



# IMPACT OF COVID-19 ON INFLOW OF FOREIGN DIRECT INVESTMENT

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## Abstract

The World investment report focuses on trends in foreign direct investment (FDI) worldwide, at the regional and country levels and emerging measures to improve its contribution to development. It also provides analysis on global value chains and the operations of multinational enterprises, with special attention to their development implications. 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 destination 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.

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

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## Objective of the study

To study the impact of Covid-19 pandemic in the inflow of FDI in India.

To get the general idea about the revised FDI policy in India.

To Analysis the trends in FDI

## Research Methodology

**Data sources and Data type:** the study is based on secondary data collected from various sources including RBI bulletin, Economic survey reports and DIPIIT. Data is taken with a view to cover the Covid-19 period for that reason April to October for fiscal year 2020-21 is being compare with previous 5 years of the same months.

**Tools and Technique applied:** line graph, and pie chart has been used to analyze data

**Limitations of the study** Following are the major limitations of the study: The study has taken into consideration only FDI Equity inflows but there are other instruments of FDI also. The study mainly depends upon the published secondary data which was assumed to be reliable

**Introduction COVID-19** is not only a public health crisis, as it has also severely affected the global economy and financial markets. Among the consequences of the disease mitigation measures implemented by countries around the globe are significant reductions in incomes, higher unemployment rates, and disruptions in the transportation, service, and manufacturing industries. Financial markets worldwide have been



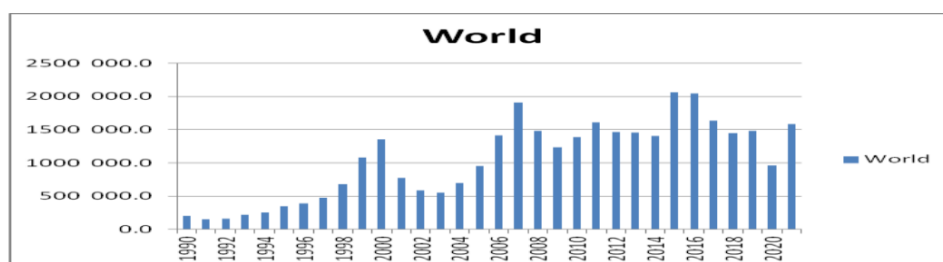
affected by the pandemic. Initially, stock markets declined sharply in response to the pandemic, but recovered subsequently in a spectacular manner, buoyed by expansionary monetary policy and later on by the advent of vaccination. The reaction of the gold market to the pandemic was rather unorthodox, as the proposition that gold is a hedge for stock portfolios was not supported for failure to observe negative correlation. On the international scene, the pandemic has hit trade and capital flows. In particular, foreign direct investment (FDI) flows have fallen sharply and disproportionately to the decline in domestic economic activity and trade flows. This is the issue under consideration in this paper where we examine the facts and figures and make an attempt to provide some explanations for the sharp decline in FDI inflows in 2020. The explanations are based on the macroeconomic consequences of the pandemic, theories of FDI, and on the prevailing understanding of the economic effects of crises and disasters. We start with some background notes on the theory and empirics of FDI. After a steady decline in 2020 further accelerated by the COVID-19 crisis, global FDI flows<sup>1</sup> surged 88% in 2021 (Figure 1), reaching USD 1 815 billion, surpassing their pre-pandemic levels by 37%. The United States and China saw the biggest increases but many other economies also recorded

increases. The driving force of the increase in FDI flows can be attributed to a significant upswing in OECD earnings on FDI, which peaked in 2021. Fewer of those earnings were distributed back to parent companies, resulting in higher levels of reinvested earnings, which spurred the rebound. OECD FDI equity inflows also increased by 25%, exceeding pre-pandemic levels by 4% and slightly reverting the declining trend observed since 2016. In contrast, OECD intra-company debt flows remained negative for the second consecutive year. While new investment activity was generally strong in 2021, the prospects for 2022 remain uncertain with the war Russia is waging in Ukraine.<sup>2</sup> Greenfield investment in emerging and developing economies remains weak. Analysis and interpretation Figure 1 shows annual global FDI flows from 1999 to 2021 as well as quarterly and half-year trends from 2017 to 2021.<sup>3</sup> Looking at half-year values, FDI flows went up by 98% in the first half of 2021, before dropping slightly by 4% in the second half of the year. Looking at quarterly values, the rebound of global FDI flows was mainly concentrated in the first quarter of 2021, when they grew by 90% over the previous quarter before dropping 12% in Q2 2021 and remaining almost stable throughout the rest of the year.

**Table 1. World FDI inflows, by region and economy, 1990–2021 (Millions of dollars)**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>FDI Equity Inflow</b>	204	153	164	222	255	345	392	480	681	1078	1356
	887.7	959.1	685.0	236.6	893.7	142.7	778.7	628.5	509.3	285.7	685.1
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>FDI Equity Inflow</b>	773	590	549	698	953	1415	1905	1486	1237	1390	1610
	130.5	311.3	628.8	479.5	219.6	251.7	472.6	234.9	833.9	942.3	398.2
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>FDI Equity Inflow</b>	1468	1459	1402	2063	2045	1632	1448	1480	963	1582	
	753.1	042.8	522.5	638.3	423.6	638.5	276.2	626.0	138.5	309.8	

**Figure-1: Monthly FDI Equity Inflow (\$ millions)**



Inflows In the OECD area, FDI inflows increased by 75% to USD 809 billion (Figure 2), 5% up on pre pandemic levels. FDI inflows in the OECD area accounted for 45% of global FDI inflows in 2021, a slightly lower average than in 2018-2019 (51%). The increase over 2020 was mostly driven by rebounds in inward FDI flows in the United States (USD 382 billion), boosted by recordhigh levels of reinvestment of earnings and increased equity inflows involving major M&A transactions (see Sections 2 and 4). Yet, rises were recorded in many other OECD countries, in particular in Canada (USD 60 billion), Switzerland (USD 37 billion) and Japan (USD 25 billion).<sup>4</sup> In contrast, FDI flows into EU27 countries as a whole decreased by 30%, driven by decreases in Ireland, Germany and Luxembourg, down from peak levels recorded in 2020. Disinvestments were also recorded for the third consecutive year in the Netherlands.

**Table 2. Developed economies FDI inflows, by region and economy, 1990–2021 (Millions of dollars)**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>FDI Equity Inflow</b>	171	116	112	145	153	228	246	295	509	870	1133
	279.5	083.0	105.3	961.3	719.5	407.0	473.0	542.1	573.1	309.9	973.8
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>FDI Equity Inflow</b>	560	424	355	440	630	1012	1382	901	766	761	933
	142.5	916.1	532.5	433.6	455.5	877.7	376.7	911.5	876.9	318.7	049.0
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>FDI Equity Inflow</b>	789	799	713	1322	1384	937	753	764	319	745	
	264.5	972.6	961.7	723.0	814.4	683.0	320.3	455.7	189.8	739.2	

**Figure-2: Monthly FDI Equity Inflow (\$ millions)**

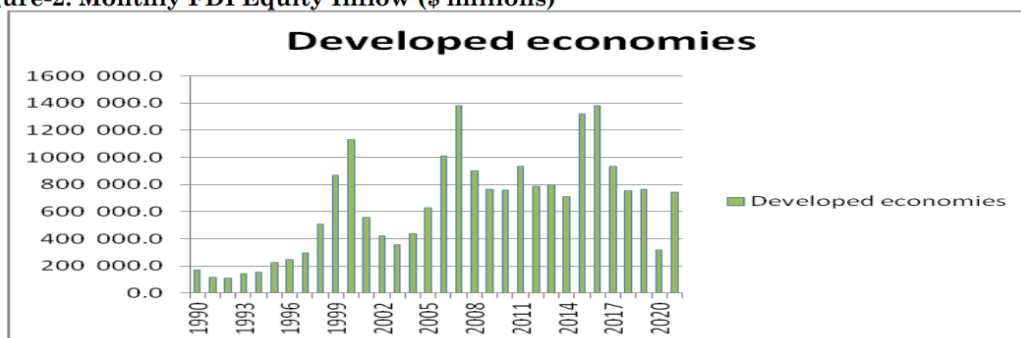


Figure 2 shows a comparison of FDI equity inflow for the period 1990 to 2020 with the last 32 years FDI equity inflow. It is clear from the above figure that there is gradual decrease of FDI equity inflow in the month of April 2020 to June 2020 as compare to the same of last 5 years average due to the Covid-

19 outbreak. From the month of July to October 2020 it is observed that the FDI inflow has sharply recovered and in the month of August 2020 the FDI equity inflow was highest because of the \$ 10 billion investment by Google in the country.

**Table 3. South Asia FDI inflows, by region and economy, 1990–2021 (Millions of dollars)**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>FDI Equity Inflow</b>				1	1	2	3	5	3	3	4
	212.8	446.9	754.4	354.3	950.0	816.3	380.0	413.6	926.6	249.5	866.3
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>FDI Equity Inflow</b>	6	10	8	10	14	28	34	56	42	34	44
	747.1	570.7	376.2	864.8	182.1	589.5	594.7	591.6	466.3	862.5	331.6
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>FDI Equity Inflow</b>	32	35	41	51	54	51	52	59	70	52	
	364.8	612.5	449.5	227.3	281.0	639.9	262.5	085.8	957.3	416.8	

**Figure-3: Monthly FDI Equity Inflow (\$ millions)**

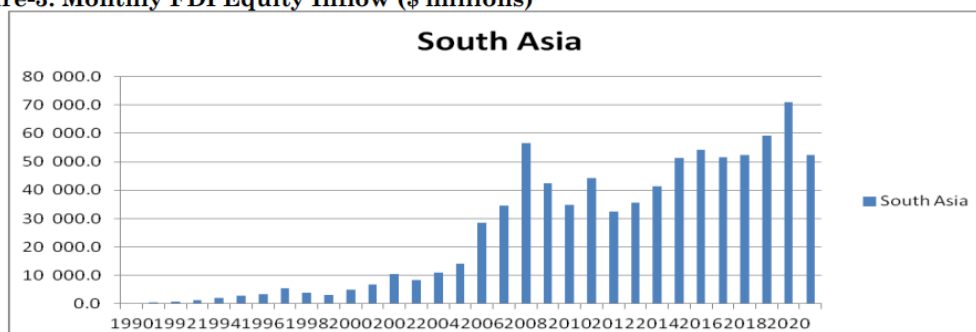


Figure 3 shows a comparison of FDI equity inflow for the period 1990 to 2020 with the last 32 years FDI equity inflow. It is clear from the above figure that there is gradual decrease of FDI equity inflow in the month of April 2020 to June 2020 as compare to the same of last 5 years average due to the Covid-19 outbreak.

**Table 4. India FDI inflows, by region and economy, 1990–2021 (Millions of dollars)**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>FDI Equity Inflow</b>	236.7	75.0	252.0	532.0	974.0	151.0	525.0	619.0	633.0	168.0	588.0
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>FDI Equity Inflow</b>	5	5	4	5	7	20	25	47	35	27	36
	477.6	629.7	321.1	777.8	621.8	327.8	349.9	102.4	633.9	417.1	190.5
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>FDI Equity Inflow</b>	24	28	34	44	44	39	42	50	64	44	
	195.8	199.4	582.1	064.1	480.6	903.8	156.2	558.3	072.2	735.1	

**Figure-4: Monthly FDI Equity Inflow (\$ millions)**

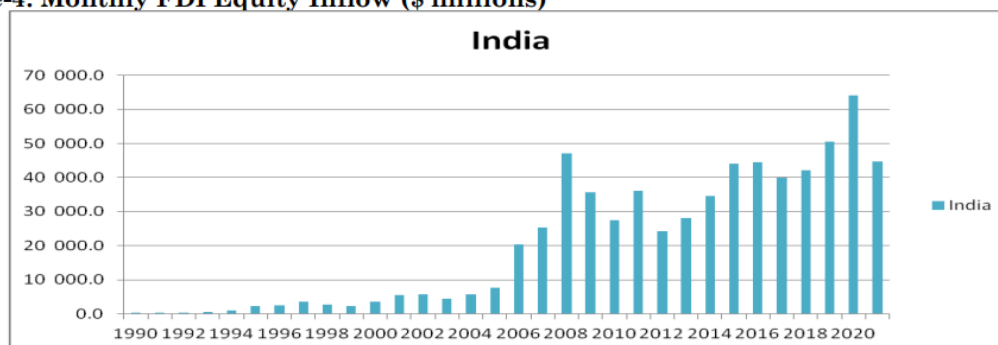


Figure 4 shows a comparison of FDI equity inflow for the period 1990 to 2020 with the last 32 years FDI equity inflow. It is clear from the above figure that there is gradual decrease of FDI equity inflow in the month of April 2020 to June 2020 as compare to the same of last 5 years average due to the Covid-19 outbreak. From figure it is observed that India is also impacted by Covid-19 outbreak.

**Conclusion**

From the above study it is observed that the Covid-19 pandemic brought unrest on the whole world and India has no exception. The First quarter of FY-20 has shown a considerable negative growth in FDI equity inflow in the country but due to the Government’s favorable business environment and timely FDI revised policies, FDI equity inflow has shown a surge of in the second quarter of FY-20. India’s rival chain’s dispute with the US has proven beneficial for India. As India having a large domestic market and having all capabilities to attract any big manufacturing company to shift its operation into the country.

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