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Towards the Development of Economically Vibrant Special Economic Zones in Pakistan

Ali Ozgen[*]

ABSTRACT

This study explores the dynamics of Special Economic Zones (SEZs) in Pakistan, underscoring their crucial role in industrial development and economic growth. It examines the critical success factors shaping their effectiveness by analysing policy frameworks, case studies, stakeholder surveys, and field observations. The research highlights the importance of a conducive regulatory environment and robust infrastructure in fostering investment and building investor confidence. It underscores the necessity of effective institutions, transparent governance, and well-structured policies to accelerate industrialisation. Furthermore, it advocates for aligning economic zone policies with international best practices and broader economic objectives. Ultimately, this paper serves as a comprehensive resource for policymakers, investors, and stakeholders seeking insights into leveraging these zones to attract foreign investment, generate employment, and stimulate economic prosperity.

Keywords: Special Economic Zones, Industrialisation, Economic Growth, Export, Employment Generation.

JEL Classification Codes: O11, O14, O25

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1. INTRODUCTION

Special Economic Zones (SEZs) have emerged as a crucial driver of economic growth and industrialization in many countries. Characterised by distinct regulatory frameworks and targeted incentives, these zones attract both local and foreign investment, generate employment, boost exports, and foster technological advancements. Their establishment reflects a strategic government initiative to enhance the country's economic position on the global stage.

This study addresses gaps in the existing literature and examines the disconnect between SEZ policies and local economic conditions, including infrastructure, human capital, and governance. It aims to provide valuable insights for policymakers to refine SEZ strategies, ensuring they align with broader economic objectives and serve as effective catalysts for Pakistan's much-needed economic growth.

2. BACKGROUND

2.1 SEZs as Catalysts for Economic Growth in Developing Nations

Setting up SEZs successfully can spur economic growth and yield several benefits. By attracting Foreign Direct Investment (FDI) through business-friendly environment and incentives, SEZs can catalyse job creation, increase productivity and enhance competitiveness in global production networks. Usually, such zones are designed to promote exports, earn foreign exchange and tame trade imbalances. Additionally, SEZs stimulate technology transfer and advancement, encouraging collaboration between foreign and local organizations and promoting industrial competencies. Their development requires major infrastructure upgrades benefiting not only the zone itself but also local regions by improving connectivity and fostering economic development. Furthermore, by fostering industrial clustering, SEZs enhance value addition, improve efficiency, and integrate supply chains, thereby strengthening overall competitiveness. They also contribute to public revenue through taxation, supporting infrastructure development, improved public services, and broader social well-being.

Countries with low Gross Domestic Product (GDP) seeking to improve their incomes often look towards examples of the success of Asian countries, particularly China, whose economic turnaround over the last few decades is astounding. A noteworthy example of this is Shenzhen, a village dependent on fishing for livelihood, transformed into a bustling metropolitan city with 13 million inhabitants. China's premier Deng Xiaoping encouraged exports and established SEZs with limited taxes, low labour costs and reduced regulations to attract FDI. According to World Bank (2023) data, in 1980, Pakistan's per capita income was USD 287.4 and China's was USD 194.8. However, by 2023, China's per capita income grew to USD 12,614.1 whereas Pakistan's remained at USD 1365.3. Therefore, Pakistan can learn from the Chinese experience to leverage its economic transformation.

2.2 Pakistan's SEZ Act, 2012

Pakistan's 'Special Economic Zones Act, 2012 [Amended in 2026]' was enacted to regulate and manage SEZs aiming to attract FDI, and domestic investments, encourage exports and stimulate industrialisation by creating zones with tax benefits. By creating an enabling environment, the Act provides a strong foundation for supporting industrialisation, economic progress, and investment in Pakistan. Under this, substantial fiscal advantages are granted, notably encompassing a one-time exemption from customs duties and taxes on all imported capital goods utilised for SEZ development, operations, and maintenance, a provision exclusively applicable to developers. Zone Enterprises can import duty-free machinery, saving them over 25% of various taxes. A ten-year income tax exemption is also granted to the Developer and the Zone Enterprises. The Federal and Provincial Governments are responsible for providing gas, electricity, and utilities at designated zero points within each SEZ. They are also accountable for establishing adequate SEZ road access (Board of Investment n.d.).

2.3 Current Status of SEZs in Pakistan

Based on the Pakistan Economic Survey (2020-21), the Finance Division reported that the country's SEZ landscape has significantly changed. Until the fiscal year 2018, only seven SEZs were in operation, six of which had been transformed from their previous designations as industrial estates. However, the China-Pakistan Economic Corridor (CPEC) has initiated a transformative phase in SEZ development across Pakistan. A total of 22 SEZs have received approval, with 21 of them being officially notified by the Board of Investment (BOI). This compromises four CPEC SEZs, three Private SEZs and a Science and Technology Park established by National University of Sciences & Technology (NUST). Together, these SEZs host 285 enterprises. Notably, more than 84% of the industrial areas designated for these zones have been allocated, marking substantial progress. Nearly 46% of the anticipated investment has materialised, with FDI accounting for 50% of the inflow. The Federal Government has supported these initiatives by granting exemptions exceeding USD 180 million in customs duties and taxes for importing essential machinery and equipment to establish units within these SEZs. However, the data shows Pakistan is entering the highly competitive Global Production Networks very late.

This study examines the critical success factors of SEZs and explores strategies to position Pakistan for sustained economic growth and enhanced global competitiveness.

3. RESEARCH METHODOLOGY

The existing literature on SEZs in Pakistan predominantly focuses on macroeconomic impacts, such as overall investment inflows, export performance, and job creation. Studies by Khan et al. (2020) have highlighted the positive impact of SEZs on attracting FDI and enhancing export capabilities. However, these studies often provide a broad, quantitative overview, lacking in-depth analysis of the specific mechanisms through which SEZs contribute to regional development, innovation, and industrial competitiveness. There is a significant gap in understanding the operational challenges SEZs face, including governance issues, infrastructure deficits, and policy inconsistencies, which can undermine their potential to drive sustainable industrial growth.

The study employs a qualitative research method, specifically through semi-structured interviews with key stakeholders in SEZs, to deeply explore the intricate dynamics of policy implementation and stakeholder engagement. The qualitative approach provides strength in capturing the complex and context-specific factors influencing SEZ performance in Pakistan. Unlike quantitative methods that primarily focus on measurable outcomes, qualitative research provides a richer understanding of the underlying processes, stakeholder perceptions, and contextual challenges. This approach aligns with the exploratory nature of the study, which aims to uncover new insights into the operational realities of SEZs, thereby contributing valuable perspectives to the existing body of literature on economic zones in developing countries.

This study engaged industrial associations, Chambers of Commerce and Industry, academia, and Civil Society Organisations (CSOs) to gather data through interviews and workshops, providing valuable insights into the challenges of sustainable industrialisation. Linkages with key institutions such as the Employee Social Security Institution, Employee Old Age Benefits Institution, Workers Welfare Fund, Labour Department, Environment Protection Agency, and the Federal/KP Boards of Investment were instrumental in assessing policies and regulations, evaluating their effectiveness, and identifying areas for improvement. Incorporating a holistic approach, the study draws on global best practices. The Hattar SEZ/Industrial Estate served as a foundational case study, establishing a baseline for in-depth policy analysis.

A survey was conducted among 18 industrialists operating in various economic zones, including Hattar SEZ, Rashakai SEZ, Hattar Industrial Estate, Sundar Industrial Estate, and Port Qasim SEZ. The surveyed industries included Kulal Ceramics, Hemani International, Oxygen Pakistan, Pak Steel, Qaswa Industries, Pine Match, Smart Packages, Karachi Steel, Waheed Group, Family Banaspati, Mujahid Group, Standard Ceramics, Qarshi Industries, English Biscuit, Bestway Cement, Lucky Cement, Volta Batteries, and Abdullah Flour Mills.

Participants were asked to identify and elaborate on the key investment criteria influencing their decisions. The interviews provided valuable insights into challenges hindering industrial investments and constraining overall growth. To quantify preferences, scores were assigned based on investor rankings: the most preferred option received a score of 1, the second most preferred received a score of 2, and so on, up to the least preferred option, which was assigned a score of 10. The average score for each option was calculated by summing the scores assigned by all investors and dividing by the number of respondents. The options were then ranked in ascending order based on their average scores. Subsequently, in-depth discussions were conducted to analyze the identified issues. The study further explored the investment deterrents highlighted by participants, conducting additional research to provide a comprehensive assessment of the challenges and presenting key findings for informed decision-making.

Table 1: SEZs Survey

Investment Criteria – SEZs	**Ranking**
Cost of Doing Business (Electricity, Land, Interest Rate, Tax, Currency)	**1**
Access to Transport Infrastructure	**5**
Business Regulations	**4**
Tax and Duties Exemptions	**9**
Skilled Labour Availability	**8**
Access to Suppliers	**7**
Access to Cheap Labour	**3**
Access to Land and Amenities (Electricity, Water, Road)	**2**
Access to the Regional and Local Markets	**6**
Access to Technology	**10**

Source: Author's own.

The study includes five interviews with senior management personnel from the Special Economic Zones Management Company (SEZMC), Punjab Industrial Estates Development and Management Company (PIEDMC), Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC), Khyber Pakhtunkhwa Special Economic Zones Authority (KPSEZA), and the Federal/KP BOI to explore potential improvements in zone management, focusing on strategies to facilitate industrialisation.

4. RESULTS

According to the interviews conducted, SEZ industrialists faced many challenges beyond the SEZ framework. These challenges primarily revolved around broader business climate issues, such as the regulatory environment and overall economy of Pakistan, as outlined below.

4.1 Incentives

In the interviews conducted with industrialists, it was noted that there was relatively low emphasis placed on the benefits associated with duty-free machinery imports and the provision of a ten-year income tax exemption. According to the ADB (2025), numerous countries may offer tax incentives, but their efficacy could be constrained and fall short of other factors. The influence of corporate tax waivers varies depending on the economic development level: it is adverse for less developed nations but become beneficial for more prosperous ones. Frick et al. (2018, p.30) suggest that the critical threshold lies at a GDP per capita of USD 5,100, where corporate tax exemptions show a positive correlation with Zone accomplishment. Consequently, tax incentives might serve as a potent tool for attracting investments in emerging countries at higher levels of development but may not yield the same results in those positioned at the lower end of the economic spectrum. The enterprises within the Zone recognise the significance of incentives; however, they prioritise other factors in their investment decisions over these incentives. Because of the slow progress in electricity supply in Hattar SEZ, Coca-Cola opted to invest USD 50 million in constructing its new plant, located 10 kilometres away from the SEZ. This decision underscores a multinational corporation's prioritisation beyond tax and customs duty benefits.

4.2 Cost of Doing Business

Among the industrialists interviewed, the cost of doing business emerged as the paramount factor in their investment criteria. To combat annual inflation, interest rate in Pakistan has surged, dealing a significant blow to industrialisation. These exceptionally high interest rates have discouraged investors from pursuing greenfield or brownfield projects, as borrowing costs have become expensive. Interest rates can significantly impact industrialisation in several ways.

Interest rates affect the borrowing cost of capital for businesses., Low interest rates make it cheaper for industries to access financing for machinery, technology, and infrastructure investment. Lower borrowing costs can incentivise businesses to expand their operations and invest in industrial development, thus promoting industrialisation. Interest rates also influence consumer spending. With low interest rates, consumers often find borrowing money for purchases more affordable. Increased consumer spending can boost demand for manufactured goods and increase industrial production. Interest rates can FDI decisions.

The cost of utilities, including gas and electricity, is among the highest in the region in Pakistan. This is driven by expensive fuel, an appreciating dollar, capacity charges, line losses, and theft. Reliance on costly imported RLNG further escalates the cost of doing business. High inflation compounds these challenges by eroding purchasing power, leading to a decline in domestic demand and slowing economic growth.

Depreciating the dollar rate can spur exports but it increases the cost of raw materials and machinery increasing the production cost. However, this can incentivise consumption of domestically produced products compared to expensive imported items. Similarly, high tax rates increase operation costs reducing the capital available for expansion, Research and Development (R&D) and modernisation. Investors seek opportunities in locations with favourable tax environments to maximise their returns on investment. Excessive taxes can divert investments to other countries. Foreign investors in Pakistan frequently express challenges regarding federal and provincial tax regulations, citing them as intricate while lamenting the lack of transparency in tax assessments. According to the World Bank (2022a) 'Doing Business' report , businesses in Pakistan contend with 34 taxes, significantly higher than the average of 26.8 in other South Asian countries. This complexity necessitates businesses to dedicate over 283 hours annually to tax-related matters. Despite the Securities and Exchange Commission of Pakistan (SECP) being authorised to announce accounting standards for companies in the country, execution and implementation of these notifications are often subpar. While Pakistan has adopted a substantial portion of International Financial Reporting Standards, it has not fully integrated the complete set. Although many aspects of Pakistan's legal, regulatory, and accounting systems align with international norms, their execution and implementation suffer from inefficiency and opaqueness.

4.3 Regulations

Laws play a pivotal role in attracting FDI by protecting the interests of investors and streamlining any uncertainties in the operations of SEZs. Legislation to protect foreign investors instils confidence and allows them to make long-term investment plans. A noteworthy example of a law contributing to the enhanced efficiency of SEZs is the Bangladesh Economic Zones Act of 2010. The government grants an exemption to a Zone from the Electricity Act, which significantly decreases the typical time required for a firm to acquire an electricity connection within the SEZ. This streamlined process slashes the timeframe from 100 days, as experienced by firms outside the Zone, to just 31 days. Additionally, the government provides exemptions from the Building Construction Act, leading to a remarkable decrease in the time required to obtain a construction permit—two days within the SEZ compared to 68 days for firms outside the SEZ, as documented by Khandelwal and Teachout (2016, p. 32).

In Pakistan, a prevalent issue lies in excessive and poorly managed regulations that significantly undermine competitiveness. These regulations raise the costs and risks associated with conducting business, consume substantial time, and distort the incentives that form the foundation of healthy competition. Specifically, establishing a business, which includes obtaining licenses, permits, facility preparations, and, utilities can be exceedingly difficult, expensive, and susceptible to manipulation by government officials. Intellectual Property Rights (IPR) protection needs reform, which impedes foreign investment. Over the last two decades, the government has taken concrete steps to improve the IPR apparatus. Pakistan set up the Intellectual Property Office (IPO) in 2005 to consolidate government supervision over trademarks, patents, and copyrights. However, inadequate penalties and redundancies within the agency create loopholes that enable counterfeiters to escape accountability.

In Pakistan, the existing SEZ laws grant sole original civil jurisdiction to both the provinces High Court and District Courts, respectively, in areas where the SEZ is situated. Lengthy legal disputes can persist for many years, delaying the resolution of conflicts. Swift resolution of cases becomes particularly critical in countries where the judicial system faces an overwhelming caseload. It takes 1, 071 days to resolve a commercial dispute in Pakistan, almost twice the average among Organisation for Economic Co-operation and Development (OCED) high-income economies (The World Bank 2019). There is a pressing need for a comprehensive overhaul of the legal justice system to expedite commercial cases. The mechanism for dispute resolution plays a pivotal role in the success of numerous SEZs, as it serves as a means to prevent the escalation of conflicts and protracted legal battles, as noted by Cheng (2019, p. 76). Establishing specialised courts or arbitration tribunals dedicated to promptly resolving disputes involving Zone Enterprises can be an appealing proposition for foreign investors. Swift dispute resolution becomes particularly critical in countries burdened by an overburdened judicial system. As Sharar and Al-Khulaifi (2016) highlight, a noteworthy example of an innovative dispute resolution mechanism within SEZs is the Dubai International Financial Centre.

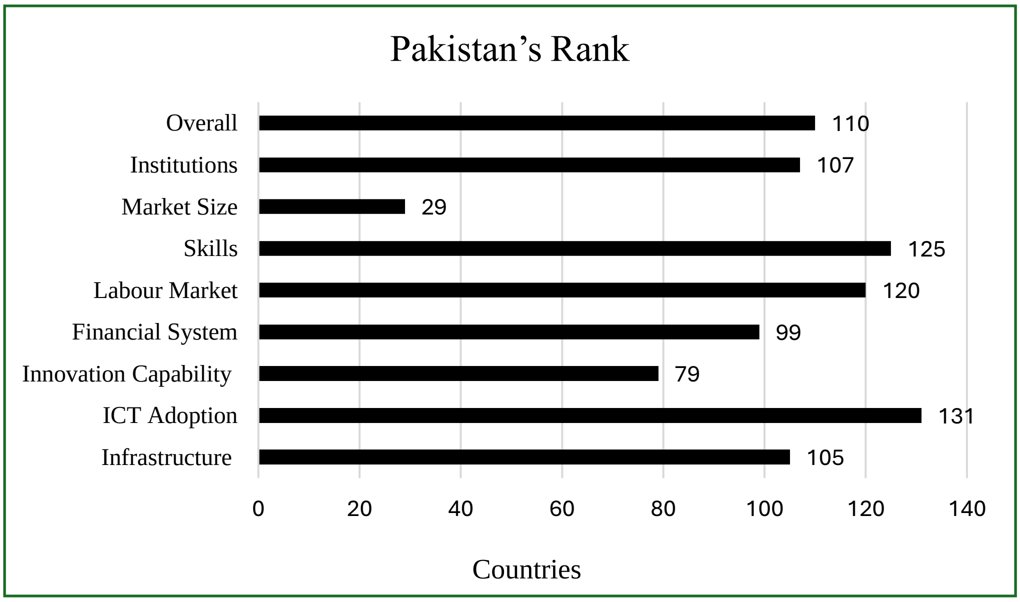
4.4 Labour Issues

With low levels of education and training, the existing and incoming labour force does not have the desired capacity to participate in economic activities effectively. Pakistan is left with an ill-equipped ecosystem to produce a workforce compatible with the country's growth and industrialisation objectives. Skilled workers contribute to the international competitiveness of SEZ-based industries. They can help businesses meet global quality standards and respond effectively to changing market conditions. The existence of local suppliers, a skilled workforce, and complementary industries serves to amplify the attractiveness of SEZs.

4.5 Corruption

The industrialists surveyed reluctantly accepted corruption as a prevailing norm within Pakistan. However, corruption can significantly deter foreign investors from committing capital to industrial projects in the country. Foreign enterprises may exhibit reluctance to invest in a country where corruption is pervasive due to concerns related to transaction transparency, legal protections, and the risk of extortion. Corruption erodes confidence in governmental bodies and weakens the foundations of the legal system. A lack of confidence in the legal and regulatory framework can discourage investment and hinder the growth of industrial sectors. Notably, Pakistan ranks 140 out of 180 countries in corruption perception (Transparency International 2022). Such a high level of corruption and its negative image are substantial deterrents for foreign players considering investments in Pakistan. Strong institutions are a cornerstone of sustainable development and play a significant role in attracting investments and promoting economic growth.

Figure 1: Pakistan's Rank in Global Competitiveness Report 2019



Source: WEF 2019.

Note: Total Countries 141.

4.6 Security Issues

Some respondents reported that Pakistan's precarious law and security situation has a detrimental impact on industrial production. Firstly, security issues create an unfavourable impression of Pakistan internationally. Buyers in these markets have grown increasingly sceptical about engaging in business transactions with suppliers in Pakistan. Secondly, the image of bad security carries consequences for businesses' property and assets, as it often reduces economic activities within the country.

Furthermore, according to USIP (2023), Pakistan grapples with multiple sources of internal and external conflicts. Extremism and diminishing tolerance for diversity and dissent have gained ground, fuelled by a narrow interpretation of Pakistan's national identity. These factors substantially threaten the country's prospects for social cohesion and stability. Therefore, it is imperative to recognise that achieving and maintaining peace is paramount to attracting foreign investment.

4.7 Political Leadership

The Prime Minister chairs the Board of Approvals (BOA), the highest approving forum of the BOI, which includes members from Economic Ministries, Provincial Governments, and the Public and Private Sectors. It grants SEZ status to any applicant 'Zone' that meets the eligibility criteria. The BOA must convene at least twice yearly or as needed. Notably, out of eight BOA meetings held since 2012, the Prime Minister of Pakistan, as its head, participated in only four instances, reflecting a lack of interest in the country's industrialisation.

On 7 July 2023, the Government of Pakistan (GoP) approved the 'Pakistan Investment Policy (PIP), 2023' (BOI n.d.(b)) to enhance foreign and domestic investments. The policy introduces several novelties, including abolishing the minimum equity requirement for foreign investment and allowing foreign investors to invest in almost all sectors. While promoting investment, the government must ensure that PIP, 2023 is not merely a marketing document devoid of a robust legal framework or with lax regulation implementation, as has been the case in the past. The Special Investment Facilitation Council (SIFC), an apex body established by the Prime Minister and the Chief of the Army Staff to promote foreign investment, is diligently working to attract FDI. However, industrialists surveyed had little hope in SIFC unless the general business climate changed. Political stability is paramount in attracting local and foreign investment in the SEZs.

4.8 Sustainable Industrialisation

According to Daly and Gedminas (2022, p. 20), Pakistan has the potential to become the 6th largest economy globally by 2075, contingent upon implementing appropriate policies and institutions. The unrestrained pursuit of economic progress can have detrimental consequences, threatening a nation's natural resources, ecosystem balance, and long-term socio-environmental well-being.

In the coming years, Pakistani firms will likely encounter difficulties maintaining competitiveness and achieving export expansion objectives unless firms and GoP take substantial steps to enhance industrial environmental performance. Competitive pressures are expected to escalate further as governments in target export markets are anticipated to impose increasingly stringent requirements on imports to safeguard public health. Additionally, multinational corporations will likely demand higher environmental standards from their suppliers to uphold their reputations and address evolving consumer preferences. As a beneficiary of the GSP+ status from the European Union (EU), Pakistan witnessed a substantial increase in trade volume of 12.2 billion Euros with the EU in 2021 (Ministry of Commerce 2022, p.2). To maintain GSP+ status, Pakistan must ratify 27 international conventions on human rights, labour rights, environmental protection and climate change, and good governance, underscoring the need for sustainable development practices.

In the 2024 Sustainable Development Goals ranking, Pakistan ranked 137th out of 167 countries (Sustainable Development Solutions Network 2024). The current score of 57 is below the regional average of 66.5. Attainment of SDGs is crucial for Pakistan's future, promising a more equitable and sustainable society.

Environmental degradation is a common concern for both developed and developing nations, with conditions often more dire in the latter (Majeed and Mazhar 2019, pp.184-5). Notably, floods in 2022 incurred an economic loss and damages of USD 30 billion (The World Bank 2022b). While Pakistan's greenhouse gas (GHG) emissions account for only 0.93% globally (UNDP 2023), it is the 5th most vulnerable country to climate change Eckstein et al. (2021), emphasising the urgent need for sustainable practices and climate resilience initiatives.

Hattar SEZ and IE host more than 480 industries, spanning cement, steel, chipboard, and paper, providing employment for over 60,000 individuals (Dawn 2022). Unfortunately, SEZ/IE lack Effluent Treatment Plants, leading to the 20,000 gallons/day of discharge of effluents into natural rainwater drains (Rasheed et al., 2013, p. 1). This practice is linked to various health issues, including lipomeningocele, renal disease, black gums, and skin and joint pains (Ullah 2017, p.10). The Environmental Protection Agency (EPA), responsible for overseeing industries, operates with only four employees based in another city (Abbottabad), located 75 km from Hattar SEZ/IE. This spatial distance raises concerns about the adequate supervision and regulation of the industries operating within the SEZ/IE.

The Labour Department currently oversees 120 registered factories, while the Employee Social Security Institute (ESSI) has 22,000 registered employees, with only 900 being females. Employee registration has several benefits, including insurance coverage, minimum wage enforcement, pensions, education grants, marriage grants, and dispute resolution mechanisms. However, many industrialists avoid registering their employees, seeking to circumvent mandatory government contributions for employee well-being. The sole labour union within Hattar SEZ/IE is dysfunctional.

According to the interviews, many industrialists and governmental departments lack an understanding of sustainability, its advantages, and its long-term impact. This hampers adoption of sustainable practices, potentially leading to adverse environmental and socioeconomic consequences in the future. Therefore, efforts to educate and raise awareness about sustainability and its benefits are crucial for supporting a more sustainable industrial landscape.

5. SEZ MANAGEMENT AND OPERATIONS

Except for 'one-stop shops', overall, industrialists expressed satisfaction with the management affairs within the zone. However, further discussions with government authorities such as BOI and Zone Developers revealed additional essential issues crucial for the zone planning and success.

5.1 Objectives of the SEZ

The success of SEZs is contingent upon aligning their objectives with the overarching national industrial policy, coupled with the implementation of a pragmatic and practical plan (Aggarwal 2019, p.34). Zones in Pakistan have no clear objectives. The developers' marketing departments are not well trained and are unable to attract desired industries and FDI. According to the survey, evaluation of zone managers and management is based on the number of plots leased, plot lease price received, or receivables collected on account of rents, maintenance, and other charges. Many SEZs, especially in Khyber Pakhtunkhwa, could not attract a single multinational corporation. These MNCs help bring in many more industries, such as competitors, suppliers, etc.

5.2 One-Stop Shops

One-stop shops consolidate various administrative and regulatory processes into a single point of contact. This simplifies and accelerates procedures related to permits, licenses, and approvals, reducing bureaucratic red tape and saving time for businesses, boosting investor confidence, and attracting both domestic and foreign investment. Success does not hinge on convening representatives from all regulatory institutions but on expediting processes such as registration, licensing, and other regulatory requirements. Formal One-Stop Shops (OSS) are currently not in place to facilitate investors. However, they are expected to make a substantial difference in the satisfaction levels of industrialists investing in the SEZs. In Pakistan, a representative from the Developer visits the utility providers or other government departments and uses his contacts to help the investor. No legislation provides guidelines for government offices to expedite NOCs, utilities, and other services.

According to representatives from the BOI, the legal framework for OSS is awaiting approval in Pakistan's Parliament.

5.3 Marketing of SEZs

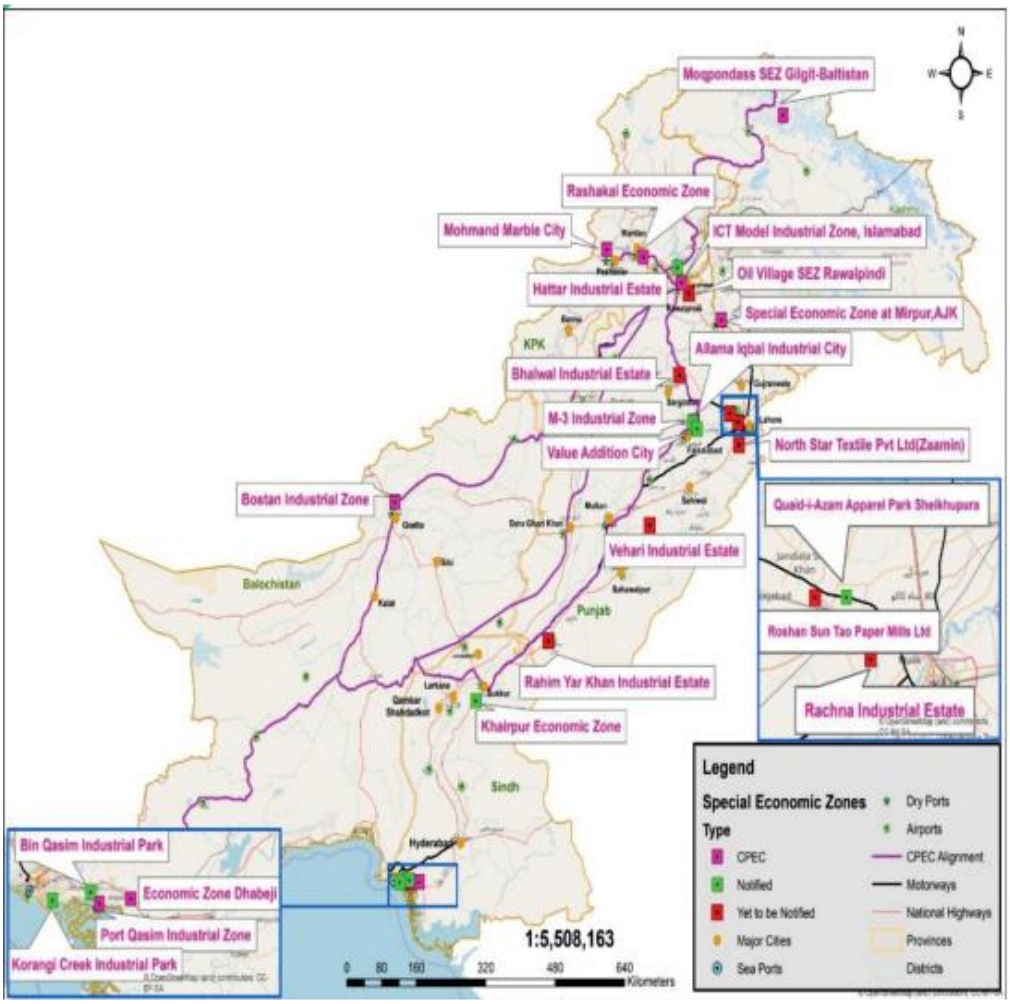
Marketing a 'Zone programme' presents a difficulty regarding the optimal timing for promotion. While there is a natural inclination to commence selling as soon as an SEZ programme receives approval, it is essential to recognise the extended timeframe required for large infrastructure projects like SEZs to reach completion. This means it could take four years or more before a zone is developed sufficiently for investors to commence construction, despite initial marketing efforts often relying on brochures and presentations featuring mock-up versions of the master plan. Exaggerating a project's potential too early can deplete valuable marketing resources and convey a negative perception to potential investors that the project is progressing sluggishly.

SEZs in Pakistan often commence plot leasing with basic infrastructure in place before providing utilities to generate funds for further zone development. However, this approach tends to cause frustration among investors due to frequently missed timelines. Additionally, it inadvertently promotes property speculation within the zone, where many investors purchase plots at lower rates to illegally sell them at inflated prices later once it is fully developed.

5.4 Location

Strategic location plays a pivotal role in the success of a zone. Frick et al. (2018, p. 34), drawing data from 255 zones across 22 countries, depict a negative connection between SEZ growth and the distance from major ports, cities, and markets. The location of SEZs plays a critical role in maximising access to economic opportunities, labour availability and promoting resource efficiency Pakistan's SEZs are typically strategically located near population centres to enhance their attractiveness. For example, the Hattar SEZ is just 40 kms from Islamabad and Rawalpindi, with a population of 13 million. Proximity to a dry port in Rawalpindi and an airport in Islamabad ensures reliable transportation infrastructure. However, in some instances, the selection of SEZ locations has been influenced by political considerations, sometimes disregarding potential locational disadvantages.

Figure 2: SEZs Linkages to CPEC



Source: BOI n.d.(a).

Political motivations primarily drove the location decision for Rashakai SEZ. Initially, the land for the CPEC project was chosen in Haripur, Khyber Pakhtunkhwa, bordering Islamabad. Yet, due to intense political pressure, the Chinese Developer (China Road Bridge Corporation) was compelled to establish the Zone in Rashakai, a location far from population centres and other industries. Despite being designed initially to host Chinese Enterprises exclusively, only three Chinese industries out of 24 allottees in Phase 1 have invested in the Rashakai SEZ, reflecting the challenges posed by such location decisions influenced by political factors.

6. CONCLUSION AND RECOMMENDATIONS

Evidence suggests that Pakistani SEZs often grapple with challenges that impede investment in the broader economy, such as costly electricity supply, bureaucratic hurdles, corruption, smuggling and economic downturn. Instead of focusing on fiscal incentives, the government should create a friendly business environment within and outside the SEZs. Their success depends on the general economic conditions of Pakistan. SEZ policies should be aligned with the overall trade and investment policies and regulatory frameworks of the country. Moreover, governing SEZs effectively through collaboration among national and local authorities, developers and investors is pivotal in gaining investors' trust in the Zones and becoming successful (UNCTAD 2019, p. 197). Keeping in mind the global landscape challenges, Pakistan should be adjustable and receptive to changes. By continuously transforming its industrial policies, Pakistan can be more competitive, taking advantage of global production networks and navigating sustainable industrial growth in the 21st Century.

The research concludes that effective SEZ policies only cannot spur industrial development unless there is a broader structural reform in the country's economy and industrial development policies. While this study's findings are rooted in the specific economic and regulatory context of Pakistan, they offer insights into the challenges and strategies associated with SEZ operations that may be relevant to other developing countries. The identified themes, such as the critical role of effective governance and economic conditions resonate with common global challenges in SEZ growth.

However, the direct applicability of these findings to other geographical contexts should be approached with caution, considering the unique local factors that influence SEZ performance. Future research could explore these dynamics in different regions to validate the transferability of these insights and refine them to suit diverse contexts. The context-specific nature and reliance on qualitative data limit the generalizability of the findings. Future research should address these limitations by expanding the scope to include quantitative analysis and comparative studies across different geographical contexts. Additionally, exploring the long-term and sector-specific impacts of SEZs could further enrich the understanding of their role in economic development. More specific recommendations include:

- From a programme design standpoint, it can be inferred that corporate tax exemptions can spur SEZ growth, provided certain conditions are met, such as a conducive business environment and ease of doing business. The Federal Government must undertake comprehensive tax reform to simplify the tax system, reduce the number of taxes, and harmonise tax regulations at both federal and provincial levels. Pakistan must streamline tax laws to reduce the compliance burden on businesses and discontinue requesting advance tax payments from companies. Investing in automation and digitalising government taxation and regulatory compliance processes can save time, reduce calculation errors and bring transparency.

- Facilitating trade and customs procedures is vital for SEZs as they can reduce operational costs, improve predictability and attract investment. Pakistan requires comprehensive structural reforms in regulations, investment promotion, technology upgradation and fighting corruption. The government must keep updating intellectual property laws according to international standards and embrace technology, including Artificial Intelligence (AI). Making custom procedures effective can halt counterfeit products from passing through ports and borders and improving coordination between customs and IPR can strengthen IPR. The government should also levy stricter fines so that counterfeiters are discouraged.
- Establishing courts to resolve industrial matters promptly will attract foreign investors and encourage local investors.
- The government should encourage Public-Private Partnerships (PPPs) in skill development initiatives to overcome the skilled labour issue. Technical and vocational training institutes must collaborate with industries to provide training according to industry needs. The government should develop curricula that equip students with technical knowledge and practical skills relevant to the job market. The government should also provide tax incentives or subsidies to businesses to train unskilled workers.
- Pakistan must encourage the sustainability of industries in SEZs which makes SEZs competitive and is crucial in attracting FDI. The ‘SEZ Act’ overlooks the opportunity for developers to support the Environment Protection Agency and Labour Department for effective implementation of government policies. The zone authorities must promote a circular economy, water conservation and recycling initiatives, effective waste management strategies, control GHG emissions, encourage renewable energy, and support advanced technologies within SEZs/IEs.
- Pakistan’s geographical location offers immense economic potential, mainly if it can position itself as a central hub for regional trade. This strategic positioning has the potential to yield substantial economic benefits and drive industrialisation and overall economic growth. However, Pakistan’s complex relationships with all its neighbours, except China, have hindered its trade and industrial growth. Pakistan’s foreign policy and defence strategies should align with its investment policy for sustainable economic development.

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