The Realistic Prospects for Investment in Pakistan

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Budget 2010-11 has come with many promises to reform the economy. The government has set forth few objectives for it to achieve. The 7th objective is a resolve to make the country 'fertile for investment', with whatever limited resources available.

If an economy runs towards economic imbalance, stagnation or recession, or if one has to kick start a new economy, there are two main options any government has. First, the government along-with the Central bank pledges to pump in direct money to start the circulation cycle. Recent examples of this are the US government's pledge for the 'rescue package' worth roughly $12 trillion towards the economy. Similarly UK government spent nearly a trillion Pound to bail out and refinance its bank through 'Quantitative Easing'. Likewise, Japan also launched above $350 billion stimulus packages, to lift its economy out of the recent recession and over the past decade of its economic stagflation it has taken several such smaller initiatives to stimulate the economy. All these measure will fall under what is termed as Keynesian thesis after J M Keynes. Alternatively, one may call these Deficit financing. The idea is that the government uses its resources to increase consumption and liquidity which in turn increases demand and economic activity resulting in increased jobs and employment.

Alternatively, a government announces large scale projects, with help of investors or transnational programs, to uplift the economy. This means that outside capital is attracted to fund the economy. For a developing country like Pakistan, the second option is more practical and viable. That is to seek the involvement of friendly governments and foreign investors, to help circulate capital and avail advantage of their expertise. This will create job opportunities, alleviate poverty and Pakistan will benefit from its natural resources.

Investment is the essential channel needed to attain the long term and sustained growth of an economy. Along with Consumption and Export it provides the pillars that determine the overall GDP of any economy and is instrumental in driving the Economic growth. The most promising aspect of Foreign Investment, other than the requisite capital - is its capability to mobilize - foreign expertise, organizational management, knowledge based resources, technological superiority and utilization of established quality and security practices. In other words foreign investment, through its multi dimensional linkages, uplifts the country's status in different fields of development. Enhancing Investment is also one of the most vital links to the poverty reduction, which is a greatest challenge, faced by humanity in the present times. Therefore attracting and maintaining investment is crucial to growth of an economy and development of a country.

For a developing country like Pakistan, foreign investment helps maintain that circulation of money in the economy, which otherwise, the country is forced to seek from donors and IMF, which not only increases the overall debt but also increases the debt servicing. Increased debt servicing then forces the government to make cut backs. Moreover, it is well known that Pakistani governments, instead of reducing wasteful and unnecessary expenditure, axe Public Sector Development Programs (PSDP). The result is wounded economic development and increased poverty and misery for millions.

Most of the IMF fund that GOP sought recently were initially to help boost Foreign Reserves that had depleted, one of the reasons being outflow of investment - and later, to support the budget deficit. Unfortunately, deficit financing has not helped Pakistan, as productivity was not increased to cater consumption; rather most of the financing went towards debt repayment. Readers may find it interesting and disappointing to note that the first tranche of IMF loan was $3.1 billion and debt repayment paid during that same period was $3.65 billion. This clearly means that the government is raising debt to repay debt. It is also clear and certain that the government will further require foreign assistance to cover the recent budget deficit of around $8 billion. Current economic policies have proven to be futile and ineffectual.

A combination of World financial meltdown, to a certain level, and a change of government in 2008, did not augur well for Pakistan, which was predicted as having 'high potential' for growth. The newly elected government failed to reassure the investors and displayed inconsistency and ambiguity of policies. Its actions such as harassment of members of Forex Association of Pakistan (FAP), and Rupee devaluation dragged on unchecked, depicting ignorance. Pakistan's macro-economic indicators started registering imbalances, and the investors were forced to withdraw their investment and divert their capital to Middle East, India and Southeast Asian countries.

Pakistan has thus entered a 'trust deficit' zone with regard to investment. It is a horrifying prospect for a poor and developing country. Net foreign investment has fallen by 50% since FY2007-08. KSE market capitalization fell from $75 billion to $20 billion in 2009 and the government's income from KSE alone reduced by at least 90%, further adding to the budget deficit. The effect of falling investment was felt in the overall GDP as well, as shown by the following figures.

2005-06: Foreign Investment $4.485 bn and GDP was 5.8%

2006-07: Foreign Investment $8.428 bn and GDP was 6.8%

2007-08: Foreign Investment $ 5.475 bn and GDP was 4.1%

2008-09: Foreign Investment $ 2.665 bn and GDP was 1.2%

In 2009-10, Foreign Investment decreased further to $1.896 bn.

Fundamental pre requisites for investment

Therefore, what are the fundamentals for attracting investment and getting the maximum out of it? First and foremost, it is important to remember that Foreign Direct Investment (FDI) is only one part of the equation and any analysis of its contribution to economic growth needs to be set into a wider context. In reality, the government has a much more profound role to play when it comes to unlocking Pakistan's investment potential than outside investors do. Unless we address the fundamentals that continue to hamper Pakistani businesses, especially at an SME level - namely, practical struggles with bureaucracy, regulation, red tape and infrastructure -long-term economic growth will continue to elude us. We will briefly outline some of these fundamentals that encourage people to invest and ensure them that their investment is not only productive but will generate those returns.

1. The government must create a healthy investment climate. To achieve this there should be stable macro-economic climate and better security structure in the country. Access to justice must be ensured both for local and foreign investors to build an environment of trust and fairness. Judicial and legal reforms that better the governance and administration system related with investment issues better should be implemented. These include from mundane matters such as business registration and licensing, to taxation and customs and property rights. The rights and intellectual property of the investors should be protected.

2. The infrastructure provision is another fundamental prerequisite. Works to resolve critical infrastructure challenges in the power and financial sectors should be prioritized. The government should aim to reduce investment costs in target economic sectors by developing human resource and basic infrastructure to accommodate the expansion of target/potential sectors of economy.

3. Building the environment of trust is crucial for Investment. Trust is the whole sum of all political, economic, socio-cultural and technological strengths and attractiveness. Moreover, perception sometimes matters more than reality, as it is the game of psychology. The damage that has been done to the image of Pakistan is far worse than the actual economic and material loss we have suffered from the recent spate of terrorist attacks. The provincial quarrels and various verbal spates between the high ups of various political parties only add to the image of an unstable country.

Pakistan must remember that we are multi-ethnic society and in a globalised world, we live with all other races and nationalities. Any signs of discrimination within the country are message for outside investors that they may be discriminated against too and it does not inspire confidence. By treating our own citizens in an equal and fair manner we tell the outside investors that we as a society will treat them fairly too and that there will be no distortions natural or otherwise.

4. Political Stability: Political Institutions and Foreign Direct Investment in Developing Countries have a significant relationship. Studies have shown that democracy, property rights, and credible commitment (via veto players) to stable, FDI-friendly policies all have a positive effect on foreign direct investment (FDI). Of these, the policy stability is the most important. It has the most powerful role in determining the investment level in a country, because it provides the overall structure of governance, which gives an ultimate framework for the policies. There is a guarantee that investor friendly policies will continue and it is easier for the investors to assess their risks properly and calculate the returns they seek.

In addition, there are studies that show that even under the conditions of economic sanctions FDI increases under certain conditions, of which political stability is most important. Especially the unexpected sanctions increase FDI in the target countries than the expected economic sanctions.

Another study by Michael J. Harrison has shown that despite the overall inverse relationship between the level of corruption and FDI inflows, in stable countries these inflows are still greater than anticipated based on UNCTAD's Inward FDI Performance Index.

We can safely conclude that when it comes to making a capital investment, political, economic, and financial stability is the stronger attraction because it ensures the certainty of reward and future growth.

5. Human Capital and FDI

Finally, to attract any type of FDI or Domestic Investment the country human capital is essential. Bothe China and India are prime examples. When globalization forced the MNCs to outsource, both countries offered well developed Human capital in the form of educated and skilled workers. The rest as they say is history.

Human capital not only attracts the capital it adds value to it. Therefore, one can use MNCs to help develop the tertiary education sector as well as to contribute to the HRD by providing training and supporting formal education.

It is the job of the government that it emphasizes flexible and demand-driven human resource strategies; target the foreign investors in high value-added areas, and co-ordinate education and training policies.

Challenge for Pakistan

Pakistan faces two main challenges before it is able to attract the required investment back. First, stabilizing the macro-economic indicators, as these serve as the foundation stone and broadening of the tax base to generate revenue. Debt to GDP ratio should be lowered, to save our revenue generation. This means cut down the wasteful expenditure and trim the public waste particularly by the over bloated (and pretty useless) cabinet and presidency as well as provincial governments.

As noted above investors look for stable politics, stable currencies and availability of energy and other infrastructure. In 1970s, when the US inflation spiraled out of control and the dollar plunged, the investors were forced to transfer their investments to Switzerland. Pakistan's currency devalued from Rs.61 per dollar in 1999 to Rs.84 per dollar in 2009. This was scandalous and inept, to say the least. However, government seemed too busy in its own political shenanigans quite oblivious of what was happening to the economy. Foreign Reserves need to exceed the Trade Deficit to stabilize the currency. However, no effort was undertaken to stem the rot.

Secondly, we talked about the Trust and the importance of perceptions, above. The other effort therefore has to be, countering the negative perception that has developed around the world, due to current government's reputation for corruption, as indicated by international organizations. In a state afflicted with terrorism and at various times being termed 'a failed state' and 'most dangerous country in the world', the last thing one needs is to have corrupt and inefficient government. That is precisely what we seem to have.

Recently, Transparency International's 'National Corruption Perception 2010' revealed that corruption has increased to a level of Rs.223 billion as compared to Rs.195 billion in 2009. They further point out that the credibility of Pakistan is at the lowest levels, since there has been no funding over 1.5 years from the Friends of Pakistan Trust Fund, being managed by the World Bank. Pakistan's rank has moved up in the list of the most corrupt countries to rank at 42. These rankings are based on data collected from 10 independent international institutions, including the World Bank and World Economic Forum.

According to Global Peace Index (GPI) recently, Pakistan has become the world's fifth most unstable country. Pakistan's overall rank now is 145 out of 149 countries. While the Foreign Policy Magazine and Fund for Peace ranks it at #10 amongst Failed States.

Similarly, a report released by the World Economic Forum, as 'The Global Enabling Trade Report 2010' – ranks Pakistan at 112th position amongst the 125 countries. Pakistan held a secure position of 88th in 2008 and in 2009 fell to 100th, which signifies that it's been losing its global trade competitiveness.

Further eroding investor confidence, in May 2010, Pakistan's credit ratings were cut by both Moody's and Standard & Poor (S&P), the former slashing it to B3 and the latter to CCC-plus. Recalling that in 2007, Pakistan's credit ratings according to S&P were a healthy B+ only four levels below investment grade.

Governance Conundrum

Good governance is not connected to or the result of any particular system. Honest intentions, defined directions, setting of priorities, banking on our strengths and natural resources, and elimination of corruption can be achieved through any wise mode of governance. National Interest should be held above any system, first and foremost, without compromise! World examples prove, the determination of leaders and governments through any system, be it, Autarky or Autocracy, Monarchy, Democracy, or Centralism, etc – all have thrived, delivered & achieved in their respective countries through wisdom and visionary policies.

We have prime examples of countries like South Korea, China, Malaysia, Saudi Arabia, UAE and Turkey. The leaders and governments, irrespective of the mode of governance in these countries, succeeded in rapid reforms and modernization - improving of infrastructure, providing basic health, utilities and education to masses. The system responded inevitably and these countries transformed into regional economic zones, manufacturing hubs, financial, tourism, and telecommunication centers.

South Korea during the 1960s and 1970s, under Park Chung Hee - depended on investment oriented policies, guiding the investment towards infrastructure development and heavy industries. It acquired technology and much investment from Japan, after normalizing relations and established the solid base for industrialization. In 1997, Malaysia under Mahathir Mohamed, resisted the prescribed IMF package and centered its recovery through its own limited resources. Saudi Arabia availed the recent boom in oil prices and the King inaugurated some six Economic cities and numerous schools, colleges and world class Universities. UAE's transformation from an oil based economy into fortifying its non-oil economy has won accreditations. China under Deng Xiaoping transformed from an agriculture country into an economic super power.

Our current government never set forward its priorities, after taking charge, knowing that the world is facing an economic meltdown and that Pakistan has to protect the capital it had been entrusted with. Pakistan's macro-economic indicators were strong when the PPP government took over and as admitted by them in its letter of intent (LoI) to the IMF in 2008. In a small period of TWO years, we have had FOUR Finance Ministers, and none has been held responsible for the economic decline. There never seemed any purpose to protect the existing investors nor any efforts were visible, rather more focus was being paid on election jubilations. Corruption reporting on media followed, further eroding investor confidence. Massive disinvestment and outflow of capital took place, amidst rupee devaluation, effecting the business environment. Recent media reporting, on one of the biggest Custom's frauds in history of Rs. 220 billion and the Supreme Court's remarks pertaining to Pakistan Steel Mill's corruption of Rs. 22 billion, considering it as the biggest dacoity of history – has painted a bleak picture.

In general, governance can be used to describe a change in the nature of the state or nation. Unfortunately, in Pakistan, there never is a change in the overall status of the nation. The intention of our rulers has become to complete the tenure, favoring well known corrupt people, protecting fake degree holders, stuffing up Public sector enterprises with political affiliates, and heaping IMF & World Bank debt upon debt for future generations to pay off. In such a quagmire, where there is no determination, governance can never succeed. Serious efforts shall have to be taken to attract back the investment and capital and systematize priorities to develop the basic infrastructure, security, maintain peace and effective law enforcement. World renowned financial institutions like the WEF, WB, IMF, ADB, Goldman Sachs, Moody's, Standard & Poor's, J.P.Morgan, Merrill Lynch, UNCTAD, and several others have been monitoring and recording the economic situation of Pakistan and no sitting government can escape accountability.

Potential and Possibilities

While international skepticism has grown owing to reports as mentioned above, nevertheless, Pakistan could always capitalize from the few advantages it still has, to attract foreign and generate local investment. With a population of 170 million and large consumption to drive its growth, Pakistan has the capability to become self reliant.

Pakistan is strategically located in South Asia, a corridor to Central Asian states, with cheapest labor available compared to regional countries and perhaps one of cheapest in world. According to approximations, labor in Pakistan is \$ 0.36 an hour; in India, it is \$ 0.58 an hour and in China, it is \$ 0.70 an hour.

From the regulatory point of view, it's still feasible to establish business in Pakistan compared to neighboring countries. However, there is a need to cut down on procedures, registering with various government departments. It takes some 20 days to start a business with 10 procedural steps; 50 days to register property with 6 procedures and 223 days to build a warehouse with 12 registration procedures. Dealing with construction permits, employing workers, getting credit, and trading cross border is easier. Paying taxes and enforcing contracts takes longer time than regional countries.

Therefore, the essence of the strategy of sustained and pro poor growth, in a developing country like ours is to develop and maintain an environment conducive to investment. In this regard the development of an investment friendly climate, legal framework, and above all a system of good governance are the ultimate pre- requisites.

Pakistan is sufficient in several of natural minerals – a reason to draw foreign investment, commence exploration, local job opportunities in provinces and export of raw & finished products. Coal, Copper, Gold, Silver, Dolomite, Gypsum, Lime stone, Natural Gas, Iron core, Rock salt, Bauxite, Marble, Gems, China Clay, Zinc, Lead and Chromite are some of Pakistan's potential.

World tendency indicates that exporters of oil, gas and mining products experienced expansion and progress in economies, by and large in trade as well, witnessing windfall revenues. Conversely, exporters of manufactured goods endured a persistent decline and stagnation in their trade, particularly those who were importers of oil and gas.

Pakistan has confirmed 185 billion tons of reserves of Coal - equivalent to atleast 850 trillion cubic feet (TCF) of Gas and 500 billion barrels of Oil – confirmed by Chinese and Russian feasibility studies. These reserves are world's second largest reserves after USA's 250 billion ton reserves, much higher than Chinese and Russian reserves. Using only 2% of these reserves Pakistan can generate 20,000 MW for around 40 years, other than producing endless electricity. Coal will also contribute towards boosting steel production at much lower costs.

World coal prices average $59.28 a ton in 2010, predicting to rise to $70 per ton next year. 78% of China's and around 60% of India's electricity is generated from coal. In December 2009, China imported 16.4 million metric tons from South Africa to meet its demands. Pakistan's large reserves could serve as cheapest source of availability to China, India and the world. The government must strive to make use of these proven reserves by inviting investors with expertise which will generate thousands of jobs and lower poverty – a blessing for our future.

For several of the products, like Gems, the government should setup certification laboratories, refine the products and export finished goods. With the right investment, export of jewellery has the potential to grow from $397 million to above $1.5 billion annually.

Major reserves of Copper and Gold were discovered in Rekodiq in early 2006. It has ranked Rekodiq among the world's top seven copper reserves. The Rekodiq mining area has proven estimated reserves of 2 billion tons of copper and 20 million ounces of gold. Investment in this sector will help reduce our import bill of gold of around $130 million.

Pakistan has proven reserves of Iron ore around 1000 million tons. It's an irony that Pakistan has to import Iron and Steel worth $1.62 billion.

Usually the investment required for exploration, mining and extraction of natural resources, being implemented on extra large-scale, thereby contain more scope for multi-national corporations (MNCs) or dependence upon collaborations on intergovernmental levels - with those willing to circulate capital, looking for long term strategic partnerships.

An economy works in a chain reaction. If the macro-economic indicators strengthen over a period of time, the links keep connecting and the economy grows. Large scale job creation improves the purchasing power of the overall nation and lowers poverty. Increased purchasing power encourages the nation to spend more, which increases consumption, demand of goods and services soar, raises manufacturing of items, money circulates in markets again and subsequently, people benefit from lucrative job opportunities.

Agriculture is another sector that has the potential to deliver for Pakistan and has been one of the major contributors to GDP. While it contributed 71% in 2008-09, that contribution fell to 11% in 2009-10. It must be kept in mind that Pakistan's consumption of agriculture related and food items has grown by around 50% in major sectors, since 1999. Exports should be prompted AFTER satisfying local consumption; otherwise, it leads to shortage and inflation.

Investment should be guided towards Cotton, Sugarcane, Rice, Maize and Wheat production – learn to enhance growth through latest NH4 and UV-B treatment of plants for maximum capacity. Proper investment in agriculture sector will put into effect poverty alleviation in villages and expedite consumption led growth.

India produces 75 million tons of milk and employs around 70 million dairy farmers. Dairy cooperatives have already created direct employments for 13.4 million households in rural India, across 130,000 villages. 'Amul' – just one Indian brand has crossed exports worth Rs. 3000 million.

Pakistan is the 4th largest producer of milk, currently producing around 45 million tons, but unfortunately has to import milk and milk food worth $68 million. Pakistan has every potential to grow as India gained. Investment should be encouraged to establish value-added, chilled, long-life, finished and processed products. Pakistan could start exporting cheese, cream, powder milk, tetra packs, ghee and butter – after meeting local consumption of 36,300 thousand tons. Revenue inflow from dairying has contributed towards strengthening rural purchasing power all over the world. Pakistan should learn from leading examples.

Fruit and agriculture processing is another specialized area where local investors could direct their attention. Processing agriculture produce is around 40% in China, 30% in Thailand, 70% in Brazil, 78% in the Philippines and 80% in Malaysia.

Pakistan exports fruit worth $209 million and 533 tons of fruit. If a fruit sells for $4 per kilo, then canned fruit sells for 3 times the value in international markets. Mango pieces, Apricot, Grapes, Guava, Banana, Citrus and Fruit Cocktail – all sell better canned. Jams and fruit concentrates. Similarly, meat and fish processing units require average investment and have large local and international markets for consumption.

In 2009-10, SMEs jointly contributed approximately 30% to GDP, 25% to total exports and 35% to manufacturing value addition. Small Medium Enterprises of Pakistan and small scale cottage industries are in better positions to avail advantage in food and vegetable processing, as these do not require large amounts of capital. Further, their native and market based knowledge gives them an edge to better understand the chain of supply – from producers, involvement of middlemen, storation and delivery. The government did allocate Rs.10 billion fund for SMEs in the 2009-10 budget, however, proper incentives and classification is required to avail fruitful realization.

International trend indicates that investment flows towards resourceful areas and with higher literacy rates. Technical know-how, skilled workers, information technology and education supports industries and the government must promote that through vocational courses conducted throughout all provinces. Additionally, the government should guarantee safety of capital, property protection and above all, law enforcement. Disturbed or tense situation affects production, sales and profitability – which no investor – foreign or local - would like to endure. Safety and Security of foreign nationals is further crucial to MNCs or intergovernmental initiatives.

Before trying to attract investment, the government must ponder – what incentives have they to offer to genuine investors that could not be found in neighboring India, Bangladesh or China?

Fundamentally, there are two main reasons for any investor or intergovernmental assistance to employ their capital. For governments, it may be to gain strategic foothold in the region and for private investors, without doubt, it is profitability. Unanticipated and astronomical rise in cost of power, gas and petrol utilities has impacted business viability.

International investors look favorably upon countries that offer low tax rates and accelerated rates of depreciation on assets. 100% tax exemptions should allowed by the government atleast for the first few years. Existing corporate tax rates should be lowered from 35% to match regional taxation rates. 10% WHT on commercial power consumers should be lowered to decrease the cost of production. CVT of 4% on property must be relaxed. Imposition of 0.3% WHT on all modes of banking transactions in excess of Rs. 25,000 per day is unnecessary. Commitment to IMF over VAT will only be detrimental. Import duties must be lowered for those sectors that will help boost exports and on machinery mobilized for exploration of natural resources. Microcredit schemes should be initiated to provide easy lending credit loans to small farmers, free of tax and mark ups.

The federal government must ensure equal distribution of incoming investment so that economic disparities amongst the provinces decline.

After 2002, following non-interventionist and productive policies, Pakistan did witness an inflow of investment, both foreign and local, that rose to a record $8.4 billion in 2006-07, directly contributing towards a healthy GDP growth of 7%. Total investment in Pakistan rose by almost 100% since 1999 to become 21% of total GDP. A World Bank group, released an international ranking of 175 economies of that year under 'Doing Business 2007' and Pakistan proved to emerge as a reformer in South Asia to rank internationally at #74 beating regional competitors like India (134), Bangladesh (88) and Sri-Lanka (89). Pakistan's emerging economy was being called the Next-11 after BRIC, as predicted by Goldman Sachs after evaluating Pakistan's macro-economic stability, lucrative markets for investment and liberal trade policies. Pakistan marked its presence amongst the world's prominent economies and potential investors, accredited by international institutions like the World Bank, IMF, J.P Morgan, Merrill Lynch and ADB.

Developing economies like Pakistan will unquestionably benefit from intergovernmental collaborations, transnational companies, multi-national corporations (MNCs), and investors. Pakistan needs to attract and secure these investments, till it develops itself as knowledge based Economy, develops a solid manufacturing foundation to support local industries and builds an infrastructure that compliments internal trade. More importantly, develops the capacity to self finance growth and generate sufficient revenue. Leadership, if it can, comprehends these economic realities and lead Pakistan towards proper economic reforms and revolution.

Policy Aims

Investment always bring home an opportunity to take advantage and remove shortcomings from the economy. Investment Policies should be futuristic to enable consumption led growth, boost exports, minimize imports, cause income generation through exploitation of natural resources and develop human capital further.

Aramco - world's largest oil corporation with largest crude oil production in Saudi Arabia came with investing prospects in 1933 and discovered oil for Saudi Arabia. In 1973, Saudi government acquired 25% interest in Aramco. Over a period of time, Aramco became 100% Saudi owned, a major revenue generator for a modern Saudi Arabia and with the best of systems. Pakistan must learn from such examples around the world and make proper utilization of its natural resources encouraging proper investment.

So how should we develop our policies? First and foremost, and it may be so obvious that it may sound silly to say it but nevertheless our policies should be Pakistan Centric and Pakistan specific Policies. Secondly there should be formal linking of Human capital and investment policy as a matter of strategy and policy. As we have noted above, human development is essential to pull in investment [both domestic and foreign] and generating the capacity for future sustainable growth. Human development is, concurrently, both the means and the end of the investment. Therefore while the social profile of a country [health, education, skill development etc.] is a precondition for a suitable environment to draw more investment, the investment should be a major contributor to the improving social and human indicators.

In other words there should be a coordinated policy planning for socio economic development through investment. Investor returns should not be taxed but rather they are encouraged and incentivized to contribute to the education, health and infrastructure of the communities and i.e. education and health provision with relief in taxes. The policies should aim to achieve transfer of technology and management techniques and therefore to reduce dependency on aid in the long run.

The policies should consciously aim for Upstream and downstream sectors linkages. Each investment should develop its own supply chain so associated human capital development should promote its own supply chain capital development. Education, health, housing and employment generation should flow smoothly with investment projects.

The policies should aim for reduction of regional and social disparities. For Pakistan we should make region specific policies to take advantage for the differing strengths of the regions e.g. in Punjab agriculture & cottage industry, in Sind Thar coal, Karachi as financial capital, and cottage industry, in Balochistan mineral and cottage industry and in Khyber Paktunkhwah tourism capacities can be built.

The policies should also explicitly set out to balancing excessive foreign influence and protection of indigenous entrepreneurship and workers. To repeat the policy ultimately should be Pakistan centric and Pakistan specific.

Investment Strategy

With the above policy aims in mind, we recommend that following measures provide an outline for a successful strategy that needs to be taken in order to build favorable settings for the prospects of investment.

1. All and every measure that brings political stability and a climate of Trust for potential investors.
2. Prioritizing policies and measures that capitalize the natural and human resources.
3. A Liberal investment policy that incentivize investors.
4. Normalizing relationships and speeding up trade liberalization with neighboring countries to expand market size. For Pakistan, Iran, Afghanistan, Central Asia and Western China and last but not the least India itself offer themselves as markets. That is nearly a billion human beings needing food, clothing, health, education, energy and other creature comforts.
5. Enhance domestic and local investment by increasing national savings. Rule of law rings aloud when cooperative scandal and written off loans come to mind.
6. Alignment of Federal and Provincial Investment policies.
7. Liberal and transparent access to assets and institutional and human capacity building.
8. A reorientation of the government's role from owner-operator to administrator-regulator.
9. Investment diversification: exploiting new potential areas

    a. Food processing: The US, Brazil and Philippines process 70% of the food they grow. This is an attractive sector for Pakistan as well for exports and therefore can attract both local and foreign investment.

    b. Boosting tourism to encourage investment: according to the experience of several other countries it is seen that the increase in government spending on building prospects for tourism has helped the economy grow at impressive rates. In Morocco for example, this impact was estimated to be as five per cent growth in 2009. Meanwhile the tourism industry can boost several other linked industries such as transportation, hoteling and food etc.

c. Mining: Pakistan has deposits of numerous solid minerals. The federal government should prioritize the development of the strategic minerals such as coal, keeping in view the rising energy needs. Mining as a prospect of investment has a unique feature that the investor can't pick the investment up, so they are married to their investment in a way. Consequently, the lead time for a mine is measured in many years, so they remain in for a significant time period. Nevertheless, the minimal risk certainty of the investor about the reward is the must factors for putting their capital in this sector. Therefore, the host country must strengthen institutional and human capacity building to ensure the rewards. Another important element of investment in this sector is the communities, which are the big stakeholders in this regard. The communities there must be educated about various process involved in mining and it should be discussed with them as to how it benefits them.

d. Clean Development Mechanism (CDM) projects are a mechanism where companies in developed countries can invest in developing countries to achieve carbon reduction objectives. Pakistan has approved 25 CDM projects. As for direct benefit of approved CDM schemes, these have led to a direct investment worth US $742 million and reduction in the emission of four million tons of carbon. The Global CDM investment flows are between $5.2-17.4 billion per year. Pakistan can benefit by activation of more CDM projects in highest Green House Effect abating sectors in the country.

10. Certainty of rewards or incentives: These rewards cannot be generated by giveaways or simple incentives, but from the readiness of economic infrastructure, the quality of manufacturing factors, and the environments that are conducive to quality investment accompanied by market development and healthy competition.

11. Marketing in a global world and image building: How well does your country market itself? Are the Pakistan embassies doing enough to promote their country's image abroad? A group within the Finance Ministry should be formed exclusively for branding and image building for enabling environment. In addition, they should be sitting together with their foreign ministry compatriots to devise and implement such a marketing strategy.

PAKISTAN'S SCORE CARD AT PRESENT

TRYING: NIL

DOING: BUMBLING AND STUMBLING ALONG

CAN DO: BETTER THAN MOST