FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN PAKISTAN

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Abstract. *After World War II newly emerged nations inspired by industrialized countries of western world embarked upon economic development projects. Poverty ridden peoples of these countries had suffered at the hands of developed nations and they were anxious about adopting measures which could help alleviate poverty and bring socio-economic wellbeing. This urge compelled them to borrow from industrially advanced countries to gear up their development programs. Borrowing and then repaying with interest put them in a dangerous whirlpool of debt trap. Because with meager income they could not save to pay off their debts, therefore, outstanding amounts went on multiplying and many countries were afraid to be listed as defaulters. They were constrained to find out an alternate source of finances which could provide sufficient funds for initiating and completing development schemes. Thus, foreign direct investment was the only source which could help in not only implementing their planned development projects but also encouraged to undertake additional schemes of development and increase their gross domestic product growth rate. This paper discusses the circumstances which led to rely on foreign direct investment instead of borrowing from external sources. It also throws light on importance of foreign direct investment amidst other sources of financing.*

Keywords: External borrowing; Gross Domestic Product; Foreign Direct Investments.

Introduction

Poverty alleviation, in fact, lies in fast economic development which emerges out of a shift from primary sector to secondary sector but with sustainable growth which may not halt due to deficiency in raw material and other input supply. A constant growth with accelerated rise will only ensure attainment of self-sustaining stage and the subsequent fast growth to outpace other countries of the region. Unfortunately, insufficiency of financial resources has always been a big stumbling block in the way to economic development of backward

as well as developing countries.

Backward countries are characterized with more reliance on external financial resources for initiating and accomplishing their development plans. The poor countries and, in cases, the developing economies mostly have raw material to export and earn foreign exchange to adjust their foreign exchange requirements. Unfortunately, the foreign exchange which raw material can fetch has always been insufficient to meet their bare consumption demand. Consequently, their balance of payment problems compels these growing states to knock at the door of industrially advanced rich countries with bowl of borrowing in hand. The poor and developing countries continue borrowing to meet their both current and development needs. The growing debts subsequently lead to a stage when these developing country seek and contract fresh credit lines merely to pay interest on old loans and thus whatever they get in the form of loans is ultimately consumed in debt servicing. Such countries find no way to get out of debt trap. More agonizing situation arises when tied loans are contracted under unavoidable circumstances. It is not only the interest which is repaid but even the lion’s share of loan amount is taken back by lending country in the form of cost of machineries and technical assistance conditionally provided to the borrowing country. Fulfillment of such conditions always put the borrowing country at the mercy of lending institution. Borrowing from external sources becomes a permanent feature. The loans continue piling up and amount cumulating aggregates rendering financial structure of the country subjugate to lending country.

No doubt modern development trends have necessitated adoption of sophisticated machineries and other appliances for pacing with global growth process but with meager economic resources both backward and developing economies face serious difficulties in meeting development requirements. The paucity of local resources and urgency of implementation of development schemes renders availability of resources from external sources unavoidable. However, in the event a loan falls overdue for payments, it not only turned the country defaulter but ineligible for future borrowing. Again in case of tied loans the terms and conditions always go against the national interest and major part of the loans amount sanctioned is retained by the lending country by way of cost of machineries and technical assistance.

On the other hand, with weak bargaining power the developing countries have always succumbed to terms and conditions of the lending countries /agencies. Every time the borrowing countries have to, reluctantly, accept the condition in the greater interest of general public. However, many times terms of the loans increases financial burden of general public which turns public hostile against state authorities and results in chaos and unrest. In developing countries like

Pakistan, public with weak purchasing power expects from state to provide them with subsidized products which in the long run puts the state in whirlpool of indebtedness.

Pakistan, being a developing country has been availing various credit lines from the industrially advanced countries and international loan giving agencies since 1952. During the period, country has been borrowing from various credit giving agencies including Paris Club, London Club and IMF. Facilities from IMF are primarily for meeting emergency balance of payment problem. But unfortunately, IMF has also become a regular creditor due to continuous trade deficit. Country's export always remained at lowest ebb while unbridled imports are putting pressure on the overall budget of the country. Debt servicing created a serious problem at the advent of each financial year. With low repaying capacity the country is constrained to borrow merely to meet debt servicing requirements. It is apprehended that if the situation continues the country will fell into worst type of financial whirlpool and will ultimately lose credibility in the world market. Under such circumstances, it will become difficult even to remain in the world trade circles. Persistent borrowing without creating income generating capacity has been leading the country towards stage of insolvency because of poor debt servicing. The country has to create surpluses for not only meeting import requirement of machineries and other development prerequisites but must also strengthen infrastructure for industrial base. It is not to create import substituent alone which will work for fast growth but it is equally important to build business relation for penetrating into foreign markets and increase exports. Also important is improving and enhancing quality and increasing production for creating surplus. It is considered opinion that curtailment of non-productive consumption, fast increase in production with compatible quality and creating surplus for export is prerequisite for getting rid of external borrowing or for that matter reducing reliance on external sources for meeting budget deficits. Export of raw material at throw away price instead of processing and converting into finished goods for better price will result in diminishing valuable export potentials. The country will lose resources which would have been source of foreign exchange earnings and lessening pressure on our foreign exchange reserves. The implementation of policy worked well and many new industrial zones were developed and encouraged by allowing rebates in taxes/levies besides subsidized rate of interest/markup on finances. Table 1 depicts that the foreign debt and liabilities of the country are fast growing because of continuous borrowing.

Table 1 Pakistan External Debt and Liabilities (Amount in billion US $)

Year	Receipts/ Inflow	Repayment/ Out Flow			Foreign Debt Outstanding	GDP Growth Rate
		Principle	Interest	Total Outflow		
2008	3.16	1.133	0.983	2.116	46.161 *	1.7
2009	4.032	2.566	0.873	2.025	52.331 *	2.83
2010	3.009	2.339	0.756	3.095	55.626 *	1.61
2011	2.62	1.925	0.762	2.687	66.366 *	2.75
2012	3.089	1.534	0.717	2.251	65.562 *	3.51
2013	2.221	4.795	0.8	5.595	59.779 *	4.4
2014	7.962	5.22	0.775	5.995	65.268	4.67
2015	7.452	3.5	0.975	4.475	65.17	4.73
2016	8.693	3.213	1.127	4.34	73.945	5.53
2017	10.533	5.127	1.313	6.44	83.477	5.7
2018	11	4.19	1.684	5.874	95.236	5.43
2019	8.262	4.139	1.47	5.608	106.348	3.3
Total	56.123	30.184	8.144	38.327		

Source: Ministry of Finance, Govt. of Pakistan's External Debts and Liabilities Pakistan Economic Survey 2017-2018-19. * State Bank of Pakistan-Statistical Bulletins 2008-2013

Table 1 reflects that Pakistan has constantly been borrowing from foreign countries as a result of which the country has to allocate a large portion of the annual budget for repayment of the borrowed money. The principal along with interest is pressing the economy hard. Although money continued pouring in but very little amount had been left at the disposal of Govt. for development expenditures because of continuous allocation of budget amount for liquidating the liabilities falling over due for payment. It is really a matter of concern that at moments outflow exceeded inflow and nothing out of loan amount left with Govt. for developing infrastructure of the country. For example, in 2013 while Pakistan received US $ 2.221 billion, it paid out US$ 5.595 in the same year turning net receipt negative. If total receipts during the period from 2008 to 2019 are summed up, these come to US $56.123 billion. The repayment of US $ 38.327 billion amounts to 68.291% of the total receipts during the period under study. The situation from economic point is really worrying because in spite of repayment of US $ 38.327 the outstanding amount of foreign loans and liabilities has risen to US $ 105.841 up-to July 2019. The difference of US $ 27.149 between inflow plus outstanding as in 2013 and outstanding as in 2019

might be due to charging of interest and other liabilities. This means that the amount continues increasing mainly due to application of interest. Under the circumstances the country cannot get rid of financial slavery until it finally emancipates itself from the yoke of lenders by dispensing with borrowing.

It is because of the reasons that in the event of delayed repayment the outstanding amounts rise due to application of interest. In case the country fails in paying regular installments it is classified as defaulter in which event the country becomes ineligible for further borrowing. Such a situation is critical for developing country because its development process is halted due to non-availability of requisite amount of funds. Delay in the completion of development schemes creates numerous difficulties including curtailment of job opportunities and reduction in the public revenue. If, somehow, a lending agency agrees for funding, even then the borrowing country is constrained to avail finances under tied terms and conditions. The hard terms and conditions strangulate life of the people because of perpetual rises in taxes and tariffs. Such borrowings do neither add to GDP nor add value to the indigenous products. Rather the amount is applied to pay off overdue loan installments.

Table 2 gives a picture of the economic growth rate during the life span of Pakistan. The growth rate ranges from lowest 2% to 6.8 % on the highest. During the whole span, the growth rate continued fluctuating. In the early year of independence there were financial difficulties and slow economic growth was a natural phenomena. The economic growth of the country took a strong momentum during the period from 1960 to 1968 and in spite of war with India it continued growing at a very commendable rate. The Eighties decade again emerged with growth rate of 6.5%. In both periods of Marshal Law Regimes the economy gained momentum and continued achieving remarkable growth rate. Afterward the policies could not be continued and growth rate instead of increasing went on fluctuating.

Had there been a stable and constant political Govt. the economy might have attained the stage of self-sustaining. By irony of fate the political instability and reliance on foreign/external resources caused the economic slackness and did not allow the country to flourish. The escalating growth rate always threw threats of default in repayment of foreign liabilities and compelled the authorities to seek resort in further foreign loans and aid. It is again agonizing that every fresh loan crunch was contracted under unavoidable circumstances because of saving country from default in repayment of loan amount fallen due. It is highly deplorable that the Growth rate fell from 5.5 % in financial year 2017-18 to 3.3 % by end of March, 2019.

Table 2 *Real Gross Domestic Product Growth Rate*

Year	GDP Growth rate	Remarks
1951	3.9	Early years of Pakistan's Economy
1955	2	Highly instable Govt. Perpetual changes in portfolios was one of the causes of low growth rate
1960 Average Annual	6.8	Although economy operated under Marshal Law regime yet strong Govt. not only stabilized the economy but achieved unprecedented growth rate
1970s Average Annual	4.8	The debacle of East Pakistan shattered the whole economic system of the country
1980s Average Annual	6.5	It was again military regime which stabilized the economy and gave momentum to economic growth
1990s Average Annual	4.6	Changes of political Govt. affected confidence of business and industrial community
2000s Average Annual	4.5	Afghan war and its adverse impact in the form of terrorism badly affected growth process
2005-6	5.5	
2010-11	3.6	
2015-16	4.6	Continuous protests against Govt. retarded growth process.
2017-18	5.5	
2019	3.3*	

Source. Ministry of Finance, Islamabad. Govt. of Pakistan. Economic and Social Indicators Pakistan Economic Survey (2018-19).

Without prejudice and bias Table No.2abovetestifies the proposition, if not the fact, that a stable Govt. which can maintain the writ of State ensures a stable growth rate. It is evident from the data in the above table that during Marshal Law regimes there has been commendable economic growth rate ranging from 5.5 to 6.8 % per annum.

Perpetual change of Govt.in the name of democracy could hardly reduce financial miseries of the common citizen but continued adding to the difficulties of the people because of continuous borrowing which could least add to the production process .Rather it added to National liabilities due to application of interest without creating additional repaying capacity in the economy.

While commenting on grants (Table 3) during different regimes by Pakistan, Hussain (2017) contend that Pakistan has not been repaying liabilities in accordance with the terms of facilities which put the country in a serious risk of default. Among others, the regimes of Peoples Party when headed by Asif Ali Zardari, on average, availed more loans facilities but the economy could not move beyond GDP growth rate of 2.83 %.

Table 3 *Foreign Aid Disbursement in Different Political Regimes*

Regime	Period	Loans	Grants	Total	Annual average
Muhammad Khan Junejo	1984-1988	4.651	1.728	6.379	1.595
Benazir Bhutto	1088-1990	4.072	1.118	5.19	2.595
Nawaz Sharif	1990-1993	6.153	1.421	7.574	2.525
Benazir Bhutto	1993-1996	7.374	0.576	7.95	2.65
Pervaiz Musharraf	1999-2008	17.952	5.062	23.014	2.557
Asif Ali Zardari	2008-2012	11.695	2.31	14.005	3.501
Nawaz Sharif	2013-2017	14.351	------	14.351	2.87

Source: Presentation made by the Economic Affairs Division to the Special Committee for National Assembly on Foreign and Domestic Loans. September 12, 2012 page 12 and 15.

The fluctuation in the quantum of aid is highly alarming and has put serious challenge to the development economists charged with the responsibility of pulling the economy out of this critical situation. No doubt ever reliance on foreign aid is not advisable yet in order to meet temporary requirement of finances the reasonable flow should be continuous so that planned development process may not be disturbed.

Notwithstanding the repercussions of borrowing, no country in the developing stage can grow without induced investment. The investment always need surplus of finance and in the event of poor saving situation the country has to resort to borrowing. Under the circumstances the better alternative is inviting and promoting foreign direct investment which directly adds to fixed capital formation and builds long term growth factors.

Literature Review

Industrial revolution in the West had a strong demonstration effect on poor and backward countries of the world. Influenced by fast economic growth of Western world the backward nations also thought over the growth stimulus and with an urge to march with industrial growth pace initiated development schemes which could reduce reliance on foreign nations for import of industrial products. However with meager capital structure the development efforts could not fructify and the economies could not be geared up at a pace which could move them fast and alleviate the poverty. As such the poor economies could only initiate development schemes which classified them as developing economies. But the urge to become developed nation still wanted huge capital and skilled human resources. Consequently, the 20th century gave emergence to transfer of foreign capital among countries around the world. Now world

witnesses flow of billions of dollars of foreign capital. It is not only in the form of loans and grants but foreign investment has been adding to the domestic resources in providing permanent capital base for industrial structure and thereby increasing not only GDP but also job opportunities to the local population.

Among these foreign resources Direct Investment in local country in the form of establishing industrial units has worked very successfully in turning local economy into a fast growing and producing goods which could otherwise be imported. Discussing the importance of Foreign Direct Investment Bhatti Hafiz M A (2017) informed that by the year 2000 world's 100 largest Multinational Enterprises held more than 4.3% of the total GDP with market value of 6.3 trillion US dollars. Similarly, Guru, Supreya (undated) highlighting the benefits of Foreign Direct Investment added that with Direct Investments comes long experiences and efficient techniques which enhances the skills of the local population. To support the importance of Foreign direct investment Das Sthiti (undated) states that it has also been allowed in exploration, production and refining of oil and marketing of gas. Captive coal mines can also be owned and run by private investor in power. In addition, the Corporate Finance Institute described that FDI helps in Market Diversification, Economic Stimulation, Human Capital Development and increase employment opportunities for the local population.

Scholars are of the opinion that FDI is also not equally distributed among different developing countries such as Lagace Martha (2006) observed that South Africa could receive only a small fraction of foreign direct investment as compared to the amount already availed by other developing nations emerging on economic scene of the world. Another observation from Tasneem, et al. (2017) shows that direct investment in Pakistan were of the view that foreign direct investment in Import substituent industries or export oriented industries will have positive economic impact on local economy. Though the scholars agree that FDI fills the gap between available domestic investment funds and national requirements for boosting economic growth at fast development rate thereby ensuring macroeconomic stability in the country (Irfan et al. 2014), still others believe that FDI is expected to be have manifold impact on growth because it is a program product and carries with it not only capital stock but also technology and skills (De-Mello, 2007). To support the above argument, Javaid (2016) while quoting Durham (2004) observed that FDI, no doubt, brings with it technology but its positive role depends upon absorption capacity of the recipient country.

FDI also contributes towards the employment such as Mio, Wang (2009) has found that FDI made in manufacturing sector will create large number of

employment opportunities. This is because of the reasons that in backward and developing countries cheap labor force offers good opportunity to investors to invest and engage in labor intensive industries. Another advantage of the FDI will also create skill development opportunities for host country manpower. Wage differentiation will attract more labor towards FDI entities. To reform the investment strategies, Beena et al. (2004) in his research has disclosed that foreign investors from USA and Western Europe formed 78% of the total FDIs in India. They further informed that it was all due to liberalized FDI policy of the Govt. of India. It is added that Indian law does not differentiate between Indian and foreign entities and foreign investors also do not require any licensing formalities. Likewise, IBEF (2019), a publication of India Brand Equity Foundation revealed that Govt. of India is considering 100% FDI in Insurance besides increasing inflow of FDI in telecommunication sectors.

There are other factors effecting FDI like, Ayanwale (2007) in an article found that due to different trade policies of each country the impact of FDI varies on each country. It further asserted that impact of FDI is dependent of other variables like education, domestic investment trade terms with other nations and above all political stability within the country. Therefore, FDI alone cannot perform until local environment is conducive. Najabat and Hamid (2017) while discussing the role of FDI in Pakistan in their article "Impact of Foreign Direct Investment on the Economic Growth of Pakistan" has referred to Hanson (2001) who was of the view that, no doubt, FDI has a role in the economic growth of developing countries, yet allowing relaxation in taxes and levies to attract foreign direct investment at the cost of public exchequer is a matter of financial loss at the very outset.

Impact of Foreign Direct Investment

No doubt, Foreign Direct Investment (FDI) had also brought serious political infringements in its wake in the past and the same risks are still apprehended as hanging hammer on the heads of developing countries. It often endangers national sovereignty and once caught up in the clutches of industrialized and advanced countries, nations lose their confidence and cannot undertake independent ventures for economic development. As an alternate to interest bearing loans and other tied financial assistance the foreign direct investment has been considered more viable. This is also because of the reasons that domestic resources i.e. raw materials are saved from sale at through away prices at the hands of the lenders. Also the infant industries in the developing countries based on indigenous machinery and run by local entrepreneurs cannot compete in a global market monopolized by industrially advanced countries.

Again the poor repaying capacity of the developing countries is worsening the situation by adding to the external liabilities day by day.

Table 4 *International Investment Position of Pakistan vis-a-vis GDP (Amount in US $ billions)*

Year	FDI in Pakistan-Stock as on Dec.**	FDI Growth rate	GDP (Constant 2010 US$)	GDP growth	Gross Fixed Capital Formation	Increase in GFCF-Growth rate	GFCF % Growth
2007	25.622	87.27%	166.953	4.83			
2008	16.473	-35.71%	169.793	1.7	29.944		
2009	17.675	7.30%	174.601	2.83	26.82	-3.124	-10.432
2010	19.828	12..181%	177.407	1.61	25.2	-1.62	-6.429
2011	20.916	5.487	182.283	2.75	26.764	1.564	6.206
2012	19.829	-5.197	188.675	3.51	30.272	3.508	13.107
2013	25.091	26.54%	196.97	4.4	30.912	0.64	2.114
2014	33.193	32.29%	206.178	4.67	31.896	0.984	3.183
2015	34.427	3.77%	215.933	4.73	38.219	6.323	19.823
2016	42.074	22.21%	227.867	5.53	39.292	1.073	2.807
2017	41.638	-1.036	240.857	5.7	44.365	5.073	12.911
2018	42.876	2. 97%	253.94	5.43	47.712	3.347	7.54
2019				3.3			

From the above table it is evident that during the period under study the stock of foreign direct investment in Pakistan fell from US $ 25.622 in 2007 to 16.473 in 2008. The table further reveals that till 2012 the FDI Stock in Pakistan has been fluctuating and that too in the range of US $16.473 to 25.662. It, however, went on increasing from 2013 and then gradually reached maximum figure level of 42.876. The average stock during the period can be accounted for as US $23.67 billion. Nevertheless, the GDP of the country rose from US $166.953 to 215.933 in 2015which mean that there is an increase of US$ 48.980 in the total GDP of the country. Afterward the GDP gradually increased and reached a maximum level of US$253.935 in the year 2018. There has been a rise of US $ 86.982 over the level of 166.953 in the year 2007. The average growth rate during the period from 2007 to 2018 is 3.971%. Another very interesting point for discussion is fall in stock of FDI from US $ 20.916 in 2011 to 19.829 in the year 2012 while the GDP growth rate rose from 2.75 % to 3.51 % during the same period. Encouragingly the rate of GDP growth has been constant since 2011 onward but it fell to 3.3 % in the year 2019 inspite of the fact that FDI rose from US $ 42.876 in the 2018 to US $51.2 billion in first quarter of financial year 2019 -20.

Stock value of FDI which stood at US$ 25.622 at the end of 2007 rose to 42.876 at the end of December 2018. There is an increase of US $17.254 which is 67.340% over the year 2008.Against this change, the GDP rose from US%

166.953 in 2008 to 253.935 at the end of 2018.The overall increase in GDP accounts 51.500 % during the period which obviously reflects no impact of FDI on GDP growth. 18Interestingly the GDP growth rate escalates within the range of 1.61 % to 5.70 % while the FDI growth rate contained a negative characteristic falling to minus 35.707 % in the base year 2008 to -5.197 in 2015and again to -1.036 in year 2017. It is only from the year 2014 on ward that growth in both sectors continued increasing though with different rates.

Table 4 gives a picture of relationship between foreign direct investment, gross domestic product and gross fixed capital formation. The study period has been taken from year 2008. The research is basically carried out to know the impact of Foreign Direct Investment on promotion of Gross Domestic Products. Nevertheless, since long term growth takes its origin from infrastructural and fixed capital building, therefore, in view of pivotal role played by Gross Fixed Capital Formation, it has also been counted as one of the growth indicators and a development determinant variable.

Looking at the rate of growth in gross fixed capital formation it again attracts attention because although GDP growth rate continued increasing, the growth in gross fixed capital formation received a set back during the years 2009 to 2011 when GFCF value fell from 29.944 in the year 2007 to 26.764 in the year 2011.Again it remained constant during the year 2012 and 2013 when GDP growth rate rose from 3.51% to 4.4 % in the same period.

Figure 1 explains the relation between FDI and GDP and again FDI and GFCF. Dark blue curve represents Gross Domestic Product at constant price of 2010. The curve is gradually rising up throughout the period. From the year 2008 to 2013 the curve moves upward at slow rate. However, from 2014 onward it ascends steep and shows that the economy grows at comparatively fast rate. Red line represents FDI curve and pink line denotes Gross Fixed Capital Formation. Both curves twist each other after year 2014 which means there is a relationship between the two but not coinciding. The only common characteristic is that both tell about fluctuating rate of growth. Light blue curve represents Gross Domestic Product growth rate which moves very slowly against the Green curve showing Gross Fixed Capital Formation highly fluctuating and instable. This is not because of FDIs but due to political instability and insecurity to life in the country which creates uncertainty and discourages foreigners to invest in Pakistan.

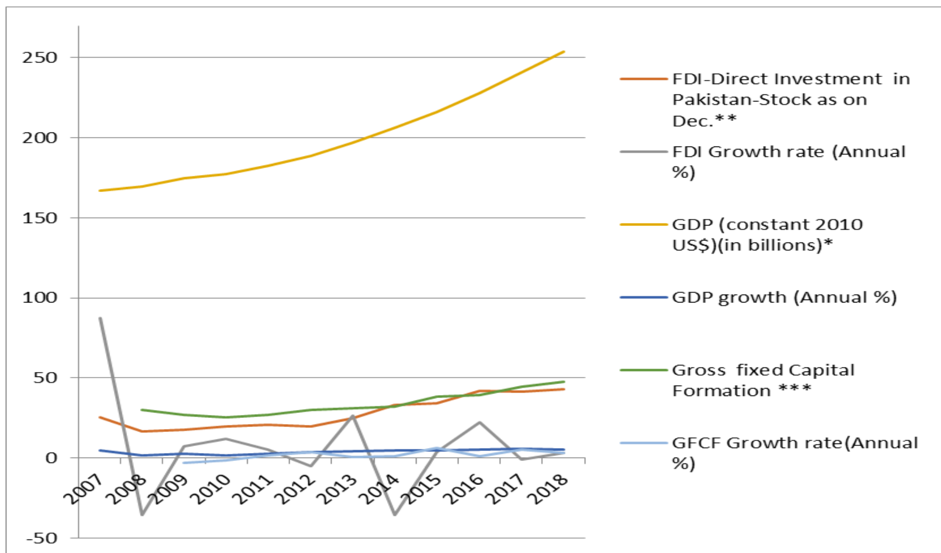

Figure 1 Diagrammatic Presentation of Relationship between FDI, GDP and GFCF

Gross fixed capital formation growth is very escalating and obviously tells a very uncertain and instable tendency. Nevertheless, overall gross fixed capital formation has been steady and moving upward since 2010. This phenomenon depicts that under all circumstances the gross fixed capital formation has a relationship with foreign direct investment.

Conclusion

Obviously direct foreign investment is good omen for developing countries. It is in fact indispensable for economic growth amidst rising demand for investment funds and acute dearth of capital within the economy. It is the only alternative to external interest bearing borrowing which adds to fixed capital formation.

The FDI brings with it huge amount of technology and expertise which adds to efficiency and productivity of the local population by availing hands on training facilities. The acquisition of modern sophisticated machinery requires huge amount of foreign exchange. The direct investor install such machinery without involving foreign exchange liabilities to pay for. The manufacturing machineries which might have cost in the form of borrowing (to purchase Machineries) is brought in by the investors themselves.

The FDIs are helpful in building infrastructure facilities and social services like communication facilities besides education, training and health to workers of the manufacturing units.

Unlike portfolio investment, FDI builds infrastructural base which is long lasting. It is long term investment accruing benefits for considerable long time and adding to productive process by increased efficiency due to modern sophisticated machinery. The product quality is improved with an edge in the international sale market. The Multinational companies operating across the country not only help in strengthening relationship among the partner countries but have substantially added to the import substituent and lessened the burden of foreign exchange payments.

The most important benefit of foreign direct investment can be derived out of the activity of converting raw material into finished goods for export instead of exporting raw material at throw away prices at the hands of industrially advanced countries.

Notwithstanding, numerous advantages of FDI, its other side is not to be lost sight of. Cross culture impact on local population has been found injurious from social point of view. Local traditions are fading away which has seriously and adversely affected social norms leading to self-indulgence life style. Due to multiplier and accelerator’s effect inflationary whirlpool creates unrest in society and people’s confidence in state is shattered resulting in political instability in the short run.

Apart from theoretical knowledge and study point of view, the significant role played by FDIs in the economic development of South Asian and African countries, needs no exaggeration. Unlike Portfolio Investment Foreign Direct Investment is a long term investment and, that too, of permanent basis in fixed assets which strengthens the economy and helps in ensuring economic stability

It has provided bases for infrastructural development, added to productive activities, provided employment and increased further employment opportunities in the country. Taking an example of Toyota Indus alone it is found that the company has employed a work force of 3349 person and also appropriated a sum of PKR. 5.942 million as tax in its financial statement for the year 2016. Table 5 gives information on few foreign based companies which have been sponsored by foreign investors.

Table 5 *Job/Tax Contribution of Foreign Funded Companies Operating Pakistan*

#	Name of Multinational Organization	No. of Employees	Contribution to National Exchequer in form of taxes etc
1.	Unilever Food Pakistan	30,000	Rs. 551.00 (m)
2.	Toyota Indus Motors Pakistan	2849	Rs.39 (b) Contribution to national exchequer
3.	Philip Moris Pakistan	1020	Rs.5.238 (b) Tax Rs.13.594 E. duty
4.	Suzuki Pak motors	Not disclosed	Rs.41.218(b) duties and taxes in 2018 + 55.396 (b) saving in foreign exchange
5.	Nestle Pakistan limited	4466	Rs.5.396(b) Tax
6.	GlaxoSmithKline Pakistan	2000	Rs 3.7 Billion (Taxes, customs etc.)
7	Cellular companies	separate data for Pakistan not disclosed	

Sources: Companies' Respective sites.

The above table reveals that FDIs are not only building permanent assets structure in Pakistan but have also been contributing billions of rupees by way of taxes and other Govt. duties besides providing employment to large number local population.

China Pakistan Economic Corridor (CPEC) is a good example of FDI. Out of an amount of US $ 50 billion a sum of US $ 35 billion has been allocated for energy projects by way of foreign direct investment. China has already invested US $ 12 billion in 12 energy projects which will add 13180 MW to electric energy supply through National Grid in the country by the year 2022. Also on completion of Silk Road Economic Belt, the connected facilities will definitely change the geo-economic map of Pakistan.

Suggestions

- No doubt foreign direct investment is a good alternate of external borrowing because it saves the country from repaying loans with multiplicand of interest, yet it becomes incumbent upon the authorities to choose and select those FDIs who can gear up industrial growth through large scale industrialization process.
- Each foreign investor must be facilitated and encouraged to use local raw materials. Import of indispensable machinery be allowed without ant duty or with concessional/ minimum duties.
- The investors should provide location suitable for arranging skill development and professional competence of the local population so as to

enable them undertake the responsibility of operation independently which will in long run reduce reliance on foreign expertise.

- The foreign investors be allowed credit facilities for meeting working capital requirements.
- Announcement of Special relaxation in the VISA policy for investors from abroad will attract large quantity of funding.
- Tax holiday for a minimum period of three years will enable FDIs to stabilize the industrial set up and encourage other investors to select Pakistan for their investment.
- Foreign investment may not be limited to industrial sector but service industries, particularly health may also be included in the list for foreign direct investment. Here again FDIs be attracted to undertake Greenfield investment which will simultaneously increase employment opportunities.
- So far agriculture has been one of the neglected sectors in case of FDIs. Keeping in view the basic role of agriculture in economic growth of Pakistan, FDIs be encouraged to invest in agro based industries besides direct undertaking projects helping in boosting per acre agricultural produce.
- Reduce restriction, duties and levies for enabling investors to assess viability of investment and agree to Greenfield investment which will in building ground for other investors and will add to induced investment.
- Special concession in custom duties be allowed and labor laws be waived off on units established in special industrial zones.
- To encourage and facilitate foreign investors Govt. of Pakistan must develop and maintain strong and reliable database which can help foreign investors in selecting industries and locations for investment.
- Govt. may set up facilitation centers in industrially advanced countries for providing necessary information to FDIs and offer incentives for establishing and promoting export oriented industries which will lessen burden on foreign trade balance of Pakistan.

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