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Nine Proposed Priority SEZs under CPEC and SEZ Act; An Approach to Industrial Development

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Abstract- SEZs are promoted around the globe mainly in less developed countries as a strategy to industrialize and to accelerate the economic growth. The growing number of zones are the evidence of this "second best"[1] (Farole, 2010) and cornerstone (UNIDO, 2015) strategy for the country's economic growth. Pakistan has announced SEZs to support the strategy of export promotion and import substitution. This paper discusses the SEZs prioritized under CPEC portfolio and highlights the geographical comparative advantage in terms of availability of natural resources, means of connectivity (road, rail, airport, sea port and dry port), human resource and identified potential industries based on the factor endowment of the region.

Keywords- Special Economic Zones, SEZs Act, Incentives, Comparative Advantage

I. INTRODUCTION

China Pakistan Economic Corridor (CPEC) is in its implementation stage with short term, medium term and long term objectives. CPEC is sounded as "Game Changer" for Pakistan and is expected to boost the economy. Economists relate the growth of GDP, rise in job opportunities, reduction in poverty, improvement of regional connectivity, increase in foreign investment, import substitution and export promotion to CPEC portfolio. Number of projects have been initiated under CPEC to be completed by 2018 (early harvest projects), 2025 (short term and medium term projects), and 2030 (long term projects) including SEZs.

There are nine proposed priority SEZs under CPEC aiming to achieve direct benefits (Foreign exchange earnings, Foreign direct investment, Government revenue and Export growth (Chen 1993, World Bank, 2011) and indirect benefits (Skills up gradation, Technology transfer, Export diversification, Enhancing trade efficiency of domestic firms (World Bank,2010) through establishing viable industries in SEZs under SEZs Act 2012 (amended in 2016). The nine proposed priority SEZs under CPEC included one in each province and one in GB, AJK, FATA and in Islamabad.

SEZs play pivotal role in boosting the economy. The number of SEZs has risen to 4300 around the globe (The Economist, 2015) and are considered as a tool of national competitiveness (Madani, 1999) and economic reforms which significantly catalyzed the economic growth of the countries. History has witnessed

[1] First best strategy is to open the economy for the investors as a whole.

the role of SEZs to develop the economies (e.g. Asia and Africa specifically China). SEZs during 1970s to 1980s facilitated the industrial development in East Asia and played significant role in raising the China economy. SEZs were being setup in Latin America to develop the large manufacturing sectors, North Africa and Middle East leverage their export oriented diversification through SEZs whereas in Sub-Saharan Africa SEZs are being used as a tool for industrial diversifications. SEZs are also used as a tool for economic reforms and economic integration as happened in UAE and in Mauritius. Therefore, economists relate the 9 proposed priority zones under CPEC with improvement in trade and current account deficit and to develop economy at large.

This study aims to evaluate the area specific factor endowments in terms of, production factors, cheap labor supply, human skills, natural resources, connectivity, technology and regulatory framework (World Bank,2011) as well as SEZ Act, 2012 (amended 2016).

II. LITERATURE REVIEW

Special Economic Zones have been playing key role to support the economies since 1959, when Ireland had established first successful free trade zone at Shannon airport. Since then SEZs have gotten great admiration and have risen from 79 in 1975(Aggarwal, 2010) to 4300 in more than 130 countries by 2015 (The Economist, 2015) and more are being added around the globe mainly in less develop countries.

SEZs are the strategic economic policy instrument for a rapid industrialization and fast track economic growth and development. It is defined as a separate demarcated territory with its own fiscal regime different from the one prevailing in the country, managed by single administration (Baissac, 2011), backed by quality infrastructure, regional connectivity, uninterrupted power supply and facilitation services to fuel the economy. Economic zones are broadly categorized according to set objectives for example; Export Processing Zones (EPZs), high-tech zones (HTZs), Industrial Zones (IZs), Urban Enterprise Zone (UEZs), Economic and technology development zones, Free Trade zones (FTZs), Science and Innovation parks (SIPs), Special Economic Zones (SEZs) and others. According to World Bank Report (2011), the available literature used SEZs as generic term to address all kind of zones. China was the first to introduced term "special economic zones" for the purpose to enhance FDI inflow and export promotion.

SEZs have caught attention mainly in less develop countries and are referred as a complex of related economic activities and services (Wong, 1987) to achieve one of the following four policy objectives; i) to attract FDI, ii) to support the economic reforms, iii) to reduce the unemployment rate (Farole and Akinci 2011) and iv) to use SEZs as laboratory to test the new strategies (WTO report, 2015).

Farole (2010) referred SEZs as a "second best" preference for liberalizing the trade and investment in specific geographical area rather liberalize the whole territory, to achieve the industrial development efficiently and effectively. During 1970s and 1980s many SEZs were established in Asia particularly in East Asia (Raheem, 2011) and have played key role in catalyzing the economic growth. China, Malaysia, Singapore, the Republic of Korea, Bangladesh, Sri-Lanka, Vietnam, India and Jordan shared some outstanding success stories from Asia (Zeng,2015). China has experienced tremendous success in getting foreign direct investment after opening up its economy. SEZs have played substantial role not only to attract FDI but also support its manufacturing industries. China employed 30 million of workforce (Tejani, 2011) out of 66 million employed in SEZs around the globe (The Economist,2015), attracted 46% of its FDI through SEZs and added 22% in GDP growth. After the successful implementation of SEZs in China other Asian countries deployed SEZs to accomplish different economic goals. United Arab Emirate (UAE) established SEZs as a tool for economic diversification (World Bank, 2011), Vietnam used SEZs as a tool to attract FDI hence played key role to transform its economy. Whereas Malaysia, Philippine and Indonesia used SEZs as a Growth strategy. India positioned SEZs as the core element of developmental strategy. Sri-Lanka (Katunayake) and Bangladesh (Chittagong SEZ) are also among the other successful stories from the region. Though success rate of SEZs varied but the objective is to promote export, attract investment (foreign and local), promote commercial ventures, generate employment, easing foreign exchange, knowledge and technology transfer. According to Asian Development Bank (ADB) Report (2015), increase in number of SEZs in Asia can help to revive its slowdown economy. It also helps Asia to move up in the value chain (White, 2011) and to enhance the trade performance (ADB,2015).

In line with changing economic structure, Pakistan has also announced the SEZ Act in 2012, amended in 2016 to promote the SEZs, industrialization and facilitating the foreign and local investors.

III. SEZS IN PAKISTAN

During 1970s, Pakistan has established around 100 industrial estates to revive the sick industries but faced the failure (Khan & Anwar, 2016). Poor governance structure, political influences and rent seeking behavior of the industries were found to be main causes of failure. Despite of this Pakistan also has some well performing industrial clusters. It includes the Sialkot Surgical goods cluster, Readymade garments manufacturing cluster in Faisalabad, Ceramic and pottery industrial cluster in Gujarat, Khyber Pakhtukhwa (KP) marble cluster and tannery/leather industrial cluster (Khan & Anwar, 2016). Currently the two renowned industrial estates namely Hattar Industrial Zone, Bin Qasim Industrial Park[2] performing well to contribute in economy.

After official announcement of China Pakistan Economic Corridor (CPEC), around 37 zones were proposed as "Special Economic Zones" in all provinces of Pakistan. Out of these 9 SEZs are prioritized to be established in each province and other federal areas of Pakistan.

Though, in the literature, there are different terms used interchangeably to address the concept of "economic zones" and their purpose. However, SEZ Act 2012 of Pakistan will help to develop clear understanding of different economic zones and their purpose.

A. SEZ Act 2012

SEZs Act designed in 2012 to support the development of SEZs in Pakistan. The act was amended later in 2016 and is now named SEZs (Amendment) Act 2016. The amendments were aim to encourage SEZs' development and to make it more investors' and businesses' friendly. The act not only defined SEZs but also other economic zones as well. The Act also focuses on defining the roles and responsibilities of different governing bodies and authorities as well as incentives offered to SEZs developers and enterprises. (discussed in later section)

According to SEZs (Amendment) Act 2016, SEZ is defined as "*as a geographically defined and delimited area which has been notified and approved by Board of Approval (BOA)",* which is headed by Prime Minister of Pakistan. According to definition the components of SEZs are;

1. Bordered Area
2. Approved and notified by Board of approval.

[2] National Industrial Parks Development & Management Company, Pakistan.

Other types of zones defined under the SEZs (Amendment) Act 2016 includes;

1. **Export Processing Zones**: The zones which are established under the Export Processing Zone Authority Ordinance, 1980 (IV of 1980) to improve the export base.
2. **Extra-Territorial Zone:** A type of economic zone that is considered to be outside the customs territory of Pakistan to attract potential investors.
3. **Free Trade Zone**: Free Trade Zone that supposed be outside the customs territory of Pakistan. For which BOA shall approve special facilities for trade, and re-export and transshipment operations in accordance with applicable legislation as for the time being imposed in Pakistan, aiming to promote trade.
4. **Hybrid Export Processing Zone**: Economic zone that shall be deemed to have its own fiscal benefits different from customs territory of Pakistan, in which goods are manufactured and services are provided, both for export in Pakistan as well as for export outside the Pakistan, aiming to enhance export and reduce the imports.
5. **Multilateral Economic Zone**: The zone in which all enterprises are required to be beneficially owned by nationals, residents or corporate entities of one or more particular countries to invite investors from different countries to invest in a specific zone.
6. **Reconstruction Opportunity Zone**: Economic zone from which the exports of goods and services has been recognized by any country or jurisdiction other than Pakistan as being eligible for reduced tariff duties and other benefits.
7. **Regional Development Zone**: Economic zone wherein economic activities are promoted so as to develop particular regions and industries; and
8. **Sector Development Zone**: A regional development zone in which permissible economic activity shall be limited to one or more sectors as notified by the BOA.

B. Mechanism for SEZs Development

According to SEZs (Amendment) Act 2016, the SEZs may establish by the private parties exclusively, or may establish by Federal ors Provincial Governments themselves or in partnership with private parties through Public-Private Partnership (PPP). Government of Pakistan encourages SEZs development in PPP mode to satisfy the interests of stakeholders regarding security, transparency, delays and more.

According to SEZs (Amendment) Act 2016, BOA would approve the zone application submitted by each provincial SEZ authority through Board of Investment (BOI). The BOA is also responsible to measure the economic impact of SEZs. The other relevant and responsible agencies are also identified and mentioned in the Act with complete governing structure and responsibilities. A graphical framework for developing SEZs as per SEZs (Amendment) Act 2016 is presented below;

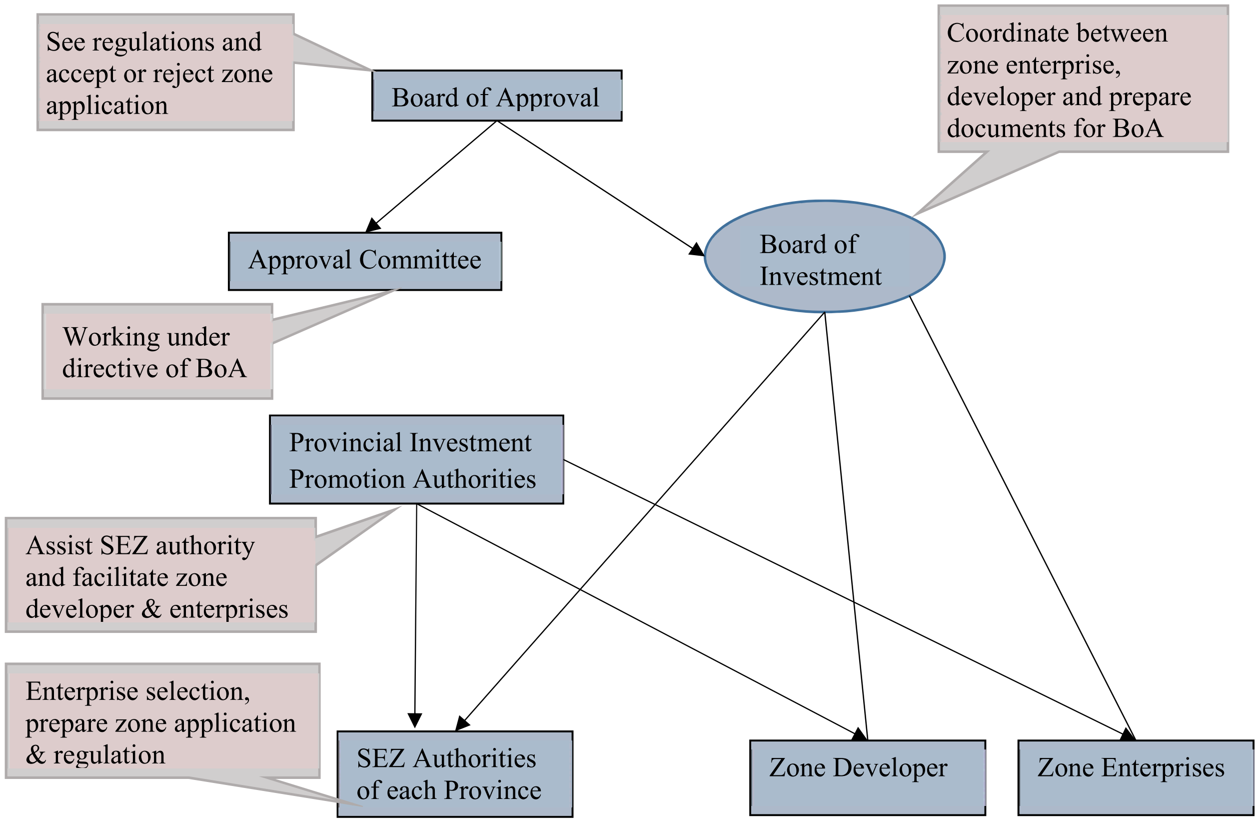

FIG 1: MECHANISM FOR DEVELOPMENT OF SEZS (BY AUTHORS)

The approval committee shall work under BoA, headed by Chairman of BOI. BOA may delegate some or all powers to the Approval Committee. Provincial Investment Promotion Authorities (PIPA), will be formed for each province which will assist each provincial SEZ authority and facilitate zone developer and enterprises. Whatever name PIPA is given like Punjab Board of Investment and Trade or Sindh Board of Investment which has been formed by provincial governments and will work as focal body to promote local and foreign investment. It may also assist the zone developers and enterprises through different issues. SEZ authority will be formed under SEZ Act in each province of Pakistan and will be responsible to accept application from the zone developers and select industries and forward the zone application to BOI and also responsible for the provision of infrastructure and utilities (Gas, electricity, water, waste disposal etc.). The rules and regulations designed by SEZ authority needed approval by BOA. Provincial SEZ authorities under the SEZ (Amendment) Act, 2016 have been formed in all provinces and have started working. The name of each provincial SEZ authority is provided below;

1. Khyber Pakhtunkhwa Economic Zone Development and Management Committee (KPEZDM)
2. Special Economic Zone Authority (SEZA), Sindh headed by Chief Minister Sindh
3. Special Economic Zone Authority, Baluchistan is also approved by government
4. Special Economic Zone Authority, Punjab has also been approved by the provincial government.

The role of BOI under SEZ Act is to coordinate between BOA and SEZ authority and also facilitate the zone developers, SEZ authorities and zone enterprises and also work to promote the SEZs. BOI will also act as SEZ authority for Islamabad Capital territory. BOA and BOI are already in working. The detail of each authority/body and their responsibilities and composition is provided in the Act.

C. Utilities and Infrastructure Facilities

According to SEZ (amendment) Act, 2016 Federal and Provincial government is responsible to make arrangements for the public utilities and infrastructure to the SEZs. SEZ developer can install electric power generation plant to satisfy the demand of electricity within zone.

D. Incentives in SEZ (Amendment) Act 2016

These incentives, are in addition to the existing benefits generally applicable under international agreements of Pakistan such as FTA and treatment under GATT and GATS etc. The incentives mentioned below aimed at populating the special economic zones through attracting new and existing industries and relocation of viable Chinese as well as other foreign industries. These incentives will not withdraw prematurely. The list of incentives for the zone developers and zone enterprises are mentioned in the Act. This is the one of the many factors creating value proposition for SEZs. The detail of incentives for both is given below;

E. Incentives for Developers

1. "One-time exemption from all custom-duties and taxes on importing plant and machinery into Pakistan not including in the list of items under Chapter 87 of the Pakistan Customs Tariff, for the setting up of an SEZ required verification by the BOI.

2. Exemption from all taxes on income accruable in relation to the development and operation of the SEZ for a period of five years, starting from the date of signing of the development agreement."

F. Incentives for Enterprises

1. "One-time exemption from custom-duties and taxes on import of plant and machinery into SEZ except items listed under Chapter 87 of the Pakistan Customs Tariff, for installation in that zone enterprise subject to verification by the BOI;

2. exemption from all taxes on income for enterprises commencing commercial production by the thirtieth June, 2020, in the SEZs for the next ten years; "provided that exemption from all taxes on income for those zone enterprises or firms which commence commercial production after the aforesaid date shall be for the next five years"

G. Incentives for Special Purpose SEZs, Developers, Industries Like Hi-Tech Or Enterprises

1. "such additional benefits may only be granted if the BOA finds them to be justified on the basis of an economic impact assessment;
2. The BOA shall make the economic impact assessment of a SEZ within five years from the date the agreement is signed and within the first year of the operation of an enterprise"

H. Labour laws

According to Act, the same laws for all labor and employment shall be applied in SEZs as already existing within Pakistan.

This would reduce the cost of doing business and new investments will be attracted towards Pakistan. Package of additional incentives for SEZs is another step aiming at relocation of industries from abroad in priority SEZs.

I. Additional Package of incentives for SEZs

Board of Investment has approved additional incentives for priority special economic zones under CPEC with the goal to substitute the Chinese imports, to reduce the import bill and to promote export. Other aligned goals are relocating industry that would depend least on imports, promote local employment, promoting environment friendly industries, employs modern technology and 100 percent foreign investment/joint venture. Following incentives are approved to achieve these goals.

- Provision of plots on installments (50% down payment and remaining 50% in four biannual installments basis).
- Markup support @ 50 % of the markup to a maximum of 5% on the loans taken in Pakistani currency for financing the project.
- Freight subsidy @50% on the inland transportation of plant and machinery for installation in/ development of any of the priority SEZ.
- One window operation by SEZA - The provincial government to either delegate authority for implementing labour1 environment related laws, and collection of local/ provincial taxes to SEZ or depute representatives of the departments in SEZA office.
- Federal government departments (FBR, SECP etc) to depute representatives to perform similar functions in the zone
- The developer shall also be allowed to purchase Gas, Electricity and other utilities from utility providers in bulk and supply the same to the enterprises at rates that are duly notified by SEZA in consultation with stake holders

J. Amendments made in SEZ Act 2012

Previously existing zone and industrial estates can apply to get the SEZ status but under the SEZ (Amendment) Act 2016, related clauses under section 15 are subjected to omission. Section 33 which is about the extraterritoriality of SEZs is totally omitted from the act. Under the section 36 “Benefits to Developers” the amendment is made to imported capital. According to new act all those items which fall outside the chapter 87 of the Pakistan tariff subject to custom duties and tariffs. And tax exemption in new act is reduced to five years from ten years.

Amendments were also made in section 37 “Benefits to Enterprises” in new act all those items which fall outside the chapter 87 of the Pakistan subjected to custom duties and tariffs. And tax exemption for the next ten years subjected to those enterprises which start their business by 30th June,2020. Otherwise exemption will be given only for next five years if the production starts after above-mentioned date.

The amendments were made to erode the impression given to SEZs as “export processing Zones” and to make the investor friendly environment and it will also reduce the cost of doing business.

IV. SEZS UNDER CPEC

China Pakistan Economic Corridor (CPEC), a vision to improve the lives of people of both countries (China and Pakistan), was officially signed in 2015 when President of China Xi Jinping visited Pakistan and signed MoU on CPEC comprises initial outlay of $46 billion investment. CPEC is not just the corridor but it's a portfolio of projects including; infrastructure, energy, Gwadar, industrial development and cooperation. An initial investment of $46 billion was dedicated to CPEC portfolio which has been increased to $62 billion. More than 70% of the investment is made in energy related projects to overcome the acute energy crisis.

Energy shortfall is the major cause of slowdown the economy altogether in Pakistan, about 1100 MW of electricity is expected to be added in national grid by 2018 (short term projects). Major projects under electricity head are the production of electricity mainly through coal. Pakistan is using only 1% of its abundant coal reserves up till now. Under CPEC portfolio, about (17045) MW energy will be produced from coal to support the economic activities.

Investment on infrastructure is made with the aim to enhance regional connectivity including both road and rail. Infrastructure projects includes; improvement in existing infrastructure as well as development of new infrastructure. Three routes have been announced under CPEC, the western route, eastern route and central route. The three routes will ensure the connectivity of the following cities and districts to Khunjrab China;

- Central Route: Gwadar-Turbat-Panjgur-Khuzdar2-Ratodero-Kashmore-Rajanpur-Dera Ghazi Khan-Dera Ismail Khan-Bannu-Kohat-Peshawar-Hasanabdal-and onwards
- Eastern Route: Gwadar-Turbat-Panjgur-Khuzdar-Ratodero- Kashmore-Rajanpur -Dera Ghazi Khan-Multan-Faisalabad-Pindi Bhatian-Rawalpindi-Hasanabdal- and onwards
- Western Route: Gwadar-Turbat-Panjgur-Khuzdar-Kalat-Quetta-Zhob-Dera Ismail - Kohat-Peshawar-Hasanabdal-and onwards

The improved infrastructure is a fundamental factor of success to access the market, transportation of resources, goods and services to all kind of zones, would play as key motivator to establish economic zones. In Joint Corporate Committee (JCC) meeting held in Beijing on December 2016, 9 out of 37 proposed SEZs are prioritized to set up in next three years (DAWN, 2016), which are proposed along the CPEC routes. The current study focuses on these 9 proposed priority zones which are listed below;

1. Moqpondass SEZ, Gilgit-Baltistan
2. Mirpur Industrial Zone, Azad Jammu Kashmir
3. ICT Model Industrial Zone, Islamabad
4. Punjab - China Economic Zone, M-2 District Sheikhupura, Punjab
5. Rashakai Economic Zone on M-1, Khyber-Pakhtunkhwa
6. Mohmand Marble City, FATA
7. Bostan Industrial Zone, Baluchistan
8. Special Economic Zone Dhabeji, Sindh
9. Port Qasim Special Economic Zone, Sindh

The objectives of proposed priority SEZs are to attract FDI, support industrialization and enhance economic growth as a whole. The strategic location of each of aforementioned SEZs is given in the map along the CPEC routes.

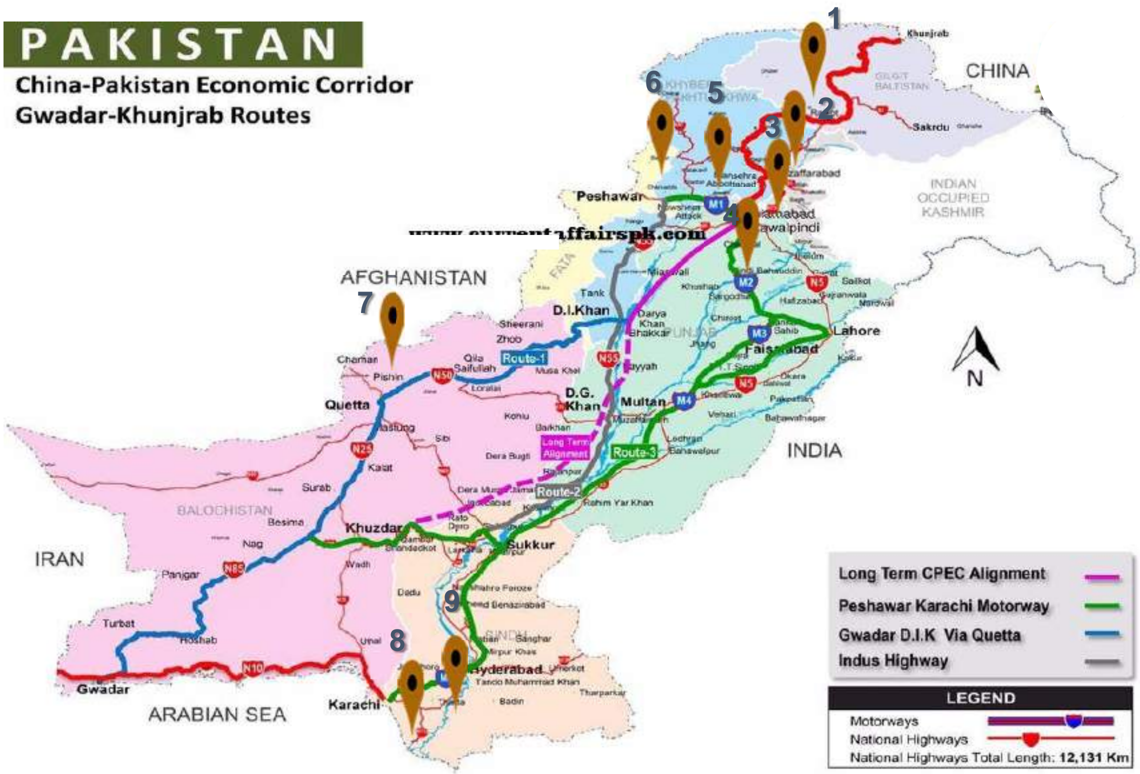

FIG2: SEZS DESIGNATED ALONG THE CPEC ROUTES

V. SEZS AND REGIONAL FACTOR ENDOWMENTS

The site selection is very critical for the success of SEZs. Location, proximity to utilities services, accessibility to raw material, and proximity to labor supply and proximity of the SEZ from trading hubs matters very much for the success of SEZs (Shah, 2008), independent authorities, rules and regulation are among the other success factors. According to Asian Economist Integration report (2015) poor location and under develop infrastructure and limited connectivity with trading hubs are the major issues that cause failure of SEZs. Location close to improved infrastructure is directly related to export competitiveness and FDI inflow, argued in Confederation of Indian Industry report, 2006.

Zones close to urban cities will ensure the availability of labor inputs supported by improved infrastructure to ensure labor mobility and also encourage the zone enterprises to develop linkage (backward) with local industries.

Zones' distance from international market is also a yardstick of their success. Inter-regional connectivity ensures to pursue the goal to promote export. Hence positioning the SEZs near air ports, sea ports, countries' borders, guaranteed the success. Shenzen a SEZ in China is one of the Asian success stories, situated at proximity to its neighbor Hong Kong connected through sea and surrounded by improved infrastructure has turned it merely from a fishing village to industrial state and get populated from 30,000 to 10,000,000 despite the lack of natural resources (Shah, 2008). Chittagong SEZ is another successful example which capitalized the location advantage. Hence the location advantage of SEZs backed by strong infrastructure has a positive effect on trade (Enright, Scott, and Chung 2005) and it also help to overcome the geographical hindrance and support the regional growth (Démurger, Sachs, Woo, Bao, Chang & Mellinger, 2001).

Researchers have also emphasized the location with latent comparative advantage in term of cheap labor supply and natural resource endowments. If the latent comparative advantages in terms of human resources and natural resources are realized, they would greatly become the attraction of foreign investment. Porter (1990) defining the four stages of national economic development, the first is "factor driven". According to him "Factor Driven" stage is based on factor of production like natural resource, human resource or the favorable conditions (like climate etc.).

Economic activities are also influenced by the comparative advantages and are considered as an initial attraction for such activities. According to Klasent (2007) availability of raw material (natural resources) in a region and cheap factor of production has a direct impact on regional economic development. Natural resources have significant growth perspective to provide the region, a comparative advantage in different type of production activities (Fine & Waeyenberge, 2013).

New Structural Economies (NSE) by Lin (2012) also states that development of industries is determined by endowment structure (natural resource, human resource, and infrastructure). NSE highlights the role of government as a facilitator to new entrants to capitalize on latent comparative advantage. Lin proposed that new industry identification and new industry prioritization must be aligned with regional (countries') (latent) comparative advantage. According to NSE, to design a successful industrial policy, it should target the industries that follow the economy's latent comparative advantage. Therefore, it is important to highlight the regional latent comparative advantage to kick start the economic growth process.

Based on the above discussion and being developing country this study recommends the endowment based industries. Pakistan does not sufficiently utilize its abundant natural resources (marble, precious stones, agriculture, coal, water, minerals and livestock) and still have potential to capitalize on its insufficiently taped and untapped natural resources. The presence of requisite infrastructure, set of skills, FDI, availability of inputs and raw materials, supply chain and existence of SMEs will gear up the economy. Whereas populating the SEZs through advanced industries will pose threat due to presence of different constraints including unskilled human resource, investment, lack of relevant supply chain and so on. Below figure is the diagrammatic representation of advantages of factor driven development and constraints of starting with more advanced and techno based development. It would be tough for Pakistan to move towards high tech industries as it may face the following but not limited constraints in the figure below.

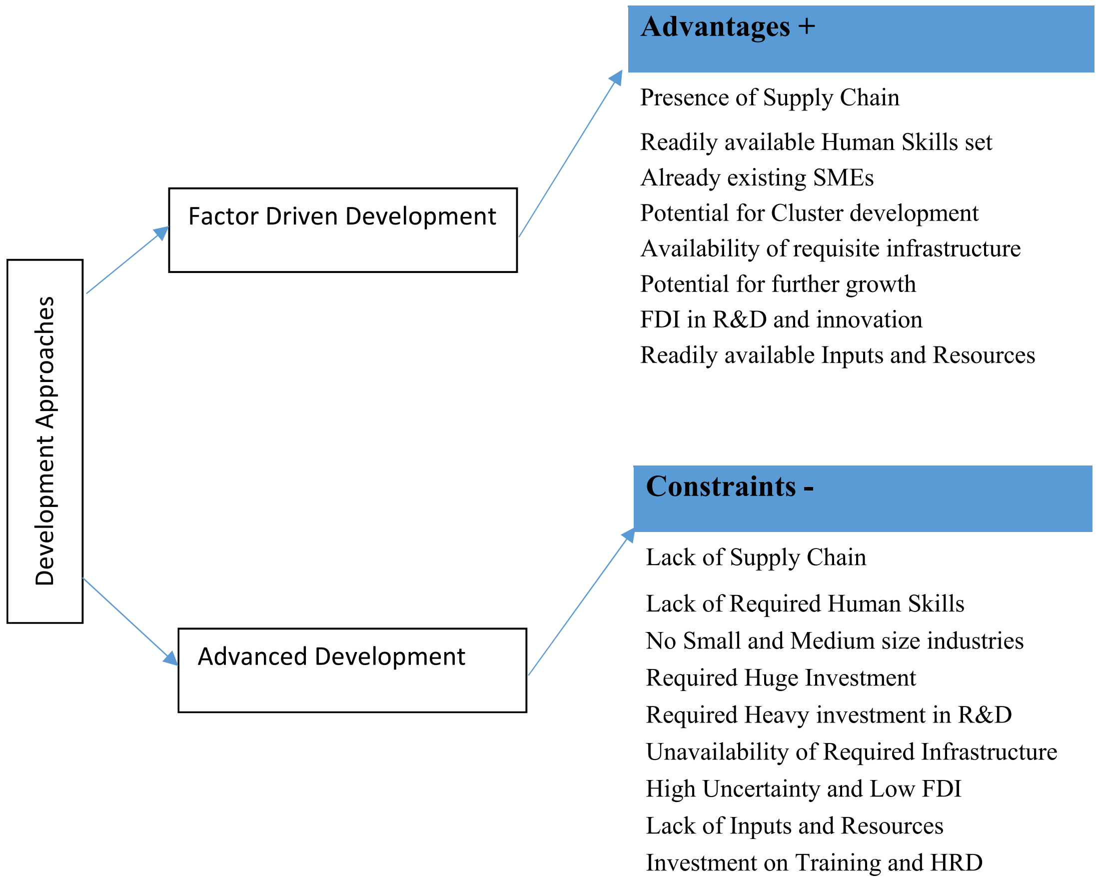

FIG: 1

Hence the current study shares the facts and figure about the areas identified as a result of above discussion for the region selected for 9 proposed priority SEZs. The study evaluates the locational advantage on the following grounds;

- Availability of Human Resource (available skills, literacy rate, employment rate, human capital index)
- Natural resources which will be used as raw material or input resources
- Location of economic activity (SEZs)
  - Proximity to urban cities
  - Proximity to natural resource abundant areas
  - Proximity to rail, roads, sea ports and air ports
- Availability of infrastructure
- Availability of utilities (water, power and gas)

VI. THE REGIONAL PROFILE OF 9 PROPOSED PRIORITY SEZS UNDER CPEC

A new wave of development has recently struck Pakistan with the name of “Game Changer”. Under the CPEC umbrella 9 priority proposed SEZs out of 37 have been decided to setup. This section will provide initial information about the location advantage and detail regional profile to get an overview for the success of these SEZs.

A. Bostan Industrial Zone, Baluchistan

Baluchistan is the largest province (in terms of area) of Pakistan with least population. The economy of Baluchistan is mainly based on natural resources including mines and minerals, agriculture and livestock. Quetta and Khuzdar are the two urban cities situated in this province. The province contributed 4 percent to national GDP, which is mainly depends upon the agriculture, manufacturing, transport and wholesale. The region has largest reserves of copper among other untapped minerals like gold, coal, iron and silver. Baluchistan has about 800 km long coastline, and 70 percent employed labor forces is associated with fisheries in near districts.

One of the 9 proposed priority SEZs is announced to set up in Bostan, Bostan is situated at approximate distance of 45 KM from Quetta, the provincial headquarter of Balochistan. Its importance lies in its geography.

Bostan Industrial Zone situated at district Pishin bordered with Quetta (provided with enough skilled labor), Qila Saifullah (famous livestock, fruits and vegetables), Ziarat (famous for dry fruits, apple and grapes) and Qila Abdullah (climate suitable for fruits and vegetables). According to report by SDPC 2016, the estimated human development index of the district Pishin is 0.416.

Though province has comparative advantage in terms of natural resources but low population density is the main factor of consideration which can be overcome by developing the province and lifting up the life standards supplemented by infrastructure to ensure the mobility of human resource.

1000 acres area has been allocated to Bostan Industrial Zone, development is already made on area of 200 acres. The availability of different means of connectivity (Airport, seaport dry port, railways and roads) make this zone feasible for business activities and ensure the mobility of labor force to start operations. The Zone is situated at a distance of 23 KM from Airport (Quetta), 713 KM from seaport (Karachi) and 976 KM Gwadar, and 32 KM from dry port (Quetta). It is located near national highway N-50 which will connect the zone to other regions of Pakistan.

Provincial SEZ authority would be responsible to ensure the supply of gas, electricity and water. Though currently the utilities supplies are not available but Baluchistan is abundant in gas and coastal region help to produce wind energy. Availability of coal reserves are another resource to produce electricity.

Following are the possible potential industries are identified based on the endowment structure are fruit processing and value addition, agriculture, Halal food industry, mineral extraction and machinery, ceramic industries, wholesale and storage.

B. Rashakai Economic Zone on M-1, Khyber-Pakhtunkhwa (KP)

Rashakai Economic zone (REZ) on M-1 is one of the 9 proposed priority SEZs under CPEC is planned to set up in KP and 1000 acre land is already being acquired for REZ development.

KP is the third largest province in terms of population and third largest provincial economy. KP contributes 10.5% in GDP of Pakistan. 78% of Pakistan's total marble production comes from KP and is the largest province producing wood and tobacco. Main crops of the province include wheat, maize, Tobacco (in Swabi), rice, sugar beets. KP is blessed with natural resources like oil, gas, mines of marble, gems stone, emeralds, uranium, electricity, salt, lithium, and steel. The literacy rate of KP is 50% and human development index is 0.48.

Proposed SEZ in KP is named as Rashakai Economic Zone (REZ) located in Mardan, M1 Motorway intersection and links to CPEC route through Burhan interchange. It is bordered with Nowshera, Swabi, Bunner, Malakand and Charsadah.

RES is also serve as a bridge for Northern Areas of Khyber Pakhtunkhwa and located close to Afghan border. Due to this central position, the economic zone may possibly become a trade hub for KP. It can be valuable in expanding transit trade to Afghanistan and Central Asian countries.

REZ is connected to all provinces of Pakistan through Airport (at a distance of 65 KM from REZ), Dry Port (65 KM), Railway station (25 KM), Motorway (0 KM), highway (5 KM) and city center (15 KM).

Availability of input resources in nearest districts makes REZ more attractive for the investment. The proximity of connected districts with available input resources is provided below;

- Gem& soap stones, Metal Ores, Magnesium and Phosphate at Abbottabad (150 KM from Rashakai)
- Established clusters of hand & power looms, foot wears & Sugarcane at Charsadda (30KM)
- Gem Stones and Metallic Ores at Malakand (48KM from Rashakai)
- Gem stones, Marble/Granite at Lower Dir (120 KM from Rashakai)
- Sugarcane and Tobacco at Mardan (10KM from Rashakai)
- Wheat, Maize, Tobacco, Maize, Rice, Sugar Cane, Mustard , Water melon, Musk Melon, Apricot, Guava, Pear, Peaches, Plum, Citrus and Mulberry plantations at Swabi (30 KM from Rashakai) (source; website KPEZMC)

Based on the strengths of the connected districts and resource pool, the economic zone has predominant investment feasibility for industries in fruit & food packaging and textile.

C. Mohmand Marble City, FATA

Mohmand Marble City (MMC) is one among the other 9 proposed priority SEZs, is announced in Mohmand agency, FATA. FATA is the tribal region situated at northwest of Pakistan, lying between KP and Baluchistan.

Mohmand Agency bordered with Charsadda, rich in Minerals and Agriculture, Bajaur Agency, Khyber agency and Afghnistan, which are naturally rich in marble and other minerals including Uranium, dimensional stones, granite, coal, marble, manganese ore, limestone.

Major development projects in Mohmand agency are Dam projects, development of shingle road from Babo Sar to Tatareen skha Oba marble mines and 18 Km long shingle road in marble bearing areas.

The population density is 150/Km^2. Scant rainfall is not suitable for agribusiness and is major cause of demographic movement to the near districts.

Mohmand agency has great potential if backed by strong means of connection throughout Pakistan and out. The current available means of connectivity are Airport (29Km from Mohmand agency), dry port (29Km) railway station (28Km), Indus highway (34Km), Pesh –Turkhim highway (28Km) and Motorway (33Km). Due to rich in marble resources and other minerals the “Mohmand marble city” is rightly announced to capitalize on regional comparative advantage. Based on the endowment structure the potentially identified industries would be Stone industry, including but not limited to Marble. Other industries include mineral, such as coal and copper extraction and processing.

D. Special Economic Zone Dhabeji, and Port Qasim Special Economic Zone, Sindh

Two SEZs are being announced in the Sindh province. Sindh is the second largest province of Pakistan and it contributes around 33% in the total GDP of Pakistan. Local and MNCs are already successfully working in the province. Sindh is the diversified economy and its manufacturing, agriculture and services sectors significantly contributes towards the economic growth of the province and country at large.

Special Economic zone, Dhabeji, close to Karachi port. 1000-acre of land is being earmarked for the development of SEZ in Dhabeji. Ideal location (at a distance of 55 Km from Karachi and near to Port Qasim) will make this SEZ attractive for heavy investment in manufacturing and automobile industries, although several agro based industries such as rice and flour mills are already working in Dhabeji.

The literacy rate of this region is 22.1 % while the human development index for this region is 0.422. The government has taken important steps to train women for increasing Livestock Production & Conversion into by-products.

The awareness campaign also covers transfer of appropriate technology regarding livestock nutrition, breeding, management, disease control and marketing. Other training programs includes the environment and natural resource management etc. to build the human capacity.

Port Qasim Special Economic Zone, is the second SEZ proposed under CPEC in Sindh. SEZs at coastal region are significantly contributing to national economy. China has 5 coastal SEZs and Shenzen is one of them which turned to industrial estate and has a significant contribution in GDP growth of China.

Port Qasim SEZ ideally located in a place connected to well-developed infrastructure for the movement of goods (input, semi-finished and finished). It is situated at a distance of 15 km from national highway, at14km from railway track and at a distance of 22km from Airport ultimately lessen the transport cost.

Port Qasim has the largest oil terminal among other terminal facilities including container, liquid chemical, and multipurpose terminal making the business easier at that place along with the availability of basic utilities like portable water, power, gas, telecommunications, banking and other facilities including Transshipment and transit trade facilities with Afghanistan and Central Asian Republics.

The proximity to most urbanized city of Pakistan would help to provide the labor ranging from low skilled labor to highly skilled engineers to top level management.

E. China Economic Zone, M-2 District Sheikhupura, Punjab

Punjab is the most populous, industrialized and developed province of Pakistan. it contributes around 60% in the GDP of Pakistan. Lahore, the capital of province contributes 13%. in national economy.

One SEZ is also proposed in Punjab at M-2 district Sheikhupura. Sheikhupura has the mix of different largest industries and is the land suitable for major fruits & vegetables (Rice, Wheat, Berseam, Sugar Cane etc.), forestry and livestock. It has the biggest oil Depu at Machike and is culturally rich to promote tourism.

Electricity, Sui Gas, Telephone etc.) are within 10kilometers range. Upper Chanab Canal at a distance of 2.5 km an alternate water source other than the tube wells. The literacy rate of the district is 47.8 % (census 1991), government of Punjab has taken an initiative to train the locals regarding livestock and agribusiness as a result 853 Technicians / Artisans / Workers are trained every year.

Based on the available endowment structure the possible set of potential industries would be Agriculture and Industries including pharmaceutical, cosmetics, disposable syringes, glass ampoules, artificial leather, fiber glass, boilers, pumps and compressors, ball bearing, generators, foundry and forging, automobile transmission.

F. ICT Model Industrial Zone, Islamabad

ICT is proposed to setup in Islamabad and named as "Islamabad Capital Territory" (ICT) industrial zone. Land is yet to be identified for this zone and is being searched.

Islamabad is the Capital city of Pakistan and it has well established industries, logistics network and trade routes (Railways, airport, highways). Full availability of water, electricity, drainage and communication systems will ensure the successful businesses in ICT model industrial zone.

G. Mirpur Industrial Zone, Azad Jammu Kashmir (AJK)

AJK is mainly hilly and mountainous area with valleys and plains. AJK is blessed with forests, rivers (Jehlum, Neelum and Poonch) and winding streams. AJK share the border with Gilgit-Baltistan, Punjab province of Pakistan to the south and Khyber Pakhtunkhwa to the west. Recently Express Way from Muzaffarabad to Mirpur has been included in the China Pakistan Economic Corridor (CPEC). The major crops are maize, wheat & rice whereas minor crops include vegetables, grams, pulses (red Lobia) and oil-seeds and major fruits are apple, pears, apricot and walnuts.

One of the proposed SEZs under CPEC was announced to be Bhimber. Later the government has proposed that Mirpur is the best selection for the SEZ in AJK. Mirpur is the district of AJK bordered with west Punjab. Mirpur city in the district is one of the largest city of AJK. Mirpur district has undergone different development projects.

The connectivity hubs (airports, seaports and railway station) in nearest regions would help enterprises to start their businesses. The nearest airport in Muzarffabad is in development stage. The developed airport "Islamabad airport" is 122 km away from the Mirpur to facilitate the trade and transportation of goods and human resources at initial stage of development.

H. Moqpondass SEZ, Gilgit-Baltistan (GB)

Maqpondass a place is selected for one of the proposed 9 priority SEZs under CPEC in Gilgilt Baltistan. GB bordered with Afghanistan to the north, China to the northeast, the Pakistani administrated state of Azad, Jammu and Kashmir (AJK) to the south.

The Maqpondas SEZ is earmarked in district Gilgit, GB, naturally rich in precious stones, fruits. The proposed SEZ would be connected through nearest Airport 35KM, Sust Dryport 200KM, CPEC Route 4KM On Gilgit-Skardu Road.

Based on the available endowment structure following potential industries are identified, marble and granite, iron ore processing, fruit processing and value addition, steel industry, mineral processing and value addition and leather industry.

VII. PROSPECTIVE IMPACT OF SEZS ON LOCAL BUSINESS COMMUNITY

At large the special incentives would not hurt existing industries if the properly designed policies are effectively implemented by keeping in view the entire industries. A clear designed program should be developed to establish and promote the backward and forward linkage e.g. a duty free access to the industries that can supply the input to the firms inside SEZs. SEZ act promote the forward linkage through reinforce the duty free selling to the local market. It is expected that the SEZs prioritize under CPEC would be able to establish the backward and forward linkage with the society and transform the linkage into possible socio-economic impacts.

The Mohmand Marble City among the 9 priority SEZs under CPEC is aimed to form industrial cluster. This would engage the existing industries (backward linkage) and the output of the zones may export. Other SEZs would have mixed industries which would leverage on available regional natural resources. Such zones would help to boost the local economy through value addition of local raw material/endowments; hence the demand is expected to increase for the existing industries in zones. Enterprises in zones may have edge in terms of access to international markets as there is possibility of relocation of the international industries in 9 proposed priority SEZs and to encourage the international enterprises for joint ventures with local industries to support the existing industries. The existing industries however have to do their homework to identify their position in supply chain (backward or forward) for the industries in zones and can take the advantage of being the first to supply complementary or support services.

The Maqpondas SEZ which is near China border and Marble City, Mohmand Agency near Afhnistan border can be designed as joint SEZs at border between neighboring countries to exploit the latent comparative advantage of both sides. This strategy would help to boost the less developed region of the Pakistan and support regional economy. Usually SEZs near international borders can be transform into logistics hubs.

Many countries around the world have shown their interest to invest in SEZs proposed under CPEC and accordingly the Federal and Provincial Governments are promoting the SEZs to international investors through participating in investment promotions road shows in different countries (expected in Italy, Singapore, United Kingdom and United States.3) to attract FDI and to properly establish the SEZs.

[3] . KP has already participated in a road show organized in China.

As SEZs are providing a better and conducive business environment hence they can play positive role with more benefits (in terms of quality improvement, access to international market (forward linkage), learning best practices, exposure to advance technology) and less harm (in terms of wage rise and rise in competition) to the local industries in medium to long run.

Though the prospective industries in SEZs have the competitive advantage in terms of fiscal incentives, improved infrastructure and facilitation services but the spillover effect and the positive externalities will affect the existing industries positively in long run.

VIII. CONCLUSION AND RECOMMENDATIONS

The current study has analyzed the locational advantage of the 9 priority proposed SEZs in terms of human capital, infrastructure and natural resources and identified potential industries for the SEZs. These are the initial factors required to start an economic activity (Lin, 2009). Improved physical and soft infrastructure is the crucial factors to establish the SEZs and help to design preferential policies. The geographical disparity of proposed SEZs is discussed on the basis of these factors and it leads to develop preferential policies for each SEZ proposed under CPEC.

Based on the analysis following policy guidelines are cited below;

- SEZs model should be design in line with the vision 2025.
- The model should encourage forward and backward linkage to build and strengthen the local industry and the region.
- The SEZs program should be design in way that it will help to transfer the knowledge and technology to the local businesses.
- Tax design should be developed in way that should not hurt the existing tax base and should not encourage the migration of local business to the zone.
- SEZ program should encourage the establishment of new businesses and expansion of existing businesses.
- Universities and vocational center should encourage to step forward to join hands with the firms in SEZs to produce the required human skills in SEZS and to design the curriculum that can satisfy the skills demand in future.
- Prioritize the industries that best fit with respective SEZs locational advantage.
- Heavy investment needed to be made to develop the human skills in order to avail the job opportunities for the local workforce.
- Private investment (joint ventures/independent) should be encouraged through incentives to develop SEZs. Private sectors' interests can be best addressed by involving them into policy making process.
- Being a developing country, Pakistan should focus on endowment based industries.
- Keeping in view the contribution of service sectors in GDP, a special effort can be made to establish services specific economic zones.
- Relationship with neighboring countries needs to be stabilizing especially for SEZs at border areas. We have so many examples of cross border jointly developed SEZs to realize the dream

of regional integration and inclusive growth. Mohmand Marble City, Maqpoondas, GB and Bostan in Baluchistan have great potential to build on this model.

- Export and value addition should be our focused for sustainable economic growth.
- Commercial launch of SEZs will help to create and build trust in foreign and local investors.
- Industries (such as tourisim, transportation, logistics, financial services,) that can best fit with the existing pool of Skills at Pakistan should be prioritize to realize the dream of SEZs as a mean to create jobs
- Encourage the private investment in SEZs, because investors are more confident to invest in privately owned SEZs.

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