WHY SHOULD FOREIGN INVESTORS CHOOSE PAKISTAN AS THEIR DESTINATION?

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Global economy in the future is going to be a market place in which more than 180 countries of the World will be vying with each other for capturing, maintaining and enhancing their share in the trade and investment. Like national markets where individual firms compete with each other, individual countries will have to compete with each other in the global market. Thus, each country has to demonstrate that it can outperform others.

While market size, low cost of production, the quality of infrastructure, political stability and productive human capital are important determinants for location of foreign investment, there are other important distinguishing factors and considerations which affect this choice. Pakistan has a misplaced negative image in the world due to heightened geopolitical and security risks. But a more balanced view will suggest that there are at least ten factors that tilt the balance of risks in favour of investors in Pakistan relative to other competitor developing countries.

First, Pakistani economy has developed resilience and response capacity to meet exogenous shocks and mitigate event risks and Pakistan's vulnerability indicators have made a positive turn around. During the last two years, Pakistan has faced at least four major shocks –

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September 11 and the Afghan war; December 13 and mobilization of Indian troops across the border; May 8, 2001 the bomb killing of French technicians in Karachi and the Iraq war. Historically, Pakistan's currency and money markets used to get destabilized in face of even a small adverse event. None of these events caused any ripple effect as far as exchange rate and prices were concerned. The economy faced each one of these shocks calmly and without any signs of volatility The foreign investors can thus be reassured that they can carry out business in a stable and certain environment and face the threats and risks of unforeseen events with least perturbance.

Second, there is no segmentation of markets, no restrictions on production or marketing of any products, no reservations of industry or sub-sectors for any particular group. Unlike several developing countries where the entire sectors or sub-sectors are reserved for small and medium entrepreneurs and the large scale industry is not allowed to enter those sub-sectors, Pakistan has an open and unrestricted trading and production regime. Investors can freely choose any activity or product where they feel they can earn a decent rate of return and no bureaucratic approvals of any sort are required.

Third, Pakistan has a liberal foreign exchange regime and the foreign investors can bring in their capital without prior approval or authorization by the regulator, repatriate profits, debt service payments, remittances, dividends, royalties, fees for technical services and other legitimate payments to head offices and suppliers overseas at their own convenience and discretion. At a time in 2000, when Pakistan had very low level of liquid foreign exchange reserves, large debt servicing payments were made by the single largest foreign investor in

Pakistan on time to their external creditors. This and the subsequent actions have amply demonstrated that Pakistan honours its commitments and obligations at all times.

Fourth, the Government was a major player in fixing the key prices in the country and at times these prices were arbitrary and detrimental to the interests of the businesses. Key prices in Pakistan – whether exchange rate, interest rates, commodities, inputs, outputs, imports or wages and salaries – are at present market determined and will remain so in future also. Price determination will no longer depend on the whims and caprices of the Government officials and thus the element of selective favours has been eliminated providing identical incentives for all competing players. This policy has removed a major source of uncertainty and the investors have complete control over the prices and thus on profitability.

Fifth, one of the main obstacles to proper investment planning for foreign investors in Pakistan was weak economic governance and the uneven playing field. Successive governments used to issue Statutory Regulatory Orders (SROs) aimed at benefiting individual firms or particular enterprises to the disadvantage of other competitors. This practice was not only widespread but was capricious in nature as it wiped out many flourishing businesses and turned working industries into sick units. Since October 1999 this discriminatory practice has been eliminated and a level playing field exists for all classes of investors. Uniform rules and regulations across the board are applicable to all domestic and foreign investors and the government has not taken any decision to favour any particular company or group or investor. Thus, the looming danger of arbitrary action employing this discriminatory tool has been removed.

Sixth, rigorous standards of Corporate Governance have been clarified, strengthened and are being enforced for firms and companies. These standards of full disclosure, audit and accounting are comparable to those prevailing in the developed countries. Foreign investors who were hesitant to enter into contracts with local suppliers and buyers because of their doubt about their performance and inadequate information about their integrity can now make more informed judgments based on better disclosure and transparency of financial statements of the firms with which they are dealing. The risk of non-performance and non-delivery of goods and services from domestic firms can thus be effectively mitigated under this changed scenario compared to the past where the unknowns and imponderables put off the foreign investors from taking the plunge.

Seventh, the Pakistani legal system may be too slow, time consuming and cumbersome but it is enshrined in clearly enunciated principles and codes of English law and is fair and predictable. The legal system provides multiple opportunities for redressal and relief and there is a well established hierarchy of Courts moving from the lower to high Courts to the Supreme Courts. Those who are dissatisfied with the verdict of the lower Court can appeal to the High Court and then to the Supreme Court seeking relief. Enforceability of contracts and execution of Court Decrees are smoothly carried out and the tradition of reliance on legal precedents and case laws in the interpretation of laws confers an element of assurance to the litigants participating in the system that justice will be imparted.

Eighth, although Pakistan has one-third of its population living below the poverty line there is a fast emerging middle class with adequate purchasing power (several times the multiple of the per capita income) which is comparable to the average per capita income of the Countries in Southern Europe. This class has also identical preference and tastes for global consumer goods and services. Their yearnings for their own houses and apartments, automobiles, consumer electronics, designer clothes, hi-fi equipment, wealth management, tourism abroad, are no different from these of their counterparts in the rest of the developed world. The market size of this large proportion readily available for penetration should be an attractive magnet for prospective investors.

Ninth, macroeconomic stability can prove to be transient and of temporary duration if it is not accompanied by fundamental and irreversible structural reforms. Since 1991, Pakistan under successive governments and different political parties has been committed to policies aimed at privatization, deregulation and liberalization but the record of implementation has been uneven as structural reforms had not taken roots. Progress in financial sector reforms, tax administration, tariff rationalization, import deregulation, opening up commodity procurement to the private sector, linking up with international prices have been speeded up in the last four years.

Policy making and regulatory authority have been separated. Quasi judicial independent regulatory agencies have been set up for power, oil & gas, telecommunications, banking, capital markets, media, etc. These agencies will no longer allow the government to interfere in the activities of the private producers of goods and services.

As these considerations impact upon the freedom of economic actors to make choices it is expected that this virtuous nexus between macroeconomic stability, good economic governance and structural reforms will put Pakistan in different perspective than the past image of Pakistan.

Finally, a larger number of developing countries have artificially boosted the profitability of their firms through subsidies which in fact are transfer payments or gifts from public exchequer to private entrepreneurs producing and marketing subsidized goods and services. Under the new world trading regime such subsidies are expected to be phased out thus adversely affecting this particular component of the firms' profitability. Fortunately, Pakistan has already phased out subsidies in agriculture, textiles and other tradable goods and thus the potential threat to Pakistani firms' earnings is no longer imminent. Pakistani companies rely upon their core earnings and these will remain intact under the new rules of the game. Their competitiveness relative to other countries which provide widespread subsidies should be in fact improve. Pakistan is thus better prepared to face abolition of quotas and withdrawal of subsidies and meet the global challenges.

It may not be out of place to mention that at no time in the history of Pakistan, foreign investment has either been expropriated or nationalized by any government. In the 1970s when a large chunk of domestically owned industries, banks and insurance companies were nationalized by the then government of Mr. Z.A. Bhutto, foreign investors were not touched. They continued to carry out their business normally and routinely without any fear or apprehension. So the risk of expropriation in Pakistan is almost non-existent.

The above cited factors appear so compelling from the viewpoint of any objective and dispassionate analyst that foreign investors should be descending upon Pakistan in hordes. The reality is quite different. Pakistan lives in a bad neighbourhood and the Western media's portrayal of events and developments in Pakistan is highly negative. Headlines on the electronic and print media in the US and Europe are focused on Al-Qaeda, Taliban, bomb blasts religious parties winning elections in the NWFP, confrontation with India, etc. No wonder that the positive achievements on the economic front are fully overshadowed by perceived concerns of personal security, chronic instability and chaos and danger to property and assets. The Boardrooms around the World therefore ignore and by-pass sound investment proposals destined for Pakistan and pick others which, in their view, carry lower risks. We only request that you should visit Pakistan, make on-the-spot appraisal and then take informal decisions to locate your investment. In the long run, prudent use of the resources at your disposal lies in ensuring their security and profitability. Pakistan can provide both of these. Thank you.