

Notes & Comments

Private Foreign Investment in Pakistan

by

SHAHID AMJAD CHAUDHRY*

INTRODUCTION

Private foreign investment in Pakistan is regulated by the government's statement of industrial policy issued in 1959 which recognises, welcomes, and facilitates the inflow of private foreign investment in the country. In order to attract foreign investors, the government offers liberal incentives and concessions. In addition all profits are repatriable at the official rate of exchange.

An attempt has been made in this note to determine the size and nature of private foreign investment in relation to the rest of the economy and to examine the inflows of private investment and remittances of profits, dividends, *etc.*, made abroad.

II. SIZE OF PRIVATE FOREIGN INVESTMENT IN PAKISTAN

It is only possible to have a rough idea of the total size of private foreign investment in Pakistan. The State Bank of Pakistan has estimated Pakistan's net indebtedness to foreigners (private sector). These comprise the total foreign liabilities of firms and companies registered or incorporated outside Pakistan, Pakistani Joint Stock Companies having foreign participation, partnerships having foreign participation, net holdings of foreign securities by Pakistani nationals, Pakistani firms and companies operating abroad, and deferred payments. The State Bank of Pakistan estimates are based on a survey which is carried out annually and the results of which are published in *Foreign Liabilities and Assets and Private Foreign Investments in Pakistan* [6]. These estimates of private-sector indebtedness to foreigners amounted to 2,977 million rupees in 1967 as compared to 1,747 million rupees in 1960.

*The author has, until recently, been an Assistant Chief in the Planning Commission of Pakistan.

PAKISTAN'S PRIVATE SECTOR INDEBTEDNESS TO FOREIGNERS

1960	1962	1963	1964	1965	1966	1967
(..... million rupees.....)						
1,746.8	1,982.9	2,319.8	2,468.9	2,610.5	2,621.3	2,976.6

1968

3,186

Source: State Bank of Pakistan.

We have tried to estimate the percentage of corporate business that is controlled either directly or indirectly by foreigners. The analysis is necessarily crude because no firm estimates are available of corporate sector's aggregate capital stock in Pakistan. However, rough estimates have been made in Tables I and II of total equity capital as well as total capital employed in the corporate sector in Pakistan to calculate the proportion owned by foreigners. These indicate that the proportion of total corporate business owned by the foreigners in Pakistan has rapidly declined from about 30 per cent in 1962 to about 15 per cent in 1967. We should, however, add that the actual decline has perhaps been less rapid. This is because our estimate of total capital for Pakistan is a multiple of that for Karachi while in fact growth of capital may have been less rapid outside Karachi in recent years.

III. INFLOW OF PRIVATE FOREIGN INVESTMENT

Estimates of the *inflow* of private foreign investment are compiled by two agencies — the State Bank of Pakistan and the Department of Investment Promotion and Supplies. Since the Department of Investment Promotion and Supplies gives only the figures for sanction, the State Bank of Pakistan is the only source of information on the actual yearly inflow of private foreign investment.

In the State Bank of Pakistan estimates, foreign private investment has three main constituents: *i*) cash brought in; *ii*) capital equipment brought in; and *iii*) reinvested earnings. Reinvested earnings are considered as direct private investment since the amounts are fully repatriable. These show that private foreign investment has averaged about 80 million rupees per annum. It amounted to 90.4 million rupees in 1968 (Table III). These estimates are compiled on a calendar-year basis.

IV. SECTORAL INVESTMENT

The experience of the last eight years has been that manufacturing has been the most attractive field of investment for foreign investors. This is borne out by analysis of indebtedness figures (Table V) where its share rose to 40 per cent of the total in 1967 as compared to 29 per cent in 1960. The inflows of

private foreign investment in manufacturing during this period amounted to 288 million rupees. Investments in commerce and mining and quarrying have been substantial. In agriculture, all the foreign investment has been in the form of reinvested earnings. In utilities where sizeable foreign investments exist, there has been no new foreign investment since 1960 (Table IV).

Regarding the countrywise distribution of investment, the United Kingdom continued to have the largest share of foreign investment (Table VI). However, its position has declined markedly and its percentage share of total private foreign investments held in Pakistan fell from about 50 per cent in 1960 to about 36 per cent in 1967. The United States of America increased its investment considerably and doubled its share during this period to 17 per cent of the total.

V. REMITTANCES BY FOREIGN INVESTORS

Total remittances (profits, dividends, royalties, trade marks and technical fees) made through the State Bank of Pakistan by private foreign investors have averaged about 135 million rupees a year from 1964/65 to 1967/68. Remittances of profits and dividends alone (excluding payments for royalties, trade marks and technical fees) amount to 83 million rupees per year (Table VII). This compares with an average inflow of foreign private investment of 85 million rupees per annum over this period. The proportions of inflows to outflows are revealing (Table VIII). Total remittances are about 150 per cent of total inflows. Remittances of profits and dividends alone are about 94 per cent of total inflows. Actual inflow of foreign exchange for investment (*i.e.*, excluding reinvested earnings) is smaller than outward remittances.

For 1967 total remittances constituted 9.4 per cent of foreign-owned equity capital, 7.5 per cent of foreign-owned capital employed, and 5 per cent of Pakistan's net indebtedness to foreigners (private sector). Remitted profits and dividends alone (excluding royalties, technical fees, *etc.*) constitute a correspondingly smaller proportion. If, however, one adds to these the reinvested part of profit, the total rate of return would turn out to be a quite respectable figure. In comparing such rates with the rates of profit of domestically owned industries, one has to further remember that the repatriated profit, evaluated at the social scarcity price of foreign exchange, would indicate a much higher rate of return on private foreign investment.

REFERENCES

1. Haq, Khadija and M. Baqai, "Savings and Financial Flows in the Corporate Sector", *Pakistan Development Review*, Vol. VII, No. 3, Autumn 1967.

2. *Pakistan, Statement of Industrialization Policy, 1959.* (Karachi: Manager of Publications).
3. *Balance of Payments*, issued quarterly by the State Bank of Pakistan, relevant issues.
4. *Balance Sheet Analysis of Companies Quoted on the Karachi Stock Exchange*, issued by the State Bank of Pakistan.
5. *Foreign Assets and Liabilities*, issued by the State Bank of Pakistan.
6. *Foreign Liabilities and Assets and Private Foreign Investments in Pakistan*, issued by the State Bank of Pakistan.

TABLE I
FOREIGN OWNERSHIP OF EQUITY CAPITAL

	1962	1963	1964	1965	1966	1967
	(.....million rupees.....)					
1. Shareholders equity of firms quoted on the Karachi Stock Exchange	1,730	2,040	2,540	3,000	3,240	3,499*
2. Total shareholders equity of firms incorporated in Pakistan	5,190	6,120	7,620	9,000	9,720	10,497
3. Holdings in Pakistan by firms and companies registered abroad (indebtedness)	1,026	897	950	837	794	753
4. Equity of Pakistani Joint Stock Companies owned by foreigners	517	609	677	748	794	849
5. Total equity owned by foreigners in Pakistan (Row 3+Row 4)	1,543	1,506	1,627	1,585	1,588	1,602
	(.....per cent.....)					
6. Row 3 as per cent of Row 2	20	15	13	9	8	7
7. Row 4 as per cent of Row 2	10	10	9	8	8	8
8. Row 5 as per cent of Row 2	30	25	22	17	16	15

*A growth of 8 per cent has been assumed for 1967 over 1966.

Sources: (I) [4, for 1968]

(II) A blow-up factor of '3' has been employed on item I — as suggested by Haq and Baqai [1]

(III, IV) [5, relevant issues].

TABLE II
FOREIGN OWNERSHIP OF TOTAL CAPITAL EMPLOYED

	1962	1963	1964	1965	1966	1967
	(.....million rupees.....)					
1. Total capital employed by firms listed on the Karachi Stock Exchange	2,120	2,610	3,540	4,230	4,830	5,216*
2. Total capital employed by all firms incorporated in Pakistan	6,360	7,830	10,620	12,690	14,490	15,648
3. Total capital—firms registered abroad operating in Pakistan (indebtedness)	1,026	897	950	837	794	753
4. Total foreign liabilities of Pakistani companies	874	1,133	1,312	1,597	1,652	1,996
5. Total capital owned by foreigners	1,900	2,030	2,262	2,434	2,446	2,749
	(.....per cent.....)					
6. Row 5 as per cent of Row 2	30	26	21	19	17	17.5

*A growth of 8 per cent has been assumed for 1967 over 1966.

Sources: (I) [4, for 1968]

(II) A blow-up factor of '3' has been employed on item I — as suggested by Haq and Baqai [1].

(III, IV) [5, relevant issues].

TABLE III
FOREIGN PRIVATE INVESTMENT — INFLOWS

	1960	1961	1962	1963	1964	1965	1966	1967	1968
	(.....million rupees.....)								
A. Cash brought in	17.3	23.3	8.8	15.4	25.5	10.1	5.8	8.4	6.7.
B. Capital equipment brought in	20.7	23.7	25.6	42.4	71.5	50.3	22.0	45.2	51.0
C. Direct private foreign investment (Row A + Row B)	38	47	34.4	57.8	97.0	60.4	27.8	53.6	57.7
D. Reinvested earnings	38.7	43.6	32.4	31.2	36.7	26.3	24.5	15.6	32.7
Total foreign investment (Row C + Row D)	76.7	90.6	66.8	89.0	133.7	86.7	52.3	69.2	90.4

Source: [6, relevant issues].

TABLE II
FOREIGN OWNERSHIP OF TOTAL CAPITAL EMPLOYED

	1962	1963	1964	1965	1966	1967
(.....million rupees.....)						
1. Total capital employed by firms listed on the Karachi Stock Exchange	2,120	2,610	3,540	4,230	4,830	5,216*
2. Total capital employed by all firms incorporated in Pakistan	6,360	7,830	10,620	12,690	14,490	15,648
3. Total capital—firms registered abroad operating in Pakistan (indebtedness)	1,026	897	950	837	794	753
4. Total foreign liabilities of Pakistani companies	874	1,133	1,312	1,597	1,652	1,996
5. Total capital owned by foreigners	1,900	2,030	2,262	2,434	2,446	2,749
(.....per cent.....)						
6. Row 5 as per cent of Row 2	30	26	21	19	17	17.5

*A growth of 8 per cent has been assumed for 1967 over 1966.

Sources: (I) [4, for 1968]

(II) A blow-up factor of '3' has been employed on item I — as suggested by Haq and Baqai [1].

(III, IV) [5, relevant issues].

TABLE III
FOREIGN PRIVATE INVESTMENT — INFLOWS

	1960	1961	1962	1963	1964	1965	1966	1967	1968
	(.....million rupees.....)								
A. Cash brought in	17.3	23.3	8.8	15.4	25.5	10.1	5.8	8.4	6.7.
B. Capital equipment brought in	20.7	23.7	25.6	42.4	71.5	50.3	22.0	45.2	51.0
C. Direct private foreign investment (Row A + Row B)	38	47	34.4	57.8	97.0	60.4	27.8	53.6	57.7
D. Reinvested earnings	38.7	43.6	32.4	31.2	36.7	26.3	24.5	15.6	32.7
Total foreign investment (Row C + Row D)	76.7	90.6	66.8	89.0	133.7	86.7	52.3	69.2	90.4

Source: [6, relevant issues].

TABLE IV
FOREIGN PRIVATE INVESTMENT — INFLOWS

	1960	1961	1962	1963	1964	1965	1966	1967
	(.....million rupees.....)							
Manufacturing	26.8	39.5	38.0	38.6	44.1	31.6	28.6	41.5
Commerce	21.5	13.8	17.8	21.6	22.4	7.3	14.7	5.9
Mining and quarrying	23.2	17.7	7.7	12.0	13.0	5.5	5.0	8.0
Agriculture	1	-0.1	3.5	9.9	4.6	11.9	4.9	1.0
Utilities	—	-0.2	-0.1	-0.1	-0.1	0.1	-0.1	—

Source: State Bank of Pakistan.

TABLE V-a
INDEBTEDNESS BY ECONOMIC GROUPS

Economic group	1960	1962	1963	1964	1965	1966	1967
	(.....million rupees.....)						
a) Manufacturing	506.2	622.4	884.2	941.3	980.9	977.2	1,179.8
b) Commerce	553.6	615.7	588.1	639.3	625.8	646.9	730.0
c) Mining and quarrying	240.4	288.7	272.8	277.5	286.9	289.7	297.5
d) Utilities	162.1	170.8	194.3	218.9	283.5	248.9	249.5
e) Agriculture, forestry, hunting and fishing	165.3	183.6	208.9	210.5	204.7	219.4	215.7
f) Others	119.2	101.7	171.5	181.4	228.7	239.3	204.1
Total:	1,746.8	1,982.9	2,319.8	2,468.9	2,610.5	2,621.4	2,876.6

Source: State Bank of Pakistan.

TABLE V-b
INDEBTEDNESS BY ECONOMIC GROUPS

Economic group	1960	1962	1963	1964	1965	1966	1967
	(.....per cent.....)						
a) Manufacturing	29	31	38	38	38	37	40
b) Commerce	32	31	25	26	24	25	26
c) Mining and quarrying	14	15	12	11	11	11	10
d) Utilities	9	9	8	9	11	10	8
e) Agriculture, forestry, hunting and fishing	9	9	9	9	8	8	7
f) Others	7	5	8	7	8	9	9
Total:	100	100	100	100	100	100	100

Source: State Bank of Pakistan.

TABLE VI-a
INDEBTEDNESS BY COUNTRIES

Country	1960	1962	1963	1964	1965	1966	1967
(..... million rupees.....)							
United Kingdom	873.4	934.5	961.2	950.8	1,003.9	1,023.6	1,062.4
United States of America	152.1	266.6	264.9	318.8	361.8	392.5	519.2
Others	721.3	781.8	1,093.7	1,199.3	1,244.8	1,205.2	1,395.0
Total:	1,746.8	1,982.9	2,319.8	2,468.9	2,610.5	2,621.3	2,976.6

Source: State Bank of Pakistan.

TABLE VI-b
INDEBTEDNESS BY COUNTRIES

Country	1960	1962	1963	1964	1965	1966	1967
(..... per cent.....)							
United Kingdom	50	47	41	39	38	39	36
United States of America	9	14	11	13	14	15	17
Others	41	39	48	48	48	47	47
Total:	100	100	100	100	100	100	100

Source: State Bank of Pakistan.

TABLE VII
REMITTANCES MADE BY PRIVATE FOREIGN INVESTORS

Head	1964/65	1965/66	1966/67	1967/68	1968/69 (provisional)
	(.....million rupees.....)				
Profits	35.3	24.8	40.4	49.0	41.8
Dividends	30.7	32.5	48.6	56.5	53.4
Royalties + trade marks	7.4	9.0	16.3	10.5	7.6
Technical fees	64.6	32.7	33.3	36.2	44.2
Total:	138.0	99.0	138.6	152.2	147.2

Source: Department of Investment Promotion and
Supplies and State Bank of Pakistan.

TABLE VIII
PRIVATE FOREIGN INVESTMENT — INFLOWS AND REMITTANCES

	1964/65	1965/66	1966/67	1967/68
	(.....million rupees.....)			
1. Total foreign private investment (includes reinvested earnings)	77.3	87.2	91.9	84.0
2. Total remittances (profits, dividends, royalties, trade marks, and technical fees)	138.0	99.0	138.6	152.2
3. Remitted profits and dividends	66.0	57.3	89.0	105.5
	(.....per cent.....)			
Row 2 as per cent of Row 1	179	114	151	181
Row 3 as per cent of Row 1	85	66	97	126

Source: Department of Investment Promotion
and Supplies and the State Bank of
Pakistan.