

Foreign Direct Investment – A Comparative Study on Investments to and from SAARC and ASEAN with special reference to Indian outward FDI to SAARC and ASEAN

***Dr. (Mrs.) D. Vijayalakshmi**

**** Shalini K. Menon**

Abstract

The objective of forming the SAARC and ASEAN countries is to accelerate the economic growth. Though several measures have been taken to promote the growth of SAARC and ASEAN nations, it has not reached the expectations. The main aim of this paper is to investigate the inflow and outflow of FDI of SAARC and ASEAN countries. In addition to this, the Indian outward FDI in the form of wholly owned subsidiaries to the SAARC and ASEAN nations have also been analyzed.

Keywords: Outward FDI, SAARC, ASEAN

JEL Classification: F21

****Assistant Professor, Department of Commerce (Aided), PSGR Krishnammal College for Women, Coimbatore. Mobile Number:** 6380081263; **email id:** viji5681@gmail.com

***Part- time Ph.D Research Scholar, Department of Commerce (Aided), PSGR Krishnammal College for Women, Coimbatore. Mobile Number:** 9486346829; **email id:** shalinimenon90@gmail.com

Introduction

The foreign direct investment in developed and developing economies facilitates investment in the form of technology, knowledge, skill, finance and other resources. The World Investment Report, 2018 has reported a fall in the global FDI by 23 percent. The value of cross-border mergers and acquisitions were reduced by 22 per cent and that of Greenfield investment was reduced by 14 per cent in 2018. A decline in the inward FDI flow to the developed economies was also noteworthy. The major reason for decline in FDI has been found to be the decrease in rate of return on investments which has fallen from 8.1 percent in 2012 to 6.7 percent in 2018. During 2018 few countries have concentrated on liberalizing its investment policies and others have taken a critical stance towards FDI by considering the

security of the country. China has continued to be the largest recipient of FDI among the developing nations and the second largest nation in the world followed by the United States of America. The outward FDI flows from both developed and developing economies have fallen by 3 per cent and 6 per cent respectively. Earlier trade between nations was minimum in the Asian countries. Several associations were started to ensure a smooth flow of resources between the nations and facilitate a mutual economic growth. SAARC and ASEAN are among those whose primary focus is on overall economic growth of its member countries through inter and intra flow of investments.

SAARC

The South Asian Association for Regional Cooperation (SAARC) commenced on December 8th 1985 with Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka as its members. The SAARC formed the GEP (Group of Eminent Persons) to facilitate implementation of the SAFTA (South Asian Free Trade Area). India under the Common Investment Area recommended the implementation of measures to enable a free flow of investment among the member countries of the SAARC. Though this recommendation was accepted by the members, its implementation process was slowed down as a result of which the concept of Bilateral Free Trade Agreement was introduced between India and Sri Lanka, India and Bhutan, Pakistan and Sri Lanka. To further enhance the relationship among the SAARC members the SAARC Visa Exemption scheme was launched which enabled easier movement of people from one SAARC member nation to the other. The aim of SAARC is to accelerate economic growth in the South Asian Region (Sangjoon Jun, 2015).

ASEAN

The Association of South East Asian Nations (ASEAN) comprises of Indonesia, Thailand, Singapore, Malaysia, Philippines, Vietnam, Cambodia, Brunei, Myanmar and Laos. ASEAN was earlier called as ASA (Association of Southeast Asia), where Thailand, Philippines and the Federation of Malaya were its members. The other members have joined gradually. According to the ASEAN Declaration, the ultimate aim of this association is to speed up the economic growth and the overall development of the countries in South East Asia. The World Investment Report 2018 has reported an increase in FDI flows to ASEAN, where it has reached 155 US\$ billion. The overall share in the global FDI rose to 11.5 per cent.

Review of Literature

The SAARC countries can attract FDI inflows by working towards improving its GDP since GDP of the SAARC nations has been found to be one among the major determinants of FDI inflows from other regions. In addition to GDP, imports and exports of the SAARC nations also help in attracting FDI (Neha Anand, 2019).

ASEAN compared to SAARC has shown a greater economic growth through FDI. Both in terms of inflow and outflow, SAARC has been lagging behind (Sharmin Akhter, 2019).

Positive net FDI inflows have indicated a significant relationship with reduction in poverty in Asia. The benefits of FDI have a greater impact on SAARC nations rather than ASEAN countries with respect to poverty reduction. Redirecting FDI flows to low income countries of SAARC and ASEAN can help in accelerating the economic development of those countries (Fayyaz Ahmad, Muhammad Umar Draz , Lijuan Su, Ilhan Ozturk , Abdul Rauf and Shahid Ali, 2019).

The economic growth of the SAARC countries depends more on its domestic investment rather than its FDI. Investment on human capital was also found to be important in order to yield maximum benefit from growth strategies (Naila Erum, Shahzad Hussain, Abida Yousaf, 2016).

The SAARC countries were found to be involved more in import rather than export. SAARC thus emerged as the largest buyers of the globe. Diversifying their exports would be the only possible way to expand their activities in the global market (M.d. Joyanal Abdin, 2015).

The forecasting of FDI into SAARC countries was conducted for the period from 2013 to 2037 using the ARIMA model. The model has indicated sufficient potential in the expansion of both intra SAARC FDI and FDI from other regions (Dr. Prasanna Perera W.L., 2015).

The FDI inflows in the ASEAN have been increasing mainly due to its market size, trade openness, infrastructure and human capital. Since the investors in ASEAN are more interested in labour productivity, cheap labour of the ASEAN nations does not attract much FDI (Hong Hiep Hoang and Duc Hung Bui, 2015).

Regional integration among the South Asian nations will assist in boosting the economic development of all the countries in that region by promoting both intra and extra

regional FDI. Efficient use of resources and better employment can be achieved as a result of such integration (Aradhna Aggarwal,2008).

Outward FDI from developing countries indicates the contribution of enterprises in these countries to the world market. Most of the ASEAN enterprises are efficiency seeking where they prefer investing in countries that provide cheap labour and lands. The low income countries like Laos, Cambodia, Myanmar and Vietnam can improve its investment opportunities mainly through elimination of trade barriers (Daisuke Hiratsuka, 2006).

Objective of the study

1. To investigate the FDI inflows and outflows of SAARC and ASEAN countries.
2. To analyze the share of Indian outward FDI in the form of wholly owned subsidiaries in both SAARC and ASEAN countries.
3. To analyze the correlation between the highest ranking host country's real GDP growth rate and outward foreign direct investment growth rate in the form of wholly owned subsidiaries.

Methodology

The details of inflow and outflow of FDI of both SAARC and ASEAN have been taken from the UNCTAD (United Nations Conference on Trade and Development) for the period from 2009-10 to 2017-18. The details of outward foreign direct investments from India in the form of wholly owned subsidiaries have been compiled from the RBI database. Correlation analysis has been applied to analyse the data.

Analysis and Findings

FDI inflows and outflows of SAARC and ASEAN

The FDI inflow of SAARC and ASEAN countries as reported by the UNCTAD has been shown in Table 1 and Table 2 respectively.

Table 1

FDI Inflows to individual SAARC nations from 2010 to 2018 (USD Million)

COUNTRIES	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
MALDIVES	216	424	228	361	333	298	457	493	552
BANGLADESH	913	1136	1293	1599	1551	2235	2333	2152	3613
SRI LANKA	478	956	941	933	894	680	897	1373	1611
AFGHANISTAN	54	58	47	38	44	163	94	53	139
NEPAL	87	95	92	71	30	52	106	129	161
BHUTAN	28	33	54	22	22	4	-7	-10	6

INDIA	27417	36190	24196	28199	34582	44064	44481	39904	42286
PAKISTAN	2022	1162	859	1333	1868	1621	2488	3232	2352

Source: UNCTAD, Statistics

From Table 1 it is evident that among all the member nations the FDI inflows to India is the maximum. In the year 2015-16 the inflows to India has reached 44,481 USD millions, after which in the succeeding year a decline can be noted. However in the year 2017-18 a rise can be seen in its inflow. Pakistan and Bangladesh also depict a higher FDI inflow in comparison to the other member nations followed by India.

Table 2

FDI Inflows to individual ASEAN nations from 2010 to 2018 (USD Million)

COUNTRIES	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
PHILIPPINES	1298	2043	2449	2280	5285	4447	6915	8704	6456
INDONESIA	13771	19241	19138	18817	21811	16641	3921	20579	21980
THAILAND	14555	1370	9135	15493	4809	5624	1815	6478	10493
SINGAPORE	57460	39890	60103	56672	73287	59700	73863	75723	77646
VIETNAM	8000	7519	8368	8900	9200	11800	12600	14100	15500
LAOS	279	301	294	427	721	1119	997	1599	1320
CAMBODIA	1404	1539	2004	2068	1853	1823	2476	2788	3103
MALAYSIA	9060	12198	9239	12115	10877	10082	11336	9399	8091
MYANMAR	6669	1118	497	584	946	2824	2989	4341	3554

Source: UNCTAD, Statistics

Table 3 shows the maximum FDI inflows in Singapore among all the ASEAN nations. Though several fluctuations can be seen in its investment pattern, it has reached a maximum of 77,646 USD millions in the year 2017-18.

A comparative study of the FDI inflows to both SAARC and ASEAN shows that the FDI inflows to ASEAN are much more than that of the SAARC nations. However earlier studies have proved that FDI inflows have helped in reducing poverty of the SAARC nations when compared to the ASEAN member nations (Fayyaz Ahmad, Muhammad Umar Draz, et al., 2019). Similar is the case of FDI outflows where the outflows from ASEAN are much more significant than that of SAARC.

Table 3

FDI Outflows from individual SAARC nations from 2010 to 2018 (USD Million)

COUNTRIES	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
MALDIVES	-	-	-	-	-	-	-	-	-
BANGLADESH	15	13	43	34	44	46	41	142	23
SRI LANKA	43	60	64	65	67	53	237	72	68
AFGHANISTAN	-1	1	-9	1	0	1	15	11	6
NEPAL	-	-	-	-	-	-	-	-	-
BHUTAN	-	-	-	-	-	-	-	-	-
INDIA	15947	12456	8486	1679	11783	7572	5072	11141	11037
PAKISTAN	47	35	82	212	122	25	52	52	8

Source: UNCTAD, Statistics

The FDI outflows have also shown a similar result, where the Indian FDI outflows are the maximum compared to the other SAARC nations. Though the Indian FDI outflows have shown a declining trend from 15,947 USD millions in 2009-10 to 1679 USD millions in 2012-13, it has gradually managed to increase its investment to 11,037 USD million in 2017-18. All other member countries have shown only a minimum outflow of investment.

The FDI outflows of the ASEAN member nations has been given in Table 4.

Table 4

FDI Outflows to individual ASEAN nations from 2010 to 2018 (USD Million)

COUNTRIES	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
PHILIPPINES	2940	2386	3407	2189	6299	4347	1032	1752	602
INDONESIA	2664	7713	5422	6647	7077	5937	12215	2077	8139
THAILAND	7940	6072	10497	11679	5575	1687	12367	17064	17714
SINGAPORE	35407	31900	20480	45279	52477	45223	39782	43696	37143
VIETNAM	900	950	1200	1956	1150	1100	1000	480	598
LAOS	33	0	-17	-29	7	40	15	10	0
CAMBODIA	21	29	36	62	82	88	79	115	124
MALAYSIA	13399	15249	17143	14107	16369	10546	8011	5638	5280
MYANMAR	-	-	-	-	-	-	-	-	-

Source: UNCTAD, Statistics

The table depicts maximum FDI outflows from Singapore compared to the other member nations where it has reached a maximum of 52,477 USD Millions in the year 2013-14. But gradually it has decreased and reached 37,143 USD millions in the year 2017-18.

India's outward FDI in the form of Wholly Owned Subsidiaries

The Indian outward FDI may be in the form of joint ventures or wholly owned subsidiaries. In this paper we examine the investment made by India in the form of wholly owned subsidiaries to SAARC and ASEAN countries. India has been constantly investing in the form of wholly owned subsidiaries during the last decade in almost 146 countries across the globe. The ranking of the SAARC and ASEAN countries among these have been given in Table 5.

Table 5
Ranking of SAARC and ASEAN economies among 146 host countries

SAARC COUNTRIES	RANK	ASEAN COUNTRIES	RANK
Afghanistan	89	Cambodia	90
Bangladesh	25	Indonesia	31
Bhutan	99	Laos	101
Maldives	57	Malaysia	19
Nepal	59	Myanmar	55
Srilanka	15	Philippines	38
		Singapore	2
		Thailand	36
		Vietnam	40

Source: Compiled by the author

From the Table 5, it is observed that Singapore is the most preferred destination of investment for India, due to its liberalized investment policies which allows easy flow of investments into the country.

OFDI from India- A Share of an Individual Economy in SAARC and ASEAN Economies

The Table 6 presents the OFDI from India to SAARC and ASEAN countries. The percentage share of each individual economy in SAARC and ASEAN countries assist to know the most preferred destination by India.

Table 6
OFDI from India- An Analysis of share of an individual economy in SAARC and ASEAN countries

SAARC COUNTRIES	Total	Share (%)	ASEAN COUNTRIES	Total	Share (%)
Afghanistan	5.2268	0.323	Cambodia	5.0398	0.01
Bangladesh	352.1346	21.77	Indonesia	222.6396	0.47
Bhutan	2.4521	0.152	Laos	2.2156	0.0011
Maldives	37.1667	2.298	Malaysia	636.6014	1.33
Nepal	34.7315	2.147	Myanmar	41.0215	0.09
Srilanka	1185.902	73.31	Philippines	136.9519	0.29
			Singapore	46485.9808	97.3
			Thailand	150.4783	0.31
			Vietnam	107.0187	0.22
	1618			47787.9476	

Source: Compiled by the author

Among the SAARC countries, the most preferred destination is Sri Lanka which accounts for 73.31 per cent of the total investment which has been made in the form of wholly owned subsidiaries in the SAARC nations during the period 2009-10 to 2018-19. Among the ASEAN countries, the most preferred destination is Singapore with 97.3 per cent of its share from India.

Host country- Real GDP Growth rate and Outward FDI to host country

The top host countries of SAARC and ASEAN economies have been taken to analyze the relationship between the real GDP growth rate of host countries and the outward FDI growth rate in India. The results are presented in the Table 7.

Table 7
Correlation between Real GDP growth rate of Host Countries and Indian OFDI Growth rate

Growth rate of Indian OFDI to Sri Lanka with Sri Lankan Real GDP Growth rate
P value = 0.177
Growth rate of Indian OFDI to Singapore with Sri Lankan Real GDP Growth rate
P value = 0.854

Source: Compiled by the author

The p values are greater than 5 per cent level of significance which reveals that the growth of OFDI from India to the host country does not have a statistical relationship with

the real GDP growth rate of the host country. The decision of establishing a wholly owned subsidiary in a host country does not depend on the GDP growth rate of the country and the other factors such as availability of raw materials, labour, machinery, employment opportunities etc can also be considered to study the relationship between the performance of the host countries and OFDI from India.

Conclusion

The objective of forming the SAARC and ASEAN countries is to accelerate the economic growth. Though several measures have been taken to promote the growth of SAARC and ASEAN nations, it has not reached the expectations. The OFDI from India in the form of wholly owned subsidiaries has been minimal in other countries, except Singapore. Singapore has a liberalized investment pattern to attract the maximum FDI from India in the form of wholly owned subsidiaries. The establishment of wholly owned subsidiaries facilitates the flow of technology, raw materials, knowledge etc from the home country to the host country and vice versa. The establishment of subsidiaries in the low income earning economies in both SAARC and ASEAN nations would help to enhance their growth and also it may lead to the reduction of capital into be invested by the home country.

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