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PM describes LNG as 'only solution'

KARACHI: Prime Minister Shahid Khaqan Abbasi inaugurated Liquefied Natural Gas (LNG) terminal at the Port Qasim, here on Sunday.

It was Pakistan's first LNG terminal established by the Engro Terminal Limited within record 330 days and with a capacity to re-gasify up to 600 mmscfd.

"Our government brought this inexpensive source of energy to the country in record time, Abbasi said speaking at the ceremony, adding that the previous three governments made several attempts to introduce LNG source of energy but failed.

He said that within eleven months since the contract was signed, the terminal began functioning which was an example of cooperation between the government and the private sector.

The prime minister said other source of energy such as oil, hydel and nuclear were considered as expensive means as the country required an integrated and efficient source to overcome its crippling energy needs.

"The bids for the whole process were completely transparent and world acknowledged government's efforts in this regard," he said, adding that the world was thinking that the project would take several years but the government succeeded by introducing the LNG-based energy.

The prime minister said the completion of terminals was necessary for supply of energy and thanked the concerned authorities for making the task possible.

He said that no terminal in the world had been completed in the shortest time with full re-gasification facility. He said the terminal has so far handled 100 LNG cargo ships with 6.1 million tons of LNG.

"It will benefit power, fertilizer, textile and other industries from huge supplies of regasified Liquefied Natural Gas (RLNG), he said, adding that with capacity to inject 600 mmscfd RLNG in the system, Engro terminal emerged as the single largest gas source in Pakistan.

He said that with the supply of RLNG, the country was saving about $1.5 billion each year as compared to other expensive energy resources such as diesel or furnace oil.

The prime minister said with supply of RNLNG, the CNG sector had been revived with ample supply of power for the fertilizer industry. He said the second terminal would begin functioning in November this year followed by at least two other terminals in the private sector. He said that it was a good step for the private sector to participate and build their own terminals keeping in view the largest demand and market.

Expressing his confidence, the prime minister said Pakistan energy issues would be resolved soon and termed the inauguration of the terminal a great success in the right direction.

Abbasi said that it was Pakistan-led and owned project for energy solution which was made possible within shortest time when compared with other countries of the region including Bangladesh.

Later, speaking at another briefing ceremony of PGP's LNG project terminal, Abbasi said that it would be inaugurated in November this year.

He said the government was fixing the power crises of the country and soon the load-shedding would be a thing of the past. He said it was all possible due to the huge contribution by LNG sector and referred to Engro terminal with re-gasify capacity of 600mmscf and 100 per cent capacity by utilizing 4.5 million tons of LNG.

The prime minister expressed his confidence that in 2018, the terminals in the country would be able to begin utilizing 9 million tons of LNG for the next five year.

He said it was all possible due to synergy of these

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terminals, great efficiency and the cheapest lowest gas term contract in the world. The prime minister said the LNG market was much larger and competition was hard so it was a ‘win-win situation’ for the private sector, government and the people.

“The private sector would be bringing in their own LNG, regasifying it and delivering it to customers through third party access regime which had already been put in place,” he said, adding that there would be a system in which customers would be free to opt for purchase of LNG on their own.

The prime minister said the government would stay out of buying LNG and building terminals as it would be done by the private sector. He said that the government would step in only when the private sector failed to meet the demand. He said the LNG community in the world had already appreciated government’s efforts in this regard.

He said that the government’s vision was to deliver LNG in any quantity to any customer in any part of the country and eyeing complete replacement of furnace-based energy plants in 2019. He termed LNG import a game changer for

Pakistan as the fifty per cent primary supply for energy was being made from gas.

“Nawaz Sharif had decided not to go for groundbreaking of the projects but for completion of projects,” he said citing the long-awaited completion of Lowari Tunnel.

Abbasi further said that the PML-N government was for completion of projects despite the political upheavals. He said the second LNG project was an equity based project with no debt on the project, reflecting confidence of the investors.

He said that the government did not invest a penny in these projects and it by the private parties. He said the government had only leveraged their demands and ensured transparent bids. He said that the investing companies would not get a penny unless they began delivering gas.

“The asset value for the second LNG project must be over $300 million and that too for the fifteen years as projects spoke for themselves,” he said.—APP

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Qatar Navigation launches Pakistan service

DUBAI: Major Qatari shipping conglomerate Qatar Navigation (Milaha) is launching a direct service between Qatar and Karachi in Pakistan, the company said on Sunday, as it seeks to counter economic sanctions against Doha by other Arab States.

Saudi Arabia, the United Arab Emirates, Bahrain and Egypt severed diplomatic and transport links with Doha on June 5, ending the use of Dubai's Jebel Ali port as a trans-shipment centre for goods flowing to and from Qatar.

As a result, imports into Qatar plunged by more than a third from year-earlier levels in June and July, forcing Doha to establish new shipping links and develop other trans-shipment centres in Oman and on the Indian subcontinent.

The new Pakistan service, focusing mainly on perishable products and food, will operate weekly between Qatar's Hamad Port and Karachi with a transit time of four days, making it the fastest direct connection between the countries, Milaha said.

The company said it would also next month start a service linking the Qatari ports of Mesaieed and Hamad with Karachi and the Indian port of Mundra. Last week, it launched a direct Qatar-Turkey service and earlier in August, a container service to Kuwait.—Reuters

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THE RUPEE
Weak trend

RECORDER REVIEW

KARACHI: The rupee somehow, managed to minimise losses against the dollar on the money market, during the week, ended on Aug 26, 2017.

The rupee lost 30 paisas in terms of the dollar for buying and selling at Rs 106.60 and Rs 106.80. The rupee also slid versus the euro, shedding Rs 1.25 for buying and selling at Rs 125.60 an0 Rs 127.00.

The rupee has failed to maintain it's levels versus the dollar due to increase in demand from investors, money experts said.

But, it is most likely that the rupee may sustain it's present levels in the near future, they added. They observed that political and economic instability likely to push the rates of dollar up in the coming days.

OPEN MARKET RATES: On Monday, the rupee posted fresh gain of 20 paisas in relation to the dollar for buying and selling at Rs 106.30 and Rs 106.50, they said. The rupee, however, held the weekend levels in terms of the euro for buying and selling at Rs 124.00 and Rs 125.00.

On Tuesday, the rupee stayed put in relation to the dollar for buying and selling at Rs 106.30 and Rs 106.50. The rupee was also unchanged in terms of the euro for buying and selling at Rs 124.00 and Rs 125.00.

On Wednesday, the rupee was unchanged in relation to the dollar for buying and selling at Rs 106.30 and Rs 106.50. The rupee lost 25 paisas in terms of the euro for buying and selling at Rs 124.25 and Rs 125.50. On Thursday, the rupee shed 10 paisas in relation to the dollar for buying and selling at Rs 106.40 and Rs 106.60. The rupee continued fall in terms of the euro, losing Rs 1.35 for buying and selling at Rs 125.60 and Rs 126.60.

On Saturday, the rupee stayed out in relation to the dollar for buying and selling at Rs 106.60 and Rs 106.80. The rupee extended overnight slide versus the euro, losing 60 paisas for buying and selling at Rs 125.60 an0 Rs 127.00.

INTER-BANK MARKET RATE: The rupee moved slightly in terms of the dollar but closed at present levels for buying and selling at Rs 105.38 and Rs 105.40.

OVERSEAS OUTLOOK: In the first Asian trade, the dollar steadied, edging away from four-month lows against the yen plumbed in the previous session as investors turned their focus from political turmoil in Washington to the Federal Reserve's annual central banking conference in Wyoming.

The dollar was flat on the day at 109.22 yen, after slipping to as low as 108.605 yen on Friday on concerns over President Donald Trump's ability to push through tax reform and stimulus measures.

It largely shrugged off the University of Michigan's consumer sentiment index, which improved to its strongest in seven months, reflecting confidence in the outlook for the economy and in personal finances as the US stock market holds near record highs.

The dollar was trading against the Indian rupee at Rs 64.050, the greenback was at 4.286 in terms of the Malaysian ringgit and the US currency was at 6.673 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Monday: 80.70-80.70 (previous 80.70-80.70).

In the second Asian trade, the dollar inched higher against a basket of currencies, with traders focusing on the annual central banking conference in Jackson Hole this week for insights into the outlook for monetary policy.

The dollar index, which measures the greenback's value against a basket of six major currencies, edged up 0.1 percent to 93.169.

Wyoming.

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The dollar was trading against the Indian rupee at Rs 64.120, the greenback was available at 4.280 and the US currency was at 6.658 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Tuesday: 80.70-80.70 (previous 80.70-80.70).

In the third Asian trade, the dollar edged down against the yen after US President Donald Trump raised the spectre of a government shutdown to fulfil a campaign pledge, but overall moves among major currencies were limited ahead of this week's Jackson Hole global central bankers' conference.

The dollar was last off slightly on the day at 109.53 yen after touching a low of 109.37, down from around 109.67 before Trump's statement and below an earlier session high of 109.83 yen.

The dollar was trading against the Indian rupee at Rs 64.130, the greenback was at 4.280 in terms of the Malaysian ringgit and the US currency was at 6.662 in relation the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Wednesday: 80.70-80.70 (previous 80.70-80.70).

In the fourth Asian trade, the dollar edged higher against the yen, paring some of the losses it suffered after US President Donald Trump suggested a shutdown of the government was possible and threatened to terminate the North American Free Trade Agreement.

Trump warned late on Tuesday he might end the NAFTA trade treaty with Mexico and Canada after three-way talks failed to bridge deep differences. He also said he may shut the government if he does not get funding to build a wall on the US-Mexico border.

His remarks, made ahead of a debate in Congress over a spending package and raising the debt ceiling, knocked the dollar lower on Wednesday.

The dollar was available at Rs 64.050 in terms of the Indian rupee, the greenback was at 4.277 versus the Malaysian ringgit and the US currency was at 6.661 against the Chinese yuan.

In the final Asian trade, the dollar was buoyant against the yen as some participants bought back the currency to square positions ahead of a meeting of central bankers in Jackson Hole, Wyoming.

While Federal Reserve Chair Janet Yellen and European Central Bank President Mario Draghi are expected to stay on script in speeches later in the day, investors are hungry for any clues on further US rate rises, the timing of its balance sheet tapering and whether Europe is still looking to rein in stimulus.

Yellen is due to give a speech at 1400 GMT and Draghi will speak at 1900 GMT. The US currency was a shade firmer at 109.640 yen after gaining 0.5 percent overnight.

The dollar was trading against the Indian rupee at Rs 64.030, the greenback was at 4.276 in terms of the Malaysian ringgit and the US currency was at 6.663 in relation to the Chinese yuan

At the weekend, the dollar fell to a three-week low against the euro and a one-week trough versus the yen on Friday after Federal Reserve Chair Janet Yellen made no reference to US monetary policy in her speech at the annual central bank research conference in Jackson Hole, Wyoming.

Investors were not expecting Yellen to make a policy statement anyway, but some market participants were hoping for some signal on the Fed's planned balance sheet reduction, if not on the outlook for US interest rate hikes.

"At this point, there isn't too much for Yellen to add," said currency strategist Sireen Haraji of Mizuho Corporate Bank in New York.

"The FOMC (Federal Open Market Committee) has been very clear in terms of communicating their intention to continue tightening policy very gradually, and I don't think they see anything to change that view."

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Another amnesty scheme?

In a meeting with Prime Minister Shahid Khaqan Abbasi, the Pakistan Business Council (PBC) is reported to have again floated the proposal to offer an amnesty scheme to resident and non-resident Pakistanis with a view to encouraging them to bring back their foreign wealth to the country. According to the PBC – the representative body of leading business groups, this move could attract dollar 20 billion out of the dollar 150 billion said to be held by resident and non-resident Pakistanis abroad. The inflow of such a huge amount would support the fast declining foreign exchange reserves. The PBC also expressed the opinion that there was now little time left to enhance foreign exchange reserves through other means and encouraging Pakistanis to bring back their funds could be one of the few quick ways to replenish reserves, especially when there are now external and domestic pressures to deter the holdings of undeclared assets abroad. However, the Prime Minister is reported to have expressed his reservations because of the political implications of a tax amnesty. Another issue was the tax rate to be charged from those who opt for the amnesty to legalise their hidden assets. The delegation of the PBC also suggested the government to offer its three LNG power plants, one owned by the Punjab government, to non-resident Pakistanis for investment.

It may be mentioned that this is not the first time that such an amnesty scheme is suggested by the business community to the government to whiten the tainted and tax-evaded money held by them abroad. The reasons often advanced to support such a scheme include higher level of investment, increased output and rise in taxes, exports, etc., after the money kept abroad was brought back to the country and deployed for productive purposes. Another compelling reason this time is the growing current account deficit of the country which has forced the authorities to look for unconventional ways to replenish foreign exchange reserves of the country which have dwindled to uncomfortable levels. C/A deficit during FY17 was over dollar 12.0 billion and the external sector was under greater stress this year as the current account deficit widened to dollar 2.1 billion during July, 2017 as compared to dollar 662 million in the corresponding period of last year. On the fiscal front, both the budget deficit and total debt of the country are rising and there is a high reliance on short-term debt and foreign exchange borrowings to meet the budget deficit. However, it may be added that, contrary to the assertions of the PBC, there is great uncertainty about the amount of assets held abroad by Pakistanis as well as the total amount of foreign exchange likely to flow to the country to avail the tax amnesty scheme. In the past, such amnesty schemes failed to yield the desired results due to the anticipation of a more liberal scheme in future and weak enforcement by the Federal Board of Revenue. As for the amount stashed abroad, the estimates differ widely depending on the source of information and the purpose for which the figure is likely to be used. However, it needs to be realized that no firm estimates or reliable calculation could be made about such funds which are supposed to be hidden and largely untraceable. According to AF Ferguson, Pakistanis have parked about dollar 150 billion worth of assets abroad. Of this, dollar 40 billion is parked in real estate, dollar 40 billion in bank accounts, dollar 20 billion in shares and dollar 50 billion in the shape of other assets. Out of this amount, “dollar 3 billion to dollar 4.5 billion” can be repatriated to Pakistan if an amnesty scheme is introduced. This estimate is far less than dollar 20 billion quoted by the PBC. It may be noted that the business executives had also forwarded the same proposal to former Prime Minister Nawaz Sharif who had constituted a committee of all stakeholders to finalise the scheme. We are of the view that all pros and cons of the scheme need to be thoroughly examined this time before implementing

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such a proposal due to the generally poor experience of launching such schemes in the past. Such a scheme is not likely to succeed if the Pakistanis parking their money abroad think that no government will be able to trace these hidden funds.

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Does Pakistan have a rising urban population?

Analyses & Comments by BR Research

If the latest census figures are any guide, the answer to that question is a resounding 'no', because a big majority of Pakistanis (about 64%) still live in the rural areas. According to provisional results of 6th population census, the share of urban population in Pakistan rose less than 4 percentage points between 1998 and 2017. Urban population is now counted at 36.4 percent of the total down from an estimated 40.5 percent quoted in the Economic Survey 2017. So much for the story of rising urbanization and the ensuing consumer appetite that the country's economic managers sell at investment road shows abroad!

This problem, as this column flagged previously, is not surprising, the roots of which lie in definitions (See BR Research column "The great count" published March 15, 2017). The PBS uses the administrative definition of the urban areas as defined under law by the provincial/local governments. In contrast, most economists agree that urbanity has to be defined by the "urban characteristics" of an area such as common utilities, roads, sanitation, schools, centers for trade and commerce and health, with a substantially non-agricultural population and high literacy rate.

The definition for urban followed by the PBS in 2017, as was the case in 1998, is one where a municipal corporation, a town committee or a cantonment board are administratively classified as urban. The adoption of this crude definition for the purpose of census is a step back from 1951 and 1961 census when certain areas of 'urban characteristics' were duly classified as urban.

Nineteen years since the last census there is no doubt that urbanisation in the context of 'urban characteristics' has grown phenomenally in the country. In his defence, Asif Bajwa, the Chief Census Commissioner told BR Research that it not his job to get the definition right.

"It is not my mandate to declare which area is rural or urban. According to the law, it is the mandate of the provincial and local governments to identify which area is urban and which is rural. As a person in charge of census, I can only use official classifications of urban and rural as reported by provincial and local governments," he told BR Research in an interview published March 17, 2017.

But that seems to be a weak defence on account of Bajwa, and also his former boss Ishaq Dar, who had also held the portfolio for statistics until a few months ago. Being at the centre, Dar could have at least flagged the matter enough at the CCI to sort out the definition issue. The failure to do so is a bad move on the part of those who boast a "business friendly" government.

Imagine Dar or his colleagues from the Board of Investment or some leading business delegation from Pakistan makes an elevator pitch at a conference that 'Pakistan has a ballooning urban population'. Now imagine someone raising a hand from the audience saying 'ummm, you got that wrong mister, 64 percent your people live in the countryside".

Ergo, the investor community would do well to pick up on this issue, whereas the federal government should call in a CCI moot and work out their urban-rural definitions.

As for the overall census figure, at 207 million, the 2017 census has beaten previous estimates for country's total population. The highest estimate for 2017 was by National Institute of Population Sciences that had forecast a population of 200 million; Economic Survey 2017 had the figure of 199 million whereas UN's population division's 2017 forecast for Pakistan were 196.7 million.

Academic critics from an array of institutions say that even at 207 million the total population has been

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underestimated. This column is not privy to detailed census datasets, and would avoid commenting on the credibility of the total count, though a countrywide count of barely 10000 transgender people does raise credibility concerns over the 2017 count. Anyway, the population growth rate of 2.40 percent begs two questions.

First, what was the basis on which Economic Survey was consistently reporting a decline in population growth rates; just in the last three surveys, the growth rate had tapered off from 1.92 in 2015 to 1.86 in 2017, whereas the current growth rate is even higher than 2.17 percent growth reported at the time of 1998 census. Second, how is it that most bilateral and multilateral funded programmes and their local development partners in Pakistan have been congratulating each other for falling fertility rates, when in fact the growth rate suggests otherwise.

The development community's contraceptive lobby that is bent on selling contraceptive as the panacea of sorts would do well to realize that contraception isn't the answer. What are needed instead are campaigns to change preferences to drive fertility lower, instead of making most bets on contraceptives. Keep in mind that some key people from the census monitoring team are from the 'contraceptive lobby' who have been working on projects that have claimed success in reducing fertility rates.

Karachi factor

While Karachi's population figures haven't been made officially public as yet, two different media reports suggest an unusually low numbers of 14.91 million and 16 million, whereas Lahore's population has been reported at 11.1 million.

Considering that Lahore's population was 5.1 million and Karachi's was 9.3 million in 1998, how could be possible both Karachi and Lahore attracted nearly same number (~5 million) of people between 1998 and 2017. Anyone who knows Karachi will be baffled by these numbers.

Another way to look at Karachi's population is its share in total urban population. Is it not strange that Karachi's population as share of the country's total urban population has fallen or remained unchanged depending on which media report is to be believed?

Level of urbanization

Province	**Urban share**	**1998 urban**	**Urban share**
as per 1998	share as per	as per 2017 census	G.M Arif's census estimates
KP	16.9	25.4	18.77
Punjab	31.3	34.5	36.71
Sindh	48.9	51.6	52.02
Balochistan	23.3	26.7	27.55
Pakistan	32.5	36.2	36.38

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LNG terminal will help to resolve energy crisis: FPCCI

ISLAMABAD: The Executive Committee of the Federation of Pakistan Chambers of Commerce & Industry (FPCCI) Member and Former Vice President FPCCI, Fehmida Jamali said inauguration of LNG Terminal at Port Qasim will help to resolve energy crises to masses which could also transform the industrial economy.

In a statement issues on today, Fehmida said “we are moving towards the energy resolve which was vital for our growth”

“This was an unthinkable scenario just a few years ago as despite the LNG policy being enacted in 2006 there had been no practical move to develop the LNG ecosystem,” Jamali said. Pakistan is saving around 1.7 billion dollars each year due to fuel arbitrage savings between diesel and LNG alone

She also said with the supply of LNG, more than 2300 megawatts power generation capacity has been brought online or switched from more expensive liquid fuels. RLNG also energized close to a dozen projects, generating billions of dollar economic activity in the country.

Similarly revival of fertilizer industry is also made possible with a substantial increase in production. This contributed significant savings to national exchequer and had direct contribution to GDP.

She also said that import of LNG and construction of more terminals is the beginning of regular gas supplies which will reduce the gap between supply and demand of the energy, triggering economic growth. This was a great step which is transforming national energy landscape by starting to balance energy mix which is very heavily tilted towards oil, he added.

Fehmida Jamali further mentioned that the local industry is pinning high hopes on the government to tame energy crisis in order to trigger growth. She urged the government for exploring the construction of gas pipelines through the private sector, expedite work on the south- north pipeline, and expedite development of the new terminals.—PR

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MMK weaving cluster

SMEDA helps mobilize Rs457.75m investment

RECORDER REPORT

PESHAWAR: The continuous support and facilitation extended by Small and Medium Enterprises Development Authority (SMEDA) to the weaving cluster of Matta Mughal Khel (MMK), Charsadda has resulted in the mobilization of an investment of Rs 457.75 million and creation of 3640 direct jobs and a total of 8,650 indirect jobs, said an Impact Assessment Study on the cluster.

SMEDA is working for the development of SMEs across Pakistan providing array of services including cluster development being the major program area. SMEDA KP has invested significant efforts and resources towards economic uplift and growth of various business clusters in Khyber Pakhtunkhwa. In result of such efforts, these clusters has grown into well-established cottage industries comprised of hundreds of enterprises, providing income generation and employment opportunities to a vast majority of locals.

Matta Mughal Khel is located in tehsil Shabqadar of district Charsadda, at a distance of about 30 kilometres from Peshawar. MMK is known for its traditional woven fabric, shawls and Chitrali Patti. The weaving skill was introduced in this area by people who migrated from Bajaur Agency and Malakand Division. In early phases of the cluster all the products were produced by handlooms. However, with the passage of time and increasing demand for the products, power looms were introduced. Presently, most of the weaving units are comprised of power looms and few are still using hand looms.

Currently, over hundreds of weaving units are operational at the cluster along with multiple support businesses such as washing, dying and pressing units, raw material supply and retail outlets. Collectively, these business enterprises are providing livelihood and job opportunities to thousands of people directly and indirectly.

The cluster has expanded greatly where lot of more new enterprises are set up along with expansion of existing units. The product base has also enhanced and new improved products are introduced such as fabric for suiting and designed shawls.

Products of the Matta Mughal Khel weaving cluster are famous for its quality and weaving patterns and widely demanded all across Khyber Pakhtunkhwa. Currently, these products are also available and sold in almost all major cities of Pakistan.

The major markets besides Khyber Pakhtunkhwa were products of this cluster are traded include Islamabad, Rawalpindi, Lahore, Faisalabad, Multan, Gujranwala, Hyderabad, Karachi and Quetta.

SMEDA KP identified the weaving cluster of Matta Mughal Khel in the early 2000 as the most potential cluster for economic development. However, formal and focused work on the cluster was initiated in the year 2003.

Major activities implemented and facilitated by the authority during the span of year 2003-2017 are introduction of efficient mechanized weaving, washing, dying and pressing of the products at the Matta Mughal Khel cluster. Stakeholders were facilitated in acquiring technology that can help them compete in the national market. The rapid technological advancement has also occurred as a result of its kind common facility centre i.e. washing, dying and pressing unit established at the cluster by SMEDA.

The authority also carried out various activities for the strengthening of the association, which include restructuring of association, revising bylaws, capacity building of the key members of the association through training/orientation, linkages development and exposure

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to business platforms.

The members of the association were facilitated and linked to different commercial and micro finance banks for micro credit facilities and they were enabled to obtained loans for business from Bank of Khyber, SME Bank, ZTBL and etc.

A number of training programmes were also held to enhance the capacity of the weavers, both in terms of skill-building to develop better products and in terms of improving business skills to play managerial roles.

The authority also adopted market led approach together with technical capacity initiatives to develop new innovative products and improved existing products as well while a number of interventions have been taken up to develop linkages of the cluster stakeholders with all concerned public and private sector institutions. Business matchmaking and linkages with private sector wholesale dealers were also facilitated.

The association was also extended support and facilitation for participation in number of exhibitions, trade shows and business fairs. Cluster stakeholders have participated in all such events across Pakistan.

Assessment of the SMEDA activities impact on Matta Mughal Khel weaving cluster is not easy as there are several indirect benefits associated with the support provided. Similarly, exactly quantifying the expected economic impact and benefits of the support is not possible due to the absence of such baseline information on the supported weaving enterprises across the Matta Mughal Khel cluster.

As a result of the SMEDA efforts there has been rapid advancement in technology and private sector investments. After successful operation of SMEDA CFC at the cluster three similar nature facilities have been established by private sector business people from Punjab province. Total number of mechanized weaving enterprises has increased to 1,380 units, which before the intervention of SMEDA was 280 units in 2003.The total investment generated by the cluster stakeholders in shape of new enterprises, expansion, technology advancement and business diversification amounts to a sum of Rs.457.75 million.

Similarly, the product capacity of the cluster has increased by 75.59% in the time duration under consideration as a result of technology advancement i.e. mechanized weaving.

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Chinese 'rigidity' rattles Pakistani businesses

Afshan Subohi

Pakistani businesses find the Chinese too mechanical and rigid to deal with.

Accustomed to a Western business negotiation and partnership style they found the predetermined and strictly limited terms of engagement of our Oriental partners a bit unsettling.

It is not an accident that despite the scope and promise, the private sector's share in projects under the CPEC umbrella is negligible.

Faced with a completely different style of doing business, the private sector finds it difficult to keep its head above water

Naheed Memon, chairperson of the Sindh Board of Investment, told Dawn recently that she expected a significant increase in the participation of the private sector once special economic zones become operational.

Khizar Hayat Gondal, federal secretary for industries, promised to share information but nothing was received till filing of this report. Board of Investment chairman Dr Miftah Ismail, who recently moved his office to Prime Minister House, was too busy to offer comments.

The representatives of the business class blamed the Chinese for the issue. "China, though not explicitly hostile to private sector participation in CPEC projects, implicitly prefers dealing with the government," an executive commented.

The four-year track record of progress, since signing of the bilateral deal in July 2013, reflected China's seriousness towards CPEC.

So far 59 projects have been identified (17 in energy, 11 Gwadar, eight infrastructure, two digital, four rail-based transit, six provincial road, port, water, mining, nine special economic zones, and two related to social development).

Of all, four projects in the energy sector are operational, with Sahiwal coal-fired power plant contributing 1,000 megawatts, Sachal wind farm in Jhimpir 50MW, UEP wind farm in Jhimpir 100MW, and HydroChina Dawood wind farm in Gharo 50MW.

The remaining are at different stages of progress monitored closely, according to details available on the dedicated government website.

China clearly appeared determined to push through investment in the agreed projects with or without private companies. It was not ready to wait for private investors to digest the initiative and neither did it seem to have an appetite for private sector tantrums.

For the Pakistani business community, therefore, it was a paradoxical situation. Cognisant of the scale and value of the gigantic investment drive under CPEC, they understand that they can't afford to watch from the sidelines but the challenges of dealing with Chinese investors look insoluble.

"They are both reluctant and keen to enter into joint ventures with the Chinese," commented an official at the CPEC directorate in Islamabad.

"The government of Pakistan will have to intervene to pave the way for a flow of local private capital and expertise in CPEC-related projects. The Chinese state-owned companies active so far lack the interest and flexibility required to attract private companies," commented a top government functionary associated with CPEC.

"Weaned on government support and conditioned by a Westernised business culture, hopes for Pakistani tycoons to cut deals with Chinese in the immediate future are dim. The stories circulated by people already in a business relationship with the Chinese did not help either. The perception of bureaucratic bottlenecks in China has deepened during the past four years," he added.

Talking about joint ventures with the Chinese, business circles mentioned Descon, Gatron and Al-Haj Group as leading the trend in power generation, engineering and the chemical sector. Outside CPEC, the Al-Haj FAW Motors rolled out its first car from their plant at Port Qasim in Karachi this month.

CEO of Engro Powergen and Sindh Engro Coal Mining Company Shamsuddin Sheikh, who is partnering with two Chinese companies — State Power International Mendong and China Machinery Engineering Corporation — was perfectly satisfied with the progress and the relationship.

He did express a desire of a longer term relationship with some premium for experience of working together.

“Yes, business dynamics and the quality of relationship vary with different overseas partners. We have experience working with Japanese, European and US companies. For us the learning graph was steep. In the case of the Chinese, with their narrow focus on the bottom line and separate brief for each project, it is harder to capitalise on investment in trust between business partners,” he commented.

Another businessman commented, “When China chose Pakistan for a huge investment initiative under the ‘One Belt, One Road’ plan, it generated euphoria in the business circles. However, just four years later it seems to be giving way to despair. The inability of private Pakistani companies to match Chinese demands has frustrated tycoons.”

The businessmen are said to be approaching the government to mediate business deals with Chinese investors.

“Diplomatically, China’s support for Pakistan has been consistent. The sailing might not prove to be as smooth on the economic front under CPEC,” commented an investment officer.

“Last week China did not mince words and responded strongly in defence of Pakistan to President Trump’s harsh remarks. When it comes to economic interest its attitude is cold and calculating,” he said.

Other government officers involved in managing affairs related to economic cooperation between the two countries endorsed the view. “In contrast to the Pakistani stance of bending backward to accommodate the Chinese, their attitude is cut and dry. They dictate terms that promote their own material interest first and foremost.”

Pakistani companies in joint ventures with Chinese reported a lack of warmth in partners. “Unlike our business partners of the Middle East, the Far Eastern regions, Japan, Europe and America, the Chinese are just keen to complete the project on hand. They don’t seem to care about capitalising on subsequent business opportunities unravelled over the course,” an executive told Dawn.

CPEC-level cooperation is new. And while some anxiety on either side is natural, the difficulties are also rooted in political systems. The dynamics of a centralised monolithic government in China are grossly different from a multi-party democratic set-up here.

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Where is the private sector's money going?

Nasir Jamal

Pakistan's economy has been on a growth trajectory since the Pakistan Muslim League-Nawaz returned to power for a third term in 2013, with GDP expanding by 5.3pc during the last financial year.

The growth attained last year was the highest in one decade in spite of a slowdown in industrial growth and lacklustre performance of large-scale manufacturing under the PML-N government.

So what has driven growth in the last four years?

Over time there has been a slowdown in industrial growth. What then has driven GDP growth in the last four years?

The primary driver of growth, the government admitted in the Economic Survey of Pakistan 2016-17, has been domestic consumption.

"The support to GDP growth mainly came from increased domestic consumption. Low inflation, higher income levels of both farmers and (urban) middleclass (have) bolstered consumption spending in the economy," it noted.

On the other hand, investment, particularly private investment, played a mere supportive role instead of being the lead driver of growth.

For example, consumption shared 7.9 percentage points to GDP last fiscal year, up from 6.2 points a year ago. This compares with net investment contribution to growth of just 1.3 percentage points, up slightly from 1.0 point the previous year. Little wonder then that exports' contribution to growth shrank 3.5 percentage points.

Moreover, investment during the last few years is dominated by the public sector as the government, helped by low global oil prices, has constantly increased its development expenditure — especially on large infrastructure projects related to the CPEC initiative.

Indeed, the share of public sector expenditure in gross capital formation has significantly grown since the start of work on the trade route connecting China with global markets via the deep-sea Gwadar port in Balochistan.

This brings us to the question as to where private money is going?

Analysts say private investment has actually been driving domestic consumption as the contribution of private consumption to GDP grew to 6.7pc last fiscal year from 5.3pc a year back compared with public consumption rising to 1.2pc from 0.9pc.

"Private investment is driving domestic consumption. Domestic businesses are currently investing in sectors like auto, steel, motorcycles, food and cement to meet the strong demand," points out Ali Jumani, a research analyst at Alfalah Securities.

Interviews with businessmen show that mostly the existing players in these sectors are increasing their production capacities as they feel that demand for these products is going to grow further over the next few years thanks to increasing middle-class income. The Corridor initiative too has pushed demand for these items.

A few are also setting up greenfield projects, particularly in the automotive sector, and others are investing in real estate development as domestic consumption rises going forward.

Several textile exporters have already ventured into the domestic retail market, education and healthcare to fill in supply gaps. No one is investing in export-oriented sectors because of the rising cost of doing business and unfavourable government policies.

Ali Asghar Poonawala is of the view that private capital is shying away from export-oriented manufacturing because of higher cost of production (which has made Pakistani exports uncompetitive in the world market), geo-political tensions in the region and government policies.

Moreover, Pakistan's export advantage lies in agro-based industries, he says. "But we are unable to use that advantage to increase our exports because of different factors. Take the example of meat exports. You need to invest very heavily in the entire supply chain to build up the capacity to export meat. You also require a comprehensive regulatory framework and policy support for quality assurance and implementation of food safety and other standards to compete with rivals in international markets," he says.

Former finance minister Shaukat Tarin notes that growth based on domestic consumption is not sustainable for very long and

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would result in another severe external sector crisis.

“History shows that only countries like China, Korea, etc, which pursued export-led growth policies, have developed rapidly. Others (like Pakistan) continue to lag far behind.

“We need to form policies to encourage private investment in export-oriented manufacturing. The more you delay the closer you get to yet another (balance-of-payments) crisis,” he warns, emphasising that all the past financial crises Pakistan had to face resulted from our inability to pay our import bills.

“How long can you survive on borrowed money? The only sustainable solution to our economic problems lies in making our exports competitive in international markets by devaluing the currency to its real value, incentivising value-addition in leather, textiles and other export-oriented sectors, and promoting industries and agriculture where we have an advantage (over our rivals).

“International competition will also help manufacturing improve its efficiency, acquire new technology and ensure quality. The government must organise a dialogue with the businesspeople for formulating a comprehensive industrial policy that can help us boost our exports.”

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Borrowing options besides the IMF

Khaleeq Kiani

When the PML-N government returns to the international capital market in a few days, the most important factor would be its quest for $1 billion foreign exchange to support its dwindling international reserves at a critical strategic threshold — three months of import cover.

This is important because a country is ineligible to qualify for loans from the International Bank for Reconstruction and Development (IBRD) — a concessional arm of the World Bank Group — if its international currency reserves fall below three months of its import bill. This is quantitative criteria with no international politics involved.

Pakistan comfortably met this threshold on the basis of foreign exchange reserves at June 30, the close of the fiscal year. But then it faced a $2bn current account deficit in July that would obviously have a more or less equivalent negative impact on reserves.

But equally important will be to contract this loan at a lower price that does not destabilise repayment costs beyond the ongoing basket range.

Lobbying from salesmen for a Eurobond is currently at its peak and renowned banks will be making impressive presentations. They make a case that previous international financing was raised from the Middle East and hence the turn this time should be for the European and American markets.

Investors from the Middle East are also aiming to have the ijara sukuk rolling out. To their advantage is a portion of a motorway available for collateral that cuts the bond pricing by at least two per cent when compared with the Eurobond. Practically, the motorway asset remains under the control of the government of Pakistan, notwithstanding its pledge on the paper.

But when all is said and done, the decision will boil down to the interest rate available when Finance Minister Ishaq Dar and Prime Minister Shahid Khaqan Abbasi make the final pick.

This also has a context. Pakistan's domestic borrowing cost was around 12pc and 10-year Treasury bill price around 9.5-10pc in 2014. The interest rate has come down to 8-10pc and the T-Bill rate to about 6pc. With an average 3.5pc to 4pc fall, the refinancing of domestic maturities is done at a cheaper rate.

On the external front, about 12.5pc of the portfolio relates to Eurobond, sukuk and commercial loans. The remaining 87.5pc loan portfolio is built up of relatively cheaper multilateral loans.

This has helped bring down the weighted average domestic interest from 8-9pc by 2.25pc in three years which, coupled with replacement from foreign loans, has cumulatively reduced overall debt repayment cost by about 6.25pc, according to the Ministry of Finance.

As the government goes back to the negotiating table, what are the factors that will influence who it ultimately turns to for monetary aid?

In overall terms, external debt stood at around $48.1bn four years ago and the current government has added about $14bn from a reserve base of about $6bn in June 2006 which hovered at $16bn by end-June 2016, showing an increase of $10bn.

Total external public debt has since increased to $58.4bn at end-March 2017 including $11.9bn from the Paris Club, $25.9bn from multilateral institutions, $5.2bn worth of other bilateral loans, $5.6bn of Islamic and Eurobonds, $2.2bn of commercial credits and $6bn of the IMF, besides some smaller deposits.

The latest non-Paris Club loans contracted are from China, Kuwait and Saudi Arabia all having an interest rate of six-month Libor plus 2.8pc with a 12-year maturity. Among the multilaterals, the ADB has provided around $1.3bn worth of 19-24 year loans carrying 2pc fixed and six-month Libor plus 0.6pc.

Asian Infrastructure Investment Bank has provided a $300 million loan for 19 years at six-month Libor plus 0.75pc while the World Bank has extended an IDA loan at $745m for 24 years at 1.88pc to 3.2pc fixed interest rates. It has also provided another $690m IBRD loan at six-month Libor plus 0.5pc-0.75pc for 19-21 years.

On the other hand, the China Development Bank is lending medium-term loans for three years at Libor plus 3.02pc, ICBC China at three-month Libor plus 2.75pc and Noor Bank at three-month Libor plus 2.5pc.

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The sukuk bond issued last year for $1bn is carrying an interest rate of 5.5pc for five years against 8.25pc of $1bn Eurobond at 8.25pc interest rate for 10 years.

And during this four-year period, a cumulative current account deficit of $20bn was financed out of national reserves including $11bn last year alone. This is the main cause of concern because reserves may have been $36bn instead of $16bn had there been no such current account deficit.

This partly explains why Finance Minister Ishaq Dar has been averse to currency devaluation in the absence of commensurate increase in global export demand and domestic exportable surplus.

Foreign debt has increased significantly over the past few years but that was perhaps unavoidable with the induction of CPEC pumping imports into the energy sector and helping the economy expand at above 5pc. Still, while external debt growth has a positive cash flow, a continuous export decline remains one of the most serious concerns.

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Tough balancing act for SBP in uncertain times

Mohiuddin Aazim

The State Bank of Pakistan (SBP) is watching financial markets more closely as our internal political crisis deepens and as new developments unfold after US President Donald Trump's threats.

"We're watching every important development to ensure banks' operations remain normal," says a senior central banker. "So far there's no sign of any unusual activity taking place in banks or forex companies. But just in case it happens we are ready to respond."

Banks and forex companies kept working normally after the July 28 ouster of the then prime minister Nawaz Sharif by the Supreme Court, in connection with cases of money laundering.

"So far there's no sign of any unusual activity taking place in banks or forex companies. But just in case it happens we are ready to respond"

"But Donald Trump's threat of cutting aid to Pakistan and a veiled warning of even going beyond that (over what he perceives as our shortcoming in fighting the war on terror) can potentially upset markets.

Panic-driven drawdown on deposits and volatility in exchange rate movements, particularly in the open market, cannot be ruled out if the situation is not saved from deteriorating further," warns a senior executive of one of the top five banks.

"All depends on how our government and state institutions manage the post-threat situation and how fast the US itself signals a softening in its stated stance."

Even if the crisis created by anti-Pakistan remarks of President Trump is managed well, that would not mean an "early resumption of inflows of Coalition Support Fund", feared a foreign banker.

The current situation marked by continued surge in the current account deficit (from $4.87bn in FY16 to $12.12bn in FY17 and then from $662m in July 2016 to $2bn in July 2017), can weigh down on economic growth. It would also make effective, pro-growth, monetary management difficult for the SBP.

Keeping a check on inflation and on the currency in circulation, continuing with a stable interest rate policy, saving forex reserves from falling, transmitting the right signals on exchange rate movement, all can become more challenging.

Even the hard-earned deceleration in the pace of growth in the currency in circulation achieved in FY17 may become difficult to sustain.

Yearly flows of the currency in circulation fell to Rs577bn in the outgoing fiscal year from Rs779bn a year earlier, sending signals to the markets that the then government and SBP both were serious in right-balancing growth in this regard and ultimately containing expansion in the parallel economy.

Democracy is evolving in Pakistan and tightening the nuts and bolts of our economy requires some unusually tough trade-offs. Besides, fresh elections are due next year. Internal political crisis and the recent uneasiness in Pak-US relationship may have a negative impact on our economy.

Moreover, the country is preparing for the next election towards the end of this fiscal year, and that too at a time when the PML-N is upset with the unseating of Nawaz Sharif.

We've already got signals (via the new prime minister's formation of a large federal cabinet, increase in salaries and perks of bureaucrats and intensions expressed of accelerating work on politically sensitive projects) that the spending spree will gather momentum as the elections draw nearer, bankers and analysts say.

Besides, foreign debt servicing and generous defence expenditures to fight terrorism and to remain prepared for any misadventure from across the border, amid lower than targeted revenue generation would force the government to continue to breach the limits of borrowing from the banking system, sources in the SBP say.

And if the government opts for more borrowing from the central bank than from the banking system (or goes for note printing), that would fuel inflation.

Whereas excessive government borrowing from banks can potentially crowd out the private sector, reversing the gains of a big 68pc growth in private sector lending in FY17, even its unusual borrowing from the SBP can be harmful for businesses' growth due to the resultant spike in inflation.

And in that case, even if the central bank continues to ignore

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businesses' call for depreciation of an overvalued rupee, retaining a stable monetary policy would be very difficult.

Central bankers say a high growth in currency in circulation flows, that had been the case prior to FY17, is only a symptom of structural weaknesses that allow the parallel economy to expand with all its negative consequences on the real economy.

With 53pc population remaining financially excluded and only about 20pc having bank accounts (as of 2015), with a fund-starved government relying heavily on prize bonds for generating non-bank debts and the number of active tax payers standing around 1.21m (according to 2015 stats), no effective deterrent for the growth of the parallel economy can work effectively.

Besides, illicit money is parked conveniently in the scantly-regulated real estate sector at home as well as in safe havens abroad.

And skewed and selective law enforcement plus high-denomination currency notes continue to facilitate corruption.

"In this environment, the central bank's job becomes too tough, requiring trade-offs unheard of elsewhere, particularly at times of political uncertainty or amid threats to regional stability," sums up a former senior central banker. "And we are currently in such times."

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Who's responsible for sales tax liability?

Bilal Hassan

Many registered taxpayers opt to deposit sales tax only after the Directorates of Intelligence and Investigation (Inland Revenue) and other field formations resume records from their business premises.

With more than 45pc share in federal tax receipts, the sales tax is a major source of tax revenue.

Like value added tax, sales tax is collected on self assessed taxable supplies after allowing adjustment of input tax on purchases.

However, tax authorities can audit taxable persons pursuant to section 25 of the Sales Tax Act 1990 (Act) or section 38 of the Act as the case may be.

Under section 25 of the Act, tax authorities can assess sales tax liability in respect of registered taxpayers only.

However, investigative audit under section 38 of the Act can be conducted in respect of persons making taxable supplies in the course of business but not registered under the Act, despite the value of such taxable supplies exceeding the registration threshold.

The registration threshold for manufacturers is a turnover in excess of Rs10 million or if their annual utilities (electricity, gas and telephone bills) exceed Rs 800,000.

Retailers must register if their annual turnover exceeds Rs10m. Importantly; no registration threshold applies to importers and wholesalers, including dealers and distributors.

In this context, taxable supplies include zero-rated exports as well as zero-rated domestic supplies pursuant to section 4 of the Act, but do not include exempt supplies of goods as stipulated in section 13 of the Act.

Following registration, the tax authorities assign each taxable person a sales tax registration number (STRN), which enables them to file periodic sales tax returns electronically and remit the sales tax due.

If a taxable person has not timely remitted the sales tax that is legally due (or has claimed a high amount of deductible input tax), the tax authorities have the power pursuant to section 11(2) of the Act to issue an order of assessment for the under remitted or over claimed sales tax.

In addition, the tax authorities will impose a penalty under section 33 of the Act and default surcharge under section 34 of the Act.

Importantly, almost all taxable persons that are being assessed by the tax authorities for unremitted or under remitted sales tax challenge the assessment, albeit in various circumstances and on various grounds.

In fact, sales tax assessments must be based on actual transactions as reflected in registered taxpayers' business records.

However, the circumstances in the country are not ideal because the informal economy is considerably large and the use of fake and flying invoices for input-tax adjustments or for refunds claims is incredibly huge.

Many registered taxpayers manipulate their business records in order to reduce their sales tax liabilities.

For example, many registered taxpayers opt to deposit sales tax after the Directorates of Intelligence and Investigation (Inland Revenue) and other field formations resume records from their business premises under section 38 of the Act.

Official assessment is an important tool to check the veracity of the declared parameters including supplies, purchases, input tax and output tax.

However, assessment work has not been yielding the desired results due to a number of reasons.

Owing to the poor quality of assessment work, taxpayers tend to challenge almost every assessment order before the appellate courts. A considerable proportion of the assessment orders have been cancelled either at first or second stage of appeal without yielding any revenue.

Many factors contribute to this.

The capacity of the tax authorities is too limited to carry out the assessment work in an efficient and effective manner.

In many disputed cases, huge sales tax liability has been raised on the basis of third party information such as credit entries appearing in the bank account statements or supplies declared in the income tax returns; without

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bringing on record evidences for delivery of goods and receipt of money against supply of goods.

Little or no effort is being made to establish that the data gathered from third party sources constitute taxable supplies before passing assessment orders, owing to limited resources.

There are a huge number of taxable persons being selected for audits. On the other hand, the number of auditors is not enough to inspect / examine huge records of corporate and non-corporate businesses to detect all discrepancies.

For example, about 987 corporate and 7,976 non-corporate businesses were selected for audit for the tax period July 2014 to June 2015 under Taxpayers' Audit Policy 2016.

Furthermore financial and technical resources are too limited to provide periodic trainings to auditors essential for improving capacity of doing examination work in an efficient and skillful manner.

The tax authorities also remain under persistent pressure to report as many assessment orders as possible as a gauge for performances since the criteria used for measuring performance is the number of assessment orders and quantum of tax demand created and not the quality of assessment work.

Consequently, the tax authorities do not always adhere to legal provisions and prescribed procedures, ignoring rulings of the appellate authorities while framing assessment orders.

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Tough times ahead

By Ihtasham ul Haque

The PML (N) government may have to experience growing financial difficulties in case the United States decides to toughen up its stance against Pakistan. That too, most probably at the time of next elections in wakes of US new South Asia and Afghan policy.

In the immediate context, Pakistan is feared to be deprived of $1.7 billion that were to come from US Coalition Support Fund

(CSF) in 2107-18. The funds coming through CSF had already been reduced to 40 percent and this is said to be a ‘bigger hole’ that needs to be filled through other external sources.

Besides CSF, which is in fact a reimbursement to Pakistan for its spending on behalf of the United States in the region, Islamabad could be denied roughly $1 to $1.5 billion annual military and economic assistance should there be sanctions applied against the country.

Similarly, officials fear that Pakistan, being the biggest textile exporter to America could lose roughly $3.5 billion annual export market in case of any trade related sanctions. Though China is a major trading partner of Pakistan, USA is the largest importer of Pakistani textile goods and other made ups.

The matter does not end here. Since the United States enjoys majority voting rights in the World Bank and the International Monetary Fund (IMF), it can always influence resulting in new conditions to offer any lending to Pakistan. International Bank for Reconstruction and Development (IBRD), an important lending arm of the World Bank has already believed to have expressed its concern over declining foreign exchange reserves and sited its lending rules according to which reserves must be available for five weeks of mandatory export to qualify for its assistance.

Pakistan is already becoming ineligible for IBRD assistance and the issue would turn challenging when Islamabad goes to IMF for any bailout program. And once the US drives for sanctions, it would reportedly be asking the IMF to link its assistance with 20 percent devaluation of rupee, stretching the current 16 percent sales tax to 20 percent and increasing electricity and gas tariffs.

IMF, it is said, when gets go-ahead from the United States, would also start objecting on generous sovereign guarantees being offered to China Pakistan Economic Corridor (CPEC) projects. Officials in this behalf could be taken to task for extending these sovereign guarantees to Chinese investors when there is no adequate foreign exchange reserves’ cover available to Pakistan.

Likewise the IMF officials could raise objections over the slow pace of implementation on CPEC projects. Since the US government is wary of CPEC project, it could punish Pakistan through IMF and other international lending agencies.

When the going gets tough, the Trump administration could also use its influence in the European Union (EU) to introduce retaliatory economic measures against Pakistan. Islamabad was earlier given over $1 billion additional market access immediately after the current government took over.

Those who are in the know of things also warn that $6-7 billion portfolio investment made in the stock market over the years could also be withdrawn at the behest of the USA whose line would be further towed by IMF and other lenders including international banks and investment companies. This would influence emerging market index that cannot afford to be destroyed.

The crux of the matter is that when reserves are further down, current account continues to widen, exports do not increase and trade deficit would further go beyond the current $52 billion, IMF’s assistance would be linked to serious conditions..

The country’s financial difficulties would exacerbate as $20 billion rescheduling offered by Paris Club during Musharraf’s government has ended in 2016-17 due to which pressure on repayments has sharply increased.

What had transpired between Prime Minister Shahid Khaqan Abbasi and Saudi Crown Prince last week in the Kingdom is anybody’s guess. But the word has it that he sought Saudi political, diplomatic and economic support. However, it is said that Saudi Arabia which offered $1.5 billion cash gift to Pakistan back on 2013 is constrained to oblige due to its increasing fiscal deficit being faced due to prolonged plunge in international oil prices. There was no joint communiqué issued at the end of the meeting which shows that no commitment was made, if any, to help the economy.

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"The situation in 2013 was different when Pakistan was better positioned and enjoyed US support that helped to have three years IMF Extended Fund Facility (EFF) programme and now after President Trump's new policy in the region, things could turn serious if the government does not take important decisions with a view to improving the ailing economy," said the renowned economist and former finance minister Dr Hafiz Pasha.

He said the failure to set the house in order is causing problems that required taking emergency measures on sustained basis to put the economy back on track. "I am very concerned over fast declining reserves. Only in July $2 billion reserves have depleted while net borrowing remained just $30 million," Dr Pasha said adding that decline in gross inflows have made repayments difficult which must be taken into account by the officials of the ministry of finance and the central bank.

Dr Pasha regretted that in the absence of working out and implementing home grown prudent economic policies, everything was getting out of control be it fiscal deficit, trade deficit, reserves, current account deficit and even home remittances that have shown for the first time in many years $1 billion reduction. "It is time to deliberate and take action and not just talk," he said.

Another distinguished economist Dr Qaiser Bangali is not optimistic about the emerging scenario in the region and said the Trump administration could easily paralyse economic and financial system simply by asking the international multilateral agencies and global banks to put conditions for providing support to Pakistan.

"Sahukat Aziz and Ishaq Dar have tied our economy with international lending agencies and I am afraid we do not have anything to fall back if crunch time comes in the wake of new US policy in the region," he said.

"We have already comprised our political and economic sovereignty, therefore, I have no hesitation to say that we will simply bow down before the Trump administration if it decides to slap sanctions against us," Dr Bangali said.

He was of the view that there was no short term strategy to deal with the issue as the country's elite was unprepared to make any sacrifice to help pull out of the current economic mess. "We do not enjoy independence to take autonomous decisions, therefore, I am not sure how to get away with the new situation being created by the Americans."

There is another argument that Pakistan has always been dependent on USA both in terms of military and economic assistance, hence has very little to cope with the increasing threats of sanctions. Like previous US presidents, Donald Trump has also asked for 'do more' in response of which is being suggested to the government to say 'no more'.

Under these testing times, China is providing all the necessary support to Pakistan the biggest proof of which is the immediate reaction by its foreign ministry that hailed Islamabad's incredible sacrifices made to fight the menace of terrorism.

Since China is growing unchallenged in the region and withdrawing of non-Nato status from Pakistan by the US would further make Islamabad closer to Beijing which is already multiplying its military cooperation between the two time tested friends.

Some maintain that the US president's new policy in South Asia and Afghanistan is not really new one and just a loud posturing to force Pakistan to come to terms by denying any so-called safe havens to Taliban and Haqqani network. Why would they need sanctuaries in Pakistan when they control more than 50 percent of Afghan territory?

It is in that backdrop it is being said that these new US measures would remain counterproductive as without Pakistan they cannot win the war in Afghanistan and that they soon would be softening their position especially when they would be sending more troops there as they have no other alternate available to do that. Previous experience of sending arms and other equipment through Central Asia remained very expensive and cumbersome.

At the end of the day Pakistan will be bailing out the Americans, not India and that that was why couple of articles published including in Washington Post suggested that US could face problems without Islamabad and that no other country is important more than Pakistan when it comes to dealing with war torn Afghanistan.

The new US policy clearly shows a bigger shift from nation building in Afghanistan to eliminating terrorists and criminals. In his speech Trump ridiculed promoting democracy and nation building in Afghanistan by saying that Afghan government will have to end corruption and set its house in order and that America would no more be that generous. In fact he asked India to spend money there because of having huge trade benefits from USA.

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China which is spending $54 billion on CPEC is currently facing difficult time to manage its economy. Last year it provided $4 billion commercial loan and in 2017-18 it plans to offer no more than $2 billion. Officials of the ministry of finance, nonetheless, still hope to be bailed out by the Chinese especially when US places sanctions against Pakistan.

China seems to be a clear winner in Afghanistan as it is facilitating peace there and perusing its strategy with the strong support of Russia, Iran and Pakistan. But whether China can replace USA in terms of a major bilateral creditor and supplier of arms is a question being currently debated in important official and unofficial quarters. But then it is said China has its own economic and financial limitation and a history of not extending any crucial balance of payment support to any country.

Dr Hafiz Pasha

former finance minister

“The situation in 2013 was different when Pakistan was better positioned and enjoyed US support that helped to have three years IMF Extended Fund Facility (EFF) programme and now after President Trump’s new policy in the region, things could turn serious if the government does not take important decisions with a view to improving the ailing economy”

Dr Qaiser Bangali

senior economist

Sahukat Aziz and Ishaq Dar have tied our economy with international lending agencies and I am afraid we do not have anything to fall back if crunch time comes in the wake of new US policy in the region. We have already comprised our political and economic sovereignty, therefore, I have no hesitation to say that we will simply bow down before the Trump administration if it decides to slap sanctions against us.

The writer is a senior journalist based in Islamabad

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Deepening worry

By Zeeshan Haider

The current account deficit for the month of July peaked at over two billion dollars – three times increase over same month of the last year. But it seems as business as usual for the economic managers of the country.

At a high-level meeting chaired by Finance Minister Ishaq Dar, the oft-repeated mantra that high imports of machinery and equipment for the projects related to the China-Pakistan Economic Corridor were the main reason behind this extra-ordinary increase in the current account deficit. These included import of machinery for power generation, textile construction and petroleum products.

According to finance ministry officials, once this machinery is installed and it started production than it would increase our revenues which would ultimately offset the impact of the huge imports.

They are also keeping hopes that improvement in the global economic outlook, energy supplies and foreign direct investment would reverse the declining trend in the country's exports.

But no tangible explanation is being given that until we reach to that point, how could we offset the pressure on the fast depleting foreign exchange reserves? Many economic experts believe that government is refusing to read the writing on the wall.

Many experts believe that even if the imports under the China Pakistan Economic Corridor (CPEC) projects are stabilised and these projects started production the focus would be shifted to issues like debt servicing payments and repatriation of profits that mean the pressure could remain on country's foreign exchange reserves.

Therefore, experts say the government seems to have no other option but ultimately to knock at the doors of the International Monetary. Fund for yet another program to avert balance of payment crisis.

The government last year completed the three-year External Fund Facility program of the IMF with a lot of celebrations and claims that the worst is over and now Pakistan is in comfortable position to manage its economy on its own.

But many people even at that time had been saying that Pakistan's return to the IMF is inevitable. Even if Pakistan goes to IMF, it would be a big challenge for our economic team to clinch a favorable deal with the international lender.

Analysts say high current account deficit diminishes debt payment capacity of the country and the international financial institutions often pay loans at high premium in such situation to cover risk factors.

Moreover, they say Washington traditionally calls shots in the IMF affairs and the recent strain in relations between Pakistan and the United States in the face of Donald Trump's tirade against Pakistan while announcing his administration's South Asia policy would be another challenge for Pakistani policy makers to meet while seeking another bailout package from the IMF.

Persistent decrease in exports over the past few years was the main reason behind high current account deficit. Though the PML-N government had announced a hefty package of Rs180 billion to boost exports of the country but it failed to produce desired results.

The exporters have long been demanding depreciation of the local currency but the government had been reluctant to do so for fear that it would increase inflation that could trigger a popular backlash.

The government had already been under pressure from the opposition parties over the Panamagate scandal. Therefore it did not take the risk of opening another political front against it.

The finance minister a few weeks back reacted sharply to the central bank decision of allowing depreciation by three percent.

In the finance ministry meeting, the participants deliberated at length on ways to stem the rising current account deficit but failed to devise any tangible strategy.

The meeting pondered over possibility of raising up to six billion dollar of foreign funds in the current fiscal year to contain the current account deficit and avert pressure on the foreign exchange reserves through boosting of exports, soft loans, launch of bonds at the international market and grants etc.

But the million dollar question is can the government implement this plan at the time of high political drama being played in the country.

Prime Minister Shahid Khaqan Abbasi has largely retained the

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cabinet of his predecessor, including the finance minister, but the focus of key ministers of the government remains politics and not their jobs.

Moreover, with elections just less than an year away, politically they are required to spend more time to mobilise their supporters.

The finance minister himself is entangled in the Huddaibiya Paper Mills case which opposition parties believe is the main case to establish allegations that the Sharif family was involved in money laundering.

In the wake of tremendous political pressure, how much time the finance minister would be able to spare for his main job is yet to be seen.

However, in a major development, the new prime minister removed the finance minister at the helm of all key economy-related committees, particularly Economic Coordination Committee which means that he would not be enjoying the kind of political leverage he enjoyed under Nawaz Sharif.

Dar has been Sharif's point man in all economic and financial matters of the government. He has been considered the most powerful finance minister of the country after Shaukat Aziz. But now Abbasi, who himself has been part of Sharif's economic team, has wrested control of all these key matters.

While these rearrangements do not necessarily mean there are any differences between Abbasi and Dar but these would reduce the finance minister's clout to handle these matters independently.

The positive aspect of the recent political developments is that there has been no disruption in the democratic process in the country and the prime minister has vowed that he would continue the economic policies pursued by the government of his predecessor.

However, how far he succeeds in managing the key challenges faced by Pakistan, particularly its economy, which is passing through a critical phase, is yet to be seen.

The writer is a senior journalist based in Islamabad

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Govt asked to expedite work on CPEC project

Agencies

ISLAMABAD - Islamabad Chamber of Small Traders on Sunday said new US offensive and political turmoil at home should not be allowed to hit China Pakistan Economic Corridor (CPEC).

Similarly, conspiracies of the enemy nations and forces inside the country that are opposing this project should be monitored to foil their unholy designs, it said.

Politicians should stop pushing personal agenda and think about the national interests at this critical juncture, said Patron Islamabad Chamber of Small Traders Shahid Rasheed Butt.

He said that China and Pakistan should expedite work on this project so that it could be completed well in time which will bring conspiracies and rumors to an end.

Shahid Rasheed Butt said that enemy countries are trying their best to damage the project while their agents in Pakistan who have damaged many mega projects are conspiring against CPEC.

The government must take note of the situation and forge consensus on the project to get it completed which will allow masses to reap the fruits of the multi-billion dollar Chinese initiative, he added.

He regretted that we are not short of elements who have played a central role in damaging mega projects in past to keep country destabilized, he said.

Unending disputes over economic corridor and slow pace of work may disappoint Chinese leadership to an extent that they opt for alternatives which would be unfortunate at this juncture when relations with the US are at the lowest ebb.

He said that signing documents and issuing statements are not enough as rest of the work on CPEC should be completed as soon as possible.

Lack of seriousness, disputes with provinces and red tape has delayed the project which has frustrated Chinese as well as local and foreign investors who are watching all the developments.

Vocational training institute at Gwadar

The Ministry of Ports and Shipping will establish Pak-China Technical and Vocational Training Institute at Gwadar under the China-Pakistan Economic Corridor (CPEC) project in a bid to produce skilled manpower for the deep-sea port.

"The institute will help fulfil technical and skilled manpower requirements of the port after the development of industrial projects including the Gwadar Port Free Zone, Export Processing Zone and other industrial and port-related projects," officials in the ports and shipping ministry told APP.

The institute will comprise a main building, which will have two blocks, an administration block, four workshops, cafeteria, hostels, parking areas, an examination block and a teachers lodging facility.

Reps of IPPR, a Chinese company, had already visited Gwadar to review the design and feasibility of setting up the vocational training institute, officials said, adding, "A feasibility agreement is ready for signing after which the Chinese government will provide a grant and select a construction company for execution of the project".