A Cost-Benefit Analysis of Foreign Direct Investment in Balochistan: A Study on Saindak Project

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Abstract

Pakistan has received one of the biggest foreign investments in its history, however it failed many times in managing and resolving disputes domestically related to foreign investment, as in Saindak case. There is a need of Cost Benefit Analysis (CBA) of these projects and to make indigenous people informed about the pros and cons and benefits of the projects operating in their region. This research examines Foreign Direct Investment in Balochistan by conducting Cost Benefit Analysis of Saindak project under different government regimes. A qualitative and exploratory research has been conducted. The study uses secondary data of Saindak project from period 2001-2022. Content analysis technique is used to analyze variations in outcome, success, costs and benefits of Saindak Project across different time periods. The research concludes that Saindak Project has failed to fulfill CSR (Corporate Social Responsibility) activities and the resources had been exploited many times. The government must engage in negotiations with the rebel groups, free political detainees, and uphold the rights to freedom of speech guaranteed by the constitution. The only way out of internal quagmires and unrests is to give more voice to the indigenous people and the Federal and provincial governments should accept the idea of true democracy.

Keywords: Cost Benefit Analysis, Foreign Direct Investment, Saindak project, Indigenous people, Political detainees
Introduction

Every nation's economy depends on a number of elements to survive and flourish, including FDI, inflation, trade, import, export, and tax income. Almost all governments are eager to encourage FDI to their nations. The International Monetary Fund defines FDI as an investment made to ensure the investor's long-term interest in businesses that are located in another nation. Direct investment into a foreign establishment, a person, or a group of entities that the foreign firm may control or manage is known as FDI. All developing nations have relied heavily on inflows of international remittances, foreign direct investment, and official development assistance as a source of foreign currency. Depending on the level of financial development, ease of doing business, and local investment, there have been extensive theoretical and empirical studies on the impact of foreign investment on economic growth. Foreign aid, remittances, and FDI have been shown to have favorable long- and short-term effects on growth in a variety of academic studies (Sethi, 2019). Investment in natural resources is one of the main types of inward FDI. The Covid-19 and Ukraine-Russia crisis pose many challenges to developing countries, including the most effective methods for managing foreign exchange reserves, managing foreign loans and investments prudently, and best practices for supervising financial institutions. Apart from these issues, the investment companies also face many locally produced hindrances by indigenous people in form of strikes and violations. Pakistan has received one of the biggest foreign investments in its history, however it failed many times in managing and resolving disputes domestically related to foreign investment, as in Saindak case. There is a need of Cost Benefit Analysis (CBA) of these projects and to make indigenous people informed about the pros and cons and benefits of the projects operating in their region.

Cost-benefit analysis makes it possible to calculate equally, the impacts of a mining project to the regional and state economies, and its external societal repercussions. Despite its obvious importance, there hasn't been much study done on the social, environmental, and economic effects of metal mining in Saindak region. The need to explore minerals grows daily as the world population keeps growing and civilization progresses. There is positive as well as negative impact of these mineral investigations on the environment and local communities (Jiangfeng, 2021). Foreign direct investment (FDI), the creation of jobs, the construction of infrastructure, and the provision of basic services like adult literacy education and primary healthcare are some of the economic benefits of mining (Jiangfeng, 2021). The mining also
has some adverse effects, these effects could include degradation, contamination of water sources and watersheds, deformation of soil profiles, and an increase in noise, debris, and pollution. The investment companies may face severe conflicts such that land use and local rise against the social impacts related to health, safety and human wellbeing.

Firms often fail to carryout Economic Impact Assessment (EIA) and Social Impact Assessment (SIA) prior to the major processes and resource extraction and mining activities. The local populations’ right over natural resources had been exploited many times as we can see in CPEC (Gawadar) or SSGC (Sui, DeraBugti) projects (Tariq, 2013). These types of exploitations are the major source of local rise against FDI. Despite having a million dollars project, people of Saindak still failed to come out of poverty line (Baloch H, 2016). This is evidence that these projects are operating for the profit of company and the Government officials only. They are ignoring the basic economic, social and ecological rights of local people which will now or then result in a severe local rise. There hasn't really been a thorough Cost Benefit Analysis (CBA) of mining in Balochistan, which would have estimated the costs and benefits in terms of the economy, ecology, and society.

With assistance from the Pakistani government, the Saindak project began trial production in early 90s. The four-month pilot operation produced 17-1800 tons of copper, 6000 ounces of gold, and 12000 ounces of silver each month. Saindak is located around 660 kilometers from Quetta, the provincial capital of Balochistan. Before traveling further 30 kilometers to the main Saindak project site, visitors must first reach the neighboring town of Taftan. However, the voyage portrays a picture of desolation because, up until Saindak, there is just one village and no human habitation. But as you get closer to Saindak, the landscape starts to be dotted with dark-colored mountains. Geologists from Quetta indicate that these mountains are still mineral-rich. The weather is also extremely frigid. The water is also salty because the area is mineral-rich, as the natives subsequently explain. Saindak basically translates to "black mound" in Balochi. (Notezai, 2018). Balochistan's district of Chagai is mineral-rich. The district is rich in onyx, marble, granite, copper, gold, silver, chromite, and pumice, among other minerals. With the exception of blistering copper, onyx manufacturing has dominated over the previous three decades. More than 308 mining leases, including 225 prospecting permits and 83 mining leases, have been given to the private sector, according to Directorate General Mines and Minerals Baluchistan (Baloch H, 2016). Additionally, two large-scale mining leases have been given to international corporations, notably the contentious Rekodiq project that is still in progress and MCC's Saindak project. In District Chagai, marble, onyx,
and granite are widely available. About 2.5 billion tons of marble are thought to be in the deposits (Baloch H., 2016). More than 648,000 tons of marble worth more than $1 billion US are produced annually in Chagai area. Onyx, a high-quality dark green stone that can be found in Chagai, is produced in an estimated 1,152,000 tons year out of 15-20 million tons of onyx. There are more than 15 onyx marble mines, and the Chagai district produces about 468,000 tons of onyx annually, valued more than 56 million US dollars. Additionally, more than 36,000 tons of granite are produced annually, with a market value of approximately $7 million USD (Baloch H., 2016).

Firms often fail to carry out economic and social impact assessments prior to the project startup and during the major mining activities and extraction processes. This study aims to explore the cost benefit analysis of Saindak project. Particularly, this research aims to measure economic costs as compared to the economic benefits provided by the Saindak project in different government regimes. This study will also evaluate and measure the social costs as compared to the social benefits provided by the project in different government regimes. The study has some limitations as it does not consider other FDI projects due to high cost and short time available. The findings of this analysis may maximize all stakeholders' benefits from these mining enterprises while minimizing their external costs. This type of research will offer a framework that can be applied to enhance management procedures so that organizations may achieve their social, environmental, and economic benefits in a more effective and efficient manner. Any organization may utilize it to assess the impact on stakeholders. The long-term objective of the research is to create a system for sustainable development by maximizing long-term gains and reducing adverse effects of these initiatives. By recognizing, categorizing, modelling, and successfully addressing social, economic, and environmental difficulties, this research will also aid in minimizing the obstacles caused by the local community.

**Significance of the study**
This study will provide an image to investment companies and policy makers that which area (economic, environmental or social) is more important to be focused. The study will also provide a Policy guideline to the policy makers and concerned authorities. The research will evaluate the potential effects of various mining ventures on local, regional, and national economies. Furthermore, the findings of this study will help both the host nations and foreign investment firms improve their procedures and tools for looking ahead and making investment decisions.
Literature Review

Private or governmental investment can be used to transfer financial resources between nations. Additionally, portfolio investments and Foreign Direct Investments are two additional categories of foreign private investment (Akbar M and Akbar A, 2015). Even while FDI inflows into Pakistan increased significantly over the past ten years, they only represented 3.37% of GDP in 2007. However, 7.5% of the GDP of other developing nations received FDI in the same year. The amount of FDI that has entered Pakistan during the past two decades has gone through various ups and downs. FDI totaled $322.5 million in Pakistan in 2001. After that, it grew quickly over the following seven years, reaching $5152.8 million in 2008. However, FDI witnessed a significant drop and peaked in 2012 at $820.7 million. The fight against terrorism, political unrest, and the results of the global financial recession were cited as the causes of this fall. However, the country saw an increase in FDI in 2013, primarily as a result of improvements in the main macroeconomic drivers investment (Akbar M and Akbar A, 2015). To help decision-making authorities determine whether a project will be economically sustainable, CBA is frequently used as a technique in Economic Impact Assessments. In other words, the goal is to evaluate if changing the status quo will benefit society by comparing various land use, development, or policy scenarios (Abelson, 2015). Abelson, (2015) suggested a cost benefit analysis framework. According to him “Cost–benefit analysis estimates and compares the total benefits and costs of a project to the members of a specified community”. For this, a CBA: Makes lists of all organizations and individuals in the community in question who will be impacted by the project; Evaluates all effects in comparison to a worst-case scenario; Gives monetary values to the effects; and estimate the net present value for the chosen community by adding together these costs and benefits. Estimating net welfare impacts is CBA's main objective, though. It is not especially beneficial to assign each impact to a category, and it may even be counterproductive because certain affects may be assigned to more than one category, which encourages double counting (Abelson, 2015). CBA and SROI studies are particularly useful when the overarching goal is to enhance resource allocation for "public goods" and/or to address market inefficiencies. However, these strategies may be modified to allow for the pursuit of additional objectives and, more broadly, to allow for circumstances in which decisions must be made in light of several goals (Cordes, 2016). There are first-round (follow-on) impacts for the majority of projects as well as first-round (possible direct or indirect effects) consequences. The expenses and income incurred by or accruing to the parties engaged in planning and running the
mining operation, as well as the taxes and royalties generated by the project, are the direct impacts. Third parties are involved in indirect effects. These include effects on associated markets, which may involve complementary or substitutable activity, as well as environmental and social effects on third parties (Abelson, 2015). Mining can have both positive and negative effects on people and society. Examples of damaging effects on people's health and quality of life Indigenous peoples' traditional ways of life in nearby communities are known to be impacted by conflicts over land use, other social repercussions such as those relating to public health and human wellbeing, and mining (Haddaway et al., 2019).

Research Methodology

Content analysis technique is used to analyze variations in outcome across different time periods. The variation in success, costs and benefits of Saindak Project across different time periods also required more research. The study determines the cost benefit analysis of Saindak Project across different government regimes, into a single analytical framework. The fluctuation of costs and benefits of the project and the profit earned by Balochistan government between military rule and democratically elected governments are under study. The CBA of Saindak project is an example of exploratory research, which is described as an approach that looks into research issues that haven't been completely investigated before. A qualitative approach is widely used in exploratory research. All the required data are collected by secondary data sources. Data from secondary sources like Books, journals, publications, newspapers, websites, documents and reports, and case studies are also considered while data collection process. These data from different sources will finally be cross-checked for any bias and inaccuracy. The data regarding to the cost and benefit of Saindak project in military rule of General Pervaiz Musharraf (2001) till the democratic government of Imran Khan (2022) is considered and the analysis will be done on these collected data.

Results

From June 2001 to March 2008: The Cost-benefit Calculations Under the Military Government

General Pervez Musharraf while he was also Chief Executive took over the office of the President of Pakistan on June 20, 2001, under the Provincial Constitutional Order (PCO) by removing Rafiq Tarar before he was allowed to complete his five-years tenure. The amount of FDI that has entered Pakistan during the past two decades has gone through various ups
and downs. FDI totaled $322.5 million in Pakistan in 2001. After that, it grew quickly over the following seven years, reaching $5152.8 million in 2008 (Akbar M and Akbar A, 2015).

Government-initiated development projects like the Saindak Gold and Copper Project are concentrated in Balochistan's most resource-rich district, Chaghi, which is also the province's least developed region. Geological Survey of Pakistan reported in 1961 that it had found the copper reserves in Saindak. The irony is that despite Balochistan's abundance in mineral resources, they were unable to make large revenues from it. The fact that Saindak and Chaghi are a hub of abundant natural resources benefits the Chinese. Balochistan has the power to take over the Saindak project theoretically. The Saindak Project was once more leased by the federal government in violation of its constitutional rights. Balochistan only earned a small income under the agreement, and the federal government received a 50% portion of copper sales. Additionally, Saindak's productivity was neither monitored or evaluated under the lease agreement (Noor S and Ajmal A, 2020). Pakistanis are terrified of Baloch children getting an education, especially one in English, since they understand that the more informed Baloch youth are, the better able they will be to expose Pakistan's atrocities against humanity. They are attempting to prevent Baloch youngsters from accessing education and knowledge because of this. The province has become backward as a result of resource exploitation, Balochistan's poor governance, several internal uprisings, bad development policies, and incompetence on the part of the federal government. Balochistan has the worst growth performance among all the provinces, according to the Balochistan Economic Report. Balochistan also performs worse than average in terms of 10 important indices related to water, sanitation, health, and other areas. Baloch people are enraged and frustrated by the lack of adequate infrastructure and educational facilities (Noor S and Ajmal A, 2020).

According to the Baloch Sardars, the federal government entered into contracts at bargain prices with global multinational corporations while adhering to their terms and conditions. They claim that the corporations bought these contracts from the relevant officials by offering them bribes. On the other hand, the Musharraf administration claimed that the Baloch Sardars and nationalists were refusing to share the royalties or profits with any other Baloch organization. They want the province to have more autonomy in order to benefit as much as possible from the production of minerals and gold without intervention from the Pakistani government. Therefore, even if the government decides to increase the royalty or provide the province greater autonomy, it is unlikely that the people will profit in any way from those revenues, according to a study of the history of the tribal leaders and their governance practices. (Aslam, 2011). Since 2002, the organization is said to have been acting in
collaboration with a Chinese business. Simply put, this equates to "minting billions" of rupees, and it all took place right in front of every succeeding province government. Except for those in control of accountability, such massive incidents of corruption confound many (Voices, 2022).

**From June 2008 to March 2018: The Cost-benefit Calculations Under Democratic Government:**

Power struggles between the military and civil institutions did not help, and little or no attention has been paid to the economic, social, and cultural empowerment of the average citizen. The people of Pakistan, on the other hand, consistently favored democracy as their preferred form of government whenever they had the chance to vote. The Pakistan People’s Party (PPP) and Pakistan Muslim League Nawaz (PMLN) ruled the government in these 10 years. SML consistently made significant markups from its deposits alone, reaching levels of Rs. 500.0 million. Their basic health, education, and sanitation issues could have been resolved if they had merely used a portion of the markup for the supply of basic facilities to the local community. As of the 2017 census, the literacy rate was 36.91%, male literacy was 47.54% and female literacy was 25.16% (Accelerator, n.d.). Chagai ranks 91st nationwide with an education score of 52.06 in the Pakistan District Education Rankings published by Arif Aylan. The gender equality score is 60.11, while the learning score is 55.58. It has a national ranking of 91, a readiness score of 55.58, and a gender equality ranking of 60.11. The school infrastructure in Cha Gai District is ranked 114th nationally, with a 4.55 overall score, a 12.27 building condition score, and serious power shortages. One of the biggest issues in the area is the dearth of female-only schools (Accelerator, n.d.). One former senior official of the Saindak project notes, "The MCC has been working at the South Ore Body from 2002 to 2017." "The South Ore Body has 111 million tonnes of total reserves, with a copper concentration of 0.430. Reserves should have lasted 19 years, and 12,500MT is being excavated daily (Notezai, 2018). But the former official asserts that "due to high price of copper rates, the MCC increased its production, working illegally with SML, in order to produce more and more copper." The mines have been depleted in barely 15 years as a result. In a similar vein, work has just started at the North Ore Body (Notezai, 2018). According to a report published by UN Office for the Coordination of Humanitarian Affairs, Chaghi district has one DHQ at Dalbandin, 3 Rural Centers, 12 Basic Health Units, 15 Civil Dispensaries and 3 Maternal Child Health Units (OCHA, 2019). It should be noted that SML consistently deposited a portion of its profits into a number of bank accounts and that, in some years, it
had earned a substantial markup of up to Rs. 500.0 million. Their basic health, education, and sanitation concerns could have been resolved if they had merely used a portion of the markup for the supply of basic facilities to the local people. Approximately 75% of the population is thought to be in poverty. The district's literacy rate hasn't gone above 30%. Schools, hospitals, and other infrastructure are in appalling shape. According to the Mines Act of 1923, each mining company must seek to improve local residents' infrastructure, health, and education. Ironically, no one has paid attention to this. While some of the District Chagai's development funds are being depleted by the powerful class's widespread corruption. According to estimates, 75% of the people of Chagai are living below the line of poverty and literacy rate is 30%. (Baloch H, 2016). In Balochistan, almost 81% of women have not finished elementary education. In Balochistan, almost 75% of women have never attended school. These statistics offer compelling evidence of Balochistan's literacy crisis. (Aamir, 2018). Baloch nationalists have occasionally criticized China in their rage. Over the past eight years, the province has seen a series of violent attacks on Chinese nationals, some of which have been fatal (Aslam, 2011). Prior to anything else, we must examine the underlying reasons of poverty, illiteracy, bad infrastructure, a lack of basic medical services in hospitals, the prevalence of technical schools, colleges, and universities, and last but certainly not least, the participation of local personnel in all ongoing and future projects (Qaisrani, 2016).

From June 2018 to March 2022: The Cost-benefit Calculations Under Democratic Government

Imran Khan became Pakistan's prime minister on August 18, 2018, as the country's social, political, and economic spheres were all facing difficulties. Chinese exploited Saindak's wealth for 16 years. According to Sanjrani, the Saindak initiative has improved the lives of the locals. However, in practice, the population still faces barriers to accessing healthcare, portable water, and education (Noor S and Ajmal A, 2020). With a 57 percent poverty rate, it is still Pakistan's poorest province. The survey also reveals that Balochistan is home to the large majority of the 40 poorest districts in the nation. Balochistan's Washuk district, where 72.5 percent of the population lives in poverty, is the poorest district in the entire nation. Balochistan's egocentric leaders have never given poverty a lot of care, and this mentality is still present in the so-called Naya (new) Balochistan. A Diagnostic Report on The State of Water Supply, Sanitation, and Poverty in Pakistan and Its Impact on Child Stunting is the most recent report from the World Bank. It demonstrates that poverty in Pakistan has greatly
decreased, but not by much in Balochistan. (Aamir, 2018). The official, who spoke to The China Project on the condition of anonymity, claimed that the mine has produced over 2,000 employment and contributed to the funding of a hospital that makes use of cutting-edge technology like ultrasound and X-ray machines. Pakistan's economy is being boosted by multibillion-dollar projects in Balochistan like Saindak, CPEC, Sui Gas field, and many others. But tragically, because to Pakistan's shortage of qualified economics, China is profiting more from these projects by employing its own experts, which is immoral. (Bakhsh, 2020). According to a Lok Sujaag investigation report, the current chairman of the senate allegedly used the Sandak copper and gold project improperly. If nothing else, the sad story of theft and purported corruption at the Sandak gold project serves as an excellent illustration of how the vast terrain that harbors valuable minerals and commodities is exploited (Voices, 2022). All communities in Saindak, as well as the mining project, are highly monitored by security personnel, and the mountains in the area are encircled by Frontier Corps (FC) checkpoints (Notezai, 2018). According to Pakistani authorities, the Saindak project generated $2 billion (€1.75 billion) for the nation between 2002 and 2017. Out of 5 million tonnes of concentrating work done in 2020, the Saindak Copper-Gold Project collected revenue of $550,000 against 16,426 tonnes of blister copper, resulting in a profit of $74.71 million. The chairman of the Metallurgical Construction Corporation (MCC) Resources Development (Pvt) Limited (MRDL), He Mr. Xuping, said this. Mr. Xuping explained that, "Over the past 19 years of operation, we have been making consistent earnings and have paid over $468m in taxes, fees and profits to the governments of Pakistan and Balochistan and the owner and created more than 1,900 jobs, earned about of various production and living materials worth $1.1 billion, contributed to the development of local trade, transportation, logistics, and other industries, and provided the livelihood to thousands of families in the surrounding areas." He also claimed that his business spent roughly $100,000 a year on supplying 3,000 people, the Frontier Corps, the military forces, and the police with clean, safe water. The corporation has spent almost $800,000 since 2005 installing energy transmission infrastructure and offering free electricity to six surrounding towns. The company insisted on "people-oriented" solutions and continued to adhere to the epidemic prevention requirements of the Pakistani government by investing $1.98 million in epidemic prevention and control throughout the year, he said. This was done with the support of the government of Pakistan and all spheres of society. According to Mr. He, the MRDL successfully accomplished the ideal feat of preventing virus transmission within the organization, villagers in the region from becoming infected, cases from Chinese workers
being brought back home, and production continuing to run efficiently. "To encourage the cultivation of talents, The Saindak School, which is operated with an annual contribution of nearly $100,000, has been upgraded to the first local high school. In 2020, when the epidemic was rife, the company and the Pakistani side stood by one another and overcame the difficulties together, donating Rs43 million in supplies to the Balochistan government to combat the epidemic and raising Rs17.5 million in food and oil for 3,312 impoverished families in the neighborhood to ease the hardships of the local populace." (Rind, 2022). China is very important to the local economy, and despite COVID's interference in its operations, a Chinese business that mines copper, silver, and gold in Balochistan province revealed that it produced around $75 million in profits in 2021. During 10,000 training sessions of various kinds totaling about 100,000-man hours have been held during the past 18 years. Through the organized training, thousands of Pakistani employees have improved their skills (Shenggao, 2021).

**Conclusion**

This study proposes that for a mining company it is not enough just to provide positive returns to the state or shareholders, but it has to provide benefits to the indigenous people or society in which it is operating. From the results of this research, it is evidenced that Saindak Project has failed to fulfill CSR (Corporate Social Responsibility) activities. Since CSR hadn't been introduced when the project was first conceived, it is necessary to introduce this idea in order to improve the project's working environment. Additionally, in order to mobilize local technical personnel and expand their horizons, it is the state’s responsibility to send its own technical personnel to project sites in SML in each section, such as geology, mining, ore processing, smelters, and power plants, alongside Chinese personnel for capacity building. The federal government should change its policies of resource exploitation, centrally control economic initiatives, and constructing military garrisons because the long-standing grievances of the Baloch people depend on economic resources. Instead of focusing on the development of large-scale projects, the government should address the concerns of the general populace, including unemployment, the satisfaction of basic requirements, personal safety, and the preservation of the law. People will become more conscious and united as a result. To encourage education and awareness among young people to end violence, education is a fundamental requirement. It is urgently necessary to address the violation of human rights in Balochistan. If this problem isn't solved, the international community will definitely have to intervene. The already unstable province, which is now further alienated
from the federation, will deepen its ties with foreign actors. Scholarships focused on language and culture must also be included for Baloch citizens, especially those living close to the project site. As far as the project itself is concerned, monitoring the project falls under national responsibility. To control the project's annual cost, there is a need for enhanced monitoring, particularly of materials and equipment made in China. Collier has established that economic development is social as it lowers the likelihood of civil war. The initial steps in achieving this in Balochistan would entail development initiatives with favorable social and economic repercussions for the region’s Baloch communities. Politically, the state must grant equal decision-making authority to Baloch political leaders and the provincial government, making them active participants and stakeholders in the province's economic development. Given the situation, the Pakistani government must fundamentally alter its policies to address the Balochistan crisis. The provincial government should directly sign agreements with the multinational companies for extraction of minerals while also protecting the locals’ property rights. The development initiatives intended to provide the Baloch people with basic infrastructure and employment opportunities should receive a significant portion of the profits from such investments. Additionally, distribution companies ought to give priority access to benefits to the regions where the minerals are produced or extracted. Baloch people should be given more voice in politically and economically centralized projects like the Gwadar deep sea port. The government must engage in negotiations with the rebel groups, free political detainees, and uphold the rights to freedom of speech guaranteed by the constitution. The only way out of internal quagmires and unrests is to respect ethnic group rights, accept the idea of true democracy, and allow marginalized groups to fully participate in state affairs.

References


