

Industrial Development under China Pakistan Economic Corridor (CPEC): Accomplished Lessons from China

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Abstract

Economic clusters have been accepted as the most efficient rudiments for urban and regional economic strategies. China being one of those countries who has set an example for the growing economies for successful growth and took considerable amount of people out of poverty (estimated 800 million). Through the rapid industrialization, the economic giant-China has set an example for the rising economies how to transform, design and develop the economic zones. Rapid Industrialization in China was the result of the exclusive expansion of several ‘specialty cities’ with the small, medium and large productions units for the specific product in particular areas for contributing in millions annually. Now CPEC has entered into its robust second phase which comprises of industrialization and development of special economic zones empowered with railway networks, trade promotion and economic development. This study has used Cluster theory in order to investigate the systematic approach of China towards setting up clusters and subsequent development. The ongoing research is qualitative, descriptive and analytical in nature which suggests China is phenomenal in managing its city cluster policy which can provide a base to Pakistan to initiate its enriching plans.

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Introduction

Economic Clusters and Economic Growth

China initiated the reforms in its financial system in 1978. The rise in GDP has averaged nearly 10 percent a year which shows a significant growth and almost 850 million people are lifted out of poverty with this boom (Hutton, 2007). Currently, China is an upper middle-income class country and ranked second largest economy in the world after the United States (US). In order to establish itself as a developed state, two standards are required. First, improvement in business environment that built investor confidence; a key ingredient for rapid growth in economy through continuous rise in capital, state of the art infrastructure, and opportunities in creating good jobs. Second, by maintaining socio-economic balance between government and society are aligned in a way that people and businesses work together to achieve the greatest desired possible productivity. For the same purpose, China adopted gradual model of reforms.

This reform model was meant to introduce reforms at multiple level however gradually. The step-by-step model had a profound and rapid impact on China's financial improvement that transformed the country into an economic giant. By 2007, China emerged with a financial structure which was 9 times greater than the size of 1978. China ranked 4th after Germany, Japan and the United States. In just a short span of only thirty years, China has surprised the world and reached to such a level of maturity that it has the potential to project eminent powers and ultimately has positioned itself to transform the world order (Hutton, 2007).

In June 2020, China has emerged as a first major country to announce the return to of its economic boom following the outbreak of the COVID-19 pandemic. Foreign trade was at RMB 32.16 trillion (US\$4.96 trillion). Exports were seen a rise up of 4 percent while growth at 1.9 percent year-on-year basis. All this happen by the world-wide demand in medical supplies and China has successfully catches this opportunity with the huge exports of medical supplies and masks to the world which started the primary uptrend in April because China is the first country to be hit by the pandemic and they have been doing a lot since. In addition, constant wealth financing increased by 2.6 percent over the same time period (Huaxia, 2021). Now at the same time Chinese politicians are proactively recommending and emphasizing in structural reforms. Of course, these reforms are guided by the dual-circulation strategy, which refers to both a parallel emphasis on internal and global flows. Surely, when positioned, this indicates:

- Spurring China's home demand (via process advent, enhancing social protection and an increasing middle elegance)
- Growing and capturing situations to facilitate foreign direct investments and enhance local made export-orientated productions.

The internal circulation is also expected to boost China's technological-capacity, self-sufficiency and supply chain in food security, out of the government's key priorities outlined in the 14th Five-Twelve Month Plan (Wong, 2021). China's current economic growth, export led development, status of a largest trading nation is the upshot of its active economic strategy, primarily concentrated into economic cluster strategy. Cluster play a significant role in rural industrialization for many reasons including the rise in economic growth, triggering the industrialization in other neighboring region.

Prior to understand the details and success level of economic clusters of China, there is need to understand the thinking behind the formation of economic clusters particularly the strategic thinking. Back in 1950's in the lieu of directions fortified by Chairman Mao Zedong, China began clustering its national industries. It happened during the Cold War era when China feared that either the super-power United States or the super power Soviet Union of that time could attack Beijing and Shanghai, China's industrial centres, which would wipe out the nation's industry. Therefore, in order to avoid any kind of invasion or attack, it was thought to spread the industries all over the country. The legacy of this strategic thinking led to the current patterns of economic clusters in different regional locations (China Briefing, 2014).

Economic Clusters have also provided seeds that result into fruitful outcomes to explore initial stages of industrialization in East Asian states and few in European states as well. Primarily clusters are formed by accumulation of small Medium sized enterprises (SMEs) along with large enterprises. SMEs are the most suitable due to their labor intensive nature, for the economic growth of developing states for having low population density and labor ratios (Hayami, 1998). For the same reasons it is difficult to implement in growing states particularly during the initial stages of the cluster formations because of the lack of capital and poor technology enhancements.

Same happened in case of China, when there was not such an advanced technology, lack of capital, lack of formal education for owners and enterprisers and market competition were the vital features during the initial stages of industrialization traced back to 1970s (Hayami, 1998). Economic growth also led to rise in labor cost, in the late years, a profit drop was observed by the surveyors, and which was not due to competition within market rather due to rise in labor costs which induced firm to focus on quality control, design,

branding and International Office of Identification (ISOs) certification to climb to the value chain. It also led to tendency towards production specialization units.

The success of these clusters in China has been noted in several surveys. According to a survey, held by the National Science Foundation titled “Analyses of Dynamic Factors of Cluster Innovation: A Case Study of Chengdu Furniture Industrial Cluster” was conducted which concluded that an agglomeration of several companies in a single area help to promote innovation, flexibility, specialization and dissemination of new ideas (Rising Giants, 2009).

Looking in the background, origin and general notion of economic clusters, it has become clearer that in general and in China in particular, few things are identified as core which are:

- i. Drive economic growth smoothly,
- ii. Strengthen transportation rapidly,
- iii. Uninfluencing the arrival pattern of migrants.

Therefore, the primary aim of the research is as follow:

- For the planners to get a design for the future of developments.
- For the investors to find the accurate information of businesses and the hub for businesses.
- For the academicians due to significance of emergence of Cluster Theory.

Literature Review

China is one of the largest economies consuming half of the world's coal and steel and is the most influential power with its neighbours in terms of its investments in countries like Southeast Asia, South Asia, West Asia, Africa

and Latin America. Despite being an authoritarian communist regime, it has a tight grip on its economic growth and initiatives as explained by (Kroeber, 2016). However, Barry Naughton reviews the shifts of sources and historical background of modern Chinese economy from 1949 to 1978. And the overall economic transition from an agricultural economy to the industrial one, postulating every major and minor details with comparison of economic growth productivity and its impact on the wider economy in consideration with the role of science and technology (Naughton, 2007).

The concept of clustering is derived and obtained from Alfred Marshall when he developed this idea in his book *Principles of Economics*. His knowledge was later recognized in *Principles of Economics* in 1890, saying that if the dissemination of information and skills is facilitated by geographic proximity then organizing an industry into districts is an efficient compromise between increasing yields and represents flexibility (Marshall, 1890). The concept of Economic clusters was later developed by others with techno pole, innovative milieu, and industrial agglomeration however all were based in the idea of Alfred Marshall (Storper, 1998).

Guo (2011) provides a comprehensive overview of China's economy since 1949. His extensive and detailed research on China with operational mechanisms comparing the period before and after the reforms, covering all national, domestic and global dimensions with each positive and negative consequences. According to Donald (2008), China has taken a remarkable upward position both regionally and globally. For this, there are due to three main factors; First, its industrialization, urbanization and the expansion in megacities. Second, demographics. Third and last is its emergence as a fully integrated global economic player. Although still there are many factors which are easily availability in domestic work, rapid economic growth,

modernization in technology, steady support of government with professional approach, response to people and environmental degradation. These are the essential factors of China regarding its competitive vision. All is encouraged to cope with economic developments (Donald, 2008).

These adopted clusters have made crucial contributions to China's economic fulfilment. The special economic zones introduced primarily were the bench marks to successfully explore the targeted market economy and start-ups. Eventually, these role models have tickle effect and turned rest of the country into special economic zones having numerous industrial clusters with growth in exports, rising strength in employment and attracting foreign direct investments are the main contributors that shows significance rise in gross domestic product which is a true indicator of country's overall growth (Imam et al., 2023).

Projected since 2000, China's long-time period for boosting incomes, lowering inequality and protecting the surroundings has revived the harmonious progression of innovation and urbanization. China hopes to create more experienced and efficient city clusters populated through an increasing number of knowledgeable workers who can endeavour in sustainable way (Sheng & Geng, 2018).

Conceptual Framework

An economic cluster is mostly the concentration of particular kind of business in a geographic proximity well interconnected with other businesses, suppliers and relevant bodies. Economic Clusters are consisted of two or more cities as the center that business along with few neighbouring cities connected with a web of transportation. Currently, it has been verified through the multiple examples that rapid and robust economic growth often requires an outsized talent along with intensive amount of capital, specialized production

units within a single geographical region. This ongoing trend is not the new rather already in practice. In United States (US) success stories of individual entrepreneurs and industries are commonly known. For instance, clusters are ranged from Wall Street to Madison Avenue to Silicon Valley.

Marshall (1920) made a comparison of the commercial paybacks coming out of profitable division of a localized framework of the small and medium measured firms and inside a single huge firm which he given the title of 'industrial district'. He further examined, compared and concluded that 'co-location' of few small companies of a specific industry might create focal points more than the agglomeration of different exercises inside a single company. Marshall (1920) outlined that the agglomeration economies rise from:

- Knowledge and technology spill overs.
- Specialization and department of labour amongst companies; and
- Labor pooling.

Phases of Chinese Economy

1. Traditional Economy (1127-1911)

Over whelming rural with 90% population living in countryside, dependent on human labor, and small plots of labor, not modern science or hi tech rather was based on trial and error. A traditional model of agricultural technology consisted of three elements:

- Selective seed varieties (Hybrid)
- Organic fertilizer and unharmlful pesticides
- Proper irrigation system

Despite enormous potential Chinese traditional economy, it faced ‘a high equilibrium trap’ due to few depressing challenges including population burden, ecological exhaustion and the disruptive institutional support initially. Later on, dynastic decline and insufficiency of key productive tools. Ecological depletion of sources deprived the economy with readily available materials such as metal and wood, leading to more serious environmental problems and thus turned into natural disasters. Government was unable to respond the external challenges and even unable to maintain its basic functions.

2. Beginning of Industrialization (1912-1937)

According to Naughton (2007) with the collapse of Qing dynasty and 1911 revolution; China now entered into new phase of political and economic change. Modern industrial development had started. During this era, there were two patterns of Industrialization; one in China Proper and other in Manchuria. It led to two trends of businesses within China depicted in the table 1 below:

Table 1: Two patterns of Industrialization: China Proper and Manchuria

Trend	China Proper	Manchuria
Market:	Domestic China	Japanese industry
Ownership:	Both Chinese and foreign	Foreign only
Structure:	Light, consumer goods	Heavy, producer goods, mining
kill formation:	Steady accumulation	Little transfer of skills
Linkages:	Backward	Fewer or None

3. Socialist or Big Push Industrialization (1949-1978)

Chinese pre 1949 experiences; opium war, anti-Japanese sentiments made them suspicious of western institutions and optimistic world view. It led

them to adopt smooth application of closed-door socialist development strategies. Thus, wartime changes led Chinese communist government in execution of socialist industrialized strategies. These socialist strategies were followed between 1949 to 1978 which turned it back to vitality on traditional economy. All this led to give the mandate to new government to take a fresh start for new developments.

4. The Post 1978 Market Economy

As China focused towards the market economy by opening the boundaries across the world, its awareness and indulgence with the traditional household based economic system provided a robust potential attract to adopt new opportunities. Most importantly, all the small household businesses sprang up throughout the China directly into the rubric of ‘Township and Village Enterprises’ which were neglected under socialism. Special Economic Zones (SEZs) were established as quick jump start which contributed to dual track and later on became the defining feature of Chinese institutional transformation (Naughton, 2007).

Budding Trend of Cluster Cities in China

During 1950s, China started to make clusters of its national industries in lieu of directives from Chairman Mao Zedong. It happened during the cold war era, when China feared that either United States or Soviet Union could attack on Beijing and Shanghai; the industrial hubs of China which would wipe out the nation’s industry. So, in order to avoid any kind of invasion or attack it was thought to spread the industries across the country. The legacy of that strategic thinking led to the current patterns of economic clusters in different regional locations (China Briefing, 2014).

Cluster play a significant role in rural industrialization for many reasons including the rise in economic growth, triggering the industrialization

in other neighboring region. Moreover, it has provided seeds that leads to early stages of industrialization in East Asian state and few European states as well. (Hayami, 1998) Initially clusters are formed by accumulation of Small, Medium Sizes (SMEs) along with large enterprises, SMEs are the most suitable due to their labor intensive nature, for the economic growth of developing states for having low population density and labor ratios (Hayami, 1998).

For the same reasons it is difficult as well in growing states particularly during the initial stages of the cluster formations due to lack of capital and poor technology. Same happened in case of China, when there was not such an advanced technology, lack of capital, lack of formal education for owners and enterprisers and market competition were the vital features during the initial stages of industrialization traced back to 1970s (Lin, 2003). Economic growth also led to rise in labor cost, in the late years, a profit drop was observed by the surveyors, and which was not due to competition within market rather due to rise in labor costs which induced firm to focus on quality control, design, branding and International Office of Identification (ISOs) certification to climb to the value chain. It also led to tendency towards production specialization units.

Accomplished Lessons (Success of SEZs Cluster cities)

Few special incentives have been granted to the SEZs, such as special tax privileges for foreign investment in the SEZs. Central government gives tremendous independent support in international trading activities though, they were allowed to make direct arrangements with foreign investors on their own.

For this purpose, four SEZs were established in 1980 viz; Zhuhai (Guangdong), Shenzhen (Guangdong), Shantou (Guangdong), Xiamen (Fujian). Later on, Hainan and Shanghai were also given special status which can be seen in the map depicted in Figure 1:

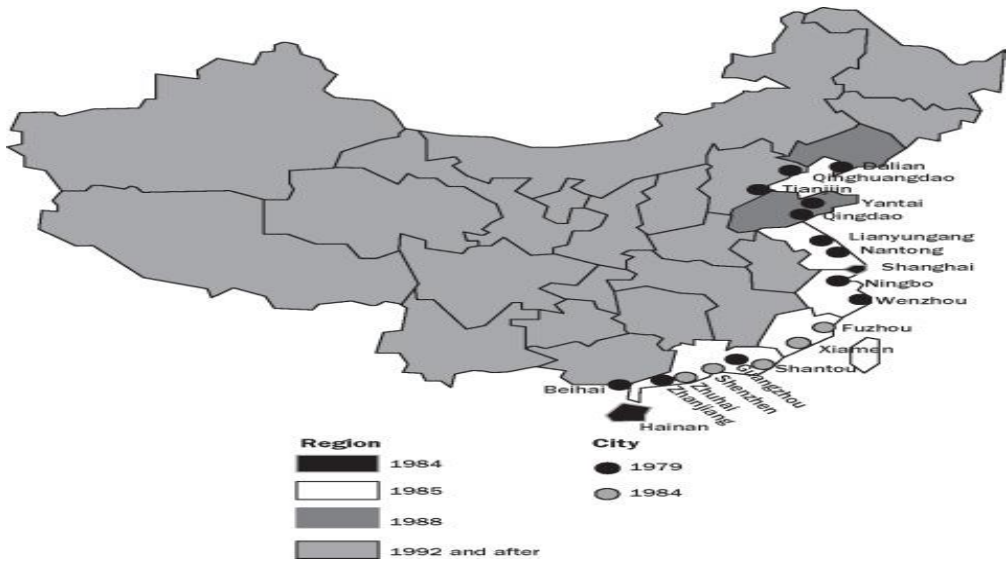


Figure 1: *Special Economic Zones (SEZs)* (Roos et al., 2010)

By 1984, confirming the early success of SEZs, China further opened up its economy by extending similar favourable policies to 14 open coastal cities. The importance of certain economic clusters was recognized in 1985 and on these footings further special economic zone status was extended to three more; the Yangtze River Delta, Pearl River Delta and Xiamen-Zhangzhou-Quanzhou Triangle (Min River Delta). This triggered the developments to facilitate activities in the field of infrastructures necessarily in modern port and container port which were key essentials for the support of export-oriented based strategy. This also created additional space for the settlement of commercial areas.

Four Principles of SEZs

These four were basic fundamentals and main driving forces for the special economic zones:

- 1) Construction was mainly based on the attraction and utilization of foreign investment.
- 2) Primary economic activities were Sino-foreign joint ventures and partnerships by the fully foreign-owned enterprises.
- 3) Economic activities were solely market-driven.
- 4) Products were mainly export-oriented.

Future Clustering: Developed Cities with Less-Developed Cities

Diverse clusters with the combination of more-developed centres and less-developed peripheral cities will help China's policy of meritocratic reforms and standard quality growth. Through proper implementation of clustering, sources could be reallocated to larger cities into smaller cities. This shift turned the table for smaller cities which tend to transform in the advanced stages of industrialization to exert the value chain and move away from highly polluting industries. Whatever and wherever needed by the world China has now become the world's factory of products but with uneven growth and less development among cities has motivated China to focus more on clustering with the core of one and two cities along with other cities with excellent transport links to concentrate facilities. So, China has a broader purpose of connecting developed cities with less developed cities. The main purpose of the whole activity is the integration of less developed clusters of peripheral cities with more developed hubs for further growth and development. The whole process happens through: supply-side reform policies and quality growth.

Clustering redistributes resources from larger cities to smaller cities, allowing the small cities to kick-start the early stages of industrialization. Meanwhile, larger cities will come forward and enhance further the value chain system by focusing more on innovative approaches to achieve the desired goals define and laid down in “Made in China 2025” vision for industrial strategy.

In addition to the existing city clusters; China is in process of developing 19 economic clusters as depicted in Figure 2. These economic clusters are divided into three categories; super clusters, emerging clusters and frontier clusters. Each cluster is based on more than 100 cities including provinces, countries and prefectures.

Frontier Strategy Group (FSG) has aligned the clusters' definitions with the government's plans. Of the 19 clusters, 3 super clusters have been targeted to become world-class economic zones. An additional 8 clusters are called emerging clusters, each composing as much as 3–9% of total GDP in 2013. The government aims to turn these clusters into national zones as key pillars of the Chinese economy. The remaining 8 frontier clusters are included in government's 2020 cluster master plan but haven't yet taken shape, each with equal to or less than 2% of total GDP. Apart from the well-known super clusters, 8 emerging clusters have already or will feature prominently in the national urbanization process. Among them, FSG has highlighted the Yangtze Mid-River cluster and the Chengdu-Chongqing cluster because we believe they are poised to be the upcoming super clusters.

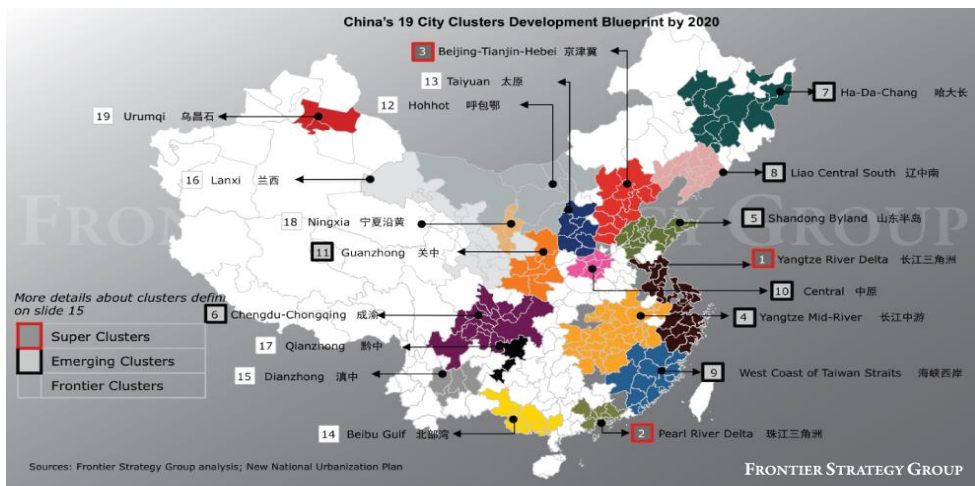


Figure 2: Frontier Strategy Group Source: Frontier Strategy Report (2019)

China Pakistan Economic Corridor (CPEC)

Pakistan due to its geostrategic locations has always been significant for its land lock neighbours. Global power rivalry and for other global issues like war on terror lasts till decades highlights the importance of Pakistan's role is emerging as the epicentre of mega economic activities specifically for Belt and Road Initiative taken under CPEC. CPEC is a framework for developing regional connectivity and collection for multiple infrastructure projects, including rail, road, power and communications. As depicted in Figure 3, it is a massive \$62 billion plan that originally started from \$47 billion in 2013. The \$62 billion CPEC is a huge bilateral project which consisted of numerous projects including upgradation of roads, expansion in railways and to end energy crisis projects linking China's resource-rich province of Xinjiang to Pakistan's strategic Arabian Sea port of Gwadar.

According to Mehmood (2019) Yao Jing reported that only \$18.9 or \$19 billion has been used so far out of \$62 billion. Yao explained that around \$13 billion is lent from commercial banks of China while rest \$6 billion is taken as loans from banks. For this purpose, a return of payments mechanism has been sorted in the regard that Chinese energy companies will return the loan from sale of electricity being produced and its return payment will be started soon in 2024.

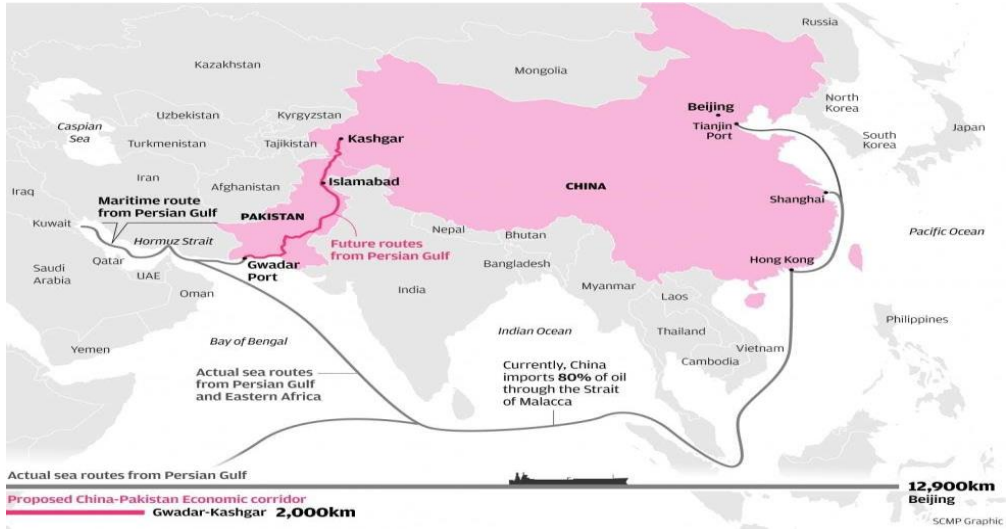


Figure 3: Proposed China-Pakistan Economic Corridor Source: Zahid (2020)

Commenting on development made so far inside the challenge, Siddiqui (2020) stated that nine tasks have already been finished, generating 5,320MW electricity with the funding of \$7.9 billion. The strength producing initiatives, he stated, have furnished jobs to 5,000 Pakistani citizens. The CPEC chairman brought those eight greater comparable initiatives are being built to generate 4,470MW strength with an investment of another \$9.55 billion and might offer employment to over 15,000 Pakistani. The projects which include roads and railways from Gwadar in Pakistan to Xinjiang in China will cut quick Beijing's alternate routes with the area via sea approximately by 12,000 miles. This would save China's billions of dollars in alternate with the sector.

It would counter the balance of fee problems (making payment for imports and overseas debt repayments on time) in destiny. The income to be generated through toll series could also play an important function in paying off the debt to China. Pakistani officers expected that CPEC will enable the surroundings to create estimated 2.3 million jobs during the span of 2015 to 2030. It has also been learnt that CPEC upload 2.0-2.5% points to the United

States' annual economic (GDP) growth. CPEC is the wish of a higher area in the destiny with peace, development and increase of the economy the CPEC Authority said (Siddiqui, 2020).

Chinese President Xi Jinping in an official message on CPEC said, “We need to strengthen our shared hobbies and reap common improvement. We have to use the China-Pakistan monetary hall (CPEC) to pressure our sensible cooperation with attention on Gwadar port, power, infrastructure development and business cooperation in order that the culmination of its development will attain each; the humans in Pakistan and the humans of other countries in our location...allow us to paintings together to create an excellent brighter future for China and Pakistan”. The CPEC projects in Pakistan are divided into 3 stages. Pakistan has already set up early harvesting tasks like energy production flora under section-I by using 2020. It would broaden medium-term initiatives under section-II with the help of 2025 and long-term tasks under phase-III via 2030 (Siddiqui, 2020).

Second Phase of CPEC: Industrialization

Currently, CPEC has entered into its phase II with rapid pace and this is advanced phase of connectivity plan that consisted of establishment of special-economic and various-industrial zones in different regions along with the transit routes.

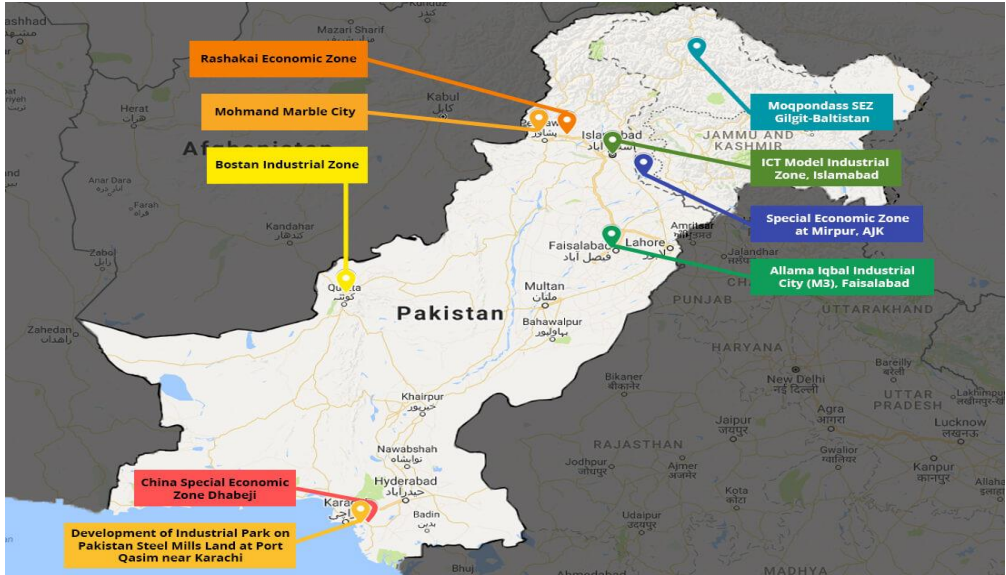


Figure 4: Transit Routes of Pakistan’s Industrial Zones Source: Industrial Economic Zone (2020)

For this purpose, as depicted in Figure 4, four places have been identified for industrialization. Initially, these four prioritized zones under CPEC includes: Information, Communications and Technology Model Industrial Zone (Islamabad), Allama Iqbal Industrial City (Punjab), Rashakai Economic Zone (KP) and Dhabaji Special Economic Zone (Sindh); are declared as CPEC Special Economic Zones (SEZs) and were short-listed for bilateral industrial cooperation

1. Information, Communications and Technology (ICT) Model Industrial Zone (Islamabad):

Model ICT zone is located in the heart of Pakistan capital metropolis of Islamabad spanning over the area of 200 -500 acres. The zone has the benefit of being lying in the well-established capital related to developed road infrastructures, carrier logistics and alternative routes such as railways, airport and highways to reach destinations with availability of water, zero electricity

shortages, proper drainage and vast transportation structures will ensure to hit successful businesses in ICT model industrial zone. The investments in ICT zone are mainly cantered on high-tech enterprises, IT and associated sectors. Following industries are maximum suitable to be established in version ICT zone:

- IT & related industries
- Metal
- Meals processing
- Pharmaceutical & chemical compounds
- Printing and packaging
- Mild manufacturing

2. Allama Iqbal Industrial City (AIIC)

AIIC, having a capacity of 3217 acres land, is the most important of SEZs in terms of area allocation. The Allama Iqbal Special Economic Zone has the advantage of being adjacent to the M3 industrial city which includes a variety of tasks including fabrics, pharmaceuticals, record technology, chemical automobiles, service complexes etc. Land has been purchased for AIIC and production works are under development until November 2019. Provisioning of utilities in Allama Iqbal Special Economic Zone can be gradually completed to be protected in 2020, 2021 and 2022. Faisalabad Industrial Estate & Management Company (FIEDMC) is proclaimed to be the development authority of Allama Iqbal SEZ. A number of national and international organizations have expressed their interest in launching business within the AIIC mainly due to corporate interests. The SEZ has excellent remarkable opportunities to attract and cater foreign direct investment (FDI) to create jobs and contribute towards exports.

3. Rashakai Special Economic Zone (REZ)

REZ near motorway M-1 Nowshera city, is ready to be installed in Khyber Pakhtunkhwa (KP) province. Having the capacity of 1000-hectare allotted land; REZ can be developed in three phases. The total proposed area for commercial development is 702 acres. This is in compliance with federal SEZA guidelines. Out of these 702 acres, 159 acres is reserved for development in Phase- I. Similarly, 279 acres is reserved for development in Phase-II and finally the remaining 264 acres for the last Phase-III. An area of 76 hectares is earmarked for commercial use purpose. An access road of 3.2 km long from the Wali Interchange to SEZ Zero is located for connectivity below production in Phase-I. In addition, REZ is joint across all provinces of Pakistan via both airport and dry port facility at a distance of 65 km from REZ. Railway station at 25 km. Toll Road at 5 km. City centre at 15km. The currency zone has a strength to generate wealth in nearby associated districts and the resource pool offers considerable financing opportunities for industries such as fruit and flour processing/packaging as well as textile industry. The following business clusters are proposed/planned in this zone.

- Garment and fabric related products
- Home building materials for construction
- common commodities availability
- Electronics and household electrical appliances distributions
- Vehicles production and mechanical upgradation systems

This is one of the core areas to be set up with these industries having the aim of socio-economic development to promote economic growth and trade, to reduce poverty and reduce unemployment by providing equal employment opportunities

4. Dhabeji Special Economic Zone (DSEZ)

Sindh government and authorities have shown keen interest and creates special initiatives by allocating a remarkable 1530 acres of land to set up the Dhabeji Special Economic Zone (DSEZ) in Thatta. Being a backward area and to provide basic facilities like utilities e.g., energy and gas to the area may be available in Dhabeji SEZ in 2021 or 2022. The improvements of Dhabeji's SEZ is worked out in three levels. Dhabeji has secure location advantages such as smooth access to Port Qasim which allows the smoother import of uncooked fabrics and at the same export of finished items without incurring basic inland transportation costs as a proven edge results in better time saving management. Similarly, on the other hand, Karachi Airport distance 35 km via the National Highway enabling fast traveling of foreign employees and management staff. This route of National Highway enables the transportation of goods to inland and to the Central Asian countries by using the National Trade Corridor. With the help of improved infrastructures of today's modern needs and an aid of financial incentive packages, DSEZ has the potential to develop into an expatriate enclave. The Sindh Monetary Zones Management Organization (SEZMC) under the Government of Sindh worked as a provincial corporation to expand and manipulate Dhabeji SEZ. The following mentioned clusters/zones are proposed/planned for business to be included in DSEZ.

- Steel forging foundries
- Automotive industry & vehicle spare parts
- Chemical industry & prescription drugs productions
- Patron electronics manufacturing and engineering
- Fabric industry & garments designing
- Warehousing facilities

- Building block fabrics
- FMC

Chinese companies are providing a greater opportunity of economic growth and interconnecting by relocating Chinese industries into Pakistan. Along with economic development through establishment of these industries, agricultural development and establishment of tourism industries are taken as key industries in second phase of CPEC. While entering into the second phase would only be fruitful if Pakistan would be prepared to reap the potential benefits.

Historical Background of SEZs in Pakistan

Over the last 3 decades, there has been an enormous growth seen in SEZs as reported by the International Labor Organization (ILO) (2010). For instance, by the year 1986 there were only 176 Special Economic Zones operating in 47 countries. The robustness in growth made SEZs to achieve and reached the level of 3500 in no time and now operating in 130 countries by the year 2006. This figure is a proven fact of SEZs growth. Throughout 1960s, Pakistan witnessed import industrialization but country has adopted this phenomenon and later in 1980s shifted its attention to export-oriented industrialization. For this purpose, the first SEZ was established in Karachi in 1983 and by the year 2005, Pakistan had seven its own practical SEZs operating at different locations throughout the country. But, even after 35 years' time span, these SEZs contribution in terms of exports growth is diminishing and lesser employment opportunities has been witnessed. These SEZs employed just only 35,000 of local labours and contributed below 3% of the country's total exports by 2017 (Farole, 2010).

On the other hand, Bangladesh as compared to Pakistan developed eight zones which attracted 412 companies and employed 350,000 of human capital along with investments of US\$2.6 billion (Zeng, 2019). Subsequently, with tremendous efforts and encouragements, Pakistan successfully gains the confidence in attracting some interest from its local investors who come forward and made lucrative investments at their own in the country and set diversified business in the field of surgical goods zone in Sialkot, a clothing production zone in Faisalabad, a ceramics and pottery trade zone in Gujarat. A marble and leather base to set up industrial clusters in Khyber Pakhtunkhwa. Each district headquarters of Pakistan has a trading company, some of them are successful while most of them are unsuccessful because they were established in a remote area where there is a skilled work force and essential infrastructure.

Imperatives for Industrialization

Structural reforms as mode of development takes transition from agriculture to manufacturing while later upgraded into deindustrialization modes of production and development takes its shift from manufacturing to services. There is a growing trend in developing states that they are facing ‘premature deindustrialization’ as without going through the fully process of industrialization and post industrialization (Rodrik, 2016). Initially by engaging into simple labour-based activities and later on moving forward stepping onto Industrial ladder. There are two main factors for this trend in developing countries not exactly in all the developing countries however in few parts.

- Increased technological development
- Interconnected global trade

Pakistan is a developing state, so it can be trapped in the same trap so what needed, is a high level of preparedness with few prerequisites in order to grab the Chinese labour-intensive manufacturing industries in wake of rising labor cost in China.

- Developmental orientation
- Communication with business
- Administrative capacity

Along with these Pakistan should also work on vertical and horizontal policies. What are the vertical policies, vertical policies are designed to benefit specific sectors, subsectors, firms? Vertical policies two sets of criteria, one is designed for public while other is designed for market. Design for public includes public inputs like bespoke infrastructure which permits an organization to innovate and maintain the culmination of any findings to itself that can provide it with tactical or maybe strategic blessings over the opposition.

While for market policies are designed for tax exemptions, targeted FDI attraction, and import tariffs. While horizontal policies are designed to benefit vast range of manufacturers across the economy. Horizontal policies also include public inputs and business interventions. Public inputs include electricity generation, competition policy and higher education while market strategies include business climate reform, Rand development subsidies and Tax breaks for FDI. Developing nations' economies are characterized by way of a huge dispersion in productivity stages, and occasional degrees of average competencies, as measured through the best of management practices. The function of industrial coverage is to simultaneously help enhance the competencies of the maximum promising firms and permit resources to waft

to the quickest-developing sectors of financial system. Employment, poverty eradication and connectivity are three targeted objectives of Socio-Economic growth. Moreover, human capital and rural connectivity are two major types of developments which contribute to overall growth of a state.

In the case of poverty alleviation, Pakistan already has economic clusters focused on specific areas such as textiles in Faisalabad, electronics in Gujranwala, sporting goods in Sialkot. According to a study, in terms of poverty, there are few districts affected by poverty like 23 out of 56 in Baluchistan, 11 in Sindh, 8 in KP and 2 in Punjab province. This indicates that rural districts predominantly and districts with small chunks of population have highest prevalence level of poverty. In addition, rural and densely populated districts in southern Punjab and inland Sindh have excessive incidences of poverty. It is learnt in the assessment that at most densely populated urban districts with higher levels of industrialization in the north of Punjab, the federal capital, the adjacent districts of KP and the primary urban centres in all provinces are least terrible.

There are obvious motives for adopting resource growth and industrialization as a source of poverty rebates. Businesses are believed to offer strong jobs with noticeably higher wages and better opportunities in growth for a future income boom that puts an end in poverty alleviation. This directional correlation must be enthusiastically cautioned and monitored in the context of developing countries. The boom in business in growing nations do not usually guarantee a poverty alleviation deal as most of them are small in size, work in informal zones, pay low wages to labours and regularly offer jobs that are not robust in nature. With the help of useful resources and combining the latest work trends, the link between trading companies and poverty clusters in Pakistan can be further strengthened. Understanding the importance, strengths

and weaknesses of economic clusters is crucial for Pakistan as a growing country in the pre-industrial phase. Basically, studying Chinese business clusters is vital for the following reasons:

- For the planners to get a design for the future of developments.
- For the investors to find the accurate information of businesses and the hub for businesses.
- Due to significance of emergence of Cluster Theory for the academicians.

Impediments for SEZs:

- Law enforcement, peace and stability challenges
- Political uncertainty
- Poor security measures
- Inadequate and poor infrastructures
- Electricity, energy and power failures
- Non-compliance to professional standards
- SEZs lack a route and unique goal achievements (Mukhtar et al., 2013)

Many sections of the government aren't taking active participation into organizing enterprise or the specifications for the industries. Besides, the nature on enterprise isn't always bothered rather policy makers are just fascinated to populate it rather than supplying incentives provided to the industry. There it touches the area of interest being governed by activities in a value chain system which could help in return of values to be a part of the global value chain. The impact of such incentives might be two sided; first of all, it has a direct impact on a local industry in becoming self-sufficient, and product may be available at cheap price to the consumer especially locals. Secondly, the imports for the same product will be reduced as it is locally

available and hence it will greatly help in reduction of trade deficit in that country and strengthen the currency value of the country.

Prerequisites for Success

Synchronized Policy

Synchronizing SEZ strategy with the more extensive improvement plan permits SEZ connects to be kept up with the remainder of the economy and guarantees SEZ achievement. Explicit sectoral strategies, like those for framework and utilities, should likewise be lucid with SEZ strategy. Issues with correlative foundation, prohibitive visa strategy and information supply can influence the general exhibition of the SEZ. Sometimes, separates among SEZs and the more extensive monetary framework have prompted disappointment. An organized improvement strategy can likewise recognize explicit market inadequacies that SEZs can address. SEZ strategy, alongside a scope of other arrangement instruments, can then be equipped towards taking care of a particular issue. This sort of far-reaching approach upholds a definitive motivation behind modern advancement as opposed to zeroing in on SEZs which are just an accessible instrument). As currently referenced, the way in to the SEZ's prosperity is the nation's intensity and speculation climate. This suggests that economies with over-the-top usefulness and a sensible business environment are probably going to accomplish the foundation of SEZs and highlights the significance of measures to further develop the overall business climate.

Labor Supply

Nonetheless, regardless of the general overflow of work in developing nations, some SEZs have issues drawing in and holding representatives, especially in metropolitan regions. SEZs in Malaysia and Mauritius, for instance, confronted work deficiencies and needed to import work from

abroad. In any case, urbanization impacts can expand the work supply through developing populace densities. Holding the labor force requires advancing the work circumstance, giving delicate capabilities, and laying out compelling HR and administrative designs. The unnecessary thickness of organizations and labourers in SEZs can prompt extreme contest or potentially struggle, which requires an efficient method of compromise. This is all things considered general by all parties without even a trace of agreements. Organizations that could possibly arrange clashes really do incredibly well in zones. Laying out compelling staffing and oversight structures at the zone level can work with this.

Infrastructure

However, despite the fact, there is comparative abundance of labor in developing countries, even then, some SEZs have problems attracting and keeping the employees, especially in urban areas. As it experienced in SEZs in the countries like Malaysia and Mauritius, as they had to import labor from overseas. However, urbanization effects can increase the labor supply through growing population densities. Retaining the workforce requires improving the work situation, providing tender qualifications, and establishing effective human resources and supervisory structures. The excessive density of companies and workers in SEZs can lead to excessive competition or possibly conflict, which requires a systematic way of conflict resolution. This is collectively general by all parties in the absence of contracts. Companies that might be able to negotiate conflicts do extremely well in zones. Establishing effective staffing and oversight structures at the zone level can facilitate this.

Trade logistics and facilitation

Efficient processes that facilitate trading are crucial to the success of SEZ. The most frequently mentioned tools are tariff incentives, but the tactics and controls that determine the efficient flow of goods are also crucial. These consist of logistics, trading infrastructure, and regulatory and commercial procedures. Overhauling trading systems to ensure certain efficient processing of commodities may be required in many growing countries to allow SEZ companies to trade commodities cost-effectively and on time, and consequently compete in global markets. Unfortunately, the impact of trade facilitation on SEZs has not often been studied in particular, it is very doubtful whether higher trade logistics led to better value creation of foreign direct investment in developing countries and consequently to higher net exports. Although it is miles smooth that strengthening institutions to incentivize SEZs is more of a challenge than providing monetary and infrastructural incentives, as it requires improvements in human capital and regulatory frameworks, among other things (Gebrewolde, 2019).

- Additional requirements as in line with state policy.
- Put together a Human resource development plan to train the land losers / nearby human beings and offer them employment possibilities.
- Provide a minimal 80% task to nearby people on general basis.
- Anywhere there is a scope for supplier improvement, devices must prepare a supplier development Plan and offer Entrepreneurship improvement schooling to the local parents and facilitate putting in of carrier / production supplier firms.

- Services created by way of SEZ units within the non-processing region of the SEZ like schools, faculties, hospitals and so on must be available to indigenous people.

Conclusion

The experimented economic clusters have made significant contributions to China's economic growth and people's well-being. The special economic zones have also played a vital role in bringing emerging technologies and adopting modern management practices that turned the table for China. Pakistan, China's all-weather ally has additionally raised unique forces to defend infrastructure projects in addition to Chinese nationals operating on CPEC-linked ventures. It has been divided into multiple phases including the immediately needed short term, medium term and long-term plans. CPEC's first phase was routing out the infrastructural hinderances and other relevant problems which can complicate the launching of medium-term and long-term plans. Therefore, during the first phase; the early harvest energy shortage, connectivity incapability and intra- province infrastructural were strengthen and built which will continue onwards in context of mass transit. Currently CPEC has entered into its ongoing second phase that consisted of industrialization. Special economic zones are created along with railway networks, trade promotion and economic development.

During Second phase Pakistan needs to focus on multiple fronts for reforms in order to start its industrialization and in order to not start the 'premature deindustrialization'. For a fruitful industrialization Pakistan is in need of an intensive plan of developmental orientation, communication with business and administrative capacity. Meanwhile Pakistan is in need to work on vertical and horizontal policies simultaneously to achieve the higher

developmental goals of promotion of economic growth, acceleration of trade, reduction of poverty and reduction of unemployment.

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