

Pre-Covid and Post-Covid: Indian Scenario Trends in FDI; Way forward

Bhavana Rai*, Dr D C Pant**

Abstract

FDI has been an important monetary source for India's economic development. Economic liberalization started in India in the wake of the 1991 crisis and since then, FDI has steadily increased in the country. India today is a part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the Greenfield FDI ranking. Foreign Direct Investment had played very significant role in supporting economies in post pandemic. Evidence from past crises has shown that foreign-owned affiliates and companies have shown greater resilience at Covid times. FDI could be particularly important for emerging and developing economies for creating more jobs opportunities and helping in improving infrastructure in the developing countries. It also helps in raising living standards in emerging economies and creating competitive global capital allocation.

The present Research study strives to analyze the inflow of FDI in pre and post Covid era. The analysis covers the trend and pattern of FDI inflow in pre and post Covid era with special focus towards Countries, sectors and states. The study is based on secondary data research. Foreign Direct Investment inflows have seen a gradual decline from the outset of pandemic in 2019-20. FDI saw a contraction of 20 % in the first quarter financial year during the Pre- Covid era (2019-20). The pandemic had impacted our economy, trade and businesses severely, which may have an adverse impact on long-term growth prospects. The impact has been felt in the FDI sector where there has been a decline. Investments have declined worldwide, due to disruptions in global value chains (GVCs), decline in revenues of businesses, and inadequate financing.

Key words : Pre- Covid and Post-Covid, FDI, FDI Equity, FDI Trend, major Findings, Importance Tremendous growth, Top Five sectors and countries.

Introduction

Foreign Direct Investment (FDI) has been a major non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges like tax exemptions, etc. The Indian Government's favorable policy regime and robust business environment has ensured that foreign capital keeps flowing into the country. The Government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. FDI is an important component of macro-economic indicators.

The recent COVID-19 pandemic has triggered unparalleled economic crisis and global health catastrophe posing dire challenges to government authorities. Besides its worrying effects on human life, the pandemic has also impacted the global economy due to disruption in production, global supply chain, and trade. Accordingly, Foreign direct investment has also been cut, not only by the interruption in maintaining production and construction but also by sharply weaker growth prospects, rising financing costs, eroding confidence, and increased uncertainty in the market.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflow in India stood at US\$ 560.78 billion between April 2000 and September 2021, indicating that the government's efforts to improve ease of doing business and relaxing FDI norms have yielded results. Total FDI into India between July-September 2021 stood at US\$ 19.77 billion, while the FDI equity inflow for the same period stood at US\$ 13.58 billion. Data between April-September 2021 indicates that the computer software and hardware industry attracted the highest FDI equity inflow of US\$ 7.12 billion, followed by the automobile sector at US\$ 4.93 billion, services sector at US\$ 3.15 billion, trading sector at US\$ 2 billion, metallurgical industries at US\$ 1.3 billion, and construction activities at US\$ 1.22 billion.

* Research Scholar, Department of Economics, M.B.Govt.P.G.College Haldwani

** Professor and Principal, Government P G College, Gairsain

Between April-September 2021, India recorded the highest FDI equity inflow from Singapore (US\$ 8 billion), followed by the US (US\$ 4.63 billion), Mauritius (US\$ 4.33 billion), the Cayman Islands (US\$ 2.15 billion), Netherlands (US\$ 2.14 billion), the UK (US\$ 1.15 billion) and Japan (US\$ 804 million). In the same period, Karnataka registered the highest FDI equity inflow of US\$ 13.95 billion, followed by Maharashtra (US\$ 6.5 billion), Delhi (US\$ 5 billion), Gujarat (US\$ 1.5 billion), Tamil Nadu (US\$ 1.13 billion) and Telangana (US\$ 1.04 billion). During Q2 FY22, foreign owned assets in India increased by US\$ 37.3 billion to US\$ 927.1 billion, up from US\$ 895.2 billion in Q1 FY22.

India has attracted US \$ 763.6 billion from 2000 to March 2021. In the recent years, FDI investment has increased from US \$-56 billion in 2015 to USD \$ 82 billion in 2021. However, the pandemic affected trade and investment worldwide. Despite the difficult scenario, India has been able to attract US\$ 75 billion in 2019-20, US\$ 82 billion in 2020-21 and US \$ 61 Billion, this calls for further analysis. Picking up on these lines, an analysis has been conducted to know the trend in the pre(2019-20) and post Covid (2020-21-2022) era for the years; 2019-20, 2020-21, 2021-22.

Objective of the Study

Broadly, The main aim of the study is to know the impact of Covid on FDI inflow in pre and post Covid era and try to find out the reasons behind that by comparing the trends on temporal basis. Therefore, the objective of the study is as follows:-

1. To analyze the trend of FDI flow in Pre and Post Covid Era
2. To identify Top ten investing countries in Pre Covid era and Post Covid era.
3. To identify the Top ten Sectors and States' in Pre and Post Covid era
4. To highlight the reason for attracting highest FDI inflow in Pre and Post covid era

Methodology

The research study is temporal, spatial and exploratory research. The research is based on secondary data. We have made an attempt to analyze the trend of FDI inflow in Pre and Post covid era. The study is based on trend analysis of Top ten investing countries, States and sectors in Pre and Post Covid era from 2019 onwards till 2022. The study is based on secondary data research. The source of secondary data research is factsheet of Department for Promotion of Industry and Trade (DPIIT)

Table- 1 (Share of Top investing Country (USD Million))

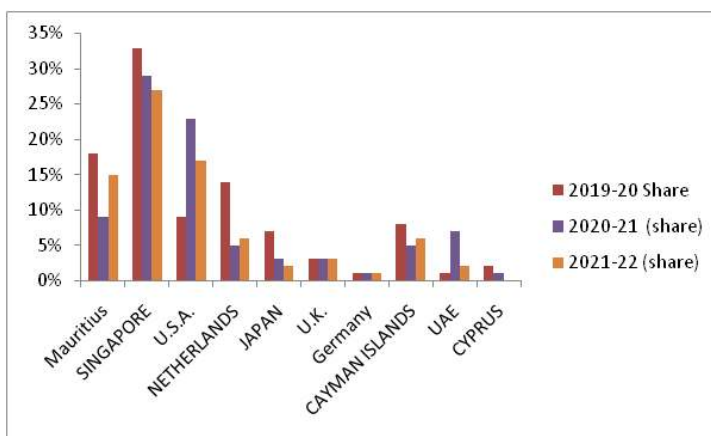
S. No	Country	2019-20		2020-21		2021-22	
		Absolute	Share	Absolute	(share)	Absolute	(share)
1	Mauritius	8241	18%	5639	9%	6,580	15%
2	SINGAPORE	14671	33%	17419	29%	11,689	27%
3	U.S.A.	4223	9%	13823	23%	7,523	17%
4	NETHERLANDS	6500	14%	2789	5%	2,661	6%
5	JAPAN	3226	7%	1950	3%	917.24	2%
6	U.K.	1422	3%	2043	3%	1,441	3%
7	Germany	488	1%	667	1%	581.65	1%
8	CAYMAN ISLANDS	3702	8%	2799	5%	2,742	6%
9	UAE	339	1%	4203	7%	843.49	2%
10	CYPRUS	879	2%	386	1%	139.87	0%
	Total FDI Equity inflows from all Countries	44977		59636		43,174	

Source:-compiled from various sources of DPIIT

Table -1 shows the share of top investing countries from 2019 onwards. It is evident from the above table that, Singapore remain the top investing country in the pre and post Covid era. Singapore holds the share of 27 % in total FDI inflows in India 2021-22, owing to steady increase in commercial and business partnerships

through multiple treaties and agreements and increasing bilateral trade over the years. USA share has increased in the post Covid era. Mauritius share was 18% in pre Covid era but it declined in post Covid era to 9 % and again it bounced back in post covid era. Netherlands share was 14% in the pre-covid era but could not continue the increasing trend in the post covid era which is evident from the table and the share decline subsequently in the post covid era. The same trend is being observed in 2020-21 when Singapore stood out as India's top investor, accounting for a 29 percent share in the total FDI received by India. Singapore is also India's largest Asian trading partner, with its exports valued at approximately US\$9 billion in FY2020-21.

Graph 1 (Share of Top investing Country (USD Million))



Source: compiled from various sources, of DPIIT

Graph 1 shows that Singapore has been the top investing country over the years. In recent years, especially from 2019 onwards, Indian companies are also interested to invest in Singapore due to the country's enabling investment environment, advanced infrastructural set-up, and its location in Southeast Asia, acts as a launchpad to access markets in Philippines, Malaysia, Indonesia etc. Moreover, relatively integrated markets, greater ease of doing business, and the high-tech opportunities present in the region are some of the other factors that add to Singapore's appeal among Indian investors.

Table-2 Top ten states attracting Highest FDI (USD Million)

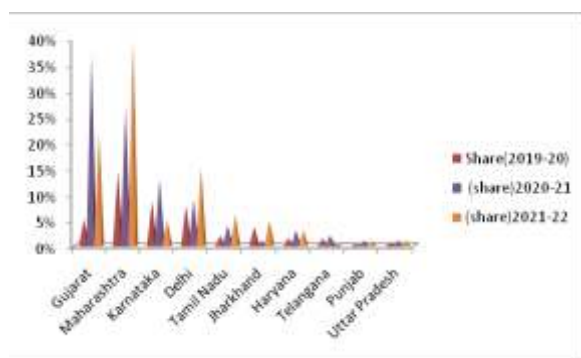
S. No	States	2019-20*	Share	2020-21	(share)	2021-22	(share)
		Absolute		Absolute		Absolute	
1	Gujarat	2,591	5.2%	21,890	37%	9,693	22%
2	Maharashtra	7,263	14.5%	16,170	27%	17,255	40%
3	Karnataka	4,289	8.6%	7,670	13%	2,058	5%
4	Delhi	3,973	7.9%	5,471	9%	6,396	15%
5	Tamil Nadu	1,006	2.0%	2,323	4%	2,378	6%
6	Jharkhand	1,852	3.7%	792	1%	2026	5%
7	Haryana	726	1.5%	1,697	3%	1,289	3%
8	Telangana	680	1.4%	1,155	2%	0.42	0%
9	Punjab	97	0.2%	644	1%	504	1%
10	Uttar Pradesh	243	0.5%	422	1%	316	1%
	Total FDI inflow	49,977		59,636		43,174	

*Year 2019-20 data pertains to October to March

Source:- compiled from various sources, DPIIT

The above table shows the top ten states in attracting highest FDI inflows, 2019 onwards. It is evident from the above table that, Maharashtra holds the top position in attracting FDI inflows, having share of 40% in 2021-22 which was 27% in 2020-21 and 14.5% in 2019-20. The increase in percentage share shows that Maharashtra has been able to attract highest FDI due to its strong infrastructure and it has a good presence of industrial clusters, especially automobile, IT & ITeS, chemicals, textiles and food processing clusters. Many lucrative investment opportunities are available in Maharashtra along with, sector specific opportunities offered in these sectors.

Graph -2 Top ten states attracting Highest FDI (USD Million)



Source:- compiled from various sources, DPIIT

Despite the impact of Covid-19, year 2020 saw that India had attracted its highest ever inflow of FDI, valued at \$64bn (Rs475.9bn), according to data from the United Nations Conference on Trade and Development (UNCTAD). Maharashtra has been also affected by the economic blow of the pandemic in certain sectors. The tourism industries, which like all parts of India have been devastated in 2020, the state's automotive sector has also been dealt an enormous battering, with global and national demand failing to recover like other sectors. But in pre-Covid era, Maharashtra was one of India's tourism hotspots, offering a wide variety of caves, mountains, monuments and other historic sites – plus all the glories of Mumbai.

It has been observed that over the years, the Indian government has poured huge amount of money and policy into the industrial sector and has provided a welcoming business environment to multinationals. Henceforth, attracting FDI is a key part of India's overall growth strategy, which is one of the main reasons why Maharashtra is at Top position in attracting FDI. The other states which have been able to attract FDI next to Maharashtra is Gujarat with the maximum share of 37% in 2021-22 followed by Delhi and Karnataka due to government favorable policy in FDI

Table- 3 Sectors Attracting Highest FDI inflows(USD million)

Rank	Sector	year(2019-20)	Share	Year(2020-21)	Share	Year(2021-22)	Share
1	SERVICES SECTOR **	7,854	16%	5,060	8%	5,349	12%
2	COMPUTER SOFTWARE & HARDWARE	7,673	15%	26,145	44%	10,252	24%
3	TELECOMMUNICATIONS	4,445	9%	392	1%	587.45	1%
4	TRADING	4,574	9%	2,608	4%	2,989	7%
5	AUTOMOBILE INDUSTRY	2,824	6%	1,637	3%	5,962	14%
6	CONSTRUCTION Infrastructure	2,042	4%	7,875	13%	1,588	4%
7	CONSTRUCTION DEVELOPMENT	617	1%	422	1%	90.13	0%
8	DRUGS & PHARMACEUTICALS	518	1%	1,490	2%	1206.29	3%
9	CHEMICALS (OTHER THAN Fertilizer)	1,058	2%	847	1%	605.14	1%
10	HOTEL & TOURISM	2,938	6%	369	1%	642.58	1%
	Total FDI inflow	49,977		59,636		43,174	

Source:- compiled from various sources, DPIIT

Table -3 shows the sectors attracting highest FDI inflows. It is evident from the above table that Computer hardware and software were among the top industry attracting highest FDI in India. The FDI inflow was around 44% in computer hardware and software. This rapid increase in foreign investment can be attributed to several factors, including faster digitalization, increased use of artificial intelligence (AI) to

overcome technological restrictions, and more regulatory focus on manufacturing in India. In addition, the recently introduced production-linked incentive (PLI) scheme has also accelerated the trend.

Construction (infrastructure) activities received 13% of FDI equity inflow in post covid era(FY2021), while the services industry received 8%. On the other hand, rubber products, retail, drugs and pharmaceuticals, cars, and electrical equipment were among the promising sectors that saw an increase in equity inflow of more than 100% in during the Post Covid era (FY2021).

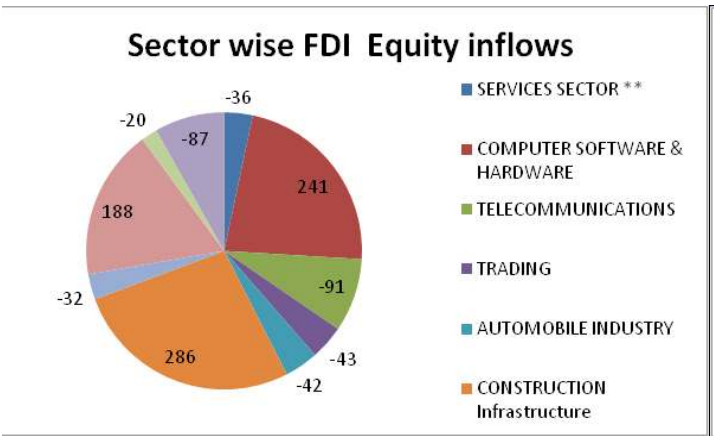
Table-4 (Sector –wise FDI Equity Inflows (YOY) in USD million)

Rank	Sector	year(2019-20)	Year(2020-21)	YOY(%)	Year(2021-22)
1	SERVICES SECTOR **	7,854	5,060	-35.57	5,349
2	COMPUTER SOFTWARE & HARDWARE	7,673	26,145	240.74	10,252
3	TELECOMMUNICATIONS	4,445	392	-91.18	587.45
4	TRADING	4,574	2,608	-42.98	2,989
5	AUTOMOBILE INDUSTRY	2,824	1,637	-42.03	5,962
6	CONSTRUCTION Infrastructure	2,042	7,875	285.65	1,588
7	CONSTRUCTION DEVELOPMENT	617	422	-31.60	90.13
8	DRUGS & PHARMACEUTICALS	518	1,490	187.64	1206.29
9	CHEMICALS (OTHER THAN Fertilizer)	1,058	847	-19.94	605.14
10	HOTEL & TOURISM	2,938	369	-87.44	642.58

Source:- compiled from various sources, DPIIT

Table -4 shows the sector wise yearly growth.Computer software & hardware attracted the highest FDI of US\$ 26,145 million during the Covid era 2020-21, followed by Construction (Infrastructure activity) at US\$ 7,875 million and Services sector at US\$ (5,060million), and Trading at (US\$2,608million) during the pandemic time. FDI in Computer software and hardware sector has increased by 240% during the Covid era due to growing technology space in India significantly on the back of the rapid end-to-end digitization of businesses, and lockdowns over the last year, which had forced businesses to automate processes across the value chain - and this is likely to further accelerate in the coming years.

Graph-4(Sector wise FDI Equity inflows) in USD million)



Source:- compiled from various sources, DPIIT

Graph 4 shows that, the Construction &Infrastructure sector has seen the highest FDI growth rate of around 300% in the year during the Covid Era(2020-21).Telecommunication sector which received the largest amount of FDI during the Pre Covid era (2019-20) was the worst hit and registered a 91% decline in total inflows during the Pandemic(2020-21). Other sectors, like pharmaceuticals and tourism, also witnessed huge contractionsduring the Covid era

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. The Government started up with a freethinking policy on FDI, under which FDI, up to 100%, was permitted, under the automatic route, in most sectors/activities

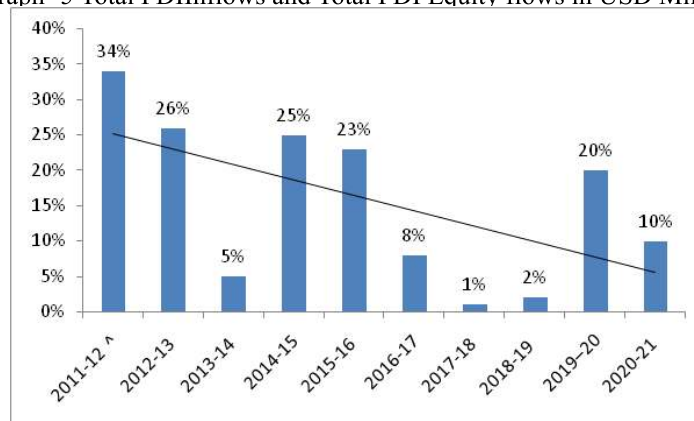
Table-5 Total FDI Inflows and Total FDI Equity flows in USD Million

SL NO	Year	Total FDI inflows	YOY	Total FDI Equity flows	YOY
1	2011-12 ^	46,556	34%	35,121	64%
2	2012-13	34,298	26%	22,423	36%
3	2013-14	36,046	5%	24,299	8%
4	2014-15	45,148	25%	29,737	22%
5	2015-16	55,559	23%	40,001	35%
6	2016-17	60,220	8%	43,478	9%
7	2017-18	60,974	1%	44,857	3%
8	2018-19	62,001	2%	44,366	1%
9	74,391	20%	49,977	13%
10	2020-21	81,973	10%	59,636	19%
11	2021-22 (up to December, 2021)	60,339	-	43,175	-

Source:- compiled from various sources, DPIIT

The above table shows the total FDI inflows and the yearly trend of FDI inflows from financial year 2012 till financial year 2021-22. The FDI inflows was highest during 2015-16 amounting to USD 55559 million leading to annual growth of 23% mainly due larger FDI inflows, the Government also brought FDI related reforms and liberalization of the various sectors / areas of the economy during the year 2015. The FDI investment in pandemic times has decreased to 9.21% in the year 2020-21. 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. The total average annual growth rate of FDI inflows during the last ten years is 15 % while the total average annual growth rate was 23%.

Graph -5 Total FDI Inflows and Total FDI Equity flows in USD Million



Source:- compiled from various sources, DPIIT

The above graph shows the fluctuating trend of total FDI inflows from 2011-12 onwards. In 2011-12 the growth rate was 34%, which was the highest during the last ten years. While in 2015-16 it was 23% and lowest growth rate was 1% in 2017-18.

Major Findings

1. Foreign Direct Investment inflows have seen a gradual decline from the outset of pandemic in 2019-20. FDI saw a contraction of 20 % in the first quarter financial year during the Pre Covid era (2019-20).
2. Singapore has invested highest amount of FDI and has emerged as largest contributor, followed by USA in 2019-20 in pre covid era.
3. Singapore has emerged as the top investing country in 2019-20(Pre Covid era and remained the top investing country during the Covid and post Covid era with slight variation in the percentage share.
4. Within India, Maharashtra holds the top position in attracting FDI inflow having the share of 40% in 2021-22 in post Covid era which was 27% in 2020-21(during post covid era) and 14.5% in 2019-20 (Pre Covid era).
5. Within the industry, Computer software & hardware attracted the highest FDI of US\$ 26,145 million in 2020-21, followed by Construction (Infrastructure activity) at US\$ 7,875 million and Services sector at US\$ (5,060million), and Trading at (US\$2,608million), during the pandemic time.

The Way forward

- The government should ease FDI norms in different sectors such as defense production, Medical equipment and other Research activities.
- There should be more greenfield investment and announcements of green field in developing countries to recover from post pandemic.
- Another major suggestion is that MNE affiliates should invest more in the host(India) economy in the coming years as investment policy environment is quite conducive for foreign investors.
- The key sectors which had attracted the maximum FDI such as computer software and hardware, telecommunications, trading, construction development, automobile, chemicals, and pharmaceuticals should be given greater attention and the government's policy should focus on these sectors.
- There is a need for making the business environment, friendlier. Government needs to carry out reforms to create a conducive business environment, such that entrepreneurs and SMEs are induced to make higher investments. Reforms are needed to simplify the number of required procedures to start a business and to address problems in accessing electricity and other infrastructural facilities.
- There is a need to make policies to facilitate investments at the International and national level, such as acceleration of approvals for investments in labor-intensive and infrastructure projects, faster approvals for health care and medical equipment businesses.
- There is a need for upgrading transport infrastructures to develop adequate transport infrastructures and multimodal transport corridors and networks in order to reduce costs of trade, improve services and enhance export and investment competitiveness.
- Government should give priorities for extending necessary credit flow, preferably at a low cost. Credit crunch during the pandemic was the major constraint for private companies to keep their business operations active. Monetary policy needs to focus on extending necessary credit flows to major strategic sectors driving the economy, preferably at low or subsidized costs, while managing inflation expectations, and allowing firms to delay repayment.
- There should be focus on job creation, especially in services sector and telecommunication sector, which have seen the negative growth during the pandemic, where opportunities for job creation are still possible.

Conclusion

It is quite apparent from the above analysis that the pandemic had impacted our economy, trade and businesses severely, which may have an adverse impact on long-term growth prospects. The impact has been felt in the FDI sector where there has been a decline. Investments have declined worldwide, due to disruptions

in global value chains (GVCs), decline in revenues of businesses, and inadequate financing. Also, from the demand side, restrictions imposed by governments coupled with high uncertainty and falling consumer confidence had led to decline in consumption and investment. Despite bleak prospects for immediate investment, FDI has started to recover due to stimulus package announced in 2020 and persistent investor confidence reflected in the announcement of major investment projects in the budget 2022-23

Foreign Direct Investment inflows have seen a gradual decline from the outset of pandemic in 2019-20. FDI saw a contraction of 20 % in the first quarter financial year during the Pre Covid era (2019-20). Net FDI inflows fell by around 80 % in June which was the lowest (2019-20). Thereafter, FDI inflows started increasing from August and continued till December, due to the measures taken by the Indian Government in order to carry out reforms in its FDI policy, investment facilitation, and ease of doing business. Singapore has invested highest amount of FDI and has emerged as largest contributor, followed by USA in 2019-20 in pre covid era.

Singapore has emerged as the top investing country in 2019-20 (Pre Covid era) and remained the top investing country during the covid and post covid era with slight variation in the percentage share. Within India, Maharashtra holds the top position in attracting FDI inflow having the share of 40% in 2021-22 in post Covid era which was 27% in 2020-21 (during post covid era) and 14.5% in 2019-20 (pre-covid era). Hence Maharashtra holds Top position in pre and Post covid era. Within the industry, Computer software & hardware attracted the highest FDI of US\$ 26,145 million in 2020-21, followed by Construction (Infrastructure activity) at US\$ 7,875 million and Services sector at US\$ (5,060 million), and Trading at (US\$ 2,608 million), during the pandemic time. The computer software & hardware has shown tremendous growth during the pandemic period. Simultaneously, services sector has also grown side by side during the pandemic times.

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