



The Impact of the Health Crisis-covid-19 on the Flows and Trends of Foreign Direct Investment in the World

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Abstract :

This paper explores the impact of the health crisis (covid-19) on the flows and trends of foreign direct investment in the world using various statistic, data and reports used by international organizations specialized in foreign direct investment affairs. As for the results one is optimistic and the other is pessimistic. According to the OECD even under the most optimistic scenario, FDI inflows are likely to decline by at least 30 percent in 2020 compared to 2019 before returning to pre-crisis levels by the end of 2021. The organization also expects to have a sharp rise decline in FDI inflows in the first of 2020. After that, the impact on FDI inflows will depend on the success of public health measures and economic policies taken by governments. Under the pessimistic scenario, the decline of FDI inflows continues for a long time.

Key Words: Covid-19, Foreign direct investment, Flows, Trends, World.

JEL Classification : F21.

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Introduction :

The novel coronavirus (COVID-19) virus, which emerged in Wuhan City, Hubei Province of China, spread to other countries over time and was declared a global epidemic by the World Health Organization (WHO) on March 11, 2020. With this epidemic many governments have taken stringent public health measures to limit the spread of the COVID-19 pandemic. These public health measures have caused severe economic disruptions that impact the foreign direct investment (FDI) decisions of firms. Governments have also taken significant economic policy actions to forestall, or cushion, the economic consequences of the public health crisis.

From one side FDI could play an important role in supporting economies during the economic recovery following the pandemic. Evidence from past crises has shown that foreign-owned affiliates, including small and medium enterprises, can show greater resilience during crises thanks to their linkages with, and access to the financial resources of, their parent companies. On the other side, since the post-global financial crisis of 2008, FDI flows have slowed significantly, not fully recovering from the effects of this crisis and the subsequent economic slowdown, as well as from the declining trend towards globalization, and the actions of some major countries to encourage investment at home and reduce the exit of investments as part of a policy that the gains of global trade and investment



are not beneficial to all and represent the result of a zero-sum equation . In other hand, the gain of one party comes only with the loss of the other party.

Research problematic: Based on the above, the problematic of this research paper revolves around the extent and how the global health crisis (COVID-19) affects the flows and trends of foreign direct investment?

Research hypothesis: The Covid-19 pandemic affects the direction and amount of global FDI flows.

Research objectives: This research aims to the following

- To highlight on the economic impact of the Covid-19 pandemic.
- To highlight the scale of the decline in foreign direct investment flows due to the Covid-19 pandemic.
- Learn how to deal with the Covid-19 pandemic to limit the decline in foreign direct investment flows.

I. Foreign Direct Investment

Foreign direct investment (FDI) is generally considered by many international institutions, politicians and economists, as a factor which enhances economic growth, as well as the solution to the economic problems of developing countries (Forte, 2013).

There are many theoretical papers that examine foreign direct investments (FDI)'s issues, and main research on the motivations underlying FDI were developed by J. Dunning, S. Hymer or R.Vernon. Economists believe that FDI is an important element of economic development in all countries, especially in the developing ones (Denisia, 2010).

(Caves, 1996) considers that the efforts made by various countries in attracting foreign direct investments are due to the potential positive effects that this would have on economy. FDI would increase productivity, technology transfer, managerial skills, knowhow, international production networks, reducing unemployment, and access to external markets.

Borensztein also supports these ideas, considering FDI as ways of achieving technology spillovers, with greater contribution to the economic growth than would have national investments (Borensztein, 1998).

II. Crisis of Coronavirus - covid 19-

The emergence of the Corona crisis due the spread of a virus- called the emerging corona-, which is of a widespread family known to cause diseases ranging from the common cold to more severe illnesses such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). China is the first country in wich this epidemic spread, as it was forced, within weeks of its outbreak in January2020, to quarantine more than 60 millions citiznes, and during the months of February and March, this crisis became a global crisis that included most of the countries of the world. (WHO, 2020).

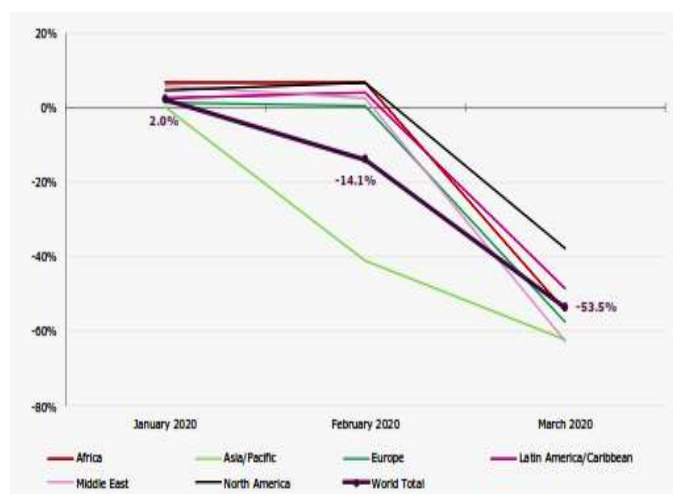


III. The impact of covid -19on some economic sectors

1. Aviation Industry:

The aviation industry bears the weight of the consequences of the COVID-19 outbreak heavier than other industries as its “raison d’être” is the transport of people and goods all across the globe for travel, tourism, business and trade. (The committee for the Coordination of Statistical Activities (CCSA), 2020). The prospects of aviation worldwide have taken a dramatic turn for the worse with rapid and drastic declines in air travel demand amplified by stringent travel restrictions. With around 90% of fleet being grounded and travel demand hitting nearly zero, the traffic reduction has far exceeded the level observed in events such as SARS and terror attacks of 11 September 2001, putting the aviation industry under extreme strain. And the outlook for April is expected to further deteriorate. International Civil Aviation Organization (ICAO)’s economic impact analysis of COVID-19 on aviation indicates that in the month of March when the pandemic was declared on 11th, 38% of seats capacity were cut globally compared to the same period of 2019. Passenger numbers plunged by 54% or 198 million, due to dampened load factor. Asia/Pacific recorded the biggest fall in passenger numbers by 85 million, followed by Europe and North America, by 50 and 35 million, respectively. Air cargo traffic dropped 19% in March, offsetting by the recent increasing demand of cargo freighters in transporting medical supplies. The slump in air traffic has further caused severe financial pressure on all stakeholders in the aviation sector. Only in March, airlines are estimated to lose USD 28 billion in revenues, and airports and air navigation service providers have lost around USD 8 billion and USD 824 million, respectively. The following figure shows the extent of this damage.

Fig. 1: Air traffic demand collapses (passenger growth, YOY)



Source: How Covid-19 is changing the World:a statistical perspective. The committee for the Coordination of Statistical Activities (CCSA).UNCTAD.2020.p18.



2. Oil Industry:

The impact of the COVID-19 pandemic and the interruption of negotiations between the Organization of the Petroleum Exporting Countries (OPEC) and its partners have caused oil prices to fall. On March 5, 2020, OPEC plans to cut production by 1.5 million barrels per day (mb/d) in the second quarter of 2020. Among them, OPEC countries reduced production by 1 mb/d, and reduced production by 0.5 mb/d from non-OPEC but related production countries, mainly including Russia. The next day, the plan was rejected by Russia, leading the world's most famous oil exporter Saudi Arabia to increase its production to 12.3 mb/d, which is its full capacity. Saudi Arabia announced a discount of about 20% in major markets. This caused oil prices to fall by about 30% and continued to fall thereafter. The double shock of COVID-19 and the drop in oil prices are interrelated but different. The demand for oil shocks is partly related to the decline in oil consumption due to safety measures to curb the spread of the coronavirus. This is due to "stay at home" orders that have caused a severe slowdown in the global economy. Rystad Energy (Shobini, 2020) has determined that due to the decline in air and road transportation, oil consumption has fallen by 10% (approximately 10 mb/d) since 2019. The speed of economic recovery depends on the efficiency and effectiveness of the government's policies to restore the economy from the economic losses caused by the COVID-19 pandemic, but the supply part of oil shock is expected to stay and cause oil prices to stay low for a greater period of time. In order to determine the effect of oil prices on global economy, economists differentiate between supply and demand driven oil shocks. Demand driven shocks are interlinked with worldwide demand and do not have a stand alone impact on the economy. In comparison, supply driven shocks are determined to have a stand alone impact on the economy. This might not be true in the case of COVID-19 pandemic. This is because, the fall in oil prices have resulted in fluctuations in the market for bonds, equities and non-oil commodities. In MENA countries, a fall in oil prices is expected to adversely affect importers as well as exporters. Exporters are affected directly and importers are affected indirectly due to fall in foreign direct investment, remittances, grants from exporters and tourism.

3. Tourism Industry:

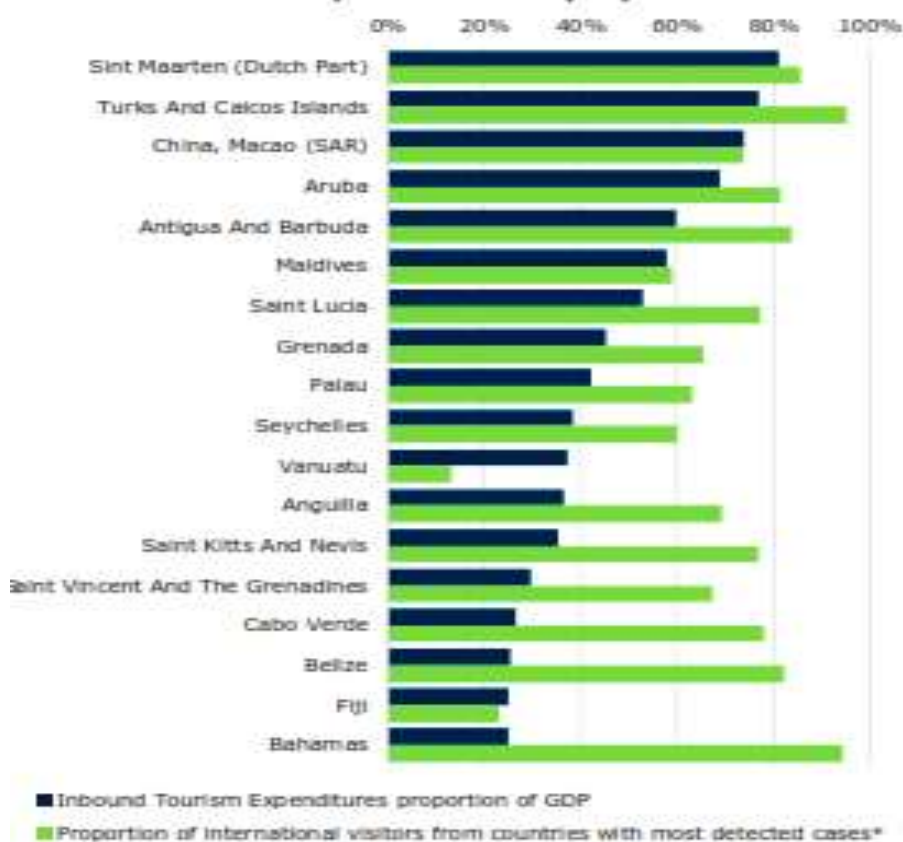
In the unprecedented crisis faced by the tourism industry, it is possible that the number of international tourists will fall by 60% to 80% this year, depending on the speed of containment measures and the duration of travel restrictions and border closures. In addition, the availability of tourism-related statistics in 2020 may be affected. Border closures, travel bans and quarantine measures in many countries directly affect the tourism industry, which can be said to be unique. Increase almost uninterruptedly over It has doubled since 2000, and UNWTO predicts that the number of international arrivals in 2020 will be 60% to 80% less than in 2019, depending on when travel restrictions are lifted. Existing data show that compared with the same month in 2019, the number of arrivals in March fell by 60%. Many of the countries most significantly affected by the health emergency are key players in the global tourism ecosystem, either as destinations, source



markets or both. Countries with the highest number of reported cases account for about 55 and 68 percent of global inbound and outbound tourism expenditure, respectively. The effects of the crisis on these economies will spill out to other countries, and the impact will be particularly critical on territories that are heavily dependent on international tourism.

Figure 2 shows those countries or territories where inbound tourism expenditure represents more than a quarter of total GDP. These developing economies are thus more vulnerable to the impact of COVID-19, as they depend greatly on inbound tourism, especially from those countries that at the moment are most directly affected by the pandemic. The current situation also affects the data needs and the capacity to deliver in the aftermath of the crisis. (The committee for the Coordination of Statistical Activities (CCSA), 2020).

Fig. 2 : Countries where international inbound tourism expenditure represents more than a quarter of total GDP



Source: How Covid-19 is changing the World: a statistical perspective. The committee for the Coordination of Statistical Activities (CCSA). UNCTAD.2020.p29.

IV. The emerging impact of COVID-19 on global FDI flows

Coronavirus has exacerbated the long-term downward trend in global investment flows. The pandemic has caused supply, demand, and policy shocks that simultaneously affect all aspects of FDI. The slowdown in the implementation



of existing investment projects has delayed the flow of foreign direct investment. Many companies have postponed investment decisions amid increasing uncertainty because they have to deal with significant losses in revenue, and in some cases, factory closures and supply disruptions due to the pandemic. These effects are expected to be felt throughout 2020. UNCTAD's projections indicate that after a modest growth of 3% in 2019, global FDI flows may fall by as much as 40% in 2020. This will cause the annual value of global FDI flows to fall below US\$1 trillion for the first time since 2005. The impact on developing economies may be more severe. UNCTAD's projections indicate that global foreign direct investment inflows to developing economies may fall by as much as 45% in 2020. (Balchin, 2020).

According to data from the International Monetary Fund (2020), between the beginning of the COVID-19 pandemic and the end of March 2020, 84 billion U.S. dollars of investment has been withdrawn from developing countries. This is the largest capital outflow from a developing country on record. Worldwide, the impact of the regional level on foreign direct investment flows may vary, but it is expected to be negative in all cases. According to UNCTAD's forecasts, relatively speaking, foreign direct investment inflows into Latin America and the Caribbean (down 40% to 55%) and Asia (down 30% to 45%) may be the most affected in 2020(see table 1). In Africa, foreign direct investment inflows are expected to drop by 25% to 40% overall. UNCTAD(2020a) predicts that throughout 2020, the income of the world's top 5000 multinational corporations (MNEs) will drop by an average of 40%. This will have severe knock-on effects on reinvested earnings, which are a major source of finance for FDI deals. Those industries in which the loss of earnings is expected to exceed 30 per cent in 2020 collectively account for more than 70 per cent of global FDI projects .Preliminary data confirm the severity of these projected effects on FDI. In the first three quarters of 2020, global FDI flows fell by 49 per cent compared to 2019 levels. The decline was most pronounced in developed countries, falling by 75 per cent. FDI flows into developing countries were relatively resilient, but still fell by 16 per cent. New investments across the world have been affected by declining equity capital flows since the start of the pandemic. As a result, substantial numbers of mergers and acquisitions (M&As) and Greenfield investments have been put on hold. Since Greenfield FDI involves new capital investment, this may have significant adverse implications for job creation and technological upgrading. In the first eight months of 2020, both the value and number of new Greenfield project announcements fell by 37 per cent. Newly announced cross-border M&A deals declined by 15 per cent in the first three quarters of the year.



Table 1: Annual growth in FDI inflows, by group of economies and regions, 2019 (actual) and 2020 (forecast)

	Actual	Projections
Group of economies	2019	2020
World	3%	(-40% to -30%)
Developed economies	5%	(-40% to -25%)
Developing economies	-2%	(-45% to -30%)
Transition economies	59%	(-45% to -30%)
Region		
Africa	-10%	(-40% to -25%)
Asia	-5%	(-45% to -30%)
Latin America and the Caribbean	10%	(-55% to -40%)

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

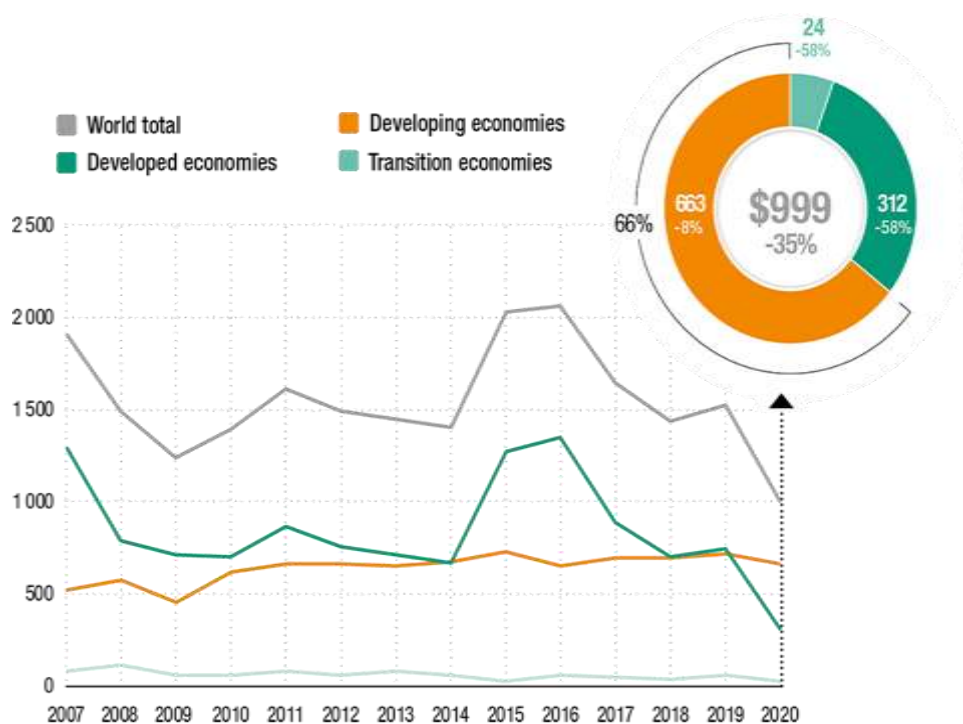
V. Foreign direct investment trends during the COVID-19 crisis

Lockdowns around the world due to the COVID-19 pandemic have slowed the pace of existing investment projects, and the prospect of economic recession has prompted multinational corporations (MNE) to reassess new projects. The decline in foreign direct investment was significantly greater than the decline in gross domestic product (GDP) and trade. Foreign direct investment in advanced economies and transition economies plummeted, with both falling by 58%. The 8% decline in developing economies was mainly due to elastic mobility in Asia (up 4%) (see Fig3) . As a result, the share of developing economies in global FDI has increased from less than half in 2019. Nearly one-third of the global decrease of approximately US\$500 billion was caused by the Netherlands. The reason was the liquidation of several large holding companies, corporate restructuring, and intra-company capital flows. The growth in Asia is mainly due to the increase in FDI inflows into Hong Kong, China (an increase of US\$46 billion from the low level in 2019), and mainly reflects the financial transactions of Chinese multinational companies. Excluding the influence of pipeline flows, one-time transactions and internal company capital flows, the global decline was slightly smaller (about 25%) and even (the capital flow to developing Asia fell by 6%). The value of greenfield announcements in developing countries fell by 44%, and international project financing transactions fell by 53%, compared to 16% and 28% in developed countries, respectively. These types of investment are critical to the development of production capacity and infrastructure, as well as the prospects for sustainable recovery. The sudden and simultaneous interaction of supply-side and demand-side shocks triggered a series of effects. The slowdown in project activity (cross-greenfields, project financing, and cross-border mergers and acquisitions (M&A)) has led to a significant drop in new equity flows. In many countries, intra-company loans are negative because multinational companies have changed their financial situation in response to the crisis. Lower returns also affected reinvestment; the



profits of the largest multinational companies fell by 36% on average. Although the overall reinvestment income has fallen by only 7%, in many large host countries, these returns have fallen sharply.

Fig. 3 : FDI inflows: global and by group of economies, 2007–2020 (billions of US dollars)



Source: UNCTAD, World Investment Report 2021.

VI. FDI Flows under Different Scenarios on the Effectiveness of Public Health and Economic Policy Measures

1. Under the optimistic scenario

FDI could play an important role in supporting economies during the economic recovery following the pandemic. Evidence from past crises has shown that foreign-owned affiliates, including small and medium enterprises, can show greater resilience during crises thanks to their linkages with, and access to the financial resources of, their parent companies. FDI could be particularly important for emerging and developing economies given that other sources of international financing, including portfolio investment, have fled these economies. In addition, Multinational enterprises (MNEs) are generally larger, more research and development (R&D)-intensive, and more productive than purely domestic firms.¹As such, they are well-positioned to help governments deal with the effects of the pandemic.²Investment Promotion Agencies (IPAs), charged with attracting and facilitating FDI, are also working with their clients and local networks of foreign affiliates to facilitate business collaborations and assist government efforts to combat the pandemic. Going forward, cross-border partnerships and collaborations between companies can facilitate finding long-



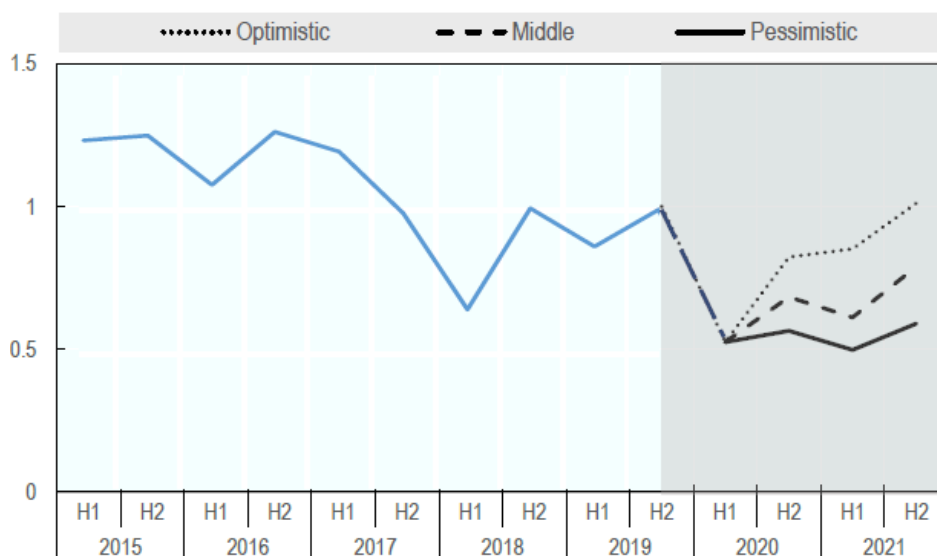
term business solutions, such as ways to resume production while protecting workers' health.

2. Under the pessimistic scenario

In the longer term, the pandemic may lead companies to shift the geographic allocation of their foreign operation. For example, MNEs may review and potentially shorten their GVCs to protect themselves from supply-chain disruptions; alternatively, they could seek geographic diversification to reduce exposure to location-specific shocks and reduce costs to be able to deal better with crises. Such shifts could have important implications for countries' economic prospects as MNEs are responsible for a large share of global value-added, trade, employment and R&D.

The following figure shows the various possible scenarios for changing foreign direct investment flows in light of the repercussions of the Covid-19 pandemic.

Fig. 4 : FDI Flows under Different Scenarios



Source: Foreign direct investment flows in the time of COVID-19, OECD, 2020

Conclusion :

Responding to the pandemic requires bold, multifaceted and innovative ways to attract, retain and promote investment. It also requires governments in the region to take the necessary steps to reform and improve their investment environment. Investment promotion frameworks and strategies must continue to evolve during and after the crisis, and adapt to the unique background and needs of each country. Some governments may need to focus on institutional restructuring, while others may need to focus on revising their incentive framework, while others may need to focus on how to better grasp they have opportunities in specific sectors where they have a competitive advantage. However, it is clear that all governments need to



refocus their priority foreign direct investment markets and sectors to align them with sustainable development priorities.

In practice, this requires identifying and prioritizing foreign direct investment projects in key sustainable development sectors such as renewable energy, education, sanitation, water and sanitation. In addition, the most important thing is that the reforms and measures implemented now are to maintain their continuity in the post-pandemic period so that the investment ecosystem can be improved lastingly. Policymakers should consider the following four key priority areas when reviewing and revising investment policies and regulatory frameworks: (Economic and Social Council, 2021) digital economy, green growth, local and foreign SMEs in regional and global value chains, and foreign direct investment governance issues.

Targeting foreign direct investment in the digital economy: At the policy level, Governments must begin to focus on their digital competitiveness, which will be determined by good digital infrastructure, a digitally skilled workforce and a dynamic environment for technology companies. These elements must be supported by a fit-for-purpose regulatory framework, a national digital economy plan, and a coherent digital investment policy. That last would, for instance, focus on attracting and promoting FDI into digital infrastructure, digital firms, and wider digital adoption within the economy.

It is also essential that Governments and administrative bodies such as investment promotion authorities and agencies better leverage digital technology to alleviate the administrative burdens and reduce the bureaucratic hurdles impeding the delivery of products and foreign investment. In practice, this means offering more efficient digital services, in particular with regard to investment facilitation through online one-stop facilities throughout the investment cycle.

2- Identifying and promoting foreign direct investment for green growth: In order to take advantage of this opportunity, governments must first identify their priority green sectors, and then design and implement an ambitious social-wide green investment agenda with a focus on attracting more and higher-quality investments in these sectors. Chance is many countries are rich in resources, especially in terms of transportation infrastructure, power generation, energy efficiency and sewage treatment. There are some small signs that investor interest in these industries is still strong; for example, despite the pandemic, the overall investment level has declined, but the renewable energy sector has attracted the largest inflow of Greenfield investment in the service sector (28%) The first eight months of 2020. In addition to these efforts, policymakers must also reduce restrictions to ensure that the green sector is further open to investment; implement clear policies and regulatory frameworks to attract investors and ensure a level playing field for such investments; and introduce financial mechanisms to attract green Invest; and encourage greener Corporate behavior. In addition, policymakers must work closely with investment promotion authorities and agencies to design coherent and powerful strategies to incentivize green investment, and develop a series of powerful banking projects to attract investors. At the same time,



investment promotion authorities and agencies must reconsider their investment promotion strategies and adjust them to suit the identified priority sectors.

3- Support local and foreign small and medium-sized enterprises in regional and global value chains: In order to strengthen the resilience of the value chain in the medium and long term, the government and enterprises should assess its vulnerability, especially its vulnerability to any future risks, and determine the opportunity to take advantage of it. The competitive advantages of key priority sectors enable them to integrate more effectively into global value chains and generate more value chain-related foreign direct investment. The COVID-19 crisis underscores that such assessments must also include an assessment of the supply of necessities, especially whether they need to be relocated closer to home. At the same time, investment promotion agencies and institutions must increase their efforts to support and maintain SMEs in contact with existing foreign investors, while continuing to promote foreign direct investment related to the value chain. This includes deploying more and better online tools and services to support investments, as well as providing investors with the latest information on COVID-19 services and incentive programs.

4- Addressing multilevel foreign direct investment governance: Reforming national and international investment governance must remain a priority in the current and post-COVID-19 context. Many Governments introducing restrictive measures on new investment to safeguard domestic capacity in strategic sectors such as the health care, pharmaceutical, medical device and equipment sectors. For instance, the Government of Australia has temporarily tightened its rules on foreign takeovers; the Government of India has implemented FDI screening procedures for investments originating from neighbouring countries; the Government of Japan has introduced investment screening measures in the pharmaceutical and medical devices sector; the Government of New Zealand has implemented temporary changes to investment screening rules; and the Government of the Russian Federation has introduced screening procedures on temporary foreign acquisitions. While these restrictions have all impacted FDI inflows to the region, outflows have also been impacted as key host countries in Europe and North America have also introduced similar protectionist measures in these sectors. At a broader level, the crisis also provides an opportunity for Governments to step up their efforts to reform the international investment governance regime to make it more fit for purpose, responsive to the sustainable development agenda, and coherent with national investment laws. For instance, reforming international investment agreements to make them more sustainable development-oriented could make a major contribution to helping countries achieve the Sustainable Development Goals. With current delays and cancellations of negotiation rounds due to the pandemic slowing investment treaty making, Governments have a unique chance to revisit and reformulate their international investment agreement strategies. Countries with special needs in particular should utilize this opportunity to build their capacity to formulate a coherent international investment agreement strategy based on their own national sustainable development challenges and priorities.

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