

Paradigm for the Foreign Direct Investors in the Virtual Market of Pakistan

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ABSTRACT

Purpose: The Foreign Direct Investment (FDI) is currently low in Pakistan due to the recent wave of terrorism and political instability. In this situation, the impression of online global companies can be obliging. In view of that, this research assesses the attractiveness of Pakistan's virtual sector for investment by multinational companies.

Findings: The findings reveal that conventional transaction systems, lifestyles and cultural differences, irrelevant market contents, business models, fragmentation, purchasing power, undeveloped payment systems, language differences, logistics, and unethical competitors are the major push to avoid this industry. On the other hand, the pulls are supportive government initiatives, increasing number of personal computer and Internet users, and reduced bandwidth tariff.

Implication: It is recommended that the change in global business trends, such as fast, easy and low-priced trade initiation process, does indicate future potential of e-business growth in Pakistan.

Recommendations: Although previous studies have investigated the pertinent issues about e-business. However, very few studies have been conducted in developing countries like Pakistan. Furthermore, this study proposes findings which could be helpful for online companies and financial sector of Pakistan like banks.

Keywords: Foreign Direct Investment, Virtual Market, Pakistani Finance and Economy, Marketing

1. Introduction

Since last decade, the economy of Pakistan is observed to be underperforming. According to a report by the World Bank (2016), Pakistan's annual Gross Domestic Product (GDP) growth rate was around 8% at the end of fiscal year 2004-2005. Later, it declined to around 2% at the end of fiscal year 2009-2010, and currently it is around 5% (Pakistan Economic Survey, 2015). Such figures can be assumed as worse if compared by the GDP growth rate of China (around 7% percent) and India (around 8%). The analysts (e.g., Yousaf et al., 2008) confirmed that one of the most important indicators of underperformance in the Pakistani economy is low inward Foreign

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Direct Investment (FDI). Khalid et al. (2012) found that during fiscal years 2008-2011, the FDI inflow decreased from \$5.4 billion to \$1.57 billion. It contributed less than 4 percent of GDP, which was extremely low even if compared to average GDP contribution rate (7.5%) of developing countries (Rehman et al., 2009). The report further suggested that companies have shown less interest in investing in Pakistan due to various factors ranging from unstable political environment to conflict between investors and the government, plus the recent wave of terrorism could be another significant factor towards this fall.

In the present scenario, the impression of online global giants to set-up their business in Pakistan can be obliging to enable the country to tackle the issue of foreign direct investment. Like most developing countries, Pakistan considers FDI as its major external source of funding to fill its resource gaps and increase economic growth. Moreover, as Pakistan is facing an issue of increased unemployment (Pakistan Economic Survey, 2016), the FDI in the virtual sector can prove to be one of the best sources of promoting small and medium enterprises (SMEs) and reduce unemployment. E-business can create various income generating opportunities. For instance, people can create e-shops on e-marketplaces (e.g. eBay, Amazon etc.) to promote their SMEs or family businesses. There are examples where SMEs or family businesses have played important roles in the economic success, and made considerable contributions to the societies. In the United States, family businesses were estimated to represent 90–98% of all businesses, offer jobs to over 50% of the workforce, and create 40–60% of the GDP whereas in Europe, the family business sector represented over two thirds of all enterprises and accounted for about half of the GDP-economic activities and private employment. As this study is for Pakistan, market for online shopping is very slow in adopting the change as Pakistan was the 2nd slowest online shopping adopter in the world (Adnan, 2010).

Nevertheless, since the beginning of global e-business, the trend of Pakistani Internet users towards e-shopping is observed to be low. According to Alam (2013) the estimated market size of e-commerce was between \$25-30 million up until the end of year 2012, with 10% annual growth rate. This growth rate is low if compared to the observed annual growth rate of neighbor country, India (around 57%) (Forrester, 2012). Considering a situation like this, the question is how FDI in the virtual sector can be made more attractive in Pakistan? The existing literature is found to be unable to clearly answer this question. A detailed examination of the present elements, such as attractive and unattractive indicators, is required to clarify the extent of this relevant area. Moreover, the future potential of the e-business has to be explored, and a paradigm has to be developed that can provide a direction to foreign direct investors to position themselves in the virtual sector of Pakistan. The study aims to answer the following three research questions.

- a. What factors are contributing the growth of FDI in e-business sector in Pakistan?
- b. What are the problems faced by Pakistan's e-business organization and consumer?
- c. What are the challenges and opportunities in e-business sector in Pakistan?

To address the above mentioned research gap and questions, it was decided to involve the industry practitioners in this study. For that reason, interview sessions were conducted with those people who are engaged with the e-business industry in Pakistan. Moreover, a focus group with a few e-consumers was conducted. Lastly, the relevant data on several related publications in Pakistan were also observed. The outcomes are analyzed below

2. Attractive Indicators of FDI in e-business Sector of Pakistan

Since the early 21st century, Pakistan has pooled its resources to compete with the digital world. The government had announced its IT policies along with action plan-2000. The focus of such initiatives was not only to attract foreign investment but also to establish new Information Technology (IT) institutes. This initiative brought several IT universities, trainers, and professionals to Pakistan (e.g., COMSATS and Virtual University). Under action plan-2000, several IT seminars, competitions, and exhibitions were also arranged inside the country. To create IT awareness and Internet use, Cyber Cafes were also opened. The government established several IT task forces to take care of multiple technology areas. Other than this, IT centers and IT parks were also observed to be established (Abbas, 2015).

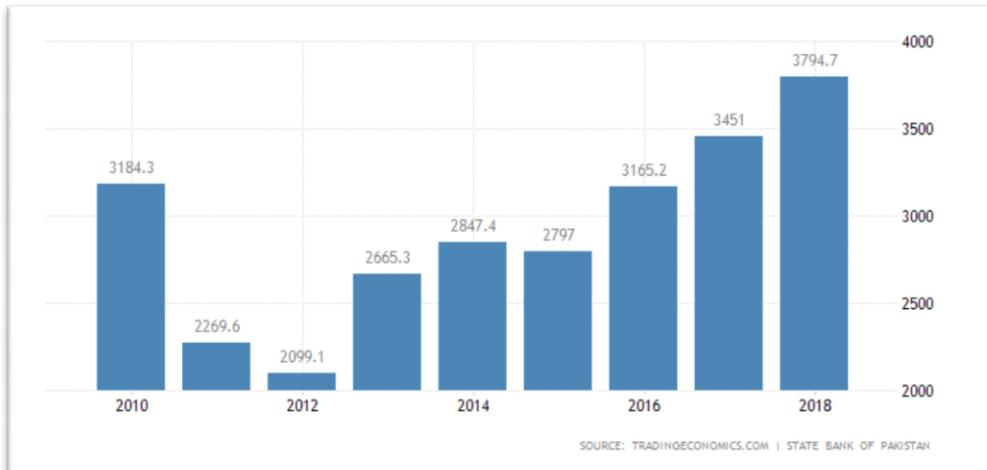


Figure 1: Foreign Direct Investment (Pakistan)

Source: Pakistan Board of Investment (BOI)

Consequent to action plan-2000, the growth of personal computers (PCs) was observed to be increased. In 2003, the country claimed a record import of new systems. According to Ibrahim (2004) the import figure was 0.35 million (quantity). Among these numbers, sixty-five percent were not branded and thirty-five percent were branded laptops. The import of computer hardware

and linked devices was also increased up to twenty million dollars. By the end of 2005, approximately two million PCs existed in Pakistan (Zarmeene, 2006; Park & Kim, 2003). In addition, the observed software export figure was approximately 2.3 million dollars. Similarly, around ninety percent of telephone lines were observed to be converted to digital (Kundi, 2007). Since 1995, the internet facilities were observed to be started by the ISPs (internet service providers) and as of 2007, more than two hundred and fifty of those ISPs were found to be operational (Kundi, 2007). To encourage an IT culture, the government reduced bandwidth tariff from eighty-seven thousand dollars to fourteen hundred dollars. Hence, the end users were provided with a price relief.

After 2005, the trend of Internet users was observed to increase rapidly in Pakistan. Approximately twelve million people were Internet users until the end of 2006 (Kundi, 2007). This figure rose to around twenty-one million within next five years (Central Intelligence Agency, 2012). Similarly, the telecom sector was observed to see its highest growth rate at one hundred and seventy percent (Pakistan Telecommunication Authority, 2007). Such high growth was due to incentives by the government, i.e., Broadband Policy-December 2004, Telecom Deregulation Policy-July 2003, and Mobile Cellular Policy-January 2004 (Economic Survey of Pakistan, 2005-2006). Until 2007, approximately sixty million cellular phone subscribers were observed to be using Internet in the country (Pakistan Telecommunication Authority, 2007). Seyal et al. (2004) conducted a survey of fifty-four small and medium size businesses in Pakistan. Their survey confirmed several outcomes in the early 21st century: First, approximately eighty-five percent of the companies had internet access in Pakistan. Second, around sixty percent of SMEs have either vendor supported or in-house web servers. Third, around seventy percent of SMEs have their own webpages. Last, around forty-five percent claim to be e-business adoptive SMEs.

3. Unattractive Indicators of FDI in e-business Sector of Pakistan

Many of the Pakistani people prefer cash transactions rather than through credit cards. Although, the existing researchers (e.g., Alam, 2013) found several innovative approaches in recent years, the emergence of such payment method seems to be widely discussable. The privacy protection and e-transactional security are of serious concerns. For that reason, the practitioners have emphasized the role of government as well as suitable regulations. In fact, the government had announced few policies to ensure e-security. Such policies include ECA-2007 and ETO-2000. The tenacity of these policies is to build the confidence of the online community. Nevertheless, the online users are found to be shaking confidence in digital signatures as well as other authenticated procedures.

The social diversity is shrinking worldwide due to globalization (Robertson, 1992; Mukherjee & Nath, 2007). From the use of IT, a universal culture is emerging. Such universality has a significant role in the success or failure of e-businesses. To establish successful customer

relations, an understanding of web-fit in a country's culture is necessary. According to Morrison and Wise (2000) the websites should be friendly to target online consumers. Moreover, it should have the national or local language as well as English. However, in Pakistan, around ninety percent of the Pakistani web-content is in English. Most of the people in Pakistan cannot understand the English language due to illiteracy. Therefore, translation-based websites are urgently needed for e-business to succeed in the country.

Differences among individual's lifestyles and cultural behaviors (e.g., risk aversions) can also lead to success of e-business. For instance, most of the people of Pakistan are observed to be exploiting the benefits of Internet. Instead of seeing it as a revolutionary gadget, they see Internet as an enjoyment tool. Moreover, the people of Pakistan are influenced by uncertainty avoidance and collectivism culture. Under such environment, the introduction of e-business among consumers is difficult (Bohn, 2005). The e-business in Pakistan confronts various other concerns such as irrelevant market content, business models (B2C¹¹ and B2B²), fragmentation, purchasing power, undeveloped payment system, language differences and logistics (Frederick & Elliot, 2004; Mukti, 2002; Jennex & Amoroso, 2002). For instance, most of the Internet connections and telephone lines pass through Pakistan Telecommunication Company Limited (PTCL). This creates limited choices for the private service providers. On the other hand, the less common websites in Pakistan are business to business (B2B). The core reason behind such scenario is there is no mutual interest based partnerships among businesses. According to Bushra (2002) the businesses interested in B2B are essential to have partnership with co-businesses to help in their expansions (Bushra, 2002). In this way, they can gain efficiency in understanding market culture, consumer behavior, and business practices. Furthermore, they can control multiple barriers of e-business, e.g., business regulations, tariffs, logistics, and language.

The foreign inflows from China which was the main investor of the country under the project CPEC, China Pakistan Economic Corridor, in the six months of year 2016 remained 204 million dollars. The foreign inflows from the Netherlands during the same time bracket was 462 million dollars. Total inflows from these two countries were 61 percent of total foreign direct investment got in the first six months of the year 2016. Foreign direct investment is receiving from a handful of countries which indicated that the country was still not attractive for the international business community (Iqbal, 2017).

E-business ethics are also observed as an overlooked issue. The web-based businesses are found to be lacking in adaptation of open, collaborative, and flexible models. Their successful adoption can help in overcoming traditional business practices. For instance, in the traditional

¹**B2C Business-to-customer** marketing refers to the tactics and best practices used to promote products and services among consumers.

²**B2B Business-to-business (B2B)** refers to a situation where one **business** makes a commercial transaction with another. This typically occurs when: A business is sourcing materials for their production process (e.g. a food manufacturer purchasing salt).

business environment of Pakistan, the firms usually compete in an unfriendly manner to gain their short-term business advantages (Sahar and Ahmed, 2012). Nevertheless, e-businesses can offer friendly-based competition in contrast. Such competition requires opening several scrutiny types and sensitive information sharing (Miles et al., 2005). In other words, the web-based companies need network relationships to enhance their opportunities in the e-business market of Pakistan. In modern business ethics, such network relationships are valued highly to gain consumer trust. The consumers tend to trust such network relationships, as it ensures them maximum security and risk avoidance in their e-trade. For instance, the highly trusting people may not feel reluctant to provide their credit card information on the internet for making their transactions. Moreover, the increasing trust of consumers can help the e-vendors facilitate more good privacy and security options. As their business increases, the e-vendors can invest more to enhance privacy and security features in their websites. Thus, the consumer can feel more likely to rely on websites.

4. Future Potential of E-Business in Pakistan

The global business trend is observed to be changing from mass production to demand-driven, possibly customized, just-in-time manufacturing systems. According to Gunasekaran et al. (2002), the key for such change is introduction of e-business among marketplaces. For example, firms like General Motors, Boeing, IBM, and General Electric assemble their products based on manufactured parts in several locations. Sub-assemblers gather parts and materials from their respective vendors and use more than one manufacturing tiers. E-businesses facilitate those sub-assemblers to coordinate, communicate, and collaborate. One of the possible modes is through using system of electronic bidding. Such system is adoptable and flexible in Pakistan, as it allows rapid changes in low cost.

E-business can bring a fast, easy, and low-priced trade initiation process in Pakistan. The search for the right supplier, specification of product quality, price negotiation, delivery arrangements, and product marketing can no longer be a difficult, expensive, and time-taking task (Terzi, 2011). Thus, trade would be more likely to be promoted through Internet in the same way as lifting other trade barriers would. Activities like inventory management, research and development, computing, accounting, quality control, personnel management, distribution, advertising and marketing can be traded in Pakistan. All that is required is that the cost, speed, and quality of communication between seller and buyer be enough (Terzi, 2011).

E-business can enable Pakistani banks to enhance their services for existing clients. In addition, it can help the banks to attract new customers while operating at a low cost. Nazir et al. (2010) observed that Pakistani banks comprise their largest share from financial service sectors. Such sectors are found to be engaged in providing both commercial and retail products/services. With transformation of e-commerce, the banks can help these institutes to increase businesses. Moreover, such transformation can be a good source of employment for Pakistani people. At

present, the financial sector accounts for approximately fifteen percent of GDP. Hence, it has a critical role to play in the success of Pakistani economy.

E-business can be an alternative delivery channel for the financial institutions in Pakistan. This delivery channel can allow the firms to retain existing customers as well as attract new customers. Moreover, this delivery channel can provide increased customer convenience and services at the lowest operational costs. Consequently, the economic efficiencies can be offered to Pakistani institutions. Besides, in search of e-business opportunities, the companies can add several products and services to their offering portfolio. Such addition might come as a result of online financial service/product demand taking hold. Therefore, the opportunity for product/service and market diversification can also increase.

E-commerce can provide opportunities for SMEs to compete with big market giants. The prime reason behind such opportunities is that e-commerce facilitates the lowest possible cost as well as skills to information, culture, contact, and market. As a consequence, the chances for deregulation of financial markets can get lower in Pakistan. Moreover, new internal processes can also be developed in accordance with modified market-product structure in the country (Yang, 2000).

E-business can directly and indirectly create new jobs for the people of Pakistan. The direct jobs in information related services and goods, digital products, software and entertainment whereas indirect jobs via productivity and demand increase. The benchmarks for such are the United States and European Union, where ICT, business, finance, and e-commerce related sectors account for almost one-third and one-fourth of total employment, respectively (Terzi, 2011).

E-business offers flexible, convenient, significant, and time efficient services to clients. Generally, consumers are observed to look for easy ways to conduct transactions and share information. They perceive the Internet as an important commercial opportunity. E-business can facilitate not only convenient services and products delivery but also empowerment and control to consumers as well. Moreover, e-business can eliminate consumers need to physically move for their financial transactions. Such empowerment may lead towards enhancement of their confidence and trust. Moreover, with such a high confidence and trust, the consumers may desire to transfer their personal financial transaction to a web setting (Anckar and D'incau, 2002).

5. Paradigm of Foreign Direct Investment in the Virtual Sector of Pakistan

To clarify the extent of the relevant area of current study, a detailed analysis of attractive and unattractive indicators was performed, and the future potential of the e-business was also explored. Based on this, a paradigm (Figure 2) is proposed to provide guidance to foreign direct investors to position themselves in the virtual sector of Pakistan. A future study in this area can be conducted to assess this paradigm in the context of a particular found, which can authenticate its means.

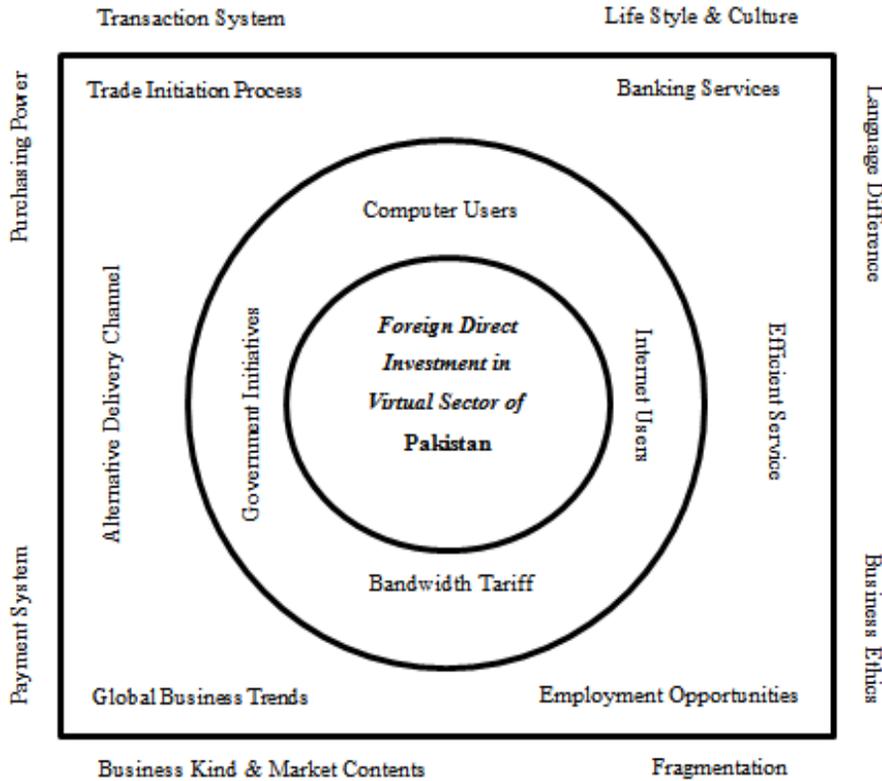


Figure 2: Paradigm of Foreign Direct Investment in the Virtual Sector of Pakistan

6. Conclusion

The study has established that the traditional intermediaries are transformed as a result of modern computer-mediated relationships. Therefore, to increase interactive promotions (of products and services), information-riches, and client contacts (direct and indirect), the businesses in developed countries usually set-up their virtual channels of distribution. In contrast, in a developing country like Pakistan, e-business is currently not resulting in a substantial saving of information delivery cost and time to the customers. Moreover, it is not increasing customer services by enabling clients to find detailed online information. Conventional transaction systems, lifestyles and cultural differences, irrelevant market contents, business models, fragmentation, purchasing power, undeveloped payment system, language differences, logistics, and unethical competitors are the major push to avoid this industry. On the other hand, the pulls are supportive

government initiatives (e.g., action plan-2000), increasing number of personal computer and Internet users, and reduced bandwidth tariff. It was found out that change in global business trends (such as fast, easy, and low-priced trade initiation process) does indicate future potential of e-business growth in Pakistan, especially for the online global giants to create an alternative delivery or service channel for the local financial institutions and banks. Markets are networks where people usually interact to exchange information, payments, services, and products. If a network becomes online-based, the people may not require a physical building to interact or transact. Instead, a corporate website would bring buyers and sellers together in the same place and in the same point of time. The advent of Internet has brought changes in the new-era practices.

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