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Taking care of export-oriented investment

PRIME Minister Imran Khan told a delegation of the Lahore Chamber of Commerce and Industry two days after the sharp fall of the rupee coinciding with the `unexpected` key rate hike on Nov 30, that foreign direct investment was `pouring` into Pakistan.

He cited investment plans of some foreign companies that included capacity expansion of Coca-Cola and Pepsi plants at a cost of $500 million and $800m respectively.

Going by the current capital spending trend of multinationals operating in Pakistan, much of this investment may be financed by retained local earnings with minimal inflow of dollars. And the enhanced production and supply of cold drinks will merely cater to the domestic market. The detailed features of the projects are not yet known.

Investors may have to revise their project costs owing to rupee depreciation and policy interest rate hike as the cost of investment and production will go up. Notwithstanding its speculative activities the stock market, which reflects the fundamentals of the economy, plunged by 1,335 points in its first trading day last Monday following the previous Friday`s monetary policy tightening. It was a negative message for investors.

The prime minister also mentioned Exxon which had wound up its business in Pakistan decades ago and had shown an interest in coming back. The company`s investment in oil and gas exploration could reduce Pakistan`s oil import bill but it has yet to come with a concrete investment proposal.

The investment proposals detailed by Prime Minister Khan may be welcomed owing to the sharp decline in foreign direct investment (FDI) by 46.4pc during July-October to $600.7m. But all these projects fall short of the government`s policy to promote investment in the export-oriented manufacturing sector.

`The biggest structural issue in investment is the question of boosting exports,` Chairman of Board of Investment (BOI) Haroon Sharif said in an interview published recently. He then posed the question: `Can we take foreign investment to a level where we have problems repatriating profits later on?` Mr Sharif had raised a pertinent issue. Only recently the president of the Overseas Investors Chamber of Commerceand Industry (OICCI) said in a conference in Islamabad that a big challenge facing foreign companies is the `increasing difficulties` in repatriation of profits.

The reasons for the delay are not immediately known but in the past administrative hurdles were created in repatriation of money in times of dollar shortages. Owing perhaps to the stated delays repatriation of profits and dividends dropped by 17 per cent in July.

On investment, the Saudi proposal for setting up a refinery at Gwadar is still in its initial stage. At the moment, the BOI chief says `I am still trying to finalise the memorandum ofunderstanding, even the feasibility has not begun yet`. Many issues related to the project need to be clarified and settled.

The manufacturing sector is eagerly waiting for the government to `unveil growth-oriented economic and trade strategies` and `special initiatives` for stimulating investment.

The Pakistan Business Council (PBC) wants to see progress on its vision of `Make in Pakistan`.

On the eve of Nov 30, Prime Minister Khan directed the commerce ministry to finalise an integrated set of policiesalready drafted to make exports competitive and boost traderelated investments. These documents recommended phased abolition of customs duties on imported raw materials.

However the prime minister`s directive was promptly followed up by an assurance to businessmen in Sialkot by his commerce advisor that `the government will soon abolish all the duties on import of raw materials`.

Former finance secretary Dr Ashfaq Hasan Khan says the cost of manufacturing increases manifold as the result of devaluation as the imported input in domestic industry is 60pc. He argues that this is the reason why export earnings could not be boosted in the past.

The rupee depreciation against the greenback will trigger inflation which, according to an estimate by Dr Hafeez Pasha would go up by 1.5pc to 8.5pc. And as a result, the increasing cost of doing business can put the viability of greenfield projects at risk.

But the market is now getting a clear message that the PTI-led government is implementing pre-conditions to qualify for International Monetary Fund`s (IMF) `stabilisation` programme. As President of the Pakistan Foreign Exchange Association, Malik Boston, said: `Yes, (it is) an IMF conditioned rupee devaluation.

Any lingering doubt created by reports that the PTl was toying with the idea of evolving an alternate plan to the IMF bailout has been put to rest by a statement by a Chinese diplomat and the UAE`s response to Pakistan`s request for financial support.

In receding economic growth and substantial reduction in public sector development spending, the opportunities for investment are unlikely to grow. The State Bank`s forecast for growth for this financial year is just over 4pc despite CPEC investments.

The PTI-led government needs to accord top priority and develop an action plan for boosting export-oriented investment for a durable solution to the balance of payments problem.
jawaidbokhari2016@gmail.com

<u>Jawaid Bokhari</u>