
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?

- 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.

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.
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.

**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.