

# Utilizing expatriate money

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By Shahid Javed Burki

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HAVING covered in some detail the story of the Pakistani expatriate communities — in particular those living in the United States — in four earlier articles I have come to the point where it would be useful to discuss the government's role as an intermediary between the expatriates and their homeland. This is what I will do in this fifth and last article of the series.

In one of the earlier articles I provided two examples of disastrous attempts by the government to tap the earnings of the country's citizens living and working abroad. The first time it happened was during the government of prime minister Zulfikar Ali Bhutto, when Islamabad attempted to tax remittances coming in from abroad. The amount of money flowing in through official channels declined precipitously and the government was left with egg on its face.

The second attempt was made 20 years later by prime minister Nawaz Sharif. His target was the well-established and well-to-do community of physicians of Pakistani origin in the United States. He wanted the community to contribute to a fund from which the government would have drawn to pay back expensive loans that it had acquired. This would have helped to reduce the country's debt burden. The government plea was received by stony expressions. The reaction of the physicians was understandable: why should they reach into their pockets, no matter how deep they were, to rescue an administration that had dipped into the government's coffers as if they had no bottom?

These unhappy attempts notwithstanding, the government has a role to perform in order to benefit the people at home, to revive the economy, to provide an opportunity to the expatriate communities to get connected again with their homeland and, finally, to open new investment opportunities in Pakistan for the well-to-do non-resident Pakistanis. What is that role?

Good policymakers while designing policies normally start by creating a "matrix of choices" within which they can operate. My readers would recall that in the third article of this series I identified five geographical clusters in which the majority of the Pakistani community in the United States has located itself. Two of these are on the east coast of the country, clustered around Washington and New York respectively. The third is in the northern Midwest around Chicago. The fourth is in the west coast strip that runs down from San Francisco to San Diego and includes the Silicon Valley and Los Angeles. The fifth is the cluster around Houston and Dallas in the state of Texas.

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tainment facilities including golf courses, and shopping malls. The newspapers published by the various Pakistani communities in the US now carry prominent advertisements by these sponsors. They must know that there are many people of Pakistani origin living in the United States who would like to put their money in these kinds of ventures.

What is the government's role in this area? There are a number of things the public sector can do to ensure that the companies dealing with land and housing development have the capacity and the experience to operate in this area. They should be licensed to operate in these kinds of ventures and seek outside funds only if they can protect the title they are offering for sale against challenges and litigation.

Pakistan does not have a good system of land records; registrations of transfers of

service them. This would put the lending banks in a real quandary. It was this kind of situation that resulted in the banking crisis in Japan in the 1980s and 1990s from which the country is still recovering. The government, to encourage the flow of funds into the housing and real estate market, must facilitate the establishment of the institutions that provide comfort to the potential investor and spread around the risk.

Let me draw another "decision box" to illustrate with some more examples what the government can do to facilitate investments by non-resident Pakistanis. Drop lines that start with the west coast expatriates and cut the horizontal lines that include investment opportunities in new ventures. This produces a box that would require the government to create an environment in which the west coast "techies" can make profit in the areas in which they have expertise. These people are ready to invest in Pakistan provided the telecommunication network ensures them the type of connectivity they desire, provided there are an adequate number of people with appropriate skills available; and the customers being served feel they can visit the places to which they have outsourced their operation.

There is some improvement in these areas but a great deal more needs to be done. Those who have already made investments in Pakistan in businesses such as call centres, IT services, preparation of proprietary products, complain that skilled project managers are in short supply. There is a suggestion that people with this background may be imported on temporary visas from India, where this industry has matured to the point that people are available who are prepared to work outside the country.

A third decision- and policy-making box may involve the business community in the Houston-Dallas area, and their willingness to invest in new ventures in the more established areas of the economy. To facilitate this type of investment, Pakistan needs to create another set of financial institutions — those that specialize in the provision of private equity. These institutions generally take positions in established firms that are not yet listed on the stock market. These are mostly family owned firms that have created businesses using their own savings and capital.

A private equity fund values the target company, takes a share in it, improves the quality of management, encourages the development of new products or new product lines, and finds new markets for the company's output. Private equity ventures don't linger for too long in the firms in which they have taken interest. Once they have turned around the firm, they move on and return the capital invested into them with profit. Exit is done either through listing in the capital market or by offering the reformed company an

There is a great deal of work to be done by the government before the large amount of funds available with the Pakistani communities living and working abroad can be put to use for benefiting the home economy. One way to start in this area is to establish a commission involving the government, the domestic business people and members of the expatriate community. The commission should formulate concrete proposals and then sent on a road show to the areas in which the Pakistani community has a large presence.

property are still done by the *patwaris* using an antiquated system. Ordinary citizens cannot go to central offices to verify who has legitimate claim to a particular property as an owner, or as an occupant, or as a renter. Also, title insurance is not available. This is normally provided by specialized institutions that do the checking of titles themselves and then, in return for a premium, take the responsibility for defending the claim of the title holder. Such institutions don't exist in Pakistan. They need to be established.

Taking comfort in the quality of the title that has been purchased, a buyer normally would want to leverage his or her investment by obtaining a loan to purchase an existing property or build a new one. Provision of this kind of finance is normally done by commercial banks or specialized institutions that deal only in mortgages. Lending for housing has arrived in Pakistan ever since the privatization of large banks. The spread between the rate the banks pay to their depositors and the rate at which the borrowers are prepared to obtain money from the banks is large enough for most financial institutions to regard this kind of business as attractive. There is now an active market in the country in housing finance.

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Houston and Dallas in the state of Texas.

In last week's article, I identified four types of financial flows that normally originate from these communities. They include funds provided for family care, charitable giving, investment in real estate and the stock market and, finally, taking equity positions in old or new firms. If you array the five clusters in which most of the Pakistanis live in America along a horizontal axis and the four types of flows they send back home along the vertical axis, and draw horizontal and vertical lines through them, you would have at your disposal a matrix made up of 20 "decision boxes". By way of examples, let me identify three such boxes to indicate how the government could use expatriate wealth and income for promoting development in Pakistan.

One such box is created by the intersection of economic interests of the community of Pakistanis residents, say in Chicago, and the opportunities available for investment in such existing assets as real estate and the stock market. For illustrative purposes let us look at the rapidly developing real estate business in Pakistan and how this could draw capital from the expatriate community.

There are now dozens of large property developers who are looking for investors in housing schemes, office complexes, enter-

finance.

However, those who borrow for making investments in real estate like to obtain funding for relatively long periods of time. The banks cannot afford to keep long-term paper on their books since the bulk of their own money comes from short-term deposits and transactions. The banks fear nothing more than what they call a "maturity mismatch" — when they have short term liabilities and long term assets. The financial system has found a way of dealing with this conundrum. This has been done by the development of specialized institutions that pick up mortgages the banks hold and bring them in their own books.

This happens in what is generally referred to as the secondary market. The original holders of mortgages package them and sell them in large lots to the secondary market at a discount. In this way, they achieve two ends: they make money quickly and they are not left holding assets which would be hard to liquidate if there was a crunch. Pakistan, unfortunately, does not have a secondary market of any consequence and this can cause a great deal of trouble.

If the real estate market collapses as did the Karachi stock market, those who have taken loans from the banks will not be able to

ket or by offering the reformed company an opportunity to merge with or be acquired by larger enterprises.

Pakistan, with thousands of family owned companies operating in all sectors of the economy, is ripe for this kind of capital infusion and corporate hand-holding. And the expatriate community with money to invest would be interested in putting their capital to work in the hands of experienced private equity entrepreneurs. Health service sector is one area crying out for this kind of association between local entrepreneurs who have invested in hospitals and clinics and the expatriate community, many of whose members have deep knowledge of the sector and now have the resources to invest.

There is, therefore, a great deal of work to be done by the government before the large amount of funds available with the Pakistani communities living and working abroad can be put to use for benefiting the home economy. One way to start in this area is to establish a commission involving the government, the domestic business people and members of the expatriate community. The commission should be charged with formulating concrete proposals and then sent on a road show to the areas in which the Pakistani community has a large presence.