

Missed FDI goals!

Page No.02 Co I No.04

Pakistan's FDI numbers have not been pretty. And in latest news they are getting even worse. By April 2018, the growth in FDI was about 2.4 percent year-on-year, landing at less than one percent of the GDP. By the end of May 2018, that poor growth turned red, with net FDI falling 1.3 percent in the eleven-month period.

Investments from China have grown decently; about 37 percent. So have inflows in power and construction sectors. By contrast, non-Sino FDI dropped more than 30 percent in 11MFY18. No genius, therefore, in highlighting that Pakistan's reliance on Chinese FDI has ballooned to unprecedented levels. Is that something Pakistan should be okay with? Higher than Himalayas 'friendship' is one thing; lack of diversity is another.

Factoid: Pakistan's reliance on Chinese FDI in FY18 (at 61% of total) is highest in recent memory. The US had a share of 67 percent in total FDI in FY02, but at least back then, non-US FDI was also growing leading to an overall growth in FDI. This year, the reliance on Chinese FDI has grown whereas total FDI is falling. Again, not quite a pretty picture!

With 11MFY18 numbers already in, it is safe to say that the FDI goals set under Investment Policy 2013 have not and will not be met by the end of FY18. Pakistan's domestic savings is already low. This means it should be attracting foreign savings – especially by way of FDI – not only to buttress its investments but also for technology transfer and improvements in total factor productivity. On that note, it is important to invest in technical and vocational skills as well as subject-specific education – logistics for example - to be able better absorb the technology as and when foreign players collaborate with domestic enterprises.

These concerns should be on the top of the agenda – an agenda that cannot be merely solved by giving tax cuts or subsidies in inputs prices. Such policies work, indeed! But their impact is limited in the absence of a stable economic environment, and a reliable infrastructure.

To that end, it is imperative to work with existing FDI players, address their needs and encourage them to reinvest their earnings in the country. According to central bank data, foreign investors repatriated \$1.5 billion in 10MFY18. Even if a third of that amount was reinvested in the country, 11MFY18 FDI would have been 18 percent higher rather

than down by one percent. And that would have also been an indicator of investor confidence that speaks for itself.