Jang/Geo TV, BoI Investment Conference: Inflation worries govt as it hurts the poor

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ISLAMABAD: Adviser to Prime Minister on Finance Dr Abdul Hafeez Shaikh on Friday acknowledged that inflation is an issue that worries the government because it is bad kind of tax hurting the poor.

He said the government inherited fiscal gap and now it would have to move ahead in fundamental way to bridge this gap. He said the new rates and new incentives would be done to achieve balance on fiscal front in the coming budget. “The IMF team is in Islamabad and negotiations are underway to get balanced, predictable and reasonable programme from the Fund. The government is committed to financial discipline as it will help establishing linkages with other multilateral institutions such as the WB, ADB and IDB,” Abdul Hafeez Shaikh said while addressing second investment conference ‘Time to Invest’ organised jointly by Jang/Geo TV and Board of Investment (BoI) here on Friday. Speakers at the conference said the people must remain prepared for difficulties coming with the budget.

Dr Shaikh said people did not listen what the ministers were saying, but they listen more to investors. He said the government would have to continue measures for in the upcoming budget in order to support balance of payment position. Secondly, he said, the government inherited fiscal gap. He said the fiscal gap had to be plugged. The public sector enterprises, he said, are causing losses of Rs200 billion per annum while power sector losses stood at Rs300 to Rs400 billion. The circular debt, he said, had accumulated up to Rs1,600 billion. He said he had made successful transactions on privatisation front, but in last 13 years, there was no single entity that could be privatised since 2006. He said the government is managing threat through controlling inflation. In the coming budget, he said, the welfare programme of social safety nets through enhancement into the BISP under the umbrella of Ehsas programme would be made. He also said that efforts were underway to strike ‘reasonable’ programme with the IMF in order to get stable, predictable and sustainable macroeconomic stability.

Dr Shaikh acknowledged that inflation is an issue that worries the government. He said that the monetary and fiscal policies were aimed at reducing the aggregate demand to control inflation. He said there are reasons that 15 to 20 countries went ahead for achieving development while other lagged behind during the last 40 to 50 years. He stated that there were three basic reasons for leaping forward by 15 to 20 countries as first of all they focused on developing the capacity of their people. Secondly, he stated that no one could make progress if the world is not standing behind as the example of India and China could be cited for achieving their development, and thirdly, the countries required real economic growth on a sustained basis.

The PM’s adviser said Pakistan did not learn these three lessons which were essential to achieve stable, predictable and balanced macroeconomic environment for longer period. “We have done a bad job. It’s the biggest factor for lagging behind irrespective of any government,” he added. He said that time has come to set the direction of the economy as the overvalued exchange rate resulted into stagnant growth in exports and the current account deficit went up to $19 billion. He said the import compression was done after which the current account deficit was brought down by 30 percent.

He said the China Pakistan Economic Corridor (CPEC) is termed as game changer but the real challenge for Pakistan lies that how much as country we transformed ourselves to reap the benefits of this project. “We should focus on CPEC plus,” he said, and added that Pakistan had missed many opportunities in the past and it would be a challenge to avail this opportunity. He said the prime minister and ministers are just coaches and not players and it is a challenge for Pakistan to motivate the private sector to contribute as a player in the match. “The development means that the country will have to do many things simultaneously to achieve the desired results,” he maintained.

Prime Minister’s Adviser on Commerce, Textile, Industry and Investment Abdul Razak Dawood said the government welcomes investors who are serious in investing in Pakistan and want to set up industrial plants and bring big investment around $200 million or more. The said Pakistan can give them the status of special economic zone (SEZ) and they can enjoy every facility and tax exemptions under government's government's policies. “Chinese companies are ready to bring huge investments into Pakistan, and we have asked them wherever they want to establish their plant, we would declare it as SEZ. This offer is also for other countries’ investors,” he said.

Later, he told The News that the government is doing away with the earlier policy which was imports-led and consumption-based growth, which is normally not sustainable. He further said there is an unholy alliance between traders and the FBR, and the government is bringing that down. Abdul Razak said there was de-industrialisation in last few years, trading has flourished from China, as Pakistan imports $14 billion while exports stand at $1.4 billion. “Industries are also optimistic and they are saying they are getting more exports orders and they are opening their closed units,” he said. “De-industrialization has stopped and we are gradually moving in the right direction. We are focusing on export-driven growth strategy and policies. Besides, import substitution also brings local industries to certain standards that they can export. You cannot develop your economy, until you increase exports,” he said. He further said that there is industrial policy is in the making, and draft would be finalised soon.

There are four parts of the policy, including strategic industry, export-led sector (textiles, leather, sports goods etc.), imports substitution and pioneering industry. “In next few weeks, we are we are going to announce new five-year textile policy followed by leather policy and rice policy,” the adviser said, adding the government already has a cement policy and appliances policy. “We have focus on value added textile, IT, tourism,” he said. “China has given concessions, duty free access on 313 tariff lines. It would increase our exports to China. After this government’s giving facilities, tobacco sector has started exports and it would reach to $50 million by this year,” he said, adding, “We are working on ease of doing business. We have targeted to bring our ranking on World Bank’s ranking at 100 from current 136th by introducing change in policies to facilitate investors.”

The BoI Chairman Haroon Sharif said the range of foreign direct investment (FDI) stood at $2.5 billion to $3 billion per annum. He said after excluding outflows on investment, the overall increase in attracting investment for industrial sector went up by 200 percent. He said they diversified government to government (G to G) but now private sector has started investing in Pakistan. He hoped that the stabilisation period would be short-term phenomena and then the government would focus on higher growth trajectory. He said the government would give priorities to agro-based industry, housing, hospitality and other sectors of the economy.

Nadeem Babar, Special Assistant to PM on Petroleum, said the government has decided to bring the power sector subsidies on its budget books, which were earlier not been made part of it and were called unfunded subsidies. He said the line losses are around Rs200 billion while the net hydel profit payment is around Rs150 billion. He said the IMF has asked the government to recover line losses and net hydel profit from consumers and increase upfront tariff from next financial year, however, Islamabad is asking to allow it for gradually charging it from consumers. Regarding circular debt, he said only in 2017/18, of the previous added Rs453 billion, but the government is working on reducing the addition to circular debt and also reducing the existing debt. He said by June 2020, the government would bring down yearly addition to circular debt to 70 to 80 billion rupees and then by December 2020, it would further be brought down to zero.

He said electricity and gas is not a social sector. "You have to pay for it, and you cannot charge the theft and line losses charges from the law-abiding and loyal consumers. As energy sector is capital intensive, it needs more and more investment to bring new technology in it. We are working on sustainability, availability and affordability of this sector," he said. Nadeem Babar said the government has not run the state-owned old generation companies (Gencos) for the last seven months, as their cost of generation is high. "We are also not renewing the contracts of the old independent power producers (IPPs)," he said. He said in last eight months, the government has resolved transmission constraints and this year 3,000MW more than what was the earlier capacity 920,000MW) would be added to the system.

Regarding gas, he said in last six years, no new exploration licence was issued. "Our gas production is reducing 7 to 10 percent a year. We have a massive programme on drilling. We need more domestic production. It would bring down the prices too. We have to recover 13 to 14 percent unaccounted for gas (theft and leakages). In next three years, we are targeting to bring it down to 7 to 8 percent," he said.

Foreign Minister Shah Mehmood Qureshi said for the first time government is pursuing an economic diplomacy for socio-economic development of the country. Qureshi said various steps have been taken to create a pro-investment environment and it is time for entrepreneurs to take advantage of lucrative business opportunities in the country. Highlighting achievements of the PTI government on foreign policy front, the foreign minister said, "Pakistan played a role for peace and reconciliation process in Afghanistan, took peace overtures towards India, including opening Kartarpur Corridor and reinvigorated relations with China, Saudi Arabia, the United Arab Emirates, Turkey, Qatar, Malaysia and Iran." He added Pakistan secured financial assistance from friendly countries to overcome its balance of payment issue.

"Agreement on the second phase of China-Pakistan Economic Corridor and signing of Free Trade Agreement with China will contribute significantly to the socio-economic development of the country," Qureshi added. He further said Saudi Arabia has committed $20 billion investment in Pakistan and the United Arab Emirates, Qatar and Malaysia are also eyeing investments in various sectors in the country. "ExxonMobil company has returned to Pakistan and has been engaged in the exploration of energy resources," he added.

Ambassadors of China, Germany, Turkey and Malaysia also spoke at the conference and advised Pakistan to educate its young generation, bring consistency in policies and political stability to attract more investment, as there is a huge potential for investors to make money.

Chinese Ambassador Yao Jing said that under CPEC, the first SEZ of Rashakai in KP is to be operational soon. “On our side (China) around 200 Chinese companies are waiting to be joined. Local facilities and utilities will be completed in next six months to this SEZ,” he added. He further said that there are huge commodity imports from China. He said China under the revised FTA has recently decided to increase its import from Pakistan. He suggested that a single market system be encouraged. He further said that the BoI should be empowered further to facilitate investors.

Dr Jens Jokisch, Chargé d'Affaires, German Embassy Islamabad, said that Germany has a rising role in Pakistani economy. “Once the new government came into office, we have rising number of economic delegations to Pakistan. German companies are showing more interest, security situation has improved a lot and we support the goals of the government. Renewable energy is the future of Pakistan,” he said. He suggested that Pakistan should invest more in education, especially vocational training, the country's young have a huge potential. It would help attract more investment.

Ambassador of Malaysia to Pakistan Ikram Bin Muhammad Ibrahim said over the past two decades Malaysia has sufficient revenue. “We have high savings in Asia. We are net exporting and net investing country, especially industrial investment. A Malaysian company is going to establish a car manufacturing plant in Karachi which would create 2,000 new jobs,” he said.

Turkish ambassador to Pakistan Ihsan Mustafa Yurdakul said that they are working on strategic economic framework between the two countries (Turkey and Pakistan) on investment and trade and negotiations are underway. He added that Turkish president is to visit Pakistan in 2019. He said there are some issues and they are negotiating with Pakistan. “In next few weeks, magnitude of Turkish investment in Pakistan would increase,” he said. The Turk ambassador appreciated Pakistani government’s efforts, and said that Pakistan has worked on human exchange and visa etc. However, he said changing the goal posts during the game (by Pakistan government), in regulatory policies and others areas too, makes it difficult for the investors. “Please promote your true image, true nature which is already positive,” he said, suggesting Pakistan should also focus on educating its younger generation.