
Covid-19 and investment – an UNCTAD research round-up of the international pandemic’s effect on FDI flows and policy

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The shuttering of commercial activity in the face of the Corona (Covid-19) pandemic will have a dramatic effect on the global economy. UNCTAD’s Division on Investment and Enterprise has been monitoring the impact on investment, as well as its implications for development.¹ In the face of the unprecedented circumstances, this issue of the *Transnational Corporations* furnishes a brief overview of this work, notably from the perspective of foreign direct investment (FDI) and investment policy. UNCTAD’s *World Investment Report* (forthcoming, June 2020) will provide an expanded and in-depth analysis of FDI trends and investment policy developments that also accounts for the impact of the pandemic.

Economic impact estimates and earnings revisions of the 5,000 largest multinational enterprises (MNEs) as reviewed by UNCTAD, suggest that the downward pressure on FDI could be -30 per cent to -40 per cent in 2020 and 2021. The top 5,000 multinationals now forecast downward revisions of their 2020 earnings estimates of -30 per cent on average with peaks of as much as -200 per cent in the most affected industries (energy -208 per cent, airlines -116 per cent and automotives -47 per cent).

Early expectations were that the economic fallout from the pandemic would be felt through production stoppages and supply chain disruptions. With the rapid worldwide spread of the pandemic and the implementation of mitigation and lockdown measures across much of the world it is clear that a far larger demand shock and supply disruption is inevitable and the consensus is that most, if not all, major economies will experience a deep recession. This could extend the shock for global value chains as well as local suppliers and small businesses that rely on them.

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¹ UNCTAD’s website features a dedicated page with more information and analysis, entitled [Coronavirus \(COVID-19\): News, Analysis and Resources](#). The Division on Investment and Enterprise’s Covid-related research includes the [Global Investment Trends Monitor March 2020 Special Issue](#); the [Investment Policy Monitor, No.23](#); and the [IPA Observer Special Issue 8 on Investment Promotion agencies striving to overcome the COVID-19 challenge](#).

The physical closure of places of business, manufacturing plants and construction sites has causing immediate delays in the implementation of investment projects. Capital expenditures, greenfield investments and expansions are all affected by this. Mergers and acquisitions have similarly been affected and are on course to drop by 50 to 70 per cent globally in the first part of 2020.

In the longer term, the impact of the pandemic would likely also be felt on investment linked to global production networks as it is expected to accelerate an already existing trend among MNEs to loosen global value chain ties and reshore production as they seek to reinforce the resilience of supply chains.

The pandemic has already decisively filtered into policymaking. Many countries have announced measures to prop up local businesses, while policies to protect critical domestic infrastructure and industries have been tightened up, notably FDI screening and prior authorization. Countries are also weighing increased state ownership or the future nationalization of key firms in critical sectors and UNCTAD expects the pandemic to have a lasting impact on future investment policymaking.

On the international policy front, the pandemic may affect the conclusion of international investment agreements, with a number of negotiations rounds cancelled or postponed as a result of the pandemic. In the first three months of 2020 only two agreements were concluded compared to ten in the same period last year. UNCTAD expects the number of IIAs concluded in 2020 to be the lowest since 1985.

In the area of investment promotion, national investment promotion agencies (IPAs) moved quickly to shift resources to support investors, with the introduction of online tools such as Covid-19 platforms, investment facilitation and aftercare. These tools are likely to further evolve after the crisis, with the digitalization of IPA operations expected to accelerate, more attention to be apportioned to investment facilitation and aftercare, and for many a shift in target sectors with more health, agriculture and digital industries to be brought into the mix.

While the production timeline of the *Transnational Corporations* precluded focus on the pandemic beyond this short brief in *Issue 1*, it is our intention to dedicate a special section in the second issue of 2020 – due out end-August.

More of UNCTAD's research into the effect of Covid 19 on investment can be found on its website at unctad.org/diae.