Pakistan's FDI Pulse

OICCI Insights

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The First Port of Call for Foreign Investors

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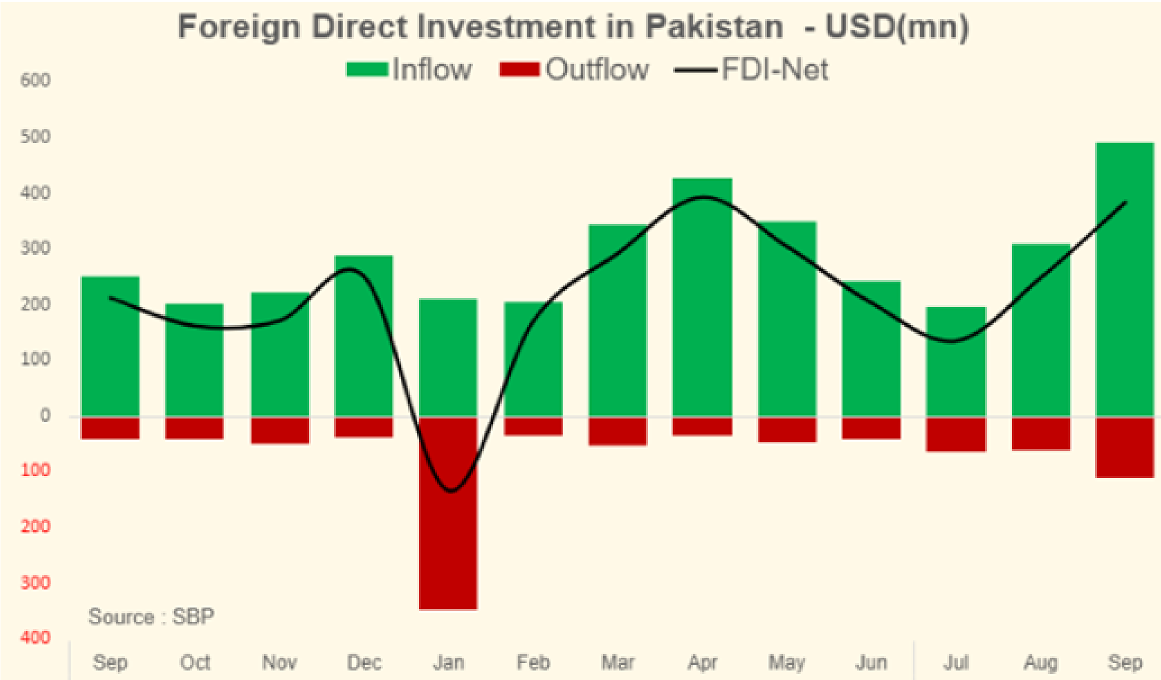
Pakistan's FDI Tight Spot: Why a New Strategy is Essential

The State Bank of Pakistan (SBP) announced that the country attracted $771 million in foreign direct investment (FDI) in the first quarter of FY25 (1QFY25) – a 48% increase from the same period last year. While this growth is encouraging, much of it stems from a low base and the gains mask deeper issues.

Celebrating marginal improvements might obscure the underlying challenges, as Pakistan's FDI growth remains modest, heavily concentrated in a few sectors and dominated by a single major investor.



Foreign Direct Investment In Pakistan by country USD(mn)

		Inflow-Net (July-Sept)		outflow-Net (July-Sept)		
Rank	**Country**	**FY25**	**FY24**	**Country**	**FY25**	**FY24**
1	China	404.02	163.87	Norway	21.29	30.54
2	Hong Kong	98.78	66.93	Canada	7.82	0.47
3	United Kingdom	72.22	57.25	Panama	6.00	1.50
4	Switzerland	33.94	71.58	Luxembourg	4.68	5.18
5	France	28.76	24.71	Italy	0.47	0.48
6	United States	28.54	22.98	Austria	0.46	0.00
7	U.A.E	25.35	14.86	Japan	0.16	1.61
8	Netherlands	14.19	43.65	Thailand	0.15	0.72
9	Singapore	8.89	10.16	Oman	0.01	3.00
10	Malta	8.57	11.39			
Sub-Total (TOP-10)		723.25	487.38			
Others		88.89				
	FDI	812.14			41.03	
	FDI-Net	**771.11**				

Source :SBP

China remains the top investor, contributing $404 million (52% of total FDI) in 1QFY25, with $244.8 million invested in September 2024 alone. Other FDI contributors include Hong Kong ($99 million, up from $67 million last year), the UK ($72 million), and the US ($29 million). Although smaller, these contributions signal growing interest beyond China's dominant role. Saudi Arabia, despite recent efforts and a focus by the Special Investment Facilitation Council (SIFC), has not shown significant engagement, while the UAE contributed only $25 million.

Sr.	Sector	September-2024 (P) Inflow	September-2024 (P) Outflow	September-2024 (P) Net FDI	July-September FY25(P) Inflow	July-September FY25(P) Outflow	July-September FY25(P) Net FDI	July-September FY24 (R) Inflow	July-September FY24 (R) Outflow	July-September FY24 (R) Net FDI
1	Power	274.7	54.4	220.3	487.9	71.6	416.3	187.1	4.7	182.4
2	Financial Business	54.2	1.7	52.6	133.6	6.9	126.7	168.3	18.4	149.9
3	Oil & Gas Explorations	49.0	0.2	48.8	97.7	0.8	97.0	79.2	0.6	78.7
4	Electronics	20.6	0.0	20.6	43.2	0.3	42.8	1.9	14.5	12.6
5	Chemicals	21.6	1.6	20.0	28.6	6.6	22.0	6.4	6.7	0.3
	Sub-Total (TOP-5)	420.1	57.8	362.3	791.0	86.2	704.8	442.8	44.8	398.0
	TOTAL	**493.5**	**108.4**	**385.1**	**1,002.1**	**231.0**	**771.1**	**665.7**	**145.5**	**520.2**

Foreign Direct Investment In Pakistan by sector - USD(mn)

Source : SBP

The Power Sector remains the dominant recipient of FDI, followed by Financial Services and Oil and Gas Exploration. Despite recent growth, Pakistan's FDI landscape is still heavily dependent on a narrow range of sectors and one major investor, highlighting the need for a more diversified and strategic approach to attracting foreign investment.

Strategic FDI Opportunities for Pakistan's Future

FDI trends globally are shifting towards more dynamic industries, offering opportunities for Pakistan to diversify its FDI portfolio. Technology and Digital Services lead the way, with strong investments in IT, cloud computing, AI and fintech. Renewable energy is booming as the world embraces sustainability, with significant investments flowing into solar, wind and green hydrogen projects. Manufacturing remains robust, particularly in the automotive industry (driven by electric vehicles) and electronics, while healthcare, logistics, and e-commerce have experienced significant FDI growth fueled by post-pandemic demand.

Pakistan's FDI has been constrained by structural issues, political instability and global economic factors. While China's role through the China-Pakistan Economic Corridor (CPEC) has been a significant driver, positioning Pakistan as a trade corridor, security concerns and regulatory hurdles persist.

Geopolitical shifts, such as the US-China trade war, offer both opportunities and challenges. Meanwhile, tightening global financial conditions, rising interest rates, and exchange rate volatility have made capital scarcer and returns more uncertain.

Fluctuations in global energy and commodity prices also impact manufacturing and industrial growth. However, the global digital boom, along with Pakistan's rising IT exports, makes FDI in the Tech Sector an attractive opportunity.

To better understand the FDI landscape, below is a highlight of the investment climate in comparable economies to Pakistan, which, with few exceptions, have consistently attracted sizeable FDI:

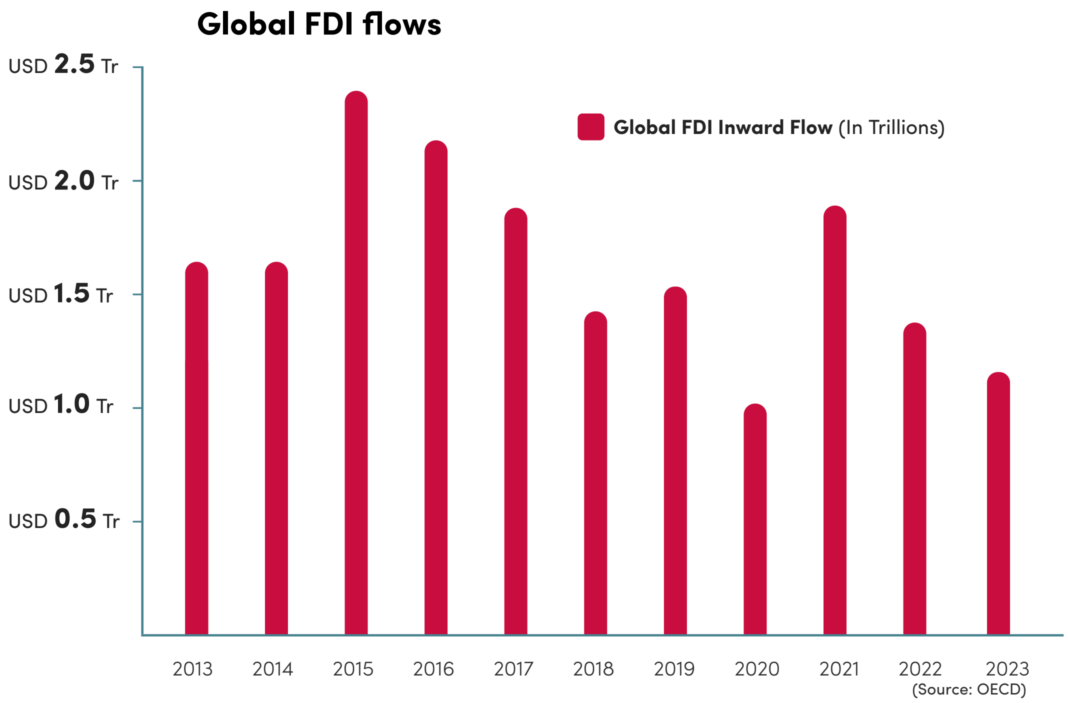
Investment Climate Indicators

Indicator	Pakistan	Vietnam	Bangladesh	Philippines	Indonesia	Kenya
Ease of Doing Business	Rank: 108; regulatory hurdles.	High; streamlined, investor-friendly.	Rank: 168; slow improvements.	Improving; digital focus.	Rank: 73; supportive policies.	Rank: 56; liberalizing reforms.
Corruption Index	Score: 28 (high corruption)	Score: 42 (moderate)	Score: 25 (persistent issue)	Score: 33 (moderate)	Score: 38 (improving)	Score: 31 (ongoing efforts)
Infrastructure	Gaps despite CPEC projects	Strong; industrial hubs	Underdeveloped, power issues	Moderate; urban-rural gap	Robust in urban centers	Developing, focus on ports
Inflation (2024)	High (20-22%)	Low (3.5%)	Moderate (9-10%)	Stable (5-6%)	Moderate (4-5%)	Around 7%
Exchange Rate	Volatile	Stable	Fluctuating	Moderate	Moderate	Improving
GDP Growth	3-4%	6.50%	5.50%	6-7%	5.10%	4.90%
FDI (% of GDP)	~0.5%; needs improvement	6.2%; robust policies	~1.1%; growing slowly	2.6%; service sector strength	2.4%; diversified economy	~1.7%; tech, agri interest
Political Stability	Low, affecting confidence	High; stable governance	Moderate; occasional volatility	Moderate; regional influences	Stable; supportive of FDI	Moderate; improving stability
Global Competitiveness	Low; bureaucracy, energy issues	High; manufacturing, skilled labor	Improving; low costs, infra issues	Moderate; strong in services	Strong; regional trade ties	Moderate; agri & tech growth

Global FDI Trends and Pakistan's Missed Opportunities

Global FDI has been on a turbulent journey over the past few years, with inflows plummeting by 42% in 2020 due to the pandemic, rebounding sharply in 2021 and then facing renewed challenges in subsequent years. This volatility underscores the fragility of the global investment landscape amid economic and geopolitical shifts.

In 2022, FDI dropped to $1.4 trillion, impacted by the Russia-Ukraine conflict, inflation and tighter monetary policies. The decline continued into 2023 as geopolitical tensions and economic fragmentation weakened investor confidence.



In Pakistan, FDI has been even more inconsistent, affected by both global and domestic factors. FDI as a percentage of GDP has remained below 1%, fluctuating between $1.5 billion and $2.5 billion over the last decade. In 2019-20, FDI peaked at $2.56 billion, largely due to investments in Power Sector projects under CPEC but fell to $1.86 billion during the pandemic. A modest rebound in 2021-22 brought it to $2.15 billion, but this momentum faltered in 2022-23, dropping to $1.46 billion amid economic and political uncertainty. The latest uptick in 2023-24 saw FDI rise to $1.82 billion, but still below the $2 billion mark.

While Pakistan struggles to attract FDI, other emerging economies have adopted more proactive measures to attract foreign investment. Pakistan's regulatory environment has seen minor positive changes, with initiatives such as the SIFC and CPEC developments. Yet, over-regulation, red tape and inconsistent policy enforcement continue to drag down competitiveness. Meanwhile, countries like Vietnam, Indonesia and the Philippines have stepped up by cutting through bureaucracy, boosting infrastructure and making it easier for businesses to set up shop, thereby attracting strong FDI flows.

Pakistan's FDI strategy is in a tight spot. For the past 10 years, it has relied heavily, intentionally or not, on putting all its eggs in one (Chinese) basket. Now, that basket is also in danger as the terms of the IMF agreement limit flexibility in facilitating SEZs. Meanwhile, security issues, the withdrawal of sovereign contracts and the recent internet slowdown have cast a shadow over the investment climate, leaving potential investors with more doubts than optimism.

Challenges Limiting FDI Inflows into Pakistan: Recommendations for Progress

While Pakistan has significant potential as an FDI destination, foreign investors consistently highlight several areas in need of improvement. Addressing these challenges in a targeted and strategic manner will help enhance investor confidence and position Pakistan as a competitive investment destination.

1. **Political and Security Considerations:**
   Political instability and the growing security risks to foreigners affect the country's FDI potential.

2. **Need for Regulatory Streamlining and Bureaucratic Efficiency:**
   Pakistan's regulatory framework is seen as complex, with bureaucratic hurdles causing inefficiencies in the investment process. The OICCI Ease of Doing Business (EODB) Survey 2024 also indicates a perception of an over-regulated environment, with ad hoc measures frequently required to address investors' concerns.

3. **Investment Policy and Taxation Regime Need to be Predictable, Transparent, and Consistently Implemented:**
   The government needs to honor its commitments to investors. Taxation is also skewed heavily towards organized businesses, which deters new FDI. For instance, OICCI members contribute about a third of the country's tax revenue but have been denied tax refunds for years, currently exceeding Rs100 billion—a situation that sends a negative message to investors. Additionally, various ad hoc measures are implemented by government authorities without consulting stakeholders, signaling negatively to both existing and potential investors.

4. **Strengthening Legal Frameworks for Investor Protection:**
   One of OICCI's internal surveys conducted in 2023 shows that two-thirds of respondents with legal disputes wait over five years for dispute resolution. Limited awareness and enforcement of Intellectual Property Rights (IPR) are also concerning. According to the OICCI IPR Survey 2023, formal businesses lose up to 20% of their revenue due to counterfeit products and IP violations.

5. **Managing Negative Perceptions**:
   The negative perception of Pakistan as an investment destination needs to be addressed through professional engagement with large investors, including foreign investors, and the media.

For Pakistan, revitalizing its FDI strategy is essential. This involves diversifying beyond traditional sectors, addressing regulatory barriers and aligning investment policies with emerging global trends to attract sustained foreign interest.