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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.

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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).

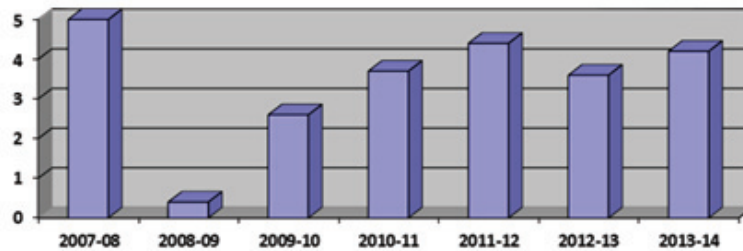


Figure 1. GDP growth for the fiscal years 2007-2014

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

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