

Elusive foreign investment

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TOP officials are convinced that Pakistan is one of the best countries in the world for foreign investment, if not the very best. And they have been driving home this point to foreign visitors who partly agree with them.

All sectors of the economy, they are told, are open for investment. They can invest 100 per cent of the capital of their enterprise, price their products as they deem fit and repatriate their profits and capital in full whenever they desire.

Corporate taxes, our officials say, are rather moderate and official policies are tailored or modified to meet the needs of the investors. And now special steps are being taken to protect foreign investors and their expatriate staff from kidnapping and other major crimes, and enhance their security.

But while these steps are essential to reassure the foreign investors, these alone are not enough. That is what their countries too say forthrightly. In the absence of such a more helpful environment foreign investment is not exceeding one billion dollars a year. In 2003 it was 850 million dollars. The expectation in 2004 is it would touch one billion dollars.

India received four billion dollars as foreign direct investment last year and the

ation suffered. It said that as a result of rapid changes in government, new policies were announced even before the old policies had time to deliver. And it stressed that stability in government contributed to stable policies. The study also underscored the fact that red-tapism and bureaucratic hurdles did exist in government. And to overcome that the government had attracted a number of personnel from the private sector.

It stressed the fact that Pakistan is deficient in adequate infrastructure, and land and power had become expensive. Not only foreign investors, Pakistani industrialists too have been complaining that input cost here are heavy and the cost of doing business is high. Soaring land prices even of that sold by the government is a new factor.

The US and European Union have also asked the government to take into account a

In spite of this roaring prosperity on the KSE investment by foreigners and even speculation through short-term holdings is very small. Many of them sold their share holdings much earlier and got out. As they found the KSE operations then not rational.

When it comes to foreign investors they are influenced by the kind of newspaper headlines the country makes from day to day. Are they positive and reflect progress and success or are they negative and reflect regressive trends which discourages foreign investors?

Most of the time the headlines we have are negative; They include sectarian killings, karo-kari killings of women, traffic accidents in which a large number of passengers die. In recent times businessmen have been kidnapped and two sessions judges have not been released even after over a month of their kidnapping.

There are other problems for foreign investors which the newsreports in these countries do not mention. Among them is the problem of finding suitable partners with the requisite capital and the readiness to pursue modern methods of business. Then, there is the problem of corruption, more common at the lower levels of government. Industries in the country have to deal with about 40 agencies which are however, being reduced but rather slowly.

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The Board of Investment in Pakistan and the Japan International Cooperation Agency had earlier conducted a joint study of the factors deterring foreign investment in Pakistan. Their conclusions were almost similar to the ones the US and the European Union have arrived at now. The study said that political instability, an unsatisfactory law and order situation and bureaucratic red-tape are major obstacles in the way of attracting adequate investment.

million dollars despite its ideological differences with the West. China has revolutionized the concept of foreign investment. In the past foreign investment went to a country with a view to manufacturing goods for the consumers of that country and its neighbours. But now China has become a factory for the western world. Foreign firms manufacture goods in China to export them to the whole world.

Industrial inputs in China are cheap, skilled workers are in plenty and wages are low even for educated workers. Japan did that on a small scale in the past in some countries of South East Asia but now China does that on a global scale.

As a result, the Philips Electrical company of the Netherlands which went to China to set up a factory to manufacture its goods for a billion consumers of that country ended up establishing 28 factories to manufacture and export its products to the world from there. The US companies, too, have done likewise. The prices of its products have dropped and its sales have gone up.

Now the US and European Union have come up with a long list of factors which deter adequate foreign investment in Pakistan and have asked the government to remove them. They see prospects of much larger investment on the basis of a liberal investment policy pursued by the government and the strong support it is giving to the US-led war on terror. They have also called for distinct improvement in the security situation in the country.

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large number of expensive litigation proceedings amounting to 800 million dollars pending against it. Foreign investors feel peeved by the easy report to litigation against them by the government which costs a great deal. And the cases go on for a long time.

The US says investment in Pakistan by its nationals or companies now stands at only 300 million dollars a year and that needs to be enhanced following Islamabad's support to Washington in its war against terror. The reports appreciate the steps taken by the government to improve investment climate and promote good governance. But the government has been urged to join the New York Convention and strengthen the foreign investment laws rather than sign restrictive bilateral treaties with different countries.

The reports have also appreciated the steps taken by the government in the areas of deregulation, privatization and liberalisation. But the overall investment in the country last year was only 16 per cent of the GDP which is very low for a developing country with a population growth of 2.5 per cent per annum. It ought to be at least 20 per cent while the ultimate target should be not less than 25 per cent.

But the emphasis in the country today is on consumption of luxurious products, in fact imported luxuries. The banks are financing that consumption in a big way instead of taking special steps to promote savings and reduce consumption of imported luxuries, including large cars. Such conspicuous consumption may give the illusion of prosperity but does not strengthen the economy or help expand the industries and provide a large number of jobs.

Even the roaring success of the Karachi Stock Exchange indeed which touched the peak of 62.18 is the result of high spirited speculation with borrowed funds. Hence, the Badla rate has jumped to 18 per cent in a period of low interest rates and the total of Badla borrowing exceeds Rs. 38 billion. All this frenetic activity does not reflect genuine investment in the shares traded on the KSE with these market capitalisation of Rs. 1,723 billion or 29 billion dollars.

means of power production and that adds to the capital cost. Power in China is cheap and the supply is dependable.

Between the day work on a project begins and the one it is ready to commence production there is a long gap. To shorten the long start-up period the Asian Development Bank has come up with technical assistance for 450,000 dollars. The purpose of the assistance is to enable the federal and provincial governments and the Asian Development Bank streamline production and operational modalities during the start-up phase between loan approval and actual implementation of the development projects. The ADB is anxious for quick results as it is now financing 55 projects with loans totalling 5.2 billion dollars.

The labour laws are antiquated and not helpful to higher productivity. Wages are low in monetary terms but in relation to productivity they are high as most of the workers are not educated and highly skilled.

Foreign investors speak of the too many holidays, particularly non-scheduled holidays which hamper production and delay exports. There are political and lightning strikes for one reason or another which upset the production schedule. Then there are transport strikes which prevent the workers from reaching the work site. To add to that all, there can be strikes at the port.

The problem with the worsening crime situation is that policemen, including police officers, are involved in too many crimes. And when private security agencies are hired their personnel too take to crimes, including bank robberies.

A good part of the investment of 850 dollars made in the year 2003 and the one billion dollars expected in 2004 is to finance privatization like that of the Habib Bank and United Bank. Privatization does not usually add to the production capacity but replaces the domestic capital with foreign capital. If the investors bring additional capital and expand the capacity of the enterprises acquired, that is indeed very welcome. And that is the need of the times.

Overall we have to take the complaints of foreign investors seriously.