

# **Prospects of intra-regional investment in LDCs: A Case of Asia and the Pacific**

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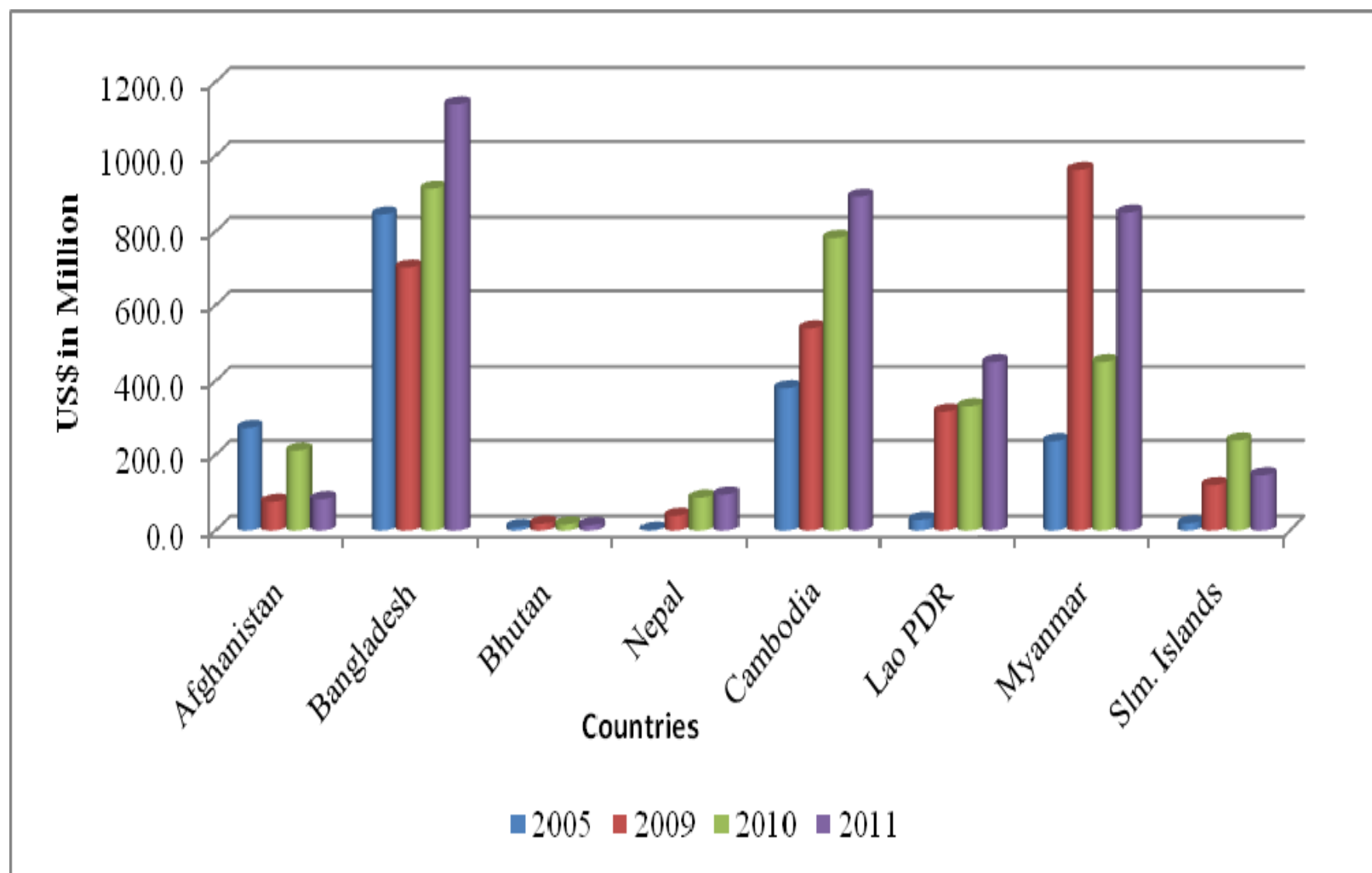
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# I. Introduction

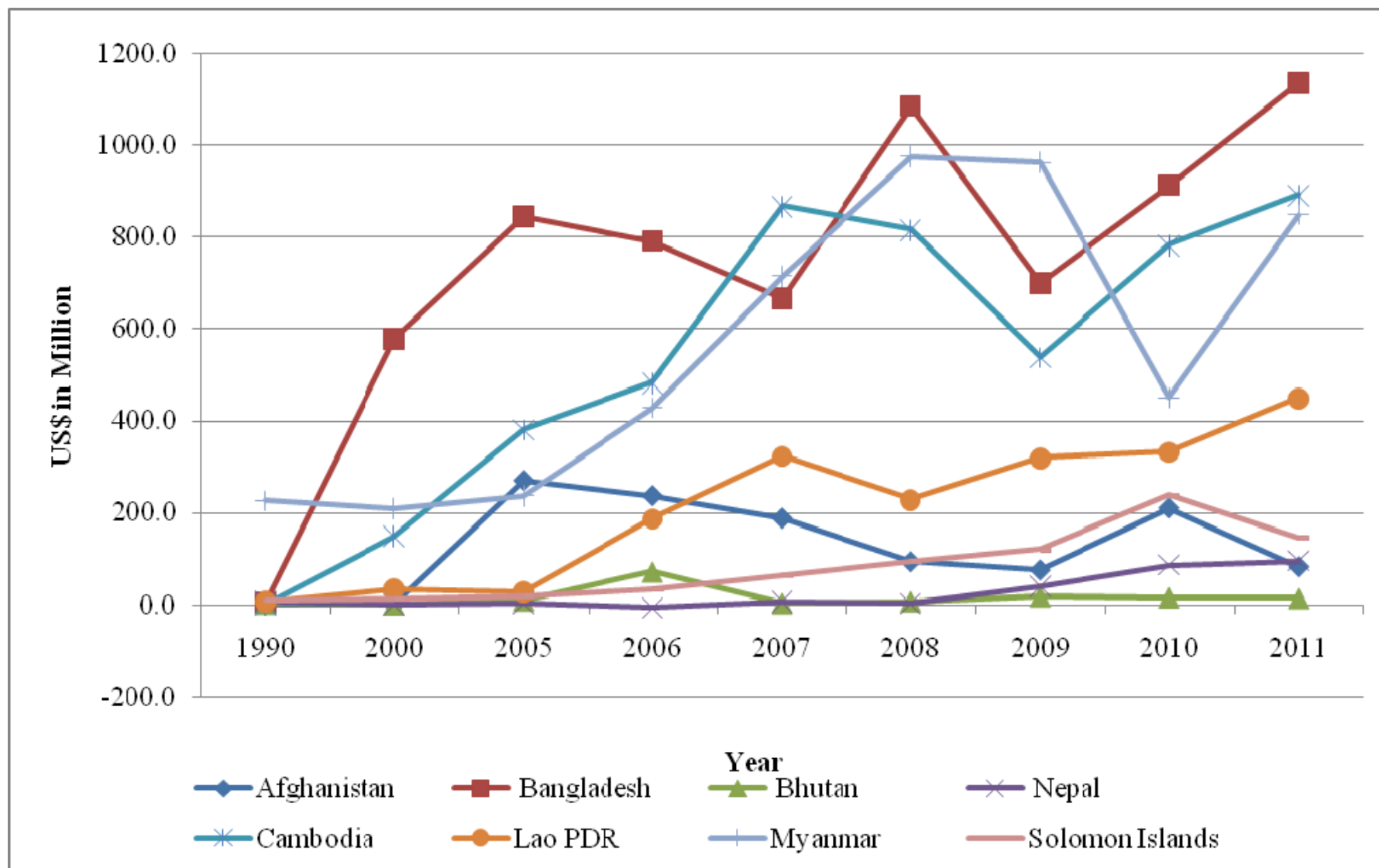
- The LDCs, which constitutes around 12 per cent of the world population, has a dismal gross domestic product (GDP) share of less than 2 per cent in world GDP. They account for less than 1 per cent of global trade in goods, they are also characterized by low levels of investment (UN LDC Conference, 2011).
- Interestingly, the report on World Economic Situation and Prospects 2012 presents an optimistic scenario for the growth pattern of LDCs. The report argues that while world economic growth decelerated markedly in 2011, LDCs experienced only a mild slowdown from 5.6 per cent in 2010 to 4.9 per cent in 2011, and which is expected to be 5.9 per cent in 2012.

**Figure: FDI inflows in the select LDCs of Asia and the Pacific**



*Source: World Investment Report 2012, UNCTAD*

**Figure: Trend of FDI inflow in Select LDCs of Asia and Pacific**



Source: World Investment Report 2012, UNCTAD

- For the decade of 2000-2010, Bangladesh performed very well with a CAGR of 63 per cent in its FDI inflows.
- Similarly, Myanmar and Cambodia also became important investment destinations with the CAGR of 47 per cent and 19 per cent respectively.
- The performances of Solomon Islands and Lao PDR were also remarkable with more than five-fold and eighteen-fold increase in their respective FDI inflows during 2000-10.
- More recently, from 2010 to 2011, Afghanistan has seen a decrease from US\$211 million to US\$83 million, a 61 per cent negative growth during 2010-11.
- FDI inflows have also decreased in Bhutan from US\$16 million in 2010 to US\$14 million in 2011 (a negative growth of 13 per cent).

**Table: Presence of Fortune Global 500 firms in select LDCs of Asia and the Pacific**

Economy	Year 2001	No.	Year 2010	No.
<b>Afghanistan</b>	None	<b>0</b>	Wells Fargo, ABB, Royal Dutch Shell, Siemens	<b>4</b>
<b>Bangladesh</b>	Akzo Nobel, BASF, GlaxoSmithKline, Nestlé, Nippon Express, Pfizer, Unilever Roche Group	<b>7</b>	Unilever, Merck, GlaxoSmithKline, American Express, BASF, Siemens, Ricoh, Bank of Nova Scotia, Marubeni Corporation, Mitsubishi, Mitsui, Nippon Express, Novartis, State Bank of India	<b>14</b>
<b>Cambodia</b>	Sumitomo, Toyota Tsusho	<b>2</b>	British American Tobacco, Suzuki Motors, Alcatel-Lucent, Mitsui, Deutsche Post, Toyota Tsusho	<b>6</b>
<b>Kiribati</b>	None	<b>0</b>	Australia And New Zealand Banking Group Limited	<b>1</b>
<b>Lao PDR</b>	None	<b>0</b>	Allianz, Deutsche Post, Hochtief, Royal Dutch Shell, Sodexo	<b>5</b>
<b>Myanmar</b>	Sumitomo, Mitsui, Toyota Tsusho, Suzuki, Tomen	<b>5</b>	Bayer, Lufthansa, Marubeni-Itochu, Mitsubishi, Posco, Siemens, Suzuki Motors, Toyota Tsusho, Wilmar	<b>9</b>
<b>Nepal</b>	Aventis, Mitsui Fudosan	<b>2</b>	Sanofi-Aventis, Unilever, A.P. Moller-Marsk, American Express, Mitsui	<b>5</b>
<b>Solomon Islands</b>	None	<b>0</b>	Westpac Banking Corporation, Royal Dutch Shell, Sumitomo	<b>3</b>

Source: UNCTAD, 2011

**Table: Aid for Trade-related ODA disbursements per capita  
2006-10 (US\$ constant 2009)**

<b>Country</b>	<b>Amount</b>	<b>Rank</b>
<b>Afghanistan</b>	<b>210.8</b>	<b>28</b>
<b>Bangladesh</b>	<b>12.9</b>	<b>132</b>
<b>Bhutan</b>	<b>290.0</b>	<b>23</b>
<b>Cambodia</b>	<b>52.7</b>	<b>86</b>
<b>Lao PDR</b>	<b>101.7</b>	<b>51</b>
<b>Myanmar</b>	<b>2.6</b>	<b>147</b>
<b>Nepal</b>	<b>27.0</b>	<b>110</b>
<b>Kiribati</b>	<b>429.9</b>	<b>17</b>
<b>Solomon Islands</b>	<b>182.3</b>	<b>33</b>
<b>Tuvalu</b>	<b>2,540.4</b>	<b>06</b>
<b>Vanuatu</b>	<b>651.9</b>	<b>13</b>

*Source: OECD CRS Database as cited by Basnett et al., 2012*

## II. Investment Regimes in the select countries

### *Afghanistan*

- Law on Domestic and Foreign Private Investment
- Law on Private Investment 2005 prohibits discrimination against foreign investors
- The Delhi Investment Summit on Afghanistan on 28 June 2012 in New Delhi reflected that as Afghanistan prepares for its Transformation Decade (2015-2024), foreign investments would be the key to country's economic development
- Protecting Investors: 185 (WB Doing Business Report 2013)



## ***Bangladesh***

- The investment regime of Bangladesh is based on the Foreign Private Investment (Promotion and Protection) Act, 1980, which have provisions for non-discriminatory treatment between local and foreign investments, and also for protection of foreign investment.
- In the year 2005, the country initiated its Industrial Policy which is consistently helping to promote FDI inflows for technical capacity building in the industrial sector.
- Industrial Policy of 2005 aims to promote FDI in order to bring about technology transfers, efficiency and management development, and enhance marketing skills.
- Preferential access granted to Bangladesh's exports in major markets is considered an excellent attraction for foreign investors in Bangladesh.
- Protecting Investors: 25

## ***Bhutan***

Economic Development Policy of 2010, the Royal Government of Bhutan has adopted the FDI Policy 2010 that contribute to the following:

- Development of green and sustainable economy
  - Promotion of socially responsible and ecologically sound industries
  - Promotion of culturally and spiritually sensitive industries.
  - Investments in services that promote Brand Bhutan
  - Creation of a knowledge society.
- 
- Protecting Investors: 150

## ***Nepal***

- Sectors including manufacturing, tourism, services, mineral-based industries, and agro-based industries are open to foreign investments.
- The country, however, prohibits investments in cottage industries, real estate, and those related to defence.
- The Ministry of Industry has a Foreign Investment Promotion Division (FIPD) which grants approvals to the new foreign investment projects.
- Protecting Investors: 82

## ***Myanmar***

- On 7 September 2012 Myanmar adopted a FDI law with an urge to seek more foreign investment.
- One of the major reforms was the discarding of dual exchange rate system
- The new law also encourages foreign investment for exploiting natural resources of Myanmar.

## ***Cambodia***

- The Law on Investment passed in 1994 helped Cambodia establish a liberal foreign investment regime
- A 100 per cent foreign investment is allowed in many sectors in the country.

Protecting Investors: 82

## ***Lao PDR***

- The first law on foreign investment was passed in 1988 known as the FDI Law 1988.
- The country strongly encourages investors to develop EPZ, SEZ, ICT Zones, etc.
- Protecting Investors: 184

## ***Solomon Islands***

- Investment regime defined by Foreign Investment Act 1984
- The actual liberalisation of investment regime in Solomon Islands started around 1998 and it adopted a new Foreign Investment Act in 2005 and a Foreign Investment Regulation in 2006.
- The country's Investment Facilitation Committee was also created in 2005.
- There are no maximum foreign ownership limits pertaining to foreign investment

Protecting Investors: 49

## **II (a). Indian investments in South Asian LDCs (Bhutan, Bangladesh, Nepal) and Myanmar**

Table 3: Intra-regional FDI and intra-regional trade in Asia and Asian sub-regions (2008-11)

<b>Sub-regions</b>	<b>Intra-regional FDI (%)</b>	<b>Intra-regional trade (%)</b>
<b>Asia</b>	<b>50.08</b>	<b>55.02</b>
<b>South Asia</b>	<b>0.03</b>	<b>4.61</b>
<b>East Asia</b>	<b>41.81</b>	<b>36.17</b>
<b>Central Asia</b>	<b>0.02</b>	<b>5.33</b>
<b>The Pacific</b>	<b>1.91</b>	<b>8.05</b>
<b>South East Asia</b>	<b>6.32</b>	<b>24.61</b>

*Source: Asian Economic Integration Monitor, 2012*



**Table: India's OFDI in select LDCs of Asia and the Pacific (US\$ million)**

<b>Countries</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Bangladesh</b>	<b>20.67</b>	<b>167.07</b>	<b>37.86</b>
<b>Bhutan</b>	<b>14.04</b>	<b>6.5</b>	<b>7.39</b>
<b>Lao PDR</b>	<b>2.03</b>	<b>2</b>	<b>2</b>
<b>Myanmar</b>	<b>48.75</b>	<b>1.65</b>	<b>45.25</b>
<b>Nepal</b>	<b>4.55</b>	<b>6.39</b>	<b>9.08</b>

*Source: Reserve Bank of India*

## Sectoral share of Indian investments

Bhutan: In 2010-11, India investment in Bhutan's energy sector accounted for around 70 per cent of the India's total investment into the country. In addition, Bhutan is also reviewing the current policy in hydropower to seek Indian investments as it has the potential to produce and supply power to countries like India.

*Source: Reserve Bank of India*

## Bangladesh

Indian investments in Bangladesh are largely dominated in retail and wholesale sectors as well as hotel industry. The sector accounted for around 96.6 per cent in 2008-09 and 64.9 per cent during 2010-11. The current investment by Indian investors in Bangladesh also indicates that the investors are making investment mostly through joint ventures and in sectors like agriculture and allied and manufacturing sector which accounted for around 14.7 per cent and 19.6 per cent in 2010-11.

*Source: Reserve Bank of India*

## Nepal

In case of Nepal, in the year 2008-09, Indian investors made investment largely in the areas of retail and hotels which accounted for around 61 per cent. The growing foreign investment in Nepal and its sources indicate that during 2005-08, India, China, South Korea, Japan and Canada constituted around 67 per cent share in total FDI inflows in Nepal.

*Source: Reserve Bank of India*

**(b). ASEAN Investment in ASEAN LDCs (Lao PDR,  
Myanmar, Cambodia)**

In ASEAN, total investment was US\$47,075.6 million in 2008 which rose to US\$76,207.9 million in 2010. ASEAN is the major source of its own FDI inflows.

**Table: Intra- and Extra-ASEAN Investments in 2010  
among Cambodia, Myanmar and Lao PDR (US\$ million)**

Country	2009			2010		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
<b>Cambodia</b>	<b>174</b>	<b>365.1</b>	<b>539.1</b>	<b>349</b>	<b>433.6</b>	<b>782.6</b>
<b>Lao PDR</b>	<b>57.3</b>	<b>261.3</b>	<b>318.6</b>	<b>135.4</b>	<b>197.2</b>	<b>332.6</b>
<b>Myanmar</b>	<b>67.8</b>	<b>895.5</b>	<b>963.3</b>	<b>171.7</b>	<b>278.5</b>	<b>450.2</b>
<b>ASEAN</b>	<b>5,270.7</b>	<b>32,995.3</b>	<b>38,266.0</b>	<b>12,279.2</b>	<b>63,928.7</b>	<b>76,207.9</b>

*Source: ASEAN Secretariat*

### III. Areas with Potential for Investments

- ***Afghanistan:*** dairy, metals and minerals, transportation services, construction, and financial services.
- ***Bangladesh:*** RMG, manufacturing sector (including food processing), services sector, power generation and electricity, oil and gas infrastructure. Sectors like power, gas and petroleum; manufacturing; transport and storage.
- ***Bhutan:*** hydro-power, airports development, construction and communication.
- ***Nepal:*** hydroelectric power generation, tourism, communication services, pharmaceuticals, manufacturing, financial services and transport sector.

- ***Lao PDR:*** hydroelectric power, mining, electricity generation, manufacturing, mineral extraction and agriculture.
- ***Myanmar:*** manufacturing, textiles, pharmaceuticals, automobiles and extractive industries.
- ***Cambodia:*** shoes, toys, and wood products, Construction sector, electricity generation, manufacturing, communication infrastructure and services.
- ***Solomon Islands:*** extractive industries, business services, tourism infrastructure and food processing.



## **IV. Way Ahead**

Investment should lead to development of export-related infrastructure

Considering the fragmented nature of cooperation among these LDCs, the following may be considered as the way ahead to attract more investment in these countries:

- Entering into bilateral investment agreements in the region
- These countries are suffering from underdeveloped infrastructure. In this case proposing common projects in energy, transport and communication would not only attract foreign investment but also make the economic environment conducive to business. For instance, a proposal of combined gas pipeline from Myanmar through Bangladesh to India is good, but continues to remain a policy suggestion aspects.

- There is a need to encourage FDI through public-private partnerships in infrastructure development into these LDCs.
- Cooperation on the mobility of work force from one country to another country particularly between South Asian and Southeast Asian LDCs.
- Most of the investment in these countries are following joint venture mode. In case equity market is opened in these countries, more investment can be attracted from other parts of the world.
- Investments which are proposed on the approved projects are facing cost escalation owing to the delay in projects. These LDCs would require developing institutional mechanism for rapid execution of projects.

- Agriculture/primary activities is the main economic activities in most of these countries. Considering the population of these LDCs, the agriculture sector has potential to attract investment. A common policy for the sector with common goal will increase the possibilities of investments.

**THANK YOU**