UNIT 3 TRADE AND INVESTMENT POLICY*

Structure

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3.0 OBJECTIVES

After reading this unit, you will be able to:

- explain the two approaches of 'import substitution industrialisation' and 'export led growth' in international trade;
- discuss the two concepts of 'convertibility' and 'deficit of accounts';
- distinguish between FDI and FII;
- outline the FDI policy pursued by India over different time periods; and
- illustrate the importance of 'bilateralism' and 'multilateralism' in the context of trend in 'regionalism' practiced by countries to promote their respective trade interests.

3.1 INTRODUCTION

Policy of foreign trade and investment are both crucial in the development process. On the imports side, foreign trade is helpful in getting technology, managerial expertise and intermediates essential for growth of the economy. To sustain such imports, exports too need to expand to help finance the imports needed for a high growth path and diversification of the economy. Else, a trade imbalance would induce disruption in the supply of imports causing adverse repercussions for the whole economy. Hence, the foremost

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concern in trade policy is to promote exports in order that there is no difficulty in financing the imports needed for the growth of the economy.

There are many means like institutional innovation, organisational restructuring and policy initiatives which helps attain the desired long run objectives of foreign trade. Among these, policy has a primacy because if policy initiatives are not properly tuned, it transmits an inappropriate set of signals to domestic producers. This equally applies to the Foreign Direct Investment (FDI) as also the Foreign Portfolio Investment (FPI) [or the FII i.e. the Foreign Institutional Investment] policies. Against this background, the present unit begins by making a distinction between the policies of import substitution and export-led growth strategies. Thereafter, it proceeds to explain the foreign trade policy pursued in India prior to 1991 and post-1991 and the FDI and FII policies pursued so far in India.

3.2 TRADE POLICY

For an economy, foreign trade consists of inward and outward movement of goods and services, resulting in inward and outward flow of foreign exchange from one country to another. In present times, international trade policy is a vital part of development strategy. It can be used an effective instrument of economic growth, employment generation and poverty alleviation for an economy.

3.2.1 Import Substitution Industrialisation

Import Substitution industrialisation (ISI) is a trade policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced substitutes. It is an economic development strategy that was in wide use from the end of the World War-II through the mid 1960s. At its zenith in the 1960s, it was adopted by developing countries in Africa, Asia and especially Latin America. The approach was guided by the Prebisch-Singer hypothesis which states that the 'price of primary commodities, relative to the price of manufactured goods, declines over the long term causing the ToT (terms of trade) of primary product based economies to deteriorate'. To avoid this, many developing countries including India embraced the ISI policy. The ISI has three major tenets or principles viz. (i) an active industrial policy to promote a domestic industrial base (while this is good in itself, the domestic industries tend to grow accustomed to protection from foreign competition with no incentive to become more efficient which makes the tenet to work adversely for the country adopting the ISI strategy); (ii) protective barriers to trade (e.g. tariffs and quotas placed to protect domestic infant industries tend to keep the domestic units uncompetitive and inefficient); and (iii) a monetary policy that rations foreign exchange by multiple exchange rates so as to to channel the imports of intermediate capital goods (i.e. imports are made difficult or expensive discouraging the process of importing).

In India, the state-backed import substitution became the thrust of the trade policy in the late 1950s. Conceived mainly as a long-term solution to India's BoP difficulties, the short-term problems were sought to be taken care of by a tight system of import controls as well as by arranging for a large-scale inflow of assistance. Protection to promote domestic industries through high tariff barriers, multiple exchange rates, import licensing arrangements and subsidies was thus not seen as detrimental to trade and development. The import substitution regime continued till 1981. Such prolonged use of ISI policy in India is since recognised to have resulted in market concentration, high unit cost of production, overvaluation of currency, extreme government intervention in production, etc. cumulatively contributing to an anti-export bias. Thus, the ISI strategy yielded neither industrialisation nor growth with the long term growth from the late 1950s to 1981 having remained an average 3.5 percent per annum. It is only in the post-1980s, with the adoption of ELG strategy that the economy started growing at a faster long term average annual growth rate of 5.5 percent successively till the later years of 1990s when the growth rate peaked to cross the 7 percent mark.

3.2.2 Export Led Growth

Export–led growth (ELG) is an economic development strategy emphasising on the exploitation of a country's actual or potential comparative advantage in production for foreign markets. In other words, ELG is a trade and economic policy, opposite to the ISI policy, aiming to speed up the industrialisation process of a country by promoting export of goods for which the nation has a comparative advantage. It is contrasted with the ISI policy since it is 'outward looking' whereas ISI is 'inward looking'. Modern forms of export-led growth strategy first came to prominence in the 1960s when several East Asian countries turned away from the ISI approach and began to promote export of manufactured goods. The success of these Asian export economies, who came to be identified as the Little Dragons or Four Tigers, questioned the idea of export pessimism i.e. the belief that low and middle income developing economies could not compete with manufactured goods in developed country markets. With this, by the mid-to-late 1980s, the strategy of export-led growth had completely replaced the ISI orthodoxy.

In addition to the demonstration effect of East Asian export economies, several other factors stood behind the success of ELG strategy as a policy idea. Prominent among them are: (i) the loss of confidence in interventionist, state-led management of the economy; (ii) the failure of traditional ISI policies to address the worsening economic conditions of Latin America (stemming from its debt crisis of the 1980s); and (iii) the communication and transportation revolution of the last decades of the twentieth century. In particular, the technological changes in transport and communications enabled firms to locate the production units abroad and increased the opportunities for developing countries to participate in production processes

spanning across nations. All these changes supported the idea of pursuing the comparative advantage and ELG as engines of growth.

India initiated its export-led growth strategy in the early 1990s when its economy was begun to be integrated with the world economy. As a result, India's merchandise exports share in world exports increased from its share of 0.5 percent in 1990 to 1.7 percent in 2013. Although this is a meagre increase compared to the corresponding jump achieved by many other competing economies, over the years, the trade policy of India has undergone fundamental shifts to correct the earlier anti-export bias through the removal of various quantitative restrictions (QRs), reduction and rationalisation of tariffs, liberalisation in the trade and payment regime, adoption of various export incentive measures, movement toward markets based exchange rates, etc. These measures indicate that the country has seriously opted for ELG strategy so as to improve the competitiveness of Indian products in the global market.

3.2.3 Convertibility and Deficit of Accounts

Currency convertibility refers to the right/freedom to covert the domestic currency into other internationally accepted currency and vice versa. Convertibility has two dimensions: (i) current account convertibility and (ii) capital account convertibility. Current account convertibility refers to the freedom in respect of payments and transfers for current international transactions. Capital account convertibility, on the other hand, implies the freedom to convert local financial assets to foreign financial assets (and vice versa), at market determined exchange rate, without needing approval from the government. In other words, capital account convertibility (CAC) implies complete mobility of free and unregulated capital funds across countries with no restrictions. With growing strength of the BoP, India could make the Rupee fully convertible on current account in 1994.

With increased integration of the Indian economy with other countries, there is a need for introducing CAC for integration of financial markets across countries. There are certain advantages of CAC. Firstly, with CAC, the cost of capital would come down as there would be more capital inflow into the country. Secondly, tax levels would come down to international levels reducing tax evasion and capital flight. Thirdly, resident individuals would have the right to acquire financial assets abroad. Fourthly, with Indian mutual funds becoming free to invest abroad, investment in overseas markets would enable setting up of joint ventures. In spite of these advantages, and many officially sponsored reports recommending the introduction of CAC in India, India has not embarked on full CAC. This is a prudent cautionary stand as there are also some risks with full and unconditional CAC. The risks are broadly on two fronts: (i) it could expose the economy for currency devaluation, takeovers, short term macroeconomic disturbances like increased unemployment, etc. and (ii) at the extreme, there could be risks impinging on the sovereignty concerns particularly where the size of the

economy is small. In view of the actual size of the Indian economy, the latter risk mentioned above is certainly in the very extreme, but the first risk of short term nature also needs due calibration of CAC relaxation over time. This is exactly the stand adopted by India on total CAC.

Deficit of Accounts: You are aware that the Balance of Payments (BoP) is a systematic record of all international financial and trade transactions that occur between a Home Country and the rest of the world within a given time period. Defined as Exports (X) minus Imports i.e. X – M, a deficit in BoP could result in three type of accounts viz. (i) Trade Account deficit (or simply trade deficit), (ii) Current Account deficit and (iii) Capital Account deficit. The trade deficit [or balance of trade (BoT) deficit] refers to the excess of merchandise imports (M) over merchandise exports (X) i.e. M – X. Thus, BoT is in surplus or deficit depending on whether X – M is positive or negative. Current account deficit indicates increase in the indebtedness of the nation to the rest of the world. In other words, it is the excess of expenditure over receipts on current account in a country's BoP. While this reflects the immediate short term health status of the economy, capital account deficit (CAD) reveals that the long term health of the nation is deteriorating. Taking all the three into account, the BoP deficit is defined as the sum total of the current account deficit and the capital account deficit. Thus:

BoP Deficit = Current Account Deficit + Capital Account Deficit.

Check Your Progress 1 [answer within the space given in about 30-100 words]

1) Why is a 'trade policy' important for an economy?

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2) What is the underlying philosophy behind the ISI strategy? On what foundation is it based?

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3) What are the three basic tenets of ISI strategy and how do they begin to work against the economy practising the ISI approach?

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4) In what way is the India's practising of the ISI strategy acknowledged to have negated the expected benefits from the ISI approach?

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5) What factors led to the adoption of the ELG strategy by several economies in the late 1960s? What factors indicate the seriousness of India's adopting the same in the post-1990s?

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6) Distinguish between current account convertibility and capital account convertibility.

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7) State the advantages of 'capital account convertibility'.

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8) In spite of many perceived advantages of capital account convertibility, what has been the stand of Indian government in this regard? Why? Do you support such a stand?

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3.3 FDI POLICY

FDI flows come as capital bundled with technology, skills, and sometimes even market access. They are, therefore, perceived as important resources for expediting the industrial development of recipient countries. Most developing countries, therefore, have a welcoming attitude towards MNCs and FDI since it fosters growth by increasing capital accumulation, technological change, efficiency, BoP improvement, increase of exports, increase in the overall total amount of investment in the domestic economy, improved access to world markets, help in release of resource constraints on investment, etc. India's FDI policy has so far gone through three main phases as outlined below.

A) **First Phase (1950-1980)**

During this phase, India was receptive to foreign capital, particularly foreign direct investment (FDI). This is indicated in the assurance made by the government in 1949 by stating that: (i) there shall be no discrimination between Indian and foreign undertakings; (ii) facilities will be given to foreign investors for remittances of profit; and (iii) due compensation will be paid in case a foreign undertaking is nationalised. The attitude towards foreign capital remained unchanged in the 1956 Industrial Policy Resolution (IPR). Foreign Investment policy in this phase was largely determined by the struggle between the government and monopoly foreign interests, particularly TNC oil companies.

B) **Second Phase (1980-91)**

The period saw the initiation of liberalisation process and was guided by the principle of relaxation of controls which acted as constraints. The approach to industrial policy saw the delicensing of industries and the scrapping of the 1969 MRTP Act. However, liberalisation in this period was restricted to limited foreign collaboration. The industrial policy statement of 1977 particularly discouraged foreign collaboration by stating that the inflow of technology would be allowed only in sophisticated and high priority areas where Indian technology had not adequately developed. In areas where foreign technology was not further needed, renewal of foreign collaborations was discouraged.

C) **Third Phase (Post 1991)**

With the announcement of new Industrial Policy of 1991, a new phase in FDI began. After following a restricted FDI policy for more than four decades since Independence, India liberalised its FDI policy considerably. Besides opening new sectors (e.g. banking, mining, insurance telecommunications) to FDI and dismantling of controls and regulations, the government allowed huge concessions and relaxations. In particular, the main measures announced since 1991 to give a boost to FDI are as follows.

a) Many industries were deregulated and opened to FDI. The Foreign Investment Promotion Board (FIPB) was allowed to sanction 100 percent equity participation in cases where Indian companies were unable to raise funds.

b) Procedures for obtaining permission were simplified by listing industries eligible for automatic approval up to specified levels of foreign equity. For instance, 51 percent foreign equity was permitted with automatic approval in industries producing intermediate and capital goods;

c) Besides FDI, portfolio equity investment (PEI) from abroad was also given an impetus. Under this, foreign institutional investors were allowed to purchase shares of listed Indian companies in the stock market thereby opening a window for portfolio investment in existing companies. Thus FIIs were allowed to operate in the Indian capital market and Indian companies were allowed to raise capital in the international market. These policy changes have led to a significant increase in FDI flows from negligible levels in 1990 to over $35 billion in 2014-15.

While the above measures are of the period 1991-95, post-1995 a series of more liberalising measures were taken. These are:

a) Introduction of dual route of approval of FDI i.e. RBI's automatic route and the FIPB route;

b) Automatic permission for technology agreements in high priority industries;

c) Removal of restriction of FDI in low technology areas and liberalisation of technology imports;

d) Permission to NRIs and overseas corporate bodies to invest up to 100 percent in high priority sectors;

e) Hike in foreign equity participation limits to 51 percent for existing companies;

f) Foreign equity participation for up to 100 percent for projects relating to electricity generation, transmission and distribution, and roads and highways, etc.;

g) Increasing the ceiling for FDI in oil refining from 49 percent to 100 percent;

h) 100 percent FDI in telecommunication sector, tea sector, airports, etc.

In more recent years (2014), an investor-friendly FDI policy to permit FDI of up to 100 percent under the automatic route in most sectors/activities (e.g. construction, operation, and maintenance of identified railway transport infrastructure) except in defence where FDI cap is kept at 49 percent is implemented. Norms related to minimum land area, capitalisation, and repatriation of funds for FDI in construction development projects have been further liberalised. However, in some sectors FDI is completely banned. These are: retail trading (except in single-brand wholesale trading), atomic energy, lottery, real estate business, chit fund business, cigarette manufacturing, etc. In 2016, the government allowed 100 percent FDI for marketplace e-commerce. During this period, FDI in the pension sector has been revised to permit foreign investment up to 49 percent, with 26 percent under automatic route.

The result from this FDI policy is that FDI as a percentage of gross domestic investment (GDI) and GDP has grown rapidly between 1991-92 and 2015-16. Despite this expansion, FDI inflows to India is low compared to other countries of Asia. Ironically, despite the investment friendly liberal FDI regime, India is ranked 'fourth' on the basis of 'FDI Restrictiveness Index'. Though the actual inflow of FDI has not been as high compared to what it is in some other countries, it has improved and strengthened the capital account of the BoP of the country.

3.3.1 FII Policy

The entry of FIIs after 1992-93 is a follow up of the recommendation of the Narsimham Committee Report on Financial System. Before 1992, only Non-Resident Indians (NRIs) and Overseas Corporate Bodies were allowed to undertake portfolio investments in India. Post-1992, the Indian stock markets were opened up for direct participation by FIIs. FIIs were allowed to invest in all securities traded on the primary and the secondary market including the equity and other securities/instruments of companies listed in the stock exchanges in India.

In 1998, Indian companies were allowed to issue bonus shares (or right shares) to the GDR/ADR (i.e. Global or American Depository Receipts) holders after obtaining necessary permission. Subsequently, the FIIs were allowed to invest in the securities of unlisted companies, treasury bills and government securities. The norms for FIIs' investment in convertible bonds were also liberalised. In short, the evolution of FII policy in India has taken the form of: (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalisation of investment instruments accessible to FIIs.

3.4 REGIONALISM

Regionalism is a term used (in the GATT and the WTO) to refer to Preferential Trade Agreements (PTAs). The dictionary of Trade Policy Terms describes regionalism as the process by which regional trading agreements (RTAs) serve as 'actions of governments to liberalise or facilitate trade on a regional basis'. RTAs can take several forms viz. (a) free trade areas, (b) custom unions, (c) common market and (d) economic unions. *Free trade areas* agree to reduce or abolish trade restrictions between member countries while allowing members to impose their trade restrictions against non-members. *Custom unions* encourage free trade among members but erect a common external tariff on imports from non-member countries. *Common markets* are similar to custom unions but include the free movement of factors of production as well as trade. It is a deeper form of integration as it requires a greater degree of harmonisation of domestic policies between the member states. Finally, *economic unions* take the development of a common market even further by encouraging harmonisation of national economic policies, such as competition policy, financial regulations, and product standards.

Concern regarding the fragmentation of the world trade system has grown with the rapid proliferation of regionalism or preferential trade agreements in recent years. Several hundred Preferential Trade Agreements (PTAs) are currently in existence. Indeed, many countries belong to multiple PTAs, resulting in a confusing criss-crossing of trade preferences. Among the more prominent existing RTAs are the North American Free Trade Agreement (NAFTA), the European Economic Community (EEC), the European Free Trade Association (EFTAs), MERCUSUR (Custom Union between the Argentine Republic, Brazil, Paraguay, and Uruguay), the Association of South East Asian Nations (ASEAN), Asian Free Trade Area (AFTA), the Trans-Pacific Partnership (TPP) agreement, etc.

In the past, India had adopted a cautious approach to the RTAs. Since late 2000s, recognising that RTAs/PTAs/FTAs would continue to feature prominently in world trade, given the slow nature of multilateral negotiations under the rules and regulations regime of the WTO, India has begun moving towards FTAs/RTAs and Comprehensive Economic Cooperation Agreements (CECAs) [e.g. Agreement on South Asia Free Trade Area (SAFTA), India-ASEAN Comprehensive Economic Cooperation Agreement (CECA), India Pacific Trade Agreement (IPTA) etc. The net impact of the RTAs on export performance and trade.

3.4.1 Bilateralism and Multilateralism

Bilateralism or Bilateral Trade Agreements are two way agreements on trade between two countries to extend specific privileges not extended to others. It became widespread in the 1930s with countries trying to protect themselves

from the fall in international trade during the depression. While India has always stood for rule based multilateral trading system (MTS), in recent years, it has been active with bilateral agreements. Some of the important bilateral agreements of India with other countries are: EHS (Early Harvest Scheme) with Thailand, India- New Zealand FTA-CECS, India-Canada FTA and India-Australia CECA.

Multilateralism or Multilateral trade agreements are the agreements for deepening global trade and development. They are founded on the core principle of non-discrimination. They are guided by the rules and regulation of the World Trade Organisation (WTO). Ministerial Decisions under WTO at different Conferences have focused on agriculture, cotton and issues related to least developed countries (LDCs). These cover public stockholding for food security purposes, Special Safeguard Mechanism (SSM) for developing countries, commitment to abolish export subsidies for farm exports in developed countries and measures related to cotton. Decisions are also made in WTO on preferential treatment to LDCs in the area of services and the criteria for determining how exports from LDCs can be beneficial to them.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What was the stand of the Indian government on FDI at the time of independence and immediately after it in the 1950s?

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2) What was the attitude of the government during the 1970s towards FDI and foreign collaboration?

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3) What major strides were initiated to encourage the flow of FDI in the post-1991 years in India?

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4) What are some of the further liberalised measures initiated in the more recent years (post-2010) to encourage the flow of FDI to India?

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5) How is FII different from FDI?

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6) In what respects would you summarise the opening up of the Indian markets to the FIIs?

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7) Define the term 'regionalism'. What trend would you notice in respect of FTAs in India? Why?

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8) Distinguish between bilateralism and multilateralism with examples. Why has multilateralism come to occupy a back seat of late?

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3.5 LET US SUM UP

While the ISI strategy is inward looking, aimed at boosting the domestic industrial base by protection from foreign competition and imports, ELG is an outward looking export oriented growth policy. India practiced the ISI strategy with limited and cautious exposure to FDI for nearly four decades after which it too adopted the ELG strategy. The growth of the economy in the post-1980s, and then in the later years of 1990s, are testimony to the fact that the ELG strategy is superior to that of the ISI strategy. The policies adopted for FDI has also seen a distinct shift from the cautious stand demonstrated for close to four decades and the welcoming stand adopted in the years after the 1990s. While this has been the trajectory of India in respect of its investment policy, on trade, India has always believed in non-discriminatory multilateralism. However, owing to the difficulties of negotiations on interests of India and the other LDCs in the WTO, there has been a concerted shift towards FTAs, RTAs and PTAs in the recent years.

3.6 KEY WORDS

ISI : ISI is a trade and economic policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced products.

Unorganised FDI and FII : FDI is a long term international capital movement directly made in development projects in other countries. It refers to movement of investible funds or finance. If the lender has operating control over the asset's use, then investment is direct, otherwise it is portfolio or the FII.

Regionalism and Multilateralism : Regionalism is the process by which the actions of governments to facilitate trade on a regional basis is promoted. Multilateralism are agreements between a group of countries for deepening global trade. It is founded on the core principle of non-discrimination.

3.7 SOME USEFUL BOOKS AND REFERENCES

1) Hussain Abid (1995). 'Foreign Trade Policy in Indian Planning', in Banerjee, Kalyan and Tarjani Vakil (eds.), *India: Joining the World Economy,* Tata McGraw-hill Publishing Company Limited, New Delhi.

2) Karmakar Asim K (2010). *Balance of Payments Theory and Policy: The Indian Experience,* Deep and Deep Publications, New Delhi.

3) Karmakar Asim K and Biswajit Chatterjee (2000). *'Trade and Payments Policy Regimes in India Since Independence',* in Amitabh Shukla (ed.),

International Money Market and Indian Economic Reforms, Kanishka Publishers, Distributors, New Delhi.

4) Sharan Vyuptakesh and Indra Natn Mukherjee (2001). *India's External Sector*, Oxford University Press, New Delhi.

3.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) For achieving good economic growth, trade between countries is essential as any economy cannot have the comparative advantage required to produce all that goods that it requires. The imports made need to be financed for which in order to earn the necessary foreign exchange there should be corresponding exports. Thus, policy to promote exports and imports, or to engage in trade beneficial for the economy, is very crucial. In its absence, a trade imbalance would disrupt the economy in its growth path.

2) It is based on the premise that importing economies should substitute the products being imported with what can be domestically produced as their substitutes. Its foundation is based on the Prebisch-Singer hypothesis which states that in the long run the economies exporting the primary commodities would stand to lose in terms of the ToT advantage in comparison with the economies exporting manufacturing goods.

3) The ISI strategy works on three tenets viz. promotion of domestic industries, protection from foreign products through high tariff rates and quotas and a monetary policy practicing multiple exchange rates and control over foreign exchange. Though the measures are basically aimed at promoting the domestic industrial base, in effect they induce them to remain uncompetitive and inefficient.

4) The acknowledgement is made in terms of concentrated market structure, high unit cost of production, overvalued currency and high degree of government intervention in production systems, etc. cumulatively resulting in an anti-export bias.

5) The loss of confidence in the state-led interventionist approach, failure of ISI to address the Latin American debt crisis and the developments in the ICT sector enabling the setting up of manufacturing sector anywhere where there is a comparative advantage in production. On India's part, phased removal of QRs, progressive reduction of tariffs and subsidies, liberalisation measures in the trade and payments regime, adoption of various export incentive measures, movement towards market based exchange rates, etc. indicate the seriousness in its adopting the ELG strategy.

6) Current account convertibility provides freedom in respect of payments and transfers for current international transactions. Capital account convertibility refers to a far wider freedom to convert local financial assets to foreign financial assets (and vice versa) at market determined exchange rate. Capital account convertibility (CAC) therefore implies total free and unregulated mobility of capital funds across countries with no restrictions.

7) It reduces the cost of capital due to increased capital inflow into the country. Tax levels would come down to international levels which in turn reduces tax evasion and capital flight. Resident individuals would have the right to acquire financial assets abroad. Mutual funds would become free permitting their investment in overseas markets enabling setting up of joint ventures.

8) In spite of the many advantages of CAC, there are also risks mainly on two fronts: (i) it could expose the economy for currency devaluation, takeovers, short term macroeconomic disturbances like increased unemployment, etc. and (ii) in the extreme, there could be risks impinging on the sovereignty concerns. However, in view of the size of the Indian economy, the latter risk is not high. But due to the criticality of the short term risk, India has adopted gradual moderation of its CAC policy, on a year to year basis, through its EXIM policies announced. Due to this reason, the cautious stand of the Indian government is creditable.

Check Your Progress 2

1) The government assured equal treatment to MNCs including facilitation for repatriation of profits and compensation in case of nationalisation. The second IPR of 1956 also adopted a similar stand.

2) The attitude of the government was one of restricted or limited collaboration in sophisticated and high priority areas where competence of Indian technologies was inadequately developed.

3) Establishment of Foreign Investment Promotion Board to allow 100 percent equity participation, simplification of procedures to allow 51 percent foreign equity by merely listing such industries where this was allowed, allowing the FIIs to operate in the Indian capital market, allowing the Indian companies to raise capital in the international market, introduction of a dual RBI automatic route for FDI, removal of restrictions on FDI in low technology areas, etc.

4) Permitting FDI of up to 100 percent in most sectors/activities, Relaxation of norms on capitalisation and repatriation of funds raised for construction development projects, allowing of 100 percent FDI for marketplace in e-commerce, permitting of 49 percent FDI etc.

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5) FDI refers to investment in development projects (like infrastructure projects) directly. The capital invested remains in the domestic economy with only the profits made repatriated. FII, on the other hand, relates to investment of capital in the equity markets including securities (i.e. stock exchanges) where capital can leave the economy over night. Investment in FII only reflects the investors sentiment or confidence in the stock market whereas FDI shows a long term commitment linked to the growth prospects in the economy in which investment is made.

6) The evolution of FII policy in India could be summarised by way of: (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalisation of investment instruments accessible to FIIs.

7) Regionalism is defined as cooperation between countries to liberalise or facilitate trade between countries of a region. Since late 2000s, there has been an increase in the number of PTAs/FTAs/RTAs in India in view of the fact that the negotiations in the WTO for multilateral negotiations have been slow and dragging.

8) Bilateralism refers to agreement on trade concessions between two countries. Examples are: EHS between India and Thailand. Multilateralism, on the other hand, are guided by the rules and regulations of the WTO founded on the core principle of non-discrimination. Reasons for decline of multilateral agreements under WTO include contentious issues like protection of farm sectors' interests in LDCs vis-à-vis huge export subsidies given by the developed countries for farm exports.

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