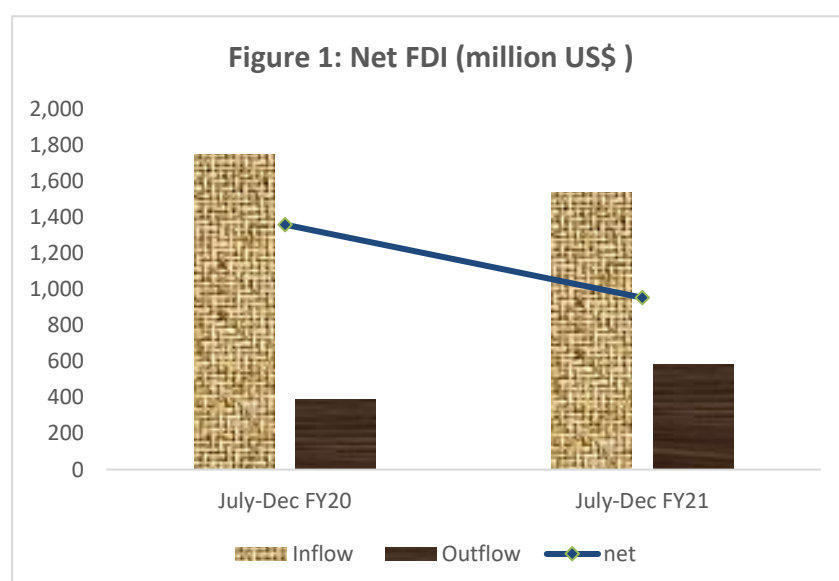


Government of Pakistan
Ministry of Planning, Development and Reform
(International Trade & Finance Section)
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Subject: **Update on Foreign Direct Investment (FDI) for Jul-Dec FY21 (Dec-2020)**

Foreign Direct Investment, non-debt creating financial inflow, supports the balance of payments. Net Foreign Direct Investment decreased 29.8% during Jul-Dec FY21 compared to corresponding period of last fiscal year. China was the major contributor of net foreign direct investment during Jul-Dec. FY21 and power sector attracted the larger share of inflows during the period under review.



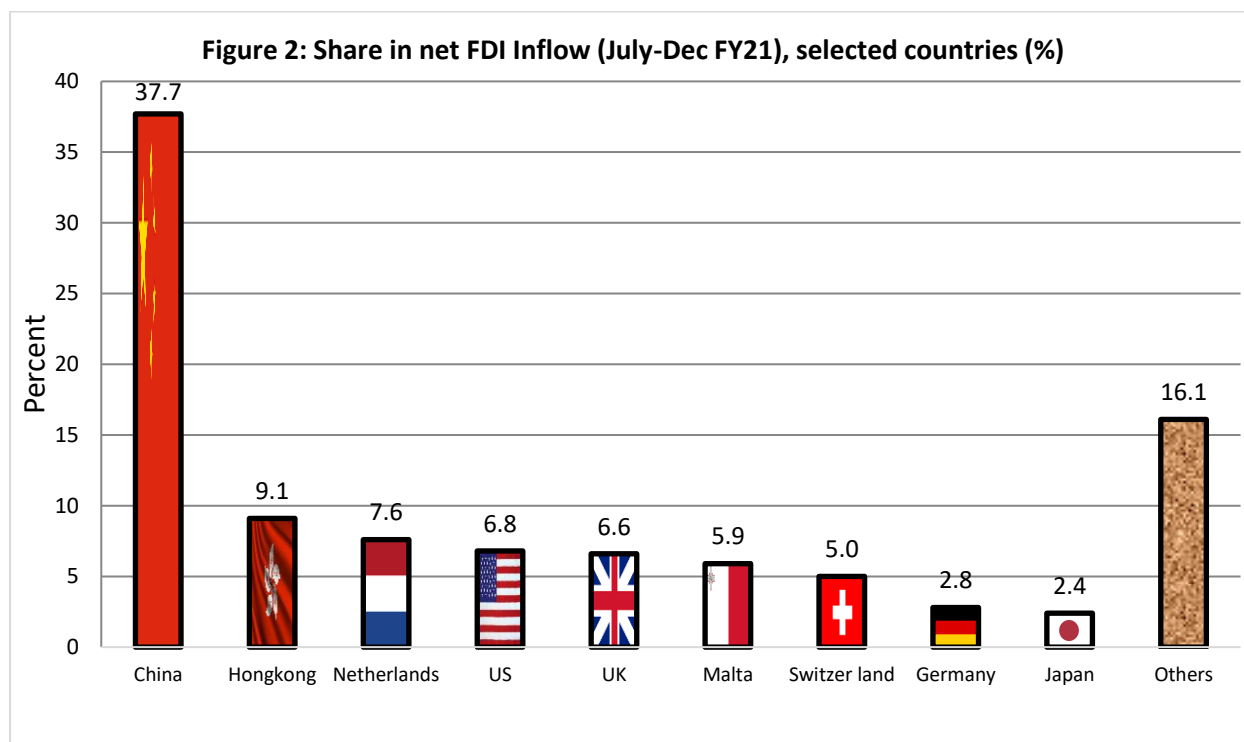
Source: State Bank of Pakistan

During Jul-Dec FY21, net FDI stood at US\$ 952.6 million, around 30 percent less compared to the figure of US\$ 1357.4 million recorded for the corresponding period of FY20 (Figure 1). Month-on-month, net FDI increased significantly, from a net outflow of US\$16 million in

November 2020 to US\$193.6 million in December 2020. However, compared to the figure for December 2019, net FDI in December 2020 registered a decrease of around 61 percent.

China, the major contributor with a share of 37.7 percent in total FDI, brought in US\$ 358.9 million during Jul-Dec FY21, followed by Hong Kong, the second largest contributor with 9.1 percent share, contributed a net FDI of US\$ 86.3 million. The other major contributors include Netherlands, US, UK, Malta, Switzerland, Germany and Japan with their respective shares of 7.6 percent, 6.8 percent, 6.6 percent, 5.9 percent, 5 percent, 2.8 percent and 2.4 percent. On the other hand, Norway divested (net) US\$ 44.1 million. When comparing net FDI during Jul-Dec for FY21 with FY20, it is observed that net FDI from Norway reduced by US\$ 332 million, while its share reduced by 26 percentage points. Similarly, net FDI from Malta also declined by US\$ 55 million while its share reduced by 2.3 percentage points and net FDI from China reduced by US\$ 36.9 million while its share increased by 8.5 percentage points during the period Jul-Dec of the years FY21 and FY20.

Country wise percentage share in net inflows of FDI from some selected countries during the period Jul-Dec FY21 is shown in figure 2.

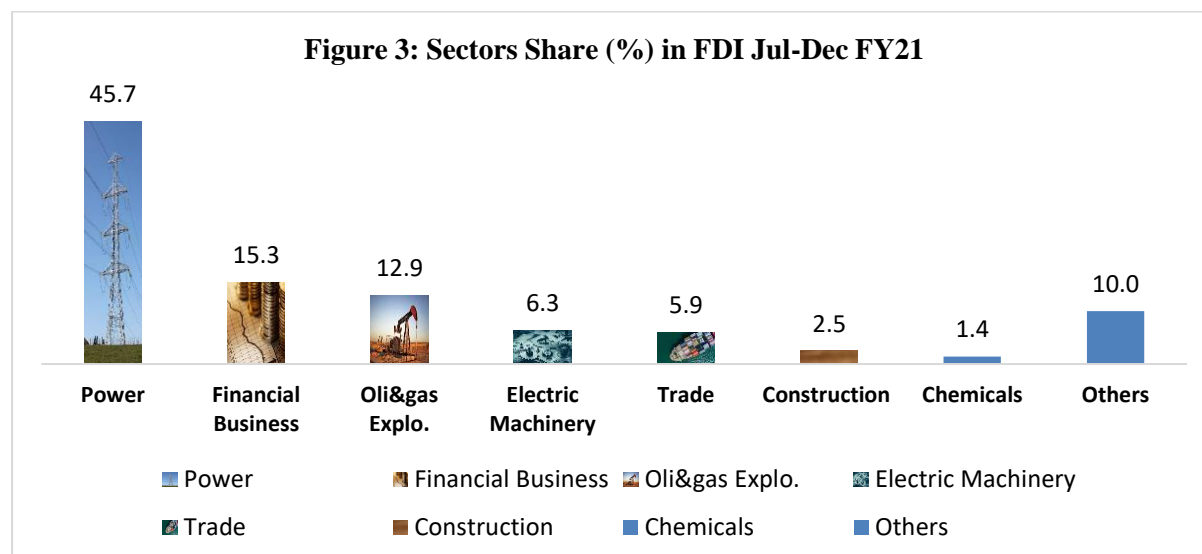


Source: State Bank of Pakistan

During Jul-Dec FY21, Power sector attracted the largest share of net inflows at US\$ 434.9 million with a share of 45.7 percent in total net FDI inflows, 26.5 percent of which (US\$ 252 million) went to coal-based power generation. The other sectors which attracted net FDI include US\$ 145.9 million in financial business, accounting for 15.3 percent of total net FDI, US\$ 123 million in oil & gas exploration accounting for 12.9 percent, US\$ 60.2 million in electrical machinery accounting for 6.3 percent, US\$ 56.5 million in Trade accounting for 5.9 percent, US\$ 24 million in Construction accounting for 2.4 percent and US\$ 13.4 million in Chemicals accounting for 1.4 percent of total net FDI.

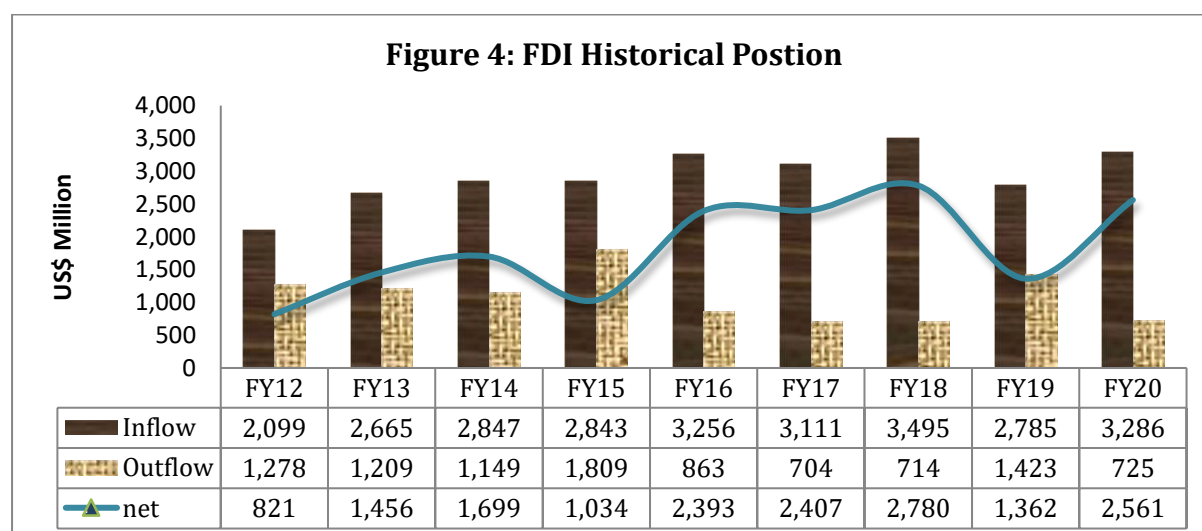
Power sector witnessed an increase in the net inflow as this sector received an amount of US\$ 434.9 million during Jul-Dec FY21 compared to net inflow of US\$ 262.2 million recorded in the corresponding period of FY20. This rise caused in an increase in the share of net FDI for Power sector to rise from 19.3 percent of total net FDI during Jul-Dec of FY20 to 45.6 percent during the same period of FY21. Within Power, Coal-based power generation witnessed a rise in its share from 11.3 percent in Jul-Dec FY20 to 26.5 percent during the same period of FY21. In transport and equipment (Automobile) sector, there has been little net investment inflows compared to an investment of US\$ 29.3 million during the same period of the last year. An important reason for this reduced investment is reduced demand of new cars due to COVID-19, depreciation of rupee and imposition of federal excise

duty. Trade sector witnessed a net inflow of US\$ 56.5 million during the period under review.



Source: State Bank of Pakistan

Foreign direct investment maintained upward trend since FY15 and increased from US\$ 1,034 million to US\$ 2,780 million in FY18. This rise can be attributed to higher inflows from China in early harvest projects under CPEC. After maintaining upward trend for three consecutive years, net FDI plunged in FY19 and rebounded during FY20. Historical position of the FDI is given below in figure 4. Based on the current trend during the first half of the year, it is expected that net FDI will reach US\$ 2,000 million mark by the end of the year. Net FDI remained at US\$ 2,561 million in FY 2020. Viewed from sectoral point of view, the share of net FDI in Communications sector reduced from 31.8 percent of total net FDI inflows during July-Dec. of FY 20 to almost zero during the same period of FY21. On the contrary, the share of FDI in Power sector increased from 19.3 percent of total FDI during July-Dec 20 to 45.7 percent of total FDI during the same period of the FY21.



Source: State Bank of Pakistan

Conclusion:

- Foreign Direct Investment not only supports the balance of payments situation but also brings in new technology and contributes in socio-economic development.
 - FDI decreased by 29.8 percent during Jul-Dec. FY21 compared to corresponding period in FY20. However net inflows from China increased as a result of the consistent investment from the Chinese firms in the energy and infrastructure projects under the first phase of the China-Pakistan Economic Corridor (CPEC) framework. Power Sector attracted major share of the inflows during the reference period.
 - More efforts are required for attracting FDI in the areas where Pakistan has a comparative advantage, that are labour intensive as well as in areas where FDI can promote efficiency. Moreover, placing FDI on national agenda, aligning (trade, textile and monetary) policies to attract it and improving governance leading to ease of doing business are pre-requisites for enhancing inflows of FDI.
 - Without availability of high skilled human resource, consistency in policies, political stability, discouraging rent seeking and employing better and newer technology, significant and sustained increase in FDI inflows will remain a dream.
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