



# Investment Climate in India

## Why in News

Recently, the **US State Department released a report** titled '2021 Investment Climate Statements: India'. The report **lauded the structural economic reforms** carried by the Government of India, in the wake of economic slowdown and [Covid-19 pandemic](#).

- However, the report asserts that India **remains a challenging place to do business**.
- Earlier, the **UK India Business Council (UKIBC)** emphasized that some of the reforms under the [Atmanirbhar Bharat programme could have negative consequences](#) for the UK and all multinational companies.

## Key Points

- **Recent Economic Reforms:**
  - **Privatization:** In February 2021, the Government of India announced plans to raise \$2.4 billion through an [ambitious privatization program](#) that would dramatically reduce the government's role in the economy.
  - **FDI Liberalization:** In August 2019, the government announced a [new package of liberalization measures](#) and brought a number of sectors including coal mining and contract manufacturing under the [automatic route](#).
    - In March 2021, Parliament further liberalized India's insurance sector, increasing the [foreign direct investment \(FDI\) limits to 74% from 49%](#).
  - **Atmanirbhar Bharat Abhiyan:** In order to combat economic slowdown pertaining to Covid-19, the Government of India launched [Atmanirbhar Bharat Abhiyan](#).
    - This programme envisages extensive social welfare and economic stimulus programs and increased spending on infrastructure and public health.
    - Further, it aims towards cutting down import dependence by focusing on substitution while improving safety compliance and quality goods to gain global market share.
  - **PLI Scheme:** The government also adopted [production linked incentives](#) to promote manufacturing in pharmaceuticals, automobiles, textiles, electronics, and other sectors.
  - **Insolvency and Bankruptcy Code:** The introduction and implementation of the [Insolvency and Bankruptcy Code \(IBC\)](#) in 2016 led to an overhaul of the previous framework on insolvency and paved the way for much-needed reforms.
    - Among the areas where India has improved the most in the [World Bank's Ease of Doing Business Ranking](#) the past three years has been under the resolving insolvency metric.
  - **Matching Global Standards of Arbitration:** The government of India passed [Arbitration and Conciliation \(Amendment\) Act, 2021](#).
    - The Act contains provisions to deal with domestic and international arbitration and defines the law for conducting conciliation proceedings.
  - **Sovereign Wealth Funds:** In 2016, the Indian government established the [National](#)

**Infrastructure Investment Fund (NIIF)**, touted as India's first sovereign wealth fund to promote investments in the infrastructure sector.

- The government agreed to contribute \$3 billion to the fund, while an additional \$3 billion will be raised from the private sector.
- **Labour Code:** In the budget 2021 the government announced that the **four labour codes** shall be implemented in India with effect from 1<sup>st</sup> April 2021.
  - These labour codes envisage simplifying the country's archaic labour laws and give impetus to economic activity without compromising with the workers' benefits.
- **Other Measures for Improving Ease of Doing Business:**
  - **Invest India:** It is the official investment promotion and facilitation agency which works with investors through their investment lifecycle to provide support with market entry strategies, industry analysis, partner search, and policy advocacy as required.
  - **PRAGATI Initiative:** To fast-track the approval process, especially in the case of major projects, the government of India started the **Pro-Active Governance and Timely Implementation (PRAGATI initiative)**.
    - It is a digital, multi-modal platform to speed the government's approval process.
- **Economic Policies Bothering Foreign Investors:**
  - **Controversial Decisions:** Recently, the government took two controversial decisions i.e. **removal of special constitutional status from the state of Jammu and Kashmir (J&K)** and the passage of the **Citizenship Amendment Act (CAA), 2019**.
    - However, India maintains that the CAA and scrapping of Article 370 was its internal matter and that "no foreign party has any locus standi on issues pertaining to India's sovereignty."
  - **New Protectionist Measures:** Several sectors of the economy continue to retain equity limits for foreign capital as well as management and control restrictions, which deter investment.
    - For example, in 2016, India allowed up to **100% FDI in domestic airlines**, but the issue of substantial ownership and effective control (SOEC) rules that mandate majority control by Indian nationals have not yet been clarified.
  - **Bilateral Investment Agreements and Taxation Treaties:** India adopted a new **model Bilateral Investment Treaty (BIT)** in December 2015, following several adverse rulings in international arbitration proceedings.
    - The new model BIT does not allow foreign investors to use investor-state dispute settlement methods, and instead requires foreign investors first to exhaust all local judicial and administrative remedies before entering international arbitration.
  - **Procurement Rules that Limit Competitive Choices:** **Preferential Market Access (PMA) for government procurement** has created substantial challenges for foreign firms operating in India.
    - State-owned "Public Sector Undertakings" and the government accord a 20% price preference to vendors utilizing more than 50% local content.
  - **Intellectual Property Rights:** India remained on the **Priority Watch List in the 2020 Special 301 Report** due to concerns over weak intellectual property (IP) protection and enforcement.
  - **Corruption:** India, with a score of 40, ranked 86 among 180 countries in **Transparency International's 2020 Corruption Perception Index**.
  - **Other Issues:** There are other issues that restrict the expansion in bilateral trade. For example, **sanitary and phytosanitary measures** and Indian-specific standards not aligned with international standards.

## Way Forward

- The Government of India should foster an attractive and reliable investment climate by reducing barriers to investment and minimizing bureaucratic hurdles for businesses.
- The Governments of India and the other countries should cooperate in areas such as standards, trade facilitation, competition, and **anti-dumping** practices.

**Source: IE**

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