BUSINESS RECORDER
Founded by M.A. Zuberi

18th March, 2019

FDI plummets and diversifies

The government officials are busy boasting of the multi month low CAD achieved in February 2019. Good job. But they would not necessarily tell the sorrow tale of the continuously falling FDIs – which have fallen by 22.6 percent year-on-year in 8MFY19. In February 2019 alone, the drop in net FDIs was a colossal 49 percent year-on-year.

The FDI flow in the past three years had been mostly about China and the power sector. And the calls for diversification were loud, whilst the first phase of CPEC was in full swing. Now that the power plants are up and running, the diversification is here, at least in economic groups, if not county wise flows. Only that this was not the diversification one was looking forward to – as the pie has shrunk considerably.

The power sector was by far the single largest recipient of the FDIs, mostly in the coal segment – with an average share of 37 percent in the last three years, 55 percent being the highest during FY16. That has come down crashing to less than 15 percent – that too in a falling FDI scenario. For the first time ever, construction sector now leads the FDI ship with nearly 22 percent share, which is mostly from China and is reflective of CPEC's next phase. But the absolute growth in FDIs in the construction sector is negative – with a 26 percent year-on-year dip in 8MFY19.

The financial sector, on the other hand, is fast catching up with power, with an identical share – although that too dipped by 29 percent year-on-year. One relatively better performing is the oil and gas exploration sector, exhibiting a 35 percent year-on-year growth. Many a foreign exploration companies have shown keen interest in either returning to or expanding the footprint in Pakistan's E&P sector.

Almost none of the FDI is attracted by the export oriented sectors, which remains a big concern, also highlighted by the State Bank of Pakistan in its last State of The Economy report. "..there is a need to promote foreign investment in the export-oriented manufacturing sectors, such as textiles and leather products," pointed the SBP. The BoI surely has a job on hand.

Expect no sudden recovery in FDIs, as CPEC related investments will not be as frequent or as big from now on. Some hope could be drawn from the recent visit of the Saudi MBS, where Pakistan and Saudi Arabia inked investment MoUs worth $20 billion. Could the Kingdom be the next China in terms of Pakistan FDI? In absence of any other avenue, one would hope the Saudi MoUs do end up materializing.