country. In this regard, a detailed study on SEZs, titled ‘If Africa builds nests, will the birds come? Comparative Study on Special Economic Zones in Africa and China’, offers some recommendations that are applicable to Pakistan.

Based on a comprehensive assessment of SEZs in China and three African countries - Ethiopia, Nigeria and Zambia, the study contends that governments and SEZ developers in these countries have encountered similar challenges, such as complications associated with coordinating multiple actors, infrastructure financing impediments and snags regarding the creation of linkages with local economies.

The study suggests that it is vital to ensure high-level political commitment and support for effective inter-ministerial collaboration; integrate SEZ programmes into national development strategies and plans; and ensure sufficient funding for infrastructure development within as well as and outside the SEZ prior to the SEZ approval. Similarly, it has recommended the provision of incentives for the creation of joint ventures between foreign SEZ companies and local enterprises.

Also, tangible efforts must be made to respond to SEZ labour requirements by aligning curricula of universities and technical vocational education and training (TVET) institutes.

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