

# Expatriates' investment

Dawn 12/9/05 By Shahid Javed Burki

Pak-Eco

THIS is the fourth of a series of articles in this space in which I have looked at the various aspects of Pakistani expatriate communities in various parts of the world. I paid particular attention to the community of Pakistanis in the United States, dividing it into five clusters across the country. That was done to distinguish between the economic and social characteristics of these groups.

I did this in order to suggest that if the government were to somehow get involved in interesting the members of these communities in using their ample income and wealth to aid the development of their homeland, Islamabad must develop a better understanding of the motivations of these various groups of its citizens living in different parts of the world. For instance, what would motivate the "techies" living on America's West Coast may be different from what would interest the doctors practising on the East Coast.

For purposes of public policy it also makes great sense to treat remittances not as one homogeneous flow but as a stream made up of several different components. In the article last week, I identified four different types of flows that constitute the stream of remittances from the United States to Pakistan. The first of these are what are perhaps best labelled as "family aid", money sent to near and dear ones to provide regular financial help or give them support during periods of financial distress. Charitable contributions constitute the second stream. These are given mostly in visits to the country or in response to various religious beliefs or causes. Sending money home for "sadqas" is one example of this type of remittance.

The third type of flow is composed of financial contributions for promoting

America are about three to four decades old when thousands of well-trained professionals left their home country to look for opportunities abroad. They went either to Britain or came to the United States. Once they found jobs, they settled down and brought in their partners mostly from Pakistan. Once they had started families, they bought homes near the place of work.

Some of them took advantage of the provision in the US immigration law of that time to sponsor close members of the family to migrate as well. The word about the economic success of this first wave of migrants spread in the homeland and more people, mostly from a similar social and economic background, also took the plunge. They generally went to the places where their friends or relatives had taken

presented a fairly rosy picture of the Pakistani economy.

The account started with a story about a Pakistani entrepreneur "British-born, New York-trained and married to a woman from New Jersey, who had long dreamed of running his own restaurant. London was too expensive, New York was too risky. Karachi seemed just right". This was news not only for the Americans who associated Karachi with sectarian violence, Islamic radicalism, and the kidnapping and gruesome murder of Daniel Pearl, the correspondent for *The Wall Street Journal*. It was also a pleasant break for the Pakistanis, accustomed as they were, about reading negative stories about their homeland.

"I'm getting a lot of corporate heads, a lot of nouveau riche, people who come from abroad who are not necessarily wealthy but are educated about cuisine", said Mr Sheikh, the son of Pakistani immigrants to Britain. "People want high end products" and Sheikh was prepared to provide them. The stage was now set for the return and flow of expatriate capital into Pakistan's real estate market.

If the experience of other such communities abroad is anything to learn from, investments into Pakistan by the more well-to-do members of the communities in the United States will proceed through four phases. First will come investment in real estate, motivated mostly by the desire to establish an alternative place of residence by the older members of the group. This has already begun to happen and is probably behind the boom in real estate and housing prices in several major cities of the country. There are tens of thousands of expatriates looking to invest in the Pakistani housing market in the next few years. This will fuel the market and prices will go up unless new areas are opened up for housing in the major cities. There are signs that this may be happening in several cities of the country.

The return of the non-resident

## Investment in Pakistan by the more well-to-do members of the expatriate communities in the United States will come in phases. First, it will come in real estate, motivated mostly by the desire to establish an alternative place of residence by the older members of the group. This has already begun to happen and is probably behind the boom in real estate and housing prices in several major cities of the country. There are tens of thousands of expatriates looking to invest in the Pakistani housing market in the next few years.

up residence. This is the reason why expatriate communities even in a country as large as the United States exist in the form of highly concentrated clusters.

Some 30 to 40 years after the arrival of the first migrants, a large number of the founders of these communities have reached the age of retirement. Where would they like to spend the rest of their lives? Will they remain in the United States or relocate themselves in Pakistan? Is America the right place to live out life or would Pakistan, with help easily available and support of the larger family also at hand, be a better place to

The third type of flow is composed of financial contributions for promoting social development in the homeland. As the word has gone around, spread by institutions such as the United Nations Development Fund in their annual *Human Development Report*, non-resident Pakistanis are becoming painfully aware of the fact that their country is fast losing the race to get better integrated into the global economy. This could only happen if the quality of the human resource could be dramatically improved. This would require a massive effort which is beyond the competence of the public sector and considerably greater than the government's financial capacity. This awareness has resulted in the establishment of a number of non-government organizations that enjoy a special tax status in the United States. When contributing to these organizations the donors can write off their giving against their incomes. In a way, therefore, these contributions are leveraged with money from the United States treasury. This type of giving has also begun to attract reputable and well-established Pakistan-based organizations that are able to take advantage of tax relief available to potential donors to raise funds from the expatriate community.

The fourth flow as a constituent of the stream of remittances is of relatively recent origin. This pertains to investments in various forms of assets that hold promise for the financially savvy members of the community. For the moment much of this is going into real estate and some of it is now also finding its way into the stock market. This move towards sending money for investment in physical and financial assets is typical of a maturing diasporas. It also signals an increase in confidence in the economic prospects of the home country.

All new human settlements, including the establishment of diasporas, go through a distinct life cycle. They are founded by the young and adventurous — people prepared to take risk and expend a great deal of energy to improve their economic prospects. The large Pakistani expatriate communities in North

family also at hand, be a better place to be in? These questions are being asked in Pakistani communities abroad as they mature. They have also become significant for two other reasons: changes in the American approach towards allowing new migrants from places such as Pakistan and the on-going process of globalization which continues to knit the world together ever more closely.

With the cost of communication coming down every day, relocation no longer means a permanent change in the place of residence. It has now become possible for people with means to divide their time between the homeland and whichever place they have spent the productive years of their lives. It is in this context that decisions about investment in real estate are being increasingly made by the older members of the Pakistani communities in the United States. Other factors also weigh, in particular the impression that the country may have begun to turn the economic corner.

It was first by word of mouth that these communities learned that conditions at home were improving; that Pakistan may not, after all, be an unsafe place to go back to; that the returns on investment in land and houses were considerably higher than those available in the United States. Those who had gone for holidays to Pakistan returned with stories about the boom in the real estate market in several large cities, in particular in Islamabad, Lahore, and Karachi. But it wasn't only the word of mouth that was spreading the good news about the home country. Respected newspapers had also begun to write about the economic boom in the country.

On March 23, *The New York Times* published a story about the economic boom in Pakistan in an important place in the newspaper — page three which carries the main foreign story of the day. The account appeared under the banner "Pakistan is booming since 9/11, at least for the well-off", and was written by Somni Sengupta, a writer based in New Delhi. In Sengupta's story, the newspaper

country.

The return of the non-resident Pakistanis to their home country, even for part time living, will bring in other developments. The move to construct new golf courses in places such as Lahore, Rawalpindi and Karachi may be in anticipation of this new demand. Other developments will also come such as new retail outlets that can cater to the needs of this class of consumers, health care, restaurants and entertainment.

The second phase of this remittance is normally directed at the capital markets. Once again the enormous increase in the prices of the scrips quoted in the Karachi stock market in the first 10 weeks of 2005 may have been caused in part by the arrival of portfolio investment by the members of the expatriate community. This group has been active as investors in the world's capital markets and they looked at the Karachi market as opportunity for making handsome returns. Only time will tell whether the recent serious downturn in the market will dull this enthusiasm.

The third flow will take the form of investment in small businesses such as restaurants, retail outlets, fashion houses, medical practices, educational services. As already noted with reference to the article in *The New York Times* this has already begun to happen. There is a considerable amount of anecdotal evidence to suggest that second and third generation Pakistanis living in Britain and the United States have begun to look at the homeland of their ancestors as a place where lucrative investments can be made.

The fourth flow will involve large scale investment in either green-field operations or the acquisition of established enterprises. Much of this activity will happen in association with foreign firms. This is one way that foreign direct investment will begin to flow in. This is the pattern followed by the expatriate communities of China and India. For Pakistan, this last flow will be the most important one and will help to bring the Pakistani economy into the global mainstream.