BUSINESS RECORDER
Founded by M.A. Zuberi

FDI needs a jolt

Page NO.02 Col No.03

Foreign Direct Investment (FDI) could do better in Naya Pakistan. As per the latest central bank data, net FDI came in 35 percent year-on-year lower in August 2018, at $160 million. Gross inflows, at $219 million, were down 26 percent, even as outflows went up 20 percent year-on-year to $59 million. It's like a repeat of the July FDI figures (read: FDI down; non-Sino FDI worse, published August 20, 2018).

Looking at the detailed dataset for August, as usual, China dominates, with a 60 percent share in net FDI. In terms of Pakistan's gross FDI inflows that month, China provided 48 percent; with Switzerland a distant second (12%), followed by the United Kingdom. Among the countries leading the FDI outflows were Norway (34% of outflows), China (16%), Kuwait (11%), and the United States (11%).

Looking at the sectors, some 25 percent of gross inflows came in the construction sector; another 17 percent in the power sector (roughly divided equally among hydel, thermal and coal); some 16 percent made their way in the financial business; and about 11 percent in the pharmaceutical sector. Leaders in terms of outflows were telecommunications (40% of outflows) and beverages (10%).

Connecting the dots, the gross inflows seem to have emanated mainly from China's investment in power and construction industries related to CPEC. And the outflows seem to be driven by Telenor's gradual disinvestment from Pakistan.

China looms large for FDI into Pakistan, but it is presiding over a diminishing pie in both nominal and real terms. For instance, in August 2018, China's gross inflows slowed sharply. They came down 45 percent over August 2017, to settle at $106 million. That resulted in net FDI from China almost halving from previous August to $96 million this August. As the CPEC early-harvest energy projects mature, there was a 75 percent yearly slump in power sector gross inflows this August, mainly on account of coal power.

If CPEC-related projects are put on the backburner, FDI inflows may further weaken in the infrastructure-heavy sectors. But it may be a short-term phenomenon. News reports suggest that both China and Pakistan are willing to review the CPEC portfolio, to take it forward towards industrial cooperation, and to invite other countries to participate. That may open up the space for greater non-Sino FDI in the country.

Thus far, in 2MFY19, net FDI is down 40 percent year-on-year to $288 million. In order are reformist measures that can boost this critical source of non-debt-creating forex inflows. Hopes are high following the appointment of an experienced professional to head the federal Board of Investment (BoI). Let’s see what plan of action the federal BoI comes up with and how it goes about implementing the same with other federal and provincial authorities.