

Foreign Direct Investment in Pakistan: An Islamic Preview

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Abstract

Foreign direct investments the money invested by people or corporate entities of country in another country. This investment also involves transfer of technology, skill and equipment. FDI became considerably visible after trade liberalization in the wake of world trade organization. WTO came into being on first January 1995 succeeding GATT. Nation States signed the document and relaxed their protectionist policies and introduced free trade. They reduced Tariffs to low level. The newly industrialized countries (NICs) and least developed countries (LDCs) removed trade barriers and offered best possible incentives to let FDI come in. Pakistan is one of the Emerging Markets for FDI. It has tremendous potentials in a number of sectors to absorb foreign direct investment for decades in future. An Islamic preview questions the legitimacy of FDI and its effects on Islamic states. This research paper briefly introduces various aspects of FDI.

Keywords: *WTO, MNCs, TNCs, BRICK Countries, Off-shore financing, Merger, Acquisition, Emerging Markets, Economic Globalization.*

Introduction

The World Trade Organization (WTO) came into being on 01 January 1995 succeeding General Agreement on Tariffs and Trade (GATT) that ceased to exist on 31 January 1994. The era of "Free Trade" started and nation states relaxed protectionist policies to let foreign investments come in. Trans-National Corporations (TNCs) started investing in countries of their choice that offered favorable opportunities for profits. This assimilation of free trade by Nation States was termed as FDI. By then various terms were used by Social

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and Political scientists and Economists to explain FDI in a best possible way encompassing its all aspects. For instant neo-liberalism as post-modern economic Philosophy and ideology, there surge of 18th and 19th century International Trade when MNCs came into being and started gaining ground in Europe and far off. Likewise Off-shore Financing, Free Trade, Global Trade and Finance, Economic Globalization, Global governance agencies for Trade and Finance, Global Governance and Strategic Management for Trade and Finance, International Capital Flow etc are almost identical terminologies carrying same meaning for Foreign Direct Investment. In this Research Paper an endeavor has been made to clarify the meaning of FDI in a little bit more simple and specific terms.

Definitions

Here are a couple of Definitions of Foreign Direct Investment stated below;

- A. Interms of economics, Foreign Direct Investment means “FDI is the Money that People or Companies of one country say Pakistan, invest in an other country say Turkey, by buying property, Buildings, factories and Businesses, etc.
- B. To explain the term here two examples are quoted
 - The continued flow of FDI is critical for newly industrialized and least developed countries.
 - A Bigoil company (Shell) has made foreign direct investment in Russia worth \$ 6.75 billion.
- C. FDI is a controlling owner ship in a Business enterprise in on ecountry by a corporate entity based in another country. In such case a country relaxes protectionist policies².
- D. FDI means “Investment from one country into another country, which involves establishing operations or acquiring tangible Assets, Like PTCL, Steel mills, PIA, National Bank, OGDC etc. including stakes in other businesses”³. This investment is made normally by Companies rather than governments.
- E. FDI is not just transfer of ownership as it usually

involves the transfer of factors complimentary to capital, including management, technology, Research and Development and organizational skills.

- F. According to Investopedia “The investing company may make its overseas investment in a number of ways either by setting up a subsidiary⁴ or affiliate⁵ company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture”⁶.
- G. Masood Defines FDI with reference to Pakistan as ; “Along term participation bya country A into country B (Pakistan) .It usually involves participation in Management, Joint venture, Transfer of technology and Expertise”⁷.
- H. In terms of Economic Globalization FDI May mean“ A measure of foreign ownership of Productive Assets, such as Factories, Mines and Landon Free hold basis” . Such type of FDI has political under pinning’s ,and nation states have apprehensions about this profile of FDI and terms it negative.

Foreign investors

Foreign investors can be classified into following categories;

- An individual
- A Group off related individuals
- An Incorporated or un-incorporated entity
- A public company or Private company
- A group of Related enterprises
- A government body
- An Estate (law),Trust or other Societal organizations

BRICS Countries

These are world’s four largest recipients of FDI that have attracted investors from highly industrialized countries. JimO’Neil first identified and designated them. They are Brazil, Russia, India and China. South Africa joined the group in December 2010. Together the four original BRIC countries comprise more than 2.8 billion people that make 40% of world’s population stretching over three continents and account for more than25% of GDP(PPP),\$20 trillion.Their sizeable population and Demo graphics have proved to be an engine for

global economic growth and development. Owing to availability of cheap labor, skilled man power, large population, raw material, relaxed and pro investors' policies, these countries have proved to be huge markets for foreign consumer goods. They are also known as Emerging Markets. Some Key indicators and statistics of BRICs are given here below;

<i>Country</i>	<i>FDI attracted</i>	<i>Projects attracted</i>	<i>World ranking GDP(PPP)</i>
Brazil	63 bn in 2013	19.94%	7 th largest economy
Russian Federation	94 bn in 2013	11.3%	6 th largest economy
India	28 bn in 2013	30.2%	3 rd largest economy
China	127 bn in 2013,	40.26%	2 nd largest economy

Table 1: FDI profile of BRIC countries:

Methods of Investments

Pakistan has been able to chalk out prudent investment policy rules through legislation. Legislative bodies like Board of investment, Ministry of Commerce, Export Promotion Bureau, Privatization Commission and State Bank of Pakistan have framed certain policy guide lines for investment in various economic sectors. The foreign direct investor may invest in by any of the following methods in Pakistan.

- 1) By incorporating a wholly owned subsidiary or company
- 2) By acquiring shares in an associated enterprise
- 3) Through a merger or acquisition of an un-related enterprise
- 4) Participating in an equity joint venture with another investor or enterprise

Basic considerations for FDI

While investing in a country like Pakistan, foreign investors must cater for following Basic considerations;

- 1) An industrial sector can be the most viable and safe option for Foreign investor. It is so because the vertical integration of diverse industrial sectors has necessitated this aspect which is an outcome of economic globalization.
- 2) Since Business conglomerates have triggered multi-tasking, Investors will have to
- 3) Efficiently manage their businesses in terms of skilled labor, utilization of locally available resources, locally owned business, infra-structure, training and required technology as well.

In the wake of competition a prudent market survey, sustainability and survival of local market and guarding its market share would be a matter of prime concern in marketing.

Strategy. Investors will have to deal and collaborate in a global market in environments of competition.

- 4) New market access is also another major reason to invest in a foreign country. At some stage, export of products or services reach a critical mass of amount and cost where foreign production or location begins to be more cost-effective. Any decision on investing is thus a combination of an number of key factors including;
 - A. Domestic market growth potential.
 - B. Proximity to markets or customers
 - C. Regulations/business climate
 - D. Skilled manpower availability
 - E. Infrastructure and logistics
 - F. Industry cluster/critical mass
 - G. Attractiveness/ quality of life
 - H. Technology or innovation
 - I. Lower costs
 - J. Other combined motives

Sectors for FDI

Foreign direct investment is made in most of the emerging markets in following sectors;

- ✓ Aero space
- ✓ Alternative/renewable energy
- ✓ Automotive components
- ✓ Automotive OEM
- ✓ Beverages
- ✓ Bio-technology
- ✓ Hotels and Tourism
- ✓ Industrial machinery, equipment & tools
- ✓ Leisure & Entertainment
- ✓ Medical services
- ✓ Metals
- ✓ Minerals

FDI Profile in Pakistan:

Pakistan has offered to be an ideal market for foreign investment in terms of liberal investment policy, cheap labor, tax incentives and good return on investment. Table-1 shows FDI profile of Pakistan in various sectors.

Sector	2013-2014	2014-2015	Remarks
Oil & Gas	502.0	158.6	
Financial sector	161.8	97.1	
Textiles	(0.2)*	24.7	* in negative
Trade	(3.2)*	26.8	* in negative
Construction	28.8	11.7	
Energy & Power	71.4	52.1	
Chemicals	94.9	49.4	
Transport	2.7	0.1	

Communications [IT & Telecom]	434.2	82.0	
Privatization profits	0.0	0.0	
Miscellaneous	375.2	26.6	
Total FDI	1667.6	545.4	

Table-2: Sector wise FDI (\$ millions) in-flows in Pakistan

Incentives for Foreign Investors

As per state policy legislation has been made to ensure to safe guard foreign investors and provide them investment friendly environments in the country. Some of incentives that foreign investors can enjoy a remunerated here below:

- ✓ Research and development support
- ✓ Capability to increase total production capacity
- ✓ Tax con cessions/ exemption to particular businesses
- ✓ Provision of Cheap labor
- ✓ Infrastructure subsidies
- ✓ Special Economic Zones developed by the government
- ✓ Early entry advantage
- ✓ Making the move from domestic export sales to a locally based national sales office.
- ✓ Avoiding foreign government pressure or local production
- ✓ Low corporate tax and income tax rates in Pakistan
- ✓ Opportunities for co-production, joint venture with Local partners, joint marketing arrangement, licensing etc.

National Investment policy for FDI

Since Pakistan has relaxed its trade and tariff rules, it will give foreign investors an added advantage .Pakistan has already privatized some of its mega assets like HBL, MCB and PTCL etc. and intend to offer its health sector. Communication and Information Technology (IT) sector shave already proved to be

a Heaven for Foreign Direct Investment. Salient features of investment policy a remunerated here.

Pakistan has classified its FDI profile into two main sectors; (1) manufacturing service sector .

Non-manufacturing service sector

- 1) In manufacturing sector the entity must be a company in corporate under the company ordinance 1984.
- 2) 100% foreign equity is permissible on the basis of repatriation of capital and profit (dividend).
- 3) The amount of foreign equity investment must not be less than US \$ 0.3 million.
- 4) In service sector the investment must not be less than US\$0.15 million.
- 5) There is no requirement for a No Objection Certificate from provincial governments.
- 6) The FBR will not question as to the source of investment; except to check that there is no tax evasion. The FBR will not scrutinize the source of funds.
- 7) The foreign investor can invest 100% equity without any permission from the government.
- 8) Minimum share so the local investors in a joint venture will be 60:40 for the service sector.
- 9) However investors can own 100% foreign equity for first five years.
- 10) FDI is allowed in social sector, infrastructure and services on a repatriable basis. Investors are permitted to extract and take away their equity whenever they choose.

Sectors where investment is not permitted

Investment in the sectors is not allowed as per State's investment policy;

- ✓ Arms & Ammunition
- ✓ High Explosives
- ✓ Radio-Active substances
- ✓ Security printing, Currency and Mint
- ✓ Alcoholic Beverages or liquor.

Establishing a Corporate Entity

Pakistan has been considerably generous in facilitating foreign investors. Very often they go “ Out of the way” to accommodate investors. IT and Communications are two such sectors. For a foreign investor it is a simple procedure to establish its business involving following steps;

- ✓ Establish a liaison office
- ✓ Branch office
- ✓ Locally incorporated subsidiary

Consultancy services for FDI

Currently the government of Pakistan has considerably simplified the regulatory environment for setting up a business. Management of a business has now been in the hand of board of investment (BOI) and security and exchange commission of Pakistan (SECP) in a kind of one window system.

The Consultants offer services in these areas pertaining to FDI;

- 1) Company Formation: like, Trade Licenses, Tax certificate, Permission from BOI, permission from central bank, work permit, Business and employment visa, export and import licenses, bank account opening, office rent and Local manpower supply etc.
- 2) Account services: preparation of accounts, record keeping, audit services etc.
- 3) Income Tax: Company and individual income tax assessment
- 4) Legal matters: Contract deed, legal notice, money laundering, labour laws, intellectual property, banking and Finance matters
- 5) Management consultancy :Local and global manpower supply

Sectors of Investment

So far following projects have been offered for Foreign Direct Investment by Boar of investment (BOI). There are many more, but a few important sectors are mentioned here;

- ✓ Development projects
- ✓ Oil and Gas related projects
- ✓ Power projects
- ✓ Services related projects
- ✓ Non-manufacturing projects

- ✓ Real-estate projects
- ✓ Health related projects
- ✓ Manufacturing projects
- ✓ Cosmetics and Garment Projects
- ✓ Construction projects
- ✓ Education & Research Projects
- ✓ Energy related sectors projects
- ✓ Financial Businesses
- ✓ Textiles sector
- ✓ Trade/Containerization
- ✓ Chemicals/Pharmaceuticals
- ✓ Transport/Metro Train projects
- ✓ IT & Telecom sector projects
- ✓ Corporate farming sector projects
- ✓ Bio-Technology/Genetic Engineering projects
- ✓ Forestry/Environment related projects
- ✓ Higher Education related projects
- ✓ Agriculture sector including corporate Farming
- ✓ Hydal, Thermal and Nuclear power plants
- ✓ Exploring Oil, Gas and Mineral Reservoirs
- ✓ Urban Mega Projects along Baluchistan coast /
Development of Gwadar port
- ✓ Trans-border Trade Facility for Central Asian States

Islamic Preview

- 1) Islamic world has been oscillating between democratic values and indigenous societal norms triggered by unbridled capitalism.
- 2) The corporate entities, in the presence of an Economic Regime legalized by global governance agencies of trade and finance with its own Principles, Rules, Norms and decision making procedures reign supreme.
- 3) Most of the Islamic states face further for cible direct and indirect interventions,a situation that precedes foreign direct investment. State's organized violence Fault line skirmishes in Islamic countries are believed to be out sourced by western countries for investments.
- 4) States 'organized violence and cultural polarization inside Islamic states still exist and will remain on the global panorama incoming decades.

- 5) Investment policies via dictates of IMF, World Bank and World Trade Organization need to be reviewed by jurists and legislative Bodies of Islamic world.
- 6) Reservoirs of Natural resources like Coal, Gas and Oil ,Land, Water sources and Forestry are combined assets of Ummah. Privatizing, Leasing out or offering them for free hold and transferring ownership to foreign investors should be decided by various International Islamic forums and not the states unilaterally.

Summary

In the wake of trade liberalization, Pakistan offer tremendous opportunities for foreign direct investment. Pakistanis included in one of the emerging markets after BRICK countries ; others are Egypt, Venezuela, Turkey, and Kazakhstan. Pakistan economy is ‘Real’ one i.e. it is basically Agri-based and not market oriented. Pakistan must ensure that there is an equilibrium between the two orientations of economy. Pakistan needs to improve upon his law & order situation as well.

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