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IMPACT OF TAXATION ON FOREIGN DIRECT INVESTMENT IN PAKISTAN

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Abstract

Foreign Direct investment is one of the major pillars of the country's economy. In case of developing countries, the significance of foreign direct investment is even higher than the case of developed ones (Ahmad, 2021). Therefore, for the countries, like Pakistan, it is necessary to focus on the factors and techniques that can help to improve the foreign direct investment. Foreign direct investment can help in improving different sectors of a country including education, industry, job opportunities and healthcare. However, the increase in taxation and decrease in exchange rates has impacted the foreign direct investment (Ahmed & Martinez-Zarzoso, Blessing or Curse: The Stabilizing Role of Remittance, Foreign Aid and FDI to Pakistan, (May 7, 2018)). Therefore, the current study is aimed to analyze impact of varying factors including taxation rates, interest rates, exchange rate and GDP on Foreign Direct Investment (FDI). Time series data is used analyze the impact of set variables on FDI. The statistical analysis has provided significant insight about the exchange rates and GDP that have a direct impact of FDI. However, the taxation rate has resulted in negative relation with FDI. Interest rate has little or no impact on FDI. Furthermore, de-valuation of currency has also impacted the FDI in Pakistan in a negative manner. In this regard, the government has to decrease the taxation rates and reconsider the priorities for the improvement of FDI (Ahmed & Ullah, 2017).

LIST OF ABBREVIATIONS

FDI – Foreign Direct Investment

FBR – Federal Board of Revenue

TNCs - Transnational Companies

IIP - International Investment Position

OFCs - Offshore Financial Centers

BITs - Bilateral Investment Agreements

BEPS - Base Erosion and Profit Shifting

CRS - Common Reporting Standard

GDP – Gross Domestic Product

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Chapter 1

INTRODUCTION:

International influence and globalization continue to influence economic development both in Pakistan and around the world. Companies seek to increase their productivity, seek to expand, and gain access to new markets. Meanwhile, national security scrutiny of foreign direct investment is becoming more common and more stringent and can play a critical role in cross-border transactions (Aijaz, Shamim, & Wasim, 2021). Pakistan, being an active participant in the international investment exchange, for many years was among the economies most attractive to foreign investors. There was a significant deterioration in 2014-2015 macroeconomic situation in the country. Main reasons were the imposition of taxes in Pakistan, the increase in oil prices and the weakening of the Pakistani currency against the backdrop of deteriorating global economic conditions. These events have added to the uncertainty and risks in the global economy that have had a marked impact on investors when making decisions on the placement of capital investments. The result was a sharp reduction in the inflow of foreign direct investment (FDI) into the Pakistani economy (Akbar & Ahsan, 2019).

World investment exchange is considered one of the leading forms of partnership between states at the present stage of development of the world economy. Investments are made to other countries in order to overcome the barriers to foreign trade activity, to locate manufacturing companies in the areas of key sales markets, which can significantly reduce transportation costs and take into account the peculiarities of purchasing behavior and the needs of foreign consumers (Akhtar, Chishtie, & Shah, 2020). In the current circumstances of intensifying cost competition in global markets, “cheap” production facilities in host countries have become a weighty argument for investing capital. When studying direct investment and impact of taxation in the Pakistani economy, it is necessary to take into account the widespread use of so-called indirect investments, which are the result of modern financial strategies of transnational companies (TNCs) in the context of globalization and liberalization of the international movement. Transnational corporations (TNCs) use complex business structures and are increasingly moving away from core business models in countries, which leads to an increase in the importance of their investment activities, which is expressed in an increase in cross-border capital flows, both equity and

borrowed, as well as in the growth of intercompany export-import flows of goods and services carried out using transfer prices (Akram, 2020). Increasing capital flows are forming an “offshore economy”, which exacerbates the problem of budget deficits for developed countries, since subsidiaries of TNCs accumulate income in the jurisdictions where they are registered and postpone its transfer as much as possible (due to its slow movement along the chain of companies) in relation to the parent companies, and for developing countries it still creates the problem of hiding the owners of assets, which exacerbates strategic and geopolitical risks, but helps to overcome the problem with poorly developed institutions for the protection of property for entrepreneurs, i.e., chains of firms are built that own shares in the capital of related structures, allowing you to hide owners, and also leads to a decrease in the effectiveness of foreign trade regulatory measures and a decrease in tax liabilities of companies (Aqeel, Nishat, & Bilquees, 2017).

Foreign direct investment is the most favorable form of international investment exchange in terms of economic growth and development goals. Direct investment, unlike other forms of international movement capital, are based on the investor's long-term interest in the invested enterprise, on his willingness to improve technological, production, organizational, economic, and financial processes. the relationship between investment decisions and taxes can be much more complex, because although the tax rate is a readily available tool for measuring the attractiveness of a tax system, the correlation between the level of direct investment in a country and tax rates can be reversed (Asif, Ali, Khan, Afridi, & Safdar, 2020). This is usually because the application of a reduced tax rate is usually "balanced" by a wider tax base or the elimination of tax credits. the tax rate on the income of a person from Pakistan depends on his tax residency. To become a Pakistani resident, you need to spend more than 183 days in the country during the year. For such people, the tax rate is 13%, for the rest it is much higher - 30%. Government tax rates are the most important determinants of FDI behavior (Atif & Siddiqui, 2019). For example, Atif and Siddique conducted a study testing the sensitivity of US investors in 33 countries to changes in the effective tax rate. They concluded that the official tax rate appears to be a more important variable than the ETR because it provides more explicit results in a simple regression analysis. Taxation is very critical for the development of foreign investments within Pakistan. The present study is based on analyzing the impact of taxation on FDI for the specific case of Pakistan.

1.2. Background:

Investments play an important role in the economic development of the countries of the world, they provide GDP growth, make positive changes in domestic socio-economic policy, mechanisms for the functioning of resources and form foreign policy. An effective investment policy creates the foundation for the development of industries that are strategically important for the state, qualitative transformations in the structure of the economy and the qualitative presentation of the country's products on the international market (Azam & Lukman, 2020).

The problem of attracting foreign investment has become one of the key ones in the work of many economists involved in the study of investment processes and their development, since the beginning of the development of market fundamentals of management and the development of international relations (Danish & Akram, 2017).

To ensure sustainable economic growth, foreign investment is one of the key factors on which the governments of many developed and developing countries focus their attention. It is foreign investments that become the basis of high-quality economic development in the countries of the world, which also reflect the favorable development of the investment climate of the country - a key indicator in the analysis by foreign investors of the possibilities of investing in a particular country (Ali, Taqi, & Parveen, 2021).

To strengthen their position in the international market and improve the country's investment image, the governments of the countries of the world are working to ensure the growth of socio-economic development, the conditions for political stability and the formation of conditions for ensuring the protection of the interests of foreign investors. With the acceleration of economic development, most countries of the world consider investment attractiveness as the most common indicator of the possibility of investing in each specific object (country, region, industry, enterprise) as the most urgent problem (Gudaro, Chhapra, & Sheikh, 2019).

Pakistan is no exception in this matter - the Government of the country is also interested in increasing the growth of foreign investment. However, since 2014, with the introduction of sanctions against the country, there have been changes in the structure and dynamics of foreign investment, which were aggravated by the crisis years of 2016-2018. and the onset of the crisis associated with the coronavirus pandemic in 2020 (Gulzar, 2020). Although the rating of Pakistan

in the list of the top 10 countries most attractive for investment among European countries increased in 2020 to 9th place, the inflow of foreign direct investment decreased by almost 5 times (Jan, Hu, & Khan, 2019). These external challenges necessitated the search for new ways to attract foreign investment to the economy of the Pakistani Federation in order to support and develop the most affected industries in the country's economy (Khan & Rehman, Impact of macroeconomic variables on foreign direct investment in Pakistan: time series analysis for the period (1990–2015), 2019).

The peculiarity of accounting for investment flows is that they are treated as a net investment. The statistical report of incoming investments is the balance transactions of foreign investors that determine the receipt investments in the host economy and their withdrawal. In the 1990s there was a rapid decline in foreign investment due to a decrease in attractiveness for FDI, then starting from the 2000s. the dynamics changed: domestic investment showed a significant increase (Khan & Khan, 2017). But this state of affairs did not affect the outflow of funds from the state, which is currently quite significant, and the factor of such a desire is tax evasion. According to the State Bank of the Pakistan, incoming investment flows in the Pakistani economy peaked at $75 billion1 in 2008 on the eve of the global financial crisis. In 2014, under the influence of unfavorable conditions, they repeatedly decreased and reached a minimum value of $ 7 billion. in 2015, but the surplus persisted as from foreign investors-non-residents received 134 billion dollars, and they seized 127 billion dollars (Khan & Hye, 2014). The reduction in investment flows has had a negative impact on FDI accumulated in the Pakistani economy. They are decreased from $565 billion in 2013 to $348 billion in 2015. But this phenomenon was of a short-term nature, and already at the end 2017 investment positions almost recovered (Khan & Nawaz, 2019).

China remains the most important source of investment for the Pakistani economy, accounting for 20 to 30% of incoming FDI, despite the fact that since 2012 there has been a decrease to 4-14%, and in 2015 and 2016 there was a negative balance, which amounted to -7 billion dollars and -564 million dollars, respectively (Khushnood, Channa, Bhutto, & Erri, 2020). In 2014, a number of states (USA, EU countries, Canada, Australia, etc.) introduced restrictions and sanctions against Pakistan due to terrorism and unsafe business environment. On them share accounts for 60 to 90% of investment flows and from 70 to 80% of investment stocks in the Pakistani economy (Lodhi, 2017). The sanctions contain a wide range of measures, which had a

significant impact on investment decisions. Investors from different countries have not only reduced current investment, but also increased withdrawals, resulting in a negative balance in 2014–2015 and a short-term decline in FDI stock (Mahmood & Chaudhary, 2013). The aim of the work is to study the role of foreign direct investment in the formation and modernization of the domestic economy, as well as to develop proposals for removing barriers that impede the flow of foreign capital and improving the investment climate.

1.3. Objective:

The present study is aimed to achieve following objectives:

- To analyze how taxation influence the FDI
- To determine the role of interest rate and exchange rate in improving FDI
- To identify the important policies to help the taxation of outbound investment
- To highlight how Pakistan react to pressure to lower the taxes on FDI

1.4. Problem statement:

Over the last three decades, Pakistan has grown a developing economy on average more than 4%. For the sustainable growth in future, the country requires financial capital. So, if the country is availing the opportunity to raise the FDI, what are the economic consequences of these investment in the long run. As Pakistan is facing issues of balance of payments that may be hinder the economic benefits associated with the FDI.

FDI plays a significant role in overall development of economy and Pakistan is facing decline in FDI from past few years. Taxation is identified as critical factor that plays an important role to attract foreign capital. The role of taxation in promoting FDI is extensively studied for developed economies but there is no significant literature available about the developing markets (Munir & Iftikhar, 2021) like Pakistan. The present study is based addressing the impact of taxation and foreign investment and suggest policies that are based on the findings of study.

1.5. Research Questions:

The present study is focused on following research questions

- How is taxation related to FDI?
- What is the impact of Exchange rate on FDI?

- What is the significance of interest rate in attracting FDI?

1.6. Research Gap:

Most of the literature is based on addressing the role of taxation of foreign investment for the developed countries (Munir & Iftikhar, 2021). The case of Pakistan is significantly different from other countries, and it is observed that no significant literature is addressing the Pakistani present market. Pakistani economy is directly associated with foreign investments as the country is facing financial crisis (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019). At present there is a need to address this research gap by analyzing the role of taxation in improving FDI of the country.

1.7. Significance of Study

Pakistan is coping with the severe economic crisis during the last couple of years and the conditions are further deteriorating, as the country is unable to balance their payments. In such conditions, where local investors and the government itself is unable to develop the basic infrastructure for the economic growth, the foreign direct investment can pave the way to economic stability. The present study is significant to analyze the impact of foreign direct investment on the economy. The study can further guide the analysts to monitor the FDI and its probable impact on the economic growth.

1.8. Study Limitations

The study is aimed to analyze the impact of FDI on Pakistan's economic conditions, and the scope of present study is limited to Pakistan only. The study is also limited to certain data set that is randomly selected for the analysis, the results of similar research with different scope may result different. The impact of FDI on national economy may differ country to country, as the economic conditions of the country may impact the overall results.

Chapter 2

Literature Review:

Researchers note the benefits of direct investment as a source capital investment in fixed assets of enterprises and growth capital-labor ratio that promote technology transfer and best management practices, increased productivity labor, etc. (Mehar, 2017) Participation of the country in the international investment exchange characterized by several dimensions. First, according to the direction, incoming (coming into the economy from non-resident investors) and outgoing investments (investments resident investors abroad). Secondly, both incoming and outgoing investments are recorded in two ways: as transactions for a certain period (current investment flows) and as balances (positions) on a certain date (accumulated investments, reserves). Macroeconomic statistics on investment flows is formed on the basis of the balance of payments, and on stocks - in the international investment position (IIP) (Mughal & Akram, 2011). There is a relationship between these statistics reports, since the change in balances in the IIP considers investment transactions reflected in the balance of payments. But apart from that, data on accumulated investment in IIP include price movements in the stock markets, changes in exchange rates, as well as other changes related to the reclassification of assets and liabilities, expropriation, liquidation of property, unilateral debt write-offs, accounting errors that can affect the volume of financial assets and liabilities of the country (Muhammad, Bakhtiar, & Khair, 2011).

In the context of globalization, the interconnection of various forms of international economic relations, primarily international trade, is increasing, international movement of capital, international migration work force. Global investment trends can be characterized as follows: FDI inflows to developed countries almost doubled, reaching $962 billion. As a result, the structure of world FDI was again dominated by advanced economies, whose share was 55% against 41% in 2014 (Munir & Iftikhar, 2021). In developing countries, a new maximum of FDI inflows was reached - $ 765 billion, 9% higher than in 2014. In transition countries, which also includes Pakistan, FDI inflows showed a drop to the level of a decade ago. The reason for this is a combination of low commodity prices, the depreciation of the national currency and the impact of geopolitical risks (Najaf & Najaf, 2007). The economic literature discusses the issue whether FDI and international trade are substitutes or complement each other. Modern research proves that

international trade and investment relations are complementary (Ahmed & Ullah, 2012). As a rule, their relationship is analyzed in models international trade, in which FDI acts as a factor contributing to the growth of exports and imports (Akbar & Ahsan, 2015). Much less frequently, trade is included in direct investment models. In particular, in the FDI model for developing countries in Asia region a stable positive impact of host country import growth on attracting foreign investment. The main role in this is played by global trade and production systems based on international supplies of TNCs and their investments. Offshore financial centers and FDI, in the context of globalization, offshore jurisdictions have become the center of attraction for investments. According to UNCTAD, investment flows in offshore financial centers (OFCs) are characterized by extreme instability; they reached their maximum values (almost $400 billion) in the fourth quarter of 2013. TNCs use OFCs for financial transactions related to the transit of capital, therefore they simultaneously act as investor countries (Nazir, Hafeez, & U-Din, 2022). Many countries receive from OFCs relatively more investment than from other sources of FDI. In particular, the study (Akbar & Ahsan, 2015) shows that investment sphere of the EU states interacts more intensively with OFCs than with other countries.

A political factor capable of influencing international investment exchange, the article (Mehar, 2017) considers the net outflow of FDI as one of the indicators of a negative effect of the sanctions. Although a significant number of publications are devoted to the sanctions imposed on Pakistan, very few special studies are aimed at analyzing their impact on FDI. Among them are the works (Munir & Iftikhar, 2021). The article (Najaf & Najaf, 2007) conducted a study of the direct impact of sanctions on FDI in the global economy based on data for 184 countries from 1970 to 2010. As a result of the econometric analysis, a number of conclusions have been formulated about their short-term and long-term effects. First, large-scale sanctions can lead to a sharp short-term decline in FDI, but this effect is quickly exhausted. Secondly, sanctions have the most lasting effect. United States, with their impact increasing over time, while the sanctions of international organizations, for example UN do not have a significant impact on FDI. Thirdly, the most significant impact was exerted by the sanctions, which were introduced in the 1990s, but it was of a short-term nature. In other periods, sanctions have not led to significant reductions in FDI. According to (Munir & Iftikhar, 2021), 2,957 Bilateral investment agreements (BITs) have been concluded in the global economy, of which 2,358 are operating. The World Bank's report Critical Links: Promoting Economic Growth and Resilience in the Region Europe and Central

Asia", the gravity model proved the positive impact of investment agreements on international investment exchange (Pervez & Malik, 2022).

Positive impact of BITs on the accumulation of mutual FDI confirms the study (Pervez & Malik, 2022). The authors determined that in partner countries with a valid investment agreement, mutual accumulated investments, on average, 35% higher than in countries without such an agreement (Pervez & Malik, 2022). However, against the backdrop of a general recognition of the positive effects of investment agreements, it is noted that the strength of their influence depends on different conditions. In (Sadiq, Usman, Zamir, Shabbir, & Arif, 2021) found that the effect of BIT is uneven in different sectors of the economy. The authors of another study, dedicated to identifying sustainable drivers of FDI showed lack of impact of bilateral treaties in the field of taxation (Sadiq, Usman, Zamir, Shabbir, & Arif, 2021). Moreover, they suggested that anti-avoidance treaties and transfer pricing, may have a negative impact on investment exchange, creating negative incentives for TNCs. A special study of the effects of investment agreements (Sadiq, Usman, Zamir, Shabbir, & Arif, 2021) shows the crucial importance political relations between countries. In the face of growing tensions, the conclusion of a BIT has a much greater positive impact on mutual investment exchange than when countries have friendly relations.

According to some estimates, they account for about 30% of global investment flows. The essence of direct investment lies in the fact that they are carried out by foreign investors who have a long-term interest in the economy of the invested enterprise. "Indirect" FDI, constituting a specific fraction of the international investment exchange, are intermediary in nature and do not have a close connection with the economy of the host country (Shafiq, Hua, Bhatti, & Gillani, 2021). They are carried out in two main forms: first, transit capital through third countries and, secondly, the "circular" movement FDI as the outflow of domestic investments by residents of the country beyond border, mainly in OFCs, and their return in the status of foreign direct investment (Shafiq, Hua, Bhatti, & Gillani, 2021). The researchers note that special companies that create TNCs in OFCs and in other countries for intermediary purposes, are an instrument of globalization corporate financial arrangements and their operations are not related with real economic turnover. There are a number of motives and reasons for the "circular" movement capital, including corporate tax strategies, the desire of companies to gain access to more mature financial markets, to the privileges granted to foreign investors by national legislation and international investment

agreements, the desire to maintain confidentiality in investment activities (especially in international acquisitions) and others. Gigantic investments are not being converted into buildings, factories and shops in Pakistan economy, according to the report " Impact of Taxation on Foreign Direct Investment: Empirical Evidence from Pakistan" prepared by experts from the IMF and the University of Copenhagen. They are part of an ever-increasing fictitious capital that passes "through shell companies", which "do not do real business", but serve as holding structures "to arrange intra-corporate financing or manage intangible assets - often in order to save on taxes in different countries by multinational corporations " (Shafiq, Hua, Bhatti, & Gillani, 2021). Each investment instrument has its own special taxation regime, which can significantly affect the final profitability. Easing the tax burden has become one of the ways to attract the attention of private investors to the market by the authorities. The taxation of private investors in the stock and bond markets is not much different from the taxation of individuals in general; they are required to pay 13% personal income tax on profits from operations in the stock market, says Dmitry Lesnov, head of the department for working with individuals at Finam Group (Shah & Zahir, 2003). This applies to both shares (with an increase in their value during the investment period) and dividends paid on them, and bonds. In the case of income from dividends and coupon income, the investor immediately receives the amount net of tax. That is, the tax is paid by the company itself - the issuer of securities (Shah & Zahir, 2003). The tax liability on income from transactions in the stock market arises when the previously purchased securities are converted into cash or at the end of the calendar year. “Income received from the sale of the security goes to the company account (Shah & Zahir, 2003). If the investor withdraws funds during the year, the company, as a tax agent, withholds tax on the withdrawn funds from the investor. Another popular investment instrument is the securities of mutual funds (mutual funds). Income received by a shareholder from the sale of shares of such a fund is subject to a 13% personal income tax. Income in this case is the difference between the purchase and sale price of a share (Shahadan, Sarmidi, & Faizi, 2014). If the client sells units at a price lower than the purchase price, then no tax is charged. All tax incentives and deductions, if applied wisely, will allow the investor to benefit from the return on investment. BCS Express analysts give an example of using a tax deduction in IIS. If an investor opens an IIS for a period of at least three years for 400 thousand rupees, then in the first year he can receive up to 52 thousand rupees. from the state as part of a tax deduction and thus increase the return on investment (Shahadan, Sarmidi, & Faizi, 2014).

By gathering data from the OECD and the IMF, the authors of the report, they claim, have compiled a "global map of bilateral investment relations, separating fictitious FDI from real." It turned out that the former accounts for about 38% of all FDI, or $15 trillion out of almost $40 trillion (Shahadan, Sarmidi, & Faizi, 2014). And of that $15 trillion, more than 85% is "invested" in 10 jurisdictions: Luxembourg and the Netherlands (they account for almost half of fictitious FDI), Hong Kong, the British Virgin Islands, Bermuda, Singapore, the Cayman Islands, Switzerland, Ireland and Mauritius (Shahadan, Sarmidi, & Faizi, 2014).

Despite the implementation of the Base Erosion and Profit Shifting (BEPS) plan and the Common Reporting Standard (CRS) automatic exchange of tax information, fictitious FDI continues to grow faster than real FDI, the report says. In less than a decade after the global financial crisis, their share rose from 31% in 2009 to 38% in 2017 (Shahbaz, Rehman, & Amir, 2010). Fictitious capital is fueling the accelerated growth of FDI, which has grown faster than global GDP since the crisis, while cross-border portfolio and other investment has not (Shahbaz, Rehman, & Amir, 2010).

Significant efforts are being made to develop an efficient system of direct investment statistics that separates "indirect" investment from "real" FDI. Based on an approach that distinguishes between intermediate and final investors, the OECD provides data for selected countries, according to which at the end of 2017 accounted for 15% of the "circular" movement in the stock of inward FDI in Ireland, in Lithuania and the Czech Republic - 9%, in Germany and Estonia - 8%, in Finland, Italy and France - 7%, in Poland and Switzerland - 4%, in Brazil - 3%, in the USA and Austria - 2%, in Iceland - 1%, in Hungary - 0.3%, in Turkey - 0.002%. Pakistan's participation in the "circular" movement is being studied by many Pakistani and foreign the authors, but reliable calculations characterizing the quantitative aspect of "indirect" FDI have not yet been presented (Shahzad & Zahid, 2011).

In the event that a foreign company nevertheless managed to obtain the status of a tax resident, its income will still be taxed differently than the income of Pakistani companies. Income tax for foreign organizations is charged on the basis of the amount of expenses of the representative office for this activity (Shahzad & Zahid, 2011). Moreover, it should be noted that both active income from direct activities in the territory of the FBR and passive income - in the form of

payments from participation in the capital of domestic entities, income from property in the territory of the FBR and other receipts - are subject to taxation (Shahzad & Zahid, 2011).

Acting as a tax resident in the Pakistani market, the permanent representative office of the company is responsible for keeping records in accordance with all the rules provided for national taxpayers (Talat & Zeshan, 2013). Thus, it is the employees of the branch who are responsible for paying VAT and filing declarations. In the event that a foreign company decides to refuse to obtain resident status, the obligation to maintain VAT records and withhold it is transferred directly to the person who pays for foreign supplies (Talat & Zeshan, 2013). Domestic buyers of foreign products should be attentive to this issue, since, provided that the VAT was not withheld in accordance with all the rules, it is the tax resident of Pakistan who will be forced to pay it from his own funds (Talat & Zeshan, 2013).

As for the payment of property tax on the territory of the FBR, then the obligations of residents and non-residents are equal, according to Pakistani law. In this matter, the main criterion is the presence of movable or immovable property, a foreign organization must keep records of all property in accordance with the rules of Pakistani accounting and transfer the number of obligations to the budget (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019).

When a foreign company acquires ownership of real estate, it automatically has an obligation to register the rights to a land plot under real estate and to pay land tax calculated from the cadastral value. For individuals, the calculation is carried out by inspectors of the Federal Tax Service, while legal entities calculate the amount of tax themselves. The tax rate ranges from 0.3-1.5% and depends on the purpose of the acquired land (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019).

For foreigners officially working in Pakistan, personal income tax is 13% of their salary and it is paid through employers. However, in the event that a foreign employee does not have such documents confirming his special status as a patent for work or the position of a highly qualified specialist and is also not a tax resident living in the country for less than 183 days a year, he may already lose 30% of the amounts they earn (Ullah & Tahir, 2020). It is also worth noting that foreign individuals receiving investment income in the form of dividends in Pakistan are subject to an increased tax rate of 15% (Ullah & Tahir, 2020). There are difficulties in obtaining bank loans, in addition, there is no stable tax base for financing investments, as the standards for

deductions from tax revenues are constantly changing and becoming more complicated in the context of the global crisis (Ullah & Tahir, 2020).

In this context, methods of stimulating FDI become especially relevant, which not only finance economic growth, but, more importantly, take it to a new level of efficiency, bringing new technologies, know-how and advanced management experience (Ullah & Tahir, 2020). FDI, by promoting the modernization of industry, services and agriculture, will reduce the country's dependence on the export of raw materials and imports of high-tech products and increase the share of high value-added products in it (Ullah & Tahir, 2020).

According to a study, the relationship between investment decisions and taxes can be much more complex, because although the tax rate is a readily available tool for measuring the attractiveness of a tax system, the correlation between the level of direct investment in a country and tax rates can be reversed (Zeshan & Talat, 2014). This is usually because the application of a reduced tax rate is usually "balanced" by a wider tax base or the elimination of tax credits. government tax rates are the most important determinants of FDI behavior. For example, a research team conducted a study testing the sensitivity of US investors in 33 countries to changes in the effective tax rate (Zeshan & Talat, 2014). They concluded that the official tax rate appears to be a more important variable than the ETR because it provides more explicit results in a simple regression analysis. However, as mentioned earlier, official tax rates cannot be considered a reliable variable for calculating FDI's response to tax policy (Zeshan & Talat, 2014).

The main subject of international investment exchange are transnational companies seeking to maximize income through the realization of advantages, scientific systematized by John Harry Dunning in an eclectic paradigm that includes the advantages of property, locations and internalization (Lodhi, 2017). The Pakistan economy retains investment attractiveness for TNCs, as it ensures the high efficiency of capital investments made foreign investors. At the macroeconomic level, for its measurement uses such an indicator as the rate of return, which, according to the Eurostat approach, is calculated as the ratio of investment income to accumulated investment (Shahzad & Zahid, 2011). This the same approach is taken by UNCTAD in the World Investment Report, regularly publishing data on the rate of return on investments in the global economy. In shows EU and UNCTAD data, as well as the results of calculating the rate of return on FDI in Pakistan (Shahbaz, Rehman, & Amir, 2010).

The positive balance remained in the investment operations of the partner countries in bilateral investment agreements (Shafiq, Hua, Bhatti, & Gillani, 2021). Pakistan has 79 signed agreements on Mutual Protection of Investments, of which 69 are valid: 18 are in developed countries, 45 are in developing countries. The modern standard includes mutual obligations of partner countries guarantees of national treatment and regime most favored nation in the field of investment, fair and equitable treatment, prompt, adequate and effective compensation in the event of expropriation, the right on the free transfer of funds related to investments, provisions on the resolution of investment disputes (Shahbaz, Rehman, & Amir, 2010).

Factors contributing to the inflow of FDI into the country's economy, are the subject of many theoretical and empirical studies. As a tool for empirical analysis, the gravitational equation is applied, which describes international interaction in various spheres of the economy. An approach, developed by Jan Tinbergen based on the "pull" model for the study of international trade, currently time is widely used to study the factors of the international movement of capital. Gravity equation for bilateral investment between investor country i and host country generalized by analogy with the equation for international trade, includes basic factors: GDP of the investor country and the host country, and distance between countries. Various model specifications include a significant variety of other factors characterize the quantitative and qualitative characteristics of countries and their interactions (Shahbaz, Rehman, & Amir, 2010). Basic gravitational determinants are factors that are universal in nature and determine the main forces attraction (scale of economies of interacting countries) and repulsion (distance between countries as proxy transport costs) in international economic relations. Numerous studies confirm the positive impact of FDI (Talat & Zeshan, 2013). The larger the economy, the more resources flow into mutual exchange. As indicators characterizing the scale economies and their domestic markets, use not only GDP, the population and per capita income of the investor and host countries. Distance has a negative effect on investment exchange (Mehar, 2017).

A special study (Mehar, 2017), carried out on the basis of the gravitational approach, showed that distance between countries has more of an effect on straight lines than on portfolio investment. Depending on the goals and objectives, the model is expanded, filling it with additional factors. Based on volumetric Evidence-based scientists test the impact on direct investment of various economic and non-economic conditions: scale of the domestic market, welfare,

endowment resources, the structure of the economy, the level of scientific and technical development and infrastructure, regional integration, cultural and linguistic differences, taxes, political risks, etc. For example, in a study of the characteristics of FDI in Asian economies (Khan & Rehman, 2019), the author paid considerable attention to the transfer technologies. In the model he developed, this factor is represented by various indicators characterizing the level of scientific and technological achievements and technological policy in the host countries. In a study on foreign investments in Brazil (Akbar & Ahsan, 2015), proposed specification gravitational equation, which includes such factors as the country's participation in the MERCOSUR integration association and the 2008 global financial crisis (Khan & Rehman, 2019).

A significant drop in economic growth rates necessitates the use of any opportunities to boost production. Attracting foreign investment is one of the factors in overcoming adverse events in the development of the Pakistani economy. Moreover, in this case it is necessary to talk about foreign direct investment, taking into account the nature and characteristics of their use. Unlike portfolio investments, which are presented in the form of the purchase of securities for further income in the form of interest or dividends, foreign direct investment (FDI) allows direct control over the activities of an enterprise in the country or makes it possible to exercise managerial control (Ahmed & Ullah, 2012).

To attract companies, countries provide them with various incentives. In Ireland, almost two-thirds of FDI are fictitious, although the share of corporate taxes in its GDP has grown significantly: "such a strategy may help Ireland, but dilutes the tax base in other economies," the researchers point out, recalling the "double Irish with a Dutch sandwich" scheme, pioneered by which was Apple (Ahmad, 2021). The company channeled profits through its Irish and Dutch subsidiaries, paying minimal tax, and then exported it to the Caribbean. In 2016, the European Commission declared illegal tax incentives provided by the Irish government to Apple and ordered the company to pay the country 13 billion euros (Akbar & Ahsan, 2015).

Although the bulk of fictitious FDI is associated with a small group of countries, this phenomenon is characteristic of all economies. “Many countries invest large sums in foreign shell companies and receive significant investments from them, on average for all countries - more than 25% of all FDI,” (Khan & Rehman, 2019).

The OECD hopes to agree by the end of 2020 on how to tax international technology companies and transactions with intangible assets, including digital ones. Earlier this year, the organization presented three options for such taxation (Mahmood & Chaudhary, 2013). However, France did not wait for approval and decided in the summer to introduce a 3% tax on local revenues of technology companies, which have more than 750 million euros in the world and 25 million euros in France (the tax will be levied retroactively from the beginning of 2019) (Mahmood & Chaudhary, 2013).

Countries' attempts to crack down on tax evasion after the crisis have paradoxically led to "even more aggressive tax evasion," notes Alex Cobham, head of the Tax Justice Network: "That's how business is done now." The systemic response to the problem should be measures to help tie some share of the profits to the place where the real activity is carried out, the Financial Times quotes him (Shahbaz, Rehman, & Amir, 2010).

According to the Central Bank on FDI, the fight against offshore companies began to bring results and money in 2016-2017. During this period, for example, investments from the Bahamas, Bermuda and the Netherlands exceeded $24 billion. But in 2018, capital inflows from offshore and low-tax jurisdictions began to decline, analysts from the Central Bank's Research and Forecasting Department pointed out (Sadiq, Usman, Zamir, Shabbir, & Arif, 2021). This is how they explained the reduction in FDI in Pakistan by more than 3 times compared to 2017 (to $8.8 billion). For example, the inflow of investments from Cyprus and from Luxembourg ($8 billion and $3.4 billion, respectively) was replaced by an outflow of $10 billion and $500 million, respectively (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019). Previously, a large outflow of funds abroad was accompanied by a comparable inflow to Pakistan, this was largely due to SPV transactions through offshores, analysts of the Central Bank pointed out, now the inflow of investments is sharply reduced with a slight decrease in the outflow abroad (Talat & Zeshan, 2013).

2.1 Framework

FDI plays a significant role in overall development of economy and Pakistan is facing decline in FDI from past few years. Taxation is identified as critical factor that plays an important role to attract foreign capital. The role of taxation in promoting FDI is extensively studied for developed economies but there is no significant literature available about the developing markets (Munir &

Iftikhar, 2021) like Pakistan. The present study is based addressing the impact of taxation and foreign investment and suggest policies that are based on the findings of study.

In developing countries policy makers must consider that how to attract the FDI but they neglect the serious issue like, how is taxation related to FDI? What is the impact of Exchange rate on FDI? What is the significance of interest rate in attracting FDI?

In this study foreign direct investment is the dependent variable, and the tax rate is the independent variable. The study uses time series technique, and the data is collected for the estimation of variables that are impacted by the others. The control variables are interest rate, exchange rate, trade openness, and GDP growth.

There are different kinds of method which researchers use to explain the relationship between different variables and these methods use differently according to the best fit in data variables.

Study uses different models to explain the relationship between different variables. ARDL is used to capture long-run relationships between variables in co-integration, whereas the Error Correction Model (ECM) is applied to capture short-run dynamics. The bound test allows us to include different lags of each variable in the model (Kakoti, 2022).

2.2 Hypothesis:

Following hypothesis are proposed:

H1: Taxation in Pakistan is inversely related to FDI

H2: lowering the taxation fees will help to attract more foreign investments

H3: Interest rates and Exchange rates are directly related to FDI

CHAPTER 3

METHADOLOGY

Research methodology is the certain mean and process that enables the researchers to collect and process the information regarding their subject. It tells us about the data collection and its techniques employed in particular research. The chapter is employed to develop techniques for data collection and means to analyze them for results and discussion (Snyder, 2019). The research methodology is the critical part of the research that can guide the results and can navigate their authenticity. The positive sign of the regression coefficients for GDP reflects the expectation that the positive impact of the size of the economies of investor countries and Pakistan as a host country on the accumulation of FDI will be confirmed, since large economies have a larger investment exchange than small ones. Per capita income, which characterizes the well-being of the investor country, is also a positive factor: rich countries are more active in the role of investors than poor ones (Zeshan & Talat, 2014). Based on the experience of Pakistan, an empirical test is being carried out of the theoretical thesis on the complementarity of international trade and FDI and on the positive impact of foreign trade on attracting investment.

3.1. Research Design

The research design is the strategy to collect data and to analyze the results in a particular way. The research designs are either qualitative or quantitative; the qualitative designs are based on interpretivism and humanistic. The qualitative research designs are based on facts that are accessed by other researchers. Whereas the quantitative research designs are based on realism and can be calculated by an individual (Snyder, 2019). The quantitative research designs are reliable and can provide real time results that are not biased and can be counter checked by any person. The present research is based on quantitative research design that can be estimated by collecting real-time data and by evaluating it for the results.

3.2. Time Horizon

The data collected and analyzed will be based on 15 years data analyzed by the time series. The data is collected from reliable official sources, and it is analyzed and accessed for the description of results. The data of Pakistan's FDI and the GDP growth during the period of five year is analyzed and collected from World development indicator and from economic survey of Pakistan.

3.3 Variables

The foreign direct investment is the dependent variable, and the tax rate is the independent variable. The study uses time series technique, and the data is collected for the estimation of variables that are impacted by the others. The control variables are interest rate, exchange rate, trade openness, and GDP growth. The following is the equation that is used to equate the variables in a time-series format.

$$\boldsymbol{FDIt} = \boldsymbol{\beta 0} + \boldsymbol{\beta 1 TAXt} + \boldsymbol{\beta 2 GDPGt} + \boldsymbol{\beta 3 TRADEOt} + \boldsymbol{\beta 4 EXRt} + \boldsymbol{\beta 5 INRt} + \boldsymbol{\varepsilon t} \ldots$$

The functional form of the present research in a time-series is as follow:

$$\boldsymbol{FDI} = \boldsymbol{f}(\boldsymbol{TAX}, \boldsymbol{GDPG}, \boldsymbol{TRADEO}, \boldsymbol{EXR}, \boldsymbol{INR})$$

The F-statistics is used to measure the long-term relation of variables and the results are presented. If the F-value is greater than the upper bound limit the variables are integrating, and if they are lower than the bound limit the variables are not co-integrated. If the results are within the upper and lower limit of the f-statistics the results are not conclusive at all. To check the stationarity of data is the first step in time series analysis to avoid spurious regression. The descriptive statistics is used to check the stationarity of data. ARDL is used to capture long-run relationships between variables in co-integration, whereas the Error Correction Model (ECM) is applied to capture short-run dynamics. The bound test allows us to include different lags of each variable in the model (Kakoti, 2022).

CHAPTER 4

RESULTS AND DISCUSSION

This chapter discuss the empirical findings and descriptive statistics to demonstrate the impact of taxation on foreign direct investment in Pakistan.

4.1. Descriptive Statistics

Descriptive statistics are used in the present study as the data's collected is in a raw format and without applying descriptive statistics it is very difficult to establish trends between different findings. The summary of descriptive statistics is presented to show the collected information is more meaningful way. Following table 4.1 highlights the observations, standard deviation, mean value and range of the data against the selected variables used for the analysis.

Table 4.1 Summary Statistics

Variables	**Observations**	**Mean**	**Std-deviation**	**Min**	**Max**
Dependent Variables FDI	30	0.9762	0.78240	0.34251	3.77412
Independent Variables					
Tax Rate	30	12.362	1.7354	9.32	14.65
Control Variables					
GDP Growth	30	4.5678	1.8542	0.97542	7.72514
Effective Exchange Rate	30	32.5418	3.6214	25.36541	38.5681
Interest Rate	30	115.3254	21.3654	96.25641	200.32541
Trade openness	30	1.6582	3.5247	-5.32547	8.412579

Table 4.2 is based on the results from Augmented Dickey Fuller Test that highlights all the variables are integrated at order one or zero. Here no variable is integrated at order 2 for the application of ARDL Bound test that makes F-statistics complicated for analysis.

Table 4.2 Augmented Dickey Fuller Test

Variables	**Level of Integration**	**t-statistics**	**Probability**	**Decision**
FDI (Foreign Direct Investment)	Difference	-3.854217	0.0322*	1
Tax Rate	Difference	-7.452871	0.0000**	1
GDP Growth	Level	-4.123568	0.01324**	0
Trade Openness	Difference	-5.98214	0.0002**	1
Exchange Rate	Level	-6.325478	0.0000**	0
Interest Rate	Level	-4.852179	0.0023**	0

For ARDL test, the beginning is to find the lag length criteria and the minimum lags that are appropriate for time series analysis to avoid the loss of degree of freedom. Lag order selection criteria is demonstrated in table 4.3.

Table 4.3 VAR Lag Selection Criteria (FDI vs TAX)

Lag	**AIC**	**SC**
0	27.32541	28.325911
1	23.36548	25.325418
2	23.985274	26.3254

The calculated value from ARDL model is demonstrated in 4.4 that is greater than the critical value of upper bound that demonstrate rejection of null hypothesis and determines the long-run relationship (Snyder, 2019).

The coefficients of the ARDL model are presented in the upper part of table 4.5. and the lower part of table demonstrate the coefficients of the error correction model to highlight the short-

term impact between different variables. It is found that there is a negative relation between taxation and FDI that means FDI decrease in the country with the increase in tax rate. other variable including exchange rate, GDP growth and trade openness are positively influencing the foreign investment (Snyder, 2019). The findings highlight that GDP growth, taxes, trade openness and exchange rate have long-term association with FDI. It is found that the impact of interest rate is not significant in this model.

Table 4.4 ARDL Testing Analysis

Model Estimation	**Model (Tax, GDPG, FDI, TRADO, INR, EXR)**	
F-Stat	4.85217	
Lag Length	1 (SC)	
Pesaran et al. (2001)		
Critical Bound Value	Lower Level	Upper Level
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Table 4.5 ARDL Long and Short-term Results

Variables	**Dependent Variable: FDI**		
	Long-Run Results		
	Coefficient	**t-stat**	**Probability Value**
Tax Rate	-0.012547	-2.35145	0.0456287**
GDP Growth	0.852147	1.965248	0.05329*
Trade Openness	0.142658	2.358943	0.023654**
Exchange Rate	0.012354	1.965274	0.063541*
Interest Rate	-0.136504	-1.532976	0.1256
Short-Run Results			
ECM	-0.265744	-2.651474	0.01326***
Tax	0.0032541	0.135294	0.86321

GDP Growth	0.0765294	1.765242	0.086521*
Trade Openness	0.0465329	1.935465	0.06321*
Exchange Rate	0.0632951	2.635188	0.013625***
Interest Rate	-0.0385149	1.936546	0.06324*
Diagnostic Test			
Test	**F-Stat**	**Probability Value**	
J-B Normality Test	1.3256464	0.5361	
Correlation LM Test	0.3856417	0.5324	
ARCH	0.0632517	0.7691	

The negative impact of taxation on FDI indicates that the high tax rates in Pakistan makes the foreign investors reluctant to invest in Pakistani markets because it reduces the profit margins and tax rates are significantly important for the decision making of FDI as the foreign investors compare different countries. control variables including exchange rate, trade openness and GDP growth significantly influence the FDI, and it is directly related to the economic growth of the country (Snyder, 2019). The higher taxation and instability in Pakistani markets negatively influence the foreign investors. The weaker currency of the country is a positive thing that invites more FDI due to low labor wages and location benefits.

4.2. Discussion

Pakistan is the country located South Asia that demonstrating poor economic growth. Pakistan was a colony of Great Britain for a long period; therefore, its tax policy was completely formed under the influence of the tax practice of this country, through which the structure and degree of openness of the economy took shape, which corresponded to a certain level of tax liberalism. At the mid of the 20th century, when Pakistan gained independence, the tax system began to undergo significant changes due to internal changes in various structures and under the influence of the growing process of globalization (Akbar & Ahsan, 2015). Today, the following laws form the legislative basis of the Pakistan taxation system: income tax, income tax exemption, property tax, value added goods and services, inheritance, stamp duties, private lotteries and

gambling tax and sweepstakes. The very structure of Pakistan's tax system is traditional, it includes direct and indirect taxation (Snyder, 2019).

Regulation of the taxation of foreign investments in Pakistan is carried out by domestic legislation. Foreign investors and commercial organizations using foreign capital are subject to the norms of Pakistani tax legislation common to all taxpayers, that is, the Tax Code of the Pakistan Federal Board of Revenue (FBR) (Ahmed & Martinez-Zarzoso, (May 7, 2013)). The results have highlighted the direct and indirect impact of interest rates, GDP, Trade operation, exchange rate and foreign direct investment. The Tax Code of the FBR establishes a system of taxes and fees levied on the federal budget. It should be noted that the general principles of taxation and fees in Pakistan are also contained in other regulatory legal acts adopted in accordance with the Tax Code. Special rules are also regulated by the Federal Law on Foreign Investments in the FBR. In order to talk about taxation of foreign investments, it is worth mentioning according to what criteria the Tax Code establishes that a legal entity is a tax resident of the FBR (Khan & Rehman, 2019).

Due to the fact that the status of a tax resident provides a foreign company with certain advantages both in paying taxes and in general when doing business in the FBR, not every foreign legal entity can obtain it. For foreign business associations, there are three conditions for filing a request for registration with the Federal Tax Service as a tax resident, of which only one is necessary (Akhtar, Chishtie, & Shah, 2020). Firstly, there is an option to reach an agreement on obtaining this status in the process of negotiating and signing an international or intergovernmental agreement, however, it is necessary to keep in mind the fact that the opportunity to enjoy the benefits of tax residents (in the form of more condescending rates) will be provided only for the duration and implementation of this international treaty (Khushnood, Channa, Bhutto, & Erri, 2020). Secondly, a foreign legal entity has the opportunity to obtain the status of a tax resident by moving the management and executive bodies of the company along with the implementation of a significant part of the business activity on the territory of the FBR, and no less than in other states. The third way is to independently declare the desire to pay taxes according to generally accepted rules, but this is possible only if the activity is carried out through a representative office in Pakistan that the opportunity to enjoy the benefits of tax residents (in the form of more lenient rates) will be provided only for the duration and implementation of this international treaty (Akbar & Ahsan, 2015).

Pakistan seeks to stimulate the opening of new industries in various ways. Companies that base their activities on the production of high-tech goods, the provision of qualified services, and those participating in countertrade are especially singled out. These companies can count on benefits in the form of tax exemption for 5-15 years as part of the development of a program that stimulates the involvement of entrepreneurs (Najaf & Najaf, 2007). If a company continues to grow after a certain period of time, it can qualify for reduced rates for 40 years (the tax rate would be 5%) (Pervez & Malik, 2022).

Benefits are also provided for the development and implementation of innovations. In this program, the increased deduction applies to qualifying expenses, namely, training of personnel, acquisition of intellectual property, registration of individual property rights, R&D, design, and implementation of IT technologies (Shahzad & Zahid, 2011).

Also, a system of benefits is provided for the organization of a production center / research and development center. In this direction, tax incentives and incentives, effective management and protection of intellectual property, and the transfer of part of the profits from the sale of new products from other countries in the Asian region are well developed (Khan & Hye, Foreign direct investment and liberalization policies in Pakistan: An empirical analysis, 2014). The tax deduction system is presented as follows: for innovation, royalties and loans, tax deductions are 0% up to the first 15 years; for business development and growth - from 5% to 15% up to 40 years, depending on the conditions; tax credit for innovation and productivity up to 400 thousand USD of expenses per year for up to three years, as well as exemption from property tax (Talat & Zeshan, 2013).

Another form of incentives is tax incentives for mergers and acquisitions. This type of incentive allows companies to write off 5% of the value of transactions within 5 years. This type of incentive also has a cap of 5 million per tax year (Khan & Rehman, 2019). However, this exemption only applies to companies established in Singapore, resident in Pakistan and doing business within Singapore. For real estate investment trusts, a reduced rate of 10% applies. But this payment can be avoided if they are listed on the stock exchange, invest in foreign real estate (Khan & Rehman, 2019).

Furthermore, the research results have mentioned the impact of interest rates, GDP and exchange rates on the Foreign direct investment. Foreign direct investment increases the financial capacity of the country where they are received, ensures the expansion of foreign economic trade

in goods and services, and creates additional jobs. Together with foreign investments, innovations in the sphere of production and management come to the country (Sadiq, Usman, Zamir, Shabbir, & Arif, 2021). Considering the dynamics of world FDI, it is clearly seen that their supply varies greatly in the analyzed period. The study has highlighted the changing trends. In terms of Pakistan, the country has a strong reliance on the foreign direct investments. Therefore, it is significant to study the impacts of varying factors on the foreign direct investments (Khan & Nawaz, 2010).

The results have highlighted the trends and interdependency of varying factors on foreign direct investment. Overall, the data driven results has presented that the interest rate has little or no impact on the foreign direct investment and these are independent variables. However, GDP and exchange rates are the strong factors having positive relation with the foreign direct investments. As per the literature, it has been shown that the strong economies also try to increase the foreign direct investment to improve the economic conditions in different ways (Lodhi, 2017). Therefore, it is necessary to improve the GDP and exchange rate for increased foreign direct investment. Furthermore, the increase in taxation results in decrease in the foreign direct investment. High taxation rates result in lowering interest of investor. Investor has to provide a larger amount for taxation. Pakistan because of high taxation rates and poor economic conditions is facing problems in attracting newer foreign investors (Mahmood & Chaudhary, 2013).

Furthermore, the currency devalue mostly results in the increase in foreign investments, because of cheaper labor, cheaper goods, and available raw materials. However, in the case of Pakistan, this scenario does not fit in. Due to the currency devalue and the worst economic conditions, it is hard to get the foreign investments. de-valuing of currency is a threat to the economy (Munir & Iftikhar, 2021).

Chapter 05

Conclusion and Recommendations

5.1. Conclusion

The study has highlighted the number of factors that can help to improve the Foreign Direct Investment. Pakistan, as a developing country, has to focus on the foreign investments and techniques to attract the foreign investors. The statistical analysis of the time series data has depicted that exchange rate and GDP has a positive relation with FDI. However, taxation has negative, with interest rates of little or no impact on FDI. In extended view, the study has also considered the currency de-valuation that is the result of worst economic conditions of Pakistan. Currency de-valuation mostly result in increase in the FDI. However, in case of Pakistan, the currency de-valuation has also resulted in decrease in FDI. High taxation rates also resulted in decreased interest of foreigners in investing in Pakistan.

Recommendations

The poor economic conditions of Pakistan encourage the policy makers to focus on the foreign investments. the study has analyzed the factors that can have an impact on Foreign Direct Investment. The policies are needed to be designed to provide better opportunities for foreign investors in Pakistan. The results have shown the negative impact of the high taxation rates on Foreign Direct Investment. To improve the investment rate, it is necessary for the policy makers to decrease the taxation for foreign investors. Furthermore, it is necessary to provide trustworthy environment to the foreign investors by improving the GDP and exchange rate of the country.

In future, the study can be extended to analyze the data driven impact of currency de-valuation on FDI. Along with that the study can be extended to evaluate the techniques to improve GDP and exchange rates, while lowering the taxation rate to favor FDI. Investments are an important source of economic growth in which subjects and objects of investment are interested. Foreign investments play a significant role in the qualitative transformation of the economic structure of the countries of the world. Since the key goal of investing funds for any investor is to maximize profits, foreign investors, when making a decision to invest in a particular country, consider its investment potential, assess investment attractiveness and study the investment climate.

Pakistan is a promising country for investment, due to its advantageous geographical position, wealth of natural resources, actively developing labor market and infrastructure. Favorable forecasts for the development of investment processes in the country are also given by international ratings of investment attractiveness: Euromoney, Institutional Investor, Transparency International, Business Environment Risk Intelligence (BERI), Moody's Investor Servise and the World Bank Investment Climate Survey (ICS) methodology, etc.

And although there are still negative factors, such as imperfect legislation, a complex and not always clear tax system, risks of capital depreciation, a high level of corruption, Pakistan is gradually strengthening its position in the international investment market. However, the coronavirus pandemic, which swept the whole world in 2020, has become an unpredictable risk factor, having a significant negative impact on the real sector of the economy, lowered economic growth rates in all countries of the world, and reduced investment volumes. Against the background of this situation, there is a decrease in the volume of foreign investment in Pakistan. The situation stabilized by the end of 2021.

It is necessary to further focus on maximizing the conditions for foreign investors in order to increase their confidence: increase the transparency of the system of relations between government and business, reduce corruption, increase the transparency of the taxation system and improve the legal regulation of investors' rights.

Thus, in the short term, taking into account the peculiarities of global trends in changes in foreign investment flows to activate the attraction of foreign investment in the Pakistan economy, it is necessary:

To continue improving the regulatory framework in terms of stimulating investment in the country's economy: to increase the level of protection of investors' interests; ensure openness and clarity of the system of taxation and benefits provided to investors; ensure strengthening of anti-corruption measures; ensure continued improvement of the administrative business environment; continue to improve and develop the system of interaction between federal and regional executive authorities with investment entities;

Identify the most global risks to which foreign investors are exposed in the current conditions of investing in Pakistan and reduce their negative impact on the entry of capital into the country.

To ensure transparency and a clear organization of the system of relations between an investor - a professional participant - a regulator with an emphasis on the rights, obligations, and implementation of the investment process in terms of the investor's rights.

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Appendix

ORIGINALITY REPORT

11%	9%	7%	2%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

#	Source	Type	%
1	journals.internationalrasd.org	Internet Source	4%
2	Submitted to National Research University Higher School of Economics	Student Paper	1%
3	Muhammad Nouman Shafiq, Liu Hua, Muhammad Azhar Bhatti, Seemab Gillani. "Impact of Taxation on Foreign Direct Investment: Empirical Evidence from Pakistan", Pakistan Journal of Humanities and Social Sciences, 2021	Publication	<1%
4	I. P. Gurova. "Offshore Investment in the Russian Economy", Studies on Russian Economic Development, 2020	Publication	<1%
5	Submitted to European University	Student Paper	<1%
6	prosperousamerica.nationbuilder.com	Internet Source	<1%