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USAID/PAKISTAN: TRADE SWOT ANALYSIS: EXPORT PROCESSING ZONE RISALPUR

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CONTENT

CONTENT	I
ACRONYMS	II
INTRODUCTION	3
EXPORT PROCESSING ZONE (EPZ) RISALPUR	4
1. LOCATION	4
2. EXISTING INFRASTRUCTURE.....	4
3. LAND USE AND AVAILABILITY	4
4. NATURE OF ECONOMIC ACTIVITY IN RISALPUR.....	5
5. MANAGEMENT AND GOVERNANCE.....	5
6. SECURITY SITUATION.....	5
STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)	6
CONCLUSION	7

ACRONYMS

EPZs	Export Processing Zones
FDI	Foreign Direct Investment
NWFP	North Western Frontier Province
PTP	Pakistan Trade Project
SDA	Sarhad Development Authority
SEZ	Special Economic Zone
USAID	United States Agency For International Development

INTRODUCTION

Special Economic Zones (including Industrial Estates, Export Processing Zones) world-wide account for an increasing share of international trade flows and employ growing number of workers world-wide. In the global economy, SEZs are acknowledged to be by a significant tool to increased foreign exchange earnings, employment generation, enhanced workforce capital and an attractor of foreign direct investment (FDI) inflows. Research on the impact of effective SEZs also suggests significant indirect economic benefits: indirect employment generation, investment, skill and technology spillovers.

Pakistan understood the potential of economic zones for regional development and industrialization as early as 1947 when it set up its first industrial estate. Since then the Government of Pakistan has established several industrial estates in every province in the country. Until recently, Industrial estates have been a public sector endeavor in Pakistan and have yet to unleash the potential economic and social benefits that more successful models across the world have demonstrated.

The USAID Pakistan Trade Project (PTP) is a four year project (2009-2013) designed to focus and harness the power of international trade as an engine for sustainable economic growth and stability in Pakistan. Through targeted technical assistance, this USAID-funded program supports the Government of Pakistan and private sector stakeholders to improve the trade environment through effective trade policy implementation; enhanced capacity, procedures and systems of Pakistan's institutions to increase regional trade, especially through across Pakistan's borders; and building the capacity of Pakistan's private and public sector institutions to develop and manage sustainable and competitive special economic zones.

Successful enhancement of some of the existing industrial estates could potentially harness the natural sources of competitiveness of some of the least developed yet potentially strategic areas in the northern and western borders of Pakistan.

This paper explores the ability for the PTP to provide assistance to the Export Processing Zone (EPZ) in Risalpur, located in the North West Frontier Province (NWFP). After initial discussions, site visits and contact, the PTP believes there may be a synergistic opportunity to be explored for creating an enabling business environment in and around the Risalpur EPZ if not directly through it.

This SWOT analysis of the EPZ Risalpur is one of a series of such analysis conducted of industrial estates in the northern and western regions of Pakistan. The series of analysis will be used to prioritize the existing industrial estates in the targeted region to initiate the rehabilitation of the selected industrial estates for maximum economic and development impact.

EXPORT PROCESSING ZONE (EPZ) RISALPUR

The EPZ Risalpur is one of the eight economic zones in Baluchistan. The PTP Trade team visited the location as part of its due diligence visit to Risalpur in February 2010.

1. LOCATION

Located conveniently within easy access of the M1 motorway close to the Punjab/NWFP border, EPZ Risalpur is about 50 kilometers from the city of Peshawar. Its proximity to Islamabad also puts it at a strategic location between the two cities.

2. EXISTING INFRASTRUCTURE

The quality of the existing infrastructure is satisfactory and internal roads have been constructed according to the Master Plan. There is a water supply in the form of two tube wells and two 50,000 gallon Overhead Reservoirs (OHR). The quality of the water is poor, and not fit for human consumption. Sweet water is available from the Kabul River, about 1.5km from the site.

No underground sewerage system or waste water treatment plant is available. As these are essential elements in any modern industrial park, it is unclear how the master plan was conceived and approved in lieu of these elements. In addition, open sewers act as sewers. This is also a totally unacceptable practice, and needs to be rectified if assistance and expansion are anticipated.

The source of electricity is from the 132KV grid station at Bara Banda, which is 1.5km from the site. The electric power link is through an 11KV electric line. More investigation would be required to learn more about their efficiency and up-time. The gas is believed to be supplied through an underground gas pipeline from the main source.

Other facilities available on site are the Sarhad Development Authority (SDA) office; a dispensary; Post Office and Customs Office. All are in relatively poor shape, and would be included in any rehabilitation plan at the site.

Entry and exit to the site are through the main gate, and as such, security is able to be controlled. The overall security of the area is considered to be stable. There is a boundary wall around the EPZ which also assists as a security perimeter. The M1 motorway is within easy reach of the site, as well as a rail link.

3. LAND USE AND AVAILABILITY

As mentioned, the Master Plan needs to be revisited, and the concept of integrated land use management explored with elements to be redesigned and upgraded. Most of the site is vacant, and the possibility of 'filling in' the vacant plots makes this a strong candidate for assistance. The underutilization of the site may be considered an opportunity as rehabilitation is considered. There is an opportunity to work with key stakeholders to review the Master Plan to include: banks, commercial services, Internet communications, training centers, child care facilities, truck and trailer parking zones.

4. NATURE OF ECONOMIC ACTIVITY IN RISALPUR

At the time of this report, only 4 units were under operation, including a plastic bag company, computer assembly, paper printing and packaging, and a ceramic factory. From the total plot number of 137, ten were allotted, four developed, and seven closed. It is unclear to what extent the allotted plots are to be developed and the timelines of those proposed developments. The SDA management commented that no industry targeting and segmenting takes place in any coordinated way. It is also understood that minimal interaction with any government-led trade attraction programs occurs.

5. MANAGEMENT AND GOVERNANCE

EPZ Risalpur is owned, managed and governed by the public sector. The Sarhad Development Authority (SDA) controls the management of the estate, but has no capacity to design infrastructure. The Board of Directors includes these two entities. The operational budget of the zone is as follows:

1. 150,000 Rp per month – SDA budget to pay salaries, maintenance and utilities
2. 200,000 – 250,000 Rp – EPZA budget to pay salaries and for security services

6. SECURITY SITUATION

As mentioned, the security of the site is stable. Compared to other sites under investigation, this site has a major advantage. Due to this, security costs would not be as much a burden on the operating budget for the site.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

The strengths, weaknesses, opportunities and threats (SWOT) with respect to EPZ Risalpur are summarized below.

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Proximity to significant rail and motorway infrastructure 2. Sufficient cheap land available for use and expansion 3. Good quality water available at 1.5km 4. Secure site 5. Good source of labor in the region 	<ol style="list-style-type: none"> 1. Core labor standards have not been observed 2. Absence of an autonomous management / development or governance body thus access to funds for development and maintenance is difficult 3. Waste water treatment plant not present; constant and reliable power is not available 4. Lack of financial resources at the disposal of the management authority (SDA)
Opportunities	Threats
<ol style="list-style-type: none"> 1. Co-location with Greenfield site – Marble City (PASDEC) 2. Access to finance and capitalization of firms due to strong interest in the area recently 3. Ability to work with other estates in close proximity to lobby for public and private investor interest and new sources of funds and partnerships 4. Ability to work with key stakeholders to review master plan to include: banks, commercial services, Internet communications, training centers, child care facilities, truck and trailer parking zones 	<ol style="list-style-type: none"> 1. Other Greenfield sites develop well in the short term, and EPZ Risalpur stays in a ‘holding pattern’ and fails to capitalize on new opportunities 2. No internal coordination leads to ‘missed opportunities’ in Risalpur as footloose capital is diverted to other zones 3. Capital flows are misdirected and skilled labor chooses other locations to search for work 4. Strategic planning is poor, and no ‘unique’ story is created or pitched 5. Lack of ideas leads to continued ‘underutilization’ of land asset

CONCLUSION

Overall, the strong government influence within the EPZA Risalpur makes it a less attractive candidate for assistance compared to the other options. The weak private investment climate at the estate at present is also a detractor. Market forces are not assisting companies to take up residence and base their operations there. Despite this, there is a good potential for the site to have a greater integration role with what is scheduled to happen in the adjacent Marble City site.

One of the key factors to success will be an active backing by the provincial and federal government to revise the Estate. If a coordinated and mutually agreeable new governance structure cannot be determined to the satisfaction of all, the payback time in terms of the impact from the initial investment (of time, effort and money) could run into several years.

If the due diligence is considered of value, then a number of steps will be followed to exhaust the possibilities for a rejuvenated EZPA. These include:

1. Determining the type of relationship with other Greenfield sites such as Marble City (PASDEC)
2. A full feasibility on the staging of infrastructure upgrades in line with demand analysis from new firms and industries as they enter the estate
3. A plan to secure all types of labor (skilled and unskilled) and across various specialties
4. A new integrated Master Plan to include: banking facilities, commercial services to businesses, Internet and other telecommunications, training centers, child care facilities, truck and trailer parking zones
5. A review of the type of board of directors operating within an autonomous and independent incorporated association with an appropriate constitution
6. A review of all trunk and servicing infrastructure and cost/benefit analysis of staged development against expected demand for new plots within the EPZ.

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