

Foreign Direct Investments : A Comparative Study of The SAARC Nations

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Abstract

In the present study, an attempt has been made to make a comparison of FDI inflows among the SAARC countries from the year 2001 to 2015 based on different parameters. The basis of comparison of FDI in the SAARC countries includes FDI inflows among SAARC nations in US dollars (millions) , FDI inflows as a percentage of GDP, FDI inflows as a percentage of total world investment flows and FDI inflows as a percentage of gross fixed capital formation. The comparison highlighted that although it has performed well on certain aspects but still a lot is yet to be done. Much of the success of SAARC comes from only a few countries. Efforts should be made to ensure the holistic development of all the member countries in SAARC.

Key Words

FDI, SAARC, Comparison

INTRODUCTION

Foreign Direct Investment has been an area of interest for quite sometime now. The attractiveness of foreign direct investment as a subject of interest has gained special significance in the recent years due to varied reasons. The most important reason is the the transfer of resources to the developing and emerging countries through increased global investments. The relative importance of foreign direct investment in the total capital inflows of emerging and developing countries has increased due to their ability to generate good returns on the capital invested. The pace of economic development in these countries has forced the global corporations to invest their funds in these countries in their race to earn higher

returns on their investments. Economic Integration, rise of MNCs and liberalization of the international capital markets have led to a rapid increase in the total FDI inflows in the developing countries (Thirlwall, 1999). The factors responsible for attracting FDI in developing countries in recent years are technological changes, existence of transnational and globally integrated functional networks, trade openness and increasing bilateral investment treaties (ADB,2004).

The flow of foreign investment in a country produces innovative products, transfer of technology, managerial skills apart from transfer of physical capital. The spillover effects from FDI can be seen in varied areas such as employment, production, exports, balance of payments and income (Erudel & Tatoglu, 2002). These spillover effects from FDI are an important contributor to the economic growth of the host countries. Taking into consideration these effects, many economies around the world have deregulated their economies and now rely upon market forces. The impact of inward FDI on the developing countries economies have been studied by many researchers such as MacDougall (1960), Kemp (1962), Crouch (1973), Bhagwati (1978), Borenstein, De-Gregorio and Lee (1995), Balasubramanyam, Salisu and Spasford (1996)

The principal objective of the present study is to make a comparison of FDI inflows among the SAARC countries from the year 2001 to 2015 based on different parameters. The basis of comparison of FDI in the SAARC countries includes FDI inflows among SAARC nations in US dollars (millions), FDI inflows as a percentage of GDP, FDI inflows as a percentage of total world investment flows and FDI inflows as a percentage of gross fixed capital formation.

The rest of the paper is organized as follows : Section 2 briefs out the relevant theoretical background followed by results and discussion in the 3rd Section. Section 4 comprises the conclusion.

THEORETICAL BACKGROUND

The first and the foremost explanation for FDI was given by the Theory of Capital Movements (Aliber, 1971). FDI is the vehicle of transferring both tangible and intangible assets such as knowledge etc. to start production process abroad (Kindelberger, 1969). Transaction Cost Perspective of R.H.Coase also gives explanation for FDI and considers FDI as an organizational response to market imperfections. Another perspective is the Internalization Theory Perspective which considers FDI as an action taken by profit seeking firms to lower the transaction costs related to cross border transactions. (Buckley and Casson 1976; Rugman 1981). Dunning (1993) in his study found out that firms go for FDI when they want to reap ownership, location and internationalization advantages. The above theoretical

perspectives or frameworks focused on the asset exploiting nature of the companies. On the other hand, the another perspective of Asset Seeking is also relevant (Makino *et al.*, 2002). This perspective holds that transnational corporations engage in FDI to enhance their competitiveness by acquiring strategic assets that are possessed by the corporations in the host country and not just to exploit the assets (Dunning, 1995, 1998 and 2000). Luo and Tung (2007) are of the opinion that the developing and emerging? MNC sthrough "springboarding".

RESULTS AND DISCUSSION

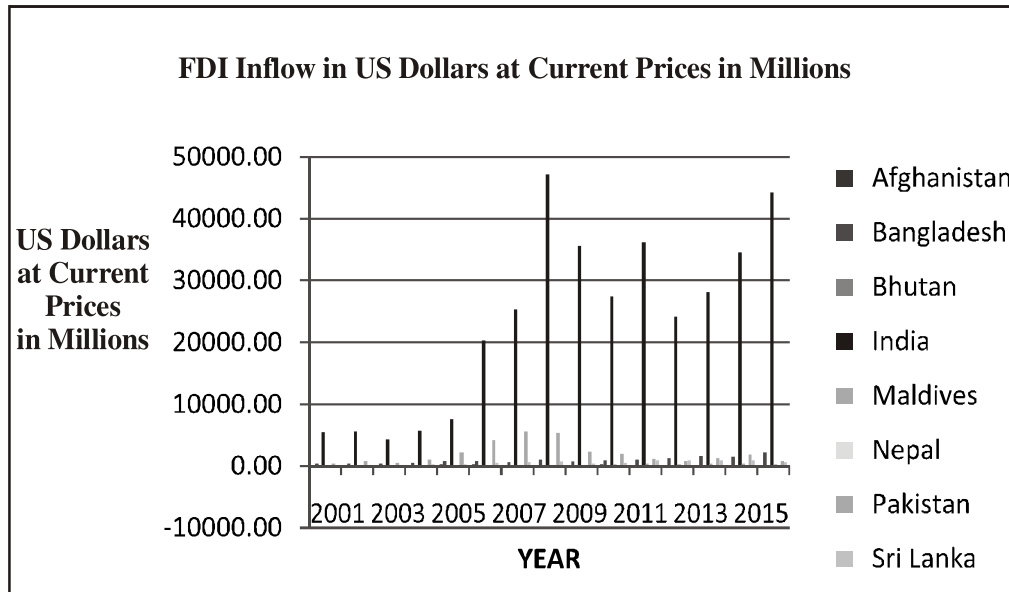
A detailed comparison of the SAARC countries on the pre-decided parameters has been done in this section. Tables 1 to 4 present the relevant information related to FDI in the SAARC countries along with their graphical representation in Figures 1 to 4.

Table 1

FDI Inflow in SAARC Countries (in US\$ in millions)

Year	Afghani- stan	Bangla- desh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2001	0.68	354.47	..	5477.64	20.50	20.85	383.00	81.89
2002	50.00	335.47	2.43	5629.67	24.67	-5.95	823.00	192.00
2003	57.80	350.25	3.37	4321.08	31.77	1.79	534.00	198.70
2004	186.90	460.40	8.86	5777.81	52.93	-0.42	1118.00	223.00
2005	271.00	845.26	6.21	7621.77	73.23	2.45	2201.00	272.00
2006	238.00	792.48	72.16	20327.76	95.23	-6.65	4273.00	480.00
2007	188.69	666.36	40.20	25349.89	132.43	5.89	5590.00	603.40
2008	94.39	1086.31	10.07	47102.42	181.26	1.01	5438.00	752.20
2009	75.74	700.16	25.61	35633.94	157.96	38.55	2338.00	404.00
2010	211.25	913.32	75.54	27417.08	216.47	86.63	2022.00	477.60
2011	83.41	1136.38	28.60	36190.46	423.50	95.49	1162.00	955.91
2012	93.80	1292.56	49.09	24195.77	228.00	91.98	859.00	941.12
2013	69.29	1599.16	13.71	28199.45	360.80	71.32	1333.00	932.55
2014	53.56	1551.28	31.63	34582.10	333.38	29.59	1865.00	893.63
2015	58.00	2235.39	12.09	44208.02	323.87	51.44	864.70	681.24

Source : UNCTAD Statistics Database

Figure 1 : FDI Inflow in US Dollars at Current Prices in Millions

From Table 1 and Figure 1, it becomes evident that during last 15 years the largest economy of SAARC i.e. India got the highest amount of FDI inflows followed by Pakistan, Bangladesh and Sri Lanka. The land-locked countries like Nepal and Bhutan are performing poor in this regard. Afghanistan's position in attracting FDI during 2001-2015 is extremely poor. The reason for this may be the unstable political situation in Afghanistan and the continuing terror and war like situation in the country. India bags the topmost position in attracting FDI as it is the largest economy in the SAARC nation. Moreover, the rapid economic growth rate in the country is even higher than the growth rate in many of the developed nations of the world. Therefore, India becomes an attractive destination for foreign investment flows whose principal objective is to earn a higher rate of return on their capital.

In Table 2 and Figure 2 a comparison has been made among the SAARC countries in terms of FDI inflows as a proportion of the total GDP of the constituent country. It was observed that Maldives is the country that had the highest flow of foreign direct investment as a percentage of the GDP. The proportion of FDI as a proportion of GDP for the largest economy in SAARC, i.e., India is relatively small. The country that stands second in foreign direct investment inflows as a % of GDP is Bhutan. If FDI inflow as a percentage of SAARC countries is compared with the ASEAN nations, it can be observed that ASEAN countries were much more successful in attracting FDI as compared to SAARC nations. If a combined effort is taken

Table 2**FDI Inflow Among SAARC Countries (As % of GDP)**

Year	Afghani- stan	Bangla- desh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2001	0.02	0.78	..	1.16	2.33	0.35	0.52	0.51
2002	1.17	0.71	0.45	1.14	2.72	-0.10	1.02	1.12
2003	1.17	0.68	0.54	0.75	3.04	0.03	0.59	1.05
2004	3.35	0.82	1.26	0.82	4.40	-0.01	1.07	1.08
2005	4.09	1.47	0.76	0.93	6.54	0.03	1.87	1.11
2006	3.17	1.13	8.04	2.19	6.46	-0.07	3.13	1.70
2007	1.82	0.83	3.36	2.14	7.58	0.05	3.67	1.87
2008	0.88	1.19	0.80	3.71	8.56	0.01	3.60	1.85
2009	0.60	0.69	2.03	2.72	7.29	0.30	1.45	0.96
2010	1.31	0.80	4.76	1.64	9.28	0.53	1.16	0.96
2011	0.44	0.92	1.57	1.91	17.21	0.52	0.55	1.62
2012	0.44	1.00	2.69	1.29	9.00	0.51	0.40	1.58
2013	0.32	1.04	0.77	1.46	13.34	0.39	0.60	1.39
2014	0.25	0.90	1.61	1.68	10.99	0.15	0.74	1.19
2015	0.29	1.15	0.58	1.99	10.16	0.25	0.32	0.89

Source : UNCTAD Statistics Database

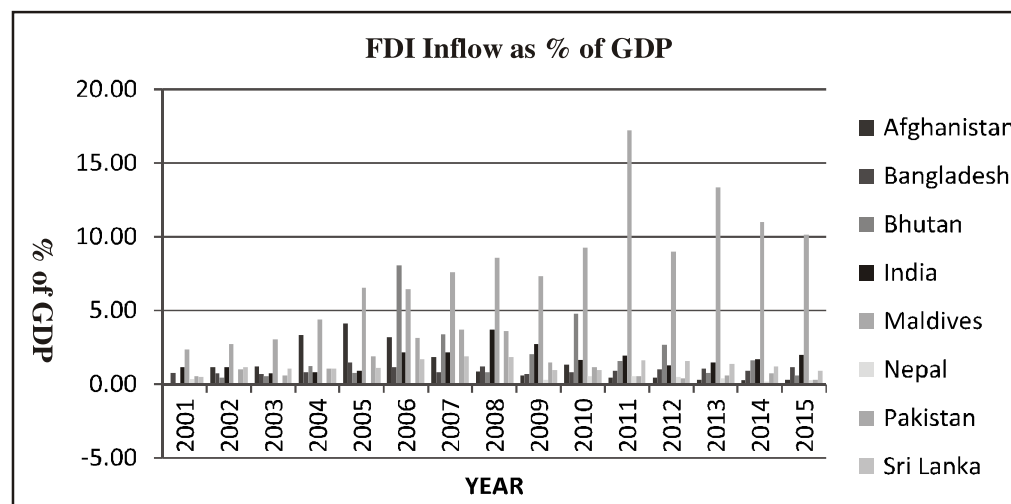
Figure 2 : FDI Inflow Among SAARC Countries as % of GDP

Table 3**FDI Inflow Among SAARC Countries as % of Total World FDI Inflow**

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2001	0.00	0.05	...	0.80	0.00	0.00	0.06	0.01
2002	0.01	0.06	0.00	0.95	0.00	0.00	0.14	0.03
2003	0.01	0.06	0.00	0.78	0.01	0.00	0.10	0.04
2004	0.03	0.07	0.00	0.84	0.01	0.00	0.16	0.03
2005	0.03	0.09	0.00	0.80	0.01	0.00	0.23	0.03
2006	0.02	0.06	0.01	1.45	0.01	0.00	0.30	0.03
2007	0.01	0.04	0.00	1.33	0.01	0.00	0.29	0.03
2008	0.01	0.07	0.00	3.14	0.01	0.00	0.36	0.05
2009	0.01	0.06	0.00	3.02	0.01	0.00	0.20	0.03
2010	0.02	0.07	0.01	1.97	0.02	0.01	0.15	0.03
2011	0.01	0.07	0.00	2.31	0.03	0.01	0.07	0.06
2012	0.01	0.09	0.00	1.60	0.02	0.01	0.06	0.06
2013	0.00	0.11	0.00	1.98	0.03	0.00	0.09	0.07
2014	0.00	0.12	0.00	2.71	0.03	0.00	0.15	0.07
2015	0.00	0.13	0.00	2.51	0.02	0.00	0.05	0.04

Source : UNCTAD Statistics Database

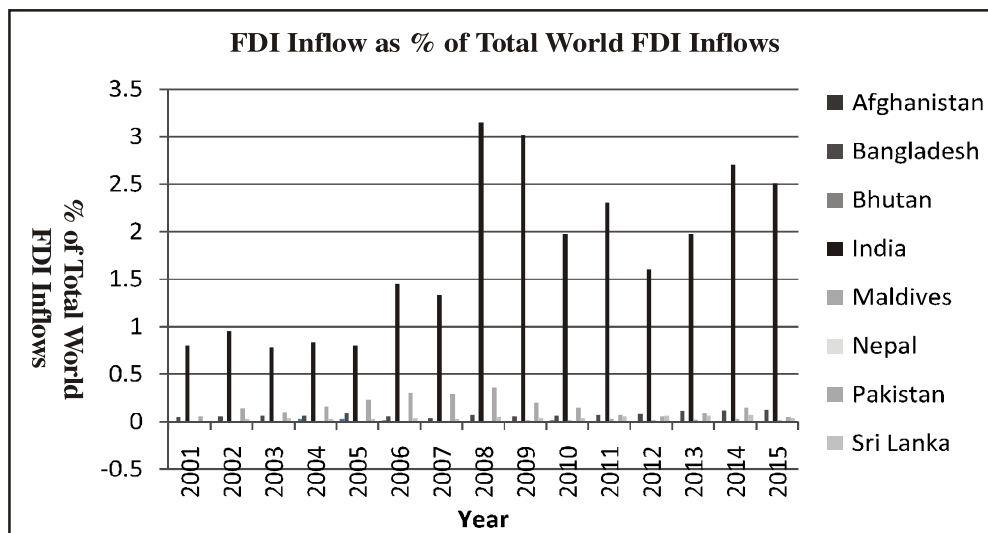
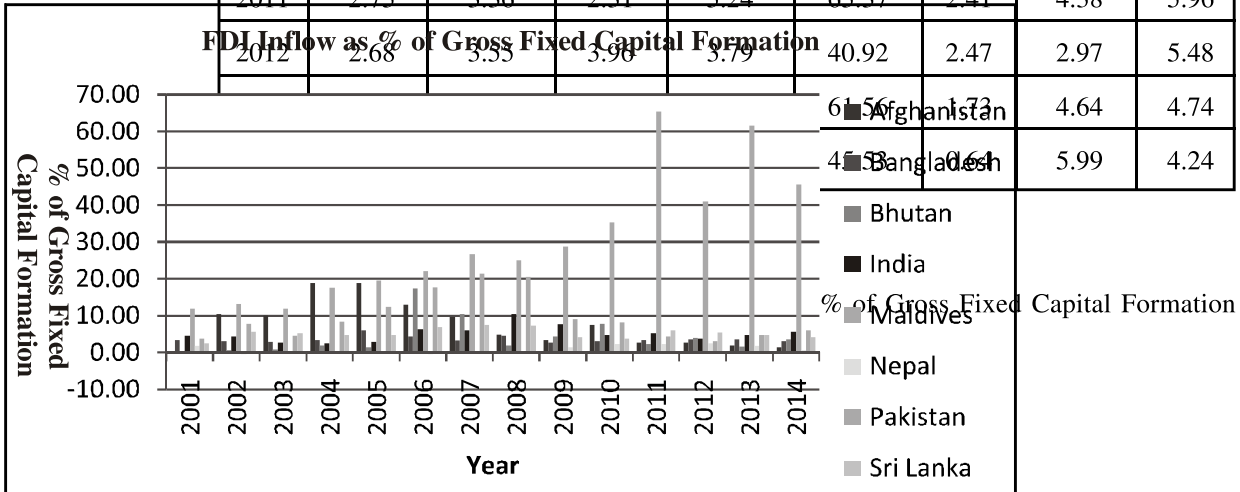
Figure 3 : FDI Inflow as % of Total World FDI Inflows

Table 4
FDI Inflow Among SAARC Countries (As % of GDP)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2001	0.14	3.38	..	4.51	11.82	1.84	3.87	2.46
2002	10.33	3.07	0.75	4.40	13.16	-0.52	7.76	5.59
2003	9.98	2.90	0.91	2.72	11.77	0.14	4.50	5.25
2004	18.84	3.43	1.99	2.59	17.61	-0.03	8.29	4.77
2005	18.77	5.98	1.46	2.79	19.48	0.15	12.40	4.77
2006	12.93	4.33	17.32	6.37	22.06	-0.36	17.68	6.82
2007	9.68	3.19	10.44	5.96	26.76	0.26	21.38	7.55
2008	4.84	4.52	1.92	10.43	25.12	0.04	20.44	7.31
2009	3.46	2.62	4.39	7.65	28.77	1.42	9.07	4.05
2010	7.52	3.04	7.79	4.70	35.34	2.40	8.16	3.72
2011	2.75	3.36	2.31	5.24	65.37	2.41	4.38	5.96
2012	2.68	3.55	3.96	3.79	40.92	2.47	2.97	5.48
2013	5.73	4.64	5.99	4.24	61.57	2.41	4.38	5.96
2014	4.64	4.74	5.99	4.24	61.57	2.41	4.38	5.96



under the umbrella of SAARC to establish an institute for promoting FDI into the SAARC countries and inspiring intra-SAARC FDI investment, then obviously SAARC countries will perform better than their current position.

Table 3 and Figure 3 above, give an account of the FDI inflow as proportion of total world FDI inflows among SAARC countries. India takes the lead among all the SAARC countries in this respect and attracts the highest proportion of FDI inflows as a proportion of total world FDI inflows. India attracted 3.14% of total world FDI inflows in the year 2008, which was the highest among the years 2001-2015. Pakistan is ranked at second position in attracting FDI inflows of the world among the SAARC countries. The SAARC countries haven't been able to perform well in this respect.

Table 4 and Figure 4 presents a comparison of FDI inflow as a percentage of gross fixed capital formation among the SAARC countries. From all the SAARC countries, Maldives has the highest FDI inflow as percentage of gross fixed capital formation. It was about 65% in the year 2011. The second rank based on this criterion goes to Pakistan that had about 21% of FDI inflow as a percentage of total gross fixed capital formation in the year 2007. Pakistan is followed by Afghanistan in terms of FDI as a proportion of gross fixed capital formation.

CONCLUSION

South Asian Association for Regional Cooperation (SAARC) has been in existence since the year 1985. It has been about 30 years since its birth, however, the results that were expected are still to be achieved. Although it has performed well on certain aspects but still a lot is yet to be done. Much of the success of SAARC comes from only a few countries. Efforts should be made to ensure the holistic development of all the member countries in SAARC. SAARC countries shall maintain a congenial relationship without interfering in each other freedom, dignity and political sovereignty. A common institution could be established to promote FDI into SAARC countries centrally. They could look after the intra-SAARC investment matters as well.

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