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# USAID/PAKISTAN: TRADE SWOT ANALYSIS: INDUSTRIAL ESTATE HATTAR

2010

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting, LLP.

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# ACRONYMS

IEH	Industrial Estate Hattar
NWFP	North Western Frontier Province
PCEZ	Pak-China Economic Zone
PTP	Pakistan Trade Project
SDA	Sarhad Development Authority
SEZ	Special Economic Zone
USAID	United States Agency For International Development

# INTRODUCTION

Special Economic Zones (Industrial Estates, Export Processing Zones, etc) world-wide account for 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, generate employment, enhance workforce capital and attract 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 the country. Industrial estates, till now 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 in improving trade environment through effective trade policy implementation; enhances capacity, procedures and systems of Pakistan's institutions to increase regional trade, especially through across Pakistan's borders; and builds capacity of Pakistan's private and public sector institutions to develop and manage sustainable and competitive special economic zones.

After initial discussions, site visits and contact, the PTP believes there is a significant opportunity to be explored for creating an enabling business environment in NWFP through enhancing and rehabilitating key industrial estates in lines of global best practices. Rehabilitation and supporting of some of the existing industrial estates can potentially lead to instilling competitiveness in some of the least developed yet potentially strategic areas in the north western province of Pakistan.

This paper is a SWOT analysis of the Industrial Estate Hattar (IEH), NWFP. It is one of a series of such analysis conducted of industrial estates in the north western province 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 optimum economic and development impact.

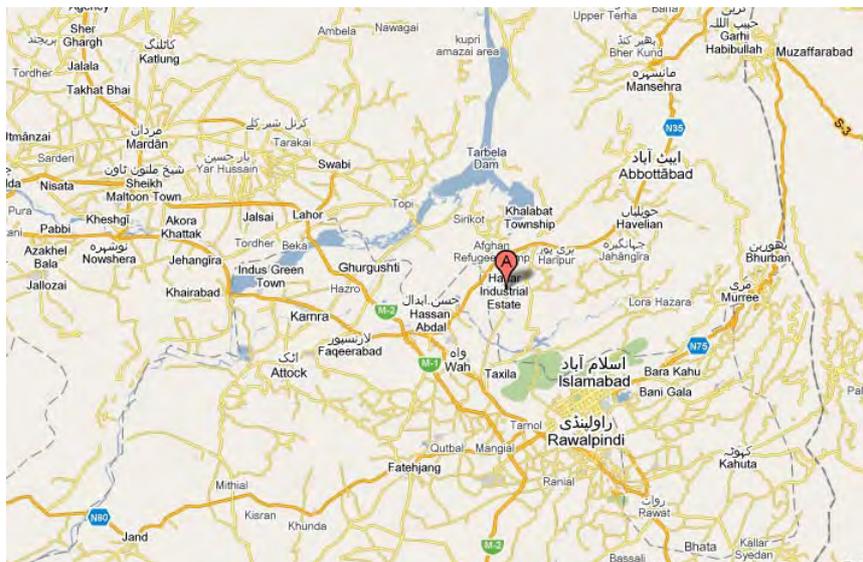
# INDUSTRIAL ESTATE HATTAR

The Industrial Estate Hattar (IEH) is a 1063 acres estate set up in 1984 by the government of NWFP. It is one of the five active economic zones in North West Frontier Province (NWFP).

## 1. LOCATION

Located south of the district Haripur, on Kot Najibullah district Haripur, which share boundaries with Mansehra, Abbotabad, Buner, Rawalpindi, and Islamabad. IEH is situated in the proximity of Karakoram Highway (Silk Route). It is 69 Kms from Islamabad, 142 Kms Peshawar Dry Port, 825 Kms from China border, 1800 kms from Karachi Port, and 2500 kms from Gwadar Port. The distance from port make it less attractive for the industries which rely on the raw material which is imported and for export oriented industries as well due to the high cost of the freight which have to be paid for transportation of goods to and from the port. The recent discovery of natural gas can make it a more attractive place for industries if the natural gas is supplied to the industries at a subsidized cost to the industry, as it will reduce the cost of production for industries which uses gas for power generation as well as for the industries which uses it as a raw material.

Figure 1: Location of Industrial Estate Hattar



It lies in the same seismic zone which experienced an earthquake of very high intensity a few years back, thus an additional cost may have to be added in the construction cost i.e. of making earthquake proof structures.

## 2. EXISTING INFRASTRUCTURE

IEH is one of the biggest industrial estates in terms of economic activity in the province of NWFP. The physical infrastructure within the estate is present but needs considerable improvement, as the open drains pose environmental problems, wastewater needs treatment prior to being discharged into fields and streams, and roads are in bad shape.

Within the premises of factories industrialists have installed their own tubewells as the water supplied by SDA is insufficient for water intensive industries. Due to frequent power outages generators have been installed by industries to meet their power requirements. There is a grid station within the estate but the grid station is only good if the power is available.

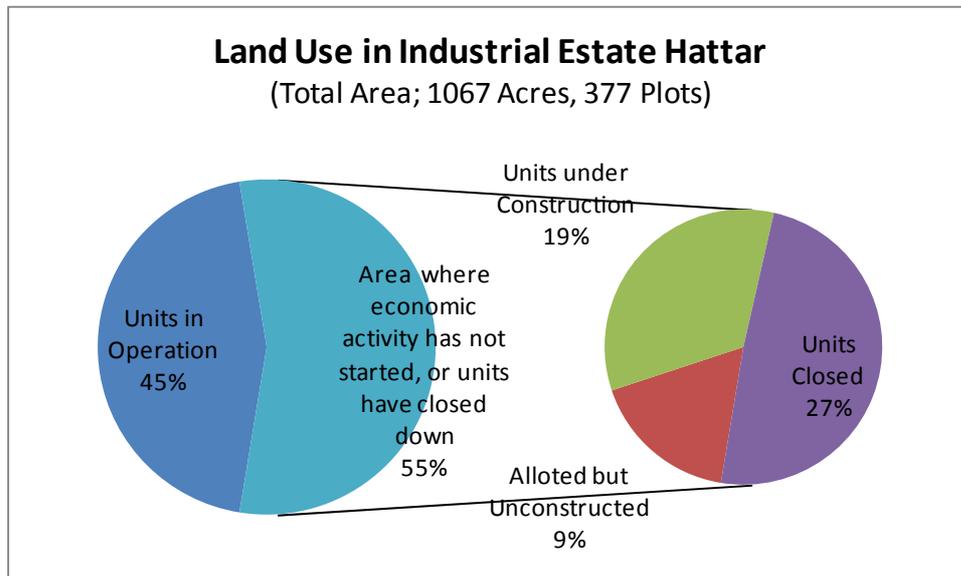
According to SDA officials they have a piece of land earmarked, in the original plan, for shared facilities like a training center but due to the lack of financial resources they are unable to develop a training center.

### 3. LAND USE AND AVAILABILITY

The total land has been divided into 379 plots and all the plots have been allotted. 143 acres have been reserved for Infrastructure thus leaving 87% areas which can be allotted for setting up factories. Although 100% of the estate has been allotted, economic activity is taking place in only 45% of the plots; the remaining 55% are under construction or have closed down or no construction has started so far. Figure 2 below highlights the segmentation of total land under IEH in terms of land usage. A unique feature of the IEH is the residential colonies for laborers; there are three residential colonies having 1,268 housing units spread over an area of 32 acres. Hospital and schools facilities have also constructed and are operational, and were provided by Pakistan’s National Worker Welfare Board.

There are plans for extending the estate, and for this purpose 1,000 acres of land have been earmarked for extension; 500 acres for extending IEH, and 500 acres for establishment of Pak-China economic zone (PCEZ). The establishment of PCEZ in the future may add to the competitiveness of this estate if the infrastructure established to service PCEZ will also benefit adjacent established industrial units.

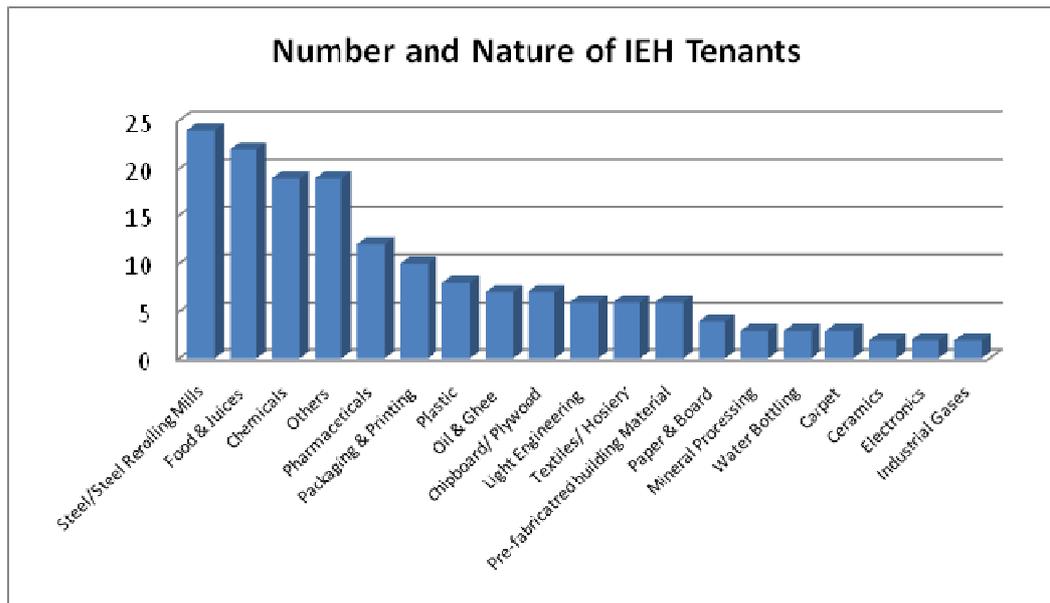
**Figure 2: Land Use in Industrial Estate Hattar**



### 4. NATURE OF ECONOMIC ACTIVITY IN IEH

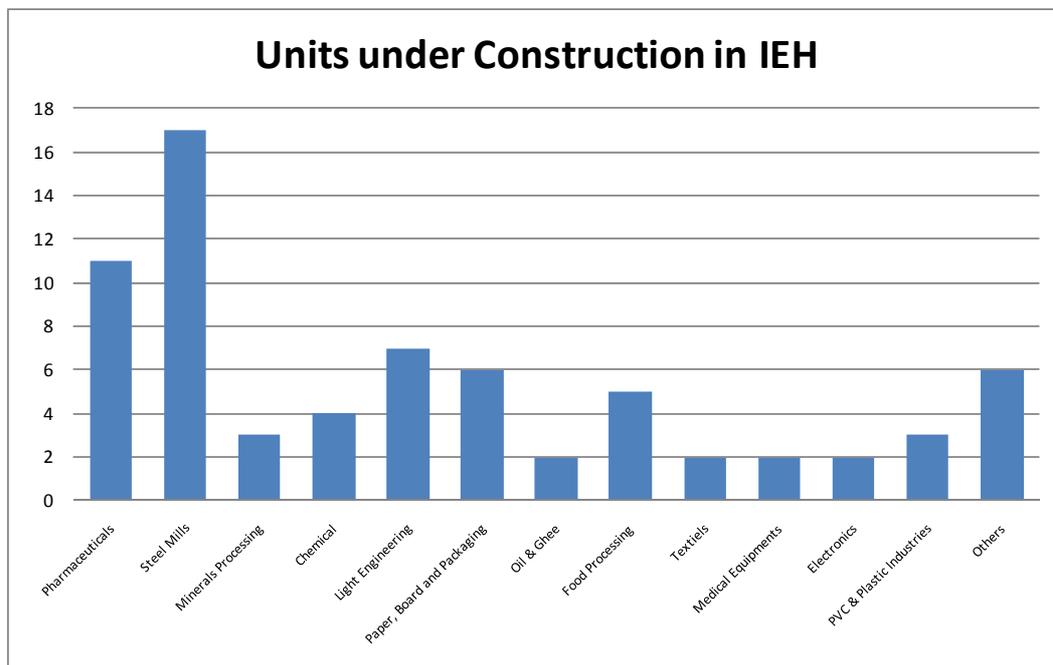
A wide array of industries (See Figure 3) have been set up ranging from large entities providing employment to hundreds of people (Qarshi Industries has 1,200 employees) to small industries like packaging units which have limited employment potential (5-10 employees). Primarily the industrial output produced here is consumed locally; few units are engaged in exporting and these export to Europe, America, and neighboring countries within Asia.

**Figure 3: Number and nature of IEH tenants (Operational Units)**



Though economic activity has slowed down new units are in the process of being set up with about 70 new industries at various stages of construction. Figure 4 below presents a graphical depiction of the range of industries that are under construction.

**Figure 4: Units under construction in IEH**



## 5. MANAGEMENT AND GOVERNANCE

IEH is owned, managed and governed by the public sector. The land is owned by Sarhad Development Authority (SDA) and leased to tenants for 99 years. The estate is managed by an Industrial Estate Management Committee (IEMC) with representation from local industrialists and SDA officials. The committee is authorized to spend funds collected from the industries in lieu of development charges, but this amount collected is too small given the huge expanse of IEH. Though

SDA is autonomous to a certain extent the absence of steady cash-flow and inadequate revenue generation limit the ability of the IEMC to maintain the estate. Due to the huge size of the estate resources are insufficient to meet its operational and maintenance expenditures, and for expenses beyond its financial capacity SDA has to look towards the provincial government for support. The Provincial Government has not been providing resources at a level required to maintain the Estate.

## **6. SECURITY SITUATION**

IEH is located on the border of Punjab in a relatively peaceful region, and currently in terms of security not many challenges exist. However being connected to insurgency hit district Buner may have repercussions in the future so proactive steps are required. The local businessmen from IEH suggested that a boundary wall around the Estate would help enhance the security situation and to meet future IEH security requirements.

# STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

The strengths, weaknesses, opportunities and threats (SWOT) with respect to IEH rehabilitation are summarized in table below:

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. Proximity to the trade route with China</li> <li>2. Resource endowed in terms of fruits and dimension stones</li> <li>3. Presence of anchor production units</li> </ol>	<ol style="list-style-type: none"> <li>1. No incentives for investor to set up industry in IEH or for current tenants to expand</li> <li>2. Limited decision-making power and financial authority of IEMC</li> <li>3. Dilapidated and insufficient infrastructure</li> <li>4. Weak capacity of SDA to manage and care for the Estate or to promote it to new tenants (only 45% of the 377 plots have functioning business units; no activity has taken place on 9% of the units (Figure 1)</li> <li>5. Lack of SDA financial capacity or authority to mobilize finances from the Provincial Government or other sources</li> <li>6. Lack of active provincial commitment</li> <li>7. Lack of collective action or strategizing by the industrialists to address estate problems or opportunities for growth</li> <li>8. Dependency mind-set</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Planned Burhan- Bhasha Dam Road may improve access to the markets and ports.</li> <li>2. Extension plan to establish 500 acre Pak-China Economic Zone (PCEZ) could have a spillover benefit effect for the infrastructure and other ancillary logistical and utility requirements of the existing Hattar estate as well as PCEZ economic activity generating additional economic activity at the existing estate; expansion plans to acquire a</li> </ol>	<ol style="list-style-type: none"> <li>1. Untreated discharge of industrial effluents make it susceptible to environmental scrutiny</li> <li>2. Power outages</li> <li>3. IEH lies in the active seismic region which experienced high intensity earthquake</li> <li>4. Developing industry is not on the priority list</li> <li>5. Capital flight from this estate may be experienced in case a new estate is set up which provide incentive and more competitive environment</li> <li>6. Unskilled indigenous work-force</li> <li>7. If law and order situation in Pakistan deteriorate further that can delay the implementation of PCEZ</li> </ol>

<p>further 500 ac res for expansion</p> <p>3. Human Capacity Development to meet the future requirements of PCEZ can help in harnessing the employment potential.</p>	
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# CONCLUSION

The potential socio-political and economic impact of a successful rehabilitation of IEH can be significant as this used to provide employment to a significant proportion of population, but due to the lack of incentives, non-competitive environment, economic slowdown and other factor more than 100 units have closed down, and unemployment has surged. If this trend prevails more units are expected to face the same fate. The absence of an active support by the provincial and federal government to revive the Estate, may lead to further deterioration.

Rehabilitation of IEH where below mentioned facilities are present can turn the estate into a more attractive entity for local and foreign investors alike;

- a) supply of electricity is guaranteed,
- b) subsidized natural gas is provided,
- c) access to the markets and ports is improved,
- d) basic infrastructure is rehabilitated, and common facilities are developed, and
- e) a responsive governance structure is installed

There is a potential that if all the above-mentioned facilities are provided it can absorb a significant portion of the workforce. The PCEZ is an important development, which can accommodate a large percentage of workforce, so proactive steps have to be taken to prepare the workforce to harness that opportunity.

The current physical, economic, and governance infrastructure is not geared toward turning around this estate into a most attractive place for investors. The financial support of the provincial government is required to meet the economic constraint, and a more proactive and financially autonomous governance structure is required to oversee the operation & maintenance of the estate.

The rehabilitation of IEH needs political commitment, financial and human resources, attitudinal change, revamping management practices, and above all time, as the change cannot be affected in a short term. However steps needs to be taken immediately, so that their result can materialize in foreseeable future. Following interventions can help in making IEH a more attractive place for new and current investors:

1. Provide incentives to IEH's investors e.g. tax benefits, and subsidy on natural gas
2. Improved access to trunk roads; GT Road, and Motorways M-1
3. Steady and uninterrupted supply of electricity for the industrial estate
4. Develop the technical and human capacity of the SDA project office which manage IEH
5. Making the Industrial Estate Management Committee more proactive so the collective actions can be taken at their own with internally generated resources.

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