Focus on investment

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By Sultan Ahmed

THE people of Pakistan want the increasing macro-economic stability of the country reflected in positive improvements in the domestic economic sector. The officials accuse them of being too impatient; but the people have seen many a slip between the cup and the lip, particularly in the economic sector.

The promises and initial success of Nawaz Sharif and Benazir Bhutto in this regard and what followed thereafter are bitter memories for them. And the increasing poverty in the country in the 1990s is a painful reminder.

The fact is that a plenty of money is coming into the country as stepped-up aid and debt relief. Overseas Pakistanis are also sending more and more money and the target for the current year has been raised from the one billion dollars to four billion dollars. Banks have plenty of money to lend to credible borrowers. Still the people find bank loans are not easy to get and the interest rates, through much reduced, are high to risk as investment capital.

Above all, employment has become too scarce. On one side hundreds or thousands of persons apply for each job available, and on the other too many young men kill themselves after prolonged periods of unemployment.

The country needs many large projects and far more small projects. It needs as many of the sick mills as possible to be revived and expanded. it needs thousands of micro-enterprises. Along with that all, the demand for the goods they produce has to be promoted by putting more money into the hands of people in a rational manner. Otherwise such small enterprises can fail.

In fact, the large projects are ready: they have been ready for a long time now and the country needs them. But the funds are not available or have not been provided to them because of our topsy turvy priorities. Foreign aid funds, too, are available if we have the right projects and reasonable matching local funds. What we need to do is get going with the right mix.

In such a context President Pervez Musharraf has appointed Abdul Hafeez Shaikh, a World Bank privatization specialist and former Sindh finance minister, as Advisor to the P.M. on investment and privatization. And he has set up a task force to promote domestic and foreign investment. The task force has been split into three groups with bases in Karachi, Lahore and Islamabad. The task force will make recommendations on four aspects of the problem. 1. Investment policies. 2. Facilitation, 3. Investment promotion 4. How to improve the ...try's image in the world. They are to ... their reports by the first week of ...ry.

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ready with a new idea, is commerce minister Humayun Akhtar. He has welcomed the demand for no tax on imported machinery and import of second hand machinery which is abundant in the world.

He has now come up with the suggestion of Special Economic Zones in preference to Export Processing Zones which have become outdated and unpopular, he says. Ever since the days of Nawaz Sharif for the first time in the early 1990s, various moves have been made to develop such special zones for investment, but without notable success. Gadoon Amazai industrial estate set up in the Frontier in the days of Benazir Bhutto, too, has been more of a failure as the very liberal concessions promised could not be delivered. So what kind of headway can the new special economic zones make remains to be seen.

The State Bank of Pakistan is reported to be moving towards providing foreign exchange loans to investors from the large foreign exchange reserves of 9.5 billion dollars. Those loans will be cheap compared to rupee loans for investment. But they can be had largely for large-scale industries importing machinery and not for modest enterprises. A clear policy in this area is yet to emerge.

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Mr Humayun Akhtar talks of developing abundant infrastructure and creation of a special infrastructure fund apart from the Pakistan Social Development Fund. He says plenty of external assistance can be available for such a fund, right upto 90 per cent of the project cost.

There is demand for cheaper loans instead of the current scramble among the banks, including foreign banks, for consumer banking. The investors want cheap long-term investment loans. And that has to carry a single digit interest rate instead of the current double digit interest rates.

Mr Akhtar wants the power and water used by the industries free of taxation. In fact, he wants the production and export sectors free of taxation altogether so that both can grow fast. None of them is a very new suggestions. In fact, over the yea... ...ious good suggestions have been ma... ...ome-times accepted ... ...ment. There... way. Why?

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defence outlay are taking away most of the revenues of the government.

Shaukat Aziz would like to do something radical for the country after achieving substantial progress in the macro-economic sector. But his hands are tied as long as the country depends on more and more aid for development on one side and poverty reduction on the other, along with promoting social sector development in the middle.

So it may not be easy to make the kind of fiscal or monetary concessions which Mr Humayun Akhtar suggests. But without real relief and on an assured long-term basis, enough investment may not come. Through the old one-step-forward and one-step backward shuffle, we may make hardly any economic or social progress for all the happy noises we hear now.

Meanwhile what happened in Sui, the repeated blowing up of the gas mains, underscores the primitive conditions in which vital sectors of our political and economic system operate. Those who blew up the pipeline have done considerable damage to the industries in the north, particularly in Faisalabad and they have also lent credence to the Indian arguments that a gas pipeline from Iran passing through Pakistan to India is exposed to such hazards even if the Pakistan government is committed to protect the pipeline.

What was too unfortunate was the pipeline in the Sui region was blown up at a time when the Iranian President was visiting India and trying hurd to sell the project of the pipeline from Iran passing through Pakistan to India. Pakistanis have been talking glibly of a 500 million dollars rental for the pipeline. But the kind of developments which took place in Sui and the lasting tribal tensions in the region make such dreams rather vacuous. It is also an adverse signal to foreign investors who do take such factors into account before making investment decisions.

Meanwhile far more has to be done to promote small and medium enterprises. The micro-enterprises should also be promoted on a large scale instead of an excessive caution restraining that too much.

The fact is the conventional approach to investment will not do. It was one thing to make investment using imported machinery at Rs 5 or Rs 10 to a dollar and quite another to do the same at Rs 58 per dollar, after the rupee has come up from Rs. 67 to a dollar. The rupee cost of investment has also shot up due to sustained and prolonged inflation. A bag of cement now costs as much as ten times the Rs. 25 per bag it cost 20 years ago. And when to add to that there is taxation on the machinery imported and on the materials used for building the factories the burden on the investor is heavy. ... heavily from the banks and w... turns he defaults in repaying...

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