

GLOBAL FOREIGN DIRECT INVESTMENT UNDER THE PANDEMIC CRISIS – EFFECTS AND PROSPECTS

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Abstract: The investments are one of the essential factors that could ensure economic growth, simultaneously influence both demand and supply and at the same time, represent an incentive for new projects, attributes necessary for an increasing economy.

Foreign Direct Investment (FDI) is an integral part of the international economic system, through the value chains and therefore, its importance and benefits determined a global competition for capital. Under the recent circumstances generated by the pandemic crisis, the foreign direct investment on the global economy were affected severely by the crisis.

In this paper, there were analysed the main effects of the pandemic crisis on the global FDI flows considering all forms (cross border financing projects, mergers and acquisitions and greenfield investment), different regions and economies, various sectors and industries, considering the influence factors and the consequences of these evolutions. Also, there are analysed the predictions regarding the impact of COvid 19 on the inflows of FDI, on the economies and the multinational companies.

JEL classification: F21, G15, O16

Key words: foreign direct investment, crisis, financing, prospects

1. INTRODUCTION

One of the main factors contributing to the economic development, restructuring and modernization are represented by foreign direct investment (FDI), being an issue that is under continuous evolution and analysis, globally or at the economies level.

The FDI is an integral part of an open international economic system and a major catalyst for development, so its importance and benefits have attracted the attention of states, causing a global competition in order to attract capital.

Considering the recent transformations that are taking place globally, the foreign direct investment is an essential financial support for the economic and social development of states and one of the main factors which amplify the process of globalization. This fact generates numerous advantages but also involves some important consequences.

Therefore, the globalization, the related value chains increase the interdependences between states but, on the other hand, they could multiply the effects of the crisis. This situation is in fact, related to the recent pandemic crisis with an unprecedented level, spreaded worldwide and affecting all economies, at different levels.

The pandemic crisis effects were amplified by the globalization and the foreign direct investments were also affected as a result. Therefore, the impact should be analyzed by type of FDIs, by regions, by sectors and industries, taking into consideration the chain values and the interdependences at the global level.

2. FDI AT THE GLOBAL LEVEL – RECENT EVOLUTIONS AND TRENDS

Global FDI flows decreased by 49% in 2020 compared to 2019 (UNCTAD, 2020a) as effect of the pandemic situation which reduced the investment projects and affected the assessment of new projects.

The sharply declining trend of the global foreign direct investment regards all forms of FDI, such as (figure 1):

- the project finance by 25%;
- the greenfield investment by 37%;
- the mergers and acquisitions (M&A) by 15%.

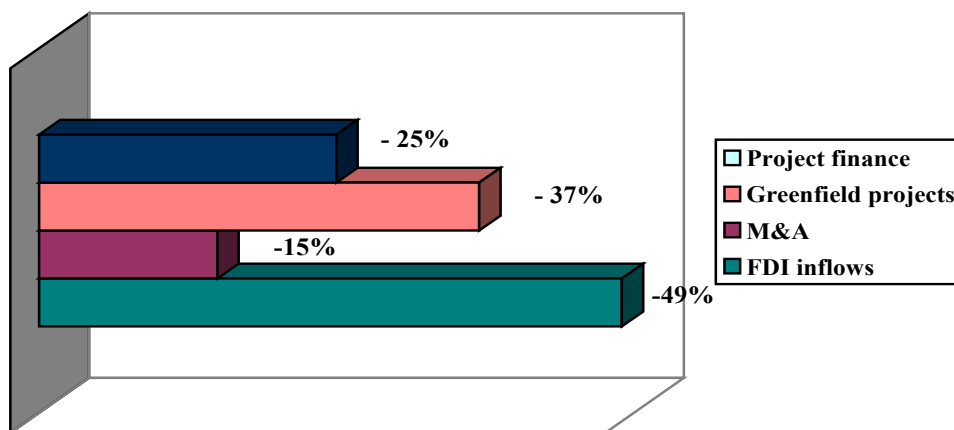


Figure 1. Global investment trends in 2020 (Q1-Q3) - percentage vs 2019

Source: UNCTAD, Investment Trends Monitor, No. 36, October 2020

By region, the FDI flows to developing countries registered a decrease of 16%, from which: greenfield investments decreased by 49%, the number of project finance by 25% while the mergers and acquisitions increased by 12% (UNCTAD, 2020a). The more reduced decrease level can be explained by the higher number of greenfield investment and the cross border project finance, which are less vulnerable and more stable.

Despite the negative evolutions, for the developing economies, the FDI represent the most important external financing source, besides the portfolio flows and other investments which are less stable than foreign direct investment.

The decrease was even higher in the developed economies (from 397 billions USD to 98 billion USD) mostly because of the US FDI decrease and also other European countries, such as the Netherlands and Switzerland.

The inflows to Europe registered a negative slope (from 202 billion USD to – 7 billion USD) and this declining trend was caused by the volatility of some economies (the Netherlands, Italy, United Kingdom). Against the general trend, some countries registered an increase of FDI flows (Germany – 15%, up to 21 billion USD and Ireland, up to 75 billion USD).

In North America, the FDI flows registered a high decrease (56%) to 68 billion USD, from which: project finance decreased by 34%, mergers and acquisitions decline by 32% and greenfield investments by 25%. Also, in the United States, the FDI flows decreased drastically (61%), to 51 billion USD.

The FDI flows in other developed countries registered also a decrease, such as: Australia -by 40% and New Zealand - by 55%. On the other side, the FDI flows in Japan increased with 6% and in Israel, with 74% (figure 2).

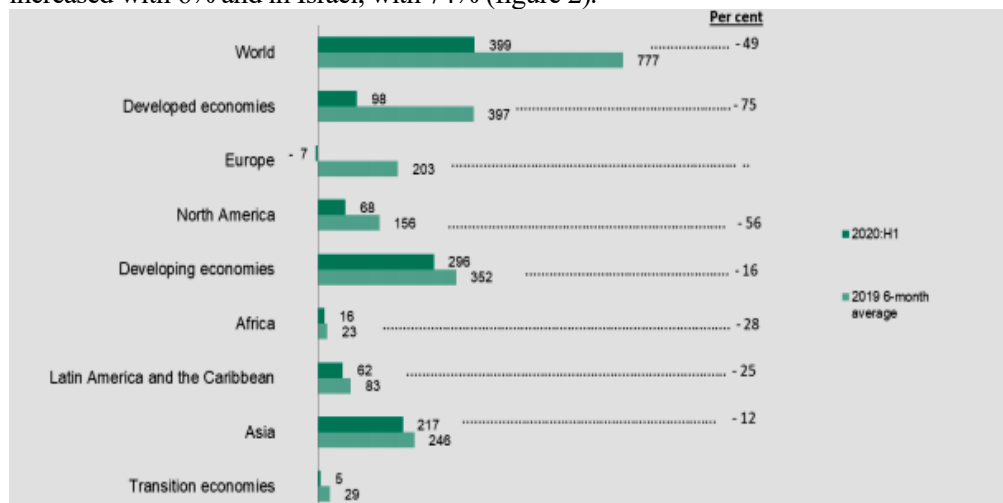


Figure 2. FDI inflows by regions (billions of USD and percent)

Source: UNCTAD, *Investment Trends Monitor*, No. 36, October 2020

In Latin America, the FDI flows registered a decrease by 25%, down to 62 billion USD and in Central America, the level remains to 23 billion USD.

In Africa, the inflows of FDI decreased to 16 billion USD in 2020 (by 28%) and the economies based on natural resources were affected the most (for instance, Egypt, Nigeria) (OECD, 2020a).

In 2020, the FDI flows to the transition countries highly decreased by 81%, to 5,4 billion USD, mostly because of the fall of FDI in Russian Federation from 16 billion USD to -1,2 Billion USD.

By type of investment, the mergers and acquisitions decreased by 15% in 2020. Considering the types of economies, the highest drop down in the developed economies was registered by North America (32%) and in the group of developing economies by Latin America and Caribbean (73%) and Africa (44%). This high decrease was compensated by the increase of 60% registered by Asia (table 1).

Table 1. Investment trends by type and region (2020, Q1-Q3) – percent change vs 2019

	<i>Mergers and Aquisitions</i>	<i>Greenfield projects</i>	<i>International project finance</i>
World	-15	-37	-25
Developed economies:	-21	-17	-19
- Europe	- 5	-17	-17
- North America	-32	-25	-34
Developing economies:	+12	-49	-25

	<i>Mergers and Aquisitions</i>	<i>Greenfield projects</i>	<i>International project finance</i>
- Africa	-44	-66	-49
- Latin America and Caribbean	-73	-53	-34
- Asia	+60	-42	+ 8
Transition Economies	+84	-58	-46

Source: UNCTAD, *Investment Trends Monitor*, No. 36, October 2020

At the worldwide level, the greenfield projects decreased by 37% in 2020, mostly caused by the 49% decrease in developing countries (Africa and Latin America).

By sector and industries, the highest decrease was registered by manufacturing and primary sector (table 2).

Table 2. Greenfield projects, by sector and selected industries, 2020, Q1- Q3 (percent changes vs 2019)

<i>Sector/industry</i>	<i>Value</i>	<i>Number</i>
Primary	-37	-37
Manufacturing	-33	-41
Services	-49	-46
Total	-25	-29

Source: UNCTAD, *Investment Trends Monitor*, No. 36, October 2020

Considering the manufacturing investment projects, the sectors most affected are the transportation, machinery and industrial equipment, chemicals and agrifood. Others sectors, such as, the pharmaceutical and medical equipment, were resilient.

Regarding the international project finance, the number decreased by 25% in 2020. The highest decline was registered in Africa (49%), from the developing economies, and in the transition economies (46%).

In the developed economies, the FDI reached an estimated 98 billion USD in 2020, which represent a decrease of 75% compared to 2019. This decreasing trend was amplified by the high negative inflows in European economies. Also, the FDI flows to North America felt by 56% to 68 billion USD.

FDI flows to developing economies decreased by 16%, which is under expectation. Thus, the flows were 28% lower in Africa, 25% in Latin America and the Caribbean and 12% in Asia, mainly caused by the resilient investment in China.

FDI flows towards the transition economies also registered a sharply decline (81%), mainly due to the situation from Russian Federation.

The declining trend is expected to continue in the next period and at the global level, the prospects regarding the FDI flows for the next year remain pessimistic.

3. FDI AT THE GLOBAL LEVEL – PERSPECTIVES

The previsions regarding the FDI in the next future are not optimistic. Starting from the previous forecasts of short term destabilization in 2020, the initial previsions decreased from 5% to 15% (figure 3).

Accordingly with the UNCTAD forecasts, the impact on FDI will be higher in the most affected countries by the crisis and the disruptions on supply chain will affect negatively the investment in other regions and countries. For instance, the economies

which are closely related to value chains around China, Japan, Korea and Southeast Asian economies will be affected.

Moreover, the outbreak of the coronavirus will slow down the capital expenditures of multinational companies and their foreign subsidiaries, reducing the production capacity or delaying their expansion.

Also, the greenfield investment projects will also be affected by the pandemic crisis but the impact level could be lower or limited because their long life cycle.

In a similar way, the mergers and acquisitions could slow down. Like greenfield projects, mergers and acquisitions are generally long-term commitments for overseas markets.

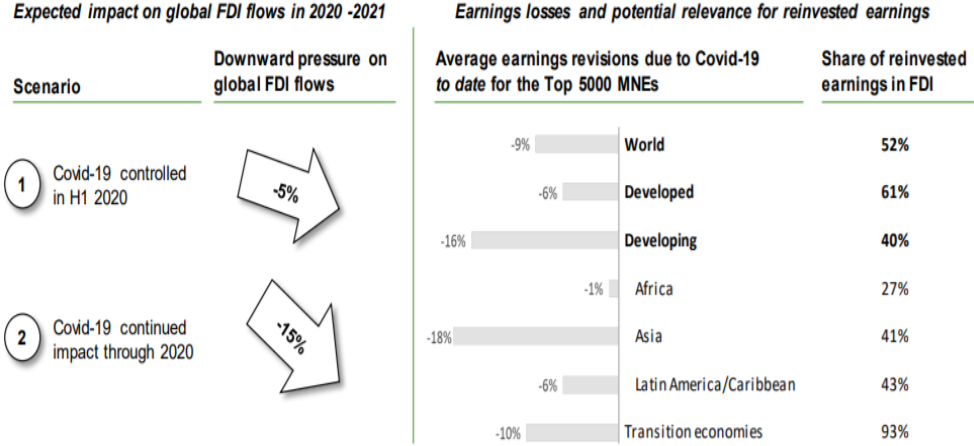


Figure 3. Estimation on the pandemic crisis impact on the global FDI, 2020-2021
Sursa: UNCTAD, Investment Trends Monitor, Impact of the Coronavirus Outbreak on Global FDI, 2020

The crisis caused by the Covid-19 will have a negative impact on investments that are in search of market, efficiency, but also resources. Investment and FDI projects that are market-seeking in the extractive industries could be delayed globally due to the negative effects. China is experiencing the strongest demand shock at the moment but the impact is also felt in industries that are consumer-oriented, but also in industries that deal with tourism, retail. Also, the negative effect will be fast spreaded to other regions and countries.

In addition to the main effect on FDI of multinational corporations that delays capital expenditures, an additional indirect mechanism by which FDI flows could be affected in the next period is through reduced profits of foreign subsidiaries which could lead to reduced reinvested earnings. In the economies most affected by Covid-19, the reinvested earnings account for 40% of total FDI inflows.

Even from 2019, out of the top 100 multinational corporations, 69 corporations have already made an evaluation on the impact of Covid-19 on their business, from which,, 41 corporations signaled profit alerts or increased risks, 10 anticipated sales decrease, 12 expecting negative effects on production or supply chain disruptions (UNCTAD, 2020b)

Most of the multinational corporations in the top 5000 by revenue had downward revisions of revenues, mainly in the energy sector, basic materials and the cyclical consumer sector, the automotive and tourism industries were among most affected.

At the global level, the prospects regarding the FDI flows for the next year remain pessimistic, accordingly with previous projections: 30-40% decrease (UNCTAD, 2020c). Besides, prospects remains highly uncertain, depending on the duration of the pandemic crisis and on the efficiency of the different policies used against the economic effects of the crisis.

4. CONCLUSIONS

The FDI flows at the global level were severely affected by the pandemic crisis which represent a demand, supply and policy shock for investment. The decrease counted about 49% at the global level in 2020 compared to 2019. The lockdowns determined the firms to restrict the capital expenditures, to postpone the investment projects or to delay some new investment.

Globally, the decrease was registered by all types of global FDI: greenfields (37%), mergers and acquisitions (27%) and international projects (25%). Also, the crisis affected all regions but the impact was different from a region to another. Thus, in Europe the flows decline to negative levels, in North America registered a high decrease. Also, in Africa the decline was of 28% while in Latin America the FDI decrease was of 25%.

By the type of economies, the developed economies were seriously affected (the level decreased to 98 billion USD) and in the transition economies the FDI fell by 81%. The decline in the developing countries registered 16% but they are expected to be severely affected because of the value chain they rely on (intensive, extractive industries).

In the last period, the multinational companies sent many warning signs regarding the revised expected earnings, lower profits and reinvested earnings which represent negative signs for FDI recovery.

There are some predictions regarding a recovery of FDI in 2022 but the recovery rates for FDI are difficult to be estimated because this is related to the economic situation in the economies and regions. Besides, the forecasts regarding the evolution of the FDI flows still remains under the uncertainty, the estimations predict that the 50% decrease could persist in the near future (UNCTAD, 2020c).

The pandemic crisis will generate some changes in the FDI flows tendencies regarding the FDI drivers (such as technology, digital infrastructure), reversal of globalization, flexibility of the supply chains, a new focus on sustainability, climate changes and ecosystem (EY, 2020). For the host countries, a real challenge is ensuring a transparent, stable and predictable environment through public policies in the field of investments and by ensuring the human and institutional resource for their implementation.

Despite the sharp decline of the FDI at the global level, the investment flows represent an important engine for development and growth. The FDI is a barometer of the international companies health and their ability to generate global growth and it could play an important role in supporting economies during and after the crisis through financial support, governments assistance and through the links with local firms.

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