Impact of Covid-19 on Foreign Direct Investment (FDI) in India: An Analytical Study

Dr. Arpan Mahapatra, Assistant Professor (Finance), SRUSTI Academy of Management, BBSR,Odisha

Ms. Kalyani Senapati,Assistant Professor(Finance) SRUSTI Academy of Management, BBSR, Odisha

Abstract

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 maybe about 7.5% lower than it would have been without the pandemic. 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 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.

*Keywords***: Foreign Direct Investment (FDI), Economic, Covid-19, Recession**

I. Introduction

As Covid-19 wreaks havoc across the world, and shocks financial market the world over, the government has taken actions to protect Indian firms in the form of a **revised FDI policy**:

- New rules for entities from countries sharing land border with India, any investment from such an entity will require Govt. of India's nod.
- Govt. has also added a clause to prevent routing of funds via other nations.

- Govt. nod also required for transfer of ownership benefiting aforementioned entities. The reasons for the revised FDI policy are mainly:
- Revision in view of the economic impact of Covid-19 pandemic.
- Move to curb 'Opportunistic takeovers/Acquisitions' of Indian Firms.
- Firms whose market value has taken a hit are vulnerable.
- Although India has named all its neighbors in the new rules, the main target is believed to be China. Chinese investors have pumped $4 BN into Indian startups and raised stakes in some major Indian companies including HDFC.

Due to the robust business environment and favorable policy regime, India's government has ensured that foreign capital keeps flowing in the country. Some of the major companies which saw investments during this time include Byju's, Reliance, Cashaa, Unacademy, Phoenix Mills etc. These investments were driven by some of the biggest companies in the world like Google, Foxconn, Amazon, Facebook, Silver Lake, Softbank Group and many more.

II. Theory of the Concept

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

- **Recent Developments:**

Foreign Direct Investment (FDI) inflows saw a gradual decline from the onset of pandemic in February which continued till June. Figure 1 shows monthly trends of Net FDI inflows fell by 60% to $6.56 Billion during April-June 2020 compared to the same quarter of previous year which stood at $16.33 Billion. Second quarter of FY-20 saw a steep increase in FDI mainly because of the $10 Billion investment by Google. FDI inflows surged from $11.51 Billion between April and June to $38.15 Billion by the end of September.
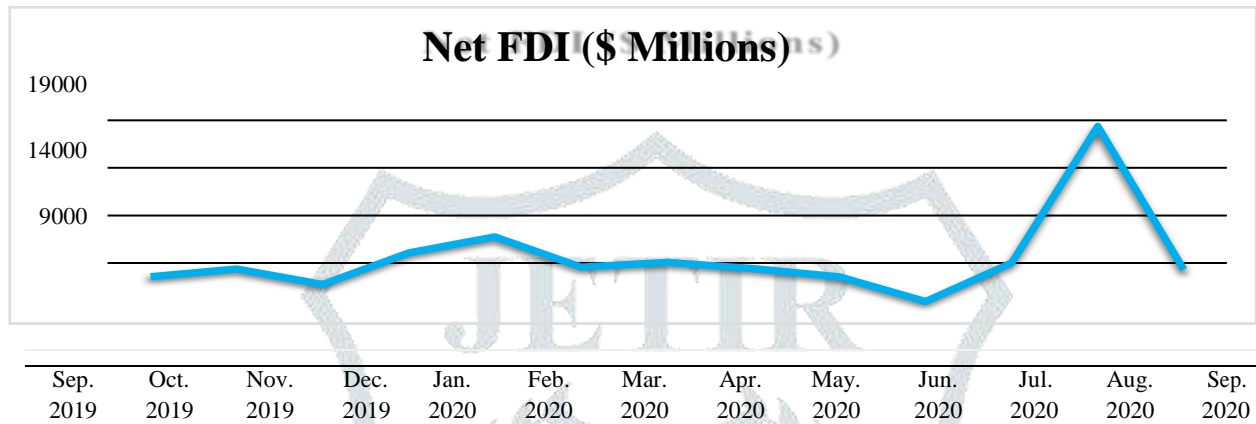

Figure 1 - Net FDI ($ Millions)

- **Inflows and Outflows:**

FDI Inflows follow the same general trend as that of Net FDI inflows because FDI Outflows saw no major change compared to inflows during the time period of consideration. FDI Inflows fell gradually from February and went negative in June reaching a -$838 Mn. which led to negative Net FDI for the month of June.
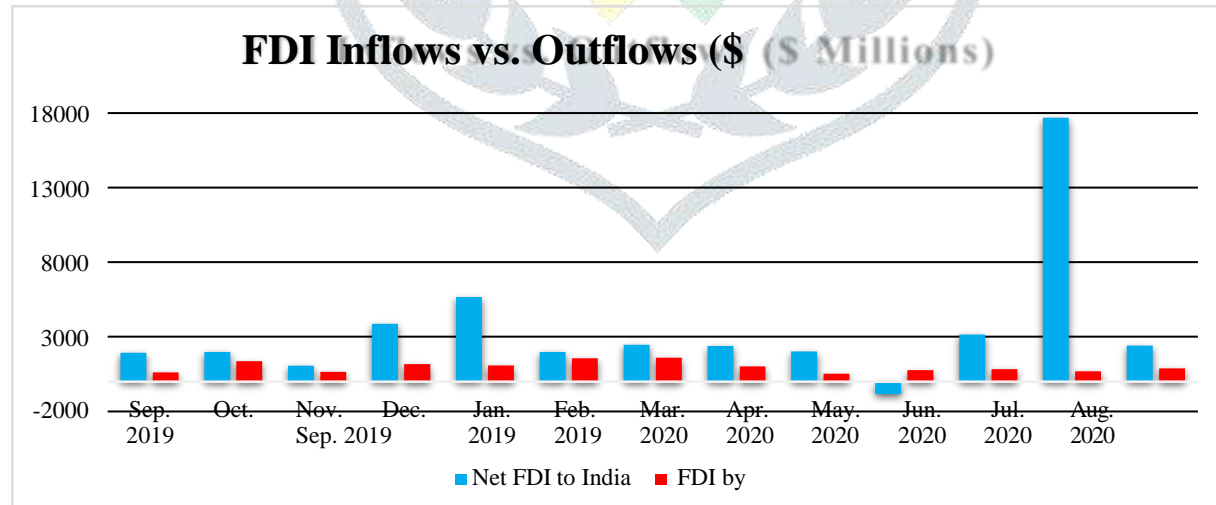

Figure 2 - FDI Inflows vs. Outflows

- **FDI flows by instrument:**

For the first quarter of the FY-20, FDI equity inflows dropped by 62% and as they form a major portion of the Net FDI, Net FDI fell by 59%. Equity inflows dropped in the first quarter and saw a steep rise of 16% in the second quarter bringing in $20 Bn of equity FDI which was mostly fueled by tech investments by Google, Facebook, Amazon and such. Reinvested earnings saw little to no change from March to September, whereas other capital flows gradually declined from March to September with an exception for June.
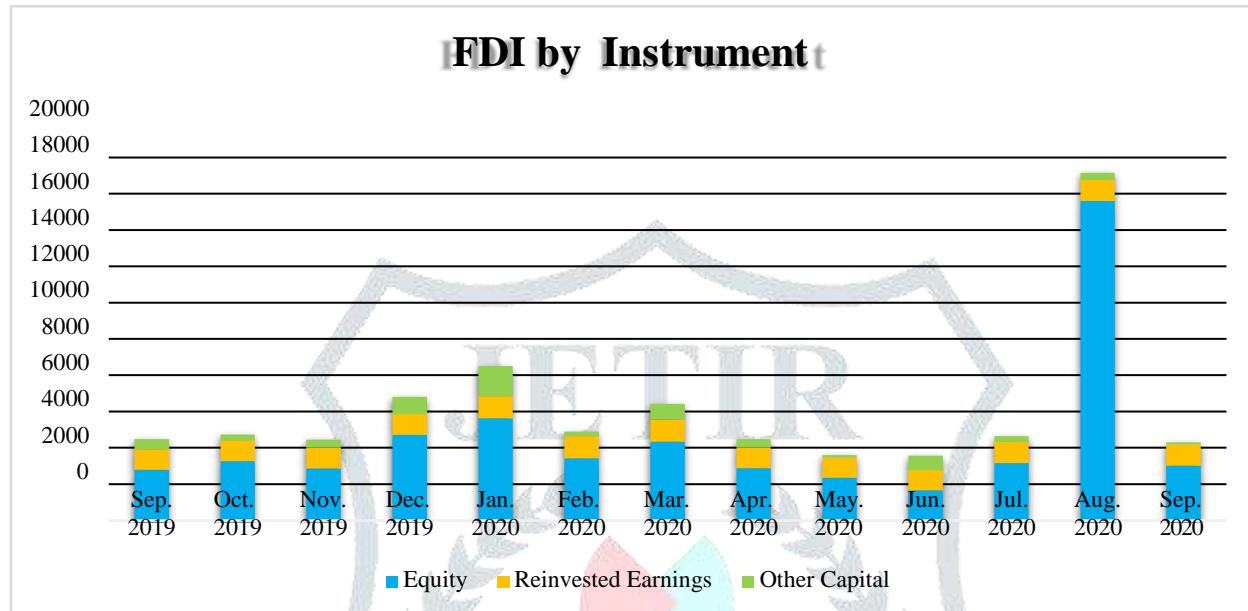

- **FDI Equity inflows by top investing Countries:**

For the first quarter of FY-20 most countries saw a major decline in their contributions towards equity inflows with Mauritius and Singapore falling by 80.7% and 65.8%, with only one exception France, which saw a growth in its contribution by 48.7%. Singapore emerged as the largest contributor of FDI bringing in $1.82 Billion followed by the Netherlands, Mauritius, the US, and Japan.
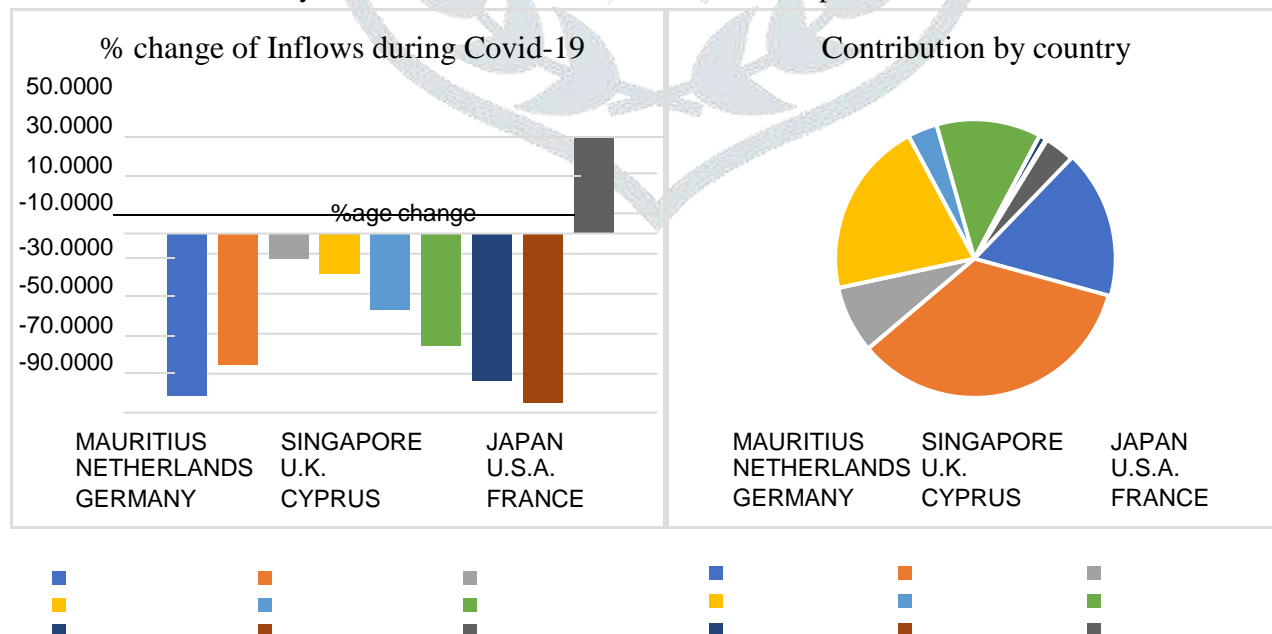
- **FDI Equity inflows by sector:**

Service sector attracted the largest FDI of $1.14 BN during first quarter of FY-20 followed by computer software and hardware ($1.06 BN), trading ($426 MN), and automobile ($326 MN). Telecommunications sector which received the largest amount of FDI during the same quarter of last year was the worst hit and saw a decline of about 100%. Other sectors also saw huge contractions with service sector falling by 59%, computer software and hardware by 52.4%, and trading by 62.5%.

Change in FDI Equity by Sector (YoY)
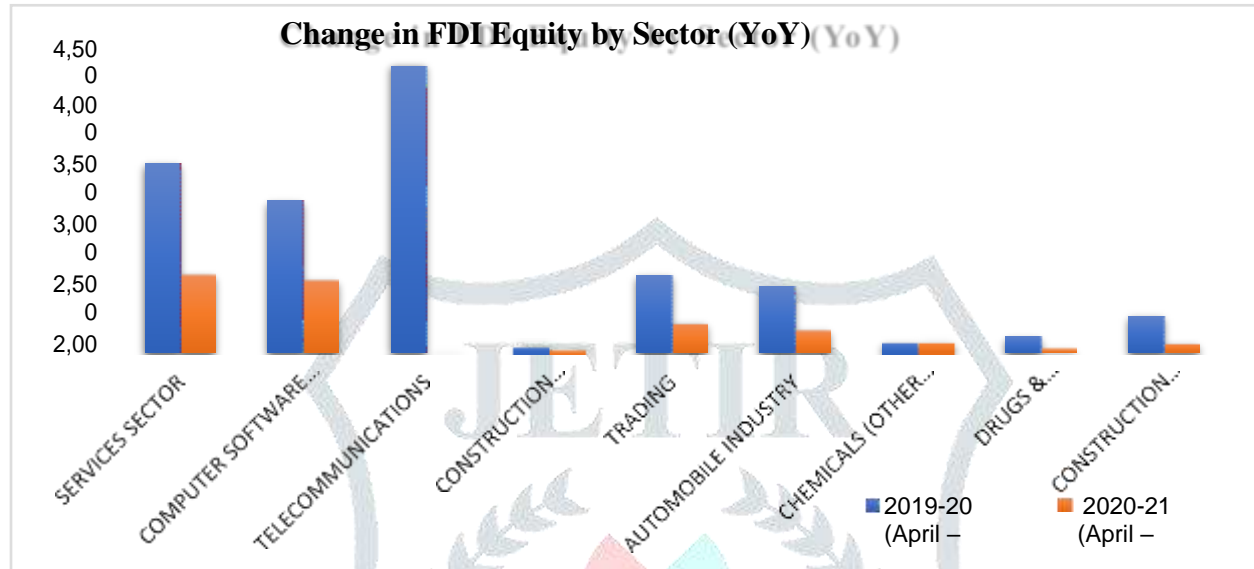
FDI Equity inflows by State:

During the first quarter of FY-20, the states which attracted the most FDI include Karnataka, followed by Maharashtra, Delhi, Jharkhand, and Gujarat. The states which saw the largest decline in FDI inflows include Delhi, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh.

2020-21 (April – June)
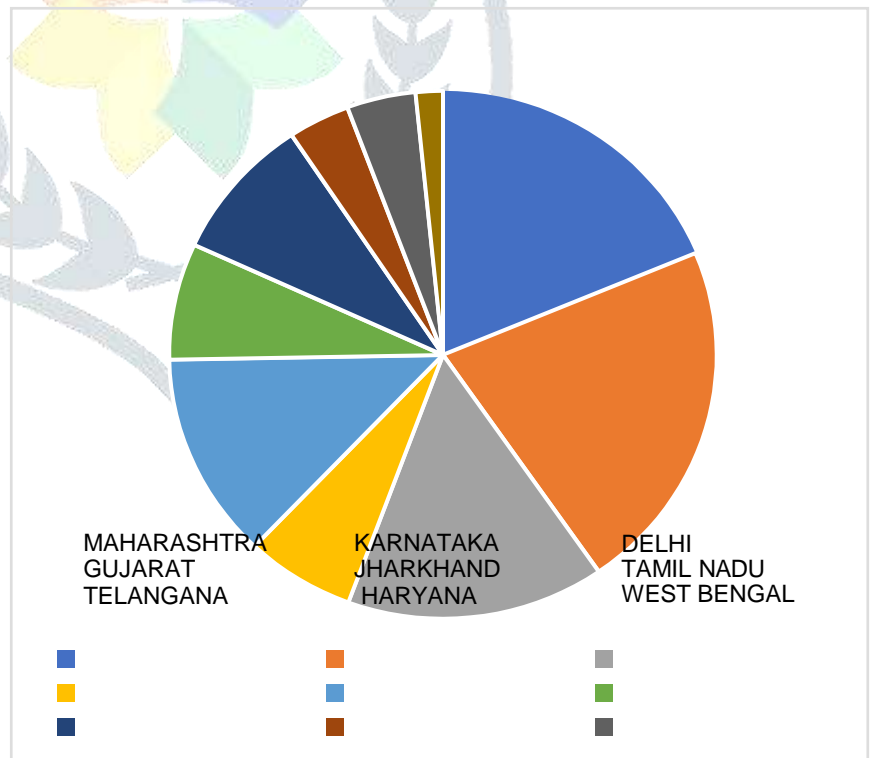
III. Data Analysis:

Regression is a statistical method used to determine the dependence of a dependent variable on a group of independent variables. For our analysis we'll choose the variables as follows:

Y = dependent variable = Net FDI

X = independent variable = Equity, Reinvested Earnings and Other Capital After running regression, we get the following results:

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.9909476
R Square	0.9819771
Adjusted R Square	0.8668609
Standard Error	575.94169
Observations	12

ANOVA

	df	SS	MS	F	Significance F
Regression	3	162658208.5	54219403	163.4548	1.62355E-07
Residual	9	2985379.461	331708.8		
Total	12	165643588			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Equity	1.8147622	0.241502822	7.514456	3.64E-05	1.268444898	2.3610796	1.268444898	2.36107957
Reinvested earnings	-1.8149319	0.565259573	-3.21079	0.010645	-3.09363794	-0.536226	-3.09363794	-0.53622596
Other capital	-1.0896933	0.564072058	-1.93183	0.085421	-2.36571293	0.1863264	-2.36571293	0.18632636

IV. Findings

- **R-Squared** value is 0.9819 or 98.19%, which is a very good fit. This means that 98.19% of the of the variation in Net FDI can be explained by the chosen independent variables which are Equity, Reinvested Earnings and Other Capital.

- **F and P-values:** Significance F is very small which means our result is statistically significant because the value is less than 0.05. P-value for Equity is very small which means Equity is a good fit (almost 100%) for Net FDI. For Reinvested Earnings, the P-value is 0.010645, which means we can say with 99% confidence that Reinvested Earnings is a good fit. For Other Capital P-value is 0.08542 which means this isn't significant as it is greater than 0.05

- **Coefficients:** Regression line is: Y = 1.8147*(Earnings) – 1.81*(Reinvested Earnings). From this equation we can say that for 1 unit increase in Equity, Net FDI increases by 1.814 units and for each unit increase in Reinvested Earnings Net FDI decreases by 1.8 units. From this equation we can also estimate any variable if we know the other two variables.

- **Line of best fit:** This line of best fit expresses the relationship between the actual values and the estimated values. As the line obtained in our case is linear, we can say that the dependent variable varies linearly with the independent variable.
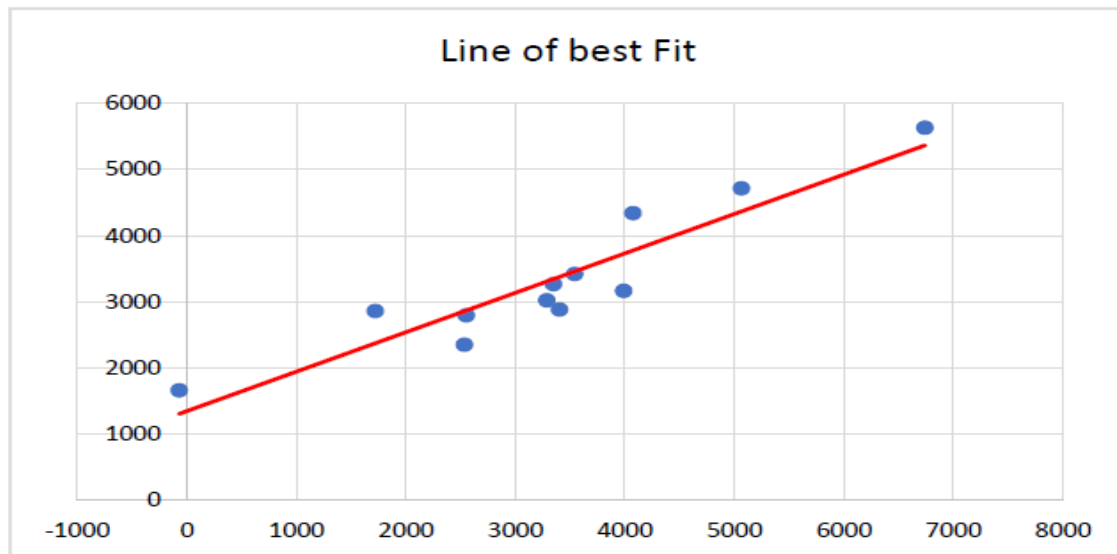
V. Conclusion

The Covid-19 pandemic brought 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 technical and telecommunication investments. Also, India's self-reliance scheme (Atmanirbhar Bharat) has attracted investments from players such as Foxconn to setup manufacturing plants in the country. 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 global investments. Annual FDI inflow in the country is expected to rise to $75 Billion over the next five years according to a report by the UBS. Also India's goal of becoming a $5 Trillion economy by 2025 will surely boost the investments in coming years.

This is going to be a major sustainability reason for India by welcoming more FDIs.

References

- https://www.rbi.org.in/

- https://dipp.gov.in/publications/fdi-statistics

- https://www.business-standard.com/

- https://www.ibef.org/economy/foreign-direct-investment.aspx

- https://www.thehindu.com/business/Economy/16-surge-in-fdi-inflows-till-august/article32903664.ece