Pakistan's FDI Pulse

OICCI Insights

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The First Port of Call for Foreign Investors

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Foreign Direct Investment in Pakistan: Overview and Trends

Foreign Direct Investment (FDI) in Pakistan showed a notable improvement in FY24, with net inflows rising by 17 percent to $1.9 billion, according to the State Bank of Pakistan (SBP). Gross inflows exceeded outflows, reflecting enhanced investor confidence and economic stabilization.

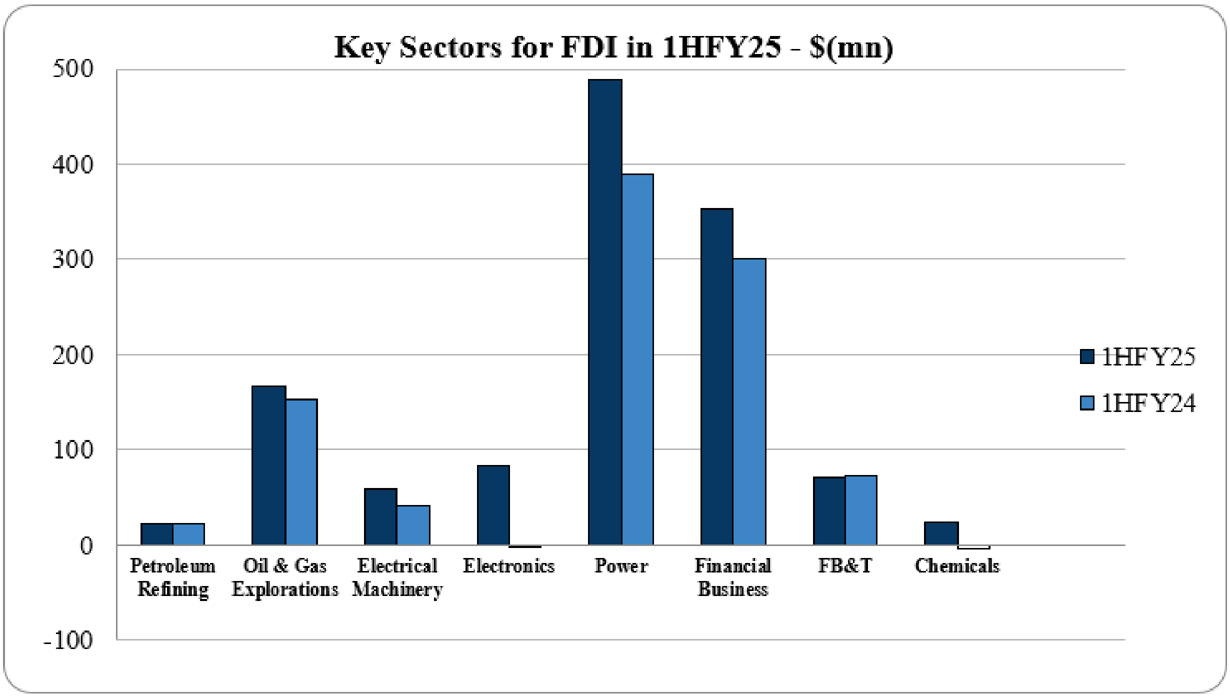
In the first half of FY25 (July–December 2024), FDI continued its upward trajectory, increasing by 20 percent year-on-year to $1.329 billion compared to $1.108 billion in the same period of FY24. Gross inflows rose by 37 percent to $1.883 billion, though outflows more than doubled to $554 million due to increased repatriation of earnings. Despite this growth, monthly inflows in December 2024 dropped sharply by 32 percent to $170 million, primarily due to reduced investments in key sectors such as power and oil and gas exploration.

Summary of Foreign Direct Investment in Pakistan- $(mn)

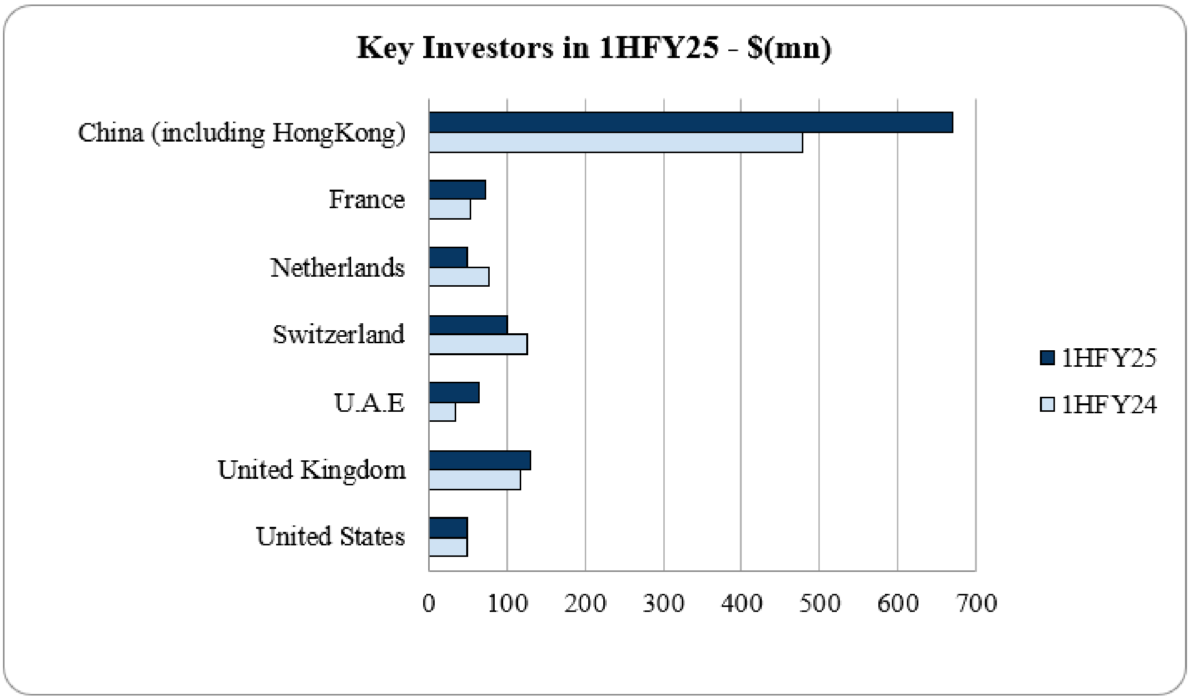
				Dec		Jul-Dec		Change July-Dec 24	
Item	**FY22**	**FY23**	**FY24**	**2023**	**2024(P)**	**FY24**	**FY25 (P)**	**Actual**	**%age**
Direct Investment	**1,936**	**1,627**	**2,346**	**252**	**170**	**1,108**	**1,329**	**221**	**20**
Inflow	2,692	2,568	3,165	289	244	1,379	1,883	504	37
Outflow	757	941	819	37	74	271	554	283	104

Source: SBP

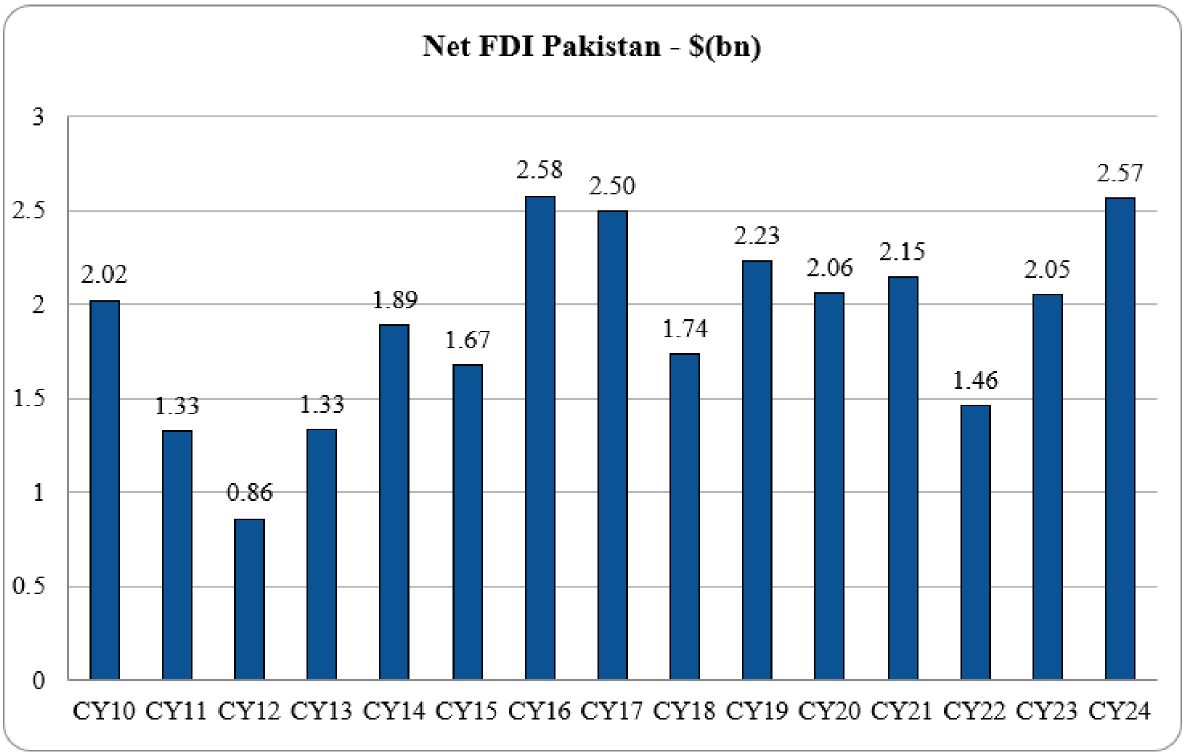
The power sector remained the largest recipient of FDI during the first half of FY25, supported by continued energy infrastructure development. Oil and gas exploration maintained steady inflows, while the financial sector saw a modest rise, signalling growing investor confidence in banking and financial services. Emerging sectors, such as electronics and electrical machinery, showed incremental growth, reflecting a gradual shift toward industrial and technological investments.



China led the inflows, contributing $535.5 million (over 40 percent of total FDI), largely directed toward infrastructure and energy projects. Other significant contributors included Hong Kong SAR ($134.3 million), the United Kingdom ($130 million), and Switzerland ($100 million). Despite the overall decline in December, China remained the leading investor, injecting $62 million in the month alone with investment directed towards infrastructure and energy projects.



Over the years, net FDI has shown fluctuations, starting at $2.02 billion in CY10 and declining to a low of $0.86 billion in CY12. It rebounded to $1.89 billion in CY14 and peaked at $2.58 billion in CY16. However, uneven trends followed, with FDI dipping to $1.67 billion in CY18 before rebounding to $2.23 billion in CY19. After a decline to $1.46 billion in CY22, FDI surged to $2.57 billion in CY24, the highest level since CY16, reflecting improving investor confidence and sector-specific investments.



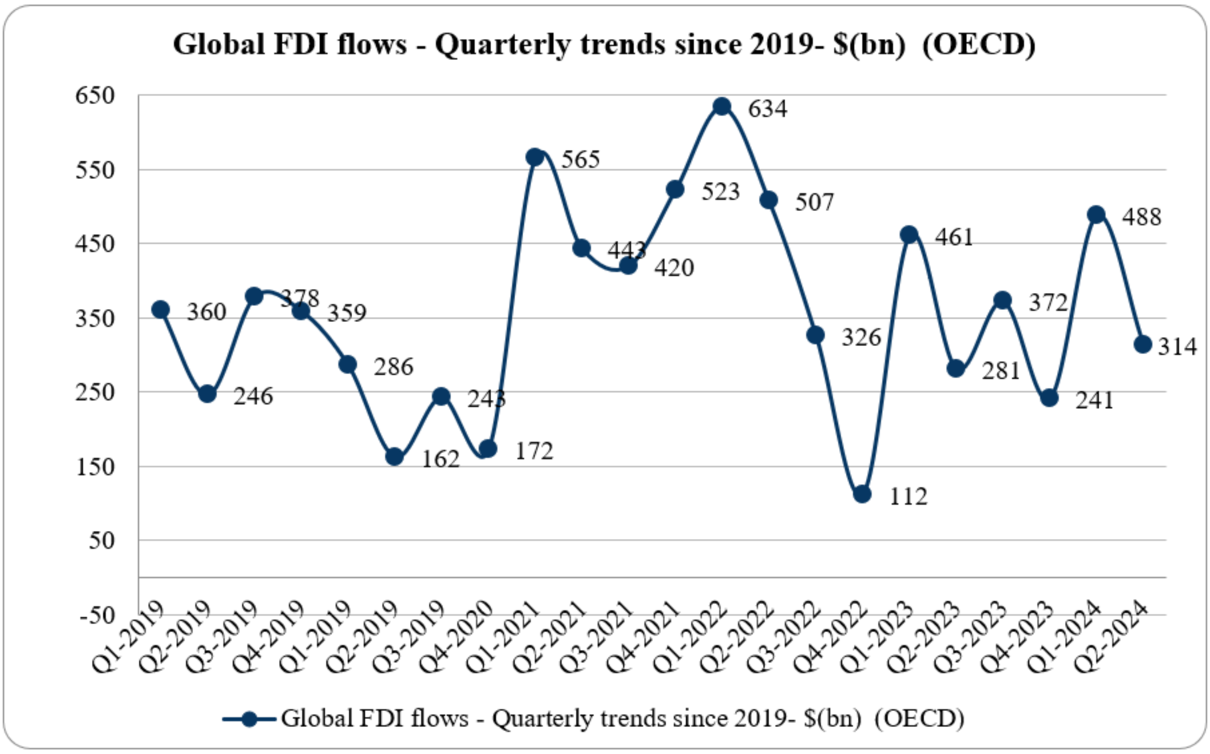
In calendar year 2024, FDI reached $2.567 billion, a 44 percent increase from the previous year and the highest since 2017. The power sector, oil and gas exploration, and mining were the primary beneficiaries. Major projects included ARAMCO's acquisition of an equity stake in a local oil drilling firm, the Suki Kinari Hydropower Project, and the Reko Diq mining venture, highlighting growing interest in Pakistan's energy and mineral resources.

China led the inflows, directing investments into infrastructure and energy projects, while Saudi Arabia made strategic contributions to the oil sector. The power sector, particularly, attracted substantial investments in coal and hydropower projects, while the oil and gas sector benefited from acquisitions and expanded exploration activities.

The IT sector experienced moderate growth, supported by government incentives and a push for digital transformation. However, it continues to lag in attracting significant FDI compared to other industries. Conversely, sectors like thermal power, communications, and chemicals faced net outflows due to divestments and project completions. Persistent challenges, including political instability, inadequate infrastructure, and high operational costs, remain barriers to more robust FDI inflows.

Global FDI Trends in 2024: A Comprehensive Overview

The FDI flows from the first quarter of CY19 to the second quarter of 2024 highlights significant fluctuations driven by macroeconomic conditions and global events. Between Q1 2019 and Q4 2019, FDI flows were relatively stable, ranging from $246 billion to $378 billion, reflecting a steady investment environment. However, the onset of the COVID-19 pandemic in 2020 caused a sharp decline, with FDI reaching its lowest point at $162 billion in Q2 2020. A modest recovery began in Q3 2020 as economies started adapting to the crisis. In 2021, FDI flows experienced a robust rebound, peaking at $565 billion in Q1, fuelled by pent-up investment demand and supportive policy measures. Although the flows slightly declined in subsequent quarters, they remained strong, fluctuating between $443 billion and $507 billion.



In CY22, FDI flows became volatile, with a steep decline in Q1 ($326 billion) and reaching a historic low of $112 billion in Q4. This sharp drop was likely influenced by geopolitical tensions, including the Russia-Ukraine conflict, as well as inflationary pressures and tightening monetary policies globally. In 2023, a partial recovery occurred, with flows reaching $461 billion in Q1, although they dropped again to $241 billion by Q4, highlighting persistent economic uncertainties. The first half of 2024 saw continued volatility, with FDI increasing to $488 billion in Q1 but declining to $314 billion in Q2.

As of January 2025, preliminary data highlights a mixed global foreign direct investment FDI landscape for CY24. According to UNCTAD, global FDI rose modestly by 1 percent in the first half of the year. The OECD reported $802 billion in FDI flows during the same period, with growth concentrated in Q1, followed by a sharp 36 percent decline in Q2, underscoring continued volatility. Key challenges, including high financing costs, inflationary pressures, and geopolitical tensions, contributed to a 30 percent drop in international project finance and a 5 percent decline in cross-border mergers and acquisitions.

Developed economies received $347 billion in FDI, accounting for approximately 43 percent of the global total, but experienced a 4 percent decline compared to the same period last year. Within developed economies, Europe showed a significant decrease of 15 percent in FDI, receiving $139 billion, which reflects economic challenges, such as inflationary pressures and geopolitical uncertainties. Conversely, North America experienced a 9 percent increase, with $167 billion in FDI, driven by strong investor confidence and economic recovery efforts. Other developed economies saw a 4 percent decline, attracting $42 billion in FDI.

Global FDI in 1H-2024 - (UNCTAD)		
	FDI-$(bn)	Change YoY
World	**809**	**1%**
Developed economies	347	-4%
Europe	139	-15%
North America	167	9%
Other developed economies	42	-4%
Developing economies	461	6%
Africa	61	161%
Latin America and the Caribbean	88	-8%
Asia	*306*	*-2%*

Developing economies, on the other hand, attracted $461 billion in FDI, marking a 6 percent year-on-year increase and underscoring their growing importance in global investment flows. Africa showed a remarkable 161 percent surge in FDI, reaching $61 billion, driven by investments in key sectors such as energy and mining. Latin America and the Caribbean witnessed an 8 percent decline, with inflows of $88 billion, reflecting structural and political challenges in the region. Asia remained the largest recipient among developing economies, attracting $306 billion, but experienced a slight 2 percent decline year-on-year, potentially due to subdued economic activity in key markets.

Sectoral Highlights

1. **Renewable Energy**: The sector attracted $138 billion in greenfield FDI, maintaining its leadership in global investment. Key areas included green hydrogen, solar, and wind energy largely in developed economies like the US, Australia and Europe.

2. **Semiconductors:** Investments surged to $107 billion as per FDi Intelligence, with US attracting majority of investment from China, Korea and UAE. Major players such as TSMC, Samsung, and GlobalFoundries announced plans for U.S. fabrication plants. India also attracted notable FDI from China in this sector during the period.

3. **Communications:** FDI in data processing and hosting services drove the sector to secure the third-largest share of pledges, led by Amazon, Microsoft, and Alphabet and followed by Asian competitors in Singapore and China. The surge in tech FDI came from major companies in China and the US.

4. **Battery Manufacturing:** FDI in batteries declined to $8.4 billion, reflecting concerns over gigafactory scalability and weaker EV demand.

5. **Fossil Fuels:** Investments in coal, oil, and gas totalled $27.5 billion, marking a decline from post-Ukraine invasion spikes but with notable expansion by energy majors like TotalEnergies.

Emerging Trends

1. **Digital Transformation:** The communications and semiconductor sectors are benefiting from rising demand for cloud computing and AI services.

2. **Energy Transition:** Renewable energy remains a key focus, though uncertainties persist in emerging technologies like green hydrogen and battery manufacturing.

3. **Supply Chain Resilience:** Geopolitical shifts have spurred diversification, with countries like the U.S. and India seeing increased investments in high-tech manufacturing.

Global FDI in CY24 showcased resilience in renewable energy and technology sectors, despite macroeconomic pressures and geopolitical challenges. While semiconductors and communications thrived, weaker investments in batteries and fossil fuels reflected emerging uncertainties. Full-year data, expected in mid-2025, will provide a more comprehensive understanding of the global investment landscape and its trajectory.

FDI Trends in Developing Asia: Resilience Amid Declines

Developing Asia attracted $621 billion in FDI, accounting for nearly half of global inflows despite a year-on-year decline in CY23. East Asia saw reduced inflows, with a 9 percent drop in China, while Southeast Asia remained stable, supported by greenfield investments, particularly in electronics and automotive sectors.

South Asia faced a steep decline, driven by a 43 percent drop in India, while Central Asia’s FDI fell by 27 percent. However, greenfield projects across the region surged by 44 percent, with significant growth in renewables, transport, telecommunications, electronics, and vehicle production, particularly in Indonesia, highlighting the region's resilience and growth potential despite weaker cross-border M&A activity.

After a record-breaking CY23, greenfield FDI in the Asia-Pacific region declined by 14 percent in CY24, according to the Economic and Social Commission for Asia and the Pacific (ESCAP). Southeast Asia led the downturn, though countries like Singapore and Thailand bucked the trend with increased inflows.

South Asia emerged as the largest recipient of greenfield FDI in CY24 in the Asia-Pacific, attracting $83.3 billion despite a 16 percent decline from the previous year. India dominated the region, securing $75.6 billion in investments across semiconductors, renewable energy, and automotive manufacturing. However, other South Asian countries faced sharp declines, with Pakistan’s FDI inflows plunging by 83 percent to $1.8 billion and Sri Lanka experiencing a 90 percent drop, reflecting broader regional challenges.

Over the past decade, the Asia-Pacific region has consistently attracted substantial FDI in semiconductors, electronic components, and renewable energy. This reflects the region's commitment to sustainable development, technological innovation, and reducing reliance on carbon-intensive industries.

The services sector accounted for 55 percent of total Greenfield FDI in the Asia-Pacific region in Jan-Sep 2024, driven by investments in renewable energy, followed by communications, and transportation. Manufacturing comprised 41 percent of Greenfield FDI, with the semiconductor sector leading at $28.2 billion. FDI in the primary sector fell to 4 percent of the total, with significant decreases in coal, oil, gas and minerals, highlighting the region's pivot toward sustainability. The electric vehicle (EV) sector saw remarkable growth, with $60.7 billion invested in electric automobiles and $36.1 billion in battery production between 2016 and 2024. However, battery recycling remains underdeveloped, signalling untapped potential for future investments.

Global FDI Outlook 2025

The year CY24 witnessed a complex landscape for global foreign direct investment (FDI). Rising protectionist sentiments, exemplified by European farmers protesting stricter environmental regulations and the U.S. blocking Nippon Steel's acquisition of U.S. Steel, significantly impacted investment flows. While trade dynamics shifted as the U.S. imposed 100 percent tariffs on Chinese EVs, while Turkey attracted a $1 billion EV factory from BYD, emphasizing its competitiveness in manufacturing. Europe’s green tech sector faced setbacks, with Northvolt’s bankruptcy underscoring difficulties in competing with China’s dominance. Political events, including Trump’s re-election and Modi’s third term, further emphasized trends toward economic sovereignty and stricter investment policies.

Regional Prospects and Top Recipients of FDI- 2025	
US	FDI growth driven by tariffs and tax reforms; focus on automation with limited job creation due to high labor costs.
EU	Modest recovery expected; greenfield investments strong but offset by conduit FDI outflows.
China	Stimulus may attract market-seeking FDI, but geopolitical tensions hinder full recovery.
Southeast Asia	Dynamic FDI growth, tempered by capacity issues; intra-Asia investments offset US tariff risks.
Latin America	FDI growth likely but constrained by infrastructure gaps; may benefit from geopolitical "friend-shoring."
Africa	FDI low, with opportunities in Mediterranean integration into European supply chains.
GCC	UAE and Saudi Arabia attract high-value FDI despite regional conflicts.

Source: FDI Intelligence

Looking forward to CY25, global FDI is expected to recover modestly, driven by steady economic growth and stabilizing inflation. However, geopolitical tensions and supply chain vulnerabilities remain key risks. Companies are increasingly reshoring manufacturing to mitigate tariff impacts, while nations such as the U.S. and U.K. tighten regulations to safeguard strategic industries. Special Economic Zones (SEZs) are gaining importance as they offer cost and risk management advantages, making them attractive hubs for investment.

In South Asia, India remains a major FDI destination due to its strong market, growing demand, and pro-investment policies. The region is seeing increased greenfield investments in renewable energy and EV supply chains, aligning with global sustainability priorities. However, smaller South Asian economies face structural and geopolitical challenges that limit their ability to fully leverage these trends.

While the global outlook is optimistic, sustained growth in FDI will depend on nations addressing risks and capitalizing on opportunities driven by sustainability and technological advancements. Balancing economic goals with global trends will be critical to shaping a resilient investment landscape.

Key Lessons and Takeaways for Pakistan for 2025 and beyond

Pakistan stands at a pivotal moment, where aligning domestic potential with global FDI trends can significantly enhance its economic growth and competitiveness.

1. Focus on High-Growth Sectors

Pakistan must strategically prioritize investments in sectors that offer high growth and resilience:

- **Renewable Energy:** Harnessing solar, wind, and green hydrogen can address Pakistan's energy demands while aligning with global sustainability goals. Investments in renewable projects will reduce reliance on fossil fuels and position the country as a regional hub for clean energy.

- **ICT and Digital Economy:** Enhancing digital infrastructure and fostering innovation in IT will enable Pakistan to tap into the global digital transformation wave. With a growing pool of tech-savvy youth, potential lies in attracting FDI in software development, cloud computing, and fintech.

- **Advanced Manufacturing:** Emerging opportunities in semiconductors, EV supply chains, and smart manufacturing offer a pathway to industrial diversification. These sectors can drive exports and create high-value jobs, reducing dependency on traditional manufacturing.

- **Food Market Potential:** The global demand for halal food, including beef and poultry, presents significant opportunities for Pakistan's agricultural and livestock sectors. With its large livestock base and expertise in halal processing, Pakistan can expand its share in high-demand markets such as the Middle East, Southeast Asia, and Africa.

- **Mining and Infrastructure:** Focus on Mining and Infrastructure sectors will ensure sustainable economic growth and improved regional connectivity.

2. Improve Policies and Regulations

A stable and transparent policy environment will be crucial to sustaining investor confidence:

- **Simplified Regulations:** Clear, predictable, and investor-friendly frameworks are essential for fostering trust.

- **Special Economic and Technology Zones:** These zones must be accelerated to create sector-specific hubs that attract targeted investments.

3. Enhance Infrastructure and Skills

Pakistan must enhance its physical and human capital infrastructure to meet the demands of high-value investments:

- **Digital Connectivity:** Expanding broadband access and rural connectivity will attract IT-driven investments.
- **Skilled Workforce:** Strengthening industry-academia collaboration will prepare a workforce aligned with high-demand global sectors like AI, renewable energy, and advanced manufacturing.

4. Stabilize Political and Economic Environment

Long-term political and economic stability is essential to reduce perceived risks:

- Stabilized macroeconomic indicators, consistent exchange rate policies, and political consensus on economic reforms will strengthen Pakistan's investment climate.

5. Diversify FDI Sources

Expanding beyond traditional investment partners will open new avenues for growth:

- **Non-Traditional Partners:** Engage with emerging economies and regions such as Saudi Arabia, ASEAN, and Europe for broader investment inflows.
- **Sectoral Diversification:** Shifting focus from traditional sectors like textiles to high-potential areas such as green hydrogen, semiconductors, and ICT.

6. Emphasize Sustainability

Global FDI flows increasingly prioritize sustainability:

- **Green Investments:** Pakistan can align its FDI strategy with global trends by focusing on renewable energy, eco-friendly industries, and ESG-compliant projects.

7. Strengthen Investor Confidence

Building trust with investors is vital for long-term FDI growth:

- Transparent governance, policy coherence, and consistent engagement with international investors will reinforce Pakistan's position as an investor-friendly destination.

8. Leverage Regional Trends

Pakistan's location provides a unique opportunity to act as a logistics and manufacturing hub for the broader region:

- **Special Economic Zones:** Capitalizing on regional supply chain realignments by offering competitive incentives within SEZs.
- **Connectivity Initiatives:** Using corridors like CPEC to enhance regional integration and attract trade-linked investments.

9. Mitigate Sectoral Declines

- Declining sectors like chemicals and communication require strategic intervention to stabilize and retain investments. Strengthening competitiveness in these industries will prevent further capital flight.

By addressing challenges with targeted reforms Pakistan can position itself as a competitive and attractive destination for foreign investors, paving the way for long-term economic resilience and prosperity.