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FDI and FPI in Post-Pandemic India: A Recovery Perspective

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Abstract: The COVID-19 pandemic has been disrupted global economic activities at an unprecedented scale, significantly it has affected cross-border investment flows. India, like many other emerging economies, experienced substantial volatility in both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). This paper explores the impact of the pandemic on FDI and FPI inflows in Indian economy and evaluates the effectiveness of the government's recovery strategies in stabilizing and revitalizing foreign investments during the post-pandemic period. The study integrates quantitative time-series analysis of FDI and FPI data from 2017 to 2023.Quantitative data sourced from the Reserve Bank of India (RBI), Ministry of Finance, and SEBI reveals a sharp contraction in FDI and FPI inflows in 2020 due to investor uncertainty, lockdowns, and supply chain disruptions. However, a recovery trend has been observed post-2021, particularly in sectors such as digital services, healthcare, renewable energy, and fintech. Thematic analysis of qualitative data highlight that while investor sentiment was initially cautious, transparency in policy, macroeconomic stability, and targeted incentives encouraged a resurgence in long-term FDI. FPI inflows, being more volatile, responded quickly to global monetary policies and domestic reforms. This paper contributes to the broader discourse on investment resilience in crisis contexts. It highlights sector-specific trends, policy effectiveness, and offers actionable recommendations to strengthen India's position as an attractive and stable destination for foreign capital in the evolving post-pandemic global economy.

Keywords: Foreign Direct Investment, Foreign Portfolios Investment, Investment.

I. INTRODUCTION

In the contemporary globalized economy, international capital flows play a pivotal role in shaping national economic development. Among the most significant components of these flows are Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). While both are forms of investment made by foreign entities, they differ fundamentally in terms of nature, intent, control, and impact on the host economy. Foreign Direct Investment (FDI) refers to investment made by a foreign individual or company in productive assets within another country, typically through the establishment of business operations, acquisition of tangible assets, or strategic partnerships.

FDI is considered a long-term investment and is often associated with not only capital inflow but also the transfer of technology, managerial skills, employment generation, and enhanced productivity. It indicates strong investor confidence and a commitment to the host country's economic environment.

Foreign Portfolio Investment (FPI), on the other hand, involves investment in a country's financial assets, such as stocks, bonds, and other securities. Unlike FDI, FPI does not grant the investor any significant control over the operations of the firms in which the investment is made. It is typically short-term in nature, driven by returns and market movements, and is sensitive to macroeconomic indicators, interest rates, inflation, and global financial sentiment. For a developing economy like India, both FDI and FPI are crucial for bridging the investment gap, enhancing foreign exchange reserves, and strengthening financial markets. Over the past two decades, India has witness growing inflows under both categories, making them key contributors to the country's growth and globalization strategy.

However, the emergence of the COVID-19 pandemic in early 2020 presented a major shock to global and domestic investment dynamics. Nationwide lockdowns, disruptions in supply chains, contraction in demand, and heightened uncertainty led to a dramatic slowdown in economic activity and investor sentiment. FDI projects were deferred or canceled, and FPIs witnessed rapid outflows as global investors fled to safer assets. Despite these challenges, the post-pandemic period India adopted several proactive reforms aimed at reviving investor confidence and attracting renewed foreign investment.

II. IMPACT OF COVID-19 ON GLOBAL AND INDIAN ECONOMIES

The COVID-19 pandemic triggered one of the most severe economic disruptions in modern history. Globally, strict lockdowns, travel bans, and public health emergencies led to the shutdown of industries, a slump in consumer demand, and a halt in international trade. The crisis disrupted global supply chains, causing shortages in essential goods and raw materials. Additionally, inflationary pressures emerged as supply fell short of demand, and uncertainty over the duration and severity of the pandemic led to a collapse in business and consumer confidence. India, like many emerging economies, faced a dual shock: a public health crisis and a severe economic downturn. The nationwide lockdown in early 2020 caused a standstill in manufacturing, construction, and retail sectors. Migrant labor shortages, disrupted logistics, and reduced productivity deeply affected industrial output. Financial markets saw sharp volatility, and inflation rose due to supply-side constraints. These uncertainties had a direct impact on investor sentiment. Both domestic and foreign investors became cautious, leading to a significant decline in capital inflows. FDI inflows slowed as global companies deferred expansion plans and reassessed risks, while FPI witnessed sharp outflows—especially in early 2020—as investors pulled funds from emerging markets to safer assets. There was also a noticeable shift in sectoral preferences: while traditional sectors like real estate and hospitality suffered, areas like healthcare, digital services, fintech, and e-commerce attracted relatively higher interest due to rising demand in the pandemic environment. Overall, the pandemic not only strained economic fundamentals but also tested India's ability to maintain investor trust amidst global turbulence.

III. LITERATURE REVIEW

Roxona wright (2024) studied "Is Foreign Direct Investment Resilient Post the COVID-19 Pandemic? The Case of a Subnational Economy"a unique dive into the presence and development of FDI at a subnational location. By using detailed data on spatial and industrial distributions of FDI in the U.S. state of New Hampshire and find support for all our hypotheses related to post-disruption recovery and resilience. Given the varied impact of the pandemic on FDI across locations, and the heterogeneity in local conditions, and contend that the subnational recovery depends on the impact of the disruption and happens at varying levels and timelines.

Dunning's Eclectic Paradigm [FDI] Proposed by economist John Dunning, the" OLI Model" is a comprehensive framework that explains why firms choose to engage in Foreign Direct Investment rather than exporting or licensing. The model consists of three pillars: Ownership Advantage (O): Firms must possess unique assets such as proprietary technology, brand reputation, or managerial expertise that provide a competitive edge in foreign markets. Location Advantage (L): The host country must offer favorable conditions such as access to raw materials, cheap labor, large consumer markets, or supportive regulatory frameworks that make it an attractive destination for investment. Internalization Advantage (I): Firms often prefer to control operations internally (rather than through partnerships or licensing) to reduce transaction costs, protect intellectual property, and ensure quality standards. Relevance to India: Multinational companies invest in India due to its large consumer base (L), skilled workforce (L), and opportunities to apply proprietary technologies (O), while preferring direct control over operations (I) for efficiency and security.

Harry Markowitz "Modern Portfolio Theory" (MPT) provides the foundation for understanding Foreign Portfolio Investment (FPI). Developed by Harry Markowitz, the theory suggests that investors seek to maximize returns while minimizing risk through diversification. Diversification: By investing in a mix of assets across different countries and industries, investors can reduce the overall risk of their portfolios. Risk-Return Tradeoff: Investors weigh the potential return against the associated risk. Countries with stable macroeconomic conditions, strong legal systems, and open capital markets tend to attract more FPI. Relevance to India: India, being a fast-growing emerging market, offers higher returns compared to developed markets. However, factors like exchange rate volatility, inflation, and political risk can influence FPI decisions. As a result, investor sentiment toward India fluctuates based on global financial trends and domestic stability. While the OLI model explains the strategic motivations behind long-term investment decisions by multinational firms (FDI), Portfolio Theory captures the behavior of short-term investors seeking financial returns with acceptable risk levels (FPI). Together, these theories offer a holistic view of how and why capital moves across borders, and what factors determine a country's attractiveness to foreign investors.

Imam A Moosa and Ebrahim Merza (2022) studied "The effect of COVID-19 on foreign direct investment inflows: stylised facts and some explanations" The economic effects include the adverse consequences for economic growth, international trade, and foreign direct investment. This paper presents stylised facts about the fall and rebound of FDI inflows as a result of the pandemic. The effects of COVID-19 are considered from three angles: macroeconomic shocks to the economy, theories of foreign direct investment, and studies of the economic effects of disasters and crises. The change of heart away from globalisation and deindustrialisation may discourage FDI flows, which have already been undermined by other factors such as the digitisation of the economy and the emergence of Industry 4.0.

Sinem kocake (2022) studied "Impact of the COVID-19 on foreign direct investment inflows in emerging economies: evidence from panel quantile regression" The study explores the role of the COVID-19 pandemic on foreign direct investment in 12 emerging countries for the period between 2014 and 2021. The world pandemic uncertainty index is used, and panel quantile regression approach is employed to analyze the effect of the pandemic on foreign investment inflows. Unlike the conditional mean regression analysis, panel quantile regression gauges the independent variables at the different locations of the dependent variable. For this reason, it provides a more comprehensive illustration of the impact of the independent variables on dependent variables. The results show that the pandemic has an inverse effect on foreign direct investment in low- and middle-foreign investment receiving countries, while the effect is insignificant in high-foreign investment receiving countries. Apparently, the health crisis has been further harmful to the countries that have weaker economic structures.

Dr. S. Saravanan (2021) studied "Impact of Covid-19 On Foreign Direct Investment in India" The information relating to endorsement of outside direct speculation uncovers that the greater part of the absolute affirmed ventures are in the five states to be specific Maharashtra, Delhi, Tamilnadu, Karnataka and Gujarat. Maharashtra with 4972 tasks (19.80 percent) worth of Rs.36602.4 crores has represented the primary position in the complete endorsement of remote direct venture. Delhi with 2763 ventures (11 percent) and with an estimation of Rs.30303.8 crores comes in the subsequent position.

Prabheesh kp (2020) studied "Dynamics of Foreign Portfolio Investment and Stock Market Returns During the COVID-19 Pandemic: Evidence From India" This paper examines the causality relation between stock returns and foreign portfolio (FPI) flows in the Indian context during the COVID-19 pandemic. Using daily data and the Toda and Yamamoto Granger causality test, the study finds that unidirectional causality runs from FPI flows to stock returns during the pandemic.

K.P Prabheesh, sanjiv kumar and Ameer Omar Shareef studied "Revisiting the impact of foreign portfolio investment on stock market performance during COVID-19 pandemic uncertainty: Evidence from India" This paper re-examines the causality between stock returns and foreign portfolio investment (FPI) flows in the Indian context during the COVID-19 pandemic. Using the Covid-19 index constructed by Narayan et al. [19] and the Toda and Yamamoto Granger causality test, the study reveals that bi-directional causality runs from FPI flows to stock returns in the early period of the Covid-19 pandemic. Whereas after the peak of the pandemic, there is a unidirectional causality that runs from FPI flows to stock returns. Bi-directional causality runs from FPI flows to stock return during the initial period of COVID.In the second period, unidirectional causality runs from FPI flows to stock returns

IV. IMPACT OF PANDEMIC ON INVESTMENT FLOWS:

The COVID-19 pandemic had a profound impact on global investment flows, significantly affecting both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). The ensuing economic disruptions led to heightened uncertainty, prompting investors to reassess risks and governments to implement measures aimed at stabilizing their economies. Studies worldwide indicate a decline in cross-border investments during 2020 due to uncertainty, supply chain disruptions, and financial market instability. In India, sectors like hospitality and retail were hit hardest, while digital services and healthcare showed resilience.

V. IMPACT OF INVESTMENT FLOWS ACROSS GLOBAL ECONOMY

According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows were projected to contract by 30% to 40% during 2020-21, with all sectors affected. Sharp contractions were especially evident in consumer cyclicals, manufacturing industries, and the energy sector. Emerging markets experienced significant capital outflows, with investors withdrawing approximately $83 billion from developing countries since the onset of the pandemic—the largest capital outflow ever recorded.

VI. INVESTOR REACTIONS TO MARKET UNCERTAINTIES

The pandemic-induced uncertainties led to varied reactions among different investor categories. In the Indian market, for instance, Foreign Institutional Investors (FIIs) exhibited 'fire-sale' behavior, contributing to lower stock returns and higher volatility during the crisis period. Domestic Institutional Investors (DIIs) displayed 'flight-to-quality' behavior, while Retail Investors (RIs) acted as informed investors, initially increasing their holdings in high-risk stocks but later shifting to high-quality stocks.

Furthermore, a World Bank Group pulse survey indicated that over 90% of multinational enterprise (MNE) affiliates reported adverse effects in the second quarter of 2020. More than 80% experienced a decline in net income, averaging a 37% decrease, with two-thirds reducing investment and over half cutting employment in developing-country affiliate operations.

VII. OBJECTIVE AND METHODOLOGY

The objective of the study to analyze how the COVID-19 pandemic impacted FDI and FPI inflows into India, and to explore how India has been recovering in the post-pandemic period. While preparing this paper secondary source of information have been utilized. Various reference books, journals, articles, newspaper etc. Have been consulted. Some information have been drawn from websites. The method used is analytical and descriptive.

VIII. RESEARCH QUESTIONS

How did the pandemic affected FDI and FPI inflows into India?

What policy measures did the Indian government implemented to attract and sustain foreign investment during and after the pandemic?

IX. MEASURE IMPLEMENTED BY GOVERNMENT TO ATTRACT AND SUSTAIN FOREIGN INVESTMENT DURING AND AFTER THE PANDEMIC

In response to the investment challenges posed by the pandemic, governments worldwide implemented various measures to stabilize their economies and attract investment. For instance, the United Arab Emirates launched the Targeted Economic Support Scheme (TESS), providing collateralized loans at zero cost to participating banks, which in turn offered relief to customers affected by the pandemic. Similarly, the European Central Bank announced a €750 billion bond-buying program named the Pandemic Emergency Purchase Programme to mitigate market turmoil. These measures aimed to restore investor confidence, stabilize financial markets, and lay the groundwork for economic recovery. The COVID-19 pandemic led to a significant downturn in global investment flows, with investors reacting to heightened uncertainties by withdrawing capital and reassessing risks. Governments responded with various fiscal and monetary measures to mitigate the impact, aiming to stabilize their economies and attract investment during the recovery phase.

X. POST-PANDEMIC RECOVERY MEASURES

In the wake of the COVID-19 pandemic, India implemented a series of strategic reforms to revitalize its economy and to attract foreign investment. Key initiatives included the Atmanirbhar Bharat Abhiyan, labor law reforms, and adjustments to Foreign Direct Investment (FDI) policies.

A. Atmanirbhar Bharat Abhiyan (Self-Reliant India Mission)

Launched in May 2020, the Atmanirbhar Bharat Abhiyan aimed to stimulate economic growth and reduce dependency on imports. Key measures under this initiative included:

1) Credit Support: Provision of credit guarantees for Micro, Small, and Medium Enterprises (MSMEs) to enhance liquidity.
2) Structural Reforms: Policy changes in sectors like coal, defense, and civil aviation to encourage private participation and investment.
3) Ease of Doing Business: Simplification of compliance procedures and establishment of a single-window system for clearances to facilitate investment.These reforms were designed to create a more conducive environment for both domestic and foreign investors.

B. Labor Law Reforms

To modernize labor regulations and improve the investment climate, India consolidated 29 central labor laws into four comprehensive codes:

1) Code on Wages: Standardizes wage definitions and ensures timely payment.
2) Code on Social Security: Extends social security benefits to all workers, including those in the unorganized sector.
3) Industrial Relations Code: Simplifies dispute resolution and promotes harmonious industrial relations.
4) Occupational Safety, Health and Working Conditions Code: Enhances workplace safety and health standards. These reforms aim to simplify compliance, increase labor market flexibility, and make India more attractive to foreign investors.

C. FDI Policy Adjustments

In response to the pandemic and to safeguard domestic companies, India revised its FDI policy in April 2020:

1) Increased Scrutiny: Investments from countries sharing land borders with India now require government approval to prevent opportunistic takeovers.

2) Sectoral Liberalization: FDI limits were increased in sectors like defense manufacturing (from 49% to 74%) and insurance (from 49% to 74%) to attract more foreign capital. These policy changes were intended to balance the need for foreign investment with national security concerns.

XI. GAPS IN CURRENT LITERATURE

Despite a growing body of research on the global impact of COVID-19 on investment flows, several gaps remain, particularly in the Indian context:

1) Limited Sector-Specific Analysis: Most existing studies focus on aggregate FDI and FPI trends without disaggregating the data by sectors. There is insufficient research exploring how specific sectors—such as renewable energy, fintech, pharmaceuticals, and e-commerce—responded to the pandemic and contributed to the recovery phase.
2) Lack of Longitudinal Studies: The recovery process is ongoing, yet many studies rely on data only up to 2020 or 2021. There is a need for updated analysis using recent data (2022–2024) to assess whether the rebound in investment has been sustained or is temporary.
3) Insufficient Coverage of Policy Effectiveness: While policy measures like Atmanirbhar Bharat and labor reforms are widely mentioned, few empirical studies assess their direct impact on FDI and FPI inflows. Comparative analysis of policy effectiveness across sectors and states within India is also lacking.
4) Geopolitical and ESG Factors: The role of geopolitical shifts (e.g., India-China tensions, global supply chain reorientation) and Environmental, Social, and Governance (ESG) considerations in influencing investment decisions post-pandemic remains underexplored.
5) Investor Sentiment and Behavioral Analysis: There is limited qualitative research capturing the perceptions, expectations, and behavioral responses of foreign investors during and after the pandemic. Understanding investor confidence and risk appetite through primary research (interviews, surveys) is crucial for a holistic view.

XII. ANALYSIS AND DISCUSSION

A. *Impact of COVID-19 on FDI and FPI*

Before the onset of the COVID-19 pandemic, India was witnessing steady growth in foreign investments, with sectors such as technology, infrastructure, and manufacturing attracting significant FDI. FPI inflows were also robust, fueled by favorable market conditions and investor optimism. However, the pandemic caused substantial disruptions.

1) FDI Inflows: Experienced a slowdown as lockdowns and travel restrictions deterred investment activities. Many foreign investors delayed or canceled planned investments due to economic uncertainty and logistical challenges.
2) FPI Flows: Were more volatile, with significant outflows during the initial phases of the pandemic (March–April 2020), driven by global risk aversion and stock market turbulence.
3) Sectoral Shifts: Healthcare, digital technology, and e-commerce sectors saw relative growth in investment interest, as they became essential services during lockdowns. Data from sources such as the Reserve Bank of India (RBI) and Department for Promotion of Industry and Internal Trade (DPIIT) showed a clear decline in overall inflows in 2020, especially in non-essential sectors.

B. *Post-Pandemic Recovery*

The post-2020 period marked a cautious recovery Government reforms Initiatives like the Atmanirbhar Bharat Abhiyan, Production-Linked Incentive (PLI) schemes, and liberalization of FDI norms in defense, insurance, and e-commerce helped boost confidence. Investor sentiment recovered gradually, with foreign investors showing renewed interest in strategic sectors aligned with long-term growth trends such as green energy, fintech, and health tech. FDI Trends(2021- 2023) A rebound in FDI inflows was observed, with a noticeable uptick in manufacturing and services sectors. FPI Trends -FPIs returned to Indian markets as global liquidity improved, particularly in equity markets, though they remained sensitive to inflation and interest rate fluctuations. India's recovery trajectory compares favorably with peer economies like Brazil and Indonesia, although it lagged slightly behind China in attracting mega-investments.

C. *Sectoral Insights*

1) Technology & IT Services: Continued to dominate FDI inflows, driven by the surge in digital demand and remote work technologies.

2) Healthcare & Pharmaceuticals: Attracted increased investment due to rising demand for vaccines, medicines, and health infrastructure.
3) E-commerce & Logistics: Saw growth as consumer behavior shifted towards online shopping.Manufacturing: Encouraged by the Make in India initiative and PLI schemes, though global supply chain issues remain a constraint.

D. Challenges in Recovery

Despite the rebound, several obstacles persist like

1) Geopolitical Uncertainty: Tensions such as the Russia-Ukraine war, US-China trade conflict, and regional instability affect investor confidence.
2) Macroeconomic Factors: Inflation, rising interest rates, and currency volatility influence FPI decisions.
3) Regulatory Hurdles: Complex compliance requirements and bureaucratic delays continue to hinder ease of doing business.
4) Global Slowdown: A sluggish global economy may reduce the capital available for outward foreign investment.

E. Results and Findings

This section presents the empirical findings based on FDI and FPI inflow data in India from 2018 to 2023. The results are illustrated through tables and graphs, highlighting the trends and key insights in the post-pandemic period.
Inflows Data Table (2018–2023)

Year	FDI Inflows (USD Bn)	FPI Inflows (USD Bn)
2018	44.4	16.2
2019	50.0	19.6
2020	40.0	-4.5
2021	58.8	28.2
2022	61.0	14.3
2023	59.4	21.7

Figure- 1 Fdi and Fpi Inflows Data dated from 2018 to 2023.

Source Reserve Bank of India (RBI). (2023). Handbook of Statistics on Indian Economy. https://rbi.org.in

F. Trends in FDI and FPI Inflows

The graph below illustrates the yearly trends in FDI and FPI inflows in India, showing the decline during the pandemic in 2020 and the gradual recovery afterward.

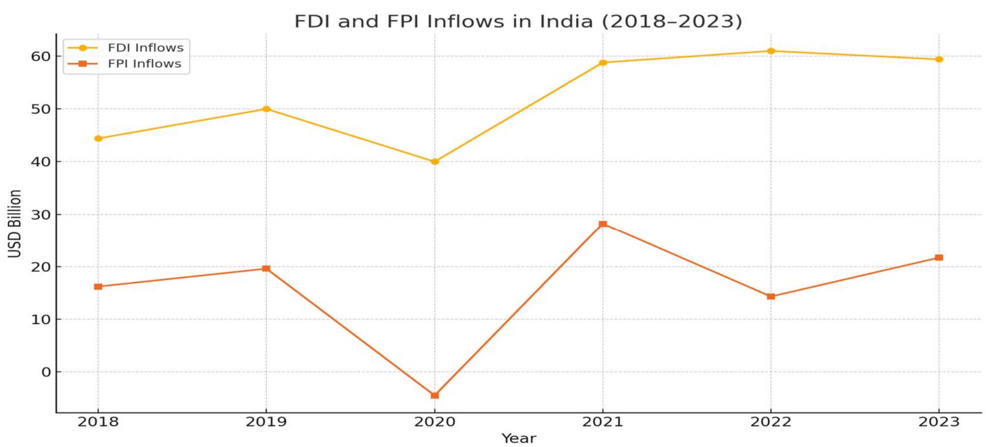

Figure 2 Trends of Fdi and Fpi Inflows dated from 2018 – 2023

Source Department for Promotion of Industry and Internal Trade (DPIIT). (2023). FDI statistics. Ministry of Commerce and Industry, Government of India. https://dpiit.gov.in/statistics/fdi-statistics

G. Key Findings
FDI inflows dipped significantly in 2020 but rebounded strongly in 2021 and remained steady through 2023.FPI inflows were highly volatile, with a notable outflow in 2020 due to global market uncertainty. Recovery in FDI was supported by government reforms and sectoral initiatives. Technology, healthcare, and e-commerce sectors were leading contributors to the post-pandemic recovery. FPI trends were influenced more by global liquidity and risk sentiment than domestic reforms.

H. Recommendation for enhancing Foreign Direct Investment and Foreign Portfolios Investment
Based on the findings, the following policy recommendations are proposed-
1) Improve Infrastructure: Develop physical and digital infrastructure to support investment readiness, especially in tier-2 and tier-3 cities.
2) Simplify Taxation Policies: Reduce complexities in GST and corporate tax compliance to make the investment environment more attractive.
3) Strengthen Bilateral Trade Agreements: Proactively negotiate and update trade and investment treaties to secure investor protections and market access.
4) Encourage Green FDI: Incentivize investments in renewable energy, sustainable agriculture, and green technologies to align with India's climate commitments.
5) Promote Sector-Specific Investment Zones: Establish special zones for high-potential sectors like semiconductors, electric vehicles, and health tech.

I. Long-Term Strategic Measures
To ensure sustainable growth in FDI and FPI inflows, India should consider the following long-term strategies-
1) Enhance Regulatory Transparency: Foster a stable policy environment by ensuring consistency and predictability in investment regulations.
2) Strengthen Financial Market Infrastructure: Improve market depth, liquidity, and governance in the capital markets to attract FPI.
3) Invest in Human Capital: Focus on upskilling and education reforms to build a workforce aligned with the needs of global investors.
4) Promote Digital Governance: Leverage digital tools for faster clearances, real-time compliance tracking, and improved investor services.

XIII. CONCLUSION
The COVID-19 pandemic temporarily disrupted India's FDI and FPI inflows, but proactive policy interventions and structural reforms have facilitated a strong recovery. While challenges remain, India has positioned itself as a resilient and reform-oriented economy. This article contributes to understanding the dynamics of international investment in times of crisis and recovery, with a focus on actionable policy and sectoral insights. This study examined the trends and recovery of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) in India in the context of the COVID-19 pandemic. The findings reveal that -The pandemic initially caused a sharp decline in both FDI and FPI inflows due to global uncertainty, lockdowns, and investor risk aversion. Recovery began in 2021, driven by government reforms, increased global liquidity, and sector-specific growth in technology, healthcare, and manufacturing. FDI showed a more stable and sustained recovery, while FPI remained volatile, reflecting its sensitivity to macroeconomic and geopolitical developments. This paper contributes to the understanding of investment behavior in emerging markets during periods of crisis and recovery. It highlights the importance of responsive policy measures, sectoral strengths, and institutional readiness in attracting foreign capital during uncertain times. The study is subject to certain limitations-Limited access to real-time data for the latest fiscal year (2024–2025).The research primarily focuses on India and may not be generalizable to other developing economies.

A. Future Research Can Explore
Long-term impacts of post-pandemic policy changes on foreign investment.
Comparative studies of FDI/FPI performance across multiple emerging markets.
Micro-level analysis of investor decision-making using case studies or panel data.

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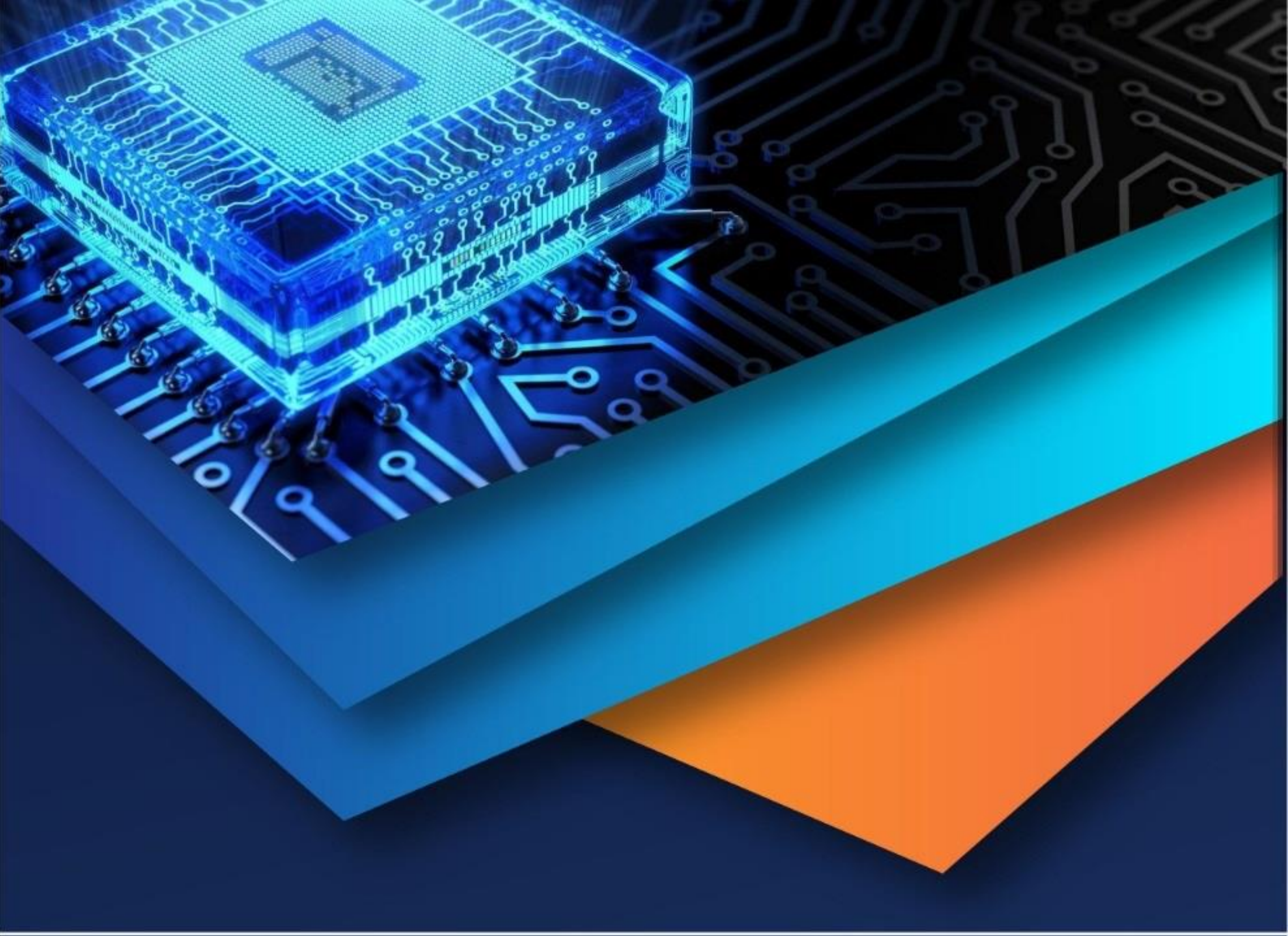

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