Foreign Direct Investment (FDI) & Export

The role of Foreign Direct Investment has been broadly important in the growth & development of the developing economy. Foreign direct investment (FDI) has positive impact on economic growth through the injection of financial resources and technological diffusion. The development of the domestic financial system of the host country is a significant pre-condition for FDI to have a positive impact on economic growth and development of the country. FDI is considered the predictor of the economic development as it provides external resources and advance technology to the economy which act as an engine to the economic growth. Today, the more developed countries or economies have sound financial system positively contribute to the process of diffusion of financial assets and technology in the less developed economies for the mutual benefits of both the economies in short as well as in long-run. Through this effort, domestic financial system achieves a certain minimum-level of development so that it also attracts further foreign companies to invest.

With FDI, export is also a part of globalization as it is also playing a vital role in the economic success of the country and it has great effect on the GDP of the country. It is obvious that the "foreign exchange earning" of a country is so much important as every country maintain the foreign exchange reserves to maintain their financial stability. So many countries are interacting with each other by the relation of exporting products to the other countries for the purpose of earning foreign exchange earnings.

FDI & Export of Pakistan:

Foreign Investment inflows in Pakistan ($Millions)

Country Wise FDI Inflows ($ Million)*

Country	2010-11	2011-12	2012-13	2013-14	2014-15 (Jul-Dec)
USA	238.1	227.7	223.0	212.1	124.9
UK	207.1	205.8	632.3	157.0	63.3
U.A.E	284.2	36.6	19.9	(78.1)	103.1
Japan	3.2	29.7	30.7	30.1	43.2
Hong Kong	125.6	80.3	242.6	228.5	72.1
Switzerland	110.5	127.1	149.0	209.8	(8.2)
Saudi Arabia	6.5	(79.9)	3.2	(40.1)	(63.7)
Germany	21.2	27.2	5.0	(5.7)	(5.0)
Korea (South)	7.7	25.4	25.8	24.4	0.8
Norway	(48.0)	(275.0)	(258.4)	(21.6)	0.0
China	47.4	126.1	90.6	695.8	147.8
Others	631.3	289.7	283.6	255.4	50.8
Total including Pvt. Proceeds	1,634.8	820.7	1447.3	1667.6	529.1

Privatization Proceeds	0.0	0.0	0.0	0.0	0.0
FDI Excluding Pvt. Proceeds	1,634.8	820.7	1447.3	1667.6	529.1

18.9% increase in Net FDI in 2014-2015 (July-December) as compared to 2013-14 (July-December). Note: Pakistan’s Fiscal Year runs from 1st July till 30th June. The figures in brackets are in negative.

Sector Wise FDI Inflows ($ Million)*

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15 (Jul-Dec)
Oil & Gas	.2	.4	.6	502.0	158.6
Financial Business	310.1	64.4	314.2	161.8	97.1
Textiles	25.3/td>	29.8	10.0	(0.2)	24.7
Trade	53.0	25.3	5.7	(3.2)	26.8
Construction	61.1	72.1	46.0	28.8	11.7
Power	155.8	(84.9)	28.4	71.4	52.1
Chemicals	30.5	96.3	71.6	94.9	49.4
Transport	104.6	18.7	44.1	2.7	0.1
Communication (IT Telecom)	(34.1)	(312.6)	(385.7)	434.2	82.0
Others	416.3	282.6	872.6	375.2	26.6
Total including Pvt. Proceeds	1,634.8	820.7	1447.3	1667.6	529.1
Privatization Proceeds	0.0	0.0	0.0	0.0	0.0
FDI Excluding Pvt. Proceeds	1,634.8	820.7	1447.3	1667.6	529.1

18.9% increase in Net FDI in 2014-2015 (July-December) as compared to 2013-14 (July-December). Note: Pakistan’s Fiscal Year runs from 1st July till 30th June. The figures in brackets are in negative.

*Board of Investment (http://boi.gov.pk/)

MAJOR COMMODITIES EXPORT FROM PAKISTAN

S. NO.	COMMODITIES	JULY-DECEMBER 2013-14	JULY-DECEMBER 2012-13	CHANGE VALUE	CHANGE %	JULY-DECEMBER 2013-14 % SHARE	JULY-DECEMBER 2012-13 % SHARE
						VALUE IN '000.$	
GRAND TOTAL		**12,616,554**	**12,024,295**	**592,259**	**4.93**	**121.83**	**119.59**
		12,616,554	12,024,295	592,259	4.93	121.83	119.59
1	COTTON FABRICS	1,426,972	1,325,160	101,812	7.68	13.78	13.18
2	KNITWEAR (HOSIERY)	1,120,648	1,063,689	56,959	5.35	10.82	10.58
3	COTTON YARN	1,089,703	1,106,805	(17,102)	(1.55)	10.52	11.01
4	BED WARE	1,079,224	877,606	201,618	22.97	10.42	8.73
5	RICE	944,078	749,827	194,251	25.91	9.12	7.46
6	READY MADE GARMENTS	926,493	867,634	58,859	6.78	8.95	8.63
7	CHEMICAL & ITS PROD.	611,960	374,930	237,030	63.22	5.91	3.73
8	PETROLEUM & ITS PRODUCTS	485,435	894	484,541	54,199	4.69	0.01
9	TOWELS	370,136	377,871	(7,735)	(2.05)	3.57	3.76
10	TEXTILE MADEUPS (EXCL.B.WARE & TOWELS)	319,952	285,871	34,081	11.92	3.09	2.84
11	CEMENT	258,400	304,319	(45,919)	(15.09)	2.50	3.03
12	LEATHER TANED	251,571	220,981	30,590	13.84	2.43	2.20
13	JEWELLERY	218,817	970,288	(751,471)	(77.45)	2.11	9.65
14	LEATHER GARMENTS	217,547	199,919	17,628	8.82	2.10	1.99
15	FRUITS	204,875	151,132	53,743	35.56	1.98	1.50
16	FISH & FISH PREPARATIONS	182,666	156,854	25,812	16.46	1.76	1.56
17	ART SILK & SYNTHETIC TEXTILES	171,897	162,733	9,164	5.63	1.66	1.62
18	SURGICAL INSTRUMENTS	164,854	152,599	12,255	8.03	1.59	1.52
19	ENGNEERING GOODS	159,256	123,251	36,005	29.21	1.54	1.23
20	SPORTS GOODS	152,206	153,288	(1,082)	(0.71)	1.47	1.52
21	RAW COTTON	138,866	78,199	60,667	77.58	1.34	0.78
22	LEATHER GOLVES	104,539	84,359	20,180	23.92	1.01	0.84
23	VEGETABLES	81,850	65,554	16,296	24.86	0.79	0.65
24	CARPETS & RUGS	68,907	63,840	5,067	7.94	0.67	0.63
25	BEEF	67,948	59,649	8,299	13.91	0.66	0.59
26	FOOTWEAR	52,865	49,047	3,818	7.78	0.51	0.49
27	MARBLE & STONES	43,828	34,806	9,022	25.92	0.42	0.35
28	CUTLERY	42,978	41,949	1,029	2.45	0.42	0.42
29	TENTS & CONVAS	37,845	48,335	(10,490)	(21.70)	0.37	0.48

30	MUTTON	29,778	51,303	(21,525)	(41.96)	0.29	0.51
31	YARN OTHER THAN COTTON YARN	19,373	22,733	(3,360)	(14.78)	0.19	0.23
32	MOLASSES	15,399	103	15,296	14,850.49	0.15	0.00
33	KNITTED/CROACHED FABRICS	14,798	17,912	(3,114)	(17.38)	0.14	0.18
34	OTHER LEATHER MANF.	7,483	6,869	614	8.94	0.07	0.07
35	ONYX MANF.	3,829	4,012	(183)	(4.56)	0.04	0.04
36	FURNITURE	3,519	3,837	(318)	(8.29)	0.03	0.04
37	PRECIOUS/SEMI-PRECIOUS STONES	2,978	2,343	635	27.10	0.03	0.02
SUB TOTAL		**11,093,473**	**10,260,501**	**832,972**	**8.12**	**107.12**	**102.04**
OTHER COMMODITIES		**1,523,081**	**1,763,794**	**(240,713)**	**(13.65)**	**14.71**	**17.54**

Pakistan in today’s world is also considering a developing country working for the economic development through globalization (FDI and export etc.). There are a variety of channels through which FDI and export are promoting economic growth of Pakistan. Pakistani products (surgical instruments, leather products, textile products, sport’s articles and sportswear, rice, fruits, fish and other eatables etc.) are famous in international market and the huge source of foreign exchange for Pakistan. On the other hand, there are lots of sectors where FDI inflow in Pakistan performs a notable role in the economic growth of Pakistan. Some successful example of inflow of FDI in Pakistan are Nestle, Standard chartered, P&G, Toyota, Telenor, China Mobile, Yamaha, Metro and Coca Cola etc.

Impediments in FDI inflow and Export:

- One of the major reasons that discourage the investors from coming to Pakistan is a series of cumbersome bureaucratic procedures that they have to pass through before they can set up their enterprises.
- Today in Pakistan, security situations also adversely affect the inflow of FDI by the foreign Countries. Many businesses also prefer to hold their annual meetings, conferences and important business meetings outside Pakistan.
- Currently, Pakistan is facing a continuing decline in foreign investment flow because of the worsening law and order situation.
- Also keeping the investors away are energy crisis and bureaucratic red-tapism.
- Rampant corruption in different departments, longer deficiency of electricity and gas, lack of long-term policies, political uncertainty and forcible extortions are among other disincentives. As a result, both foreign and local capital is moving to more attractive destinations rather than Pakistan.
- There is a crucial need of infrastructure for conducting businesses, in Pakistan; lack of infrastructural facilities proves a big obstacle in the way of export & FDI.
- Tax related issues obstruct the way of both; FDI inflow and export of the country.

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* Trade Development Authority of Pakistan (TDAP)

Recommendations:

There are many potential sectors for investment in Pakistan to promote the economic activities so, It is recommended that the policy makers and governments should focus on improving infrastructure; creating transparency in the trade policy, stabilize political environment, increase human resources and creating a stable macroeconomic framework for attracting more and more foreign cash inflows in order to increase economic growth of Pakistan. Following are some recommendations for increasing the FDI and export of Pakistan.

- Government must focus on the country's security situations for attracting the foreign investors and foreign customers. Political stability and improved law and order conditions are imperative for industrial development. Trade-boosting strategies should be evolved to flourish and promote trade abroad and to boom up national exports by taking the exporters into confidence. The government should strive to promote "soft image" of Pakistan globally for opening the trade promotional ways and for bringing maximum foreign investment in Pakistan by rebuilding the confidence of the foreign investors.
- Foreign missions abroad should establish the effective linkages with all the local chambers in Pakistan and must fulfill their responsibilities to create awareness about our potential products through marketing in other countries.
- Pakistan is an agro-based country, as it has the potential to produce a large variety of agricultural products and live-stock and is self-sufficient in human resource. The government must plan to invite foreign investors for establishing such productive industrial units for which raw-material (agricultural products and live-stocks etc.) is provided from our home based industry.
- Pakistan is one of resource rich countries in the world having a large amount of oil, iron, titanium, aluminum, coal, gas, gemstones, copper and gold reserves which are a necessity for any growing economy. So, there is a large room for foreign investment in the field of extraction of mines with the beneficial investment policies for both the countries.
    - This step not only increases the FDI of our country but also can increase our energy power generation which ultimately increase our industrialization and export as well.
    - It has estimated that there are fresh recoverable shale gas reserves of 105 trillion cubic feet (TCF) and more than nine billion barrels of oil in Pakistan. So, our government must not to avoid such a precious resource.*
- Transportation system serves as the backbone of any industry but our road links, railway and cargo system is inefficient in facilitating the industry, government should focus on the investment on the base of following criteria;
    - Roads linked with rural areas and main cities must be properly constructed for better approach and smoothing the internal trade directly and export indirectly which also enhance FDI.
    - Government must invest heavily in the improvement of physical and financial structure including shipment, clearance, cargo system, handling at the ports and airports for smooth flow of export and import of good.

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*DAWN.Com

On the other hand such facilities by the government must attract the foreign investors in our country. As in Karachi here are number of ports handling export and import cargo both in private and public sectors. These ports are levying huge amounts of charges under number of heads. These heavy levies charges substantially increase the cost of doing business especially for exporters making them less competitive in the International Market. It will ultimately result in reduction of exports and nullifying the Government efforts to narrow the gap of balance of payments. It is recommended that The Government of Pakistan may perform its advocacy role in order to set up an independent and powerful Tariff Regulatory Body to cover the entire spectrum of shipping lines, terminal operators, agents, freight forwarders and others. Moreover, it is requested that the cargo routed through up-country dry ports may be exempted from Karachi ports charges to avoid double levy of port charges.

  - All Pakistan Dry port association has serious reservations on levy of 16% sales tax by Punjab revenue authority on service provided by up-country dry ports as it will severely affect the volume of the business being carried out through these dry ports. All dry ports were formed through establishment of Trust by the exporters of the region such as Sialkot Dry port Trust, Multan Dry port Trust and Faisalabad Dry port Trust. These trusts were not only formed through their own resources but also bearing the cost of utilities and maintenance of Government Departments working at these ports. Sialkot Chamber of Commerce & Industry recommends the Government to give necessary exemption from Punjab Sales Tax on the services provided by all Dry Ports.
  - Govt. should utilize the non-active Sambrial interchange and link it with Sialkot dry port to facilitate the inflow and out flow of exporting products and goods.

- There is also a large scope to invite the foreign investors to invest in the field of research & development side, material testing laboratories in industrial cities. On the other hand, Government also should focus on the betterment of these sectors from their own resources for the following purposes;
  - In developing economies like ours, research and development is the most important area of concern. For upgrading and modernizing the export-oriented industries, research and development facilities are urgently required. R&D centers must be established to facilitate the industry. These centers should be efficient enough to educate development tactics to businessmen especially young entrepreneurs in order to compete with their competitors in international markets,
  - Establishment of material testing laboratories to facilitate product development. This would help in cost optimization of the product with enhanced quality. It will enable the industry and our export to move into a higher technological ambit.
  - Common Facility centers to support new enterprise must be established e.g. for surgical and other such industries because their production process is quite long and complex.
  - For acquiring technical assistance in export oriented small cities e.g. Sialkot, government must try to start technical and engineering universities.
- Today, many countries are entertaining their importers with long term trade deals at reasonably low rates to sustain their customer for long run. But Pakistani exporters fails to adopt such strategies because of constant fluctuation in prices of oil, gas, electricity, material’s cost etc. Therefore our exporters could not reach out to their real potential. In this regard Govt. and other trade related bodies must perform their role by framing some price policies of industrial

related facilities to maintain price consistency to the industrialist for enhancing the international trade and this tactic also can prove a green signal for foreign investors in Pakistan.

- Finance is the real need of any business, to flourish export and to attract the foreign investors in our country;
    - State bank must frame such policies to provide financial assistance to the traders with less paper formalities and complications at reasonable rates.
    - Credit policies should be framed in favor of our industrial and trade sector. One of the key strategies to be employed for the uplift of the industry is, to provide special packages of incentives for small and medium enterprises. Interest free loan on easy terms and conditions must be given to young entrepreneurs. Export finance schemes must be devised for both short and long term financing. Credit enhancement incentives must be provided with the view to enhance the access of small and medium exporters to bank credit.
    - There must be taken strong steps by the government for the establishment of **"Exim bank"** for promoting international business.
- The advanced manufacturing and production technologies should immediately be brought in Pakistan from abroad for developing and boosting these industries in the larger national interest.
    - Govt. should provide funds and subsidies to import latest technologies required for surviving in such a competitive business world.
    - On the other hand, government pointed out the major export oriented sector e.g. textile, surgical, sports goods, leather and food items etc. and invite foreign investors to invest in the production technological machinery in Pakistan. In this way, we can enhance the export & FDI of our country side by side.

- For promoting international trade, Government and International Trade related bodies must play their role to promote **standardization** and **certifications** among the SME's through awareness regarding the value of standardization and certifications. Incentives, special subsidies and facilities must be provided to the credible certified businesses so that they inspire all other businesses to match up to the standards for availing the facilities that they enjoy.
- For reducing the grievances of the industrialist and exporters, Government should provide them the "**One window operation**"

    - Govt. should devise policies with the mutual consent of concerned departments for providing the facility to the exporters as they pay their whole tax liability at once to eradicate their grumbles regarding tax issues.
    - Govt. and concerned authorities must try to abridge the complicated procedure of trade and tax related documentation in many govt.'s departments to facilitate foreign exchange earners of the country.
- Training centers must be established under TEVTA and other boards to provide more skilled labor to our industry as well as the existing training centers must also be developed by all means. With the collaborative efforts of government and businessmen, such projects must be established in nearby rural areas of industrial cities to attract labor class to enhancing their skills.
- Pakistan fails to enjoy the GSP+ status by European Union, due to many reasons e.g. less standardization in our country, lack of electricity and gas etc. but Pakistan has the potential to

take benefits from this glorious opportunity to flourish our international business and to promote FDI.

- The UAE is one of the largest investors in Pakistan with a focus on telecoms, banking, financial services, aviation, real estate and energy. 27 UAE companies are working in Pakistan in joint ventures, with a $21 billion investment. Pakistan is a key recipient of development assistance from the UAE*. Government must try to strengthen such a lucrative economic tie with the UAE as well as try to make such business bonds with other developed countries.
- Pak-China economic corridor is a very ambitious effort by China and Pakistan that will lead to greater investment and rapid industrialization of Pakistan. Successful implementation of it will be a game-changer for the people of Pakistan in terms of new economic opportunities leading to higher incomes and significant improvements in the economy of Pakistan. While the commitment is there on both sides to make the corridor a reality, there are many challenges e.g. maintaining security and political stability, ensuring transparency, good governance and quality of execution etc that need to be overcome by the Government of Pakistan for the great success of such a productive deal with China.
- As per the scheme of Government, 1% Adhoc Relief fund on Export Value was provided to the 14 export sectors including Sports Goods and Surgical Industry on the Trade Policy 2009-10. The interim relief was provided in the form of additional duty drawback @ 1% of the export value for the exports made from July 1, 2009 to June 30, 2010, forwarded by concerned associations to TDAP along with their recommendations. Since the lodgment of claims, this issue has been brought to notice of TDAP time and again by the concerned association and Sialkot Chamber but no relief has been provided in the form of payment of claims. In order to resolve the issue and facilitate the export & Industry, Government should take gallant steps for the clearance of these claims.
- Government with the help of concerned institutions and departments must focus the problem of inordinate delay in payment of Sales Tax refunds that has created immense financial crunch for the Industry with the Passage of time. Presently, approximately 700 refund cases involving amount of PKR 400 million are pending with the FBR. Similarly the matter of Duty Draw Back claims of over PKR 2 Billion also remains pending. Despite the continuous follow-up with the Ministry of Finance, Chairman FBR, Member Customs and other relevant quarters, no funds have been cleared as yet. Positive efforts by Government in this regard can alleviate hardships of the export industry.
- Another important issue or grievance by the exporters is the mistreatment of Export Development Fund (EDF), the purpose of this fund was “to strengthen and develop infrastructure for promotion of exports”. Unfortunately, and unequivocally, the fund has been a victim of misuse since its inception. The fund is being exclusively financed by the exporters, with nothing from the government; and it should be utilized solely for the purpose of infrastructural development projects related to export sector. It is also suggested that 70% funds are spent in area from where it is collected and 30% may be allocated in common pool. It is also recommended a permanent representation of Sialkot Chamber of Commerce & Industry be ensured in EDF board in order to eliminate the bottlenecks in development of Export Sector because Sialkot is the biggest export city of Pakistan. And

*Dailytimes.Com

Government may also look forward to contribute its share in the EDF fund in order to boost the increase as per compliance of the vision presented by Federal Government of Pakistan. This step taken by the Government for export enhancement will definitely prove a key to open the door of more and more success in international market as well as to invite more FDI to create favorable infrastructure for the industry.

- Sindh Government has imposed Infrastructure Development Cess @ 0.95% on imports which is increasing the costs of production for the Exporters making it difficult to compete in the International Markets. It is pertinent here to mention that the Sindh Government has no justification of applying such levy as Afghan Transit was exempted from it and a significant amount of fortune has been submitted by the Manufacturers who import Raw materials from Punjab especially Sialkot. We highly recommend that our Government and the Federation of Pakistan Chambers of Commerce & Industry may take up this matter with the Sindh Government and join hands with the Export Industry of Pakistan for elimination of this Cess in order to provide relief to the exporters.
- The Export Industry of Pakistan is also facing issues with Anti Narcotics Force and Custom Handling of Shipments at Karachi ports. The rechecking of consignments by ANF Sindh having been checked by ANF Punjab has been causing significant delays and repacking issues. It is mentioned that with collaboration of all stake holders, a priority list was formed by ANF for consignments routed through Sialkot Dry port Trust with state of the art tracking system, which sadly is not being followed. It is therefore requested that FPCCI and Government may settle this issue in order to facilitate the Export Sector by deployment of Container Scanners on All Ports to avoid rechecking and delays in shipment clearance.
- The ECO Container Train started its demonstration run from Islamabad on 14th August 2009, coinciding with the Independence Day of Pakistan. The said initiative allowed for a container of merchandise to reach Istanbul from Karachi within 01 week whereas it took between thirty to forty five days for the consignments to reach Istanbul by Ship. The ECO Container Train on Islamabad-Tehran-Istanbul route marked a major victory for the development of ECO transit transport system. It was also a bright spot for boosting trade among the three important regional countries, as well as creating a crucial corridor for East-West business linkage. It was also interpreted as the manifestation of the 'Silk Road' in actual life and not in the hind pages of history of the ECO region. Through this major project, the ECO region connected East and South-East Asia to Middle East and Europe. However, the operations of said train were stopped due to unknown reasons which projected so much potential and reduced the time for the consignments to reach destinations. Sialkot Chamber of Commerce & Industry recommends the government to take up the matter with the Government authorities and relevant Ministry for re-initiation of ECO Train as it has immense potential for an efficient supply chain route for Pakistan.

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