



**ORIGINAL RESEARCH PAPER**

**Management**

**“IMPACT OF CORONA PANDEMIC ON FDI IN GUJARAT”**

**KEY WORDS:** Foreign Direct Investment, Industrial Development, Corona pandemic, Gujarat

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**ABSTRACT**

This paper explores the impact of health pandemics on foreign direct investment (FDI) in India and Gujarat. It is a fundamental for a nation like India to draw more FDI for each area of the economy. FDI being a critical driver of the economic growth could play an important role in supporting the economies during and after the corona pandemic. FDI inflow in India gradual decline from the onset of pandemic in February 2020 which will continue till second wave in April 2021. In India, Gujarat has been the most preferred business and investment destination for large multinationals for the past several years. Gujarat is one of the most industrialized states, with significant presence in pharma, chemicals, refining and petrochemicals, textiles and automobile. The primary focus of this paper on FDI in India, FDI in Gujarat and finally impact of FDI in Gujarat.

**INTRODUCTION**

The global Covid-19 pandemic, which is inflicting two kinds of shocks on countries: a health shock and an economic shock. Due to the Covid-19 pandemic, since March 2020 the economy not only India but the entire world has damaged tremendously. The outbreak has presented numerous challenges to the Indian economy such as production and supply chain disruptions, decline in demand, lower tourism, increase in unemployment rates, financial market volatile, loss of investor confidence and impact on international trade. As FDI can provide a major boost to the economy, the central government has taken several measures for FDI policy reforms. Investment facilitation and ease of doing business have resulted in increased FDI inflows into the country.

Gujarat occupies a principal place in India's manufacturing sector, especially in the production of chemicals, pharmaceuticals and polyester textiles. Favorable investments, availability of resources, solid management, good connectivity in transportation and availability of professional services have been the basis of the state's industrial development. Gujarat is among the top five states in India to attract FDI and experienced tremendous inflow of FDI in the past two and half decades. In this context, the Government of Gujarat set an example for other states on how to handle both pandemic and economy simultaneously. According to official data released, Gujarat has received the highest FDI during FY 2020-21 with 37% share of the total FDI equity inflows, followed by Maharashtra and Karnataka. Industry and investment-friendly policies made Gujarat as the top FDI destination even amid pandemic and the momentum will continue.

**Foreign Direct Investment In India**

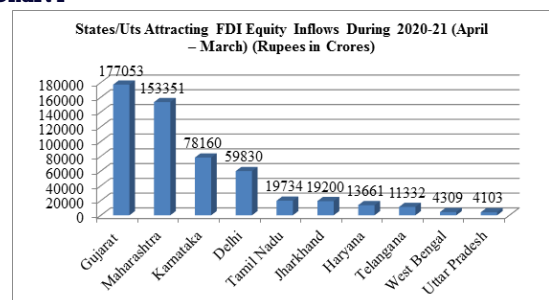
Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving. With the beginning of globalization, developing countries, particularly those in Asia, have been witnessing an immense surge of FDI inflows during the past two decades. The major advantages of FDI for developing countries can gain access to a wider global and better platform in the world economy, opened a wide spectrum of import and export, helps in outsourcing of knowledge especially in the IT sector, increases the level of competition by improving their processes and services and also rise in number of employment opportunities.

Even though India has been a latecomer to the FDI prospect compared to other East Asian countries. After Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The results have been

encouraging and country is consistently ranked among the top three global investment destinations. India open its door to FDI inflows and under the new foreign investment policy, Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment. As per the data, during FY 2018-19, 2019-20 and 2020-21 India attracted FDI worth US\$ 44,366 Million, US\$ 49,977 Million and US\$ 51,470 Million and major beneficiaries of these FDI are service sector, computer software and hardware, telecommunication, trading and automobile sector and the leading sources of FDI to the country are Mauritius, Singapore, USA, Japan, Germany and UK.

The Covid-19 pandemic brought a disorder on the whole world and India was no exemption. In spite of COVID-19 pandemic, a two-month long nationwide lockdown and a large GDP contraction in 2020, foreign capital flows to India remained surprisingly resilient. But due to government's favorable business environment and revision of FDI policies and India's self-reliance scheme (Atmanirbhar Bharat) has attracted investments from players such as Foxconn to setup manufacturing plants in the country. Despite the terrible impact of Covid-19 pandemic on economic activity, India managed to garner a total FDI of USD 81.72 billion in 2020-21, an increase of 10% from the previous financial year and the top investors countries were Singapore with 29% investment, USA with 23% and Mauritius at 9%. 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 US\$75 BN over the next five years according to a report by the UBS. Also India's goal of becoming a US\$5 Trillion economy by 2025 will definitely boost up the investments in coming years.

**Chart 1**



Source: <https://dpiit.gov.in> Fact sheet on FDI from April, 2020 to March, 2021

The Chart 1 demonstrates the state/Uts attracting FDI in India during the period 2020-21. The information shared by the

Department of Promotion of Industry and Internal Trade on FDI, state that the greater part of the absolute FDI flows mainly to five states to be specific Gujarat, Maharashtra, Karnataka, Delhi and Tamilnadu. As Chart 1 represent that Gujarat has received the lion's share of FDI in the country, garnering 37% of the country's FDI in the year 2020-21 followed by Maharashtra (27%) and Karnataka (13%).

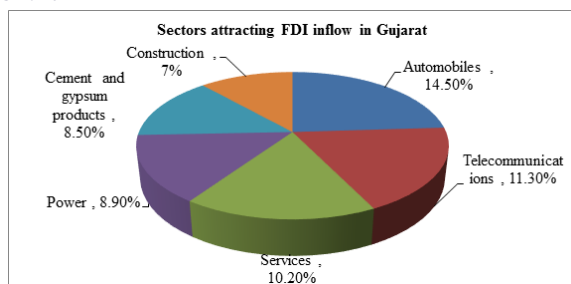
**Foreign Direct Investment In Gujarat**

One of the most progressive states of the country, Gujarat and its transformational model is one of the key contributors towards shaping a New India. Gujarat is not only among the pioneers of India's growth story but also a leader in various sectors including petrochemicals, textiles, pharmaceuticals, automobiles, gems and jewellery and now the government is focusing on computer software and hardware. The government of India is also partnering with the state government in its endeavor to attract fresh investment. Union ministries and departments like department for promotion of industry and internal trade, department of electronics & IT, and ministries of textiles, pharmaceuticals and chemicals have assured full support to the latest endeavor by the state government.

Although the 2021 edition of the biennial Vibrant Summit had been called off because of the pandemic, the intent is to keep the investment momentum going. The state government has written personal letters to the chairmen and CEOs of over 700 global companies based in over 50 countries, inviting them to invest in Gujarat. The companies which have been approached are those which are looking to expand their operations or shift their units out of China in the post Covid era. These companies are from about 40 diverse sectors ranging from pharmaceuticals to finance technology (fintech). The state government has set out a target to attract at least 10% of these companies who are looking to set up new facilities in the ASEAN region.

Gujarat has retained the top position in the country during 2020-21 in attracting 37% share, a total FDI of USD 30.23 billion ahead of all other states. This is the fourth consecutive year when Gujarat topped the list of states in attracting FDI despite the coronavirus pandemic. Almost 94% of the investment that came in Gujarat during 2020-21 was in the computer hardware and software sector and Gujarat alone accounts for 78% of the country's total investment in this sector. According to the state government, the maximum investment during the first six months of 2020-21 has come from United States, Japan, South Korea and Singapore. As Chart 2 represents major industries in Gujarat which attract FDI inflow are automobiles, telecommunications, services, power, cement and gypsum products and construction.

**Chart 2**



The government of Gujarat said investors are preferring the state because of transparent governance, industry-investor friendly policies and steps taken by government to ensure ease of doing business which helped the state in topping FDI ranking once again even amid pandemic. Even panic of corona, to attract FDI in the state, government of Gujarat will organise the 10th edition of Vibrant Gujarat Global Summit 2022 which provide a platform for B2B and B2G meetings for

discussing new business opportunities, potential project collaborations, strategic partnerships as well as innovative ideas. The Summit will provide a stage for countries and states to organize seminars to promote and showcase investment opportunities in their region.

The major factors attracting FDI in Gujarat are extensive network of transportation, availability of natural resources, professional services, skilled manpower and armed with a new industrial policy which offers several incentives to businesses, plug-and-play infrastructure for industries at the special investment regions (SIR) of Becharaji and Dahej and the GIFT city which is a hub for fintech companies, the Gujarat government aims to provide the best business environment to companies from variety of sectors.

**Impact Of Fdi On Gujarat Economy**

Impact of FDI on Gujarat economy has been positive, it has led to the all round development of the state and outcome is growth in trade and exports in the state. Impact of FDI on Gujarat economy has proved to be beneficial for the various industries in the state have grown, developed and also expanded. The most industries attracting FDI in Gujarat are Oil and gas, Food processing industries, Information Technology, Infrastructure, Gems and Jewellery, Biotechnology, Chemicals and Textiles. With increasing volumes of FDI Gujarat has emerged as one of the most rapidly developing states in India. FDI inflows in Gujarat have led to rapid development in the industrial sector in the state which will provide world-class technology and technical expertise and processes to their existing working process. FDI enhanced the quality of products and services and create number of employment opportunities by aiding the setting up of industrial units in the state.

**CONCLUSION**

FDI is considered to be an important factor to promote growth in any economy. Covid-19 has posed an unprecedented challenge for India. The negative impact of pandemic uncertainty results to a high level of unemployment, a downfall in GDP and leads to a decrease in FDI net inflows worldwide. To respond pandemics, governments across economies and regions need to use extensive fiscal and monetary policies to face the consequences. Gujarat is not only among the pioneers of India's growth story but also a leader in various sectors. Industrial Clusters in Gujarat be obligated its impressive growing identity with the rise of small and medium enterprises. Gujarat has knowledgeable inflow of FDI and it becomes the top five states in India to attract FDI. Recently it has been observed that Gujarat has been successful in attracting a lot of foreign investment in the industrial sector unlike the national trend because of industry and investment-friendly policies and support from local government and administration.

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