



# Pakistan's Digital FDI

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OICCI Insights

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The First Port of Call for Foreign Investors



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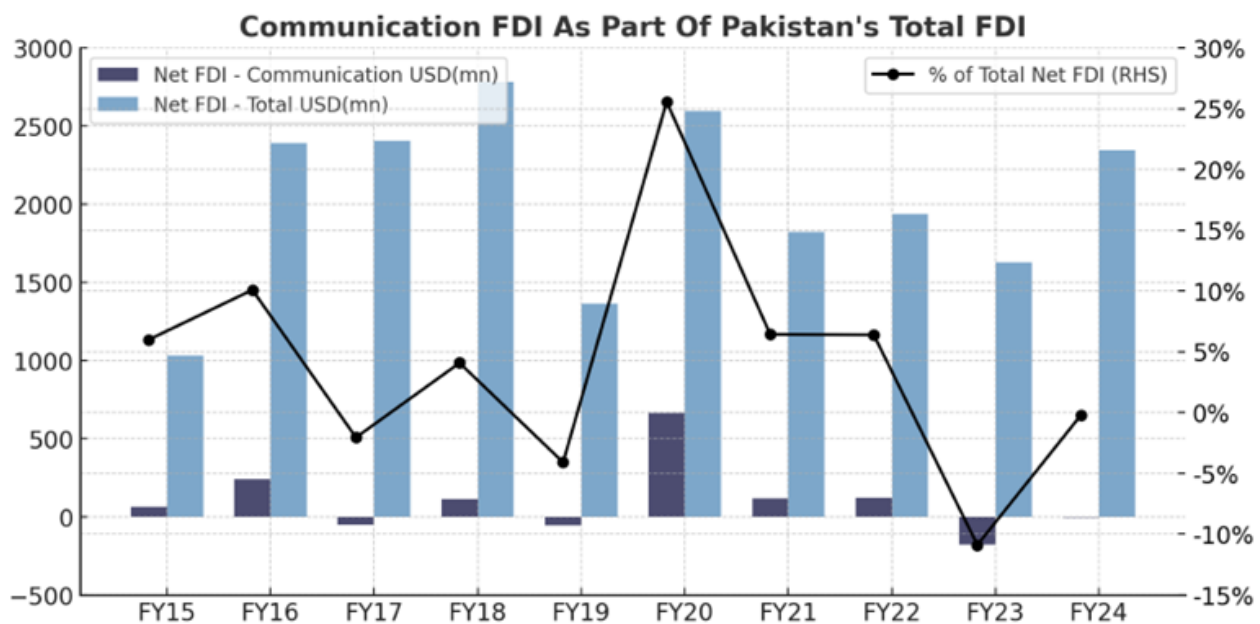
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## Digital FDI in Pakistan: Addressing Gaps and Pioneering the Digital FDI-Enabling Project

In an era where digital transformation is reshaping economies worldwide, Pakistan stands at a critical juncture. The digital sector has long been recognized as a key segment for foreign direct investment (FDI), yet Pakistan has struggled to attract substantial digital FDI compared to regional peers like India or Indonesia. Over the past decade, Pakistan's digital FDI has experienced volatility, with a brief peak in 2020 due to COVID-19-driven investments. However, by the fiscal year 2022, the IT and telecom sector's contribution to total FDI had fallen to just 6%, a stark decline from 25% in 2020. Key factors such as macroeconomic instability, regulatory uncertainty, and currency fluctuations have significantly contributed to this slowdown.



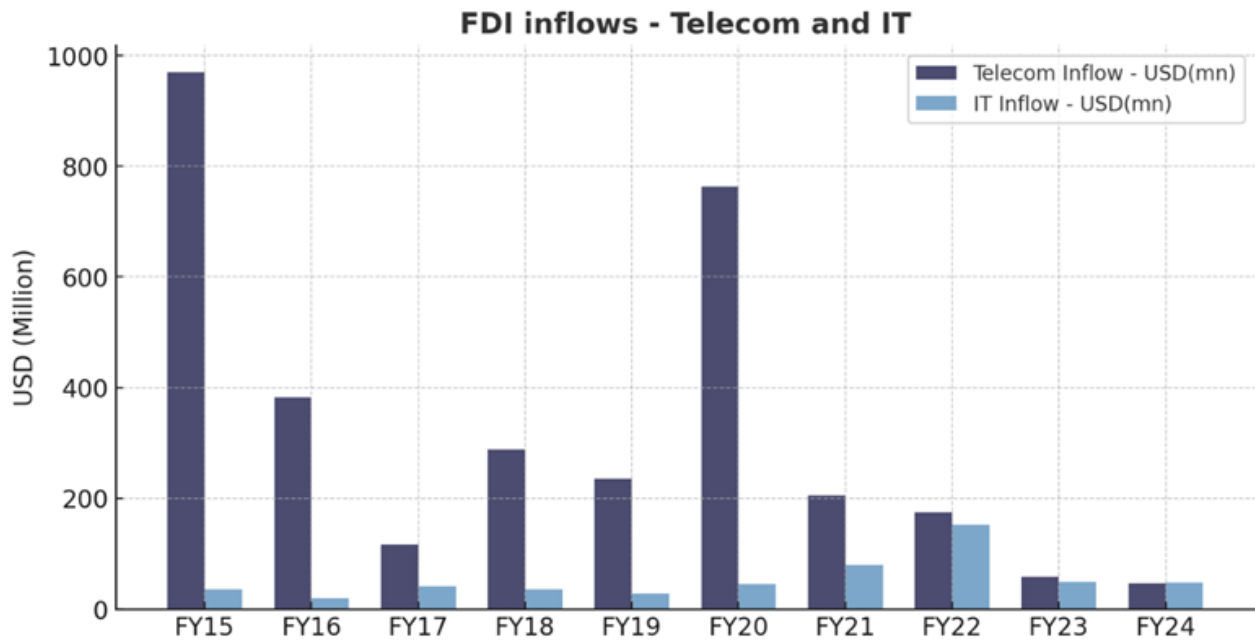
Source: SBP

Recognizing these challenges, Pakistan has taken a significant step by becoming the first country to implement the Digital Foreign Direct Investment (FDI) Initiative, a project launched by the World Economic Forum (WEF) and the Digital Cooperation Organization (DCO) in 2022. This initiative aims to address the core barriers to digital investment, ensuring that Pakistan emerges as an attractive destination for foreign investors in the digital economy. Among the critical aspects of this initiative, intellectual property (IP) rights have been identified as a decisive factor influencing digital FDI. In this regard, the Overseas Investors Chamber of Commerce & Industry (OICCI) is playing a proactive role in advocating for stronger IP enforcement to foster an investment-friendly digital environment in Pakistan.

### Understanding the Gaps in Pakistan's Digital FDI Landscape

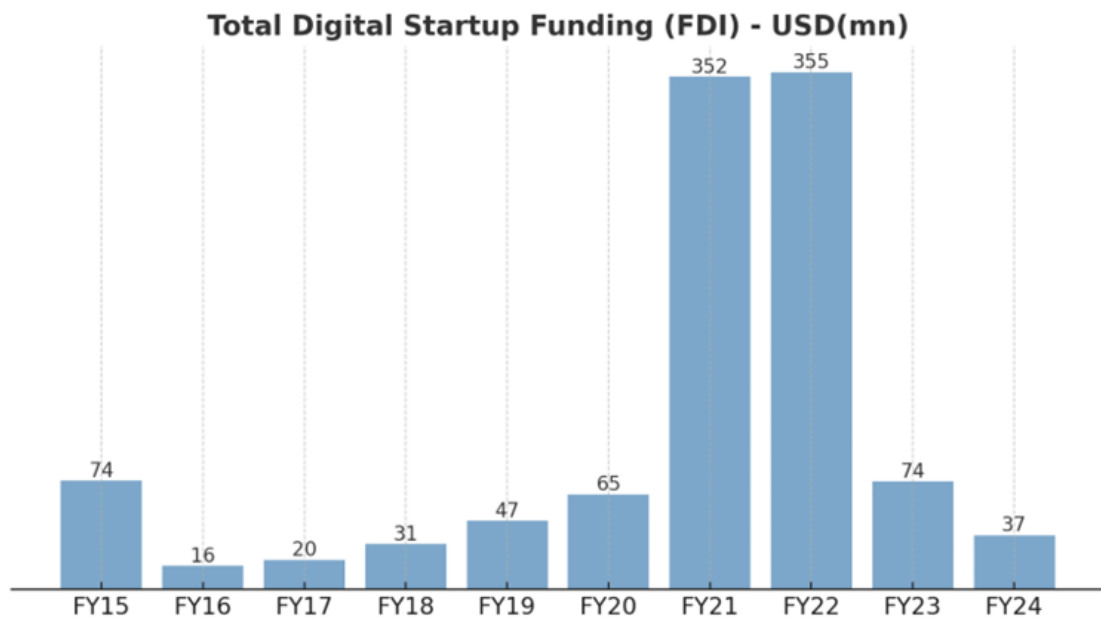
Despite having significant potential, Pakistan's digital sector faces numerous challenges in attracting foreign investment. Some of the most pressing concerns include:

1. **Macroeconomic and Regulatory Instability:** Frequent changes in economic policies, fluctuating currency values, and inconsistent regulatory frameworks deter long-term foreign investments in the digital sector.
2. **Telecom Sector Challenges:** Historically, Pakistan's telecom sector has been the primary recipient of digital FDI. However, net FDI outflows in the sector have exceeded inflows over the last three years, with over \$200 million net outflows recorded in FY23 due to high spectrum costs, excessive taxation, and currency risks.



Source: SBP

3. **Startup Ecosystem Slowdown:** Although Pakistan's startup ecosystem witnessed a record \$355 million in investments in 2022, funding drastically declined to \$74 million in 2023 and \$37 million by late 2024, reflecting growing investor hesitancy.



Source: i2i

4. **Policy Barriers:** High tax rates, ambiguous regulatory frameworks, and a lack of clear data protection laws hinder foreign investor confidence in Pakistan's digital economy.
5. **Intellectual Property Rights Weaknesses:** Weak IP protection laws and enforcement mechanisms discourage global technology firms from investing in Pakistan's innovation-driven industries.
6. **Infrastructure Deficiencies:** Limited access to high-speed internet, power outages, and lack of cloud computing infrastructure hinder digital business growth.



The Digital FDI-Enabling Project: Pakistan Leads the Way

To tackle these challenges, the Digital FDI-Enabling Project (DEP) was introduced, making Pakistan the first country to implement this pioneering initiative. The project aims to create a more investment-friendly digital environment by focusing on six key priority actions. First, private-sector investment promotion encourages partnerships between local digital firms and international investors. Second, policy and regulatory reforms address legal inconsistencies and ensure stable, investor-friendly policies. Third, digital skills development enhances workforce capabilities to meet the demands of global technology firms. Fourth, tax stability and incentives introduce predictable taxation policies that facilitate investment. Fifth, Special Technology Zones (STZs) develop designated areas with regulatory incentives to attract foreign digital enterprises. Finally, spectrum management creates a transparent and investor-friendly spectrum pricing model.

Other countries such as Nigeria, Azerbaijan, Cyprus, Oman, and Rwanda have also expressed interest in similar digital investment projects under the WEF's Global Investment Policy and Practice Initiative, reinforcing Pakistan's role as a trailblazer in digital FDI reforms.

BOX: Digital FDI Initiative - Digital FDI-Enabling Project in Pakistan

The Digital Foreign Direct Investment (FDI) Initiative was launched by the World Economic Forum and the Digital Cooperation Organization (DCO) to facilitate cross-border investment in the digital economy, focusing on emerging markets. Pakistan was the first country to implement the initiative, beginning with the Digital FDI-Enabling Project (DEP) in 2022. The DEP leverages a four-pillar framework targeting digital infrastructure, digital adoption, new digital activities, and digital services exports.

**Current Digital Landscape in Pakistan:**

*Digital Infrastructure:* Despite advancements in connectivity, fixed broadband penetration is below 2%.

*Digital Adoption:* The uptake of digital tools and services among businesses, particularly SMEs, remains uneven due to low digital literacy and access.

*New Digital Activities:* Investment in start-ups has been promising but volatile, with declining funding in 2023 and 2024.

*Digital Services Exports:* IT exports grew to \$3.2 billion in 2024, but challenges like macroeconomic instability limit further expansion.

**Barriers to Digital FDI:**

- Regulatory gaps, particularly in data protection, intellectual property (IP) laws, and policy coherence.
- Limited industry-academia collaboration for workforce readiness.
- Spectrum pricing linked to USD fluctuations strains telecom operators.

**Six Priority Actions for Implementation:**

1. Promote sector-specific projects to connect local players with international investors.
2. Increase the role of the Prime Minister's Office to ensure policy alignment and build investor confidence.
3. Bridge the industry-academia gap to enhance digital skills through advanced training.
4. Rationalize tax policies to make Pakistan an attractive destination for digital investments.
5. Accelerate the development and operationalization of Special Technology Zones (STZs).
6. Improve spectrum management to ensure fair pricing and better connectivity.

**Recommendations:**

*Policy Reform:* Streamline regulatory frameworks, finalize critical laws, and ensure policy coherence across federal and provincial levels.

*Capacity Building:* Focus on digital skills training and industry-academia collaboration.

*Investment Incentives:* Enhance fiscal benefits for start-ups, tech companies, and infrastructure projects.

*Infrastructure Development:* Prioritize fixed broadband expansion and rural connectivity.

*Investor Engagement:* Facilitate dialogue with investors and promote Pakistan as a digital-friendly destination on global platforms.

Source: World Economic Forum

Intellectual Property Rights (IPR): A Key Enabler of Digital FDI

The WEF Insight Report on the Digital FDI Initiative underscores the critical role of intellectual property (IP) rights in fostering a secure and attractive investment climate for digital businesses. Strengthening IP laws and enforcement can significantly enhance Pakistan's ability to draw high-value digital FDI. The key challenges related to IPR in Pakistan include:

- **Updating IP Laws:** The updation of IP laws, especially for the protection of copyright and trademarks remain long overdue. Specifically, the Copyright Ordinance (1962) and Copyright Rules (1967) do not sufficiently address modern challenges like digital copyright infringement and online piracy. The sluggish progress of the last proposed amendments to the copyright regime (for which stakeholder input was received in 2023 and deliberated upon by the IPOP Policy Board in January 2024) still awaiting enactment raises questions as to whether the Federal Government recognizes the role that IP plays in providing an attractive environment to foreign investors looking to expand into frontier and emerging markets.



- **Lack of Strong Data Protection Laws:** While some data localization laws exist, there is no comprehensive data protection framework aligned with international best practices.
- **Weak Enforcement:** Inefficient enforcement mechanisms make it difficult for businesses to protect their intellectual assets, discouraging investment in high-tech sectors. Additionally, the low level of financial penalties and the cumbersome process for bringing legal actions raise concerns on the protection afforded by the IP regime and may well be a reason for continuing proliferation of infringements.
- **Absence of Specialized IPR Courts:** Lengthy litigation processes and weak penalties for IP violations deter foreign investors.
- **Lack of Coordination Between Regulatory Bodies:** Different agencies overseeing IP regulations operate in silos, reducing the effectiveness of enforcement efforts. This has also led to businesses exploring other regimes which provide a relatively faster recourse against infringement, such as under s.10 (Deceptive Market Practices) of the Competition Act (2010).

#### The Role of OICCI in Strengthening IPR Enforcement

The Overseas Investors Chamber of Commerce & Industry (OICCI) has been a key advocate for stronger intellectual property rights enforcement in Pakistan. In collaboration with IPO-Pakistan (Intellectual Property Organization of Pakistan), OICCI is actively working on:

- Monitoring the **IPR regime** to ensure effective implementation.
- Participating in **IPO-Pakistan's** policy board meetings to recommend legal reforms.
- Pushing for **stronger enforcement mechanisms** through strict penalties and fast-tracked legal proceedings.
- **Raising awareness** about IPR issues by engaging with the government, media, and academia. OICCI has in the past few years already issued two **IPR Manual** for the benefit of potential foreign investors and local professionals responsible for high level of IPR enforcement.

### Strategic Recommendations for Pakistan

To maximize the potential of digital FDI, Pakistan must undertake the following measures:

1. **Recognize Importance of IPR:** Setting IPR protection as a government priority and bringing it on the agenda so to speak in terms of reviewing the business environment in Pakistan.
2. **Develop IP Regime in Pakistan:** Development of specific provisions for protection of trade secrets, algorithms and AI is required to allow protection of digital IPR. The recognition of datasets as property which requires protection for deep learning.
3. **Clarity of Direction & Investment Opportunities:** Clearly identify, select and incentivize areas of focus within the realm of digitization and tech (hardware manufacturing for digital infrastructure, software development or both).
4. **Special IP Tribunals with Fasttrack Dispute Resolution Procedures:** Set up separate tribunals within the IP Tribunal structure to cater to the specialized nature of digital IP disputes with accelerated procedure to quick resolution of disputes. This will improve investor confidence.
5. **Strengthen IPR Enforcement:** Improve patent, trademark, and copyright protection for technology firms.
6. **Attract Innovation-Driven Investments:** Shift focus from outsourcing to high-tech industries like AI, fintech, and cloud computing.
7. **Improve Digital Infrastructure:** Expand broadband access and invest in cloud computing capabilities.
8. **Align with Global IPR Standards:** Ensure compliance with international treaties like WIPO and TRIPS to boost investor confidence.

Pakistan's decision to pioneer the Digital FDI-Enabling Project positions it as a forward-thinking economy eager to embrace digital transformation. However, to fully capitalize on this opportunity, strengthening intellectual property rights is paramount. With OICCI's active involvement, focusing on developing IPR laws and enhancing their enforcement, and policy stability, Pakistan can create a secure investment climate that attracts global digital enterprises, moving from a system with widespread infringement to one with a multitiered approach providing for recognition of indigenous needs, enabling its growth and simultaneously protecting IP interests of foreign investors. If properly executed, these reforms are estimated in the WEF insight report to unlock \$34.9 billion in economic value by 2030, making Pakistan a competitive hub for digital foreign direct investment.

