Impact of COVID-19 pandemic on Foreign Direct Investment (FDI)

Hishan Shanker Sanil

Azman Hashim International Business School, Universiti Teknologi Malaysia

*Corresponding Author email: hishan@utm.edu.my

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ABSTRACT

The coronavirus pandemic has put on hold many of the business activities around the world. In this scenario, FDI will play a crucial role in the recovery stage of the global economy. This paper will discuss the forecast and way forward for global FDI. The study uses input from various published global reports. The analysis of the various scenarios of FDI shows that, although the outlook on the global FDI seems grim, it is for the business and world leaders to formulate strategies to encourage international trade and improve investors’ confidence.

Keywords: FDI, COVID-19; International Trade

JEL Classification: E20, E22, F21

1. FACTS ABOUT COVID-19:

As per the Coronavirus disease 2019 (COVID-19) Situation Report released by the World Health Organization (WHO) on 13th February 2021, globally, there are 107838255 confirmed cases and 2373398 deaths. A total of 205 countries and territories have been affected by this virus so far (WHO situation report, 2021). It all started on 31st December 2019, when China first reported WHO about a cluster of pneumonia cases of unknown cause detected in Wuhan City, Hubei Province of China. Later, on 7th January 2020, the Chinese authorities identified it as the causative virus. Since then, the virus has spread globally and infected people worldwide, resulting in most countries going under lockdown to stem the spread of the virus. The scientists and researchers worldwide are trying to find a possible medicine or vaccines to cure this virus. Amid all panic across the world, the business leaders and governments worldwide fear the stringent measures like lockdowns taken by the countries will have a significant impact on the global economy. One of the primary growth engines for the worldwide economy has been the Foreign Direct Investment (FDI). So, it’s imperative to spotlight the effect of the COVID 19 pandemic on the FDI.
2. FORECAST ABOUT THE GLOBAL FDI:

An updated analysis by the United Nations Conference on Trade and Development (UNCTAD, 2020) the economic impact of COVID 19 and revisions of earnings of the largest multinational enterprises (MNEs) now suggest that the downward pressure on FDI flows could range from -30% to -40% during 2020-2021, much more than previous projections of -5% to -15%. The hardest-hit sectors are the energy and materials industries (-208% for energy, with the additional shock caused by the recent drop in oil prices), airlines (-116%) and the automotive sector (-47%). The cut in global FDI will have a cascading effect on countries growth rate and job losses. The developing countries will see a severe impact due to cut in global FDI, impacting the global value chain. It will also reduce international migration.

3. THE WAY FORWARD:

Given the uncertainty of the present scenario, all the countries' leaders and citizens' priority are to stop this virus from spreading further by implementing the social distancing
measures. However, once the COVID 19 pandemic is under control. It's essential for the world leaders to relook into the trade agreements and FDI laws and make amendments to instil confidence among the investors. This is the time for global organizations like the World Banks and UN to unite the countries across the globe to take counter measures to avoid a major global recession. This is also an ideal time to invest in the digital economy and make it more sustainable and protect the future economy. Although the outlook on the global FDI seems grim, it's for the business and world leaders to formulate strategies to encourage international trade and improve investors confidence.

Reference:

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