

## **Trend of Foreign Direct Investment in Pakistan (1971-2005)**

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### **Abstract**

*The present study was conducted with the broad aims to analyze the trend, pattern and benefits of FDI in Pakistan. Usually objectives of the home countries are to earn maximum profit and the host countries are interested in the benefits of FDI which are in the form of managerial skills and advanced technology, increased employment opportunities, and increase in government revenue etc., It has been observed that FDI inflow in the year 2004-05 reached US\$ 1524 million as the highest if compared with last year FDI inflow in Pakistan. Further, it has been observed that FDI inflows if compared with the other developing countries in the region are not desirable. It has found that at this time for FDI in Pakistan the more suitable areas are energy sector, manufacturing sector, mining sector, IT and telecommunication, and value added textiles. The Government of Pakistan is well aware of the importance of FDI, therefore the management authorities should chalk out such policies, which encourage FDI inflow, and it will positively affect economic growth of the country.*

**Keywords:** *FDI, Trend and Benefits of FDI, Pakistan*

### **Introduction**

Foreign direct investment (FDI) is the amount invested by citizens of a country in a foreign enterprise over which they have effective control. Countries lacking capital accumulation and technological progress usually grow much slower than countries with high investment rate and huge research and development expenditures. Through FDI, multinational corporations can provide countries with both capital and

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new technology. Some recent studies conclude that FDI has been one of the most effective means of transferring technology and knowledge (Dunning and Hamdani, 1997).

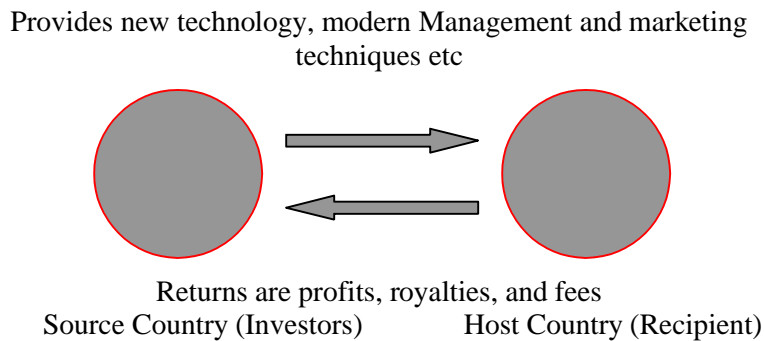
Since Pakistan is a developing country and generally a developing economy is characterized by low income level, lack of capital, low level of industrialization, low saving, rapid growth of population, burden of external debt, paucity of foreign aid, deficit in balance of payment, lack of technical and managerial skills, and heavy reliance on export of primary goods etc. Also the domestic resources are inadequate to finance the development needs, therefore FDI can be an important instrument of overcoming these weaknesses necessary for economic development.

In fact, the benefits that FDI brings to the host countries include managerial skills and advanced technology, different tastes and life style, market access, creating sound business environment, increase in production, increased employment opportunities, and increase in government revenue etc., such sort of investment brings private overseas funds into a country for investment in manufacturing or services through MNCs which increase the level of economic growth of the host country.

Regarding foreign investment, a question arises in minds that why foreign investors invest in other countries and why host countries encourage foreign investors? The objectives of the multinational corporations are to earn maximum profit and send it to their parent countries in order to attain general welfare. Such as the recipient less developed economies attracting FDI in order to boost economic growth, which of course improves society's welfare.

The following flow chart shows the flow of FDI from home/source country to host country with benefits and rewards accordingly.

Figure-I: Flow of Foreign Direct Investment



Source: Author compilation

### Capital Movement into Pakistan

The inflow of foreign capital into Pakistan is not a new phenomenon. In fact multinational companies were working in the sub-continent even before our independence. A few multinational companies named Shell, and Imperial Chemical Industries (ICI), have been working since 1903, and 1942 (Guy, 1996). ANZ Grindlays Bank and Standard Chartered Bank were operating in this region even before 1947. Currently, in Pakistan, there are almost 30,000 companies, out of which more than 600 are of foreign origin. No doubt that once multinational company invests in Pakistan, they never leave the country because of lucrative profit so often they try to expand their operation.

### Materials and Methods

In this article an effort has been made to study the trend and pattern of FDI in Pakistan. Secondary data have been utilized for the period ranging from 1971-2005. The data were obtained from various issues of Pakistan

Economic Survey, World Investment Report and World Outlook respectively. For the analysis of the data, the methods of tabulations, figures and percentages have been used.

### **The Pakistan Economy and Foreign Direct Investment**

Pakistan is the 9th most populous country of the World with over 180 million tough and hardworking people, which have entered the 21st century as an equal partner in the community of nations. The Pakistani labour force has a reputation of being one of the hardest working in the World. Pakistani labour is also one of the cost-effective in the World and provides high return on investment. Pakistan ranks amongst the top seven fastest growing economies of Asia and the growth rate has been estimated 8.4 % during 2004-05 fiscal years. Although agriculture is still the mainstay of the economy and employs 48% of the work force, its share in the gross domestic product (GDP) is 21.6% during 2004-05 (Pakistan Economic Survey, 2006). Table-I shows economic indicators such as GDP growth, private consumption as percentage of GDP and per capita income, financial indicators such as inflation, FDI inflow, gross domestic saving as percentage of GDP, development expenditure as percentage of GDP, export and import etc, and social indicators such as literacy rate, population growth (%), and health etc. Table-II shows that world FDI inflow in 1971-75 was only US\$ 20450.61 million, where US\$ 15262.08 million went to the developed countries and the remaining amount of US\$ 5188.5 million went to developing countries, where US\$ 1160.16 million went to Asia and only US\$ 8.6 million came into Pakistan. In the year 2005, the World FDI inflow increased to US\$ 916300 million, out of which US\$ 452300 million, US\$ 334300 million, and US\$ 200000 million came into developed, developing countries, and Asia respectively.

FDI inflow in the years 2004-05 has reached US\$ 1524 million as the highest if compared with last year FDI inflow in Pakistan. Hence total FDI inflows into Pakistan from 1991-92 to 2004-05 stands at US\$ 9089 million, which come to US\$ 649.27 million per year. As the Table-IV depict that a few sectors have comparatively attracted more FDI during last five years. The total inflows of FDI into textile sector in the last five years were US\$ 138.4 million, and this sector attracted US\$ 39.3 million during 2004-05, as the amount was US\$ 35.4 million during 2003-04. Though less increase occurred in the inflow of FDI into the oil exploration sector but the inflow has highly increased in the power sector as it was in US\$ -14.3 million in 2003-04 and in 2004-05 it is US\$ 73.3 million but during last five years this sector has enhanced considerable amount of FDI inflow of amount US\$ 1007.9 million. Similarly communication (IT and Telecom) is on the top on the basis of more attracted FDI in this sector and such as the inflow was US\$ 221.9 during 2003-04 but in 2004-05 it is US\$ 517.6 million and the total FDI inflow during last years is US\$ 1090.1 million which is the highest amount in all sectors. The inflows also increased into the financial business sector to US\$ 269.4 million in 2004-05, as it was US\$ 242.1 million during 2003-04 and the total FDI inflow is US\$ 840.1 million in the last five years as well. Table-III shows that inflows of FDI from USA, UK, Switzerland, Japan, UAE and Netherlands respectively were estimated 60 percent.

Sheikh, (2005), says that there is no restriction on investment in any sector in Pakistan. The government of Pakistan desires to encourage foreign and domestic investors in the country. It has observed that at the moment in Pakistan almost more than 600 multinational companies are working and earning desirable profits in Pakistan, due to favourable economic policies and macroeconomic stability.

Table 1:- Some basic economic and social indicators of development in Pakistan

<u>ECONOMIC INDICATORS</u>		1971-80*	1981-90*	1991-95*	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<u>NATIONAL ACCOUNTS:</u>															
GDP Growth (%)		4.87	6.09	4.90	6.60	1.70	3.50	4.20	3.90	1.80	3.10	5.10	6.40	8.60	6.60
Per Capita GNP (fc) US\$		203.2	376	451	513	493	473	438	526	501	503	579	669	742	847
Private Consumption as % of GDP		77.71	79.00	76.92	70.81	73.99	74.43	75.15	74.96	68.63	65.92	60.45	57.00	56.30	56.20
<u>FINANCIAL INDICATOR:</u>															
Gross Domestic Saving as % of GDP		7.95	8.75	16.36	12.00	12.80	15.70	12.90	17.10	17.80	18.10	17.60	15.70	14.50	14.40
FDI inflows as % of GDP		0.13	0.33	0.67	1.19	1.45	1.14	0.81	0.90	0.50	0.65	1.39	0.99	1.38	1.40
Consumer Price Index		7.80	6.30	10.77	10.79	11.8	7.81	5.74	3.15	4.41	3.54	3.10	4.6	9.3	8.0
Exports as % of GDP	-	10.11	13.44	13.80	13.40	13.90	13.30	11.70	12.90	12.80	13.50	12.90	13.00	9.40	9.40
Imports as % of GDP	-	17.88	17.68	18.70	19.10	16.30	16.40	13.10	14.30	13.20	13.70	14.20	16.90	16.00	16.00
Trade deficit/GDP	7.80	7.10	4.70	5.90	5.00	3.00	3.50	1.90	1.80	0.40	0.50	1.30	3.90	6.60	6.60
Debt as % of GDP	-	42.52	44.36	42.4	43.5	44.8	49.4	43.4	43.2	40.3	39.3	35.7	32.8	28.8	28.8
Development Expend. as % of GDP	-	7.30	5.70	4.43	3.50	3.90	3.30	2.50	2.20	2.90	2.20	3.10	3.50	4.20	4.20
<u>SOCIAL INDICATORS:</u>															
Literacy Rate (%)		33.70	38.50	39.80	40.90	42.20	43.60	45.00	47.10	49.00	50.50	51.60	52.00	53.00	53.00
Expenditure on Education as % of GNP	1.6	1.9	2.2	2.4	2.5	2.3	2.2	2.3	2.2	2.1	1.6	1.9	1.7	2.1	2.1
Expenditure on Health as % of GNP	0.6	0.7	0.7	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5
Population Growth (%)	3.21	3.10	2.52	2.49	2.43	2.38	2.34	2.29	2.24	2.22	2.16	2.10	1.9	1.9	1.9

Sources: Pakistan Economic Survey, (1975,1980,1990,2000,2005-06), and World Development Report (1973,1985,1990,2000,2006)

\* Shows averages

Table II: Foreign direct investment inflows: An assessment, 1971-2005 (Million of US \$)

Years	1971-75*	1976-80*	1981-85*	1986-90*	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
World FDI Inflow	20450.6	56188.9	59801.7	158705.1	158701.6	166402.4	225505.3	260775.2	335734.2	388531.6	488326.6	60904.9	1086750	1387953	817573.9	716128	632599	648146
DC	15262.0	28165.7	39238.2	1130600.1	112784.4	107129.7	136992.8	145710.8	204425.7	221877.8	268364.1	4725450.2	828351.8	1107987	571482.6	547778	442157	380022
as % of World inflow	74.99	76.58	65.60	82.05	71.06	64.37	60.74	55.87	60.88	57.10	54.95	68.31	76.22	79.821	69.89	76.49	69.89	58.63
LDCs	5188.52	8003.07	20537.2	227870.1	43280.2	54579.0	81413.3	108742.7	115952.8	151983.5	198906.5	194054.5	231880.5	252459.1	219720.7	155528	166337	233227
as % of World inflow	25.02	23.36	34.35	17.82	27.27	32.79	36.10	41.69	34.53	39.11	40.73	28.08701	21.33	18.18	26.87	21.71	26.30	35.98
Asia	1160.16	2153.68	4	8	5	5	5	3	79588.66	94907.4	110137.6	102209.1	112587.5	146066.7	111853.6	92009	8	147611
as % of World inflow	5.82	6.84	19.43	10.32	15.27	19.68	26.01	26.26	23.705	24.42	22.55	14.79351	10.36	10.52	13.68	12.8	16.00	22.78
as % of LDCs inflow	16.58	27.23	55.27	57.99	56.00	60.004	72.05	62.98	68.63	62.44	55.37156	52.67028	48.55	57.859	50.90	59.15	60.88	63.29
S.E.S-EA	1240.15	2333.63	5602.31	2	2	9	2	4	77822.17	89738.4	100957.2	92136.37	109115.5	142682.6	102228.4	86326.3	94755	137705
as % of World inflow	6.01	6.50	9.40	9.84	13.85	17.88	23.77	25.21	23.17	23.09	20.67	13.33561	10.04	10.28	12.50	12.05	14.97	21.24
as % of LDCs inflow	25.28	29.04	28.08	55.41	50.80	54.54	65.84	60.47	67.11	59.04	50.75	47.47962	47.05	56.51	46.52	55.50	56.95	59.04
Pakistan	8.6	35.51	60.86	154.07	257	344	346	419	719	918	713	507	529.7	305.1	385.4	823	946	1117
as % of World inflow	0.03	0.08	0.09	0.09	0.16	0.20	0.15	0.16	0.21	0.23	0.14	0.073382	0.04	0.02	0.04	0.12	0.15	0.17
as % of LDCs inflow	0.15	0.41	0.29	0.54	0.59	0.63	0.42	0.38	0.62	0.60	0.35	0.261267	0.22	0.12	0.17	0.52	0.57	0.48
as % of Asia inflow	0.27	4.05	3	0.93	1.06	1.05	0.58	0.61	0.90	0.96	0.64	0.496042	0.47	0.20	0.34	0.89	0.93	0.76
as % of S.E.SA	0.56	1.37	1.06	0.98	1.16	1.15	0.64	0.63	0.92	1.02	0.70	0.550271	0.48	0.21	0.37	0.95	1.00	0.81

Source: Author construction from WIR (1980, 1995, 2002, 2005) UNCTAD, UN, New York and Geneva.

\* Shows data in averages

S.E.S-EA stand for South, East and South-East Asia

Table -III:

Shares of FDI inflow from various countries to Pakistan

(Percentage)

Years	U.S.A.	U.K.	U.A.E	Germany	France	Hong Kong	Italy	Japan	S.Arabia	Canada	Netherlands	Others
1980-81	14.8	15.7	15	3.9	0.2	0.06	-0.15	0.68	0.16	0.3	1.71	47.6
1981-82	15.5	19.9	8.4	3.6	0.19	0.15	0.02	0.43	0.23	0.3	1.52	49.8
1982-83	11.6	16.9	10	3.3	0.23	0.06	0.01	0.5	2.6	0.23	3.34	51.3
1983-84	8.8	16.3	8.2	4.8	0.1	0.51	&.	0.45	2.5	0.21	1.35	56.8
1984-85	24.5	12.7	16.9	9.1	1.71	0.85	0.14	9.53	5.4	0.43	9.71	9.1
1985-86	24.2	8.6	47.9	2.9	0.55	1.9	0.27	4.33	-5	&.	0.89	13.5
1986-87	39.7	4.7	23.7	5	1.39	6.2	0.37	8.7	0.92	0.74	0.55	8
1987-88	28.2	15.7	15	11.3	3.08	3.39	0.67	8.38	0.55	0.62	0.25	12.8
1988-89	45.1	10.8	6.2	4.8	3.68	3.01	0.57	8	0.24	0.43	0.81	16.3
1989-90	43.4	10.5	7.3	5.2	2.77	0.42	1.75	7.45	0.51	0.42	2.45	17.8
1990-91	52.8	13.7	3.7	5.1	2.88	1.34	1.18	10.65	0.36	0.77	0.93	6.6
1991-92	63.7	6.1	3.1	6.4	2.53	&..	0.5	5.28	0.03	0.9	0.24	11.1
1992-93	44.7	8.4	3.1	11.8	1.98	4.05	0.19	7.18	2.67	0.09	1.83	14.1
1993-94	32.2	9	2.1	2.6	3.13	0.34	0.08	8.38	0.54	0.34	-0.03	41.3
1994-95	39.9	8.7	10.6	4	3.05	0.49	0.06	3.68	0.2	0.09	1.02	28.2
1995-96	29	30.1	4.8	2.4	1.28	3.11	0.04	7.52	2.46	0.07	1.09	18.8
1996-97	36.1	35.3	8.1	2.6	1.5	1.09	0.26	5.37	-2.5	0.25	1.13	9.9
1997-98	42.7	22.6	3.2	4	0.81	0.35	0.15	2.97	0.2	0.08	4.47	17.69
1998-99	4.4	21.8	1.9	5.1	1.86	0.27	0.05	15.27	0.29	0.08	1.51	7.19
1999-00	35.5	36	1.2	2.2	0.34	0.17	0.11	3.77	6.08	0.04	2.28	10.3
2000-01	28.8	28	1.61	4.8	0.22	1.1	0.4	2.82	17.56	0.03	1.49	11.97
2001-02	67.3	6.3	4.44	2.3	-1.4	0.6	0.02	1.34	0.268	0.72	-1.05	19.1
2002-03	26.5	27	15	0.5	0.33	0.7	0.03	1.77	5.451	0.06	0.38	21.8
2003-04	24.6	6.8	14.2	0.7	-0.6	0.7	0.2	1.59	0.758	0.05	1.47	48.87
2004-05	22.5	17	7.75	1.1	-0.3	2.1	0.03	4.31	1.514	0.48	3.65	39.85

Sources: State Bank of Pakistan ( 1995, 1980, 1996, 2001, 2005-06)

Pakistan Economic Survey (1973,1975,1980,1990,2000,200506)

S.No	Economic Group	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1	Food	45.1	7.6	6	3.3	10	56.1
2	Beverages		-13.6	1	0.7	6.2	-1.6
3	Tobacco		0.9	0	0.5	6.7	9.3
4	Textile	4.6	18.5	26.1	35.4	39.3	138.5
5	Mining & Quarrying	84.7	6.6	1.4	1.1	0.5	12.7
6	Oil exploration		268.2	186.8	202.4	193.8	1007.9
7	Petro-Chemical	8.7	2.2	0.8	1.5	1.1	5.8
8	Petroleum Refining		2.8	2.2	70.9	23.7	6.7
9	Machinery other than electrical	0.3	0.1	0.4	0.7	2.8	4.7
10	Electronics	2.8	15.9	6.7	7.5	10.3	50.8
11	Electrical Machinery	2.1	10.5	10.5	8.7	3.4	34.1
12	Power	40.3	36.1	32.8	-14.2	73.3	414.6
13	Chemical	26.3	10.6	86.2	15.3	51	192.4
14	Pharmaceutical		7.2	6.2	13.2	38	80.9
15	Fertilizer		0	0	0	3.5	0.5
16	Construction	12.5	12.6	17.6	32	42.7	137.1
17	Transport		0.1	0.1	8.8	10.6	23
18	Storage Facilities	81.5	0	2.4	0	3.7	6.1
19	Communication (IT & Telecom)		12.7	24.3	221.9	517.6	1090.1
20	Financial Business	-34.9	3.6	207.5	242.1	269.4	840.1
21	Trade	13.2	34.2	39.1	35.6	52.1	221.5
22	Tourism	1.6	21.4	87.4	0.1	0	110.6
23	Paper & Pulp	0	0.7	1.4	1.7	0	3.9
24	Cement	0	0.4	0.4	1.9	13.1	39.3
25	Sugar	15.2	0.1	0.9	0.4	4.2	9.4
26	Others	18.6	24.8	49.8	57.9	147.2	364.6
Total		322.6	484.2	798	949.4	1524.2	4859.1

### Impact of FDI on Balance of Payment

FDI is not always contributing positively but it can also worsen a host country's balance of payment (BoP). However, most of the literature emphasize on the positive impacts of FDI, in the process of economic growth. Also it is claimed, that FDI, influences the process of economic growth by filling up the saving-investment gap, increasing productivity, transferring advanced technology, and so on. Moreover, frequently foreign investment is welcomed to developed and less developed

countries, because it encourages the country's capital and investment which positively participate in the process of capital accumulation.

Though FDI may increase the export volume, MNCs usually import many advanced capital goods to the host country. If the value of imported capital goods is greater than the value of final exports of MNCs, the FDI will have worsened the trade balance. FDI may also fail to increase job opportunities if foreign investments take place in capital-intensive industries rather than labour-intensive industries (Fry, 1996). Meanwhile, based on empirical studies that reveal that foreign direct investment usually has a positive effect on economic development. However, it is somehow difficult to measure the magnitude of these effects accurately. Overall, the net effect of FDI on balance of payment depends on many factors and it may be negative but almost the net effect is often assumed to be positive.

### **Data Analysis and Discussion**

It has been observed in this study that the basic objectives of the investors are to make maximum profit and send it to home country, while the host countries desire to increase the level of economic growth. Usually FDI is carried out through multinational corporations and they came into indo-Pakistan even before independence and currently almost more than six hundred multinational companies are working and making lucrative profits here. Since in the year 2004, the World FDI inflows increased to US\$ 648146 million, where US\$ 38002 million, US\$ 233227 million, US\$ 147611 million, US\$ 1117 million came into developed, developing countries, Asia and Pakistan. FDI inflows into Pakistan during the year 2004-05 has reached US\$ 1524 million as the highest ever if compared with the previous period and it was US\$ 949.6 million in the last year. The total FDI inflow into communication

(information technology), financial business, oil exploration, textile and power sectors in the year 2004-05 were US\$ 517.6 million, US\$ 269.4 million, US\$ 39.3, US\$ 138.4 million and US\$ 73.3 million respectively. About 70 percent of FDI came into oil and gas and telecommunication sectors, chemicals, textile, power sector and banking and finance. Almost 60 percent of FDI has come from USA, UK, Switzerland, Japan, UAE and Netherlands. Moreover, it has been observed that inflow of FDI into Pakistan somehow has increased since 2001, due to the efforts made by the Government of Pakistan by offering incentives, provision of investment friendly environment and maintaining macroeconomic stability in the country.

### **Conclusion and Policy Implications**

This paper was an attempt to explore the benefits of FDI, trend and pattern of FDI in Pakistan. Both host and foreign countries take interest in foreign investment because both have some objectives. These objectives of the foreign investors naturally to earn high profit and repatriate it to their home countries. The host developing countries are interested to increase the level of economic growth in order to improve social welfare of the community. It has observed that some multinationals have been operating in Indo-Pakistan sub-continent even before our independence. Almost 30,000 companies are working in Pakistan, out of which more than 600 have foreign capitals operating successfully and making tangible profit in Pakistan. FDI inflow in the year 2004-05 has reached US\$ 1524 million as the highest if compared with last years FDI inflow in Pakistan. It has found that a few sectors have comparatively attracted more FDI during last five years i. e., textile sector, oil exploration sector, communication (IT and Telecom) and the financial business sector respectively. Further, it has been analyzed that

currently, important areas for FDI in Pakistan are such as; energy sector, manufacturing sector, mining sector, engineering sector, tourism, IT sector, telecommunication, value added textiles. Though the Government of Pakistan is well aware of the importance of FDI, therefore the management authorities should chalk out such policies through which more FDI take place and it will positively affect economic growth of the country.

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