

The Vicious Trap of Foreign Direct Investment (FDI)

[The Express Tribune](#) reported on Monday, August 07, 2023 that “Chinese investment under the China-Pakistan Economic Corridor (CPEC) topped \$30 billion, while the second phase of the mega project would open up more vistas of bilateral cooperation, Prime Minister Shehbaz Sharif said.”

The Prime Minister of Pakistan Shehbaz Sharif was addressing a ceremony to give away awards among the top performing Chinese companies in Pakistan, especially those working on the CPEC projects. Shehbaz said that CPEC had transformed the economic landscape of Pakistan. The prime minister pointed out that the government had launched the Special Investment Facilitation Council (SIFC) to promote Foreign Direct Investment (FDI), which would include all the main stakeholders in the country. The ceremony came as the countries recently celebrated a decade of CPEC, a flagship project of the Chinese President Xi Jinping’s Belt and Road Initiative (BRI).

Foreign Direct Investment (FDI) is being touted as a game changer for the economy of Pakistan, by not only the government, but by all the ruling elite of the country. There seems to be a shocking and suffocating consensus amongst our ruling elite on this. Pakistan’s political and military establishment has set up a Special Investment Facilitation Council for the purpose of attracting Foreign Direct Investment into the country. Through this Council, the Pakistani government has taken measures to attract FDI, such as offering incentives, quick approvals, and simplified regulatory procedures to create a more investor-friendly environment. This means that there will be one system in the country for local investors, businessmen and companies, whilst there will be another system for foreign investors, for whom special laws will be made, and red-carpet treatment will be meted out to them.

The idea of Foreign Direct Investment comes from the West’s development model playbook. Western countries are colonialist in nature. This in essence means that they loot and plunder the resources of other countries to further their own economic well-being. FDI is another tool through which Western companies structurally suck resources out of Muslim lands. This approach of plundering the rest of the World is structured around the following four approaches:

1- Any innovation or new technology, which is developed in Western universities and research centers, is immediately protected in the name of intellectual property rights and patents. Hence the companies don’t share their ideas, technologies, and solutions. They believe that they can maximize their profits by protecting their Intellectual Property (IP). As a result, they patent new innovations.

2- Western institutions like the IMF and World Bank, in the name of free markets and international trade, put conditions in their aid and loan programs. Through these conditions, the economies of the other countries are opened up. Instead of sharing their technology, Western economies sell their products and services in these markets. Global technology giants like Apple, Microsoft and Nvidia could never have become trillion dollar companies, if they had limited themselves to American markets.

3- Western companies then bring in Foreign Direct Investment (FDI) to developing economies. These investments are protected through favorable incentives, tax breaks, and simplified regulatory procedures, to build the required infrastructure in new countries. They invest in these countries so that these countries can act as factories for making Western products and services, by providing cheap labor and lower production costs. It further improves the profitability of Western companies. These profits are then repatriated out of developing countries, resulting in capital outflow to the West.

4- These developing countries then buy the expensive products and services of Western companies, which are sold back in their markets resulting in the outflow of foreign capital back into the pockets of the same companies, thus creating a vicious cycle from which there is no escape.

China has borrowed from this Western playbook and structured its Belt and Road investment model on the same lines. Now, Chinese banks and financial institutions offer development loans to countries. These loans are then used to pay Chinese firms for executing development projects. Thus, interest on commercial loans to Chinese financial institutions, and profits earned by Chinese companies through infrastructure projects, results in a huge net outflow of capital from developing countries to China. Today out of \$1 trillion of Chinese investments or loans to different countries, \$700 billion are under distress. It indicates the extractive nature of Chinese loans and development investment.

This exploitation in the name of Foreign Direct Investment cannot end unless the current Capitalist economic system and the current neo-liberal world order is challenged. It must be replaced by the Adl (justness) of Islam. Islam's economic system is a unique system based on Shariah laws extracted from the Noble Quran and the Sunnah of the Prophet (saw). Pakistan, and the whole Muslim world at large, needs the Islamic economic system which will rid the world of the ills of the Capitalist economic system.

The Islamic economic system focuses on distribution of wealth not just the production of wealth. Islam does not believe in private sector led growth in heavy industry and large projects. In Islam, the wealth is owned by private sector, public sector and the state, which gives the state a major role in the economy. There are no banks, stock markets, capital markets in Islam. This prevents the formation of unrealistically gigantic private enterprises. Furthermore, interest and all its forms are prohibited in Islam. Islam does not allow the privatization of energy resources. It further limits the role of private actors in the energy sector. It allows the Islamic state to dominantly manage these huge revenue generating sectors of the economy.

The Islamic economic system stood the test of time for more than a thousand years. The stage is set for the emergence of the Islamic Khilafah (Caliphate) State. It shall once again implement this system for the benefit of not just Muslims but the whole of humankind. It will lead the world into an era of unprecedented prosperity and tranquility.

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