

Inter and Intra Regional Foreign Direct Investment: The South Asian Outlook

Seema Dua

Assistant Professor in Economics, Guru Nanak Khalsa College for Women, Model Town ,Ludhiana (India)

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ABSTRACT

Recent decades have witnessed a growing trend towards regional economic integration in the form of regional blocs. Experience of EU, NAFTA and ASEAN countries have shown that economic integration has played a very important role in promoting inter as well as intra regional investment in these regions. But SAARC remains an exception. SAARC was established in 1985 but till now no achievement has been visible in terms of investment promotion. The regional investment climate is far from satisfactory. SAARC could not exploit the benefit of regional bloc in promoting inter and intra regional investment flows. Problem in SAARC countries is more political than economic. The objective of present paper is to analyse FDI trends in SAARC countries and to find out the challenges that restrict this region to tap its potential.

1. Introduction

The concept of regional, political and economic cooperation in South Asia was thought of in 1980. Ziaur Rahman, the Ex president of Bangladesh made a formal proposal for the creation of trade bloc consisting of South Asian Countries on May2, 1980. In April 1981, the Foreign Secretaries of seven countries that is Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka met to discuss about the idea. In August 1983, a meeting was held in New Delhi where Foreign Ministers of these seven counties adopted the Declaration on South Asian Regional Cooperation and IPA(Integrated programme of Action) was formally launched in five areas i.e. Agriculture ,Rural development, Telecommunication, Meteorology and Health and Population Action and during next two years the work was done to form this association. Finally the South Asian Association for Regional Cooperation (SAARC) came into existence on December 08, 1985 when first SAARC summit was held in Dhaka where the seven South Asian Countries of SAARC (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) signed a charter to establish the South Asian Association for Regional Cooperation. Afghanistan joined as eighth member of SAARC at the fourteenth SAARC Summit held in Delhi in April 2007. The main objective of the SAARC is collective regional effort to accelerate economic growth, social progress and cultural development so as to promote welfare of people of the region and to improve their quality of life and to strengthen cooperation among themselves in international forum on matters of common interest. Landmark in the history of SAARC was to sign and activate the South Asian Free Trade Agreement (SAFTA) on 1st January, 2006. SAFTA was envisaged primarily as first step towards the transition to a South Asian Free Trade area leading subsequently towards a custom union, common market and economic union.

SAARC was considered to have potential to be a powerful regional block in near future. Unfortunately collective regional goals could not be fulfilled in SAARC region despite decades of attempted cooperation .No achievements have been visible in terms of investment promotion till now. SAARC agreement on Promotion and Protection of Investment, which was on agenda

of many meetings of SAARC, is yet to be finalised .The region has not been able to tap its potential in attracting FDI inflows and specially in promoting intra regional investment flows.

2. Objective of paper

The objective is to find-

- To analyze the magnitude of FDI inflows in SAARC countries.
- To analyse FDI outflows and Intra regional investment flow .
- To find challenges faced by SAARC countries to attract FDI.

3. Literature review

Moazzem(2015) observed that most of the FDI in South Asia has come from outside the region and the contribution of intra regional investment remained limited in the region. South Asian countries have signed investment treaties at bilateral level with foreign investors but less importance is given to investment at regional level. No due attention has been given to investment issues at regional level by SAARC countries. SAARC countries should learn lesson from other regions like ASEAN to enhance FDI.

Alam Jahangir and Aowrangazab(2005) conducted a study on Intra regional foreign Direct Investment from South Asia perspective. The study found that SAARC performance in attracting FDI is not up to the mark. Alam and Aowrangazab identified that besides the energy sector, transport and communication, and information technology, there is scope of different sectors for investment within the region that are agriculture, tourism, textiles and garments. The study also concluded that almost all countries of SAARC are trying to attract FDI from within the region but the efforts have not proved to be successful because of mutual distrust, lack of confidence, lack of political cooperation ,trade barriers, political hostility between nations.

Abdin Joynal. MD(2015) emphasised the fact that more than half billion people live below poverty line in South Asia. To

eliminate poverty the countries should give more importance to entrepreneurial development and employment generation programmes. For this effective measures should be taken to attract new investment. He argued that SAARC countries have potential to increase FDI but except India other countries have failed to attract FDI. Political instability, restrictions on investing abroad, complex visa regime, poor connectivity and transportation, increasing number of non tariff barriers are few of the challenges which hampers economic integration among SAARC countries. Now the government of the southern countries have to decide whether to make SAARC a developed integrated regional bloc or let the SAARC be a big failure.

4. Methodology

The paper is based on secondary data published in various reports and newspapers and articles.

5. FDI In SAARC Countries

Regional Economic integration has helped in boosting both inter regional and intra regional investment in number of regional blocs like EU, NAFTA, ASEAN . But SAARC region has not been able to realize its potential to attract FDI and is one of the least FDI recipient in the world. Though the absolute volume of FDI has increased over the years from 39497 US million dollars in 2009 to 47028 US million dollars in 2017 yet its share in world FDI inflows has remained at very low level that is just 3.3% in 2017 . In contrast, neighboring regions of South Asia such as South East Asia have been able to receive huge amount of FDI during the same period as shown in table-1

Table-1
% share of SAARC countries and ASEAN in world FDI flows

Year	FDI inflows in world (million dollars)	FDI inflows in SAARC countries (million dollars)	% share of SAARC countries in world FDI inflows	FDI inflows in South East Asian nations (million dollars)	% share of ASEAN in World FDI inflows
2009	1190006	39497	3.3	46642	3.9
2010	1383779	31263	2.3	110559	8
2011	1591146	40050	2.5	94866	5.9
2012	1574712	27705	1.8	111823	7.1
2013	1425377	32548	2.3	111843	7.8
2014	1338532	39334	2.9	129545	9.7
2015	1921306	49130	2.6	117279	6.1
2016	1867533	50806	2.7	120608	6.5
2017	1429807	47028	3.3	133764	9.4

Source: Computed from World Investment Report, 2018, UNCTAD

6. State of FDI Inflows in SAARC

India is main recipient of FDI inflows in SAARC region. India alone received about 84.88% of total FDI inflows to SAARC countries during 2017. Even during 2014 when world FDI inflows fell by 16% i.e. from 1443 US billion dollars in 2013 to 1324 US billion dollars in 2014, the FDI inflows to SAARC countries increased from 32 US billion dollars in 2013 to 39 US billion dollars in 2014 just due to increase in FDI inflows of India from 28 US billion dollars to 34 US billion dollars during same period as shown in table-2. Other than India, no other

country in SAARC region is being considered to be advantageous to invest by foreign investors because of which share of other South Asian Countries is far behind India . During 2017 Pakistan received about 2806 US million dollars of FDI inflows which was around 5.97% of total FDI inflows to SAARC countries . Share of Bangladesh was around 4 .58% and that of Sri Lanka was around 2.92 % of total FDI inflows to the region while share of Afghanistan, Bhutan, Nepal, Maldives was insignificant.

Table-2
Inward Flow of FDI in SAARC countries(million dollars)

Year/Country	2009	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	198(0.5)	54(0.17)	58(0.14)	47(0.17)	38(0.12)	44(0.11)	163(0.33)	86(0.17)	54(0.11)
Bangladesh	700(1.77)	913(2.92)	1136(2.84)	1293(4.67)	1599(4.91)	1551(3.94)	2235(4.55)	2333(4.59)	2152(4.58)
Bhutan	26(0.07)	76(0.24)	29(0.08)	49(0.18)	14(0.04)	32(0.08)	17(0.03)	-13(-0.03)	10(0.02)
India	35634 (90.22)	27417 (87.7)	36190 (90.36)	24196 (87.33)	28199 (86.64)	34582 (87.92)	44064 (89.69)	44481 (87.55)	39916 (84.88)
Maldives	158(0.4)	216(0.69)	424(1.06)	228(0.82)	361(1.11)	333(0.85)	298(0.61)	437(0.86)	517(1.10)
Nepal	39(0.10)	87(0.28)	95(0.24)	92(0.33)	71(0.22)	30(0.08)	52(0.11)	106(0.21)	198(0.42)
Pakistan	2338(5.92)	2022(6.47)	1162(2.90)	859(3.10)	1333(4.09)	1868(4.75)	1621(3.30)	2479(4.88)	2806(5.97)
Sri Lanka	404(1.02)	478(1.53)	956(2.38)	941(3.40)	933(2.87)	894(2.27)	680(1.38)	897(1.77)	1375(2.92)
Total	39497(100)	31263(100)	40050(100)	27705(100)	32548(100)	39334(100)	49130(100)	50806(100)	47028(100)

Note: Figures in the parentheses indicate % share of total FDI flow in SAARC countries

Source: World Investment Report, 2018, UNCTAD

7. Source of FDI In SAARC countries

Major sources of FDI in SAARC countries are USA, UK, EU countries .Intra regional investment is very less as shown in table -3 below

Table-3
Sources of FDI in SAARC countries

S.No	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	India	UAE	India	Mauritius	Italy	India	USA	China
2	USA	Saudi Arabia(KSA)	Singapore	Singapore	UK	China	UK	Hong Kong
3	China	UK	Japan	USA	Germany	EU Member States	UAE	Singapore
4	UAE	USA	USA	UK	France	USA	Japan	Netherlands
5		Netherlands	EU Member States	Netherlands	Japan	South Korea	Hong Kong	Malaysia
6		Egypt		Japan	China		Switzerland	UK
7		Malaysia		Cyprus	India		KSA	India
8		South Korea		Germany	Switzerland		Germany	
9		India		France	Russia		South Korea	
10		China		UAE			Norway	

Source-Abdin M J, Foreign Direct Investment(FDI) in SAARC Countries, Global Journal of Management and Business Research ,Volume 15, Issue8, 2015 & FDI statistic of various countries.

8. FDI outflows of the SAARC

FDI outflows from South Asian countries is not significant at all and there is a steady decrease in FDI outflows of SAARC region since 2009. In 2009 SAARC FDI outflow was \$16178 million which gradually declined to \$11613 million in 2017. The sharp fall in capital outflow was mainly attributed to macro-economic uncertainties in South Asian countries India is the largest investor among South Asian Association for

Regional Cooperation (SAARC). FDI outflow of the SAARC countries other than India is not significant at all shown in table-4 .But due to fall in India's outflows from \$16058 million in 2009 to \$5120million in 2016, the share of SAARC countries in World's FDI outflows has declined from 1.47% to 0.38%. But again due to increase in India's FDI outflows to \$11304 million in 2017, the share of SAARC countries increased to 0.81% in World's FDI outflows.

Table-4 FDI outflows of SAARC Countries (US million Dollars)

Countries/Years	2009	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	0.3	-0.7	1.2	-9	1	-	1	-1	-
Bangladesh	29	15	13	43	34	44	46	41	170
Bhutan	-	-	-	-	-	-	-	-	-
India	16058	15947	12456	8486	1679	11783	7572	5072	11304
Maldives	-	-	-	-	-	-	-	-	-
Nepal	-	-	-	-	-	-	-	-	-
Pakistan	71	47	35	82	212	122	25	52	67
Sri Lanka	20	43	60	64	65	67	53	237	72
FDI outflows of SAARC	16178	16051	12565	8666	1991	12016	7697	5401	11613
World FDI outflows	1102091	1386061	1576041	1369508	1380875	1262007	1621890	1473283	1429972
% of SAARC in World's FDI outflows	1.47	1.16	0.80	0.63	0.14	0.95	0.47	0.37	0.81

Source: Computed from UNCTD ,World Investment Report, 2018

9. Intra regional FDI

FDI to SAARC region is mostly originated from outside the region. Intra regional investment is insignificant. Even though India has huge market and is being considered as advantageous to invest yet investment from SAARC region in India is miniscule. Sri Lanka is largest investor in India still its share in India's total FDI inflows is just 0.01% as shown in table-5

Table-5
FDI inflows in India from SAARC countries(April 2000-March 2017)

COUNTRY	FDI inflows (US\$ million)
Afghanistan	1.87
Bangladesh	0.05

Bhutan	-
Maldives	5.84
Nepal	2.45
Pakistan	-
Sri Lanka	46.62
Total FDI flows in India from SAARC countries	56.83
Total FDI flows in India from world	331991.05
%share of SAARC countries inflows from total world flow in India	0.017

Source- Computed from FDI Statistics . Department of Industrial Policy & Promotion ,Gol

Even India's outward FDI mainly target different industries of Europe and North America and not within region because of limited investment potential within the region. If we look at outward FDI of India during 2017 as shown in table-6, we will find that India's outward direct investment in SAARC countries is quite low.

Table-6
Outward FDI from India to SAARC countries from 1st Jan 2017 to 31st Dec 2017

Country	Outward FDI from India(US\$Million)
Bangladesh	29.5
Bhutan	0.46
Maldives	7.24
Nepal	21.95
Sri Lanka	103.58
Total outward FDI to SAARC countries	162.73
Total outward FDI of India	13058.93
% of SAARC countries in India's total outward FDI	1.24

Source-Foreign exchange department, Reserve Bank of India

Intra regional investment in SAARC countries is miniscule i.e. only around 2%. On the other hand intra regional investment in ASEAN countries was 17% in 2015 which rose to 18.5% in 2016 which further increased to 25% in 2016. ASEAN countries are gaining a lot from intra regional investment.

10. Causes of low FDI flows in SAARC region

SAARC region is the least integrated region in the world despite the fact that member countries shared centuries old common heritage. Not only inter regional even intra regional investment flows are extremely low, rather negligible. Different reasons for poor FDI inflows are:

- Regional investment climate is far from satisfactory. Strained relation between Pakistan and Afghanistan, Kashmir and other border disputes between India and Pakistan is a big threat to regional cooperation. Because of strained relations, nineteenth SAARC Summit was cancelled. Non friendly attitude in the region stand in the way of intra regional investment.
- Political disturbance, narrow nationalism and mutual distrust are road blocks in realizing full potential of intra regional investment in South Asia.
- Poor regulatory, legal and fiscal system and institutional barriers like cumbersome taxes, investment cap, minimum capital requirement and presence of non transparent procedure and procedural delays which led to high transaction costs create a sense of insecurity among foreign investors which led to poor FDI flows.
- Poor infrastructure has become the main road block in both intra-regional trade and investment and hampers SAARC global competitiveness. Airports as well as ports are less advanced in South Asia which increases waiting time in clearing consignments. Poor land networks across the region is a big barrier to intra-regional trade.

- Bilateral investment policies of South Asian countries also impedes cross border investment in the region. There are more business-to-business dialogues taking place at bilateral level than at regional level.
- Efforts taken by member countries to integrate these markets by reducing border and behind the border obstructions and weaknesses have proved to be a big failure.
- There is lot of political interference and corruption which obstruct FDI.
- Most South Asian countries rank low in indicators of the ease of doing business (as shown below) although they still possess the comparative advantage of low labour cost.

South Asia (SA) rank on the ease of doing business out of 190 countries

Country	Rank
Bhutan	75
India	100
Nepal	105
SriLanka	111
Maldivies	136
Pakistan	147
Bangladesh	177
Afghanistan	183
Regional Average	129

Source-Doing Business 2018, World Bank report

Regional average ranking of various indicators

Indicators of ease of doing business	Regional Average rank
Starting a Business	110
Resolving Insolvency	121
Enforcing Contracts	142
Trading Across Border	126
Paying Taxes	132
Protecting Minority Investors	81
Getting credit	103
Registering Property	146
Getting Electricity	121
Dealing with Construction permit	126

Source- Doing Business, 2018 . World Bank Report

11. Suggestions for enhancing FDI flows in SAARC region-

There is need for concerted efforts to deepen trade and investment linkages in the region.

- Need of the hour is that South Asian countries should give more importance to economic issues and political differences should not be allowed to stand in the way of regional cooperation. Member countries should maintain a harmonious relationship without any interference in each other's freedom, dignity and political sovereignty.
- Measures should be taken to build confidence and mutual trust among nations to boost intra regional investment..

- South Asian countries need to improve their institutional, regulatory and legal systems to promote inter and intra regional investment. There is lot of scope to reform rules and regulations by which SAARC countries could improve institutional and economic governance which would boost business activities in these countries.
- National Chambers of Commerce of SAARC countries can also play important role in boosting intra-regional trade and investments.
- Development of cross-border infrastructure like transportation linkages and Communication network across the region, will contribute a lot to the regional integration by reducing transportation costs which will facilitate intra-regional trade and investment.
- SAARC countries should enter into a regional Investment Promotion and Protection Agreement at earliest to boost intra regional investment.
- To promote investment, South Asian countries should take initiatives as taken by other regional economic blocks such as the Association of Southeast Asian such as ASEAN Comprehensive

Investment Agreement (ACIA), ASEAN Industrial Joint Venture (AIJV).

- Each country should make information accessible to investors.
- Measures to encourage investment from India in other countries in region may help in promoting regional cooperation.

12. Conclusion

South Asian countries could not be able to undertake a journey towards economic integration. Overall an integrated market could attract a large scale of both intra regional and extra regional FDI. But SAARC performance in attracting FDI is dismal. This raises concern over the effectiveness of the policies undertaken by SAARC countries at individual as well as regional level. Intra regional FDI can act as a key driver for both increasing economic growth and deepening economic cooperation in South Asia. Unless concrete action would be taken, the relevance of SAARC would be lost. It is the need of the hour that SAARC countries should overlook their political differences and should give primary importance to economic issues.

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