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Sensitive task of wooing investors

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Ask any potential foreign investor residing outside of Pakistan's 778,720 sq km of land mass about his perception of our country. Most would almost instantly equate us with other martial law regimes in Somalia, Burundi, Congo, Rwanda, Lesotho, Niger, Sierra Leone or Comoros. Ask the same question to foreigners currently residing in Pakistan and one gets a completely different response. I call that our 'image deficit'. And, while Mr Shaukat Aziz works on the budgetary deficit and the current account deficit Dr Hafeez Shaikh ought to be concentrating on healing our image deficit.

For the PM's Advisor on Investment and Privatisation it isn't going to be easy. On 11 September 2001, the job was all cut out for the PM's Advisor on Finance and Economic Affairs. A bin Laden intervened as an instrument of divine help and the Ministry of Finance is now lording over $9 billion of foreign exchange reserves along with a booming Karachi Stock Exchange. Just who is going to bail our Dr Sahib out? His saviour is no where in sight.

Can Dr Shaikh throw the "$9 billion reserve" argument along with the magic wand of 'macroeconomic stability' at foreign investors? I have already tried doing that. Incidentally, every commercial attachÈ within the geographical boundaries of our Capital City knows that our rather bulging reserves are not a consequence of either our fiscal or our monetary policy. The person to be thanked in that regards is Osama.

To be certain, there are powerful forces — both within and without — working against the PM's Advisor on Investment and Privatisation. There are potent structural as well as technical impediments. On top of them all is our war rhetoric. As long as our leaders continue to threaten the exchange of Weapons of Mass Destruction (WMD) no sane investor is going to drown his dough in a potential war zone. In other words, peace remains an essential prerequisite to investment and peace continues to be a commodity not too cherished by our leaders.

In essence it's our foreign policy that is the mightiest of all impediments that we have been able to manufacture and erect over the past five decades. I also see a sequential issue; who should invest first, local investors or foreign. We continue to build castles of sand and houses of cards around wildly exaggerated hopes of foreign investment not realizing that its always indigenous entrepreneurs who initiate an investment boom and foreigners merely jump on to the bandwagon once it has already started rolling.

The key catalyst, thus, remains investment interest by domestic players. One important measure of that interest is private sector debt growth (loans taken up by Pakistan's private sector). Over the past couple of years private sector debt growth has been outright disappointing (meaning that the private sector hasn't been borrowing to make new investments). Private sector debt growth can also be taken as a leading economic indicator — if Pakistan's private sector is not borrowing that means there isn't going to be much investment and if there isn't going to be much investment there won't be any job creation or poverty alleviation.

Over the recent past, insurance coverage for visiting expatriate experts has skyrocketed. Multinationals intending to send experts into Pakistan now have to pay up to Euro 4,500 (Rs275,000) for a three to four-day coverage. Not many foreign entities are going to be able to either afford it or justify it. Can the BOI do anything about it? I hope they do.

Sales Tax is another problem area. The Central Board of Revenue (CBR) takes in billions and then refunds the same billions at commission rates that range from 1% to 2%. It's scandalous; the best way to corrupt both the payer and the collector. I read in a BOI brief that a whole lot of problems actually revolve around the CBR. Among them: Too many taxes and too many agencies collecting them; frequent policy changes; lengthy appeal procedure; advance payment for tax resolutions; delayed decisions in appeals; harassment by tax officials and ambiguities in taxes. BOI is obviously aware of all these technical impediments but is either unwilling or unable to do much. Then there is high cost of production. Electricity and other inputs are expensive in addition to paying off other government regulators on a routine basis.

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To the Ministry of Petroleum's credit our policy on Oil and Gas has been an undiluted success. At least two factors have contributed to that success. First, the government's Oil and Gas managers have been quite innovative. Second, our Oil and Gas sector has strong business drivers — definite domestic demand for energy and an unexplored potential to fulfil that demand via indigenous sources. Locating business drivers in other sectors is the name of the game.

Our Islamabad-based economic managers cannot be held responsible for our anti-investment foreign policy. This is one area that is simply beyond them. Foreign policy happens to be Pindi's domain and not Islamabad's. Image building is one thing that Islamabad *wallas* can do something about. Try and sell positives like 140 million potential consumers or a grossly underutilised agriculture sector. Our agriculture sector is one sector in which strong business drivers already exist. Then there is a whole host of technical impediments that can be eased out if not right away then in phases. At least make a start.

We must not ignore the fact that Pakistan — while being an integral part of the American-led alliance — is being isolated like never before. No one is willing to give us visas and all European airlines, with the exception of Swiss Air, have stopped coming to Pakistan. KLM Royal Dutch Airlines, for instance, has been serving Karachi for the past 72 years. It no longer does. Lufthansa has been coming to Pakistan for the past 39 years. It no longer does. British Airways operates 529,807 flights a year to 263 destinations in 97 countries but not even one of those flights lands at any Pakistani city anymore. Air France flies to 191 destinations in 85 countries but has now stopped coming to Pakistan. Alitalia used to visit us 8 times a week. Alitalia no longer comes to Pakistan. Just how is our situation any different from Iraq, Libya or Sudan?

Our worthy reserves or a stock market going through the roof are not going to take us where we really want to go. What we really want is job creation and poverty alleviation. The key remains investment and that too in excess of 20% of GDP every year. Since our national savings are in the low teens there is no way out but foreign investment to fill the gap. There are four keys to foreign investment: Security, certainty, predictability and trust. Put the four together and we shall have the ideal recipe for a successful investment policy.