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Approaching optimal SEZs - I

The government intends to pick up the pace on Special Economic Zones (SEZs). This indeed is important for infusing energy into the lacklustre performance of both large-scale manufacturing and the stubbornly low and undiversified exports. Moreover, this will be important to establish a fully functional SEZ to properly engage investments under the CPEC (China Pakistan Economic Corridor)-related projects.

With regard to SEZs, the Economic Survey of Pakistan in its most recent (2018-19) report indicated: 'The government is trying to remove the anomalies and giving tax incentives/exemptions to facilitate the local and foreign investors. Development of the Special Economic Zones is one of the main gains from CPEC. It is a driving force for economic growth and... [that]... there is huge potential for cooperation in the fields of engineering, automotive industry, information technology, chemicals, construction materials, textiles, agro-based industry, fisheries, marbles, small and medium enterprises particularly cottage industries. Under CPEC, nine sites have been identified for developing special economic zones [two each at Federal and KPK, while one each in Punjab, Sindh, Balochistan, AJ&K and Gilgit-Baltistan]... [to]... form new industry clusters as well as promote exports of goods and services. Focused efforts are under way to populate these industrial zones either through investment in building infrastructure or relocation of industry... [and] it is estimated that this sector will create up to 800,000 jobs for the local population'.

Many months have passed since this enthusiasm towards establishing SEZs was documented in the Economic Survey 2018-19, not to mention since the Special Economic Zones Act, 2012 was passed and amended in 2015, yet no SEZ could be established till now. This is all the more alarming given the significance of SEZs in a) dealing with current account deficit to a sustainable level by increasing foreign exchange reserves on the back of enhancement in exports; b) boosting employment opportunities; and c) positively impacting domestic manufacturing, especially when LSM (large-scale manufacturing) has been performing so poorly for some time now. The lacklustre performance of incumbent and previous governments, in establishing SEZs, is indeed indicative of their carelessness and inefficiency.

Globally, SEZs have a mixed history in terms of successful results, and sub-optimal consequences. Experiences include, firstly, an industrial estate located in a developing country, which has been fenced. There are a number of footloose and uncoordinated multinational corporations populating the area, mainly to take advantage of tax breaks and loosely bound by minimal sort of labour restrictions/responsibilities; for instance, labourers working in poor conditions in garment factories. Certainly, Pakistan would want to avoid following such a path in developing SEZs.

In a second kind of SEZ experience, focus was placed by countries in transforming a certain rural area into a thriving city, with positive impact on both manufacturing activity and the living standards of inhabitants. For example, a once small village of Shenzhen (China) was designated as a special economic zone, which in a couple of years transformed into a thriving

big city. In fact, the whole experience is now remembered as the 'miracle of Shenzhen', where in 30 years, the per-capita income of the inhabitants increased a hundred-fold. Pakistan has a lot of rural base, and certain areas that appropriate in terms of initial conditions and prioritized on the basis of backwardness, should be declared as SEZs; in turn, possibly developed in the same way as Shenzhen.

Thirdly, many experiences of SEZs along coastlines have been very successful. For instance, Singapore and Dubai - port cities allowing wide-ranging basis for trade/logistics-related activities - were declared as SEZs, and developed accordingly. These serve as wonderful models for developing areas along the long coastline, especially Gwadar and the adjacent areas in Pakistan; in turn, taking much-needed further advantage from economic development already taking place under CPEC.

Although they have diverse types, SEZs have been defined broadly by T. Farole in a book titled 'Special Economic Zones in Africa: Comparing performance and learning from experience' (2011, p.23) as 'demarcated geographic areas contained within a country's national boundaries where rules of business are different from those that prevail in the national territory. These

differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative than that of the national territory'. Similarly, 'the Special Economic Zones (Amendment) Ordinance, 2015' defines an SEZ as "'Special Economic Zone" or "(SEZ)" means a geographically defined and delimited area which has been approved and notified by the BoA [Board of Approvals]'.

If one looks around the world, SEZs have been operating in a number of ways, which indicates a heterogeneous nature of their existence. In fact, there are more than one hundred countries which have operationalized SEZ programmes, including thousands of individual zones. It is therefore important to understand the main types of zones, as indicated in the book, 'Special Economic Zones: progress, emerging challenges, and future directions' and edited by Thomas Farole and Gokhan Akinci.

Firstly, there is the 'free-trade zone' (commercial-free zone) for instance, the 'Colon Free Zone' in Panama, with the main objective to support trade. The typical size of this has been seen to be less than 50 hectares, holding trade-related activities, and located at the port of entry. The zone mainly caters to the domestic market and re-exports.

Then there is the 'traditional EPZ' (export promotion zone), with examples including those in Bangladesh and Vietnam, among others. Here, the main objective behind developing these is to promote export manufacturing. Typical size of a traditional EPZ is below 100 hectares, which mainly export; and their activities are largely related to manufacturing, or other processing.

A third type of zones is that of 'free enterprises' (single unit EPZ) where 'many EPZ programmes offer licences for both EPZ industrial parks and "single unit" EPZs. Examples of their location include Dominican Republic, Honduras and Kenya'. These free enterprises zones could be located countrywide and they have no minimum size restriction. Their

development objective is with regard to mostly exporting activities pertaining to manufacturing or other processing. For instance, they are located in Mauritius and Mexico.

The fourth type of zone is 'hybrid EPZ', whose development objective pertains to manufacturing for both domestic markets and for exports. Examples of their location include La Krabang in Thailand. Typically, the size is below 100 hectares, where only a part of area is EPZ.

The last type of zone, broadly speaking, is 'Freeport/EPZ', with an integrated development objective. They typically have a size of more than 1,000 hectares, where 'some multiuse SEZs, particularly those that do not include a resident population, may be smaller in scale'. Moreover, this type of zone caters to multiuse activities pertaining to internal, domestic and export markets. Examples of their location include Aqaba and Shenzhen.

Special Economic Zones are a growing phenomenon in developing countries mainly because they help provide a dedicated and focused institutional environment to help in a) attracting foreign direct investment; b) serving 'as "pressure valves" to alleviate large-scale unemployment'; c) supporting economic reform agenda on a wider scale, mainly in terms of diversifying and developing exports; and d) working 'as experimental laboratories for the application of new policies and approaches'.

Unfortunately, however, the pace of development of SEZs has remained on a slower side in Pakistan, and it is about time it gathered greater momentum to help support specifically exports, along with helping in much-needed sustained build-up of foreign exchange reserves and broadly, the overall development of the economy and in boosting unemployment, and reducing poverty. Hence, while it is important to establish SEZs - and soon - yet it is more important to build them in a way that allows them to deliver the most for the economy.

(To be continued)

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