



Pakistan's FDI Pulse

OICCI Insights

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The First Port of Call for Foreign Investors



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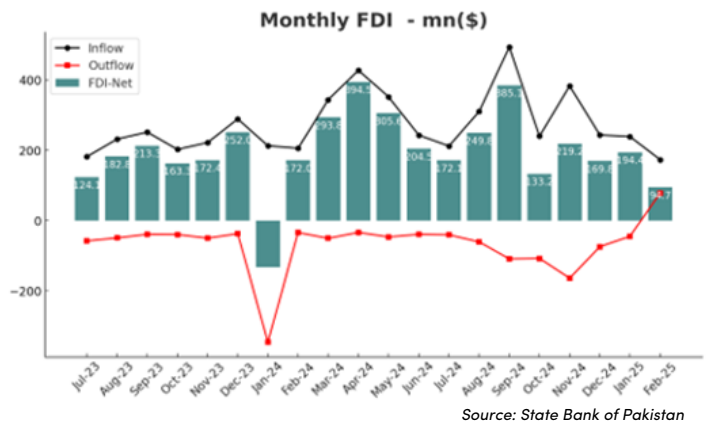
Overview of FDI in Pakistan

In February 2025, Pakistan's foreign direct investment (FDI) experienced a significant decline, with inflows totaling \$94.7 million—a 45% decrease compared to \$172 million in February 2024.

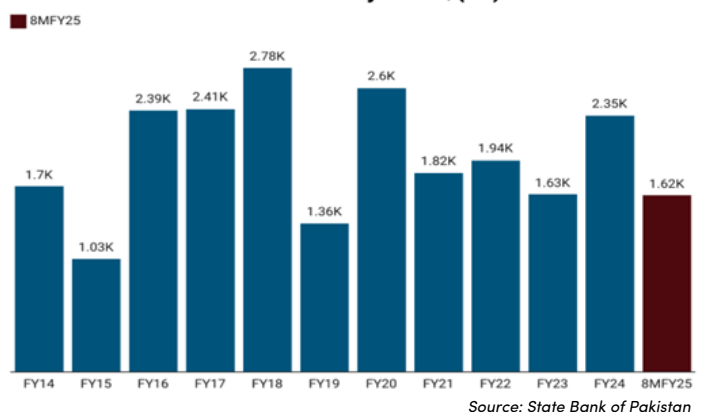
Despite this monthly downturn, the cumulative FDI for the first eight months of the fiscal year 2025 (8MFY25) showed a notable increase. From July 2024 to February 2025, Pakistan attracted \$1.618 billion in FDI, marking a 41% rise from the \$1.147 billion recorded during the same period in the previous fiscal year.

The financial business sector remained a steady performer throughout FY25, with monthly inflows consistently falling between \$45–\$55 million. Meanwhile, power projects (including thermal, hydel, and coal) and oil & gas exploration continued to pull in significant capital—particularly during the months of May and July 2024, which saw noticeable spikes. A welcome development has been the rising interest in electrical machinery and electronics, which gained momentum in the second half of FY25. In Feb-25 specifically, the financial business sector emerged as the leading recipient of FDI, securing net inflows of approximately \$52.5 million. The power sector followed with about \$27 million, and the oil and gas exploration sector received \$9.6 million. Conversely, the personal services sector experienced the most significant net outflow, with foreign investors withdrawing \$19.5 million.

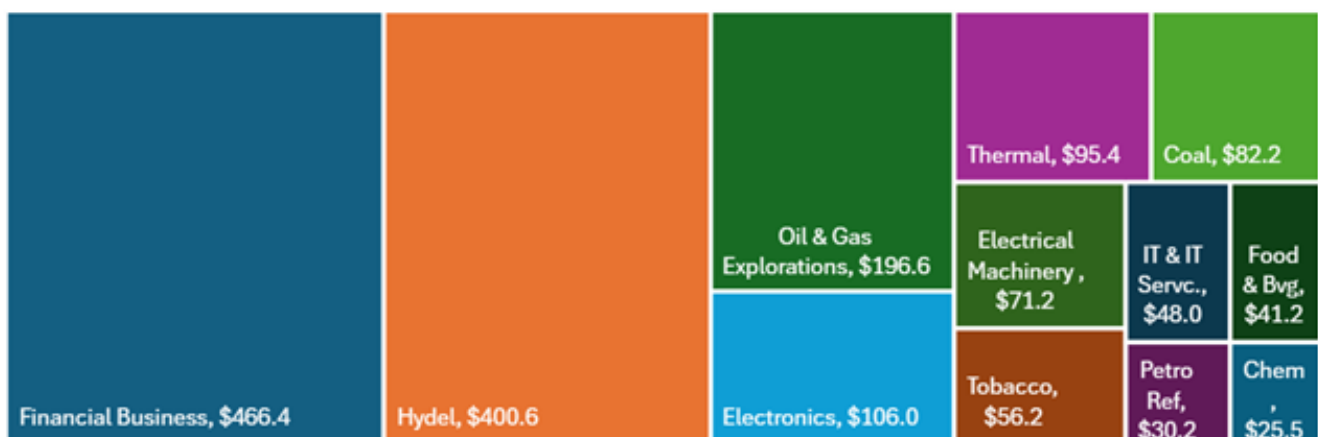
Over the 8MFY25 period, the power sector attracted the highest net FDI, totaling \$578.2 million—a substantial increase from \$189.2 million in the corresponding period of the previous fiscal year. The financial business sector received \$466.4 million, up from \$404.6 million, while the oil and gas exploration sector saw a modest rise to \$196.6 million from \$182.7 million. In contrast, the communications sector faced a net divestment of \$57.8 million during this period, compared to a \$22.6 million outflow in 8MFY24.



FDI in Pakistan over the last 10 years: \$(bn)



FDI in key sectors - 8MFY25



China maintained its position as the leading investor in Pakistan, with a net FDI inflow of \$28.1 million in February 2025. Cumulatively, it remained Pakistan's top FDI partner, contributing \$944.5 million during the first eight months of FY25. This was followed by significant inflows from the United Kingdom (\$172.1 million), Hong Kong, Switzerland, and France. Notably, net FDI from China alone stood at \$661.8 million—accounting

for over 40% of the total net investment. The United States recorded inflows of \$101 million and outflows of \$8.9 million, resulting in a net FDI of \$92 million, slightly higher than the \$83 million recorded during the same period in FY24.

FDI in Pakistan Country-wise - \$(mn)

	FY20	FY21	FY22	FY23	FY24	8MFY25
China	846.6	751.6	595.9	692.5	643.2	661.8
United Kingdom	119.1	141	60.6	269.8	239	167
Hongkong	190.7	157.2	135.8	250.2	211.6	160.4
Switzerland	62.8	61.7	143.3	14	228.6	131.1
France	-1.1	4.1	85.2	38.6	107	93.1
U.A.E	-44	115.7	121.8	104.4	132	80
United States	99.2	166.4	313.6	180	109.9	68.3
Netherlands	133.2	96.9	6.6	24.3	72.3	49.3
Malta	222.2	56.6	0	11.7	45.9	30.4
Kuwait	5.2	0	46.9	19.2	47.5	28.4
Singapore	19	3.9	112.3	35.2	104.1	25.1
Canada	0.3	-0.1	2.2	0.5	95.4	24
Malaysia	52.3	44.1	95	40.7	27	15.1
Korea (South)	50.6	15.1	6.5	41.5	16.4	10.6
Saudi Arabia	21.8	6.8	7.9	-4	81.7	9.6
Italy	57.4	36.3	34.8	7	-1.4	-1
Japan	62.5	-13	-10.8	143.4	-5	-4
Germany	59.9	53.2	89.9	38.1	26	-12.6
Norway	402	-6.1	-22.2	-229.5	-60	-80.3

Source: State Bank of Pakistan

Economic Context and Policy Direction Influencing FDI in Pakistan

The economic environment of Pakistan in 2025 presents a complex blend of macroeconomic challenges and some reforms, directly or indirectly shaping the trajectory of Foreign Direct Investment (FDI). While some policy measures aim to stabilize the economy and attract capital, others introduce uncertainties that influence investor sentiment.

Inflation and Monetary Policy

The State Bank of Pakistan (SBP) has maintained the policy interest rate at 12% to manage inflation and stabilize the currency. Although inflation has started to moderate and the currency has been stable. Future rate cuts remain conditional on inflation targets, making the investment landscape cautious.

Widening Trade Deficit

A growing trade deficit continues to pressure foreign exchange reserves and weaken the Pakistani Rupee (PKR). Investing in fast depreciating currencies is a rising concern of investors.

IMF Support and Structural Reforms

With a \$7 billion loan approved by the International Monetary Fund (IMF), Pakistan has committed to structural reforms, including broadening the tax base and reducing subsidies. While IMF support enhances macroeconomic stability and investor confidence, austerity measures and higher taxes raise operational costs, potentially limiting new FDI inflows.

Aggressive Taxation Policies

Efforts to increase the tax-to-GDP ratio from 10.3% to 13.5% are underway. These reforms aim to enhance fiscal health and governance, which appeals to long-term investors. However, the burden of increased taxes and compliance deters firms from evaluating cost-effective regional alternatives.

Investor Confidence and FDI Trends

Pakistan continues to lag behind regional peers such as India, Vietnam, and Bangladesh. Investor hesitancy stems from economic volatility, inconsistent policy enforcement, and geopolitical factors.

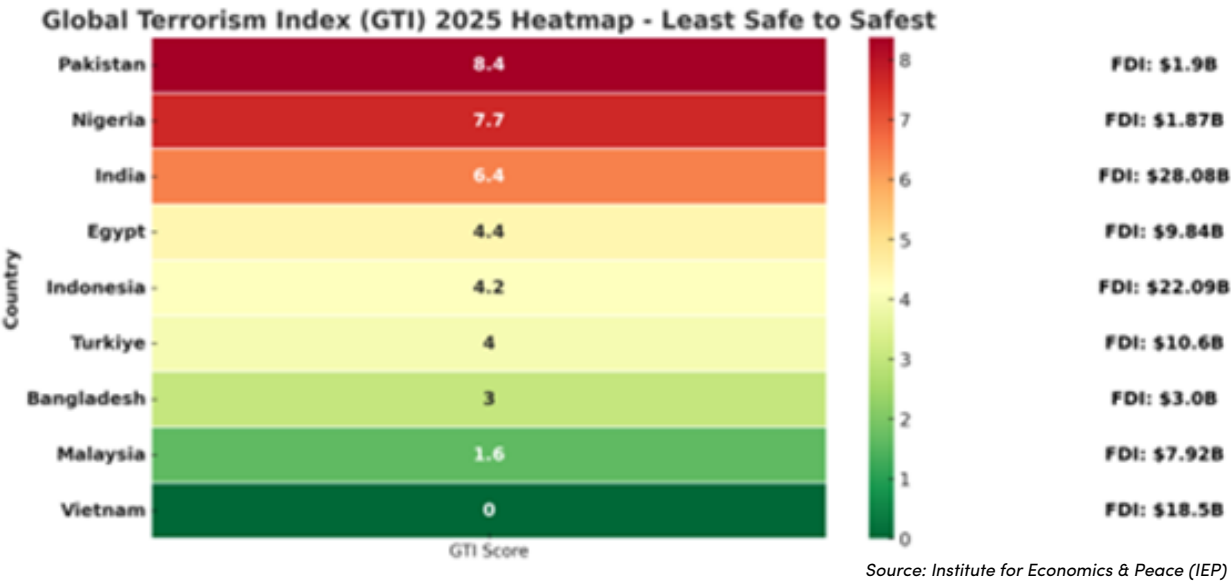


Energy Contract Renegotiations

Recent renegotiations of energy contracts with foreign Independent Power Producers (IPPs) have signaled unpredictability in the investment climate. This raises legal and reputational risks, particularly for international investors in renewable and power sectors, potentially deterring long-term capital commitments.

Security Challenges

Security remains a key consideration for foreign investors in Pakistan, influencing the country's ability to attract FDI in 2025. Multinational corporations, particularly those investing under the China-Pakistan Economic Corridor (CPEC), have emphasized the need for enhanced safety measures, leading to increased operational costs and project delays. In Balochistan and Khyber Pakhtunkhwa, businesses are factoring in additional security and insurance expenditures as part of their investment decisions. While Pakistan holds strong strategic potential, enabling a stable and secure business environment will be essential to maintaining investor confidence.



Peer Comparison

Pakistan's FDI inflows remain modest averaging \$2 billion annually over the last few years, primarily driven by energy and infrastructure investments from China and Gulf countries. In contrast, India recorded a \$ 71 billion FDI in 2024 with booming sectors such as semiconductors, fintech, and insurance. With over \$25 billion in 2024, Vietnam saw a 35.5% year-on-year surge in early 2025, attracting \$6.9 billion in the first two months alone—68% of it flowing into manufacturing. Malaysia set a record with \$86 billion in approved investments in 2024, led by technology and services. Meanwhile, Bangladesh experienced a sharp decline in FDI in early FY25—down 71%—although its textile and energy sectors still attract moderate foreign interest.

Pakistan's macroeconomic environment has remained volatile compared to its peers. The country faces high inflation and a restrictive policy interest rate in contrast to its peers like India, Vietnam, and Malaysia that maintain lower inflation rates and more balanced monetary policies. Malaysia offers a highly stable economic setting with low interest rates and controlled inflation, making it more attractive for long-term investors.

Pakistan's higher corporate tax rate (29%) plus 10% Super Tax and exchange rate risks weaken its competitiveness despite its open repatriation policy, especially when compared with the more open and predictable policy frameworks in India and Malaysia. Malaysia and Vietnam also offer more competitive corporate tax rates—24% and 20% respectively—alongside investor-friendly policies such as open repatriation of profits and streamlined tax incentives.

India and Vietnam lead in technology and manufacturing, leveraging strong ecosystems and policy support. Malaysia has emerged as a regional hub for technology and semiconductor manufacturing, attracting major investments in services and high-tech sectors. Bangladesh continues to focus in textiles and apparel. Pakistan, by contrast, remains concentrated in energy and real estate, with limited diversification into high-value sectors like IT and advanced manufacturing.



Pakistan continues to navigate challenges that influence its FDI landscape, including political uncertainty, currency fluctuations, and bureaucratic complexities. While regional competitors like India, Vietnam, and Malaysia offer more structured investment environments, Pakistan's strategic location and evolving policy framework present opportunities for long-term growth.

India and Vietnam are positioned for sustained FDI growth, supported by strong economic policies and sectoral diversification. However, India has seen some slowdown in early 2025 due to policy uncertainty and global trade tensions, prompting a review of non-trade barriers and foreign investment policies. Malaysia is emerging as a key hub for tech and services investments, while Bangladesh continues to attract moderate FDI, particularly in textiles and infrastructure.

For Pakistan, the long-term outlook remains promising, provided that structural reforms in governance, fiscal policy, and investor protections continue to progress, enabling a more stable and predictable business environment.

Key Risks and Challenges - Comparative Analysis

Risk Factor	Pakistan	India	Vietnam	Bangladesh	Malaysia
Political Instability	High	Low	Low	Medium	Low
Currency Volatility	High	Low	Low	Medium	Low
Bureaucracy & Red Tape	Complex	Moderate	Moderate	High	Low
Security Risks	Elevated	Low	Low	Some Concerns	Low
Infrastructure Gaps	Significant	Strong	Strong	Improving	Strong
Policy Consistency	Uncertain	Improving	Stable	Unstable	Consistent
Legend					
	High Risk / Negative		Moderate / Mixed		Low Risk / Positive

FDI Outlook: 2025 & Beyond

Country	Short-Term FDI Outlook (2025–2026)	Long-Term FDI Potential
India	Strong momentum in IT, semiconductors, infra, retail	Very High – Large market, stable reforms
Vietnam	Rapid expansion in manufacturing, electronics, green tech	Very High – China+1 alternative
Malaysia	Surge in tech and services investments, chip supply chain	Very High – Strong fundamentals, regional hub
Bangladesh	Driven by textiles and infrastructure	Improving – Needs diversification
Pakistan	Constrained by policy, currency, and security risks	Potential – If reforms, stability improve
SCALE		
Weak	Modest	Moderate
Strong	Very High / Excellent	

Source: FDI Intelligence, UNCTAD, McKinsey, IMF

Global FDI Trends in 2025: A Regional Overview

Inward FDI hit new records in 2023, reaching \$41 trillion globally according to IMF data, fueled by transformative shifts in technology, green energy, and shifting geopolitical dynamics. Since then, the landscape is increasingly defined by digital infrastructure, clean energy, strategic autonomy, and investment diversification across regions.

1. North America

In 2025, foreign direct investment (FDI) in the United States is being shaped by a dual-pronged strategy under the "America First Investment Policy" introduced by the new US administration. While the policy aims to attract strategic foreign investment to boost domestic capabilities—especially in semiconductors and AI infrastructure—it also places tighter controls on national security-related sectors. Countries like South Korea, Japan, and Taiwan continue to invest heavily in U.S. semiconductor manufacturing, driven by incentives under the CHIPS Act. Meanwhile, Chinese investments face increased scrutiny, particularly in critical technologies. Although rising tariffs on imports have caused some tension with trading partners, they are also prompting foreign companies to invest directly within the U.S. to maintain market access. Overall, the U.S. is positioning itself as a secure but selective destination for foreign capital in strategic industries.

2. Europe

In 2025, Europe is experiencing a robust influx of foreign direct investment, with sustainability and innovation leading the charge. Over \$80 billion has been committed to greenfield renewable energy projects, particularly in solar, wind, and hydrogen, signaling a continent-wide push toward energy transition. The biotech and pharmaceutical sectors are also seeing record investment levels, solidifying Europe's position as a global hub for life sciences. Meanwhile, Eastern Europe is emerging as a hotbed for FDI, with countries like Poland, Hungary, and the Czech Republic drawing investment in automotive and semiconductor manufacturing due to their competitive labor costs and proximity to Western Europe. This regional diversification is reshaping the investment landscape across the continent, balancing green growth with industrial competitiveness.

3. Asia-Pacific

Asia Pacific's FDI landscape in 2025 reflects shifting dynamics amid global economic pressures. China, facing

declining inbound investment due to regulatory crackdowns and geopolitical tensions, is now redirecting its capital outward—investing aggressively in Southeast Asia, the Middle East, and Africa. Southeast Asia is emerging as a regional FDI magnet, with Vietnam alone attracting \$31.4 billion—driven by major projects from Foxconn, Nvidia, and SpaceX. The region’s resilience and strategic positioning continue to make it a priority destination for global capital.

4. MENA

The Middle East continues to draw record foreign direct investment in 2025, with total inflows reaching \$47 billion. Saudi Arabia leads in capital investment—driven by its Vision 2030 agenda—while the UAE tops in project count. The region is seeing significant diversification in FDI targets, with funds flowing into tourism, AI, logistics, and semiconductors as GCC nations pivot toward digital economies and reduce reliance on hydrocarbons.

In Africa, intra-continental investment is on the rise as regional players increasingly step in to fill financing gaps. At the same time, China and the EU are scaling up their involvement in the continent’s tech and renewable energy sectors, with growing commitments in fintech, solar, and wind infrastructure. Despite global economic headwinds, both regions remain resilient and attractive for strategic, long-term capital.

Key Global Trends Shaping FDI in 2025

Green Energy & Climate Policy	Countries with strong climate policies attract more sustainable capital.
AI & Digital Infrastructure	Major magnet for FDI, especially in data centers, cloud, and semiconductors.
FDI Screening & Protectionism	Rising U.S.-China tensions increase scrutiny over strategic investments.
Infrastructure Gaps	Developing regions with poor logistics lose out despite favorable labor costs.
Decline in Tax Havens' Role	Shift from tax arbitrage to value-driven, performance-based investment decisions.

Source: FDI Intelligence

Strategic Lessons for Pakistan: Transforming IPAs, Regulators & SEZs

Despite a modest rise in FDI, Pakistan continues to lag behind regional peers that are rapidly modernizing their investment frameworks and attracting diversified capital in technology, manufacturing, and green sectors. With a heavy reliance on energy and Chinese investment, Pakistan must rethink its strategy to remain competitive. This requires a shift toward institutional reform, regulatory simplification, and SEZ revitalization. Promising steps like the Special Investment Facilitation Council (SIFC) are a start, but to truly position itself as an investment-ready destination, Pakistan must enhance its IPAs, strengthen SEZ governance, and offer a more predictable, investor-friendly environment.

1. Rethink SEZ Strategy – From Tax Holidays to Institutional Strength

Relying solely on tax incentives is no longer sufficient to attract and retain meaningful investment. Instead, Pakistan must shift focus towards building strong institutions that provide regulatory clarity, streamlined processes, and reliable infrastructure. Regulatory reform, faster land acquisition, transparent dispute resolution, and digitized investor services should take precedence. Vietnam stands as a strong example—its success stems not from generous tax holidays, but from policy stability, investor confidence, and robust infrastructure.

2. Operationalize One-Window SEZ Models

To reduce bureaucratic hurdles, Pakistan should fully operationalize one-window SEZ models where all business approvals—ranging from company registration to utility connections and customs clearances—are

handled under one roof. This aligns with the SIFC's mission to streamline government processes and eliminate friction. India's "Invest Punjab" model demonstrates how integrated facilitation can significantly improve investor experience.

3. Invest in Reliable Infrastructure and Security

For Pakistan's SEZs to truly become engines of industrial growth, a concerted focus on infrastructure is critical. Authorities should ensure uninterrupted improved security, power supply, improved road and port connectivity, and sustainable services. Public-private partnerships (PPPs) can play a key role in mobilizing capital and ensuring long-term operational success.

4. Introduce Performance-Based Incentives

Rather than offering broad-based tax exemptions, Pakistan should introduce performance-linked incentives tied to concrete outcomes such as export growth, job creation, and technology transfer. This approach not only ensures fiscal prudence—aligned with IMF guidelines—but also promotes accountability and higher impact from FDI.

5. Develop Sector-Specific SEZs

A one-size-fits-all approach to SEZs is outdated. Pakistan should develop customized SEZs targeting high-growth sectors such as textiles, IT/BPO, agro-processing, and green energy components like solar panels and batteries. Each zone should have tailored policies, infrastructure, and incentives that align with sector-specific investor expectations.

6. Strengthen the Role of BOI & SIFC

To enhance investment promotion, the Board of Investment (BOI) must expand its capacity in areas such as data analytics, investor targeting, and digital outreach. At the same time, SIFC should serve as a unified platform to coordinate federal and provincial authorities, minimizing inter-agency bottlenecks and policy inconsistencies.

7. Diversify Investment Sources Beyond China

While Chinese investment through CPEC remains a cornerstone of Pakistan's FDI landscape, it is essential to broaden the investor base. Capital should also be sought from the Middle East, Europe, and ASEAN countries. Strategic investor roadshows and partnerships can be tied to Vision 2025 and the Digital Pakistan agenda to attract interest from a wider pool of global investors.

8. Use Tech for Transparency & Monitoring

A centralized digital dashboard should be implemented to monitor investment flows, track project approvals, and log investor grievances across all SEZs. Leveraging AI and data analytics can help identify process bottlenecks, improve service delivery, and enhance transparency—creating a more investor-friendly environment.

