GCC Investments in Pakistan and Future Trends

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Pakistan has in recent years exhibited a remarkable turn-around in its economic growth which has influenced large-scale inflow of foreign direct investment (FDI). A recent World Bank survey placed Pakistan at 74 on a list of 175 countries most conducive for investments, with India at 134.[1] Pakistan has also taken steps to secure future economic growth by signing a free trade agreement with China during President Hu Jintao's visit to Pakistan in November 2006, which is expected to triple bilateral trade to $15 billion within five years.[2] However, in order to achieve long-term economic growth, stimulated by FDI, Pakistan has to develop the skills of its workforce and also provide jobs by establishing new industrial units. Only such an approach can have a trickle down effect on the economy.

Many of the desired changes are linked to Pakistan further improving its symbiotic economic relationship with the Gulf Cooperation Council (GCC) countries. A large Pakistani workforce in the region accounts for a significant share of the country's annual remittances. Pakistan received a record $4.6 billion in remittances during the fiscal year 2005-06, as compared to $4.17 billion during 2004-05. Of the Middle East's $2.06 billion contribution to remittances, Saudi Arabia topped the list with $750.44 million, followed by the UAE with $716.30 million, Kuwait – $246.75 million, Oman – $130.45 million, Qatar with $118.69 million, and Bahrain – $100.57 million.[3]

In order to assess recent investments by the GCC countries in Pakistan, it is essential to analyze the country's current economic scenario.

Economic Policy and Response of Global Investors

The perception emanating from Pakistan over the last few years has been that of a growing economy in South West Asia and becoming a major regional conduit for energy and trade. Due to wide-ranging structural economic reforms that were introduced six years ago, Pakistan has exhibited a rapid, strong and sustained economic recovery. This has resulted in a stable economic growth rate of 6.6 percent for the fiscal year 2005-06. A series of exogenous shocks have had a negative impact on Pakistan's economy – rising oil prices in international markets, weak agricultural crop, and the fallout from the October 2005 earthquake in which more than 70,000 people lost their lives, with an equally devastating effect on its infrastructure.

However, in the current fiscal year, Pakistan has witnessed a tremendous increase in FDI.[4] This reflects the increased confidence of the global investors in the transparent privatization program that has been followed in recent years.[5] The government has also liberalized its regulations governing foreign investments as an added attraction. According to the State Bank of Pakistan, FDI has more than doubled to $3.52 billion, with an increase of $1.52 billion over last year. These investments were mostly targeted at the communications, energy and financial sectors.[6]

The leadership has actively pursued an investor-friendly policy and given incentives such as tax breaks and even subsidies on leased land in specific sectors. Prime Minister Shaukat Aziz has stated several times that Pakistan is "vying to become the regional hub for trading and manufacture".[7] A Newsweek report on the current economic prospects in Pakistan noted the immense potential for global foreign investors, especially in telecommunications. According to the report, Pakistan has the world's fastest growing wireless market after China.[8] Latest figures have placed

1 "Outlook on Economy," The News (Pakistan), 12 September 2006.
2 "Pakistan-China FTA," The News, 26 November 2006.
3 "Pakistan receives a record $4.6 billion in remittances," Khaleej Times (UAE), 31 July 2006.
4 "Economic survey 2005-06," Ministry of Finance, Government of Pakistan, http://www.finance.gov.pk/survey/sur_chap_05-06/overview.pdf
5 Ibid.
6 Op. cit., The News, 12 September 2006.
7 "Pakistan aims to become trading hub," The News, 12 September 2006.

cell phone users in Pakistan at over 45 million.[9] The next major FDI-based privatization is the $1.4-billion sale of global depository receipts and local shares from Oil and Gas Development Co. Ltd, Pakistan's biggest firm.[10]

Pakistan is presenting itself as one of the world's hottest emerging markets. The fact that China has publicized its intent to invest an additional $50 billion in the port of Gwadar validates this point. The Chinese investment includes the development of a petrochemical complex. Pakistan had initially proposed developing Gwadar as a gateway for Gulf oil and energy exports to China and Central Asian States. Besides energy trading, Gwadar is also slated to serve as a major port for bilateral trade, including agricultural produce and manufactured goods.[11] "The proposed dual purpose rail route and energy pipeline would link Gwadar with Kashi in Xinjiang province. Gwadar can serve China as a base for exporting goods to Gulf States as well as a transit point for Gulf imports that could supply the energy-hungry Chinese market, besides serving other Central Asian markets."[12]

Gulf Investments

In the last few years, there has been an upsurge in investments by the GCC countries in Pakistan. The principal large-scale investments were in the real estate, infrastructure development, steel, shipping and energy sectors. In addition, banking and financial sectors also saw positive developments in terms of Gulf investments in Pakistan and vice-versa.

The largest source of FDI in Pakistan for the year ending June 2006 was the UAE with investments worth $1.42 billion, followed by the US with $517 million, and Saudi Arabia with $278 million.[13] Financial analysts expect the investment base to broaden with the listing of Pakistani companies on the Abu Dhabi and Dubai bourses soon.[14]

The longstanding relationship between the GCC countries and Pakistan has established a comfort zone for cooperation. The privatization of Pakistan Telecommunication Company Limited (PTCL) is a case in point. Even though Etisalat missed the deadline to pay the first installment, they were given the opportunity to pay $1.14 billion upfront instead of $2.59 billion and restructure the remaining payment over five years.[15]

Investments in the energy sector have been influenced by the huge demand for power generation in Pakistan. The abundance of natural resources bundled with an underdeveloped power generation sector, in a rapidly growing economy, have been the key motivating factors for investment decisions.

Multi-billion dollar investment projects proposals with Qatar are under consideration. Pakistan seems to have widened its economic canvas to include the development of trading with the smaller GCC countries like Oman and Bahrain as well. Pakistan-Oman economic relations saw interesting developments in the financial, telecommunications and IT sectors.

A free trade agreement is also on the anvil between Pakistan and Bahrain. In addition, a memorandum of understanding (MoU) between the two countries for the export of manpower is in the pipeline.[16]

Saudi Investment

King Abdullah bin Abdulaziz's visit to Pakistan as part of his Asian tour in early 2006, followed by Crown Prince Sultan bin Abdulaziz bin Saud's visit, and the signing of several important economic agreements, hold significant political and economic implications for the two countries. These visits have generated increased economic development in Pakistan with major Saudi investments in steel and real estate sectors.

Saudi investment in the Pakistani steel sector began with the laying of the foundation stone for the $130-million Tuwairqi Steel Mill being built by Saudi Arabia-based Al-Tuwairqi Group of Companies with an expected

8 Ron Moreau, "Promise in Pakistan', Newsweek International, http://www.msnbc.msn.com/id/11902379/site/newsweek/?rf=nwnewsletter&print=1&displ
9 "45 million cell phone subscribers," Daily Times, 30 November 2006, http://www.dailytimes.com.pk/default.asp?page=2006%5C11%5C30%5Cstory_30-11-2006_pg7_2
10 "Global investors to gain broader access to Pakistan," Daily Times, 21 November 2006.
11 "Economic progress and the challenges," The News, 13 September 2006.
12 "Stonewalled by India, China looks to Pakistan," Daily Times Monitor (Pakistan), 27 November 2006.
13 Op. cit., The News, 12 September 2006.
14 Op. cit., Daily Times, 21 November 2006.
15 Arab News (Saudi Arabia), 30 May 2006
16 Dawn (Pakistan), 26 April 2006.

production capacity of between 1.5-3 million tons at Port Qasim.[17] The same company had also submitted a winning bid of $362 million for a 75 percent stake in Pakistan Steel Mills Corporation, the country's biggest and only integrated steel mill located at Karachi.[18] In the real estate sector, Prince Waleed bin Talal visited Pakistan and announced the construction of two major hotel projects.[19]

The privatization of Karachi Electric Supply Corporation (KESC) was led by a consortium headed by Al-Jomaih Holdings of Saudi Arabia that picked up a 73 percent stake. There are plans to invest an additional $500 million in KESC over the next five years.[20] Further, the Samba Financial Group acquired 68 percent of the Crescent Commercial Bank with an investment of $98 million.[21]

Kuwait

Major Kuwaiti investments include a $1.5-billion oil refinery project at Port Qasim, as well as infrastructure and real estate development projects in Karachi. Pakistan has also indicated to Kuwait that it would welcome more investments in building infrastructure projects at Gwadar port, including oil storage facilities and warehouses.[22]

UAE

The source of the largest share of FDIs and the second biggest source of remittances after the US is the UAE. Mega investments deals in the real estate, shipping, finance sectors materialized following a number of high-level visits by leaders of the two countries. The UAE feels Pakistan's current economic environment is ideal as it aims to diversify its investments abroad. A record amount was invested in the real estate sector by the UAE-based companies such as Emaar – $20.4 billion – and Dubai World, which announced a $10-billion investment plan.[23]

Emaar has also entered into a $43-billion joint project with the Port Qasim Authority for developing two-island projects at Bundal and Buddoo near Karachi over a 13-year period.[24]

The Pakistani government recently announced its decision to set up a $4-5 billion oil refinery at Khalifa point near Hub (Balochistan). The project that was initially meant to be put up for open bidding has now been given to a UAE-based company. The International Petroleum Investment Limited, directly owned by the Abu Dhabi government, and Pak-Arab Refinery Limited (a Pakistani government-owned company) would jointly set up this refinery, which is expected to be complete by end-2010.[25]

In the shipping industry, Dubai Ports World signed an agreement for a $211 million project that would create a second container terminal at Port Qasim. The company has already invested $100 million for constructing the terminal and is likely to make further investments of $70 million in dredging.[26] It is also expected that DP World is to finalize an investment of $1.6 billion to develop Gwadar Port.[27]

Other significant developments in the financial sector include the $100 million investment plan by Dubai Bank in Pakistan.[28] Besides, the Dubai Financial Market and the Central Depository Company of Pakistan signed a MoU to boost cooperation in capital markets of the two countries. Around 10 public Pakistani companies have already received approval for listing their shares in the UAE.[29]

Future Scenario

It is expected that Pakistan's close relations with the GCC countries will result in increased economic investments as long as the country can maintain its upward economic swing and exhibit stability in its policies.

17 Khaleej Times, 23 April 2006.
18 Khaleej Times, 1 April 2006.
19 Op. cit., Khaleej Times, 23 April 2006.
20 Op. cit., Khaleej Times, 23 April 2006. Also see, Saudi Gazette, 24 February 2006.
21 "Saudi group to acquire 68 pc shares of Cresbank," Dawn, 20 November 2006.
22 Arab News, 20 June 2006. Also see, Kuwait News Agency, 5 August 2006.
23 Khaleej Times, 1 June 2006.
24 Khaleej Times, 28 September 2006.
25 Dawn, 7 November 2006.
26 Khaleej Times, 19 August 2006.
27 Op. cit., Khaleej Times, 1 June 2006.
28 Arab News, 30 May 2006.
29 Khaleej Times, 21 September 2006.

The fact that the GCC countries are developing trade and energy ties with the Indian market has also led to an air of urgency in Pakistan for not only renewing existing ties but also for developing new ones in other neglected sectors. India's growing stature as a major regional power is something Pakistan cannot afford to ignore. Increased dialogue between the two countries includes discussions on transnational energy (oil/gas) pipelines from Iran, Central Asia or the GCC countries. Despite the long-standing historical animosities over Kashmir, it might be possible to achieve middle ground. This can only done by concerned third parties who can play the role of a catalyst in bridging the gap. In this case, the GCC countries can provide the crucial link in the chain by encouraging dialogue and opening channels of economic communication.

The future of FDI by the GCC countries is in the energy sector with the projected Pakistan-China oil pipeline. Plans on inter-connecting Gwadar with Port Qasim in Karachi and establishing a road and rail link to the Xinjiang province in China could double the capacity for trade. Gwadar is also being considered for a Trans Asia-European railway project, which starts from Malaysia and passes via India, Pakistan, Iran, Afghanistan, Central Asia Republics, and finally ends in Europe. This could be an opportunity for providing a quicker overland route for exporting Gulf oil to Far Eastern and Central Asian countries.

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Pakistan, however, needs to secure foreign investments, especially in Balochistan where a volatile situation exists. The government has stressed that the insurgency is restricted to areas that do not have foreign investment. In the event of a renewed or ongoing insurgency, this situation could have a negative impact on investor confidence. In case the GCC countries seek to be a part of the Gwadar-China energy oil pipeline and the proposed trade links, it would be imperative that this security risk is mitigated.

Other areas that the GCC countries could explore in terms of lucrative investments opportunities in Pakistan are the IT, agriculture and mining sectors. Pakistan has had a remarkable growth of tele-density and a rapidly growing IT sector. The current figures indicate that Pakistan has one of the fastest growing telecommunication sectors in the region. Pakistan had only two million connections three years ago, but the current estimates place this at 45 million. There is big scope for Gulf capital in this sector; and the English speaking IT specialists in Pakistan can provide excellent service and training to businesses in the GCC countries.

An example of Pakistan's untapped potential is the mining industry with its extensive coal reserves. Reserves of 200 billion tons of coal in Tharparkar in southern Pakistan could be used for power generation. Any capital investments in this sector could become a good source of returns.

Pakistan also offers immense opportunities in the agricultural sector, which is the mainstay of the country's economy, making up 22 percent of its GDP. Being abundantly endowed with water resources and fertile lands, Pakistan has not been able to fully explore its potential. A poorly organized farm sector and lack of agricultural technology is mainly responsible, which the Gulf countries can neutralize through investments.

In addition, there are also opportunities in the defense sector where joint production of aircraft, battle tanks and other weapons systems can be explored. Pakistan's defense collaboration with China has seen remarkable growth and impressive results. This collaboration has resulted in the indigenous manufacturing of the Al-Khalid tanks in Pakistan and these have already been procured by Saudi Arabia. There is also the possibility of further sales in the Gulf of the Super Mushshak aircraft, which is another product of Pakistan's defense collaboration with China. The GCC countries, by investing in the defense sector, could further strengthen military ties with Pakistan.

For all these to materialize, however, Pakistan needs to improve economic management and its marketing capabilities in the region. The vast potential the different sectors hold for global investors can only be realized if the government is able to maintain political stability and consistent economic policies.