

FOREIGN DIRECT INVESTMENT IN PAKISTAN: OPPORTUNITIES AND CHALLENGES

OUTLINE:

1) Introduction:

The opportunities of investing in Pakistan includes huge mineral reserves in the country, rich agriculture base of Pakistan, growing tourism sector, presence of young and talented population, geostrategic location, renewable energy potential and privatization and public-private partnership opportunities. On the other hand, the challenges are unpredictable economic growth, political instability, low ease of doing business, security concerns, climate vulnerability, absence of infrastructure and energy shortages.

2) Opportunities of Investing in Pakistan

(a) Investment in huge mineral reserves of Pakistan.

(b) Investment in agriculture sector of Pakistan

(c) Growing tourism sector in the country

(d) Presence of young talented population as a source of labour.

(e) Geo-strategic location of Pakistan

(f) Renewable energy potential in Pakistan

(A) Privatization and public-private partnership opportunities.

(3) Challenges to Investing in Pakistan

(a) Unpredictable economic growth trends

(b) Political instability and governance issue

(c) Low ease of doing business environment.

(d) Security concerns due to terrorism

(e) Climate vulnerability of the country

(f) Absence of infrastructure

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(g) Frequent energy shortages in the country

4) Conclusion

In the 1980s, Iceland was facing severe economic crises. It was facing low GDP growth, high unemployment and backlashes to industrialization. However, the country took remarkable steps to recover economic growth and invite foreign investments. It lowered tax rate, incentivize investment and increased the ease of doing business. All these steps opened the gates for foreign investment. Multinational companies like Google, Microsoft and Pfizer invested in Iceland. This investment caused around 8-9% GDP growth of the country. This growth gave the country a title of 'Celtic Tiger'. Pakistan is also facing huge economic crises. It is correct to say that Pakistan's economy is surviving on the ventilator of the IMF. Debts and loans are growing day by day. Therefore, Pakistan is in dire need of foreign direct investment that can recover Pakistan economically and guarantees stable economic growth instead ad hoc growth due to debts and loans. This investment

should strengthen the industrial base of Pakistan. However, there are some opportunities as well as challenges in investing in Pakistan. This essay will delve into these opportunities and challenges. Pakistan should make concerted efforts to enhance the opportunities and eliminate the challenges.

Starting with the opportunities of investing in Pakistan, the country has huge reserves of mineral that has huge economic value. However, Pakistan lacks expertise and cannot bear the huge cost linked to quarrying of these minerals. According to Pakistan Bureau of Statistics, the country has around \$6tr of untapped mineral wealth. Besides, Pakistan sells raw minerals to foreign countries which then process them and resell them at higher prices. For instance, Pakistan sells marble to Italy in raw form and Italy adds values in it and sell it at higher prices. Foreign investors can invest in these minerals and earn huge profits. These investors can establish plants in Pakistan to extract

these minerals and then purifying them and then reselling them to foreign buyers. Thus, mineral reserve in Pakistan has potential to earn huge profits which can be leveraged by foreign investors.

Moreover, Pakistan has strong agriculture base and investment in the sector can bring huge profits. According to Pakistan Bureau of Statistics, Pakistan has around 31 million hectares of arable land and 22 million of cultivable land. Pakistan comes at the top of list in many agriculture exports. However, Pakistani farmers are still practising old agricultural techniques. This reduces agricultural yield. Pakistan also falls behind in implementing post harvest practices and value addition. These are the sites in which foreign investors can invest and earn hefty profits. Nestle Pakistan is foreign company which has invested in Pakistan's agriculture and dairy industry and earn huge profits. Thus, untapped potential of Pakistan agriculture sector can be harnessed by foreign investors.

Furthermore, Pakistan is the country that has potential to generate revenues through tourism because of the tourism sites in Pakistan. Pakistan offers many types of tourism like adventure tourism, archeological and historical tourism, eco-tourism and religious tourism. According to Pakistan Tourism Barometer, Pakistan saw 1.91 million international arrivals in 2022. Foreign investors can invest in hotels, lodging areas, food points, rest areas, parks, transport sector, and building of markets in remote areas and earn huge profits from it. Thus, tourism sector in Pakistan is an attractive site of foreign investment.

In addition to that, Pakistan has large number of young and talented individuals that can serve as a source of cheap labour.

According to Pakistan Economic Survey 2024-2025, nearly 64% of Pakistani population is under the age of 30. These individuals are talented and have skills.

According to HEC, Pakistan produces 35,000 engineering graduates and 20,000 IT graduates each year.

Foreign investors can employ these individuals to their established industries, plants and service sector. These individuals use their skills to enhance the productivity of industry. Hence, foreign investors can also take advantage of youth bulge of ^{the} country as a source of labour.

Besides, Pakistan's geo-strategic location can also attract foreign investors. Pakistan is located at the cross road of South Asia connecting East Asia, Middle East, South Asia and China. Pakistan shares its border with China and India that serve as the market of million of people. Pakistan, on its south, has Gwadar port that opens into Indian Ocean. This eases trade with ^{the} Middle East and the Central Asian Republics. Besides, Gwadar port also serve as site of foreign investment because of its importance as global trade and transit points. Foreign investors can make investment in shipping and logistics companies and cold storage for fisheries and perishables. Thus, Pakistan geo-strategic location makes Pakistan an attractive spot of investment.

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Moreover, Pakistan has huge potential in renewable energy sector in which investment can be made. World is moving towards renewables because of the huge carbon footprints of fossil fuels. Developed countries can invest in renewable sector of Pakistan and earn carbon credits that will help them to balance their carbon emission limits. According to Alternative Energy Development Board, Pakistan receives $5.3-6 \text{ kWh/m}^2/\text{day}$ of solar irradiance on average, one of the highest in the region. Pakistan also has 1046 km of coastal line that serve as a good location for wind power generation. Thus, untapped renewable energy potential of Pakistan can serve as an opportunity for foreign investment.

Furthermore, there also lies privatization and public-private opportunities for foreign investors. Pakistan is bearing huge losses due to state-owned enterprises. According to Ministry of Finance, aggregate loss of SOEs was Rs851 bn in 2023-24. These enterprises are causing losses not because they do not have potential to earn profit but because

of the poor management, lack of fiscal discipline and rampant corruption. Managing them in proper and structured way can bring huge profits margins. Government has enlisted SOEs for privatization such as Pakistan Steel Mills, PIA, DISCOB and etc. Under public-private partnership, foreign investors can participate in developing motorways, special economic zones and etc. Thus, these areas serve as an opportunity for foreign investors.

Alongside opportunities, there are also some challenges associated with foreign investment in Pakistan. One of them is unpredictable economic growth trends of Pakistan. For instance, according to Pakistan Economic surveys, GDP growth in 2018-19 was 5.8%, 0.4% in 2019-20, 3.9% in 2020-21, 5.97% in 2021-22 and 0.8% in 2022-23. These boom and bust cycles shatters the investor's confidence. Investors invest in those countries with stable economic growth. This irregular economic growth makes the investment risky. Besides, the devaluation of rupee also lowers the return on investment. Investors

always look for the country where they get huge return on investment. Hence, inconsistent economic growth trend is a challenge to foreign investment.

Besides, political instability and governance issue is another challenge to foreign investment in Pakistan. Political arena of Pakistan is marked by uncertainty, chaos and inconsistencies. Policies of previous government are reversed with the arrival of new government. Foreign investors have to bear the brunt of these policy changes. Administrative delays is also an issue due to lack of political reconciliation among parties. Federal-provincial tussle on natural is also a thorn in the way of foreign investment. Lack of incentives, corruption, and absence of fair policies are also inimical to foreign investment. Hence, political instability and governance issue are hurdles in the way of foreign investment.

In addition to that, low ease of doing business makes Pakistan less attractive to foreign investors. Pakistan is ranked 108

among 190 countries in the ease of doing business by World Bank annual ratings. There are long taxation procedure. Legal dispute resolution is slow and time taking. Bureaucratic hurdles add oil to an injury. There is an absence of one window operation and special operational procedure measure for investors. Corruption and bribery in administration to acquire approvals and awarding of certificates cause flight of investment. Therefore, low ease of doing business shakes the confidence of investor.

Moreover, security concerns due to terrorism is also a challenge for foreign investors. Terrorists are involved in killing of foreign investors. For instance, Chinese engineers associated with CPEC were killed by terrorists in the past. Foreign investors have to invest huge money in security measures, insurance and protection. This causes reduction in profit margins. Terrorism also cause delays in supply chains that hampers the productivity.

Investors always invest in ^{the} country where peace prevails and security is valued. However, in Pakistan, terrorism is again on rise that brings insecurity in foreign investors. Thus, terrorism is threat to foreign investment in Pakistan.

Another Challenge to foreign investment is the climate vulnerability of the Pakistan. Pakistan is prone to climate disasters.

According to Global Climate Risk Index, Pakistan ranks 8th globally among the countries most affected by climate related disaster over the past 20 years.

Climate change cause decrease in agricultural yield and may devastate entire fields causing huge economic losses. Extreme heats, floods and landslides in ^{the} Northern Areas cause reduction in tourist inflow affecting hotel and resorts businesses. These climate disasters cause huge economic losses. Pakistan is also poor in disaster management and climate adaption. These factors are the challenges in the way of foreign investment.

Furthermore, there is absence

of basic infrastructure that is considered as a challenge to foreign investment. Roads are not built to reach the northern areas where huge reserves of mineral can be found. Rail network is missing for supply chain. There is absence of enough water for running industrial operations. Cellular connections cannot reach to remote areas that makes communication impossible. Many of the projects are still at nascent stage due to absence of infrastructure. That coal reserves of 175 billion tons remain underutilized due to transmission line issues and lack of transport links. Hence, absence of infrastructure make foreign investment in Pakistan impossible.

Besides, frequent energy shortages the country also deter the investors from investing in Pakistan. Disruption in energy supply cause interruption in the ~~country~~ of industries which cause productivity loss. According to state bank report, energy shortages reduces industrial output by 4% to 6%, leading to economic inefficiencies and higher operational costs. Investors

never wants to loose his money because of this factor. Many industries in the past had also shut down due to energy crisis. According to Sindh Assembly, around 85 industrial ^{units} shut down due to power crisis. Therefore, energy shortage is challenge to foreign investment in Pakistan.

In a nutshell, Pakistan is the country that is facing economic crisis and attracting investing is viable solution to take the boat of Pakistan out of economic crisis. However, there are some opportunities as well as challenges for investing in Pakistan. Opportunities include huge mineral reserve, untapped agricultural and renewable energy potential, talented youth bulge and geo-strategic location of Pakistan. On the other hand, challenges are erratic economic growth pattern, political instability, low ease of doing business and security concerns. However, these challenges can be overcome. Pakistan is actively working to reduce the security threats and eliminate terrorism. Finance Ministry is working to stabilize the economy. Climate adaption policies

are also implemented. Super powers are also showing interest in investing in Pakistan's mineral sector. Pakistan has also dispatched one patch of minerals to Missouri based mineral company. This seems to be the beginning of Pakistan progress in terms of foreign investment arrival in Pakistan. As Nelson Mandela rightly said, "It always seems impossible until it is done". The arrival of foreign investment is harbinger of the fact that Pakistan is has begun toward a path of economic prosperity.