International Journal of Scientific Research in Science and Technology
Print ISSN: 2395-6011 | Online ISSN: 2395-602X (www.ijsrst.com)
doi : https://doi.org/10.32628/IJSRST22942

Impact of COVID-19 on FDI in India

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Article Info

Volume 9, Issue 4

Page Number : 09-15

Publication Issue

July-August 2022

Article History

Accepted : 20 June 2022

Published : 04 July 2022

ABSTRACT

In this research article the researcher analyzed the significant research issues about impact of COVID-19 on FDI in India. It may be noted that FDI inflow has increased by 23% post-Covid (March 2020 to March 2022: USD 171.84 billion) in comparison to FDI inflow reported pre-Covid (February 2018 to February 2020: USD 141.10 billion) in India. Despite the uptick in investment flows to developing nations, many sectors such as energy and food remain under-developed. The total FDI in the developed economies rose to an estimated $777 billion in 2021, three times the level in 2020 and the highest since 2011. The researcher designs this research article based on secondary data and represented to analysis report in between 2011 to 2022. The data are compiled using SPSS software and inferences are generated to shows the statistical analysis of impact of COVID-19 on FDI in India.

Keywords: COVID-19, FDI

I. INTRODUCTION

In developing economies, the total FDI flows increased by 30 percent to reach $870 billion in 2021. The growth was driven by a recovery in East and South-East Asia and a boost in West Asia. In Africa, the total amount of FDI received increased by over 200 percent to reach $6.3 billion in 2021. Developing economies, on the other hand, saw weaker growth due to the lack of sufficient infrastructure investment. China received a record amount of foreign direct investment in 2021, with a 20 percent increase. Brazil also saw a boost from higher foreign investment flows. The ASEAN region's robust growth contributed to the uptick in global FDI flows. n Europe, most of the increase was attributed to the swings in conduit economies. The other surges were attributed to the uptick in cross-border acquisitions. Developing economies' total FDI flows grew by 30% to reach $870 billion in 2021. The growth was driven by a recovery in East and South-East Asia, as well as a boost in West Asia. Inflows into Africa also rose, due to a single transaction in South Africa in 2021. However, China saw record foreign direct investment (FDI) inflows of $179 billion in 2018, up 20% from the previous year, while Brazil's tally grew to $58 billion from a low point in 2020. Asean's role in attracting FDI increased, with member countries' total transactions growing by 35%.

FDI flows to developing countries are expected to drop even more because sectors that have been severely impacted by the pandemic, including the primary and manufacturing sectors, account for a larger share of their FDI than in developed economies. FDI could play an important role in supporting economies during and after the crisis through financial support to their affiliates, assisting governments in addressing the pandemic, and through linkages with local firms. FDI flows have steadily declined over the past five years, and they could remain below pre-crisis levels throughout 2021 if the public health measures and economic support policies are not effective. FDI flows are expected to fall by more than 30% in 2020 even under the most optimistic scenario for the success of the public health and economic support policy measures taken by governments to address the COVID-19 pandemic and the resulting recession.

II. LITERATURE REVIEW

Aggarwal, Kapish. (2020) stated that Covid-19 has battered the global economy causing the worst recession since The Great Depression of the 1930s. By the end of 2020, the worlds GDP about 7.5% lower than it would have been without the pandemic. 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.

R., Vennila. (2021) 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-aged 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.

Delawar Hussain (2020) emphasized that the covid-19 pandemic has put the global economy into a recession which means the world economy has started shrinking while India has no exception. In recent years Indian has emerged as one of the most favorite destinations for foreign investment. The main purpose of this study is to examine the impact of Covid-19 in the Foreign Direct Investment (FDI) in India. A trend of FDI inflow has been observed with the comparison of pre and post Covid-19 pandemic period. The outcomes show the first quarter of 2020 has worst impact, while after that, due the revised FDI policies and India's internal capabilities to attract foreign investors, a surge in FDI inflow has been observed. FDI being a constructive force of the economic growth could play an important role in supporting the economy during after the crisis.

Kazunobu Hayakawa et.al.,(2022) study empirically examines how the coronavirus disease (COVID-19) has impacted foreign direct investment (FDI), using the quarterly data on bilateral FDI flows from 173 home to 192 host countries from the first quarter of 2019 to the second quarter of 2021. We measure the severity of COVID-19 damage using three indicators—the number of confirmed cases, the number of deaths, and the stringency index of government policies that restrict people's activities. We also differentiate FDI flows via two different entry modes—greenfield FDI and cross-border mergers and acquisitions (M&A). We find heterogeneous effects of COVID-19 impacts on FDI by sector and entry mode. The severity of COVID-19 in host countries adversely affected FDI in the manufacturing sector regardless of the entry mode, but the effect of home countries' COVID-19 situation on FDI was insignificant. On the other hand, in the service sector, the severity of COVID-19 in both host and home countries has significantly negative impact on greenfield FDI, not on cross-border M&A.

Arup Kumar Chattopadhyay et.al.,(2022) emphasized that Foreign direct investment (FDI) movement to any country is recognized as an important criterion for economic strength and potentiality. Hence, the present study analyzes the motives of FDI inflows through the determinants and channels, namely horizontal or vertical FDIs and the impact of COVID-19 on FDI Inflows in BRICS countries during the period 1990–2020. The Kinked Exponential (deterministic) trend, and Zivot and Andrew's trend equations are applied for the growth analysis of FDI inflows. Regarding the estimation of channels of FDI inflows in terms of horizontal, vertical, and hybrid motivations, dynamic panel data analysis using GMM for BRICS economies together and ARDL-PMG for individual countries is made. The findings show significantly growth in FDI inflows in all BRICS countries except India during the first decade of the present century.

Isha Jaswal et.al.,(2022) specified that Ever since the liberation of trade policies in India, Foreign Direct Investments (FDI) has been crucial in the growth of the economy, both at the macro as well as sector level. The association between FDI and economic growth is an area of interest globally. The investment decisions are affected by several national and international events that add to the volatility of the number of inflows. COVID-19 pandemic severely impacted the intensity of FDI inflows. But the strong resilience by our government manifested in crucial policy reforms and proactive decision-making minimized the impact. This article examines the potential impact of FDI on crucial macroeconomic variables using the Computable General Equilibrium (CGE) Model. Introducing the policy shock of $90 billion into the model, an increase of 5.68% per annum in GDP is estimated. Findings indicate that the impact of FDI shall be favorable to a large number of sectors metals, construction, motor vehicle, computers, and electronics in terms of increased output, exports, and employment opportunities.

Parupudi V.S et.al.,(2020) stated that In India, FDI inflows is a key indicator of the confidence investors have in its economy. The key purpose of this study is to evaluate the impact of COVID-19 on FDI inflows into India. A regression model was built using pre-COVID to predict the FDI growth in each month. It has been observed that changes in exchange rate and foreign reserve have a statistically significant impact on FDI growth, where-as changes in IIP (Index of Industrial Production) do not. The predicted values were then compared with the actual FDI growth, during the pandemic. Though the regression model was robust and sound, very large differences in predicted and actual FDI growth was found during the pandemic. This indicates that the pandemic has altered the dynamics of FDI growth in India.

Pooja Khanna (2022) emphasized that investing overseas is a potential channel to access new distribution networks, enhance knowledge base and technology and improve competitiveness which can be crucial for a country's growth and development (Dunning and Lundan, 2008). Last few decades have witnessed a growing trend of overseas investments by the developing countries, including India. This paper presents a trends analysis for outward FDI flows from India, using RBI database for the period 2007-2019. Since RBI provides a disaggregated monthly data, it is aggregated to yearly observations for the purpose of trends analysis. A sectoral and destination specific trends analysis brings out some important facts about Indian OFDI.

Vaibhav Tomar (2022). A foreign direct investment is a business transaction that involves acquiring a significant stake in a foreign company. It's commonly used to describe a company's plan to expand its operations in a new region. FDI are large investments made by a corporation into a foreign concern. The objective of the investment is to expand a company's operations or develop a multinational presence. Looking for a foreign direct investment can be challenging, as most companies only consider investing in countries that offer promising growth and a skilled workforce.

Vaibhav Tomar (2022) stated that the first half of the current financial year, India received $42.9 billion worth of foreign direct investment. According to government data, the figure has reached $48.5 billion in October 2021. This amount is equivalent to the amount for the period from April to October 2020. It can be expected that it will not go down much, as some major deals are expected to happen soon. It is expected that the inflow will not go down despite the current economic situation. Sources said that despite the current economic conditions, the inflow has not declined. The government also asserted that the record number of deals signed during the current financial year have helped maintain the inflow.

III. PROBLEM STATEMENT AND RESEARCH OBJECTIVES

Globally more than 15% of the young people who were in work before the Covid-19 have lost their jobs. Widespread lockdowns have caused changes that were already affecting 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 making any significant transactions. Global FDI flows 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 researcher formulated some of the significant research issues on impact of COVID-19 on FDI in India.

1. To study the different dimension of COVID-19 and its significant impact on FDI in India.
2. To study the total inflow with respect to year in between 2011 to 2022.

IV. RESEARCH DESIGN AND METHODLOGY

This research study is based on secondary data which are collected through the different research portal such as EBASCO, ProQuest, google scholar and other sources of data including published and non-published. The research got the Total FDI Inflow (USD-Billion) Year wise 2011 to 2022. For data analysis and interpretation the researcher used the SPSS software.

V. RESULTS AND DISCUSSION

Table 1.1: Total FDI Inflow (USD-Billion) Year wise 2011 to 2022

Year	Total FDI Inflow (USD-Billion)
2011-2012	46.6
2012-2013	34.3
2013-2014	36
2014-2015	45.1
2015-2016	55.6
2016-2017	60.2
2017-2018	61
2018-2019	62
2019-2020	74.4
2020-2021	82
2021-2022	42.9

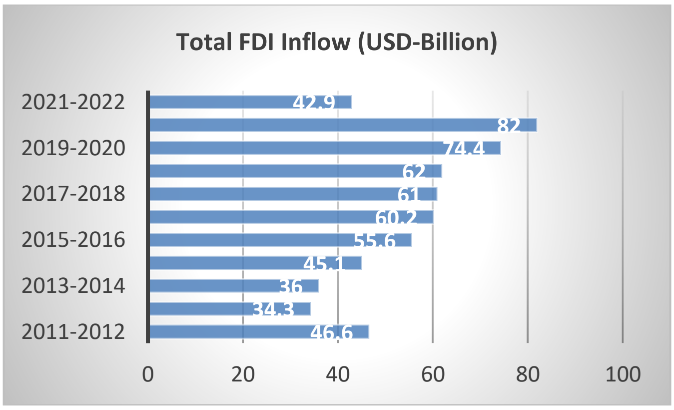

Fig1.1: Total FDI Inflow (USD-Billion) Year wise 2011 to 2022

Many governments have taken stringent public health measures to limit the spread of the COVID-19 pandemic. These public health measures have caused severe economic disruptions that impact the foreign direct investment (FDI) decisions of firms. Governments have also taken significant economic policy actions to forestall, or cushion, the economic consequences of the public health crisis. The eventual impact on FDI flows will depend on the success of both these public health and economic policy responses.

FDI could play an important role in supporting economies during the economic recovery following the pandemic. Evidence from past crises has shown that foreign-owned affiliates, including small and medium enterprises, can show greater resilience during crises thanks to their linkages with, and access to the financial resources of, their parent companies (e.g. Alfaro and Chen, 2012; Desai et al., 2008). FDI could be particularly important for emerging and developing economies given that other sources of international financing, including portfolio investment, have fled these economies (see OECD Investment policy responses to COVID-19). Unfortunately, the impacts of the pandemic on FDI flows to these economies may be particularly severe. For example, the primary and manufacturing sectors, which account for a larger share of FDI in many of these economies than in most developed economies, have been particularly hard hit by the pandemic (see forthcoming OECD note on implications of the COVID-19 public health and economic crisis on development finance).

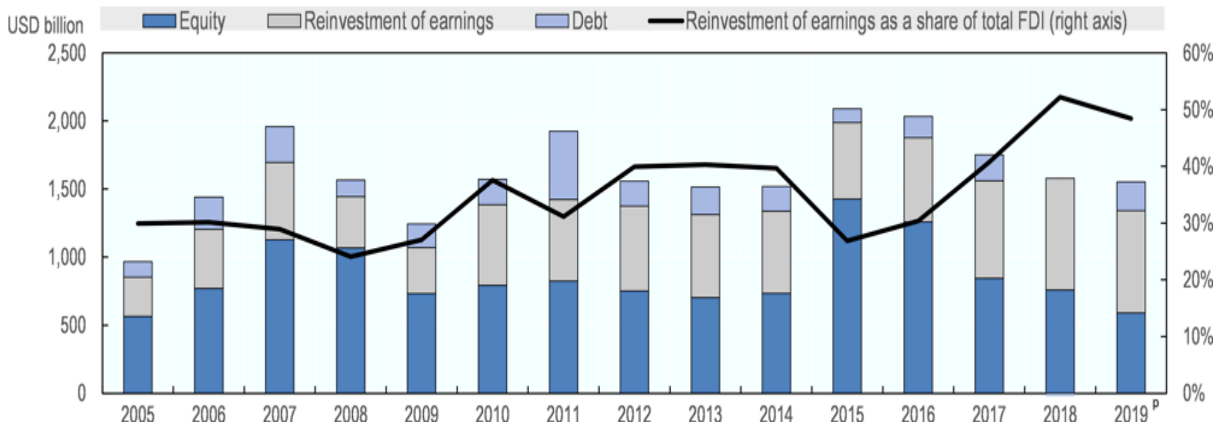

Fig1.2: Total FDI Inflow (USD-Billion) Year wise 2005 to 2019

Fig1.3: Total FDI Inflow equity capital (USD-Billion) Year wise 2005 to 2019

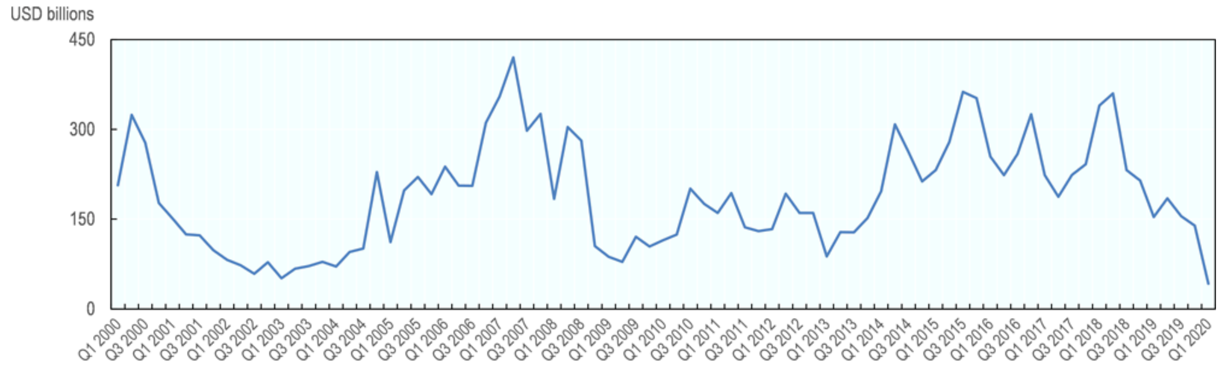

Fig1.4: Total FDI Inflow equity capital (USD-Billion) Year wise 2011 to 2020

The Covid-19 pandemic is considered as the first and foremost disaster in the human history that the world has never been witness before. It has impacted every sector of life, particularly the economy around the globe. Indian economy was in its worst phase even before the Covid-19 pandemic. The GDP (Gross Domestic Product) of the country has fallen to 4.2 percent in the year2019-20 which is the lowest since 2008-09; the covid-19 pandemic has just multiplied the impact. FDI is a good tool for economic development particularly for a developing country like India. Many countries provide such lucrative policies that attract foreign investors. In any country the need of FDI depends upon the saving and investment rate.

In the process of economic development, Foreign Direct Investment provides a new source of capital that helps to cover the domestic saving constraint provide access to the superior technology that promotes efficiency and productivity of the existing production capacity and generate new production opportunity. Since the economic reform 1991, India has seen a huge growth in FDI in the country, even being at the top for Greenfield FDI ranking. In recent days, the nationwide lockdown has brought all economic activities to an unexpected halt that has impacted the FDI inflow too. The Government has introduced a revised FDI policy to protect the Indian firms, whose operations and finances may have suffered during the lockdown and due to the general impact of Covid-19 pandemic from the opportunistic takeovers.

VI. SUMMARY AND CONCLUSION

Finally the researcher concluded that the Covid-19 pandemic is considered as the first and foremost disaster in the human history that the world has never been witness before. It has impacted every sector of life, particularly the economy around the globe. Indian economy was in its worst phase even before the Covid-19 pandemic. The GDP (Gross Domestic Product) of the country has fallen to 4.2 percent in the year2019-20 which is the lowest since 2008-09; the covid-19 pandemic has just multiplied the impact. FDI is a good tool for economic development particularly for a developing country like India. Many countries provide such lucrative policies that attract foreign investors. In any country the need of FDI depends upon the saving and investment rate. In developing economies, the total FDI flows increased by 30 percent to reach $870 billion in 2021. The growth was driven by a recovery in East and South-East Asia and a boost in West Asia. In Africa, the total amount of FDI received increased by over 200 percent to reach $6.3 billion in 2021. Developing economies, on the other hand, saw weaker growth due to the lack of sufficient infrastructure investment. China received a record amount of foreign direct investment in 2021, with a 20 percent increase. Brazil also saw a boost from higher foreign investment flows.

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Cite this article as :

Dr. Sourabh Singha Roy, "Impact of COVID-19 on FDI in India", International Journal of Scientific Research in Science and Technology (IJSRST), Online ISSN : 2395-602X, Print ISSN : 2395-6011, Volume 9 Issue 4, pp. 09-15, July-August 2022. Available at doi : https://doi.org/10.32628/IJSRST22942
Journal URL : https://ijsrst.com/IJSRST22942