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DRIVERS OF FDI IN THE POST-PANDEMIC WORLD WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

Covid-19 has wreaked havoc on the world economy, inflicting the biggest recession since the 1930s Great Depression. The world's GDP may be 7.5% lower by the end of 2020 than it would have been without the pandemic. More than 15% of young people who were working prior to Covid-19 have lost their jobs globally. Lockdowns have resulted in developments that are already influencing the global economy in technology, banking, and trade. With so much uncertainty in the transactional arena, investors are being more cautious before making any large transactions. Global FDI flows decreased by more than 49% in the first half of 2020, and even in the most optimistic scenario after governments' economic stimulus policies, the numbers do not appear to be improving. The developing countries are impacted even worse since the sectors getting the most FDI, such as primary and manufacturing, are the hardest hit. As a crucial generator of economic growth, FDI might play a significant role in assisting economies during and after the crisis.

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

Introduction

For economic growth, modernization, and job creation, foreign direct investment (FDI) is essential. It additionally facilitates innovation, the development of human resources, entrepreneurship, and effective handling of factors of Production. India has become hotspot for infusion of Investment from across the Globe. Many Economic forums reports that there is downtrend in Foreign Investment in western countries mainly after Subprime Mortgage policy which took more than seven years to revive. In contrast, FDI inflows into emerging markets like India have remained steady. According to estimates for 2018, FDI inflows into emerging economies accounted for 54% of the total flow of FDI globally, which was greater than FDI inflows into developed economies. Asia and Africa received more FDI than Latin America and the Caribbean did among emerging regions. Multinational corporations choose developing nations for a number of reasons, including the accessibility of low-cost, skilled, and unskilled labor. To put it another way, chances to reduce labor costs—India's massive inexpensive labor force, comprising the world India has the world's largest working-age population, which is one of the factors that attract foreign investors. In addition, the price of land and other infrastructure is dropping; there is hope for growing major 'Generated' assets involving advertising networks, communications infrastructure, and modern technology, all of which help businesses become more competitive. According to current global production patterns, developing nations supply the infrastructure for operations in the lower ends of manufacturing and services, while developed nations give management expertise, technological know-how, and skill enhancement. The migration of both professional and unskilled labor on a wide scale has significantly influenced how the current global economic system is structured. For instance, migrant skilled labor from Western nations and low-skilled labor from underdeveloped Asian countries have been the main drivers of economic activity in the Gulf countries.

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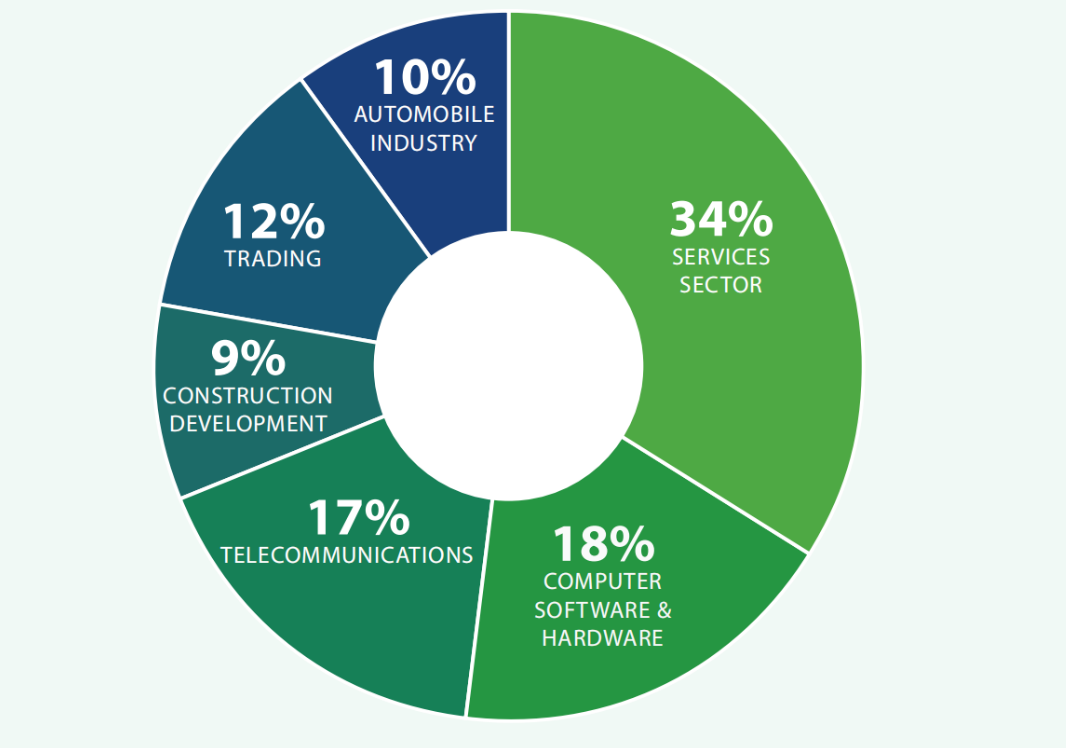
The federal organization of the economy reflected the same mindset. Indian federal states are given a lot of power under the constitution, including control over foreign investment. The vast majority of other sectors are accessible to international competition under the automatic approach, despite the fact that some crucial sectors, such as defense and broadcast content services, require prior government authorization for foreign investment.

FDI inflows into India have surged since the launch of the "Make in India" program for the first time, India's GDP surpassed the US$60 billion threshold.

India got FDI worth US$ 286 billion between March 2014 and April 2019, making up 46% of the entire amount received from April 2000 to April 2019 (US$592 billion).

in the 2017–18 fiscal year. However, net FDI inflows decreased from $7.9 billion to $6.8 billion in April to May 2019 from April to May 2018. Financial, manufacturing, and communication services account for a sizable share of FDI inflows to India. The six industries represented in Figure 1 accounted for more than half of all FDI inflows into India between April 2000 and June 2019.

Pie chart of Foreign direct Investment in the Premier segment of India (4/ 2000 to 06/ 2019)



Source: Department for Promotion of Industry and Internal Trade (DPIIT)[18]

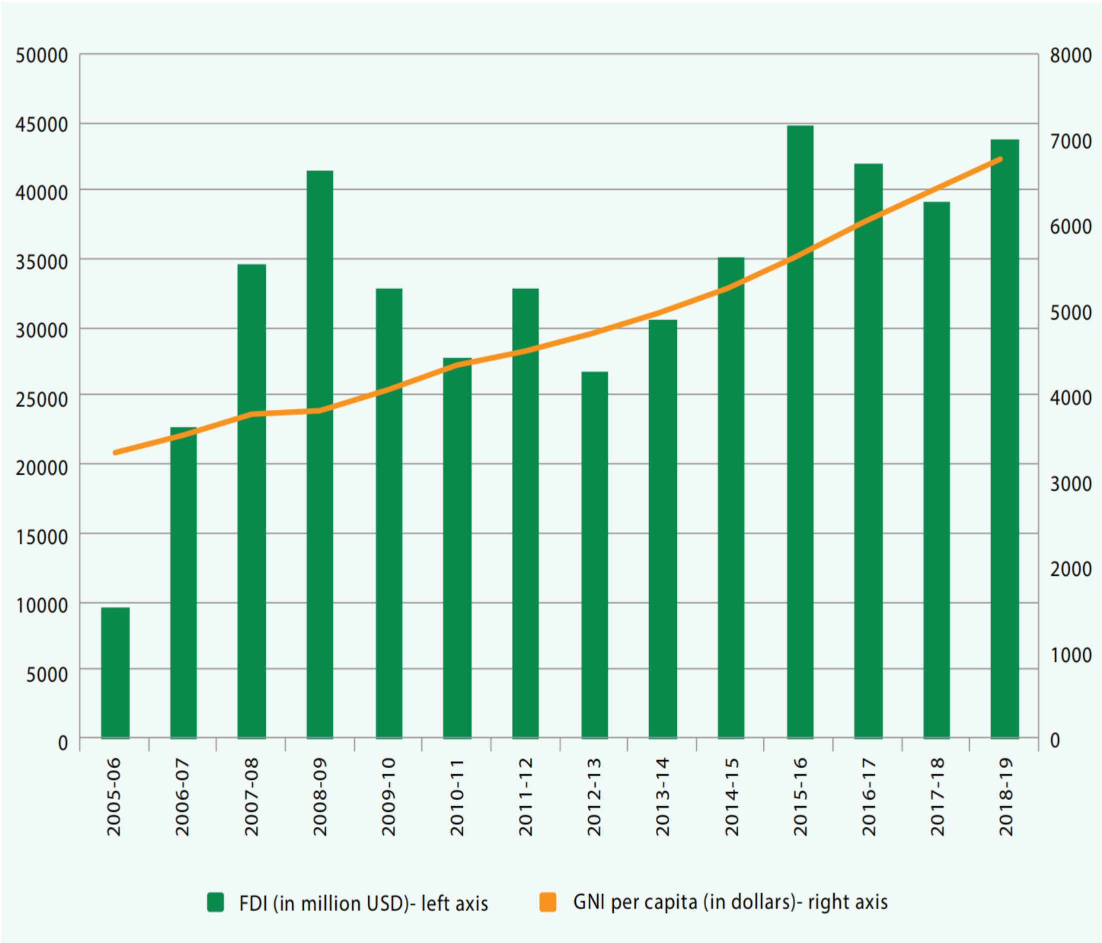
The manufacture of cigarettes, tobacco, or tobacco substitutes is also forbidden, as are lotteries, gaming, and betting (including gambling in casinos), chit funds, Nidhi enterprises, dealing in transferable development rights, real estate, and Nidhi enterprises. The number of industries designated for the public sector has also decreased concurrently.

Self Reliant India

Self-Reliant India aims to maximize the overall Development of its masses which should reach to the last man standing in line and is founded on the notion that the economy will benefit from FDI inflows if India becomes a center for global manufacturing. FII has long lasting effect as it is not going to move from the country so frequently Its effects on establishment of manufacturing units which results in higher standards of product quality, opportunities for global product marketing, and incorporation into global supply systems.

In a developing nation like India, FDI may spur economic growth, generate employment opportunities, and result in spillovers of technological and intellectual capital. Instead of early post-Keynesian and neoclassical approaches, proponents of endogenous growth theory have placed a strong emphasis on investments in human capital. which contribute to economic growth, are also important factors in attracting FDI. However, for each economy, the growth and welfare effects of FDI may be different, depending on things like the trade regime, the size of the host market and its labor costs, the educational level of the workforce, the infrastructure, and the macroeconomic stability.

Figure: Trends in India's FDI and Per Capita Gross National Income



To be sure, FDI does not necessarily translate into human capital or FDI to affect capital formation and economic expansion, the host country must have a certain level of human capital. The process of technological improvement is endogenized into the economic system through the interlinkages between FDI and human capital. Externalities generated by the accompanying R&D, education, training, and knowledge development investments stop the diminishing returns to scale for labor and physical capital. As a result, similar spillover effects are positive for other economic sectors.

The establishment of a unit funded by International Investor in the country is associated with both backward and forward links. facilitate technology dissemination and productivity growth. The figure illustrates the relationship between FDI and stronger national economic growth. The graph depicts FDI inflows as well as India’s gross national income per person. It shows that over time, per capita income has increased as has the overall volume of FDI inflows. However, additional in-depth investigations will be required to ascertain whether increased FDI volumes drive per capita income increases and also the opposite. Undoubtedly, there is proof that FDI and economic growth are positively correlated.

In the current Indian context, 'Atmanirbhar Bharat' may appear to be an impediment to foreign investment and trade internationally. However, FDI is a driver for economic production and consumption efficiencies, as highlighted in this study. Because domestic consumers have greater negotiating power than domestic producers, a rise in "economic nationalism" during the epidemic, such as Atmanirbhar Bharat, will need to be controlled. Otherwise, domestic producers' inefficiencies could be safeguarded at the expense of those customers.

Socioeconomic Factors Influencing Foreign Direct Investment in India

While GSDP measures a region's potential market size, there are additional social and economic variables that reflect a region's commercial attractiveness. To analyze the disparities between Indian states, a composite index must be created to encompass the various factors. Indices offer decision-makers a comprehensive view that would otherwise be difficult, if not impossible, to obtain. Indexation enables you to move from a number of indicators to a single statistic and offers an objective way to evaluate performance and measure development. Growth story of various parts of the country are the main factors that affect FDI both directly and indirectly. This section looks at the metrics that show how Indian states compare to one another across various metrics. It is possible to pinpoint the causes of potential variations in FDI inflows the capacity to innovate and transform them into outstanding economic results. FDI inflows are depending on the size of the economy even though research indicates that countries with higher levels of political corruption and instability get more FDI. with smaller economies benefiting more. In the case of large developed political stability seems to have less of an effect on FDI inflows in economies. However, it is uncertain if investments in a politically fragile economy will be profitable in the long run.

'Governance and Political Stability' is identified by the induction of Investment in the states. The World Governance Indicators published by the World Bank, which place India in the lowest category for political stability and the absence of violence, are also cited in the article. As a result, the country must make purposeful endeavors to improve its political climate and refocus policy on bolstering its institutions and governance in order to benefit from social and economic improvements.

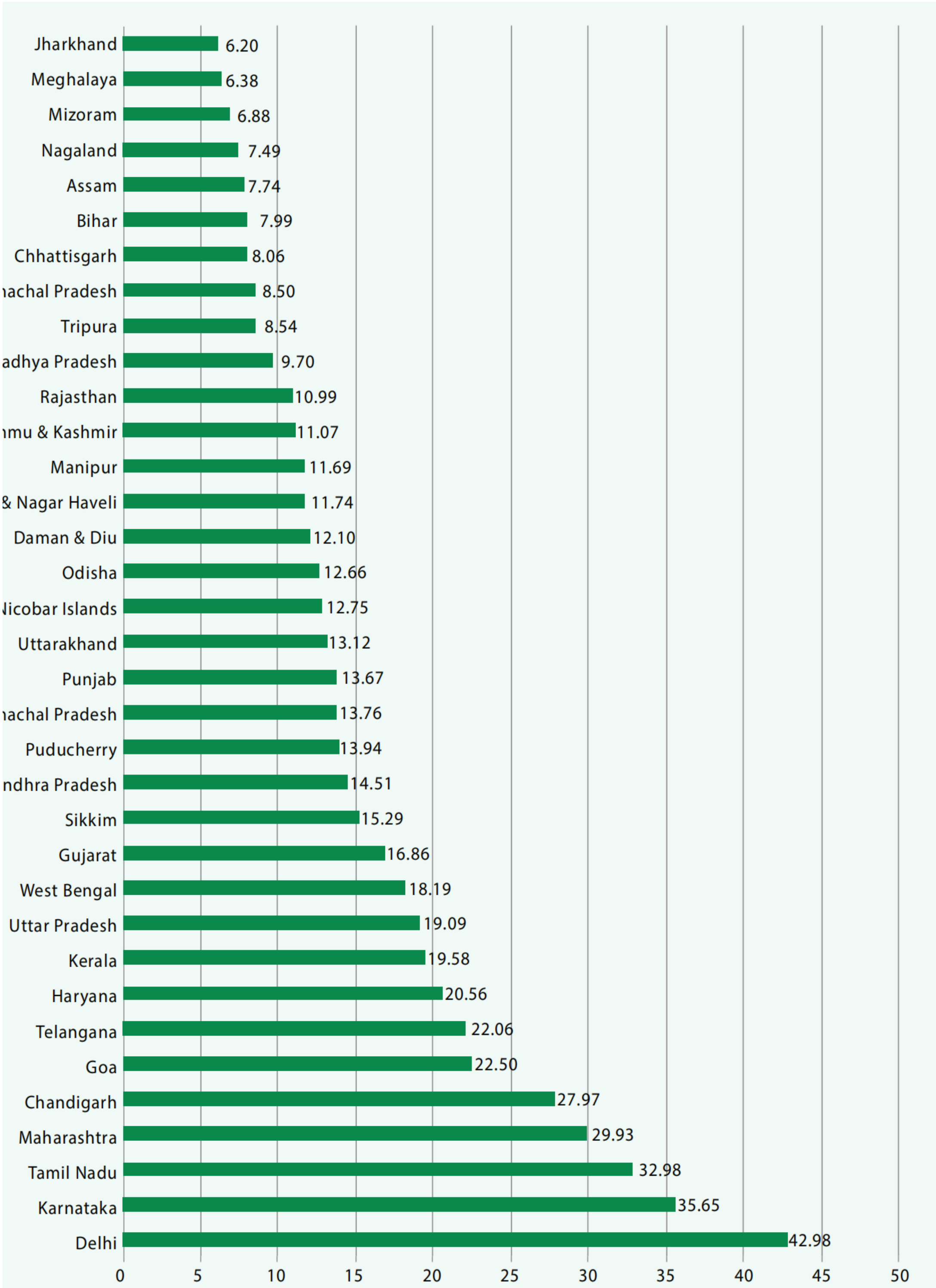
Similarly, to this, a higher ability to adopt or create modern technologies benefits developing nations like India. in strengthening its expertise and, as a result, increasing internal FDI. It emphasizes that the evolution of global investment flows began with the development of technology.

Useful information is provided by the India Innovation Index (2019) and the E-Readiness Index (2016). into the relationship between technology adaptability and FDI flows. The India Innovation Index (2019) was created to assess the Indian state and UT innovation ecosystems. It was built on two dimensions—enablers and performance—using an input-output paradigm. There are five pillars (23 identifiers) for "enabling" factors: Human capital(i), investment(ii), knowledge workers (iii), business environment (iv), and safety and legal environment (v). The scores for each state's "performance component are centered on the dissemination of knowledge and knowledge output, each of which has ten metrics. Based on their geographic similarity, the states and UTs have been divided into separate geographic regions. Greater capacity is indicated by a higher index value. for innovation as well as a higher ability to perform through the effective dissemination of newer technology. The India Innovation Index evaluates a state's strengths and shortcomings in relative terms, comparing a state's individual score to the mean score within a peer group, rather than in certain terms.

Similar weights were assigned when the several pillars were combined into a single index score due to the index's equal weighting of the different pillars, this could be a limitation. Human capital, investments, knowledge workers, corporate environments, legal and safe working conditions, and dissemination of knowledge, on the other hand, do not have to be equally important in driving innovation. A better technique for building this index would have been to assign done for the indicators under each pillar, weights using PCA.

However, comparing state performance serves the purpose of a baseline study (see Figure). Similarly, electronic service adoption and use show the state's use of technology, business friendliness, and governance procedures. The Various states are ready to make the transition to e-infrastructure and e-governance, following a trend similar to the Innovation Index.

Figure: Innovation Index (2019)



Source: NITI Aayog

FDI in a Post-Pandemic India

In the middle of a COVID-19 epidemic, modifications have been made to the FDI policy, according to Press Note 3 of 2020attempted to prohibit Indian enterprises from acquiring businesses. The Consolidated FDI Policy 2017 was updated to state that any organization or citizen If your country has a land border with India, you can only make investments there through the government.

Furthermore, the government must give its approval before any investment that alters beneficial ownership. This restriction is primarily intended for China, as limits on investors from Bangladesh and Pakistan were already in place; additionally, Sri Lanka, Bhutan, and Myanmar do not have significant financial ties to India. Therefore, the objective is to stop Chinese firms from buying shares at a discount in Indian listed companies. All industries (greenfield or brownfield), listed and unlisted businesses, and both are applicable to this metric. Although FDI inflows from China have been steadily increasing since 2014.India is abstaining from for the talks on the Regional Comprehensive Economic Partnership (RCEP), which are being led by ASEAN. But there are worries that India may miss out on a chance for regional commercial integration in the post-COVID-19 situation, which might present the country with prospects for trade and investment. Among those attempting to convince India to join the RCEP were Japan and Australia. Economist are sure that before the end of this year, the global economy will emerge from the Covid-induced slump, if production is well placed to fulfill the demand of various countries for their demand which will increase, constraints can be overcome and consumer demand is rekindled. This would entail upgrading India's product and input markets to make the economy more competitive, especially in contrast to rival Southeast Asian nations like Vietnam and Thailand. Due to underlying worries about importing edible products from China after COVID-19, nations may turn to India for cattle.

Following COVID-19, countries may look to Due to underlying worries about importing edible products from China, more processed food, marine produce, animals, fruits and vegetables, tea, rice, and other cereals are being imported from India. Prime Minister of India announced an INR 20 trillion economic stimulus package(around 10% of the GDP)in an effort to reduce the COVID-19 problem's financial effects and strengthen the domestic economy.Many efforts were also taken before the starting of the contagion which included institution of funds more than 11 trillion rupees by government of India and the Central Bank of India for Self reliant India was the call of the hour whose importance can be felt by the emphasis given by the Prime minister of India. Apart from this many more units of manufacturing different components which were earlier imported are being encouraged to established their units in India the latest example being Company Foxconn manufacturing microchip in India which will be used in all types of car.

Tesla is also know having talks with the officials of government to manufacture electric cars in India for domestic use as well as for export.

Conclusion

There was a considerable decline in the growth of the country with more than 22% negative growth in the month of April to June of 2020 which impacted not only manufacturing sector but also the service sector which had a sizable contribution in the high speed developing economy like India.

Many efforts were also taken before the starting of the contagion which included infusion of funds which was more than 11 trillion rupees by government of India and the Central Bank of India .To achieve the dream which is looking true for Self sufficient India was the call of the hour ,the importance can be felt by the emphasis given by the PM of India.

Apart from this many more electronic Components manufacturing units whose components were earlier imported are now being encouraged to establish their units in India. The latest example is of Foxconn company of Taiwan manufacturing Microchip which are in high demand in the car industry.

Tesla is also now having talks with the officials of government to manufacture electric cars in India for domestic use as well as for export which will not only bring FDI as well as create jobs in good number.

Including FDI, which fell 59% in the first quarter of FY-20. However, due to the government's favorable business environment and adjustment of FDI rules, FDI inflows are expected to increase by 16% in the next months, primarily due to investments in technology and telecommunications. In addition, Foxconn has invested in India's self-reliance scheme Bharat, Atmanirbharto establish manufacturing factories in the country. China's feud with the United States has also benefited India, as several large manufacturing businesses have relocated their production and operations to India, boosting India's economy and image as a global player. India will be one of the most appealing emerging markets for foreign investors in the next years. According to a UBS analysis, annual FDI inflows into the country are likely to reach $75 billion over the next five years. In addition, India's objective of creating a $5 trillion economy by 2025 would undoubtedly encourage investment in the following years. By embracing additional FDIs, India will be able to ensure its long-term viability.

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