

FOREIGN PRIVATE INVESTMENT IN PAKISTAN

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DEFINITION

"Investment can be defined as the change in the capital stock over a period of time, normally a year for accounting purpose".(1)

A distinction is often drawn between public investment and private investment. Public investment means the investment by the public sector, and private investment includes foreign or overseas investment involves the purchase of financial or productive assets in other countries.(2)

"Big foreign private investment is far cry. Fresh foreign private investment are mostly confined to medium and small sized industrial project.

"The main factors which are responsible for the shyness of the private investment in the big industries are the political conditions of the country, the liberalization of the economy from unnecessary control and rationalization of the tax structure".

How-ever, a lot of improvement has been made in the relevant laws by the present government and more steps in this direction are in the offing. This should go a considerable way in facilitating the setting up of industries in the private sector. Once an industry has been sanctioned it becomes the responsibility of the government to see that necessary machinery components and other infrastructure are made available to the incumbents.

It is generally believed that self-reliance is the best policy. Self-reliance in the financing of economic development has been the main objective of the nation and this goal received the top priority in all the previous five year development plans. But the goal of the self-reliance is far away from the sight when we look around the markets all over the country are filled with all types of imported goods, ranging from cosmetics to constructions. On the other side the government is facing problem as to how to fill the widening budgetary gaps. The bank borrowing and punching of notes has

been adding to the problems on the economic front including rapid rise in the debt servicing.

Debit servicing is now a serious signal for the country. In 1986-87 revised estimates the debits servicing allocation amounting to Rs.46.044 million worked out to as high 51.82% of the net revenue receipts of the budget for that year. In 1987-88 budget, however, the provision for this item was reduced to Rs.37.937 million worked out 40.38% of estimates revenue receipts. The reduction in the debt servicing in 1987-88 budget is yet to prove its correctness at the end of the year as whether it was in keeping with the actual requirement or not. The pretty high level of debt service liability was indicative of the security of the strains of foreign and domestic debts of the government on the overall resource position.(3)

It is interesting to note that, over ten years, the loans have been increased to about two-third of the total inflow and the share of the grants has accordingly declined to one third of the total inflow, the share of the consortium countries come to about 51% world lending agencies 29% and new consortium countries comes to about 20%. The donor countries and agencies insist on project loans which are quickly repayable and the soft term programme loans has considerably decreased. Pakistan's experiences with the foreign loans is not good and the happy one. Because these resources are not effectively utilized. The major reason is the donor countries give assistance to non-economic factors and trying aid to purchase goods and services of the donor countries which greatly reduce the aid effectiveness; further most of the developing countries including Pakistan are faced to borrow from private creditors on the commercial basis which are expensive and quickly repayable factors relating in obtaining foreign aid and assistance are now beyond the control of Pakistan, and Pakistan is not able to remove the standard imbalance in the economy and returns to investment.

"Dependence on foreign assistance is in this situation of a weak economy, therefore, in this situation, domestic savings constitute only 10% to 12% of the GDP include in developed countries; it is 35%. In this situation, the foreign private investment can play a vital role to develop the economy. The

present atmosphere in Pakistan is obviously most suitable for such investment.

Pakistan is following a liberal and flexible foreign investment policy and has provided a comprehensive set of incentives to attract foreign investors, under the foreign private investment (promotion and protection) Act 1976 besides provision of adequate legal framework and security against expropriation in the foreign investors are:

- a) Allowed to remit profit and capital;
- b) Allowed to remit appreciation of capital investment;
- c) Exempt from burdensome tax on income;
- d) Provided relief from double taxation in specific countries;
- e) Given permission for monthly remittances & transfer of serving on return.(4)

Foreign investment is encouraged in industrial projects involved advanced technology and heavy capital outlay like engineering, basic chemicals, petrochemicals, electronics and other capital goods industries. An export processing zone has been set up near Karachi to attract foreign investment, acquire modern technology and boost up industrial production and export of manufactured goods. Investors of following categories are eligible to make new investment in the zone:-

1. Any foreign investor with 100% foreign owned investment.
2. 100% non-repatriable investment by non-resident nationals of Pakistan out of their earning abroad.
3. Joint ventures between foreign investors and Pakistani investors with non-repatriable investment.
4. Investment by resident Pakistani upto 15% of the equity in joint ventures with foreign collaborators in foreign exchange to be purchased through the State Bank of Pakistan, the limit has been recently raised from 15% to 40% of the equity.

Investors of machinery, components, spare parts, raw material undertaking in the zone and export of goods are freely allowed and were exempted from all taxes and duties of both federal and provincial governments including municipal taxes, the restrictions of import trade control. Act are not applicable on imports into the zone. This is a policy of Paki-

stan about the foreign investment and these were the incentives and concessions which are given to the foreign private investors. But the foreign private investors are not satisfied with these facilities.(5)

Dr.A.H.Raper, leader of the British and South Asian Trade Association (BASATA), has pointed out that foreign investors are not satisfied with lengthy procedures and infrastructure provided for investment.(6)

It may be pointed out that foreign investment and joint ventures in Pakistan are facing a lengthy procedures by difficult committees and authorities, we on our part claim that Pakistan offer the most attractive conditions to foreign investors for long term investment in industries and other sectors. But in actual the existing situation and policies have been giving a tough time and alleges to the foreign investors. The lengthy and tiring procedure consists of summaries and their presentation repeatedly at the sanctioning committees for several months drawing up investment. After the submission of the project, if fortunately it is taken up for consideration within the three months, objection to the equity ratio holdings of foreign investors in the meetings may lead the project either back to the sponsors for necessary revisions or to postpone it to the next meeting for the consultation of officials conceiving with the sponsors. The sponsors usually take a stand and argue about the merits of their holding larger position of equity for the sake of the running the project latest technology and technical assistance from their present company in the maintenance of quality and standard of the proposed product. These argument generally over ruled and the objection remain confined to the high percentage of foreign equity and the project is returned to the foreign and local sponsors who may be joint sponsors. Now if the foreign investors have to the enough of patient he may be agreed to reduce the equity to the extent desired, by the sanctioning authorities. Other wise, he may withdraw from the scene. So this type of attitude of the concerning authorities discouraged the foreign investment in Pakistan, and to this has been happened five years back when Saudi and Gulf investors rushed enthusiastically but this delaying procedures drawing them

up and one by one they withdrew and diverted these investments to India and other countries.

Now this attitude explains that why big industrial projects are not sponsored in Pakistan by the foreign investors. But why this attitude? When we go around the world with the request of the big amount of loan and technical assistance, which increases so many problems and the repayment liability of which increases by 25% even before the project is complete for going into production. Foreign investment is far much better than the borrowed capital after all this would lead inflow of both capital and technology in Pakistan. If a reasonable percentage of profits are allowed to the foreign investors, it will be a more confinement than the repayment of the liabilities of the loan.

Another thing which must be noted about the foreign investment is that the Pakistanese settled in Saudia and Canada and other countries and have nationality of countries, are denied sanction of industrial project on non-repatriable investment basis, and against this overseas Pakistan's are entitled with facilities and they receive dividend/profits in foreign exchange if they make investment in foreign exchange in various schemes; unfortunately, the bulk of the earnings of the Pakistan's abroad is finding its way into conspicuous expenditure; if these resources are mobilised for production use, it can go a long way to fulfil the need for foreign capital. Pakistani's working abroad have made remarkable contribution to the economy of Pakistan. They remit to the country a substantial part of their savings which provide a significant support to the balance of payment position. Recently the efforts have been reinforced to induce overseas Pakistani's to use their savings for investment in the industrial field. A number of concessions and facilities have been provided to the overseas Pakistani under the NRI (Non Repatriable Investment) schemes which include exemption from customs duty concession in income and super tax, holiday and tax credit liberal depreciation allowance and advisory services by investment centres and simplified sanctioning procedures. Small industries offer an ideal investment to overseas Pakistanis. High priority has been given to the small industries in

the industrial policy of Pakistan because they need a small amount of capital and generate a big employment opportunities. Nearly 2.5 million Pakistanis are residing abroad, either permanently, temporarily working abroad. They are remitting a huge amount of foreign exchange to their country. The most of the investment by overseas Pakistanis has gone in real estate, followed by non-priority investment such as government securities. Saving certificates etc and in cash deposits in the banks, so if this investment diverted to the investment which is essential to fulfil the needs of the country and to mobilize these resources or investment in the production channels.

Pakistan attaches great importance to the inflow of foreign private investment such investment brings substantial benefits in the shape of capital advance technology, new managerial and technical skills, marketing expertise, employment generation and linkage with the outside world. In order to facilitate and allocate foreign investment revolutionary measures have been taken to provide maximum freedom to the entire pressure for investment.(7)

The foreign investment has been completely deregulated and foreign investors have been placed at par with the local investors. There is no ceiling on the share of foreign equity investment. Foreign investors are free to invest in stock of existing companies, marketable securities or in financial papers. Capital and profit can now be freely invested transferred. There is no limit on the payment of royalties or technical fees. Expatriates can remit unlimited amounts abroad without restrictions. Foreign nationals employed in Pakistan are permitted to send monthly remittances to the country of their domicile up to 50% of the net income.

CONCLUSION

An industrial project with foreign investment is required to go through a normal lengthy process of examination at various official levels including clearance from the economic co-ordination committee of the cabinet (ECC). There is no reason why intending foreign investors should be subjected to a general exercise when the country is in dire need

of foreign investment which naturally replaces foreign loans.(8)

The issues on the basis of which proposals on usually returned involve some significant reasons such as the ratio of foreign share holding remittance of royalty and technical fee under taking to export a certain percentage of a product etc. These do not seem to be so important issue as to refuse sanctions to foreign investors into ultimately withdraw in designs. What is required is the appropriate measure of feasibility on the part of the officials who are vested with discretionary power to sanction or reject an investment proposal.

Now after discussing all the benefits and drawbacks of the foreign investment we come to the point that foreign investment is far much better than the foreign debt, whose pressure on budget is uncontrollable. The official studies have described the pace of foreign investment in Pakistan as very slow since 1972 onwards. According to available data direct foreign investment increased from Rs.366 million in 1976 to Rs.725 million in 1985 showing a growth rate of 8.3% per annum during this period.

The policies at present about the sanctioning of industrial proposals have lot of contradictions and inconsistencies. So in my opinion the procedures of sanctioning an approval should be simplified. As Dr.A.H.Paper has pointed out that infrastructure facilities are inadequate in Pakistan. This is a big problem and cannot be solved immediately. So this problem should be taken into consideration, and arrangements should be to make to solve the difficulties regarding infrastructure and this will encourage the foreign investors to invest their capital in Pakistan. When the foreign investors invest in Pakistan and start their projects it will generate a big employment opportunities and disseminate the benefit of economic growth to a large number of people.

So instead of borrowing from foreign countries facilities should be provided which could attract the foreign investors; heavy debtness is not a serious problem if the borrowed funds are utilized for the implementation of such projects which are instrumental in raising the living standard of the masses and increasing the capacity of the natural economy to

repay domestic and foreign debts. Unfortunately this was not done, funds were borrowed to finance even non-expenditure should be curtailed substantially.

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