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Foreign direct investment and the Indian economy: Pre and post covid-19

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Abstract
India is a developing country and had been witnessing a growth in the number of vertical and horizontal business arrangements in the past few years. One of the major reasons for this was the inflow of foreign funds in the form of Foreign Direct Investment (FDI). The government effort was to implement friendly FDI policies so that more and more FDI can be attracted into the country. This was then faced by the COVID-19 pandemic. The COVID-19 pandemic crippled economies around the globe. The implementation of various restrictions as well imposition of lockdowns to curb the spread of the pandemic has impacted the flow of foreign funds into the country. These measures have resulted in severe economic disruptions and have also impacted the FDI decisions of various firms. This paper starts by examining how the Indian Economy and FDI are dependent on each other. It then tries to examine the relation between FDI and the growth of an economy and establish their positive co-relation. The flow of foreign funds and the growth of an economy are positively co-related. Thus, an impact on the flow of foreign funds shall impact the growth on the economy. The paper then discuss the various measure and policies adopted by the government to attract and retain FDI. Further, the policies implemented in the times of the pandemic as well as measure that can be taken for the way ahead have also been discussed briefly.

Keywords: foreign direct investment, international investment law, covid-19, gross domestic product, indian economy, international trade

Introduction

India is a developing country and had been growing at a good pace until the COVID-19 pandemic struck. In the recent past, India has witnessed an increase in the number of horizontal and vertical integration activities under its financial system. A major reason for this has been the introduction of foreign capital into the Indian financial system. India as a country, marked its own way in developing and structuring a transparent, stable and innovative financial system across the globe.

Foreign capital is brought into a country in a number of ways. One of these ways is by means of Foreign Direct Investment. Foreign Direct Investment (FDI) refers to an investment made by a company based in one country in a company based in some other country. FDI is a preferred form of investment over its alternatives as it considered to be the most beneficial and stable form of foreign investment for an economy. FDI plays a pivotal role in the overall development of any economy. Apart from providing capital to the country, it also facilitates skill development, technological Upgradations & synthesis and generates employment opportunities. It also provides access to new and improved marketing networks and improves the competition in the domestic market. It can thus be said that FDI serves as a booster for an economy as a whole.

The impact of FDI on an economy also depends to a great extent upon the policies of the particular government as well as various barriers and subsidies provided. All these factors determine the level as well as impact of FDI on the economy in terms of the GDP of a country. For this reason, the Indian Government has implemented a favourable policy regime and robust business environment as far as possible, which has ensured that foreign capital keeps flowing into India. The Government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

Various economists have proved that FDI and FII were attracted by India due to the reasons like:

- Availability of abundant raw materials
- Manpower and Infrastructure facilities at low cost
- High interest rates for investments
- Tax regimes
- Ease of transactions

Governments all over the world have taken strict public health measures in order to prevent the spread of the pandemic. These measures have resulted in severe economic disruptions and have thus impacted the FDI decisions of various firms. The COVID-19 pandemic has not only brought healthcare and critical infrastructure into focus from an FDI perspective but has also weakened companies in other sectors and made them easy targets for creditors and opportunistic buyers. Governments have also taken significant economic policy actions to forestall, or cushion, the economic consequences of the global health crisis. The eventual impact on FDI flows will depend on the success of both these public health and economic policy responses.

The COVID-19 breakout has left the entire world shaken and stirred. In India too, due to the lockdowns, several businesses and industries have taken a hit in terms of revenue and employment. Despite several measures undertaken by the government to improve the MSMEs' condition, there seems no respite due to this unprecedented contingency. Even before the onset of this pandemic, the global economy was confronting turbulence on account of disruptions in trade which had hampered growth. The situation has now been aggravated by the demand, supply and liquidity shocks that COVID-19 has imposed.

Currently, in India there are around 70 million traders and a high majority of them are MSMEs. Of these MSMEs, a lot depended on Chinese raw, semi-finished and finished products, like- electronic goods, cell phones and their parts, electric machineries, pharmaceutical API, iron and steel raw material, auto parts and others. Due to the COVID19, the exports from China to India have been suddenly dropped, this was a major hit to Indian MSMEs. This has led to the conclusion that India now needs to focus on products manufacturing under the Make in India Programme and slowly eliminate the dependency on Chinese Imports. To boost and support the Make in India schemes, increased FDI in the country would be an amazing option.

It is well known that the impact of the pandemic has not been all bad or uniform. For certain industries it is probably their most challenging scenario in years, if not in decades, whereas certain FDI industries instead are predicted to be able to grow and "benefit" from the COVID-19 crisis. These segments include e-commerce, cybersecurity, renewable energy, healthcare, and biotechnology.

While FDI is expected to create positive impact on economy, it has also brought in certain negative impact on Indian economy during the past few years especially in this Covid -19 situation.

Scope and Objective

The objective of this research paper is to evaluate the impact of FDI on the Indian economy. The scope of the research paper includes:

a. Analysis of the Impact of Foreign Direct Investment on the Indian Economy
b. To assess the determinants of FDI inflows
c. To find out the correlation between FDI and GDP of the country
d. To analyse problems related to FDI in Indian economy during covid-19 and give their solutions.

Research Problem

The COVID-19 pandemic has not just affected the global health systems but also the economies on a whole. However, the effect of the same varies from sector to sector. Sectors such as transportation, tourism, hospitality, and several sub-entertainment sectors have been affected negatively. In a scenario like this, India needs to be competitive enough to win investment battles and for the same reason, India has made some changes in its FDI policies. The policies implemented or which should be brought about need to focus on preventing acquisition of companies but also ensure that the Greenfield investments in India are not restricted. Thus, the laws that need to be brought about to stabilise the economy as much as possible as the entire world is still crippling amidst this pandemic.

Research Question

1. What are the benefits of FDI in India and how has the COVID-19 pandemic affected the FDI inflow?
2. With the international trade and business activities negatively impacted during the Pandemic, what steps can be taken to attract and maintain FDI in the Indian Economy so as to stabilise and improve economic growth?

Hypothesis

The post COVID-19 scenario will see a rise in the FDI provided that the government implements appropriate policies and schemes for attracting FDI. This is essential in order to sustain the lives of a massive population and get the wheels of production and trade running again.

Research Methodology

This research is of analytical nature and makes use of secondary data. The required & relevant secondary data are collected from various published sources, publications of Government of India, Reserve Bank of India, World Investment Reports, and Publications from Ministry of Commerce & from the websites of Dept. of Industrial Policy &Promotions (Govt. of India), World Bank, IMF, WTO, RBI, UNCTAD, OECD etc. The time series data and the relevant data have been collected for the period 2000 to 2020.

Literature Review

- EEPC India and AIC and RIC (2020), in their publication on *COVID-19 "Challenges for the Indian Economy: Trade and Foreign Policy Effects*": concluded that To sustain the lives of a massive population, we need the wheels of production and trade running; otherwise, it would lead to a scenario where people may die out of poverty rather than pandemic. The effect of COVID-19 is going to be vastly different for different sectors of services. Transportation, tourism, hospitality, and some entertainment sectors will be affected negatively. But some services, which provide online delivery of content and e-Commerce services, are likely to benefit from this disruption. India needs to be competitive enough to win these investment battles. India has recently made some changes in its FDI policies. While opportunistic acquisition of companies must be prevented, this new law should not restrict Greenfield investment in India.
- Lenoid Melnyk, Oleksander Kubatko and Serphiy Pysarenko (2014) [12] in their study on "*Analyzing the impact of FDI on the economic growth of post communism transition economies*" concluded that FDI significantly and positively influences the economic growth of host countries. The study found out that FDI is positively correlated with an increase in a specific region's growth rate. As per the results a well-developed financial and institutional sector are the important sources of GDP growth and FDI inflows.
- Kumar and Karthika found out in their study on *"Sectoral Performance through Inflows of Foreign Direct Investment (FDI*)", that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.
- Bajpai and Jeffrey stated attempted the paper on "*Foreign Direct Investment in India: Issues and Problems*", to identify the issues and problems associated with India's current FDI regimes, and also the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low

labour costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labour laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location.

- Kulwinder Singh (2005) in his study "Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005" explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.
- *Andersen P.S and Hainaut P.3 (2004)*[15] *in their paper* "*Foreign Direct Investment and Employment in the Industrial Countries*" point out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, in particular between outflows and employment in the source countries in response to outflows. They also find that high labour costs encourage outflows and discourage inflows and that such effect can be reinforced by exchange rate movements. The distribution of FDI towards services also suggests that a large proportion of foreign investment is undertaken with the purpose of expanding sales and improving the distribution of exports produced in the source countries. According to this study the principle determinants of FDI flows are prior trade patterns, IT related investments and the scopes for cross – border mergers and acquisitions. Finally, the authors find clear evidence that outflows complement rather than substitute for exports and thus help to protect rather than destroy jobs.
- Kumar and Karthika (2010) [16] found out in their study that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the pace of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.
- Bhavya Malhotra (2014), India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.
- Dr. Jasbir Singh,Ms. SumitaChadha, Dr. Anupama Sharma(2012) [9] " *Role of Foreign Direct Investment in India*: An Analytical Study" On the basis of study finds that the highest amount of FDI gone to financing sector, insurance sector, Real estate and Business services which is 33.05 percent of total cumulative inflow of FDI in study period in India. There is an upward trend in the flows of foreign investment particularly in study period. We should provide the better environment for attracting the foreign investment through direct as well as indirect methods. We should welcome inflow of foreign investment in such way that it should be convenient and favourable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favourable.
- To sum up, it can be said that large domestic market, cheap labour, human capital, are the main determinants of FDI inflows to India, however, its stringent labour laws, poor quality infrastructure, centralize decision making processes, and a very limited numbers of SEZs make India an unattractive investment location.

Foreign Direct Investment and the Indian Economy

Apart from being a driver of economic growth, foreign direct investment (FDI) is also a major source of non-debt financial resource for the economic development of India. In 2015 India emerged as a top FDI destination surpassing China and the US. During 2014-15, India received most of its FDI from: Mauritius, Singapore, Netherlands, Japan, and USA.

The key factors that attract Foreign Direct Investment in any country are primary factors like low cost of production, labour skills, tax rates, political stability of the host country, Exchange rate of currency, transport and infrastructure facilities, the size of the economy, local demand and potential for growth. Secondary factors are underlying motives like access to local resources such as minerals, land, warehousing options, irrigation etc. While it's the primary factors that play a role in global FDI movement across nations, some additional factors also come into play and have additional weightage attached to them in a post Covid-19 scenario.

Factors and determinants that attract FDIs in India

The following factors make India an attractive investment destination for foreign firms:

- Both natural and human resources play an important role in the investment decision of foreign firms. India also has a sizeable domestic market measured by the GDP, fairly stable exchange-rates, macro-economic stability, and sustainable growth. This attracts relatively large volumes of FDI.
- India's improving infrastructure facilities provide ease of transportation and communication with well-defined roadways, shipping networks etc.
- India has political stability and a very supportive and encouraging government, with a transparent policy framework towards FDI.
- A distortion free foreign trade regime, attracts relatively large volumes of FDI in India
- The fiscal and monetary incentives in the form of tax concessions provided by the governments play a major role in attracting FDI.
- Increased autonomy over decision-making and implementation of reforms to the state governments in India is another reason for attracting increased volumes of FDI.

Benefits of FDI in the Indian Economy

1. **Increased Employment and Economic Growth:** The primary and most obvious purpose of FDI is the

creation of jobs. Increased employment opportunities is in fact one of the main reasons why developing countries like India look to attract FDI. An increase in FDI helps in boosting the manufacturing and service sector. This leads to creation of job opportunities and helps in removing unemployment both among the skilled and unskilled labour in the country. Having a living leads to an increase in the income of the labour force of the country which leads to an improvement in the buying power and ultimately contributes to the growth of the economy.

2. **Human Resource development:** Human capital is measured by the knowledge, skill and competence of the workforce. Foreign companies bring improved training and experience for the workers which helps them enhance and build on their existing skills. Once this happens, the human capital can help train human resources in other companies, thereby creating a ripple effect.
3. **Development of Backward class:** FDI helps to transform backword areas of the country by setting up plants and units in such areas. This leads to their conversion into industrial areas which then provides a boost to the social economy of the area. The Hyundai Unit at Sriperumbudur, Tamil Nadu is an example of this.
4. **Provision of Finance and technology:** The Indian businesses get an access to new financing tools, technologies, and operational practices from across the world. The introduction of newer, enhanced technologies and processes results in diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.
5. **Increase in Export:** The goods produced under the FDI method are not meant for the domestic markets only. A lot of these products have a global demand. This helps in earning valuable foreign exchange. The creation of 100% exports-oriented units and economic zones has further assisted FDI investors in boosting their exports from other countries in India.
6. **Exchange rate stability:** A constant flow of FDI into a country ensures a continuous flow of foreign exchange which helps the RBI maintain a favourable reserve of foreign exchange. This contributes to stable exchange rates.
7. **Creation of competitive markets:**_FDI ensures entry of foreign players into the local markets which increase the quality of competition in the local markets and helps break domestic monopolies. This healthy competitive environment pushes firms to constantly enhance their performance on all fronts. Consumers also gain access to a wide range of competitively priced products.

Impact of FDI on the Indian Economy

Corelation between FDI and GDP of the country

Evaluation of FDI and GDP in India during (2010-2020):

As per The United Nations Conference on Trade and Development (UNCTAD), India jumped to the ninth spot in 2019 on the list of global top FDI recipients from the twelfth spot in 2018. In the following table, the FDI & its related data are taken from the website of - Department of Industrial Policy and Promotions, Ministry of Commerce & Industry, Government of India. The GDP and its related data are collected from RBI's "Handbook on Statistics and Indian Economy". The table shows the inflows of FDI, the GDP rates and the FDI expressed as a percentage of the GDP between the F.Y 2010-2011 to 2019-20.

Table 1

Years	FDI inflows (Crores INR)	FDI Inflows (in Millions USD)	GDP at current prices (USD)	Growth rate of GDP	FDI as % of GDP
2010-11	54,101	11,834	1675615335600.56	8.50	1.64
2011-12	1,03,167	22,061	1823050405350.42	5.24	2.00
2012-13	1,08,186	19,819	1827637859135.70	5.46	1.31
2013-14	1,29,969	21,564	1856722121394.53	6.39	1.52
2014-15	1,91,219	31,251	2039127446298.55	7.41	1.70
2015-16	2,35,782	36,021	2103587817041.78	8.00	2.09
2016-17	2,38,913	35,612	2294797978291.98	8.26	1.94
2017-18	1,95,052	30,286	2652754685834.59	7.04	1.51
2018-19	2,14,036	30,712	2713165057513.35	6.12	1.55
2019-20	3,04,820	43,013	2875142314811.85	5.02	1.76

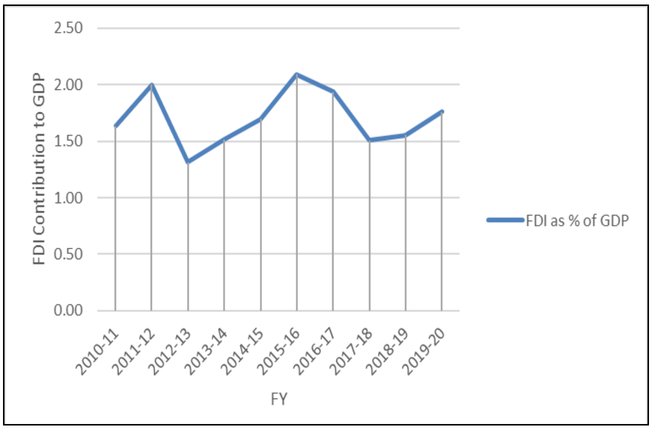

Fig 1: Line Graph

A prima facie analysis of this table shows that FDI and GDP are positively correlated with each other and the country's GDP is showing a positive movement with inflow of Foreign Direct Investment in India. The only years when an increase in FDI still resulted in a lower GDP growth FY 2011-12, 2018-19 & 2019-20. The Annual FDI contribution (in USD) as well as the GDP at current prices (USD) have been growing steadily. The contribution of FDI as a percentage of GDP has been fluctuating between 1.31 (the lowest) and the maximum contribution % (2.09). The contribution of FDI as a percentage of GDP has been the highest in FY 2015-16 followed by FY 2011-12 in the past 10 years. Post 2015, the FDI contributions have remained fluctuating steadily however, the FDI contributions as a percentage of GDP has declined.

Table 2: Share of top FDI investing Countries in the equity inflows

Rank	Country	2017-2018		2018-2019		2019-2020		Cumulative inflows		% of total Inflows (USD)
		In Crores (INR)	in Millions (USD)	in Crores (INR)	in Millions (USD)	in Crores (INR)	in Millions (USD)	in Crores (INR)	in Millions (USD)	
1	Mauritius	1,02,492	15,941	57,139	8,084	57,785	8,241	7,95,941	1,42,710	30%
2	Singapore	78,542	12,180	1,12,362	16,228	1,03,615	14,671	6,09,562	97,670	21%
3	Netherlands	18,048	2,800	27,036	3,870	46,071	6,500	2,08,322	33,852	7%
4	Japan	10,516	1,633	20,556	2,965	22,774	3,226	1,96,105	33,499	7%
5	USA	13,505	2,095	22,335	3,139	29,850	4,223	1,76,222	29,779	6%
6	UK	5,473	847	9,352	1351	10,041	1422	1,50,411	28211	6%
7	Germany	7,245	1,124	6,187	886	3,467	488	68,944	12,196	3%
8	Cyprus	2,680	417	2,134	296	6,449	879	57,993	10748	2%
9	France	3,297	511	2,890	406	13,686	1896	50,511	8539	2%
10	Cayman Islands	7,932	1,237	7,147	1,008	26,397	3,702	49,848	7,536	2%
Total FDI flows from all the countries		2,88,889	44,857	3,09,867	44,366	3,53,558	49,977	27,32,444	4,70,119	-

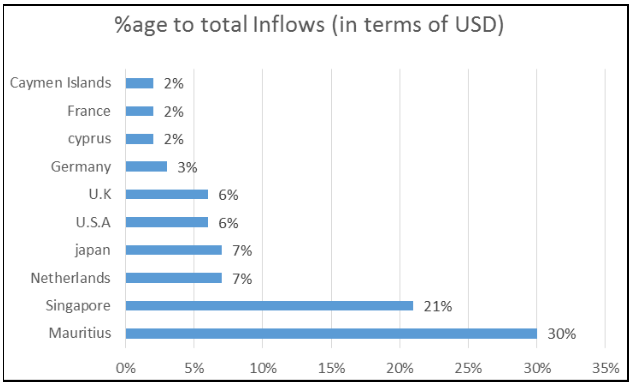

Fig 2: Bar Graph

The top countries in terms of FDI in India are Mauritius, Singapore, Netherlands, Japan.

If India can strengthen its ties with USA, UK, and Germany, they too can be major foreign direct investors for India. With the COVID-19 pandemic, a majority of countries are looking to shift their manufacturing and business deals to some other market other than China. India should also utilise this recent turn of events to its advantage to attract various key players as.

Covid-19 Impact on India's Economy: Challenges & Solutions

Table 3: Sectors Attracting Highest FDI Equity Inflows

Rank	Sector Name	In Millions (USD)			% age to total Inflows (In terms of USD)
		2017-18	2018-19	2019-20	
1	Services Sector	6,709	9,158	7,854	17%
2	Computer Software & Hardware	6,153	6,415	7,673	10%
3	Telecommunications	6,212	2,668	4,445	8%
4	Trading	4,348	4,462	4,574	6%
5	Construction Development	540	213	617	5%
6	Automobile Industry	2,090	2,623	2,824	5%
7	Chemicals (Other Than Fertilizers)	1,308	1,981	1,058	4%
8	Infrastructure Activities	2,730	2,258	2,042	4%
9	Drugs & Pharmaceuticals	1,010	266	518	4%
10	Hotel & Tourism	1,132	1,076	2,938	3%

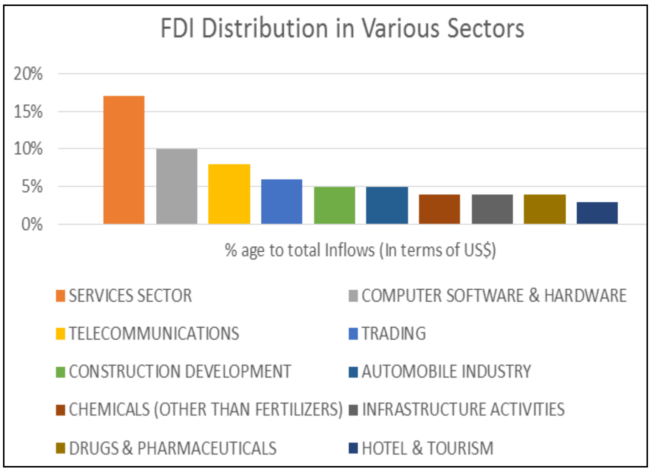

Fig 3: Bar Graph

The above chart clearly shows that the highest inflow of FDI is attracted by the Service Sector in India. This sector included finance, banking, insurance and other non-financial sectors like research and development, testing, analysis, and outsourcing. It is followed by the Computer Hardware and Software industry and again closely followed by the Telecom Sector, followed by Computer Hardware & Software firms such as Accenture solutions private Ltd, One 97 communications Ltd., JP Morgan private Ltd., Flipkart Internet Pvt Ltd etc. Followed by Telecommunication sector. Among the top players in the telecom sector, Bharti Airtel owns the largest share, followed by Reliance, Vodafone, state-owned Bharat Sanchar Nigam Limited (BSNL), Tata and Idea. Other key players are Mahanagar Telephone Nigam Limited (MTNL), Aircel and Tata Teleservices which has been able to attract more and more investors during the lockdown). The sectors that have recorded the least inflow of foreign capital are Hospitality, Chemicals, Infrastructure activities etc. With this already low FDI, the global pandemic induced country wide lockdown has only further reduced FDI in these sectors.

However, the pandemic has been a boon for other sectors such as IT Services, Hardware & Software, Telecommunication, Chemicals, Pharma and Drug Sector etc as a result of which FDI can be expected to further increase. Even the Automobile & Infrastructure industry have been adversely impacted but there is room for hope for the Automobile sector as even though consumerism and demand has fallen in India, companies might be looking for cheaper manufacturing sites such as India, Vietnam, etc as they leave the Chinese Market.

Challenges and Solutions related to FDI in Indian economy during Covid -19

Current FDI Policies of the Government

The past few years, the government has taken various economic measures to attract FDI into the country. These measures involve opening a number of earlier restricted sectors for foreign investments. Some of the sectors include Defence, Construction Development, Trading, Pharmaceuticals, Power Exchanges, Insurance, Pension, Other Financial Services, Asset reconstruction Companies, Broadcasting and Civil Aviation.

In addition to this, the sector wise cap on investments have also been relaxed. An example of this is: In the coal sector, for sale of coal, 100% FDI under automatic route for coal mining, activities including associated processing infrastructure will attract international players to create an efficient and competitive coal market. Other measures taken are easing of foreign exchange control rules, substantial reduction in corporate income tax rates, and increased investment in infrastructure. To provide a boost to the manufacturing sector and make India a global manufacturing hub, the government launched the Make in India campaign in 2014, with an intent to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure.

During the period of 2014– 16, India received most of its FDI from Mauritius, Singapore, Netherlands, Japan, and the US. On 25 September 2014, Government of India launched Make in India initiative in which policy statement on 25 sectors were released with relaxed norms of FDI on each sector.

In-order to cushion and sustain the impact of the global pandemic, a number of measures have been taken by the Indian Government. On 18 April 2020, the Government of India passed an order that would protect Indian companies in terms of FDI during the pandemic. The order provided that all countries sharing a land border with India would now face scrutiny from the Ministry of Commerce and Industry before any FDIs. Government of India on 17 April 2020 has reviewed the FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic and amended para 3.1.1 of extant FDI policy as contained in Consolidated FDI Policy, 2017 - "provided that an entity of a country, which shares land boundaries with India all the beneficial owner of an investment into India who is situated in or is a citizen of any such country, shall invest only with the government approval" The department for promotion of industry and international trade (DPIIT) on April 18 issued a press note regarding this change in policy which would impact both direct and indirect FDI from China. It said that the government has amended the FDI policy to curb opportunist takeover. “Provided also that in the event of the transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction or purview of the above provisos, such subsequent change in beneficial ownership shall also require government approval,” DEA said in the notification.

The plan of action for FDI post COVID-19

The steps taken to curb the spread of the covid-19 pandemic resulted in an economic turmoil not just in India but on a global level. Experts believe that the economic impact of it will probably exceed even the recession caused by the sub-prime crisis of 2007-08.The IMF has projected a GDP growth of 1.9% for India, which may possibly be the country’s worst performance since the economic liberalisation of 1991.

Trade and FDI are closely interlinked with each other so much so that they are considered to be two sides of the same coin! To take advantage of the opportunity presented by Covid-19, India needs to not only liberalise its trade and FDI policy regimes but also do so in a synchronised and coordinated manner. Until now, the domestic policies, rules and regulations related to trade and FDI India have been fragmented due to various objective and goals set up by separate organisations. The Government thus needs to formulate its foreign trade and investment policy accordingly. It needs to revamp its approach to attract more invest, retain it and increase the synergy of FD in the local economy. In order to be able to do this, the outlook on foreign trade policy needs to be changed. It is not just a way of promoting exports but a way to balance imports, exports and FDI. The existing institutional mechanisms for trade and investment policymaking need to be revised to ensure more integrated, coherent, and inclusive policies.

Another thing that can be done to keep imports in check is to subsidise local establishments. This would increase the demand for local products in the market over the imported ones.

The current pandemic has changed the face of globalisation. A lot of multinationals are planning to move their operation from China. In order to benefit from this situation, India needs to ensure that proper policies are in place. The friction between US and China is also an opportunity for India to increase exports to US. The situation has already benefitted India since many of the US-based companies have considered to shift their investments to India from China. India could attempt this strategy with the other countries of the world as well. At this time, the government must resist the tendency to adopt protectionist measures to safeguard the domestic economy as it will have a negative impact on foreign investment flows into the country.

A number of areas which need new policies and attention from policy makers are as follows:

1. Measure and supportive mechanisms to help local firms overcome supply side constraints. Developing a standard of quality certification would improve competitiveness of local industrial structures and develop the relations between local and foreign firms. This helps enter into the supply chains of foreign firms. Building a robust digital infrastructure will allow firms to operate remotely both along global value chains and in reaching out to foreign markets.

2. In India, the export processing zones (EPZs) play a major role in attracting FDI. They should thus be designed in a way that not only benefits the foreign firms but also helps in the economic growth of the country. This can be done by ensuring that EPZ regulations support the establishment of local supplier relationships, including the design of supplier development programmes to support match-making processes between foreign firms and local suppliers.

After lifting the restrictions, the focus of the country is on economic revival and the government plans to aggressively push "Make in India' programme with a dual strategy of policy and fiscal incentives to existing and prospective domestic and foreign investors, and duty protection to dissuade imports of finished goods.

As per HIS Markit, the Indian economy will rebound in the second half of 2020 and is projected to grow by 6.7% in the next financial year. Despite the short-term shocks of the pandemic the total FDI in the country has remained buoyant. Foreign direct investment by technology firms in the first seven months of 2020 has already reached around USD 17 billion, boosted by the USD 10 billion new investment announced by Google in mid-July. Facebook, Amazon, and Foxconn are among the other global technology firms that have committed large new investments into India this year, IHS report states.

India's most sought-after industries, which include professional services and the digital economy, could see a faster rebound as global venture capital firms and technology companies continue to show interest in India's market through acquisitions. Investors concluded deals worth over $650 million in the first quarter of 2020, mostly in the digital sector as per the UNCTAD.

The contribution of the various nations in the form of FDI is expected to rise in the sectors such as – IT, Services , Textiles, Pharmaceutical, Manufacturing, Supply Chain etc provided that the Indian Government facilitates and encourages foreign investors by providing incentives to stimulate capital inflow and growth thereby leading to a symbiotic relationship . Moreover, the recent anti – Chinese sentiments due to the pandemic have made companies and governments look for non-Chinese alternatives. If India can be prudent to subsidize the costs and taxes and attract these market players, we will be able to achieve a profitable growth in the long term even though we might not benefit tremendously in the short-term.

India will have to focus on attracting FDI for other sectors where there is untapped potential/ resources such as Agriculture, Arts and Crafts, Engineering and Machinery, Automobiles, Robotics, Electronics etc. There should be more development projects for Infrastructure Improvement, even in rural regions as there is imbalance present currently. More opportunities should be created in rural regions to stimulate growth and flow of capital instead of overcrowding the city with opportunities and thereby forcing people to crowd the cities for opportunities. India will also have to focus on creating a balance and digitalize the remote villages and make sure that the basic amenities such as Electricity, water, Internet is accessible to all. At this point, we do not know if India can overtake China in the coming years or compete with it on a long-term basis, but India must take advantage of the ongoing COVID-19-driven situations and strategically attempt to compete with China.

A way out of this economic slump can be achieved in a number of ways. The government may announce stimulus packages to boost the economy. They might contribute to increase domestic demand in the economy. It will also help in generating more employment opportunities and thereby prevent the problem of unemployment from getting moreworse. The RBI can ease monetary conditions ensure liquidity in the market. The problem raised by the pandemic is majorly the lack of liquidity in the money market which adversely affected the flow credit to industries. Thus, to increase liquidity, the RBI can cut cash reserve ratio (CRR) and infuse in the banking system. The RBI can further reduce statutory liquidity ratio (SLR) which will enable banks to get money. The GST rates can be cut down and if this cut in GST is actually passed on to the consumers by manufacturers, it would lead to the reduction in prices and therefore stimulate demand for goods. As a further measure to boost demand, service tax can also cut down.The slowdown caused by the global pandemic may be expected to be alleviated Government's fiscal stimulus measures and accommodative expansionary monetary policy of the RBI. The Indian economy might recover from the Crisis Due to an increase in Government expenditure under fiscal stimulus and Due to the pick-up in private consumption and investment demand as a result of multiplier effect of increase in Government expenditure, if incurred on infrastructure projects

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