Proceedings of Director General, Higher Education, Haryana
Approved Two Day International Conference

Contemporary Trends and Challenges in Global Business Environment

Department of Economics
April 8-9, 2022

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CONTEMPORARY TRENDS AND CHALLENGES IN GLOBAL BUSINESS ENVIRONMENT

By:

Department of Economics

April 8-9, 2022

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COVID -19 PANDEMIC & FDI IN INDIA–TRENDS & IMPACT

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ABSTRACT

FDI plays an important role in economic development of an developing economy like India because in developing economies, there is always deficiency of capital irrespective of abundant natural resources. Due to lack of capital, there is underutilization of natural resources. So, in this case FDI fills the gap between saving & investment. Actions to restrict the spread of the COVID- 19 virus amongst Government of India have led to the closure of all business units, shops, schools and education centers and all type of movement was restricted. As a result of it there was a great set- back to business units. Even then after the revision of FDI policies and the adoption of the self- reliance scheme, FDI inflow increased in these months. While FDI inflow got down elsewhere, India recorded percent growth in FDI in 2020 led by investments in the digital sector, despite the COVID-19 pandemic. After COVID wave was over, India was recovering at a very good rate, but right now,certain activities have experienced a setback in recent times.There have been some bright spots, especially with regards to foreign direct investment(FDI). While global FDI flows dropped in 2020,India was the world's third-largest recipient of foreign investment, boasting the highest annual increase in FDI (13 percent)-followed by Japan (9 percent) and China.The paper aims at analyzing the trends and impact of FDI on Indian economy during pandemic period.

Key Words: FDI Inflows, COVID-19, Indian Economy

Introduction

Foreign Direct Investment (FDI) plays a significant role in economic development of any country and supports economic growth by meeting the investment requirements of a capital deficit economy by bridging its saving-investment gap. The developed and emerging economies have made significant efforts for augmenting the information base on FDI, where valuation is a critical component. In India, major advancements have been made in this regard with the implementation of the Co-ordinated Direct Investment Survey (CDIS) of the International Monetary Fund (IMF) and compilation of Foreign Affiliate Trade Statistics (FATS).India's Foreign Liabilities and Assets (FLA) census, which is a part of global CDIS initiative has been a major step forward towards estimating foreign investment and provide consistent annual data on FDI (equity and debt) on face value as well as at market value based on complete enumeration. The recent trends in FDI flows at the global level and across regions/countries suggest that India has generally attracted higher FDI flows and continued to remain among the top attractive destinations for international investors. An empirical analysis of factors influencing inward FDI, considering major countries in terms of their FDI stock position in India shows that inward FDI has been significantly influenced by trade openness, economic growth prospects, market size, labour cost and capital account openness of the host countries.(RBI Bulletin January 2022).

The Recent increase in FDI inflows into India has been due to various factors -

1. Several bold policy reforms and initiatives undertaken by the Government over the last few years to enhance economic competitiveness and the ease of doing business in the country.

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2. Political stability has also increased the confidence of foreign investors.
3. Introduction of the Goods and Service tax (GST) regime.
4. Cut in the corporate profit tax rate to 17% for new manufacturing firms and 25% for other firms. The Reduction in corporate tax rate has made India more attractive from tax perspective.
5. Other major reforms includethe progressive liberalization of the FDI in key sectors like manufacturing, railways, insurance, defense, constructions etc.
6. For attracting foreign investment, Government launched "Make in India "program and "Aatmanirbhar Bharat Abhiyan" campaign.

Research Methodology

For the accomplishment of the objective of the present study, the secondary data has been collectedfrom various sources .A thorough review of the existing empirical literature has been conducted. Articles published in various online database and search engine such as Google scholar were reviewed. In addition an attempt was made to trace references cited in published articles.

FDI in India

The investment environment in India has greatly improved since 1991, when the government opened to the global market and introduced LPG strategies.

- The development in this area is usually attributed to the reduction in FDI standards.
- Numerous sectors have been open for foreign investment in part or entirely after the liberalization of the economy of the country.
- At present, India ranks in the list of top 100 nations in starting a business
- In the year 2019, India was among the top ten countries that received FDI which was $49 billion of inflows according to an UN report. This represents a 16 percent increase over 2018.
- In February 2020 in February 2020, the DPIIT (Department for promotion of Industry and Internal trade) informs the policy of allowing 100% FDI to insurance intermediaries.
- In April 2020 the DPIIT released an updated rule that declared that an entity of a company which has a land boundary with India or is located in the country where the owner of the investment in India is located or is a resident of a particular country is able to invest only through government-approved channels. That is, these companies can only invest after an approval from the Government of India

How is FDI Done in INDIA?

Automatic Route FDI

When using the automatic method the foreign entity doesn't need the prior approval of authorities or RBI

Examples:

- Medical devices that are 100% effective
- Thermal power: up 100 percent
- Services offered under Civil Aviation Services such as Maintenance & RepairOrganizations
- Insurance: up to 49%
- Companies in the infrastructure sector on the market for securities as high as 49%
- Shipping and ports
- Rail infrastructure

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- Pension: up to 49%
- Power exchanges can be as high as 49 percent
- Petroleum Refining (By PSUs): up to 49%

Government Route FDI

If the route is through the government under the government route, foreign entities must have to get permission from government officials. The entity should submit an application via the Foreign Investment Facilitation Portal, which allows single-window clearance. The application is then sent to the appropriate department or ministry, which will then decide whether or not to approve the application after consulting in conjunction with DPIIT.

Examples:

- Broadcasting Content Services: 49%
- Public and Banking 20 percent
- Food Products Retail Trading: 100%
- Core Investment Company: 100%
- Multi-Brand Retail Trading: 51%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Print Media (publications/printing of scientific and technical magazines/speciality journals/periodicals and a facsimile edition of foreign newspapers): 100%
- Satellite (Establishment and operation) 100- 90 %
- Print Media (publishing of periodicals, newspaper as well as Indian versions of magazines from abroad that cover current events and news) 26 percent

Sectors in which FDI is not allowed

There are certain sectors in which any FDI is strictly forbidden. They include:

Plantation or Agricultural Activities (although there are different types of exceptions, such as horticulture and fisheries or tea plantations). Pisciculture and animal husbandry etc.)

- Atomic Energy Generation
- Nidhi Company
- Lotteries (online, private, government, etc.)
- Investment in Chit Funds
- Trading in TDR's
- Anything Gambling or Betting companies
- Cigarettes, cigarettes or any other tobacco industry
- Residential and commercial real estate (except commercial projects, townships and commercial projects, etc.)

FDI in INDIA

In the financial year 2020-21 India expects a growth rate of 10 percent (to $82 billion) in FDI. Equity investments from FDI increased 19%, reaching $60 billion.In the year 2019-20, India had received $74.39 billion of FDI, with more than $50 billion of it coming from equity investment.

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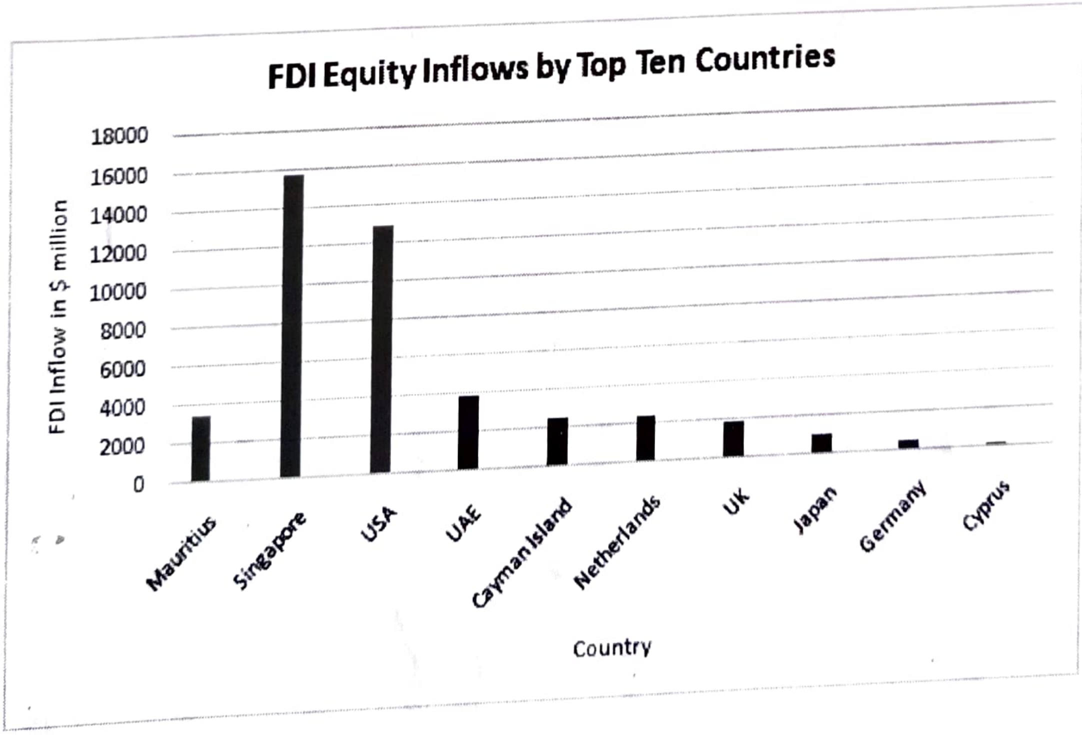
FDI Equity Inflows by Top ten Countries in India

(amount in $ millions)

Rank	Countries	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: Department for Promotion of Industries and Internal Trade



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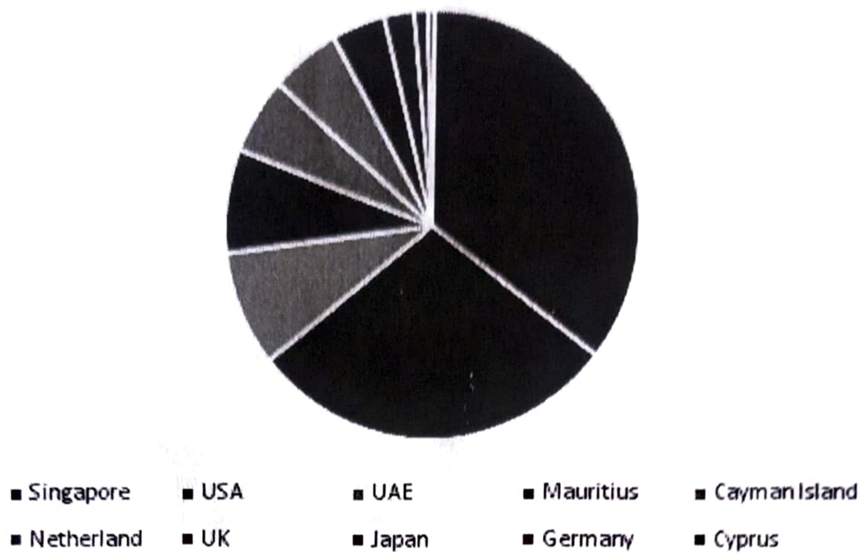
FDI Inflow by top ten Countries in $ million



- Singapore was ranked as the best investor, with nearly one third of all investments. It was following by US which contributed 23 percent of FDI and Mauritius where 9 percent of all capital flows to foreign countries originate.
- Most pronounced growth in Saudi Arabia:
- The fastest growth among the top 10 countries with FDI origins was observed in Saudi Arabia.
- Investments increased by $90 million from 2019-20, to $2.8 billion by 2020-22

FDI Equity

Equity flows of FDI from the US nearly doubled in the year, compared to the year 2019-20. Meanwhile, investments from the UK increased by 44%.

Top FDI Destinations: State- wise

Gujarat was the most popular FDI destination in 2020-21 with 37% of equity flows from abroad which was then followed by Maharashtra (2nd) which received 27% of equity inflows

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.

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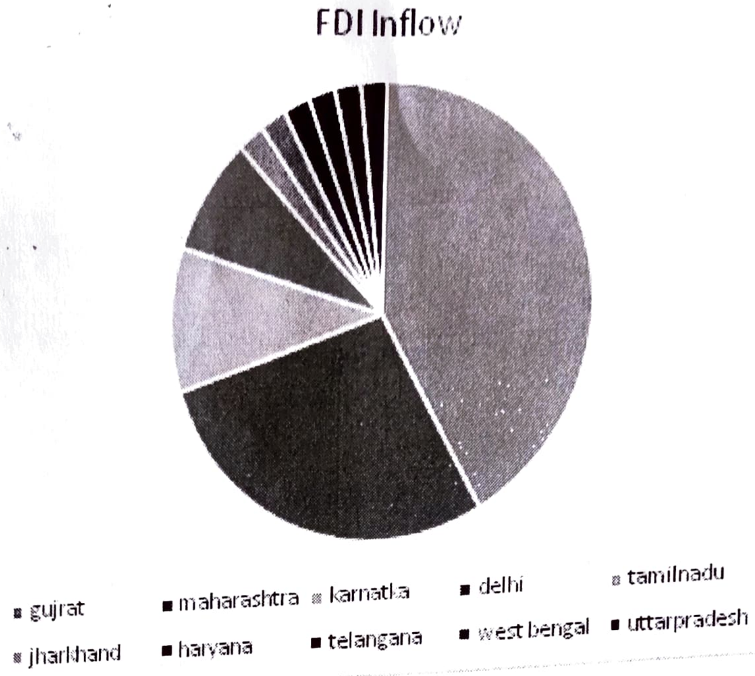

From the Figure , Gujarat has received highest FDI inflows of $21, 239 during this period of study, contributing 42% of total FDI equity inflows of top ten countries. The whole analysis of state wise breakup of FDI inflows makes it clear that there are three categories of states with respect to FDI receipt in India.

Front Runners: Gujarat, Maharashtra, Karnataka, Delhi, and Tamil Nadu.

Intermediate State: Jharkhand, Haryana, Telangana, West Bengal, Uttar Pradesh

Laggard Performers: Rajasthan, Andhra Pradesh, Madhya Pradesh, Kerala, Punjab.

Differenceinsize, location, reforminterests, 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.

Sector-wise FDI Equity Inflows

Computer software and Hardware attracted the largest FDI of $ 24385 million followed by Construction (Infrastructure activity) ($ 7149 million), service sector ($ 3857 million), and Trading ($ 2141 million). Computer Hardware and Software were increased by 217% due to lockdown, all the Indians were dependent on computer hardware and software for their entertainment.

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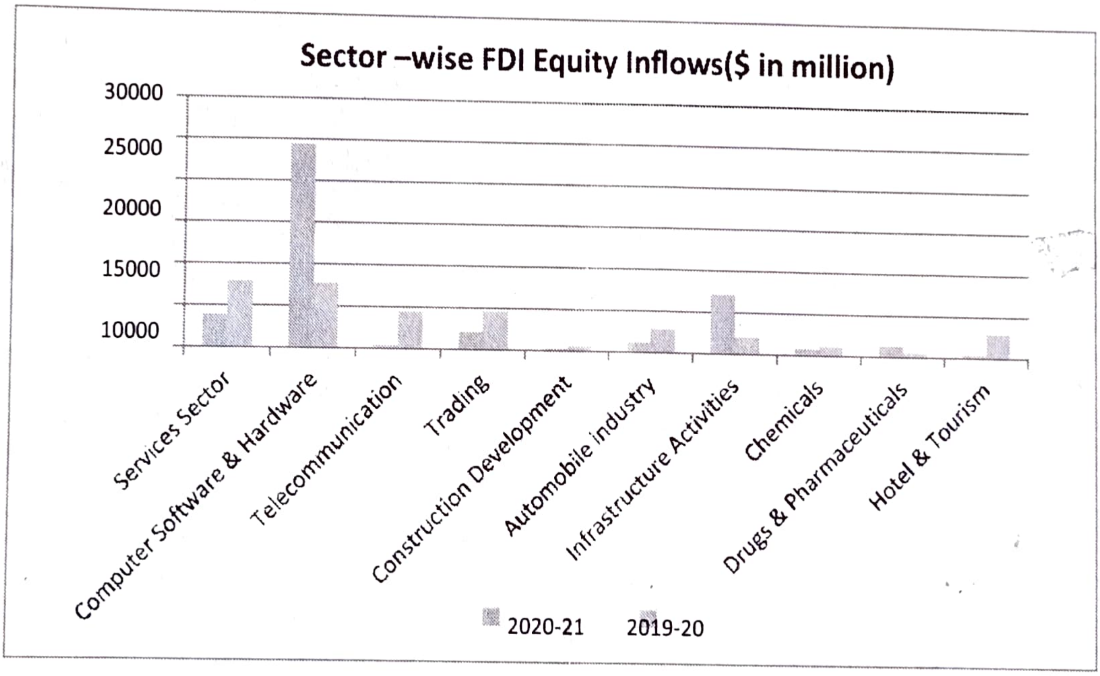
Sector –wise FDI Equity Inflows

(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



Source: https://dipp.nic.com

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Top Sectors:

- Hardware and software for computers has become the leading industry in 2020-21, with a 44% of total equity FDI inflow.
- This is then followed by building (infrastructure) actions (13 percent) and the services sector (8 percent) respectively.

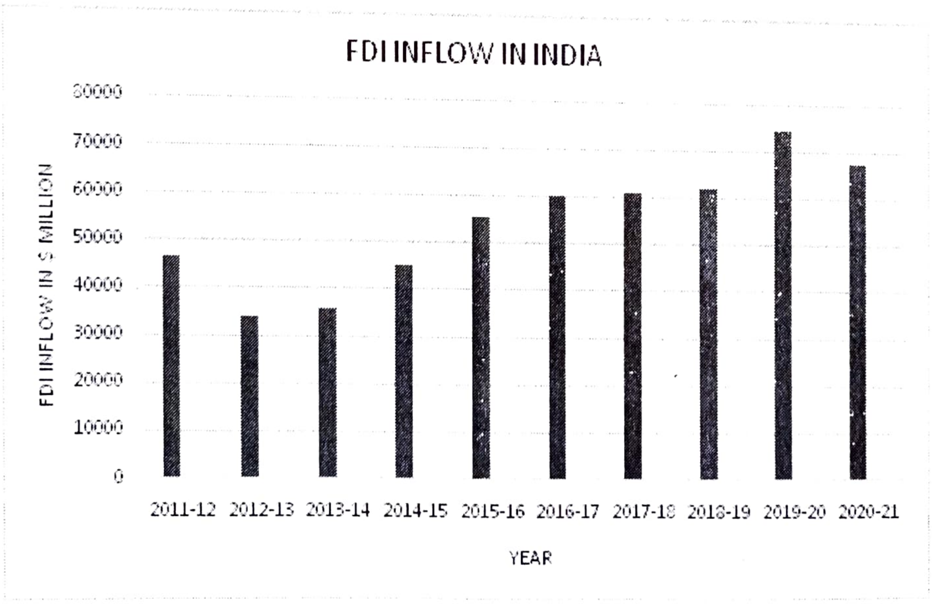
Impact of Covid-19 on Foreign Direct Investment (FDI) in India: Recent Developments

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

Year	FDI Inflows (amount in $ million)	Annual Growth rate of FDI inflows (%)
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 Corona 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



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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.

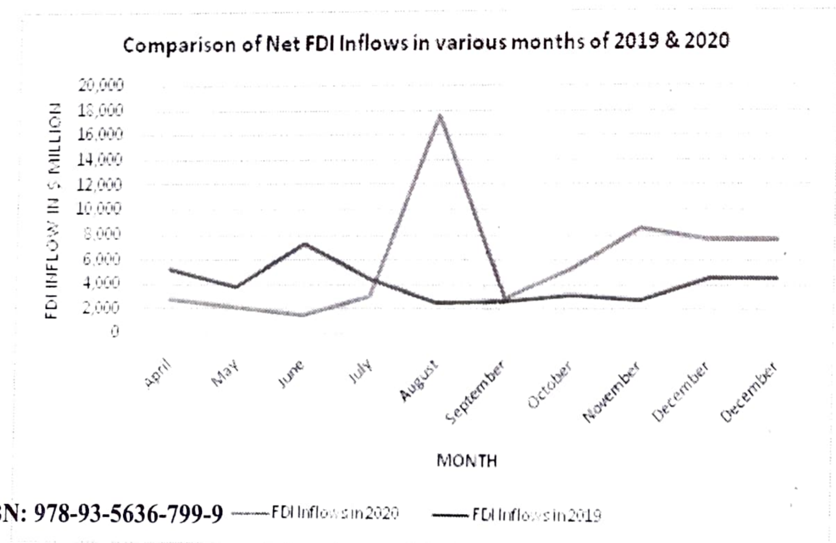
Experts agree with the UNCTD conclusion that India was able to stay free of the falling FDI trends that are seen globally. "India stood out from the general trend of a slowing in investment growth in the year 2020. The FDI sector grew significantly even as global FDI declined in the wake of the outbreak. The Deloitte India's most recent studies suggests that investors still see India as a desirable location to invest FDI.

In a new report, Deloitte has found that the India remains a popular location for investment with a highly high-quality workforce and potential for expansion. The survey that was conducted for Indian's FDI Opportunity report spoke to more than 1,200 leaders from multinational companies in India, the US, UK, Japan and Singapore.The report showed that, although there was a significant cross-over in business, more leaders, particularly in Japan made investments in India in order to gain access to the Indian market instead of making use of India as a platform for exports.

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



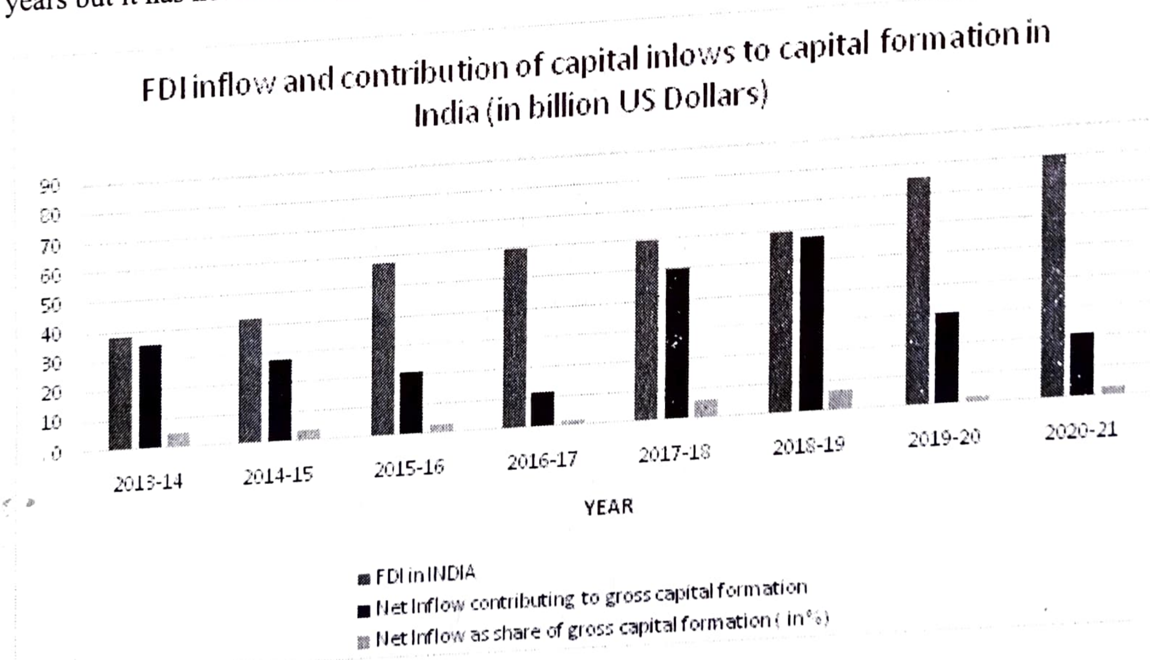
FDI inflow saw a gradual decline from the outset of pandemic in April which continued till June. The above given figuré shows that monthly trends of net FDI inflows fell by 60%during April-June 2020 compared to the same quarter of previous year. Second quarter of 2020 saw a deep increase in FDI mainly because of $ 10 billion investment by Google. FDI inflows increased during October-December 2020compared to the same quarter of last year only due to measures taken by Indian Governmenton the fronts of FDI policy reforms, investment facilities and ease of doing business.

India FDI Inflow rises but fails to aid Capital Formation

YEAR	FDI in INDIA (billion US $)	Net Inflow contributing to gross capital formation	Net Inflow as share of gross capital formation (in %)
			4.9
2013-14	38	35	3.7
2014-15	42	28	3.2
2015-16	58	21	2.0
2016-17	60	12	5.9
2017-18	60	50	6.5
2018-19	60	58	2.6
2019-20	75	30	3.1
2020-21	80	21	

Source: Central Statistics Office, Reserve Bank Of India, Deloitte

The Table shows that though amount of FDI in India (in billions) has increased during pandemic years but it has not added much to gross capital formation in the country



Source: Central Statistics Office, Reserve Bank Of India, Deloitte

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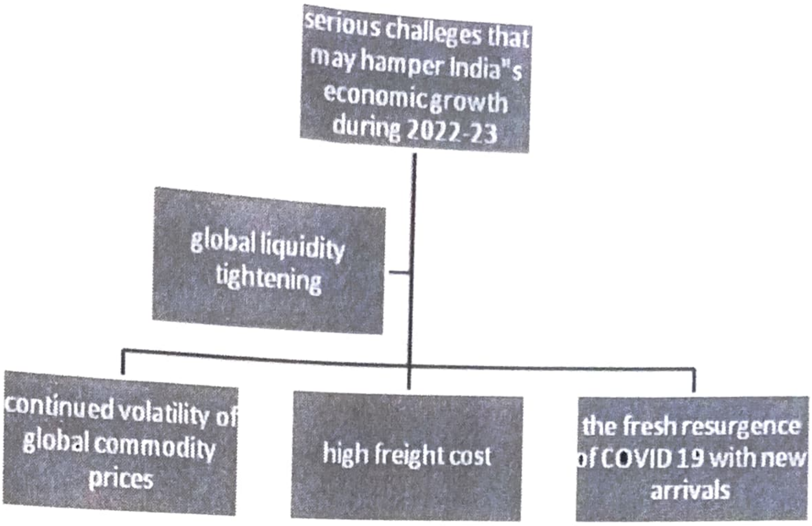
Challenges for Indian Economy:



Source: Economic survey (2021-22)

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.

India's self-reliance scheme (Atmanirbhar Bharat) has attracted investments fromplayerssuchasFoxconntosetupmanufacturingplantsinthecountry.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 (Union Bank of Switzerland). Also India's goal of becoming a $5 Trillion economy by 2025 will surely boost the investments in coming years.

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