Introduction to the focused section: COVID-19 and international production

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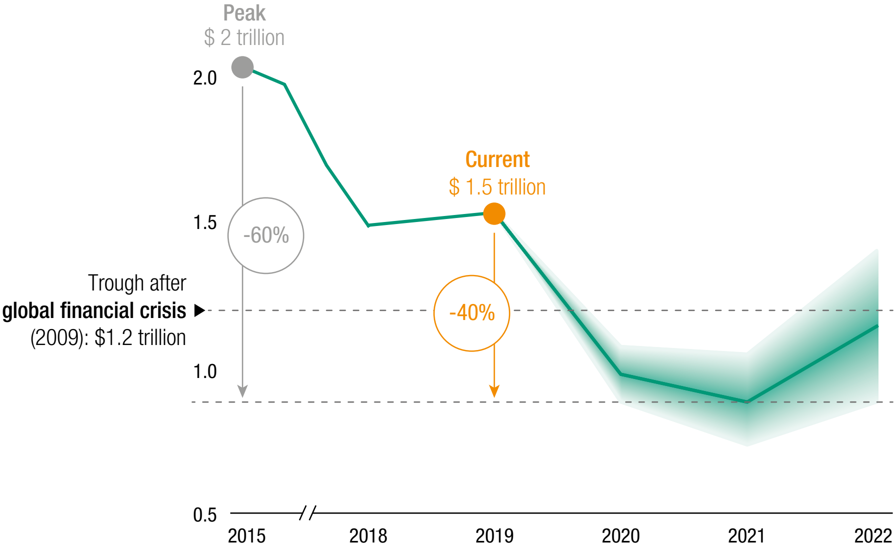
The global economy is in the midst of a severe crisis caused by the COVID-19 pandemic. The immediate impact on international production is dramatic. Projections in the *World Investment Report 2020 (WIR2020)* show a decline in FDI of up to 40 per cent this year, with no recovery expected until 2022 (Figure 1).

Figure 1: Global FDI inflows, 2015–2019 and 2020–2022 forecast (Trillions of dollars)



Source: UNCTAD, WIR (2020).

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Forecasts for global trade are equally gloomy. With all attention of policymakers worldwide now focused on limiting the spread of the virus and containing the immediate economic damage, much research capacity – in international organizations, think tanks and academia – has been diverted to support the global response to the pandemic. A flurry of publications and academic papers has already appeared analysing the business and economic impact from all angles.

In the *WIR2020* UNCTAD tries to look at the longer-term implications for international production, recognizing that the push for supply chain resilience and greater autonomy in productive capacity in reaction to COVID-19 is likely to have lasting consequences. To do so, the report necessarily takes into account the combined effect of the current crisis and other gamechangers for international production, including the new industrial revolution, the broader pre-existing policy shift towards more economic nationalism, and sustainability trends. It discusses several likely trajectories for the decade to 2030 across different industries, including reshoring, regionalization and supply chain diversification.

The overall directional trend in international production points towards shorter value chains, a higher geographical concentration of value added and further downward pressure on international investment in physical productive assets. That will bring huge challenges for developing countries. For decades, their development and industrialization strategies have depended on attracting FDI, increasing participation and value capture in global value chains (GVCs), and gradual technological upgrading in international production networks. They now face a shrinking pool of efficiency-seeking investment, changing determinants of FDI with a reduced importance of their key competitive advantage of low labour costs, and ever higher technological and infrastructure barriers to participation in GVCs.

The expected transformation of international production also brings some opportunities for development, such as promoting resilience-seeking investment, building regional value chains and entering new markets through digital platforms. But capturing these opportunities will require a shift in development strategies that recognizes the fundamental changes taking place along the investment-development path. Overall, a degree of rebalancing towards growth based on domestic and regional demand and promoting investment in infrastructure and domestic services is necessary. That is very much in line with the assessment of investment needs associated with the Sustainable Development Goals (SDGs), also depicted in the *WIR2020*.

The dedicated section on COVID-19 in this issue of *Transnational Corporations* reflects the cross-fertilization between the journal as an outlet for policy-relevant academic research and UNCTAD's *World Investment Report*. The selection of short perspective papers included in the section all look at the longer-term implications of the pandemic for international production. They cover different angles and touch on various aspects of the analysis in the *WIR2020*, often taking an in-depth look at individual trends or analysing specific consequences for GVCs, MNEs or developing regions.

Peter Enderwick and *Peter Buckley* confirm the *WIR2020* view that the recovery from the COVID-19 pandemic is unlikely to see a return to the previous globalization wave. They suggest that there is an opportunity to address some of the weaknesses of globalization through a more regionally-based world economy offering a better balance between national and international interests, and between efficiency and resilience in supply chains. They acknowledge that regionalization may lower global welfare through its reduced scale and higher costs but find that these downsides can be partly mitigated through emerging technologies. They also argue that the efficiency costs of increased regionalization should be offset against the opportunities to create a more inclusive, equitable and acceptable global regime.

Hinrich Voss takes a different perspective, examining the implications of COVID-19 for business conduct along global value chains. He observes that the worldwide economic lockdowns to contain COVID-19 have led to the unilateral cancellation and suspension by multinationals of orders from overseas suppliers and argues that this is in conflict with the UN Guiding Principles on Business and Human Rights and the Sustainable Development Goals. Working with and supporting suppliers and their networks as part of a sincere engagement with human rights and working conditions requires relationships that are built on trust and mutual respect. Abandonment of suppliers through the cancellation or suspension of contracts is likely to have negative short- and long-term effects.

The importance of long-term sustainable supply chain relationships comes back in a contribution by *Ismail Gölgeci, Harun Emre Yildiz* and *Ulf Andersson*, who deep- dive on the balance between efficiency and resilience in global supply chains. They argue that MNEs may be able to develop social mechanisms that can maintain efficiency and resilience simultaneously. They also caution against knee-jerk reactions in a push towards resilience, as MNEs cannot easily switch supply chain partners without compromising the effectiveness of precisely those social safeguards that are needed to maintain both efficiency and resilience. Interestingly, their perspective paper also shows how reshoring, one of the expected post-pandemic trends, can make supply chains potentially more vulnerable to future shocks. Resilience can be stronger in interconnected webs of activity, where finding contingencies is easier.

Pádraig Carmody brings a development perspective to the COVID section. He focuses on the likely impact of the COVID-19 pandemic on prospects for foreign investment and development in Africa. Analogous to the approach and the findings in the *WIR2020*, he concludes that it will depend on interactions with pre-existing trends, including the fourth industrial revolution, as well as on political reactions to the pandemic in Africa. His main finding is that while there is still an important role for foreign investment to strengthen development prospects on the continent, the crisis also creates the need for more domestically-focused investment and production. He highlights the increased urgency of economic diversification in low-income countries and the necessity to future proof their economies against shocks. He points at opportunities to increase local production of manufactures, food and other vital commodities.

Xiaolan Fu analyses the transmission mechanisms through which the pandemic affects global trade and investment. She focuses on the role of digital technologies in enhancing the resilience of value chains, enabling social distancing and fostering new drivers of growth for post-pandemic recovery. Her findings are upbeat about digital economy growth opportunities, but gloomy for development prospects and equality. In her view, many developing countries – especially in Africa and South Asia – will be worse off because of the gap in digital capabilities and infrastructure, as well as in the ability to invest in them. She calls for international technological and financial cooperation and policy coordination to help developing countries not only to combat the shock of the pandemic but also to develop their digital competencies and infrastructure to avoid them falling further behind in the post-pandemic economic recovery.

Kevin Ibeh also focuses on the role of digital technologies in the post-pandemic recovery of international production, zooming in on Africa. He looks at prospects for African digital multinationals in the post-COVID-19 international investment landscape and advances policy recommendations in four areas: organizational capabilities; financing and scaling; digital infrastructure; and regulatory conditions. He documents ongoing developments across the continent, concluding that significantly more needs to be done. He calls for a concerted effort by governments, industry and international stakeholders to bring about a step change in the international investment prospects and outcomes for African digital multinationals in the post-COVID-19 digital economy.

Taken together, the set of perspective papers provides an interesting mix of views, complementary to those in the *WIR2020*, on how international production – trade, investment and the cross-border operations of multinationals – are likely to evolve over the coming decade and on the likely implications for the trajectory of investment-related development. It also provides the contours of a future inter-disciplinary research agenda combining perspectives from international business, international economics and development studies. Further research questions that emerge from the papers include, for example:

- How can countries cope effectively with the effects of the pending restructuring or reconfiguration of international production, including divestment, diversion, and digitalization?

- How can countries shift investment policy direction from a GVC towards an RVC (regional value chain)-based approach?
- How can developing countries, used to attracting export-oriented investment, more effectively promote international investment in infrastructure, domestic services, and domestically-focused manufacturing capacity?

Transnational Corporations looks forward to receiving further submissions of papers on these topics for future issues.

To conclude, the reaction to the call for short perspective papers for this dedicated section, extended only to our editorial and review boards, has been overwhelming. It is an encouraging confirmation of the dedication of our board members to the journal. Space and production limitations and a tight timeline for revisions forced the editorial team to make some difficult choices. We wish to thank all those members of our boards and contributors to the journal for their continued commitment and support.