

FOREIGN DIRECT INVESTMENT IN SOUTH ASIA: TRENDS AND PROSPECTS

A Dissertation submitted to the Central University of Punjab

For the Award of

Master of Philosophy

in

South & Central Asian Studies

BY

Gurpreet Kaur

Administrative Guide: Prof. (Dr.) Paramjit Singh Ramana
Dissertation Coordinator: Dr. Sandeep Kaur Bhatia



Centre for South & Central Asian Studies
School of Global Relations
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May, 2012

CERTIFICATE

I declare that the dissertation entitled “FOREIGN DIRECT INVESTMENT IN SOUTH ASIA : TRENDS AND PROSPECTS” has been prepared by me under the guidance of Administrative Supervision of Dr. Paramjit Singh Ramana, Professor and Dr. Sandeep Kaur Bhatia, Assistant Professor, Centre for South and Central Asian Studies, School of Global Relations, Central University of Punjab. No part of this dissertation has formed the basis for the award of any degree or fellowship previously.

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ABSTRACT

“Foreign Direct Investment in South Asia: Trends and Prospects”

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Foreign investment for these countries is an important strategy to achieve the objectives of increasing industrial production to fulfill the basic needs of people, to generate maximum employment opportunities, to attain high growth regime, to pave way for the improvement in balance of payments. Keeping in view the importance of FDI in regional integration scheme, there is a need to look into the growth and performance of foreign direct investment inflows as well as outflows of South Asia Nations. Therefore study's objectives are to examine position of South Asia nations in FDI inflows and outflows from world during 1990-2010. To study the growth of FDI in South Asia Nations during 1990-2010. to analyze the performance of South Asia Nations in terms of different FDI indicators. to examine the pattern of foreign direct investment of South Asia Nations and to study constraints and prospects of foreign direct investment of South Asia Nations. Keeping in mind the nature of the study, secondary data has been calculated from the different sources like UNCTAD World Investment Report's various reports of SAARC economies etc.

The growth rate of FDI inflows in South Asia (24.77 percent) is much more than other developing economies (14.45 percent) and Asia (13.99 percent) during 1990-2010, still the inflows are not sufficient for the development of the region. The maximum average contribution in percentage share of South Asia's FDI inflows is of India (78.02), followed by Pakistan, Bangladesh and Sri Lanka (12.07 percent, 5.69 percent, 2.93 percent) for 1990-2010. Regarding FDI out flows, the growth rate of FDI out flows in South Asia (47.97 percent) is much more than

developing economies (15.26 percent), developed economies (11.43 percent) and Asia (14.67 percent) during 1990-2010. The comparative analysis of FDI inflows and outflows, it clearly shows that growth of FDI outflows is much more as compared to the growth of FDI inflows in developing economies, Asia and South Asia during 1990-2010. The maximum average contribution in percentage share of South Asia's FDI outflows is of India (89.28 percent) followed by Pakistan (5.76 percent), Sri Lanka (3.65 percent) and Bangladesh (1.31 percent) during 1990-2010. The comparative analysis of the percentage share of inflows and outflows, it clearly shows that the average of the percentage share of South Asia's inflows are much more than the average of percentage shares of South Asia FDI outflows during 1990-2010.

They are various potentials of intra-regional FDI, yet investment from other countries outside is not satisfactory. This is due to the prevalence of some hindrances in South Asian countries which are acting as bottlenecks to the smooth flow of investment both intra-regional and outside the region, like, difference in size of economics, trade barriers, poor condition of infrastrure, appropriate and effective banking, lack of cross-border facilities, political factors etc. The study suggests that FDI in South Asia is very closely related to high economic growth of the region and most areas in these countries are under developed whereas huge natural resources exist in these regions, which can attract FDI for high growth.

Gurpreet Kaur

Dr. Sandeep Kaur

Prof. Paramjit Singh Ramana

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This thesis is dedicated to my baby, Sehajpreet.

Gurpreet Kaur

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LIST OF ABBREVIATIONS

Sr. No.	Full form	Abbreviation
1.	Asian Development Bank	ADB
2.	Balance of Payment	BOP
3.	Bilateral Investment Treaties	BITs
4.	Cross Border Investment	CBI
5.	Computer and Information Technology	CIT
6.	Foreign Direct Investment	FDI
7.	Gross Domestic Product	GDP
8.	Mergers and Acquisitions	M & A
9.	Multinational Companies	MNCs
10.	Non Governmental Organizations	NGOs
11.	Regional Trade Agreements	RTAs
12.	South Asian Association for Regional Co-operation	SAARC
13.	South Asian Free Trade Area	SAFTA
14.	Agreement on SAARC Preferential Trading Arrangement	SAPTA
15.	Transnational Companies	TNCs
16.	United Nation Cooperation of Trade and Development	UNCTAD
17.	World Investment Report	WIR

CHAPTER – 1

Introduction

Due to globalization in the 1990s, the flow of Foreign Direct Investment (FDI) has increased tremendously. FDI is an essential source of development financing, contributes to productivity gains by providing new investment, better technology, management expertise, and exports markets, given resource constraints and lack of investment in developing countries, there has been increasing reliance on the market forces and private sector as the engine of economic growth (Sahoo, 2006).

FDI refers transfer of capital from one country to another country; it is defined as foreign acquisition of at least 10% of the assets of a firm (Markusen 2000). It can be from developed to developing countries or vice versa. FDI is beneficial for both the countries i.e. investor country and the country where the investment is being done. Every national economy has various policies and programmes for attracting maximum amount of FDI and an effective government control on FDI. During 1997 Asian financial crisis, it was observed that FDI in these countries was continuum while other forms of cash inflows suffered major setbacks so it has also been noted that FDI has helped several countries when they face economic hardships.

A country with large population can create employment in domestic labor market in developing countries if FDI policy proved successful (ADB, 2007). The productivity of the labours have been increased in both management and manufacturing processes by providing them training. FDI promotes new industrial units in various corners of countries which develops various opportunities in trading of goods and services. When FDI emphasis on export-oriented industries, it leads to an increase in export potential by affecting volume of trade, and boosting economic growth of the host country. On the other hand when FDI pays attention on the import substitution industries it leads to decline in amount of imports of the host countries and also leads to surplus in balance of trade. FDI from US to India has been observed to positively and significantly affect the export intensities of domestic firm operating in non-traditional export market (Banga 2002).

FDI plays important role in transfer of technology from one country to another country. This transformation in technology leads to improvement in quality of products manufactured by various industries and also leads to increase in export of the superior quality product and accelerate economic growth. Moreover, it contributes in transfer of knowledge across the world like the people of Asian countries have vast knowledge about the IT sector which was later used on by other non-Asian countries of the world. Through FDI the transfer of knowledge helps the local firm to raise productivity, skills, efficiency and research and development (R&D).

Foreign direct investment contributes a lot in increasing the source of government income generated through taxation. It can also promote competition in the domestic input market. In early 1990s due to economic reforms (LPG), a wave of mergers and acquisitions has reshaped the scenario of the global corporate world. The wave of privatization leads to increase in competition. Foreign-orchestrated leads to changes in management and corporate governance. When foreign corporate practices are superior to the ones prevailing in the host country, this boosts corporate efficiency. FDI has the potential to greatly benefit the environment of developing countries. The technologies that are normally transferred to developing countries in connection with FDI tend to be more modern and environmentally cleaner.

According to neoclassical growth model, FDI promotes economic growth by increasing the volume of investment and efficiency. Therefore, all countries, particularly developing and least developed countries, seek to attract FDI for the package of benefits it brings along with it into the host country economy (Sahoo, 2006).

Foreign Direct Investment (FDI) is an important type of private capital financing for developing countries. In recent years, FDI in developing Asian countries has risen remarkably, largely induced by the liberalization of investment policies such as investment incentives, and the lowering or removal of capital controls and other types of investment barriers. The promotion of these policies was triggered by a various factors, including (i) rapid improvements in technology (ii) the advent of global and regional production networks, (iii) the forging of

bilateral investment agreements, (iv) policy advice coming from international agencies, and (v) increasing recognition of the positive effects of FDI (Asian Development Bank, 2004).

The relation between regional integration and FDI is of the multidimensional character. There is reason to believe that effects will vary between different integration agreements and between countries and industries participating in any specific agreement. It is one of the factors often cited in the increase in the market size that follows regional integration. Regional integration has the potential to promote economic development in member countries irrespective of the size and level of growth rate. This potential can be exploited only through deeper co-operation. It has the potential to attract more FDI flows and its share has been rising in Asia and in the world respectively. This will pave the way for the most efficient use of region's resources through additional economies of scale, value addition, employment and diffusion of technology.

South Asia is one of the economically most under-developed expanses of the world with five least developed countries viz. Afghanistan, Bangladesh, Bhutan, Maldives and Nepal, two low-income countries viz. India and Pakistan and one lower middle-income country viz. Sri Lanka. This is the region in which 20% of world's population is inhabited and is also considered the poorest region (Aggrawal, 2008). In recent years, this region has emerged as second fastest growing economy after East Asia because of the presence of most potential country India. The adoption of economic reforms by South Asian countries has led to faster growth in these countries. Due to these reforms, these countries have reshaped the entire spectrum of industrial policies and their attitude towards foreign investment. Recent years have seen the rise of FDI in South Asia. This can be partly attributed to liberalization policies initiated by most South Asian governments during the 1990s and early 2000s as well as to the strong economic growth of most countries in the region. The flow of foreign investment into the region will continue its upward trend.

The idea of regional organization for cooperation in South Asia was put forward by then Bangladesh president Zia-ur Rahman in 1980. The objective was to form an association on the lines of EEC or ASEAN. With this efforts seven

South Asian countries namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka has made one regional integration scheme namely SAARC (South Asian Association for Regional Co-operation) in 1985. In 2006 Afghanistan has also joined it. It is the only organization in South Asia that is specifically committed to developing regional co-operation. Its aim is to promote peace trade and development among its members. It is argued that trade liberalization and regional economic integration can help to increase intra- regional trade, rather it is very much inward oriented. This is partly because the major economies such as India, Pakistan, Bangladesh are not outward oriented.

Although these countries have been continuing trade liberalization since the early 1990's, the progress is still very slow. This region has still been considered one of the most highly protected regions in the world. Most of the South Asian countries performed their trade mainly with non-Asian countries. In this sense small countries may loose and the large countries may gain from free flow of trade. The SAARC preferential trading agreement (SAPTA) was signed in 1993 with the view to paving the way for increased economic integration in the region. SAPTA established the important goal of providing more support for the least developed member states. Following on from this, the adoption of the South Asia free trade agreement (SAFTA) framework treaty in 2006 has given new dynamism to the association and should further stimulate intra-regional trade and integration. By signing this agreement, the government committed to follow a concrete road map towards facilitating the cross border movement of goods. Its main objective is to eliminate obstacles and facilitating the movement of goods between the territories of contracting states.

Foreign investment for these countries is an important strategy to achieve the objectives of increasing industrial production to fulfill the basic needs of people, to generate maximum employment opportunities, to attain high growth regime, to pave way for the improvement in balance of payments. While growth prospects for South Asia are favorable, the region faces formidable challenges to sustained development and growth in the long term. These challenges include the need to develop physical and social infrastructure, accelerate inclusive growth and human development, promote FDI, diverse domestic industries, agriculture, and institute structural policy reforms and secure political stability and security. FDI is

now a fundamental and integral part of the global financial system. In 2008 SAARC share of FDI inflow in Asia and in world was 7.92% and 2.89%. Due to integration, economies are more open, outward oriented and more receptive to investment and trade; many business firms are spending their horizons and not only entering into joint ventures and other partnerships with foreign firms but also taking the initiative to undertake FDI in other countries. SAARC an association based on the premise that in an increasingly independent world, the objectives of peace, freedom, social justice and economic prosperity in South Asia are best achieved by fostering mutual understanding, good neighbourly relations and meaningful cooperation amongst the countries in the region and this leads to increase in FDI inflows.

Keeping in view the importance of FDI in regional integration scheme, there is a need to look into the growth and performance of foreign direct investment inflows as well as outflows of SAARC nations. Therefore study's **objectives** are:

- To examine position of SAARC nations in FDI inflows and outflows from world during 1990-2010.
- To study the growth of FDI in South Asia nations during 1990-2010.
- To analyze the performance of SAARC nations in terms of different FDI indicators.
- To examine the pattern of foreign direct investment of SAARC nations.
- To study constraints and prospects of foreign direct investment of South Asian Nations.

Plan of the Study

The study has been divided into five chapters including the present one. Second chapter reviews empirical studies related to the theme of the study. Third chapter explains the data base and methodology. Fourth chapter analyzes growth and performance of FDI in South Asia and last chapter deals with conclusions and policy implications.

CHAPTER – 2

Review of Literature

The SAARC is made up of eight countries Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. It is the only organization in South Asia that is specifically committed to developing regional co-operation. The South Asian Association for Regional Co-operation (SAARC) aim to promote peace trade and development among its members. It is argued that trade liberalization and regional economic integration can help a region increases intra- regional trade, rather it is very much inward oriented. This is partly because the major economies such as India, Pakistan, Bangladesh are not outward oriented. Although these countries have been continuing trade liberalization since the early 1990's, the progress is still very slow. South Asia has still been considered one of the most highly protected regions in the world. Most of the South Asian countries performed their trade mainly with non-Asian countries. In this sense small countries may loose and the large countries may gain from free flow of trade. The present chapter reviews the studies relating to foreign direct investment of South Asian countries as well as other nations of world. This chapter also covers the studies of foreign direct investment of other nations than SAARC.

Bosworth and Collins (1999) provided evidence on the effect of Capital inflows on domestic investment for 58 developing countries during 1978-85. The sample covers nearly all of Latin America and Asia, as well as many countries in Africa. The authors distinguished among three types of inflows: FDI, portfolio investment, and other financial flows (primarily bank loans). The study revealed that an increase of a dollar in capital inflows was associated with an increase in domestic investment of about 50 cents.

Khan and Kim (1999) highlighted that the crisis of foreign capital since July 1997 poses many challenges in developing countries like Republic of Korea and Malaysia in general and Thailand and Indonesia in particular. The crisis highlighted the urgent need to reexamine the optimal combination of foreign capital, i.e. proper composition of concessional public loans, commercial loans, portfolio investment, and foreign direct investment. The size of financial market is very small and its foreign exchange and debt position is precarious. The study revealed that FDI is significant mechanism for the development of host economy in terms of long term

commitment. The functioning of Asian Development Bank is meant for poverty alleviation and multilateral development in the fields of agriculture, rural development, education, environment and health. But, on the other side, host countries also welcome the flow of foreign direct investment in their countries.

Bevan and Estrin (2000) explored the determinants of FDI in transition economies during 1991- 1998. The study revealed that the country considers it to be a risk to be influenced by private sector development, industrial development, the government balance, reserves and corruption. And also increases in FDI improve country credit rating with a lag, hence increasing future country FDI receipts. The study suggested that the accession progress has the potential to induce virtuous cycles for the frontrunners but may have serious consequences for the accession laggards.

Agrawal (2000) evaluated the economic impact of FDI in South Asia during 1980-1998. The study revealed that the impact of FDI inflows on GDP growth rate was negative prior to 1980, mildly positive for early eighties and strongly positive over the eighties and early nineties, supporting the view that FDI is more likely to be beneficial in economies that are more open. The study also found that since 1980; FDI inflows contributed more to GDP growth in South Asia than did an equal amount of foreign borrowing. This suggests that FDI is preferable to foreign borrowing.

Athukorala (2003) analyzed FDI - led growth hypothesis of Sri Lanka during 1959-2002. The study revealed that the investment climate has not improved in Sri Lanka as a result of lack of good governance, corruption, political instability and disturbance, bureaucratic intertie, and poor law and order situation. The study suggested that the FDI inflows have a positive impact on economic growth of host countries.

Alam & Aowrangazab (2005) explained some critical issues of FDI within South Asian countries during 1990 - 2002. The study also explained the economic interdependences among these countries in terms of FDI. The study revealed that South Asia Countries performance of attracting FDI is not up to the mark. It has been suggested that these countries can use FDI as an important tool of reducing or eliminating poverty that can also act in building an effective SAARC by reducing regional imbalances in trade and FDI.

Aqeel and Nishat (2005) described the determinants of growth in foreign direct investment in Pakistan during the 1961 - 2003. The study revealed that how different variable or indicators reflecting trade, fiscal and financial sector liberalization attract FDI in Pakistan. The study considered the tariff rate, exchange rate, tax rate credit to private sector. The study also clearly emphasized the role of these policy variables in attracting FDI and determining its growth in both short and long run in Pakistan. The study also indicated a positive and significant impact of reforms on FDI in Pakistan.

Singh (2005) critically analyzed the foreign direct investment in India during 1991-2005. The study revealed that while FDI shows a gradual increase and has become a staple for success for India. This is a throwback to 1991 when Infrastructure reforms were not attempted as the sector was performing in the positive. FDI has become a game of numbers where the justification for growth and progress is the money that flows in and not the specific problems playing the individual Sub Sector. Thus the impact of the reforms in India on the policy environment for foreign direct investment presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Kim (2006) evaluated the significant impact of bilateral investment treaties (BITs) on foreign direct investment and the possible consequences of BITs during 1990-2004. The study revealed that BITs had significantly promoted FDI, and their effects are substitute for the level of political risk in a country. BITs are more potential for most Asian Countries to promote FDI. On average, BITs ratified by a country in South, East, and South-East Asian nations can raise FDI by around 2.3 percent.

Aggarwal (2008) described the prospects & problems of FDI in South Asia. The study found that regional initiative undertaken in South Asia has had a favorable impact on foreign direct investment during 1990-2007. The study suggested that the slow progress and modest achievements of regional integration in South Asia have generated significant skepticism about its role as an effective arrangement. Regional integration has the potential to promote economic development in individual countries – irrespective of the size and the level of growth. This potential can be exploited only through a deeper form of cooperation. A number of challenges remain

unresolved- structural weaknesses, institutional bottlenecks; political movements, narrow nationalism and mutual mistrust are several factors that explain the failure of the regional to tap its potential. These problems themselves provided strong motivation for strengthening cooperation. It is only through deeper regional collaboration that these shortcomings can be addressed and rectified. Increased investment flows will improve the competitiveness of regional firms in global markets. According to study, the inward investment is beneficial for the host countries' firms. But it is important to note that outward investment itself works as a catalyst for improving commercial competitiveness. Regional cooperation, by promoting cross border investment, will offer opportunities to firms, especially from small countries, to grow in terms of size and capabilities to compete globally. Also, it can help in raising efficiency and industrial restructuring.

Chadha & Nataraj (2008) analyzed the trade in services and investment flows in South Asian Countries vis-a vis other regions of world during 1980-2007. The study revealed that the impact of a regional integration agreement in South Asia would depend on the depth of the agreement including trade in services and investment flows. South Asia is one of the last integrated regions in terms of inter-regional investment and trade relations. Analysis of the FDI inflows in South Asia revealed that the number of total sale deals including Greenfield investments and Mergers and Acquisitions (M&A) have increased in recent years. Though India is ranked as the second most attractive destination for FDI, South Asian Countries, including India, do not rank high in terms of the FDI performance and potential indices and are also ranked low in the global competitiveness index. However, with respect to travel services, the South Asian Countries do not show revealed comparative advantage except Sri Lanka to some extent. The competitiveness of South Asia is relatively high in the case of "other services" including Computer and Information Technology enabled services. The study also pointed to various investment constraints in South Asia like poor infrastructure and labor market inefficiencies etc. The study suggested that larger and broader RTAs are the better options for the future attracting investment.

Hossain (2009) studied impact of foreign direct investment on Bangladesh's balance of payments during 1998-2007. The study reported high positive correlation between FDI inflows and Bangladesh's aggregate exports and imports. The net

impact on the current account balance and the balance of payments was positive. Bangladesh's investment incentives and regulations for FDI were found competitive with those offered by similar other countries. The study suggested that effective implementation of these measures and success in attracting higher FDI inflows, needs significant institutional reforms, radically reduced levels of control, better provision of essential infrastructures, perceived improvement in investment climate, and sustained socio-political stability.

Alam and Zubayer (2010) explained the prospects of intra-regional foreign direct investment prospects in SAARC region during 1997-2008. The study revealed that FDI outside is more important than in intra- regional investment in most of SAARC countries except Nepal. The study suggested that more intra-regional cooperation can reduce the infrastructure deficit thus addressing the energy requirements of the region. The cross-border infrastructure supply system, such as road and telecommunication networks, promise towards regional cooperation and the support of both FDI and intra-regional FDI. If there is regional cooperation and harmonization in policy between the countries, it will not only receive more FDI, but regional investment opportunity will act as a gateway to make this region a future economic power like Peoples Republic of China.

Azam et. al. (2010) explained institutional and macro-economic policy factors of FDI in South Asian countries during 1996-2007. The study revealed that the situation of FDI in South Asian countries is not satisfactory despite a continuous process of FDI related policy relaxation. A macroeconomic policy exerts a negative effect on FDI inflows suggesting weak condition of fiscal policy, monetary policy and lack of credibility. Trade liberalization policy is not favorable for MNCs. The study suggested that a good institutional quality plays a key role in attractiveness of FDI inflows. Poor macro-economic policies deteriorated institutional quality and create negative effect on FDI inflows. Incredibility in trade liberalization policy may be a part of poor macroeconomic policy. The policy makers should also consider political and macroeconomic policy conditions when designing policy regarding FDI.

Lama (2010) explained some critical issues related to FDI in South Asian Countries. These countries have notably changed the intact continuum of industrial policies and their attitudes towards foreign investment. All these countries have

identified foreign investment promotion as an important strategy in achieving the purpose of increasing industrial production to meet the basic needs of the people, create maximum employment opportunities, attain a higher growth regime, and pave way for the improvement in the balance of payments. The SAARC as a regional institution should therefore, increasingly address itself to the critical issues of generating complementarities to enliven and sustainably quicken the process of ongoing liberalization in the intra regional trade.

Sirari & Bohra (2011) examined the prospects of FDI in Indian Service Sector during 1991-2010. The study revealed that FDI is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI can play a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. The study analyzed significance of the FDI Inflow in Indian services sector since 1991 and relating the growth of service sector FDI in generation of employment in terms of skilled and unskilled.

Bhaven et.al (2011) analyzed the determinants and growth effect of FDI in case of four South Asian Countries during the period 1995-2008. The study investigated the determinants of FDI in South Asia Countries and investigated the effect of FDI on growth rate using a growth model. The study revealed that FDI averagely effects on growth rates in these countries. The study suggested that distance and both home and host country characteristics significantly played crucial role in determining the FDI flows into the South Asian region.

Das Gupta explained the issues and challenges of foreign direct investment Inflows in India since the 1990s. According to the study, proliferation of private capital flow in developing countries is a welcome scenario in post 1980s period. In the era of globalization, privatization and liberalization, the major beneficiary of FDI are India and China in the Asian region. By gradually relieving the FDI regulations, China has been able to attract significant sums of FDI inflow. The transfer of technology and modern management skills are the major challenges both for India as well as China. But the success of China is remarkable in terms of development and prosperity as compared to India. India should also focus on the export-oriented manufacturing sector so as to be competitive with China.

Thus from the above studies, it is clear that FDI is an important tool for economic growth in a country. For South Asian economies, there is a need to look into the trends and patterns of FDI in South Asian countries. But very few studies have been conducted towards this objective. The present study has tried to fill this gap.

CHAPTER - 3

Data base and methodology

The objective of this chapter is to discuss sources of data used in the study and methodology for analyzing the data.

Data base

The study mainly covers the period of 21 years i.e. 1990 to 2010. Keeping in mind the nature of study, secondary data has been calculated from the following sources:

1. The study has collected the data for different variables from UNCTAD World Investment Report's various issues. The compound growth rates, averages and percentage shares have been computed for different variables.
2. Also, the study has collected the data for pattern of FDI in South Asian economies from various reports of these economies.

METHODOLOGY

Different indices have been used to find out the performance in terms of foreign direct investment among SAARC countries:

The Inward FDI Performance Index:

As per the World Investment Report (2011) the Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size. It is the ratio of a country's share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country receives more FDI than its relative economic size, a value below one indicates that it receives less (a negative value means that foreign investors disinvest in that period). The index thus captures the influence on FDI of factors other than market size, assuming that, other things being equal, size is the "base line" for attracting investment. These other factors can be diverse, ranging from the business climate, economic and political stability, the presence of natural resources, infrastructure, skills and technologies, to opportunities for participating in privatization or the effectiveness of FDI promotion (UNCTAD, 2005).

$$IND_i = \frac{FDI_i / GDP_i}{FDI_w / GDP_w}$$

Where,

The Inward FDI Potential Index – As per World Investment Report (2011) the inward FDI potential index captures several factors (a part from market size) expected to affect economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables (no weights are attached in the absence of a priori reasons to select particular weights):

- *GDP per capita*
- *The rate of GDP growth over the previous 10 years*
- *The share of exports in GDP, to capture openness and competitiveness.*
- *The average number of telephone lines per 1,000 inhabitants and mobile telephones per 1,000 inhabitants.*
- *Commercial energy use per capita,*
- *The share of R&D spending in GDP*
- *The share of tertiary students in the population*
- *The world market share in exports of natural resources*
- *The world market share of imports of parts and components for automobiles and electronic products,*
- *The world market share of*

Compound Growth Rate

The compound growth rates of Foreign Direct Investment Inflows and Outflows among SAARC nations have been worked out during the period 1990-2010 and also for the different variables used in the study during 1990-2010 by the following formula:

$$Y = AB^t$$

Where A and B are parameters, Y is dependent variable and t is time variable.

The compound growth rate is equal to $(\hat{B} - 1) \times 100$. \hat{B} is estimated value of B.

CHAPTER - 4

Growth and Performance of FDI in South Asia

During 1990's many South Asian countries made economic reforms for integrating themselves and to the rest of the world. One prominent benefit of the globalization during this period was the flow of private capital in the form of foreign direct investment which was an important source of development financing and contributes to growth and productivity by providing new investment, better technology, management expertise and export markets. The liberalized policies in South Asia were so encouraging that these are still successful in attracting FDI even after a major hit from global crisis of 2008. This chapter has studied the growth and performance of FDI in South Asia nations during 1990 - 2010 and also the performance of FDI in different sectors among these nations during the same period.

The internationally accepted definition of FDI is provided in the fifth edition of IMF's Balance of Payments Manual (1993). Under this definition FDI has three components: equity investment, reinvested earnings, and short and long-term inter-company loans between parent firms and foreign affiliates. FDI data is usually taken in terms of flows and stocks. FDI flows refers to capital provided by or received from a foreign direct investor to an FDI enterprise (UNCTAD). FDI flows can be classified as inflows, meaning capital flows into the host economy and outflows meaning capital flows out of the home economy.

Table 4.1 shows the trends of foreign direct investment inflows in different regions during 1990-2010. Table depicts that foreign direct investment inflows in developed economies have followed fluctuations and reached a level to US \$ 601906 million in 2010 from the level of US\$ 172516 million in 1990. The growth of FDI inflows in their economies is 11.88 percent during the same period. These inflows in developing economies have increased from US \$ 34868 million in 1990 to US \$ 573568 million in 2010, with a growth rate of 14.45 percent during 1990-2010. These inflows in Asia have followed fluctuations and reached a level to US \$ 357846 million in 2010 from US \$ 22628 million in 1990, and thereby witnessing the growth rate of 13.99 percent in the same period. In case of South Asia, inflows have increased from US \$ 575 million in 1990 to US \$ 28338 million in 2010. The growth rate in this region was found to be 24.77 percent during the same period

.Though the growth rate of FDI inflows in South Asia is much more than other economies, still the inflows are not sufficient for the development of the region.

Table 4.2 shows the percentage share of SAARC's foreign direct investment inflows in different regions during 1990-2010. The percentage share of South Asia's foreign direct investment inflows in developed economies has been continuously increasing from 0.33 percent in 1990 to 4.71 percent in 2010. The average of this share in the developed economies was 1.86 percent during 1990-2010. In case of developing economies, the percentage share of these inflows has also followed fluctuations and reached a level of 4.94 percent in 2010 from 1.65 percent in 1990 with an average of 3.25 percent. This percentage share of inflows in Asia has been continuously increasing from 2.54 percent in 1990 to 7.92 percent in 2010 with an average of 5.41 percent in same period. Thus Table depicts that the percentage share of South Asia's FDI inflows in Asia was highest during the same period.

Table 4.1

Foreign Direct Investment Inflows in Different Regions (US \$ millions)

Y	D	DAS		
e	e	e	s	o
a	v	v	i	u
1	1	3	2	5
1	1	3	2	4
1	1	5	3	7
1	1	7	5	1
1	1	1	6	1
1	2	1	8	2
1	2	1	9	3
1	2	1	1	5
1	5	1	9	3
1	8	2	1	3
2	1	2	1	4
2	6	2	1	6
2	4	1	1	7
2	3	1	1	5
2	4	2	1	7
2	6	3	2	1
2	9	4	2	2
2	1	5	3	3
2	9	6	3	5
2	6	5	3	3
2	6	5	3	2
C	1	1	1	2
o	1	4	3	4
m

Source: UNCTAD, *World Investment Report 2011*.

Table 4.2

Percentage Share of South Asia's FDI Inflows in Different Regions

Year	Developed Economies	Developing Economies	Asia
1990	0.33	1.65	2.54
1991	0.37	1.07	1.76
1992	0.67	1.41	2.27
1993	0.80	1.49	2.05
1994	1.29	1.89	2.86
1995	1.26	2.42	3.51
1996	1.42	2.29	3.57
1997	1.88	2.82	5.07
1998	0.71	1.88	3.78
1999	0.38	1.41	2.90
2000	0.41	1.81	3.14
2001	1.07	2.98	5.64
2002	1.60	4.03	7.04
2003	1.50	3.02	4.73
2004	1.87	2.67	4.48
2005	1.82	3.39	5.22
2006	2.68	6.09	9.23
2007	2.50	5.69	9.62
2008	5.21	7.64	13.39
2009	6.54	7.72	12.83
2010	4.71	4.94	7.92
Average	1.86	3.25	5.41

Source: UNCTAD, *World Investment Report 2011*.

The foreign direct investment inflows in SAARC nations during 1990-2010 are depicted in Table 4.3. In Afghanistan, these inflows have been negligible for some years (1990, 1995 1998, 2000), even negative in 1997 and it has reached a

level of US \$ 76 million in 2010, thereby witnessing the growth of 61.36 percent during 2001-2010. Foreign direct investment inflows in Bangladesh have followed fluctuations and reached level to US \$ 913 million in 2010 from US \$ 3 million in 1990. The growth of FDI inflows in these nations was 36.65 percent during same period. In case of Bhutan, FDI inflows have been negligible during 1992-1995, negative in 1997 and it has reached level of US \$ 12 million in 2010 from US \$ 2 million in 1990 with growth rate of 4.36 percent during 2002-2010. While in India, it has increased from US \$ 237 million in 1990 to US \$ 24640 million in 2010 (except 1991) and the growth rate was found to be 31.06 percent during the same period. These FDI inflows in Maldives have been continuously increasing from US \$ 6 million in 1990 to US \$ 164 million in 2010 depicting growth rate of 18.52 percent during same period. In case of Nepal, FDI inflows have followed fluctuations and reached a level to US \$ 3 million in 2010 from US \$ 6 million in 1990, with growth rate of -0.52 percent during 1996-2010 FDI inflows in Pakistan have followed fluctuations and reached a level to US \$ 20.16 million in 2010 from the level of US \$ 278 million in 1990. The growth rate of FDI inflows in these nations has been 14.72 percent during 1990-2010. These FDI inflows in Sri-Lanka have increased from US \$ 43 million to US \$ 478 million during 1990-2010 thereby witnessing the growth rate of 10.82 percent in the same period. In South Asia as a whole, FDI inflow has been continuously increasing in US \$ 575 million in 1990 to US \$ 28338 million in 2010 with growth rate of 24.77 percent. Among South Asian Countries (excluding Afghanistan, Bhutan, and Nepal), Bangladesh's growth rate of FDI inflows is highest i.e. 36.65 percent followed by India (31.06 percent), Maldives (18.52 percent), Pakistan (14.72 percent) and Sri Lanka (10.82 percent).

Table 4.4 shows the intra percentage share of SAARC nations in FDI Inflows during 1990-2010. In Afghanistan, percentage Inflows have been negligible for some years (1990 to 1995, 1998, and 2000), even followed fluctuations and

reached a level of 0.27 percent in 2010 from 0.33 percent in 1996 thereby witnessing the average of 0.70 percent in 1996-2010. In case of Bangladesh, percentage share of FDI inflows has been followed fluctuations have reached a level from 0.52 percent in 1990 to 3.22 percent in 2010. The average of FDI inflows in Bangladesh was 5.69 percent during the same period. The percentage share of FDI inflows in Bhutan was negligible (except 1992 to 1995, 1998, 2000) and even faced fluctuations and a level of 0.04 percent in 2010 from 0.35 percent in 1990 and with an average rate of 0.05 percent during 1990-2010. While in India, it has increased from 41.22 percent to 86.95 percent during 1990-2010 (except 1991) and the average rate of FDI percentage inflows was 78.02 percent during the same period. This share of FDI inflows in Maldives has been continuously increasing from 1.04 percent in 1990 to 0.58 percent in 2010 depicting an average of 0.39 percent during same period. In case of Nepal, percentage share of FDI inflows has been negligible (except 2000, 2004), even followed fluctuations and reached a level of 0.04 percent in 2010 from 1.04 percent in 1990 and the average rate was found to be 0.14 percent during the same period. The percentage of FDI inflows in Pakistan has followed fluctuations and reached a level of 48.35 percent in 1990 to 7.11 percent in 2010 with an average of 12.07 percent during 1990-2010. This FDI percentage inflow in Sri Lanka has decreased from 7.48 percent in 1990 to 1.69 percent in 2010 and the average was found to be 2.93 percent during the same period. Thus, the maximum average contribution in percentage share of South Asia's FDI inflows is of India (78.02), followed by Pakistan, Bangladesh and Sri Lanka (12.07 percent, 5.69 percent, 2.93 percent) for 1990-2010.

Table 4.3

Foreign Direct Investment Inflows in SAARC Nations (US \$ millions)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri-Lanka	South Asia
1990	0	3	2	237	6	6	278	43	575
1991	0	1	1	75	7	2	272	67	425
1992	0	4	0	252	7	-	361	123	747
1993	0	14	0	532	7	-	399	194	1146
1994	0	11	0	974	9	-	789	166	1949
1995	0	92	0	2151	7	-	492	65	2807
1996	1	232	1	2525	9	19	439	133	3359
1997	-1	575	-1	3619	11	23	711	433	5370
1998	0	275	-	2633	12	12	506	150	3588
1999	6	309	1	2168	12	4	532	201	3233
2000	0	579	-	3588	22	0	309	173	4671
2001	1	354	-	5478	20	21	383	172	6429
2002	50	328	2	5630	25	-6	823	197	7049
2003	58	350	3	4321	32	15	534	229	5542
2004	187	460	3	5778	53	0	1118	233	7832
2005	271	845	9	7622	53	2	2201	272	11275
2006	238	792	6	20238	64	-7	4273	480	26174
2007	243	666	78	25350	91	6	5590	603	32627
2008	300	1086	28	42546	135	1	5438	752	50286
2009	185	700	15	35649	112	39	2338	404	39442
2010	76	913	12	24640	164	39	2016	478	28338
Compound Growth Rate	61.36*	36.65	4.36**	31.06	18.52	-0.52***	14.72	10.82	24.77

Source: UNCTAD, *World Investment Report 2011*

Note: *, ** and*** indicates 2001-2010, 2002-2010, and 1996-2010 period considered for calculation of growth rate.

Table 4.4

Intra share of SAARC Nations in FDI Inflows (percent)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri- Lanka
1990	0	0.52	0.35	41.22	1.04	1.04	48.35	7.48
1991	0	0.24	0.24	17.65	1.65	0.47	64.00	15.76
1992	0	0.54	0.00	33.73	0.94	0.00	48.33	16.47
1993	0	1.22	0.00	46.42	0.61	0.00	34.82	16.93
1994	0	0.56	0.00	49.97	0.46	0.00	40.48	8.52
1995	0	3.28	0.00	76.63	0.25	0.00	17.53	2.32
1996	0.03	6.91	0.03	75.17	0.27	0.57	13.07	3.96
1997	-	-	-	-	-	-	-	-
1998	0.00	7.66	0.00	73.38	0.33	0.33	14.10	4.18
1999	0.19	9.56	0.03	67.06	0.37	0.12	16.46	6.22
2000	0	12.40	0.00	76.81	0.47	0.00	6.62	3.70
2001	0.02	5.51	0.00	85.21	0.31	0.33	5.96	2.68
2002	-	-	-	-	-	-	-	-
2003	1.05	6.32	0.05	77.97	0.58	0.27	9.64	4.13
2004	2.39	5.87	0.04	73.77	0.68	0.00	14.27	2.97
2005	2.40	7.49	0.08	67.60	0.47	0.02	19.52	2.41
2006	0.91	3.03	0.02	77.66	0.24	-0.03	16.33	1.83
2007	0.74	2.04	0.24	77.70	0.28	0.02	17.13	1.85
2008	0.60	2.16	0.06	84.61	0.27	0.00	10.81	1.50
2009	0.47	1.77	0.04	90.38	0.28	0.10	5.93	1.02
2010	0.27	3.22	0.04	86.95	0.58	0.14	7.11	1.69
Average	0.70	5.69	0.05	78.02	0.39	0.14	12.07	2.93

Source: Calculated from Table 4.3

Table 4.5 shows the trends of foreign direct investment outflows from different regions during 1990-2010. Foreign direct investment outflows from developed economies, has been continuously increasing from US \$ 229584 million in 1990 to US \$ 935190 million in 2010 (except 1991, 1992) with growth rate of

11.43 percent. While in developing economies, it has been increased from US \$ 11914 million in 1990 to US \$ 327564 million in 2010 (except 1998, 2001) and the growth rate of FDI outflows from these economies is 15.26 percent during the same period. FDI outflows from Asia have been continuously increasing from US \$ 10943 million to US \$ 244585 million during 1990-2010 and the growth rate is found to be 14.67 percent. Also in South Asia, as a whole outflows have been continuously increasing from US\$10 million in 1990 to US \$ 14733 million in 2010 and the growth rate is found to be 47.97 percent in the same period.

The comparative analysis of FDI inflows and outflows clearly shows that growth of FDI outflows is much more as compared to the growth of FDI inflows in developing economies, Asia and South Asia during 1990-2010. While in developed economies, the case is a reversed one.

Table 4.5

Foreign Direct Investment Outflows from Different Regions (US \$ millions)

Year	Developed Economies	Developing Economies	Asia	South Asia
1990	229584	11914	10943	10
1991	184564	13477	8038	-10
1992	177913	23156	17034	14
1993	202193	39319	31105	5
1994	239039	47529	39446	91
1995	306894	55228	44751	127
1996	331416	64161	53911	267
1997	398864	73870	51505	97
1998	637994	48905	29149	113
1999	1018915	66992	40269	125
2000	1094728	134194	82964	529
2001	667375	82543	49103	1419
2002	482784	49740	37577	1721
2003	516964	46027	23481	1928
2004	794623	121353	91250	2243
2005	745679	122143	86051	3071
2006	1154983	226683	151566	14427
2007	1829044	294177	221688	17408
2008	1541232	308891	218436	19517
2009	850975	270750	219500	16049
2010	935190	327564	244585	14733
Compound Growth Rate	11.43	15.26	14.67	47.97

Source: UNCTAD, *World Investment Report 2011*

Table 4.6 shows the percentage share of South Asia's FDI outflows from different regions during 1990-2010. The percentage share of South Asia's FDI outflows from developed economies has followed fluctuations and reached a level to 1.58 percent in 2010 from 0.01 in 1992, the share's average of this region was

0.42 percent. While in developing economies, it has increased from 0.08 percent in 1990 to 4.50 percent in 2010 (except 1991) having an average of 2.13 percent in the same period. In the case of Asia, this percentage of outflows has been continuously increasing from 0.09 percent in 1990 to 6.02 percent in 2010 (except 1991), the average of this region 3.05 percent during the same period.

The comparative analysis of the percentage share of inflows and outflows, it clearly shows that the average of the percentage share of South Asia's inflows are much more than the average of percentage shares of South Asia FDI outflows during 1990-2010.

Table 4.6

Percentage Share of South Asia FDI Outflows from Different Regions

Year	Developed Economies	Developing Economies	Asia
-------------	----------------------------	-----------------------------	-------------

1990	0.00	0.08	0.09
1991	-0.01	-0.07	-0.12
1992	0.01	0.06	0.08
1993	0.00	0.01	0.02
1994	0.04	0.19	0.23
1995	0.04	0.23	0.28
1996	0.08	0.42	0.50
1997	0.02	0.13	0.19
1998	0.02	0.23	0.39
1999	0.01	0.19	0.31
2000	0.05	0.39	0.64
2001	0.22	1.79	2.95
2002	0.36	3.46	4.58
2003	0.37	4.19	8.21
2004	0.28	1.85	2.46
2005	0.41	2.51	3.57
2006	1.25	6.36	9.52
2007	0.95	5.92	7.85
2008	1.27	6.32	8.93
2009	1.89	5.93	7.31
2010	1.58	4.50	6.02
Average	0.42	2.13	3.05

Source: UNCTAD, *World Investment Report 2011*

The FDI outflow from SAARC nations during 1990-2010 is depicted in Table 4.7 In Bangladesh, these outflows are negligible (1991 to 1994, 1999) even it has followed fluctuations and reached a level to US \$ 15 million in 2010 from US \$ 2 million in 1995. The growth rate is found to be 12.25 percent in same period. In case of India, FDI outflows have increased from US \$ 6 million in 1990 to US \$

14626 million in 2010 with growth rate of 51.42 percent. While in Pakistan, it has been followed by fluctuations and reached a level to US \$ 46 million in 2010 from US \$ 2 million in 1990 and growth rate was 10.76 percent during the same period. While in the case of Sri-Lanka, It has been followed by fluctuations and reached a level to US \$ 46 million in 2010 from US \$ 1 million in 1990 (negligible 2001). The growth rate was found to be 15.2 percent during the same period. In South Asia as a whole FDI outflows have been continuously increasing from US \$ 10 million in 1990 to US \$ 14733 million in 2010 (except 1991 to 1994, 1997) with growth rate of 47.97 percent. Among South Asia Countries, the highest growth rate of FDI outflows is of India (51.42 percent) followed by Bangladesh (12.25 percent), Pakistan (10.76 percent) and Sri Lanka (15.2 percent). India(51.42) and Sri Lanka's(15.2) growth rate of FDI outflows is much more than inflows.

Table 4.8 shows the intra share of SAARC nations from FDI outflows during 1990-2010. This Table depicts in Bangladesh percentage share of FDI outflows has followed fluctuations and reached a level of 10 percent in 1990 to 0.10 percent in 2010 thereby witnessing the average of 1.31 percent. In case of India, this Percentage has increased from 60 percent in 1990 to 99.27 percent in 2010, with an average of 89.28 percent during same period .While in Pakistan; it followed fluctuations and reached a level to 0.31 percent in 2010 from 20 percent in 1990. The average rate was 5.76 percent during 1990-2010. This percentage share of FDI outflows from Sri-Lanka has followed fluctuation and reached a level of 0.31 percent in 2010 from 10 percent in 1990, with growth rate of 3.65 percent during 1990-2010. Thus, the maximum average contribution in percentage share of South Asia's FDI outflows is of India (89.28 percent) followed by Pakistan (5.76 percent), Sri Lanka (3.65 percent) and Bangladesh (1.31percent) during 1990-2010.

Table 4.7

**Foreign Direct Investment Outflows from SAARC Nations
(US \$ millions)**

Year	Bangladesh	India	Pakistan	Sri Lanka	South Asia
1990	1	6	2	1	10

1991	0	-11	-4	5	-10
1992	0	24	-12	2	14
1993	0	0	-2	7	5
1994	0	82	1	8	91
1995	2	119	0	6	127
1996	13	240	7	7	267
1997	3	113	-24	5	97
1998	3	47	50	13	113
1999	0	80	21	24	125
2000	2	514	11	2	529
2001	21	1397	31	0	1449
2002	4	1678	28	11	1721
2003	6	1876	19	27	1928
2004	6	2175	56	6	2243
2005	3	2985	45	38	3071
2006	4	14285	109	29	14427
2007	21	17234	98	55	17408
2008	9	19397	49	62	19517
2009	29	15929	71	20	16049
2010	15	14626	46	46	14733
Compound Growth Rate	12.25	51.42	10.76	15.2	47.97

Source: UNCTAD, *World Investment Report 2011*

Table 4.8

Intra Share of SAARC Nations in FDI Outflows (percent)

Year	Bangladesh	India	Pakistan	Sri Lanka
1990	10	60	20	10
1991	-	-	-	-

1992	-	-	-	-
1993	-	-	-	-
1994	0	90.11	1.10	8.79
1995	1.57	93.70	0.00	4.72
1996	4.87	89.89	2.62	2.62
1997	-	-	-	-
1998	2.65	41.59	44.25	11.50
1999	0.00	64.00	16.80	19.20
2000	0.38	97.16	2.08	0.38
2001	1.45	96.41	2.14	0.00
2002	0.23	97.50	1.63	0.64
2003	0.31	97.30	0.99	1.40
2004	0.27	96.97	2.50	0.27
2005	0.10	97.20	1.47	1.24
2006	0.03	99.02	0.76	0.20
2007	0.12	99.00	0.56	0.32
2008	0.05	99.39	0.25	0.32
2009	0.18	99.25	0.44	0.12
2010	0.10	99.27	0.31	0.31
Average	1.31	89.28	5.76	3.65

Source: UNCTAD, *World Investment Report 2011*

According to OECD library, “Inward stock is all direct investment held by non-resident in the reporting economy. Table 4.9 shows foreign direct investment inward stock by SAARC countries during 1990-2010. FDI inward stock in South Asia has continuously increased from US\$ 47.56 million in 1990 to US \$ 233379 million in 2010 thereby witnessing the growth rate of 21.25 percent during 1990-2010. Country-wise analysis shows that Afghanistan remained Table from 1990 to (US \$ 12 million) 1996, continuously increased and reached a level of US \$1625

million in 2010 and have a growth rate of 34.5 percent during 1990-2010. FDI inward stock in Bangladesh has been continuously increasing from US \$ 477 million in 1990 to US \$ 6072 million in 2010 with growth rate 15.7 percent during same period. In case of Bhutan, FDI inward stock has increased from US \$ 2 million in 1990 to US \$ 160 million in 2010 and the growth rate was found to be 22.88 percent during same period. The FDI inward stock in India has been continuously increasing from US \$1657 million to US \$197939 million during 1990-2010, thereby witnessing the growth rate of 27.53 percent. Similarly, in Maldives, Nepal, Pakistan and Sri Lanka, it has increased and achieved growth rate of 18.36 percent, 16.8 percent, 11.35 percent and 8.9 percent respectively.

The Table depicts that highest growth of FDI inward stock is in Afghanistan (34.5 percent) followed by India (27.53 percent), Bangladesh (22.88 percent), Maldives (18.36 percent), Nepal (16.8 percent), Pakistan (11.35 percent) and Sri Lanka (8.9 percent).

Table 4.9

Foreign Direct Investment Inward Stock by SAARC Nations

(US \$ millions)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia

1990	12	477	2	1657	25	12	1892	679	4756
1991	12	479	3	1732	31	14	2060	746	5077
1992	12	483	3	1984	38	14	2603	869	6006
1993	12	497	3	2516	45	14	2586	1063	6736
1994	12	508	3	3490	54	14	3860	1230	9171
1995	12	600	3	5641	61	14	5408	1295	13034
1996	12	832	4	8166	70	33	6994	1428	17539
1997	11	1407	3	10630	82	56	9210	1861	23260
1998	11	1833	3	14065	93	68	8542	2011	26626
1999	17	1891	4	15426	105	72	7186	2212	26913
2000	17	2162	4	16339	128	72	6919	1596	27237
2001	18	2202	4	19676	148	116	5545	1517	65684
2002	68	2451	7	25826	173	110	6110	1713	36458
2003	126	2876	9	32549	205	125	7195	1942	45027
2004	313	3091	12	38060	258	125	7606	2175	51640
2005	584	3486	22	43202	311	127	10209	2447	60388
2006	822	4187	28	70870	374	120	13682	2927	93010
2007	1065	4399	106	105790	465	126	25621	3530	141102
2008	1365	4816	134	125212	600	127	16473	4283	153010
2009	1550	5279	148	167023	712	166	16460	4687	196025
2010	1625	6072	160	197939	876	205	21494	5008	233379
Compound Growth Rate	34.5	15.7	22.88	27.53	18.36	16.8	11.35	8.9	21.25

Source: UNCTAD, *World Investment Report 2011*

Table 4.10 depicts the intra percentage share of SAARC nations in FDI inward stock during 1990-2010. Afghanistan has followed fluctuations and reached a level to 0.70 percent in 2010 from 0.25 percent in 1990. The average was 0.36 percent during 1990-2010. In case of Bangladesh, percentage share of FDI inward stock has been decreased, even followed fluctuations and reached a level to 2.60 percent in 2010 from 10.03 percent in 1990 with an average of 5.81 percent during 1990-2010. While in Bhutan, it has been followed by fluctuations and reached of 0.04 percent in 1990 from 0.07 percent in 2010 and the average was found to be 0.04 percent during same period. This percentage share of FDI inward stock in India has been continuously increasing from 34.84 percent in 1990 to 84.81 percent in 2010 having an average of 57.35 percent. In Maldives, it has been followed by fluctuations and reached a level to 0.38 percent in 2010 from 0.53 percent in 1990. The average was 0.45 percent in 1990-2010. Similarly in Nepal, Pakistan and Sri Lanka, percentage share of FDI inward sock has been continuously decreasing having an average of 0.20 percent, 25.88 percent and 7.28 percent respectively. The Table depicts that highest average of percentage share of FDI inward stock is in India (57.35 percent) followed by Sri-Lanka (7.28 percent) and Bangladesh (5.81 percent). Thus the maximum contribution in SAARC's FDI inward stock is of India (57.35 percent) followed by Pakistan (25.88 percent), Sri Lanka (7.28 percent) and Bangladesh (5.81percent).

Table 4.10**Intra Percentage Shares of SAARC Nations FDI Inward Stock (percent)**

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1990	0.25	10.03	0.04	34.8	0.53	0.25	39.78	14.28
1991	0.24	9.43	0.06	34.1	0.61	0.28	40.58	14.69
1992	0.20	8.04	0.05	33.0	0.63	0.23	43.34	14.47
1993	0.18	7.38	0.04	37.3	0.67	0.21	38.39	15.78
1994	0.13	5.54	0.03	38.0	0.59	0.15	42.09	13.41
1995	0.09	4.60	0.02	43.2	0.47	0.11	41.49	9.94
1996	0.07	4.74	0.02	46.5	0.40	0.19	39.88	8.14
1997	0.05	6.05	0.01	45.7	0.35	0.24	39.60	8.00
1998	0.04	6.88	0.01	52.8	0.35	0.26	32.08	7.55
1999	0.06	7.03	0.01	57.3	0.39	0.27	26.70	8.22
2000	0.06	7.94	0.01	59.9	0.47	0.26	25.40	5.86
2001	0.03	3.35	0.01	29.9	0.23	0.18	8.44	2.31
2002	0.19	6.72	0.02	70.8	0.47	0.30	16.76	4.70
2003	0.28	6.39	0.02	72.2	0.46	0.28	15.98	4.31
2004	0.61	5.99	0.02	73.7	0.50	0.24	14.73	4.21
2005	0.97	5.77	0.04	71.5	0.52	0.21	16.91	4.05
2006	0.88	4.50	0.03	76.2	0.40	0.13	14.71	3.15
2007	0.75	3.12	0.08	74.9	0.33	0.09	18.16	2.50
2008	0.89	3.15	0.09	81.8	0.39	0.08	10.77	2.80
2009	0.79	2.69	0.08	85.2	0.36	0.08	8.40	2.39
2010	0.70	2.60	0.07	84.8	0.38	0.09	9.21	2.15
Average	0.36	5.81	0.04	57.35	0.45	0.20	25.88	7.28

Source: UNCTAD, *World Investment Report 2011*

Table 4.11 shows foreign direct investment inward stock as a percentage share of gross domestic product during 1990-2010. FDI inward stock as a percentage share of GDP has increased from 1.3 percent in 1990 to 10.8 percent in 2010 thereby witnessing the average of 5.07 percent during same period. Country wise analysis shows that in Afghanistan, FDI inward stock as a percentage of gross domestic products has followed fluctuations and reached level to 10.1 percent in 2010 from 0.3 percent in 1990 having an average of 3.75 percent during 1990-2010. In case of Bangladesh, it has been continuously increasing from 1.7 percent in 1990 to 6.1 percent in 2010 depicting an average of 4.14 percent during same period. In Bhutan, it has followed fluctuations and reached a level to 10.9 percent in 2010 from 0.7 percent in 1990, with an average of 3.09 percent. In India, the percentage has been continuously increasing from 0.5 percent to 12.0 percent during the 1990-2010. The average was found to be 4.59 percent in same period. While in Maldives, it has increased from 12.6 percent in 1990 to 63.5 percent in 2010, with an average of 27.73 percent in same period. In Nepal, it has followed fluctuations and reached a level of 1.3 percent in 2010 from 0.3 percent in 1990, with an average of 1.10 percent. These FDI inward stock as a percentage of GDP in Pakistan has increased from 3.9 percent in 1990 to 12.2 percent in 2010. The average rate was found to be 9.01 percent in same period. In Sri Lanka, it has been followed by fluctuations and reached a level of 9.9 percent in 2010 from 8.3 percent in 1990. Thus the Table depicts that among South Asian Countries, highest average of FDI inward stock as a percentage share of gross domestic product is in Maldives (27.73 percent) followed by Sri-Lanka (10.25 percent), Pakistan (9.01 percent), India (4.59 percent), Bangladesh (4.4 percent), Afghanistan (3.75 percent) and Bhutan (3.09 percent).

Table 4.11**FDI Inward Stock as a Percentage of Gross Domestic Product (percent)**

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia
1990	0.3	1.7	0.7	0.5	12.6	0.3	3.9	8.3	1.3
1991	0.3	1.6	1.1	0.6	14	0.4	4	8.1	1.5
1992	0.3	1.6	1.1	0.7	14.5	0.4	4.5	8.7	1.6
1993	0.4	1.6	1.2	0.9	15.2	0.4	4.5	9.9	1.8
1994	0.6	1.5	1.0	1.1	16.4	0.3	6.2	10.1	2.1
1995	0.4	1.6	0.9	1.5	15.3	0.3	7.5	9.7	2.5
1996	0.4	2.1	1.3	2.1	15.6	0.7	9.8	9.9	3.1
1997	0.4	3.4	0.9	2.5	16.1	1.1	12.8	11.9	3.8
1998	0.4	4.3	0.9	3.3	17.2	1.4	11.8	12.4	4.3
1999	0.6	4.2	1.1	3.4	17.9	1.3	10.0	13.7	4.2
2000	0.5	4.8	1.0	3.5	20.5	1.3	9.7	9.5	4.2
2001	0.5	4.8	0.9	4.1	23.7	2.0	8.2	9.5	4.5
2002	1.6	5.2	1.2	5.1	27	1.9	8.2	10	5.5
2003	2.6	5.6	1.5	5.5	29.6	1.9	8.5	10.3	6.1
2004	5.5	5.5	1.8	5.3	33.2	1.7	7.9	10.5	6.0
2005	8.5	6.0	2.7	5.1	41.4	1.5	9.3	10.0	6.1
2006	10.1	6.9	3.2	7.5	40.9	1.3	10.8	10.4	7.8
2007	10.5	6.4	8.9	8.8	41.6	1.2	17.9	10.9	9.0
2008	12.6	6.1	10.7	9.8	50.5	1.1	11.3	10.5	9.0
2009	12.1	5.9	11.9	13	55.7	1.3	10.3	11	11.2
2010	10.1	6.1	10.9	12	63.5	1.3	12.2	9.9	10.8
Average	3.75	4.14	3.09	4.59	27.73	1.10	9.01	10.25	5.07

Source: UNCTAD, *World Investment Report 2011*

According to OECD library, "Outward stock is the investment of the reporting economy held abroad." Table 4.12 shows the trends of foreign direct investment Outward Stock in South Asian Countries during 1990-2010. It has continuously increased from US \$ 422 million in 1990 to US \$ 94614 million in 2010 thereby witnessing the growth rate of 33.38 percent during same period. Country wise analysis shows that in Bangladesh, it has followed fluctuations and reached a level of US \$ 100 million in 2010 from US \$ 45 million in 1990 with growth rate of 5.56 percent. FDI outward stock in India has been continuously increasing from US \$ 124 million to US \$ 92407 million in 2010 and the growth rate of 40.56 percent during same period. Similarly in Pakistan and Sri Lanka, it has been continuously increasing and achieved growth of 12.03 percent and 19.85 percent respectively. Thus, among South Asian Countries highest growth of FDI outward stock is in India (40.56 percent) followed by Sri-Lanka (19.85 percent), Pakistan (12.03 percent) and Bangladesh (5.56 percent).

Table 4.13 shows intra percentage share of SAARC nations in FDI outward stock during 1990-2010. The Table depicts that percentage share of FDI outward stock in Bangladesh has been continuously decreasing from 10.66 percent in 1990 to 0.11 percent in 2010 with an average of 3.86 percent during the same period. In case of India, percentage share of FDI outward stock has been continuously increasing from 29.38 percent in 1990 to 97.67 percent in 2010 witnessing an average of 72.04 percent in same period. While in Pakistan, it has been continuously decreasing from 58.06 percent to 1.83 percent during 1990-2010, with an average of 21.61 percent during same period. This percentage share of FDI outward stock in Sri Lanka has increased to 1.90 percent in 1990 from 5.16 percent in 1998 and even decreased from 3.70 percent in 1999 to 0.40 percent in 2010 with an average of 2.49 percent during 1990-2010. Thus the maximum contribution in SAARC's FDI percentage outward stock is of India (72.04 percent) followed by Pakistan (21.61 percent), Bangladesh (3.86 percent) and Sri Lanka (2.49 percent).

Table 4.12**Foreign Direct Investment Outward Stock by SAARC Nations (US \$ millions)**

Year	Bangladesh	India	Pakistan	Sri Lanka	South Asia
1990	45	124	245	8	422
1991	45	113	234	13	405
1992	46	294	249	14	603
1993	46	294	241	21	602
1994	46	376	267	30	719
1995	48	495	266	35	844
1996	60	735	264	42	1101
1997	63	617	277	47	1004
1998	66	706	330	60	1162
1999	66	1707	414	84	2271
2000	69	1733	489	86	2377
2001	85	2532	578	86	3281
2002	89	4071	658	97	4915
2003	95	6073	604	125	6897
2004	94	7734	702	131	8661
2005	94	9741	870	169	10874
2006	105	27036	1010	198	28349
2007	112	44080	1249	253	45694
2008	80	63338	1960	314	65692
2009	119	79164	1851	334	81468
2010	100	92407	1727	380	94614
Compound Growth Rate	5.56	40.56	12.03	19.85	33.38

Source: UNCTAD, *World Investment Report 2011*

Table 4.13**Intra Percentage Share of SAARC Nations in FDI Outward Stock (percent)**

Year	Bangladesh	India	Pakistan	Sri Lanka
1990	10.66	29.38	58.06	1.90
1991	11.11	27.90	57.78	3.21

1992	7.63	48.76	41.29	2.32
1993	7.64	48.84	40.03	3.49
1994	6.40	52.29	37.13	4.17
1995	5.69	58.65	31.52	4.15
1996	5.45	66.76	23.98	3.81
1997	6.27	61.45	27.59	4.68
1998	5.68	60.76	28.40	5.16
1999	2.91	75.17	18.23	3.70
2000	2.90	72.91	20.57	3.62
2001	2.59	77.17	17.62	2.62
2002	1.81	82.83	13.39	1.97
2003	1.38	88.05	8.76	1.81
2004	1.09	89.30	8.11	1.51
2005	0.86	89.58	8.00	1.55
2006	0.37	95.37	3.56	0.70
2007	0.25	96.47	2.73	0.55
2008	0.12	96.42	2.98	0.48
2009	0.15	97.17	2.27	0.41
2010	0.11	97.67	1.83	0.40
Average	3.86	72.04	21.61	2.49

Source: UNCTAD, *World Investment Report 2011*

Table 4.14 shows foreign direct investment outward stock as a percentage share of gross domestic product among South Asia nations during 1990-2010. South Asia has been continuously increasing by 0.1 percent in 1990 from 4.1 percent in 2010 there by witnessing an average of 1.07 percent during same period. Country wise analysis shows that Bangladesh has followed fluctuations and reached a level to 0.1 percent in 2010 from 0.2 percent in 1990. The average

of percentage outward stock in Bangladesh was 0.16 percent during same period. The percentage of gross domestic product FDI outward stock in India has been continuously increasing from 0.01 percent in 1992 to 5.6 percent in 2010(except 1990,1991) depicting an average of 1.40 percent during same period. In case of Pakistan, it has followed fluctuations and reached a level to one percent in 2010 from 0.5 percent in 1990 with an average of 0.68 percent during 1990-2010. These FDI outward stock as a percentage of GDP in Sri Lanka has been continuously increasing from 0.1 percent in 1990 to 0.8 percent in 2010. The average share was found to be 0.48 percent in the same period. The Table depicts that highest average of FDI outward stock as a percentage share of gross domestic product is in India (1.40 percent) followed by Pakistan (0.68 percent), Sri-Lanka (0.48 percent), Bangladesh (0.16 percent).

Table 4.14

FDI Outward Stock as a Percentage of Gross Domestic Product (percent)

Year	Bangladesh	India	Pakistan	Sri Lanka	South Asia
1990	0.2	0	0.5	0.1	0.1
1991	0.2	0	0.4	0.1	0.1

1992	0.1	0.1	0.4	0.1	0.1
1993	0.1	0.1	0.4	0.2	0.1
1994	0.1	0.1	0.4	0.2	0.1
1995	0.1	0.1	0.4	0.3	0.1
1996	0.2	0.2	0.4	0.3	0.2
1997	0.2	0.1	0.4	0.3	0.2
1998	0.2	0.2	0.5	0.4	0.2
1999	0.1	0.4	0.6	0.5	0.4
2000	0.2	0.4	0.7	0.5	0.4
2001	0.2	0.5	0.8	0.5	0.5
2002	0.2	0.8	0.9	0.6	0.7
2003	0.2	1	0.7	0.7	0.8
2004	0.2	1.1	0.7	0.6	0.8
2005	0.2	1.2	0.8	0.7	0.9
2006	0.2	2.9	0.8	0.7	2.1
2007	0.2	3.7	0.9	0.8	2.7
2008	0.1	4.9	1.3	0.8	3.5
2009	0.1	6.1	1.2	0.8	4.3
2010	0.1	5.6	1	0.8	4.1
Average	0.16	1.40	0.68	0.48	1.07

Source: UNCTAD, *World Investment Report 2011*

The inward FDI Performance Index's depicted in Table 4.15. Among SAARC nations, Pakistan (66) was at the first position in 1990 followed by Sri Lanka (70) and Nepal (91). The position of all South Asian Countries in terms of this indicator has changed during 1990-2010. In 2010, India (97) enjoys the first position followed by Pakistan (110) and Sri Lanka (113).

Table 4.15**Inward FDI Performance Index Ranking in South Asia**

Year	India	Bangladesh	Sri Lanka	Pakistan	Nepal
1990	96	105	70	66	91
1995	95	117	103	93
2000	115	103	109	122	134
2005	120	109	117	92	135
2006	100	121	115	83	135
2007	112	130	118	84	139
2008	80	117	109	74	136
2009	67	120	116	100	134
2010	97	114	113	110	134

Source: UNCTAD, *World Investment Report 2011*

Table 4.16 depicts FDI Potential Index for South Asian nations during 1990-2009. Among these nations, India potential index rank (86) was highest in 1990 followed by Pakistan (91) and Sri Lanka (102). In 2009, India (86) enjoyed first position followed by Sri Lanka (110) and Bangladesh (114).

Table 4.16

Inward FDI Potential Index Ranking in South Asia

Year	India	Bangladesh	Sri Lanka	Pakistan	Nepal
1990	86	107	102	91	110
1995	97	116	93	111	130
2000	92	108	106	131	133
2005	84	115	122	125	138
2006	83	116	120	123	138
2007	85	118	119	121	140
2008	86	119	117	126	140
2009	79	114	110	121	139

Source: UNCTAD, World Investment Report 2011

Sector wise Performance of FDI in South Asia

For sector wise analysis, the discussion is focused on the different prominent sectors of concerned South Asian countries.

Table 4.17 depicts that the total initially proposed investment in Afghanistan has followed a downward trend since 2003 except the year 2006. In this year both

domestic and foreign investment took upward trend but again come down in 2007. The domestic investment has increased US \$ 239.03 million in 2003 from US \$ 770.21 million in 2006. The foreign direct investment in Afghanistan has been following all along except for the year 2006. The foreign investment has fallen the level of about US \$ 483 million achieved in 2003 to US\$ 108.6 million achieved in 2008. Most of the FDI which comes into Afghanistan is by those companies which are providing logistics or act as contractors of the UN, USAD, and foreign NGOs other donor agencies. The service sector and construction sector has received maximum foreign investment during 2003-2008. (AR)

Table 4.17

Total Registered Investment in Afghanistan (US \$ millions)

Sector	2003	2004	2005	2006	2007	2008	Total
Total initial capital	721.98	656.69	565.41	1179.45	646.7	392.12	4162.35
Domestic	239.03	421.88	388.49	770.21	439.34	283.54	2542.49
Construction	52.9	195.42	201.45	131.58	141.41	167.78	889.73
Services	37.91	92.31	43.51	99.36	243.18	70.68	586.95
Industry	131.76	125.04	130.52	531.16	45.39	35.89	999.76
Agriculture	17.26	9.1	13.01	8.1	9.34	9.18	65.986
Foreign	482.95	234.81	176.92	409.24	207.36	108.58	1619.86
Construction	188.75	112.63	74.62	86.61	33.67	54.34	550.63
Services	63.42	88.61	52.23	256.85	130.11	37.97	629.49
Industry	14.87	32.27	48.1	29.62	7.61	13.07	145.54
Agriculture	215.9	1.28	1.65	36.14	35.96	3.19	294.12

Source: Annual Report 2008, Afghanistan Investment Support Agency

Table 4.18

Sector-wise Distribution of FDI Inflows in Bangladesh (US \$ millions)

Sector	2000	2001	2002	2003	2004	2005	2006	2007	Total
Infrastructure	106	319	197	120	131	461	478	488	2,287

Gas and Oil	50	139	75	23	61	169	182	187	1,241
Power	56	175	101	35	26	30	28	29	581
Telecommu-	0	5	21	62	44	262	268	272	965
Manufacturing	163	134	123	160	64	219	107	109	1,374
Textiles	144	113	67	77	32	75	74	75	903
Fertilizer	0	4	25	5	23	51	16	16	142
Cement	5	13	28	77	6	87	16	16	253
Chemicals	14	4	3	1	3	6	1	2	76
Services	114	111	74	99	89	124	160	163	1,349
Trade &	44	35	48	49	55	102	142	145	909
Other Services	70	76	26	50	34	22	18	18	440
Total	383	564	394	379	284	804	745	760	5,510

Source: Statistic Department, Bangladesh Bank. *Estimated.

Table 4.18 shows the sector wise distribution of FDI inflows in Bangladesh during the period of 1998-2007. In this period gas and oil, textiles, and trade and commerce dominated the first half in terms of FDI inflows whereas telecommunication sector was the highest recipient during the second half of the ten year period. On the other hand, gas and oil, and trade and commerce sectors showed better performance during the last two years but the textiles sector experienced declining inflows of FDI in the second half of the decade. (Hossain, M Amir 2006)

Table 4.19

Major Sector wise Distribution of FDI Equity Inflows in India (percent)

Sector	2005-08	2005	2006	2007	2008 [#]
Total inflows(US\$ million)	64.423	4.354	11.119	15.921	33.029

Of which % share in total inflows of the year					
Manufacturing	13.436	41.41	17.44	18.67	20.35
Finance	12.114	11.68	19.77	18.08	19.77
Construction and Real Estate	10.754	3.12	11.50	17.41	19.88
Other services	8.915	11.31	20.22	10.74	13.52
IT and ITES	7.016	21.21	17.25	15.18	5.32
Telecommunication	4.737	3.64	8.37	6.72	7.80
Energy	2.933	1.44	2.26	3.69	6.15
Trading	13.67	0.65	0.76	3.62	2.05
Mining	4.88	0.15	0.03	2.65	0.17
Agriculture	1.36	0.21	0.01	0.75	0.02
Unclassified	2.529	5.19	2.39	2.50	4.96

Source: Based on the Data provided in SIA Newsletter (quoted in Rao & Dhar, 2011)

Note: # indicates excluding into unincorporated bodies, Reinvested Earnings and other capita

Table 4.19 shows that the increased FDI inflows have been characterized by a sharp change in their sectoral composition. By 2008 while the share of manufacturing declined to almost half of what it was in 2005. Share of services increased the maximum with mining and agriculture related services, construction and real estate sector gained the most. The financial services sector too gained in importance. While energy gained relatively, telecommunication services managed to retain its share. Hence construction, finance and real estate are major gainers (Rao and Dhar, 2011).

Table 4.20 depicts that there is much gap between the investment and saving in the early stage after post reform period, but this gap narrowed down by increase in the saving rate due to high economic growth rate and rise in the per capita income but in the early period this gap was filled up by capital flow from other countries in the form of FDI has better chance to develop our economy. To encourage FDI inflows govt. of India adopted new economic policy in 1991 and opened the economies for trade with world, further encouraging economic growth call to new private players to enter in new industries, and by giving incentives to foreign investors to invest in India. There has been a tremendous growth in the

FDI after 2000. The total FDI coming in India in period 1991-2002 was at amount of \$14926 billion further rise to the \$16047.6 billion but decrease to \$10748.5 billion due to financial crisis in 2007-08 because most of these investments were coming from industrially developed nations like U.S.A. and European union, but improved recovery in 2008-09 with high economic growth and high growth rate of export. Another financial crisis in the euro zone slump in the FDI to US \$11493 billion in 2009-10. Thus FDI Inflows in India mostly entered in telecommunication, mining, power sector, transport, manufacturing because these sectors contributed a large share to GDP.

Table 4.20

Sector wise FDI Inflows into Industry and Infrastructure in India

(US \$ millions)

Sectors	1991-2002	2002-07	2007-08	2008-09	2009-10	2010-11 April to November
Food products	972.6	392.2	80.7	150.5	348.2	166.0
Fermentation	51.1	216.3	270.1	144.7	112.0	18.0
Textiles	249.2	327.2	186.0	157.4	140.6	56.2
Wood products & paper	0.1	0.6	0.4	11.3	6.5	0.7

Leather	327.2	139.0	104.2	310.1	85.9	28.1
Chemicals	43.4	16.8	7.5	3.3	5.1	0.3
Petroleum products	1810.4	1934.1	582.3	992.5	611.8	500.6
Non metallic minerals	342.1	464.7	1441.9	497.2	296.2	542.2
Metal and metal products	515.8	877.9	143.0	944.2	45.6	279.1
Machinery & equipment	223.0	548.7	1176.9	960.9	406.7	960.3
Transport equipments	3092.4	6854.4	2645.7	2528.1	2515.3	1317.1
Other manufacturing	431.1	1130.8	678.8	1151.7	1176.6	533.0
Mining	2834.2	1184.7	704.3	1566.1	1079.6	1232.6
Including mining services	7.8	55.8	458.3	34.4	174.0	75.1
Power	885.8	398.5	458.3	1070.1	1935.2	1028.0
Telecommunication	2140.4	1505.5	1011.2	2558.4	2554.0	1029.8
Total	14926.0	16047.6	1261.5	13080.8	11493.0	7831.2

Source: Economic Survey of India 2010

Sector wise performance of foreign direct investment in Nepal has been depicted in Table 4.21. The manufacturing industries have received highest FDI followed by service industry and hotel and resort.

Table 4.21

Sector wise Foreign Direct Investment in Nepal (Rupees millions)

Types of industries	No	Total project cost	Total fixed cost	Foreign investment	Employment
Agriculture and forestry	13	1670.05	1511.27	454.19	813
Manufacturing	44	35554.35	25997.37	10000.72	60619

Food, Beverages and Tobacco	73	9171.99	7962.49	2198.92	9084
Textile, readymade garments	148	8465.27	5341.88	2940.43	32873
Wood and wood products	8	116.36	89.85	41.52	1440
Paper and paper products	21	1796.98	1527.43	318.90	892
Chemical, petroleum products	79	6368.41	4722.27	1969.27	6563
Electricity, water and gas	19	19686.77	17969.09	3299.56	4950
Construction	29	1578.99	1253.85	998.83	1716
Hotel and resort	22	15706.28	14907.60	4474.21	14585
Transport and communication	25	4095.70	2818.55	1618.96	5039
Housing and apartment	17	256.43	105.21	145.51	1509
Service industry	16	10355.70	9451.75	4689.69	8793

Source: Department of Industries (quoted in Rana & Pradhan, 2005)

Table 4.22

Sector wise FDI in Pakistan (US \$ millions)

Sector	2000 -01	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Oil, gas	80.7	268.2	186.8	202.4	193.8	312.7	545.1	634.8	775.0	740.6	512.2	172.2
Financial	34.9	3.6	207.4	242.1	269.4	329.2	930.3	1864.9	707.4	163.0	246.9	2702
Textile	4.6	18.5	26.1	35.4	39.3	47.0	59.4	30.1	36.9	27.8	25.0	9.8
Construction	12.5	12.8	17.6	32.0	42.7	89.5	157.1	89.0	93.4	101.6	60.8	23.0

Power	39.9	36.4	32.8	14.2	73.4	320.6	193.4	70.3	130.6	120.6	155.8	32.2
Chemical	20.3	10.6	86.1	15.3	51.0	62.9	46.1	79.3	74.3	112.1	30.5	4.3
Transport	45.2	21.4	87.4	8.8	10.6	18.4	30.2	74.2	93.2	132.0	104.6	0.2
Communication	Na	12.8	24.3	221.9	517.6	1937.7	1898.7	1626.8	879.1	291.0	34.1	43.3
Other	140.9	66.2	90.4	170.1	274.0	285.0	1107.2	764.5	763.4	586.3	418.9	57.7
Total	322.4	484.7	798.0	949.4	1523.9	3521.0	5139.6	5409.8	3719.9	2150.8	1573.6	282.77

Source: Pakistan Board of Investment, 2012

Table 4.22 depicts the Sector wise FDI in Pakistan during the period of 2001-02 to 2011-12. FDI in Pakistan since and before the time of liberalization is very volatile in nature this is because in Pakistan much political instability and religious restrictions on traders and terrorist threat hurts the FDI inflows to Pakistan. In 2000-01 322.4 US \$ million and raised to 5409.8 US \$ million in 2007-08 but a decline was recorded after 2008. The main reason for this current reduction in FDI inflows is occurrence of financial crisis and unstable of political regime. Important factors that attract FDI are telecommunications, power sector, chemicals and oil and gas. This is mainly due to opening the gates of industries to foreign players. (Pakistan Board of Investment 2012)

According to this Table 4.23 among other services, financial sector is the major area of interest, followed by the communication sector in attracting FDI. More than 800% growth of FDI in the financial sector over the last four years is due to the financial sector reforms. Liberalization and Privatization of the financial

sector appears to be the main factor responsible for massive inflows of foreign capital. Power generation has also an important sector for attracting FDI. Although in Pakistan the rising trend of FDI inflows shows the success of policy; however, FDI inflows are considerably hindered by the institutional weakness, corruption, poor law, political instability, etc.(Khan and Khan,2011)

Table 4.23

Sector wise Share of FDI % in Pakistan

Sectors	FY04	FY05	FY06	FY07	FY08
1. Manufacturing	17.9	16.8	7.1	18.8	11.9
• Transport equipment	0.3	2.2	0.9	1	2.2
• Cement	0.2	0.9	1.1	0.7	2
• Chemicals	1.6	3.3	1.8	0.9	1.5
• Textile	3.7	2.6	1.3	1.2	0.6
• Others	12	7.9	2	15.1	5.6
2. Non-manufacturing	82.1	83.2	92.9	81.2	88.1
A. Extractive industries	21.4	12.8	9.2	11.2	13.2
1. Oil and gas explorations	21.3	12.7	8.9	10.6	12.3
2. Others	0.1	0.1	0.3	0.6	0.8
B. other services	60.6	70.4	83.7	69.9	75
1. Communication	23.4	34	55	37	31.5
(a) telecommunication	21.8	32.4	54.1	35.6	27.9
(b) IT	1.4	1.5	0.9	1.4	3.5
2. financial business	25.5	17.7	9.3	18.2	31.2
3. Trade	3.8	3.4	3.4	3.4	3.4
4. construction	3.4	2.8	2.5	3.1	1.7
5. Transport	0.9	0.7	0.5	0.6	1.4
6. Power	-1.5	4.8	9.1	3.8	1.4

7. others	5.2	7	3.8	3.9	4.3
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Source: State Bank of Pakistan

Table 4.24 provides a country-wise list of priority sector of FDI inflows in South Asian Countries. It clearly shows that the priority industries for FDI in Pakistan are tourism, housing, engineering, chemicals and construction under the "value added export industries". priority has been given to manufacturing categories like garments, bed linens, surgical instruments, and sporting goods. While as in case of information technology, the priority list is chip manufacturing, software development and precision equipment manufacturing. The priority list for FDI in Bangladesh is textiles, Electronics, IT, natural gas based industries, frozen foods, leather, ceramics, light engineering and agro based. Nepal has put following sector under the priority list as; Medicinal and aromatic plants, agro based (mushroom, spices, vegetables, fruits), dairy, tea, sericulture, hydro power, leather, poultry and textiles. Also Sri Lanka has opened up industries like electronics, light engineering, textiles, rubber, mineral and processing, tourism, IT, gems and jewellery, health care and pharmaceuticals, ceramics, services for FDI. In Bhutan's list lie the following sector Hydro power, agro processing, tourism, and medicinal plants. Maldives has given priority for FDI to the following industries marine based industries, tourism, infrastructure and air and sea transport.

From the above data it is clear that all the South Asian Countries excluding India, the common industries or sectors between different countries are (1) Pakistan, Sri Lanka, Bhutan and Maldives have given priority for FDI to Tourism sector. (2)

Bangladesh, Nepal and Sri Lanka have given priority for FDI to Textiles sectors.
 (3) Bhutan and Nepal have given priority for FDI to Hydro power sector.

Table 4.24

Priority sectors of FDI Inflows in South Asian Countries

India	IT & IT based services, electrical equipment, Services, Agriculture, Telecommunication, Fuels & chemicals sectors, transportation, drugs & pharmaceuticals, energy, Trading, mining, cement and gypsum products.
Pakistan	<u>Priority industries</u> : tourism, housing, engineering, chemicals and construction. " <u>Value added export industries</u> ": manufacturing categories such as garment, bed linens, surgical instruments, and sporting goods. <u>High-Tech and information Technology industries</u> : chip manufacturing, software development and precision equipment manufacturing.
Bangladesh	Textiles, Electronics, IT, natural gas based industries, frozen foods, leather, Ceramics, Light engineering and agro based.
Nepal	Medicinal and aromatic plants, agro based (mushroom, spices, vegetables, fruits), Dairy, Tea, Sericulture, Hydro power, Leather, Poultry and textiles.
Sri Lanka	Electronics, light engineering, Textiles, Rubber, mineral and processing, Tourism, IT, Gems and Jewelry, Health care and Pharmaceuticals, ceramics, services.
Bhutan	Hydro power, agro processing, tourism, medicinal plants
Maldives	Marine based industries, Tourism, infrastructure and air and sea transport

Source: Compiled from the FDI promotion agency of each country (quoted in Aggrawal, 2008)

Chapter - 5

Conclusions and policy implications

South Asia or Indian sub-continent is one of the economically most under-developed region of the world comprises of five least developed countries viz. Afghanistan, Bangladesh, Bhutan, Maldives and Nepal, two low-income countries viz. India and Pakistan and one lower middle-income country viz. Sri Lanka. This region inhabited more than 20% of the world's population including half the planet's poor, (Aggrawal, 2008). In recent years, this region has emerged as second fastest growing economy after East Asia by the adoption of economic reforms which led to this faster growth in the South Asia region. Due to such reforms, these countries have changed the entire spectrum of industrial policies and their attitude towards foreign investment.

Foreign investment for these countries is an important strategy to achieve the objectives of increasing industrial production to fulfill the basic needs of people, to generate maximum employment opportunities, to attain high growth regime, and to pave way for the improvement in balance of payments. Keeping in view the importance of FDI in these economies, there is a need to look into the growth and performance of foreign direct investment inflows as well as outflows of SAARC nations. Therefore study's objectives are as follows:

- To examine position of SAARC nations in FDI inflows and outflows from world during 1990-2010.
- To study the growth of FDI in South Asia nations during 1990-2010.
- To analyze the performance of SAARC nations in terms of different FDI indicators.
- To examine the pattern of foreign direct investment of SAARC nations.
- To study constraints and prospects of foreign direct investment of South Asian Nations.

Plan of the Study

The study has been divided into five chapters including the present one. Second chapter reviews empirical studies related to the theme of the study. Third chapter explains the database and methodology. Fourth chapter analyzes growth and performance of FDI in South Asia and last chapter deals with conclusions and policy implications.

Data Base and Methodology

The study mainly covers the period of 21 years i.e. 1990 to 2010. Keeping in mind the nature of study, secondary data has been calculated from the different sources like UNCTAD World Investment Report's various issues, various reports of SAARC economies etc. The compound growth rates, averages and percentage shares have been computed for different variables. In addition, the study has collected the data for pattern of FDI in South Asian economies from various reports of these economies. Different indices have been used to find out the performance in terms of foreign direct investment of SAARC countries.

Main Findings

The growth rate of FDI inflows in South Asia (24.77 percent) is much more than other developing economies (14.45 percent) and Asia (13.99 percent) during 1990-2010, still the inflows are not sufficient for the development of the region. The average percentage share of South Asia's FDI inflows in Asia (5.41 percent) was highest during the study period. Among the FDI Inflows in South Asian Countries (excluding Afghanistan, Bhutan, and Nepal), Bangladesh's growth rate of FDI inflows is highest i.e. 36.65 percent followed by India (31.06 percent), Maldives (18.52 percent), Pakistan (14.72 percent) and Sri Lanka (10.82 percent). The maximum average contribution in percentage share of South Asia's FDI inflows is of India (78.02), followed by Pakistan, Bangladesh and Sri Lanka (12.07 percent, 5.69 percent, 2.93 percent) for 1990-2010.

Regarding FDI out flows, the growth rate of FDI out flows in South Asia (47.97 percent) is much more than developing economies (15.26 percent), developed economies (11.43 percent) and Asia (14.67 percent) during 1990-2010. The comparative analysis of FDI inflows and outflows, it clearly shows that growth of FDI outflows is much more as compared to the growth of FDI inflows in developing

economies, Asia and South Asia during 1990-2010. While in developed economies, the case is a reversed one.

Among South Asian Countries, the highest growth rate of FDI outflows is of India (51.42 percent) followed by Bangladesh (12.25 percent), Pakistan (10.76 percent) and Sri Lanka (15.2 percent). India (51.42 percent) and Sri Lanka's (15.2 percent) growth rate of FDI outflows is much more than inflows. The maximum average contribution in percentage share of South Asia's FDI outflows is of India (89.28 percent) followed by Pakistan (5.76 percent), Sri Lanka (3.65 percent) and Bangladesh (1.31 percent) during 1990-2010. The comparative analysis of the percentage share of inflows and outflows, it clearly shows that the average of the percentage share of South Asia's inflows are much more than the average of percentage shares of South Asia FDI outflows during 1990-2010.

The highest growth of FDI inward stock is in Afghanistan (34.5 percent) followed by India (27.53 percent), Bangladesh (22.88 percent), Maldives (18.36 percent), Nepal (16.8 percent), Pakistan (11.35 percent) and Sri Lanka (8.9 percent). The maximum contribution in SAARC's FDI inward stock is of India (57.35 percent) followed by Pakistan (25.88 percent), Sri Lanka (7.28 percent) and Bangladesh (5.81 percent). Among South Asian countries, highest average of FDI inward stock as a percentage share of gross domestic product is in Maldives (27.73 percent) followed by Sri-Lanka (10.25 percent), Pakistan (9.01 percent), India (4.59 percent), Bangladesh (4.4 percent), Afghanistan (3.75 percent) and Bhutan (3.09 percent).

Regarding FDI outward stock, the highest growth of FDI outward stock is in India (40.56 percent) followed by Sri-Lanka (19.85 percent), Pakistan (12.03 percent) and Bangladesh (5.56 percent). The maximum contribution in SAARC's FDI percentage outward stock is of India (72.04 percent) followed by Pakistan (21.61 percent), Bangladesh (3.86 percent) and Sri Lanka (2.49 percent). The highest average of FDI outward stock as a percentage share of gross domestic product is in India (1.40 percent) followed by Pakistan (0.68 percent), Sri-Lanka (0.48 percent), Bangladesh (0.16 percent).

Regarding the Inward FDI Performance Index, Pakistan (66) was at the first position in 1990 followed by Sri Lanka (70) and Nepal (91). The position of all South

Asian Countries in terms of this indicator has changed during 1990-2010. In 2010, India (97) enjoyed the first position followed by Pakistan (110) and Sri Lanka (113). Regarding FDI Potential Index, India's rank (86) was highest in 1990 followed by Pakistan (91) and Sri Lanka (102). In 2009, India (86) enjoyed first position followed by Sri Lanka (110) and Bangladesh (114).

Regarding the sector-wise performance of South Asian countries, in Afghanistan, the service sector and construction sector has received maximum foreign investment during 2003-2008. In Bangladesh, gas and oil, textiles, and trade and commerce dominated the first half in terms of FDI inflows whereas telecommunication sector was the highest recipient during the second half of the ten year period. On the other hand, gas and oil, and trade and commerce sectors showed better performance during the last two years but the textiles sector experienced declining inflows of FDI in the second half of the decade. FDI Inflows in India mostly entered in telecommunication, mining, power sector, transport, manufacturing because these sectors contributed a large share to GDP. In Nepal, the manufacturing industries have received highest FDI followed by service industry and hotel and resort. In Pakistan, the main sectors attracting FDI are telecommunications, power sector, chemicals and oil and gas. Among other services, financial sector is the major area of interest, followed by the communication sector in attracting FDI.

The sector-wise analysis clearly shows that priority industries for FDI in India are IT & IT based services, electrical equipment, Services, Agriculture, Telecommunication, Fuels & chemicals sectors, transportation, drugs & pharmaceuticals, energy, Trading, mining, cement and gypsum products.. Pakistan are tourism, housing, engineering, chemicals and construction under the "value added export industries" .priority has been given priority to manufacturing categories like garments, bed linens, surgical instruments, and sporting goods. While as in case of information technology, the priority list is chip manufacturing, software development and precision equipment manufacturing. The priority list for FDI in Bangladesh is textiles, Electronics, IT, natural gas based industries, frozen foods, leather, ceramics, light engineering and agro based. Nepal has put following sector under the priority list as; Medicinal and aromatic plants, agro based (mushroom, spices, vegetables, fruits), dairy, tea, sericulture, hydro power, leather, poultry and textiles. Also Sri Lanka has opened up industries like electronics, light engineering, textiles, rubber, mineral and

processing, tourism, IT, gems and jewellery, health care and pharmaceuticals, ceramics, services for FDI. In Bhutan's list lie the following sector Hydro power, agro processing, tourism, and medicinal plants. Maldives has given priority for FDI to the following industries marine based industries, tourism, infrastructure and air and sea transport. All the South Asian Countries excluding India, the common industries or sectors between different countries are (1) India, (2) Pakistan, Sri Lanka, Bhutan and Maldives have given priority for FDI to Tourism sector. (2) Bangladesh, Nepal and Sri Lanka have given priority for FDI to Textiles sectors. (3) Bhutan and Nepal have given priority for FDI to Hydro power sector.

Thus, it is clear from the above study that although there are various potentials of intra-regional FDI, yet investment from other countries outside is not satisfactory. This is due to the prevalence of some hindrances in South Asian countries which are acting as bottlenecks to the smooth flow of investment both intra-regional and outside the region. These are:

Difference in size of economies hinders the smooth flow of investment as all of the South Asian countries differ from each other in size of economies. Among all, India is emerging as the biggest economy as compared to rest of the South Asian countries, which has proved to be major psychological barrier for other countries. Indian economy as the biggest economy among South Asian countries in case of point of population, surface area, per capita growth etc.

Trade barriers in each country in the region have different rules and regulations regarding trade barriers including tariff and non-tariff barriers specifically difference in standardization and certification, custom duties, subsidies on agricultural products, different tax laws and regulations, exchange rates, interest rates as well as different macroeconomic policies etc. have proved affect the smooth flow of intra-regional investment. There is prevalence of strict trade policies in South Asian countries and Afghanistan, Bhutan are on the top for adoptions of more restrict policies.

Developed infrastructure play an important role in attracting FDI intra-regional as well as from other countries. However, poor physical as well as non-physical infrastructure may act as bottleneck in the growth of the economy, which is influenced by low flow of FDI. India among all South Asian countries is better in developing its

infrastructure. There is very poor condition of infrastructure facilities like provision of electricity, transportation water facilities in South Asian countries.

Availability of appropriate and effective banking network also helps in development of a country and an essential factor for international business. However, there is absence of such banking network in South Asian countries and level of cooperation between different central banks of the countries is poor.

Among other factors, which are responsible for insignificant intra-regional investment, lack of cross-border facilities like transport, communication etc. is also dominant factor. Developed inter-country roads, railways, waterways, airways, modes of transportation at required level are necessary for smoothening of production and marketing of goods and services. However, in South Asian countries still it is yet to have an integrated transport network for easy movement of people and products.

The political factor most of the South Asia countries were ruled for a long time about 250 years by the British government. After getting independence in 1947, although India and Pakistan became separate states, but still both the states are unable to win the faith of each other from very inception. Subsequently in 1971, through a tragic war Bangladesh got independence from Pakistan. Due to some unsettled issues like Kashmir, there has been continuation of feelings of enmity between India and Pakistan. Bangladesh also cannot build trust on Pakistan for the earlier bitter experience. According to some scholars, this factor can be treated as a big obstacle for smooth flow of intra-regional investment.

The psychological factors of these Countries make efforts to modify their policies and make reforms to build a good platform for FDI from developed countries because of the belief that from TNCs (transnational companies) .They can import/bring superior technologies and the spillover effect of such technologies, economies can be modernized so this psyche, inherited from colonial rule is one of the hurdles in the way of promoting FDI from within the region.

Although inward FDI liberalization regime is a necessary condition, yet it is not a sufficient condition for intra as well as extra –regional FDI flows. Hence, outward FDI liberalization is a sufficient condition, but these outward flows are not smooth in South Asian countries due to restricted FDI policies and their implication for foreign

exchange outflows. The Indian policy of FDI abroad has been liberalized over the period leading to a substantial increase in outward investment. However, there exist ceilings on specified outward investment. Other South Asian countries have also adopted policies with tight regulations, which have restricted the outward and overall FDI flows (www.enterprisesurveys.org). Different economies from the region have contrasting situation in different parameter. The four large economies from the region- India, Pakistan, Sri Lanka and Bangladesh share some common problems in doing business. These are labour and land market inflexibilities, persistence of licenses, irrational tax structure and poor contract enforcement that hinders the smooth flow of FDI in South Asia (Singh et al. 2008).

Most of the South Asian countries have been leading a path of economic reforms since 1991 that has resulted into the conversion of over regulation state to private liberalized state. However, some of these reforms have been not implemented yet successfully and such economies are still under excessive rules and powerful bureaucracy.

Existence of weak and slow legal system in most of the South Asian countries is also a fundamental impediment to invest, where uncertainty is always associated with the enforcement of contracts. Foreign investors face opaque legal structure. Such firms or investors complain that the basic legal procedures are neither quick nor routine.

Existence of instability in political system of the country also causes hindrance in smooth flow of FDI in south Asian countries. Money extortion from business by ruffians claiming political backing is common in Bangladesh. Rapid rise of fundamentalism, power struggles have weakened the political system. A violent Maoist insurgency, with the conflict initially confined to the mid-western districts for 9 yrs. Threats to foreign investment has also been identified in Pakistan, both from Al-Qaida and Taliban and domestic terrorist organizations wracked Nepal. In addition, there is existence of violent movements in Kashmir and northeastern states. Sri Lanka has been plagued by LTTE. Maldives and Bhutan have also a long record of political instability.

There are more than 6300 registered trade unions in Bangladesh, within excess of 19 million union members and in India, more than 7 million unionized

workers. Such unions are associated with political parties and have narrow personal stakes. In Pakistan also, organized labour comprises a very small percentage of the total workforce (Aggarwal, 2008).

It is clear from the present study that the South Asian region can be one of the more attractive FDI destinations in developing Asia. In recent years, the policies of liberalization and increasing role of private participation in investment project can be identified as the major investment of growth of FDI flows. At the same time, the role of bilateral and regional trade and investment agreements with countries outside cannot be ignored. However, South Asia is still far achieving its potential as an attractive destination for FDI as compared to other regions. Unfavorable perception of business in South Asian countries by foreign investors is acting as an impediment. Somehow, this type of integration with domestic policy reforms can contribute a lot to attract more FDI into the region and by emphasizing on infrastructural development, macroeconomic and political stability, regulatory framework for foreign investments, mitigating risks associated with investment (Aggarwal 2008).

South Asian countries faces some challenges for sustaining their economic growth because majority of population in these countries resides in very poor living conditions, these challenges are only dilute through foreign investment in infrastructures, industries, construction, agriculture and also need fiscal stimulus for rising the growth of the economy which check on further surging the food inflation. Investment specially in infrastructure encourage the faster economic growth rate and expanding the process of business activity in rural manufacturing which further advancement the quality of the product and increase the efficiency in the production process which increase the competitiveness in the international market.

FDI will help to promote economic growth of the country through creation of infrastructural better qualities provide to the enterprise. FDI also upgrade the technological level with the application of sophisticated machinery system which doubling the productivity and leads to increase in the export by production at cost in the market. FDI in South Asia is very narrative to high economic growth of the region and there is most of areas in these countries are under develop and huge natural resources exist in these regions, which can attract FDI for high growth. There is also high growth rate of population and this population growth is the potential in the

expansion of the market and this market is attract to the foreigners to invest in the region for profit motives, and create employment opportunities and reduce the burden of poverty exist in these countries. Structural contrasts also provide enormous scope for FDI in different area. Comparative advantages of South Asia countries in services across sectors, Pakistan, Sri-Lanka, Bangladesh has comparative advantage in transportation, Nepal, Bhutan in tourism and India in IT and IT based services. So there is scope of cooperation in these sectors and intra trade can helpful to increase the prosperity of the region (SAER, 2007).

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