The Impact of the COVID-19 Pandemic on Investment Policy-Making in the Asian-African Region

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Abstract

In order to control the spread of and further devastation by the deadly COVID-19 pandemic, which has engulfed the entire world since the latter part of 2019, governments have been imposing different restraints on businesses and industries. This has resulted in production stoppages and supply chain disruptions in most sectors, complete closures of entire industries, and unprecedented demand shocks in most economies. As expected, this has in turn severely affected foreign investments, with many projects stalled, completely withdrawn, or re-shored to other safer locations. The regions of Asia and Africa have been acutely impacted by this sharp decline in FDI, as many States in these two regions constitute evolving markets that have over the years grown to become heavily dependent on FDI flows for the smooth functioning of their economies.

FDI could play an important role in supporting economies during the recovery following the pandemic, as its contribution could go beyond financing. For their economic recovery post COVID-19, governments in these two regions will, therefore, need to put conditions in place to help attract and retain productive investments and, more importantly, to maximize their development benefits. Potential investor-claims, on the other hand, however, arising out of International Investment Agreements (which many economies in the two regions again substantially rely upon to attract FDI) relating to the COVID-19 measures put in place by governments, have the power to halt or even reverse the progress in many emerging States by dragging them into unnecessary proceedings that could result in heavy compensation losses for the governments. Investment policies will, hence, have to take a holistic and prudent approach towards attracting FDI in the post-COVID scenario.

1. Introduction

The global flows of foreign direct investment (FDI)[1] has been under severe pressure in the year 2020 as a result of the COVID-19 pandemic. It is expected to fall sharply from 2019 levels of $1.5 trillion, thus, impeding the already lacklustre growth in international investment over the past

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1 External investment is a leading source of economic growth, job creation, infrastructure, competition, international trade and innovation, especially in emerging economies, such as those in Asia and Africa. Countries with a high level of investment systematically achieve higher levels of development in more sustainable ways. Investment is influenced by a multitude of factors, including long-term and comprehensive improvements towards a transparent, rules-based pro-business policy environment, and International Investment Agreements (IIAs).

decade. Owing to the various restrictions that have been imposed by governments to contain the spread of the virus, as a result of which businesses, industries as well as supply chains globally have taken a serious hit, domestic revenues and external flows to States are at an all time low. The possibilities for any significant improvement in 2021 are also slim unless appropriate policy measures are put in place by governments to improve sustainable inflows of foreign investment; that is, conditions to help attract and retain productive investments, and, more importantly, to maximize their development benefits. FDI could play an important role in supporting economies during and after the COVID-19 crisis through financial support to their affiliates, assisting governments in addressing the pandemic, and through linkages with local firms.

The United Nations Conference on Trade and Development (UNCTAD) has forecasted that global FDI flows will decrease by up to 40% in 2020, reaching the lowest level in the last two decades. UNCTAD notes that flows to developing countries is likely to be hit especially hard, as export-oriented and commodity-linked investments are among the most seriously affected; and considering that those sectors that have been severely impacted by the pandemic account for a larger share of FDI inflows in developing countries. Developing countries have also become more reliant on FDI over the last few decades. The increase in FDI to developing countries is underpinned by a rise in both offshoring and global fragmentation of economic activities, especially within the manufacturing and services sectors. The drop in global FDI is, therefore, very much related to the disruptions in global supply chains, which we have also witnessed as a result of the COVID-19 pandemic.[2]

UNCTAD, however, also maintains that the crisis could be a catalyst for a process of structural transformation of international production this decade, and an opportunity for increased sustainability, but this will depend on the ability of States to take advantage of the new industrial revolution and to overcome growing economic nationalism. Cooperation will be crucial; and sustainable development will depend on a global policy climate that remains conducive to cross-border investment.[3]

A major investment-related policy rethink at the international level could be an effective solution to overcome both, health and economic crisis around the globe. The present paper focuses on the foreign investment related crisis faced by the emerging economies in the two continents of Asia and Africa, and the possibilities of a sustainable recovery, a path that many States in the two regions have already begun to successfully tread upon. As explained by global experts in the field like the UNCTAD, a quicker and easier path to recovery from this unprecedented economic downturn that has resulted from this crisis lies in learning from one

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2 'International Production Beyond the Pandemic', UNCTAD/WIR/2020.

3 WIR 2020, n. 2.