

# FDI in India: Prospects for Pakistan

Multi-level Dialogue for Trade Normalization between India and Pakistan

ICRIER, New Delhi

15<sup>th</sup> March 2003



**SDPI**  
Sustainable Development Policy Institute

# Outline

FDI in India: Situation Analysis

Regional FDI Flows

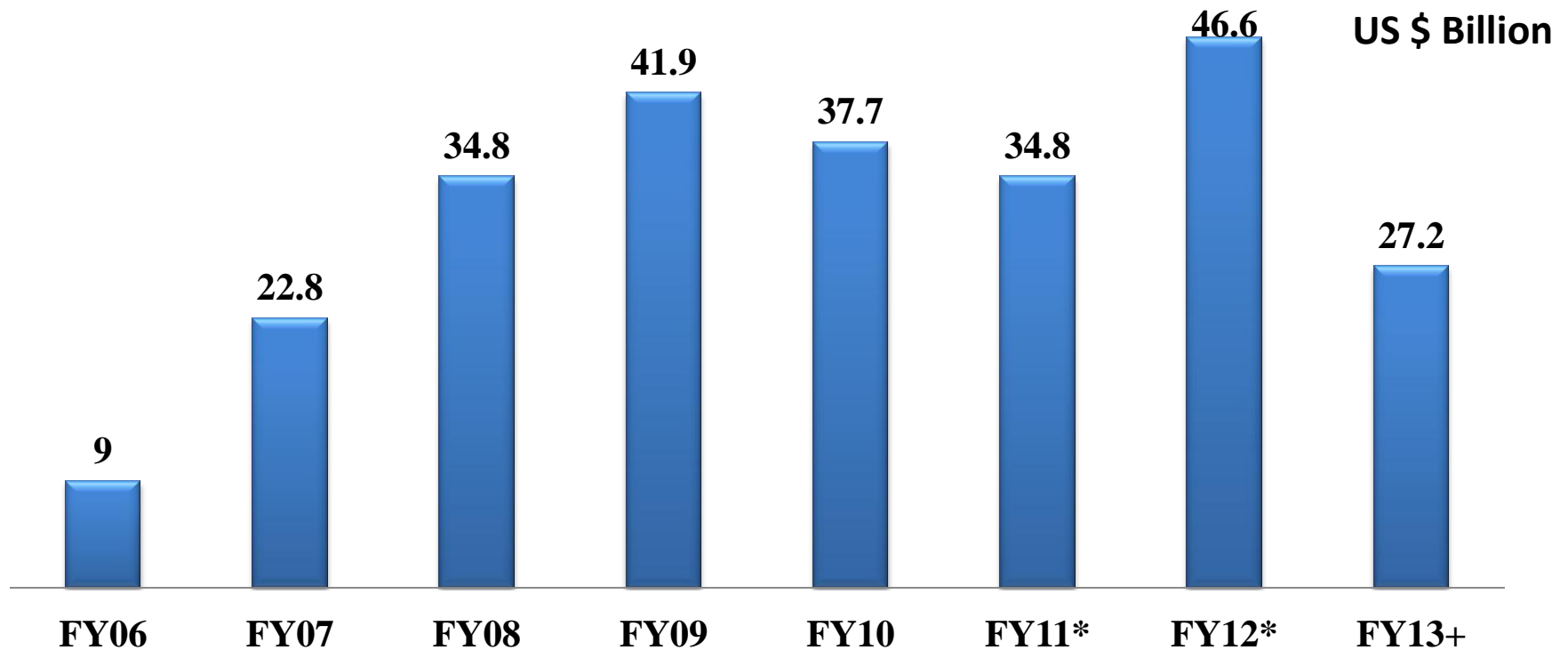
Methodology & Data

Quantitative Results

Qualitative Results

Framing of Recommendations

# FDI Flows in India

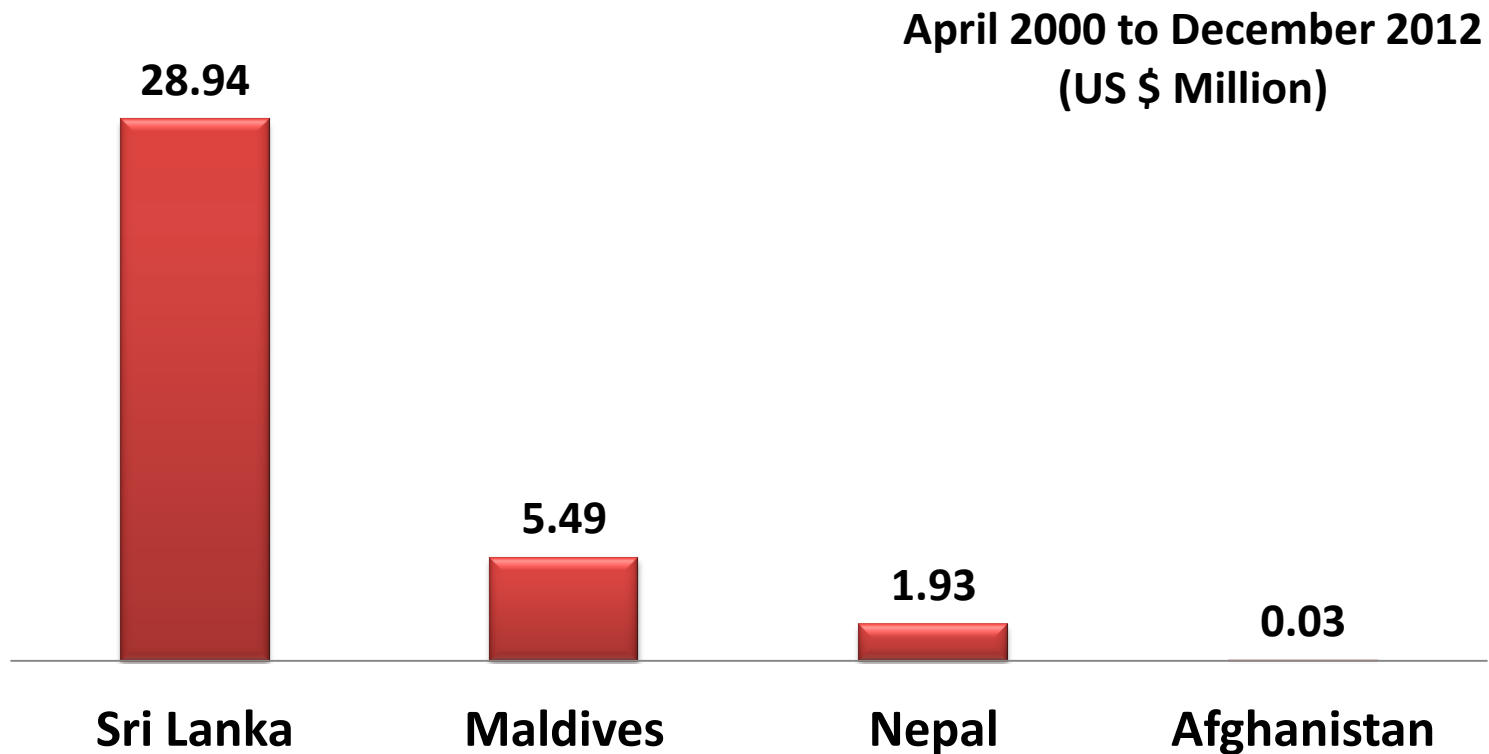


\* Provincial

+ April to December 2012

Source: Reserve Bank of India (RBI) Bulletin

# FDI Flows in India from South Asia



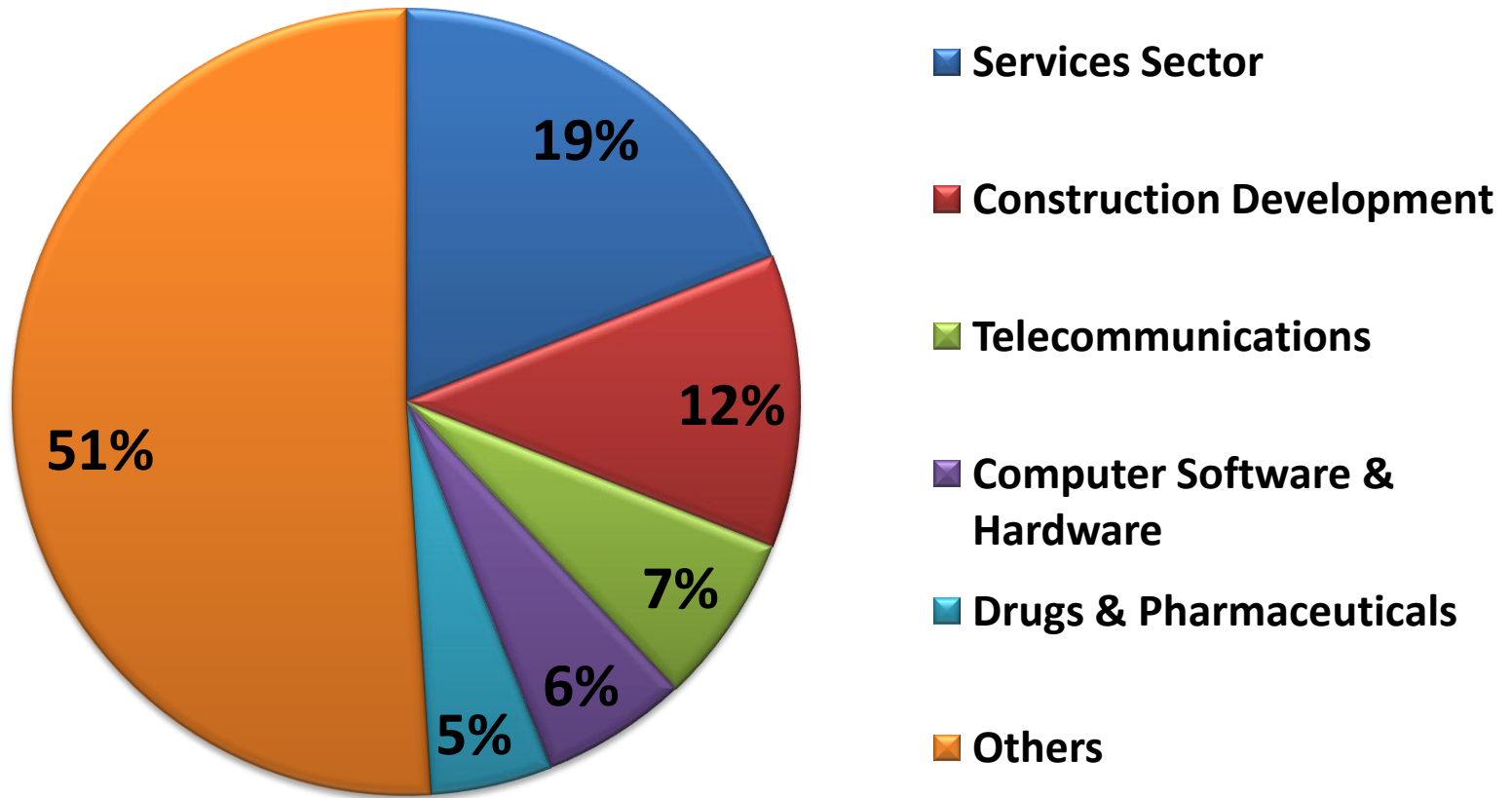
**Source:** Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India

# Pakistan's Outward Investment Flows

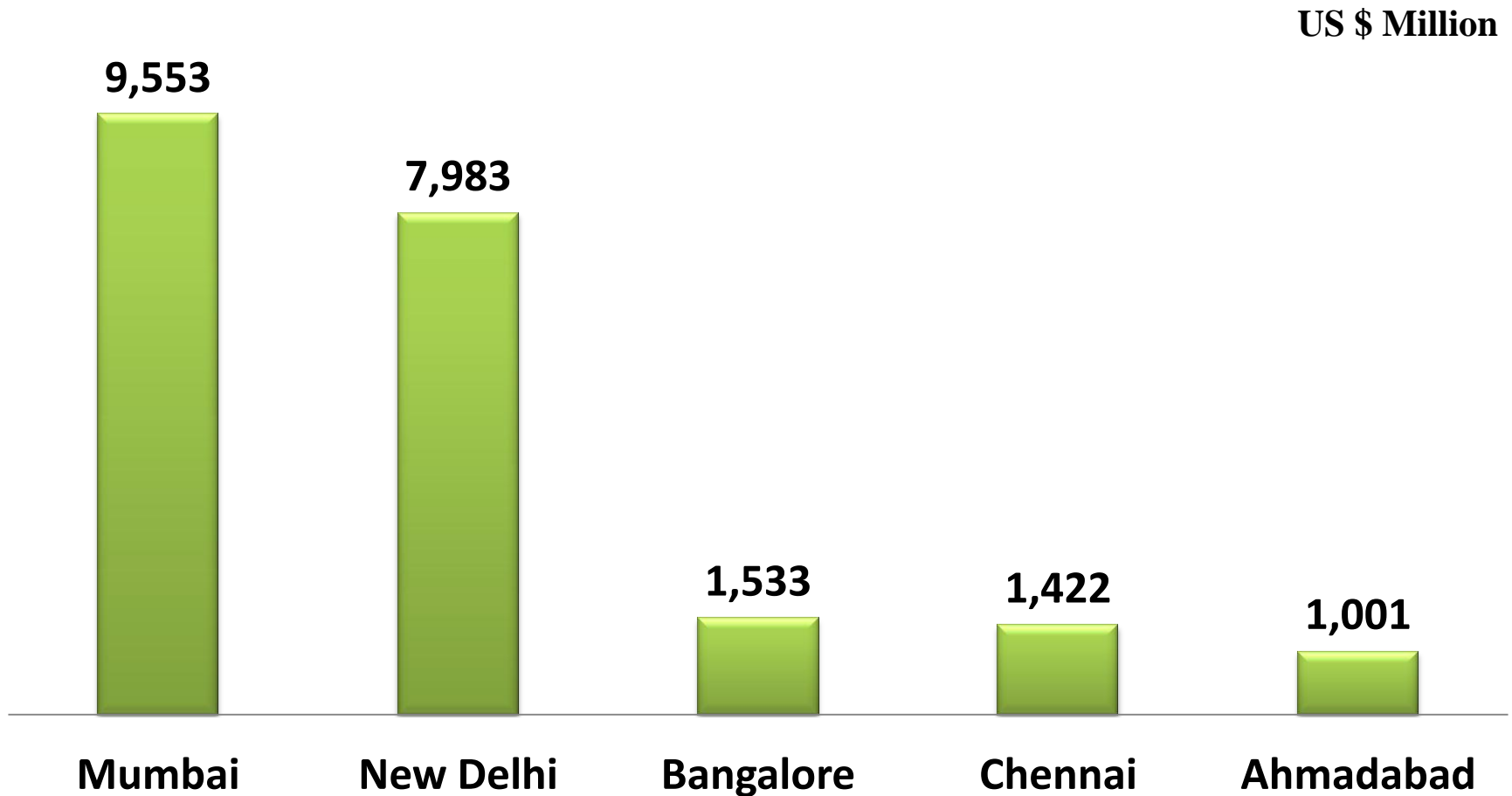
- Pakistan to UAE: USD 670 million (FY 2012)
  - Annual Increase stands around 33 percent
  - Includes investment through routed channel
- Pakistan to Afghanistan: <USD 700 million (FY 2011-12)
- Pakistan to Malaysia: <USD 600 million
- Pakistan to Bangladesh: <USD 30 million (since 2008-09)
- Pakistan to Sri Lanka : >USD 0.15 million (July-Jan FY13)

# Share of FDI in India by Sector

April 2000 – December 2012



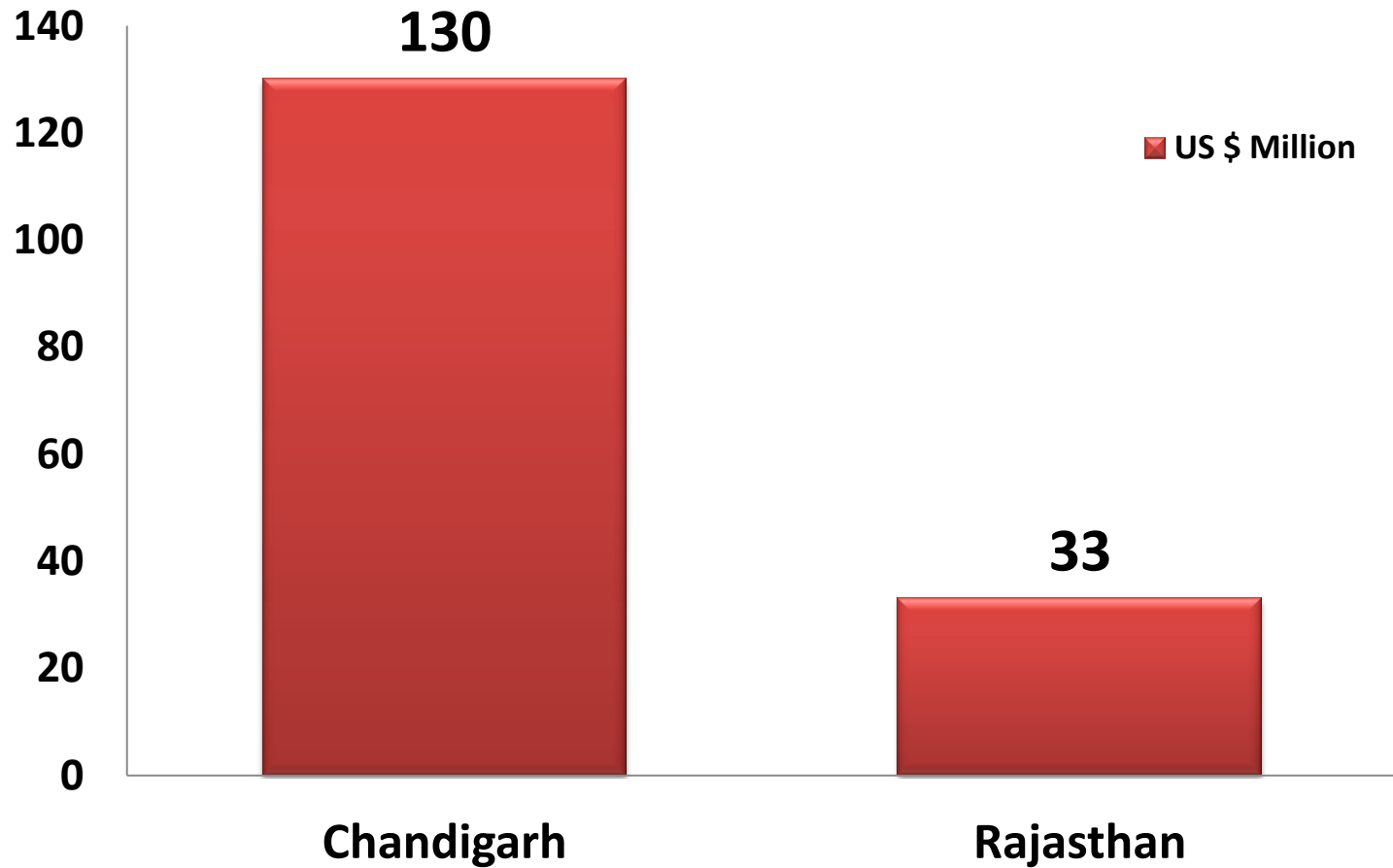
# Top 5 FDI Recipient Cities FY 2011-12



Source: Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India

# FDI Flows to Neighboring Regions of Pakistan

## FY 2011-12



Source: Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India



# Potential of Pakistani Investors for Investment in India

# Methodology

- **Quantitative: Firm-level Microsimulations**
  - Step 1: Pakistan's outwards flows
  - Step 2: Mapped Pakistan's outward investment by sector with India's inward flows
  - Step 3: Counterfactual if India provides similar investment facilitation
- **Qualitative: Validating quantitative estimates**
  - In-depth interviews with 27 potential investors
  - Focus group discussions (Karachi, Islamabad and Lahore)

# Potential of Pakistani Investors for Investment in India

<b>Sector</b>	<b>Amount (Million US \$)</b>	<b>Percentage</b>
<b>Textile</b>	<b>1,209</b>	<b>48</b>
<b>Cement</b>	<b>327</b>	<b>13</b>
<b>Hotel and Restaurant Services</b>	<b>276</b>	<b>11</b>
<b>Auto Sector</b>	<b>202</b>	<b>8</b>
<b>Sugar &amp; Wheat Products</b>	<b>151</b>	<b>6</b>
<b>Banking and Insurance</b>	<b>102</b>	<b>4</b>
<b>Others</b>	<b>253</b>	<b>10</b>
<b>Total</b>	<b>2,520</b>	<b>100</b>

# Trade-Investment Nexus

- Investment creating trade
  - What Pakistan learnt from Investment in Bangladesh?
- Trade creating investment
  - What Pakistan learnt from Trade with Sri Lanka?

# Taking Investment to India

- Two Views
  - High-end business → interested
  - Medium-end business → not interested at present
- Reasons for lack of interest (in some sectors)
  - Some will start thinking after normalization of foreign policy relations
  - Low returns associated with high risk/initiative
  - Interested in export only

# Sector-specific Observations

- **Leather Sector**
  - Hand-made products require specific labour
  - Pakistan can introduce technology
  - Capacity building of current leather units in India
  - Joint venture in tannery sub-sector

# Sector-specific Observations

- **Engineering (and Auto Sector)**
  - Pakistan has import demand of raw material from India
    - Can increase margins if subsidiaries in India are initiated
  - Pakistani producers if in India should be able to access local subsidies
  - Ease the screening process through mutual recognition of standards
  - Due to the large sunk costs involved Pakistani producers want to access local finance (particularly for working capital)
  - Anecdotal evidence of Mittal episode
    - Civil interrogation of several types (excessive red tape)

# Sector-specific Observations

- **Surgical and Sports Goods**
  - Need for a strengthening of competition policies on both sides for preventing imperfectly competitive practices
    - In international market Pakistan selling soccer balls for USD 2.50 versus India at USD 2.48
  - Pakistan also supplies to China however did not physically invest due to Intellectually Property → specific local technology used in the production process



# Sector-specific Observations

- **Food Processing Sector**
  - Containerization through railways
    - Demand continuously outpaced supply
    - Integrated check post reaching full capacity
  - For import of raw material need for enhanced presence of plant departments on both sides
  - City specific restrictions will curtail supply chain

# Sector-specific Observations

- **Social Services Sectors**
  - Education
    - Visa policy for faculty and students
      - How many Pakistani faculty members in South Asia University, New Delhi?
      - Difficulty for Pakistani students to open bank accounts
    - Registration with national and local education authorities
    - Opening up of cellular services, online conferencing and e-commerce
    - Direct courier services missing
  - Health
    - Expedient visas needed for patients
    - Need permission for special private flights
    - Secure direct video conferencing protocols

# Some Common Concerns

- Non civilian actors' involvement
- Despite of grievance redressal agreement, dispute resolution mechanism is vague

# Bilateral Investment Treaties in SAARC

- **Pakistan's BITs**
  - Sri Lanka
- **India's BITs**
  - Sri Lanka
  - Bangladesh (status?)
- **Sri Lanka's BITs**
  - Pakistan
  - India

# SAFTA's Investment Provisions

- Convinced that preferential trading arrangements among SAARC Member States will act as a stimulus to the strengthening of national and SAARC economic resilience, and the development of the national economies of the Contracting States by expanding **investment** and production opportunities, trade, and foreign exchange earnings as well as the development of economic and technological cooperation
- Removal of barriers to intra-SAARC investments

# SAFTA's Investment Provisions

- Recognizing that regional trading arrangements both in goods and services in SAARC shall act as avenues for achieving objectives of economic development and growth in the region by expanding intraregional **investment** and production opportunities.
- In sectors where market access commitments are undertaken, the measures which a Contracting State shall not maintain or adopt either on the basis of a regional subdivision or on the basis of its entire territory, unless otherwise specified in its Schedule of specific commitments, are defined as:-
  - limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

# SAARC Arbitration Council

- Proposed on January 2004 in Islamabad
- First Meeting of the Inter-Governmental Expert Group (IGEG) on March 2004 New Delhi
- Pakistan and India not agreed in December 2004
- Signed during the Thirteenth SAARC Summit held in Dhaka on 12-13 November 2005.
- The Agreement for Establishment of SAARC Arbitration Council entered into force on 2 July 2007.
- First Meeting of the Governing Board of SAARC Arbitration Council was held at the SAARC Secretariat, Kathmandu on 7-8 January 2009.
- Syed Sultan Ahmed appointed first Director General of SAARC Arbitration Council 27 April 2010.
- Three Meetings of Governing Board of SAARC Arbitration Council (SARCO) have been held so far the last of which was held in Islamabad, on 21-22 November 2012.

# Framing of Recommendations

Need to open investment through automatic route

Privilege visa regime for investors

Investment-specific Dispute resolution mechanism

Labour mobility and work visas

Integrating transport and warehousing infrastructure

Access to finance

Legal cover in the event of political upheaval/sovereign Guarantee

Double taxation issue

Currency Swap

How have both countries performed on Bilateral Investment Treaties?



# Layers of Policy Dialogue

- Board/Ministry of Investment → automatic route of investment
- Ministry of Industries → Advanced recognition of standards/inputs and production processes
- Ministry of Interior → synchronizing visa policy with flow of merchandise
- Ministry of Foreign Office → ensure compliance of above mentioned

# North and South Korea



A train passes the gate for the Demilitarized Zone near Dorasan in Paju, South Korea on the way to North Korea. Two trains set out in each direction today, carrying passengers across the border for the first time in over 50 years, to test the restored tracks connecting the two Koreas. (Chung Sung-Jun/Getty Images)

# Israel and Palestine - Pursuing Safer Neighborhood



28<sup>th</sup> May 2012: As Israel increased imports from Palestine, Israeli-Palestinian trade arbitration project is initiated -Photo: International Chamber of Commerce Israel

# Thank You

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