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Pakistan in futile bid for investment?

by Susan Maitra

Islamabad is playing up its recent success in attracting foreign investment as a measure to reduce the bloated foreign debt. "We have reached a stage where there is a lot of interest in investing in Pakistan," V.A. Jafarey, Prime Minister Benazir Bhutto's finance czar and a super-technocrat from the days of Zia ul-Haq, said recently. According to Mohibullah Shah, secretary of Pakistan's Board of Investment (BOI), most of the investment sanctions given in the last year—amounting to about $2.2 billion—were for establishing manufacturing facilities in the fields of chemicals, pharmaceuticals, power generation, and oil drilling.

A concerted effort was made by the administration to come up with a new investment policy, whereby foreign investors would be free of all controls for investments up to $500,000. Foreign investors still need licenses to enter into such sectors as banking, and are barred from a handful of sectors such as real estate. But most areas are largely unrestricted, and foreign firms can own up to 100% equity of their Pakistan subsidiaries.

In spite of the promise of foreign investment reducing the foreign debt with the incoming foreign exchange, many question the viability of such investments in the longer term. As Mohibullah Shah himself pointed out, the International Monetary Fund is making it impossible to finance development needs and local projects. With power, transport, communication, and manpower development efforts still inadequate, critics point out, the spurt of foreign investment can only be a temporary phenomenon; it will peter out as soon as the investors discover that the full potential of their investment cannot be exploited.

Playing up the success with foreign investors is also diverting attention from the growing trade imbalances and precipitous drop in foreign exchange reserves. On Jan. 21, it was reported that Pakistan contracted foreign loans and credits amounting to about $2.55 billion in 1988-89—a 34.1% jump over the previous year's figure of $1.9 billion. On Dec. 7, it was announced that foreign exchange reserves had fallen by 69% in 1988-89, to $119.3 million, or less than seven days' worth of imports.

During the same period, Pakistan's gold reserves also fell sharply—by more than $128 million, from $727.4 million to $599 million as of Nov. 16, 1989.

IMF has a stranglehold

Pakistan's $11 billion foreign debt, with debt service amounting to almost 30% of export receipts, is causing serious concern. But even more worrisome to many is the internal economic situation, exacerbated by IMF conditionalities. In an article in the Karachi-based English daily *The Dawn*, M.B. Naqvi pointed out recently that every foreign investment has two components: the foreign exchange part and the Pakistani rupees required to set up and run the undertakings. The Pakistan government has done well to lure a significant amount of foreign exchange through investments, says Naqvi, but the IMF diktat is strangling government spending, credit, and monetary expansion and is going to sabotage these efforts.

"Where would the rupees come from? On the macro basis, if the IMF would not let monetary assets increase in the year 1990-91 by more than 4% or so over the previous one, what happens?" Naqvi asked. "Even more throttling would be the behavior of the banks, both commercial and investment, and that in two ways: commercial banks would normally be supposed to provide, as a minimum, working capital for the new ventures. Can they, with the present kind of stringent credit controls in force? Then, the investment banks are expected to underwrite the capital issue." With IMF control over money creation, that, too, is a "tall order," Naqvi points out.

Also significant are Pakistan's infrastructural weaknesses. Pakistan's existing power-generating capacity of 7,000 MW falls far short of present requirements. With the exception of Pakistan's commercial center Karachi, the entire country experiences an 8-hour power cut daily. Most industries cannot maintain a full shift of 10 hours because of power cuts. In order to make the new foreign investments function, the administration will inevitably be forced to further cannibalize existing facilities, leading to a significant drop in productivity and general chaos. Load-shedding last year, according to one estimate, alone accounted for a 2% reduction in Pakistan's GDP. Moreover, four of every five barrels of oil are imported, at a cost of 25% of Pakistan's total export earnings.

The transport sector is also in trouble. Pakistan Railways has gone bankrupt and there is a proposal to privatize the railroads. The 1989-90 losses of Pakistan Railways are estimated at about $145 million—twice that of the previous year. The present state of roads and bridges does not allow any further traffic; the transportation of capital goods and raw materials associated with the new investments alone could bring the transport sector to a halt.

Unless the IMF diktat is removed, Pakistan has very little leeway left. As Naqvi put it, the right hand of the government (sanctioning the new investments) is acting apparently without the knowledge of, or coordination with, the left hand (being held rigidly by the IMF "friends"). Unless this constriction is removed, "a time will come when the whole system will collapse," in the blunt judgment of Mr. Karamat Ali, secretary of the Pakistan Institute of Labor, Education, and Research.

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