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FDI in India during COVID 19

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Abstract :

COVID-19 is threatening economic globalization. Global production networks are being disrupted on a never-before-seen scale as a result of simultaneous shocks to supply and demand caused by containment measures. The pandemic has highlighted how globally interconnected the flow of goods and services has become vulnerable, and countries are now reframing their international trade strategies to handle economic shocks post pandemic.

The drop in FDI will be especially hard on developing countries. FDI inflows to developing countries are expected to fall even more than the global average, given that sectors severely impacted by the pandemic account for a larger share of FDI inflows in developing countries. Also, over the last few decades, developing countries have become more dependent on FDI. Between 1985 and 2017, FDI inflows to developing countries increased from 14 billion to 690 billion US dollars (in current prices). This represents an increase in share of global FDI inflows from 25% to 46%. The rise in FDI to developing countries is being supported by an increase in offshoring and global fragmentation of economic activities, particularly in the manufacturing and services sectors. The drop in global FDI is thus closely related to disruptions in global supply chains, which we have also seen as a result of the COVID-19 pandemic. This paper is an attempt to review the impact of current pandemic on FDI inflows in India.

Keywords: Foreign Direct Investment (FDI), Economic, Covid-19, Recession

Introduction

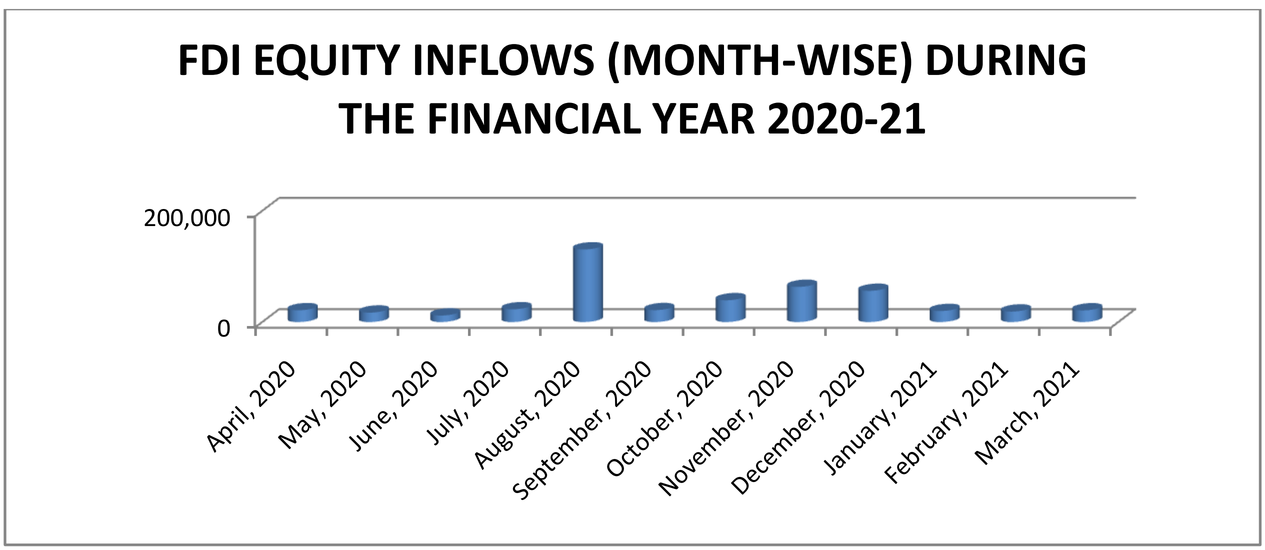
Foreign direct investment (FDI) could play an important role in assisting economies during the economic recovery following the pandemic. Evidence from previous crises indicates that foreign-owned affiliates, including small and medium-sized enterprises, can demonstrate greater resilience during crises due to their connections with, and access to, their parent companies' financial resources (e.g. Alfaro and Chen, 2012; Desai et al., 2008). Given that other sources of international financing, including portfolio investment, have fled these economies, FDI could be especially important for emerging and developing economies.

Although the economy remained in technical recession in the first half of fiscal year 2020-21, a rise in foreign direct investment (FDI) inflows was a positive development. For the past few years, India has been a source of FDI inflows. Over the last two decades, total FDI inflows into India have nearly doubled, rising from US $ 4 billion in FY01 to US $ 74 billion in FY20.

Furthermore, despite a subdued global economic and investment environment hampered by the coronavirus pandemic that erupted in the first half of FY21, India received 15% more investment inflows than in the same period last year, despite a subdued global economic and investment environment hampered by the coronavirus pandemic that erupted in the first half of FY20.

The government has taken a number of steps in recent years to encourage foreign investment in India. As a result, India's ranking in the World Bank's Doing Business 2020 index has improved. Up 14 points to 63rd out of 190 countries, up from 77th previously. Permits for construction, cross-border trade, and insolvency resolution are all areas where India excels as a result of recent changes in the areas of starting a company and negotiating with creditors.

India was also among the top ten performers on the chart for the third year in a row. Foreign investors' optimism about India's growth storey has been aided by ample liquidity in the global market. Furthermore, performance-based bonuses have gained traction under the new administration. The Atmanirbhar Bharat initiative of the Government of India aims to boost the manufacturing industry. Due to global anti-China sentiments, India could have benefited from the deal as investors strategized to access alternative investment destinations and supply chains.

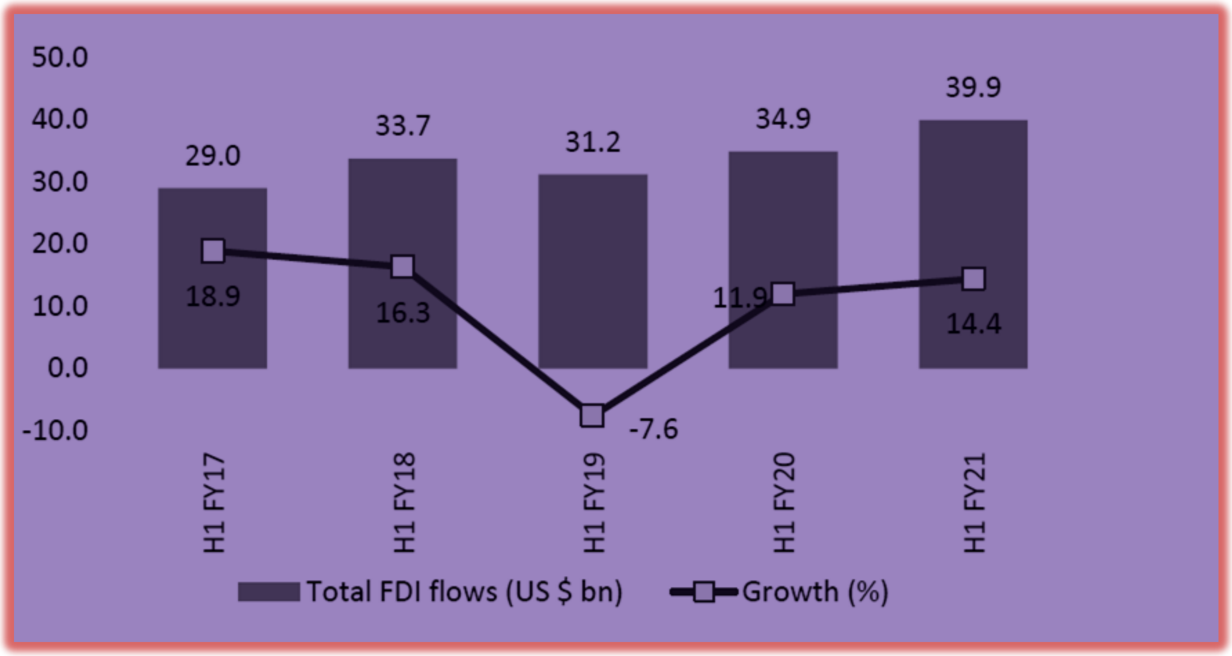


Source : DPIIT

India received total FDI of $28.1 billion in the July-September quarter, and $11.5 billion in the previous April-June quarter, for a total FDI inflow of $39.6 billion in the first half of the fiscal year.

Over $30 billion of this was in the form of equity FDI inflows, or investments made by foreign companies for equity stakes in Indian firms, with the remainder as reinvested earnings or profits ploughed back into the business.

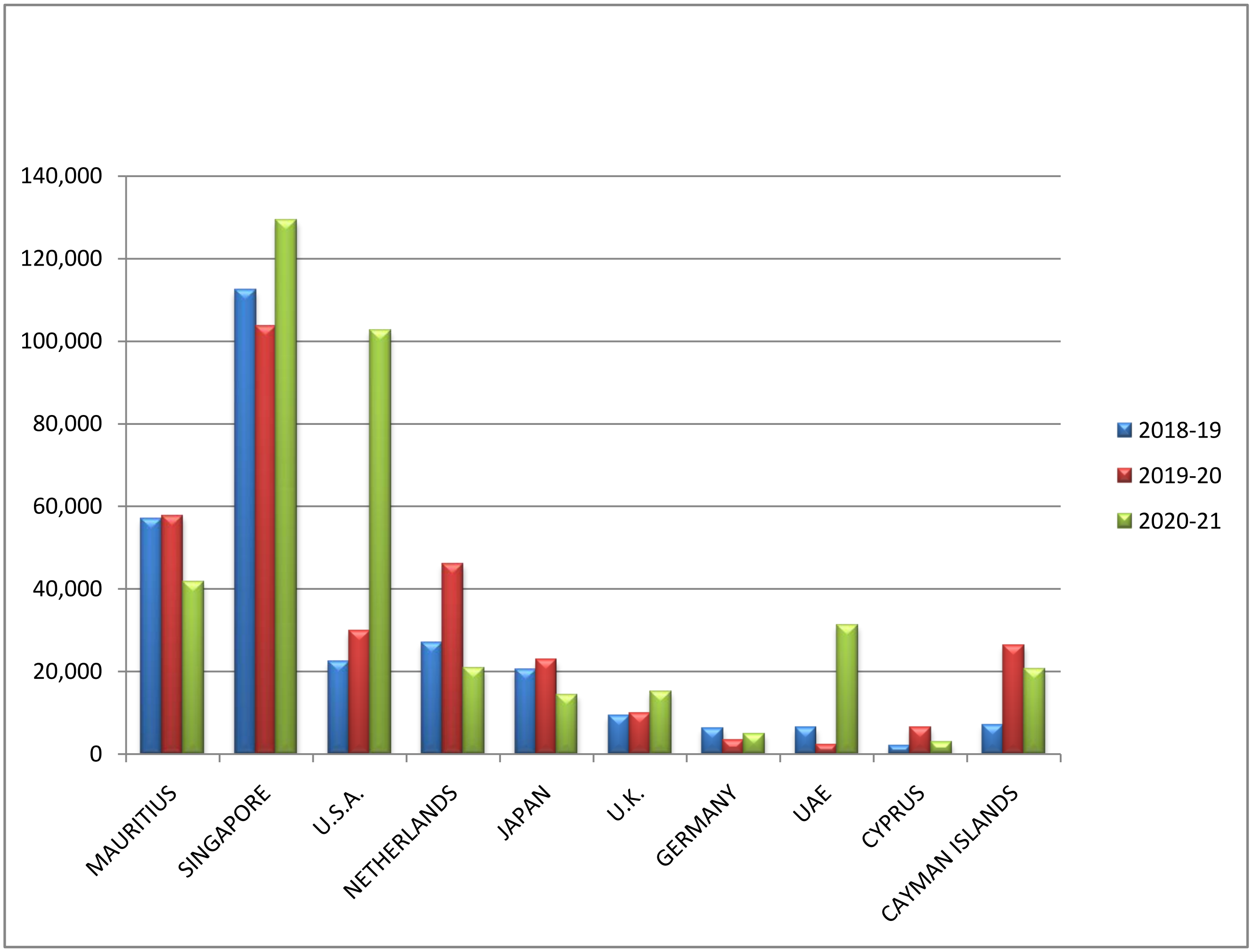
According to data from the Department for Promotion of Industry and Internal Trade (DPIIT), the majority of these equity FDI inflows in the first half of 2020-21 were into the computer software segment, driven by investments in Jio Platform.



Source : DPIIT

The total FDI inflows, which include FDI equity inflows, re-invested earnings, and other money, were the highest in the first half of FY21 considering the same timeframe in the previous five years. During the first half of the last five years, total inflows grew at an annual rate of 8% between H1 FY17 and H1 FY21.

In the first half of FY21, total FDI inflows totaled US $ 39.9 billion, which is around 14% higher from US $ 34.9 billion in the first half of FY20. With the exception of H1 FY19, all first half fiscal years since FY17 have seen double digit growth, with the highest annual growth in H1 FY17 (18.9 percent).\



Country wise analysis :

Source : DPIIT

Singapore (29%) was the top investor who contributed to India's high FDI inflows in FY21, followed by the United States (23%), and Mauritius (3%). (9 per cent).

Singapore had the highest FDI equity inflow to India in fiscal year 2021, valued at over 17 billion Indian rupees, followed by the United States, valued at nearly 14 billion Indian rupees. Singapore has been the top source of foreign direct investment into India for the past three fiscal years in a row, accounting for roughly 30% of total FDI inflows in fiscal year 2020.

In fiscal year 2021, India received approximately $60 billion in FDI equity inflows. Foreign direct investment (FDI) inflows play an important role in the development of the Indian economy. Increased FDI inflows are directly related to increased employment in the country.

This increases productivity while also improving the quality of processes and supply chains in the pursuit of global quality standards.

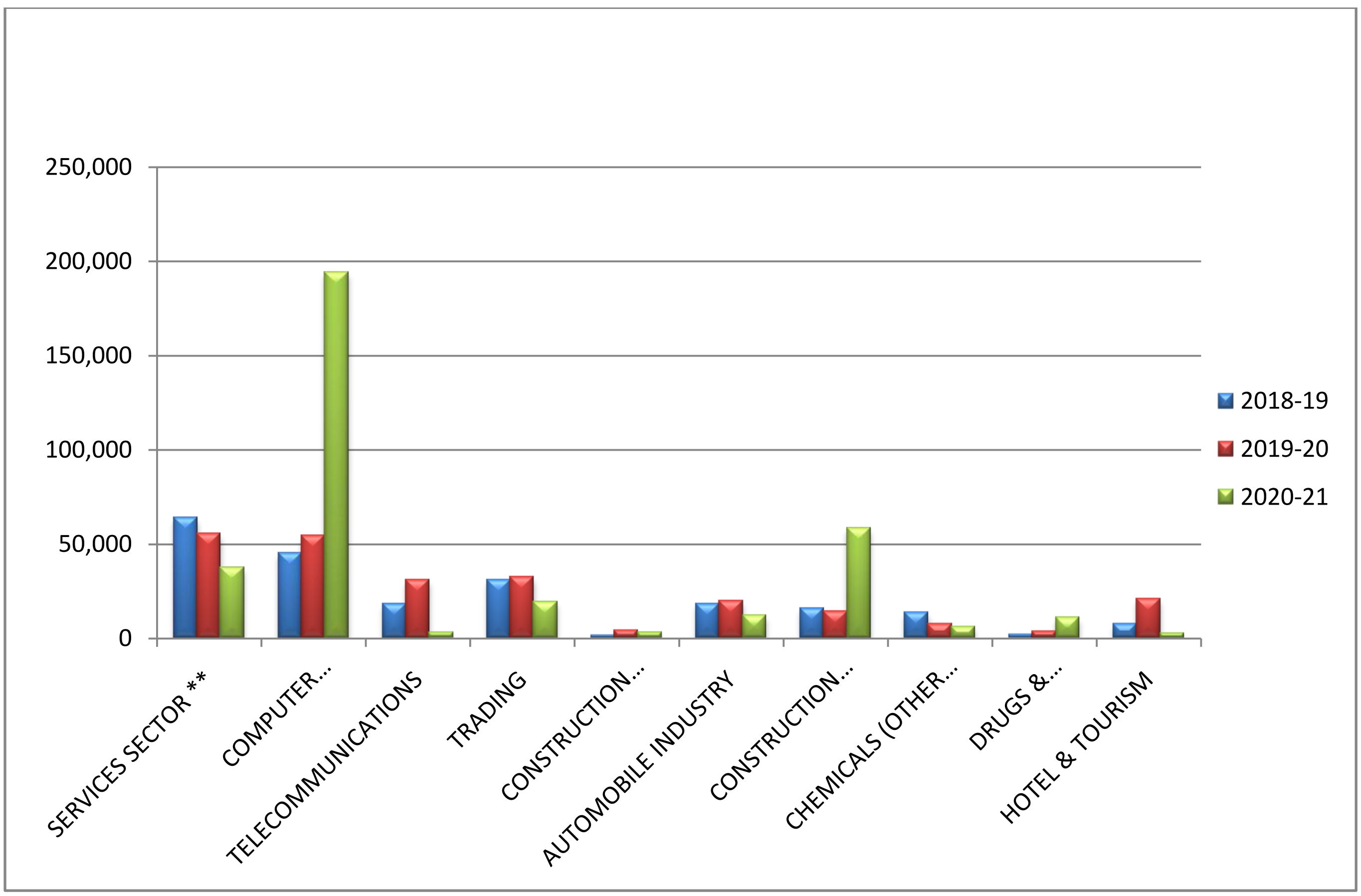
During the fiscal year 2020-21, India received the highest total FDI inflow of $ 81.72 billion, a 10% increase over the previous fiscal year 2019-20 (US$ 74.39 billion).

FDI equity inflows increased by 19% in fiscal year 2020-21 (US$ 59.64 billion) compared to fiscal year 2019-20 (US$ 49.98 billion).

For the fiscal year 2020-21, Singapore ranks first with 29 percent, followed by the United States (23 percent) and Mauritius (9 percent).

The most recent increase is primarily due to the continued inflow of funds into India by US corporations. Policymakers attribute this to India's aggressive seizure of global supply chains that sought to leave China in the aftermath of the coronavirus pandemic.

Sector wise Analysis of FDI :



Source : DPIIT

A profound dive into the Department for Promotion of Industry and Internal Trade (DPIIT) data reveals that inbound investments have remained highly uneven in terms of sectoral distribution.

Despite the pandemic and subsequent nationwide lockdown in FY2020, which slowed manufacturing for nearly two months in the first nine months of the fiscal year, there was a fourfold increase in investments in the computer software and hardware sectors in the first nine months of the fiscal year. Over the period, FDI in the sectors increased to $ 24.3 billion, up from $ 7.6 billion in FY20.

The plausible explanation is the government's production-linked incentive scheme for mobile phones, components, IT hardware, and electronics. For example, the PLI scheme for mobile phones was announced in April 2020, with the application deadline of July 31, 2020. Despite the fact that the coronavirus pandemic was at its peak, the government received submissions from all major global corporations.

As shown in the figure above, foreign investment in Indian technology sector is grown to skyrocket in 2020. In fact, between April and December, 58 percent of all FDI into India's ten leading sectors went to technology (software), primarily through investments in Jio Platforms.

According to the above figure, the country's infrastructure sector (particularly energy) and pharma industry have also seen an increase in FDI as a result of large mergers and acquisitions (M&A). The country's production of Covid-19 vaccines has contributed to these pharmaceutical gains.

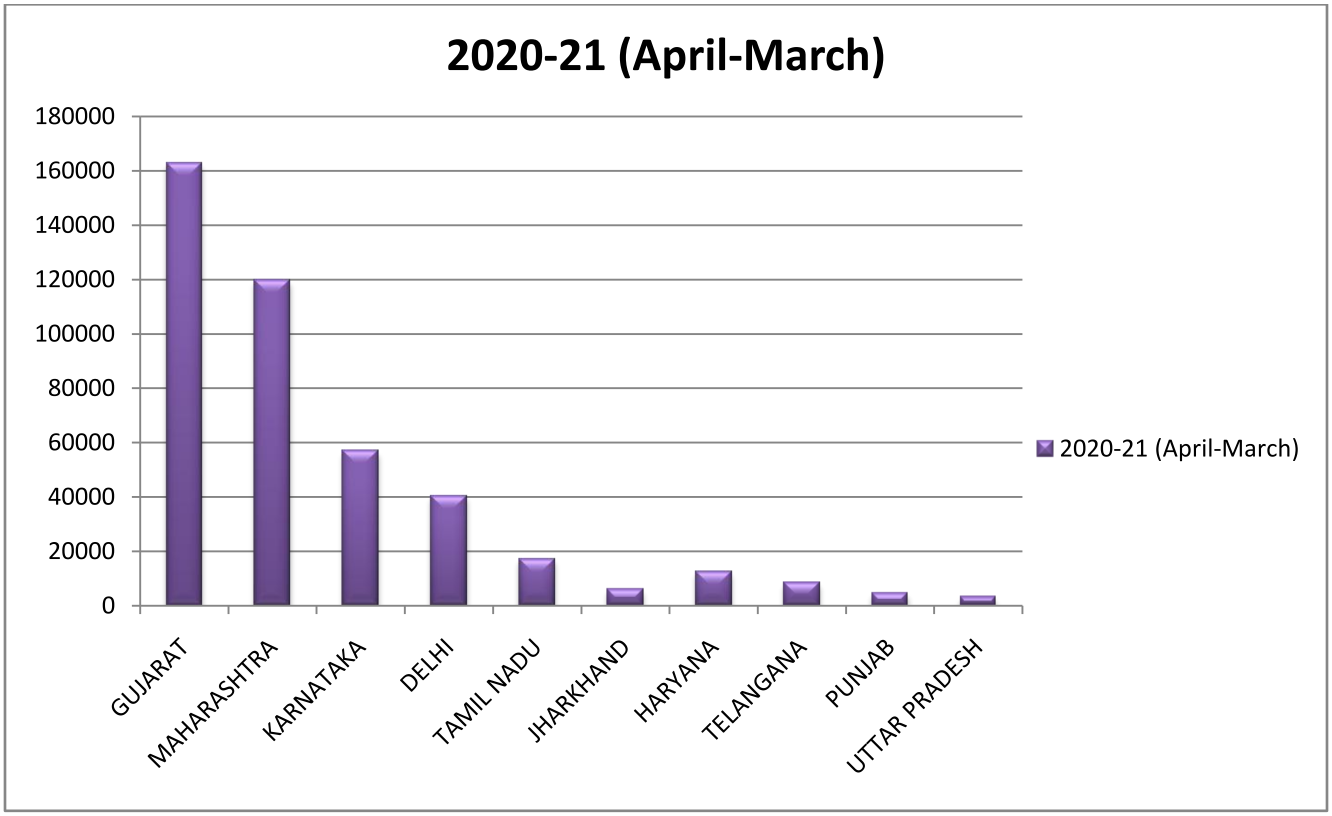
Construction and infrastructure are becoming increasingly popular. In the coming years, India plans to invest $1.4 trillion in infrastructure, including highways with record-breaking speeds. Among the most recent plans is to construct a network of green highway corridors, in some cases in collaboration with the World Bank. Despite the pandemic, infrastructure development has been relentless, from inland waterways to highways, tunnels, and roads in the most remote parts of the country, including the high Himalayas and the most remote corners of the Northeast. Interesting infrastructure innovations are also taking place, such as the testing of the use of plastic waste in road construction.

Compared to the previous financial year, equity in construction (infrastructure), computer software and hardware, rubber goods, retail trading, drugs and pharmaceuticals, and electrical equipment increased by more than 100% during FY21.

In the first half of FY21, the top nine sectors accounted for more than 75% of total FDI equity inflows. While the services sector has traditionally dominated FDI inflows, the computer software and hardware sector outperformed the services sector, attracting US $ 15.5 billion in FDI inflows, accounting for 59 percent of total FDI inflows in H1 FY21. The services sector fell to second place with US $ 2.3 billion in investments, trailed by trading (3 percent share or US $ 949 million).

The telecom sector's inherent stress, high regulation, and intense rivalry are to blame for the dramatic drop in FDI from US $ 4.2 billion in H1 FY20 to just US $ 7 million in H1 FY21.

State wise Analysis :



Gujarat received the most FDI, accounting for 37% of total equity inflows. Maharashtra and Karnataka had the second and third highest flows, with 27% and 13%, respectively.

Gujarat has taken the top spot in terms of highest FDI for the fourth year in a row. Gujarat received a total of $30.23 billion in FDI in 2020-21, with a 37% share. According to the state statement, nearly 94% of the investment that came into Gujarat during 2020-21 was in the computer hardware and software sector. The government accounts for 78% of total FDI inflows into the country in this sector.

Meanwhile, Maharashtra received Rs 1.53 lakh crore in FDI, while Karnataka came in third with Rs 78,160 crore. During the April-December period, Delhi ranked fourth with investments totaling Rs 59,830 crore.

Tamil Nadu and Jharkhand ranked seventh and eighth, respectively, attracting investments worth Rs 19,734 crore and Rs 19,200 crore. Haryana (Rs 13,661 crore) and Telangana were the other states that attracted more than Rs 10,000 crore in FDI (Rs 11,332 crore). During the period, West Bengal and Uttar Pradesh received over Rs 4,000 crore in FDI inflows.

In FY 2020-21, the major recipient states in the sector ‘Computer Software & Hardware' are Gujarat (78%), Karnataka (9%), and Delhi (5%).

During FY 2020-21, the majority of Gujarat's equity inflows were reported in the sectors 'Computer Software & Hardware' (94%) and 'Construction (Infrastructure) Activities' (2%).

Key Findings :

Foreign Direct Investment (FDI) policy reforms, investment facilitation, and ease of doing business measures implemented by the government have resulted in increased FDI inflows into the country. The following trends in India's Foreign Direct Investment attest to the country's status as a preferred investment destination among global investors:

• India received the highest ever total FDI inflow of US$ 81.72 billion during the fiscal year 2020-21, which is 10% higher than the previous fiscal year 2019-20 (US$ 74.39 billion).

• FDI equity inflows increased by 19% in fiscal year 2020-21 (US$ 59.64 billion) compared to fiscal year 2019-20 (US$ 49.98 billion).

• For the fiscal year 2020-21, Singapore ranks first with 29 percent, followed by the United States (23 percent) and Mauritius (9 percent).

• ‘Computer Software & Hardware' has emerged as the top sector during FY 2020-21, accounting for approximately 44 percent of total FDI equity inflow, followed by Construction (Infrastructure) Activities (13 percent) and Services Sector (8 percent).

• In fiscal year 2020-21, the major recipient states in the sector Computer Software & Hardware are Gujarat (78 percent), Karnataka (9 percent), and Delhi (5 percent).

• During the fiscal year 2020-21, Gujarat received 37 percent of total FDI equity inflows, followed by Maharashtra (27 percent) and Karnataka (13 percent).

• The majority of Gujarat's equity inflows have been reported in the sectors of computer software and hardware (94 percent) and construction (infrastructure) activity.

• When compared to the previous year, the major sectors, namely Construction (Infrastructure) Activities, Computer Software & Hardware, Rubber Goods, Retail Trading, Drugs &Pharmaceuticals, and Electrical Equipment, experienced a more than 100 percent increase in equity during the fiscal year 2020-21.

• Saudi Arabia is the top investor in terms of percentage increase during fiscal year 2020-21, out of the top ten countries. It spent US$ 2816.08 million, compared to US$ 89.93 million in the previous fiscal year.

Conclusion :

Despite the pandemic's challenges, FDI inflows to India remained strong, buoyed by a global liquidity surplus and investor confidence. Going forward, the government's various steps to facilitate investment are expected to increase inflows to India. Increased foreign investment is expected to re-ignite the private investment cycle. In 2020-21, FDI equity inflows are expected to be around $ 70 billion.

The attractiveness of India's foreign direct investment is influenced by a variety of political, social, and economic factors (FDI). The availability of physical, social, natural, and human resources that the UN Sustainable Development Goals (SDGs) aspire to will have an impact on these same factors in the post-COVID-19 world. Indeed, the COVID-19 pandemic has arrived at a critical juncture in which countries all over the world are being forced to confront their shortcomings in global supply chains that, in recent years, have been largely dominated by China. Despite the fact that India's flagship "Make in India" strategy is primarily motivated by a desire to attract foreign direct investment (FDI) and nurture value chains.The prime minister's clarion calls of "Atmanirbhar Bharat" or "Vocal for Local" should not be interpreted as impediments to foreign investment and international trade. The 'Atmanirbhar Bharat' scheme was implemented to strengthen the domestic economy's resilience to the uncertain elements of the COVID-19 pandemic. The government's goal with this scheme is to boost domestic output and make India "self-sufficient," with funds totaling INR 20 trillion already disbursed.

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