



## SCENARIO OF FOREIGN DIRECT INVESTMENT IN INDIA DURING COVID-19

Dr Iqbal Sayeed

Associate Professor, Dept. of Commerce, Zakir Husain Delhi (eve) College, Delhi, India

### ABSTRACT

DOI No: 10.36713/epra12462

Article DOI: <https://doi.org/10.36713/epra12462>

*Foreign Direct Investment (FDI) is cited as one of the most strategic tools for a developing economy as it brings in market discipline by increasing competition. In addition, there is a growing demand for products and services that are available across the world. Due to India's increasing working population with higher purchasing power there is an increasing demand for products and services that are best in class.*

*The covid-19 pandemic has set the international financial system into a downturn which means the global economy has begun shrinking whereas India has no exemption. Nowadays India has emerged as one of the most preferred destination for FDI. The covid-19 pandemic has put international investor confidence in India to the test.*

*The basic aim of the study is to examine the effect of Covid-19 in Foreign Direct Investment in India. The trends of FDI inflows have been monitored to compare pre and post Covid-19 period. The results reveal in 2020 has worst effect, while after that, due the revised FDI policy and India's internal capability to attract international investors, increase in FDI inflows have been observed. FDI is considered as a positive factor of the economic expansion could play a key part in assisting the economy in the time of crisis.*

**KEYWORDS:** *Foreign Direct Investment, Covid-19 pandemic*

### INTRODUCTION

Foreign Direct Investment (FDI) investments are occupying long-term relationships and revealing lasting interests and control by resident entities are one economy in enterprise residents in an economy other than that of the foreign direct investors. The relationship between FDI and economic development is a complex and multifaceted one, encompassing such as aspects as trade, domestic savings, consumption patterns, finance, technology, ownership of productive assets, balance of payments between domestic and foreign investors, strategic and development policies at the sectoral level, and sustainability of the development process.

India did noticeably liberal rules administering FDI in the years since 2000s, additionally reducing FDI caps in individual companies and giving more liberty for foreign investor. COVID-19 very much effected the amount of FDI inflows. However the strong pliability by Indian government manifested in vital policy reform and practical decision making diminished the effect. This resulting extension of cheap liquidities triggered supply side pushes of capital to emerging nations. India was "successful" in to the extent that it was amongst those nations selected as favoured destination by the asset managers who directed these fund to new investment location. FDI could play a significant part in assisting nations during and after the Covid-19 crisis via financial assistance to their associates, helping

government in identifying the pandemic, and via connections with local companies.

### **OBJECTIVE OF THE STUDY**

- To study the current trends of FDI inflows in India
- To examine the effect of Covid-19 pandemic in the inflows of Foreign Direct Investment in India
- To analyze the key issues and challenges faced by FDI in India

### **LITERATURE REVIEW**

Sivakumar and Moses (2016) illustrated that on the unorganized sector, the traditional players are said to get affected on account of opening of FDI in multi brand retail. Whereas those same kinds of retailers are surviving in US, France, etc. These players who are having close relationship with the customers and know their demand need to enhance the modern trend in retail in order to survive.

Bhattacharyya (2012), revealed that there was a long term relationship between FDI, merchandise, service trade and economic growth of India. Bi-directional causality is observed between merchandise trade and economic growth, services trade and economic growth.

Jaswal et al. (2022) found out the effect of expected FDI inflows on macro economic factors. The finding indicates a project raise of 5.68% in GDP. The industrial outputs of sector such as metal, infrastructure, machines and equipments, automotive and IT are supposed to receive a big increase relation to others. Despite making conducive environment for foreign investor, the government should fine-tune its trades and R&D policy.

Parupudi et al (2022) illustrated that in India, FDI inflow is an important factor of the confidence investors have in its financial system. The basic aim of the research paper is to access the effect of COVID-19 on FDI inflow into India from foreign countries. The changes in exchange rates and foreign reserves have a statistically vital effect on high FDI inflows, whereas change in IIP does not. The projected values were then compared to the actual FDI growth, during the pandemic.

Komal Yadav (2022) carried out a study to analyze the effect of the decline of the inflows of remittance, FDI, during the Covid-19, nations such as India. Whereas protracted lockdown has already taken a toll on the lower and middle class economies, the sharp turn down of remittances, foreign investments have pushed the countries further in crisis. In spite of the

severe economic crisis coming out large over the Himalayan nation, the entire country has been held hostage by the power struggle in the ruling parties, undermining government capacities to manage the financial crisis, when it must be targeted in making cooperative attempts to identify the financial downturn via the execution of needed restraint policies and strategic reopening of the financial system.

### **INFLOWS OF FOREIGN DIRECT INVESTMENT DURING COVID-19 PANDEMIC IN INDIA IN COMPARISON WITH OTHER COUNTRIES**

FDI inflows to India dropped 26% in 2021, in comparison with 2020, because of the lack of huge contracts in the pipeline. FDI inflows to India in 2021 grew 77% to attain \$1.65 trillion. The uptick inflow was largely because the lack of big deals in the pipeline in the year 2020.

In spite of the uptick in investment inflows to emerging countries, various sectors like energy and foods remain under developed. The total FDIs in the developed nations grow to a projected \$777 billion in 2021 and the maximum since 2011. In EU countries, the uptick inflows were mostly because of the large swing in economies. In United States, the rise was attributed to the uptick in cross border acquisition.

In developing nations, the total FDI inflows raised by 30% to attain US\$870 billion in the year 2021. The development was chiefly driven by recoveries in East and South East Asia and an enhancement in West Asia. In South Africa, the total number of FDI got raised by more than 200% to attain \$6.3 billion in 2021. Emerging nations, conversely, saw slow expansion because of the lack of adequate infrastructure investment. China got a record amount of FDI in 2021, with a 20% raise.

Total FDI into India rose 2% to the "highest ever" US\$83.57 billion in 2021-22 because of different measures such as policy reform and ease of doing businesses taken by the government. The government also informed that FDI equity inflows in manufacturing industries has raised by 76% in 2021 (US\$21.35 billion) in comparison with 2020 (US\$12.09 billion). Foreign investment equity inflow stood at US\$58.77 billion in 2021 against US\$59.64 billion in 2020. FDIs in India has risen by 23% post-Covid among 2020 to 2022, which saw inflows of US\$171.84 billion in comparison FDI inflows of US\$141.10 billion in the time of pre Covid-19 period of Feb 2018 to Feb 2020.

In spite of the effects of the COVID-19 pandemic, the total FDI inflows into India attained US\$59 billion in

2022. FDI is a vital factor of a nation's economy since they increase the employment market, technical knowledge foundation and give non-debt financial resource.

Year	FDI inflows	Growth (In Percentage)
2011-12	46.5	34
2012-13	34	-26
2013-14	36	5
2014-15	45	25
2015-16	55.5	23
2016-17	60	8
2017-18	61	1
2018-19	62	2
2019-2020	74	20
2020-21	82	10
2021-22	83.5	2

#### Highest FDIs in different sectors

Sectors	Inflows (Rs. Crores)	Percentage of total inflows
Services	5,00,506	16
Information technology	4,57,475	13
Telecommunications	2,21,815	7
Trading	1,91,946	6
Infrastructure development	1,25,990	5
Automobile	1,52,552	5
Construction activities	1,61,336	5
Chemical	1,04,066	4
Pharmaceutical	97,048	3
Tourism and hotel	94,225	3

#### Indian states attracting highest FDIs

States	FDI Inflows	Total (In Percentage)
Gujarat	1,77,053	32
Maharashtra	1,53,350	28
Karnataka	78,151	14
Delhi	59,830	11
Tamil Nadu	19,735	4
Jharkhand	19,200	3
Haryana	13,660	2
Telungana	11,332	2
West Bengal	4,310	1
Uttar Pradesh	4,102	1

#### WAY FORWARD

India has newly become an important international focal point for Foreign Direct Investment. India was amongst the top three international FDI destinations; around 80 percent of the international investors had intention to spend in India. In addition, India has given huge corporate tax rebates and easy labour law. The nation has also reduced its restriction on FDI; overall FDI restriction has decreased from 0.42 to 0.21 in the last 17 years. India has remained a smart market for global clients in terms of short and long term outlook.

India's low skill production is one of the key promising industries for FDI. India has also expanded excellent government efficiencies. Its development in government effectiveness are mainly because of comparatively consistent public finance (in spite of COVID-19 induced issues) and positive response amongst Indian businessmen considering the funding and subsidy provided by the government to private companies. These factors together might support India attract FDI worth US\$120-160 billion per year by 2025.

## CONCLUSION AND SUGGESTIONS

The Indian government has attributed the high inflows to the measure taken in the past several years. The government reviews the FDI policies on a continuing basis and makes important changes infrequently, to make sure that India remain good-looking and investor-friendly destinations, moreover that the government has set up broadminded and transparent policies for FDIs, wherein most of the industries are open to FDIs under the automatic routes.

To sum up, COVID-19 harm has had multifaceted impact on FDI inflows. It is compatible with the past studies on the complex association based on replacement among trade and FDIs on one hand and complementarity on the other.

Indian Government could consider establishing pre-filing consultation mechanisms, like the CCI, to ease early purpose of approval requirements and reduce its administrative trouble. It could also consider undertaking fast track reviews of FDI application in most industries barring addressed sectors of countrywide significance like critical infrastructures, banks, pharmaceutical and telecommunication.

## REFERENCES

1. Shishir Gupta, *India reported highest FDI inflow worth \$83 billion in 2021-2022*, Hindustan Times, May 20, 2022
2. Isha Jaswal, *How to sustain the post-Covid surge in FDI inflows*, The Hindu Businessline, May 22, 2022
3. <https://www.thehindubusinessline.com/opinion/how-to-sustain-the-post-covid-surge-in-fdi-inflows/article65423396.ece>
4. Sivakumar M & L. Joshua Paul Moses (2016) *Impact Of FDI With Reference To Indian Retail Sector*, International Conference on "Innovative Management Practices" IJARIE, Vol-1 Issue-1 2016
5. Parupudi V.S Raghu Ram Kishore , Swati and Bhimarasetty Charish, *IMPACT OF COVID-19 ON FDI INFLOWS INTO INDIA*, International Journal of Advanced Research, 2022
6. Komal Yadav, *COVID-19 Outbreak and FDI Inflows in India: A Sector-Wise Analytical Study*, International Journal of Advance Research in Computer Science and Management Studies, Volume 10, Issue 3, March 2022
7. Bhattarai K., & Negi V. (2020). *FDI and economic performance of firms in India*. *Studies in microeconomics*
8. <https://www.rediff.com/business/report/fdi-inflow-hits-all-time-high-of-8357-bn-in-2021-22/20220520.htm>
9. Manoj Sharma (2021), <https://www.businesstoday.in/latest/economy-politics/story/gujarat-receives-highest-fdi-in-fy21-maharashtra-ranks-second-297079-2021-05-26>
10. Rajat Sethi and Tanya , *India: Impact Of COVID-19 On FDI Regimes*, Mondaq, 16 June 2021
11. <https://www.ibef.org/economy/foreign-direct-investment#:~:text=The%20total%20FDI%20inflow%20into,period%20was%20US%24%2015.59%20billion.>
12. <https://swarajyamag.com/business/india-beats-covid-19-challenges-ukraine-conflict-to-post-highest-fdi-inflow-of-8357-billion-in-fy22>
13. <https://www.statista.com/statistics/715539/india-fdi-inflow-amount-for-all-sectors/>