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Reviewing Pakistan's investment potential as a foreign investor

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Abstract

This analytical review aims to introduce Pakistan, a land, capable of offering and extending investment opportunities to the foreign investors. On the basis of a detailed investigation regarding investment possibilities in Pakistan, the paper highlights the key areas including, the determinants of investments in Pakistan. The determinants of investment possibilities in Pakistan are described in the form of strengths and weaknesses attached to the international investment venture for the foreign investor's foresight.

Peer-review under responsibility of the organizing committee of ISMC 2016.

Keywords: Foreign investor, investment opportunities, investor's foresight.

1. Introduction

Pakistan officially known as the Islamic Republic of Pakistan, follows a parliamentary democratic system with an elected president as the head of state while a democratically elected prime minister as the head of government (Stephens, 2014). The country emerged on the global scene as an independent Muslim nation on 14th August 1947, after the division of the British Indian Empire (KPMG Taseer Hadi & Co., 2013). The country failed to enjoy steady operational start since most of the operational infrastructure and government machinery were left behind. While struggling to move on, the newly born nation has faced five Military takeovers and faced various serious challenges. Pakistan's economy is undoubtedly facing numerous internal and external problems since 2007-08 (Abdullah, 2015).Currently, the main issues affecting the economic performance of the country, includes the recent earthquake, devastating floods and rains, internal security hazards, and the continuous energy crisis. Though suffering from various serious set-backs, the economic condition of the country displayed an interesting trend of its average economic growth, at the rate of over 2.9% per annum, for the period of five years, 2007-13 (KPMG Taseer Hadi & Co., 2013).The above referred growth trend con-firms the strength of the country's economic physique and ability to stay afloat, despite of the current national and international challenges. This furthers the hope that the domestic and foreign investment will surely achieve confidence to initiate new business activities through increased level of economic investments. The Gross Domestic Product (GDP) in Pakistan gained 4.14 percent in 2014 as compared to the year 2013 (KPMG Taseer Hadi & Co., 2013). In the corporate growth terms, the industrial sector has experienced a

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slowdown in large-scale manufacturing to 3.3% due to the continued power shortages and weaker external demand. However, the small-scale manufacturing and the construction sector managed the overall industrial growth of 3.6% (KPMG Taseer Hadi & Co., 2013; Stephens, 2014).

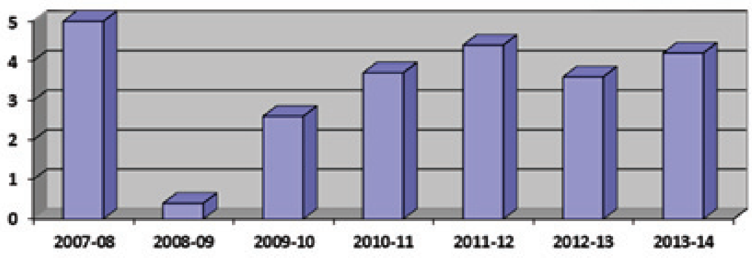

Figure 1. GDP growth for the fiscal years 2007-2014

The marginal growth in Agriculture sector at 2.9% is a discouraging fact linked to the continuing energy constraints, poor law in order situation and lack of interest by the domestic and international investors for several years. Foreign direct investment (FDI) is defined as an investment of foreign assets within domestic structures, equipment, and organizations (Kazmi, Naaranoja, Takala, 2013). All in all, Pakistan has managed foreign direct investment (FDI) of $545.4 million during the first two quarters of 2014-15, contributing to a minimal level of 1.4% as compared to the FDI received during the quarters of 2013-14 (Khaleeq Kiani, 2015).

2. Literature Review

2.1. Product innovation

Before taking a decision on initiating a business venture in Pakistan the foreign investors must explore information on a number of subjects relevant for investment planning or doing business in the region. Hence, following is an overview on the strengths and weakness of the country i.e. Pakistan to support the investors knowledge base.

2.1. Pakistan

The land of Pakistan covers the total area of 796,100 sq. km. The country is located in the South Asia, South-west Asia, Middle East and converges with Central Asia. It has a 1,046 Kilometer (650 mile) coastline along the Arabian Sea and Gulf of Oman in the South, and is bordered by Afghanistan and Iran in the west, India is in the east and China in the far northeast, Tajikistan also lies adjacent to Pakistan, but separated by the narrow Wakhan Corridor.

Pakistan is ranked as sixth most populous country and the second most populous Islamic country in the World. It's most attractive industrial hubs are the cities of Karachi, Faisalabad, Sialkot, Lahore. Karachi has a well-equipped sea port that contributes to the nation's overall, economic, trade and business growth. The country has sufficient natural resources e.g. coal, natural gas, gem stones, salt mines etc. Few recent discoveries in the field of oil and gas brought the attention of the Government towards the new explorations ventures in this Sector (The daily Dawn, 2015; Khaleeq Kiani, 2015; Khaleeq Kiani 2015). However, the main economic focus is in the area of agricultural growth, as it is basically an agricultural country having more than 70% of its population linked to field farming.

2.2. Pakistan's attractive business areas

Pakistan is basically an agricultural country and is regarded for its high quality crops namely; Basmati rice, cotton and fruits e.g. mangoes, apricots and citrus fruits. Government of Pakistan, through its trade development and export promotion bureau has taken initiatives to support its local farm product growers and exporters (Mohy-ud-Din, Javed, Shakir, 1993). Such governmental initiatives include the arrangements efforts in the form of trade exhibitions and relaxed trade polices to support local farmers, entrepreneurs or the exporters. Introduction of tax relief system at various business location or on different products is an additional step to encourage the local agricultural sector

(Mohy-ud-Din, Javed, Shakir, 1993; Anonymous, 2013). Government is still working on developing the Trade treaties among different countries in this regards.

Prior to the year 2008, Pakistan was considered one of the emerging powers in the field of business and trade. Pakistan's banking system and stock exchanges had touched heights in terms of growth and global recognition during the mid-2000. The country had witnessed tremendous growth in the field of telecommunication and IT sector, during the mid-2000. Country is blessed with ample of resources in addition to its cheap but trained labor market (Stephens, 2014). Hence, all the three sectors, agriculture, service and manufacturing, have shown positive strengths despite of being severely hit by issues such as energy crisis, law and order and lower level of trained staff and educated staff etc. The growth trends during the period of 2009 till 2013, on the referred sectors, can be seen through the following graphic representation (Stephens, 2014; Abdullah, 2015):

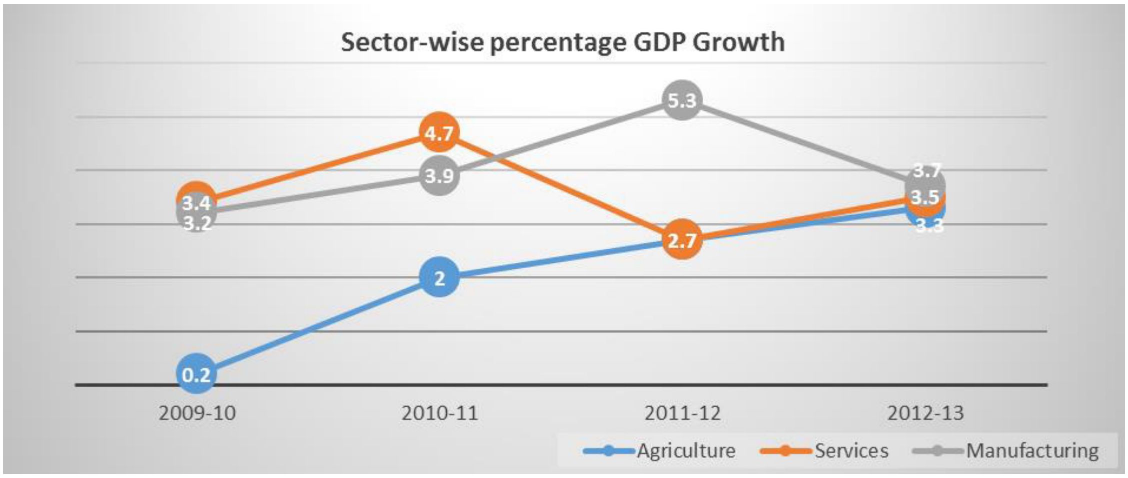

Figure 2. Sector-wise percentage GDP Growth

Explorations in the field of Oil and Gas in addition to the breakthrough in the field of Gems and jewelry exploration in the region of Swat, are indicating the expected growth in these fields too. An encouraging evidence is that Pakistan's inland oil production reached its highest level of 100,698 barrels per day on December 7, 2014 (The daily Dawn, March 14th, 2015). In addition, the country has announced , during November, 2015, an exploration of recoverable reserves of nearly 200 trillion cubic feet (TCF) of natural gas and approximately 58 billion barrels of oil in its shale structure, more than the existing conventional gas reserves of approximately 20 TCF and 385 million barrels of oil (Khaleeq Kiani ,2015a). All of above is in addition to the September 2015's discovery of crude oil, condensate and natural gas in Mianwali, district of Pakistan (Khaleeq Kiani, 2015b).

The recent establishment of a new international sea port at Gwadar, on its south-western coastline, on the Sea of Oman, offers strategic value. Tremendous economic growth is expected from it.

Numerous private universities and technical institutes have emerged to educate and produce trained technical staff and effective Human Resources. Currently, there are 128 creditable public and private sector universities catering the needs of the country.

The Government has taken steps to empower the private sector of the country through the process of privatization of numerous premiere public sector companies.

Pakistan made surgical goods and sports items are receiving international appreciation and recognition. Middle East, USA and Europe are among the main importers of Pakistani sports products. Sialkot, Pakistan's main sports manufacturing hub, has increased its exports by 20 percent to a record $1.05 billion in the year 2012-13 (Alam, 2015; Mathews, 2015). At one time, Sialkot was catering to 85 per cent of the total world demand for high-quality hand-stitched inflatable balls (Baloch, 2010).

However, this situation altered with the entry of China and India in the global market. Furthermore, the sports industry in Sialkot is currently amongst the major producers of Nike Inc (NKE) sports gloves, football for Addidas, Slazenger hockey sticks and Grays of Cambridge hockey and cricket products etc.(Memon, 2015).

Currently, Pakistan's textile industry involves 1,221 ginning units, 472 spinning units, and 425 small textile manufacturing units (Memon, 2015). In short, the whole textile infrastructure is currently contributing to approximately 55% of the country's total exports despite of the problems linked to the long standing energy crisis and grave law and order situation (Memon, 2015).

The country has seen the record level of cotton production, during the year 2012, of 14.8 million bales, after crossing the previous record level of production of 14.3 million bales in 2005 (Abdullah, 2015; Web Desk., 2014; Mathews, 2015). Furthermore, the textile exports from Pakistan reached the total worth of US $13.7 billion for the fiscal year 2013-14, though monthly revenues displayed declining export trend for the period of past twelve months (Web Desk., 2014; Anwar ul Haq, Usman, Hussain, Anjum, 2014). This trend, according to Pakistan Textile Mills Association, suggests that the current issues, namely; energy crises, law and order situations and related matters are affecting the production capacity of even the operational manufacturing units considerably (Abdullah, 2015; Web Desk., 2014; Mathews, 2015). Some of the international buyers of Pakistani products includes the brand such as Nike, Levi Strauss, Gap, Target and Walmart (Web Desk., 2014). The overall composition of national textile exports for the year 2012-13 is displayed as below ((Stephens, 2014; Abdullah, 2015) :

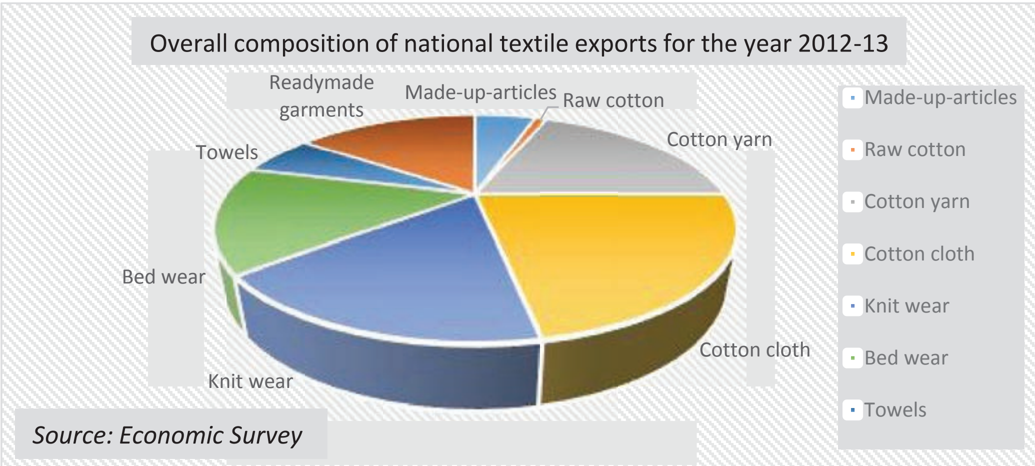

Figure 3. Composition of Pakistan's textile exports for the year 2012-13

Pakistan's cities of Swat and Mardan are endowed with gemstones reserves of 70 million carats and 09 million carats respectively (Anwar ul Haq, Usman, Hussain, Anjum, 2014). In addition, Pakistan's Kohistan District has approximately 10 million carat worth of gemstone reserves. The prominent types of Pakistani gemstones includes emerald, pink topaz and peridot, topaz, ruby and aquamarine (Anwar ul Haq, Usman, Hussain, Anjum, 2014).

2.3. Pakistan's weak economic areas

Pakistan, unfortunately has a very weak political and democratic structure. In its almost 68 years of life, the country has seen five Military takeovers, covering almost one third of its life time. The weak democratic structure and martial laws have gravely damaged its economic structure and business reputation, hence leaving very little confidence level by the internal as well external investors. Pakistan is blessed with excellent planners but extremely weak implementations. Therefore, our researchers and economists have successfully developed feasible and attractive national economic plans but hardly achieve success in their implementation. In Pakistan, the capitalist economic development is weak and confined to few urban areas only.

Pakistan is worst hit by energy resources. The domestic energy generation sources are restricted to hydropower, limited production of oil and gas, and negligible use of coal as the input for power generation. Even the decision to consume coal instead of electricity by the local cement manufacturing industry, did not help much since the additional quantity was being imported from Indonesia and some other countries. This caused the shortage in supply of electricity for domestic and industrial purposes.

In addition, the country fruits and vegetable exports remained around 15 per cent of its total farm output, though in the presence of a huge global demand for its agro based products (Anonymous, 2013). Some of the reasons behind the referred export imbalance are the improper infrastructure, low output, poor marketing techniques and the inefficiency of post-harvest management that has affected Pakistan's export potential of its fruit and vegetable. According to the national survey, out of the total production of 13.67 million tonnes of fruits and vegetables per annum, nearly 25 per cent goes to waste post-harvest season (Anonymous, 2013). This wastage is mainly attributed to the reasons, such as the absence of quality controls, lack of hygiene, improper transportation infrastructure and cooling facilities etc. To cover such loses the country continues to underprice its products to attract international buyers (Mohy-ud-Din, Javed, Shakir, 1993¸ Anonymous, 2013).

2.4. Economic opportunities in Pakistan

Pakistan's geo strategic location is in itself an opportunity to support economic growth of the country. The neighboring China in the far-eastern border has emerged as the super-economic power of Asia, India in the east is also emerging strongly on the map as a powerful economy. In the western border, it has economically disturbed and war torn Afghanistan, which is its biggest business and trade client. Along with Afghanistan, Oil rich Iran is also adjacent to Pakistan, which requires its land to supply its Gas to India and few other neighboring states, through pipeline network. Finally in its south Gulf of Oman and Arabian sea is located making a water way for the direct trade routes to those locations. Furthermore, Pakistan is also attached to "Tajikistan", a state, among one of the rich central Asian states, marginally disconnected by a narrow corridor. With the full operations of the Gwadar sea port, it is expected that the economy of the nation will be strongly benefitted. Some of the potential areas suitable for foreign investment includes; education sector, telecommunication and information technology, power generation and renewable energy, oil and gas exploration, industrial and commercial infrastructure and machinery, automotive industry, electronic and electrical equipment, construction, transportation, agricultural and textile machinery and equipment, fisheries, franchising, consumer goods (Stephens, 2014). Pakistan has a thriving market with a huge consumer base totaling up to approximately 180 million people.

Pakistan is blessed with low-cost, hardworking and trained labor force. Additionally, numerous big companies are having their manufacturing units due to the low cost of labor, infrastructure and economical raw material e.g. Nike, Sony, Suzuki, Toyota etc. (Mangi, 2014; Irfan ul Haq, 2010). Pakistan has the 9th largest labor force in the world. According to the labor force survey conducted for the period 2010-11, the total labor force in the country reached the number of 57.24 million, out of which 3.4 million people are mark out as unemployed workforce. In addition, the country's 50% population is below the age of 19 years (Stephens, 2014; KPMG Taseer Hadi & Co. 2013).

The country is blessed with fertile soil, best for vegetable and fruits. Arab states; namely UAE, Qatar and Saudi Arabia, have invested in its framing sector to overcome their food needs (Mohy-ud-Din, Javed, Shakir, 1993; Anonymous, 2013). Fruits especially, mangoes, apricots, apples, oranges, grapes, cherries and various types of dry fruits etc. are the pet crops of the nation, since it has researched and succeeded in producing numerous varieties of fruits. Middle East is the biggest importer of Pakistani mangoes and basmati rice (Mohy-ud-Din, Javed, Shakir, 1993).

Pakistani textile and leather manufacturing, sports and surgical items and handicrafts have hugely contributed to the nation's exports success till the mid of 2000. Pakistan leather exports reached the level of USD 722 million during the fiscal year 2012-13 (Stephens, 2014; KPMG Taseer Hadi & Co. 2013). Pakistan's textile and garments exports surged 45% over the period of five years (2009-14) to dollar 13.7 billion despite of the current crisis situation in the country (Mathews, 2015). The country is rated as the fourth largest producer of cotton crop while having third largest spinning capacity in Asia (Memon, 2015).

Pakistan is naturally blessed with a lot of tourist attractions, namely; mountain ranges suitable for mountaineering, ample of opportunities for water sports, nature and scenic beauty. Pakistan is additionally rich in archeological and cultural heritage like, Buddha, Mohinjo Doro, Harapa, Kalash heritage as well as the beautiful spots (like, Chitral, Hunza and Swat etc.) suitable to attract local as well as foreign tourists. Though the country is rich in tourism potential and resources but unfortunately such assets are not maintained properly to generate earnings through tourism (Baloch, 2010).

2.5. Threats for Pakistan's industrial growth

After 9/11, the law and order situation has deteriorated globally. The wars in Iraq and then in Afghanistan have hugely affected the economic, social and political environment of neighboring Pakistan. Pakistan is consistently paying very heavy price, due to assuming its role of a strong ally in the 'War on Terror'. The unrest in Afghanistan and the role of Pakistan resulted in numerous incidents of terror attacks and continuous army operations in sensitive northern areas of the country. Currently, the economic activity in the country has dropped to its historic lows, since internal as well as external business partners think it a non-feasible idea, to invest in the country.

Political unrest, after the long period of dictatorship rule is an additional threatening situation for the country to face with. This has affected smooth and steady growth of its institutions.

The country is currently facing the worst energy crisis affecting its major industries e.g. textile, leather, sports, cement, surgical items, to either running at their lowest levels or almost come to a halt. The critical situation of Pakistani textile industry has recently seen the brands like, Kanati Co., Canadian men's wear and Walt Disney to pull their ventures from Pakistan, owing to the reasons such as orders disruption, ever-growing energy crisis and the deteriorating law and order situation (Abdullah, 2015).

3. Conclusion

The knowledge of local culture is one of the key factors to decide or at least anticipate the success of any international corporate venture (Kazmi, Naaranoja, Worlin, 2014). Furthermore, it's important for the management experts, dealing with the multinational corporate affairs and the entrepreneurs to gain considerable amount of knowledge to completely avoid or to reduce operational complexities (Kazmi, Naaranoja, Worlin, 2014; Kazmi, Naaranoja, 2014; Kazmi, Naarananoja, Kytola, 2015). Pakistan's economy endures to face various domestic and external blows from 2007 onwards. Such issues includes the incidents of recent devastating floods and rains, the internal law and order hazards, and continuously lingering energy crisis. However, in the light of the GDP figures and related facts, it can be confidently stated that the country still holds ample opportunities for the domestic as well as foreign investors in the fields of energy, power generation, renewable energy, oil and gas exploration, engineering, automotive, industrial and commercial machinery, electronic and electrical equipment manufacturing, telecommuting-cation, mining, infrastructure, construction, transportation, agricultural machinery and equipment, consumer goods, health care, education, information technology etc..

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