India-ASEAN Investment Flows

Policies and Trends

P.R. Bhatt

The Association of South East Asian Nations (ASEAN) was created in 1967 through the Bangkok Declaration. It is a group of ten nations, viz. Brunei,Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. ASEAN has been quite successful in raising its collective bargaining power to ensure market accessibility with the major players such as USA, Japan and European Community (EC). ASEAN economies are among the most successful in terms of economic growth and development.

Intra-regional direct investment flows have complemented and reinforced the growth of trade within Asia by building up the export capability of the host countries on one hand and by directly increasing machinery imports from the capital exporting countries on the other. The importance of increased intra-regional direct investment goes much beyond the increase in financial flows to the ASEAN region. Intra-regional FDI has been an important instrument for the realisation of the so-called "flying geese" pattern of industrial development in Asia.

The ASEAN region has become one of the most attractive investment locations in the developing world and attracted a disproportionately large amount of FDI, particularly during1987-96 period. FDI is not only a source of capital funds and foreign exchange, but also is a dynamic and efficient vehicle to secure the much needed industrial technology, managerial expertise and marketing knowledge and networks to improve on growth, employment, productivity and export performance. The present paper deals with these aspects of FDI in ASEAN region.

1. Introduction

THE Association of South East Asian Nations (ASEAN) was created in 1967 through the Bangkok Declaration. It was a group of six nations, viz. Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Later, Vietnam joined the group in June 1995 and Myanmar and Laos in July 1997. Cambodia joined the bandwagon in 1998. Among the ASEAN, Singapore is the most outstanding nation in terms of output and trade structure because it is more industrially developed than its agricultural neighbours. They coul improve their economy because of the policy of trade liberalisation and cooperation amon developing countries. ASEAN's main attainment lies in its contribution to promote peac and stability in the South-East Asian region and the manner in which the regional groupin has conducted itself internationally. ASEAN has been quite successful in raising i collective bargaining power to ensure market accessibility with the major players such the United States, Japan and the European Community (EC). ASEAN countries have built a cohesive and strong network for consultation and cooperation in major economic polic development without compromising national sovereignty. The ASEAN countries share common economic philosophy of increasingly allowing the market forces to drive the economies, which have brought efficiency and prosperity to the region during 1975-199

ASEAN countries' industrial cooperation has also improved markedly after the Ba Summit in 1976 through private sector participation in regional industrial projects. ASEA economies are among the most successful in terms of economic growth and developme In order to promote intra-ASEAN trade, the agreement on ASEAN Preferential Tradi Arrangement (PTA) was signed in 1977, creating a framework for trade promotion betwe ASEAN countries through preferential tariffs, export credit support using preferent interest rates, long term quantity contracts, etc. In order to boost industrial cooperati between the ASEAN countries, three agreements were signed such as: the bas Agreement on ASEAN Industrial Projects (AIP) of 1980, the basic Agreement on ASEA Industrial Complementation (AIC) of 1981 and the basic Agreement on ASEAN Industr Joint Ventures (AIJV) of 1983. AIPs are large-scale industrial projects aiming at meeti a specific regional demand. The intention of AICs was the development of complementa industrial activities between the ASEAN countries. AIJVs are joint ventures betwe industrial companies in ASEAN countries.

With the aim of the liberalisation of intra-trade and to stimulate investment in t region the ASEAN Free Trade Area (AFTA) agreement was concluded in January 19 This agreement provides for a carefully staged trade liberalisation with a reduction import duties on intra-ASEAN imports to 0.5 per cent during a period of 15 years. AFTA would be helpful to boost foreign direct investment in the region.

One of the plausible explanations for the rapid expansion of intra-ASEAN trade is growing importance of intra-ASEAN direct investment. Intra-regional direct investm flows have complemented and reinforced the growth of trade within Asia by building the export capability of the host countries on one hand and by directly increasing machin imports from the capital exporting countries on the other. Japan is the main source direct investment within the region.

The importance of increased intra-regional direct investment goes much beyond increase in financial flows to the ASEAN region. The new pattern of investment assisted in extensive industrial restructuring and development of a sophisticated regional division of labour. Technology transfer along with the foreign direct investment has also helped closely in linking the domestic economy with the region and hence has enhanced the degree of competitiveness. Intra-regional FDI has also been an important instrument for the realisation of the so-called "flying geese" pattern of industrial development in Asia.

India can play an important role in the South-East Asian region. It is a region having common historical background, homogeneous culture and ethnic characteristics of the people. These traits can also be found in the ASEAN region. India and South-East Asia have been entering into a new era of policy framework giving emphasis on market forces, liberalisation, globalisation, etc. during the past ten years.

India became a sectoral dialogue partner in 1992. ASEAN and India agreed to begin active cooperation in the areas of trade, investment, tourism and technology at the first ASEAN-India Joint Sectoral Cooperation Committee (AIJSCC) meeting held by ASEAN Secretary General and Indian Foreign Secretary. Another meeting was held to establish ASEAN-India sectoral dialogue relations in March 1993 in New Delhi. At the first AIJSCC meeting, the rules of procedure and terms of reference to the ASEAN-India Sectoral Cooperation Committee was adopted. This marks the formal establishment of the AIJSCC, the body which will facilitate the ASEAN-India sectoral dialogue relations in the areas of trade, investment, tourism, science and technology. India and ASEAN have agreed to adopt the rules of procedure and terms of reference of the Joint Management Committee for the ASEAN and India. After the establishment of ASEAN in 1967, the economic and trade relations between India and ASEAN have grown rapidly and have developed a healthy relationship.

The objectives of the paper are to analyse FDI policies, its pattern and trends of ASEAN countries and India; as also to explain the relationship between manufactures exports and FDI and to explore the possibility of Joint Ventures between India and ASEAN.

The paper is organised as follows: Section 2 provides a brief review of FDI policies of India and ASEAN countries. Section 3 highlights the macro-economic performance of India and ASEAN. India's trade with ASEAN is given in Section 4. Section 5 explains the trends and patterns of Foreign Direct Investment. Section 6 explains the relationship between manufactures exports and FDI. Joint venture between India and ASEAN is given in Section 7. Section 8 concludes the discussion.

2. FDI Policies in India and ASEAN Countries : A Brief Review

The ASEAN region has become one of the attractive investment locations in the developing world and attracted a disproportionately large amount of FDI, particularly during 1987-94 period.

FDI is not only a source of capital funds and foreign exchange, but also a dynamic and efficient vehicle to secure the much needed industrial technology, managerial expertise and marketing knowledge and networks to improve on growth, employment, productivity and export performance.

Investors are primarily concerned with minimising risks and maximising after-tax profits. Investor participation often takes the form of production-sharing arrangements, service contracts and technical assistance agreements. In the ASEAN countries, the production-sharing arrangement was the prevalent form of FDI participation in the oil and gas industry. The investing firm usually has strong ownership advantage over local firms in the form of production know-how, finance, management resources and marketing techniques. With the exception of Singapore and Brunei, the other ASEAN countries have attracted sizeable FDI during their import substitution phases from the early 1960s to the mid 1980s. However, market distortion reduced the benefits from FDI.

For investments oriented to the export market, important considerations for investors are international competitiveness as determined by production and transaction costs, accessibility to markets and supplies and stable exchange rates. The ownership advantage of investing firms derives from their production and marketing know-how. The locational advantage of the ASEAN host countries derives from the availability of industrial estates and export processing zones with well-developed infrastructure, abundant low-wage labour and minimal rules and regulations. FDI in export manufacturing is in search of the most attractive conditions and host countries have to compete aggressively to provide the physical infrastructure, institutional support, human resources and labour and generous tax incentives and to minimise ownership restrictions and other performance requirements. With changing production technologies and management and organisation methods, abundant low-wage labour may not be sufficient nor necessary to attract export oriented FDI. As the Singapore experience shows, the availability of efficient physical infrastructure, information technology and facility for basic research, testing and quality control increasingly attrac FDI.

The success of ASEAN countries in attracting FDI may be attributed to a combinatio of factors that include political, social, economic stability, buoyant economies with capacity growing domestic markets, favourable factor endowments, particularly natural resource and labour supply.

Except for Singapore, the ASEAN countries are rich in natural resources. In particular oil and gas resources have attracted sizable FDI for their exploration and development

Investments targeted at the host market characterised the first wave of manufacturin FDI in ASEAN in the 1960s and were in response to the widespread adoption of impo substituting industries. Investments to produce manufactures for export became increasingl important in the 1980s, particularly liberalisation policies after 1985. Compared with developing regions, the ASEAN countries have always maintained a favourable s towards FDI. However until recent years, there were wide diversities in policie attitudes among them. Singapore welcomed FDI without any reservation at a time the FDI role was debated in the developing countries. In the post 1985 period, the AS has revamped and modified their investment policies. As a result, there has be convergence of FDI policies with respect to both the level and range of invest incentives offered and relaxation of performance requirements and other restri regulations.

Indonesia enacted the Foreign Investment Law in 1967 to promote and regulate inflows. Its approach towards FDI remained cautious till 1990s. Falling oil and comm prices in the mid 1980s; the heavy fiscal burden of non-performing state-owned enterp and the demonstration effect of the successful export-oriented Asian NIEs caused a in development strategy towards a more open economy, emphasis on developing no sectors, especially manufacturing and higher roles for the private sector and for Indonesia has eliminated the 49 per cent limit on foreign share holdings in firms other financial firms in September 1997. It allowed 100 per cent foreign ownership of non- financial firms including insurance companies. Under the new "Reformation Polic Investment" announced in 1998, retail and wholesale trading and palm oil sectors opened to foreign investment (UNCTAD, 1998). It has revised the list of industries activities fully or partially closed to foreign investment.

Malaysia introduced tax incentives to attract FDI into the nascent manufactu sector in the late 1950s. The new economic policy in 1970s adopted equity participatio the corporate sector targeted at 30 per cent for *bumiputras* (local Malaysians), 40 cent for other Malaysians and 30 per cent for foreign investors. The New Developm Policy (NDP) in 1990 emphasises the role of private enterprises rather than governm interventions to narrow the ethnic and social gap. Malaysia relaxed the limits of 30 cent equity holdings. Foreign equity holdings in the local licence basic telecommunicati companies have been raised from 30 per cent to maximum of 49 per cent. It guarant up to 51 per cent foreign equity participation in existing insurance companies by cur holders. All new projects in manufacturing including for expansion and diversification hold 100 per cent equity and will not need to meet any export requirements (exce specific exclusion list) (UNCTAD, 1998).

The Basic Investment Law of 1961 of the Philippines provided tax incentives for imports of machinery and spare parts for basic industries, followed by incentives textiles, mining, etc. In 1970, the Export Incentive Act granted incentives to investme in export-oriented industries. In 1981, the various legislations were considered un Omnibus Investment Act. In an attempt to reverse the downward trend, the 1987 O bus Investment Code consolidated various investment laws and incentives schemes. This was followed by the 1991 Foreign Investment Act, which liberalised the rules and regulations of foreign ownership. Amendments were made to the Investment House Act and the Finance Company Act. Under these amendments foreign equity participation has been increased to 60 per cent for both investment houses and finance and leasing companies, subject to reciprocity rights (UNCTAD, 1998).

Thailand's basic legislative framework for foreign investment dates back to 1950s and has remained virtually unchanged. After 1984, it adopted a flexible investment policy. Foreign equity holdings were limited to no more than 49 per cent except for export-oriented projects with at least 80 per cent export share located in Zone 3, where 100 per cent foreign ownership was allowed. The Board of Investment relaxed this regulation in 1997 for companies with financial difficulties so that they could have foreign ownership of more than 51 per cent on the condition that Thai shareholders of that company agree and confirm their acceptance in writing of the change in ownership to the Board of Investment. It announced majority foreign ownership of existing promoted firms in certain industrial zone if agreed by existing Thai shareholders. It also eliminated 30 per cent export requirement for exemption of import duties used in the manufacturing exports. Existing shareholding structure of foreign bank branches are guaranteed.

The incentives given by ASEAN countries ranged from tax holidays, accelerated depreciation allowance, export incentives, import duty exemption, and concession and low-cost credit facilities to subsidised infrastructural facilities such as industrial estate. 100 per cent foreign equity is currently permitted in all ASEAN countries, although in some cases, these are conditional upon fulfilling certain performance requirements. Performance requirements are widely adopted by ASEAN countries and generally pertain to the minimum level of investment, employment of local personnel, local sourcing of inputs, level of exports and technology transfers. Among ASEAN countries, Singapore has the most efficient bureaucracy and the least restrictive rules and performance requirements. All ASEAN countries have established investment boards or one-stop investment centres to promote, coordinate, and monitor FDI, viz. the Indonesian Capital Investment Coordinating Boards (BKPM), the Malaysian Industrial Development Authority (MIDA), the Board of Investment (BOI) in Philippines and Thailand and Singapore's Economic Development Board (EDB). ASEAN countries established industrial estates and EPZs to create a favourable atmosphere for FDI.

The benefits of FDI largely depend on the institutional and policy environment of host countries. Countries where trade, industrial and competition policy regimes result in a distorted incentives structure, as is usually the case with import substitution and where government bureaucracies are incompetent and corrupt, foreign MNCs are more prone to inefficiency and rent seeking activities. In general, countries which pursue market-oriented and export-oriented policies have better experience with FDI. Countries which impose highly restrictive performance requirements on equity ownership, localisation of personnel, local sourcing inputs and transfer of technology without parallel measure to improve domestic supplies and human resource development will be unable to maximise the benefits from FDI. A strong, incorrupt and efficient open trade policy that emphasises efficiency and competitiveness contribute to inducing good corporate behaviour among foreign firms.

Singapore's pursuit of export-oriented industrialisation and its small domestic market ensures that FDI is both export-oriented and efficient. Singapore has no performance requirements on recruitment of local personnel. Instead, it actively encourages foreign MNCs to provide manpower training at all levels to supplement and complement government efforts in providing education and training for industry through the rapid expansion of science, technology, computer and business-based education in universities and polytechnics and technical and vocational education and training under the Vocational and Industrial Training Board and the Economic Development Board. The incentives for employers to provide training, both in-house training and external programmes includes subsidies from the Skills Development Fund established through an employment levy introduced in 1979.

Foreign investors contribute to the transfer of technology in three possible ways, viz. the introduction of new technology, the transfer of know-how to their local employees and the diffusion of know-how to local enterprises via backward and forward linkages.

Singapore imposes no rules and regulations on technology transfer by FDI. Foreign investors are free to choose, with few exemptions, the type of industries and products they wish to produce, although only those considered crucial to Singapore's development are eligible for fiscal incentives.

ASEAN Free Trade Area entails the removal of barriers to intra-ASEAN trade in manufactures, including capital goods and process of agricultural products, but excluding agricultural products and services. The mechanism to achieve this is the Common Effective Preferential Tariff (CEPT) which came into effect on 1 January 1993 and would lead to tariff liberalisation over next 15 years.

Foreign Investment Board of India was created in 1968 to deal with all cases involving foreign investment up to 40 per cent foreign equity. Those with more than 40 per cent foreign ownership were to be screened by a cabinet committee.

In India a new Industrial Policy was adopted in 1991 where FDI was made less restrictive and regulated. In 34 high priority industries FDI up to 51 per cent foreign equity is approved automatically if certain norms are satisfied. FDI proposals do not necessarily have to be accompanied by technology transfer agreements. Trading companies engaged primarily in export activities are allowed up to 51per cent foreign equity. In energy sectors. 100 per cent foreign equity was permitted in the power generation. International companies were allowed to explore non-associated natural gas and develop gas fields including laying down pipelines and setting up liquified petroleum gas projects. A new package for 100 per cent export-oriented projects and companies in export processing zones was announced.

A Foreign Investment Promotion Board (FIPB) authorised to provide a single-window clearance has been set up in the Prime Minister's Office to invite and facilitate investment in India by international companies. The existing companies are also allowed to raise foreign equity levels to 51 per cent for proposed expansions in priority industries. The use of foreign brand names for goods manufactured by domestic industry which was restricted has also been liberalised. India became a signatory to the convention of the Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments. Foreign Exchange Management Act of 1999 (FEMA) replaced FERA in 1993. However, the Prevention of Money Laundering Bill has been under revision to a panel of the Rajya Sabha. The Bill aims to check the laundering of earnings from crime or other illegal acts, besides enabling the Government to confiscate related property gains of the guilty.

3. Macro-Economic Performance of India and ASEAN

Macro-economic parameters of India and ASEAN are given in Table 1 through Table 7. Both India and ASEAN countries have shown significant economic growth during 1980s and 1990s except some countries like Laos, Myanmar and Philippines especially in 1980s. Money supply growth has increased during the first half of 1990s and has fallen during the second half in all the countries except Thailand and Vietnam where it was continuously falling in 1990s. In the case of Singapore, money supply growth remained more or less stable during second half of 1990s. There was an increasing trend of Gross Domestic Investment (GDI as a % of GDP) and Gross Domestic Saving (GDS as a % of GDP) for all countries during 1990s. Current account deficits as a per cent of GDP have increased in most of the ASEAN countries during 1991-96 and fallen in 1997 and 1998. Singapore enjoys current account surplus. Between the period 1991-95, ASEAN countries have shown significant export growth rates of 20-70 per cent. However, they have fallen drastically since 1996 due to the financial crisis that erupted in the region.

4. India's Trade with ASEAN

India's trade with ASEAN has been improving since 1970-71. India's share of exports to ASEAN has increased from 4.4 per cent in 1990 to 9.9 per cent in 1996 whereas the share in imports has increased from 6.8 per cent to 10.3 per cent during the same period (Table 8). India's export was highest to Singapore (22.7%) followed by Philippines (21.8%), Indonesia (17.9%), Thailand (16.7%) and Malaysia (16.2%) in 1996 (Table 9). With regard to imports to India, Singapore tops the list with a share of 43.1 per cent followed by Malaysia (29.7%), Indonesia (10.5%) and Thailand (6.4%) during the same period. The main exports to ASEAN countries are: Agriculture and Allied Products (28.5%), Chemicals and Related Products (15.8%), Engineering Goods (24.4%), Textiles (7.3%) and Readymade Garments (2.6%). The exports of manufactured goods to ASEAN constituted 66 per cent of the exports in 1998. The major imports from ASEAN are: Food and Related Items (27.7%), Raw Materials and Intermediates (29.0%) and Manufactured Goods (22%)

India's balance of trade with ASEAN showed deficits in 1995 and 1996. India had trade surplus with Indonesia, Philippines, Thailand and Vietnam and trade deficits with the rest of the countries in 1996.

5. Foreign Direct Investment: Trends and Patterns

The ASEAN countries have enjoyed a robust economic growth since 1975 (Table 1). High foreign direct investment (FDI) has contributed to high levels of investment and employment generation, rising productivity and skill development and sharply improved export performance. The ASEAN economies have acted as a magnet to attract further inward investment flows. FDI acts as both cause and effect in economic growth and facilitates economic upgrading. From 1987-1996, the ASEAN region has become one of the most attractive investment regions in the developing world and attracted large amount of FDI

The FDI flows in the world have increased by leaps and bounds. FDI flows in the developing countries touched an unprecedented $120 bn in 1997. The ten largest recipients have received more than two-thirds of total inflows, while the smallest 100 received only 1 per cent. The FDI share of the ten largest developing countries has increased from 69 per cent of annual average FDI flows to these countries in 1990-91 to 76 per cent in 1995-96. As a percentage of GDP, FDI inflows ranged from 25 per cent in the case of Singapore to 2 per cent in the case of Thailand

In ASEAN countries, the role of foreign direct investment (FDI) has been increasing over the years. The ratio of FDI in gross fixed capital formation increased from 1980s to the early 1990s in the case of Indonesia, Malaysia and Singapore. In the case of Singapore and Malaysia the FDI ratios were found to be more than 20 per cent. The share of gross fixed capital formation to gross domestic product showed an increasing trend over the years in the case of India, Indonesia, Malaysia, and Thailand. International trade has been more and more investment driven in recent years. The foreign direct investment promoted exports of manufactured goods and there was larger inflow of foreign direct investment in trade and commerce.

Table 10 depicts the foreign direct investment in India and ASEAN countries. Singapore has the highest FDI flow during 1990-97. In 1997, the FDI for Singapore was US$10 billion, which showed that Singapore was considered to be one of the developed nations among the ASEAN in terms of per capita FDI. Indonesia's FDI flow till the early 1990s was somewhat lower but thereafter it has increased significantly.

The foreign direct investment is very small in India when compared to countries like China and ASEAN countries. In 1995-96, India received only $2 billion compared to $38 billion in China and $20 billion in ASEAN countries. In India the FDI inflows have increased from $574 million in 1993 to $3,264 million in 1997. The portfolio investment has fallen from $3,649 million to $2,214 million during the same period. Ten main investors in India are USA (41.5%), UK (9.5%), South Korea (7.6%), Mauritius (7%), NRI (7%) and Japan (6.4%).

In India, over 60 per cent of total FDI has been in the priority sector and only 6 per cent in consumer goods sector. The infrastructural sector alone accounted for 48 per cent of total FDI proposal during 1996. Another 18 per cent are in the areas of minerals and metals, capital goods and machinery, and equipment, electrical equipment, chemicals and fertilisers. Eight per cent of the FDI are in sectors which have export orientation and which can benefit from the market and technology linkages of a foreign tie-up. These include tourism, textiles, computer software, shoes and leather garments. Consultancy and other services including technical, management and marketing services, financial services constitute 7 per cent of the total FDI proposal.

The patterns of equity control envisaged by investors throw light on the strategic interest. It is observed that 60 per cent in number were for equity holding of less than 51 per cent, only 13 per cent of proposed investments were for wholly owned subsidiaries. In other words, 87 per cent by number of investment were either minority holding or envisaged a local partner/local equity holding.

The evidence of majority control is relatively high in the consultancy and service sectors where almost half the [illegible]

In Indonesia, the largest FDI concentration was in manufacturing with a share of [illegible] per cent followed by services (15.1%), mining (8.5%) and agriculture, forestry and fishery (4.5%) in 1996. Within the manufacturing sector, the largest concentration of FDI is in chemicals, followed by basic metals, metal goods, pulp and paper and textiles, during the same period.

In Philippines, manufacturing sector accounts for 49 per cent followed by mining (25.9%), banking and finance (12.1%), commerce (5.3%) and services (4.2%) in 1996. Within the manufacturing the investments were mainly in chemicals, foods, basic metal products, transport equipments and textiles.

In Thailand, more than one-third of FDI was in manufacturing, which was concentrated in textiles, electronics and electrical products, chemicals, machinery and transport equipment.

In Malaysia, FDI concentration is in basic metal products and components, non metallic mineral products, chemicals, and fabricated metal products.

In Singapore, the manufacturing accounts for 42.2 per cent followed by financial and business services (40.8%) and commerce (11.6%) in 1996. Within manufacturing, the major investments were in electronic products and components, machinery and transport equipment. Most inflow of FDI into ASEAN was traditionally from the North America Western Europe more specifically USA, UK, Germany, the Netherlands, France. Japan has emerged as a major investor since 1970s and the Asian NIEs as a major investor in the post-1989 period. USA, European Community and Japan were the top three leading investors in ASEAN. Intra-ASEAN investment accounts for only a small share (5%) of ASEAN's total inflow of FDI. However, Intra-ASEAN trade represents more than 50 per cent of their total trade.

6. Manufactured Exports and Foreign Direct Investment

The ASEAN countries are highly dependent on exports. The export-GDP ratios varied between 30 per cent to 115 per cent in 1996. Manufactures exports constituted 70-90 per cent of total exports for all countries except Indonesia in which case the manufactures exports were 51 per cent in 1996. It is expected that the FDI would promote manufactures exports. An attempt has been made here to test this hypothesis by a simple regression model given by :

$$MX = \beta_0 + \beta_1 TX + \beta_2 FDI + \beta_3 GDP + u$$

Where MX = Manufactures exports
TX = Total exports
FDI = Foreign Direct Investment
GDP = Gross Domestic Product
u = error term.

The model is estimated by OLS for the period 1981-1996. The results of the model are given in Table 11. It can be seen from the table that FDI is highly significant for India, Singapore and Thailand to explain its influence on manufactures exports. However, there was no significant influence of FDI on manufactures exports for Indonesia and Malaysia. The plausible explanation for this may be that manufactures exports depend on many other factors such as technological capability of the country, the existing status of the manufacturing sector, infrastructure, etc.

7. Joint Ventures

In the recent economic reforms, India has generated interest to increase foreign direct investment (FDI) which has increased from US$100 million in 1991 to US$3.3 billion in 1997.

The Singapore based consultancy firm, Ernst and Young in its *Business Opportunity Report* has recommended India as worth considering by Singapore based companies and other parties for investment. The Report cited low operational costs, an established legal system, a developed industry, profitability, availability of qualified professionals, infrastructure, and tax incentives as reasons for favouring setting up of industries in India. The Report identified agro-based industries, dairy, poultry, and fisheries as growing sectors in India.

Some Indian companies showed interest to set up joint ventures in India in areas such as shoe uppers, shoes, sports-shoes, readymade garments, and toys in collaboration with ASEAN countries who have strong market connections in Europe and USA. The establishment and growth of private sector joint ventures among the member countries of a "region" would also serve as an indicator of the growing complementarity in the skills available in the region.

The joint ventures were studied under following heads:

(i) Pattern of imports

(ii) Pattern of exports

India's major imports from ASEAN

(i) Indonesia: Metalliferrous ores and scrap, paper, paper board and non-mineral manufactures

(ii) Malaysia: Fixed vegetable oils and fat and non-ferrous metals

(iii) Philippines: Metalliferrous ores and scrap, non-metal mineral manufactures

(iv) Singapore: Fixed vegetable oils & fat and metalliferrous ores and scrap

(v) Thailand: Vegetables and fruits, and textile fibres and wastes.

India's major exports to ASEAN

It has been found that countries of ASEAN have become important markets for India. India's major exports to ASEAN are:

(i) Indonesia: Road vehicles, and textile fibres and waste.

(ii) Malaysia: Power generating equipment, road vehicles, textiles and yarn, fabrics etc. and feeding stuff for animals.

(iii) Philippines: Feeding stuff for animals

(iv) Singapore: Non-metal manufactures, etc., feeding stuff for animals, textiles, yarn, fabrics, etc. and road vehicles.

(v) Thailand: Feeding stuff for animals, textile fibres and metal manufactures.

Out of the total Indian joint ventures in products around the globe, 42 per cent were located in ASEAN in 1996. In terms of equity participation, nearly 55 per cent of the total equity of all the Indian joint ventures were held in industrial ventures in ASEAN. Indian joint ventures in ASEAN have covered a vast range of products involving low level of technology to high tech ventures. These include engineering and electrical industries, oil refining units, textiles and related products, chemicals and pharmaceuticals and computer and software industries. In addition to the industrial joint ventures, Indian entrepreneurs from the private sector have also set up joint ventures in services in the countries of ASEAN region including construction, consultancy, leasing and trading. The government has allowed Indian entrepreneurs to set up joint ventures abroad mainly as an export promotion/foreign exchange generating proposition.

The joint ventures generate trade (exports) from India by one-time export of capital goods (machinery) and occasional flow of exports of some of the required raw materials, spares and components. In addition, they generate royalties and dividends on a regular basis from the successful joint ventures.

Indian joint ventures in ASEAN have shown mixed results. Many of the Indian joint ventures have survived and grown, others are struggling to be profitable while some others have failed and closed down. The main cause for unsatisfactory performance of these joint ventures is, working under more open and competitive environments in ASEAN.

India is richly endowed with resources like iron ore and coal. Whereas in ASEAN, Malaysia is richly endowed with rubber, tin and palm oil. Technology is also well developed in India. Technically competent professional manpower also exists in India as well as in ASEAN countries. On the demand side, ASEAN economies have demonstrated their potential as fast as growing markets with rising per capita income and level of international trade.

A list of trade generating joint ventures between India-ASEAN in production as well as joint marketing at regional level is given below:

(a) Resource-Based Industries

(i) Vegetable oils and products, (ii) Rubber, (iii) Pulp and paper and newsprint, (iv) Wood products, (v) Tin, (vi) Iron ore and pellets, (vii) Fruits and vegetables, fresh and processed, (viii) Fisheries, (ix) Cement, and (x) Fertilisers.

(b) Capital Goods

Turnkey Projects including Joint Bidding:

(i) Power equipment for generation and distribution including mini microhydel sets, etc., (ii) Electrical machinery, (iii) Integrated textile mills, (iv) Mini steel plants, (v) Sugar mills, (vi) Road vehicles, trucks and buses and two/three wheelers, (vii) Shipbuilding/port development/airports development, and (viii) Oil exploration equipment.

(c) *Intermediary Products*

(i) Selected chemicals including dye stuffs, (ii) Bulk drugs and selected pharmaceuticals especially oriented medicines and perfumes, (iii) Agro-chemicals, pesticides, weedicides, (iv) Rayon/activated carbon, and (v) Electronic components.

(d) *Consumer Goods*

(i) Radio, television and video cassette recorders, etc., (ii) Handicrafts including products of ancient folklore package of modern conditions, and (iii) Cinematic films and cassettes of cultural shows, etc.

(e) *Services*

(i) Bank for funding regional investment projects, (ii) Data bank for trade and investment opportunities, (iii) Tourism, (iv) Regional centre for transfer of science and technology including applications for agriculture, horticulture, animal husbandry, rural development and industrial development, (v) Technical and management education, (vi) Management contracts, (vii) Regionally manned consultancy services, (viii) Sofware development, and (ix) Employment exchange programmes for skills intensive professional experts, and (x) Telecommunication.

It can be concluded that the joint venture mainly depends on the cost benefit analysis. ASEAN countries, particularly Singapore, Malaysia and Thailand are turning towards South Asian countries especially India for exploring possibilities of exports and joint ventures.

8. Conclusion

India is a sectoral dialogue partner of ASEAN and is actively cooperating in the areas of trade, investment, tourism and technology. The economic and trade relations between India and ASEAN have grown rapidly since late 1970s. ASEAN countries enjoyed high economic growth during the last two decades. High foreign direct investment (FDI) has contributed to high level of investment and employment generation, rising productivity and skill development and sharply improved export performance.

Flow of FDI is not very high in India as compared to China and ASEAN. In India 6[illegible] per cent of the total FDI have been in the priority sector and only 6 per cent in consumer goods sector. In ASEAN countries, FDI has been increasing in large scale during 1988-96. The ratio of FDI in gross fixed capital formation is as high as 20 per cent. FDI has promoted exports of manufactured goods and there is a large inflow of foreign direct investment in trade and commerce. The exports of manufactured products were also governed by other factors such as technological capability of the country, existing status of the manufacturing sector, the type of sectors where FDI flows, etc. Joint ventures between India and ASEAN have gone up during the last decade. Out of the total Indian joint ventures in production around the globe, 42 per cent were located in ASEAN in 1996. In terms of equity participation, nearly 55 per cent of the total equity of all Indian joint ventures were held in industrial ventures in ASEAN. In addition to the industrial joint ventures, Indian entrepreneurs from the private sector have also set up joint ventures in services in the ASEAN region including construction, consultancy, leasing and trading. The Government of India is promoting joint ventures in exports and for foreign exchange generation. India can improve its economic relations with ASEAN through FDI and joint ventures.

TABLE 1

GROWTH RATES OF INDIA AND ASEAN COUNTRIES

Countries	1981-90	1991	1992	1993	1994	1995	1996	1997	1998
India	5.6	0.8	5.1	6.2	7.2	7.1	6.8	7.0	7.0
Cambodia	-	7.6	7.0	4.1	4.0	7.6	6.0	6.4	7.0
Indonesia	5.8	8.9	7.2	7.3	7.5	8.2	7.8	8.0	7.9
Laos	-	3.4	7.1	5.2	8.0	6.7	6.9	7.2	7.4
Malaysia	5.2	8.7	8.0	9.0	9.1	10.1	8.8	8.5	[illegible]
Myanmar	-0.1	-0.6	9.7	5.9	6.8	7.7	6.0	NA	NA
Philippines	1.0	-0.6	0.3	2.1	4.4	4.8	5.5	6.0	[illegible]
Singapore	7.3	7.3	6.2	10.4	10.5	8.8	7.0	7.5	8.0
Thailand	7.9	8.5	8.1	8.3	8.9	8.7	6.7	6.1	6.6
Vietnam	8.1	6.0	8.6	8.1	8.8	9.5	9.5	9.5	9.3

Source: ADB, *Asian Development Outlook, 1997-98.*

TABLE 2

GROWTH RATE OF M-2 IN INDIA AND ASEAN

Countries	1991	1992	1993	1994	1995	1996	1997	1998
India	19.3	15.7	18.4	22.2	13.2	16.5	16.0	16.0
Cambodia	28.6	24.0	34.4	34.9	44.3	33.0	20.0	20.0
Indonesia	17.0	20.2	22.0	20.2	27.6	26.0	24.0	24.0
Laos	15.7	49.0	64.6	31.9	16.4	20.2	14.5	[illegible]
Malaysia	14.5	19.1	22.1	14.7	24.0	23.0	22.1	[illegible]
Myanmar	66.0	35.6	26.8	33.9	21.5	NA	NA	NA
Philippines	15.7	11.0	24.6	26.8	25.2	22.0	20.0	20.0
Singapore	12.4	8.9	8.5	14.4	8.5	10.7	10.6	[illegible]
Thailand	19.8	15.6	18.4	12.9	17.0	13.6	14.0	[illegible]
Vietnam	78.8	33.7	19.0	27.8	22.6	22.3	22.0	[illegible]

Source: ADB.

TABLE 3

C P I INFLATION RATE (PER CENT)

Countries	1981-90	1991	1992	1993	1994	1995	1996	1997	1998
India	8.8	13.5	9.6	7.5	8.1	12.2	8.9	8.4	[illegible]
Cambodia	-	197.0	75.0	114.3	-0.5	7.8	10.0	5.0	[illegible]
Indonesia	8.5	9.4	7.6	9.6	8.5	9.4	7.9	7.5	[illegible]
Laos	-	13.4	9.8	6.3	6.7	19.4	14.0	8.0	[illegible]
Malaysia	3.2	4.4	4.7	3.6	3.7	3.4	3.5	3.7	[illegible]
Myanmar	11.8	32.3	21.9	31.8	24.1	25.2	22.5	NA	[illegible]
Philippines	13.4	18.7	8.9	7.6	9.0	8.1	8.4	7.0	[illegible]
Singapore	2.2	3.4	2.3	2.3	3.1	1.7	1.4	2.7	[illegible]
Thailand	4.4	5.7	4.1	3.4	5.1	5.8	5.9	5.0	[illegible]
Vietnam	182.7	81.8	37.6	8.4	14.4	12.7	6.0	7.0	[illegible]

Source: ADB.

TABLE 4

GROSS DOMESTIC INVESTMENT AS A PER CENT OF GNP

Countries	1981-90	1991	1992	1993	1994	1995	1996	1997	1998
India	22.8	23.1	24.4	21.4	24.4	26.7	28.8	29.5	[illegible]
Cambodia	-	9.4	9.8	17.9	19.4	21.3	19.8	19.8	[illegible]
Indonesia	30.4	33.5	33.9	34.5	33.7	34.8	37.7	39.2	[illegible]
Malaysia	32.4	39.3	37.1	39.8	42.5	45.4	45.1	45.6	[illegible]
Myanmar	15.4	15.3	13.6	12.1	12.1	13.0	NA	NA	NA
Philippines	22.4	19.9	20.8	23.6	23.5	21.6	23.9	25.5	26.5
Singapore	41.8	34.2	35.3	38.0	32.3	33.0	34.8	33.8	33.3
Thailand	31.1	43.4	40.8	41.3	42.0	44.2	43.8	44.1	44.0
Vietnam	-	15.6	18.3	26.0	26.0	27.5	30.1	31.0	31.5

Source: ADB.

TABLE 5

GROSS DOMESTIC SAVING AS A PER CENT OF GNP

Countries	1981-90	1991	1992	1993	1994	1995	1996	1997	1998
India	21.4	22.4	22.8	22.0	25.4	28.5	27.1	27.7	27.7
Cambodia	-	8.4	6.7	5.3	3.9	5.7	5.7	6.8	8.1
Indonesia	31.8	30.4	32.3	32.8	31.9	31.4	33.7	35.2	36.7
Malaysia	29.1	29.9	34.1	35.3	35.5	36.4	38.8	41.2	41.6
Myanmar	11.4	13.9	12.8	10.9	11.0	12.1	-	-	-
Philippines	-	18.2	19.4	18.1	19.0	19.0	20.5	21.0	22.0
Singapore	42.4	45.8	46.5	45.9	49.2	49.9	49.7	51.3	52.3
Thailand	26.2	35.4	34.5	34.2	35.2	35.0	35.3	35.6	35.0
Vietnam	-	6.7	10.9	11.2	16.6	17.4	18.0	19.6	21.2

Source: ADB.

TABLE 6

CURRENT ACCOUNT DEFICITS AS A PER CENT OF GNP

Countries	1991	1992	1993	1994	1995	1996	1997	1998
India	-0.7	-1.5	-0.6	-1.1	-1.8	-1.7	-1.8	-2.1
Cambodia	-1.5	-2.5	-12.6	-15.5	-15.6	-14.1	-13.0	-12.7
Indonesia	-3.5	-2.1	-1.4	-1.6	-3.6	-4.1	-4.0	-3.3
Laos	-10.8	-8.8	11.0	-14.3	-11.3	-16.7	-15.8	-15.3
Malaysia	-9.2	-3.9	-4.6	-6.0	-9.0	-6.3	-4.7	-4.2
Myanmar	-1.2	-0.7	-0.5	-0.5	-0.4	NA	NA	NA
Philippines	-2.2	-1.8	-5.5	-4.5	-3.3	-4.1	-4.5	-4.5
Singapore	11.2	11.1	7.3	15.9	17.6	15.3	12.6	12.1
Thailand	-7.8	-5.8	-5.2	-5.8	-8.3	-8.1	-7.3	-7.4
Vietnam	-2.8	-0.8	-7.8	-8.5	-10.2	-12.2	-11.4	-10.3

Source: ADB.

TABLE 7

ANNUAL GROWTH OF EXPORTS IN DOLLAR TERMS (PER CENT)

Countries	1991	1992	1993	1994	1995	1996	1997	199[illegible]
India	-1.1	3.3	20.2	18.4	20.9	13.0	19.2	2[illegible]
Cambodia	147.7	24.5	7.2	72.7	74.7	-28.1	-11.4	[illegible]
Indonesia	10.5	14.0	8.3	9.9	13.1	8.8	10.8	12[illegible]
Laos	22.7	37.3	81.4	24.8	15.9	-9.5	-1.1	[illegible]
Malaysia	17.0	18.1	16.1	23.1	25.9	4.0	7.9	1[illegible]
Myanmar	-9.8	37.2	17.8	16.4	25.6	9.0	NA	[illegible]
Philippines	8.0	11.1	15.8	18.5	29.4	17.5	22.0	2[illegible]
Singapore	12.1	8.5	17.0	25.8	21.5	6.7	5.0	1[illegible]
Thailand	23.8	13.7	13.4	22.2	24.7	0.1	4.5	[illegible]
Vietnam	18.0	21.2	20.6	35.8	28.2	30.4	22.0	1[illegible]

Source: ADB.

TABLE 8

INDIA'S TRADE WITH ASEAN AND WORLD

($ millio[illegible])

Year	ASEAN			World			Percentage of tra[illegible] in ASEAN	
	Exports	Imports	BOT	Exports	Imports	BOT	Exports	Impo[illegible]
1990	754	1,623	-869	17,813	23,990	-6,177	4.4	[illegible]
1991	1,014	938	76	17,872	19,509	-1,637	5.7	[illegible]
1992	1,222	1,542	-320	18,498	23,227	-4,729	6.6	[illegible]
1993	1,561	1,132	429	20,258	21,482	-1,224	7.7	[illegible]
1994	1,779	1,761	18	24,195	25,981	-1,786	7.4	[illegible]
1995	2,371	2,485	-114	30,537	34,456	-3,919	7.8	[illegible]
1996	3,403	4,139	-736	34,407	40,090	-5,683	9.9	[illegible]

Source: IMF, *Direction of Trade, 1997.*

TABLE 9

INDIA'S TRADE WITH ASEAN COUNTRIES

($ million)

	Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Total
Exports to										
1990			92	126	1	21	305	201	8	754
			(12.2)	(16.7)	(-)	(2.8)	(40.5)	(26.7)	(1.1)	(100.0)
1991			145	203	4	64	386	199	13	1,014
			(14.3)	(20.0)	(0.4)	(6.3)	(38.1)	(19.6)	(1.3)	(100.0)
1992			143	222	4	77	515	242	19	1,222
			(11.7)	(18.2)	(0.3)	(6.3)	(42.1)	(19.8)	(1.6)	(100.0)
1993			200	232	14	48	727	318	22	1,561
			(12.8)	(14.9)	(0.9)	(3.1)	(46.6)	(20.4)	(1.3)	(100.0)
1994	1	1(-)	253	250	24	95	738	374	43	1,779
			(14.3)	(14.1)	(1.3)	(5.3)	(41.5)	(21.1)	(2.4)	(100.0)
1995	5	2(-)	501	355	21	122	807	461	97	2,371
	(0.2)		(21.1)	(15.0)	(0.9)	(5.1)	(34.0)	(19.5)	(4.2)	(100.0)
1996	7	2(-)	610	552	27	741	770	570	124	3,403
	(0.2)		(17.9)	(16.2)	(0.8)	(21.8)	(22.7)	(16.7)	(3.7)	(100.0)
Imports from										
1990			173	546	90	4	689	62	59	1,623
			(10.7)	(33.6)	(5.5)	(0.2)	(42.5)	(3.8)	(3.7)	(100.0)
1991			67	391	51	31	311	49	38	938
			(7.1)	(41.7)	(5.4)	(3.3)	(33.2)	(5.2)	(4.1)	(100.0)
1992		3	73	534	104	13	689	67	59	1,542
		(0.2)	(4.7)	(34.6)	(6.7)	(0.8)	(44.7)	(4.4)	(3.9)	(100.0)
1993		2	88	227	117	7	593	54	44	1,132
		(0.1)	(7.8)	(20.1)	(10.3)	(0.6)	(52.4)	(4.8)	(3.9)	(100.0)
1994		-	283	432	120	10	720	146	50	1,761
			(16.1)	(24.5)	(6.8)	(0.6)	(40.9)	(8.3)	(2.8)	(100.0)
1995		29	384	770	160	15	966	146	15	2,485
		(1.2)	(15.5)	(31.0)	(6.4)	(0.6)	(38.9)	(5.9)	(0.6)	(100.0)
1996		33	433	1,228	182	196	1,785	264	18	4,139
		(0.8)	(10.5)	(29.7)	(4.4)	(4.7)	(43.1)	(6.4)	(0.4)	(100.0)

Note: Figures in paranthesis indicate percentage to total

Source: IMF, *Direction of Trade*, [illegible]

TABLE 10

FDI INFLOWS BY HOST COUNTRY - 1986-97

($ mn)

Countries	1986-91 (Annual average)	1992	1993	1994	1995	1996	1997
Brunei	-	4	14	6	7	9	[illegible]
		(-)	(-)	(-)	(-)	(-)	(0.02)
Cambodia	-	33	54	69	151	294	20[illegible]
		(0.3)	(0.3)	(0.4)	(0.7)	(1.1)	(0.8)
Indonesia	74.6	1777	2,004	2,109	4,348	6,194	5,35[illegible]
	(9.4)	(14.7)	(12.9)	(11.3)	(19.3)	(23.1)	(21.[illegible]
Laos	3	8	30	59	95	160	[illegible]
	(-)	(-)	(0.2)	(0.3)	(0.4)	(0.5)	(0.[illegible]
Malaysia	1,605	5183	5,006	4,342	4,132	4,672	3,7[illegible]
	(20.3)	(42.8)	(32.3)	(23.2)	(18.3)	(17.4)	(14.[illegible]
Myanmar	68	171	149	91	115	100	[illegible]
	(0.9)	(1.4)	(1.0)	(0.5)	(0.5)	(0.4)	(0.[illegible]
Philippines	501	228	1,238	1,591	1,459	1,520	1,2[illegible]
	(6.3)	(1.9)	(8.0)	(8.5)	(6.5)	(5.7)	(4.[illegible]
Singapore	3,592	2,204	4,686	8,368	8,210	9,440	10,0[illegible]
	(45.4)	(18.2)	(30.2)	(44.8)	(36.5)	(35.2)	(39.[illegible]
Thailand	1,325	2114	1,804	1,322	2,002	2,268	3,6[illegible]
	(16.8)	(17.5)	(11.6)	(7.1)	(8.9)	(8.5)	(14.[illegible]
Vietnam	68	385	523	742	2,000	2,156	1,2[illegible]
	(0.9)	(3.2)	(3.4)	(4.0)	(8.9)	(8.0)	(4[illegible]
ASEAN	7,908	12107	15,508	18,699	22,519	26,813	25,5[illegible]
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100[illegible]
India	177	233	574	973	1964	2,382	3,2[illegible]

Note Figures in paranthesis indicate percentages.
Source UNCTAD, *World Investment Report, 1998*

TABLE 11

THE MODEL RESULTS

Country	Constant	β_1	β_2	β_3	R	R^2	F	D[illegible]
India	312.8	0.63*	5.43*	-150.12	93	91	75.3	1.[illegible]
	(0.48)	(7.32)	(2.51)	(0.50)				
Indonesia	8515.3	0.13*	3.25	-43638.3*	81	78	14.3	1.[illegible]
	(2.73)	(2.58)	(1.53)	(6.31)				
Malaysia	4312.7	1.15*	0.12	-0.71*	92	89	162.5	1.[illegible]
	(4.34)	(13.25)	(0.57)	(8.32)				
Thailand	3143.2	0.67*	1.32*	-143632*	95	92	751.4	1.[illegible]
	(3.12)	(8.12)	(3.15)	(4.32)				
Singapore	-678.3	0.75*	1.42*	-0.35	98	98	620.3	2[illegible]
	(0.51)	(5.33)	(3.68)	(0.97)				

Note: Figures in brackets are t-ratios.
* indicates significant at 5% level.

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