

Q Why Foreign Direct Investment continues to elude Pakistan and what remedial measures can the country take?

### 1) Introduction:

The foreign direct investment or FDI is a potent indicator for analysing the direction of a country's economy. While there have been some encouraging moments sporadically, Pakistan, at large, has been unable to attract and sustain healthy levels of FDI. This can be attributed to myriad challenges including political instability, policy discontinuity, unfair taxation measures, lack of competitive environment, border skirmishes and arbitrary governmental hold. Consequently, the country and its people have suffered owing to a loss of opportunities for employment and growth. However, a beacon of light, in the form of structural reforms in policy, ease of business, fair taxation and competitive environment, can lead towards a growing and prosperous Pakistan.

### 2) Factors behind Elusive Nature of FDI:

#### 1- Political Instability:

The menace of political upheaval has long plagued the country.



This not only leads to economic loss but also scares off potential investors. Therefore, investment-to-GDP ratio of Pakistan stands at 12%, while that of South Asia is around 32% as per Pakistan Institute of Development Economics (PIDE).

## 2- Unfair Tax Regime:

The multinational enterprises are heavily taxed owing to the formal nature of their operations. On the other hand, the state-owned and favoured businesses continue to receive subsidies leading to an unfair environment. Thus, the equitable profits become difficult to retain for foreign investors.

## 3- Informal Economy:

A huge chunk of Pakistan's economy operates in the gray-area. The successive governments have failed to bring them under the national fold. This situation leads to tax evasion and varying business environment for different companies. The recent exodus of multi-national companies like Procter and Gamble, Shell and Caltex stands testament to the evils of informal economy.



#### 4- Volatile Borders:

The geography of Pakistan has often curtailed its progress more than proving to be of advantage. In recent times, the border clashes and disputes with Afghanistan and India have proved disastrous. This has diminished market access across the region and hindered growth for businesses.

#### 5- Lack of Policy Continuity:

A defining factor in attaining and sustaining FDI is the uniformity and consistency in policies. Unfortunately, the country has been held hostage to the whims of political actors. Thus, a governmental change results in a complete change of plan; a major hindrance in way of investment. Owing to this, the country has scared off investors.

#### 6- Arbitrary Price-Setting:

Historically, the governments in Pakistan have favoured a rigid price-setting mechanism. This has never fared well for the country. As per State Bank of Pakistan, FDI in Pakistan has seen a 15.6 pc decline from July to November of the current fiscal



years. Thus, arbitrary control and successive interventions by government have limited prospects of growth.

### 3) Impacts of low Foreign Investment:

In a country where such huge investment opportunities are scarce, the consequences are multi-fold. Likewise, Pakistan has faced impacts of low FDI across its economic, health, ~~education~~ and social spheres. The findings of Labour Survey suggest that the inflation has hit a 21-year high of 7.1pc. Therefore, fragile FDI dwindles job prospects and limits power purchase parity leading to dire consequences across domains.

### 4) Way Forward for the country:

#### 1- Effective Long-term Planning:

Pakistan should embark a journey of policy-making that is not only pragmatic but also consistent. The investors must know that the circumstances will remain uniform across governments. This will allow companies to plan for strategic measures to achieve gains. Policy continuity is a must for attaining and retaining FDI.



## 2- Tax Reforms:

There are two ways to ensure fair competition. Firstly, the excessive tax rate should be brought down to attract the investors. Secondly, the informal economy must be brought under the national fold to share the tax burden. Thus, a sustainable tax regime ensures a progress in the long-run.

## 3- Digital Governance:

A much touted ideal must be brought to reality in order to reap benefits. The initiative by PM Shehbaz Sharif namely URAAN Pakistan clearly lists E-governance as one of the governmental priorities. The digitization of all SMEs will not only increase revenues but provide ease of ensuring compliance for the government.

## 4- Ease of doing Business:

In a country where bureaucratic redtapism runs wild, there is a need to simplify process. This includes the access to easy registration and tax-filing procedures for businesses. Moreover, a fair competition must be ensured by restricting subsidies to provide an equitable business environment. Therefore,



uniform opportunities for everyone to thrive are a must.

### 5- Market-oriented direction:

The government must understand now that the wisdom of markets is far superior. A move away from excessive regulatory mechanisms and arbitrary price-setting can do a world of good to the country. In addition, the prices set by markets are sustainable thus avoiding the boom-and-bust cycles.

### 6- Regional Connectivity:

A comprehensive dialogue to revive regional cooperation through platforms like SAARC is imperative. The **South Asian Free Trade Agreement (SAFTA)** can provide the investors with incentives of a preferential market access.

### 5) Conclusion:

Pakistan's long-standing woes of inconsistent policies, biased taxation measures and political instability have deterred FDI.

This has led to a number of missed opportunities with impacts felt across domains.

However, policy reforms like fair environment, equitable tax regime, policy continuity and market-oriented growth hold a beacon of hope.

This can channel the country towards sustainable progress.