

IMF, Political Will, And Declining Investments in Pakistan - When will the Saga end?

The writer has contributed this article exclusively for the current issue of CMA Journal

Social media is flooded with glamorous footage of an industry magnate's pre-wedding celebrations in the neighboring country. The point to note is the presence of global investors, and tycoons who have come down to enhance business targets by investing in the Special Economic Zones and collaborative ventures. New international brands are being launched on the side, enabling the country to go way beyond the US\$80 billion in Foreign Direct Investment (FDI) in 2022. On the contrary, Pakistan reported a meagre and stagnating FDI. Reviewing the FDI data, it comes as no shock (for I had predicted this)- in the first half of FY24, Pakistan only received US\$863 million, which is up by 35%. For a country with over 250 million people, this is not enough. Despite earnest efforts by the Special Investment Facilitation Council (SIFC) to create an enabling environment for businesses and investors, the anticipated surge in FDI has remained elusive.

The investment sector in Pakistan has consistently held potential opportunities, yet its advancement has frequently faced interruptions due to bureaucratic red tape or lack of political will, political instability, and, most significantly, unpredictable shifts in the policy framework. The prevalence of uncertainty in the environment has led existing investors to question their sustainability, while potential investors find compelling reasons to refrain from committing funds for future returns in Pakistan.

The financial situation enters the red zone intermittently compelling Pakistan to seek advice from the International Monetary Fund (IMF), way too often - 23 lending programs so far. Pakistan has recently entered another IMF standby arrangement, amounting to US\$3 billion, with an initial payment of US\$1.2 billion and the remaining US\$1.2 billion scheduled to be disbursed over the nine-month duration of the

arrangement. Seeking assistance from the IMF has become a recurrent event in Pakistan, with the intervals between

visits notably shrinking over the years. Between 1958 and 1988, Pakistan entered 11 lending commitments with the IMF, while in the more recent period of 1993-2001, eight lending commitments were made in less than one-third of the previous timeframe.

Pakistan stands fifth globally in terms of outstanding debt to the IMF, reaching a total of US\$7.4 billion. In the fiscal year 2023, Pakistan received a significant amount of US\$894 million from the IMF, with charges and interest payments reaching US\$776 million and US\$325.8 million, respectively. The noteworthy figure for 2022, totaling US\$1.64 billion, highlights the country's growing financial reliance on the IMF, prompting concerns about its economic challenges and developmental initiatives.

The IMF is strictly for economic stability and growth, through financial aid, policy guidance, and technical support to its member countries. The focus is on various objectives, including the promotion of macroeconomic stability by collaborating with nations to maintain low inflation, stable exchange rates, and sustainable fiscal and monetary policies. It actively works to prevent and address financial crises; aiding countries facing balance of payments issues to stabilize economies and restore investors' confidence.

Additionally, the IMF advocates exchange rate stability, facilitates poverty reduction through social measures, supports capacity-building in member countries for effective economic policy implementation, and serves as a platform for international economic cooperation. Through regular financial surveillance and assessments, the IMF identifies global economic risks and vulnerabilities.



Muhammad Azfar Ahsan
Pakistan's former
Minister for Investment

But this all comes packaged in stringent parameters impacting not the population at large, but the taxpayers - a small segment of salaried class and corporate/businesses in Pakistan.

The widespread apprehension surrounding the potential social and political ramifications of stringent IMF conditions is valid. The prospect of increased taxes and reduced subsidies has raised concerns about exacerbating the burden on an already strained tax base, potentially leading to social unrest and economic instability. To mitigate these risks, the obvious answer is improvised tax reforms, including broadening the tax base to encompass historically exempt sectors such as agriculture, real estate, and retail trade, long-term framework of investment policies to attract FDI, and favorable initiatives for the local investors. In fact, I would like to quote the State Bank of Pakistan's (SBP)s Former Governor Salim Raza, at the "Agri connections 2023", stating that Pakistan's agriculture sector has the potential to overcome the current account deficit and balance-of-payment crisis within six years. With this level of potent capacity for resolutions, our reformative work remains suspended.

The government infrastructure would necessitate the Ministries of Finance, Revenue, and Investment to spearhead the financial regulatory drive, but we have SIFC tasked with ensuring fiscal relief, while maintaining market clarity. This is a replication of roles and assignments and indeed stands to create complexity with the new government taking charge. In the interest of consolidation of democratic infrastructure, the public institutions should be prioritized, yet supported with the collaborative framework of public, private and military stakeholders.

The China-Pakistan Economic Corridor (CPEC) came as a game changing opportunity. The traditional critics of the Pakistan economic policies could not stop praising the project and its future outcomes for the country. Yet the hurdles mentioned above landed the stellar project into hibernation.

Meanwhile, the Chinese government has progressed with its regional plan, currently overlooking Pakistan's significant strategic location asset. Beijing's strategy aims at utilizing economic and political collaboration to bolster the political and economic objectives of the South, contributing to the establishment of a fair and equitable international order. A central aspect of China's foreign policy is to secure African support globally, especially within the United Nations. China endeavors to secure African backing by highlighting commonality as developing nations, underscoring shared strategic interests and a unified stance on major international issues, effectively minimizing potential disagreements. Pakistan stands as a crucial conduit in this context.

Regional economy and regional collaboration are the new requisites for planning an upward trajectory for nation's business. Association of Southeast Asian Nations

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(ASEAN) is a fitting example of market expansion for individual growth of each member nation. The strategic location that Pakistan has, puts it directly in the path of China and Russia both, and a perfect path for the double landlocked Afghanistan and the Central Asian Republics (CARs.) With 91% of its border aligning with India, Iran, Afghanistan, and China, Pakistan could not make a success of either Regional cooperation for Development (RCD) with Iran and Turkey, or South Asian Association for Regional Cooperation (SAARC) and lately China Pakistan Economic Corridor (CPEC). What prevents us is primarily a lack of vision, which is directly associated with 'incompetency' – a word that I have used repeatedly as the foremost reason for the drag.

Kazakhstan, with a population of 20 million managed to secure an impressive US\$28 billion in FDI in 2022. They are hoping to up it for 2023 and of 2024 will show a remarkable surge. They are a true example of focused work with facilitation for the investor. Pakistan must aim to emulate such successes, catalyzing its economic progress, and fostering a favorable investment climate for both domestic and international investors.

The overseas Pakistanis remitted US\$2.4 billion in January 2024, registering an increase of 1%, compared with US\$2.38 billion received in December 2023. Similarly, compared with the same month of 2023, there was a significant uptick, with remittances rising by 26% to US\$1.9 billion.

The overall remittance inflows for the first seven months of FY24 (July to January) stood at US\$15.83 billion, posting a 3% year-on-year decrease of US\$386 million from the US\$16.32 billion recorded in the same period of FY23. Remittances are not investments and though the numbers generate hope, they are way behind our competitive economies.

The key understanding is that domestic policies always attract and optimize FDI. It must be emphasized, even at the risk of repetition, that without addressing policy issues and facilitating existing investors, sustainable FDI cannot be attracted.

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This has been the consistent message advocating the investment landscape. Pakistan is currently registering stagnant FDI figures, with decreasing market volatility pushing its strength of location and population to irrelevant data for the regional economies.

Warren Buffett, the legendary investor, and Chairman of Berkshire Hathaway, once remarked, "The stock market is designed to transfer money from the Active to the Patient." In the context of Pakistan, it underscores the significance of adopting a patient and strategic approach to investment, focusing on long-term growth and sustainability rather than short-term gains.

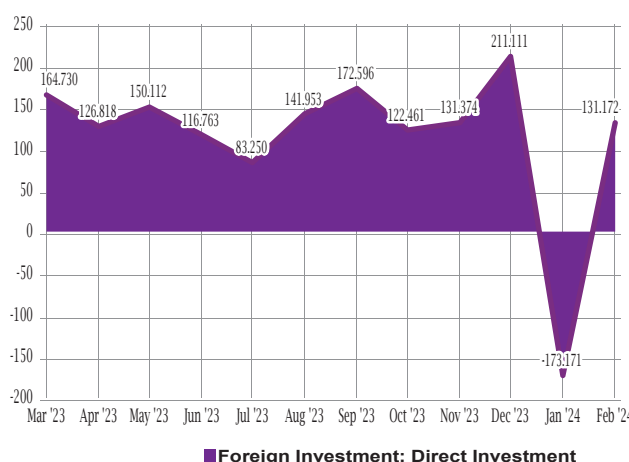
The Kingdom of Saudi Arabia, and the Peoples Republic of China, have both displayed individual, organic yet dynamic approach towards economic progress. Both have played into indigenous strengths, used technology to beat the challenge and have come out as the leading power hubs. Pakistan enjoys strong goodwill with both countries but seems to have lost their trust in its potential. The reasons begin and end with the lack of political will and incompetency in the people at the helm of affairs. While we know the problems, and sadly the solutions, we seem to have reached a stalemate. Listing either would be repetitive and futile. The fact is that Pakistan, as a business hub, is not thriving. It is a company of 240 million employees challenged with basic literacy and skill development, with an elite senior management enjoying the profits as rewards, and that has no permanent or unified authority for decision making.

Establishing a consistent and predictable policy framework is essential to attract long-term investments, emphasizing the need for the governments to prioritize continuity of policies, engage stakeholders in major reforms, and provide clear guidelines to foster a stable investment environment. Infrastructure investment, particularly in energy, transportation, and telecommunications, is crucial for economic growth, job creation, and overall investment climate improvement. A comprehensive approach to addressing security concerns, involving law-enforcement, community engagement, and diplomacy, can mitigate risks for the investors. Maintaining

fiscal discipline and monetary stability through sound macroeconomic policies is vital for investors' confidence and overall economic growth. Warren Buffett's quote underscores the importance of patience and a strategic approach to investment in Pakistan, emphasizing long-term growth over short-term gains. Overcoming domestic constraints, such as security issues and governance weaknesses, is key to maximizing the benefits of FDI and achieving broader economic objectives.

A concerted effort from government, businesses, and stakeholders is necessary to transform Pakistan's investment landscape, involving regulatory reforms, infrastructure development, security enhancement, and economic stability maintenance to attract both domestic and foreign investors, fostering sustainable economic growth and prosperity.

My recently found assurance and hope is the appointment of Muhammad Aurangzeb, as Federal Minister Finance & Revenue. The gentleman has delivered on all accounts and has the most impressive portfolio for turning the situations. Given long term policies, and space to devise stratagems, Pakistan's new economic team is competent to pave the way for significant advancements in attracting foreign direct investment (FDI).



In the present circumstances of economic volatility, including inflationary pressures, fluctuating exchange rates, and unfavorable taxation, investors are justifiably hesitant to commit capital, fearing potential losses due to adverse economic conditions. I look at the declining graph and then towards the new decision makers to help the situation. The government must simplify and streamline regulatory procedures, implement online platforms for regulatory approvals, remove bureaucratic hurdles, and ensure transparency in decision-making, to expedite investment processes and enhance investors' confidence. The IMF should be the guideline for monetary planning to ensure that there is no 24th run again.

About the Author: The writer is Pakistan's former Minister for Investment. He can be reached at @MAZfarAhsan