

INDIA RECORDS 13% FDI GROWTH IN 2020, HIGHER THAN MAJOR ECONOMIES. 5 REASONS WHY

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

India recorded 13% growth boosted by investments in the digital sector. Infrastructure and energy deals also propped up M&A deals in India. Piyush Goyal said, The government policies and reforms have made India a preferred destination

Marking a major achievement globally, India recorded a 13% growth in Foreign Direct Investment (FDI) in 2020 at a time when fund flows declined most strongly in major economies such as the UK, the US and Russia. Amidst global collapse, China is the only other country that has shown remarkably high FDI growth.

An 'investment trends monitor' issued by the United Nations Conference on Trade and Development (UNCTAD) on Sunday further pointed out, global FDI collapsed in 2020 by 42% to an estimated USD 859 billion from USD 1.5 trillion in 2019.

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"Such a low level was last seen in the 1990s and is more than 30% below the investment trough that followed the 2008-2009 global financial crisis," the report quoted.

China and India were two major outliers in a gloomy year for foreign direct investment.

The two nations recorded positive [#FDI](#) growth in 2020 even as global levels sunk to lows not seen since the 1990s. <https://t.co/xbGMvpZBJb> pic.twitter.com/DbNWNy7nDf

Factors determining FDI inflows being high for India, China while world failed to attract investors

Digital sector, infra and energy attracted investors in India

India recorded positive growth (13%), boosted by investments in the digital sector. The report said, the investments in the digital economy continued, particularly through acquisition. Cross border M&A grew 83% to \$27 billion.

A notable deal was 10% acquisition of Jio platform by Jaadhu owned by Facebook valued at \$5.7 bn. Infrastructure and energy deals also propped up M&A deals in India, as per the report.

India continues to attract deals

India and Turkey are attracting record numbers of deals in IT consulting and digital sectors, including e-commerce platforms, data processing services and digital payments.

Some 80% of the acquiring firms are based in developed economies, primarily in Europe, but a few multinational enterprises from developing countries are active buyers, the report also said.

Govt policies, reforms played a significant role: Piyush Goyal

Explaining the phenomenon, Commerce and Industry Minister Piyush Goyal said on Monday: The government policies and reforms have made India a preferred destination for foreign direct investments and the inflows grew at the fastest rate among top economies.

India Means Business: Despite Covid, FDI inflows into grew at fastest rate among top economies. With double-digit FDI growth of 13% in 2020, the world is beating a path to India.

Policies & reforms initiated by PM [@NarendraModi](#) ji have made a preferred destination for FDI. <https://t.co/T7nATmnlsw>

ICT and phrama brought investments in China

In terms of individual nations, China was the world's largest FDI recipient, with flows to the Asian giant rising by 4% to \$163 billion. High-tech industries saw an increase of 11% in 2020, and cross-border M&As rose by 54%, mostly in ICT and pharmaceutical industries.

"A return to positive GDP growth (+2.3%) and the government's targeted investment facilitation programme helped stabilize investment after the early lockdown," the report says.

Covid was the main reason why FDI remained slow globally

The global FDI collapse in 2020, falling by 42% to an estimated \$859 billion, from \$1.5 trillion. The decline was concentrated in developed nations, where FDI fell by 69% to an estimated \$229 billion

The effects of the pandemic on investment will linger," said James Zhan, director of UNCTAD's investment division. "Investors are likely to remain cautious in committing capital to new overseas productive assets."

Despite projections for the global economy to recover in 2021 – albeit hesitant and uneven – UNCTAD expects FDI flows to remain weak due to uncertainty over the evolution of the COVID-19 pandemic. The organization had projected a 5-10% FDI slide in 2021 in last year's World Investment Report.

However, UNCTAD expects any increases in global FDI flows in 2021 to come not from new investment in productive assets but from cross-border M&As, especially in technology and healthcare – two industries affected differently by the pandemic.

"Although their investment activity slowed down initially in 2020, they are now set to take advantage of low interest rates and increasing market values to acquire assets in overseas markets for expansion, as well as rivals and smaller innovative companies affected by the crisis."

(With inputs from agencies)

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