Summary and Conclusion

7.1 Introduction

The main objective of the study was to examine the investment scenario in SAARC countries. In addition to that the study has also analysed intra-regional flows of investment among the SAARC nations. Further, the role of investment policy and institutional variables in attracting foreign direct investment flows in the region has been discussed. The study also analysed the kind of obstacles faced by corporate sectors in doing business in these countries after entering through foreign investment route. It is in this context the study developed framework for analyzing the role of foreign direct investment in the SAARC region both at the regional level as a whole and individual country level. The analysis based on theoretical justifications. The main findings of the present study for each of the chapters are summarized in the following.

7.2 Major Findings of the Study

In the first chapter, the objectives and hypothesis of the study has been presented. In the second chapter existing theories of international investment and review of empirical studies are presented.

In the third chapter, trend of the trade and foreign direct investment inflows for the selected SAARC countries were analysed. The chapter also tried to analyse the intra-regional trend of trade and investment flows for a few of the selected countries.

In case of foreign direct investment in Bangladesh Sectors like agro based industry, chemicals, textiles, engineering were the major recipients. Here, the major investing countries were UAE, Saudi Arabia, and United Kingdom. In case of trade for
Bangladesh the total trade value which was only $13546.1 million in 2000 has increased to $29903.4 million in 2012. The values increased at the rate more than 100 per cent during this time period. The maximum amount of trade occurred in the year 2011. The total value of the trade in that year was $32607 million. The study found apparel & clothing accessories were the most exported items from Bangladesh. Bangladesh exported apparel & clothing worth of $9936 million in 2011. The apparel & clothing sector had also attracted highest amount of FDI for Bangladesh. Cotton, Nuclear reactors and Animal/vegetable fats were found to be major importing items of Bangladesh.

Bhutan the smallest economy of the region could not attract much foreign direct investment during the period selected for our study. However, in the 2006 investment of $72 million was made in Bhutan by Ferro Silicon from India. This was the highest amount of foreign direct investment received by Bhutan in our reference period. The major investments in Bhutan have come from India, followed by Germany and Singapore. The Sector-wise, an unprecedented 60 per cent investment is concentrated in a single power project, namely, Dagachhu Hydro Power Corporation Ltd. ï promoted by the Asian Development Bank and the first Public Private Partnership (PPP) project in Bhutan with the Druk Green Power Corporation (DGPC), Tata Power and the National Pension Fund as joint venture partners.

Both export and import values of Bhutan have increased tremendously in our reference period. The total trade value which was only $166.5 million in 2000 has increased to $1071 million in 2012. There was tenfold increase in the volume of the trade. The highest volume of trade took place in 2011. The values of trade in that year were $1637 million. The study finds that Iron and steel was the top exporting product in that year. It was followed by Electrical machinery, Salt and Copper, while Nuclear reactors, boilers were the top importing goods in the year 2011.

Countries like Mauritius, Singapore, USA and UK were the major investors in India. Out of the total FDI inflow in India, 42 per cent has come from Mauritius while the share of USA and UK was 7 and 5 per cent respectively in that year. Service sector (both financial and non-financial), has attracted the highest amount of FDI and it was followed by computer and telecommunication services. Service sector attracted 21 per
cent of the total investment while 2 other major sectors have managed to attract 8 per cent of the FDI each in the same time period.

The trade volume of India continuously increased from 2000 to 2008. But in 2009 the trade volume decreased to $424673.0 million from $473600.9 million in 2008. The economic downturn in USA and EU has affected India’s export. Further, the depreciation in Indian currency has increased the import value of India. In the year 2011, Mineral fuels were the top exporting good of India. India exported more than $56556 million of Mineral fuels in that year. Mineral fuels were followed by Natural/cultured pearls. The export value for this product in that particular year was more than $50015 million.

India imported Mineral fuels worth more than $157356 million in 2011. India being an oil deficit country, imports more than two third of its oil requirement. Apart from Mineral fuels, the other major items in the import basket of India are Natural/cultured pearls, Nuclear reactors, Electrical machinery etc. Like mineral fuel, India also import raw pearls and diamonds and other precious metals and export it after value addition.

In case of Nepal, majority of the foreign direct investment has been made in various manufacturing sector. It was followed by services and tourism industry including hotel and restaurants. Among the manufacturing industries, textile sector including readymade garments, chemicals and plastic, food, beverage, tobacco sector, fabricated metal sector, etc are the main industries which attracted foreign investment. Around 10% in terms of total FDI value has gone into textile sector. For hotels and restaurants it is 27% and 13% respectively, for services 23% and 15% and for electricity it is 2% and 21% respectively.

The trade data of Nepal shows the value of trade which was only $2298 million in 2000 has increased to $6572.7 million in 2011. The data reveals that Iron and steel was the most exported product from Nepal in 2011. Nepal exported irons and steel worth of $117 million which was top in the list while Carpets and other textile floor materials were second in the list. Nepal imported mineral fuels worth more than $1225 million. Nepal has imported Iron and steel worth of $493 million in 2011.

It is observed from the study that the infrastructure sector (telecom, power generation etc.) and manufacturing sector (textile, chemicals, rubber etc.) are among the major
recipients of foreign investment in Sri Lanka. Among the South Asian investors, India is the biggest investor. It is also observed that Indian investment in Sri Lanka has mainly gone in the areas like Margarine, Vanaspathi Ghee, Steel products, PVC, Furniture, Herbal, Electric items, Copper, Metals etc.

Having discussed the trend in the third chapter, here the study tried to capture the trade and investment relationship in SAARC region. In this chapter the study, gravity model was used to test the complementary or substitution relationship between trade and FDI in SAARC. The analysis was carried out for the top 5 investing countries in the SAARC nations excluding Afghanistan, Maldives and Bhutan. The study found both complementary and supplementary relationship between trade and FDI in all the SAARC group of countries. The result shows complementary relationship for all the selected countries with exception of Sri Lanka. India being a bigger market in size, with developed infrastructure and low wage rate has been able to attract highest amount of FDI in the region. For export of Bangladesh the proposition of gravity model was not found to be applicable while it was true in case of import. Similarly, Indian export rejected gravity model while accepted in case of import. Same result was also found in case of Pakistan where export rejected the gravity model but it was accepted by import. Both export and import of Nepal and Sri Lanka confirmed the assumption of longer distance reduces trade. The chapter is concluded with finding that the relationship between trade and investment mainly depends upon the types of FDI flows not on its volume.

In the fifth chapter, the study tried to capture whether trade is leading higher volume of FDI inflows or FDI is enhancing the trade volume. This chapter of the study investigated if any causal relation exists between trade and FDI in terms of SAARC countries. The Granger causality method was employed to analyse the relationship for the time period from 1980 to 2012. The findings indicate that the series are stationary in the levels with two structural breaks. To test causality relation among the variables, Granger causality test based on VAR model is applied. As per the findings it is clear that there is no causal relationship between FDI and trade in SAARC region. That is, neither trade is leading to higher FDI inflows nor high FDI inflows are enhancing the trade volume. Although theory states that greater inflow of FDI will lead to greater trade. This is not so in case of SAARC group of countries. One possible reason for
this may be that, the conditions in SAARC region in general are not conducive for larger FDI flows.

Apart from liberal FDI policy there are some other related policy variables which also play vital role in attracting FDI in a country. The sixth chapter made an attempt to analysed some of those important variables in the context of SAARC countries. The variables selected for the analysis were Business Freedom, Trade Freedom, Investment Freedom, Financial Freedom, and Fiscal Freedom. To analyse these variables SUR model was used. SUR model captures the efficiency in the variables due to the correlation of the disturbances across equations. The SUR model can be applied with both time-series and cross-section data.

In case of Bangladesh only business freedom has significant influence on variations in FDI inflows in Bangladesh. Other selected variables like fiscal freedom, trade freedom and investment freedom do not have any statistically significant impact on variations in FDI inflows in Bangladesh. In case of India, trade freedom is found to have significant influence on variations in FDI inflows in India. This reflects the motivation behind FDI inflows in India are strategic asset seeking as goods and services produce by foreign firm are exported to another countries. However, the coefficient of FF, BF, GF and IF are not statistically significant implying that fiscal freedom, business freedom, GF and investment freedom do not have any statistically significant impact on variations in FDI inflows in India.

None of the selected variables have any impact of the inflow of FDI in Pakistan. In case of Nepal only Investment Freedom has found to have positive impact on FDI inflow. Similar results were also noticed in case of Sri Lanka.

From the study it can be concluded that,

- The formation of SAARC has not led to significant increase in trade and investment in the SAARC group of countries.
- The intra-regional trade and investment flows have grown more rapidly than inter-regional trade and investment flows.
- Changes in some of the Policy variables have encouraged investment flows to SAARC countries. Further, except for India the FDI policy in general has not been a success in majority of the SAARC countries.
Based on the results, the study recommends the following policy changes.

7.3 Policy Recommendations

The issues of infrastructural constraint, political instability and sometimes strained diplomatic relationship become deterrents for the process to move forward in case of bilateral trade and investment in the region. To integrate South Asia in a more pragmatic manner progressive policies are required to reflect a balanced view related to security, trust and economic cooperation. As culturally nations are closely linked, more people to people contact, exchange of scholars and artists play a very important role for further integration along with trade fairs, business to business meet etc. Countries are engaged in these initiatives to some extent but perhaps more effort is required for political decision making. Yearly meeting of high officials and Head of State is also necessary.

FDI policies are more or less liberal in these countries. However, business sector finds several gaps in post entry stages especially in associated laws in conducting business in the countries. Labour laws, equity transfer, trading permits, profit repatriation regulation, visa, work permits, power crisis, infrastructural bottlenecks, lack of transparency in land title etc. have been identified as major areas where companies face difficulties. Interpretation of several laws and regulation also require clarity. Capacity development is necessary to equip government officers to handle these issues. Approval process for FDI is quite fast in the selected countries but in post entry situation decision on companies’ request/application on business related issues takes unusually long time. Speediness and transparency in government procedure are highlighted among the most warranted requirements by companies.

The region can gain immensely from the investment outflow and inflow but internal stability and removal of bottlenecks in the post entry stage will be a challenge for the host country. There are countries like Nepal, Bhutan and Bangladesh where outflow is not allowed, but there is a sizeable proportion of business groups waiting to invest locally in the region to take advantages for their own units and of the region. It may be worthwhile to consider the option of doing a phased opening only within South Asia. Such initiatives may help the country, company and the region. The region’s
biggest challenge however, will continue to be the infrastructure sector, which is challenging in most cases. This sector can itself be a conduit for FDI.