BUSINESS RECORDER
Founded by M.A. Zuberi

23rd February, 2019

Foreign investments in Pakistan

The two-day visit of Saudi Crown Prince Mohammad bin Salman has ended on a positive note - both on diplomatic and investment fronts. The extent of his visit is unprecedented with Saudi Arabia pledging to invest $ 20 billion in Pakistan, mostly in energy sector, and the crown prince volunteering to act as 'Pakistan's ambassador in Saudi Arabia'.

Next month, Prime Minister Mahathir of Malaysia and President Erdogan of Turkey are scheduled to visit Pakistan and both are expected to announce investments in Pakistan.

The much-needed oil and gas sector got a boost with ExxonMobil of US and Italy's Eni in partnership with OGDC and PPL having recently started offshore drilling near the Karachi coastal area.

Also, American politics and policies are increasingly becoming favourable for Pakistan which in turn will ease its reliance on such as the World Bank, IMF, IFC and ADB.

China is expected to continue with its investment, largely under the CPEC, with the difference that as per the policy of Pakistan it will somewhat shift from mega projects to projects of wider economic and social interests such as Special Economic Zones all over the country.

The PTI government has done well in strengthening country's economic and political ties with China by bringing on board other countries like Malaysia and some countries of the Middle East and some post-Soviet states. It however needs to work on the US, Europe and Japan to once again restore their investments in Pakistan who for decades partnered with Pakistan on economic and social fronts but are much out of our market for the last five years or more.

Despite such positivity, the government has so far not evoked the interest of wider segments of foreign or local investors. Moreover, the Pakistan Stock Exchange has not responded as favourably as expected.

As per State Bank of Pakistan, the Foreign Direct Investment (FDI) dropped dramatically to a six-month low of $132.2 million in January 2019 compared to a six-month high of $319.2 million in the previous month, showing a massive decrease of 59 percent.

Cumulatively, in first seven months (July-January) of the current fiscal year 2018-19, the FDI dropped 18% to $1.45 billion compared to $1.76 billion in the same period of last year.

Pakistan recorded a notable drop in FDI in three major sectors, i.e., power, construction and financial business in the first seven months of FY19, whereas the oil and gas exploration, electric machinery, car manufacturing and power services attracted higher FDI.

However, the communication sector, mainly telecommunication, continued to record divestment probably due to market saturation and lower tariffs.

FDI in the power sector dropped 63% to $233.8 million in the seven-month period compared to $625.2 million in the same period of last year. This can be attributed to uncertainty arising out of circular debt and imbalance between installed power capacity and its evacuation on grid limitations.

Investment in the construction sector decreased 25 percent to $288.9 million compared to $386.2 million last year due to widespread uncertainty in the market. The government wants to bring this sector under documented economy.

Financial businesses attracted $216.7 million, which was 29 percent lower than $303.3 million in the previous year.

FDI in oil and gas exploration increased to $145.1 million compared to $121.6 million. Electric machinery attracted $126.4 million compared to $13.8 million; car manufacturing received $69 million compared to $35.5 million and power services attracted $44.8 million compared to $2.1 million in the corresponding period of last year.

Divestment in telecommunication rose to $146.2 million in Jul-Jan FY19 compared to $16 million in the same period of last year.

China remained the single largest investor with $825.5 million in the seven months ended Jan 2019 followed by the United Kingdom with $127.4 million investment. South Korea invested $68.3 million, Japan $66 million, the UAE $58.5 million and the Netherlands $56.8 million.

One of the probable reasons for the market and investment not picking up is the looming uncertainty. And one of the major fears for an investor is that the government may let the currency depreciate ahead of going to the IMF for a bailout of around $6 billion. The government is required to finalise its arrangements with the IMF as early as possible with a view to ensuring, among other things, currency's stability.

Nevertheless, the long-term economic horizon of the country looks fairly promising.

The investments in mega projects expected from countries like Saudi Arabia and others, however, will not get into the revenue generation stream during the present tenure of the incumbent government.

The urgency is to meet the revenue shortfall, most essentially in 2019 and then in 2020. This is where uncertainty or anxiety lies and this is where the government must lay its focus on equally well.

(The writer is former President of Overseas Investors Chamber of Commerce and Industry)

FARHAT ALI