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The economic role of the state, small industry, and special economic zones in Pakistan: History, present, and future perspectives

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The development of small and medium-sized industries (SMEs) and special economic zones (SEZs) is an effective strategy for stimulating trade, employment, and economic development in a county. The government has taken the lead in promoting these two, and it has been observed that the government has contributed significantly to Pakistan's economic modernization. To this end, the focus of this review study is to highlight the government's footprint in upgrading SMEs and SEZs in order to boost the economy, since both of these sectors provide a large number of jobs, tax income, and foreign exchange, all of which are essential to the economic sustainability. It is observed that the annual SMEs output to GDP ratio in Pakistan from 1990 to 2019 was 0.206 %, which is not encouraging. The principal reason for this low contribution is Pakistan's lack of adequate financial facilities for SMEs, with only 175 financial institutions serving the majority of the country's 3.8 million SMEs. Furthermore, SEZs' effectiveness is hampered by a lack of infrastructure, electrical shortages, and their remote location. Thus, the study suggests that there is a need to enhance ICT adoption, skills, product market, labor market, and financial health in order to build sustainable economic growth. The establishment of industrial estates and SEZs based on ease of doing business and open investment opportunities for anyone will be a more effective method for correcting Pakistan's economic development.

Keywords: Small and medium-sized industries; special economic zones; sustainable development; Pakistan.

Introduction

1.1. Economic system of Pakistan and its development history

Pakistan has been known as an agricultural country, which initiated industrial development based on active state role in economic planning. Pakistan now has a mixed economy, with state-owned companies accounting for a significant portion of the gross domestic product, following many

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economic reform experiments. Throughout its history, the nation has tried a variety of economic models. However, the transition was characterized by a shift in the country's economic policy from liberalization to nationalization (Burki, 2008; Kamal et al., 2021). Policymakers introduced a series of economic plans every five years since 1955, but most of these plans were not completed due to poor governance and other reasons. Below, we summarize the important stages of Pakistan's economic history in the light of industrial development.

- First Plan (1955-1960) - The five-year plan was specifically designed to encourage industrial production to meet domestic needs (Hussain & Ahmed, 2012). In particular, a number of local small, medium, and large industries, such as sugar, cement, cotton, jute, and cigarettes, were protected, but lacked long-term industrial development elements.
- Third Plan (1965-1970) – The five-year plan focused on the development of Pakistan's consumer goods industries such as sugar, vegetable, jute, caustic soda, soda ash, etc. However, heavy industry and infrastructure development were also given priority. In addition, the agriculture sector was also given priority as significant increase in the resources of the agricultural sector was expected, especially in term of water, fertilizer, and credit.
- Late 1971- Shortly after the end of the war with India, the government of Zulfiqar Ali Bhutto (President) decided to nationalize SMEs and large-scale businesses for the first time in Pakistan's history, but it proved to be a wrong decision (Zhao & Mudassar, 2013).
- Early 1991- The government of Mr. Nawaz Sharif (Prime Minister) had launched a massive privatization program. Since then, the growth of the industrial sector has begun to pick up, as private investors rush to invest in various businesses.
- During 1998-2008- This period was good in terms of liberalization and industrial development in Pakistan, as the Small and Medium Enterprise Development Authority (SMEDA) was established to promote SMEs. During this period, new liberalized policies and incentives were introduced to develop the private sector in the country.
- During 2010-2012- The 18th Amendment to the Constitution (was made) transferred responsibility for the development of trade and industry to the provinces. The policy on promotion of value added exports was also introduced by the Ministry of Industry and

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Development. Subsequently, the SEZ Act was enacted in 2012 to provide special privileges to SEZs and make it part of the Constitution.

- During 2013-2020- A MOU was signed between Pakistan and China to launch CPEC (China-Pakistan Economic Corridor) for various economic and trade integrations. The Khyber Pakhtunkhwa (KPK) provincial government first introduced industrial development policies at the provincial level in 2016, in line with the CPEC's infrastructure and SEZ development vision. In 2018, the Punjab provincial government also launched new industrial development policies for the development of SMEs. In 2019-20, the Government of Pakistan plans to expand public sector support for SMEs and sustain the country's economic growth (GOP, 2020).
- Recent Political Regime: In August 2018, the PTI took power, and Mr. Imran Khan was elected the new Prime Minister. Corruption has been major concern in Pakistan and PTI government came to power with the slogan of eradicating corruption and bringing about change in Pakistan.

Regrettably, almost all five-year plans prepared during both political and military regimes were delayed or abandoned after regime change due to the different interests of the various parties that came to power. As a result, none of the plans were able to produce the desired results. The following are the key reasons behind each plan's failure:

- Rapid changes in leadership and a lack of political consensus hampered the implementation of the first five-year plan (1955-1960). GNP growth was 13% instead of 15% as expected, and the planning commission faced a variety of obstacles during execution, including a shortage of skilled personnel, uncertain environment in the planning mechanism, political unrest, and biased budget decisions.
- The second five-year plan (1960-1965) was the most successful, and Pakistan became a model for hunger-stricken countries around the world. This program paid off handsomely, with a 30% increase in GNP instead of the planned 24%, and a 15% increase in per capita income instead of the anticipated 12%. However, in 1965, Pakistan was compelled to participate in war with India.
- Military General Yahya Khan's government basically destroyed the 3rd Five-Year Plan (1965–1970), and the Pakistan Army's violent crackdown resulted in East Pakistan's independence as

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the state of Bangladesh on March 26, 1971.During 1971-72, the growth rate fell by 6.8 percent due to a variety of factors such as another war with India, the separation of East Pakistan, and a tight credit policy. Similarly, because of the worst political situations and insecure government policies, the Fourth Five-Year Plan (1970–75) was also a massive failure. Mr. Z. A. Bhutto newly elected government decided to run the economy on an annual rather than a five-year basis. The Finance Ministry's division handed over control of the Planning Commission the same year. From 1972 to 1977, the Planning Commission, which had very few powers, made very few economic decisions that were favorable.

- The Pakistani government also failed to pursue the fifth and sixth plans (1978-1983) due to the country's uncertain economic and political conditions. In 1978, the industrial sector grew at a rate of 9.7% rather than the proposed 10%, and agricultural sector growth fell from 12.5% to 11%. Comparably, during the sixth plan, the industrial sector as a whole grew at a rate of 7.7% per year, compared to the Plan's target of 9.3% per year.
- The totalitarian regime of Zia-ul-Haq devised the seventh five-year plan, but after his death in 1988, the new government of Benazir Bhutto did elected and takes over, and the plan was never executed. However, this government was deposed after only two years in power in 1990, and Nawaz Sharif's elected and his government came into power. This administration implemented deregulation, economic change, and privatization in order to eliminate problems related to sound economic development. The president of Pakistan was dismissed the Nawaz Sharif government on the charges of corruption in 1993. The parliamentary elections were held in 1993 and once again Benazir Bhutto came into power. Unfortunately, the journey of this plan ends with the fell of industry's share of GDP from 5.1% to 2.0%.
- For the period of 1993-1998, the planning commission of Pakistan introduced eighth five years plan, but the PPP government was dismissed by the President in November 1996 on corruption charges. In 1997, again parliamentary elections were held, and Nawaz Sharif was re-elected and took over the government. This plan also failed to achieve set targets. For instance, the first year of the plan set a target of 18.3 million tons of wheat production, but actual production was 16.6 million tons. Similarly, the maximum target for oilseeds, agricultural credit, and

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production was not fulfilled. In 1998, Nawaz Sharif formulated a five-year ninth plan for the period 1998-2003, but his government was once again dismissed by military head General Pervez Musharraf. As a consequence, this plan was also poorly implemented.

- General Musharraf's tenure was known for the journey of economic and political restructuring in Pakistan from 1999 to 2008. During this time period, the economy grew at a rate of 5.1 percent on average (started from 2.6 percent in 2000-01 to 8.4 percent in 2004-05).With this in mind, a number of structural reform initiatives, like privatization, deregulation, and reform in the banking sector, capital market, agriculture sector, tax system, and trade liberalization, were introduced. As a result, the Pakistani economy began to grow rapidly, with the revenue collection increasing to Rs. 396 billion versus Rs. 308 billion, manufacturing sector growing 11% in 2000-01 compared to 3.6% in 1998-99, debt servicing decreasing from 64% to 57% of total revenue, and export increasing from $7.8 billion to $9.2 billion. The planning commission introduced the tenth five-year plan in 2005, with the government's authorization, under the new name "Medium Term Development Framework (2005-10)." After General Musharraf's government ended in 2008, elections were held, and the PPP regained power, with no preference given to the tenth plan. As a result, this one also failed to meet its targets.
- From 2009 to 2018, two democratic political regimes successfully completed their terms, but no significant improvements were observed. The PPPP government was elected in 2009 and tried to blame Musharraf for an empty treasury, just as the PML-N government did after getting elected in 2013.However, both parties borrowed the most money in Pakistani history to promote and sustain the private and public sectors. For instance, the PML-N government borrowed Rs. 14,000 billion from foreign donors, which was not transcribed into long-term private sector activity (Mamoon, 2018). So, Pakistan experiences severe balance-of-payment crises every few years, jeopardizing short-term gains, particularly when power is transferred every five years after general elections.
- Recent political regime- The PTI administration outlined all of the key issues that had emerged in shape of socioeconomic challenges and foreign policy, and the government pledged to make decisions that would strengthen the federation, transform governance, improve agriculture and

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preserve water, revive economic growth, transform social services, and guarantee national security. Unfortunately, this tenure began with a balance-of-payments crisis and the Covid-19 pandemic, which disrupted all strategies. However, economic growth remained stable at 5.8% in 2018, but fell to 0.988% in 2019 (Figure 1).

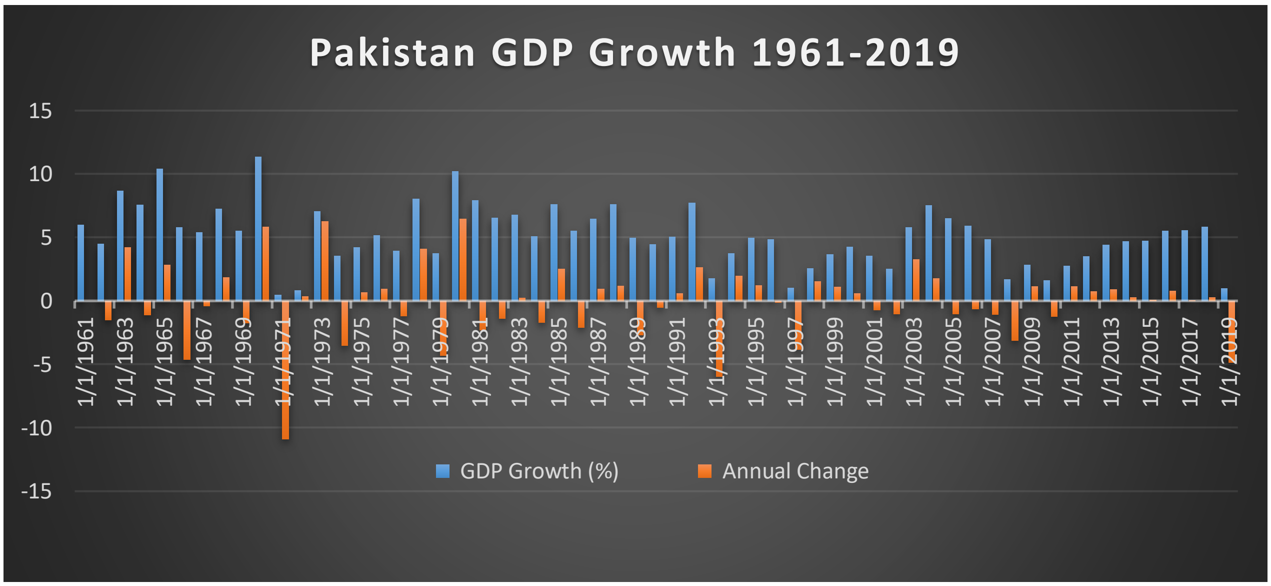

Figure 1: Pakistan Annual GDP Growth and its Change over 1961-2019

Source: Author Findings based on WDI dataset

In the Past, it was said that the Planning Commission in Pakistan has tried to design medium-term and annual plans which were based entirely on a savings-oriented approach. Not correct on this occasion, they set arbitrary growth rates, and incremental capital to output ratio were used to add additional capital to boost the required investment in key sectors of Pakistan's economy. In Pakistan, it is common that any party that comes to power tries to prove its innocence by throwing mud on the former party. What is new is that the PTI is the new party that came to power in 2018 with the slogan of ending political corruption. The PTI government has always claimed that all previous politicians have been corrupt and have kept money abroad. To this end, the PTI government claims that it is forcing these politicians to return all the money to Pakistan because the money belongs to the Pakistani people. As a result, the PTI government is still doing whatever it can to capture those crooked politicians and bring back Pakistani taxpayers' money. The question

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here is whether it is good to ignore other potential areas of improvement to boost economic growth, and whether it is better for the common people of Pakistan to focus only on catching corrupt politicians. The second question is what is the right way to attract international investment and bring back all this looted money to Pakistan without harming the Pakistani economy? I will try to answer these questions in my next sections.

1. the Economic Role of Small Scale Industry in Pakistan

As already mentioned, Pakistan is primarily is working hard to shift its economy from low productivity to high productivity and from developing to developed economy. To this end, every elected government works hard to formulate policies that play an important role in economic development through various economic and social structural changes. In the past, the government of Pakistan has focused on large-scale industrialization to complement the agricultural sector and stabilize the nation's economy. The aim of supporting the large-scale industry was to achieve self-sufficiency by reducing reliance on external assistance. As a result, about 80% of the funds of financial institutions were used to finance large-scale industrial projects (Rehman, et. al., 2005; Intisar et al., 2020). Even this significant portion of corporate financing, however, did not prove lucrative for the industrial sector, since it contributed just 18.3% to the GDP of Pakistan (Statista, 2020). Over time, the government has had to focus on other alternatives to revive the economy. To this end, the emphasis has been shifted to boosting value addition and export oriented products from import substitution, as exports help to make any country increase GNP. In this context, keeping in mind the exports to developed economies and the participation of small and medium enterprises in GDP, the Government of Pakistan has now emphasized on the improvement of SMEs. SMEs can help increase level of employment and alleviate poverty (Rehman, et. al., 2005). The Small and Medium Enterprises Development Authority (SMEDA) in Pakistan is the primary authority for dealing with SMEs, and they describe SMEs as follows:

- Micro enterprises are characterized as businesses with total productive assets of less than 2.0 million rupees and less than 10 employees.
- Small businesses are described as those with 10 to 35 employees and a total productive asset of up to 20 million rupees. and

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- Medium enterprises have productive assets of up to 40 million rupees and employ between 36 and 99 people.

The SMEs provide employment to a large section of the population. The contribution of SMEs to the exports, production and employment in Pakistan is undeniable and substantial. So, the intensity of their contribution to economic growth varies greatly from one country to another. Pakistan has a high contribution of SMEs in its GDP. Currently, there are approximately 3.8 million small and medium enterprises operating in Pakistan, with an average of 1.8 million commercial and retail shops, 1.2 million service businesses, and 800,000 industrial units (Zafar and Mustafa, 2017; Baig, 2019; Khan, 2020; Khalid et al., 2021). These SMEs operate 41% industrial units in urban areas and 59% in rural areas of Pakistan. Accordingly, the non-agricultural labor force employed by SMEs accounts for about 78%,more than 40% share in national exports, and an estimated 40% share in GDP (Baig, 2019).

2.1. Pakistan's status in international business indicators

The Government of Pakistan decided to take concrete steps enhance the capabilities of the SME sector and fully utilize their potential for development. To this end, the State Bank of Pakistan (SBP) advised all banks to formulate action plans for SME promotion policy. The SBP further suggested that strong institutions are a prerequisite for achieving the target of efficient SME sector. In addition, industries need to incorporate a strong network, which also help them to achieve financial ease and competitiveness. The need for eliminating expensive imports could be met through a strong network of SMEs. This policy could also boost domestic production and strengthen the economy (Shah & Syed, 2018). Meanwhile, in order to achieve sustainable growth and development of Pakistan's economy, the SBP set a target of increasing the financial inclusion of SMEs by 2020, pledging to continue supporting the sector. Pakistan has improved a lot of business indicators over the years but still has a lot of potential to acquire and make the industrial sector as much profitable as possible. For instance, Pakistan has improved its “Doing Business” ranking since 2018, as the country's ranking has improved from 147 to 108 (See Table 1 below).

Table 1: The doing business ranking of Pakistan

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Indicators	2020	2019	Indicators	2020	2019
Overall Ranking	108	136			
Starting a Business	72	130	Protecting minority capacity	28	26
Dealing with construction permits	112	166	Paying taxes	161	173
Getting electricity	123	167	Trading across boarder	111	142
Registering property	151	161	Enforcing contract	156	156
Getting Credit	119	112	Resolving insolvency	58	53

Source: Word Bank, and Ahmad and Taidong (2020)

The overall ranking of DB has improved compared to previous years but there is still a need to improve the business property registration process, resolve the insolvency issues, simplify contract execution, and most importantly to make it easier to get credit. According to the district wise rankings, Faisalabad is ranked 1st, Multan 2nd, Lahore 3rd and districts of Gujranwala and Sialkot are 6th and 11th respectively. Districts of Gujranwala and Sialkot are called the land of SMEs. The business community of these two districts has achieved much more for the economy and has always provided assistance to the Government of Pakistan. Especially if we talk about Sialkot district, the business community there has built its own private airport and recently launched its own private airline. Interestingly, an estimated 98% products manufactured at Sialkot's SMEs are exported worldwide, mainly sports, cutlery and surgical products. Meanwhile, more than 400,000 people are directly or indirectly involved in export activities in Sialkot, with a total export of $1 billion annually (Fazl-E-Haider, 2019). That is why Sialkot's SMEs are the most important source of foreign exchange; the city also provides the third highest per capita income.

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2.2 Current Challenges for Pakistan's SMEs

One of the primary reasons for Pakistan's SMEs' lack of progress is their inability to obtain loans with affordable interest rates. The strict banks requirement about adequate collateral, the unavailability of appropriate banking financing solutions, and the lack of documentation are the key obstacles for the SME sector in easy access to credit. SMEs had to mortgage their properties, plant, and machinery as collateral for getting loans from banks two decades ago, when the State Bank of Pakistan had the same prudential regulation for sanctioning loans to corporate and SME sectors. Since most small business factories operate in rented premises, they are unable to mortgage their physical assets in order to obtain loans .On the other hand, only 175 financial institutions are operating for the bulk of the country's 3.8 million SMEs. The biggest hurdle faced by SMEs to apply for loans and any financial assistance with conventional banks and financial institutions is the information asymmetry in Pakistan's financial market. The reasons such as insufficient information, credit risk cannot be assessed effectively, resulting in banks being ultimately denied financial assistance. Another reason behind the refusal of financial institutions to lend to SMEs is that most SMEs are still outside the regulatory framework of the Government of Pakistan remain largely undocumented. In 2019, the bank credit history of SMEs was less than 200,000, out of a total of more than 3.8 million SMEs operating in Pakistan (Aazim, 2020). It is estimated that approximately 90% to 94% of SMEs in Pakistan are still undocumented, which illustrates that those SMEs will miss future tax and non-tax incentives (Aazim, 2019). Another example is the SMEDA-prepared profile of the Gujranwala and Gujrat light engineering cluster, which has more than 80% of the operating SEs (IMG Inc., 2018). In this context, the vast majority of SEs are informal and undocumented. As a result, financial institutions find it difficult to gather adequate information about these SMEs so that they can study and evaluate the appropriateness of the loans applied for. This situation has posed many challenges to financial institutions and forced them to place tough barriers to obtaining loans and other financial services, such as tight collateral guarantees, high lending rates, and complex procedures. The standing committee on finance and revenue meets recently ordered the Governor of Pakistan's State Bank to simplify and include separate loan rules for SMEs. The SBP has announced separate prudential regulations for SMEs

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that attempt to acquire a loan based on a feasibility report and their ability to repay on a cash flow basis without the use of a mortgage. Regrettably, banks are still lending to SMEs at 18% to 20% interest rates while keeping their assets as collateral under the old rules, inhibits the development of Pakistan's small and medium businesses. Electricity shortage caused due to circular debt and mismanagement of power sector is another big issue that SMEs in Pakistan have been dealing with for the past two decades. Power scarcity and unscheduled load shedding have had a negative effect on our industrial sector's efficiency and profitability. All these issues hinder the advancement of the Pakistani SMEs sector, and led to reduced productivity and competitiveness. Pakistan's Global Competitiveness Index was ranked 115th out of 137 in 2017, ranked 107th in 2018, and then down to 110th in 2019 (Sherani, 2019) .Pakistan's rank of 'competitiveness' is lower than that of all developing neighbors, including Bangladesh, Sri Lanka and India. As per the most recent detailed report of this index, there is a need to improve the adoption of ICT, skills, product market, labor market, health, economic stability in Pakistan.

2.3 The state's position and room for improvements

Indeed, the SME sector’s potential in Pakistan is enormous, given that it can be integrated into the country's regulatory structure. The need for proactive measures to enable SMEs to embrace standard operating procedures and set principles for regulating their operations remains the first step on the road to change. As a result, these SMEs will be able to easily access banking services in response to the availability of complete and accessible information from all sectors following standard protocols. It will also help them move their business forward and play a positive role in the welfare of society and the nation. Likewise, to resolve Pakistan's power shortages, the government should have to tap into the country's ability to produce electricity from renewable sources such as water, solar, and wind. Green energy can help in a variety of ways, including cost savings, increased production, and environmental sustainability for future generations. Obviously, switching to renewable energy sources requires initial investment, which ultimately comes from financial institutions. Therefore, all these issues are interrelated.

The new government has taken many initiatives to assist small and medium businesses in Pakistan, under a recently launched project “Digital Pakistan” in order to implement digital systems in all

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departments across the board. This is an essential move because it will remove the market's information asymmetry. In this context, information technology and internet can be put to use in creating avenues for SMEs with opportunities for digital networking, better practices, and access to cutting-edge technology and techniques. The Board of Investment also announced a "New Pakistan Diaspora Fund" to encourage rural development, infrastructure development and especially the promotion of SMEs. According to government officials, the investment framework will attract investment from China, Japan, the United Arab Emirates, Saudi Arabia and Malaysia. The initiative is still awaiting significant progress. Pakistan has the highest youth potential, but it is necessary to provide vocation training to youth. Government has already provided a variety of short training courses with a small stipend, but the issue is once again bad governance. Pakistani government is also planning to create a modern Center of Excellence for skill and development in Islamabad in the near future.

2. Pakistan's Special Economic Zones and Sustainable Economic Growth

The United Nations (UN) has set 17 Sustainable Development Goals (SDGs) for its member countries. SDG-8 has specifically focused on the decent and sustainable economic growth of each nation. The primary idea behind it to maintain at least 7% economic growth in the least developed countries, and to achieve productive and full employment for men and women by 2030.Experts believe that GDP growth needs to be consolidate and sustained by promoting exports and industrialization (Ziaet. al., 2018; Qader et al., 2021). To this end, a number of government policies have adequately focused on encouraging exports. The most notable of these policies, which has been commonly followed by several countries, is to consolidate industries and eliminate the concept of a space economy by changing the industrial process. Hence, international value chains were created by establishing SEZs in various countries to produce specific goods through an operation spread over various countries. The first such industrial complex was established in Gibraltar and Singapore in 1704 and 1819, respectively. However, the zone established in Ireland in 1959 was recognized as the first special economic zone of the modern era (Ziaet. al., 2018). These zones emerged in Asia and the Pacific after observing numerous benefits of special economic zone. These zones are considered to be the most dynamic, active, and abundant in Asia.

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3.1 The framework of industrial estates in Pakistan

The concept of industrial estates is not new in Pakistan and it is more or less similar to SEZs for promoting industries to make export-oriented products. The Ministry of Industries and Production has set up various Special Industrial Clusters in several major cities, such as a Fan Specialized Cluster in Gujarat, a Surgical Instrument Cluster in Sialkot, a Textile Cluster in Faisalabad, and an Engineering Specialist Cluster in Gujranwala (Ahmad & Taidong, 2020). Likewise, many export processing zones have been set up since 1980 to promote exports. The details of industrial estates and the number of export processing zones are as follows.

Table 2: Industrial estates in Pakistan

Industrial Estates (Province-wise)	**Number**
Punjab	26
Sindh	27
KPK	11
Baloshistan	7
Total	**71**

Sources: (PIE, 2020)

In Punjab, the Quaid-e-Azam Industrial Estate is one of the oldest estates in Lahore as it was established in 1960 with 477 industrial plots, and 209 functional operating units spread over an area of 565 acres. The Sundar industrial estate, which was also established in Lahore in 2004, has been completely sold, with 530 plots currently operational. In Multan, both phases I and II have been fully sold, with 243 and 120 units operational, respectively (QIE, 2021). The Bhalwal Industrial Estate in Sargodha with three operational units and 139 plots remained vacant, while Rahim Yar Khan Industrial Estate in Rahim Yar Khan with three operational units and 77 plots remained available. Meanwhile, Vehari Industrial Estate has 91 available plots. In Sheikhupura, the Quaid-e-Azam Park industrial estate was established in 2019 by the new PTI government, and it spread over 1536 acres (Khan, 2021). On the other hand, an estimated over 20% businesses shifted their units in different industrial estates in Sindh. For instance, Site industrial estate area spread over 5,000 acres of land and comprising 3,500 active units. This estate share in

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pharmaceutical units is 20%, 10-12% in Food, and 60% in textiles, which significantly contribute to the country exports. The top estates in Sindh are the Korangi Industrial Area, which has over 4,500 operating units, the Bin Qasim Association of Trade and Industry, which has 450 operating units, and the North Karachi Association of Trade and Industry, which has 3500 operating plots (Khan, 2021). The North Karachi Association of Trade and Industry is mainly comprised of SMEs, and Hi-wheel Tech's plant is located in the Bin Qasim industrial area, ensuring the country's potential economic progress. In KPK Province, the main industrial estate in Peshawar is spread over 868 acres and consists mainly of furniture, food, engineering and marble industries. Hatar covers an area of 1,063 acres and covers major chemical plants, heavy electrical engineering, textile, food, steel and vegetable oil industries. Gudun Amzai spread over a total area of 1,116 acres and is mainly used in the engineering, chemical, textile, consumer products, plastics, auto parts, cement bags, steel, paper products and pharmaceutical industries. DI Khan Industrial Estate consists of 189 acres, Nowshera 108 acres, and Ghazi 90 acres (KPEZDMC, 2020). These estates mainly include specialty furniture, light bulbs, trade and warehouses, minerals. Includes fruit and vegetable processing, and carpet, furniture unit. However, the leading industrial units in Balochistan are Quetta industrial and trading estate, Hub industrial and trading estate, Athal industrial estate, marble city Gadani and wonder industrial and trading estate, which includes minerals, agriculture, horticulture, fisheries, livestock, tourism and oil and gas industries (SMEDA, 2020). These states have the potential to increase their contribution to the county GDP. Therefore, the provincial government has allocated Rs 38 billion for health, Rs1 billion for livestock, Rs14 billion for agriculture and about 15.6% for education in total budget of year 2020-21 (Graana, 2020).

In Pakistan, each province makes every effort to provide highly developed facilities in industrial estates for investors in terms of authorizing investment, infrastructure and providing information/facilitating, in order to reduce the cost of doing business, increase productivity, inspire investments, and contribute to overall GDP through exports. As stated earlier, industrial estates are more active in Punjab, followed by Sindh, KPK, and Balochistan. As a matter of fact, as of 2020, Pakistan's total GDP was US$ 276.11, with Punjab contains the biggest economy in

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Pakistan, accounting for US$ 157.4 billion (about 57 percent of Pakistan's GDP), Sindh contributing for US$ 76 billion (27.5 percent), KPK accounting for US$ 26.2 billion (8 percent), and Balochistan accounting for US$ 8.3 billion (3 percent)(IMF, 2020). The remaining 2.5 percent contribution came from Islamabad and FATA (IMF, 2020).However, there is still a lot that needs to be fixed in order to achieve actual high productivity through efficient resource allocation and fill the potential gap of Pakistan's industrial estates in comparison to other nations. The total factor productivity explains approximately 75% of the difference in GDP per capita between the United States and Pakistan (World Bank, 2019). It is a clear message that there are still many resources in these industrial areas that need to be allocated efficiently through proper facilities. Correspondingly, the business community in each province, particularly Sindh, complained a lot about the lack of facilities in estates. For instance, the business community in Karachi (Sindh) claimed that all infrastructure and sewerage systems in estates are nearly obsolete, that there is no fresh water available, and that there are countless utility problems. It is reported that about 90% of the industries of the largest estate (site industrial estate) are helpless using sub-ground water instead of providing fresh water and guaranteeing the required water supply (The Express Tribune, 2018).

3.2 Evolution of special economic zones (SEZs) in Pakistan

In General, SEZ is an area of land devoted to promoting industrial growth in a country with various economic relaxation policies, such as tax rebate, high quality infrastructure facilities, a good electricity supply, clear land title, support services and other public facilities. The zones also plan to produce export-oriented goods, which will increase foreign exchange and reduce unemployment. Since independence, Pakistan has been trying to promote industrial development. To this end, there are many initiatives that each government has taken through the establishment of various public institutions working for this purpose. For instance, in 1948- government established Pakistan Industrial Finance Corporation, and Pakistan Industrial and Development Corporation. The industrial zones and exports processing zones were also set up for the same purpose. Finally, Pakistan has promulgated the SEZ Act in 2012 and the governing of these zones is also stated. The Act states that SEZs are being set up by the federal or provincial governments

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themselves or will be set up in partnership between the public and private sector. Later, the Government of Pakistan established five industrial estates with special industrial zone status under the CPEC project (Khanet. al., 2016).The application process is friendly as applications are submitted to the Federal Board of Investment (BOI) and will be approved by the Board of Approval, both of which are key government authorities. However, all applications received by the provincial government were shortlisted and forwarded to the Investment Board for further action. So far, BOI has received two requests from the private sector to develop SEZs on its own, one from Lahore and the other from the Sialkot Chamber of Commerce and Industry (Ahmad & Taidong, 2020). The list of notified SEZs under the Act, 2012 is given in Table 3 below.

Table 3: Notifies SEZs under the act, 2012

Name with Location	Allotted Land
M3-Industrial City located in Faisalabad, Punjab	4,356 acres
Quaid-e-Azam Apparel Park located in Sheikhupura, Punjab	1,536 acres
Bin Qasim Industrial Park located in Karachi, Sindh	940 acres
Hattar Economic Zone located in Khyber Pakhtunkhwa	424 acres
Korangi Creek Industrial Park also located in Karachi, Sindh	230 acres
Value Addition City also located in Faisalabad, Punjab	225 acres
Khairpur Special Economic Zone located in Khairpur, Sindh	136 acres

Sources: (Ahmad & Taidong, 2020)

In 2016, the SEZ Act was amended to clearly list the facilities and benefits that will be provided to special zones developers and businesses in these zones. There are also many incentives for those who relocate their businesses from other countries. For instance, such incentives include reduction in import bill, 50 per cent freight subsidy on transport of machinery within the country, and

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provision of plots in zones on installment basis (Abbas & Ali, 2017; Jahanger et al., 2021). The following is a list of incentives for SEZs developers.

- All taxes on income will be exempted for five years in connection with the development and operation of SEZ.
- All imported capital goods will be exempted from all kinds of customs duties and taxes.
- For 10 years from the inception of SEZ, developers will be exempt from all tax on income.
- Exemption from sale tax on utility bills and input goods.
- All duties on import of equipment, machinery and materials will be exempted.
- Dry port, one window operation, and security facilities will also be provided.

3.2.1 Incentives for businesses in zones

- All duties and taxes levied on the import and installation of machinery in the SEZ project will be exempted at one time.
- Exemption from all income taxes for 10 years for those starting business before June 30, 2020, and for 5 years for those starting production after June 30, 2020.

3.3 The CPEC and the development of SEZs

The CPEC stands for China-Pakistan economic corridor, which aims to connect different regions to promote trade and investment. It laid the foundation for a number of benefits for both countries, such as development, peace, and the win-win model. It includes infrastructure, energy, and special economic zone projects, which have been under construction across Pakistan since 2013. Previously, Pakistan faced many challenges in industrial development such as lack of infrastructure facilities, poor technology, high business cost, lack of skilled human capital, lack of proper investment, insufficient cluster of industries and week institutions. But now, all of these issues will be resolved with the signing of the CPEC project, which is currently worth about $62 billion in 2020, and is expected to do more in the future. As mentioned earlier, this project has many sub-projects in it and most of them are completed or are nearing completion. This will open up Pakistani market to the whole world. Planning Commission of Pakistan expects the

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establishment of 27 SEZs under the CPEC (Khan et. al., 2016). These zones by province are listed below in Table 4.

Table 4: SEZs under the CPEC Project

Name with Location	Allotted Land
Punjab	
Industrial Estate-Pind Daden Khan	10,000 acres
Industrial Estate-DG Khan	3815 acres
Industrial Estate-Mianwali	600 acres
Industrial Estate-Rahim Yar Khan	450 acres
Industrial Estate-Bhawal Bahawalpur	400 acres
Industrial Estate-Rawalpindi	200 acres
Industrial Estate-II Multan	80 acres
Baluchistan	
Industrial Estate-Gawadar	3000 acres
Industrial Estate-Lasbela	1290 acres
Industrial Estate-Bostan	1000 acres
Industrial Estate-Turbat	1000 acres
Mini Industrial Estate-Khusdar	50 acres
Industrial Estate-Dera Murad Jamali	50 acres
Sindh	
Chinese Industrial Zones-Karachi	2000 acres
Textile City-Port Qasim	1250 acres

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Marble City-Karachi	300 acres
Gilgit-Baltistan	
Industrial Estate (mining and Food Processing)-Moqpondass	250 acres
KPK	
Industrial Estate-Hattar	1032 acres
Industrial Estate-Nowshehra	1000 acres
Oil Refinery-Karak	400 acres
Industrial Estate-D.I Khan	188 acres
Industrial Estate-Ghazi	90 acres
Industrial Estate-Chitral	80 acres
Marble and Granite Industrial Estate-Mansehra	80 acres
Industrial Estate-Bannu	Not allotted yet

Sources: (Khan et al., 2016)

3. The special zones, SMEs and Pakistan's economy

The advancement of industrial and commercial activities, which will not only alleviate the difficulties of the ordinary citizen in terms of jobs but will also have a positive effect on the overall country's economy, is the long-term solution to the country's economic and employment problems. For instance, as per reports, CPEC alone provided over 30 thousand direct jobs for Pakistanis and contributed 2.5% to the country's GDP by 2017 (Ahmad & Taidong, 2020). Meanwhile, it is predicted that three new SEZs will be sanctioned under CPEC in Punjab, which will create over 2 million jobs and add over 1 trillion rupees to the economy. By 2030, the various CPEC projects are expected to create more than 0.8 million further jobs while adding 2 to 2.5% to Pakistan's economy (Khan, 2019).In May 2021, Prime Minister Imran Khan inaugurated Rashakai M-1 SEZ (Nowshera) and declared that only four SEZs in Pakistan, comprising Allama Iqbal Industrial City (Faisalabad), Rashakai M-1 SEZ (Nowshera), Dhabeji SEZ (Thatta), and Bostan SEZ

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(Balochistan), will produce more than 1.4 million employment (APP, 2021). They also planned to improve human resource employability by enhancing education and skill levels, and they planned to utilize local natural resources as production factors. In this context, SEZs are critical to the economic growth of the country. Pakistan's government (GOP) is now reliant on public-private partnerships, which will turn SEZs into a major driving force in the economy. According to the new legislation, SEZs may be created by the federal or provincial governments, in collaboration with the private sector under various public-private partnership models, or solely by the private sector (Omer, 2020).This is obviously an appealing option, and the private sector is eager to take advantage of it. This will also assist in the advancement of the small and medium-scale sector. For instance, Manzoor, Wei, & Siraj (2021) stated that the annual SMEs output to GDP ratio in Pakistan from 1990 to 2019 were 0.206 %, which is not encouraging. To encourage SMEs, the regulatory borrowing ceiling for SMEs has been enhanced by 44%, from Rs 125 million to Rs 180 million, and the debt burden ratio for consumer loans has been relaxed from 50% to 60% by GOP, which will accommodate about 2.3 million individuals in SME by 2020. Furthermore, in order to create jobs, the GOP has launched a national agriculture emergency program as well as the Naya Pakistan housing plan, which provides low-cost business loans to youth. More than 1.5-2 million employments could be created as a result of these initiatives (PEC, 2020; Manzoor, Wei, and Siraj, 2021). Even though, further steps have been taken by the GOP to reduce the cost of doing business (both financially and in terms of time) in order to make it easier for small and medium-sized businesses (SMEs) to enter the market. The equity limits on banking and non-banking financial services have been lifted by the SBP and SECP (Omer, 2020; Yang et al., 2021). Simultaneously, the BOI has embarked on a phased process aimed at lowering the cost of doing business while also expanding investment opportunities and providing reliable information necessary to start a business in Pakistan. The board of investment has also implemented online visa processing, which would help the economy attract international investment. Furthermore, the BOI has decided to create more special economic zones and is heading toward a single-window operation. The aim is to provide useful policy criteria for eliminating excessive regulations and reducing the cost of required regulations to businesses. In order to attract investment, the board also supports SMEs

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and their projects by simplifying company registration, digitizing property registration, streamlining building permits, simplifying work visa and branch office procedures, and simplifying tax regime. A level playing field is envisaged to resolve domestic SMEs' restrictions on capital fund availability and the enforcement of their rights. Hopefully, this public-private participation in SEZs would help to alleviate many of the issues that have previously prevailed, such as a poor location, a shortage of skilled human resources, an obstacle to easy access to financing, an ineffective market environment, and a lack of transparency as a major barrier to contracting. SEZs and SMEs are the most effective ways to encourage looted money from corrupt politicians and other individuals to use the legal system to transfer stolen funds to these types of enterprises, rather than wasting time and public resources arresting and imprisoning them for no economic benefit. For instance, the NAB Pakistan has registered an overall conviction rate of 68.8%, and they have recovered around Rs 363 billion of looted money from corrupt peoples during past 2 years of the PTI government (Daily Times, 2021), which is not so good when compared to the expected job creation and investment inflow into the economy by some CPEC SEZs. Even so, when compared to the economic losses caused by strikes and protests by high-profile corrupt individuals against NAB cases, this looted money may be ineffectual. Therefore, the Pakistani government should weigh all of these economic benefits when determining its priorities. The development of industrial estates and SEZs through ease of doing business, as well as open investment opportunities for anyone, even the corrupt, to invest money in Pakistani businesses through plea-bargaining, will be a more effective strategy to reclaim Pakistan's looted funds.

Conclusion and Recommendations

The Small, and medium enterprises (SMEs) are the cornerstone of Pakistan’s industrial and economic growth since they employ a significant percentage of the population. SMEs contribute primarily to the country's wide base of production, exports, and employment. The contribution of SMEs to economic development varies from region to region, but they play a significant role in developing countries. Pakistan’s SMEs contributes to a large portion of its GDP, with 40% share in national exports and an estimated 40% share in GDP. The SME sector has the potential to

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outperform expectations and benefit the economy. Likewise, SEZs have also aided economies by increasing growth rates, creating massive job opportunities, establishing basic infrastructure foundations, and promoting regional development. Meanwhile, SEZs help to create value-added product chains by making room for new entrants (especially SMEs) into industrial markets, which helps to stabilize the economy by raising foreign exchange inflow; and they generate capital for socioeconomic uplift by generating demand for intermediate goods and services and improving livelihoods. These practices assist in increasing competitive market practices and have optimize Pakistan's industrial potential, by improving the country's ranking of doing business from 147 to 108 just in two years. SMEs and SEZs, on the other hand, reflect the meritocracy footprint, and they also help to raise the investor footprint by offering a business-friendly atmosphere. The impersonal role of merit-based bureaucracy is another key aspect. By eliminating impediments, Pakistan will be able to attract foreign investment into SEZs while also leveraging industrial comparative advantage by making doing business easier. Besides that, while paving the way for SEZ development, Pakistan's government must realize the significance of macroeconomic stability and a conducive business environment in order for SEZs to succeed as planned. To make proper use of potential human resources, there is a need to invest in relevant research and vocational training. Finally, rather than relying solely on tax exemptions to attract domestic and foreign investors, it is essential to address structural concerns such as utility provisioning, skills-set availability, custom clearance issues, etc.

However, the PTI government (a recent political regime) set lofty goals in its manifesto, promising to fight for an egalitarian society based on the structure established by Prophet Muhammad (peace be upon him) in the Charter of Medina. As, this charter has always served as the cornerstone of the model Islamic state. The PTI government promised to build an equal society founded on economic justice and the rule of law, as well as a welfare state where everybody is guaranteed the rule of law, transparency, and meritocracy. Prime Minister often used China's meritocracy as an example in his many addresses, His government has strived to follow this ideology. The government recently appointed an expert finance minister and the Governor of Pakistan's State Bank in the hopes of easing the country's existing inflationary pressures. This is first step toward

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attracting investment through special economic zones and small and medium-sized businesses. SMEs and SEZs represent the footprint of meritocracy and competitive business practices and they are on the rise. On the other hand, the State Bank and Stock Exchange are tightening the noose against corrupt practices by demanding compliance with the conditions introduced by IMF, IFIs and foreign investors for offering any assistance. This also helps to establish good governance. A well-functioning administration is critical to a government's effectiveness, and necessarily requires an administrative infrastructure that is reliable, effective, and stable, with a mix of civil servants and specialists appointed on merit (Shah, 2020).

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