AN ANALYSIS OF FOREIGN DIRECT INVESTMENT POTENTIAL FOR INDIA IN IRAN

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ABSTRACT

The development of any economy is dependent on the amount of investment taking place in the economy. Every country maintains its economic activity by ensuring an adequate level of domestic investment. However that alone is not sufficient and inevitably foreign investment fills the gap between the desired and actual level of investment. In this globalised world the flow of funds across borders has become very fluid and every country tries to project itself as an attractive investment destination. India and Iran are not an exception. Both the countries have looked towards foreign investment as an attractive option. However for Iran, the things became a little difficult when the UN, the European Union and the United States imposed sanctions on it. It cut off Iran from the rest of the world in carrying out trade and investment activities and the only countries who did not fully abide by these sanctions were India, China and Russia. Things have however taken a turn for good for Iran as it agrees to the Comprehensive Joint Plan of Action(CJPOA). This has a major economic implication for Iran and being an active trading partner of Iran for India also. Suddenly the economic dynamics for both the countries change and this agreement would result in a realignment of the bilateral relations of India and Iran on the economic front. The current paper tries to analyse the impact of this development on the economic relations between the two countries and tries to identify the potential for investment for India in Iran. The objective is to identify the competitive advantage that India enjoys in investing in Iran. The paper adopts a descriptive research approach and is based on secondary data. The main sources of data are the government publications, newspapers and magazines. The speeches and opinions expressed by experts and politicians are also a source of information.

Key Words : Investment, India, Iran, Competitive advantage

I: INTRODUCTION

The development of any economy is dependent on the amount of investment taking place in the economy. Every country maintains its economic activity by ensuring an adequate level of domestic investment. However that alone is not sufficient and inevitably foreign investment fills the gap between the desired and actual level of investment. In this globalised world the flow of funds across borders has become very fluid and every country tries to project itself as an attractive investment destination. India and Iran are not an exception. Both the countries have looked towards foreign investment as an attractive option. However for Iran, the things became a little difficult when the UN, the European Union and the United States imposed sanctions on it. It cut off Iran from the rest of the world in carrying out trade and investment activities and the only countries who did not fully abide by these sanctions were India, China and Russia. Things have however taken a turn for good for Iran as it agrees to the Comprehensive Joint Plan of Action(CJPOA). According to the Comprehensive Joint Plan Of Action, Iran has agreed to conduct its nuclear programme in a restrictive manner. The plan requires Iran to freeze all uranium enrichment and to place its nuclear sites under IAEA safeguards. In return, Iran anticipates the termination of all economic and diplomatic sanctions imposed on it by the UN Security Council (UNSC), the European Union (EU) and the US. This has a major economic implication for Iran and being an active trading partner of Iran for India also. Suddenly the economic dynamics for both the countries change and this agreement would result in a realignment of the bilateral relations of India and Iran on the economic front.

II: LITERATURE REVIEW

The journey of India as a FDI estimation started in the twenty first century. International Business is the engine of growth for any economy (Goharian, 2000)and foreign direct investment; inward as well as outward facilitates the economy towards efficient growth. Subramanian et.el (2010) carried out a detailed analysis to study the trends of India's FDI outflows and finds that most foreign investments made by Indian companies have been market seeking. Over50% of the total investments made abroad qualify to be market seeking while 33.78% of the investments are made to seek new technologies, brands or products. In a study conducted by Exim Bank of India (2019), it has been found that India's FDI outflows have primarily been directed to tax havens and the largest share is being done in manufacturing sector followed by financial services sector.

Iran has primarily been identified as an oil producing and exporting country. Oil and Petroleum has been the mainstay of the country with other sectors often facing barriers even in trade activities. Aghdaie et.el (2012) used the porter's five forces diamond model to analyse the barriers to export Iran's saffron. It found that except for facto conditions, all other forces v.i.z demand conditions, related and supporting industries, firm strategy, structure, and rivalry, government, and chance are important barriers to Iran's saffron export. Iran is an upcoming FDI destination that has the potential to attract investment in many sectors(Dhingra, 2014). In a forecasting analysis done till the year 2020, the FDI growth rate is projected to rise at a rate of 43.27% which is higher than the South Asian Countries. However the FDI growth can only be sustained if the Iranian Government follows an open FDI policy

III: OBJECTIVES AND METHODOLOGY

The purpose of the paper is to identify the impact of nuclear agreement on the economic ties between India and Iran. Specifically speaking the objective is

-To analyse the export Potential for India

-to study the areas of potential investment for India in Iran post the lifting of sanctions

The paper adopts a descriptive research approach and is based on secondary data. The main sources of data are the government publications, newspapers and magazines. The speeches and opinions expressed by experts and politicians are also a source of information.

IV: TRADE POTENTIAL BETWEEN INDIA AND IRAN

Trade forms the backbone of any economy. No country is self sufficient and hence indulges in trade. In international trade, export refers to selling goods and services produced in the home country to other markets (Joshi, 2005). In national accounts, export consists of transactions in goods and services from residents to non-residents (Lequiller & Blades, 2006). Imports on the other hand represent the buying of goods and services from markets outside the home country India and Iran have been have carried out trade in many commodities. In 2006 UN Security Council imposed sanctions on Iran when it refused to suspend its uranium enrichment programme. Iran had been cut off from the world trade and investment map on account of these sanctions. However despite the sanctions India was one of the few nations that continued to have economic relations for India. With Iran agreeing to conducting its nuclear programme in a restrictive manner , the scene has changed, not only for Iran but also for other countries that look at Iran as a potential economic partner.

Iran's economy has a large services sector which is nearly 50.3% of GDP, followed by a substantially large manufacturing sector 40.7% and a small agriculture sector amounting to 9.1% of GDP. Since Iran has large reserves of hydrocarbons are the primary source of export earnings contributing to almost 80% of the total. Iran's major importing partners are United Arab Emirates and China with both of them collectively accounting a share of 62% of the total imports of Iran. India is at the 6th rank contributing to 7.9% of the Iran's total imports in 2014. At the same time India is the second major export destination for Iran, next only to china, with 17.5% of the Iran's export going to India. It can thus be concluded that India is one of the major trading partners of Iran next to United Arab Emirates and China. The relative position of the Indian and Iran's bilateral trade can be seen in table 1,

Table 1: Indian-Iran Bilateral Trade Relations

Country	Exporting Position	Importing position
India	1.4% of exports to Iran -24th position	2.4% of imports from Iran-15th position
Iran	17.5% of exports to India -2nd position	7.9% of imports from India – 6th position

Source: Exim Bank of India . 2014

When it comes to India's imports from Iran, energy continues to occupy a central place. Iran has the world's second largest gas reserves. For Iran. India constitutes a major oil export market as India is the fourth largest oil consumer of the world and the second largest importer of oil from Iran. With India being one of the fastest growing economies, its energy requirements are also escalating. In this situation, India becomes very lucrative market for Iran. For India, with the lifting of sanctions India is now free to import oil from Iran. During the time the sanctions were imposed on Iran, the Indian government paid for its imports from Iran through a rupee arrangement which has saved India foreign exchange reserves worth almost Rs 90.000 crores. Now with the banking channels being restored, India will have to soon clear up its balance of 5.650 billion USD.

India also has now to review its relations with Iran which are going to undergo a major strategic shift. India has been an importer of oil from Iran and although India has been exporting sugar, automobiles, tools, motors and chemicals to Iran, the scope for trade between the two nations still remains untapped. Post the lifting of sanctions Indian exporters are going to face stiff competition from the east European counterparts who are capable of supplying the goods at low costs. India has the potential to increase its exports in the agricultural commodities. India is the largest exporter of rice to Iran. Similarly potential in agricultural exports exists in other commodities like sugar and soyabean etc. At the same time textile and pharmaceutical are some other sectors that hold a good export potential.

India is one of the important trading partners of Iran. Although India 's share in Iran's imports is at 7.9 % and it is the sixth largest importing partner of Iran , potential for enhancing the exports of India to Iran exists. In order to identify the potential sector for enhancing Indian exports a comparison is drawn of the importing trends of Iran and the share of India in these sectors. Thereafter the ability of the Indian sector is adjudged

Table 2 :The top 5 products being imported by Iran

PRODUCT	VOLUME (USD Billion)	%AGE SHARE IN TOTAL IMPORTS
Machinery & Equipment	8131.3	14.6%
Electrical /Electronics	5365.7	9.64 %
Cereals	4920.3	8.84%
Automotive Vehicles	3092	5.6%
Iron and Steel	3059	5.5%

The table shows that the share of machinery and equipments has been the highest in the imports of Iran, followed by electrical and electronics item and cereals. Together these three items constitute 33.08% of the total imports of Iran. Vehicles and Iron and steel are the enxt two major item imported by Iran and the collective share of the these five products is 44.18% of the total imports of Iran

Table 3 : Top 5 products being Exported by India to Iran

PRODUCT	VOLUME OF EXPORT TO IRAN (USD MILLION)	%AGE SHARE IN IRAN'S IMPORTS
Cereals	1359.6	27.6
Residues, Wastes of Food	286.3	23.6
Organic Chemicals	224.5	21.5
Man made staple Fibers	118.1	20.5
Iron and Steel	556.4	18.2

A comparison of table 2 and 3 shows us that out of the top five exports of Iran, India is already exporting a significant quantity of two of the items namely ; cereals and Iron and Steel. However the share of India in the other

three top 5 exports of Iran is relatively less at an approximately 3% of the total Iran's import of these items. At the same time the three other main exported items from India to Iran i.e. Residues, wastes of food , man made staple fibers and organic chemicals do not figure very high in the exported items of Iran which limits the scope of trade for India.

The research question in this context becomes that can India enhance its export of the items like Machinery and equipment, electrical and electronics and automotive vehicles. Although India exports machinery and equipment as well as electronics; yet as per the data available it has been seen that India has a net trade deficit in both these items indicating that India is a net importer of machinery and equipments and electronics. Almost 10.5% of our imports are electronic items and it is the third largest imported product in the Indian import profile. Machinery accounts for 8.3% of our imports. However despite being a net importer both these sector have figured in the top ten exports from our country (Machinery accounts for 7.3% of the exports of India and electronics account for 2.2% of the Indian exports. thereby indicating that India has the potential top enhanced its exports in the sectors where the market demand exists in Iran.

V: INVESTMENT POTENTIAL FOR INDIA

The identification of Investment potential in Iran for India has been carried out in two stages. In stage one the top four sectors where maximum foreign investment is taking place in Iran has been identified. In the second stage these sectors have been analyzed in the Indian context to judge the capability and suitability of the Indian firms in these sectors to invest in Iran.

V.1 FDI Trends in Iran

The FDi inflows trends in Iran have shown a robust growth in the past decade. The FDI has specially been rising after 2010 indicating the growing importance of Iran as an FDI destination The FDI trends in Iran can be seen in table 4

Table 4 : Year wise FDI Inflow trends in Iran

YEAR	FDI INFLOWS (US $ Million)
1990-91	-362
1995-96	8-8
1999-2000	37.6
2005-20006	2683.4
2009-2010	1909.2
2010-2011	3047.6
2011-2012	3647.5
2012-2013	4150
2013-2014	4869.9
Source: UNCTAD 2014	

The sectoral analysis of FDI trends in Iran reveal that the sectors open for foreign direct investment are : Agriculture, mining, electricity, gas supply, construction, transport and communications and certain services. The chief sectors that have attracted FDI in Iran are petrochemicakl, mining, pharmaceuticals. Investment in Urea, aluminum plant, pharmaceuticals and a rail link from chabahar to Zahedan are already some of the sectors that have been shortlisted for investment by Indian investors.

One of the prerequisites necessary for trade is the availability of passage for the goods. Prior to 1947, India shared borders with Iran and Afghanistan. However post partition India lost out on the common borders. On account of the strained relations between India and Pakistan, India has faced difficulty on gaining access . Although the sea route was always open but the shipping charges turned out to be unusually high. With India becoming a partner to the Chabahar port project, it will finally get access to Iran but will also have the opportunity to get an entry into

Afghanistan and Central Asia without passing through Pakistan .The Federation of Freight Forwarders' Associations in India, which carried out the 2014 dry run to Astrakhan from Mumbai via Chabahar, estimated that the corridor would slash freight costs to Russia by some 30%, and take just under half as long as the current sea journey through St Petersburg on the Gulf of Finland. Thus for India the strategic advantage of the chabhar port lies in the fact that it provides access to business hubs in South Asia, middle east and Afghanistan. Further it lowers down the cost of moving goods. Additionally,India, Iran and Afghanistan have an agreement on preferential treatment and low tariffs for goods moved through Chabahar port.

The Chabahar port is near the Chabahar free trade zone. This FTZ offers tax exemption for a period of 20 years as well as duty free trade zone. So whereas on the one hand the Indian investors get a chance to invest in this area they also get a smooth access through the chabahar port.

V.2 : Identification Of Investment Potential

One of the ratio that helps us to understand the ability of a country's sector to invest abroad is the exports/production ratio. The data on production has been taken in value terms as value of output. This ratio uses data on production and exports. The data on production highlights the relative strength of the sector whereas the data on exports indicates the acceptability of the product . The ratio of exports to production does away the distortions arising by relying solely on absolute figure of exports, thus indicating the comparative performance of the sector. The higher the ratio the better is the ability of the sector to invest abroad.

Based on the FDI trends in Iran, and exports and production data of India, an analysis of the attractiveness of the sectors for FDI by India is done in table 4.

Table 4: Exports/Production Ratio

SECTOR	EXPORTS	PRODUCTION	EXPORTS/PRODUCTION
Pharmaceutical Sector	690236.77	128044.29	5.39
Urea	8700	32029	0.271
Aluminium	487081	1516409	0.321
Automotive/vehicles	3573346	23358047	0.15

As can be seen from the above table that pharmaceuticals has the maximum acceptability and potential for foreign investment. The attractiveness for investment in the other sectors is relatively low. Generally the Indian companies have adopted the mode of acquisition for entering the foreign market in the pharmaceutical sector. The basic objective for the Indian pharmaceutical companies investing abroad has been the expansion of market share and Iran constitutes a lucrative market for the Indian companies. This can also be further supported by the exports to production ratio.

VII: SUGGESTIONS AND CONCLUSION

The paper reveals that Iran and India have been having successful trade relations. These relations can be extended further to certain specific sectors like Pharmaceuticals. Some other sectors where the Indian firms can explore ae construction and Oil and Gas exploration as India has been showing a rising proclivity towards outward FDI in these two sectors.. The Indian presence in the global investment scenario in the construction sector has risen over the period of time. Presently about 4.8% of the Indian outbound FDI is in construction sector amounting to 1394 US million dollars worth of FDI. Just as in case of Pharmaceutical the primary reason for the growth of outward FDI in this sector is that the Indian companies are looking for expanding their market share. Most of the investment in oil and gas exploration is resource seeking in nature. In terms of actual capital expenditure, coal, oil and gas sector has a significant outward direct investment. For India this becomes an attractive investment potential. Iran's major foreign investment inflows too have been directed to oil and natural gas exploration. India also can invest in upstream oil and gas exploration. Indian companies have already invested around $100 million in the Farzad B gas field area prior to the imposition of sanctions. After being in limbo for many years due to the sanctions the production from the site should start. However the project has run into troubled waters as Iran has not shown

any inclination to continue with the project but is rather interested in auctioning the site. This does not bode well for Indian investors who will find it difficult to compete with cash rich competitors from China, France and America.

A key hurdle to investment in Iran for India lies in the restrictive FDI policy adopted by the Iranian Government. Further the financial infrastructure also leaves a lot to be desired. investment in Iran can be mobilized only when the basic financial infrastructure is put into order. The banking system has to be revamped as they are currently restricted in their ability to lend funds to the banking sector. When it comes to the Indian and Iran financial relations, the channels for the flow of funds between the two countries have to be resurrected.

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