Dynamics of India's Foreign Direct Investment in SAARC Region

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Abstract

The establishment of South Asian Association for Regional Cooperation (SAARC) was a major step in the initialization of regional integration in South Asian region, a region with abundant natural resources and human resources. The objective of this paper is to study the dynamics of India's investment approach towards Foreign Direct Investment involvement in the region. Exponential growth rate and Index of rank dominance have been used to reach the findings of the paper which suggests that there is a lot more scope of investment in SAARC region. India has a preference towards wholly owned subsidiaries and there is no clear dominance of any one sector as analyzed by index of rank dominance. Sri Lanka is the country where India invests the most, followed by Bangladesh.

Keywords:

Regional Integration, Emerging Economies, Multinational Enterprises, Dominance.

INTRODUCTION

In the era of globalization, there is a slow progress and modest achievements in terms of trade, foreign investment and regional integration in South Asia. According to UNCTAD (2018), foreign direct investment in South Asia is 6.56 percent and 2.76 percent only of developing countries in 2017 in terms of inflow and outflow respectively. However, this indicates a lot of potentials to promote economic development in individual countries of South Asia irrespective of size and the level of growth. This potential can be exploited only through a deeper sense of cooperation, mutual trust and removal of structural and economic weaknesses, institutional bottlenecks, political movements etc. Increased investment flows will improve the competitiveness of regional firms at global level. Inward investment is worked as catalyst for the host countries' firms. However, outward investment is improving commercial competitiveness. Regional cooperation, by intra-regional investment, will provide a lot of opportunities to firms, especially from smaller countries, to grow in terms of size and capabilities to compete globally. Furthermore, it can help in raising efficiency and industrial restructuring. So, South Asian (SAARC) countries can take a big stride forward to forge deeper integration.

SAARC has been facing different issues in building a sustainable business environment so that it can attract as much FDI as possible. These challenges are political instability, terrorism, poverty, trade-barriers, lack of physical infrastructure, low per capita income etc. These issues have deterred FDI in SAARC region and it is only India that has been leading SAARC in terms of intra-regional investment as well as investment outside the region. Given this regional structural and economic

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framework of SAARC countries, our paper analyzes what position does India hold in the region.

LITERATURE REVIEW

Regional Integrations have been very popular in terms of creating better trade and investment relationships among nations. The core objectives of regional integration can be of different types ranging from economical, political and environmental. There is an ample amount of literature which is available on regional integrations. We studied the literature on SAARC in detail as among all the integrations, work done on SAARC nations has been really extant. Researchers like Hossain (2015) came to a conclusion that SAFTA is positively associated with Intra- regional trade however none of the BITs appeared to have a significant impact on Intra-regional FDI flow in South Asia. Due to its importance in the region, various researches conducted studies regarding what factors are required to stimulate FDI into the region. Athukorala (2014) presented the trends and patterns of FDI among SAARC nations. It describes the dominance of horizontal FDI in service sector and with a significant shift in few years in case of vertical FDI. Zafar (2013) analyzed the effect of economic, social and political factors on inward FDI on Pakistan, India and Bangladesh using time series data from 1991 to 2010. It was found that trade openness has positive and significant effect in case of Bangladesh and Pakistan where as Infrastructure and Market size had positive and significant in case of India. Madan (2015) studied various other determinants that have an impact on FDI inflows in SAARC nations using MANOVA multivariate and Pearson. Author concluded that Real GDP, GDP/capital, GNI, exports, debt/exports and total trade/GDP are more country- specific and variation among those is largely specific rather than year specific. World Bank (2013) also analyzed trends and determinants of FDI in South Asia. It clearly indicates that India dominates in terms of FDI inflows in service sector. The determinants such as South Asia's low level of FDI, unexploited opportunities, corruption control, lower taxes, reduced trade protection and greater investment openness could significantly help in stimulating inflows. Author found the co-integration and casual relationship between FDI and GDP. The authors took data for Bangladesh, Pakistan and India from 1972-2008. It was found out that there is co-integration between GDP and FDI (both long run and short run) in case of Bangladesh and Pakistan. However, there exists causality between two variables in case of Pakistan.

According to the literature available, almost all the papers that were available regarding SAARC pointed towards the unexplored potential in terms of investment and trade. It was Ahmed and bhatnagar (2008) highlighted some challenges that are the reasons for the failure or the unexploited potential of the integration for stimulating Investment such as inability to handle inter-state disputes and different interests of SAARC nations. India and Pakistan, being the biggest countries in SAARC do not invest in each other. There are other reasons as well which attributes to the failure of SAARC as an integration. Firstly, it can be due to the similar kind of goods produced in the countries as they are not so geographically diverse. Secondly, due to the huge difference in their economic sizes as Nepal, Bhutan and Maldives are considered to be amongst the least developed nations and on the other hand, India is the sixth largest economy in the world. Thirdly, political instability in few of the members of the SAARC hinders its path towards a better and integrated regional integration. Researchers like Aggarwal (2008) came with propositions that how SAARC can turn into a success. One of them is that there has to be a deeper integration of policies among the member nations. Integrated policies will enhance the coordination among nations for a shared better future.

India has dominating position in the region as it tops the chart in case of trade, FDI inflows and FDI outflows. The share of India's FDI inflows in SAARC's total FDI inflows was 85% in 2017. And its share in SAARC's total OFDI flows was 97.34% in the same year. India not only leads in population but also have the largest GDP. But, there hasn't been much work done on India's involvement in the region. A study by Jain (2005) captures India's approach towards SAARC right from its introduction. The main arguments of the paper were firstly, intra-regional trade is the key to increased intra-regional investment. Secondly, India being in the dominant position will have to take greater role and responsibility in SAARC to strengthen the position SAARC holds in the world. Thirdly, it is the high time when SAARC nations should overcome that challenges to regional integration considering the support they get from civil societies, academicians and different sections of the industry. While exploring literature, there were relatively lesser studies on outward FDI from India due to India being a developing country. Anwar, Hasse and Rabbi (2008) highlighted the pull factors that any host country should have to attract Indian multinationals by using disaggregated country-level data for the time period between 1970 and 1990. According to the insights of the theory, six macroeconomic variables have been used to study their impact on attracting Indian firm's FDI. Also, ordinary least square regression and Tobit model was used for the empirical analysis of host country-specific factors that give synergy to Indian MNCs to invest in the specific country. According to the test, the variables that have a significant effect on Indian firm's decision on investing in other countries are real GDP, real GDP per capita income, GDP deflat or and geographical distance of host country whereas, market size, political stability, natural resources and market openness of host countries are positively related to India's outward FDI. Goldar (2013) studied the data from July 2007 to January 2012. A total of 798 manufacturing firms were taken to analyze the geographical preference. Out of 798 firms, one-third of the firms opted developed regions and rest developing countries. Authors also used Aw-lee model to determine the effect of productivity level of manufacturing firms on the FDI Outflows. It is inferred that firms with high productivity are more likely to invest in other countries in comparison to firms with low productivity. Higher the productivity, higher the chances of investing in industrialized nations. Also, talking about the technological competence, the firms with greater engagement in technological acquisition are more likely to invest in industrialized nations.

These were the studies that described the location preferences of FDI from India. But, keeping India's Outward FDI restricted to SAARC nations, we hardly discovered any work done, in best of my knowledge. Therefore, this literature gap is the main motivation for taking up the present study titled: Dynamics of India's Foreign Direct Investment in SAARC Region.

OBJECTIVES OF THE STUDY

The study would undertake to achieve the following objectives:

1. To study overall trend of India's OFDI to SAARC countries.
2. To study the forms of India's OFDI to SAARC countries in terms of Joint Ventures (JV) and Wholly Owned Subsidiary (WOS).
3. To study sector composition of India's OFDI to SAARC countries.
4. To study firm-level India's OFDI to SAARC countries.

DATA AND RESEARCH METHODOLOGY

Our empirical work will be accomplished at the macro-level and firm-level. For the Macro level analysis and firm level analysis, the data would be collected from Reserve Bank of India (RBI). The period of study is 2008 -2017. As far as the methodology is concerned we will be using tables and descriptive statistics. We have used various research methodologies to analyze what role does India plays in FDI inflows in SAARC countries, namely, growth indices, percentage shares, exponential growth rates and index of rank dominance.

Research Methodology

Globalization has been promoting international capital investment. We are examining the trends of Foreign Direct Investment in SAARC Region with Special Reference to India's OFDI to SAARC Countries (Sinha, 2013).

Growth Index

Growth Index of FDI means growth of FDI with respect to base year FDI

$GI_{FDI} = FDI_t/FDI_b*100$

GI_{FDI} = Growth index of FDI

FDI_t = FDI at t year

FDI_b = FDI at base year

Base year = 2008 or 2000

t = 2008, 2009, 2010 ...., 2017.

Semi-Log Equation

We use a set of semi-log growth equations to measure rate of growth over different periods. Time factor represents policy and general factors that influence FDI. This enables measurement of rate of growth (RoG) through time series analysis during 2008 to 2017. Adjusted R square measures influence of time on FDI. P-value represents the level of significance. The growth equation is

$FDI = e^{a+bT}$

Taking log of both sides and adding error term (or semi-log growth equation).

$Log(FDI) = a + bT + u_t$

'a' represents intercept

'b' represents annual exponential Growth index.

'u' represents error term

'T' = 2000, 2001.., 2017.

Index of Rank Dominance (IRD)

Amongst the top sectors receiving India's FDI, which of the sector has the dominant position (i.e. highest rank) for the longest period is estimated with the help of index of rank dominance (Bhanu Murthy, 2011).

= is the index of Rank Dominance.

Rank Score = 10, 9, 8... (In decreasing order of rank).

There are four properties of this new index:

1. The value of lies between 0 and 1, that is, 0 measures in relative terms the position of the most dominant centre over period from 2008 to 2017 for attracting FDI from India. The value of lies between zero and one but never become zero because in this index. IRD is a measure of continuous dominance.
2. RIRD enables measuring the relative continuous dominance.
3. IRD is a measure that applies to panel data. That is it measures the dominance and amongst 'N' sectors over a time periods of 'T' years.

EMPIRICAL RESULTS AND ANALYSIS

Macro Level Analysis: FDI Flows in SAARC Countries

General Trends of Outward FDI

This section of the paper presents OFDI from India to other SAARC countries. In our analysis, data for outward FDI from India to Pakistan has not been included due to the unavailability of data. Among all other SAARC member, India invests the most in Sri Lanka. It ranged from 82.11% in 2008 to 43% in 2010. Along with regional proximity, Sri Lanka also has a strategic presence in Indian Ocean and natural resources that attracts the Indian investors. After Sri Lanka, Bangladesh dominates as the favorite FDI destination among SAARC members.

As we can see in Table I, after 2011, growth index of Sri Lanka never went beyond 100 and became least at 27 in 2014 and 34 in 2016. This happened because Sri Lanka had consistently larger share of India's direct investment through these years from 2008. Therefore, there were no extreme fluctuations in the growth index results. Growth index of Bangladesh reached its highest in 2010 at 914.02 percentage points.

Table I: Growth Index of OFDI from India

Month	Bangladesh	Bhutan	Maldives	Nepal	Sri Lanka
2008	100	100	100	100	100
2009	25.06	417.64	57.38	64.38	29.06
2010	914.02	60.20	7.36	93.18	89.82
2011	398.18	163.85	165.72	125.52	100.80
2012	93.60	127.74	35.31	241.87	81.86
2013	33.52	172.28	29.23	120.63	76.17
2014	49.00	14.91	48.46	33.49	26.88
2015	69.25	4.38	319.21	52.92	56.98
2016	43.40	2.92	73.03	20.56	33.77
2017	144.81	10.71	177.28	255.49	76.70

Source: Authors' Estimation

We use a set of semi-log growth equations to measure rate of growth over different periods. Time factor represents policy and general factors that influence FDI. This enables measurement of rate of growth (RoG) through time series analysis during 2008 to 2017. Rate of growth is measured for each SAARC country over time. Regression results determine how the OFDI in all the countries have changed in response to time or changing policy factors (we have excluded Afghanistan in this analysis, due to the absence of any investment in 5 years). As we can see in Table II, India's FDI in Bangladesh decreased by 8%. OFDI in Bhutan decreased by 45%. India's FDI in Nepal decreased by 4%. Whereas, it decreased by 5% in case of Sri Lanka. It was just Maldives where OFDI from India grew by 13% over this period of 10 years. Significance level could only be achieved in case of Bhutan and this period had 60% of influence on FDI.

Table II: Annual Exponential Growth Index of FDI outflows from India to SAARC.

	Bangladesh	Bhutan	Maldives	Nepal	Sri Lanka
Growth rate	-0.08	-0.45	0.13	-0.04	-0.04
Adjusted R	-0.07	0.59	0.03	-0.09	-0.04
P-value	0.55	0.01	0.29	0.65	0.44

Source: Authors' Estimation

Composition of India's OFDI to SAARC Countries

After having a general idea about FDI outflows from India to other SAARC countries and its growth rate, analysis about the composition and direction of OFDI outflows will give a holistic approach towards India's approach towards investment in SAARC nations. Composition of FDI has been divided into two areas, namely, Joint ventures/wholly owned Subsidiary and Sectoral Analysis.

India's direct investor's preference of setting up a Joint Venture or Wholly Owned subsidiary is different for different country. Also, on the basis of sectoral choices, in the year 2008 and 2010, manufacturing sector clearly dominated in the sectoral preference of Indian direct investors. But, in other years, there was no such clear dominance. However, construction, Transport, storage and communication services, Wholesale, retail trade, restaurant and hotels had major portions.

Growth index of OFDI can be depicted through Table III, where Agricultural Sector went up to the growth of 275.8 (2008 a base) in the year 2015. In spite of fewer shares in OFDI, financial, insurance, real estate and business services registered the most growth. Manufacturing sector did well in 2010, but could never pick up the same growth again. Transport, storage and communication services showed major growth in year 2017 (0ver 2008). On the other hand, wholesale, retail trade, restaurant and hotels showed modest growth every year and remained relatively consistent over the years.

Table III: Growth Index of Sectoral Distribution of OFDI from India to SAARC countries

Years	AHFF	CSP_Ser	Cons	FIRB_Ser	Mfg	Miscs	TSC_Ser	WRRH	EGW
2008	100	100	100	100	100	100	100	100	0
2009	184.0	103.1	26.6	603.5	4.1	10.5	813.6	82.4	100.0
2010	689.3	181.1	11.0	850.1	227.3	0.0	491.4	79.8	118.6
2011	330.3	118.4	248.6	1237.9	39.3	0.0	1474.0	345.3	202.6
2012	459.7	343.4	228.0	416.3	23.3	0.0	1713.9	363.9	292.9
2013	594.6	39.0	652.3	1609.2	18.7	0.0	60.5	103.6	135.1
2014	713.8	17.5	147.0	2384.6	11.6	0.0	10.8	43.3	39.0
2015	2757.8	542.2	215.0	4771.5	12.4	0.0	108.7	111.5	9.8
2016	1785.1	75.9	208.0	429.2	6.2	0.0	22.8	90.7	42.2
2017	1660.1	85.2	105.3	3817.7	12.6	0.0	1143.8	213.8	235.2

Source: Authors' Estimation

Index of Rank Dominance

As depicted by Table III, the growth index of sectoral choices of Outward Foreign Direct Investment from India fluctuated every year and a clear analysis could not be made regarding which sectors dominated the OFDI from India. Therefore, in this section, Index of Rank Dominance (IRD) is used:

- To study the dominance of different sectors, which is a very useful measure to determine the coefficients, that expresses the extent of dominance of an ordinal measure such as Ranks.
- To study the dominance in relation to other sectors, IRD has been refined as a relative known as Relative Index of Dominance (RIRD).

IRD has following properties namely, it always lies between 1 and 0, and it is a measure of continuous dominance. RIRD measures relative continuous dominance. Table IV shows the Index of Rank Dominance over the last decade from 2008 to 2017.

Table IV: Index of Rank Dominance (OFDI to SAARC Countries)

Sectors	Total Score	IRD	RIRD
WRRH	78.00	0.87	0.17
Mfg	72.00	0.80	0.16
Cons	69.00	0.77	0.15
TSC_Ser	59.00	0.66	0.13
AHFF	45.00	0.50	0.10
FIRB_Ser	43.00	0.48	0.10
EGW	43.00	0.48	0.10
CSP_Ser	26.00	0.29	0.06
Miscs	15.00	0.17	0.03
		5	1

Source: Authors' Estimation

Table V: Index of Rank Dominance (OFDI to all the Countries)

Sectors	Total Score	IRD	RIRD
Mfg	46	0.92	0.31
FIRB_Ser	37	0.74	0.25
TSC_Ser	26	0.52	0.17
WRRH	22	0.44	0.15
AHFF	15	0.3	0.10
Cons	4	0.08	0.03
Total		3	1.00

Source: Authors' Estimation

Wholesale, retail trade, restaurant and hotels, manufacturing sector, construction sector have a close ranking dominance, where wholesale, retail trade, restaurant and hotels hold 17%, manufacturing sector holds 16% and construction sector holds 15% of the dominance in OFDI from India to SAARC nations. We would also like to draw attention towards table V, which describes the rank dominance of OFDI from India to all countries, where manufacturing holds almost one-third domination in the OFDI from India, financial, insurance, real estate and business services has a close competition with 25% share, following transport, storage and communication services and wholesale, retail trade, restaurant and hotels with 15% share of dominance. Therefore, comparison between table IV and V shows that India has different preference of sectors for SAARC nations and different for all other countries.

Firm-Level Analysis of India's OFDI to SAARC Countries

India is the fastest growing economy in the world. The New Economic Policy of 1991 initiated the economic transformation. India is the dominant country in the South Asian region. Therefore, this section of the paper analyses the firm-level investments that Indian direct investors have made in other SAARC members (Except Pakistan).

Bangladesh

The growth rate of Bangladesh has been rapidly increasing with 4.23% and GDP of $245694 million in 2017. Most of the Bangladesh's population is engaged in agriculture and service sector has the biggest share in the GDP. Discussing about India's investment in Bangladesh, table VI presents the biggest investments over the period of 2008-17. In all these years, biggest investment was made by Jay Construction Company with the value of $162 millions. In the last decade, largest investments have both preferred Joint Ventures and Wholly Owned Subsidiaries as their entry strategy. House of Pearl Fashion Ltd. is the company that consistently invested from 2008 to 2013 in Wholesale, Retail trade, Restaurants and hotels sector with the total value of $97.039 million. Table VII, gives an overview about the total value and number of investments in each sector by Indian direct investors. According to the data, manufacturing sector leads with 340 investments and a value of $218 millions. After manufacturing sector, investments in wholesale retail trade, restaurants and hotels was the second sector with 90 investments and value of $163 millions. Similarly, Parle Biscuits Pvt. Ltd. Invested in manufacturing sector in the year 2008, 2011, 2013, 2015 and 2017 with the total value of $ 3.977 million.

Table VI: Top 5 Foreign Direct Investments from India to Bangladesh (2008-17)

Name of the Investor	JV/WOS	Major Activity	Value(Million $)
Jay Consrtuction Co	WOS	Manufacturing	162
Ncgb Marine P Ltd	JV	Financial, Insurance, Real Estate & Business Services	57
House Of Pearl Fashions Pvt Ltd	WOS	Wholsale, Retail Trade, Restaurants & Hotels	42.9
House Of Pearl Fashions Pvt Ltd	WOS	Wholsale, Retail Trade, Restaurants And Hotels	16.73
Godrej Agrovet Ltd	JV	Wholsale, Retail Trade, Restaurants & Hotels	15

Source: Author's Estimation

Table VII: Sector-wise Investments from India to Bangladesh (2008-17)

Sectors	No. of Investments	Value (Million $)
Agriculture and Mining	53	18.4
Community, Social and Personal Services	18	0.97
Construction	5	0.09
Electricity, Gas and Water	17	22.9
Financial,Insurance and Business Services	57	62.54
Manufacturing	340	218.58
Miscellaneous	1	0.014
Transport, Storage and Communication Services	27	0.22
Wholsale, Retail Trade, Restaurants and Hotels	90	163.53

Source: Author's Estimation

Bhutan

Bhutan is the smallest country in the SAARC group. In the beginning, Bhutan followed a restrictive approach toward FDI due to large scale perception that FDI might have an unwanted impact on their culture. Bhutan liberalized in 1990 and allowed the entry of FDI into the nation. Table VIII describes 5 biggest investments over the period of last decade with joint venture being the preferred option. Most of the investments are in Electricity gas and water sector by Tata Power Company Ltd. Over these years, Bhutan received FDI of $47 million with the most of its investment coming from electricity, gas and water sector ($20.39 million) and second sector being the Wholesale, retail trade, restaurant and hotel sector as shown in table IX.

Table VIII: Top 5 Foreign Direct Investments from India to Bhutan (2008-17)

Name of the Investor	JV/WOS	Major Activity	Total Value (Million $)
Sunayana Commodities P Ltd	JV	Wholsale, Retail Trade, Restaurants & Hotels	11.46
The Tata Power Company Ltd	JV	Electricity, Gas and Water	3.47
Tata Power Co Ltd	JV	Electricity, Gas and Water	2.80
The Tata Power Company Ltd	JV	Electricity, Gas and Water	2.66
The Tata Power Company Ltd	JV	Electricity, Gas and Water	2.49

Source: Author's Estimation

Table IX: Sector-wise Investments from India to Bhutan (2008-17)

Sectors	No. of Investments	Value (Million $)
Agriculture and Mining	58	4.5
Community, Social and Personal Services	0	0
Construction	7	1.01
Electricity, Gas and Water	13	20.39
Financial,Insurance and Business Services	0	0
Manufacturing	19	4.6
Miscellaneous	6	3.7
Transport, Storage and Communication Ser	0	0
Wholsale, Retail Trade, Restaurants & Hotels	8	12.9

Source: Author's Estimation

Maldives

Indian investors invest the least in Maldives, after Afghanistan in case of SAARC countries. Tata Housing Development Company Ltd. invests the most in Maldives. It has set up a construction WOS with the name Apex Reality Private Limited and consistently invested a total value of $ 24.362 million from the year 2011 to 2016. Among the top investments, WOS is a preferred option except the HDFC Investment Ltd. According to the table XI, construction sector seems to get the most of the FDI with Tata Housing Development Company Ltd. Being the largest investor.

Table X: Top 5 Foreign Direct Investments from India to Maldives (2008-17)

Name of the Investor	JV/WOS	Major Activity	Value (Million $)
Tata Housing Development Company Ltd	WOS	Construction	11.01
Mandara Airways Limited	WOS	Wholsale, Retail Trade, Restaurants & Hotels	5.01
Reliance Communications Ltd	WOS	Transport, Storage & Communication Services	3.9
Tata Housing Development Company Ltd	WOS	Construction	2.7
Hdfc Investments Ltd	JV	Financial, Insurance, Real Estate & Business Services	1.87

Source: Author's Estimation

Table XI: Sector-wise Investments from India to Maldives (2008-17)

Sectors	No. of Investments	Value (Million $)
Agriculture and Mining	0	0
0Community, Social and Personal Services	9	9.76
Construction	22	24.92
Electricity, Gas and Water	0	0
Financial, Insurance and Business Services	2	1.94
Manufacturing	1	0.016
Miscellaneous	0	0
Transport, Storage & Communication Services	3	4.7
Wholsale, Retail Trade, Restaurants & Hotels	8	7.00

Source: Author's Estimation

Sri Lanka

Sri Lanka is an island situated in South Asia, having a GDP of $ 86836.24 million It is a relatively advanced nation as in comparison to Pakistan, Bhutan and Bangladesh. India invests the most in Sri Lanka with a total investment of $1157.61 million over theses 10 years. Table XII presents the top 5 investments made by Indian direct investors in the last decade with highest FDI coming from Elgitread (India) limited in 2013. They set up a wholly owned manufacturing plant. ITC ltd. Is also among the frequent investors in Sri Lanka in wholesale, retail trade, restaurant and hotels sector. It has set up a WOS, namely Welcome hotels Lanka (pvt.) Ltd. with a total FDI of $137 million.

According the table XIII, manufacturing sector receives the most FDI with the value of $385.962 million and a count of 232 numbers of investments. After manufacturing sector, construction and transport storage and communication sector dominates with a total investment of $258 million and $198 million respectively.

Table XII: Top 5 Foreign Direct Investments from India to Sri Lanka (2008-17)

Name of the Investor	JV/WOS	Major Activity	Value (Million $)
Elgitread (India) Ltd.	WOS	Manufacturing	150
ITC Limited	WOS	Wholsale, Retail Trade, Restaurants & Hotels	75
Indian Oil Corporation Ltd.	WOS	Manufacturing	75

Ivrcl Ltd	WOS	Construction	71.50
Bharti Airtel Limited	WOS	Transport, Storage And Communication Services	68.76

Source: Author's Estimation

Table XIII: Sector-wise Investments from India to Sri Lanka (2008-17)

Sectors	No. of Investments	Value (Million $)
Agriculture & Mining	39	57.98
Community, Social & Personal Services	59	5.54
Construction	145	258.36
Electricity, Gas And Water	87	15.13
Financial,Insurance And Business Services	79	38.96
Manufacturing	232	385.96
Miscellaneous	3	5.4
Transport, Storage And Communication Services	58	198.8
Wholsale, Retail Trade, Restaurants And Hotels	193	191.46

Source: Author's Estimation

Nepal

India is one of the major sources of FDI for Nepal. It has received the biggest investment from SBI with the value of $14.31 million. Among the top 5 Indian direct investments in Nepal (table XIV), JVs seem to be the preferred option. Bhilwara Energy Ltd. is the frequent Indian Investors in Nepal with a total value of $15.174 million. It has its JVS in both manufacturing and wholesale, retail trade, and restaurant and hotels sector. Another frequent investor is KSK Energy Ventures Limited with a total investment of $2.45 million. It has entered into a JV with Tea Karnali Hydro Electric Co. Pvt. Ltd. in 2014.

Table XIV: Top 5 Foreign Direct Investments from India to Nepal (2008-17)

Name of the Investor	JV/WOS	Major Activity	Value (Million $)
SBI	JV	Financial, Insurance & Business Ser.	14.31
Coastal Projects Ltd	JV	Construction	7.10
Ambuja Cements Ltd	JV	Manufacturing	3.99
IL& FS Infrastructure Dev. Corpn Ltd.	WOS	Construction	3.86
Goa Costal Resorts & Recreation Pvt Ltd	JV	Community, Social & Personal Services	2.77

Source: Author's Estimation

Table XV: Sector-wise Investments from India to Nepal (2008-17)

Sectors	No. of Investments	Value (Million $)
Agriculture & Mining	7	34.85
Community, Social & Personal Services	18	24.42
Construction	15	9.06
Electricity, Gas & Water	60	18.07
Financial, Insurance & Business Services	16	2.06
Manufacturing	123	637
Miscellaneous	0	0
Transport, Storage & Communication Services	3	0.03
Wholsale, Retail Trade, Restaurants & Hotels	34	0.23

Source: Author's Estimation

Afghanistan

Afghanistan is the country that receives the least amount of FDI from India, among SAARC members. It has only received a total FDI of $4.89 from India. All the investors that have invested in Afghanistan is mentioned in table XVI, Pheonix IT Solutions have invested the most in Afghanistan with the total investment of $4.42 in financial services and manufacturing sector.

Table XVI: Top 5 Foreign Direct Investments from India to Afghanistan (2008-17)

Name of the Investor	JV/WOS	Major Activity	Value (Million$)
Aster Infratek Pvt. Ltd.	JV	Wholsale, Retail Trade,Restaurants &Hotel	0.22
Fluentgrid Limited	WOS	Financial, Insurance And Business Services	0.15
Fluentgrid Limited	WOS	Financial, Insurance And Business Services	0.1
Phoenix Ltd	WOS	Financial, Insurance And Business Services	0.5
Phoenix Ltd	WOS	Financial, Insurance And Business Services	1.37

Source: Author's Estimation

Table XVII: Sector-wise Investments from India to Afghanistan (2008-17)

Sectors	No. of Investments	Value (Million $)
Financial, Insurance and Business Services	8	4.66
Manufacturing	1	0.01
Wholsale, Retail Trade, Restaurants and Hotels	1	0.22

Source: Author's Estimation

CONCLUSION

We studied the role of India's FDI outflows in SAARC countries. We used exponential growth trend of FDI inflows from India where results came out as India's FDI in Bangladesh decreased by 8%. OFDI in Bhutan decreased by 45%. India's FDI in Nepal decreased by 4%. Whereas, it decreased by 5% in case of Sri Lanka. It was just Maldives where OFDI from India grew by 13% over this period of 10 years . Also we compared JVs and WOS of OFDI from India, where India did not show any clear preference of JVs or WOS in case of Bangladesh, as it fluctuated every year. In case of Bhutan and Nepal, there is a clear domination of JVs. Sectoral analysis was conducted by applying growth index and percentage share. In the year 2008 and 2010, manufacturing sector clearly dominated in the sectoral preference of Indian direct investors. But, in other years, there was no such clear dominance of one sector. We also applied index of rank dominance in case of OFDI from India to SAARC countries and all other countries and results came out as Wholesale, retail trade, restaurant and hotels, manufacturing sector, construction sector have a close ranking dominance in OFDI from India to SAARC nations. Therefore, comparison between table IV and table V shows that India has different preference of sectors for SAARC nations and different for all other countries because in case FDI outflows to all countries, manufacturing sector is clearly in a dominant position.

Next, we conduct the micro-level study of OFDI from India to each country of SAARC. We studied the top 5 investments, number and value of investment of each sector and frequent investors in each SAARC member, where we found that Sri Lanka dominates and has the most frequent investments where as Afghanistan is at the bottom level with least FDI from India.

POLICY IMPLICATIONS

- In spite of having the benefits of distance proximity, shared culture and similar languages, these countries have never been able to reach their full investment potential. Political instability, security concerns and inter-country disputes have neutralized the above mentioned synergies. Therefore, governments of the countries should make more efforts to cultivate regional cooperation in the region, and then only smaller economies like Bhutan, Nepal and Maldives will gain better position in the global economy.
- A few nations in the region maintain some 'restricted and negative lists of sectors. Investment in those sectors should be relaxed to motivate more investment and trade in the region.
- The major economies in the region are India and Pakistan. They should expand their investment horizon in each other's country to increase trade and investment in the region.

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