UNLEASHING THE POTENTIAL OF INTRAREGIONAL INVESTMENT

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Presentation Outline

- Global FDI Trends
- Flow of FDI in South Asia
- Intraregional investment
- Boosting Intraregional Investment
- Prospects
- SAARC Agreement on Promotion and Protection of Investments
- Complementary initiatives and measures

Global FDI 2014-2015

- Global foreign direct investment (FDI) inflows declined by 2% overall in 2016 to $1,746 billion, down from $ 1,774 billion in 2015, but with variance among country groups and regions.
- Flows of developed economies increased by 5% to $1,032 billion.
- FDI to developing economies experienced a decline of 14%, to $ 646 billion.
- Flows to developing Asia contracted by 15%.

FDI Flows in S. Asia

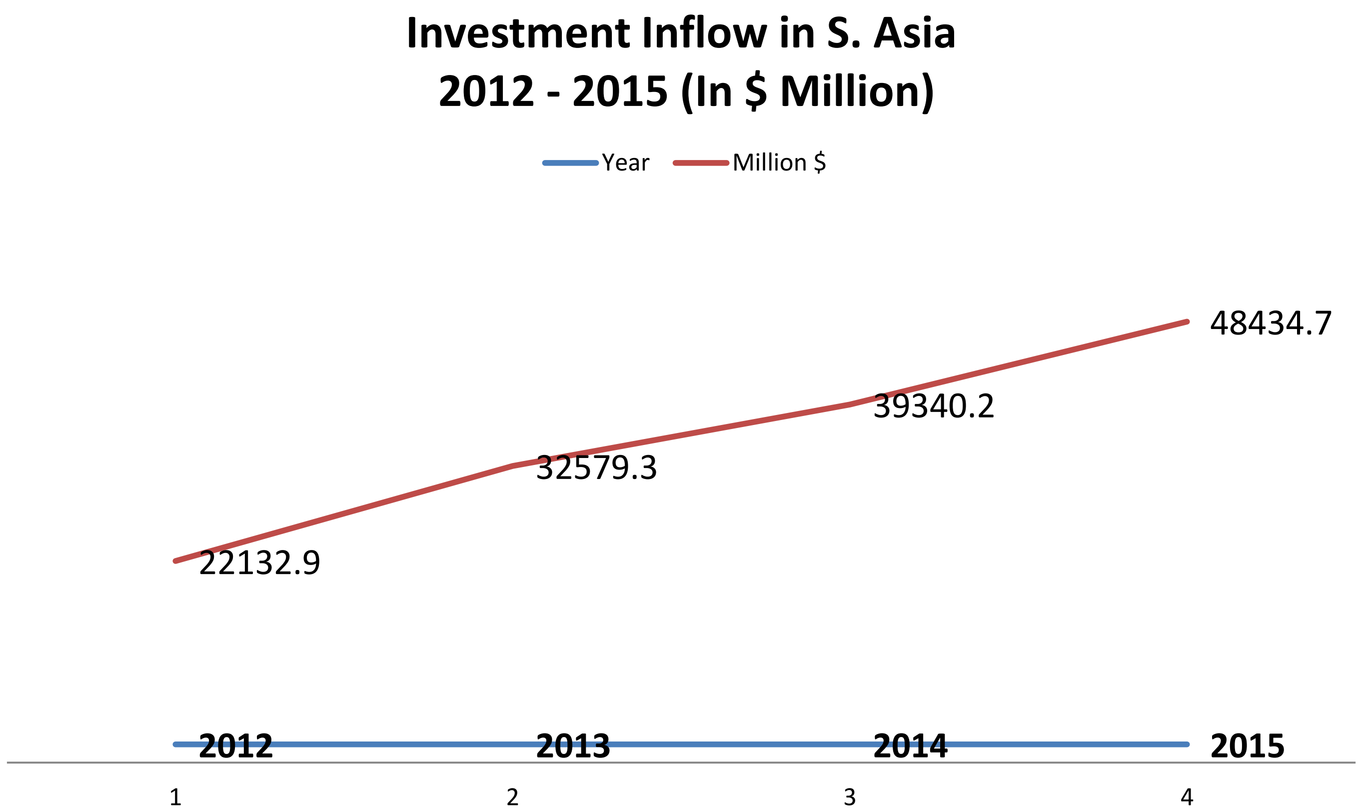
	FDI Flows - Value in US $ Billion			
FDI Flows		2014	2015	2016
Inflows	World	1324	1774	1746
	South Asia	41	51	54
	%	3.1	2.9	3.1
Fotflows	World	1253	1594	1452
	South Asia	12	8	6
	%	1	0.5	0.4

Source: World Investment Report 2017, UNCTAD

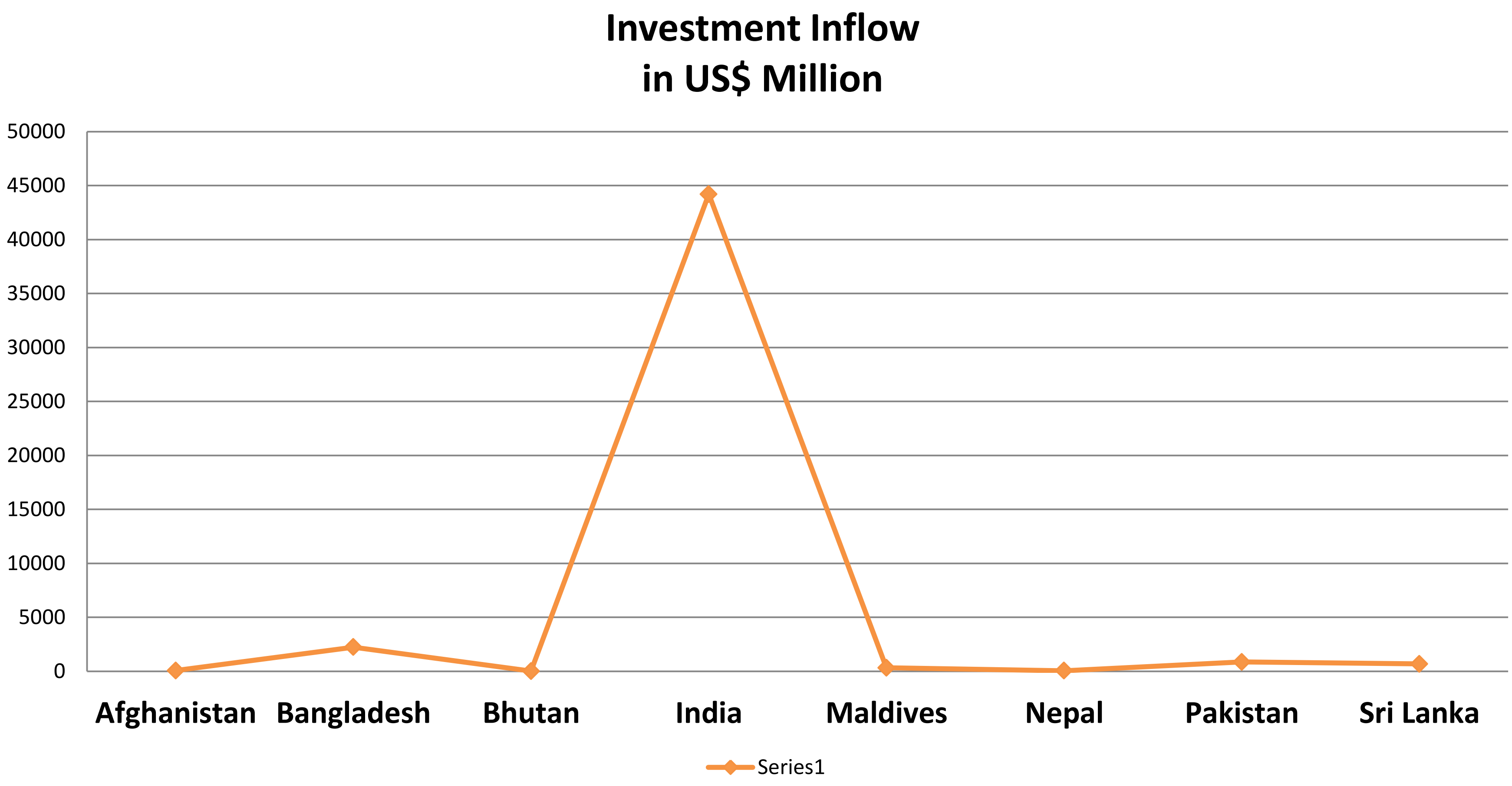
FDI Inflows in S. Asia

FDI Inflow in South Asia in US$ Million				
Years	**2012**	**2013**	**2014**	**2015**
Afghanistan	93.8	69.3	53.6	58
Bangladesh	1,292.60	1,599.20	1,551.30	2,235.40
Bhutan	49.1	13.7	31.6	12.1
India	18,286.00	28,199.40	34,582.10	44,208.00
Maldives	228	360.8	333.4	323.9
Nepal	92	71.3	29.6	51.4
Pakistan	1,150.30	1,333.00	1,865.00	864.7
Sri Lanka	941.1	932.6	893.6	681.2
Total	22132.9	32579.3	39340.2	48434.7

FDI Inflows in S. Asia increased by more than double in four years



FDI Inflows in South Asia in 2016



FDI Inflows in South Asia in 2016

- FDI flows to South Asia rose by 6 per cent, to $54 billion in 2016.
- Despite a historically high number of announced green-field projects in 2015, FDI flows to India were largely flat at about $44 billion in 2016, up only 1 per cent from 2015.
- Although new liberalization efforts continue to improve the investment climate in India, tax-related concerns remain a deterrent for some foreign investors.

FDI Inflows in S. Asia in 2016

- FDI to Pakistan rose by 56 per cent, pulled by China's rising investment in infrastructure related to the One Belt One Road Initiative (BRI).
- Inflows to Bangladesh increased slightly, to $2.3 billion, as the country benefited from the announcement of new, large-scale electricity projects.

FDI Outflows from S. Asia in 2016

- FDI outflows from South Asia declined by 29 per cent to only $6 billion in 2016, as India's outward FDI dropped by about one third.
- Most of these outward FDI projects were related to diversification efforts of the home countries.
- India and other South Asian countries are linking up with regional value chains and infrastructure networks. Indian manufacturing industries have started to integrate significantly into the strong and sophisticated regional production networks in East and South-East Asia.

Intraregional Investment is Negligible

Investment Outflows of S. Asian Countries			
Home Country	**Total Stock in $ Million**	**Host Countries**	**Investment Sectors & Sub-sectors**
Afghanistan	65.00	UAE	Mineral and Metal
Bangladesh	188.30	Russian Federation, Myanmar	Transport, Publication
Bhutan	0	0	0
India	138967.00	Brazil, Mauritius, Indonesia, S. Africa, China, Thailand, Singapore, UAE	Service, Mining, Manufacturing, Agriculture, Petroleum
Maldives	0	0	0
Nepal	0	0	0
Pakistan	1719.00	**Sri Lanka** (Wood and non-metalic mineral), UAE, Turkey, Slovenia	Agriculture, Forestry, Mining, Petroleum, Food and other Manufacturing
Sri Lanka	660.00	**India**, Bermuda, Vietnam, Malaysia, Bangladesh	Food, Mineral, Transport and Manufacturing
Total	141599.30		

Boosting Intraregional Investment

General Requirements

- Cost and Time Reduction Approaches for Increased competitiveness
- Regional Cooperation Mechanism
- Investment Security and Guarantee
- Favourable and Transparent Regulatory Provisions
- Infrastructure/ connectivity Development
- FDI Friendly Fiscal and Monetary Policies
- Human Resources Development

Prospects in South Asia

- Large Market Size: More than 1500 Million Population
- Low labour cost and Availability of skilled labour
- Favourable and liberalized trade and investment policies
- Availability of finance through host country institutions
- Attractive rate of return on investment
- Availability of natural and other resources

Why Intraregional Investment is Low?

Constraints impeding intraregional investment

- Absences of Cooperation Mechanism
- Political Instability & Labour Unionism
- Poor Connectivity and Infrastructure
- Inadequate Energy Supply
- Stringent Monetary and Fiscal Policies
- Non-attractive Rate of Return on Investment

Complementary initiatives and measures

- Improving transport and logistics
- Implementing trade facilitation measures
- Reducing transaction costs and
- Encouraging investments from SMEs

SAARC Agreement on Promotion and Protection of Investments

- The SAARC Agreement on Promotion and Protection of Investments, although drafted in 2007, is yet to come into effect.
- Major important features of this proposed Agreement include:
  - **Objectives**: (i) Fostering and promoting investments among the members, (ii) ensuring investment protection and (iii) special treatment to LDC partners.
  - **Main provisions**: (i) Expropriation; (ii) Compensation for Losses; (iii) Repatriation of Investment and Returns; (iv) Subrogation; (v) Settlement of Disputes; (vi) Application of laws and rules of the contracting parties.

SAARC Agreement on Promotion and Protection of Investments

Its aims create conditions favourable for fostering greater investment by investors of one Contracting State in the territory of another Contracting State;

It aims encourage and reciprocal protection under international agreement of such investment will be conducive to the stimulation of individual business initiative and will increase prosperity in the region;

It enforces that the Least Developed Countries among the Contracting States need to be accorded special and differential treatment commensurate with their development needs;

Scope and promotion

- It apply to all investments made by investors of a member State in the territory of another member state
- Each State shall encourage and create favourable conditions for investors of another State to make investments in its territory, and admit and protect such investments in accordance with its laws, regulations and policies.

Treatment of Investment

Treatment of Investment

- The treatment for investments of investors of any other Contracting State, shall not be less favourable than:
  - that accorded either to investments of its own investors or investments of investors of any third State
  - including in respect of returns on their investments, treatment which shall not be less favourable than that accorded to investors of any third State.

Expropriation

(1) Investments of investors of a Contracting State shall not be nationalised, expropriated or subjected to measures having effect equivalent to nationalisation or expropriation

(2) The investor affected shall have the right, under the law of the Contracting State making the expropriation, to review by a judicial or other independent authority of that State, of his or its case and of the valuation of his or its investment in accordance with the principles set out in this paragraph.

(3) Contracting State expropriates the assets of a company the contracting state shall to ensure fair and equitable compensation in respect of their investment to such investors of the other Contracting State.

Compensation and Repatriation

- Investors of one Contracting State whose investments suffer losses owing to war or other armed conflict, a state of national emergency or serious civil disturbances shall get no less favourable than that which the latter Contracting State accords to its own investors or to investors of any third State with regards restitution, indemnification, compensation or other settlement,.
- Resulting payments shall be freely transferable.
- Each Contracting State shall, permit all funds of an investor of any other Contracting State related to an investment in its territory to be freely transferred,

Dispute settlement

- Settlement of Disputes Between an Investor and a Contracting State
- Disputes Between the Contracting States

Duration and Termination

- Agreement shall remain in force for a period of ten years and thereafter it shall be deemed to have been automatically extended.
- After the initial ten year period, a Contracting State may withdraw from the Agreement by giving at least twelve months notice in writing.
- The withdrawal of a Contracting State shall not affect the application of the Agreement among the remaining Contracting States.
- Agreement shall continue to be effective for such Contracting State for a further period of ten years from the date of its withdrawal in respect of investments made or acquired in its territory before the date of withdrawal from this Agreement.

Present Status

- The Eighth Meeting of the SAARC Sub-Group on Investment and Arbitration (SAARC Secretariat, 7-8 August 2014) agreed that the draft should take into account their national interests and, therefore, the Preamble and other Articles
- The Eighth Meeting of the SAARC Inter-Governmental Expert Group on Financial Issues (Islamabad, 20-21 July 2016) also noted that the text of model received from India should be multilateral instead of bilateral, which will serve as a broad template text for multilateral agreement for negotiation.
- The Meeting requested India to re-formulate the text of the Agreement.

Present Status (contd.)

- The Meeting also urged the Member States to host the Ninth Meeting of the Sub-Group on Investment and Arbitration to finalize the Draft Text of the SAARC Agreement on Promotion and Protection of Investments.
- Accordingly, India conveyed the revised draft Text on multilateral basis for the SAARC Regional Investment Treaty, which may serve as a broad template for the draft SAARC Agreement on Promotion and Protection of Investments.
- The SAARC Secretariat circulated the draft Text to all Member States for their views/comments on 04 April 2017 with the request to host the Ninth Meeting of the SAARC Sub-Group on Investment and Arbitration, so that the draft Text may be examined and finalised. So far, no views/comments or further response has been received from the Member States.

Swift Measures for Deep Integration in Investment

- Regulatory provisions to promote global value chain development
- Speedy improvement in technologies
- Regulations to guarantee investment
- Stable Provisions for fiscal incentives
- Guaranteeing national treatment
- Permission profit repatriation
- Simplifying administrative procedures
- Permitting investment to SMEs by lowering or removal of capital controls


Thank You!