FDI Inflows into South Asia: A Case Study of India's Investments in Bangladesh*

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* The study is conducted under major limitations. Initial proposal of undertaking a field survey in Bangladesh to take into account the response of concerned stakeholders could not get materialized due to financial constraint. A modest attempt has been made to examine the issue to an extent.

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I Introduction

South Asian countries have never been an active player in world trade. Their participation in world trade has always remained on low key since GATT days. The inability to produce goods at competitive prices and diversify their export basket in terms of sophisticated products has resulted in slower export growth and value realization. As a result, exports and trade were hardly recognized as engines of growth. As individual South Asian countries during 1960s, 1970s and early 1980s witnessed their trade share dwindling, formation of a regional cooperation instilled hope and confidence. Drawing inspiration from NAFTA, South Asian countries broke new ground by politically inclined to from a regional cooperation. This initiative came to be popularly known as South Asian Association for Regional Cooperation (SAARC). Formation of SAARC in 1985 and subsequently SAPTA initially gave some hope to the resurgence of this regional bloc. But during 1990s and 2000s political disturbance, instability, alignment and varied foreign policy objectives in the region couldn't unite the economic and political objectives of the region and steer the goals of the regional cooperation. There have been however several attempts in early part of 2000s to forge trade cooperation and trade integration in the region. The signing of "Islamabad Declaration" on January 6 2004 pledging to create South Asian Free Trade Area (SAFTA) by January 1 2006 was another such valiant attempt. Islamabad Declaration came as a big surprise then as all these leaders agreed to meet at Islamabad in Pakistan immediately after there was a showdown between India and Pakistan in Kargil and intense disturbances at the border. Though such attempts were primarily pursued at the level of political and economic spheres however trade momentum expected out of such exercises hardly met the desired results. South Asian countries apart from trade are currently engaged in attracting overseas investment as a viable means of development and regional cooperation.

This study aims to examine whether investment inflows or and outflows become a significant instrument in promoting South Asian cooperation. It analyzes the investment patterns of the major countries of South Asia. The study focuses on aim, purpose, degree of involvement and operations of India's foreign direct investment outflows to Bangladesh and examine it in the larger context of South Asian regional cooperation. It

examines India’s role in the Asian production network particularly looking at South Asian production network. The issue of transit facility to NE States of India through Bangladesh has been examined. The study is further analyzed by employing a political economy perspective to identify if there are any political, diplomatic and cultural impediments to the economic logic for intra-regional investments and SAARC cooperation. The study further suggests certain policy and sector specific recommendations to promote investment in Bangladesh.

Section I provides a context to the region and how currently the countries are placed. Section II analyzes the inward FDI policy liberalization of South Asian countries and establishes any clue that these policies initiated towards SAARC cooperation. Section III provides review of literature to suggest different dimensions regarding the broad issue of investment in South Asia. Section IV deals with foreign investment coming to SAARC region; its objectives, nature and implications. Section V focuses on India’ outward investment policies and policy changes that have occurred since its liberalization. The section provides deep analysis regarding India’s investment in the world; in South Asian region and particularly in Bangladesh. It provides sector specific investment in the region and in Bangladesh and how much employment in what sector has been created by Indian investments in Bangladesh. Section VI looks into the aspect of international production network (IPN) and how India and South Asia has figured in the Asian production network. Section VII examines the dynamics of the region from a political economy perspective. It establishes critical dimension exists between the SAARC countries in taking forward its regional cooperation. It analyzes India’s political, cultural and role of foreign policy in the region. What kind of role India as leading power plays in the region. This section also analyzes the bilateral trade aspect between India and Bangladesh and suggests measures to promote trade between the two. Section VIII or the last section details certain conclusive findings.

I.1 Region in Context

South Asia is one of the most politically volatile and economically underdeveloped regions in the world. It is home to a variety of countries having different per capita income, macro economic performance, economic vulnerability index and human development index. Four Least Developed Countries (LDCs) such as Afghanistan,

Bangladesh, Bhutan, and Nepal, two low income countries, namely India, Pakistan and one middle income country Maldives[1] one lower middle income country, i.e., Sri Lanka occupies more than one fifth of the world's population including half of this planet's poor. Bedeviled with so many socio-economic depravities this region however during last couple of years has emerged as one of the fastest-growing regions in Asia. According to ADB's Asian Development Outlook (2007) South Asia has averaged more than 7.5 percent growth since 2003, enabling it to reduce its poverty levels better than many other countries. India is the largest country accounting for almost 75 per cent of the population. As one of the world's top ten industrial powers, India has the most diversified regional industrial economy with the second largest pool of English-speaking, scientific and engineering personnel in the world (FICCI, 2003).

All these Asian countries during 1960s and early 1970s remained inward looking and mostly followed import substitution strategy. Respective governments during this period had adhered to an interventionist regime showing remote flexibility towards opening up. Things began to change around late 1970s and early 1980s when many of them started looking up to external source as a prospective alternative to increase their world share and participate effectively in global economy. This external source has been recognized in many forms i.e., trade integration, overseas aid or foreign direct investment (FDI).

Currently internationalization of developing economies is occurring at a fast pace through overseas investment. It is a striking feature of the current world economy been possible, apart from trade, due to the surge in outbound investments from many developing countries, notably China and India. A brief analysis of policy framework regarding inward foreign investment of major South Asian countries over the years is provided below to indicate the reforms and structural changes occurred in the sector.

India made a conscious decision about liberalizing its foreign investment policies in 1991. Its intention of joining a globalized market based economy resulted in significant changes. Until 1990, the policy remained extremely conservative and heavily restrictive. Majority foreign equity was permitted only to handful export-oriented, high technology industries. Outward-oriented reforms initiated in 1991 onwards radically changed such

[1] Maldives was officially taken off the United Nations list of Least Developed Countries (LDCs) on 1 January 2011. After Botswana in 1994 and Cape Verde in 2007, it is the third country to graduate from LDC status.

perceptions with foreign investment policy becoming progressively liberal. Steady withdrawal of external capital controls and simplification of procedures provided some amount of transparency and confidence to foreign investors to turn to India as a favourable destination.

II Inward FDI Policy Liberalization of South Asian Countries

India's current policy framework for inward FDI was introduced by the Industrial Policy Statement of July 24, 1991. The main objectives of the policy were to dismantle the regulatory systems, develop the capital market and increase the competitiveness of industry for the benefit of the common man.The framework has subsequently evolved and expanded with the timely requirement of reforms and structural developments in the economy. The present policy allows foreign investors to invest in resident entities through either the *automatic* route or the *government-administered* route. Most sectors and activities qualify for the automatic route. This route allows investors to bring in funds without obtaining prior permission from the Government, RBI, or any other regulatory agency. However, invested enterprises are required to inform RBI within 30 days of receipt of funds and also comply with documentation requirements within 30 days of issue of shares to foreign investors.[2]

The present policy also permits foreign investors to engage in collaboration with local partners as well as to establish wholly owned subsidiaries (WOSs). Both joint ventures and WOSs can be incorporated as resident enterprises under the Indian Companies Act of 1956. Foreign-owned enterprises can also be in the nature of liaison/project/branch offices. Commercial scopes of unincorporated entities, however, are narrower compared to their incorporated counterparts.[3]

Progressive and enabling environment have resulted in aggregate foreign investment into India increasing from US$103 million in 1990-91 to US$ 62.1 billion in 2010-2011. It can attract much larger foreign investments given its distinct characteristics of large

[2] They are apply to non-resident Indians (NRIs), Persons of Indian Origin (PIOs) and Overseas Corporate Bodies (OCBs) as well.

[3] Liaison and project offices cannot carry out exclusive commercial activities except for facilitating export-import business, technical/financial collaborations and activities incidental to projects.

domestic market, rising urban based middle and upper class having increasing disposable incomes, developed financial architecture and skilled human resources.

Foreign investment regime in Pakistan is also highly open and liberal. There are no restrictions or ceilings or prior approvals required for foreign investors to set up their business in Pakistan for any sector of the economy - agriculture, real estate, retail trade, manufacturing, services, banking, insurance and other financial services. As long as they bring in their initial foreign investment and register it with the Central Bank, the foreign investors are free to repatriate their profits, dividends, royalties, technical fees, debt servicing, etc. through their bankers without any prior approval. Foreign companies are allowed to raise funds from domestic sources, including bank loans, without any restrictions. They are treated equally with national firms in all respect and can bring in and out expatriate staff to run their businesses.

Pakistan began to implement a more liberal foreign investment policy as part of its overall economic reform programme during the end of the 1980s. Based on the primary of the private sector a new industrial policy package was introduced in 1989. A number of policy and regulatory measures were taken to improve the business environment in general and attract FDI in particular. A Board of Investment (BOI), attached to the Prime Minister's Secretariat, was established to attract FDI. A 'one-window' facility was established to overcome difficulties in setting up new industries. The new industrial package opened up virtually all Pakistan's industrial sectors to foreign investment. The requirement for government approval of foreign investment was removed with the exception of few industries such as arms and ammunition, security printing, currency and mint, high explosives, radioactive substances, and alcoholic beverages (in fact, these industries were also closed for domestic private investors). In all industrial sectors, other than those indicated above, foreign equity participation of up to 100 percent was allowed and that foreign investors were also allowed to purchase equity in existing industrial companies on a repatriable basis. There was also no requirement of having local partners. Foreign investment was however, excluded from agricultural land, forestry, irrigation, real estate including land, housing and commercial activities (UNCTAD 1994).

Inward FDI regime in Maldives hasn’t received much focus of the government. The government recognizes the need for a better legal environment to develop the private

sector and also to attract investments in the country as well as from external sources. Since the Maldives had been practicing Shari'ab law for a long time, unlike in the rest of the region, there is no tradition of commercial law. The delays in the legal system and the weak enforcement capacity have not encouraged foreign investors to consider Maldives a major investment decision. However, there has been encouragement for the foreign investors to look at certain sectors as potential areas of investment. Sectors like tourism, transport and communications, fishing and infrastructural development have deeply attracted for external investment.

Similarly Sri Lanka unleashed a series of reforms to liberalize investment regime. Since 1977-78 the liberalization of the economy has started having a focus on drawing external investment into the country. Policy reforms were centered on an export-oriented market economy and the creation of a new institutional structure to promote FDI was unveiled. A statutory body called the Greater Colombo Economic Commission was established in 1978 charged with attracting and supporting export-oriented foreign investment through an attractive incentive package to foreign investors and establishing and managing export processing zones (EPZs). There were no significant changes in policy toward FDI until the adoption of further liberalizing reforms in 1990 under the second phase of liberalization. Sri Lanka has allowed 100 per cent foreign ownership in most of the sectors and 40 percent ownership for sectors under the negative list (Kumar 2010).

Bangladesh has significantly liberalized its foreign direct investment policies since late 1970s. The government took a major initiative to foreign investors by providing national treatment to them in 1980. This has helped the economy moving towards a market economy. Recently more flexible rules and policies have been implemented to attract foreign investment. Many procedures and institutional process needed to set up businesses have been simplified or deregulated. A privatization commission was set up to facilitate governmental procedures and documentation. Over recent years the government has opened up to private investment and more liberal foreign investment policies have been adopted, liberalized measures have included earlier insurance of work permits for foreign national reduced approval time for new investments, relaxation of the foreign exchange control act. Currently it boosts a business friendly investment regime

III Review of Literature

Inward FDI to the middle-income countries has the evidence as a major stimulus to the economic growth; conventionally at export-oriented manufacturing sector. In point of fact, basic macro fundamentals like as growth of gross domestic capital formation, foreign reserve, infrastructure etc. accelerates the FDI inflows.

Ana Marr (1997) analysis on 'foreign direct investment flows to low-income countries: a review of the evidence' Over the last 25 years, FDI in low-income countries has been highly concentrated in three countries, China, Nigeria and India. Large market size, low labour costs and high returns in natural resources are amongst the major determinants in the decision to invest in these countries. New major destinations for FDI flows in the 1990s include Vietnam, Ghana and Bangladesh. Given the easier access to their markets, motives for investment in these economies are mainly determined by the low cost of labour and the availability of natural resources.

Official Development Assistance (ODA) played a critical role in the economic development of many developing countries in the late 1980s. Lack of such assistance in the 1990s propelled these developing countries to look for FDI as a viable alternative for internal development and participation in world trade. Joong-Wan Cho (2004) analyzes in "Foreign direct investment: determinants, trends in flows and promotion policies" how most developing countries were scouted for FDI as a source of capital in the absence of ODA. FDI usually represented a long-term commitment to the host country and contributed significantly to gross fixed capital formation in developing countries. FDI had several advantages over other types of capital flows, in particular its greater stability and the fact that it would not create obligations for the host country, as had been observed in the context of the Asian financial crisis of 1997-1998. FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, a goal increasingly recognized as one of the key aims of any development strategy.

Sahoo (2006) works on 'foreign direct investment in South Asia: policy, trends, impact and determinants'. He said that the FDI environment has undergone a sea change in South Asian countries during the 1990s, and more so in recent years. With their liberalized approach to FDI and constant changes in improving the FDI policy framework, it is certain that South Asia has become an important destination for

investment. Thus, one can conclude that there has been a positive change in policies with regard to FDI with efforts directed more towards bilateral trade agreements and providing investment incentives to foreign investors in all South Asian countries. However, there are still procedural delays, reserved industries where foreign investors are not allowed to invest and ceilings in many industries/sectors in each of these countries. Accelerating the economic reform process and making their economies politically stable and free from internal conflict would go a long way toward making South Asia an attractive destination for FDI.

Most of the countries in South Asia were not seen by international investors as attractive investment destinations. That is because majority of them had restrictive attitude towards foreign investments. FDI flows were therefore quite minimal in 1980s (UNCTAD 2007). In the early 1990s, most of them began opening up their economies. This was also the period when schemes for regional cooperation were accelerated. FDI flows to the region started to pick up in the 1990s and have gathered further momentum in the past few years. Thus, FDI to South Asia increased from an average of $2.5 billion per year during 1990-2000 to an average of $13.3 billion per year over 2004-06, an around six-fold increase (Aggarwal 2008).

Among the many important factors like inflation, stability and investment security, Barro (1991) and Corbo and Schmidt-Hebbel (1991) argued that political instability creates an uncertain economic environment detrimental to long-term planning, which reduces economic growth and investment opportunities. Political instability thereby seriously erodes the foreign investors' confidence in the local investment climate, which repels foreign investors away. Leavell et al. (2004) addressed the importance of political structure, level of political corruption, efficient markets, enforceable contracts and property rights in attracting FDI.

Outward investments from developing countries have gone up significantly since 2004 (UNCTAD 2007). It increased sharply from $35 bn to $113 bn in 2004 and then touched the peak of $174 bn in 2006. It was primarily due to a massive increase in FDI outflows from Asia. Total outflows from South Asia increased and stood at $9.8 billion in 2006, compared with $124 million in 1990-2000. Its share in Asia's FDI outflows swelled from 2.6 per cent in 2004 to over 8 per cent in 2006. But India alone represented over 95 per

cent of total outflows. For all other countries these movements were insignificant and did not surpass even the $50 million mark (UNCTAD 2007). South Asia experienced US$ 32 billion of inflows and US$ 15.1 billion of outflows in 2010(UNCTAD 2011).

In another important study it was found contrary to the dominant belief that FDI generates economic growth, it is the economic growth that attracts FDI. Instead growth becoming a determinant of FDI, it is economic growth that attracts FDI. The paper has argued that foreign investors invariably prefer to invest not only in large markets but also in countries or economies which have registered or currently experiencing high rates of economic growth. A large inflow of FDI can add to foreign exchange and investment resources in a host economy but it may deter the development of local firms or create exchange rate problems (Ahmad and Tanin 2010).

Though Bangladesh in late 1990s and in 2000 has performed much better than 1970s and 1980s, it remains poor and populous with very low income per capita. Such inadequacies have stifled growth and development. Therefore, FDI has been pivotal in providing Bangladesh the necessary finance and capital to achieve sustainable growth as well as poverty alleviation. FDI inflows have been able to increase GDP by raising the economy's output capacity and employment. At the same time, it has also delivered development by improving per capita income levels. These enhancements are allowing the country to become more export-oriented and continue on its quest for development. Overall, FDI can provide the necessary tools for Bangladesh to progress further and realize higher growth levels by utilizing all its resources (Kabir 2007).

Many developing and least developed countries (LDCs) suffer seriously from lack of adequate and advanced technology. Attracting FDI occupies paramount importance in their policy making. They recognize FDI a useful means to increase their production, economic activity; generate employment and raise the social welfare of the host country (Kok and Ersoy 2009). In another important study it was analyzed FDI helps in increasing the output of the host country which subsequently contributes to the economic development of the country. Most of the developing host economies utilize FDI to create their industrial expansion which is a sustainable activity and should be desirable. Through this measure they need to produce value added products and seek more market

efficiency and become globally competitive to benefit from various opportunities. A developing economy like Bangladesh which is in transitional mould of development has to substantially rely on FDI as an important vehicle for industrial expansion and development (Agiomirgianakis et al, 2003).

It is found that that most of the FDI in developing Asia is export-oriented. Export seeking FDIs have found certain advantages which they seek to exploit to the opitimal level in host countries. Traditionally, East and Southeast Asian economies, used low-cost labour as the 'pull' factor for attracting FDI in large-scale labour-intensive export facilities. However, with production processes becoming more complex and technology intensive, domestic technological capabilities, particularly innovative capacities, along with the ability to apply such innovations efficiently through advanced IT-based techniques, have become more important locational advantages than cheap labour (Palit and Nawani 2007).

In another study it was found that the external debt burden is like a disincentive for FDI. The effects of infrastructure facilities are positively significant in explaining inflow of FDI. In case of Pakistan the effect of indirect taxes has been found significant with negative sign. Obviously multinational corporations aim to earn more profit, therefore, it can be assumed that they are sensitive to tax factors, because tax has a direct effect on their profit. Such as the domestic investment shows a positive significant result and the positive significant relationship means that domestic investors are investing in Pakistan. The effect of trade openness in case of Pakistan has been significant and it shows liberalization, which are conducive in affecting FDI inflow. However some variables in case of Pakistan such as inflation and government consumption have been found insignificant, but it does not mean that these variables have no role to affect FDI inflow (Azam and Lukman 2010).

Other literature (Aykut and Rath, 2004; Bhatt and Aykut, 2005; Aykut and Goldstein, 2007; Goldstein, 2007) has came to recognize the growing incidents of developing country firms undertaking FDI activities in fellow developing countries. This has led to a much faster growth rate of south-south FDI flows as compared to the rate at which FDI has flown from developed countries to developing countries in the 1990s. Aykut and Rath

(2004) estimated that the share of south-south FDI in total FDI inflows into developing region increased from about 6 per cent in 1994 to reach 36.4 per cent in 2000.

Indian outward FDI has been generally directed towards developed economies and has been motivated by the market size as well as access to frontier and strategically needed technologies that will improve global competitiveness. In Nepal and Bhutan, India is the predominant source of FDI. It has also emerged as the largest investor in Sri Lanka (Kumar and Singh 2009).

IV Foreign Investment Flows in SAARC: The Current Status

Traditionally South Asia has not been a lucrative option for foreign investors. Reasons are many and varied. Political reasons coupled with socio economic agendas of these countries diverted the attention of most of the policy planners to consolidate on internal build-up of the economy and society. These countries themselves also followed a restrictive approach towards foreign investment. FDI flows were quite miniscule in volume then. It's only towards 1900s when most of the South Asian economies opened up and followed an attractive policy towards foreign investment then the inflows started increasing. Towards the late 1990s and 2000s many South Asian countries entered into regional cooperation mould.[4] Various schemes of regional cooperation were accelerated during this period. FDI inflows to South Asia region gathered further momentum. The regional cooperation arrangements (RCAs)[5] in effect around the globe have more than doubled since the early 1990s to about 380 by 2007. As of 15 January 2012, some 511 notifications of RCAs (counting goods and services separately) had been received by the GATT/WTO. Of these, 319 are currently in operation.[6]

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[4] Bilateral free trade agreements between South Asian countries : India- Bhutan, India-Sri Lanka, Pakistan-Sri Lanka; one sub regional preferential arrangement: Asia Pacific Trade Agreement10 (India, Bangladesh, Sri Lanka, Philippines, Lao PDR and Korea) and seven trade agreements: India-Nepal, India-Bangladesh, India-Maldives, Bangladesh-Nepal, Bangladesh-Pakistan, Pakistan-Nepal and Sri Lanka-Nepal.

[5] The term ―regional cooperation arrangement‖ (RCA) is used to include all forms of cooperation structures between two or more nations that are usually from a common geographic region, although RCAs among cross-regional nations are rising in number. Nation states form RCAs to achieve economic and non-economic objectives, which may include some or all of the following: trade liberalization and economic integration, enhancement of regional peace and stability, security cooperation, management of common opportunities and challenges, and development of shared resources, infrastructure and facilities.

[6] This estimate is reported by the World Trade Organization (WTO). The actual number of RCAs is likely to be higher since the WTO data reports only trade-related RCAs.

South Asia 2000 onwards attracted increasing amount of FDI inflows steadily rising from $6 billion to $7.7 billion over 2001 to 2004 (UNCTAD WIR Report 2010). The growth of FDI inflows to the region has accelerated since 2005 to an annual average rate of 69 per cent over 2004, with the bulk of the inflows going to the larger South Asian countries namely India and Pakistan (Table 1). In 2010 India and Pakistan together received more than 93 per cent of the total inflows to South Asia. In the previous year the combine share of India and Pakistan was more than 96 per cent of the total inflows to South Asia[7]. It is the year 2008 which secured the highest amount of FDI inflows to the region in terms of volume touching around $50.3 billion (Table 1).

Table 1

Foreign Direct Investment (FDI) Inflows to South Asian Countries ($ Million) (2005-2010)

YEAR	2005	2006	2007	2008	2009	2010
World	982,593	1,461,863	1,970,940	1,744,101	1,185,030	1,243,671
Developing Economies	332,307	429,459	573,032	658,002	510,578	573,568
Developing Economies Asia	215,834	283,463	339,252	375,665	307,527	357,846
Southern Asia	14,411	27,821	34,297	51,901	42,458	31,954
Afghanistan	271	238	243	300	185	76
Bangladesh	845	792	666	1,086	700	913
Bhutan	9	6	78	28	15	12
India	7,622	20,328	25,350	42,546	35,649	24,640
Iran (Islamic Republic of)	3,136	1,647	1,670	1,615	3,016	3,617
Maldives	53	64	91	135	112	164
Nepal	2	-7	6	1	39	39
Pakistan	2,201	4,273	5,590	5,438	2,338	2,016
Sri Lanka	272	480	603	752	404	478

[7] South Asia in the Table is taken into account excluding Iran.

South Asian share in Developing Economies (%)	**3.40**	**6.10**	**5.68**	**7.64**	**7.71**	**4.93**
South Asian share in Developing Economies Asia(%)	**5.23**	**9.24**	**9.61**	**13.38**	**12.81**	**7.90**

Source: UNCTAD, UNCTADstat and author's calculation

Among the South Asian countries India has been the biggest host country to receive maximum inflows. In 2010 India received about 24. 6 billion, registering more than 86 per cent[8] of the total inflows to the region. FDI inflows have grown from $7.6 billion in 2005 to $20.3 billion in 2006 and registering more than twice the amount in 2008 to $42.5 billion, representing an annual average increase of about 77% during 2005-08. Decline in India's share of FDI inflows has been due to impact of global financial crisis. Pakistan also witnessed a rising trend in receiving inflows from $2.2 billion in 2005 to $4. 2 in 2006. 2007 and 2008 experienced almost same amount of FDI, whereas 2009 and 2010 registered a decline in the total amount. It received about $2.0 billion in 2010 garnering about 7 per cent of the total inflows to the region in that year. Fall in amount may have occurred due to significant security reasons.

Bangladesh, a LDC in the region has shown fluctuating results in receiving FDI inflows during this decade. From 0.3 billion in 2003 to 0.8 billion in 2005 and 0.6 billion in 2006 It has shown a decline during these three years. However, a significant recovery took place in 2008 reaching $1.08 billion and further plummeting to less than 1 billion registering around $0.9 billion in 2010.

In the case of Sri Lanka, after stagnating during Ist half of 2000s it witnessed amount of 272 million 2005. FDI inflows accelerated in 2006 to $480 million and to $ 603 million in 2007. It further went up to $752 in 2008, reflecting a much improved confidence in the economy and a relatively more secured environment. However it witnessed decline in successive years clocking $404 million and $478 million in 2009 and 2010.

[8] Author's calculation based on Table 1

Nepal has witnessed virtually no movement in FDI inflows. Its internal squabbles and political unrest has resulted in drying up this opportunity while Maldives and Bhutan have experienced some amount of inflows. Bhutan has registered only two digits touching 15 and 12 million in 2009 and 2010 respectively. Maldives has experienced more than $ 100 million during 2008-10, touching $164 million in 2010. Afghanistan has emerged as a significant host of FDI in recent years with $ around 250 million FDI inflows a year. In 2008 it registered 300 million which declined significantly to 76 million in 2010. Such drastic decline has been due to disturbance in the country and also for security reasons.

Analysis in regional perspective broadly suggests that South Asia is still not a favourite destination for foreign investors. It has relatively been a tiny destination in terms of attracting FDI inflows. Its share in developing economies Asia has been around 7.9 per cent in 2010 and of developing economies is 4.9 per cent. During the decade 2000s South Asian share in developing economies Asia has secured the highest in 2008 which is about 13.3 per cent and similarly in developing economies it share is hovering around 7.65 per cent. South Asia's relative position as a destination for FDI among other Asian developing countries has significantly improved during 2001-2008. From 2005 to 2008 its share in FDI inflows in developing economies shows a remarkable rise, more than doubling. The reason for this rise may be attributed to transition of the South Asian countries to a higher growth trajectory since 2003 with India's growth rate averaging nearly 9 per cent during 2003-08 (UN-ESCAP 2010). However 2009 and 2010 have witnessed decline in total inflows coming into the region.

Table 2 suggests that intra regional FDI inflows with SAARC countries haven't witnessed any significant movement or rise. Major economies like India, Sri Lanka, Nepal have received some amount of inflows though in absolute value they are quite meager from 2006 to 2010. India has received substantial amount from Sri Lanka and Bhutan during 2007-08. Nepal received maximum amount of US$ 2341 million of inflows during 2008-09 which further increased to US$ 3993million during 2009-10. FDI inflows into Nepal were predominantly driven by Indian investments. Sri Lanka also received FDI inflows from India during this period which was to the tune of US$ 78 million. There has been a rise in inflows to Sri Lanka in 2010. Bangladesh has also

invested in Nepal during 2009-10 to the tune of US$100 million. Among the SAARC countries India has received maximum FDI inflows from the world during 2007-08 which has declined during 2009-10 to US$19, 427 million from US$ 24,575 during 2007-08. Nepal has received the second highest registering US$ 5355 million in 2008-09 which went upto US$ 9100 million in 2009-10.

Table 2

Intra Regional FDI Inflows in SAARC Countries (Absolute value)

	India		**Bangladesh**		**Nepal**		**Sri Lanka**	
	2007-2008	**2009-2010**	**2006**	**2010**	**2008-09**	**2009-10**	**2009**	**2010**
India	0	0	5.78	5.38	2341.31	3993.54	77.7	110.2
Sri Lanka	132.92	59.73	0	0.16			0	0
Nepal		21.07	0	0			0	0.1
Maldives	4.11	17.16	0	0			0.3	1.4
Bangladesh		0	0	0	28.5	100	0	0
Pakistan		0	2.006	0	2.4		0	0
Bhutan	137.03	0	0	0			0	0
Total World inflows to Individual country	**24575**	**19427**	**1118**	**35.96**	**5355.54**	**9100**	**402**	**383.4**

Sources: Board Of Investment (BOI): Bangladesh, Sri Lanka SIA: India; Department Of Industries (DOI) Nepal

Note: Figures are in US$ million; for Nepal it is in NR million

During the last four to five years Nepal, Sri Lanka and Bangladesh have received the maximum FDI inflows from SAARC countries. Nepal has registered around 44 percent of India's investment and about 45 percent of South Asian share during 2008-09 and 2009-10. Similarly Sri Lanka has increased its South Asian share from 19.4 to 29.13 from 2009 to 2010. Bangladesh has witnessed a dramatic increase in its South Asian share from 0.70 in 2006 to 15.41 in 2010. Whereas India is a major investor in the region has occupied a much smaller share of 1.12 in 2007-08 which has further declined to 0.5 in

2009-10 (Table 3). Being an important economy, its hare has fallen so dramatically explain possibly the reason that India has invested elsewhere during this period than South Asia. Initial observations have suggested that India has invested in a bigger way in many developed countries (Nayar 2008). Its mergers and acquisition spree in developed world became a great motivating factor to look at developed economies a better investment destination as it established its global footprint and earned great reputation among developed MNCs and TNCs as globally competitive firms (Kanungo 2011).

Table 3

Intra Regional FDI Inflows in SAARC Countries (% of country total)

	India		**Bangladesh**		**Nepal**		**Sri Lanka**	
	2007-2008	**2009-2010**	**2006**	**2010**	**2008-09**	**2009-10**	**2009**	**2010**
India	0.00	0.00	0.52	14.96	43.72	43.89	19.33	28.74
Sri Lanka	0.54	0.31	0.00	0.44	0.00	0.00	0.00	0.00
Nepal	0.00	0.11	0.00	0.00	0.00	0.00	0.00	0.03
Maldives	0.02	0.09	0.00	0.00	0.00	0.00	0.07	0.37
Bangladesh	0.00	0.00	0.00	0.00	0.53	1.10	0.00	0.00
Pakistan	0.00	0.00	0.18	0.00	0.04	0.00	0.00	0.00
Bhutan	0.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share of South Asia	**1.12**	**0.50**	**0.70**	**15.41**	**44.29**	**44.98**	**19.40**	**29.13**

Source: Calculations based on BOI: Bangladesh, Sri Lanka SIA: India; DOI: Nepal data

Many of the South Asian countries have recently gone global in terms of investment. Though traditionally they have been less sophisticated and remained indulged in less technology intensive sectors, yet the current tend at least from India and Sri Lanka suggests that their expansion has taken place in more sophisticated technology and knowledge economy driven areas. It could be a major reason that certain developing MNCs which are popularly known as EMNEs[9] are finding least scope of expansion in the

[9] Of late the more prominent emerging-market MNEs (hereafter referred to as EMNEs) included firms such as China's Huawei in telecommunications equipment, Mexico's Cemex in cement, Russia's Gazprom in

developing region especially in SAARC countries due to nature of demand and affordability of consumers. A close look at the Table 4 indicates that India is still a major investor within the region. India has emerged as one of the top investors in all FDI receiving South Asian countries in terms of receiving the projects. This indicates that the countries within the SAARC region began to encourage investment among them and an approach of investment relationship is emerging.

Table 4

Share of Top Investors in South Asia during 2007-2010[10] (No. of Projects)

	2007	2009	2010	2009-2010	2009-10
	Sri Lanka	**Pakistan**	**Bangladesh**	**India**	**Nepal**
India	29 (25)	0	4 (18)		27 (16)
US		0	3 (14)	1368 (19)	10 (6)
UK	39 (33)	0	1 (5)	454 (7)	6 (4)
Germany		0	0	323 (4)	4 (2)
Japan	19 (16)	0	2 (9)	229 (3)	4 (2)
France		0	0	154 (2)	2 (1)
Malaysia	7 (6)	0	0	56 (1)	0
China		0	1 (5)	14 (1)	58 (34)
UAE		0	0	189 (3)	1 (1)
Total	**118**	**0**	**22**	**7383**	**171**

Sources: BOI: Bangladesh, Sri Lanka SIA: India; DOI: Nepal

Note: Number in parenthesis represent the percentage.

Table 5 depicts the source countries of the SAARC region having FDI projects in India. The decade 2000s has been completely dominated by Sri Lanka. India has received the maximum number of FDI projects i.e., 25 from the SAARC region in 2008. Out of which 17 have come from Sri Lanka representing 68 per cent of total. During the year 2001-10

energy, India's Tata Consultancy Services in information technology (IT) services, and Brazil's Embraer in regional jets

[10] The years showed in the Table are the latest. For example Sri Lanka's data for 2007 is available on BOI Sri Lanka.

91 FDI projects have come from SAARC and Sri Lanka alone have invested in 73 projects; making it the largest investor in the region. Other investors are Nepal (10) Maldives (9) and Bangladesh (6). Countries like Nepal, Maldives and Bangladesh have remained minor investors in India despite the decade old regional arrangements like SAPTA and SAFTA.

Table 5

Number of Projects Coming into India from SAARC Region

Year	SAARC	Sri Lanka	Nepal	Bangladesh	Maldives
1998-00	17	10	0	4	3
2001	7	7	0		
2002	4	3	0	1	
2003	3	3	0		
2005	11	9	0	1	1
2006	7	7	0	0	
2007	6	6	0	0	
2008	25	17	6	0	2
2009	18	11	4	0	3
2010	10	10	0	0	0

Source: Newsletters, various issues, Department of industrial Promotion and Policy, Government of India

Sri Lankan FDI to India has come mostly in the construction, transport and logistics areas. Table 6 below demonstrates the names of the Sri Lankan companies that have opened up their Wholly Owned Subsidiaries (WOS) in India. Some of them have been just granted the rights of distribution in India. Brandix another reputed apparel firm has entered into Indian market and created its own SEZ and currently known as Brandix India Apparel City in Vishakhapatnam. It is the largest exporter of apparel in Sri Lanka and is engaged in developing, manufacturing and marketing end-to-end apparel solutions to many global fashion superbrands. Indo-Sri Lankan FTA factor has been a major boost in promotion of such large number of FDI projects coming from Sri Lanka to India.

Table 6

Major Companies Wise Investment from Sri Lanka to India in 2010

Indian Company	Sri Lankan Company	Indian RBI Regional Location	Broad Sector
Mas Fabric Park (India) Pvt Ltd	Mas Investments Pvt Ltd	Chennai	Other Activities Allied To Construction Not Elsewhere Classified
M/S Core Green Sugar And Fuels Pvt Ltd	Tipirneni Lakshmi Prasad	Hyderabad	Manufacture Of Other Indigenous Sugar Cane/Sugar Beet/Palm Juice Products Nec
Hips Distribution Services (I) P Ltd	Joseph Agustine Pereira	Region Not Indicated	Cargo Handling Water And Air Transport
Pership Distribution Services (I) P Ltd	David Andrew ,Niranjan Pareira	Region Not Indicated	Cargo Handling-Water And Air Transport
Pership Distribution Services (I) P Ltd	David Andrew Niranjan Pareira	Region Not Indicated	Cargo Handling-Water And Air Transport
Primary/Semi Finished Forms	Elsteel Ltd.	Panaji	Manufacture Of Iron & Steel In
Elsteel Modular Products (I) Pvt. Ltd.	Elsteel Ltd.	Panaji	Iron Steel In Primary Semi/ Finished Forms
Pan Oceanic Maritime Pvt Ltd	Chandana Gamage	Mumbai	Ship & Boat Building

Source: Newsletters, various issues, Department of Industrial Promotion and Policy, Government of India

V Emergence of India as Leading Foreign Investor

Outward Foreign Direct Investment (OFDI) by Indian firms is currently being witnessed as a significant force in the globalization of Indian economy. Decade of 2000s has experienced a strong emergence of Indian investment abroad. Firms such as TATA, Birla, Mittal Steel, Reliance, Airtel, Sundaram fasteners and others are a part of this globalization drive. These Indian firms in their quest to go global and participate in an ever expansive global business activity have not only ventured into developing countries, but also into industrialized countries. However, this phenomenon is not new. From a historical perspective it is understood that many firms from developing countries have gone to the foreign shores in 1960s, 1970s and 1980s. In fact, the first overseas Indian venture was a textile mill set up in Ethiopia in 1956 by Birla group of companies (Lall 1986:13). Although this particular project remained abandoned for long years, the pace of

Indian investment did not stop with that episode. Rather the spurt has been significant, so much so that the number of ventures including production and implementation had reached 133 in 1976 which further shot upto 228 in 1983 (Ministry of Commerce, Government of India, 1984). This phenomenon was widely captured by Sanjay Lall's work (*The New Multinationals: The Spread of Third World Enterprises*: 1983). Mid and late 1980s continued to register increase in India's foreign investments. In 1990 India had become a significant investor abroad by undertaking 229 approved projects (Kumar: 2007). This internationalization of Indian firms became a special feature of the Indian economy. Ample attention was drawn to this when India made a conscious decision in 1991 to open up its economy. India's tryst with economic reforms and liberalization further solidified this objective as outward investment policy was gradually and progressively liberalized. Presently, India's total approved OFDI is to the tune of US $16 billion in 2009 (Ministry of Finance, Government of India).

V.1 Historical Development and Policy Changes

Current wave of internationalization of Indian firms still draws upon the entrepreneurial talents and business/financial acumen that the old, illustrious business houses had executed and possessed before independence. This is reflected in the growth of business empires like Tatas and Birlas in the 1980s and 1990s (Tomlinson: 1993). Historical roots of entrepreneurial capabilities therefore still hold significance in the understanding of how a country's internationalization process of domestic firms has shaped up. Earlier studies have also explained that development of most of the large business houses' entrepreneurial skills, abilities and technological competence were achieved over a period of time before India's independence.

During the colonial period Indian business activities remained suppressed due to exploitative polices of British rule, however Indian industrial empire never vanished from the industrial activities of the pre-independent era. Though Indian businessmen found their industrial interests curtailed, they were eventually able to compete with the British Empire to grab a fair share of trading activities and be a dominant player in the private sector. Towards the turn of the century Jamshetji Tata had established Cotton Mill and expanded his business empire to include the iron and steel manufacturing. By the beginning of the first decade of 20th century the cotton textile industry was fairly

established in Bombay and iron and steel manufacturing by the Tata Industrial group, the prominent industrial business house of the colonial India had begun its production. Steel production played a critical role in building India's biggest public sector- the Indian Railways. Tata to a great extent have steered the industrial movement in pre-colonial era by opening up relevant institutions to harness the industrial growth. Technical institute in 1921 and the Indian-staffed Research and Control Laboratory in 1937 (Tomlinson 1993: 9) were pioneering institutions that were created by Tata to provide technical understanding and developing productive capacity. From 1920s to the independence the process of industrialization was dominated by a heterogeneous group of Indian entrepreneurs who belonged to different communities. These enterprises flourished under the British rule by exploiting business opportunities in the decline of firms in Calcutta. Onset of depression in 1930s created a new set of demand and supply to which these enterprises responded successfully. Beginning with traditional products like sugar and paper they diversified into areas such as textile machinery (Birla), domestic airlines (Tata), shipping (Walchand Hirachand), and sewing machines (Shri Ram). The manufacturing industry grew at an annual rate of over 5 percent during the period 1900 to 1939 (Little 1982). In 1945, India was the tenth largest producer of manufactured goods in the world (Volume 3.3 The Economy of Modern India, 1860–1970 and Tomlinson 1993: 21).

In the run up to independence, Indian industrialist began to feel that the private sector will play a key role in accentuating the growth of Indian economy. The famous 'Bombay Plan' was prepared by these premier industrial houses with the active support of independent nationalists to provide a blue print to the national economic reconstruction plan. What it intended to do is " to put forward as a basis of discussion, a statement in as concrete a form as possible, of the objectives to be kept in mind in economic planning in India, the general lines on which development should proceed and the demands which planning is likely to make on the country's resources." (Lokanathan 1945: 681) The principal objectives of the plan were to achieve a balanced economy and to raise the standard of living of the masses of the population rapidly by doubling the present per capita income i.e. increasing it from US $ 22 to about US $ 45 within a period of 15 years from the time the plan goes into operation (Lokanathan 1945: 681). However these

aspirations remained unfulfilled as the new leadership abandoned the idea and went in for institutionalizing state-led industrialization under the central planning (Panagriya 2008: 26). Soon after the independence the newly formed government was careful in allowing private sector to have a free ride in the national economic programme. A well-defined regulatory regime was created by passing the act known as Industrial Development and Regulation Act in 1951 to supervise the entire industry activities of modern India. Its broad role was to provide license and investigate any untoward industrial activity which was detrimental to public interest. The act set up provisions for the licensing of all existing and new industrial units or substantial expansions. It gave the central government powers to regulate private sector industry (Panagariya 2008: 35). As the government during this period focused on developmental plan and policies, the overriding aim of this developmental dimension was reflected in the successive five-year development plans that it initiated. Starting with the first plan launched in 1952, the government decided to adopt import substitution strategy in the context of a foreign trade regime that relied extensively on quantitative restrictions.

However, this policy regime noticed to be too restrictive in nature under Indira Gandhi Administration since 1966 (Patel: 2002). Industrial slowdown contributing approximately to 3 percent of GDP (Panagariya 2008: 48) became a worrying factor for the Government to take a fresh look at the policy. Old controls quickly returned with more restrictive and complex new regulations. They included extra regulations applicable to large enterprises through introduction of Monopolies and Restrictive Trade Practices (MRTP) Act in 1969. This act imposed strong measures to curb the economic power of top business houses.[11] During this period, the government policy toward overseas investment was formulated on the basis of the foreign exchange earning capacity of proposed ventures. As part of the highly restrictive foreign exchange monitoring process, every proposal had to be placed before an interministerial committee on joint venture for approval. Overseas investment was permitted only in minority-owned joint ventures, unless the foreign government and foreign party desired otherwise.

[11]Ghanshyam Das Birla likened the MRTP Act to “Damocles’ sword permanently hanging on you threatening that government may take change of your creation if in their opinion you are not managing your job” (Kudaisya 2003, 20).

In the mid-seventies the Government initiated certain liberalization measures like progressive loosening of import controls and increase in subsidies to exporters of manufactured goods. Indian companies were permitted to raise foreign currency loans abroad and to grant loans to their foreign joint ventures with Indian parent companies. In some cases, direct cash remittances to joint ventures were also permitted.

The liberalization-cum-structural adjustment reforms initiated in 1991 marked a clear departure from the dirigiste economy. The reforms, encompassing industrial deregulation, trade liberalization, and relaxation of regulations governing FDI and foreign technology, subjected Indian industry to a major restructuring. Much of the emerging competitiveness of Indian firms in the world market can be traced back to this process. In particular, the capacity to compete with foreign firms and face import competition in the domestic market was instrumental in building Indian firms' confidence to compete with foreign firms in world markets (Gopinath: 2007 and Nayyar: 2008).

The international policy context also changed. Most of the developing and transitional economies opened up their economies the same way that India did. If the old economic policy between India and other countries remained closed-closed, in 2000s it became open-open. During this period Uruguay Round of negotiations significantly reduced the ability of developing countries to adopt protectionist policies. It demanded to put in a place stronger intellectual property laws, while ensuring a strong dispute settlement mechanism to strictly abide by the commitments made by individual countries.

Liberalization of the policy on the Indian investment overseas was first undertaken in 1992 on the recommendations of the Kalyan Banerjee Committee which suggested an automatic window and case-by-case approval to be created.[12] The policy was further liberalized in December 1995 with enhancement of the limit for automatic approval, removal of restrictions on equity contribution through cash remittance and designating Reserve Bank of India (RBI) as the nodal agency for according all approvals. The policy has since then been further liberalized regularly. Indian corporate has been allowed to investment in entities abroad up to 200 percent of their net worth. The Report of Committee on Fuller Capital Account Convertibility has recommended that limit for a company's investment in overseas JVs/subsidiaries raised to 250 percent of net worth in

[12] Ministry of Finance, Government of India Website

2006-07 and gradually up to 400 percent of net worth in overseas subsidiaries/ JVs by 2011. Further, RBI's monetary policy has enhanced the ceiling on overseas investment by mutual funds, has provided greater opportunity to mutual funds to invest overseas, while also taking initiatives with a view to facilitating project exporters and exporters of services from India. These policy measures and recommendations reflect the increased importance accorded by the Government of India to create an enabling environment for the Indian companies in their globalization endeavours [UNCTAD, World Investment Report (WIR) 2007].

In a bid to give further impetus to overseas investments, the RBI has further liberalized overseas investment norms for both direct and portfolio investment with the following steps:

- Hiking the overseas investment limit from 300 per cent of the net worth to 400 per cent of the net worth in the energy and natural resources sectors, such as oil, gas, coal and mineral ores
- Hiking the limit on overseas portfolio investment by the Indian companies from 35 per cent of their net worth to 50 per cent of their net worth
- Allowing the Indian residents to remit up to US$ 200,000 per financial year, from US$ 100,000 previously, for any current or capital account transaction or a combination of both
- Allowing mutual funds to make an aggregate investment to the tune of US$ 5 billion in overseas avenues, from an earlier cap of US$ 4 billion
- Allowing firms to finance their foreign acquisitions by borrowing from abroad
- Exemption from the RBI to the Indian corporate from seeking prior permission of the Central Government for international competitive bidding (ICB) in foreign exchange
- Providing liberal access to Indian business for technology-sourcing or resource-seeking or market-seeking as strategic responses to the emerging global opportunities for trade in goods or services
- Encouraging the Indian industry to adopt a spirit of self-regulation and collective effort for improving the image of Indian industry abroad
- Registered Trusts and Societies engaged in manufacturing/educational sector have been allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the Reserve Bank

V.2 Outflows of Foreign Direct Investment from India to the World (Trends & Patterns)

The first wave of India's overseas investment began by the Birla with the setting up of a textiles mill in Ethiopia in 1959. This became a motivating factor for other industrial houses to look for external investment as a key strategy for global expansion. Being the second largest industrial conglomerate after the Tata, the Birla expanded further into Africa by setting up an engineering unit in Kenya in 1960 (Kudaisya: 2003). Establishment of an assembly plant for sewing machines by the Shri Ram group at Ratmalana, Sri Lanka, in 1962 was another significant outward investment which had promoted South-South cooperation. Seventies witnessed more outward investment from India. Since then Indian multinationals were exploring opportunities in various parts of the world to provide much impetus to their trade and investment. Most of the foreign affiliates set up during seventies and eighties were small or medium scale ventures, clocking the total approved equity during the period 1975–1990/1991 amounted to roughly $220 million (RBI: 2007).

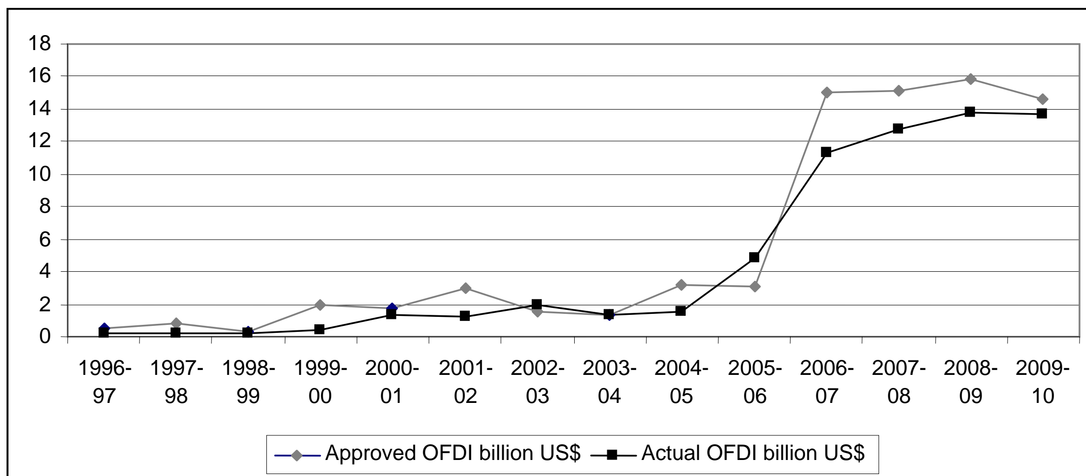
The second wave of overseas Indian venture started in a significant manner from 1995 onwards as foreign exchange restrictions on capital transfer for overseas acquisition were progressively eliminated (RBI Annual Report: 2000). Relaxation of the government policy has resulted in a surge of OFDI from India. The stock of OFDI from India increased rapidly from US$124 million in 1990 to US$1859 million in 2000 and US$ 9569million in 2005 (UNCTAD 2006: 305). The number of approved projects also shot up from 220 in 1990/1991 to 395 in 1999/2000 and to reach 1,595 in 2007/2008 (Kumar 2008). The share of India in the total stock of OFDI from developing countries rose from 0.08 percent in 1990 to 0.21 percent in 2000 and 0.75 percent in 2005.[13] It was a negligible proportion of India's GDP in 1990; but this proportion rose from 0.4 percent in 2000 to 1.2 percent in 2005 (UNCTAD 2006: 315). Though India's share in total developing economy FDI outflows remained below 0.5 percent throughout the 1990s, yet increased continuously reaching nearly 6.0 percent in 2007(UNCTAD WIR: 2009). Though India remains a net FDI recipient, even then the gap between outflows and inflows was sharply narrowing over the past few years. In 1990, annual outflows, on average, amounted to 7 percent of inflows. This increased from about 30 percent to 60

[13] These percentages have been calculated as a proportion of the total outward stock for developing countries reported in UNCTAD (2006, p. 303).

percent between 2000–2005 and 2005–2007 (Athukorala 2009: 130). India's total FDI outflows (approved and actual) were to the tune of US$26 billion in 2007. The same went up to register almost US$ 29 billion in 2009 (Ministry of Finance Government of India: 2009). 2006 onwards, India has emerged as an important investor in the world. Figure 1 below provides the approved and actual FDI outflows from India, showing a rising trend in India's FDI outflows.

Figure 1

Approved and Actual OFDI from India to the World



Source: Ministry of Finance, Government of India

V.3 Current World Outflows to Bangladesh

Bangladesh experienced a spurt in FDI inflows in 2008. In fact FDI inflows grew by 63.0 percent to USD 1086.31 million in 2008, clocking the highest volume since the independence. However, total FDI inflows increased by 30.4 percent to USD 913.32 million in 2010. Contribution of the components of FDI in total inflows was 56.9 percent as equity capital, 39.9 percent as reinvested earnings and 3.1 percent as intra-company loans in 2010 (Bangladesh bank Annual Report 2010-11).

Bangladesh has liberalized the economy in early 1990s and introduced investment incentives to create favourable climate for FDI. Like other developing countries, Bangladesh has adopted a number of policies and provided open-handed incentives to attract FDI. It is making endeavours to set up an amiable economic and political

environment for foreign investment along with liberal investment strategy, administrative reform and attractive incentive.

Bangladesh is one of the most liberal FDI regime in South Asia, allowing 100 percent foreign equity with unrestricted exit policy, easy remittance of royalty, technical assistance fees and repatriation of profits and incomes. Facilities such as tax holidays, tax exemptions, duty concessions and accelerated depreciations have been devised to promote both foreign and domestic investment. The country is also developing its infrastructures including roads, highways and port facilities for a better business environment.

According to the FDI Magazine of The Financial Times, Chittagong Export Processing Zone, Bangladesh scored 3rd and 4th position in the "Best Cost Effectiveness" and "Best Economic Potential"[14] categories respectively in the competition under the head "Global Ranking Competition of Economics Zones" for 2010-2011. All Bangladeshi products (other than armaments) enjoy complete duty and quota free access to EU, Japan, Canada, Australia and most other developed countries. It is advantageously positioned next to India, China and ASEAN markets.

As the South Asian Free Trade Area (SAFTA) comes into force, investors in Bangladesh will have the benefit of duty-free access to India and other member countries. Bangladesh's own market of about 150 million people is becoming increasingly attractive to business and foreign investors. Bangladesh ensures legal protection to foreign investment in Bangladesh against nationalization and expropriation by Foreign Private Investment (Promotion & Protection) Act 1980. Bangladesh is also a signatory of MIGA (Multilateral investment Guarantee Agency), OPIC (Overseas Private Investment Corporation) of America, ICSID (International center for Settlement of Investment Disputes) and World Intellectual Property Organization (WIPO). Bilateral agreements to avoid double taxation have been signed with negotiation. Several government agencies like Board of Investment (BoI) and Bangladesh Export Processing Zones Authority (BEPZA) have been formed to facilitate both foreign and local investment.

Table 7

[14] http://www.fdiintelligence.com/Rankings

South Asian Countries' FDI Outflows to Bangladesh during 2006-2010[15]

Name & Address of Projects	Country	Sector/main product	(Mn. US$)
Baba Global (BD) Ltd.	India	Zarda	0.142
Helix Garment Ltd.	India	Readymade Garments	0.371
Marico Bangladesh Ltd.(Cosmetics & Toiletries)	India	Cosmetics	2.388
Wiremech BD Pvt. Ltd. (Unit-II)	India	PP/PE Film/Sheet	0.714
Godrej Sara Lee (Bangladesh) Pvt. Ltd.	India	Mosquito Coil	0.638
R.R.P. Metals Limited (ctg)	India	Metal Scraps	0.23
Spron Wet Fashions (Pvt.) Ltd.	India	Washing Plant	1.02
Research Software Solutions (Bangladesh) Ltd.	India	Computer Software (IT)	0.286
Norp Knit Industries Ltd.	India	Readymade Garments	2.71
Advance Surfactant Bangladesh Ltd.	India	Industrial Chemical	6.81
Tex Tech Co. Ltd.	India	Readymade Garments	0.17
A.T.E. Technologies (Bangladesh) Pvt. Ltd.	India	Industrial Pump	0.114
Doreen Power Generations and Systems Ltd. (Narshinghai Project)	India	Power Generation	16.429
Building Dreams Ltd.	India	Building Industry	2.143
Nastek Solutions BD Ltd.	India	Computer Software (IT)	0.125
DGN Apparels Ltd.	India	Readymade Garments	0.712
ISC Enterprise (BD) Ltd.	India	Rubberized Coir	0.229
Ion Exchange Environment Management (BD) Ltd.	India	Assembling of Equipment for ETP & VVTP	0.2
Uttara Foods and Feeds Pvt. Ltd.	India	Poultry Farm	1.188
ET Chemicals Bangladesh Pvt. Ltd.	India	Technical Service	0.536
Alderis Industries Pvt. Ltd.	India	Battery	1.246
TUV SUD Bangladesh Pvt. Ltd.	India	Garments Testing & Inspectors	2.43
Nakon Ltd	Pakistan	Insecticides	0.706
Asian Infrastructure Development Co. Ltd	Pakistan	Telecom Tower	0.707

[15] 100% Foreign Investment proposals registered with Board of Investment upto May, 2010 from 2006 by South Asian Firms

Al Wahid Electronics Pvt. Ltd.	Pakistan	Table Fan	0.143
Al-Ghousia Textiles Ltd.	Pakistan	RMG	1.348
Zufisa Textiles Ltd	Pakistan	Textiles Weaving	6.3
Libra Steelman Pvt Ltd	Pakistan	Switch Gear and Voltage Stabilizer	0.214
Seasons Choice Ltd	Sri Lanka	Garment Accessories	0.208

Source: Board of Investment Bangladesh

Note: Excluding untraceable & closed units

The signing of the "Treaty on Bilateral Investment & Protection" in February 2009 between India and Bangladesh gave a fresh fillip to cross border investment flows between the two countries. This treaty since then has encouraged several investments from India. Periodic steps towards investment liberalization have resulted in large number of investment projects and joint ventures between the two countries. India's initiative to remove prohibition on Bangladesh investments to India by its citizens or firms with the prior approval of Foreign Investment promotion Board (FIPB), Government of India. The visit of Bangladesh PM to India in 2010 further encouraged the prospects of investment between the two and both the countries to allow private sector to play a lead role. According to the *Doing Business Report 2012 of World Bank,* Bangladesh stands at 122 out of 183 countries, four position down from 2011. among other indicators of *Doing Business 2012 Report*, getting electricity, registering property and enforcing contracts stand at 182, 173 and 180 which suggest that starting a business with infrastructure backing and property certification are not easy or favourable in Bangladesh. In spite of this background, a large number of Indian companies have invested in turnkey projects in Bangladesh in sectors such as power, transmission lines, telecom, textiles, glass, plastic engineering and pharmaceuticals. Indian investment in Bangladesh in cumulative terms came to about US$ 637mn in 2009-10 which registered a significant rise from US$ 300 in 2008-09 (FICCI 2011). Some of the major Indian investments in Bangladesh are as follows.

- Bharti Airtel has invested to the tune of US $ 300 Mn in for expansion of operations of Warid Telecom. The acquisition by Bharti Airtel has been partly by purchase of existing shares held in Warid Telecom. The new funding has been utilized for expansion of network and products and services.

- Tata International will invest US$18Mn in footwear and bicycle industry. The Tatas have signed MOU with Nitol-Niloy Group in this regard (FICCI, 2011).
- Investment from PRAN (Programme for Rural Advancement Nationally) Group in India has encouraged two ways investment between the two countries. It is investing in Tripura for agro-processing. The brand established itself in food and beverage industry.

In the recent past India's investment drive also witnessed a big stride in Bangladesh. In January 2012 India made a $1.5 billion investment in a coal-fired power plant in Bangladesh. Bangladesh expects Indian companies to accelerate its invest plan further to between $7 billion and $9 billion in this power sector in the coming years. The country will need about $30 billion over the next six years to meet its planned increase in power capacity and expects about 25-30% of the investments to come from India, expressed Bangladesh Power Secretary Mr. Abul Kalam Azad.[16]

It can be inferred from the Table 8 India's component-wise investment in Bangladesh where 2010 has witnessed maximum investment to the tune of 43.19mn US$; out of which significant component is of equity capital touching around 34.14mn US$. Component of reinvested earnings have experienced during this period more than equity capital in some particular periods.

Table 8

India's Component-wise FDI Outflows to Bangladesh (Mn. US$)

Country	2006			2007			2008			2009			2010		
	Jan-Jun	Jul-Dec	Total	Jan-Jun	Jul-Dec	Total	Jan-Jun	Jul-Dec	Total	Jan-Jun	Jul-Dec	Total	Jan-Jun	Jul-Dec	Total
India	3.92	2.17	6.09	0.34	1.33	1.67	7.34	3.95	11.29	1.72	6.27	7.99	32.68	10.51	43.19
Equity Capital	0.47	0.09	0.56	0.14	0.06	0.2	7.28	0.24	7.52	1.67	1.72	3.39	31.34	2.8	34.14
Reinvested earnings	3.45	2.08	5.53	0.2	1.27	1.47	0.05	3.71	3.76	0.04	3.98	4.02	1.17	7.07	8.24
Intra-company loans	0	0	0	0	0	0	0.01	0	0.01	0.01	0.57	0.58	0.17	0.64	0.81

Source: Board of Investment Bangladesh

[16] http://www.atimes.com/atimes/South_Asia/ND24Df03.html

Indian investments in Bangladesh have created substantial employment in the country. Sectors like Ready made garments (RMG), cosmetics, rubberized coir etc. have provided bulk of the employment. RMG sector has dominated all the sectors and this is the sector where Bangladesh is the most competitive and its major markets are developed countries like the USA and EU. Indian investors have gone in substantial numbers to make investment because Bangladesh provides one of the most favorable investment climates in South Asia. Several Indian textile firms are setting up base in Bangladesh taking advantage of the cheap labour costs and tariff concessions on offer in developed countries. "Some of prominent firms are manufacturing in Bangladesh and exporting from there while some Indian buying houses have started operations and are sourcing material from there", observed an official of Norp Knit industry of Indian origin based in Dhaka. However, it is not possible to ascertain how many of them are local people.

Table 9

Employment in Indian Firms in Bangladesh

Sector/main product	Employment (no)
Electronics	35
Computer Software (IT)	12
Drugs & Pharmaceuticals	56
Zarda	62
Coconut oil	56
Fly Ash Processing	29
Bakery	42
Safety Razor	14
Copper Rod & Wire	80
Computer Software (IT)	21
Betel Nut	217
Dyeing & Finishing	252
Readymade Garments	3850
Cosmetics	91
Industrial Chemical	36

Weighing Scales	47
Compact Disc	43
Light Engineering	22
Zarda	27
Cosmetics	103
PP/PE Film/Sheet	117
Mosquito Coil	61
Metal Scraps	58
Washing Plant	120
Computer Software (IT)	60
Industrial Chemical	50
Industrial Pump	12
Power Generation	35
Power Generation	35
Power Generation	35
Building Industry	58
Computer Software (IT)	25
Rubbersized Coir	130
Assembling of Equipment for ETP & VVTP	25
Poultry Farm	68
Technical Service	30
Battery	117
Garments Testing & Inspectors	67

Source: Board of Investment Bangladesh

VI.FDI in International Production Network (IPN)

While dealing with FDI issue in South Asia, attempt was made to see how FDI inflows into South Asia influenced the international production network (IPN). IPNs gained currency with various strategic changes MNCs' brought on to maximize its profit and presence across region by taking utmost geographical advantages of its international production. This international fragmentation of production started in response to rapid globalization, technology changes, and increasingly open trade and investment environments in Asian countries in late 1980s.[17] International production network significantly grew in strength in 1990s when China became the centre of global assembly of industrial production. Evolving IPNs have a sizeable influence on merchandise trade patterns and regional integration among Asian economies. Its increasing strength is now noticeable in the trading activities of Asia-Pacific region mostly on products dealing with electronics parts and components.

The growth of IPN has been significant in Asia Pacific region due to increasing trade and investment linkages between China and East Asia and Southeast Asia. These countries have benefited from IPN by gaining access to world market, multiplying its industrial activities and creating employment generation.[18] Their economies have integrated effectively to the world economy compared to some other economies in Asia. South Asian economies particularly remain to that extent one of the most least integrated region. Though emergence of India as a strong emerging economy is well recognized, yet it remains a new player in the Asiatic production network. Key factors currently driving the IPN are factor-cost advantages, economy of scale, size of the market and low international trade cost.

A large number of studies have identified that the rise in IPN activities has been possible due to FDI inflows where MNCs have built their IPN through FDI.[19] IPN-driven FDI is usually vertical in nature where efficiency seeking becomes the primary concern. (Markusen, 2002, and Navaretti and Venables, 2006). This type of FDI will lead to an increase in trade within and between firms at different stages of production. The

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[17] International fragmentation of production generally refers to the spreading of production stages across countries. In public debates, the terms "international product fragmentation", "off shoring" and "vertical specialization" have been used interchangeably.

[18] Gauiler, Lemoine and Ünal-Kesenci, 2004

[19] Feenstra and others, 2000; Hanson and others, 2001 and 2005; Kleinert, 2003

manufacturing sector is a primary target for the IPN-driven FDI, because that is the sector for which IPNs are growing rapidly.

VI.1 India in South Asian Production Network

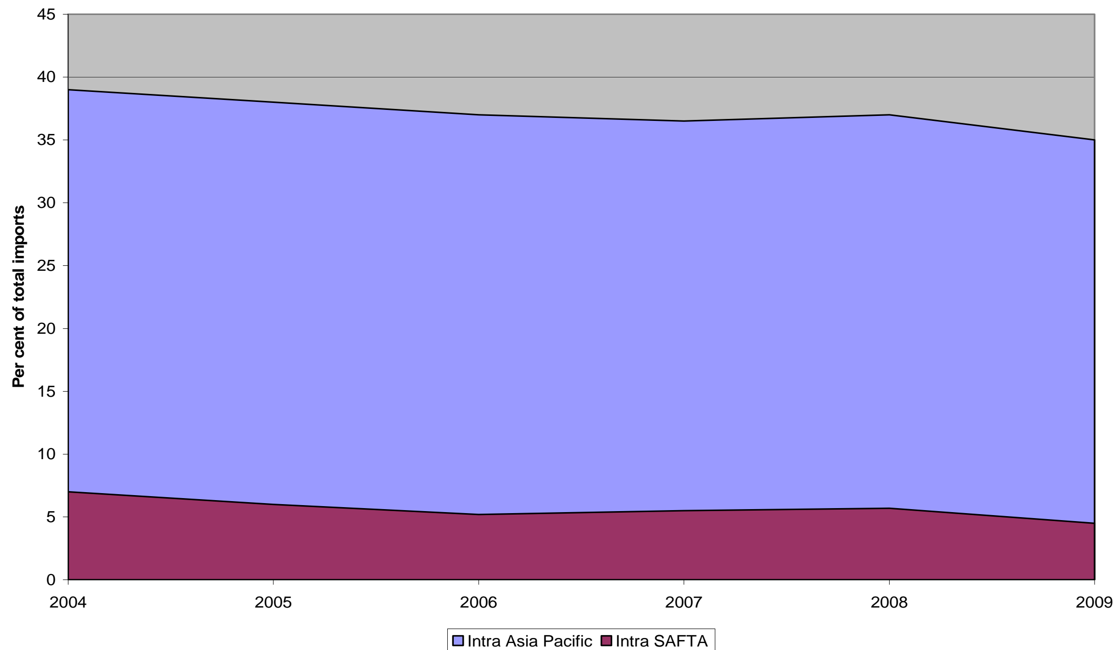
Indian MNCs involvement in South Asian production network especially in SAARC countries is limited in nature. As most of the overseas movement of Indian MNCs have gone to the developed countries; mostly to the US and EU. Whereas large number of inflows into India are also from the Mauritius US, EU, Singapore or Japan. Marginal inflows from SAARC countries have come into India. Therefore to analyze Indian role in South Asian production network inflows and outflows to South Asian may be taken into consideration.

India's foreign investment experience so far in South Asia has been largely horizontal in nature. Most of the investments in Sri Lanka and Bangladesh have been export seeking and market seeking. International production network as explained earlier mostly focused on parts and components trade. India has witnessed minimal level of trade in this sector which clearly illustrates that India has not participated in the new form of international production sharing within the supply chain. The share of components in manufacturing exports by India remains small, although it increased from 3 per cent in 1992/03 to 10 per cent in 2006/07. The corresponding import share increased from 18 per cent to 23 per cent during the same period; however, the figures were far behind those of East and South-East Asian economies. India's trade is still largely characterized by a traditional form of international trade in finished products. In terms of both total and intraregional trade, final goods accounted for about 90 per cent of manufacturing exports and nearly 80 per cent of manufacturing imports in (Athukorala 2011). The share of components in India's intraregional trade is trivial. Components accounted for only 14 per cent of manufacturing exports to the rest of the region, while imports from the region amounted to 25 per cent which means large portion of exports and imports were concentrated on other finished products. This explains how India has remained a minor player in the Asian production network. Figure 2 and Figure 3 explain intraregional exports and imports of India with Asia-Pacific and SAFTA. The manufacturing exports mostly hovered around 30 per cent during 2004-09. However, India has been increasingly sourcing from countries within the region. The share of India's intraregional imports

increased from less than 30 per cent in the early 2000s to 39 per cent in 2009. India's trade during this period with other members of the South Asian Free Trade Area (SAFTA) remained negligible.

Figure 2

Figure 3



Source: Based on data from the ESCAP Statistical Yearbook, 2011

India's trade with major SAARC countries from Tables 10, 11, 12 and 13 shows that most of the products India and SAARC countries traded recently did not include any high tech technology intensive products or parts and components which are today formed the base of IPN and Asian IPN. HS codes from 84-92 (Machinery and Mechanical Appliances; Electrical Equipment; Parts thereof; sound Recorders and Reproducers, Television Image and Sound Recorders and reproducers, Television Image, telecom equipments and sound Recorders and Reproducers, and Parts and Accessories of such article; Vehicles, Aircraft, Vessels and Associated Transport Equipment; Optical, Photographic, Cinematographic, measuring, checking, precision, medical or surgical Instruments and apparatus; clocks and watches; musical instruments; part and accessories thereof) which classify the parts and components products are almost completely missing in the export and import basket of SAARC countries. Though items like instruments and appliances (HS code-90) from Maldives; tugs and pusher craft, light vessels, fire floats, refrigerators, etc (HS codes-84, 85, 87 and 89 from Sri Lanka came as imports they were imported mostly as import products never participated in the Asian production network.

India experienced less rigour of South Asian production network because India received FDI mostly from Sri Lanka in South Asia. Sri Lankan FDI into India did not include parts and components and auto sector like Motorola, Siemens, Nokia or Honda, Ford, Chevrolet, Hyundai or other major auto companies. Most of the Sri Lankan MNCs invested in India were in the iron and steel sector or cargo handling and not in the technology intensive sectors. So India has been a small player in the Asian production network so far, unlike China, Bangkok and other South East Asian countries which acted as the assembly of hub and became major players of the Asian and international production network.

Table 10

India's Top Importing products from SAARC Countries in 2010

Value in 1000 USD

Countries	**Product Code**	**Product Description**	**Value**
Bangladesh	5303	Jute and other textile bast fibres	44053
	6305	Sacks and bags, of a kind used for	43376
	302	Fish, fresh or chilled, excluding f	37454
	2710	Petroleum oils and oils obtained fr	25162
	2523	Portland cement, aluminous cement,	21344
	802	Other nuts, fresh or dried, whether	19984
	5307	Yarn of jute or of other textile ba	19624
	7204	Ferrous waste and scrap; remelting	13640
	5310	Woven fabrics of jute or of other t	12632
	7404	Copper waste and scrap.	12354
Bhutan	7202	Ferro-alloys.	88507
	7408	Copper wire.	31665
	2849	Carbides, whether or not chemically	18764
	7227	Bars and rods, hot-rolled, in irreg	13728
	7206	Iron and non-alloy steel in ingots	6508
	3920	Other plates, sheets, film, foil an	6332
	7214	Other bars and rods of iron or non-	6066
	7207	Semi-finished products of iron or n	5405
	4410	Particle board, oriented strand boa	3908
	2202	Waters, including mineral waters an	799
Maldives	2711	Petroleum gases and other gaseous h	27962
	7204	Ferrous waste and scrap; remelting	2201
	7404	Copper waste and scrap.	894
	7602	Aluminium waste and scrap.	365

	4403	Wood in the rough, whether or not s	165
	8426	Ships' derricks; cranes, including	82
	713	Dried leguminous vegetables, shelle	43
	4901	Printed books, brochures, leaflets	32
	9018	Instruments and appliances used in	24
	7102	Diamonds, whether or not worked, bu	23
	3915	Waste, parings and scrap, of plasti	19
	6203	Men's or boys' suits, ensembles, ja	18
Nepal	7210	Flat-rolled products of iron or non	72254
	3926	Other articles of plastics and arti	48487
	5509	Yarn (other than sewing thread) of	41831
	6305	Sacks and bags, of a kind used for	26375
	2202	Waters, including mineral waters an	20989
	908	Nutmeg, mace and cardamoms.	19012
	7217	Wire of iron or non-alloy steel.	18597
	3203	Colouring matter of vegetable or an	18359
	902	Tea, whether or not flavoured.	16873
	7306	Other tubes, pipes and hollow profi	16594
	7409	Copper plates, sheets and strip, of	13399
Pakistan	804	Dates, figs, pineapples, avocados,	59547
	2523	Portland cement, aluminous cement,	34382
	2710	Petroleum oils and oils obtained fr	23345
	7801	Unwrought lead.	20931
	2711	Petroleum gases and other gaseous h	16022
	2917	Polycarboxylic acids, their anhydri	13508
	2903	Halogenated derivatives of hydrocar	12265
	5209	Woven fabrics of cotton, containing	12198
	2902	Cyclic hydrocarbons.	11749
	2836	Carbonates; peroxocarbonates (perca	10455
	5208	Woven fabrics of cotton, containing	10087
	713	Dried leguminous vegetables, shelle	9725
Sri Lanka	2309	Preparations of a kind used in anim	42242.58
	8904	Tugs and pusher craft.	39758.261
	907	Cloves (whole fruit, cloves and ste	36730.184
	4001	Natural rubber, balata, gutta-perch	36116.771
	8544	Insulated (including enamelled or a	31625.47
	8901	Cruise ships, excursion boats, ferr	26425.814
	904	Pepper of the genus Piper; dried or	20343.484
	8905	Light-vessels, fire-floats, dredger	18225.762
	4707	Recovered (waste and scrap) paper o	16724.769
	1803	Cocoa paste, whether or not defatte	16461.886

	8418	Refrigerators, freezers and other r	14408.577
	4011	New pneumatic tyres, of rubber.	11189.822

Source: WITS

Table 11

India's Top Exporting products to SAARC Countries in 2010

Value in 1000 USD

Countries	Product Code	Product Description	Trade Value
Bangladesh	5205	Cotton yarn (other than sewing thre	513272
	5201	Cotton, not carded or combed.	333813
	703	Onions, shallots, garlic, leeks and	194621
	2304	Oil-cake and other solid residues,	180493
	1005	Maize (corn).	155284
	8711	Motorcycles (including mopeds) and	76409
	5407	Woven fabrics of synthetic filament	69319
	5209	Woven fabrics of cotton, containing	55569
	2701	Coal; briquettes, ovoids and simila	54631
	8703	Motor cars and other motor vehicles	48353
	2306	Oil-cake and other solid residues,	46621
	2710	Petroleum oils and oils obtained fr	41352
Bhutan	8703	Motor cars and other motor vehicles	23339
	2710	Petroleum oils and oils obtained fr	12654
	2602	Manganese ores and concentrates, in	8213
	2704	Coke and semi-coke of coal, of lign	7737
	8706	Chassis fitted with engines, for th	7281
	8704	Motor vehicles for the transport of	5411
	8429	Self-propelled bulldozers, angledoz	4126
	8479	Machines and mechanical appliances	4056
	7213	Bars and rods, hot-rolled, in irreg	3478
	7308	Structures (excluding prefabricated	3354
	8702	Motor vehicles for the transport of	3103
	4901	Printed books, brochures, leaflets	3061
Maldives	2523	Portland cement, aluminous cement,	8610
	2517	Pebbles, gravel, broken or crushed	7161
	1006	Rice.	6661
	7214	Other bars and rods of iron or non-	5284
	2713	Petroleum coke, petroleum bitumen a	5248
	3004	Medicaments (excluding goods of hea	5204

	1701	Cane or beet sugar and chemically p	3989
	407	Birds' eggs, in shell, fresh, prese	3147
	306	Crustaceans, whether in shell or no	2211
	3907	Polyacetals, other polyethers and e	1847
	3917	Tubes, pipes and hoses, and fitting	1662
	703	Onions, shallots, garlic, leeks and	1539
Nepal	2710	Petroleum oils and oils obtained fr	493623
	2711	Petroleum gases and other gaseous h	108638
	7209	Flat-rolled products of iron or non	77171
	2523	Portland cement, aluminous cement,	70508
	7207	Semi-finished products of iron or n	64457
	8701	Tractors (other than tractors of he	36629
	8711	Motorcycles (including mopeds) and	36552
	3003	Medicaments (excluding goods of hea	34631
	3004	Medicaments (excluding goods of hea	30026
	5503	Synthetic staple fibres, not carded	23413
	3902	Polymers of propylene or of other o	22266
	1006	Rice	22046
Pakistan	1701	Cane or beet sugar and chemically p	611650
	5201	Cotton, not carded or combed.	300325
	5407	Woven fabrics of synthetic filament	299095
	2902	Cyclic hydrocarbons.	177729
	2304	Oil-cake and other solid residues,	75520
	713	Dried leguminous vegetables, shelle	58397
	4011	New pneumatic tyres, of rubber.	36876
	3204	Synthetic organic colouring matter,	32373
	9999	Commodities not specified according	27743
	2710	Petroleum oils and oils obtained fr	26493
	904	Pepper of the genus Piper; dried or	25520
	3808	Insecticides, rodenticides, fungici	24882
Srilanka	2710	Petroleum oils and oils obtained fr	589098
	8704	Motor vehicles for the transport of	265191
	8703	Motor cars and other motor vehicles	236180
	8711	Motorcycles (including mopeds) and	112611
	3004	Medicaments (excluding goods of hea	100321
	5208	Woven fabrics of cotton, containing	77310
	5205	Cotton yarn (other than sewing thre	65838
	8702	Motor vehicles for the transport of	62588

	7408	Copper wire.	57576
	9999	Commodities not specified according	57217
	1701	Cane or beet sugar and chemically p	54199
	703	Onions, shallots, garlic, leeks and	46446

Source: WITS

Table 12

India's Major Exporting Products to SAARC in 2010

Product Code	Product Description	Trade Value in 1000 USD
2710	Petroleum oils and oils obtained fr	1163551
1701	Cane or beet sugar and chemically p	674528
5201	Cotton, not carded or combed.	634198
5205	Cotton yarn (other than sewing thre	603917
5407	Woven fabrics of synthetic filament	546213
8703	Motor cars and other motor vehicles	326092
2304	Oil-cake and other solid residues,	316956
8704	Motor vehicles for the transport of	309427
0703	Onions, shallots, garlic, leeks and	264260
8711	Motorcycles (including mopeds) and	226060
2902	Cyclic hydrocarbons.	178695
1005	Maize (corn).	175796
3004	Medicaments (excluding goods of hea	174103

Source: WITS

Table 13

India's Major Importing Products from SAARC in 2010

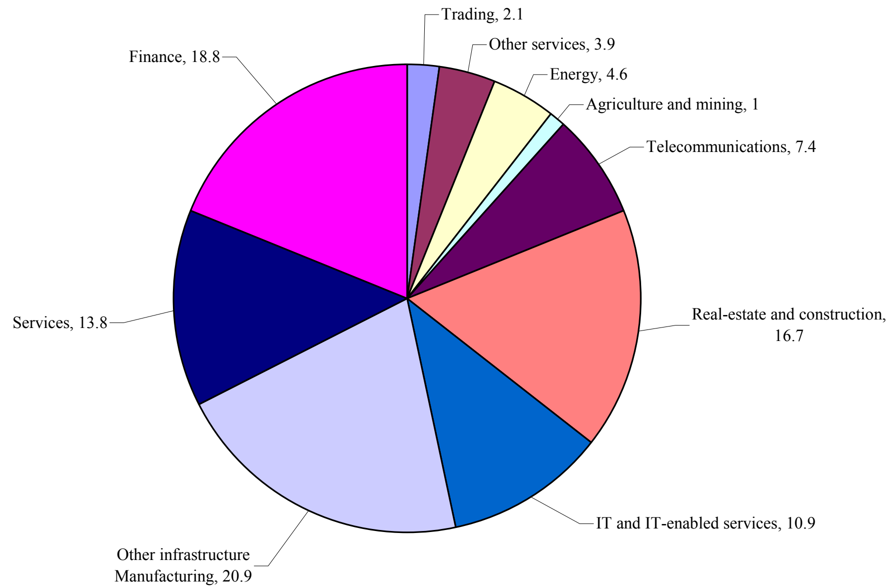
Product Code	Product Description	Year	Trade Value in 1000 USD
0804	Dates, figs, pineapples, avocados,	2010	100307
7202	Ferro-alloys.	2010	88672
7210	Flat-rolled products of iron or non	2010	72254

6305	Sacks and bags, of a kind used for	2010	69758
2523	Portland cement, aluminous cement,	2010	55953
802	Other nuts, fresh or dried, whether	2010	55938
3926	Other articles of plastics and arti	2010	52310
2710	Petroleum oils and oils obtained fr	2010	49249
5303	Jute and other textile bast fibres	2010	44053
2711	Petroleum gases and other gaseous h	2010	43984
2309	Preparations of a kind used in anim	2010	43297
1301	Lac; natural gums, resins, gum-resi	2010	43098
5509	Yarn (other than sewing thread) of	2010	42023

Source: WITS

It is worthwhile to look at what kind of FDI did India receive in the past to further analyze India's position in Asian production network. From Figure 4 it is observed that India's services sector attracted much more FDI than the manufacturing. India's manufacturing sector registered only 21 per cent of FDI inflow while services related to finance, infrastructure, IT, real estate and construction, and telecommunications accounted for 68 per cent of FDI inflows. This means India so far hasn't developed as a significant manufacturing hub and where vertical FDI has not come in large numbers. Most of FDI in India are horizontal in nature. Existing studies such as (Agarwal 2001) suggest most of the FDI in India focused on market seeking and targeting to circumvent high import duties. This is consistent with a firm-level analysis by Anand and Delios (1996) which found that investment by Japanese MNCs in India was largely characterized as market-seeking, while Japanese investment in China was more efficiency-seeking and more connected to export activities.

Figure 4



Source: Rao and Dhar (2011)

From the above trade and FDI analysis it could be judged that patterns of production, and trade reflect that India has not become significantly integrated into the rapid development of IPNs in which the manufacturing of parts and components has been a critical element. Consequently, India has failed to capture the benefits of the dynamism of Asian IPN growth. However considerable trading activities among the SAARC countries suggest that foreign investment inflows to South |Asia and India's investment in Bangladesh are trade induced. It all aimed at seeking huge market in India, Sri Lanka, Pakistan and Bangladesh. To a great extent investment followed trade in SAARC countries, though they are complementary. But it may not be appropriate to say that investment moved on its own in SAARC because it found immense opportunities. It would have been possible if India and South Asia were major hubs for international production network.

VII. Political and Foreign Policy Dimension: India-Bangladesh Bilateral Relations

India and Bangladesh enjoy deep-seated historical and cultural relations. In terms of geographical proximity, they are significantly tied to each other. It's but natural for them to share an important bilateral interaction. Before attaining independence in 1971, the modern state of Bangladesh was part of a larger, non-contiguous Pakistan. It is of the view that the people of Bangladesh (then known as "East Pakistanis") comprised a major part of the movement to establish the independent state of Pakistan before it got independence in 1947. As a result, many of the demands and grievances that resulted in the original Partition of 1947 remain a part of the collective historical memory of modern-day Bangladesh. However, it is hard to ignore the role and the support the Indian state played in establishing an independent Bangladesh. India's dalliance with Bangladesh continued in great spirit and it enjoyed a privileged relationship with Bangladesh in early years.[20] India was the first country who acknowledged the new state's sovereignty and was also the first state to grant recognition to Bangladesh. In 1972 the two states even signed a "Treaty of Friendship and Peace" for a term of 25 years, declaring that both sides would respect their mutual independence, sovereignty, and territorial integrity while refraining from interfering in each other's internal affairs. This long historical and cultural relationship assumes strengthened economic and trade relations to flourish.

VII.1 Economic Ties between India and Bangladesh

The economic foundation of bilateral ties between India and Bangladesh remains weak and devoid of any concrete agenda. This is despite the fact that India and Bangladesh are important members of both SAARC and also the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC). To solidify the economic relationship between the two, the Indo-Bangladesh Joint Working Group on Trade Issues was established in 2003. Several regular meetings were held since then but they have failed without reorienting economic ties between the two states in a meaningful way. Although bilateral trade which hovered around US$ 1.6 billion in 2007-07 has jumped to

[20] Meaningful interpretation of the Indo-Pak War, 1971, can be seen in Sumit Ganguly, *The Origins of War in South Asia: Indo-Pakistani Conflicts since 1947* (Boulder, Colo.: West view Press, 1994), pp. 81–116.

$3.7 billion in 2011, it is mostly the informal trade that is the real winner.[21] Because most of the trade transactions go without payment of customs duties. India's efforts to secure transit and transshipment facilities for accessing Northeast states through the territory of Bangladesh require huge concerted efforts of Indian and Bangladesh governments.

VII.2 Transit Issue

Transit issue still remains a dominant concern in the bilateral relationship of these two countries. The geographical proximity and land connectivity among these SAARC countries mainly Bangladesh, India, Nepal and Bhutan offer huge transit arrangements for trade to materialize across each other's territories. With the formation of SAFTA, South Asian countries are engaged in deeper integration of the region. Moving from a preferential arrangement to a free trade arrangement theoretically suggested that there would be an improvement in trade prospects of the region. This led the Government of India's to predict its intraregional trade will increase from US$6 bn to US$ 10bn in 2010.[22] However such trade results are not so easily realized in case of SARC countries[23] and mostly they remain far from such realization. One of the important factors that restrict such increase in trade is the absence of regional transit trade. Unlike European Union, South Asia does not have regional transit arrangement, although partial transit exists for landlocked countries like Afghanistan, Bhutan and Nepal.

Concerns towards enhancing such trade potential encouraged the SAARC Governments to adopt policies that should improve the trade potential of these countries. Member governments showed keen interest to establish a regional transport and transit system for the region.[24] All member governments are unanimous that higher intra-regional trade is possible only when the physical infrastructure and appropriate Customs clearance and other facilitation measures, including multimodal transport operations, are in place. While pursuing for such trade mechanisms, uninterrupted overland connectivity is equally important. In order to reduce regional and multilateral trade transportation costs,

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[21] For details, see "India-Bangladesh Bilateral Trade and Potential Free Trade Agreement," Bangladesh Development Series Paper, no. 13 (Dhaka: World Bank, 2006).

[22] South Asia countries trying to enhance intra-regional trade from 5 percent to 12 percent within next five years due to SAFTA (Government of India, 2006).

[23] Agarwal (2004), Taneja (2007) etc.

[24] The Declaration of 14th SAARC Summit, New Delhi, 3-4 April 2007

the South Asian leaders aim to integrate the region through an improved connectivity including a regional transit arrangement.

With the establishment of the WTO, tariff negotiations have seen a lot of movement where tariffs acting as barriers have been largely reduced. However, it is also true that high tariffs are still prevalent in certain countries on their sensitive and special products which may have undermined the prospects of trade, but they are remained at that level because of economic and political considerations. With the large reduction of tariff, several barriers are also erected with a large number of incidence of non-tariff barriers (NTBs) especially high border transaction cost in the region.[25] Lack of IT applications (e.g. lack of e-filing of trade documents), inadequate infrastructure (e.g. lack of modern warehouse or container handling facility at border), and absence of a regional transit trade (virtually in the entire region) are prohibiting the trade to grow in South Asia.[26]

Countries like Nepal, Bhutan and Afghanistan are landlocked countries in South Asia. Who are in a huge disadvantageous position as far as trade is concerned. They heavily depend on transit route of neighbouring countries as their trade transactions other wise increase manifold. For example, Bhutan and Nepal heavily rely on Indian eastern coast for their international trade. Absence of such transit facility has partially resulted in lack of integration of these countries with world market and their export earnings are always negligible. Many landlocked countries are a group of poorest countries in the world. There are about 44 landlocked countries in the world. Most of the countries in South Asia are commodity producers and exporters. The very high transport costs which they must bear constrain export development since that burden limits the range of potential exports and markets in which goods can be competitively and profitably traded.

Among the South Asian countries, Bhutan and Nepal occupy an important part of the geographical arrangement in the region. They are located in eastern part of the region and largely depend on trade with India in South Asia and the world. Bangladesh also enjoys an increased trade relation with India. From the Table 14 it can be seen that India's export share in Bhutan, Nepal and Bangladesh occupies about 2.4 per cent of India's world exports, in which Bangladesh registers a lion share. However, export share with

[25] Das and Pohit (2006) and Taneja (2007)

[26] Subramanian (2001), Arnold (2007), Wilson and Ostuki (2007), De (2008b)

Bhutan and Nepal though minimal yet remains for these landlocked countries because India remains their gateway to outside world. However, in case of imports situation is different, import share in world imports remains low from these countries to India (Table 14). On the other hand, Bangladesh trade with Bhutan is increasing where this entire trade is carried overland using the India – Bangladesh – Bhutan transit corridor (De et. al 2008). The trade between Bangladesh and Nepal has also witnessed a marginal rise during late 2000s. About US$ 4.50 million was the bilateral total trade between the two countries, carried overland in 2006 through a tiny corridor between India, Nepal and Bangladesh (De et.al 2008). As the volume of trade is increasing among these countries there is a need to develop a trilateral transit understanding between Bangladesh, India, and Nepal. Such arrangement can reduce the transaction burden and facilitate the overland trade between Nepal and Bangladesh. Ports in Bangladesh have a major role to play in this regard.

Table 14

India's Trade with Nepal, Bhutan and Afghanistan (2008-09 to 2010-2011)

Values in US$ Million

Country	Imports			Exports		
	2008-09	**2009-10**	**2010-11**	**2008-09**	**2009-10**	**2010-11**
Afghanistan	126.24	125.19	146.03	394.23	463.55	411.78
Bhutan	151.79	153.11	201.57	111.15	118.86	176.00
Nepal	496.04	452.61	513.40	1,570.15	1,533.31	2,204.40
Bangladesh	329.45	234.88	359.12	2696.72	2181.10	3023.64

Source: Ministry of Commerce & Industry Government of India

Bangladesh's decision to give transit facilities to India, Nepal and Bhutan traders to Chittagong and Mongola ports through rail and road became an incentive to facilitate trade. This will allow market access to India's NE states. Bangladesh will also be able to

get connected to the markets of Nepal and Bhutan. The transit facility will also create optimal utilization of the capacity of ports like Chittagong and Mongola. In fact, the transit facility between Bangladesh and India existed in rail and waterways till the outbreak of the 1965 war. After 1971, transit facilities through waterways were reintroduced, which exist till today. SAFTA treaty 2004 provides for transit facilities in all modes of transport, rail, water, air or road by all SAARC countries.

The issue before us therefore is not the potentiality of trade exist between India and Bangladesh, but how to maximize it through transit facility. How the goods from India reach other SAARC countries through the territory of Bangladesh and to the other parts of India is a matter of grave concern that needs a thorough study. A detailed examination of this transit facility is beyond the scope of the current study as it involves cross examination of various data, interviews of concerned officials, field survey, etc. However it is important to raise related issues and concerns that relates to transit. These are as follows:

- Provision of an efficient road infrastructure along with effective transit arrangement requires the presence of appropriate regulations and measures for tackling concerns relating to safety and security of transit traffic, monitoring and management
- Technical safety concerning conditions of roads, bridges, robbery, etc
- Administrative safety aspects concerning traffic laws and their enforcement.
- Allowing of transit facility to India on economic ground but at the same time providing Bangladesh should also be given the facility to transit export and import cargo to Nepal and Bhutan through convenient routes across the Indian territory
- Extension and upgradation of the Bangladesh missions in northeast India would act as an institutional mecahnism to boost trade and economy, people-to-people contact and cultural relations between Bangladesh and the northeastern region

VII.3 India's Bilateral Trade with Bangladesh

Bilateral trade relation between has the two countries has witnessed a significant rise in last couple of years. Though there have been signs of increased trade, yet trade between the two is highly concentrated. India's total imports from Bangladesh were to the tune of US$ 359 Mn in 2010 whereas India's exports registered around US$ 3023 Mn. The

products that India mostly exported to are cotton, vegetable products, petroleum oild and products, motor cars, woven fabrics. The products that Bangladeshi exported are RMG, fish and shrimp products, jute products, etc. Tables 15 and 16 provide composition of India's exports and imports during 2007-11. Exports of RMG from Bangladesh have been phenomenal after India's decision to provide duty free quota free (DFQF) market access to its products. According to the Business Delegation from Bangladesh "46 garment products from Bangladesh, including items such as pants, shirts, blouses, skirts, kids wear, cotton nightwear, jeans, swimwear and tracksuits and they mostly catered to the retail markets in India."[27] "With duty-free export to India, Bangladesh is expecting the export to increase to $1 billion by June 2012 from $500 million in 2011," remarked India Bangladesh Chamber of Commerce & Industry President Mr. A M Ahmad.[28] This grant of DFQF access also encourages many Indian exporters to invest in Bangladesh for marketing in India and third country.

In addition to official trade, it is observed that considerable volume of informal trade alos exist between them. Informal exports from India to Bangladesh are supposed to be significant amount. The composition of informal trade flows is generally complementary to, but markedly different from, formal trade flows. A large portion of informal exports take place through West Bengal and North Eastern Region (NER) of India, comprised largely of food items, live animals (mainly cattle), and consumer goods. Similarly, unofficial imports from Bangladesh to India are dominated by a few major products, including synthetic yarn, electronic goods, and spices (De and Bhattacharyay 2009).

Bangladesh currently experiences a trade deficit with India. This has risen in recent years due to large number of economic and trade activities taking place in informal and formal trade. The growing bilateral trade deficit with India has risen from $774 million in 2000, to $1,933 million in 2005, and $ 2,500 million in 2010.[29] Bilateral trade taking place through informal trade creates the actual deficit (formal plus informal)which becomes significantly higher. Monitoring of informal trade therefore requires certain mencanisms which need to be in place. The structure of imports from India suggests that a significant share was accounted for by cotton, yarn and fabrics, and other inputs which basically

[27] Business delegation attending meeting at FICCI 25-26 November 2011
[28] BCIM Business Forum meet, Kolkata, 19 February 2012
[29] Ministry of Commerce & industry, Government of India

feeds to Bangladesh's export-oriented industries such as readymade garments. These imports from India help Bangladesh maintain a trade surplus with some of the other important trading partners, including the US (Bangladesh's bilateral trade surplus with the US was about $3,480 million in FY 2010)[30]. Many of Bangladesh's import-substituting and other industries get their raw materials, intermediate inputs and capital machineries from India.

Table 15

India's Major Exports to Bangladesh (2007-2011)

Values in US$ Million

HS Code	Commodity	2007-08	2008-09	2009-10	2010-11
0703	Onions, Shallots, Garlic, Leeks And Other Alliaceous Vegetables, Fresh or Chilled	102.79	157.73	245.97	133.76
1005	Maize (Corn)	41.49	21.47	120.76	169.68
2304	Oil-Cake And Other Solid Residues Whether or Not Ground or In The Form Of Pellets, Resulting From The Extraction of Soyabean	82.24	82.56	160.00	186.62
2710	Petroleum Oils& Oils Obtnd Frm Bitmns Mnrlother Than Crude Prpn Nes;Cntng70% or Moreby Weight of These Oils	159.98	80.55	57.44	41.50
5201	Cotton, Not Carded Or Combed	264.63	78.71	176.80	422.94
5205	Cotton Yarn(Othr Thn Swng Thrd)Cntng 85% or More By Wt Of Coton Nt Put Up Fr Retl Sale	246.96	222.33	189.33	545.77
5209	Wovn Fbrcs of Cotton, Contng >=85% Cotn By Wt Weighing>200 Gm Per Sqm	56.62	59.37	55.00	39.32
8703	Motr Cars & Othr Motr Vhcls Fr Trnsprt of Persons(Excl of 8702)Incl	27.07	20.75	48.59	52.62

[30] World Trade Atlas Online Database

	Rcng Cars Etc				
8711	Motorcycles (Including Mopeds) And Cycles Fitted With An Auxiliary Motor, With or Without Side-Cars;	22.41	55.49	61.37	82.63

Source: Ministry of Commerce & Industry Government of India

Table 16

India's Import from Bangladesh (2007-2011)

Values in US$ Million

HSCode	Commodity	2007-2008	2008-2009	2009-2010	2010-2011
0302	Fish Fresh or Chilled Excluding Fish Fillets & Othr Fish Meat of Hedng No 0304	20.98	33.88	24.79	57.98
0802	Other Nuts, Fresh or Dried, Whether or Not Shelled or Peeled	3.27	4.13	5.27	25.68
2517	Pebbles Grvl Brkn/Crshd Stone Commonly Usdfr Concrets Aggrgts Fr Rd Mtlng Etc Pwdr Etc of Hog No 2515/2516 W/N Heat-Tre	4.47	6.83	6.75	9.88
2523	Portland Cement Almnous Cement("Cement Fondu")Slag Cement Etc & Smlr Hydrlc Cements W/N Clrd/In The Form of Clinkers	5.45	9.60	13.24	23.16
2710	Petroleum Oils& Oils Obtnd Frm Bitmns Mnrlother Than Crude Prpn Nes;Cntng70% or Moreby Weight of These Oils	11.49	12.09	-	41.16
2814	Ammonia, Anhydrous or In Aqueous Solution	22.04	41.31	9.72	1.42
3102	Mineral or Chemical Fertilisers, Nitrogenous	51.20	45.87	7.30	-
4104	Taned/Crust Hide & Skin of Bvne(Inclding Buffalo) or Equine Animal Without Hair Wonsplt But Nt Further Prepared	3.17	6.74	5.70	8.47
5303	Jute & Othr Txtl Bast Fbrs(Excl Flax,True Hemp & Ramie)Raw/Prcssd Butnt Spun;Tow & Waste(Incl Yarn Waste & Garnttd Stock)	36.75	15.71	32.01	67.14
5307	Yarn of Jute or Of Other Textile Bast Fibres Of Heading 5303	7.66	13.21	16.40	22.15

6305	Sacks And Bags, of A Kind Used For The Packing of Goods	10.86	47.01	42.72	50.87
7204	Ferrous Waste And Scrap; Remelting Scrap Ingots	5.82	3.53	6.81	16.18
7404	Copper Waste And Scrap	6.16	3.25	11.54	13.91

Source: Ministry of Commerce & Industry Government of India

VII.4 Constraints in Indo-Bangladesh Bilateral Relations

Bangladesh is immensely geographically connected with India. It is surrounded on three sides by India along a 2429miles-long land border. This gives rise to near total geographical domination by India except for the 110 miles-long land border that Bangladesh shares with Myanmar. India's overarching presence in South Asia, in fact, has been a cause for concern for all of its smaller neighbours. Bangladesh is no exception. But with the view that India helped significantly Bangladesh to achieve independence almost made most of the analysts and pundits that Bangladesh would largely remained indebted to India. But that did not happen. After all, structural constraints are the most important determinant of state behaviour in international politics, and Bangladesh soon began "balancing" against Indian preponderance in the region. Like other states in South Asia, Bangladesh has tried to counter India's regional hegemony through a variety of means (Kathryn 2000).

Bangladesh's intention to curtail India's sphere of influence and its regional supremacy especially in relation to Dhaka was visible as it wanted to woo an extra-regional power—namely, China. This strategy is not typical of Bangladesh's foreign policy, but has been noticed in case of other states in the region such as both Pakistan and Nepal who have frequently used China to try to counterbalance India.[31] For its part, China has been quite willing to play this role because it not only enhances Beijing's influence in South Asia but also keeps India play a second fiddle in regional affairs. Such negotiating skills and relations with Bangladesh create space for China to exert influence in South Asia. Since China and Bangladesh established ties in 1976, their bilateral relationship has grown

[31] For an example of how smaller South Asian states have used China as a leverage in their dealings with India, see Manish Dabhade and Harsh V. Pant, "Coping with Challenges to Sovereignty: Sino-Indian Rivalry and Nepal's Foreign Policy," *Contemporary South Asia* 13:2 (June 2004), 157–69.

steadily, culminating in the signing of a Defense Cooperation Agreement in 2002 that covers military training and defense production. China has also provided Bangladesh with substantial resources to bolster its civil service and law enforcement agencies. The two states have signed an agreement on peaceful uses of nuclear energy in the fields of medicine, agriculture, and biotechnology (Tariqe 2005). Energy-hungry China views Bangladesh's large natural gas reserves as a potential asset to be tapped, and, much to India's discomfort, Bangladesh supports China's entry into the SAARC.

Another instance of this geopolitical disturbance was visible when the proposal to revive the Stilwell Road (known as "Old Burma Road") was initiated. The road stretched from Assam in India through Bangladesh and Myanmar to the Yunnan province in China. In the year 1999, Bangladesh, India China and Myanmar joined together to push this proposal called 'Kunming Initiative' where China, Bangladesh and Myanmar were deeply interested as this would provide them with huge trade advantages and would provide connectivity to South East Asian countries. India remained skeptical about this development because it feared the rise of insurgency in the Northeast through Bangladesh influx.[32] India was equally concerned that through Bangladesh Indian market will be swamped by the Chinese products.

VII.5 Hindrances to regional cooperation

There are several reasons why SAARC cooperation couldn't achieve its desired progress. First, it sufferes from a syndrome of heterogenity within homogenity. Though as a region it exudes the confidence of homogenity in terms of being developing countries having same level of industrialization and development, yet they are heterogenous in terms of their political establishment, rule of law, priority for reforms, etc. Secondly size does matter. This concept has underlying relevance because one of the members is much larger than all of other members put together. India accounts for at least three-fifths of SAARC's area, population, GDP (on a purchasing-power parity basis), foreign exchange and gold reserves, and armed forces. The enormous resource and power differentials naturally translate into an acute sense of insecurity in the neighbourhood. Pakistan, another heavyweight and the second largest economy in the SAARC region creates

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[32] Ramtanu Maitra, "Prospects Brighten for Kunming Initiative," *Asia Times Online*, _http:// www.atimes.com/atimes/South_Asia/EB12Df04.html accessed April 19 2012.

further polarisation instead of regional harmony. India's huge geographical expanse also allows it to exert more influence as it shares a land and/or maritime boundary with all other SAARC countries, while they (except for Pakistan and Afghanistan) do not share boundaries with each other and have India as their sole South Asian neighbour. International borders in South Asia are still not all settled beyond dispute, and conventional conflicts are not dramatically decreasing in shared border areas. Therefore India as the largest entity in the region, finds itself entangled in conventional conflicts, which further accentuates their sense of insecurity.The insecurity of smaller countries engenders demand for external intervention in South Asian conflicts. South Asia's strategic location in the middle of Southeast, Central and West Asia, and at the centre of the Indian Ocean, ensures an adequate supply of such intervention.

Besides geographical and political reasons, historical differences have also added to the intractability of disputes among SAARC members. Countries that came into existence after the Partition of British India continue to define their relationships in terms of their unfortunate formative experiences and unresolved Partition disputes. Inter-state conflicts in SAARC is therefore proving to be difficult to manage because the majority ethnic communities in each of India's neighbours are minorities in India.

VII. 4 Time to Revitalize

The power differential coupled with political and historical factors have have created some amount of distrust within SAARC member countries. The smaller countries try to seek support of external powers or to balance between India and outside powers. It is also safe to argue that regional cooperation is hampered not only by local factors but due to involvement of external powers beyond SAARC countries that continue to exploit local fault lines.

To take the cause of regional coperation forward, India needs to play a more constructive role in terms of building confidence and trust. An egaliatrial role can be more effectively played out by India because a large part of capacity building, skills and competitive measures can be sourced from it. Second, India is the only SAARC country that can viably afford unilateral measures. This is true not only because of its large economy, but also because of the multiple levels on which it operates such as being a part of G-20, BRIC and other arrangements. If, for example, Bangladesh unilaterally reduces tariffs on

imports its domestic industries may not be as competitive in the short run. However, if India took such a step, its industries would not be largely affected because of its current industrial strength and resilience of the economy. If such a step helped to reduce regional tensions, India would get an additional bonus from being able to concentrate on its global agenda, which in turn would reduce the cost of its unilateral measures. Such additional payoffs are not available to other SAARC countries, even if they could afford unilateralism.

The strange development about SAARC was that it became feasible due to the initiative of the smaller states of the region such as Bangladesh which is credited with taking the lead. At the formative stage of the process, India was deeply concerned as the forum would be used by the other members to exert their combined pressure on issues that bedeviled their relations with New Delhi (Dixit 1996: 383- 384). There was also a feeling that behind this regional initiative some external hand is ready to counter India's interest in world order (Muni 1996: 54). Hence India was initially remained lukewarm in its support to SAARC.

SAARC's progress still hangs loose. Because India's vision of regionalism clashes with that of Pakistan. India prefers economic cooperation to be the driving force of regionalism. If the region prospers economically, which it can by riding on India's economic growth, the political conflicts would gradually lose steam and this in turn will allow regional states to focus on development. While most SAARC members appreciate this economic logic, Pakistan has not been wholly persuaded by it.[33] Pakistan argues that unless political issues are resolved, economic cooperation will not materialize.[34]

VIII. Conclusions

Inward FDI policy liberalization has been pursued actively among the SAARC countries. Most of them realized that FDI and trade are complementary and attracting FDI would be a sound policy option especially under globalization. Sri Lanka, Bangladesh, India and to

[33] One reflection of this is the bilateral Free Trade Agreements (FTA) India and some countries have entered into.The 1998 Indo-Sri Lanka FTA has been particularly beneficial in boosting trade between the two countries. For the respective views of Indian and Pakistani leaders on regional priorities see *Dawn* (online edition), November 12, 2003.

[34] President Mushrraf in his speech to SAARC leaders in 2004 said: 'SAARC will never achieve its full potential; unless the disputes and tensions that draw us apart are resolved peacefully' (The News International, January 5, 2004).

a large extent Pakistan have taken umpteen majors to attract FDI. Maldives remained an exception because of social factor as it has been practicing Shari'ah law for a long time without having any tradition of commercial law. The delays in the legal system and the weak enforcement capacity restricted foreign investors to look at Maldives as a safe option.

Inward FDI liberalization policies among South Asian countries have hardly helped SAARC cooperation. Because majority of them are not big investors or industrialized countries to branch into other territory in expansion of profit, market, exports etc. They are still at lower level of industrialization and would like to build their own domestic economy. Sri Lanka and India to an extent are foreign investors among SAARC countries.

India has emerged as a big investor since mid 1990s. Its outward FDI policy liberalization has been a ‘push factor’ in making it a global investor. Current success of Indian emerging multinationals is also due to the managerial and technical skills that they have imbibed over a period of time which are embedded in the past. India wherever could locate opportunity in SAARC region has gone ahead with its plan of investing for instance in Bangladesh and Sri Lanka. Export seeking, market seeking have been the motive behind its expansion in South Asia especially Bangladesh and Sri Lanka. Outward investment policies of SAARC countries to some extent have fostered the cause of SAARC cooperation. Because allowing Bangladesh to invest in India on a case by case basis and other wise to invest outside the country has generated some of hope regarding SAARC cooperation.

India remained a low investor in SAARC countries consciously. Because Indian emerging Multinational Enterprises (EMNEs) such as Tata, Infosys, TCS, Bharti Airtel and others have been able to compete in most developed markets and many of them have been successful due to current world economy, which is characterized by intensive technology and capital goods and services. These Indian MNEs are mostly market seeking, resource seeking or export seeking. SAARC as a destination didn’t provide much incentives to Indian investors.

International production network (IPN) which became the dominant theme of world FDI movement and operations almost missed India and SAARC shores. These countries

couldn't participate effectively in the IPN because most of the FDI that came to South Asia were not vertical in nature. They were not efficiency seeking unlike what went to China. China became a hub of vertical FDI. As IPN was mostly marked by the innovation and efficiency in auto and intensive technology manufacturing sector like telecommunication, machinery etc, India and SAARC countries remained non-existent in such sector. India and SAARC countries therefore didn't become active players of intensive technology driven manufacturing world economy unlike China, Thailand and other Southeast Asian nations.

Transit is an intrinsic element of any cross-border movement of goods and vehicles, and yields significant influence on the national economy. One of the major causes for high trade transaction costs in eastern South Asia is cumbersome and complex cross-border trading practices. This needs to be addressed to make trade facilitation realize sooner. Therefore transit facility has emerged as a key determinant in promoting trade cooperation among SAARC countries especially landlocked countries like Bhutan, Nepal, and Bangladesh. A great political will coupled with various institutional mechanisms are necessary to carry out such mechanism in Eastern part of South Asia. At the same time it can be argued that a well defined transit agreement will be acceptable only if the benefits of allowing transit are substantially in favour of Bangladesh's national economic interest.

It is believed that the implementation of India-Sri Lanka FTA on investment raised the prospects of India's investment in Sri Lanka.[35] One of the major reasons for such rise in investment is the scope of re-export to India and other parts of the world. Liberal and strong regulatory regime of Sri Lanka became a push factor in promoting investment from India. Similar circumstances created in Bangladesh can spur India's investment in Bangladesh because Indian investors or exporters can benefit from the lower wages and cheaper availability of raw material in certain specific sectors.

Indian investment may help domestic Bangladesh entrepreneurs to establish joint ventures with Indian players to explore opportunities for market accessibility in other countries through efficient production system and economies of scale. Product specific

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[35] Rishad Bathiudeen, Minister of Industry and Commerce, remarked while delivering the inaugural address at the 18th Partnership Summit 2012, in Hyderabad, India.

investment pattern may be encouraged in Bangladesh as the trade between the two is highly concentrated. Textiles & clothing, fish, inorganic chemicals have great potential for future investment in Bangladesh.

Investment in civil aviation will attract investment as there is lack of such services. In view of increased trade activities, major cities of India would like to stay connected with Dhaka and commercial hubs of Bangladesh. Trade between the SAARC states has remained limited despite the fact that all are located within a close proximity of one another and all are part of the World Trade Organization (WTO).

The task for Bangladesh is to explore and exploit the opportunities in the growing import market of India so that exports to India can grow further and a larger share of imports can be paid for by the exports so that the bilateral trade deficit can be reduced.

In non-economic field India's considerable political influence over other SAARC countries create regional imbalance. This imbalance of power within SAARC undermines organizational unity. Differences between South Asian countries end up endangering the creation and effectiveness of regional trade agreements. They also lead individual SAARC countries to advance their economic interests through bilateral agreements, reducing the incentive to engage in multilaterally.

The existence of these bilateral agreements is significant for number of reasons. First, proliferation of bilateral agreements in South Asia shows that states are not dependent on SAARC to achieve their economic objectives. This dwarfs SAARC's importance in the eyes of its member countries. Second, a focus on bilateral negotiations shifts attention away from the region and rests it on individual countries. Individual countries are more comfortable to pursue bilateral agreements because they have to negotiate with only one country instead seeking multilateral deals, where they have to negotiate with eight countries. Therefore, states will lack an incentive to pursue their economic interests through SAARC. Third, the growth in bilateral trade agreements between South Asian countries highlights the priority; countries are giving to their own self-interests at the expense of regional economic cooperation.

On the investment front, SAARC countries' investments in the region is quite miniscule. Indian investments in Bangladesh doesn't show a rapid increase in volume either.Though Bangladesh did not discourage Indian investments in the past few years, there is mutual

restraint partly because of the Indian ban on Bangladeshi investment in India until 2007. With the lifting of ban and signing of Bilateral Investment Promotion and Protection Agreement between the two countries in February 2009 and becoming operational, there is a strong possibility of both cuntries investing in each other territory.

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