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## Indian Economy Challenges & Opportunities

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## Impact of COVID-19 on FDI Inflows in India

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### Abstract:

*Foreign Direct Investment (FDI) is considered as a major source of non-debt financial resource for the economic development. FDI flows into India have grown consistently since liberalization (1991). FDI infuses long term sustainable capital in the economy. Therefore, Government of India has made suitable policies time to time to attract and promote FDI in order to enhancement of technology and skills for accelerated economic growth and development. But, COVID-19 disturbed socio-economic activities in the whole World; India is not an exceptional country.*

*Despite pandemic-related uncertainties, India remained a favorable destination for foreign direct investment. In 2021, around 44 per cent of 1,200 global business heads in developed economies were planning to make first-time or additional investments in India. India's favorable business landscape and supportive government policymaking have increased the ease of doing business in the country. Investor confidence has risen with a strong vaccination rate, recovery stimulus packages, and foreign investment programmes. As a result, India is becoming successful enough to attract FDI inflows. As per the UNCTAD World Investment Report (WIR) 2022, India had moved a notch higher to 7th rank among the top 20 host economies for 2021 in terms of FDI inflows.*

### Introduction:

In India, the problem of COVID-19 initiated from December 2019. Before vaccination and better medical facilities, it was very dangerous situation for India and rest of the world too. India faced total three waves of COVID-19. This pandemic situation was not just a health crisis but also an economic crisis. Due to fast spread of virus, total country was strictly shut down from 25<sup>th</sup> March, 2020 to 31<sup>st</sup> May, 2020 in the first wave and later on also. This covid situation disturbed social and economic life of human beings. All religious, hotels, tourist and public places, education institutes, non-essential businesses and services were fully shut down. It means almost all economic activities were extremely disturbed in India during this particular period. Even after, all sectors were not fully functioning. There were lot of restrictions on many business activities. This pandemic situation affected whole Indian economy even gold and crude oil prices, cryptocurrencies and market indices too (Arpita Gurbaxani, 2021).

Due to lockdown and economic crisis people reduced their demand for non-essential products. Entrepreneurs became pessimistic and investors were also distrustful for investment. COVID-19 situation affected the total world as well as foreign investors and so that under this study researchers tried to find out whether COVID-19 pandemic situation affected FDI inflow to India or how much FDI inflow is/was affected. To get clear idea of FDI in India, researchers have considered year-wise inflow of FDI, top five states and sectors which attract highest foreign investment and top five investing countries.

**Research Methodology:**

This research study is descriptive in nature and researchers have considered only secondary data for it. This data is collected through books, research papers, government reports, different websites, etc.

**Objectives of the Study:**

1. To study the impact of COVID-19 on inflow of FDI in India.
2. To study the changing trend of FDI inflow in respect to investing countries, sectors and various states in India during Covid-19.

**Impact of COVID on FDI:**

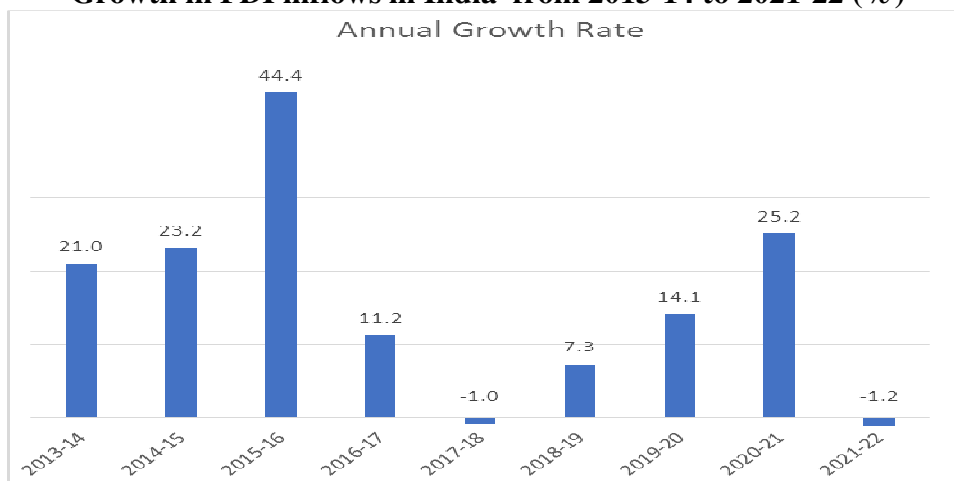
Table no.1 indicates inflow and year-wise growth rate of FDI in India. It is observed that in the last 10 years (2012-13 to 2021-22) India is attracting good amount of foreign direct investment. Graph of growth rate indicates that only two times growth rate is negative i.e., in 2017-18 and 2021-22. But if we see COVID-19 pandemic situation came in year 2019-20 and India shut down for few months but effect of this on inflow of FDI in India shows positive because in 2020-21 growth rate is more than 25% which is 2<sup>nd</sup> highest growth in the last ten years. This growth is not diverted from China because as per the UNCTAD’s world investment report 2022 shows that in China also FDI is increased with 8% and 21% respectively in 2020 and 2021. While in next year 2021-22, growth rate is little bit affected that is, -1.2%. So, we can say that COVID-19 pandemic situation has not affected the FDI inflow of India.

**Table No. 1:**  
**Inflow of FDI in India (2012-13 to 2021-22)**  
 (As per DPIIT’s FDI data base – equity capital components only)

Sr. No.	Year	FDI in Rs. Crore	Growth rate %
1.	2012-13	1,21,907	-
2.	2013-14	1,47,518	21.0
3.	2014-15	1,81,682	23.2
4.	2015-16	2,62,322	44.4
5.	2016-17	2,91,696	11.2
6.	2017-18	2,88,889	-1.0
7.	2018-19	3,09,867	7.3
8.	2019-20	3,53,558	14.1
9.	2020-21	4,42,569	25.2
10.	2021-22	4,37,188	-1.2

Source: www.dpiit.gov.in

**Chart No.1**  
**Growth in FDI inflows in India from 2013-14 to 2021-22 (%)**



- **Year-Wise Rank of Top Five Investor Countries**

Researchers have tried to show investor country-wise impact of COVID-19 on FDI inflow in India. The following table No. 2 shows how the rank of top five countries changed according to their investment in India from 2016-17 to 2021-22.

**Table No. 2:**

**YEAR-WISE RANK OF TOP FIVE INVESTOR COUNTRIES**

Sr. No.	Name of the Country	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1		Mauritius	Mauritius	Singapore	Singapore	Singapore	Singapore
2		Singapore	Singapore	Mauritius	Mauritius	USA	USA
3		Japan	Netherland	Netherland	Netherland	Mauritius	Mauritius
4		Netherland	USA	USA	USA	UAE	Netherland
5		USA	Japan	Japan	Cayman Island	Saudi Arabia	Switzerland

Source: www.dpiit.gov.in

This table no. 2 shows top five investor countries of India. It shows that from 2016-17 to 2021-22; Mauritius and Singapore are those significant investor countries which continuously holding top positions. For first two years (2016-17 and 2017-18) Mauritius was top investor in India but after that (2018-19) Singapore reached at first position which shows COVID-19 has not affected to investors of this country. USA also increased its investment in India in pandemic situation and acquired 2<sup>nd</sup> position. Netherland is continuously investing in India. While another side after 2018-19, Japan has reduced some flow of investment to India and loses its position from top five investors. On this basis it can be said that, COVID-19 has somehow affected investing countries to invest in India.

- **Sector-Wise Inflow Of Fdi In India:**

Now in the following table sector-wise inflow of FDI has been shown which will give a brief idea of impact of COVID on sectoral investment. Table no. 3 shows that, sector-wise FDI inflow in India. Here researchers have considered top five sectors of India where highest FDI inflow comes. It is observed that, from 2016-17 to 2019-20 service sector was on top which means, maximum foreign direct investment flow came to this sector.

**Table No. 3: Sector-Wise Inflow of FDI In India**

Sr. No.	Name of the Sector	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1		Service Sector	Service Sector	Service Sector	Service Sector	Computer	Computer
2		Telecom.	Telecom.	Computer	Computer	Construction	Service Sector
3		Computer	Computer	Trading	Trading	Service Sector	Auto.
4		Trading	Trading	Telecom.	Telecom.	Trading	Trading
5		Electric Equipment	Construction	Auto.	Hotel & Tourism	Auto.	Construction

Source: www.dpiit.gov.in

\* Sector-wise ranks are maintained only for equity component of FDI inflow.

But in 2020-21 and 2021-22 computer, software & hardware sector reached at 1<sup>st</sup> position. Demand for this sector was high in those years because people were working from their home and so may be due to this reason investors also interested to invest in computer, software & hardware sector. It can be also observed that, in last two years due to fluctuations in investment of top five sectors they have changed their positions but those sectors have not lost their positions in top five sectors.

### State-Wise Inflow of FDI In India

Now following table indicates top five states that attracted highest FDI in India. This table reflects that COVID-19 has changed priority of states in India in case of FDI inflow from different countries.

Table no.4 shows the position of State-wise inflow of FDI in India. It is observed that, up to 2019-20 Maharashtra state was attracting highest inflow of FDI but in 2020-21 and 2021-22 Maharashtra has lost its position. As data provided by Johns Hopkins University, Maryland in 2020-21, Maharashtra was having more COVID cases compared to other states and union territories and may be due to this reason FDI shifted to other states.

In 2020-21 Gujrat and in 2021-22 Karnataka reached at 1<sup>st</sup> position while Maharashtra was at 2<sup>nd</sup> position in both the years. In 2021-22 Haryana state entered in top five states and secured 5<sup>th</sup> position. So, here we can say that, investors priorities have changed in COVID-19 pandemic situation. Presently, it is observed that southern states like Karnataka and Tamil Nādu, Telangana etc. are providing better facilities to attract FDI.

**Table No. 4:**  
**State-Wise Inflow Of Fdi In India**

Sr. No.	Name of the State	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1		Maharashtra	Maharashtra	Maharashtra	Maharashtra	Gujrat	Karnataka
2		Delhi	Karnataka	Delhi	Karnataka	Maharashtra	Maharashtra
3		Gujrat	Delhi	Karnataka	Delhi	Karnataka	Delhi
4		Tamil Nadu	Tamil Nadu	Andhra Pradesh	Gujrat	Delhi	Tamil Nadu
5		Andhra Pradesh	Gujrat	Tamil Nadu	Jharkhand	Tamil Nadu	Haryana

Source: www.dpiit.gov.in

\*State-wise ranks are maintained only for equity component of FDI inflow.

### Conclusion:

FDI is a respectable tool to enhance economic development for a developing country like India. Despite pandemic-related uncertainties, India remained a favorable destination for foreign direct investment. Singapore ranks top sourcing nation with a contribution of 27.01 per cent, followed by the USA at 17.94 per cent. Mauritius, Netherlands and Switzerland follow the nations with contributions standing at 15.98 per cent, 7.86 per cent and 7.31 per cent, respectively in 2021-22. As per the UNCTAD World Investment Report (WIR) 2022, India had moved a notch higher to 7th rank among the top 20 host economies for 2021 in terms of FDI inflows.

Computer Software and Hardware sector bagged the highest FDI inflow in the financial year 2021-22 at 24.60 per cent, followed by the Service sector at 12.13 per cent and the automobile industry at 11.89 per cent. State wise, Karnataka ranks first with a share of 37.55 per cent of the total FDI inflow in financial year 2021-22, followed by Maharashtra at 26.26 per cent and Delhi at 13.93 per cent.

India has a large domestic market and all capabilities to attract any big manufacturing company to shift its operation into the country. On the other side, to promote Foreign Direct Investment (FDI), the Government has put in place an investor-friendly policy, wherein most sectors except certain strategically important sectors are open for 100% FDI under the automatic route. It is clear that COVID-19 outbreak hampered several sectors in India but not unfavourably impacted to India's FDI inflows. Although, FDI inflow rapidly increasing in the post covid period.

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