Investment in Pakistan: A Critical Review

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INVESTMENT IN PAKISTAN: A CRITICAL REVIEW

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ABSTRACT

The paper critically evaluates investment climate in Pakistan. It covers incentives given by the government to domestic and foreign investors. Special emphasis is placed on identifying the barriers that discourage investment in Pakistan. Major impediments include high doing business cost, political instability, corruption, government bureaucracy, inconsistent government policies, and poor law and order situation. The paper also highlights some international best practice solutions to encourage investment in the country. Pakistan should attach short-term priority to attracting investment to foreign exchange earning sector or at least both the foreign exchange earning sector and other sectors simultaneously.

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1. INTRODUCTION

The positive developmental role of domestic and foreign investment on economic growth in host countries is well documented in literature.[2] Investment is usually directed in sectors that enjoy comparative advantage, thereby creating economies of scale and linkage effects and hence raising productivity. An important argument in favor of foreign investment is that it consists of a package of capital, technology management, and market access. For foreign investment, repayment is required only if investors make profit and when they make profit, they tend to reinvest their profit rather than remit abroad. Another benefit of foreign investment is a confidence building effect. While the local economic environment determines the overall degree of investment confidence in a country, inflows of foreign investment could reinforce the confidence, thereby contributing to the creation of a virtuous cycle that affects not only local and foreign investment but also foreign trade and production.

The effect of foreign investment on balance of payments of the host country has important implications. Some researchers argue that while the initial impact of foreign investment on the host country's balance of payments is positive, the medium-term impact is

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[2] The term investment includes all assets of the individual investors and companies for the purpose of business investment in particular, although not inclusively. This includes: shares, moveable and immovable assets, intellectual property rights, licensing and know-how agreements, goodwill, and concessions to cultivate, extract, or exploit natural resources.

often negative, as the investors increase imports of intermediate goods and services and begin to repatriate profit. However, if foreign investment is concentrated in import substitution industries, then it is expected to affect imports negatively because the goods that were imported are now produced in the host country by foreign investors. Foreign investment is expected to positively affect export of the host country since it is often undertaken by (foreign) companies that are already significant exporters. In fact, foreign firms typically have a comparative advantage in their knowledge of international markets, in the size and efficiency of their distribution networks, and in their ability to respond quickly to changing patterns of demand in world markets. Empirical evidence suggests that an inflow of foreign investment has a bigger positive impact on host country exports than on host country imports. Hence, the balance of payments problems, if they do occur, are likely to be small.

The inflow of foreign investment into Pakistan is small and concentrated only to a few sectors. Despite liberalizing its formerly inward-looking investment regime, significant removal of obstacles to foreign investors, and giving various incentives, Pakistan's performance in attracting foreign investment has been lackluster. As shown in Table 1, foreign direct investment (as percentage of GDP) remained less than two per cent through out 1990s and 2000s. Thus, given its low share in GDP, foreign direct investment is not expected to have a significant impact on various sectors of the economy. Similarly, the share of domestic investment in GDP remains below twenty percent through out 1990s and 2000s. The trend shows that share of domestic investment in GDP is continuously declining. The present study explores the reasons for not attracting sufficiently large amount of both domestic and foreign investment in Pakistan despite liberalizing payments and exchange rate regime as well as inward-looking investment regime.

The rest of the paper is organized as follows. Section 2 briefly reviews decade-wise investment polices in Pakistan. Section 3 provides some salient features of Pakistan's business strength. Section 4 presents trends and issues of investment in Pakistan. Section 5 highlights factors adversely affecting investment in Pakistan. Section 6 provides some policy recommendations. The final section concludes.

Table 1: Investment as Percentage of GDP

Years	Foreign Direct Investment, Net Inflows (% of GDP)	Domestic Investment (GFCF) (% of GDP)
1990-91	0.61	17.30
1991-92	0.57	17.47
1992-93	0.69	18.69
1993-94	0.68	19.24
1994-95	0.81	17.97
1995-96	1.19	17.03
1996-97	1.46	17.38
1997-98	1.15	16.34
1998-99	0.81	15.04
1999-00	0.84	13.93
2000-01	0.42	16.01
2001-02	0.54	15.84
2002-03	1.15	15.46
2003-04	0.65	15.27
2004-05	1.16	15.63
2005-06	1.97	15.26
2006-07	1.43	15.40
2007-08	1.03	15.55

Source: WB (2007)

2. REVIEW OF INVESTMENT POLICIES

2.1. The 1950s, 1960s, and 1970s

During 1950s and 1960s the private sector was the main vehicle for industrial investment in the country and the role of the public sector was restricted to only three industries out of 27 basic industries.[3] By late 1960s the economy was largely dominated by the private sector in important areas like banking, insurance, certain basic industries, and international trade in major commodities. Foreign investment was not allowed in the field of banking, insurance, and commerce. Similarly, the services sector was also reserved for local investors only.

During 1970s, government nationalized commercial banks, development financial institutions, insurance companies and ten major categories of industries.[4] There was also acceleration in the direct investment by the public sector in new industries, ranging from the basic manufacture of steel to the production of garments and breads. The status of the public sector as a catalyst and gap filler in the 1950s and 1960s changed to that of repository of the commanding

[3] The three basis industries were: (i) arms and ammunition; (ii) generation of hydroelectric power; and (iii) manufacturing of railway wagons, telephones, telegraph lines, and wireless apparatus.

4 These include heavy engineering, assembly and manufacturing of tractors, iron and steel, heavy basic chemicals, petrochemicals, assembly and manufacturing of motor vehicles, public utilities, cement, gas, and oil refineries.

heights of the economy. All foreign investment was, however, exempted from the purview of the nationalization.

2.2. The 1980s

After the miserable performance of the industrial sector following the nationalization process of the 1970s, a change occurred in the government's approach toward the role of the public and private sectors. In 1980s, government decided to pursue a pattern of a mixed economy, with the private and public sector reinforcing each other. At the same time, Pakistan began to implement a more liberal foreign investment policy. Accordingly, a number of policy and regulatory measures were taken to improve the business environment in general and to attract foreign investment in particular. An important measure taken by the government to attract foreign investment was the liberalization of exchange rate regime. Further, to encourage foreign investment in export-oriented industries, an Export Processing Zone (EPZ) was set up in Karachi. The concessions and facilities offered by the EPZ included duty-free imports and exports of goods and tax exemptions. Similarly, a one-window facility was also established to overcome difficulties in setting up new industries.

Despite various incentives, the highly regulated nature of Pakistan's economy proved a restraint to the inflows of foreign investment. Specifically, foreign investment was discouraged by (a) significant public ownership, strict industrial licensing, and price controls by the government; (b) the inefficient financial sector with mostly public ownership, directed credits, and segmented markets; and (c) a noncompetitive and distorting trade regime with import licensing, bans, and high tariffs.

2.3. The 1990s

During 1990s government started to apply the same rules and regulations to foreign investors as to domestic investors. The requirement for government approval of foreign investment was removed with the exception of a few industries (arms and ammunition, security printing, currency and mint, high explosives, radioactive substances, and alcoholic beverages). In fact, these industries were also closed to domestic private investors. In non-industrial sectors, foreign investment was excluded from agricultural land, forestry, irrigation, and real estate including land, housing, and commercial activities. There are only a small number of areas that are on the negative list of the provincial governments.

A number of fiscal incentives, including various tax holidays to all industries were granted to investors, together with special custom duty and sales tax concessions. A large number of tariff and nontariff barriers were removed, and the negative and prohibited list of imports was also reduced. Export incentives were broadened. The visa policy of Pakistan was modified to make it attractive to foreign investors. Special industrial zones (SIZs) were set up with hefty fiscal incentives to attract foreign investment in export-oriented industries. An important achievement of this period was the initiation of privatization and deregulation of public industrial units.

2.4. The 2000s

During 2000s government based its investment policies on the principle of privatization, deregulation, fiscal incentives and liberal remittance of profits and capital. The policy is based on promoting investment in sophisticated, high-tech and export-oriented industries while almost the entire economic activity in other fields, encompassing agriculture, services, infrastructure, social sectors, etc. have been thrown open for foreign investment with identical fiscal incentives and other facilities, including loan financing from local banks. Salient features of recent investment policy are described in Table 2, which is self explanatory.

A number of incentives have been given by the government in the recent investment policies. This is indeed a welcome move but it is yet to be seen whether the investment interest having remained on the sidelines would at all show a positive response to the latest package of incentives.

3. SALIENT FEATURES OF PAKISTAN'S BUSINESS STRENGTH

Some of the top reasons why Pakistan is a good destination for investment include: (a) security of investment even during nationalization of 1970s; (b) expanding infrastructure; (c) availability of liquidity; (d) cheap labor; (e) stability and predictability of the economy; and (f) wide range of sectors for investment. Pakistan's business strength includes:-

- *Abundant Land and Natural Resources:* Pakistan possesses extensive agricultural land, crop production (wheat, cotton, rice, fruits, vegetables), mineral reserves (coal, crude oil, natural gas, copper, iron ore, gypsum, etc.), and fisheries and livestock production.
- *Geo-strategic Location:* Located in the heart of Asia, Pakistan is the gateway to the energy rich Central Asian States, the financially liquid Gulf States and the economically advanced Far Eastern tigers. This strategic advantage alone makes Pakistan a marketplace filled with possibilities and opportunities.
- *Trained Workforce:* In Pakistan people are mostly English proficient, hardworking and intelligent. They are cost-effective managerial and technical workers, thereby they bear lesser costs.

- *Investment Policies:* Current investment policies have been made to suit investor needs. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization and facilitation being its foremost cornerstones.

Table 2: Investment Policies: Attractive Investment Package

Policy Parameters	**Manufacturing Sector**	**Non -Manufacturing Sectors**		
		Agriculture	**Infrastructure and Social Sector**	**Services including IT and Telecom Services**
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies.		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%	100%	100%
Minimum Investment Amount (M $)	No	0.3	0.3	0.15
Customs duty on import of PME[†]	5%	0%	5%	0-5%
Tax relief (IDA[©], % of PME cost)	50%	50%		
Royalty and Technical Fee	No restriction for payment of royalty and technical fee	Allowed as per guidelines - Initial lump-sum up to $100,000 - Max Rate 5% of net sales - Initial period 5 years		
* Specified Industries: - Arms and Ammunitions - High Explosives - Radioactive Substances - Security Printing, Currency and Mint. No new unit for the manufacturing of alcohol, except, industrial alcohol			[†]PME= Plant, Machinery and Equipment [©]IDA= Initial Depreciation Allowance	

Source: Board of Investment (BOI)

- *Infrastructure and Legal Systems:* Pakistan is equipped with well-established infrastructure and legal systems which includes comprehensive road, rail, air and sea links; good quality telecommunication and IT services; modern company law and long-standing corporate culture
- *Financial Markets:* The capital markets are being modernized, and reforms have resulted in development of infrastructure in the stock exchanges of the country. The Securities and Exchange Commission has improved the regulatory environment of the stock exchanges,

corporate bond market and the leasing sector. At the same time Federal Board of Revenue has facilitated structural reforms in tax and tariffs and the State Bank of Pakistan has revived the banking sector into high returns on investment.

4. TRENDS AND ISSUES OF INVESTMENT

The success of investment policies can be judged by the size of the inflows of foreign investment. Pakistan has been making efforts to attract foreign investment and such efforts have been strengthened with the commencement of deregulation, privatization, and liberalization policies initiated in 1990s and accelerated during 2000s. Table 3 documents the size of the inflow of foreign investment in Pakistan during the last eight years. The amount of foreign investment rose from $ -8.4 million in 2001-02 to $8416 million in 2006-07. However, it declined to $2985 million in 2007-08. Total foreign investment consists of direct and portfolio investment. As the table shows portfolio investment is also an important part of total foreign investment. However, its share in total foreign investment is very low. Portfolio inflows, because of their inherently volatile nature, have also proved to be reversible in Pakistan, like in many other developing countries, because portfolio investment in Pakistan is directed mainly toward short-term and some medium-term public debt instruments and the stock exchanges.

Table 3: Foreign Investment Inflows in Pakistan (Million $)

Year	Greenfield Investment	Privatization Proceeds	*Total FDI*	Private Portfolio Investment	Public Portfolio Investment	*Total Portfolio Investment*	**Total Foreign Investment**
2001-02	357	128	*485*	-10	-483	*-493*	**-8.4**
2002-03	622	176	*798*	22	-261	*-239*	**559.1**
2003-04	750	199	*949*	-28	339	*311*	**1,260.70**
2004-05	1,161	363	*1,524.00*	153	458	*611*	**2,134.60**
2005-06	1,981	1,540	*3,521.00*	351	613	*964*	**4,485.00**
2006-07	4,859	266	*5,125.00*	1,820	1,471	*3291*	**8,416.60**
2007-08 (Jul-Mar)	2,905.60	133.2	*3,038.80*	-45.5	-7.5	*-53*	**2,985.80**
Total	**12,635.60**	**2,805.20**	***15,440.80***	**2,262.50**	**2,129.50**	***4,392***	**19,833.40**

Source: Board of Investment (BOI)

Table 4 reports country-wise inflow of foreign investment in Pakistan during 2006-07 and 2007-08. The United States and the United Kingdom have been the major sources of foreign investment in Pakistan, although the shares of both countries have fluctuated widely. Table 5 shows the sectoral composition of foreign investment over the last eight years. On the broad sectoral basis, communications, followed by financial business and oil and gas, is seen to have dominated the preferences of the foreign investors during 2000s. In the remaining economic sectors (i.e. textile, trade, construction, power, chemical and transport) the flow of foreign investment has been meager and erratic. A possible explanation could be that investors do not prefer these sectors because of the limited opportunities open for foreign exploitation in these areas. The analysis of sectoral distribution of foreign investment may reflect two things, (a) it may reflect the preferential treatment given by the government to certain sectors while encouraging foreign investment or (b) it may also indicate the foreign investors' own preferences.

Table 4: Country-wise Foreign Investment Inflows (Million $)

	July-March 2006-07				July-March 2007-08			
		Portfolio				Portfolio		
Country	Direct	Private	Public	**Total**	Direct	Private	Public	**Total**
USA	635.8	604.98		**1,240.80**	1,139.90	365.6		**1,505.50**
UAE	343.2	19.1		**362.3**	320.3	17.5		**337.8**
UK	693.6	326.3		**1,019.90**	279.1	-144.1		**135**
Norway	25.1	0		**25.1**	134.5	-		**134.5**
Switzerland	150.7	-83.5		**67.2**	127	-62.2		**64.8**
Oman	18.1	0		**18.1**	121.2	0.7		**121.9**
Japan	46.7	0.2		**46.9**	92.5	2.2		**94.7**
Netherlands	497.7	3.2		**500.9**	89	16.1		**105.1**
HongKong	29.5	-91		**-61.5**	86.8	-195.5		**-108.7**
Mauritius	57.2	9.7		**66.9**	75.3	6.5		**81.8**
Germany	27.4	0.4		**27.8**	59.3	-0.5		**58.8**
Australia	54.8	-5.6		**49.2**	50.7	-49.3		**1.4**
Saudi Arabia	105.1	0		**105.1**	33.6	-1.6		**32**
Kuwait	42.7	19.8		**62.5**	30	25.6		**55.6**
Others	1,131.50	223.2		**1,354.70**	399.6	-26.5		**373.1**
Debt								
Securities			-65	**-65**			-7.5	**-7.5**
GDRs			738	**738**				**0**
Total	**3,859.10**	**1,026.80**	**673**	**5,558.90**	**3,038.80**	**-45.5**	**-7.5**	**2,985.80**

Source: Board of Investment (BOI)

Table 5: Sector-wise Foreign Investment Inflows (Million $)

Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Jul-Mar)
Oil and Gas	80.7	268.2	186.8	202.4	193.8	312.7	545.1	465.4
Financial Business	-34.9	3.6	207.4	242.1	269.4	329.2	930.3	685.5
Textiles	4.6	18.5	26.1	35.4	39.3	47	59.4	22.3
Trade	13.2	34.2	39.1	35.6	52.1	118	172.1	148.3
Construction	12.5	12.8	17.6	32	42.7	89.5	157.1	69.7
Power	39.9	36.4	32.8	-14.2	73.4	320.6	193.4	39.8
Chemical	20.3	10.6	86.1	15.3	51	62.9	46.1	61.9
Transport	45.2	21.4	87.4	8.8	10.6	18.4	30.2	50
Communication	NA	12.8	24.3	221.9	517.6	1937.7	1898.7	922.9
Others	140.9	66.2	90.4	170.1	274	285	1092.5	573
Total	**322.4**	**484.7**	**798**	**949.4**	**1,523.90**	**3,521.00**	**5,124.90**	**3,038.80**

Source: Board of Investment (BOI)

5. FACTORS IMPEDING INVESTMENT IN PAKISTAN

Both domestic and foreign investment in Pakistan remains far from encouraging despite numerous incentives offered to investors. A summary of host country determinants of investment in general is given in Table 6.

Table 6: Host Country Determinants of Investment

a.	**Policy Framework for Investment**
	Economic, political, and social stability
	Rules regarding entry and operations
	Standards of treatment of foreign affiliates
	Policies on functioning and structure of markets (especially policies governing mergers and acquisitions)
	International agreements on FDI
	Privatization policy
	Trade policy (tariffs and nontraiff barriers) and coherence of FDI and trade policies
	Tax policy
b.	**Economic Determinants**
	Market size and per capita income
	Market Growth
	Access to regional and global markets
	Country-specific consumer preferences
	Structure of markets
	Raw materials
	Low-cost unskilled labor
	Skilled labor
	Technological, innovative and other created assets (e.g. brand names), including as embodied in individuals, firms, and clusters
	Physical infrastructure (ports, roads, power, telecom)
	Cost of resources and assets listed above, adjusted for labor productivity
	Other input costs, such as transport and communication costs to/from and within the host economy and other intermediate products
	Membership in a regional integration agreement conducive to the establishment of regional corporate networks
c.	**Business Facilitation**
	Investment promotion (including image-building and investment-generating activities and investment-facilitation services)
	Investment incentives
	Hassle costs (related to corruption and administrative efficiency)
	Social amenities (e.g. bilingual schools, quality of life)
	After-investment services

Source: Khan and Kim (1999)

In view of these determinants, the main factors that influence investment in Pakistan may be labeled as law and order, political stability, economic strength, government economic policies, bureaucracy, infrastructure, quality of labor force, welcoming attitude, etc. (also see Shirouzu, 1993; Khan and Kim, 1999). The major barriers in the way of both domestic and foreign investment are described below turn by turn.

- *Law and Order:* An inadequate law and order situation keeps prospective investors on the sidelines. Pakistan's law and order situation has remained far from satisfactory in the major growth poles of the country (e.g. Karachi). In recent years the law and order situation has deteriorated all over the country.
- *Political Stability:* It is an important factor to attract investment as it builds confidence of investors. Lack of political stability remained an important feature of Pakistan's politics during the last two decades (1988-2008). Such frequent changes in government along with immediate changes in policies are hardly cordial for investors.
- *Economic Strength:* In countries of high economic strength, the investor is assured of increased opportunities for business, as more government development projects and private sector investments put purchasing power in the hands of the people. Increased purchasing power means increased positive multiplier effects on the economy and a source for stability. Macroeconomic indicators show that Pakistan is loosing its macroeconomic strength, which is likely to adversely affect investment.
- *Government Bureaucracy*: This is perhaps the biggest hurdle regarding investment in Pakistan. Corruption at all levels in the bureaucracy is widespread, and is taken into account by investors considering business in Pakistan. The administrative harass factor remains high in Pakistan.
- *Local Business Environment:* This covers many factors, including the availability of local lawyers, secretarial services, accountants, architects and building contractors, local consultants, ancillary and supporting industries, their quality, and their cost. It also includes the availability of suitable joint venture partners. All these conditions are not satisfactory in Pakistan.
- *Transparency of Regulatory System:* Starting from a position of extreme over-regulation, the trend has been a gradual decrease of governmental obstruction of private business. Many regulatory changes, however, have not yet been politically possible to be implemented in Pakistan.
- *Protection of Property Rights:* Protection of property rights is critical to encourage investment. The government of Pakistan is progressing slowly in bringing its intellectual property rights laws into compliance with the World Trade Organization's Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.
- *Infrastructure:* The availability, reliability, and cost of infrastructure facilities (power, telecommunications, and water supplies) are important ingredients for a business environment conducive to investment. Pakistan compares unfavorably in infrastructure facilities with other developing countries that have attracted higher levels of foreign investment.
- *High Business Cost:* In Pakistan cost of doing business is very high as compared to world standard.

- *Labor Force:* A technically trained, educated, and healthy labor force along with a country's labor laws are critical factors in attracting investment. Pakistan has an acute shortage of technically trained and educated labor, which may have discouraged investors. Pakistan's labor laws are complicated and overprotective, which discourages job creation, inhibits business expansion, and frightens away much needed productive investment. Such labor laws have discouraged investment in the country.
- *Quality of Life*: Quality of life along with cultural and social norms is critical to attract investors. These factors are less conducive to investors in Pakistan who are accustomed to liberal lifestyles.
- *Judicial System:* A fundamental impediment to investment in Pakistan is a weak and slow legal system in which the enforceability of contracts is uncertain.
- *Welcoming Attitude:* Although the high government officials and business leaders express their enthusiasm in inviting investment, the ancillary government agencies and officials seem to have an indifferent and unsympathetic attitude toward investors.
- *Child Labor:* Use of child labor is also a bottleneck in the way of foreign investment in Pakistan.
- *Tax Structure:* According to Administrative Barrier Report of World Bank, payment of taxes and contributions in Pakistan is a complex and cumbersome process. In addition to corporate income taxes, a large number of direct and indirect taxes are levied at the federal, provincial, and local levels. Essentially, separate collection of taxes and contributions have forced enterprises to face unnecessary, cumbersome, and costly administrative procedures, and to deal with a large number of collecting agencies at all three levels of government. The existence of such a large number of taxes and collecting agencies breed corruption, which adds to the cost of production and discourage investment in the country.

The checkpoints discussed above constitute an investment environment and can be classified into four factors, namely, cost, convenience, capability, and concessions. All these factors do not appear to be so favorable in Pakistan as in East and Southeast Asian countries.

6. POLICY RECOMMENDATIONS

Pakistan has to make stronger efforts to attract as much domestic and foreign investment in the foreign exchange sectors at least in the short term to improve its balance of payments position. To encourage domestic and foreign investment, Pakistan has to remove the bottlenecks outlined in the previous section. Government of Pakistan should take the following steps on priority basis to enhance both domestic and foreign investment in the country:-

- *Law and Order:* Satisfactory law and order situation is critical to attract investment in Pakistan. The country's political leadership must take practical steps to improve law and order situation particularly in the major "growth poles" of the country including Karachi.

- *Political Stability:* Satisfactory political stability is also critical to attract investment.
- *Macroeconomic Stability*: Pakistan's fiscal and balance of payment situations and foreign exchange reserves position is under considerable strain for some time making the macroeconomic environment less conducive for foreign investors. Some drastic and far-reaching measures are needed to reduce the fiscal deficit on the one hand and to raise trade surplus and foreign exchange reserves on the other.
- *Removal of Bureaucratic Hurdles:* Although the investment approval requirement has been removed, numerous permits and clearances from different government agencies at national, regional, and local levels are still applied to investors, causing delays to complete the process. The authorities should streamline administrative procedures regarding approval and official clearances. The laws and regulations should be simplified, updated, modernized, and transparent, and their discretionary application must be discouraged.
- *Fiscal Incentives:* Fiscal incentives should be given liberally by the government to investors. Import of plant and machinery for new industries may be allowed duty free in case such machinery is not manufactured in Pakistan. Tax relief in the form of accelerated depreciation allowance may also be available to priority industries, besides the availability of similar relief to existing industries undertaking balancing, modernization and expansion in production facilities.
- *Credit Facilities:* Foreign firms operating in Pakistan are currently facing cash flow problems. That these firms cannot borrow more than their equity capital has further aggravated the cash flow problem. There is a need to review credit facilities given to investors.
- *Transfer of Technology:* There should be no restriction on payment of royalty and/or technical service fees for the manufacturing sector. There should be Intellectual and Industrial Property Rights in conformity of WTO Agreements.
- *Labor Laws:* Overprotective labor laws do not encourage productivity and frighten away much needed productive investment. There is a need to rationalize the labor laws and multiple levies on employment that inhibit business expansion and job creation.
- *Infrastructure:* In most infrastructure services, Pakistan is highly deficient as compared with many developing countries that have attracted higher levels of foreign investment. If Pakistan wants to catch up gradually with the development of the economies of East and Southeast Asia, it will have to investment more in the areas of education and physical infrastructure.
- *Confidence-building Measure:* The close relationship between private and public sector is essential to build confidence. It is suggested that a forum may be established where the private and public sectors could sit together to discuss business promotion-related issues. This kind of partnership between the government and private sector will help restore investor's confidence.
- *Identification of Potential Investors and Sectors:* To promote investment government should identify potential countries. Government should move from traditional investors (USA, UK, Japan,

Saudi Arabia, UAE, Libya, Lebanon) to new directions (China, Malaysia, Korea). Government should also identify new sectors for investment (mining and quarrying, tourism, construction, etc.) rather than focusing on traditional sectors (financial business, textiles, oil and gas, etc.)

- *Improvement in Tax Structure:* There is an urgent need to reduce the number of taxes and contributions, to streamline tax regulations and administrative procedures, and most importantly to reduce the contact of firms with a large number of tax and contributions-collecting agencies. There is also a need to examine tariffs of plant and machinery with a view to substantially reducing them.

7. CONCLUSION

Investment particularly foreign direct investment is now perceived in many developing countries as a key source of much needed capital, foreign advanced technology, and managerial skills. Realizing its central importance to economic development, Pakistan has taken wide-ranging steps to liberalize its inward investment regime and have succeeded in attracting substantial amount of foreign investment. Despite significant deregulation and various incentives/concessions given to foreign investors, Pakistan still faces serious problems as far as implementation of investment policies are concerned. There is a strong perception among investors that the pro-business policies and inducement used to attract prospective new investors are somehow weak given realities when they actually begin to set up and operate their business in Pakistan. Although the investment approval requirements have been removed but other regulations instituting the need for other administrative approvals, however, are still in place. Numerous permits and clearances from different government agencies at national, regional and local levels still apply to investors. While formulating investment policies Pakistan should give priority to invite investment in foreign-exchange-earning sector in the short run, or at least, both the foreign-exchange-earning sector and other sectors simultaneously.

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