



HOW TO ATTRACT FOREIGN DIRECT INVESTMENT FROM CHINA TO PAKISTAN

By
Muhammad Iqbal
Research Assistant

&
Tabarak Ali Shah
Intern
China-Pakistan Study Centre (CPSC), ISSI

Edited by
Dr Talat Shabbir

October 11, 2021

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Chinese Foreign Direct Investment (FDI) has made a major contribution to the economic development of Pakistan. Pakistan received a record level of FDI from China and stood at US \$1.18bn in the fiscal year 2016-17.¹ But, the downward trends have been recorded in the inflow of Chinese FDI into Pakistan after the FY 2017. The State Bank of Pakistan's latest figures show a sharp decline in the inflow of FDI from China in the fiscal year of 2021. According to statistics, the net inflow of FDI from China remained US \$758 million in FY21, dropped nearly 10 per cent as compared to US \$847 million in FY20.² The decline in the Chinese investment in the China-Pakistan Economic Corridor (CPEC) related projects are attributed mainly to massive fall in the inflow of Chinese FDI into Pakistan.

There is a strong relationship between China and Pakistan not only in political, military and strategic domain but also in economic, trade and commerce sectors. In this regard, the CPEC is the finest example of it. China has been the largest investor for Pakistan in the last several years. Despite a sharp decline, Pakistan still receives half of its total FDI amount from China. In the eleven months of 2020-21, the FDI inflows from China accounted for 41.6 per cent of Pakistan's total FDI receipts.³ If

1 Iqbal, S. "Foreign investment hits 8-year high," *DAWN*, July 18, 2017.

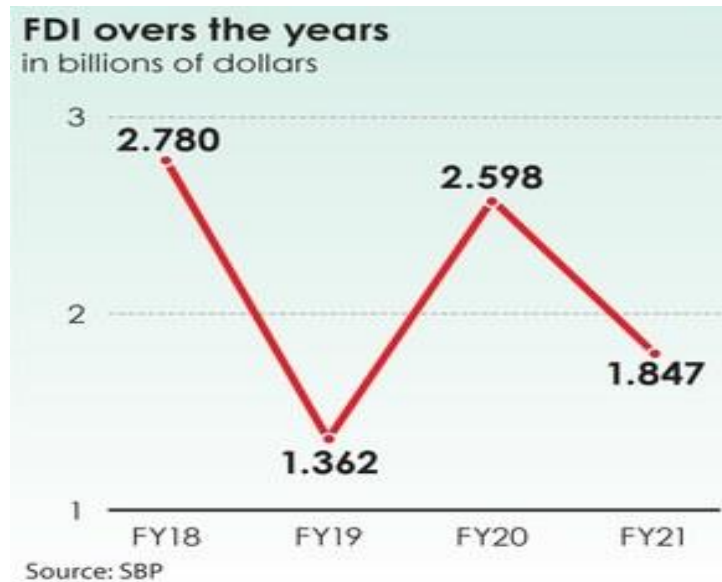
<https://www.dawn.com/news/1345950>

2 Bhatti, R. (2021, July 17). "FDI down 29pc in FY21 on fall in Chinese investment," *Brecorder*, July 17, 2021.

<https://www.brecorder.com/news/40107803>

3 Aazim, M. "Case for attracting more FDI," *Dawn*, June 28, 2021. <https://www.dawn.com/news/1631945>

inflows from Hong Kong (an autonomous special administrative region of the mainland) are included the percentages of inflow of FDI from China goes up to 51.5pc.⁴ Overall, the net inflows of FDI into Pakistan remained below US \$2.3 billion in the last four years.⁵



<https://www.dawn.com/news/1641330>

In the year 2020, in comparison with the amount of US \$2.6bn attracted by Pakistan, the inflow of FDI into India, Brazil, UAE, Indonesia and Vietnam stood at US \$64bn, \$25bn, \$20bn, \$19bn and \$16bn respectively.⁶ It indicates that Pakistan needs much thicker inflows of FDI to help ease the balance of payment problem. The main problem is Pakistan relies a lot on foreign funding from friendly nations or commercial borrowing from foreign banks and makes little efforts to attract more FDI.

Opportunities to attract FDI from China

Pakistan is an attractive avenue for Chinese investment. Thermal, hydel and coal power generation, financial services, oil and gas exploration, mining, information, technology and telecommunications, electric and electronics sector, construction sector, trade and transportation are all among the recipients of Chinese FDI.⁷

⁴ Ibid.

⁵ Iqbal, S. "Foreign direct investment plunges by 38.7pc in July," *DAWN*, August 18, 2021. <https://www.dawn.com/news/1641330>

⁶ Aazim, Mohiuddin. "Case for Attracting More FDI," *DAWN*, June 28, 2021. <https://www.dawn.com/news/1631945>.

⁷ Ministry of Planning, Development & Special Initiatives. Accessed October 5, 2021. https://www.pc.gov.pk/uploads/cpec/PES_2020_21.pdf.

Demand for energy in Pakistan is increasing with each passing day. The rapid increase of population is one of the main reason of increasing energy demand.⁸ Today, Pakistan's total power capacity is stood around 35,000MW. Moreover, Pakistan's demand for electricity will increase up to 57,000MW by 2030.⁹ China's investors are already engaged in the power generation sector of Pakistan. Currently, energy project completed under CPEC is contributing 9643MW to the national grid.¹⁰ Therefore, the energy sector offers an impressive opportunity to attract foreign direct investment from China.

Chinese investors are keenly interested in the mining of Pakistan's untapped natural resources. Currently, Metallurgical Corporation of China is operating two mechanized hard rock underground Copper-Gold mines in Balochistan. Hence, Chinese investors interest in Balochistan's vast untapped natural reserves is also an opportunity to increase the FDI from China to Pakistan.

Proper security of Chinese investors and their capital is rudimentary to attract the FDI from China for a long time in future. The promotion of the soft image of Pakistan is equally important as it is being badly damaged by terrorism during the last two decades.

Challenges to attract FDI from China

As China has now become the hub of global economic activities, Pakistan could promote the deepening, diversification and technological sophistication of its tradable sectors by increasing the flow of FDI from China. There are still many challenges which affect the free flow of Chinese investment into Pakistan in the last few years.

First and foremost, the issue of terrorism has been the major impediment to attract Chinese investment in Pakistan. The surge of terrorism in Pakistan after the episode of 9/11 has left far-reaching consequences on the inflow of FDI in Pakistan. Despite Pakistan's swift victories against terrorist outfits on its mainland in the last few years, it still faces security challenges to attract FDI.¹¹

The recent Dasu attack on Chinese nationals, Gwadar East Bay Expressway suicide attack on Chinese engineers and Quetta Serena hotel blast on Chinese ambassador implies the security of China's

⁸ "Pakistan's Energy Scenario: a Forecast of Commercial Energy Consumption and Supply from Different Sources Through 2030." Energy, Sustainability and Society. Last modified August 27, 2018. <https://energysustainsoc.biomedcentral.com/articles/10.1186/s13705-018-0167-y>.

⁹ The Newspaper's Staff Reporter. "Generation Capacity of 57,204MW Needed by 2030, Says Paper, *DAWN*, June 4, 2021. <https://www.dawn.com/news/1627415>.

¹⁰ Ministry of Planning, Development & Reform 'P' block Pak-Secretariat, Islamabad, Pakistan. (n.d.). Energy | China-Pakistan economic corridor (CPEC) official website. CPEC | China-Pakistan Economic Corridor (CPEC) Official Website. <https://cpec.gov.pk/energy>

¹¹ "Pakistan's Investment Climate: The FDI Problem – South Asian Voices." South Asian Voices. May 2, 2021. <https://southasianvoices.org/pakistans-investment-climate-the-fdi-problem/>.

investors and the safety of their capital assets is the main issue that obligates Chinese investors to avoid investment in Pakistan. Thus, a huge bulk of foreign companies has shifted their capital and credits to countries that are more secure and business-friendly.

According to the United Nation Development Program (UNDP) report, “Pakistan’s 64pc of the total population is below the age of 30,”¹² however, Pakistan is still facing a shortage of technical labour force in the market to attract FDI.¹³ Unfortunately, Pakistan has not established, so far, a proper institutional network that provides an opportunity for technical training to the young labour force to fulfil the market demand.

Many other challenges are playing a part to discourage the Chinese investors to invest in Pakistan. That include government policies, attitudes of bureaucracy, lack of availability of proper infrastructure, conservative attitudes of the general public and awareness about international investment are responsible for the downward trends of Chinese direct investment in Pakistan.¹⁴ Such a scenario only promotes a sense of fear for the world investors and particularly for Chinese investors to invest in Pakistan.

Steps required to attract FDI

The removal of tariffs and other barriers to facilitate Chinese investors and companies to transfer their assets, like; capital and payments are the specific attributes to attract FDI. Besides, adequate infrastructure facilities are the important component after security issues for attracting China’s investment in Pakistan. The main infrastructure facilities are the energy, roads, telecommunications and water system.

There is a need to open technical institutions to enhance the technical labour force is one of the best ways to attract FDI from China. China’s investors should also be allowed to avail this opportunity to train the labour according to their demand of market operation.

Last but not the least, knowledge and attitude are also important to attract FDI from China. The Asian societies are mostly conservative, they cannot easily accept the custom, tradition, language, dress, food and national festivals of other societies. Therefore, the attraction of Chinese investments needs to change the attitudes of the people towards Foreign Direct Investment. There is a need to

¹² Kundi, Asma. “Pakistan Currently Has Largest Percentage of Young People in Its History: Report,” *DAWN*, May 3, 2018. <https://www.dawn.com/news/1405197>.

¹³ Ibid.

¹⁴ Wajeeh ullah, Bo Yangb, Hong-Fei ZHU, “China’s Investment in Pakistan: Challenges and Opportunities,” *AEBMR, volume 60, 4th Annual ICMESD, 2018*. [https://file:///C:/Users/CSC4/Downloads/25898718%20\(1\).pdf](https://file:///C:/Users/CSC4/Downloads/25898718%20(1).pdf).

create conducive and favourable environment for Pakistan in which the general people can understand the advantages and benefits of foreign investment for Pakistan.