Attracting FDI: Hype and the reality

Why in news?

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In May 2014, there was no mistaking the high pitch on attracting investments. By 2015, a plethora of initiatives were taken to open up even sensitive sectors such as defence for 100 per cent foreign direct investment (FDI).

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Much was made of the government having overhauled FDI norms to make it easier for foreigners to invest in India. But where do we stand now?

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Analysis:

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- Make in India has become the biggest brand in India, with the power to turn the country into a global hub for manufacturing, design and innovation.
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- However, the Government had decided not to extend the deadline of April 1 for expiry of all existing Bilateral Investment Promotion and Protection Agreements (BIPA) or the Bilateral Investment Treaty (BIT).
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- This essentially means investments from countries that have failed to sign a revised BIPA with India, based on the new text that was approved by the Cabinet in December 2015, will not be legally protected.
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- This will dent India's image of being a preferred investment destination.
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- The Government had sent reminder notices to a number of European countries a year ago.
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- But what the Government has refused to take into consideration is the widespread criticism the new model BIT has received not just from experts but also from international investors.
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- The present government approved a model that has proved to be a major dampener to investors' spirits.
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- India's leading trade partners, including the US, have raised doubts over some provisions.
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- India has excluded the 'most favoured nation' provision, the mainstay of any BIT. The new text has also made it mandatory for investors to first approach the domestic courts in case of a dispute before opting for international arbitration.
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What is India's Position?

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- In 2015, India became the country facing maximum arbitration, according to UNCTAD.
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- It was sued as many as 17 times in 2015; this included its losing out on the Devas-Antrix deal at The Hague tribunal.
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- The Government knows that foreign investments will not come to a screeching halt once the BITs with various countries expires.
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- But investments will certainly remain below the potential.
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- For instance, India is negotiating BITs separately with Canada and the US and both countries have expressed grave concern over the Government's lacklustre attitude.
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- Amidst this policy confusion, litigation and lack of coordination between various arms of the government, the Centre has claimed that FDI inflows were $55.5 billion in 2015-16, up 23.1 per cent from 2014-15, a new record for the country.
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- The Centre proclaimed that FDI inflows increased by 46 per cent from the announcement of the Make in India programme till May 2016, heralding its success.
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- According to a December 2016 paper by the Institute for Studies in Industrial Development authored by KS Chalapati Rao and Biswajit Dhar,

says that the corelation between this spike in investment flows and the Centre’s policy cannot be established.
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- The report highlights recent data from the RBI which showed that inflows declined sharply during the first half of 2016, after increasing in 2015.
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- During this period of slump, equity inflows were back to the levels seen in April-June of 2014.
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- It added that that FDI inflows under the automatic route, in which government’s approval is not required, plummeted by almost 30 per cent during the first five months of the present fiscal.
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- This fall would not have occurred had foreign investors responded to liberal policies.
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Even as the Prime Minister hard-sells India, there’s need for a greater synergy among all departments. This become all the more necessary in the Donald Trump era, with the threat of jobs flowing back to US.

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