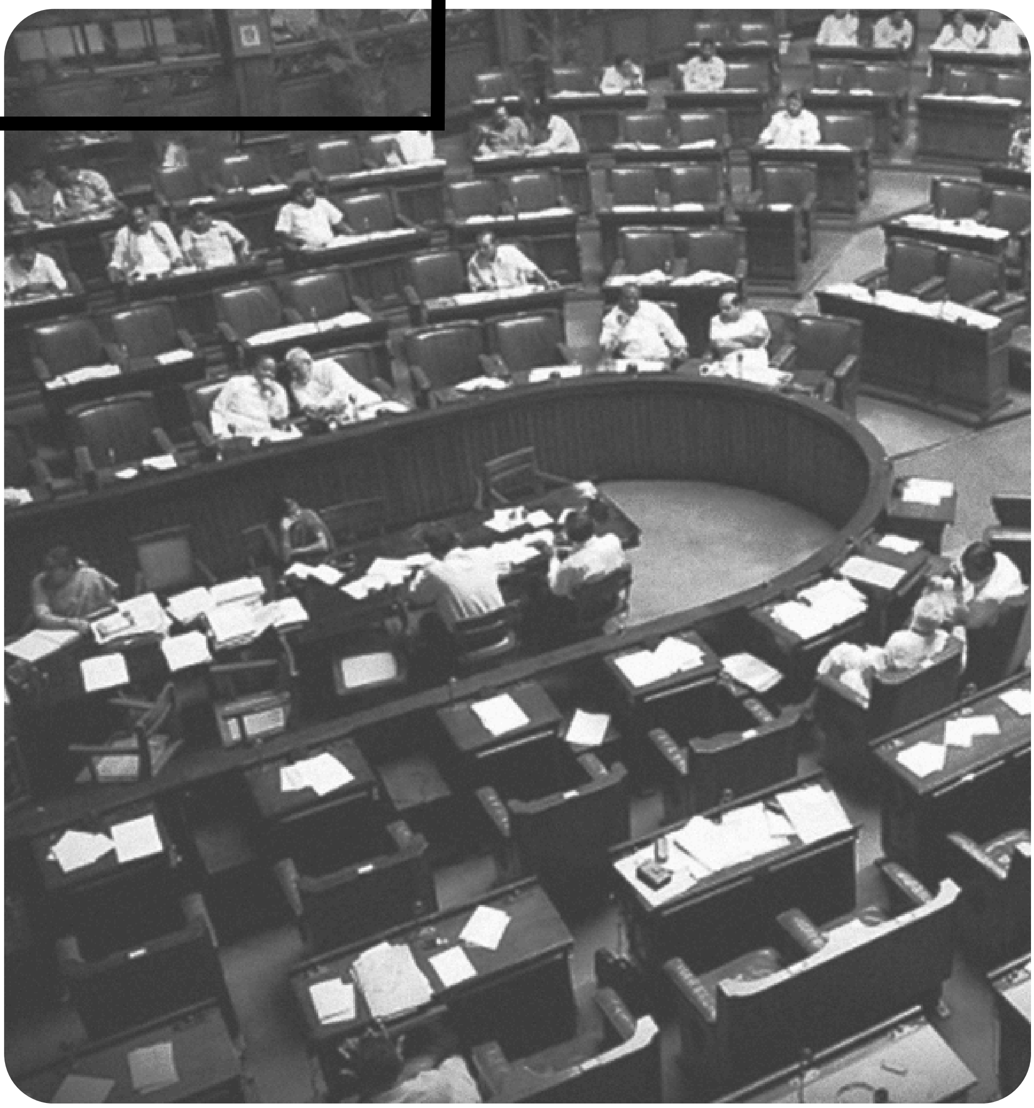
AIPPM Study Guide



AGENDA

Deliberation on the decline in foreign investments, rising fiscal trade deficits with neighbouring countries, currency depreciation due to border tensions, and addressing regional disparities in FDI to ensure balanced economic development.

About the Literary Circle

Literary Circle is the club in NIT Durgapur, which gives the college an extra dimension of creative expression in the midst of technical unilateralism and gives the students of the college an opportunity to transcend the ordinary and mundane. The Literary Circle conducts various events throughout the year: Verve, Literary cum Youth Festival of the college and the biggest of its kind in Eastern India. The Literary Circle successfully pulled off the 18th edition of Verve in 2023. Flagship events in the fest, like the Treasure Hunt, have become a matter of college folklore. The club maintains a blog, The Darkest White, as the culmination of myriad pen strokes from the collective literary expression of the college. The club publishes the yearbook, so each student graduating out of college can reminisce about their days in the college, their hostel life and take with them a part of it. Humans of NIT Durgapur, by The Literary Circle, captures the untold stories, legends, and experiences of individuals, showing our readers how ordinary people can be unique, inspirational and relatable. The TEDx is an initiative where influential speakers are invited in order to realise TED's overall mission to research and discover "ideas worth spreading." TEDxNITDurgapur was co-organised by The Literary Circle and was a confluence of ideas and innovation. The club is known to be highly selective in its admission of new members, with only about 10-15 students inducted out of the entire batch of 900 each year. Great believers of the phrase 'quality over quantity', the members selected every year are the best of the best in the field of expression and creativity. Come, step into the Circle!

About NITMUN

NITMUN is a forum convened by the members of the Literary Circle for discussion and analysis of global issues. It seeks to bring out motivated delegates from all over the country for a meaningful debate on significant international issues. Currently, in its 11th edition, NITMUN has been extremely successful in providing the perfect experience to each delegate. Over the years, we have entertained more than 2000 delegates totaling all the editions. Delegates arrive from all corners of India for an experience they will never forget .

Introduction to the committee

Disclaimer : The Literary Circle, NIT Durgapur in no way endorses any political party or ideology. The views written here have been penned keeping in mind that an Opposition meet has been simulated and do not represent our views. This study guide is not quotable in committee.

As the name signifies, the All India Political Parties Meet is a forum for unrestricted political debate, discussion and deliberation, free from the legislative functions of the parliament. The AIPPM provides a platform where diverse political perspectives and personalities come together to make decisions on issues of national importance. The All India Political Parties Meet is a venture to emulate political realities by stimulating the various levels of policy and governance existing in our nation today. Participants are allotted specific leaders, which they represent. All the representatives must be well versed, with their political party's ideology, manifesto and beliefs. It is important that members research well and are conscious of their portfolios affiliations, interests and ideologies at all times during the conference. It is a meeting called before a session of Parliament in order to decide its agenda and ensure smooth functioning of the committee. Although it has no legislative powers, its reports and outcomes are highly valued and considered authentic.

Introduction

Foreign Direct Investment (FDI) has been instrumental in shaping India’s economic growth story, serving as a catalyst for industrialization, technological innovation, and integration into global supply chains. Over the years, FDI has contributed significantly to infrastructure development, job creation, and the modernization of various sectors. However, a worrisome decline in FDI inflows has emerged in recent times, compounded by trade deficits, currency depreciation, and uneven regional development.

Fiscal policy plays a pivotal role in addressing these economic challenges. It encompasses the government’s use of spending and taxation to influence economic conditions, promote sustainable growth, and reduce poverty. Its significance was highlighted during the recent global economic crisis when governments worldwide stepped in to stabilize financial systems, stimulate economic recovery, and protect vulnerable populations. In India, the effectiveness of fiscal policy in addressing structural issues, encouraging foreign investment, and fostering equitable growth has become a subject of critical analysis. This study guide delves into the multifaceted factors contributing to the decline in FDI and explores potential pathways to reinvigorate investor confidence and drive balanced economic development.

1.1 Timeline of Events:

- 1991: India initiates economic liberalization to tackle a severe balance-of-payments crisis. The reforms, led by then-Finance Minister Dr. Manmohan Singh, included dismantling protectionist policies, reducing trade barriers, and encouraging foreign investment. This period marked India's transition from a closed to an open economy.

- 1999-2004: The IT boom drives India's economic growth, attracting significant FDI into technology and services. However, industrial and agricultural sectors lag in receiving similar levels of foreign investment.

- 2005-2010: India experiences a surge in FDI inflows as investor-friendly policies and economic stability improve global confidence. The period is marked by increased investments in infrastructure, telecommunications, and manufacturing. Special Economic Zones (SEZs) emerge as hubs for foreign investments.

- 2011-2015: The growth momentum slows due to corruption scandals, policy paralysis, and global economic headwinds. Investors begin to view India as a challenging destination due to red tape, regulatory inconsistencies, and infrastructural deficiencies.

- 2016: The government's demonetization policy and the introduction of the Goods and Services Tax (GST) lead to temporary disruptions in liquidity and business operations. While GST aims to streamline taxation, its implementation phase creates uncertainties for both domestic and foreign investors.

- 2017-2019: India introduces reforms such as the Insolvency and Bankruptcy Code (IBC) and relaxes FDI norms in key sectors like defense, aviation, and retail. Despite these measures, global trade tensions and protectionist policies worldwide create a challenging environment for investment.

- 2020: The COVID-19 pandemic disrupts global supply chains and dampens investor sentiment. India's economy contracts significantly, leading to a temporary halt in many foreign investment projects. The government launches the Atmanirbhar Bharat (self-reliant India) initiative to boost domestic production and reduce dependency on imports.

- 2021-2022: FDI inflows decline as geopolitical tensions with China escalate and border skirmishes create uncertainty. Trade deficits with neighboring countries widen, and the rupee's depreciation further discourages foreign investments.

- 2023: Amid a volatile global economic environment, India's FDI inflows remain subdued. Efforts are made to attract investments through Production-Linked Incentive (PLI) schemes and enhanced bilateral trade agreements, but regional disparities in investment distribution persist.

1.2 Overview of the Indian Economy:

India, the world's fifth-largest economy, presents a multifaceted economic landscape defined by both remarkable growth and persistent challenges:

- **Information Technology and Services**: The IT sector continues to be the backbone of India's economy, contributing over 50% of GDP. Cities like Bengaluru and Hyderabad have become global hubs for technology and innovation, attracting investments from multinational corporations such as Microsoft, Google, and Infosys. Despite this success, the sector's growth is uneven, with limited spillover benefits to other industries.

- **Manufacturing Sector**: The 'Make in India' initiative, launched to transform India into a global manufacturing hub, has seen mixed results. While the automobile, electronics, and pharmaceutical industries have shown growth, bottlenecks like outdated infrastructure, labor law rigidity, and bureaucratic delays continue to deter investors. India's manufacturing output as a percentage of GDP has remained stagnant, trailing behind competitors like China and Vietnam.

- **Agriculture**: Despite employing nearly half of the population, agriculture's contribution to GDP hovers around 15%. The sector remains plagued by issues such as fragmented landholdings, inadequate irrigation facilities, and limited access to technology. Foreign investment in agriculture has been minimal, largely due to restrictive land acquisition laws and supply chain inefficiencies.

- **Trade Imbalances**: India’s trade deficit reached an all-time high in recent years, primarily due to a reliance on energy imports and an overdependence on China for electronic goods and machinery. This imbalance weakens the rupee, increases inflationary pressures, and hampers the country’s ability to fund developmental projects.

1.3 Relevant Sections of the Constitution, IPC, and Economic Acts:

- **Constitutional Provisions**:
  - Article 301: Ensures freedom of trade and commerce across Indian territories.
  - Article 302: Grants Parliament the authority to impose trade restrictions in the interest of public welfare.
- **Economic Legislation**:
  - FEMA (1999): Regulates foreign exchange transactions, ensuring the smooth flow of international investments.
  - SEZ Act (2005): Aims to create Special Economic Zones to promote export-led growth.
- **Criminal Law Provisions (IPC)**:
  - Addresses fraud and economic crimes, enhancing transparency and investor confidence.

1.4 Current Challenges::

- **Decline in Foreign Investments Amid Global Uncertainty:** Foreign Direct Investment (FDI) inflows to India have dropped sharply in recent months, marking a decline of over 10% annually since 2020. In FY 2024, India saw only around $71 billion in FDI, down from $84 billion in 2022. The decline is due to global economic slowdowns, rising geopolitical tensions, and increasingly protectionist policies. Domestic concerns, such as bureaucratic inefficiencies and tax uncertainties, also contribute to reduced foreign investments. This decline is troubling as India seeks to attract investment for post-pandemic recovery and to boost its manufacturing sector.

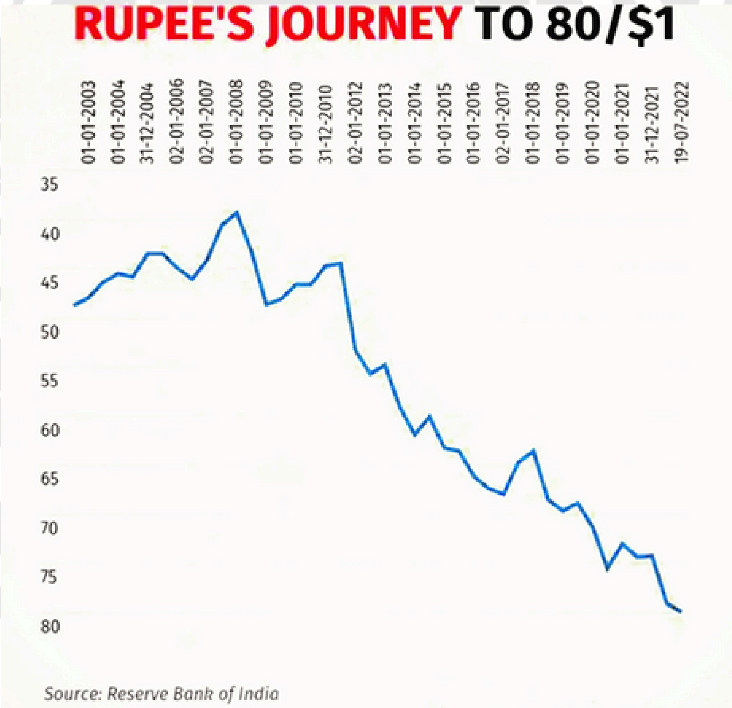
- **Rising Fiscal Trade Deficits with Neighboring Countries:** India’s trade deficit has widened, particularly with China, with the deficit exceeding $100 billion in 2024. This gap is fueled by heavy imports of machinery, electronics, and consumer goods, while India’s exports to China have remained stagnant. In addition to China, India has also seen growing deficits with neighbors like Bangladesh and Pakistan. Overdependence on imports from these regions poses risks, especially amid fluctuating commodity prices and trade tensions.

- **Currency Depreciation Due to Border Tensions and Global Economic Factors:** The Indian Rupee has depreciated 15% against the US Dollar since 2021, continuing to hit record lows in late 2024. The currency weakness is attributed to the rising trade deficits, geopolitical tensions with neighboring countries, and external economic factors. A weaker rupee inflates the cost of imports, especially oil, exacerbating inflation. Additionally, capital outflows and the global strengthening of the US Dollar have further impacted investor confidence.

- **Escalating Regional Disparities in FDI Inflows:** FDI inflows remain concentrated in states like Maharashtra, Karnataka, and Delhi, while less-developed states such as Bihar, Odisha, and Uttar Pradesh continue to receive minimal investments. This regional imbalance leads to stark economic inequalities, with advanced states benefiting from superior infrastructure and job opportunities, while underdeveloped regions struggle with undercapitalization. Addressing these disparities is critical for balanced economic development across the country.

2. Why has Indian currency depreciated?

- **Trade Deficit:** India has consistently faced a trade deficit, meaning the value of its imports far exceeds the value of its exports. The country relies heavily on imports of crude oil, electronics, machinery, and gold. These high import bills require payments in foreign currencies, primarily US dollars. On the other hand, India's exports are less diversified, relying on sectors like IT services, textiles, and pharmaceuticals. This persistent trade imbalance creates a sustained demand for foreign currencies, causing the rupee to weaken.



- **Rising Crude Oil Prices:** India is one of the largest importers of crude oil globally, importing over 85% of its oil needs. When global crude oil prices rise, India's import bills skyrocket. This increases the demand for dollars to pay for oil imports, resulting in a depreciation of the rupee. High oil prices also trigger inflation within the country, further straining the economy and reducing investor confidence.

- **Capital Outflows:** Foreign institutional investors (FIIs) and foreign portfolio investors (FPIs) often invest in Indian equity and debt markets. However, during periods of global uncertainty or when better returns are available in developed markets, these investors withdraw funds. These capital outflows reduce the supply of foreign currencies in India and weaken the rupee. For example, during the COVID-19 pandemic, massive outflows were observed as global investors sought safer assets.

- **Strengthening of the US Dollar:** The US dollar is considered the world's reserve currency and a safe haven during times of economic or geopolitical crises. When the US Federal Reserve increases interest rates, it strengthens the dollar as investors move their funds to the US for higher returns. A stronger dollar puts downward pressure on emerging market currencies, including the rupee, making imports more expensive and increasing the cost of servicing external debt.

- **Geopolitical Tensions:** India faces geopolitical challenges, including border disputes with China, tensions in South Asia, and disruptions caused by global conflicts like the Russia-Ukraine war.

These tensions create uncertainty for investors, leading to reduced foreign investment and increased currency volatility. For instance, after the Galwan Valley clashes in 2020, India imposed stricter regulations on Chinese investments, reducing FDI inflows from one of its major trading partners.

- **Inflation:** Higher inflation erodes the purchasing power of a currency, making it less valuable in international markets. India has experienced inflationary pressures due to rising commodity prices, supply chain disruptions, and increasing energy costs. When inflation in India is higher than its trading partners, the rupee depreciates as the cost of goods and services becomes less competitive globally.

- **Interest Rate Differentials:** The Reserve Bank of India (RBI) sets interest rates to control inflation and promote economic growth. When India's interest rates are lower than those in developed markets like the US, it becomes less attractive for foreign investors to park their funds in India. This leads to capital outflows, reducing the demand for the rupee and causing its depreciation.

- **Global Economic Factors:** Global events such as the COVID-19 pandemic, the 2008 financial crisis, and the Russia-Ukraine conflict have disrupted supply chains, increased inflation, and reduced global trade volumes. These disruptions negatively impact investor sentiment, leading to reduced capital inflows and heightened volatility in the foreign exchange market. For example, during the pandemic, India’s FDI inflows slowed significantly due to reduced global economic activity.

- **Low Growth in Forex Reserves**: India’s foreign exchange reserves act as a buffer to stabilize the rupee during periods of volatility. While the country maintains robust reserves, the growth of these reserves has not kept pace with its increasing import bills and external liabilities. Limited forex reserves restrict the RBI's ability to intervene effectively in the forex market, making the rupee vulnerable to depreciation.

- **Speculation in Forex Markets:** Currency traders and speculators often bet on the depreciation of the rupee when they perceive risks such as political instability, inflation, or policy changes. This speculative activity increases volatility in the forex market and amplifies the downward pressure on the rupee, even if underlying economic fundamentals are stable.

Structural Trade Imbalance: India's export basket is dominated by low-value goods and services, while its import basket includes high-value items like oil, electronics, and gold. This structural imbalance means that even small increases in imports disproportionately impact the trade deficit and weaken the rupee. India’s lack of competitiveness in manufacturing further exacerbates this issue.

Tightening Global Financial Conditions: Developed economies like the US and EU have been tightening their monetary policies by increasing interest rates to combat inflation. This tightening reduces the attractiveness of emerging markets like India for foreign investors, leading to capital outflows. For instance, in 2022, the US Federal Reserve’s rate hikes caused significant outflows from Indian markets, weakening the rupee.

Geopolitical Instability: India’s proximity to conflict-prone regions like Afghanistan, Myanmar, and Pakistan exposes it to geopolitical risks. These instabilities disrupt regional trade and reduce foreign investor confidence. Additionally, India’s strategic balancing act between the US and China creates uncertainties that can affect foreign capital inflows.

Lack of Export Diversification: India’s export portfolio is heavily concentrated in a few sectors such as IT services, textiles, and gems. This lack of diversification makes the economy vulnerable to sector-specific downturns or global demand fluctuations. For instance, any slowdown in the US or EU economies directly affects India’s IT exports, reducing foreign exchange earnings and weakening the rupee.

3. Role of Geopolitical Factors:

- **Border Tensions:** Frequent skirmishes along India's borders with China and Pakistan disrupt trade routes and create uncertainty for foreign investors. The ongoing border standoff with China in regions like Ladakh has strained economic ties, leading to increased scrutiny of Chinese investments in India. For instance, Chinese foreign direct investment (FDI) in India has slowed considerably since 2020, with financing subjected to heavy scrutiny.

- **Global Trade Policies:** Shifts in global trade dynamics, such as the U.S.-China trade relationship, indirectly impact India's economic stability. The U.S. and China are major players in global trade, and tensions between them can disrupt supply chains and affect global market conditions. Additionally, the European Union (EU) is a significant trading partner for both the U.S. and India, and changes in EU trade policies can have ripple effects on global trade dynamics.

- **Limited Bilateral Agreements:** India's trade agreements often lack the depth to counterbalance global economic uncertainties. While the EU is India's largest trading partner, accounting for €124 billion worth of trade in goods in 2023, India's share in the EU's total trade is relatively modest at 2.2%. This indicates potential for deeper and more comprehensive trade agreements to enhance economic ties and stability.

4. Ideologies of Political Alliances:

- **Central Government Policies: Production-Linked Incentive (PLI) Schemes:** The Indian government introduced the Production-Linked Incentive (PLI) scheme to boost domestic manufacturing and attract foreign investment across various sectors. While the scheme has garnered substantial interest, its implementation has encountered challenges:

    1) Implementation Delays and Regulatory Hurdles: Since its launch in 2020, the PLI scheme has faced regulatory complexities and budget constraints, hindering its effectiveness.

    2) Sector-Specific Challenges: Certain industries, such as textiles, have struggled to meet the scheme's criteria due to outdated infrastructure and stiff global competition.

- **State Government Policies: Competing Fiscal Incentives:** Indian states offer various fiscal incentives to attract investments, leading to a competitive but uneven investment environment:

    1) Diverse Incentive Structures: States like Uttar Pradesh have introduced policies providing substantial capital subsidies for foreign direct investment projects, aiming to boost local economies.

2) **Impact on Investment Decisions:** While these incentives can attract investments, they may also lead to disparities between states, affecting balanced regional development.

- **Political Alliances and Agendas: Influence on Economic Planning:** Regional political alliances often prioritize immediate regional interests, which can impact cohesive national economic strategies:

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1) **Short-Term Focus**: Political considerations at the state level may lead to policies favoring immediate gains over long-term economic planning, potentially undermining broader economic objectives.

2) **Coordination Challenges**: Divergent political agendas between central and state governments can result in policy inconsistencies, affecting investor confidence and economic stability.

5. Key Profiles:

5.1 Domestic Leaders:

- **Nirmala Sitharaman – Finance Minister:** As India's Finance Minister, Nirmala Sitharaman plays a pivotal role in formulating policies to attract FDI. .In the Union Budget 2024-25, she announced measures to simplify FDI norms to boost foreign capital inflows, addressing a recent decline in investments.

The government's initiatives aim to liberalize the capital market and encourage the use of the Indian rupee for international investments

- **Piyush Goyal – Commerce and Industry Minister:** Piyush Goyal leads trade negotiations and investment promotion efforts. Under his leadership, the Ministry plans to open more overseas Invest India offices to provide global investors with seamless access to India's dynamic economy. This strategy aims to bolster bilateral trade and investment, capitalizing on India's burgeoning market opportunities.

5.2 Global Stakeholders:

Tech Giants: Amazon, Google, and Tesla: Major technology companies are significant investors in India's economy:

- **Amazon**: Amazon has been expanding its presence in India, investing in infrastructure, technology, and logistics to tap into the growing e-commerce market.

- **Google**: Google has committed substantial investments in India's digital ecosystem, focusing on internet access, digital literacy, and local content development.
- **Tesla**: Tesla has shown interest in entering the Indian market. Elon Musk is expected to announce an investment of $2-$3 billion for building a new factory in India, signaling a significant commitment to the country's electric vehicle sector.

5.3 Neighboring Economies:

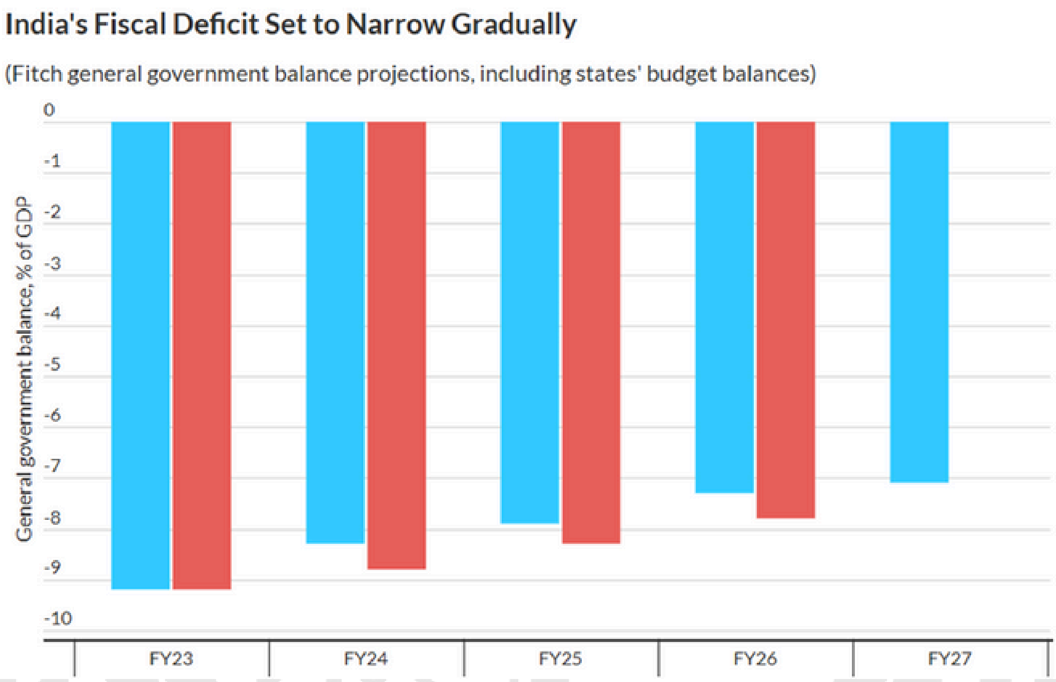
- **China's Manufacturing Dominance:** China remains a formidable competitor in manufacturing, particularly in textiles and apparel. Its well-established infrastructure and economies of scale have enabled it to maintain a significant share of the global market. However, rising labor

rcosts and geopolitical tensions are prompting some companies to explore alternative manufacturing hubs.

- **Bangladesh's Booming Garment Industry:** Bangladesh has emerged as a major player in the global garment industry, with apparel exports increasing by 63% between 2016 and 2023.

Its competitive labor costs and focus on the ready-made garment sector have attracted international buyers. Recent economic challenges in Bangladesh may present opportunities for India's textile industry to capture diverted demand.

6. State-Wise Trade Dynamics in India:



- **Tamil Nadu: The Industrial and Automobile Powerhouse:** Tamil Nadu stands out for its robust automobile exports, textiles, and leather products. The state is home to major global manufacturers like Hyundai, Ford, and Renault-Nissan. It is also a leader in electronics exports, supported by its industrial parks. Imports include petroleum products, machinery, and electronic components. Tamil Nadu's political leadership, dominated by Dravidian parties, has prioritized industrialization and skill development programs. Policies supporting SEZs and industrial parks around Chennai and Coimbatore have further strengthened the state's export base.

- **West Bengal**: A Hub for Jute, Tea, and Leather: West Bengal has a diverse export base, including tea, jute, processed foods, engineering goods, and leather products. Kolkata has also emerged as a significant hub for leather goods exports. On the import side, the state relies on crude oil, machinery, and chemicals. Bengal's fiscal performance in the first half of the 2024-25 fiscal reflects a growing imbalance between revenue and capital expenditure, aligning with broader trends observed across major Indian states, according to rating agency CareEdge. While the state recorded a 13.5-percent year-on-year increase in revenue expenditure, its capital expenditure grew by only 7.7 percent, significantly falling short of its budgeted targets, the agency's latest report on state and central finances said.Amit Mitra, principal chief advisor to Chief Minister Mamata Banerjee and the state's finance department, had recently said Bengal's capital spending had increased from 2,226 crore in 2010-11 to a budgeted amount of ₹35,865.55 crore in 2024-25. "Revenue expenditure of states remained strong in H1 FY25. In aggregate, the top 20 states in our sample utilised 41.5 percent of their budgeted revenue expenditure in H1 FY25, slightly higher than the 40 per cent utilisation in H1 FY24," the report said. Possible reasons for such slippages could include the implementation of electoral promises, including measures such as freebies, income assis- tance and loan waivers. Bengal's fiscal deficit stood at 3.7 per cent of its gross state domestic product in the first half of FY25 exceeding the 15th Finance Commission's recommended ceiling of 3 per cent.

West Bengal’s trade dynamics are closely tied to its political environment. Historically, labor strikes and political unrest under earlier governments hampered industrial growth. However, recent efforts by the Trinamool Congress (TMC) to improve infrastructure and promote MSMEs have helped revive key export industries like jute and leather.

- **Rajasthan**: The Mineral and Handicrafts Specialist: Rajasthan’s export portfolio is dominated by gems, jewelry, textiles, and marble. The state is also a key player in the mining sector, exporting zinc, copper, and sandstone to global markets. Imports largely consist of machinery and petroleum products to fuel its growing industrial base.The state’s political leadership has focused on preserving and promoting its traditional industries, particularly handicrafts and textiles, which form a significant portion of its export earnings. While initiatives like promoting tourism indirectly support trade, challenges such as inadequate industrial infrastructure and frequent labor unrest hinder its export diversification efforts.

- **Gujarat: A Hub of Refinery and Commerce:** Gujarat, with its strategic coastline and world-class ports, has cemented its position as India’s second-largest exporting state. The state specializes in petroleum products, chemicals, and pharmaceuticals, with the Jamnagar Refinery leading global exports of refined petroleum. The diamond polishing industry also plays a crucial role in its economic output. .

On the import side, Gujarat relies heavily on crude oil for its refineries and raw diamonds for processing. Ports like Mundra and Kandla enable the state to efficiently handle significant trade volumes. Politically, Gujarat has benefited from investor-friendly policies and industrial growth initiatives championed during Narendra Modi’s tenure as Chief Minister. The state's proactive approach to privatization and infrastructure development, coupled with its stable governance, has created a thriving trade ecosystem.

- **Maharashtra**: India’s Trade Powerhouse: Maharashtra contributes the largest share to India’s exports, accounting for nearly a quarter of the country’s total trade.The state is renowned for its gems and jewelry exports (with Mumbai being a global diamond trading hub), as well as pharmaceuticals, automobiles, and IT services. On the import side, Maharashtra’s key commodities include crude oil, machinery, and electronic goods. The Jawaharlal Nehru Port Trust (JNPT) near Mumbai is one of India’s busiest ports, facilitating this substantial trade. Maharashtra’s political leadership has consistently prioritized infrastructure projects like the Mumbai-Pune Expressway and the ongoing Mumbai Trans Harbour Link. These developments, combined with policies to attract FDI, have ensured the state remains a magnet for international trade. However, frequent political shifts have, at times, caused disruptions to long-term trade strategies.

7. Foreign Opinions and Comparisons:

7.1 International Reports:

- **IMF and World Bank Recommendations**: The International Monetary Fund (IMF) emphasizes that India has the potential for higher growth with comprehensive reforms, particularly in labor and human capital. The IMF also highlights the importance of India's digital public infrastructure and government infrastructure programs in sustaining growth.

7.2 China vs. India:

- **FDI Inflows**: China continues to attract higher FDI compared to India, largely due to its centralized planning and more favorable business environment. In 2023, China received approximately $43 billion in FDI, maintaining its position as a leading destination for foreign investment.

7.3 ASEAN Economies:

- **Vietnam and Indonesia**: Southeast Asian countries like Vietnam and Indonesia have emerged as preferred FDI destinations, benefiting from streamlined processes and competitive labor markets. In 2023, Indonesia attracted about $33 billion in greenfield manufacturing FDI, while Vietnam secured around $16 billion. Their exports reached $290 billion and $440 billion, respectively, indicating robust economic activity.

8. Solutions and Recommendations:

8.1 Policy Reforms:

- **Tax Harmonization:** Implementing the Goods and Services Tax (GST) has been a significant step toward unifying tax regulations across states. The GST administration is harmonized between the center and the states using a common IT system and common rules, with shared auditing powers. This unification simplifies the tax structure, reducing compliance burdens for businesses operating in multiple states.

- **Legal Framework Enhancement:** Strengthening legal frameworks to enforce contracts and protect intellectual property is crucial. This includes streamlining judicial processes and ensuring timely dispute resolution to build investor confidence.

8.2 Infrastructure Development:

- **Industrial Smart Cities:** India's National Industrial Corridor Development Programme aims to establish 12 industrial smart cities along the Golden Quadrilateral. This initiative is expected to generate significant employment and attract global investors, enhancing India's role in global value chains.

- **Logistics Networks:** Developing modern logistics networks, including efficient transportation and supply chain systems, is essential to reduce costs and improve market accessibility.

8.3 Diplomatic Strategies:

- **Border Dispute Resolution:** Engaging in diplomatic dialogues to resolve border disputes, particularly with neighboring countries, is vital for regional stability. The European Parliament has noted the importance of resolving such issues peacefully through dialogue and in line with international law.

- **Trade Relations Enhancement:** Strengthening trade relations with ASEAN, the EU, and North America through comprehensive trade agreements can open new markets and diversify export destinations. Recent resolutions on key trade issues with the United States underscore the benefits of such diplomatic engagements.

8.4 Regional Equity:

- **Incentives for Underdeveloped Regions:** Providing tax breaks and incentives to industries in underdeveloped regions can promote balanced economic growth. For instance, certain states offer fiscal support for women entrepreneurs, SC/ST communities, and lesser-developed regions to encourage industrial development.

8.5 Digital Revolution:

- **Digital Infrastructure Promotion:** Investing in digital infrastructure is pivotal for attracting tech-focused investments. Initiatives like the Digital India program aim to revolutionize the tech landscape, with significant investments from global tech giants. For example, Google, under the Google for India Digitization Fund, will invest $10 billion by 2025 to help MSMEs digitize their business operations.

Implementing these strategies can address current economic challenges and position India as a more attractive destination for foreign investment, fostering sustainable and inclusive growth.

Questionnaire

- Why do states like Maharashtra and Karnataka attract more foreign investments compared to states like Bihar and Odisha?

- What policies can be introduced to incentivize foreign investments in underdeveloped regions of India?

References

- The timeline and details are synthesized from reports by the World Bank, IMF, Ministry of Finance (India), and economic analysis articles from *The Economic Times* and *Livemint*. Further insights are drawn from studies on India's FDI trends published by the Reserve Bank of India (RBI) and the United Nations Conference on Trade and Development (UNCTAD).
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