Intra-Regional FDI in South Asia: A Firm Level Case Study in Banking, Infrastructure, Healthcare and Textile sectors

Anirban Gupta and Dhritiman Mallick[1]

Abstract: South Asia is home to a fifth of the world population and is considered to be the fastest growing region in the world. The projected regional GDP growth is estimated to increase from 7% in 2015 to 7.6% in 2017[2]. It has also been accredited as the second worst business environment[3], and has performed relatively poorly compared to other regional associations like ASEAN and EU in attracting FDI inflows and promoting investments within the region. The reasons thereof have been accredited to the political instability and regulatory barriers in this region. Even among the member states, trade and investments are relatively poor as compared to the other regional blocks. Understanding the constraints to intra-regional FDI flows and business environment will help to formulate policies and attract investments by the regional firms in the markets. This study analyses the constraints to attracting intraregional FDI inflows in South Asia in several sectors, such as energy, healthcare, and textiles, among others, which have potential for investments within the region. The analysis is backed by firm-level case studies which delve into the political environment and the regulatory barriers to doing business in this region and the competitive advantages offered by some of the South Asian countries to understand the trade and investment bottlenecks as well as the potential opportunities for enhancing regional integration through investment flows. The study concludes with the likely benefits and recommendations for intra-regional trade and investments with resulting benefits to the South Asian countries.

Introduction:

South Asian FDI Environment and its comparison with ASEAN:

The South Asian nations promise an ideal case for economic integration. The region comprises of an integrated and continuous landmass and shares culture, values and history. The members of the SAARC comprise of eight nations which together comprise over 20% of the world's population (1.7 Billion) with a combined GDP of USD 2.608 Trillion [4](2014). It can be comparable to the ASEAN which is relatively similar in that context, comprising of a population of 600 Million and a combined GDP of USD 3 Trillion. However, while ASEAN

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[1] Students PGP, Indian Institute of Management Bangalore under the guidance of Prof Rupa Chanda

[2] http://www.worldbank.org/en/news/press-release/2014/10/06/led-india-south-asia-economic-growth-accelerate

[3] World bank group, Rankings on ease of doing business

[4] Data, World Bank Group, 2014

is projected as a single market and a growth corridor, SAARC is fragmented and the growth centre is mainly concentrated in India.

Formation of SAARC

The South Asian Association for Regional Cooperation was formed to promote welfare economics and cross border socio cultural development in the region. Even though the collective block forms around 21% of the world population and 9.12% of the world economy, it remains fragmented due to political incompatibility between the major players.

The formation of SAARC was suggested by Bangladesh during the mid-1980s. India was the larger partner compared to others in comparison to physical size, population, military power and economic strength and was viewed with suspicion by all the other states. It considered that a forum with the smaller regional states would make the association a platform for "India Bashing"[5]. Further, non-participation in such a forum would be considered as avoidance of an innovative proposal. The political rivalry between the two major nations ensured that the projects were small and practical in nature coupled with political correctness.[6]

It may be argued that the constant unrest due to India and Pakistan has also led to unfavourable circumstances for the smaller states. They find it increasingly difficult to utilise the forum for their mutual benefits considering that the bigger states are in a constant state of dispute. Nevertheless, there are interregional problems between the smaller states like Bhutan and Nepal over the Nepalese minority in Bhutan. Even Bangladesh and Pakistan continue their differences over the 1971 civil war. There are also issues regarding illegal migration, water and border sharing between India and its neighbouring states like Bangladesh and Nepal.

After the demerger of Bangladesh, Pakistan has tried to move towards the west Asian Islamic states, while India has tried to build up regional cooperation blocks excluding Pakistan. Despite the differences, there has been bilateral cooperation between the other states on many fronts. The Free trade agreement between India and Sri Lanka for instance is considered a major breakthrough for trade and economics in this region, while the BIMSTEC is poised to improve the intraregional trade activities. SASEC was formed between India, Bangladesh, Nepal and Bhutan in 2001 for cooperation in the energy sector. However, the SAARC forum in itself has never gained the strength or cooperation which would poise it as an integrated economic block.

Total annual foreign direct investment inflows to South Asia have increased substantially after the introduction of policy reforms in the South Asian economies.[7] In 2013, only 2.4% of the global FDI inflow was directed towards South Asia.[8] A large disparity can be observed among the countries in the region with India attracting around 77% of these investments[8]. In case of overseas direct investments, outflows from South Asia stood at 0.2% of the global

[5] SAARC – 25 Years of Regional Integration in South Asia, Tomislav Delinić
[6] http://www.iosrjournals.org/iosr-jhss/papers/Vol14-issue5/K01457174.pdf?id=6910
[7] Intra-Regional FDI and Economic Integration in South Asia: Trends, Patterns and Prospects, Prema-chandra Athukorala Australian National University
[8] World Investment Report 2014: Investing in the SDGs: An Action Plan, UNCTAD

contribution in 2013, with India constituting over 90% of the share.[9] South Asia has been accredited as the second worst business environment in the world[10], and has performed relatively poor in attracting FDI inflows as well as in promoting cross-border investments within the region. According to available literature, poor governance, institutional bottlenecks, political instability, mutual mistrust and historical animosity are some of the factors[11] that explain the failure of the region to exploit possibilities[12]. Understanding the general as well as sector-specific constraints to FDI flows into and within the region is thus important for formulating policies that can help improve the business environment and ensure the various growth, development and regional integration related benefits that can be derived from FDI inflows from the rest of the world and from within the region.

Regional integration in ASEAN has resulted in tariffs that have been virtually eliminated among the ASEAN member countries. ASEAN has built on its mission of regional integration and equitable economic development to create the "ASEAN highway network" for infrastructure and logistics requirements through the construction of roads linking the capital cities and major locations[13]. It has also conceptualised the ASEAN power grid, for trade and transfer of power across borders in which six of the sixteen cross border connections are already in operation. They have also implemented the "ASEAN open Skies" policy for a single unified air transport market through liberalisation of air services[14]. The process is projected to increase mobilisation and better connectivity among the regions.[15] The block is undergoing further enhancements in the business incubation and telecommunications network for future growth. Further, the block is expected to allow free movement of skilled professionals such as doctors, lawyers etc. across the borders. ASEAN has also tried to expand the community by inclusion of strategic partners like Australia, New Zealand, India, China, Japan and Korea through ASEAN plus three/six and East Asia initiatives. The strategic framework can therefore be considered as a stepwise progression of the regional block as a single market and production base through sequential integration.

The integration was initiated through free trade and investment flows and reduction in intra-regional tariffs. This was supported in parallel by infrastructure development and energy and transportation linkages. This helped in consolidating the region's development as an export oriented market. The share of intra-regional trade has remained stable at 25% of the total[16] as on 2012 while export has been mainly concentrated towards Japan, China and the European Union. In case of FDI, the net inflow of intra ASEAN investments has remained at 21.7% as on 2014. Despite the export focus, the average intra-regional trade has remained at the same level.

The SAARC stands in stark contrast to ASEAN in terms of integration and regional cooperation. The region has made deliberate attempts from the beginning to exclude core

[9] Asia-Pacific Trade and Investment Report 2013, United Nations
[10] World bank group, Rankings on ease of doing business
[11] Regional Economic Integration and FDI in South Asia : Prospects and Problems, Aradhna Aggarwal, July 2008
[12] ADB Institute Discussion Paper No. 56 Foreign Direct Investment in South Asia: Policy, Trends, Impact and Determinants, Pravakar Sahoo
[13] http://www.irrawaddy.org/burma/asean-highway-link-set-2014-completion-karen-state-official.html
[14] THINKING GLOBALLY, PROSPERING REGIONALLY ASEAN Economic Community 2015
[15] http://www.aseanbriefing.com/news/2015/01/02/asean-open-skies-policy-implemented-2015.html
[16] http://www.asean.org/news/item/external-trade-statistics

areas of finance and trading mostly as a result of rival politics. The South Asian Preferential trade agreement was signed in 1995 but remained unproductive because of commodity by commodity negotiations for reducing tariffs. It was replaced by the South Asian Free trade agreement in 2004[17]. Even the latter was a flawed agreement mostly because it stood for tariff rates to a range reaching up to 30% for some of the goods as compared to an average nearing zero percent for the ASEAN nations. It has also had comparatively larger time frames for reduction in tariffs. Some of the countries like India had a higher negatives trading list than bilateral agreements and almost four times higher than the average negatives list of ASEAN states. Pakistan refused to adopt SAFTA for its trade with India which was poised to be the largest share and bring more credibility to the agreement. The agreement also ignored the requirements for deeper integration via cooperation in transport and transit.

Due to the geographical positioning of the countries, the free transit through the territories is of paramount importance. Bangladesh continues to deny free transit to India through its territory to reach its north east regions, while the association becomes irrelevant for Afghanistan's exports as territorial barriers exist for its goods to reach the markets of India or Bangladesh. As the economies in South Asia are large markets in themselves, limited access to these markets reduces the scope for economic integration.

The largest economy in South Asia, which accounts for almost 80% of the region's GDP, is India, which also is the largest source country investor in the SAARC region. In 2014, total financial commitments by Indian firms abroad stood at USD 38.25 billion[18]. The majority of these investments were directed towards Netherlands, Mauritius and Singapore while investments in the SAARC region constituted only 0.2% of total investments[18], which is in stark contrast to the significant intra-regional share of investment for the ASEAN region[.9] (almost 20% of the region's overall FDI inflow). Pakistan has the sixth largest population in the world and commands a GDP of USD 232.3 Billion (2013). It is considered a part of the Next Eleven group of nations which have the potential to become large economies in the 21st century. A major part of the imports and trades constitutes of goods from China and UAE.

Bangladesh, also among the next eleven nations and considered among the smaller members of the association is the eighth most populous country and has a relatively large economy with GDP of USD 173.8 Billion. Nepal, considered one of the least developed economies, also stands as one of the larger countries in the world in terms of geographical size and population. Afghanistan is a recent member to the group and joined it in 2007. The other members are the island nations of Sri Lanka and Maldives. Sri Lanka generates a major source of its revenues from foreign remittances, export of tea and tourism, while Maldives is fully dependent on revenues from its tourism industry.

Comparison with ASEAN/regional blocks: Where SAARC stands with respect to ASEAN and how intraregional trade and FDI has been a major factor of growth for ASEAN

[17] Muchkund Dubey, SAARC and South Asian economic integration
[18] Overseas Direct investments Report, Reserve Bank of India, monthly circulars

Even though the formation of the regional blocks like ASEAN and SAARC were on common grounds and never directed towards solutions for bilateral problems, ASEAN was able to leverage the forum for informal solutions to many regional disputes. The formation of both these blocks was based on similar ideals and consistent with the United Nations framework of ensuring security and preservation of national identities through non-interference. Unlike SAARC, ASEAN has been able to contain the states from undergoing armed conflicts and negotiate disputes over both formal and informal channels[19]. Thus, ASEAN has been able to create a robust conflict management system which has also helped it to achieve economic success as a regional block. Though it had met its limitations during the East Timor crisis[20], the block has been successful in handling multiple disputes like South China Sea and has been successful in driving out the external interference from China as a third party by showing maturity in solving disputes bilaterally or multilaterally.

One of the major reasons for the competitiveness of the ASEAN economies has been the availability of cheaper and skilled labour for manufacturing as compared to the SAARC nations where skilled labour is deficient. Many of the investing companies have pointed out that a large training cost is involved in building up a competent workforce. The labour in ASEAN nations has been complimented by many industry leaders for being both skilled and dextrous. Adding to the same, the "Trans Pacific Partnership" of ASEAN with the United States and Asia Pacific provides it with numerous advantages when it comes to export based investments[21]. This has prompted many of the prominent textile manufacturers in India for investments in manufacturing projects in Vietnam and other ASEAN nations.

Intra-regional Relationship in SAARC and its impact on trade and investment

The following chart provides a relative comparison of FDI environment in SAARC countries and ASEAN countries through multiple indices conceived by the World Bank, which are the most important macro parameters for consideration of the investors.

	India	**Pakistan**	**Nepal**	**Sri Lanka**	**Bangladesh**	**Bhutan**
Ease of doing Business Index	142	128	108	99	173	125
Starting Business	158	116	104	104	115	92
Protecting Minority Investors	7	21	71	51	43	94
Getting energy	137	146	85	169	188	71
Political Instability Index	26	2	31	56	16	151

[19] SAARC *Ineffective in Promoting Economic Cooperation in South Asia,* By Raghav Thapar
[20] http://nautilus.org/publications/books/australian-forces-abroad/east-timor/timors-political-crisis-in-2006/
[21] http://tppinfo.org/

Trading across borders	126	108	171	69	140	165
Getting Credit	36	131	116	89	131	71
Paying taxes	156	172	126	158	83	86

Table 1: World Bank Indices of South Asian countries (2014)[22]

	Indonesia	**Malaysia**	**Myanmar**	**Philippines**	**Thailand**	**Vietnam**
Ease of doing Business Index	114	18	177	95	26	78
Starting Business	20	13	189	161	75	125
Protecting Minority Investors	7	5	178	154	25	117
Getting energy	78	27	121	16	12	135
Political Instability Index	62	103	29	36	19	120
Trading across borders	62	11	103	65	36	75

Table 2: World Bank Indices of ASEAN countries (2014)[23]

The poor overall ranking of the nations which deter foreign investments are mainly due to political instability in these nations, energy crisis and poor infrastructure and logistics issues. Above that, stringent regulations in countries like Sri Lanka, Bangladesh and India make the situation worse.

Infrastructure, energy, and logistics are profoundly connected with trade and business activity. Addressing this question will help South Asia, especially land locked regions and countries, improve connectivity that deters engagement in regional and global trade.

Intraregional resource sharing of energy and commodities between India and Nepal/Bhutan has emerged as a major trade between the countries. The smaller countries also have to depend on India's ports for facilitation of export trade. The trade relations with Sri Lanka have seen tremendous growth after the bilateral free trade agreement with India even though the country scores poorly on the ease of doing business and political stability. Pakistan and Bangladesh have relatively better indices due to lower regulations and open markets for investments.

[22] Note: excluding Afghanistan , Source: World economic indices, World Bank data
[23] Note: excluding Brunei, Cambodia, Lao PDR , Singapore: World economic indicators as above

One of the primary concerns for South Asia to attract investments can be attributed to the geo political instability which exists in the region[24]. The relative mistrust which exists in the region has also been termed as a major cause of reduced intra-regional trade and FDI. India shares its borders with all the nations which are part of the forum and many of the nations have to utilise the Indian corridors for conducting trade and commerce. The economic prowess of India also towers over the other nations. In view of that, the country is perceived as a threat to the other nations.

It may be pointed out that the transportation infrastructure connecting the nations is low in number considering the length of borders shared among the countries. Even though there is a wide scale potential for improvement in transport connectivity through the inland waterways, railways and maritime transport between the countries, the same has not been exploited. Adding to that, development of interlinkages for complementary value chains which exist across the regions have also remained unused.

As a part of the BIMSTEC study for connectivity, the improvement in connectivity between the different countries has been considered and further facilitation of trade and investment is proposed through the further connectivity to South East Asia. In the railways sector, there are around 44 projects which are planned for implementation across the Indo-Bangladesh region.[25]

In case of the inland waterways, the transit between India and Bangladesh faces limitations due to lack of infrastructure and The India Bangladesh Transit and Trade treaty. The lack of borders between Bhutan, Nepal, Pakistan and Bangladesh also produces a scene for a multilateral transport system which deters fruitful trade between the countries. The maritime relations between India and Pakistan has been reduced due to political reasons while there are capacity constraints on the Chittagong port which is involved in handling over 95% of the trade in Bangladesh. The modern restructuring of the second port in Bangladesh viz. Mongla port has also been undermined.

One of the other reasons for the lack of trade networks may also be the underdeveloped banking channels across the borders. Even though a few of the banks have made inroads, the overall development in this sector is still at its infancy. Foreign remittances from India form a major part of the GDP for the countries like Bhutan and Nepal. In case of Sri Lanka, stricter regulations have deterred the Indian banks from penetrating the former’s market.

Therefore, it is essential that the services and infrastructure sectors attain consolidation across the South Asian borders for economic integration of the region.

Methodology and Choice of Sectors – Banking, Infrastructure/Energy, Textile, Healthcare

The study has been carried out through interactions with officials of the concerned firms and industry experts who have given the critical insights and data regarding their field. Statistical

[24] South Asia attracts more FDI in 2014, Dawn, THE NEWSPAPER'S REPORTER — UPDATED JAN 29, 2015 09:23AM
[25] http://www.adb.org/sites/default/files/publication/154305/adbi-wp500.pdf

data and key findings have also been gathered through secondary research on publications by the Government of India and the Royal Government of Bhutan. Some of the data has been obtained under the right to information act.

The industries in this study have been selected based on their relevance to the economies of this region, their contribution to value added and exports of these countries and their representativeness in terms of capturing varying degrees of liberalization and openness. For instance, due to policy restrictions, the financial sector is largely dependent on traditional banking for raising capital in these regions.[26] The build-up of the investments in the regional set up requires a strong facilitation of banking activities ranging from credit at lower costs to smaller and unrated companies and trade financing through contingent liabilities(letter of credit, bank guarantees etc.). Textile is relevant due to the region's competitive advantage in this sector and its contribution to the region's exports and employment[27]. The geography is conducive to the production of raw material and fabrics like cotton and silk which can be integrated with the labour intensive value chain.

The energy sector in this region remains largely unutilised and the low power consumption by the population in this region remains one of the lowest in the world due to insufficient penetration levels. The acute shortage of power in this region is a major concern for industrial development. Adding to it, the energy sources in this region are largely dependent on thermal power. With a larger focus on the renewable forms of energy, there is a huge scope for exploiting the natural resources which are shared among the countries in many cases. Nepal and Bhutan have a high capacity for hydroelectricity which has only been minimally harnessed. The high potential for hydroelectric power and implementation of projects can play an important role in energy security and environmental sustainability in the region.

Healthcare sector in this region is largely unstructured and mostly supported by Government. Considering the huge population growth of this region, it is becoming increasingly difficult to provide quality healthcare at affordable price, which is a basic requirement for every individual. India, being the best in this region in terms of world class healthcare facilities attracts huge number of patients from the neighbouring countries like Pakistan, Bangladesh and Sri Lanka. A large number of these patients travel to Thailand or Australia for treatment as well. In 2014 April, Apollo Delhi, a major hospital in India, completed 500 liver transplants of patients from Pakistan, which amounts to almost 29% of the total liver transplants performed in the hospital.[28] So, there is a huge untapped opportunity for large private players to cater to this market, which can be done through intra-regional investments with Government co-operation.

In this paper, such intra-regional investments in the SAARC region have been explored at firm-level, by focusing on institutions or firms engaged in the sectors of Banking, energy, textiles and healthcare to understand the major constrains they have faced on the investments frontier. The analysis focuses on firms in India as a source country and their investments in

[26] The Future of Asian Finance, IMF, FINANCE & DEVELOPMENT, June 2014, Vol. 51, No. 2,James P. Walsh
[27] Study on Intraregional Trade and Investment in South Asia, ADB and Aus AID
[28] India Infoline News Service (Report: April 25,2014)

other SAARC member countries and a firm from Sri Lanka which has been able to build inroads into the textile industry in both India and Bangladesh.

Banking:

The economies of South Asia started adopting financial sector reforms from the early 1980s. The initiatives included development of capital markets, introduction of prudential regulations and improvement in corporate governance in the banking system. The regional banks have remained technologically weak as compared to their global peers. In case of Maldives, payment settlement systems like RTGS were introduced only in 2011. Even in case of adoption of the BASEL standards; the banking systems in these countries have been slower in adoption. Corporate governance has been relatively lower in almost all the economies due to largely public sector banks. Therefore, the reporting systems are weaker for operational and risk management processes. Adding to it, most of the available funds in these economies are tied up with the currency in circulation, which is makes it difficult to monitor the same.

Modernisation of banking systems has been relatively slower in the SAARC region. For instance, in Bangladesh, the payment systems have been modernized recently (2011). The banking and financial system has been slow on credit growth and as a whole suffers from a large scale of bad assets due to deficient operational risk management. There are around 56 scheduled commercial banks operating in Bangladesh at present.

In India, rules are relaxed for foreign banks to operate, but a new bank is required to earmark their lending towards priority sectors (up to 32%). The operating model allows them to operate through a wholly owned subsidiary. However, in case of expansion, the banks have to follow certain guidelines for opening branches in the rural areas. In Pakistan, the banking industry is highly regulated and the banking sector reforms for entry of private banks were ushered recently in the 1990s. However, the banking sector is considered monopolistically competitive market structure with the big five banks occupying most of the market share in the country[29]. The entry of foreign banks is regulated and comparatively fewer foreign banks operate in Pakistan[30]. In 2012, both India and Pakistan had agreed for cross border banking licenses for improvement in trading relations, but the proposal was not implemented.

In case of Nepal and Bhutan, the banking system is weaker and mainly supported by joint ventures between Indian banks and the national government or its undertakings. In both the countries, the Government of India has supported the development of the banking system. Maldives has restricted land holdings and high operating costs due to the geographical location along with a saturated market, which leaves low scope for entry or expansion of banks. In case of Sri Lanka, foreign commercial banks are allowed to open branches with 100% equity and foreign investors are also allowed to hold shareholdings in the local banks.

[29] Concentration and Competition in Banking Sector of Pakistan: Empirical Evidence, STATE BANK OF PAKISTAN March, 2009, Mahmood-ul-Hasan Khan
[30] http://www.sbp.org.pk/publications/schedule_banks/June-2011/Title.pdf

The operations are subject to approval of the economic needs test and discretion by the Central bank of Sri Lanka[31].

Compared to the SAARC, the technology and banking standards in ASEAN are much more sophisticated. The region has been able to adopt and implement many innovative technologies in the banking sector. Integrated multichannel access has become a core feature in most of the banks. However, the banks have to undergo conservative regulations which have emerged in wake of the Asian crisis in 1997[32].This may be considered as one of the factors responsible for the slowing down the financial integration of the region. The banks to undergo a convenience and needs test in which it needs to be among the top 200 banks in the world in terms of asset size and in possession of highly advanced banking technology. To further enhance the export competitiveness, ASEAN payment and settlement system for reduced forex spreads and liberalisation for capital account convertibility are some of the major changes proposed to come up in the near future[33].

The SAARC region in comparison also has low penetration levels for banking systems and this leaves a huge scope for improvement. Due to the slower adoption of technology and standards among the banks, there is an enormous challenge to the financial integration among the countries in South Asia. It is therefore important that mutual support and relaxed norms are introduced in the region to facilitate the entry of regional banks in other economies. This will help in building up confidence in cross border trade and investments. In the following section, the operations of State Bank of India and its contribution to the development of some of the least developed economies in South Asia has been discussed to show how regional cooperation has benefitted both the bank and the countries.

Case Study: State Bank of India

State Bank of India is considered to be one of the oldest banks in South Asia. As of 2015, the bank has a turnover of USD 17.01 Billion and an asset base of over USD 307 Billion[34]. It operates the second largest number of bank branches in the world (over 16000). Established as the Imperial Bank of India under the colonial rule by amalgamation of the presidency banks in 1921, the bank served as a major financer to the British Government. The Bank was instrumental in formation of the Reserve Bank of India in 1935, which has been serving as the Central Bank in India since then. Some of the earliest branches of the bank had been established in Ceylon (modern day Sri Lanka) and Bangladesh which continue to function even today. The bank was nationalised in 1955 by the government of India and continues to be one of the largest banks in this region. In the earlier stages, the bank expanded to the South Asian regions on motivations from inter-governmental cooperation. However, in due course of time, the interest in international expansion has become more profit oriented in nature.

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[31] http://www.centad.org/resources/demystifying-trading/87-backgrounders/831-barriers-to-foreign-direct-investment-in-services,-in-south-asia.html

[32] Loan loss provisioning practices of Asian banks, BIS Working Paper, Frank Packer and Haibin Zhu

[33] The Road to ASEAN Financial Integration**,** A Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN, Asian Development Bank

[34] SBI Corporate website, Investor Presentations 2014-15

In developed countries like UK or US, the bank's portfolio mainly consists of Indian MNCs, operating in the foreign country or NRI deposits. Retail market in those countries is already saturated in presence of number of global banks. On the other hand, in the developing market, SBI mostly targets the retail portfolio as the banking is still at a growing stage in such region and they can gain share in the market through attractive products and expanding reach. They also facilitate the trade and investments from India to those countries.

From South Asian perspective, the Bank plays a major role in maintaining bilateral relationship through facilitating trade and investment between countries. Presence of banking boosts investor confidence and convenience to borrow in foreign currency and invest overseas through External Commercial Borrowings. It also incentivises the market to trade with overseas counterparts, as the banking channel is in place for smooth transactions through letter of credits. A lot of Indian corporates are not rated and it is very difficult for them to get loans from foreign banks while raising investment. Presence of State Bank in different countries makes it possible for their existing domestic clientele to borrow at a cheaper rate, compared to the rate offered by a Sri Lankan or a Bangladeshi bank.

In the following sections, the Bank's operations in Nepal and Maldives has been discussed and compared, where the bank has pioneered in its own ways in shaping the national economies.

The Nepal SBI Limited was formed as a joint venture by the State Bank of India to cater to the population. At present, it employs 593 Nepalese citizens directly in its branch offices and has presence in 31 districts in Nepal. The bank was one of the first to have facilitated financial linkages between the citizens of Nepal and India. The company has financed many of the leading groups in the state of Nepal and rated as one of the leading players in its market. Over the last 5 years, the corporate lending portfolio has taken precedence over the retail business as it grew to 66.79% of the total advances in 2014 compared to only 44.67% in 2010.

The bank has been financing steel projects recently where the net exposure grew by around 100% between 2012 and 2014. But, it considers that the financing of SMEs and hydropower projects will be the way forward for the banking industry in Nepal. The growth of credit in the textiles sector has stagnated over the years possibly due to the limited potential in the country. Table 2 provides the increase in the non-fund based business for the bank. The high growth in this business indicates increasing trade linkages between the countries. A brief break up and mix of the Bank's advances in Nepal has been provided below in Table 3:

(Figures in Crore NPR)

NFB Instruments (Turnover)	**As on 31st March**				
	2010	**2011**	**2012**	**2013**	**2014**
Originating/Issued in Nepal	1397.92	1501.54	1428.97	1470.45	1726.86
In favour of SBI Nepal Limited	--	--	--	69.49	11.53

Table 3 Growth in Non Fund Based business for SBI Nepal Limited (Source: International Banking Group, State Bank of India)

(Figures in Crore NPR)

Sector	As on 31st March				
	2010	**2011**	**2012**	**2013**	**2014**
Textiles	32.95	29.50	22.20	24.85	14.49
Steel	76.41	74.59	62.73	114.38	125.46
EPC	273.87	283.96	283.49	270.88	272.71
Energy	11.54	11.75	12.50	15.67	25.12
Infrastructure	-	-	-	-	-
Telecom	-	-	-	-	-
Healthcare	7.27	7.25	5.65	6.78	29.40
Agricultural and Forest Related	43.47	54.31	47.32	97.40	99.66
Agriculture, Forestry & Beverage Production Related	295.56	328.63	187.97	219.82	297.24
Non-food Production Related	130.28	136.62	213.12	304.81	327.72
Metal Products, Machinery & Electronic Equipment & Assemblage	33.54	44.44	53.71	68.53	88.55
Transport, Communication and Public Utilities	199.66	204.18	83.32	80.89	81.33
Wholesaler & Retailer	344.43	469.13	769.65	876.65	1,022.27
Finance, Insurance and Real Estate	37.60	38.60	86.60	156.57	115.93
Hotel or Restaurant	30.76	34.56	28.94	28.77	39.68
Other Services	40.32	62.86	21.81	19.12	47.85
Consumption Loans	7.16	11.95	23.98	24.90	21.01
Other Miscellaneous Sector	189.51	303.65	467.43	528.27	737.17

Table 4: Advance Portfolio of Nepal SBI Limited (Source: International Banking Group, SBI)

The bank has also been a key facilitator for inter country mobilisation between India and Nepal. In 2014, it was the first in this region to have implemented cross country rail booking facilities in India. The operationalisation of cross country ATMs has become a major form of remittances and occupied 32.58% of the outward movement and 29.57% of the inward movement in the first year of operation (2012). The convertibility between the Indian and Nepalese currencies and acceptance of the Indian currency along with high mobilisation of the people across the borders has been a major reason for the growing business.

The Indian army has been a major recruiter for the Nepalese citizens for its Gurkha regiments. The citizens are taken as Nepalese subjects and remain the same throughout their service. The bank has supported this process through development of specialised products for these personnel.

The cultural and linguistic similarities between the nations also help the bank in communicating with the technical services of the parent company which is based in India. The parent organisation in India also provides management support at the top level and training to the employees through programmes in India. The bank is also supported by the IT platform of the parent organisation and gains through the expertise gained over the years. The bank therefore acts as a major facilitator for intra-regional trade and commerce.

In Maldives, the bank expanded as a financial advisory institution (1974) to the government and acted as the monetary advisor till the establishment of the central bank in 1982. Records indicate that the Bank was initially formed at the insistence of the Government of India to cater to the banking needs of the people. There have been subsequent intrusions by foreign banks like HSBC, but SBI remains one of the major lenders to the government even at this point in time. It is pertinent to mention that Maldives as a country suffers from problems of currency convertibility and still persists with paper currency. The country obtains the major share of its revenues from tourism where transactions are usually effected through Euros or USD.

The main branch of State Bank at Male has an asset base of USD 660 Million as on date and holds around 28% of the market share. Unlike the bank's diverse operations in Nepal, the bank here is mostly engaged in asset financing through mortgage backed securities in the tourism sector which forms the majority share (around 70%) of its portfolio. The bank has financed two major investments by the Tata group in the tourism sector in Maldives and has been in talks with some of the smaller players from India like the Residency group which are keen on investment and looking at lower cost of capital. The bank has highlighted that the credit worthiness of many of its local clientele may remain unknown in the foreign shores when they are looking for expansion. In such scenarios, availability of cheaper funds from the bank has been immensely helpful in building up the company in these regions. The portfolio of credit investments for SBI Maldives has been listed as below:

(Figures In USD Mn)

Sector-wise, as on 31st December	**2010**	**2011**	**2012**	**2013**	**2014**
Textiles	0	0	0	0	0
Steel	0	0	0	0	0
EPC	0	0	0	0	0
Energy	0	0	0	0	0
Infrastructure	0	0	0	0	0
Telecom	0	0	0	0	0
Healthcare	0	0	0	0	0
Govt. (Investment)	120.112	154.968	136.955	35.948	55.796
Housing Loan	34.946	38.872	27.336	27.485	26.577
Retail others	20.482	13.138	13.176	13.027	7.797
Others (Tourism and other commercial assets)	617.114	464.704	390.531	330.379	323.458

Table 5: Advance Portfolio of SBI Maldives Limited (Source: International Banking Group, SBI)

The strategy department of the bank indicated that many of the successful offshore industries have been able to sustain due to the presence of a national bank in their region of operations. The bank is, however, identified with the brand name of "India Bank" in many of the South Asian nations, i.e., the bank is often identified as a proxy to the Government of India in these countries. Hence, minor changes in relationships between the nations often pose reputational risks for the bank and vice versa. The regulatory environment is also considered a major problem by the bank as the officials posted from India have to undergo familiarity with the laws and regulations in each of these nations to understand the working rules and frequent changes due to service rules also complicate the matter.

In case of the expansion strategy, setting up a physical branch is considered the best mode of expansion in this region as it helps in facilitating trade in a better manner due to involvement of direct linkages with the clients/customers. The transactions can require the owners or proprietors to submit original paper documents and sign the mandatory applications in order to avail trade finance services. Further, building up a personal relationship with the customer is facilitated through this channel and it provides avenues for long term growth.

The bank is poised to play a major role in the development of the investment and transaction processes across the South Asian region. It can be concluded that the size, maturity and expertise in business for the bank may lead to better trade facilitation between the countries, if the potential is properly exploited. Greater collaborative efforts and flexible policy guidelines are required in the regional markets for swifter expansion.

A reliable banking network between the countries will provide the investor with sufficient financial security and low cost of capital which will in turn help to build up foreign investments using this platform. Banking is therefore a priority sector for development in this region. Further investments are necessary to build up the basic infrastructural and financial service requirements, which will in turn help the other potential industries in the long run.

Textiles Industry:

Textile contributes significantly to the region's exports. It amounts to ~80% of Bangladesh export GDP, 57% to Pakistan's export GDP and around 43% to Sri Lanka's export GDP.[35]India has a large domestic market and an equally large export market. In 2013-14, India's textile market size was $99Bn including RMG sector, while export amounted to around $41Bn, contributing to 14% of their total export. Overall, T&C sector in India contributes to around 4% of its GDP.[36] Due its labour intensive nature, this sector is also the biggest contributor to employment after agriculture in this region. (~5-20% in all the nations)

The major export markets for this region are US (~40% of the global T&C market) and Europe (~30% of the global T&C market). Sufficient supply of low cost labour and availability of raw materials are the primary reasons for sourcing by US and EU companies.

The South Asian firms are very competitive in reference to the export segment. Co-operation along with competition can boost the textile sector of the region in a significant manner. Each of these countries has its own competitive advantage. In terms of cost, Bangladesh is better placed with low labour and energy cost (average wage rate per month: $70 for Bangladesh, $90 for Pakistan and $100 for India; gas burned energy cost in Bangladesh is less than two

[35] Ministry of Textile Industry data for respective countries
[36] India Brand Equity Foundation statistics for textiles

cents/KWH in compared to 9.33, 6.72 and 7.84cents/KWH in India, Pakistan and China, respectively).[37] But in terms of availability of raw material, India and Pakistan are much better placed. India is the 3rd largest and Pakistan, the 4th largest cotton producer of the world after China and United States. While India and Pakistan are net exporters of raw material, Bangladesh and Sri Lanka import ~70-80% of their inputs.[38] Another important factor for textile export from this region is export duty. While Bangladesh and Pakistan enjoy a duty free regime with EU, being a part of TPP agreement, India has to pay a 9% duty[39], which adds significantly to the final cost and impacts the export market share.

If we consider the presence of the countries in the T&C sub sectors, they are quite complimentary in nature. Pakistan specializes in cotton textile production (due to abundance of cotton) while, Bangladesh and Sri Lanka remain export oriented garment producers, dependent on imported inputs such as yarn and fabric (leveraging their low cost advantage, as garment manufacturing is highly labour intensive process) . India, on the other hand has facilities which cover the entire value chain from fibre production to garment manufacture and packaging. (Availability of wide range of fibres and large installed capacity along with cheap labour)

Most of the firms in South Asia are small to medium scale firms focusing on a specific part of the value chain. To attract large investments in this segment, the firms need to be vertically integrated to exploit the economies of scale. So, there can be regional integration in terms of Pakistan and India ensuring raw material supply to Bangladesh and Sri Lanka, who can ensure the final output to meet the demand. Such integration will also generate significant bargaining power with the buyers and can help procure more orders. Necessary institutional and governmental co-operation will be required for such integration.

There are examples of several companies like Brandix Holdings, Mas holdings, Aditya Birla Group who have set up operations in different parts of South Asia to leverage the competitive advantage of different geographies.

Case Study: Brandix Lanka Limited

Brandix Lanka Limited, Sri Lanka's single largest apparel exporter, has been able to expand its operation in India and Bangladesh based on its firm-specific advantage over the past three decades. The vast potential of the Indian market and the huge export demand has enabled Brandix to realize economies of scale. In 2006, Brandix developed a 1000 acre garment park in the port city Vizag in Andhra Pradesh, with an initial investment of USD 750 million, so far the biggest foreign investment in the Indian textile industry. At full capacity, the facility was expected to generate a turnover of USD 1.2 billion and provide employment to 60,000 workers.[40] The plant was set up in Vizag, considering its proximity to one of the biggest ports of India, also connected well with other ports of the country through rail and road network and also, easy availability of cotton in this region. (Andhra Pradesh being the 3rd largest

[37] Wages & Working Hours in Textile, Clothing, Leather & Footwear Industries –ILO Report (2014)
[38] Potential Supply Chains in Textiles & Clothing Sector in South Asia – UN & Commonwealth Secretariat Report
[39] Interview with Mr. Naishadh Parikh, Discon Industries executive
[40] Intra-Regional FDI and Economic Integration in South Asia: Trends, Patterns and Prospects – Prema Chandra Athukorala

producer of cotton in India). The area surrounding the park had a vast labour pool, who were easily trainable and cost effective with low attrition rate. They produce garments for leading brands like Victoria's secret, Pink and Marks & Spencer.

The facility has a vertical fiber to store integration which reduces the lead time significantly and creates huge scope for economies of scale. They can source all their material requirements from within the park. Currently, Brandix generates annual revenues of $25 million and a profit of around $1million (as on 31st March, 2015). Due to setting up the apparel park in special economic zone, Indian Govt. has incentivised the investment with special parks and benefits. They have complete exemption of import duty on capital equipment including second hand machinery, building structures, raw materials and consumables. They have a concessional income tax of 20% for 15 years compared to present corporate tax of 32.45%. They also have duty free access to Japan through Indo-Japan FTA.[41]

But there are still significant barriers to enter new geographies even today. We explored the case study on Discon Industries to understand their strategic motive for expansion and why the expansion plan did not materialize.

Case Study: Discon Industries [42]:

Discon Industries is one of the biggest textile manufacturers in India with annual turnover of $900 Mn and profits of around $70 Mn (as on March 2014). They manufacture cotton shirting, denim, knits and bottom weight fabrics. They are the largest in India and fourth largest in the world in terms of denim production. Discon also supplies a wide range of fabrics to Bangladesh to cater to the European market. A number of European firms, while drawing the letter of credit to the Bangladeshi garment manufacturers, draw a cross letter of credit to Discon as well and ask the Bangladeshi firms to procure fibre from Discon Industries. As the manufacturing facilities are located in India, the delivery process and logistics require a long transit period.

For the company, it would have been strategically beneficial to have a presence close to these firms who they are their customers, so that they can plan their production process more efficiently, co-ordinating with the buyers and avoiding delays to ensure a shorter period of realisation of revenues and saving on costs for logstics. This would also be beneficial for the Bangladeshi firms who want to procure fiber from Discon, as it would have resulted in lower delays and lower costs of procurement due to proximity to the centre of production resulting in a shorter working cycle.

Discon Industries has tried thrice to set up its manufacturing operations in Bangladesh. In each of these instances, they faced tremendous hostility and security issues on other side of the border which disrupted their expansion plan. In the latest instance, they had planned an investment of around $60 million in Bangladesh (2011). Eventually, it caused loss to both the parties. The partner firm could have exploited a virtual integration due to Discon's close

[41] Brandix India Apparel City (BAIC) Website
[42] The identity of the company has been masked on insistence of the interviewed executive

presence. At the same time, it would have generated new employment opportunities and contributed to the GDP of Bangladesh.

These two contrasting cases demonstrate the significant role of the governments in attracting investments and creating a win-win situation for both the parties. On the other hand, hostility and unstable political issues can disrupt the relationship and the opportunities for investment, creating employment and enhancing productivity.

Energy/Infrastructure:

Energy is one of the major problems plaguing the industrial growth in South Asia. There is a genuine lack of diversity in the energy sources for all the countries in this region. Though India and Pakistan have managed to diversify their resources, Bhutan and Nepal are heavily reliant on their hydroelectricity, while Bangladesh and Sri Lanka are dependent on natural gas and petroleum resources respectively. The countries suffer from power shortages as the power generation from their present capacity is unable to fulfil the energy requirements. Pakistan and Bangladesh with installed capacities of 25 GW and 7 GW had peak power shortage of 25% and 20% in 2010. Even in case of India, the power installations projected to support the growing need of the country have remained behind schedule with only half of the projected capacity implemented in the planned expansion of 21 GW. Part of the issues has been an overreliance on coal for generation of the captive power[43]. The power requirements for all the South Asian economies are projected to grow at a CAGR of 7-10% till 2020. Further, the inclination towards building up sources for renewable energy is bound to bring in more focus on harnessing the available hydropower in this region.

The abundance of hydro-power resources in Nepal and Bhutan therefore provides for a sustainable source to satisfy the energy requirements. However, implementation of the projects would require attractive opportunities for investments which can be complied with if regulatory frameworks encourage mechanisms like public private partnerships. The most significant trade agreement between the countries has been the energy transfer partnership between Bhutan and India in which Bhutan exports around 75% of its total generated power. The Power Trading Corporation serves as the agency to manage the transfer and export of power between the two countries. The construction of transmission structures for the transfer across the borders is one of the major requirements for energy trading which also requires high capital investments. In the following section, the importance of joint collaborations for energy sharing has been explained through the case of Druk Green, Bhutan.

Case Study on Energy Cooperation: Druk Green

Bhutan as a country has a potential to generate around 23,760 MW of electricity through its hydroelectric resources. The company is held by the Druk Holdings and Investment Limited, which is in turn is held by the Royal Government of Bhutan. There is a large scale potential for expansion but the company presently has an installed base of only 1480 MW. It also

[43] An Overview of Energy Cooperation in South Asia, Priyantha Wijayatunga and P. N. Fernando

employs over 1700 personnel and 80% of the generated energy is exported to India. The case provides a unique dimension of inter-state cooperation in the energy sector.

The company contributes around 27% of the revenues to the national government and contributes 14% to the country's GDP growth. The company was formed after amalgamating the erstwhile Chhukha, Kurichhu and Basochhu Hydropower Corporations. In all of the projects, the company enjoyed technology transfer and expertise through joint ventures with Indian PSUs who specialised in hydroelectricity. The following table briefly describes the ongoing and future projects with Bhutan and the Indian partners

Name of Project	Capacity	Collaboration
Kholongchu HEP	600 MW	SJVN Ltd. and Druk Green Power Corporation (DGPC)
Bunakha HEP	180 MW (with 230 MW downstream benefit)	THDC Ltd. and Druk Green Power Corporation (DGPC)
Wangchu HEP	570 MW	SJVN Ltd. and Druk Green Power Corporation (DGPC)
Chamkarchu HEP	770 MW	NHPC Ltd. Druk Green Power Corporation (DGPC)

Table 6: The proposed joint ventures in Hydro Electric Energy between India and Bhutan[44]

The relationship between the two countries in this field existed since 1961 when Jaldhaka agreement was signed between the two nations for supply of electricity. The Chukka agreement was signed in 1974 and project was the first to be commissioned and fully financed by India in 1986-88. The capital cost of Rs.830 Million was provided as 60% in Grant and the rest in Loan at an interest rate of 5% payable in 15 years. The final cost of project in 198 stood at Rs. 2,460 Million. The loan has been fully repaid as on date.

In the coming years, the energy cooperation between the two countries grew as India financed many of the hydro projects in lieu of procuring electricity on a subsidised basis from the company. For instance, the Tala project for which the agreement was signed in 1996 was finally commissioned in 2006-07. It was also structured on a similar model of loan and grants. At 1,020MW, this was possibly the largest project in this region. Around 85% of the energy is exported to India from this station[45].

The high gestation period for the construction of these projects implies that small economies like Bhutan may not be able to mobilise the resources for a long term project. But, the presence of a stable regime in Bhutan coupled with friendly relationship with India has ensured that the projects are implemented without many hassles. In contrast, Nepal has a potential of 43,000 MW out of which the installed capacity is just 762 MW[46]. Nepal has not been able to capitalise on the vast potential due to the absence of a stable government which has deterred possible investments in this sector.

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[44] Press Releases, Ministry of External Affairs, Government of India

[45] http://www.sari-energy.org/PageFiles/What_We_Do/activities/Bhutan/Overview_of_Bhutan-India_Cooperation_in_the_Power_Sector.pdf

[46] http://www.gatewayhouse.in/hydropower-diplomacy/

In hindsight, a bilateral cooperation between the two nations along with stable regimes in the nations ensured that the foreign investments proved to be a win-win situation for both the countries. Bhutan has also been able to bring down its trade deficit with India through export of power whereas India has been able to utilise the same to address the domestic shortage. Continued cooperation between these countries will ensure clean and renewable energy for India and a sustainable source of export revenues for Bhutan.

The case illustrates the importance of joint ventures and how cooperation between companies across the borders has resulted in enhanced ties between the nations. It is important that the region is able to harness its hydroelectric potential. However, for the trade and transfer of electricity across the nations, it is important that India allows the use of its territory to develop grid facilities so that energy transfer between the other countries in the region becomes a feasible option in future.

Healthcare:

First class healthcare is a necessity for every human being and a populous region like South Asia, which accounts for almost one-fifth of the world population, creates an immense business opportunity for such services.

Though having a large middle class and affluent population, (%xx) the major South Asian countries specifically Bangladesh, Sri Lanka and Pakistan lack access to the tertiary healthcare services. India, as a major healthcare provider and a popular destination for medical tourism, has a lot to offer in this segment through investment in those countries.

Large hospital chains like Apollo have tapped into this opportunity, opening up operations in Sri Lanka and Bangladesh through their multi-specialty hospitals in the capital cities. But in the following case study explains how cultural perception became a challenge for them in their Sri Lankan facility.

Case study: Apollo Hospitals[47]:

Apollo is India’s first for-profit hospital, started by Dr. Prathap Reddy in 1983. In the last 30 years, it has evolved to become the most trusted healthcare brand in India and ranks second in number of hospital beds (~10,500) just after the government held hospitals. Apart from providing tertiary care through multi-specialty and super specialty hospitals, it also has primary health care centre known as Apollo Lifestyle and a large pharmacy network. It is also in the process of expanding its reach in sub-urban and rural areas through its Reach programs. (Teleconferencing services to consult patients)

After enjoying great success in this field for two decades, setting up more than 30 hospitals across the country, the management decided to expand overseas and Sri Lanka was the first big investment outside India in 2002. They set up a 350 bed multi-specialty hospital in Colombo, the heart of the country. The targeted customers were the higher middle class and upper class Sri Lankans who had to go to Thailand or Australia for premium treatment.

[47] Apollo Hospitals- First World Health Care at Emerging market prices (Harvard Business School Case)

The initial problem they faced with patients was a social and cultural issue. Sri Lankan patients perceived Apollo as an Indian healthcare brand and hence, wanted expert Indian doctors and nurses to treat them rather than the local doctors. So, the management had to bring significant number of doctors and nurses from India. To get so many qualified doctors and nurses was a gigantic challenge. But, Apollo was able to leverage its already built network of doctors and support staffs. They recruited 6 nurses from Sri Lanka and 250 nurses from India on board. However, they had to recruit interpreters as well, as Indian doctors and nurses would not understand the local language, which were different from that spoken in India.

After implementing these changes, the local Muslims and Tamils became comfortable with the services. They had already grown used to travelling to India for treatment but now they could avail the services locally. But it took some time for Apollo to attract the Sinhalese patients as they were not familiar with the concept of luxury hospitals and perceived it as an overpriced service. But gradually with time, they also started availing the services and Apollo was able to position itself as a hospital with premium healthcare facilities.

Conclusions

All the case studies on the firms imply that the major part of lower trade and investment lies in the mutual suspicion between the firms across the borders. Even though the nations are culturally connected, the lack of a balanced regional organisation has damaged the growth prospects of the region. The lack of quality partners for joint ventures or investments also prove to be a major problem in this regard. Cross country mobility had remained stagnant over a large part of their democratic history and has led to limited cultural exchanges resulting in mistrust.

The following table provides us data on tourism and mobility across the borders for the SAARC nations in India:

	2010	2011	2012	2013	2014
Afghanistan	73389	89605	95231	111370	115569
Bangladesh	431962	463543	487397	524923	919819
Bhutan	12048	15489	15266	15016	16001
Maldives	58152	53999	50428	45270	65052
Nepal	104374	119131	125375	113790	126283
Pakistan	51739	48640	59846	111794	143869
Sri Lanka	266515	305853	296983	262345	301601

Table 7 Tourist arrivals in India from SAARC (2010-2014) (Source: RTI, Ministry of Tourism, GOI)

An increasing trend of tourists can be observed over the years for all the countries. However, the growth rates are much lower than expected. The process of travelling to Thailand or Singapore from the SAARC nations is much less cumbersome. Greater connectivity between the nations and increasing the modes for cultural exchanges may help in reducing the prejudices which exist among the people at present. Easier norms for travel and visa processes to allow free flow of people will also help in business growth and investments across the borders. Even though there are cultural similarities in the SAARC, but customer and investor perceptions may vary significantly. The nations have also tried to develop individual identities after prolonged periods of colonisation which has also made it difficult to build up the proposed regional identity for SAARC[48].

Greater connectivity and tourism has been found to enhance the trading relationships among the nations which can be observed in case of ASEAN. It has been able to forge an economic community through connectivity in the form of physical, institutional and people linkages[49]. Increased focus on prioritizing these projects has helped in integration of this region.

To provide an impetus to investment in SAARC through intra-regional trade and FDI, it is required that the nations work together for a sequential implementation of policies. A free trade agreement with greater cooperation in building cross border transport linkages can significantly change the existing scenario. Free use of airspace will also help in enhancing the passenger traffic and help in driving tourism. Further, the geographic positioning of SAARC and presence of landlocked countries requires the nations to allow free transit through their territories and use of port facilities for shipping.

The complimentary value chains in different regions can be integrated in many of the industries. In the textiles sector for instance, it can be leveraged to provide the region with a collective bargaining power and economies of scale. This will also increase the attractiveness of the sector for private and foreign investments. There are vast opportunities for trade and investments across the borders which remain unexploited or restricted due to political constraints.

It is pertinent to mention here that SAARC has been a top driven forum from the beginning. Despite multiple issues between the nations, it has been able to draw the topmost leaders in the states to a common forum for discussion and dialogue. The forum has been used multiple times by India and Pakistan to normalise their relations. Energy sharing agreements through build-up of gas pipelines between the nations have been discussed but not implemented. The talks have usually failed mostly on account of deliberate non-cooperation.

The South Asia trade and services agreement was signed in the 2010 summit in Thimphu has also been slow to progress. An ineffective institutional structure with overlapping committees along with non-tariff barriers has led to higher trade costs[50]. For instance, even though India has given MFN status to Pakistan, there are multiple roadblocks in forms of visa and permits which reduces its effectiveness. Pakistan had also acceded to a non-discriminatory market access for three hundred items to India in the beginning of 2014, but it was never executed citing the weakness in the economy. It has been estimated that the goods from India ultimately find their way to Pakistan through alternate and informal trade routes like the UAE and is almost the same size as the formal trade[51]. This results in much higher import costs

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[48] Colonial notion of South Asia, *Sanjay Joshi, http://www.sas.upenn.edu/~dludden/Sjoshi04.htm*

[49] Sanchita Basu Das, Enhancing ASEAN's connectivity, 2012, Institute of Southeast Asian Studies

[50] http://www.unescap.org/sites/default/files/Saman-Kelegama.pdf

[51] Pakistan-India Trade: What Needs To Be Done? What Does It Matter? Michael Kugelman and Robert M. Hathaway

from the perspective of Pakistan. Further, the restrictions on investment and lack of banking channels between India and Pakistan have restricted the full potential of trade and services.

India being the largest member of this region needs to drive the overall growth for the collective prosperity by sacrificing its self-interests. The sub regional blocks like the BIMSTEC have been solely built on the foundation of economic benefits but lack the cultural identity which SAARC commands in this region. The ineffectiveness of SAARC can be drastically reduced if it produces a focussed approach towards the core issues. Increasing the trading relationships and better facilitation will help the region to develop into an effective powerhouse. To reduce the influence of bilateral disputes from disrupting the initiatives in the forum, the nations may look for smaller regional groups in complimentary industries and enhancing the trade and transport linkages for better investment opportunities.

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