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Promotion of Investment Cooperation in South Asia: What is the Appropriate Framework?

Khondaker Golam Moazzem *
Kishore Kumer Basak *
Farzana Sehrin *

Abstract: *Regional investment cooperation in South Asian countries is a recent phenomenon for discussion both at academia as well as policy maker level. With growing linkages between countries at regional and sub-regional level along with increasing scope for outward investment by the private sector, the issue of investment needs to be discussed as means for regional and sub-regional trade cooperation. Regional investment cooperation has been a success worldwide in expanding infrastructure development, social improvement and increase in trade and investment leading to higher economic growth. A number of agreements such as SAFTA and BIMSTEC are now in operation, and BCIM is also in the process of discussion. All these integration initiatives offer opportunities and scope for investment cooperation. This paper highlights investment cooperation not only as means of encouraging trade but also for investment targeting both domestic and extra regional market. The paper puts forward suggestions regarding Bangladesh strategies for better investment cooperation in the future not only in South Asia but also with South-East and East Asia.*

1. Introduction

Regional investment cooperation in South Asian countries are a recent phenomenon for discussion both at academia as well as policy maker level. With growing linkages between countries at regional and sub-regional level along with increasing scope for outward investment by the private sector, the issue of investment needs to be discussed as means for regional and sub-regional cooperation in trade. Investment in South Asia, both inward and outward, is highly imbalanced and concentrated at few locations, particularly India. Unless other countries are able to

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* Additional Research Director; * Senior Research Associate; and * Research Associate, Centre for Policy Dialogue (CPD) respectively.

develop the competitive strength, it would not be easy for them to attract more investment by simply allowing outward investment from respective South Asian countries. Despite limited regional integration, South Asian economies are increasingly integrated with other economies under various initiatives. In these economics, the issue of investment is increasingly getting importance along with trade and other issues. The objective of this paper is to illustrate the scope of investment cooperation not only as means for trade expansion but also for investment targeting both domestic and extra regional market. The paper has five sections. The status of investment cooperation under the framework of SAARC and the scope of investment cooperation in the BIMSTEC region and BCIM countries (Bangladesh, China, India and Myanmar) are discussed in section 2, 3 and 4, respectively. Section 5 contains our suggestions regarding deepening investment cooperation in the region, and, Section 6 concludes. Data have been used from various secondary sources/database available on the internet.

2. Investment Cooperation under the Framework of SAARC

2.1 Flow of Investment in South Asia

Inward FDI flow in South Asia is largely destined to India; more importantly, it has been concentrated over time in India (Table 1). Out of South Asia's total FDI inflow of US$28.6 billion in 2012, India alone received about US$25.5 billion, which was about 89 per cent of the total. The second highest recipient of FDI is Bangladesh, which received only US$990 million and its share was only 3.5 per cent (vis-à-vis 12.4 per cent in 2000). Pakistan, once a major FDI recipient has lost its importance due to political violence, unrest and lack of infrastructural facilities and has received less and less FDI (from US$2.2 billion in 2005 to US$847 million in 2012). Future investment cooperation needs to take into account the unbalanced nature of investment flow in South Asia due to lack of competitiveness of most of the locations as investment destinations.

Table 1: South Asia FDI Inflow (in million USD)

	FDI Flow (million USD)					Share of FDI(%)				
Country	2000	2005	2010	2011	2012	2000	2005	2010	2011	2012
Afghanistan	0	271	211	83	94	0.0	2.4	0.8	0.2	0.3
Bangladesh	579	845	913	1136	990	12.4	7.5	3.6	2.8	3.5
Bhutan	..	6	26	10	16					
India	3588	7622	21125	36190	25543	76.8	67.5	84.2	90.3	89.2
Maldives	22	73	216	256	284	0.5	0.6	0.9	0.6	1.0
Nepal	0	2	87	95	92	0.0	0.0	0.3	0.2	0.3
Pakistan	309	2201	2022	1327	847	6.6	19.5	8.1	3.3	3.0
Sri Lanka	173	272	478	981	776	3.7	2.4	1.9	2.4	2.7
Total	4671	11292	25078	40078	28642	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD

Despite liberalizing the FDI regime, most of the South Asian countries have yet to develop a sizable stock of FDI (Table 2). FDI stock in Bhutan at the end of 2012 was only US$23 million followed by Nepal (US$440 million), Afghanistan (1569 million) and Maldives (US$1655 million). Part of this low level of FDI flow can be attributed to the small size of the economy. Maldives being the smallest country in the region ranks highest regarding FDI inflow as percentage of GDP followed by Afghanistan, Pakistan and India. However, Bangladesh, Bhutan and Sri Lanka are below the South Asian average in terms of FDI-GDP ratio (2000-11). Nepal had the least FDI share in GDP (0.15 in 2000-2011 average) (World Bank). Thus, lack of domestic business environment as well as limited business scope for investment and regional integration caused low level of FDI flow in some destinations. In addition, obstacles at the borders and behind-the-border barriers and weaknesses also impede investment flow among these countries (Kumar and Singh, 2009).

Table 2: FDI Stock in South Asia (US$ million)

Country	2000	2005	2010	2011	2012
Afghanistan	17	584	1392	1475	1569
Bangladesh	2162	3537	6343	6166	7156
Bhutan	4	22	23	7	23
India	16339	43202	205580	206435	226345
Maldives	128	331	1114	1371	1655
Nepal	72	127	253	348	440
Pakistan	6919	10209	19828	20916	25395
Sri Lanka	1596	2447	5008	5990	6765
Total (South Asia)	27237	60458	239540	242706	269347
World	7511311	11673845	20380267	20873498	22812680
Share of world (%)	0.36	0.52	1.18	1.16	1.18

Source: UNCTAD

2.2 Intra–regional FDI flow and Stock

Intra-regional FDI comprises a small share in total FDI flow in South Asia (less than 5 per cent of total flow of FDI) but it has been rising in the last few years. Table 3 indicates the state of intra-regional FDI flow within the region during 2005-2010 where it is clear that India is playing the dominant role as investor within the region. In 2009-2010, Nepal registered around 44 per cent of FDI from India which was the maximum FDI outflows from India within the region and the majority of the investments were in the services sector. According to the Table, except India, other countries have witnessed a dramatic increase in its South Asian share where Bangladesh's share was 15.4 per cent and Sri Lanka's was 29.1 per cent in 2010. India's growing outward investment is mainly targeted to developed countries because of increasing interest to invest in strategic sectors by using growing competitiveness of their MNCs (Kanungo and Kumar, n.d). Only a small share of India's outward FDI is targeted to the South Asia region due to limited scope for attractive investment opportunities.

Table 3: Intra- Regional inward FDI in SAARC Countries (% of total inward FDI)

Investment from:	Investment to:							
	India		Bangladesh		Nepal		Sri Lanka	
	2007-08	2009-10	2006	2010	2008-09	2009-10	2009	2010
India			0.52	14.96	43.72	43.89	19.33	28.74
Sri Lanka	0.54	0.31	0	0.44	0	0		
Nepal	0	0.11	0	0			0	0.03
Maldives	0.02	0.09	0	0	0	0	0.07	0.37
Bangladesh	0	0	0	0	0.53	1.1	0	0
Pakistan	0	0	0.18	0	0.04	0	0	0
Bhutan	0.56	0	0	0	0	0	0	0
Share of South Asia	1.12	0.5	0.7	15.41	44.29	44.98	19.4	29.13

Source: Kanungo and Kumar (2012)

2.3 Sources of FDI in South Asia

Most of the FDI in South Asia is originated from outside the region mainly for India, Pakistan, Sri Lanka and Bangladesh (Table 4). Intra-regional sources, on the other hand, are important for Nepal, Bhutan and Afghanistan. Despite the major share of FDI that originated from developed countries, the volume and share of FDI from developing countries has been increasing in recent years. Between the early and late 2000s, the number of developing countries as FDI sources for South Asia increased from 38 to 45 while the number of developed countries' investment grew by only one from 23 to 24 (World Bank). Middle East and North Africa (MENA) and the East Asia and Pan Pacific Regions (EAP) are the largest sources of FDI for South Asia. In India, most of the FDI inflows originated from EU, United States, Japan and South Korea. On the other hand, EU, United States, China and India are the largest sources of FDI in Bangladesh. FDI inflow to Pakistan is dominated by the Middle East countries. Most diverse spectrum of countries' contribution in FDI is seen in Maldives such as Thailand, China, India, United States and the EU. China have made large investment in extraction business in Afghanistan China has also invested in Nepal's renewable energy sector and Sri Lanka's transport sector (UNCTAD, 2013). Regional investment cooperation is thus gaining importance both in intra-regional and extra-regional sources.

Table 4: Sources of FDI Stock: Within and Outside the Region

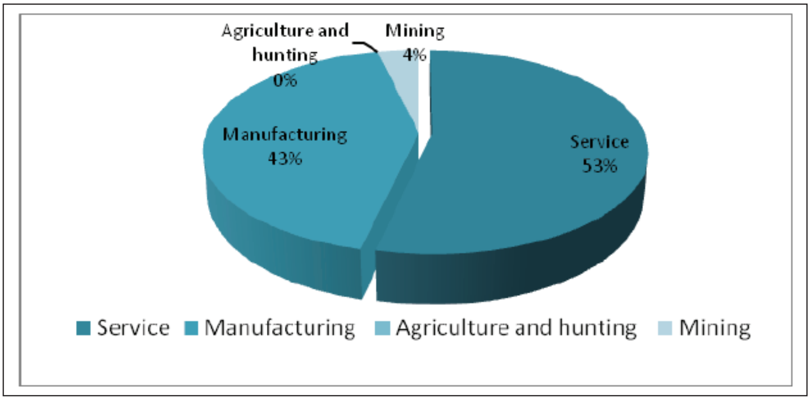
	Bangladesh	Bhutan	India	Nepal	Pakistan
Volume (million US$)					
FDI from World	8063	132	218134	506	17726
From South Asia	571	44	33	171	2
Outside South Asia	7,492	88	218,101	336	17,724
Share (%)					
FDI from World	100.0	100.0	100.0	100.0	100.0
From South Asia	7.1	32.7	0.02	33.7	0.01
Outside South Asia	92.9	66.3	99.98	66.3	99.99

Source: UNCTAD

2.4 Sectoral Composition of FDI

An overwhelming share of FDI in South Asia is market-seeking FDI. Examining the industry profile and the available information related to project descriptions show that manufacturing investment in India and Pakistan is mainly in domestic market-seeking industries when Sri Lankan investment is concentrated more in efficiency-seeking such as export-oriented textile and clothing sector. Services sectors such as telecommunication, energy and finance received considerable share of FDI in recent years (Raihan, 2013). In 2011, FDI inflows in the services sector accounted for 54 percent of total FDI inflows in the region while manufacturing, agriculture and mining accounted for 42.7, 0.04 and 3.7 per cent, respectively (Figure 1). This reveals the potentiality of the services sector in the region and the necessity to articulate guidelines for accelerating trade and investment in services within and outside the region.

Figure 1: Sectoral breakdown of South Asia FDI inflow in 2011



Source: UNCTAD

Afghanistan attracted inward FDI flows into resource-seeking projects where most FDI has gone into extraction and transport and logistics industries over the past few years. Huge amount of FDI has been invested by the Chinese Corporation in the natural resource sector. Bhutan and Nepal have very little opportunities for foreign investment. Bhutan's hydropower sector has become an attraction for foreign investors.

India dominates with much of the inflow towards the services sector, including banking and insurance, research and development and outsourcing. In 2011, service sector (business, financial, miscellaneous service and R&D) received 18.8 per cent of total FDI followed by telecommunication (8.2 per cent), construction (6.7 per cent), automobiles (3.1 per cent), drugs and pharmaceuticals (11.4 per cent). Telecommunication sector, particularly telephone service, is another leading inward FDI sector in India. Also computer software and hardware businesses are attracting many foreign investors.

Like India, Bangladesh's FDI inflow is also concentrated in the services sector, followed by textile and petroleum sectors. During 2005-10, telecommunication sector had attracted the largest amount of FDI but it dropped sharply in 2011 by almost 96 per cent which has weakened the inward FDI inflow in the services sector. FDI inflow in the textile sector has increased gradually over the past few years due to the comparative advantage in low labour costs; in 2011, it reached 30 percent of total FDI. FDI inflows in power sector has also showed rapid growth in the past few years due to favorable government policies and facilities and incentives provided to foreign investors such as tax exemptions and easier access to finance. In Pakistan, oil and gas exploration sector is now the major FDI magnet and the share of FDI inflows has been increasing every year.

The trends of FDI inflows are changing in Sri Lanka moving towards services and now become a dominant FDI magnet. The post-conflict foreign investments have been encouraged in the services sector, including business services, retail, health, banking and consulting. The telecommunication and power sectors were marked as the leading FDI inflow sectors in 2009 and the growth has shifted to manufacturing, services and agriculture in 2010. In the services sector, hotel and restaurant sector received the largest amount of FDI inflows which accounted for 20 per cent of total FDI during 2010-11.[1] In 2011, Sri Lanka received the highest-ever FDI inflows which indicated investors' confidence in Sri Lanka. In the past few years, Maldives showed tremendous growth in hotels and real estate sector. Significant amount of FDI come from international hotels and resort chains.[2]

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[1] Key FDI projects in this sector are the Shangri-La hotel chain's investment, Sheraton Group's investment etc.

[2] For example, Four Seasons (US) and Centara (Thailand) etc

Sectoral pattern of FDI indicates that most of the FDI that comes from extra regional and intra-regional sources are not vertical in nature. South Asian countries have yet to attract efficiency-seeking FDI which could develop regional value chain. Bangladesh, Pakistan, Sri Lanka and India are important players in global apparel sector. Nevertheless, investment in this sector was not sufficient within the region. Any joint venture initiative between these two countries would add value, enhance productivity, and reduce the cost of production.

A major constraint in intra-regional investment in South Asian countries is the limited knowledge on the potential sectors of investment of different SAARC countries. Intra-regional investment requires knowledge on potential sectors, markets and financial aspects (Moazzem 2005; Agarwal 2008)[3]. Moreover the regulatory regime within each country imposes conditions on investment under specified sectors. It is important for potential investors to gather knowledge on regulatory aspects applicable to potential sectors in each country. Table 5 identifies some priority industries for investment in South Asian countries which indicates potentials for building vertical FDI network in the region in different sectors.

Table 5: Priority Sectors for Investment in South Asian Countries

Pakistan	Value added export industries: manufacturing categories such as garments, bed linens, surgical instruments, and sporting goods High-Tech and IT industries: chip manufacturing, software development and precision equipment manufacturing Others: tourism, housing, engineering, chemicals and construction
Bangladesh	Textiles, electronics, IT, natural gas-based industries, frozen foods, leather, ceramics, light engineering and agro-based production
Nepal	Medicinal and aromatic plants, agro-based (mushroom, spices, vegetables, fruits), dairy, tea, sericulture, hydropower, leather, poultry and textiles
Sri Lanka	Electronics, light engineering, textiles, rubber, mineral and processing, tourism, IT, gems and jewellery, healthcare and pharmaceuticals, ceramics and services
Bhutan	Hydropower, agro-processing, tourism and medicinal plants
Maldives	Marine-based industries, tourism, infrastructure, and air and sea transport
India[4]	Power, Renewable energy, Infrastructure, Aerospace & Defense, Automotive, Banking, Biotechnology, Information Technology, Insurance, Real Estate, Retail, Telecommunications, Textile and apparel Industry and Healthcare

Source: Aggarwal 2008; Different documents available in the websites;

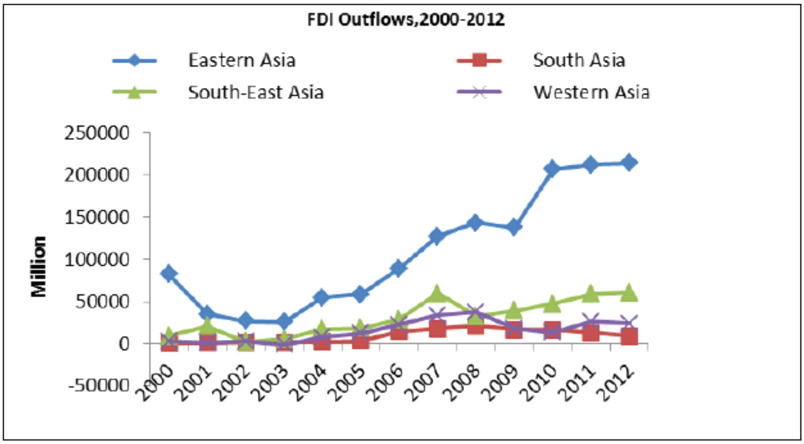
[3] The sectors identified as investment potentials in Pakistan, Sri Lanka, Maldives, Bangladesh, Bhutan and Nepal have been compiled from FDI Promotion Agencies of each country

[4] India's investment potentials have been identified based on the information from following website: conhttp://investmentopportunitiesinindia.wordpress.com/; http://online.wsj.com/news/articles/SB10001424052702304675504579390521675089520; http://www.direc2010.gov.in/pdf/India's-RE-Sector-Potential-and-Investment-opportunites-SSM.pdf; http://articles.economictimes.indiatimes.com/2012-08-30/news/33499631_1_infrastructure-sector-investment-target-india-us-relationship; http://www.oifc.in/infrastructure-india-potential-sector-investment; http://www.usitc.gov/publications/332/PUB3401.PDF; https://www.wbginvestmentclimate.org/advisory-services/health/upload/Opportunities-and-Trends-in-Investing-Guide_for_Investors_in_Private_Health_Care_in_Emerging_Markets.pdf

2.5 FDI outflow from South Asia: Trends, Patterns

Outward flow of FDI from South Asian countries is still very small mainly because of official restriction over investment and free movement of capital. Outward flow from South Asia has increased from US$529 million in 2000 to US$8790 million in 2012 and it was in the peak in 2010. Despite that rise in FDI outflow, its share is among the lowest – 0.63 per cent of total world outflow in 2012 compared to 0.04 per cent in 2000. Share of FDI outflow of Southeast Asia, on the other hand, was much higher (4.36 per cent in 2012) (Figure 2); Eastern Asia comprises China, Japan and Korea and has the largest source of outward FDI within Asia.

Figure 2: Trends of FDI outflows of South Asia



Source: UNCTAD

India has been the major investor abroad over the years – during 2012 its outward investment was US$8,583 million which was about 98 per cent of total FDI outflow from the region. The outflow from other countries such as Bangladesh (US$53 million), Pakistan (US$73 million) and Sri Lanka (US$ 80 million) were highly insignificant. Afghanistan, Nepal, Maldives and Bhutan have almost no FDI outflow.

India's success as a major emerging global investor has been possible because of substantial removal of foreign exchange restrictions on capital transfer overseas and liberalization of outward FDI policy which worked as a "push factor" in making India a global investor.Though India was one of the smallest sources of FDI outflow, since 1990s India has picked up and developed itself as one of the top five sources of FDI economies in Asia Kanungoand Rahul, n.d.). India has taken some steps such as allowing investment in foreign entities up to 200 per cent of their net worth. Provided there are better opportunities to mutual funds in order to invest overseas, initiatives have been taken to facilitate project exporters and service exporters from India which helped local investors to invest globally (Kanungo and Rahul, n.d.). Indian investment experience in South Asia has been mostly horizontal in flora. India has been looking for export seeking and market seeking options to invest in South Asia and this is the reason of expansion of Indian investment in South Asia especially in Bangladesh and Sri Lanka (Kanungo and Rahul, n.d.).

Overall investment of India remained low in South Asia as India's emerging MNCs are competing successfully in developed markets which are characterized by intensive technology and capital goods and services. In this connection, these MNCs are mostly market and export seeking and most of the South Asian countries have failed to provide sufficient incentives to Indian investors. Recently, India's outward FDI has been motivated by market size as well as access to frontier and strategically needed technologies that will improve their global competitiveness. Due to rising demand for oil, gas, and minerals to support industrialization and urbanization, India has recently shown rapid growth in outward FDI flows into extractive industries.

2.6 Investment Cooperation Initiative in South Asia: SAARC

A major policy focus of SAARC initiatives was promotion of trade-led intra-regional FDI. As a result, a major part of SAARC initiatives for economic cooperation in the 1990s and early 2000s was largely confined towards promotion of regional trade cooperation at first by establishing SAARC Preferential Trading Arrangement (SAPTA) in 1995, and then by establishing South Asian Free Trade Area (SAFTA) in 2006. There was no broad discussion on promotion of investment during this period outside the purview of trade cooperation within the region. Discussion on regional cooperation for investment was confined for the preparation of draft act for promotion and protection of intra-regional investment. This was implemented perhaps with the assumption that with the enactment of SAFTA, intra-regional investment will automatically increase.

The most concrete initiative so far made under the aegis of SAARC is to draft an agreement on promotion and protection of investment of regional countries. The major objective of the agreement is to ensure equal treatment for investments of SAARC countries without restriction, quota and marketing. Products of such investments will not be listed under the sensitive list in order to promote cross-border trade and investment. However, the draft agreement has been pending for approval since 2007. During the Seventeenth SAARC Summit held in Maldives, a fast-tracking of the regional investment treaty was called for along with the creation of regional production chains in order to deepen linkages in the SAARC region.

SAARC initiatives for the promotion of investment need to take into account a number of characteristic features of the region, particularly with regard to domestic production base, production network, and intra-regional and extra-regional investment. First, FDI in South Asia is mainly targeted toward local markets particularly domestic market-oriented manufacturing and services-related industries. Thus, intra-regional trade would have little implications for promotion of regional flow of FDI. Second, South Asia is a part of global production network linked with countries outside the region. Thus, promotion of an exclusive regional production network would not be attractive to the foreign investors including those of regional investors. Third, since foreign investors outside South Asia dominate FDI in most of the South Asian countries, promotion of extra-regional investment should be equally considered or at least should not be adversely affected through other measures. Fourth, with the rise of global flow of financial capital, South Asian countries need to consider further relaxation of the capital account to enhance regional flow of capital. In the SAARC Summit held in Addu, Maldives in 2011, regional flow of financial capital was stressed along with promotion and protection of investment. Thus there are scopes for taking initiatives beyond the traditional framework of regional investment cooperation in South Asia. Future institutional framework for investment should cater to multidimensional aspects of investment cooperation both within and outside South Asia.

In ‘effective’ terms, there is no independent separate body in the institutional structure of SAARC to deal with investment related issues. The inter-ministerial committee for trade discusses and takes decision on investment-related issues apart from their core activities related to trade. As the Committee has to spend its substantial time to discuss about related issues, investment issues were discussed very sporadically and particularly on a need basis. Such an approach on investment cooperation makes the issue dependent on the progress made in trade integration within the region. Given the gravity of the issue of investment cooperation both within and outside the trade-investment nexus, a separate body in the SAARC needs to be formed to deal with the relevant issues.

3. Investment Cooperation under the BIMSTEC

A key ambition of BIMSTEC is to establish a free trade area, the BIMSTEC-FTA. The Framework Agreement on BIMSTEC-FTA covers trade in services and investment in addition to trade in goods. This gives BIMSTEC cooperation a distinct flavour. The framework requires member countries to conduct negotiations on a positive list approach. The schedule of tariff reduction envisages both fast track and normal track tariff liberalisation, differentiated for non-LDCS and LDCS, with rules of origin and maximum ceiling of products in the negative list.

Over the past years, 3 Summits, 14 BIMSTEC Ministerial Meetings, 16 Senior Officials’ Meetings and a number of sectoral Ministerial Meetings have been held to advance the interests of economy-wide and sectoral cooperation among the member countries in light of BIMSTEC's declared objectives. Other Specialized Task force Meetings, Joint Working Group Meetings and Expert Group Meetings have also been held on a regular basis to design concrete actions towards implementation of the agreed agenda and decisions. The challenge will now be to implement the decisions taken at various levels with due urgency and efficacy. The Secretariat will hopefully lead this exercise.

From the Bangladesh country perspective, since BIMSTEC provides a gateway to the east, opportunities have been crated to deepen cooperation with ASEAN countries. By taking advantage of BIMSTEC Bangladesh can receive special attention. BIMSTEC cooperation could be leveraged to get into the growing ASEAN market.

4. Scope of Investment Cooperation in BCIM region

Investment potential for Bangladesh in BCIM ought to be identified by estimating potentials for intra-regional and extra-regional investment. However such estimates are not so easy because of limited available data on trade and investment particularly data of Bangladesh's bilateral trade and investment with West Bengal, Meghalaya and Manipur of India, Yunnan Province of China and even with Myanmar (recent data is unavailable). Therefore, the analysis has been carried out by using trade and investment related data of BCIM countries as a whole. Needless to say, such estimates would provide exaggerated potentials for investment in the BCIM; hence the estimates should be considered only 'indicative'.

4.1 Opportunities for Development of Regional Production Network

There are scopes for vertical integration between the sectors which are complementary with each other. Developing and least developed countries have long been excluded from global value chains (GVC) due to low-tech and labour intensive feature of their industries. South Asian countries, having similarities in the potential products as have been mentioned before have not been able to establish strong regional value chain (RVC). Based on the specialization of respective economies (e.g. lower factor prices), MNEs could have invested in different locations on potential complementary products.

Most of the South Asian countries, including India, have not much progressed in integrating into value chain compared to ASEAN countries, particularly Philippines, Vietnam, Malaysia and Thailand. This is reflected in the share of total foreign value added (FVA)[5] in gross exports of South Asian countries[6]. Inability

[5] Foreign value added refers to the total value added created in other countries which are used in production and exported by the reporting country (Banga, 2013)

[6] India's share was 24 percent in 2008 compared to 42 percent in Philippines, 40 percent in Vietnam and 38 percent both in Malaysia and Thailand (Banga, 2013).

to measure trade and value-added[7] by a trading country through entering RVC or GVC has led to insufficient attention to this type of integration. Thus it would be important to focus on measuring gains from trading within RVC and GVC. It would also be necessary to reshape the industrial and FDI policies of each member country within the region to encourage FDI that would also facilitate RVC linkage among the member countries. The measures within the policies and investment promotion agreements among them should be such that attract extra- regional FDI thereby accelerating linkage with GVCs.

Regional Trade Orientation: Among BCIM countries, Bangladesh has greater trade orientation[8] towards the region compared to other countries. A total of 15 out of 21 categories of total export products of Bangladesh have index value higher than 1 which indicate more trade orientation of those products in the region.[9] On the other hand, a total of 10 out of 21 sections of Myanmar's traded products are more oriented towards the region. India and China are less trade oriented towards the region as other countries of the region have less absorptive capacity of the huge supply of their different kinds of products.

Bangladesh's trade orientation to India, China and Myanmar is not the same. According to Table 6, Bangladesh has better trade orientation to India compared to other countries – a total of 14 out of 21 sections are found to have value over 1. Bangladesh's trade orientation to China and Myanmar is comparatively better only in limited number of sections – only in sections 9 and 4 respectively. However, such a limited level of trade orientation with Myanmar and China will significantly improve and will include other product categories when the corridor will be operational. Thus strong trade orientation mainly with India, but partly with Myanmar and China indicate possibility for development of regional value chain in South Asia.

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[7] Measured through subtracting the value of output from the value of input.

[8] Regional trade orientation index (RTOI) is designed to measure relative importance of intra-regional exports by identifying nature of similarities of trade of industrial and agricultural products in the region. Changes in the index value over time shows the dynamics of trade reorientation in the regional markets. RTOI varies from 0 to infinity with a value of unity indicating the similar pattern of trade between members and non-members while increasing values indicate a greater share of regional markets in exports of the relevant country. In this analysis, the RTOI has been estimated only for 2010 and 2012 (trade data of Bangladesh and Malaysia are not available for the year 2012). RTOI varies from 0 to infinity with a value of unity indicating the similar pattern of trade between members and non-members while increasing values indicate a greater share of regional markets in exports of the relevant country.

[9] These include the following: section i: live animals; animal products; section ii: vegetable products; section iii: animal or vegetable fats; section iv: prepared foodstuffs; beverages, tobacco; section v: mineral products; section vi: products of the chemical or allied industries; section vii: plastics; rubber; section viii: raw hides and skins, leather, furskins; section ix: wood and articles of wood; wood charcoal; section x: pulp of wood or of other fibrous cellulosic material; section xiii: articles of stone, plaster, cement, asbestos, mica; section xv: base metals and articles of base metal; section xvi: machinery and mechanical appliances; section xviii: optical, photographic, cinematographic, measuring; section xx: miscellaneous manufactured articles.

Table 6: Trade Orientation Index of Bangladesh for the other countries in the corridor

Product label	*India*		*China*		*Myanmar*
	2010	*2012*	*2010*	*2012*	*2010*
SECTION I: LIVE ANIMALS; ANIMAL PRODUCTS	4.0	3.2	3.0	5.1	0.0
SECTION II: VEGETABLE PRODUCTS	13.6	40.1	7.1	1.7	0.0
SECTION III: ANIMAL OR VEGETABLE FATS	37.3	164.4	4.8	2.4	0.0
SECTION IV: PREPARED FOODSTUFFS; BEVERAGES, TOBACCO	4.0	8.7	0.0	0.0	0.0
SECTION V: MINERAL PRODUCTS	23.6	14.1	9.0	7.8	0.0
SECTION VI: PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES	2.8	14.7	0.0	0.8	138.3
SECTION VII: PLASTICS; RUBBER	4.9	7.4	37.7	37.1	0.0
SECTION VIII: RAW HIDES AND SKINS, LEATHER, FURSKINS	2.7	0.6	9.2	7.1	0.1
SECTION IX: WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL;	8.9	2.2	0.2	0.9	0.0
SECTION X: PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL;	4.2	6.8	0.1	1.0	1.9
SECTION XI: TEXTILES AND TEXTILE ARTICLES	0.5	0.5	0.6	0.7	0.0
SECTION XII: FOOTWEAR, HEADGEAR, UMBRELLAS, SUN UMBRELLAS	0.3	0.2	0.4	0.5	0.0
SECTION XIII: ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA	8.2	1.0	0.2	0.0	0.0
SECTION XIV: NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES	0.0	87.4	0.4	0.0	0.0
SECTION XV: BASE METALS AND ARTICLES OF BASE METAL	24.6	38.5	0.2	0.1	83.6
SECTION XVI: MACHINERY AND MECHANICAL APPLIANCES;	5.4	5.6	1.8	2.3	1.5
SECTION XVII: VEHICLES, AIRCRAFT, VESSELS	0.0	0.2	0.0	0.0	0.0
SECTION XVIII: OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING,	0.2	0.6	30.9	26.2	0.2
SECTION XIX: ARMS AND AMMUNITION;	--	0.0	--	0.0	--
SECTION XX: MISCELLANEOUS MANUFACTURED ARTICLES	3.8	1.2	3.6	3.5	0.4
SECTION XXI: WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	0.3	2.6	0.0	0.0	0.0

Source: Trade Map Database, ITC

Intra-Industry Trade: The extent of intra-industry trade has been calculated by using Grubel-Llyod Index (GLI). Tables 7 and Table 8 show top ten sectors of intra-industry trade between Bangladesh and India and Bangladesh and China, respectively, with GLI value higher than other sectors. In case of Bangladesh-India intra-industry trade, a number of sectors have values close to 1 which indicate Chapter 8 (Edible fruit, nuts), Chapter 3 (Fish, crustaceans), Chapter 41 (Raw hides and skins) and Chapter 99 (others). For some sectors, the value has significantly increased within a short period of time – between 2008 and 2012 value of GLI increased significantly for Chapter 8 (Edible fruit, nuts), Chapter 3 (Fish, crustaceans), Chapter 64(Footwear, gaiters) and Chapter 78 (Lead and articles). Therefore Bangladesh could further strengthen production network with India for a number of products. It is not clear whether similar level of GLI value would be found in the case of Bangladesh's trade with the Indian states under the BCIM EC such as West Bengal, Meghalya, Manipur and Assam.

On the other hand, Bangladesh's intra-industry trade with China is highly concentrated textile products, which include Chapter 53 (Vegetable textile fibres nes), Chapter 63 (Other made textile articles), Chapter 61 (Articles of apparel, accessories, knit or crochet), and Chapter 52 (Articles of apparel, accessories, not knit or crochet). With having the manufacturing base of textiles in Yunnan, intra-industry trade of textile related products may increase with the province in the future.

Table 7: Gruble-Llyod (GLI) Index of Intra Industry Trade between Bangladesh and India (At HS 2 digit level: Top 10 Chapters)

HS Code	Product's Name	2008	2009	2010	2011	2012
8	Edible fruit, nuts, peel of citrus fruit, melons	0.173	0.158	0.647	0.779	0.966
99	Commodities not elsewhere specified	0.263	0.642	0.005	0.973	0.907
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	0.194	0.748	0.363	0.150	0.814
41	Raw hides and skins (other than furskins) and leather	0.762	0.413	0.421	0.933	0.813
64	Footwear, gaiters and the like, parts thereof	0.041	0.059	0.853	0.116	0.770
62	Articles of apparel, accessories, not knit or crochet	0.354	0.787	0.850	0.883	0.742
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0.843	0.936	0.432	0.504	0.735
28	Inorganic chemicals, precious metal compound, isotopes	0.964	0.693	0.141	0.442	0.725
78	Lead and articles thereof	0.187	0.000	0.938	0.000	0.659
94	Furniture, lighting, signs, prefabricated buildings	0.366	0.841	0.367	0.638	0.644

Source: Trade Map Database, ITC

Table 8: Gruble-Llyod (GLI) Index of Intra Industry Trade between Bangladesh and China (At HS 2 digit level: Top 10 Chapters)

HS Code	Product's Name	2008	2009	2010	2011	2012
53	Vegetable textile fibres nes, paper yarn, woven fabric	0.73	0.69	0.84	0.98	1.00
63	Other made textile articles, sets, worn clothing etc	0.84	0.86	0.57	0.72	0.88
61	Articles of apparel, accessories, knit or crochet	0.99	0.73	0.75	0.91	0.70
62	Articles of apparel, accessories, not knit or crochet	0.80	0.96	0.80	0.61	0.68
26	Ores, slag and ash	0.37	0.00	0.01	0.14	0.45
67	Bird skin, feathers, artificial flowers, human hair	0.73	0.69	0.59	0.55	0.34
44	Wood and articles of wood, wood charcoal	0.00	0.00	0.00	0.03	0.31
90	Optical, photo, technical, medical, etc apparatus	0.08	0.24	0.28	0.35	0.30
15	Animal, vegetable fats and oils, cleavage products, etc	0.03	0.78	0.85	0.88	0.25
57	Carpets and other textile floor coverings	0.56	0.39	0.56	0.47	0.25

Source: Trade Map Database, ITC

5. Way Forward Towards Deepening Investment Cooperation

5.1 Issues related to FDI in Trade and Industrial Policy

FDI regime in most of the South Asian countries is related with policies of trade and industry, including SMEs. This provides strategic policy direction to the economy in production, export, import and investment. Nepal under the *Industrial Policy 2009* provides special priorities in case of RMG, carpets and woolen goods, pashmina and silk products, handicraft goods, tea, wooden craft products, processed leather, coffee, vegetables and spices. As part of facilitating those industries various kinds of fiscal, monetary and non-fiscal supports are announced in the policy. India's Foreign Trade Policy 2009-2014 have specialized support arrangement for agriculture and village industry, handlooms, handicrafts, gems and jewelry, leather and footwear, marine , electronics and IT and sports goods and toys. Investment in these industries has been facilitated through duty-free import facility, special development fund and other fiscal incentives. Bangladesh's Export Policy 2012-15 on the other hand, promotes a total of 12 sectors as 'booster sector', which includes fruits and vegetables, SMEs, RMG, frozen fish, handicrafts, tea, jute and leather. Similarly, Industrial Policy 2010 announces 32 sectors as 'thrust sectors' with a view to promote industrialization through those industries.[10] The preferential sectors in case of Sri Lanka include fabric, pharmaceuticals, milk powder, cement, agriculture, manufacturing and SMEs where various kinds of fiscal support (especially tax exemption facility). Pakistan's Strategic Trade Policy Framework 2009-12, on the other hand, announces several preferential sectors including SMEs, textiles and clothing, leather, pharmaceuticals, agro-processing and dairy, light engineering and machinery where fiscal (minimization of taxation), monetary (re-financing facility), non-fiscal (international exposure, warehouse facility, subsidy for compliance certification etc.) and others (skill up gradation programme) etc. The preferential sectors of South Asian countries have lots of similarities which could be taken into account while undertaking regional policy for investment cooperation.

5.2 Overcoming Tariff and Non-tariff Barriers

Regional trade takes place under different tariff structures maintained at bilateral and regional trade agreements. SAFTA is the key regional trade agreement which facilitates trade by providing preferential tariffs for products originated from the region except those products which are in the sensitive lists of each of the member countries. Despite review of the sensitive lists several times, the number of products under the list is still long. Without pruning the lists by a significant number both by developing and least developed countries, it is difficult to develop regional value chain in different sectors. However, LDC members including Afghanistan, Bangladesh, Nepal and Bhutan enjoy duty-free market access to most of their products to India, the main market in the region under the SAFTA accord. Bilateral trade between India and Sri Lanka has been taking place under the Indo-Lanka FTA with preferential tariff. As part of establishing economic union, harmonization of tariff structure will be required with significant reduction of the sensitive lists.

Rules of origin (RoO) currently in operation under different trade agreements between South Asian countries is an important factor towards the development of regional value chain. The RoO followed in SAFTA, Indo-Sri Lanka FTA, ASEAN-India FTA needs to be closely examined with a view to understanding the necessity to harmonize the rules to create effective regional cumulation.

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[10] These industries include agro-based and agro-processing industry, human resource export, ship building, renewable energy (solar power, windmill), tourism, basic chemicals/dye and chemicals, ICT and ICT based service, readymade garments industry, active pharmaceuticals ingredient industry and radio pharmaceuticals industry, herbal medicinal plant, radio-active (diffusion) application industry (e.g. developing quality of decaying polymer/preservation of food/ disinfecting medicinal equipment), development of polymer industry, jute and jute products, leather and leather products, hospital and clinic, light engineering industry, plastic industry, furniture, handicrafts, energy efficient appliances/manufacturing of electronic goods/development of electronic materials, frozen fish industry, tea industry, home textiles, ceramics, tissue grafting and biotechnology, jewelry, toy, container service, warehouse, innovative and import substitute industry, cosmetics and toiletries, and light engineering industry.

Non-Tariff Barriers (NTBs) including SPS and TBTs widely prevail in bilateral trade in BCIM region. These NTMs include certification requirements, labeling, marking and packaging requirements, traceability requirements, tolerance limits for residues and contaminants or restricted use of certain substances. According to Raihan (2014), most cited NTMs for Bangladesh and India are para tariffs, port restrictions, pre-shipment inspection requirement, SPS and TBT restrictions and fluctuating standards and procedural issues. On the other hand, most cited NTMs in Myanmar are health and sanitary, national security issues, public moral and security issues and safety and security issues (ASEAN Website, accessed on August, 2014). China's major NTMs are SPS measures, customs procedures, valuations and rules of origin, indirect taxes, import prohibition and licensing, state trading, contingency measures, import-related financing. A large part of these restrictive measures are applicable to member countries' export of agricultural products, raw materials and intermediate products, which indicate possible obstacles for growth of bilateral trade in the region once the BCIM EC is in operation. Without having harmonized standard on SPS, TBT and other requirements, regional production network would not work effectively and efficiently.

5.3 Institutional Mechanism for Regional Investment Cooperation

SAARC countries and BCIM can take lessons from ASEAN with regard to setting up necessary institutional mechanism for the promotion of investment. The success of ASEAN could be a good learning experience in this regard.

In order to integrate trade, investment and production-related activities within the region, ASEAN has put emphasis on three core integration schemes including ASEAN Investment Area (AIA), ASEAN Free Trade Area (AFTA) and the ASEAN Industrial Cooperation (AICO) scheme. Such integration of investment related schemes under strong trade integration between countries has facilitated greater regional integration and make the regional production networks more competitive.

ASEAN Industrial Cooperation (AICO) scheme is currently in operation particularly focusing on investment schemes promoted through tariff and non-tariff benefits (e.g. preferential tariff of 0-5 per cent for products manufactured by participating companies).[11] Under the AICO, ASEAN companies undertake joint-venture initiatives in the manufacturing sectors. Such arrangements facilitate physical movement of products between participating companies as well as encourage resource sharing/pooling and/or industrial complementation.[12]

[11] AICO scheme allows joint-venture of participating companies which operate at different stages of the production value-chain including raw materials, intermediate products and final products. Produced products of the participating companies will enjoy different levels of market access in the respective companies' market depending on at what stage the products are produced- from 0-5 per cent in case of raw materials and intermediate products to unlimited access in case of final products. For details see, http://www.asean.org/communities/asean-economic-community/item/asean-industrial-cooperation-scheme)

[12] A number of private sector initiatives have been carried out among regional investors including ASEAN Industrial Joint Venture (AIJV) and the Brand-to-Brand Complementation (BBC) Schemes and ASEAN Industrial Cooperation (AICO) scheme etc.

At inter-government levels, the Industrial Cooperation Scheme could be undertaken for the promotion of investment through tariff and non-tariff benefits. Under the Industrial Cooperation Scheme, companies in the region could undertake joint-venture initiatives in the manufacturing sectors. Such arrangements facilitate physical movement of products between participating companies as well as encourage resource sharing/pooling and/or industrial complementation. These schemes would allow joint-venture of participating companies, which operate at different stages of the production value-chain including raw materials, intermediate products and final products. Produced products of the participating companies will enjoy different levels of market access in the respective companies' market depending on at what stage the products are produced.

Countries under cooperation should reduce and where possible eliminate restrictions for regional and foreign investors in case of entry in national priority sectors. The national treatment and MFN treatment facilities need to be provided to investors from member countries particularly with regard to application of rules and provision of fiscal incentives.

The member states shall modify their domestic regulations that will be inconsistent with the existing regional agreements of investment and to the rights and obligations of the member countries. This provision shall be applicable to investors from outside the region.
Countries may establish dispute settlement mechanism for dealing with the issue among member countries; in this case the settlement procedure shall include judicial, arbitral and administrative body of the state where the investment has taken place.

Each member state shall ensure transparency and consistency of investment related regulations among the member countries. BCIM countries should follow a regional position with regard to their individual positions in multilateral agreements related to investment.

Simplification of investment procedure needs to be ensured by undertaking the following measures- a) simplification of procedures in investment approval process; b) simplification of cross-border customs regulations and dissemination of the rules; c) dissemination of information on investment related rules and regulations among the member countries; d) development of harmonized manual of guidelines for investment in specific sectors within the regional countries; e) strengthening institutional regulatory frameworks within the regional countries; f) effective regional financial networking, particularly banking network for easy transactions; g) addressing the trade-related barriers, including non-tariff barriers, sensitivity lists, SPS and TBT measures, underdeveloped physical connectivity and differential rules of origin etc.

5.4 Creating Provisions for Outward Investment from Bangladesh

There are potential sectors in South Asia and East Asia where Bangladeshi entrepreneurs would be interested to invest. Bangladesh could invest in Yunnan's Hydropower projects and could re-export the generated electricity through 'regional energy grid' via Myanmar and India for the special economic zones. Bangladeshi investors may like to invest in small-scale renewable energy projects in Myanmar. The energy generated in those projects could by supplied to the special economic zones. Cross-border energy trade between Bangladesh and Myanmar would make significant contribution to enhance regional trade and investment; in this context, development of regional energy grid and harmonization of energy pricing at regional level would be important.

6. Conclusion

In recent years, most South Asian nations are practising more liberal and outward looking economic policies rather than inward looking and import substituting economic policies. With an average of 6.0 percent economic growth rate over the years and US$ 954 GDP per capita, South Asia has some unique features which make it distinct from other regions of the world. Countries of South Asia have huge potential in investment cooperation that can be realised by proper policy support and appropriate facility for investment friendly environment. Having said so, here we must understand that it is the responsibility of the South Asian governments to devise policies and strategies in such a manner that would support the efforts and investments being made.

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