



An Overview of FDI Inflows in SAARC Countries

By Research and Publications Department, ICMA

Foreign Direct Investment (FDI) is considered as a promoter or catalyst of economic growth and technological advancement. Many developing and emerging countries have especially benefitted from capital inflows in the form of FDI. In these countries, FDI has facilitated in adding to their investible resources, capital formation, improvement in production capacity, enhancing exports, access to new markets, infrastructure development, transfer of latest production technology and managerial skills, and creating job opportunities for the domestic workforce.

Before proceeding to our main topic of this article on FDI inflows in SAARC countries, it would be better to first comprehend the meaning of relevant terminologies used in the context of FDI.

Direct Investment vs. Portfolio Investment

Foreign Direct Investment (FDI) signifies the acquisition of foreign business assets [with the intent to own, control, and manage them] by investing capital and transferring knowledge, skills, and technology. It can be termed a long-term investment.

Foreign Portfolio Investment (FPI) signifies an investment in intangible assets such as stocks, bonds, equity, or other financial assets with the expectation to earn a return or obtain significant control over the managerial operations of a company. It can be termed as a short-term investment.

FDI is generally preferred over FPI as a better investment option by any country to attract foreign investment as it is more stable and reflects a long-term commitment by the investor. FPI has a high degree of volatility and the investor can take out his money in case there is any trouble to the economy.

Inward FDI vs. Outward FDI

Inward FDI means investments made by non-resident investors of a country in another country. IFDI creates employment opportunities in a country and brings wealth to its economy.

Outward FDI signifies investments made by domestic companies in a foreign country either through the acquisition of assets or expansion of an existing foreign facility.

The difference between Inward FDI and Outward FDI is called the 'Net FDI inflow', which can be either positive or negative.

Greenfield FDI vs. Brownfield FDI

Greenfield FDI means an investment by a foreign company by building new factories or stores or other ventures from scratch in another country where the investor had no existing facilities. The opening of a Subsidiary company also comes under the Greenfield FDI. The host country offers lucrative incentives like tax exemptions, subsidies, etc. to lure Greenfield FDI.

Brownfield FDI is when a foreign company purchases or leases an existing production facility in another country to begin a new production line or activity. Brownfield FDI is usually less expensive and can be started forthwith. In short, the 'Greenfield' refers to starting from the beginning whereas the 'Brownfield' refers to modifying or upgrading existing plans or projects.

Horizontal FDI vs. Vertical FDI

Horizontal FDI is where funds are invested abroad in the same industry or when a business invests in a foreign firm that produces similar goods. It denotes the expansion of business across boundaries.

Vertical FDI is where a business expands into a foreign country by moving to a different level of the supply chain and not directly in the same industry.

Conglomerate FDI vs. Platform FDI

Conglomerate FDI is where any company invests in altogether different business segments which are not linked in any direct way to the investor's existing business.

Platform FDI is when a business makes an investment in a foreign company to manufacture goods for export to any third country. This is also called 'export platform FDI' and is mostly made in Free Trade Zones.

FDI Inflows in SAARC Countries

The FDI inflows made in the eight countries of SAARC are depicted in **Table-1**. Due to the size of the market, India stands at the top ranking with FDI of USD 64,062 million in 2020, followed by Bangladesh with FDI inflows of USD 2,564

million in 2020 and then Pakistan with USD 2,105 million in 2020. The percentage share of FDI inflows of Pakistan in SAARC in 2020 stood at only 3% as compared to 92% of India and 3.68% of Bangladesh. Bhutan stands at the last position with FDI inflows of USD 3 million.

Table 1: FDI Inflows in SAARC Countries in 2019 & 2020

[Million USD]				
Sr. Country	2019	2020	%age share in SAARC (2020)	FDI Ranking in SAARC (2020)
SAARC	57,607	69,655	—	—
1 Afghanistan	39	13	0.02%	7th
2 Bangladesh	2,874	2,564	3.68%	2nd
3 Bhutan	3	3	0%	8th
4 India	50,558	64,062	91.97%	1st
5 Maldives	956	348	0.50%	5th
6 Nepal	185	126	0.18%	6th
7 Pakistan	2,234	2,105	3.02%	3rd
8 Sri Lanka	758	434	0.62%	4th

[Source: The World Association of Investment Promotion Agencies (WAIPA)]

Table-2 shows the FDI inflows in SAARC countries during 2020 as a percentage of GDP. The average for 2020 based on 8 countries of SAARC was 2.03 percent. The highest value was in the Maldives (11.78%) and the lowest value was in Bhutan (- 0.12%). Pakistan ranks third with 0.80% of FDI inflows in SAARC.

Table 2: Foreign Direct Investment (FDI) as Percentage of GDP in SAARC Countries in 2020

[Sequencing of countries is from highest to lowest percentage]

Sr. Country	FDI as %age of GDP in SAARC
1 Maldives	11.78%
2 India	2.42%
3 Pakistan	0.80%
4 Sri Lanka	0.54%
5 Nepal	0.38%
6 Bangladesh	0.35%
7 Afghanistan	0.06%
8 Bhutan	- 0.12%

[Source: The World Bank]

Table-3 indicates the GDP growth in SAARC as recorded and projected by the Asian Development Banks (ADB) in its latest release of "Asian Development Outlook 2021". It can be noted that after Maldives [14% growth], Bangladesh will be achieving over 7% growth rate in 2022 as against 7% in India; 5% in Nepal; 4% in Pakistan, and 3.6% in Sri Lanka. All these countries are still recovering from the pandemic.

Table 3: GDP Growth in SAARC countries

[%age per Year]				
Sr. Country	2019	2020	2021	2022
SAARC	4.2	-6.0	9.5	6.6
1 Afghanistan	3.9	-5.0	3.0	4.0
2 Bangladesh	8.2	5.2	6.8	7.2
3 Bhutan	4.3	0.9	-3.4	3.7
4 India	4.0	-8.0	11.0	7.0
5 Maldives	7.0	-32.0	13.1	14.0
6 Nepal	6.7	-1.9	3.1	5.1
7 Pakistan	1.9	-0.4	2.0	4.0
8 Sri Lanka	2.3	-3.6	4.1	3.6

[Source: Asian Development Outlook 2021]

Top Investing Countries in SAARC

Table-4 provides a list of top countries having FDI outflows to countries in the SAARC region. China, the USA, and the UK are the leading countries having investments in most of the SAARC countries. India, being the major regional country, has invested in Afghanistan, Nepal, Sri Lanka, and Bhutan.

Table 4: Top FDI Countries in SAARC							
Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
India	China	India	Singapore	Italy	India	China	China
USA	Netherlands	Singapore	USA	UK	China	UK	UK
EU	UK	Thailand	Mauritius	Germany	Saint Kitts and Nevis	USA	India
China	Singapore	Japan	UAE	France	Ireland	Hong Kong	USA
UAE	USA	USA	Netherlands	Japan	Singapore	UAE	Singapore
	Hong Kong	EU	Cayman Islands	China		Netherlands	Malaysia
	Norway		UK	India		Switzerland	Japan
	India		Japan	Switzerland		Italy	Hong Kong
	Japan		Germany	Russia		Japan	UAE

Major Sectors receiving FDI inflows in SAARC

Table-5 outlines a list of major sectors receiving FDI inflows in the SAARC countries. Nepal, Bhutan, and the Maldives predominantly rely on tourism so a large portion of FDI in these countries is spent on the construction of hotels, resorts, and restaurants. In other countries of SAARC, a major segment of FDI is diverted in the manufacturing sectors, power and energy, construction and infrastructure.

Table 5: Major Sectors receiving FDI in SAARC							
Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Construction	Power	Hotel & Tourism	IT&ITES	Hotel & Tourism	Manufacturing	Power	Manufacturing
Services	Textiles	IT&ITES	Infrastructure	Telecommunication	Hydropower	Oil & Gas	ICT
Industry	Finance	Dairy	Automobile	Banking	Banks & DFIs	Finance	Tourism
Agro-Business	Banking	Agriculture	Pharmaceuticals	Insurance	Hotel	IT& Telecom	Agro Food
	Telecommunication	Power	Chemicals	Air transport	Finance	Trade	Construction
	Trading		Construction	Real Estate		Construction	
	Leather		Telecommunication			Food	
	Food		Hotel & Tourism			Transport	
	Oil & Gas		Trading				

Conclusion

According to the 'World Investment Report 2021' released by UNCTAD in June 2021, FDI in South Asia has gone up by 20% to \$71 billion and the major contributing factor was a 27% rise in FDI in India to \$64 billion, especially in the sectors of ICT and construction. The Report states that cross-border Mergers and acquisitions (M&A) in South Asia (SAARC countries) led to an 83% increase to \$27 billion with major deals involving ICT, health, infrastructure, and energy. Further, FDI fell in other South Asian economies that rely on export-oriented garment manufacturing, like Bangladesh and Sri Lanka. Inflows in Bangladesh and Sri Lanka contracted by 11% and 43% respectively. In Pakistan, FDI went down by 6% to \$2.1 billion, cushioned by continued investments in power generation and telecommunication industries.