

SEZs Rationale & Framework for Pakistan: Considering the Global Best Practices & Local Context



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Key Assumption:

SEZs should be seen as part of Economic Corridor Development (ECD) in Pakistan ...

ECD IN PAKISTAN



ECONOMICS



INSTITUTIONS & REGULATIONS



POVERTY & INCLUSIVENESS



DISTRICTS DEVELOPMENT DISPARITY



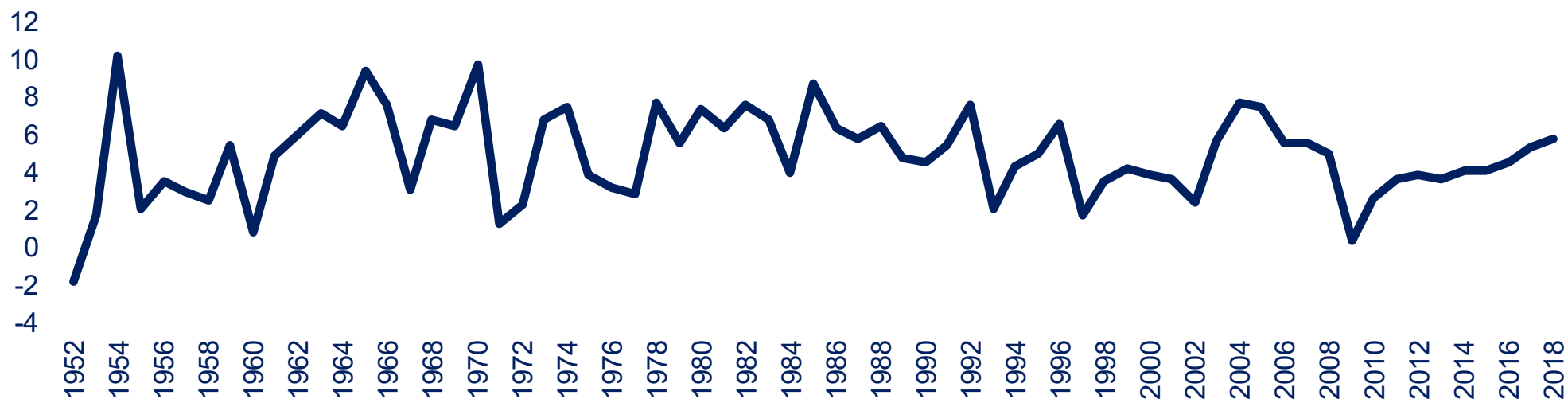
DIASPORAS

10 good reasons ...why SEZs are a necessity for Pakistan!

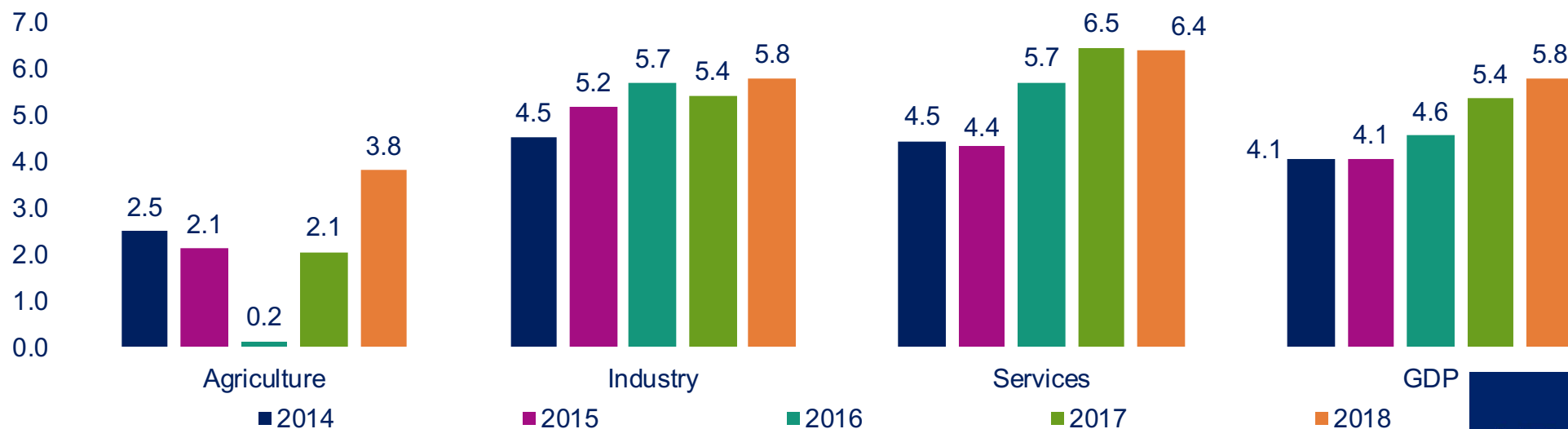
- 1. Current suboptimal growth with reemerging macroeconomic challenges.**
- 2. Bilateral Corridor: China Pakistan Economic Corridor (CPEC).**
- 3. Multilateral Corridor: Central Asia Regional Economic Cooperation (CAREC) Program.**
- 4. Low competitiveness & productivity in the country.**
- 5. Disconnection with GPNs & GVCs.**
- 6. Need for Innovation & knowledge economy.**
- 7. Sectoral, regional & exports diversification.**
- 8. Vast district disparity & disconnection within Pakistan.**
- 9. Well proven inclusive economic growth instrument as evident from other countries (including PR China and other Asian countries).**
- 10. Prototype for industrial development.**

Pakistan's economy has improved considerably but remains suboptimal... with episodic (boom & bust) & no real transformation

Real GDP Growth Rate, FY1952-FY2018 (%)



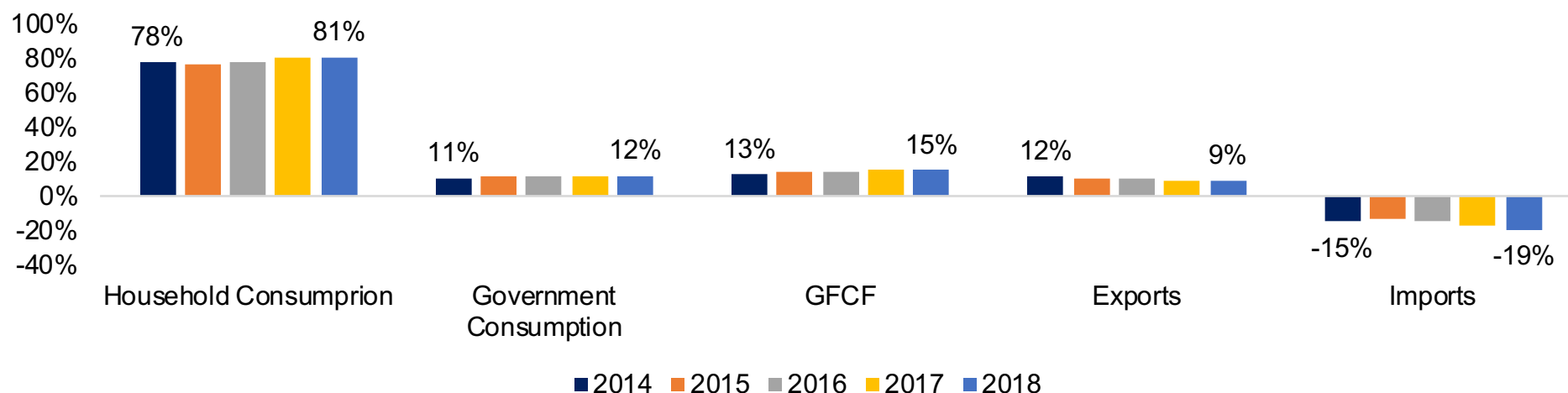
Real GDP and Components Growth Rates, FY2014-FY2018 (%)



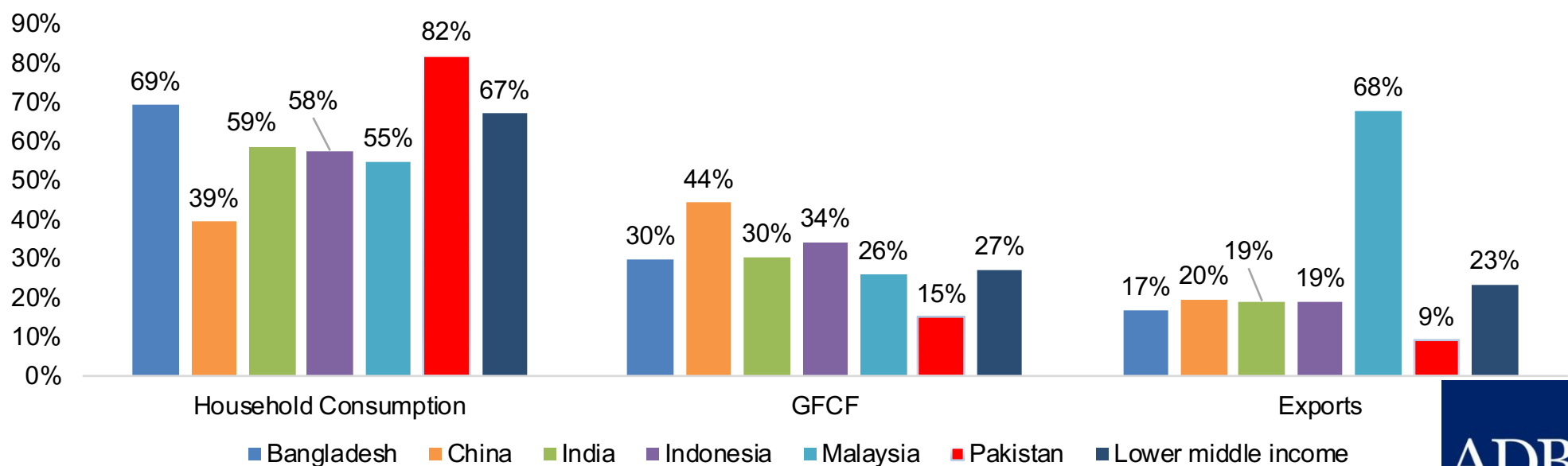
Source: Pakistan Bureau of Statistics

Growth is increasingly driven by “import based” Consumption ... Exports only 9% of GDP, more than 2 fold lower than comparator countries ...

Demand Side Contribution to GDP, FY2014-FY2018



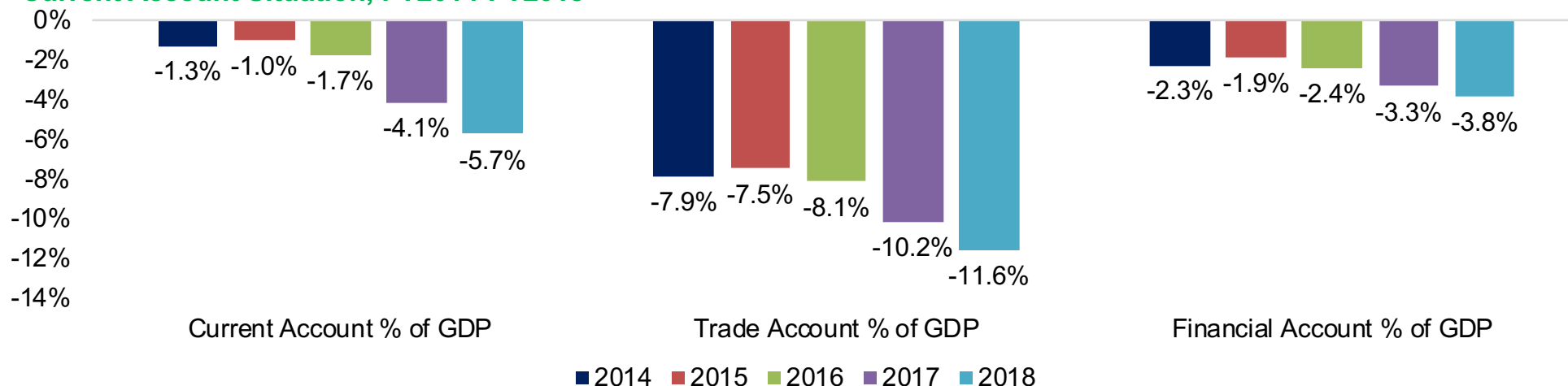
Comparison with Selected Countries (% of GDP)



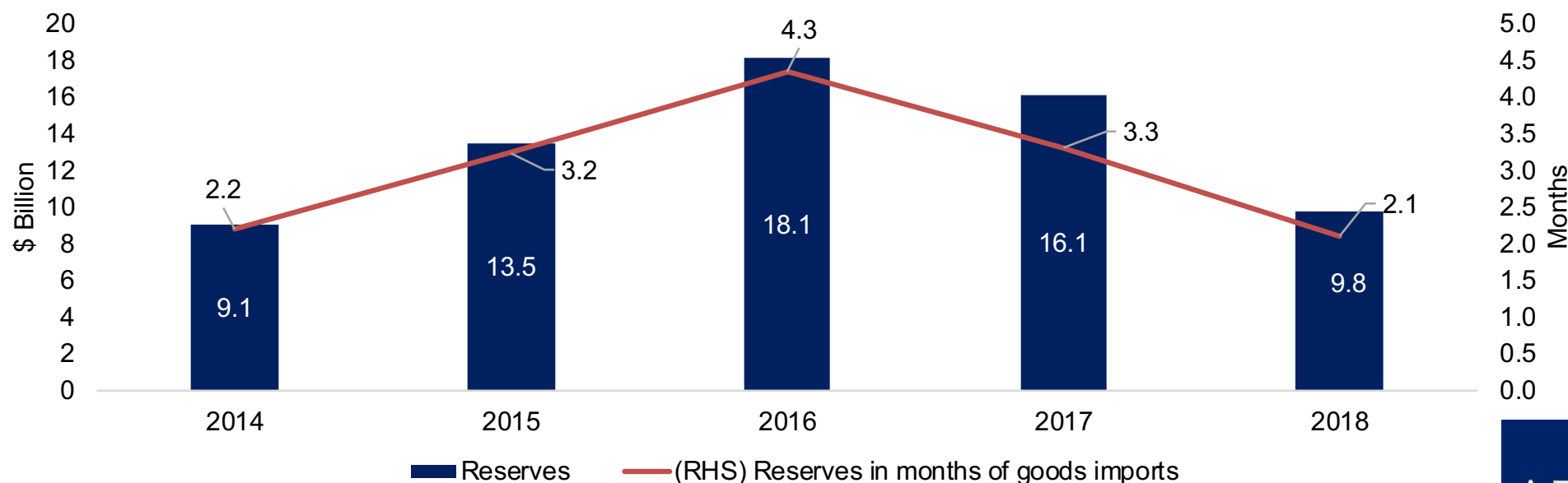
Source: Pakistan Bureau of Statistics & World Development Indicators

Big challenges on external fronts... as current a/c deficit hits \$17.9 bn & foreign reserves declined to just 2 months of import ...

Current Account Situation, FY2014-FY2018



Foreign Exchange Reserves and Months of Imports

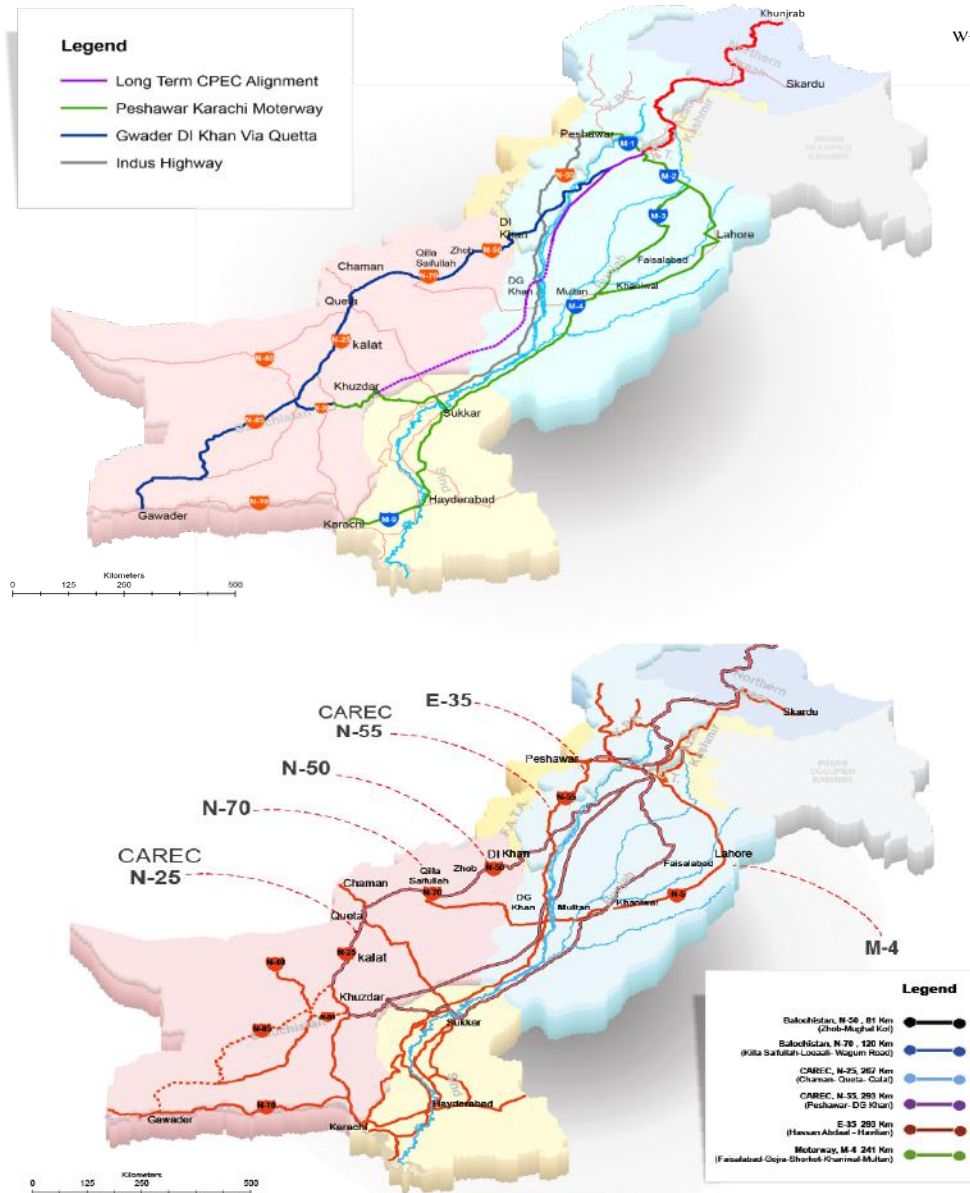


Source: State Bank of Pakistan

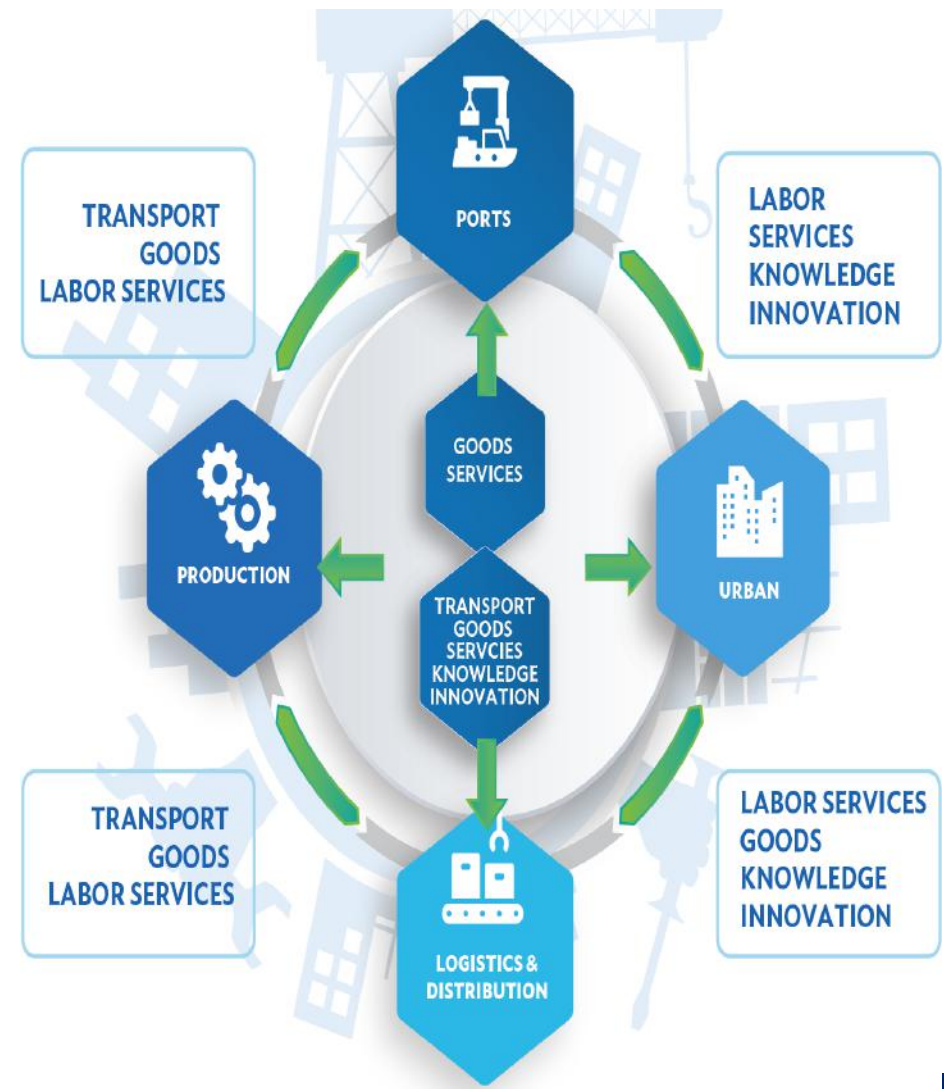
ADB

SEZs are key to transform CPEC and CAREC into economic corridors ...

CPEC & CAREC Routes



ECD Framework

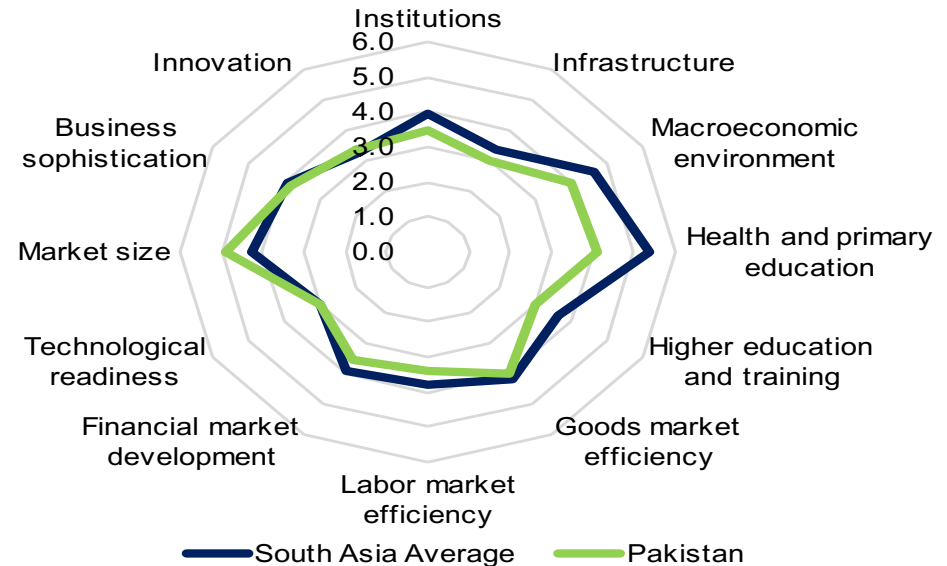


Source: ADB-PRM.

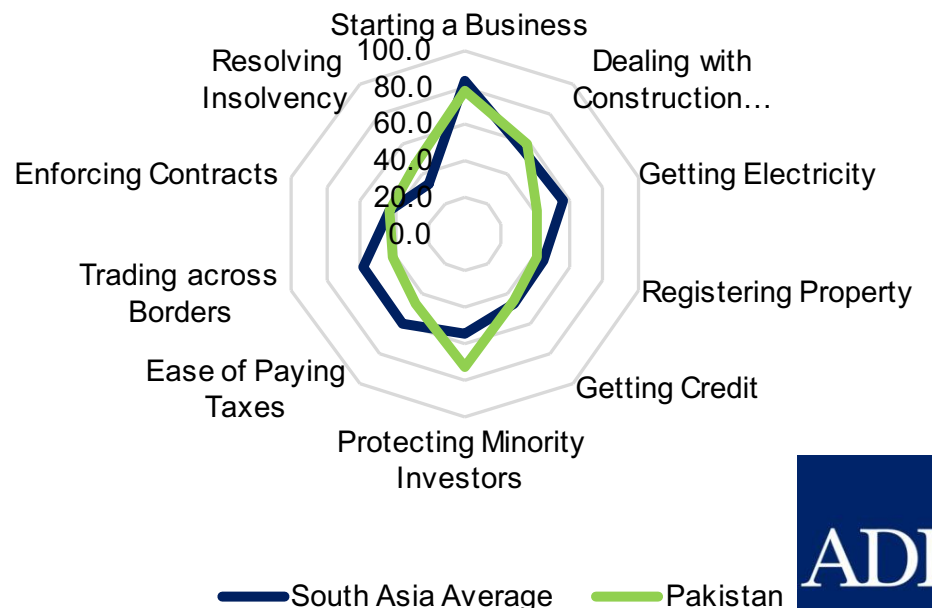
SEZs will make Pakistan part of GPNs & GVCs by enhancing competitiveness and productivity ...

- Pakistan is least competitive amongst SAARC countries with a ranking of 115 out of 137 countries.
- Pakistan has the highest doing business cost within South Asia with a ranking of 148/190 economies.
- SEZs will directly improve the competitiveness and productivity of Pakistan through the following critical channels:
 - streamlining business regulations, tax procedures, and bureaucratic red tape;
 - Higher level of investment and innovation;
 - Increased connectivity through infrastructure investment and trade integration and financial market development.
- Note: Improving overall GCI score by one point can raise productivity growth by 1.4 percentage points.

Global Competitiveness Index 2017-18 (1-7(best))



Doing Business Cost, 2018, (1-100(best))



SEZs are critical to reduce districts disparity through agglomeration benefits ...

Only 26 districts cut it to green, while 24 districts are in red ...

Districts Grouping based on MDG-AI/UNDP-HDI & TLC methodology

KHYBER PAKHTUNKHWA

MARDAN	0.353	D. I. KHAN	0.238
LOWER DIR	0.349	SHANGLA	0.225
UPPER DIR	0.343	BUNER	0.223
KARAK	0.337	HANGU	0.212
BATAGRAM	0.326	TANK	0.202
KOHAT	0.313		
SWABI	0.313		

NOWSHERA	0.416
CHITRAL	0.405
ABBOTTABAD	0.403
MALAKAND	0.396
BANNU	0.393
MANSEHRA	0.387
SWAT	0.387
LAKKI MARAT	0.372
CHARSADDA	0.363

PESHAWAR	0.573
HARIPURW	0.529

BALUCHISTAN

GWADAR	0.337	KHARAN	0.219
KOHLU	0.294	HARNAI	0.204
ZIARAT	0.293	ZHOB	0.197
LORALAI	0.275	CHAGAI	0.189
MUSAKHEL	0.264		
LASBELA	0.249		
BOLAN/ KACHHI	0.243		

QUETTA	0.458
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PUNJAB

LAHORE	0.527
RAWALPINDI	0.525
SIALKOT	0.522
JHELM	0.513
JHANG	0.509
MULTAN	0.508
T.T. SINGH	0.502
FAISALABAD	0.494
GUJRANWALA	0.492
ATTACK	0.490
LAYYAH	0.527
LODHAN	0.525
SHEIKHUPURA	0.522
GUJRAT	0.513
BAHAWALPUR	0.509
KASUR	0.508
CHAKWAL	0.502
NANKANA SAHIB	0.494
KHANEWAL	0.492
SAHIWAL	0.490

RAHIM YAR KHAN	0.476
MANDI BAHAUDDIN	0.473
CHINIOT	0.463
PAKPATTAN	0.463
BAHAWALNAGAR	0.455
SARGODHA	0.448
HAFIZABAD	0.439
OKARA	0.425
VEHARI	0.415
MUZAFFARGARH	0.409
KHUSHAB	0.396
BHAKKAR	0.387
NAROWAL	0.379
D. G. KHAN	0.377
MIANWALI	0.375
RAJANPUR	0.366

SINDH

KARACHI	0.731
HYDERABAD	0.548
NAUSHAHRO FEROZE	0.495

SHIKARPUR	0.442
JAMSHORO	0.434
LARKANA	0.426
JACOBABAD	0.416

KASHMORE	0.409
SHAHEED BENAZIR ABAD	0.406
GHOTKI	0.395
SHAHDADKOT	0.380

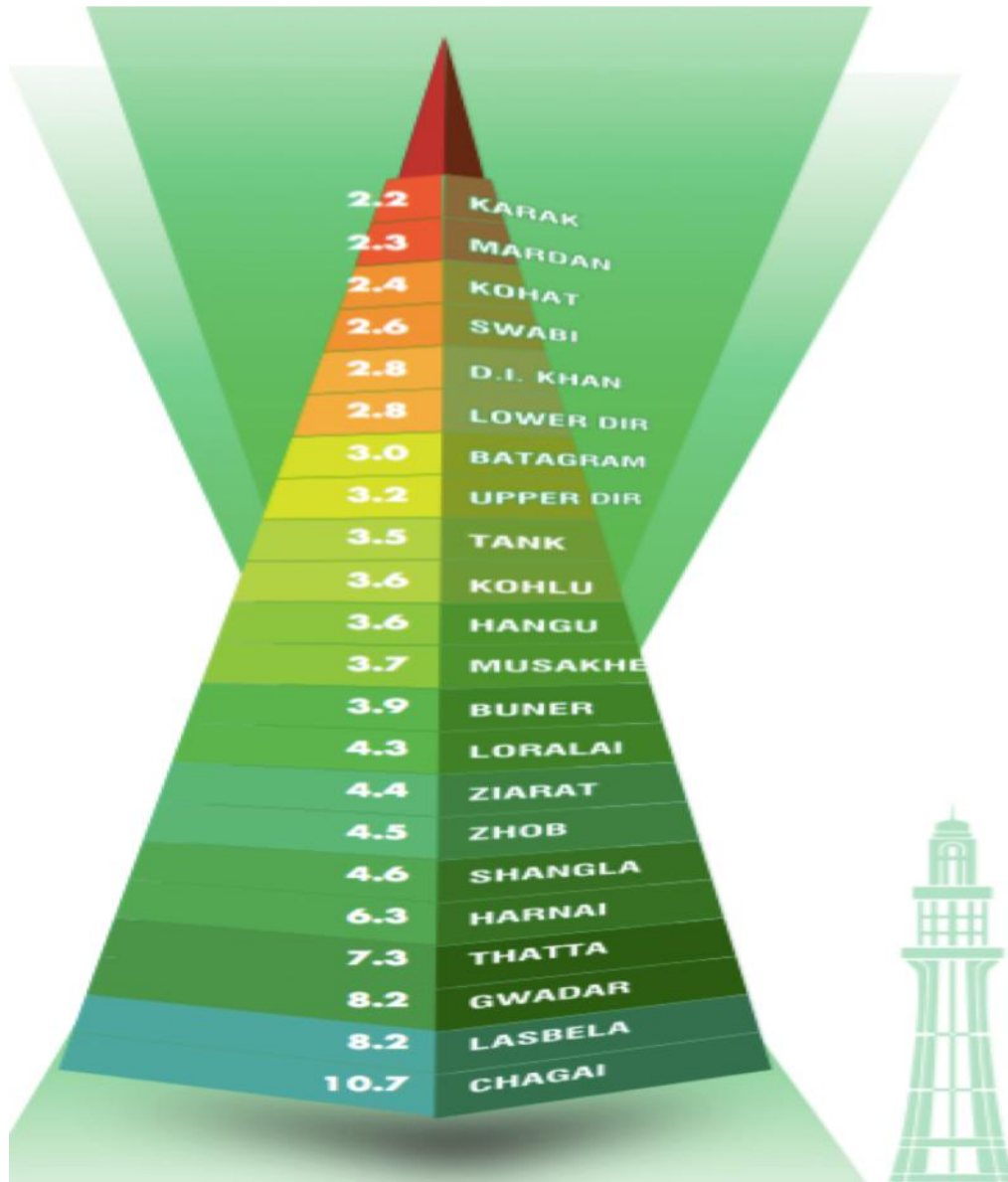
THATTA	0.246
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SANGHAR	0.367
KHAIRPUR	0.361

More than \$98bn or 38% of GDP is needed to bring the backward districts in par with the developed ones ...

SEZs can be vital in this respect ...

Financing cost for each of the red category districts (\$billion)

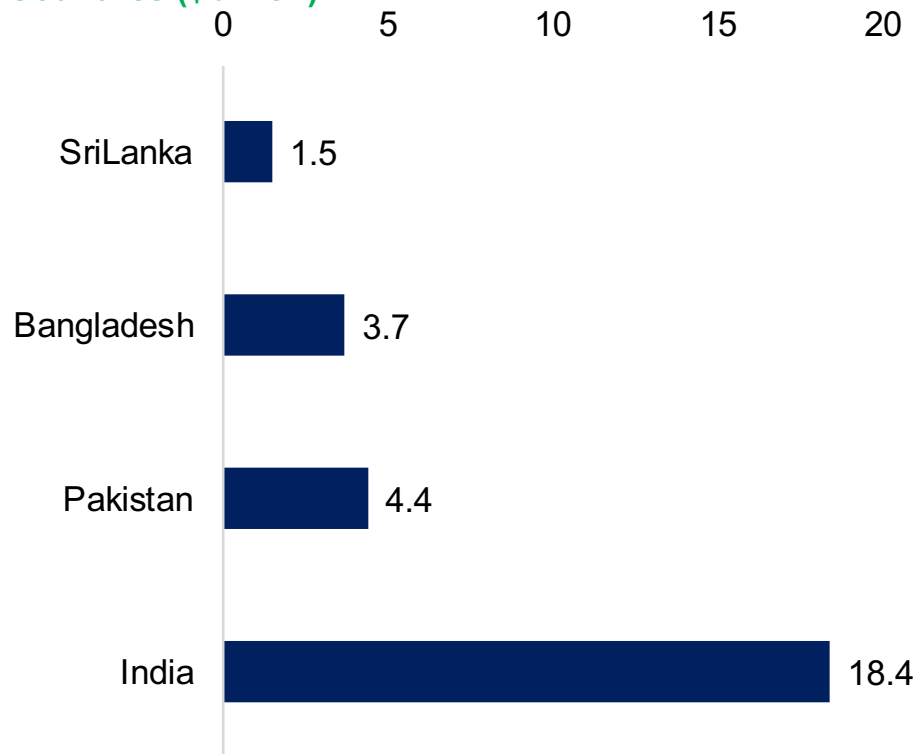


- BAU development expenditures are not enough and creates disparity.
- 30 years development is needed for equalization.
- Each red district requires US\$ 2 – 12 billion to catch up.
- Total annual infrastructure investment gap is 5% of GDP.
- If Pakistan can mobilize this investment & channel using the ECD & SEZ frameworks, districts development gap could be closed in less than 8 years.

Pakistani abroad, especially in the US, UK & Middle East are well financed & highly educated to provide talent & capital for SEZs ...

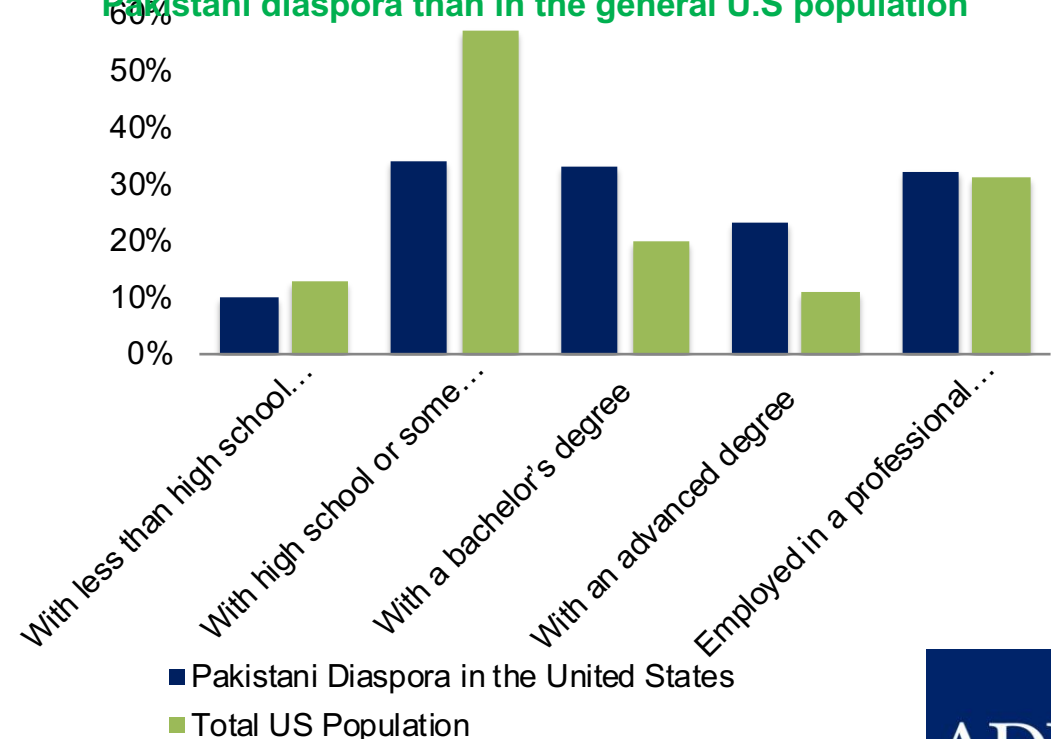
- Total wages & salaries amounting to \$52 billion or 20% of GDP in 2015 (ADB).
- Potential labor productivity improvement benefits of around 180% (ADB).
- Pakistani diaspora investment potential is \$4-\$5 billion (Commonwealth Secretariat 2017).
- 1% increase in migration stock from country A to B can increase investment from B to A by 0.2% or \$450 in portfolio investment/migrant (Newland & Plaza 2013).

Investment potential of Diaspora in selected South Asian Countries (\$billion)



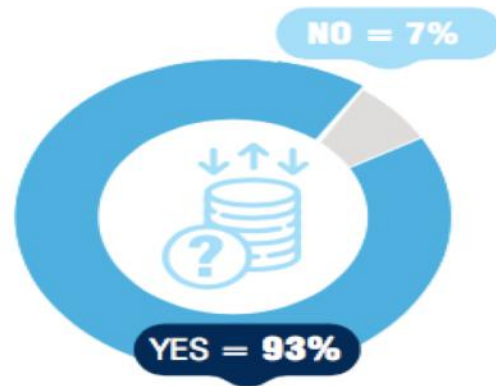
Source: Financing the SDGs with Diaspora Investment, 2017, Commonwealth Secretariat

Educational attainment levels are, on average, higher in the Pakistani diaspora than in the general U.S population

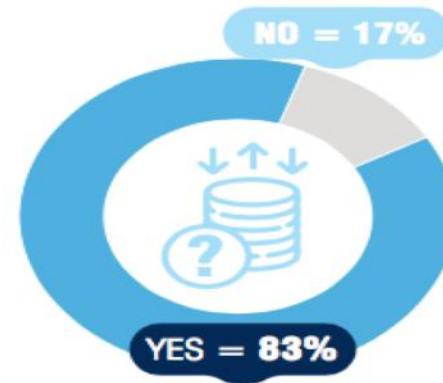


Source: U.S. Census Bureau data

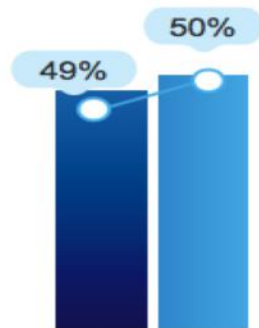
Strong evidence that Pakistani diaspora are willing to contribute more resources ... if they have more trust, information, & is easier ...



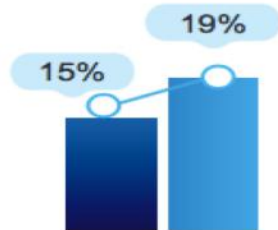
Is there potential for significant increase in Pakistani diaspora's Pakistan-related giving?



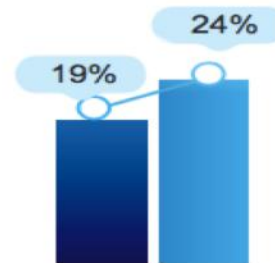
Is there potential for significant increase in your own Pakistan-related giving?



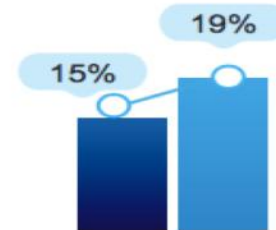
Giving could be significantly higher if I had more trust that my contribution would be put to good use



Giving could be significantly higher if there was more information about cause in Pakistan



Giving could be significantly higher if it was easier to give to Pakistan related causes



Giving is already as high as it could be and is unlikely to increase unless income increases dramatically

Source: Pakistani Philanthropy

But...Pakistan must address 2 constraints to increase diaspora participation as key agents of development...

1) Diaspora's **lack of trust** in institutions within Pakistan.

- ❖ UK House of Commons Committee met with Pakistani diasporas. Key finding included distrust on Pakistan's government & public officials due to corruption & bribery, hindering diasporas investment in large projects.
- ❖ Interestingly, they were keen to work with DFID to ensure their funds were spent wisely and transparently in Pakistan.
- ❖ A survey of Pakistani diasporas in US also painted a similar picture: a chronic lack of trust in the civic sector of Pakistan.
- ❖ Over 80% of survey respondents believed that civic organizations are inefficient & dishonest while another 70% noted that they are ineffective & inattentive.

2) The country's **persistent regulatory challenges**.

- ❖ A survey conducted by *Invest2Innovate* to assess the business climate in Pakistan concluded Pakistani diasporas view external factors such as political instability (51%), corruption (59%), insufficient electricity (47.5%), lack of transport (37.6%) & poor security situation (35.3%) as major obstacles to investment & doing business.

This lack of trust to formal institutions explains why the diaspora link is strongest in remittances only, not for investment & other purposes.

Diaspora bonds is a robust & viable option ...

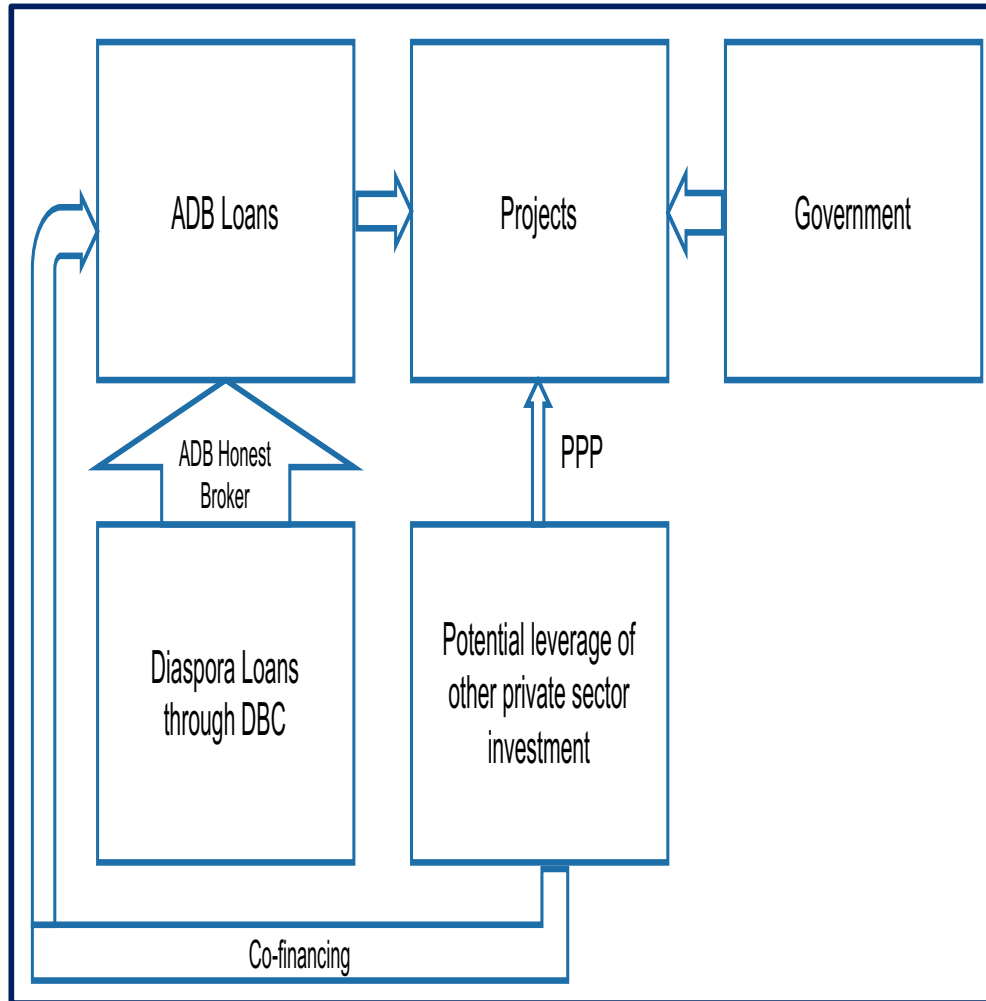
- A range of migrant sending countries including India, Israel, Sri Lanka & Kenya successfully developed financial instruments such as diaspora bonds.
- Israel annually since 1951 have raised around \$25 billion in capital.
- India on 3 separate occasions since 1991 have issued over \$11 billion worth of diaspora bonds.
- Diaspora bonds are long-dated sovereign debt arrangements providing access to fixed-term funding, often (not always) at discounted interest rates.
- A key advantage is diaspora bonds can mobilize relatively small amount of funds into substantial resources for development.

Comparison of the structure and characteristics of bonds issued by Israel & India

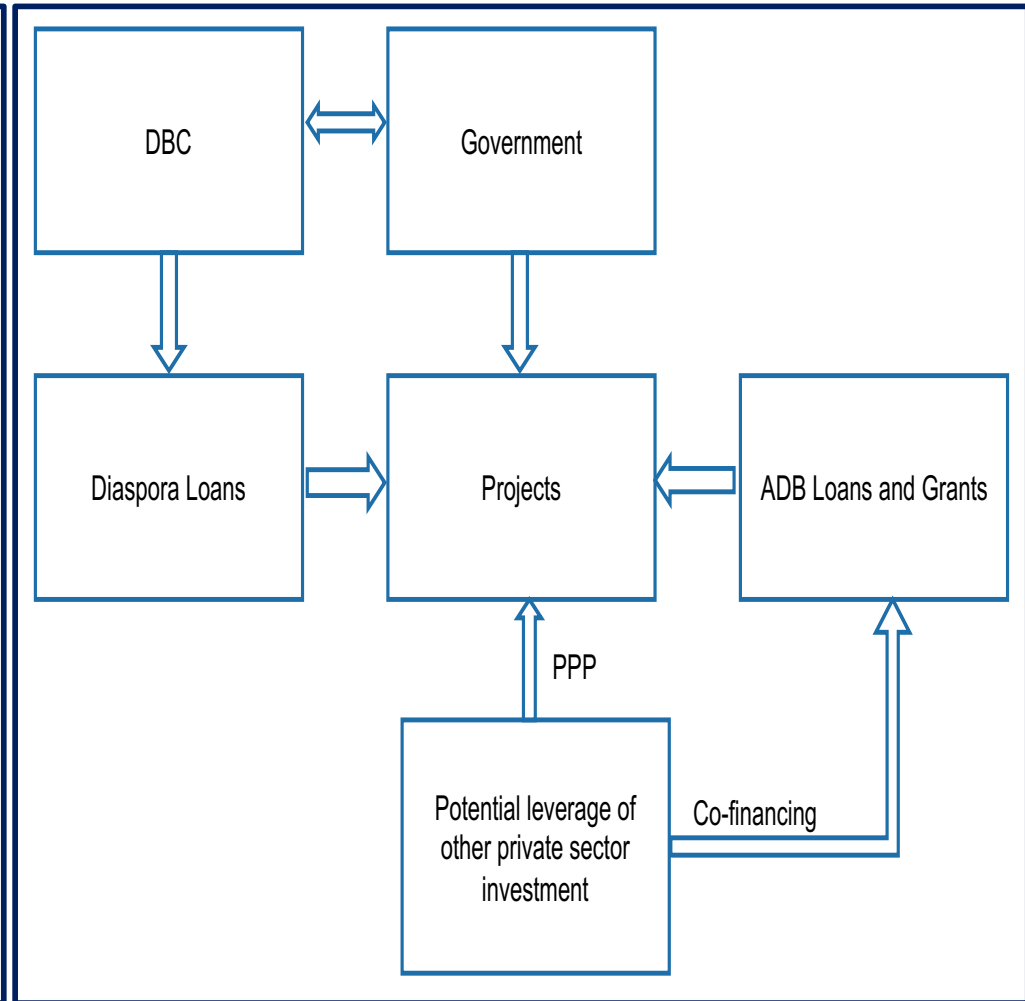
Israel	India
Annual issuance since 1951	Opportunistic issuance in 1991, 1998 and 2000
Development oriented	Balance of payments support
Large though declining patriotic discount	Small patriotic discount, if any
Fixed and floating rate	Fixed rate bonds
Maturities from one to 20 years with bullet repayments	Five year with bullet maturity
Direct distribution by the Development Corporation for Israel	Distributed by the State Bank of India in conjunction with international banks
Registered with US Securities and Exchange Commission	No SEC registration
Non-negotiable	Non-negotiable

2 potential frameworks for attracting Pakistani diaspora investment to directly support PPP projects for ECD, SEZs & others ...

Diaspora Engagement Framework 1: ADB acts as the honest broker with no direct dealings between diaspora & Government



Diaspora Engagement Framework 2: ADB plays as a facilitator to ensure that the projects meet ADB's quality.



Source: ADB-PRM

- Chinese diasporas invested around \$24 billion in SEZs & manufacturing sector.

Globally well proven inclusive growth instrument ...

Initial evidence suggesting SEZs in Pak can raise exports at least by \$5 bn annually with 1.6% additional contribution to GDP ...



Critical need to develop SEZs based on in depth analysis of global & local SEZ experiences!

SEZs Proposed Framework for Pakistan



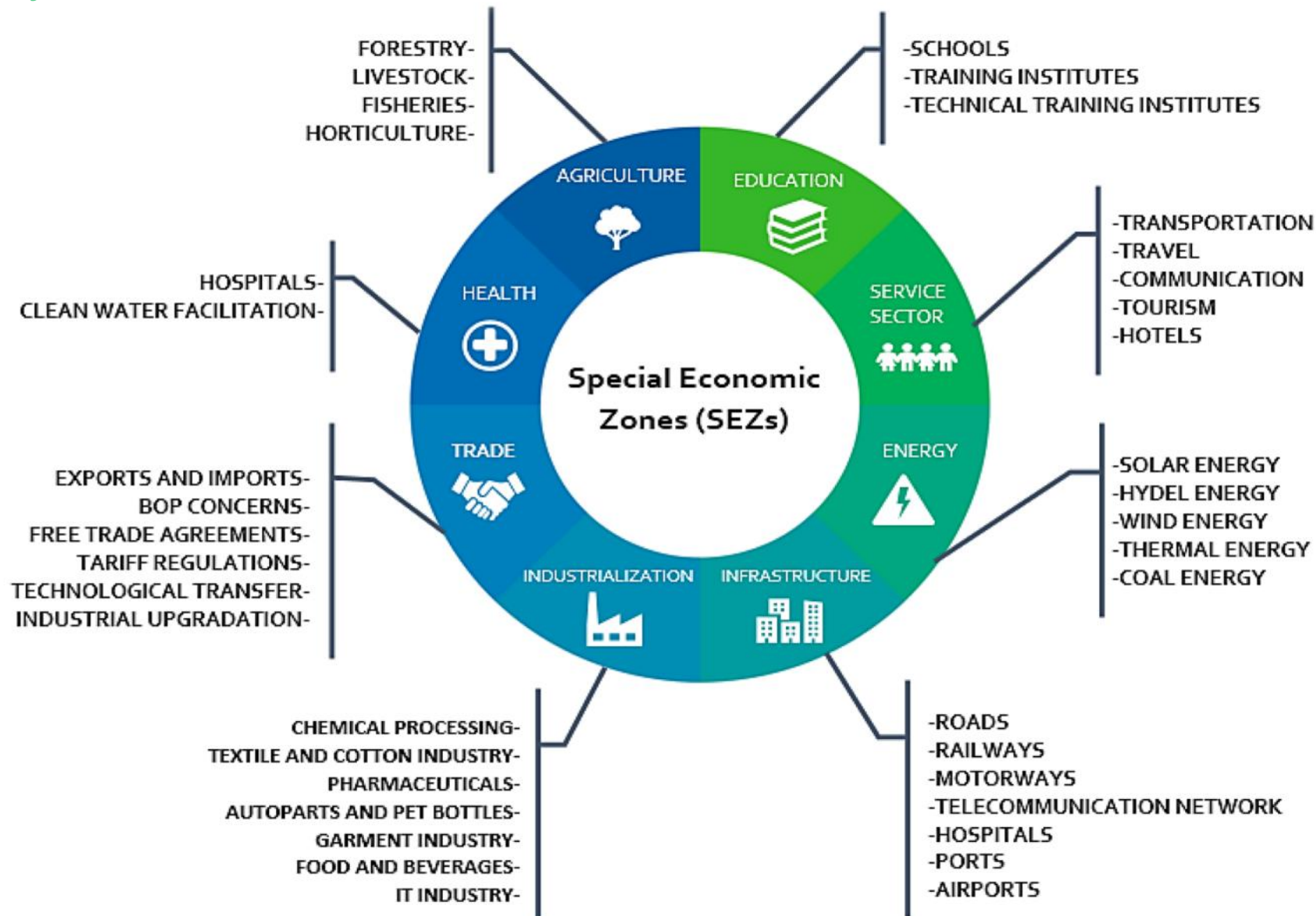
SEZs Success = f(Ingredients and Governance)

Source: ADB-PRM scoping study.

SEZs development is influenced by many cross sectors ...

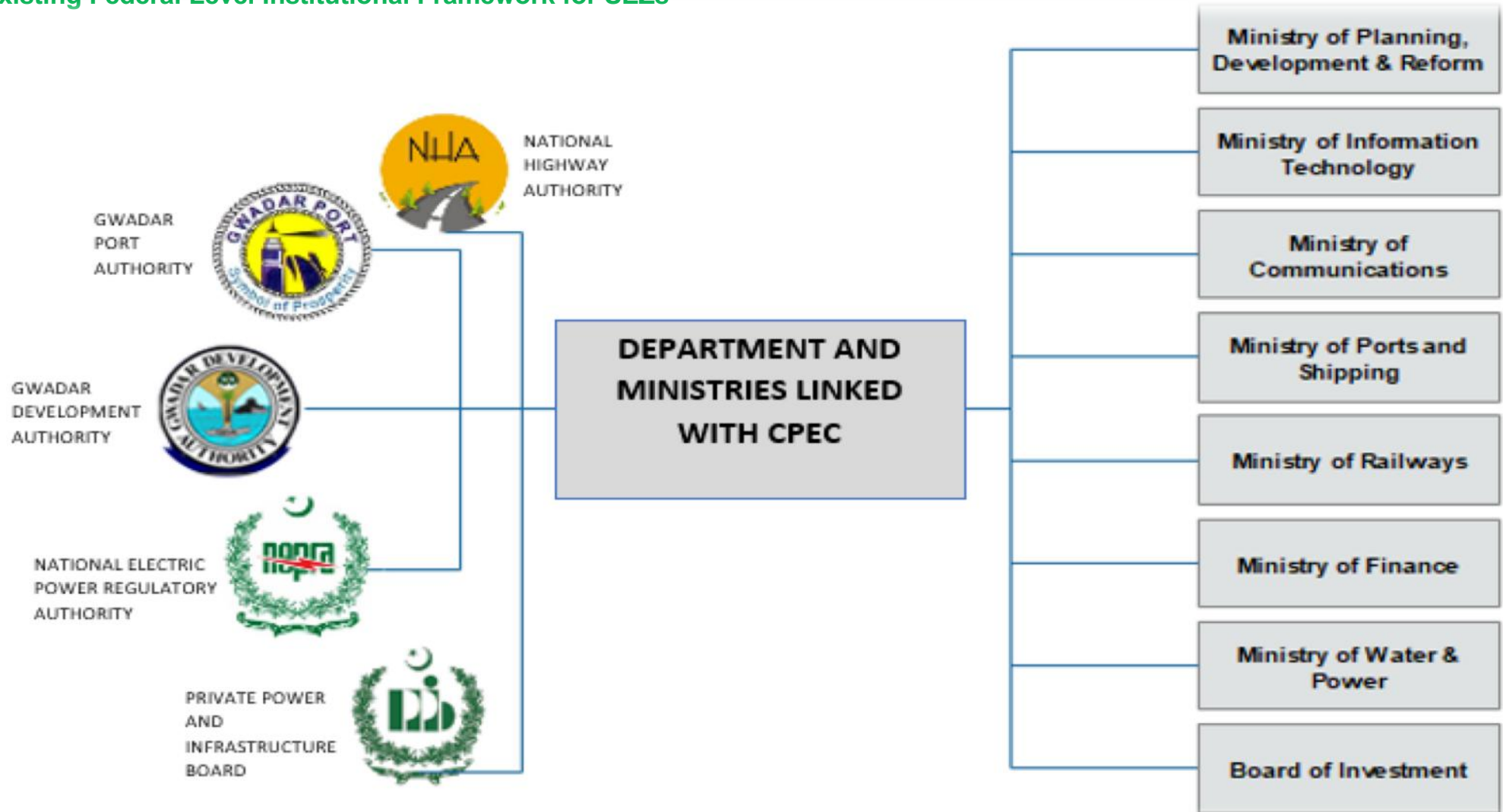
Integral part of SEZ development, financing, management or regulatory processes ...

Key Sectors Involved in SEZs



Dire need to provide one window facility, given the involvement of a range of Departments & Ministries ...

Existing Federal Level Institutional Framework for SEZs



Source: ADB-PRM scoping study.

Note: The institutional framework is by no means comprehensive, but highlights the need of a holistic approach.

To encapsulate, Pakistan must adopt ECD including SEZs as its core development and growth strategy!

- Economic corridors including SEZs are:
 - ❖ a credible solution to overcome economic and social challenges as part of the new growth and development strategy.
 - ❖ Critical to move a country onto a higher growth trajectory to realize its full economic and social potential by enhancing investment and exports.
 - ❖ Pre-requisites to meet Pakistan's growth aspirations to become a high middle income country and create 2 million jobs annually.
- SEZs must be developed based on best practices and lessons learnt from other countries (such as PRC, Malaysia, India, Korea Rep. of and etc).



THANK YOU!

