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"PRE AND POST COVID 19 IMPACT ON FOREIGN DIRECT INVESTMENTS IN INDIA"

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ABSTRACT
Covid – 19 has battered the World economy causing the worst recession than the Great Depression of the 1930's. By the end of the year 2020, the World's GDP about 7.5% lower than it would have been without the pandemic. Globally more than 15% of the middle age people who were in work before the Covid-19 have lost their jobs. Worldwide lockdowns have caused changes that were affected the World economy in technology, finance and trade. With great deal of uncertainty in the transactional space, investors are now more cautious before making any important transactions. World FDI inflows fell by more than 49% in the first half of 2020 and even under the most optimistic scenario after the economic support policy measures by the governments, the numbers don't seem to be getting better. The developing countries are hit even worse because the sectors attracting the largest shares of FDI such as primary and manufacturing sectors are hit the worst. FDI being a critical driver of the economic growth could play an important role in supporting the economies during and after the crisis.

Introduction
The world is facing humanity's biggest crisis since World War II. Almost every country has been affected by the devastating Coronavirus disease (COVID-19). The world is passing through a great uncertainty. Undoubtedly, the Coronavirus has put the world economy at a major risk.

Coronavirus ravages the economic foundations of world trade. According to the WTO, the world trade is expected to fall by between 13 per cent and 32 per cent in 2020, thereby indicating the world economy is expected to face recession. Trade cannot flourish without commensurate policies to revive the economy. A combination of fiscal, monetary and trade policy measures is, thus, required to revive the economy and trade in these uncertain times.

Foreign Direct Investment (FDI) is a major driver of economic growth and an important source of non-debt finance for the economic development of India. Covid – 19 causes chaos across the World, and shocks financial markets. The Government has taken actions to protect Indian firms in the form of a revised FDI policy:

- New rules for entities form countries sharing land border with India, any investment from such an entity will require Government of India's nod.
- Government has also added a clause to prevent routing of funds via other nations.
- Government nod also required for transfer of ownership benefiting aforementioned entities.

The reasons for the revised FDI policy are mainly:

- Revision in view of the economic impact of Covid-19 pandemic.
- Move to curb 'Opportunistic takeovers/Acquisitions' of Indian Firms.
- Firms whose market value has taken a hit are vulnerable.
- Although India has named all its neighbors in the new rules, the main target is believed to be China. Chinese investors have pumped $4 BN into Indian startups and raised stakes in some major Indian companies including HDFC.

Due to the robust business environment and favorable policy regime, India's government has ensured that foreign capital keeps flowing in the country. Some of the major companies which saw investments during this time include Byju's, Reliance, Cashaa, Unacademy, Phoenix Mills etc. These investments were driven by some of the biggest companies in the world like Google, Foxconn, Amazon, Facebook, Silver Lake, SoftBank Group and many more.

Impact of Covid – 19 on Foreign Direct Investment (FDI) in India

Recent Developments

FDI inflows saw a gradual decline from the outset of pandemic in April which continued till June. Figure 1 shows monthly trends of Net FDI inflows fell by 60% to $6,562 million during April – June 2020 compared to the same quarter of previous year which stood at $ 16,329 million. Second quarter of FY-20 saw a steep increase in FDI mainly because of the $ 10 Billion investment by Google. FDI inflows surged from $6,562 million between April and June to $23,442 million by the end of September. FDI inflows increased to $21,467 million during October – December 2020 compared to the same quarter of previous year which was $10,674 million only due to the measures taken by the Indian Government on the fronts of FDI policy reforms, investment facilitation, and ease of doing business.

Table – 1

Net FDI Inflows in India during Covid-19

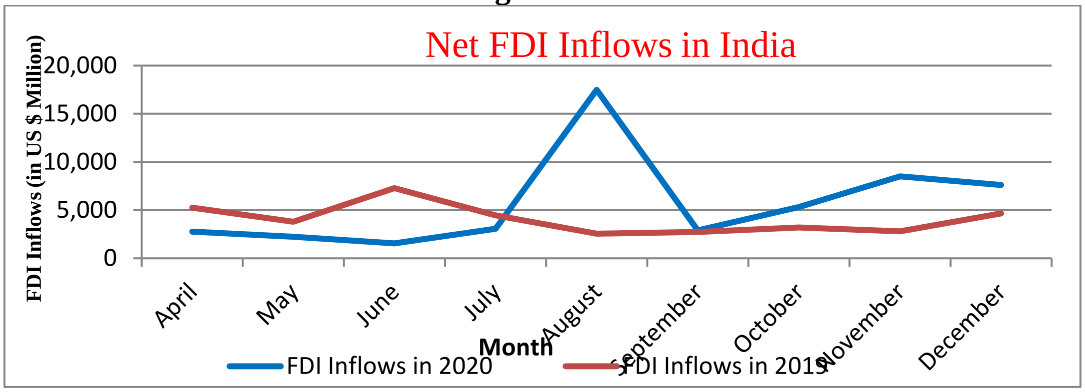
(amount in $million)

Month	FDI Inflows in 2020	FDI Inflows in 2019
April	2,772	5252
May	2240	3795
June	1550	7282
July	3049	4472
August	17487	2553

September	2906	2741
October	5331	3211
November	8515	2804
December	7621	4659

Source: https://dipp.nic.com

Figure - 1



Source: https://dipp.nic.com

FDI Equity Inflows by Components

There was slight increase in the Equity inflows from the period 2016-17. But in Reinvestment earnings there was a 20% decrease in the year 2020-21 than the previous year 2019-20. Also there was a 72% decrease in other capital in the year 2020-21 than the previous year 2019-20.

Table - 2

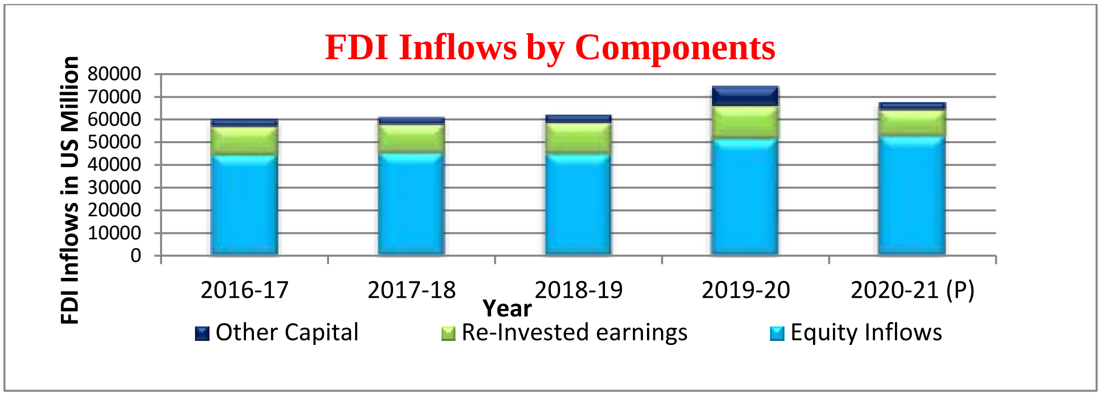
FDI Equity Inflows by Components

(amount in $million)

Year	Equity Inflows	Re-Invested earnings	other capital	Total FDI Inflow
2016-17	44701	12343	3176	60220
2017-18	45521	12542	2911	60974
2018-19	45055	13672	3274	62001
2019-20	51734	14175	8482	74391
2020-21 (P)	52893	11403	3246	67542

Source: https://dipp.nic.com

Figure - 2



Source: https://dipp.nic.com

FDI Equity inflows by top ten Countries in India

Singapore invested the highest amount of $15,717FDI inflows in India during the pandemic period. Singapore contributed around 31% in total FDI inflows in India during the period of April – December 2020. The Second highest investing Country is USA with the percentage of 25%. Singapore emerged as the largest contribution of FDI in India followed by USA, UAE, Mauritius and Cayman island.

Table - 3

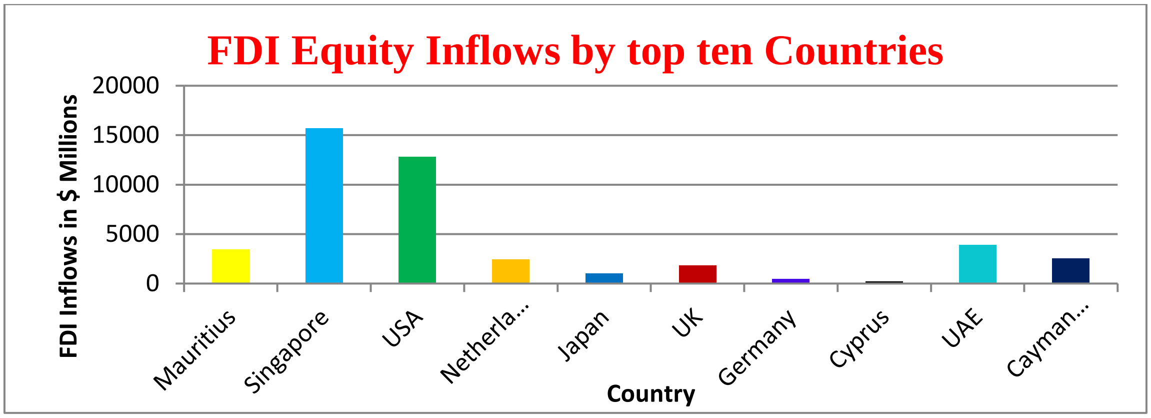
FDI Equity Inflows by Top ten Countries

(amount in $million)

Rank	Countries	FDI Equity Inflows
1	Singapore	15717
2	USA	12828
3	UAE	3915
4	Mauritius	3475
5	Cayman Islands	2533
6	Netherlands	2435
7	UK	1832
8	Japan	1027
9	Germany	489
10	Cyprus	225

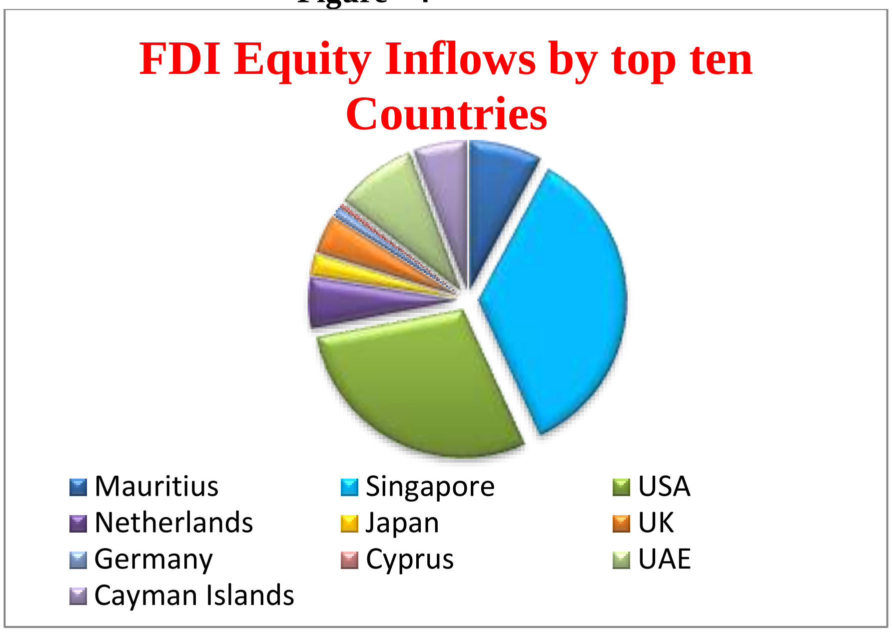
Source: https://dipp.nic.com

Figure - 3



Source: https://dipp.nic.com

Figure - 4



Source: https://dipp.nic.com

Sector –wise FDI Equity Inflows

Computer software & hardware attracted the largest FDI of $24,385 million followed by Construction (Infrastructure activity) ($3857million), Services sector ($3857 million), and Trading ($2141 million). Computer hardware & software were increased by 217% due to lockdown, all the Indians were depend on computer hardware & software for their entertainment. Telecommunication sector which received the largest amount of FDI during the previous year was the worst hit and saw a decline about 92% . Other sector also huge contractions with Trading sector falling by 53%, Services sector by 51%.

Table - 4

Sector –wise FDI Equity Inflows

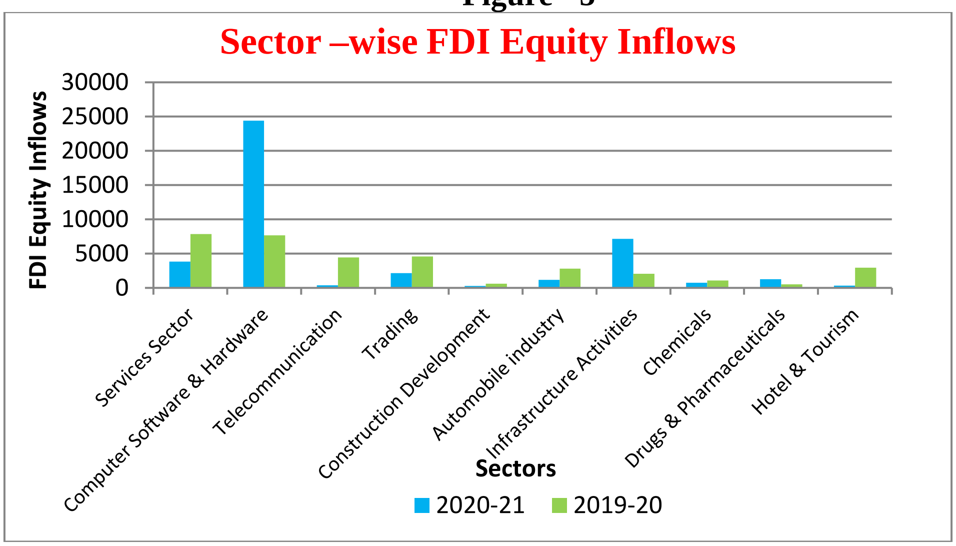
(amount in $million)

Sectors	2020-21	2019-20

Services Sector	3857	7854
Computer Software & Hardware	24385	7673
Telecommunication	357	4445
Trading	2141	4574
Construction Development	272	617
Automobile industry	1185	2824
Infrastructure Activities	7149	2042
Chemicals	739	1058
Drugs & Pharmaceuticals	1246	518
Hotel & Tourism	326	2938

Source: https://dipp.nic.com

Figure - 5

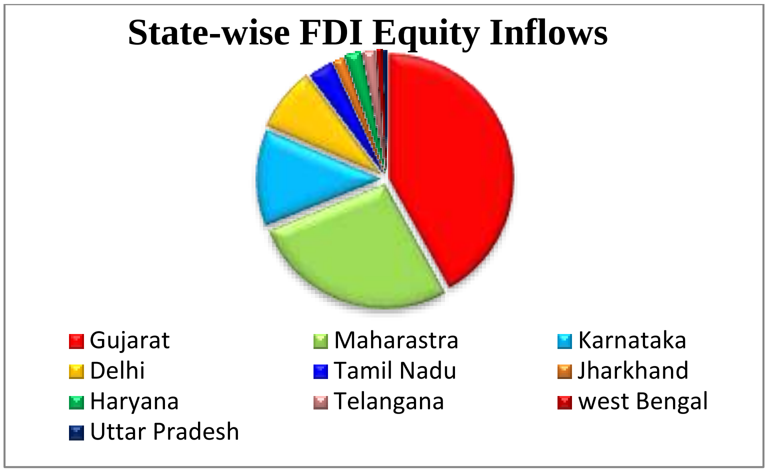


Source: https://dipp.nic.com

State-wise FDI Equity Inflows

In India there are 28 states and 8 union territories. Some of the states have only attracted high FDI inflow because of their licensing strategy, availability of skilled labour, and availability of resources.

Figure - 6



The top five states are Gujarat, Maharashtra, Karnataka, Delhi, and Tamil Nadu for attracting FDI equity inflows in India during the period of study from April 2020 to December 2020. From the Figure – 6, Gujarat has received highest FDI inflows of $21, 239 during this period of study, contributing 42% of total FDI equity inflows of top ten countries.

The whole analysis of state wise breakup of FDI inflows makes it clear that there are three categories of states with respect to FDI receipt in India.

i. Front Runners: Gujarat, Maharashtra, Karnataka, Delhi, and Tamil Nadu.
ii. Intermediate State: Jharkhand, Haryana, Telangana, West Bengal, Uttar Pradesh
iii. Laggard Performers: Rajasthan, Andhra Pradesh, Madhya Pradesh, Kerala, Pujab

Difference in size, location, reform interests, infra-structural level and development level of industry in different states are the various reasons provide in different studies to account for the regional disparities in the FDI inflows to that are various states and regions of India.

FDI Inflows in India

India brought about a number of changes in its economic policies with view to attract more of the FDI inflows into its country.

Table- 5

FDI Inflows in India *(amount in $million)*

Year	**FDI Inflows**	**Annual Growth Rates of FDI Inflows (in %)**
2011-12	46556	--
2012-13	34298	-26.33
2013-14	36046	5.10
2014-15	45148	25.25
2015-16	55559	23.06

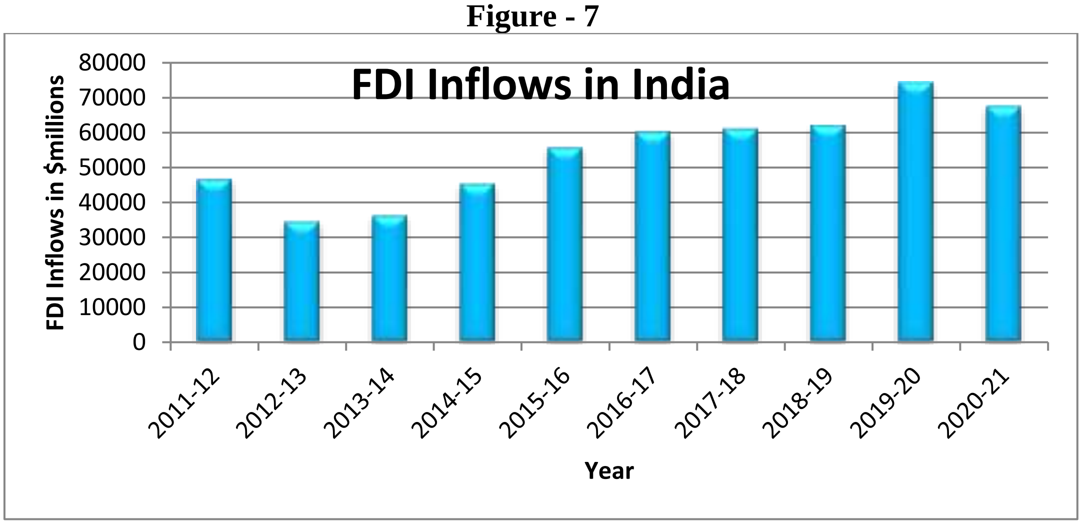
2016-17	60220	8.39
2017-18	60974	1.25
2018-19	62001	1.68
2019-20	74390	19.98
2020-21	67542	-9.21

Source: https://dipp.nic.com

The FDI investment in pandemic period was decreased to 9.21%. Due to Corana the Government announced lock down from March 26, 2020 and still it is continuing in some states. The business is entirely affected and there are many job losses in the country. Because of Covid-19 there may be a sharp decline in the FDI inflow into India in the current year. FDI is expected to remain low and below pre-crisis levels throughout 2021. The outlook beyond 2021 is highly uncertain and dependent on the duration of the crisis, the effectiveness of policy interventions to stimulate investment and navigate the economic effects of the pandemic, as well as geo-economic tensions. FDI recovery rates are challenging to predict at this stage because they are dependent on the rate of overall socio-economic recovery, and consequently investment levels, within the region and socio-economic rate of recovery from countries outside of the region.

On the bright side, the recent signing of the Regional Comprehensive Economic Partnership is expected to strengthen flows and lift investment prospects, especially for smaller and least developed countries in the group.

Figure - 7



Conclusion

The Covid-19 pandemic brought a turmoil on the whole world and India was no exception. The first quarter of FY-20 saw a contraction in GDP by 22.6%. This decline had adverse effects on all economic areas including FDI which saw a contraction of 59% in the first quarter FY-20. But due to government's favorable business environment and revision of FDI policies, FDI inflows saw a 16% surge in the coming months driven mostly by tech and telecommunication investments. Also, India's self-reliance scheme (Atmanirbhar Bharat) has attracted investments from players such as Foxconn to setup manufacturing plants in the country. China's feud with the US has also proved to beneficial for India as many big manufacturing companies have shifted their production and operations to India which will boost India's growth and image as a global player.

In the coming years, India is going to be one of the most attractive emerging markets for World investments. Annual FDI inflow in the country is expected to rise to $75 billionover the next five years according to a report by the UBS. Also India's goal of becoming a $5 Trillion economy by 2025 will surely boost the investments in coming years.

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