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Focus 73 – European FDI to India and Covid-19

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Abstract

This paper aims to discuss where India stands on the foreign direct investment (FDI) market, especially as regards FDI from the EU. In 2020-2021 the Covid-19 outbreak largely hit financial markets and global FDI plummeted. Only a few countries, among which India, still recorded high and positive FDI inflows. This may reveal India's full potential as a host of foreign investment and redefine its position on the FDI market as an opportunity catalyst. In May 2021, the European Union (EU) and India entered a High-Level Dialogue on Trade and Investment and agreed on a new Connectivity Partnership. This paper suggests that it may be in the EU's best interest to leverage its already privileged relationship with India – strengthening it and encouraging European companies to consider India as a FDI host.

Keywords: Foreign Direct Investment, India, The European Union, Covid-19 High-Level Dialogue on Trade and Investment, Connectivity Partnership

World FDI flows plummeted in 2020-21 due to the Covid-19 outbreak (OECD, 2021). Increased risks and uncertainties led most investors to be cautious. Nevertheless, India itself attracted steady FDI flows amidst the sanitary crisis (DPIIT, 2021). Since May 2021, the EU has entered a dialogue with India about their trade and investment partnership (European Commission, 2021a). This new dialogue could either lead to a more liberal and free trade-oriented relationship or toward more restrictions and protectionist rules. India's singular, positive FDI attractiveness during the pandemic should incentivize the EU to become a valuable FDI partner. Not only does India benefit from a favourable macroeconomic environment (deficit and inflation under control) and a liberal FDI policy regime; it also hosts one of the largest consumer markets in the world (FDI India, 2020). As Covid-19 reshapes the global FDI landscape, India has been attracting Science, Technology, Engineering, and Mathematics (STEM) investments in key innovative sectors such as the digital area and biotechnologies (Shehadi, 2021). The pandemic also uncovered foreign investors' over-reliance on China and encouraged them to consider India as a potential alternative (fDi Intelligence, 2021). This paper points out why India, unlike the rest of the world, keeps attracting FDI. We suggest that it may be in the EU's best interest to strengthen its trade and investment relationship with India and increase its foreign capital stock.

The Covid-19 pandemic strongly hit the FDI market. When the epidemic burst back in early 2020, foreign direct investment across the world sharply decreased. The value of FDI and the number of new greenfield projects across the globe steeply declined (UNCTAD, 2021, p. 9). Such a uniform trend testifies of the intense impact that the epidemic had on financial markets. As presented in the fDi report 2021 (fDi Intelligence, 2021, p. 5), the year 2020 only registered 11,223 new greenfield projects – versus 16,819 in 2019, representing a 66% decrease. FDI flows had not plummeted so since the 2008 global financial crisis. The EU felt the shock most starkly – as stated in a recent OECD report (2021, p. 4), FDI outflows dropped by 77% in 2020. EU flows now amount to 13% of global FDI outflows, when it accounted for over 30% in the two previous years. Austria, the United Kingdom, Norway and the Netherlands recorded extensive negative outflows, and Germany registered some considerable declines as well.

Only two major economies, India and China, defied the trend and listed consistent and positive FDI inflows during the pandemic. This is less surprising for China, which constitutes a significant hub for the global value chain (GVC; Garcia Herrero & Nguyen, 2019). India's success was more surprising given the country's developing economic state and likely vulnerability to shocks such as Covid-19. As shown in India's quarterly factsheet on FDI (DPIIT, 2021, p. 4), the percentage growth of FDI inflows to India amounted to +20% in 2019-20 and +10% in 2020-21. India has now become the third-largest FDI recipient in the world, behind the United States and China (UNCTAD, 2021). This may be explained by surges in cross-border M&A in the energy sector as well as numerous new greenfield projects in communication and biotechnology. In April 2020, Facebook invested $5.7 billion for a 9.9% stake in the Indian telecommunications company Jio Platforms (Forrester, 2020). Probable explanations for this investment include an expected decrease in purchasing prices, the existence of lower borrowing costs and some promising prospects linked to the Covid-19 vaccine.

India thus stood out in FDI attraction amidst the sanitary crisis. This may suggest a prominent future role for India in the global FDI market. Were India to become an FDI hub, it would probably be in the European Union's best interest to leverage and bolster its cordial relationship with the South Asian nation. As its third-largest trading partner, the EU is already a key trade and investment agent (European Commission, 2021b). Today, 6,000 European companies are present in India, generating over 1.7 million direct and 5 million indirect employments (European Commission, 2021b). However, despite reaching €75.8 billion in 2019, investment flows remain 2.6 times inferior to those held with other major partners such as China (Iwanek, 2021).

On May the 8th, 2021, the EU and India entered a High-Level Dialogue on Trade and Investment and agreed on a new Connectivity Partnership (European Commission, 2021a). These two undertakings aspire to achieve "transparent, inclusive and rules-based connectivity" (European Commission, 2021a). The EU-India relationship can develop further cooperation in trade, investment and even a free trade agreement. As Covid-19 reshuffles the cards of the global FDI landscape, and as India's future prospects may shine bright, the EU may wish to encourage more FDI to India.

The FDI that the EU should prioritize regards some promising sectors such as the digital area and biotechnologies, two sectors where India is acting as an investment catalyst (Invest India - National Investment Promotion & Facilitation Agency, 2021a). With social-distancing and lockdown measures, world economies need to adapt and proceed with accelerated digitization. Economies extensively invested in the development of remote working, e-learning and telemedicine. In 2020, one-third of the world FDI happened in sectors with high STEM inputs – and the communication sector attracted +41% capital investments relative to 2019 (fDi Intelligence, 2021). These new and intense need for digital infrastructures caused by Covid-19 suggests that the digital industry will become a top investment area. This includes artificial intelligence, cloud computing and quantum computing, all that is needed for achieving the fastest possible connectivity (Verbeek & Lundqvist, 2021). As illustrated by the 2021 global shortage of chips, telecommunication multinationals such as Samsung and Intel poured billions of dollars into new production so as to satisfy demand (Fitch, 2021).

India benefited from this accrued need for digitization and seemed to become a key agent in the sector. The country is ranked among the top 10 STEM FDI destinations (UNCTAD, 2021) and stands as the second-fastest digitizing economy in the world (Invest India - National Investment Promotion & Facilitation Agency, 2021b). The Indian government supports and encourages the development of India as a digital hub by pursuing promoting policies and campaigns such as the Digital India Programme (Ministry of Electronics & Information Technology Government of India, 2021). This project aims to bolster Indian e-Governance capabilities and strive for "a digitally empowered society" (Ministry of Electronics & Information Technology Government of India, 2021). In line with these internal measures, India counts world-leading corporations as key investing partners, mostly US-based. Lately, Amazon Web Services invested $2.8 billion to open three new data centres in India and set up a cloud region (Saxena, 2020). In order to keep a competitive advantage with other international companies, the EU should advise and support its companies to also seize investment opportunities in India.

The biotechnologies sector also grew due to the Covid-19 outbreak. Indeed, the pausing of the world generally led global economies to increase research on 'mRNA' and cooperate on the development of a Covid vaccine (UNCTAD, 2021). The possible use of mRNA in medicine entails the potential development of treatments for genetic diseases, cancers or infections as well (Fiedler et al., 2016;

Martini & Guey, 2019). These new rosier prospects generated a massive boost in biotechnologies-related investments. According to an article published by McKinsey in 2020, US and European biotechnology companies' share prices rose to over "twice the rate of the S&P 500" (Cancherini et al., 2021).
India already stands as a leader in the global vaccine market as it supplies 60% of world demand (Invest India - National Investment Promotion & Facilitation Agency, 2021a). The country seems willing to participate in the future of the biotechnologies sector and become a catalyst for foreign investments. AstraZeneca's partnership with the Serum of India Institute (SII) to manufacture its Covid vaccine testifies to the country's ambition and potential in the area (AstraZeneca, 2020). India hopes to attract greenfield projects in the biotech sector and expects the number of start-ups to reach 10,000 by 2025. From 2019 to 2020, it registered a 12.3% year-on-year growth (Invest India - National Investment Promotion & Facilitation Agency, 2021a). Once again, it counts some world-known multinationals (Bayer) as key partners – and this too should incentivize more European companies to invest.
The outbreak of the pandemic also uncovered the global supply chain's overdependence on China. When the epidemic first started and China's production slowed down, the world found itself in difficulty (Garcia Herrero & Nguyen, 2019). Investors became aware of their over-reliance on China in various domains, particularly within the pharmaceuticals industry. A notable example of this was the severe shortage of face coverings in early 2020 (OECD, 2020). With China already supplying half of the world demand and lacking supply for itself, the country could not keep up with the exponential growth in world demand caused by the Covid-19 pandemic.
As a result, economies across the globe have attempted to reinstate their supply and technological sovereignty (Darnis, 2021) and searched for alternative investment recipients. Among other countries such as Thailand or Vietnam, India emerged as a potential host for foreign direct investments and provider of world supplies (Inamdar, 2020). Behind investors' de-risking strategies lies the idea that diversifying one's portfolios will decrease the risk associated with investments and attenuate the impacts of negative outcomes. Despite discussions on the matter, such a trend seems to timidly emerge in the FDI market. India and China own respectively 15% and 18% of the regional market share – so there is still a big way

to overstep Beijing (fDi Intelligence, 2021, p. 13).

To conclude, the Covid-19 outbreak largely hit the world’s FDI market and unveiled the possibility of a new paradigm in which India could have a central role. India was amongst the few countries that still managed to record positive FDI inflows in 2020-2021 and is on its way to become a hub for investments in promising innovative sectors such as the digital area and biotechnologies. The country also appealed to foreign investors as they became aware of the global value chain’s over-reliance on China and looked for diversification destinations. In this context, the EU and India may wish to re-evaluate and further strengthen their relationship. It may well be in the EU's best interest to send further FDI to India and exploit the High-Level Dialogue on Trade and Investment as well as the new Connectivity Partnership.

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