



RESEARCH PAPER

The Impact of Special Economic Zones on Human Development: A Case Study on Economic

¹Mehwish Bhutto, ²Dr. Muhammad Shahban Sahito and ³Zuhaib Ali

1. Assistant Professor, Economic Department, University Of Sindh, Jamshoro, Sindh, Pakistan
2. Assistant Professor, Department of International Relations, University of Sindh Jamshoro, Sindh, Pakistan
3. Assistant Professor, Department of Sociology, Shah Abdul Latif University, Ghotki Campus Sindh, Pakistan

***Corresponding Author:** mehwish@usindh.edu.pk

ABSTRACT

This study examines the role of special economic zones (SEZs) in driving economic growth. The phenomenological approach used for understanding the link between SEZs and economic growth drivers such as job creation, foreign direct investment, technology transfer, and infrastructure development in a range of scenarios. The study analyzed secondary and primary data on Special Economic Zones (SEZs) and economic indicators to determine their impact on economic growth, as well as a survey of 400 respondents to get primary data on how they feel and their attitudes. The results indicate that there are no special economic zones due to a lack of a link between special economic zones and economic development indicators. While special economic zones are important for economic development. Successful economic policies and politicians should maintain consistency in policy announcements and adopt a bottom-up approach. Governments should also incorporate stakeholders in new strategies, such as industrial clusters, which are more effective than special economic zones.

KEYWORDS Economic Development, Economic Integration, Policies, Special Economic Zones

Introduction

Special Economic Zones (SEZs) have been shown to considerably improve economic growth by attracting foreign direct investment, encouraging exports, and generating jobs. Furthermore, SEZs frequently act as accelerators for technological transfer and innovation within the host country's economy (Aggarwal, 2007). In the present globalization period, the majority of developing nations are seeing a change in their development strategies, from import substitution to export promotion. Many of these nations are actively establishing export processing zones (EPZs) as part of their policy tools to encourage exports. EPZs are designated areas within a country that offer special incentives to attract foreign investment and facilitate production for export. The incentives may include tax breaks, duty-free imports of raw materials and components, streamlined customs procedures, and simplified regulations. These incentives are typically meant to encourage economic development in regions that may otherwise struggle to attract investment (Ginting, Sembiring, Siregar, & Abduh, 2018). In 1986, there were 176 of these zones distributed over 47 countries. In 2003, there were over 3000 zones spanning over 116 nations. The majority of newly formed zones have taken root in developing countries. Although there is presently a lot of excitement about EPZs in emerging markets, disputes concerning how beneficial EPZs are to the economy (dissertations dating back more than 40 years) have not subsided (Liu, Heilig, Chen, & Heino, 2007).

Special Economic Zone

A special economic zone is an area designated for the goal of attracting foreign direct investment by providing specific fiscal and economic incentives. Tax breaks, relaxed environmental regulations, and expedited customs procedures are just a few examples of

these incentives. A special economic zone is a place where laws and legislation promoting business growth are largely implemented by reducing certain business-related constraints (Narula & Zhan, 2019). Within a country's borders, special economic zones are developed to promote trade, investment, job creation, and efficient management. As a result, these zones frequently provide tax breaks, simplified regulations, and infrastructural upgrades to entice enterprises and boost economic development. They can also be used to test new policies and reforms before they are introduced across the country. They are meant to induce businesses to move to certain locations where beneficial financial policies are adopted (Rawat, Bhushan, & Sujata, 2010). Special economic zones have the following characteristics: they are physically secured, geographically defined areas with a single management or administration; they provide advantages to investors who physically reside in the zone; they have a separate customs area with duty-free benefits and streamlined procedures. Special economic zones are typically established by governments to attract foreign investment and promote economic growth. They often offer tax incentives, infrastructure support, and simplified regulations to encourage businesses to set up operations within the zone (Wang, 2013; (Muzaffar & Choudhary, 2017)). The current study combines numerous components of human development impacts into an integrated framework and investigates the experiences within it. The study topic is whether special economic zones have helped to increase employment, human development, and reduce poverty. In order to analyze this question, the study considers a variety of factors, such as economic growth, income distribution, education, and health outcomes

Literature Review

Many developing countries are facing a variety of economic challenges, including low export bases (primarily raw materials) and higher import bills, resulting in an adverse trade balance. As a result, these countries are struggling to stimulate economic growth and create sustainable development opportunities. In many cases, these countries are forced to rely on external financial assistance to support their economies. Their financial problems are exacerbated as a result of the difficulties they frequently encounter in repaying this debt.

Some date back to the fourteenth century. However, contemporary history contends that as early as the 17th century, global economic integration, including trade liberalization, financial internationalization, and industrial integration, had advanced significantly, necessitating the development of special economic zones. These zones were seen as essential for attracting foreign investment and promoting economic growth. The zones were also intended to facilitate technology transfer and job creation. Furthermore, they were designed to improve infrastructure and provide a competitive advantage for industries operating within them (Munyoro, Nczomani, & Mhere-Chigunhah, 2017). In addition, by the 17th century, more and more European nations were participating in the global division of labor and were pursuing some form of economic specialization, such as shipbuilding or textiles. This led to increased competition and innovation in these industries. As a result, the Industrial Revolution began in Britain in the late 18th century. The Industrial Revolution marked a turning point in world history as new technologies and methods of production transformed societies and economies across the globe. It also paved the way for modern industrial capitalism and the development of a global economy. It also led to significant social changes, including the rise of urbanization and the growth of the working class (Ambroziak & Hartwell, 2018). Many nations saw this specialization as a chance to develop and expand their economies by luring resources from other countries through a variety of pro-development programs. This helped fuel competition between nations for access to resources and markets. This competition ultimately led to a rise in international trade and globalization. The increased interconnectedness of economies and societies has had both positive and negative effects on countries around the world (Sinenko & Mayburov, 2017). As a result, the first sorts of special economic zones were created in response to free trade policies. Gibraltar and Singapore Free Trade Zones were among the first special economic zones, established in 1704 and 1819, respectively. These zones were designed to

attract foreign investment and stimulate economic growth through reduced regulations and taxes. The concept of special economic zones has since spread worldwide, with over 5,400 zones now operating in more than 140 countries. China has the largest number of special economic zones, with over 2,500 established across the country. Special economic zones have been successful in attracting foreign investment and creating jobs (Zeng, 2021).

Different Types of Special Economic Zones

A study by Jones (2011) found 3115 Special Economic Zones in 93 countries across six regions: the Americas, Asia, the Middle East, North Africa, Western Europe, Central and Eastern Europe, Central Asia, and Sub-Saharan Africa. These zones can be categorized into six types: free trade zones, export processing zones, enterprise zones, single factories, free ports, and specialized zones. Finally, the goal of these zones is to attract foreign investment and promote economic growth. They are designed to provide various incentives, such as tax breaks, reduced regulations, and infrastructure support, to encourage foreign businesses to set up operations in these areas. By doing so, these zones help create jobs and stimulate local economies (Raheem, 2011).

Free Trading Zones, Export Processing Zones, Enterprise Zone and Free Ports

Free trade zones are geographic locations where items can be landed, handled, produced, reconfigured, and re-exported without the involvement of customs officials. Free trading zones are also known as international trade zones, commercial free zones, and free trading and warehousing special economic zones. Nature Export Processing Zones prioritize high-value industrial and consumer items and are export-focused. By producing high-value commodities intended for the upper echelons of the export markets, export processing zones contribute to the development of export value chains (Shah, 2009). Governments or local municipal administrations create enterprise zones, often known as manufacturing zones, in different areas. Enterprise zones are primarily created to improve the standard of living for local residents and to increase the competitiveness of the region—or even the nation. Some of the priciest special economic zones in the world include free ports, port zones, or airport special economic zones (Scheepers, 2013).

Human Development

SEZs generate employment through three channels: direct employment for skilled and unskilled labor, indirect employment, and employment for women workers. This employment boosts income, provides non-pecuniary benefits, improves laborer's quality of life, and enhances productivity, ultimately reducing poverty.

Direct Employment

SEZs, which are labor-intensive sectors, are a key source of new employment in developing nations because to the availability of low-wage workers. This raises the need for unskilled labor in the zone. As SEZs expand, a move toward more value-added businesses may raise demand for skilled workers. Furthermore, SEZs create job opportunities for unskilled workers by increasing demand for physical infrastructure, hence supporting the local construction industry (Wang, 2013). SEZs are experiencing a labor shortage in surrounding cities, with rising demand for utilities like water, electricity, communication, and administration. Additionally, there is a significant increase in demand for support services like hotels, restaurants, and transport, impacting employment generation. The lack of skilled workers is hindering the region's ability to meet these growing needs. As a result, there is a pressing need for investment in education and training programs to develop a qualified workforce (Sinenko & Mayburov, 2017).

Indirect Employment

The indirect effect of SEZ operations generates ancillary employment opportunities in sectors like transport, communication, automobiles, civil aviation, shipping, tourism, hospitality, packaging, banking, and insurance, providing employment for both unskilled and skilled labor. Additionally, it helps in the development of infrastructure and boosts economic growth. It contributes to the overall advancement of society. Moreover, it plays a crucial role in connecting people and businesses across the globe, facilitating trade, and fostering cultural exchange. It also leads to higher levels of innovation and technological progress (Zeng, 2021). Furthermore, they stimulate economic activity beyond the zone by converting investment funds into fixed assets and acquiring inputs and services from the broader economy, resulting in overall economic growth in the surrounding area. Additionally, the presence of special economic zones can attract foreign direct investment and enhance international trade opportunities for the host country. Therefore, special economic zones play a crucial role in boosting economic development and creating employment opportunities. Additionally, they can help improve infrastructure and technology in the surrounding area (Narula & Zhan, 2019).

Material and Methods

Because of their flexibility in many situations, phenomenology and philosophy were chosen as the foundations for this study. The technique adopted during the research process was intended to satisfy the objectives and offer answers to the questions posed. Initially, secondary data from previous studies on public policy and the media were acquired via desk research. This was done by reading academic books, journals, the internet, and newspaper articles, and it revealed a background of the issues under study, thereby equipping the researcher with extensive knowledge on the subject. Descriptive analysis method used through a Using the random sampling techniques, a total of 400 respondents were chosen from Pakistan. To retain credibility, a sample must be representative of the population. It is important to highlight that the data in this study was evaluated using qualitative data analysis (QDA), which involves transforming data acquired through questionnaires into some type of explanation of the respondents' perspectives on the value of special economic zones.

Results and Discussion

According to research findings, Pakistan's special economic zones do not have the ability to positively impact economic development, as evidenced by the weak relationship between special economic zone policy and economic development determinants such as foreign direct investment promotion, technology transfer, job creation, and infrastructure development.

There is no correlation between special economic zones and economic development. The findings reveal a negative association between special economic zones and the four factors of economic development. Furthermore, the findings show that there is no correlation (or only a weak tie) between Pakistan's special economic zones program, and Pakistan's special economic zones were not successfully implemented in a way that promoted economic progress. Special economic zone plans in many developing nations have failed owing to inadequate implementation tactics. This argues that the government should reconsider all of the elements that influence the performance of special economic zones, as the program cannot function independently of other economic considerations. Special economic zones' performance is determined by a variety of interrelated economic factors, such as infrastructure, labor force availability, and the regulatory environment. The study found no connection between special economic zones and technology, with 53% of respondents stating that the industry uses outdated equipment. The results suggest that special economic zones in Pakistan failed to meet the expectation of facilitating technology transfer for economic development. These findings indicate a need for further analysis and

potentially new strategies to promote technological advancement within special economic zones. The potential reasons for this lack of success. According to the finding, 56% of respondents believe that there is no association between special economic zones and the attraction of foreign direct investment in Pakistan. This implies that the overall macroeconomic climate is unfavorable to the attraction of foreign direct investment. There are a myriad of concerns that must be addressed in order for special economic zone projects to attract foreign direct investment, as proposed in the literature. The Pakistani government faces a significant challenge due to information asymmetry, leading to a lack of coordination and inconsistent policy implementation. Even within the same department, different messages are gathered, highlighting the need for effective communication of relevant information to all stakeholders for successful policy implementation.

Conclusion

Due to time and resource restrictions, the research could only focus on the importance of special economic zones for Pakistan's economic development. However, throughout the course of the investigation, it became clear that the special economic zones strategy is out of date since other nations are creating industrial clusters. As a result, more study is needed to investigate the feasibility of harnessing economic development in Pakistan through industrial clusters. This shift in focus could potentially lead to more sustainable and competitive economic growth for Pakistan in the long term. By exploring the benefits and challenges of industrial clusters, policymakers can make informed decisions on how to best drive economic development in the country.

Recommendations

Recommendations were made to help the administration accomplish its economic objectives. These recommendations included investing in infrastructure and creating policies to attract foreign investment in order to transition from special economic zones to industrial clusters. By adopting this approach, Pakistan can potentially enhance its economic growth and competitiveness on a global scale.

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