

What hinders investment

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By Sultan Ahmed

PAKISTAN needs large scale investment to increase production, expand its economy and reduce vast unemployment. Such investment has to be promoted within a limited span of time by accelerating domestic investment, foreign investment and public sector outlay on the basic infrastructure projects.

Such investment should include the small and medium scale enterprises which are also labour-intensive and a substantial outlay by overseas investors. The scope for attracting investment from any of these sources should not be minimized or neglected.

Real economic growth can be achieved only through private sector, says the minister for privatization and investment Dr Abdul Hafeez Shaikh. He also says the cooperation of the private sector is absolutely essential to make a success of Pakistan's commercial policies in the post-textile quota free world from 2005 which will be marked by the lowering of import tariffs as well.

The private sector has to play a central or decisive role at a time when the government is not investing in the commercial, industrial and financial sectors, and is hastily disinvesting what it has invested earlier after suffering heavy losses because of bureaucratic mismanagement and endemic corruption.

The vacuum can be filled by the private sector and it has to come forward with full vigour to play that central role. If the domestic private sector does not come forth adequately and decisively, the foreign investors will not show much interest to fill the vacuum in a country with 140 million people — many of them unemployed.

The private sector's central role in economic growth is a phenomenon common to all developing countries. The tremendous economic success of East Asian countries is a

While these are commendable achievements, partly helped by the post-9/11 developments, other factors of real interest to the investors too must be taken into account. In fact, those factors may be of overwhelming importance to the investors, particularly foreign investors who think globally.

Some of these factors may be worse in some other developing countries, but there may be other compensatory features including larger profits or prospects for larger business there later.

The governor of the State Bank, Dr. Ishrat Husain, on a visit to Dubai prior to the annual meeting of the IMF and World Bank, addressed businessmen there. He spoke to them about ten factors which should make foreign investors prefer Pakistan to other countries while deciding about their investment. But he did not mention any of the

Among other factors, the law and order situation is a key deterrent to investment in Pakistan. Domestic investors are more affected by that than foreigners. Many keep a large number of armed guards in special vehicles to protect them at their offices, homes and as they drive around. There have been many kidnappings of businessmen. Many no longer rely on the police to secure their freedom.

adverse factors. May be it is not the official policy to throw light on the darker side.

But that was done gently or diplomatically by the British High Commissioner Mark Lyall Grant when he visited Faisalabad last week. He spoke of how the British businessmen were interested in doing more business with Pakistan and making investments here in the advanced textile sector. Then he spoke of corruption and bureaucratic hurdles in Pakistan. He also spoke of the law and order problem as another deterrent to foreign investment.

The fact is that even the "travel advisers"

of middle level businessmen, and their children who are let off after a large ransom is paid. Many no longer rely on the police to secure their freedom. As this is being written a ghee trader in the city has been kidnapped. The CPLC has become ineffective in this area after the change at its top. The *Time* magazine of the US recently described Karachi as the toughest city in Asia. Foreign investors cannot ignore such reports when they make their investment choices.

The British high commissioner in his Faisalabad speech talked about India-Pakistan relations and its unsettling impact on the region. He said 56 years had been lost and he did not know how long would it take for the conflict to be resolved.

If the relations between the two countries were normal they would have found a larger and more profitable market in the region.

Instead the fallout of the conflict makes foreign countries pull out their diplomats from time to time.

He did not mention the political instability in the country, while others do so in private. He is aware that the political situation has kept the country out of the Commonwealth for four years. Even a year after the general elections we do not have a stable government and a working parliament, from which the opposition walks out every day. The larger Alliance for Restorations of Democracy is calling for demonstrations against the government every

few weeks and demanding the trial of the generals who toppled a democratic government and the judges who approved this action. This is not the kind of statement which can help major multinational companies take decisions for long-term investment or expand the existing businesses to invest more.

In such circumstances we may not get the best prices for public sector enterprises, such as Habib Bank, KESC, PSO and PTCL which we want to privatize. Arab entrepreneurs may prefer running projects, like the United Bank as they want to see what they have but they may not invest for more and

economic success of East Asian countries is a notable example of the private sector's success. There is no convincing reason why the private sector cannot try to do the same in Pakistan, particularly when there is desperate need for that, and we have no other option.

But it is imperative for the government to go all out to persuade the private sector to make more and more investment and not confine itself to the textile sector only. Making such appeals to from business platforms or through newspapers will not be enough. The rulers have to meet them in small numbers or greet them one by one and persuade them to invest more and remove their genuine difficulties. They should also be persuaded to play a significant role in the privatization of large public sector enterprises. In fact, they should be at the centre of the state calculations instead of playing a marginal role and letting the major projects go to the foreign bidders.

President Pervez Musharraf and his ministers talk of the investor-friendly policies that they say have been adopted. If a policy is business-friendly on paper it is not enough. It should be business-friendly at the execution stage and until the very end when the project begins production.

It may be worthwhile for the government to listen to the experience of some of the entrepreneurs who have completed their projects in recent times and contrast the actual experience with the smooth policy laid out on paper. The president and his ministers speak of the macro-economic stability or progress they have achieved, including the foreign exchange reserves of 11.5 billion dollars, favourable balance of payments, a surplus of over two billion dollars and the striking home remittances of overseas Pakistanis of almost four billion dollars.

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The fact is that when the "travel advisory" of many western countries is against visits to Pakistan and when multinational chiefs meet their principals in Pakistan in Dubai instead of Karachi, their enthusiasm to invest more in Pakistan will be small. Earlier they used to call their principals in Pakistan to Bombay. But now Bombay is out of such schedules because of strained India-Pakistan relations. When the President Musharraf met a US telecom mission led by Gen. Anthony Zinny, he explained the benefits the investors will have if they invest in Pakistan and said the country had one of the lowest cost of doing business in the region. Making comparisons of the cost of doing business in each of the countries of the region accurately may not be easy. But the fact remains that corruption and bureaucratic red tape increases the cost of doing business because of the delays in getting numerous permissions for the facilities essential for running the day-to-day business smoothly.

In fact, a recent World Bank report had dealt with the problem of red tape extensively and listed the differing cost of setting up an industry and managing it in various developing countries. We still have the red tape problem in plenty, particularly at the lower level of officialdom despite slogans to the contrary from the top. That is one of the causes of corruption.

We have too many holidays that interrupt official work and factory production.

Law and order is a deterrent to investment in Pakistan. The domestic investors are more affected by that than are the foreigners. Many keep a large number of armed guards in special vehicles to protect them at their offices, homes and as they drive around. Their wives find this arrangement much inconvenient. There have been many kidnab-

leers may prefer running projects, like the United Bank as they want to see what they buy; but they may not invest far more and expand them as the much larger western corporations would do.

Of course, we are now on a better financial footing with a foreign exchange reserves of 11.5 billion dollars, a surplus balance of payments, and an export trade rising by over 20 per cent. The Karachi Stock Exchange index of around 3,900 points is very encouraging to the foreign investors. Pakistan can now easily honour its commitments to repatriate the capital of foreign investors, their profits, royalty etc.

But the strong macro-economic factors have to go along with happier micro-economic conditions, including reasonable levels of employment to keep the purchasing power of the people up and consume what the foreigners produce. Along with that there has to be political stability of a reasonable kind and regional peace. All that would give a far better value to our rupee as well.

Gen Musharraf has now become a contentious figure with more and more opposition leaders calling on him to discard his uniform and seek real political support. Having ruled the country for four years he is well advised to lower the political heat in the country and make necessary concessions to guide the people.

The World Bank and the IMF have been voicing the fear that if he is out of the political scene his economic reforms may not have the popular backing which is essential to make them a success. The macro-economic reforms need consolidation while there has to be positive improvement in the economic sector, particularly in the area of employment and social sector development. He cannot achieve that without massive investment over a period of ten years in all essential sectors, which have remained neglected.