

World Investment Report

Why in news?

The United Nations Conference on Trade and Development released its World Investment Report.

What does the report say?

- It projected that the Foreign direct investment (FDI) to the developing Asian economies could drop by as much as 45%.
- FDI is falling and the immediate picture for many countries is not looking pretty.
- One sector that is expected to buck this trend is **digital services**.

Why digital services are important?

- Digital services have become critical to every 21st century economy.
- They are filling gaps when national or global emergencies interrupt more traditional modes of commerce.
- They enable access to and delivery of a wide array of products across multiple sectors.
- Even in the midst of the pandemic, investments in digital services continue to flow at record levels globally.

What determines the flow of FDI?

- India is an ideal destination for increased FDI flows in the digital services sector.
- India offers undeniable potential for innovative homegrown start-ups because of its huge and increasingly digitised population.
- However, Indian government policies will be key determinants in how quickly the Indian economy attracts new investment.
- They will also determine how India can foster Indian innovation, and expands its exporting prowess.

What are the pending measures?

- There are three pending reform measures under consideration that may affect India's growth trajectory in digital services for years to come.

- They are the Personal Data Protection Bill (PDPB), the e-commerce policy, and the Information Technology Act Amendments.
- Approaches in these reforms emphasise a focus on protecting the domestic market for domestic companies and prioritising government access to data.
- It may be difficult to reconcile these approaches in India.
- There is uncertainty about when these changes will be completed and implemented.
- The course of the India-U.S. trade relationship is uncertain, as signs of progress are continually interrupted new restrictions.

How will bilateral relationship determine investment?

- The bilateral relationship is an important factor in realising the potential for greater trade and investment in digital services.
- India and the U.S. are yet to conclude negotiation on a bilateral trade agreement that could address some digital services issues.
- The US initiated a Section 301 review of whether digital services taxes in 10 countries constitute unfair trade measures, including India's equalisation levy.

What is the way forward?

- India resumes its efforts to put into place a new architecture for digital services and pursues opportunities to attract new investment.
- Therefore, the government and stakeholders might consider the full range of implications for the long-term.
- India will be the host of the G20 nations in 2022.
- It is clear that post-COVID-19 international cooperation and approaches to good governance in the digital sphere will be top-priority initiatives.
- The steps India takes now could well establish itself as a true global leader.

Source: The Hindu