Walking the talk of COVID-19 through Investment Policies

Tanya Goyal, *Assistant Policy Analyst, CUTS international*

Introduction

COVID-19, at the beginning of 2020, struck the world with a surprise outbreak. The attack of novel coronavirus disease harmed the health and the global economy, reviving in fragments worldwide. Just as the economies were reviving, the new COVID variant Omicron has brought about the apprehension of another wave. The World Health Organisation (WHO), on December 30, 2020, declared SARS-COVID-19 a public health emergency of international concern.[1]

In a brief period, the virus spread across 190 countries, affecting the economies globally. The outbreak was declared a pandemic with the highest health emergency level. The pandemic is the third such shock of the century after the global financial crisis in 2008[2] and the 9/11 tragedy of the World Trade Centre buildings in New York being destroyed by terrorist-driven aeroplanes.

Emerging and developed countries are considering approaches to revive their economies post COVID-19. This has led the world to undergo perplexing changes brought on by technological shifts, geopolitical competition, industrial transformation, and societal evolution.[3]

The pandemic and changing investment trends have displayed inequality among the economies

The pandemic and changing investment trends have displayed inequality among the economies.[4] Revival strategies differ with countries prioritising investment in different areas

1 World Health Organization. 2020a. WHO Director-General's opening remarks at the media briefing on COVID-19. Available at: [WHO Director-General's opening remarks at the media briefing on COVID-19 - March 11, 2020]

2 CFI Team, 2008-2009 Global Financial Crisis

3 Evolution of Industry 4.0 and Its Implications for International Business, available at : https://www.intechopen.com/chapters/80058

4 IMF, Conquering the great divide, available at: https://www.imf.org/Publications/fandd/issues/2020/09/COVID19-and-global-inequality-joseph-stiglitz

affecting stakeholders.[5] The paper will look into the historical shift from mid-2021 in foreign direct investment (FDI) and other investment policies in the host countries, considering the similarities and differences in the light of COVID. It will argue that global negative events lead to convergence in the investment policy response of the countries, for example, Australia, India, P.R, China, and the USA. It will further discuss the shift in policy implications for such countries.

Towards the end, it will recommend ways for the economies to work together to reach a shared objective of recovery post-COVID-19 and also look domestically for the recovery.

Impact on Economies

The rehabilitation will require increased health care spending, financial support, and structured investment policies

The blow created distortions in supply, demand, and concurrent policy shocks.[6] Governments across the world-imposed restrictions on cross-border movements, social distancing, lockdowns, quarantines, etc.[7] to protect people from the virus. The economies were looming towards a similar set of mandates given the concern over the omicron variant of coronavirus. The government mandates saw serious economic consequences affecting businesses and individuals at large. The number of active business owners in the USA plummeted by 3.3 million or 22 percent over the crucial 2-month window from February to April 2020.[8]

African-American businesses were hit especially hard, experiencing a 41 percent drop-in business activity. Latinx business owner activity fell by 32%, and Asian business owner activity dropped by 26 percent.[9]

As the virus abates and its economic impact deepens, supporting investors and businesses will require financial and fiscal stimulus, with complementary investment climate programmes and policies to promote the flow of investment. The rehabilitation will require increased health care spending, financial support, and structured investment policies, among other policies, all of

5 OECD, The territorial impact of COVID-19 available at: https://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-and-recovery-across-levels-of-government-a2c6abaf/

6 Understanding Coronanomics: The economic implications of the coronavirus (COVID-19) pandemic Barua, Suborna available at: https://core.ac.uk/download/pdf/304661544.pdf

7 World Bank Blogs- In the battle against coronavirus, distance will not defeat human connections, available at: https://blogs.worldbank.org/arabvoices/battle-against-coronavirus-covid-19-distance-will-not-defeat-human-connections

8 Fairlie R. The impact of COVID-19 on small business owners: Evidence from the first three months after widespread social-distancing restrictions. J Econ Manag Strategy. 2020 Aug, available at https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7461311/

9 *Ibid.*

which must be targeted toward the recovery of the economy. Economies saw job loss, unequal income distribution, and an average fall in the income of the people.[10]

Pre-COVID-19 projections estimated that households' daily per capita incomes in the middle of the global income distribution would grow from US$7.15 in 2019 to US$7.44 in 2021.[11] Income for these households is now projected to be US$7.05 in 2021, down 5 percent from the pre-pandemic estimates.[12] Poorer countries are contending with a deeper, longer-lasting crisis that has increased global poverty and is reversing recent trends of shrinking inequality.

Foreign Direct Investment

The pandemic caused a dramatic fall in FDI in 2020. According to United Nations Conference on Trade and Development (2021), global FDI flows dropped by 35 percent to US$1tn in 2020, from US$1.5tn in 2019.[13] Thus, in 2020, global FDI decreased more considerably than global gross domestic product or trade.[14] This has put tremendous pressure on economies globally. However, the flows were expected to bottom out towards the end of 2022 and recover some lost ground with an increase of 10 to 15 percent.[15]

Further, International Monetary Fund (2021), highlighted the global economic contraction of 3.2 percent and global trade by 8.3 percent.[16] However, in developing countries, the number of newly announced greenfield projects fell by 42 percent and the number of international project finance deals – important for infrastructure – by 14 percent.[17]

Moreover, the World Investment Report 2021 highlights that COVID-19 has caused a collapse in investment flows to sectors relevant to the Sustainable Development Goals in developing countries. While in developing nations, there has been a growth of 4 percent in investment flows, defying the COVID-19 severe impact on economies.

---

10 OECD, Impact of COVID-19 on employment and jobs, available at: https://www.oecd.org/employment/covid-19.htm

11 World Bank Blogs: Covid 19 leaves a legacy of rising poverty and widening inequality, available at: https://blogs.worldbank.org/developmenttalk/covid-19-leaves-legacy-rising-poverty-and-widening-inequality#:~:text=Pre%2DCOVID%2D19%20projections%20estimated,from%20the%20pre%2Dpandemic%20estimates.

12 *Ibid*

13 The Effect of COVID-19 on Foreign Direct Investment (EWP No. 653)

14 UNCTAD - World Investment Report 2020, available at: https://unctad.org/webflyer/world-investment-report-2020

15 *Ibid*

16 IMF – World Economic Outlook, available at: https://www.imf.org/en/Publications/WEO

17 Walid Hejazi & Jianmin Tang (2021) Canadian FDI in a post COVID-19 world: have we reached the tipping point?, Transnational Corporations Review, available at: https://www.tandfonline.com/action/showCitFormats?doi=10.1080%2F19186444.2020.1863118

But again, more than ever, economies are seeing a rise in inflation due to the Russia and Ukraine war. While Ukraine's economy is expected to shrink by an estimated 45.1 percent this year, Russia's economy took a plunge, with the projected output to contract by 11.2 percent in 2022.[18]

Companies suspending their operations or disinvesting in Russia will impact economies at large. People have lost their jobs, economies are experiencing inflation (US and UK, for example), and Russia's foreign investments are slowing down. The markets are going to rattle, and the economies are further going to see slower growth. The entire global economy will feel the effects of this crisis through slower growth, steeper inflation, and trade disruptions harming the most vulnerable and poorest economies.

One of the ways to enhance depleted internal resources and strengthen economic support is FDI. The economies need to realise that not all host investments are equal. Ergo, reconstructed policies strategically screen sensitive matters such as Health, Security, Technology, and Defense through the lens of the investment policies.

Greenfield FDIs

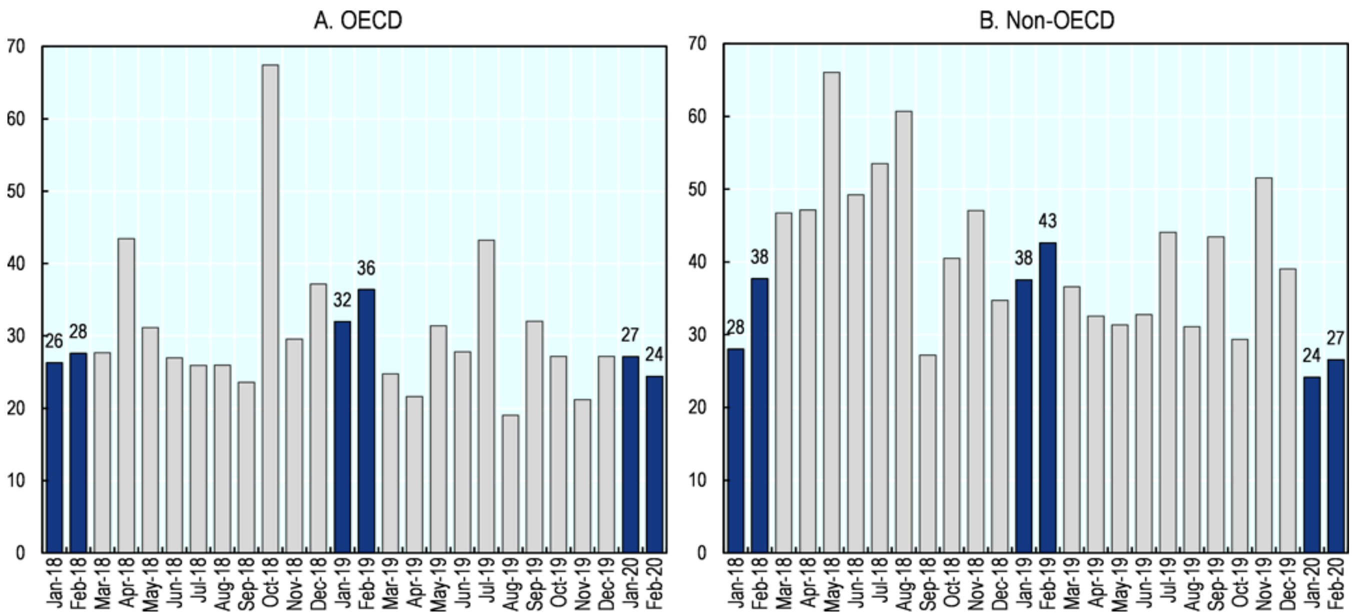
The data on greenfield FDI from the Financial Times' fDi Markets database provides further evidence that investors are becoming more reluctant to explore new investment opportunities in the face of the pandemic. This is shown by the decline in new project announcements in the first two months of 2020 compared to previous years. This decline is sharper in non-OECD economies, where the value of greenfield FDI pledges dropped by over 36 percent relative to 2019 and 15-30 percent relative to 2018.[19] Announced investments in non-OECD economies were lowest in January 2020 before recovering slightly in February.

[18] The World Bank - Russian Invasion to Shrink Ukraine Economy by 45 Percent this Year, available at: https://www.worldbank.org/en/news/press-release/2022/04/10/russian-invasion-to-shrink-ukraine-economy-by-45-percent-this-year

[19] OECD Policy response to Coronavirus – FDI flows in the time of Covid-19, available at: https://www.oecd.org/coronavirus/policy-responses/foreign-direct-investment-flows-in-the-time-of-covid-19-a2fa20c4/

Figure 1: Value of announced greenfield projects, 2018-2020[20]

Announced capital expenditure, US$bn every month



Source: Calculation from Financial Times fDi Markets (2020).

Policy Changes

Countries react to a broad base investment policy through different areas such as infrastructure, privatisation, digital economies, etc. The strategic sectors also include pharmaceuticals, research, and medical equipment to avoid shortages due to the conjunction. Many governments worldwide have introduced new policies and regulations to their existing FDI regimes and sharpened their investment policies in the sectors highlighted above on a need basis.

For post-COVID recovery, countries are working on developing an infrastructure to boost businesses, create jobs

For example, nations focused on Health infrastructure during the pandemic, diverting all the resources to gather the best medical facilities. For post-COVID recovery, countries are working on developing an infrastructure to boost businesses, create jobs, manufacturing hubs, health, airline, etc., and these target industries become part of policies related to FDIs.

Following are a few Investment policy areas (service and manufacturing sectors) along with examples of the policy measures entrusted by the economies depending on the tailor-made measures needed during and post-pandemic. Along these identified policy-making areas, the paper will explore the economies' specific actions along with the investment-related measures.

20 https://www.oecd.org/coronavirus/policy-responses/foreign-direct-investment-flows-in-the-time-of-covid-19-a2fa20c4/#figure-d1e282

Investment Policy Area	Examples of Policy Measures
MSMEs	▪ Financial or fiscal support for domestic suppliers, through schemes and other uplifting policies ▪ Privatisation ▪ Incentives, to enhance production
Health	▪ Mandatory production ▪ Export bans ▪ Import facilitation ▪ Others
Intellectual Property	▪ To enable imports of medications, the facilitation of IP holder-specific non-voluntary licensing ▪ Non-Voluntary licensing to speed up R&D
Investment Facilitation	▪ Removal of bureaucratic obstacles and administrative burdens
International support measures	▪ Support cross-border investment

Staged Redressal Approach

The COVID and Ukraine crises will not spare any country for a while. But as the crisis developed and gradually subsided, economies followed a three-stage approach to address the areas of investment policy promotions and climate.[21]

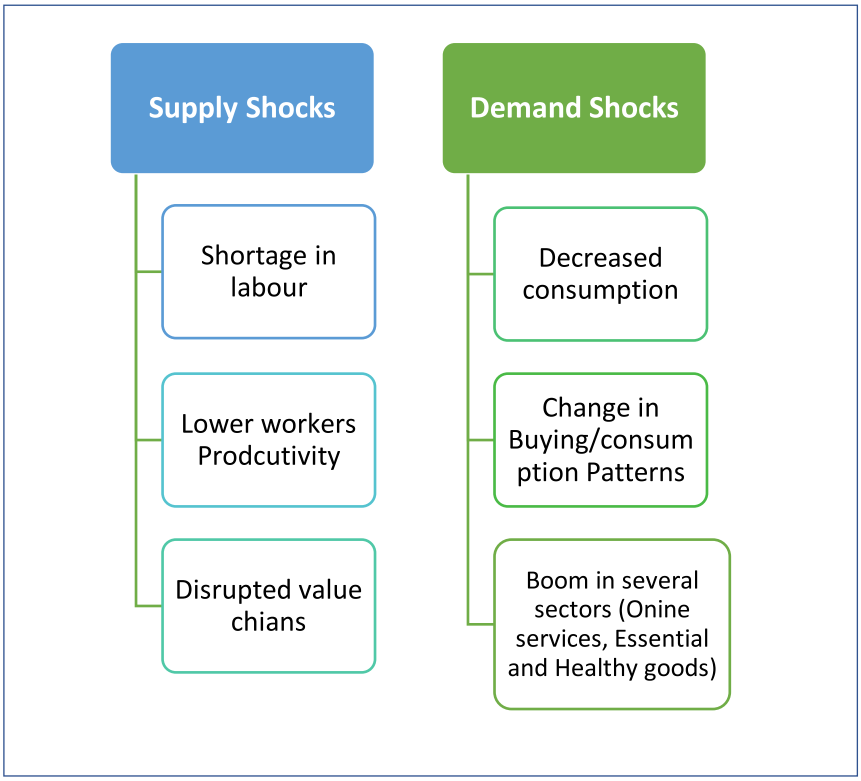
- **<u>Relief stage:</u>** This stage saw the harshest realities of COVID, where survival instincts guided the economies. Policymakers focused on firm survival and market functioning via targeted policies to retain investment, financial support, and regulatory flexibility.

[21] The World Bank – Investment Climate, available at: https://www.worldbank.org/en/topic/investment-climate

Economies ensured the availability of critical supplies, price interventions, changed competition policies, and more of an inward policy repurposing.

- **Restructuring Stage:** This stage allowed for a more risk-based reopening of economies. This provided targeted support to domestic firms and companies. Looking towards international policies for support and restructuring. Restructuring of Investment policies was at the core of this stage. Privatisation in some economies saw a boom, individuals were more aware of their business, and a lot of restructuring and focus was built around digitisation and virtual ways of conducting businesses. Economies were learning to live and grow in the pandemic.
- **Resilient Recovery:** Economies were moving towards the policy of undoing damages of the crisis. While there were opportunities seen, the Ukraine crisis affected the regimes. This recovery should entail promoting Investments (and FDIs), following the pandemic, and realigning regulatory and policy environments. This will help facilitate the reallocation of resources towards the transformation of the economies in the long run, boosting jobs and economic development.

Figure 2: Supply and Demand Shock on Economies due to COVID-19[22]



[22] R Maria del Rio-Chanona, Penny Mealy, Anton Pichler, François Lafond, J Doyne Farmer, Supply and demand shocks in the COVID-19 pandemic: an industry and occupation perspective, Oxford Review of Economic Policy, Volume 36, Issue Supplement_1, 2020, Pages S94–S137, https://doi.org/10.1093/oxrep/graa033

The outbreaks represent the source of uncertainty among the economies. Along with major health crises, it has also disrupted business activities, with a fall in demand, reduced supply, deteriorating liquidity, and credit conditions.[23] Workers in many parts have gone into isolation, and many sectors have seen labour shortages. There has been a sharp slowdown coupled with disruptions in production and value chain because of temporary closures of business. Finally, declines in confidence and consumer demand, reflecting income losses due to layoffs, have led to reduced production or even the closing of many plants and businesses.[24]

Further, easing the bureaucratic obstacles and reducing administrative burdens will contribute to efficiency. Formulating policies on ease of doing business in home economies will further benefit the supply and demand mechanisms by allowing the low cost of production activity.[25] This step will enable faster delivery of goods and services to the clients during a pandemic. The nations, in this case, are less likely to see the shortage of goods and, more importantly, shortage of necessary goods.[26]

In China[27], national development economic zones were made obligated to take swift actions to allow equal access to foreign and domestic companies to Chinese preferential policies. This was amended to smoothen the process of supply and industry chains in the nations.[28] Further, Myanmar Investment Commission (MIC), allowed accelerated investment approvals in infrastructure projects and labour-intensive sectors. Approvals for health industries were also accelerated to include the manufacturing process of COVID essentials during COVID. An additional 50 percent reduction in the investment application fee was announced.

Economies in the Wake of COVID-19

Investment policies are important to tackling the devastating social and economic effects. Several countries around the globe have re-worked domestic measures to support investments both domestically and internationally (in the form of FDIs and more) to revamp their economies. Support measures included speeding up investment approval procedures, accelerating the use of online tools, e-platforms, health-related incentive schemes, promotion of Miro, Small and Medium Industries (MSMEs), fastening medical supplies, investing in R&D, and investing in value chains, etc.

[23] Is the COVID-19 Pandemic a Supply or a Demand Shock? available at: https://research.stlouisfed.org/publications/economic-synopses/2020/05/20/is-the-covid-19-pandemic-a-supply-or-a-demand-shock

[24] Measuring Demand and Supply Shocks From COVID-19: An Industry-Level Analysis for India, available at: https://journals.sagepub.com/doi/full/10.1177/09738010211067392

[25] *Ibid*

[26] Chicago Booth Review: How COVID-19 shocked both supply and demand, available at: https://www.chicagobooth.edu/review/how-covid-19-shocked-both-supply-demand

[27] On March 26, 2020.

[28] Investment Policy Monitor No. 23 | Publications

Australia

Australia confirmed its first COVID case on January 25, 2020. Measures to tighten social distancing, including a temporary ban on public gatherings and to shut down non-essential businesses, were put in early April 2020.[29] Since then, there has been a temporary lockdown in several states. The dramatic impact of COVID-19 has been traced in Australia regarding jobs, industry, and the economy in the following year.

According to the World Bank, Australia's Gross Domestic Product (GDP) was worth US$1330.90bn in 2020.[30] In the June 2020 quarter, the GDP dropped by a record 7 percent, the second quarter in a row of falls. The following month, the unemployment rate peaked at 7.5 percent — the highest in over 20 years. By August, there were signs of economic and employment recovery in all states bar, which was hit by a second COVID-19 wave and lockdown. Nationally, job vacancies recovered 78 percent of the loss and the economy rose 3.4 percent.[31] This was good news for some industries, but others continued to see job losses into November 2020 (Hospitality workers down 64,000).[32]

Indonesia

2021 has been a turbulent year for Indonesia's economy. After successfully pulling out of recession in the second quarter of this year, the country was hit by the relentless force of COVID-19's Delta variant outbreak. The economic impact was devastating.

Amid the Delta variant outbreak from July to August, authorities imposed a nationwide emergency public mobility restriction (PPKM) to curb the infection.[33] People were instructed to stay home, effectively shutting most businesses, further hindering the country's struggling MSMEs. Domestic consumption and public activities declined compared to the same period last year. As a result, Indonesia's economic growth slowed to only 3.51 percent in the third quarter.[34]

Furthermore, the Ministry of Investment reported a decline in the FDI in July, and the flow of import and export goods was also disrupted. Despite the challenge, Indonesia's FDI in the third

[29] International Monetary Fund: Policy Responses to COVID-19, available at - https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

[30] Trading Economics: Australia GDP – available at : https://tradingeconomics.com/australia/gdp

[31] Australia Bureau of Statistics – one year of covid-19: Aussie jobs, business and the economy, available at: https://www.abs.gov.au/articles/one-year-covid-19-aussie-jobs-business-and-economy

[32] *Ibid*

[33] Business Standard: Indonesia to impose level 3 restrictions over 3rd wave of COVID-19, available at: https://www.business-standard.com/article/current-affairs/indonesia-to-impose-level-3-restrictions-over-3rd-wave-of-covid-19-121112000082_1.html

[34] Nikkei Asia: Indonesia's GDP bounce softens to 3.51% in Q3, available at: https://asia.nikkei.com/Economy/Indonesia-s-GDP-bounce-softens-to-3.51-in-Q3

quarter was up 3.7 percent from 2020, which amounted to Rp216.7 trillion.[35] While Indonesia's GDP in 2021: Q1 declined moderately by about 0.7 percent, economic activity continues to recover quarter over quarter since the second half of 2020.

The world bank has estimated that the economy will grow by 5.2 percent in 2022, from an estimated 3.7 percent in 2021.[36]

China

In early January 2020, Chinese authorities determined that a novel coronavirus caused a pneumonia outbreak in Wuhan. China was the first country to suffer from the COVID pandemic and emerge from the crisis. As the world learns from the country's experience in controlling the spread of the virus, more and more economic planners are also looking to China for its economic recovery plans.

Like other nations affected by the COVID-19 pandemic, China's economy slowed significantly after lockdown orders in late January. China's 2020 first-quarter GDP dropped 6.8 percent compared to the same period in 2019, while per capita disposable incomes decreased by 3.9 percent.[37] This is China's first-such contraction since it began reporting quarterly GDP in 1992.[38]

As part of stimulus packages, the Communist Party urged the country in early March 2020 to accelerate the development of "new infrastructure" in seven areas: 5G networks, industrial internet, inter-city, and inner-city rail systems, data centres, artificial intelligence, ultra-high voltage (UHV) transmission, and charging stations for electric vehicles.[39]

India

The first case of COVID-19 in India was reported on January 30, 2020, and the number of cases continues to rise, particularly during the ongoing second wave of the pandemic. For the first wave, the strict national lockdown was extended several times and then gradually re-opened, with restrictions implemented in select containment zones.

GDP contracted sharply in 2020Q2 (-24.4 percent year-on-year) due to the unprecedented lockdowns to control the spread of COVID-19. The contraction moderated to -7.4 percent

---

35 *Ibid*

36 The World Bank: Stagflation Risk Rises Amid Sharp Slowdown in Growth. Available at: https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets

37 Quartz: The coronavirus outbreak might be nearly over in China, but economic hardship is not, available at : https://qz.com/1839062/china-gdp-contracts-6-8-percent-in-first-quarter-due-to-coronavirus/

38 *Ibid*

39 World Resource Institute: 4 Investment Areas to Stimulate China's Economy After COVID-19, available at: https://www.wri.org/insights/4-investment-areas-stimulate-chinas-economy-after-covid-19

year-on-year in 2020Q3, and growth returned to positive territory in 2020Q4 and 2021Q1, at 0.5 percent and 1.6 percent, respectively.[40] The national statistical office revised FY2020/21 GDP growth to -7.3 percent in the latest provisional estimate.[41]

The total inward FDI into India in the financial year (FY) 2020-21 achieved a new high of US$81.72bn. The entire amount of FDI, including equity, capital, and re-invested earnings, increased by 10 percent over the previous fiscal year's total of US$74.39bn.

Ghana

Ghana registered the first confirmed COVID-19 case on March 14, 2020. Starting March 16, the government adopted sweeping social distancing measures and travel restrictions to avert an outbreak.

Ghana's economy had expanded at an average of seven percent per year since 2017 until the coronavirus pandemic reduced growth to 0.9 percent in 2020, according to the Ministry of Finance. Between 2017 and 2019, the fiscal deficit narrowed, inflation came down, and GDP growth rebounded, driven primarily by increases in oil production. The economy remains highly dependent on exporting primary commodities such as gold, cocoa, and oil. Consequently, it is vulnerable to slowdowns in the global economy and commodity price shocks.

Policies are a driving force behind FDI, promoting the development of the Ghanaian private sector. However, the target to earn US$3bn in FDI by 2021 was unlikely to be met due to postponed projects in the pandemic. FDI grew 32.2 percent YoY in H1 21, accounting for 5.8 percent of Ghana's GDP.

United Kingdom (UK)

In response to the initial outbreak, on March 23, the government implemented various measures, including travel restrictions, social distancing measures, closures of entertainment, hospitality, non-essential shops, and indoor premises, and increased testing. The largest economic hit was in 2020Q2, when GDP fell by 19.5 percent q-o-q, reflecting a sharp contraction in April.

Overall, the UK's economy contracted by 9.8 percent in 2020. Frictions in implementing the post-Brexit trade regime will also weigh on activity in the short run. Even after social distancing

---

40 World Health Organisation: India Situation reports- available at: https://www.who.int/india/emergencies/coronavirus-disease-(covid-19)/india-situation-report

41 Five graphics that tell you all you need to know about India's 2021-22 GDP data, available at: https://theprint.in/economy/five-graphics-that-tell-you-all-you-need-to-know-about-indias-2021-22-gdp-data/978241/

winds down, a period of corporate balance sheet repair is expected to weigh on investment while labour reallocation takes place gradually. The pre-crisis level of output would be recovered in early 2022, but the output would remain about 3 percent below the pre-2020 trend in 2025.

Facilitating Investment

Alleviating the administrative burden for firms and reducing bureaucratic obstacles contributes to more efficient production processes and faster delivery of much-needed goods to clients during the pandemic.

For example, in March 2020, China obligated national economic development zones to take swift and effective actions to ensure Chinese and foreign companies can get equal access to the Chinese government's preferential policies and help stabilise important industry chains and supply chains. Other Chinese support measures were already reported in UNCTAD's IPM in early April 2020.

The Myanmar Investment Commission (MIC) announced on April 11, 2020 that it would accelerate approvals for investments in labour-intensive and infrastructure projects. The MIC also accelerated approvals for health care and medical equipment businesses, including those involved in manufacturing supplies such as face masks, and prioritise pharmaceutical enterprises and health care service providers.[42] On April 09, 2020, a 50% reduction of investment application fees was announced.[43]

Furthermore, the COVID-19 pandemic and the resulting closure or disruption of regular governmental services have accelerated the utilisation of online tools and e-platforms that enable the continuity of essential services.

Retaining Investments

The pandemic created manifold logistical, operational, and economic difficulties for foreign companies. The facilitation of investment and, most importantly, aftercare measures aimed at retention of investment were the core of the strategies aimed by the economies. These were also the immediate effective means to help foreign investors in the crisis.

In furtherance of this, the response of the investment promotion agencies was in the mix. Around 24 percent until April 2020 had a rapid response and moved the services online. Many

42 MIC to accelerate approvals for labour intensive, healthcare investments, available at: https://www.mmtimes.com/news/mic-accelerate-approvals-labour-intensive-healthcare-investments.html

43 MIC halves application fees for Investors as coronavirus bites, available at: https://www.mmtimes.com/news/mic-halves-application-fees-investors-coronavirus-bites.html

developed countries changed their momentum to allow smooth transactions upon the covid regulations.

In Africa, however, many IPAs were struggling. A majority (56 percent on April 03, 2020) had no information related to the pandemic on their websites,[44] which is problematic when many investors are desperately looking for information on quarantine measures, conditions and procedures of government business support, supply of essential goods and services, and customs issues.

Retaining investments is one, but building strategies to timely develop the IPAs for resourced countries acted as a catalyst for easy investment rather than developing and underdeveloped countries struggling with much-nuanced policies post covid for retaining investments.

In many countries, various incentive schemes have been adopted to promote economic activities that the spread of COVID-19 has much reduced. For example: in Canada, the province of Quebec announced a subsidy programme for training and capacity-building for enterprises in the following areas: e-skills related to telework, good practices related to health issues, organisational communication, and knowledge enhancement.[45] This programme offered a 100 percent refund on eligible expenses such as trainer fees, purchase of equipment, and human resources management activities up to a maximum of CAD 100,000. The programme was available with immediate effect.

In April 2020, China announced that the National Development and Reform Commission and the Ministry of Commerce would revise the Catalogue of Industries Encouraging Foreign Investment.[46] Tariffs on self-use equipment imported for foreign investment projects encouraged by the Catalogue will continue to waive within the investment quota. For projects exceeding the investment quota, project companies can apply to the Provincial Development and Reform Commission for tariff exemptions.

Similarly, Egypt announced a reduction of nearly 20 percent in the price of natural gas for industrial use and a cut of 10 percent in the price of electricity for heavy industries in the context of the pandemic. The government also announced a freeze in electricity prices for other industries for at least three years.

---

44 Investment Policy Monitor, UNCTAD https://unctad.org/system/files/official-document/diaepcbinf2020d3_en.pdf

45 Canada: COVID-19: Quebec Announces New Programme To Encourage Employee Training, available at : https://www.mondaq.com/canada/employment-and-workforce-wellbeing/926750/covid-19-quebec-announces-new-program-to-encourage-employee-training

46 China unveils draft new version of catalogue for foreign investment in 'encouraged' sectors, available at: https://www.globaltimes.cn/page/202205/1265283.shtml

Intensifying Aftercare

The global spread of COVID-19 is strongly affecting foreign investment. Global Investment Trends Monitor of UNCTAD highlighted the global FDI flows – up to 40 percent – during 2020-2021, reaching the lowest level of the past two decades.[47]

Many logistical, operations and economic difficulties were created during the pandemic for foreign companies. Some important policy measures were investment facilitation and intensifying aftercare effects aimed at foreign investment retention. Companies at all levels were in financial distress and called for global/state action. The host countries provided business support packages and other financial aids to refurbish such foreign investments in the land. For example, the Czech Republic established a CZK 500 million investment subsidy scheme to manufacture medical devices, pharmaceuticals, etc.

India announced a domestic incentive package to increase the medical supply production and availability of the machinery(es) for medical purposes. It was made available for SMEs and large industries. The capital subsidy of 30 percent of fixed assets was made available, along with the local authorisation (if required) of quick clearances. The scheme was to tune INR3,420 crore in the medical supply production and industry. It is set to create global champions out of India, boost the Make in India, and make for the World mandate.

Italy has created a €50mn programme to encourage manufacturers to convert to or expand their production of medical devices and supplies. The United States has loosened certain excise tax provisions on ethanol supplies commonly used for distilled spirits for manufacturers willing to produce ethanol-based hand sanitiser. No previous authorisation or formula approval is required.

Countries worked upon the policies to provide incentives for the contracted economies' enhancement. China, for example, announced the revision of the Catalogue of Industries, encouraging foreign investment. Tariffs on self-use equipment imported for foreign investment projects encouraged by the catalogue will continue to waive within the investment quota. Project companies can apply to the provincial development and reform commission for tariff exemptions for projects exceeding the investment quota.[48]

Many companies were also encouraged to divest from the heavily affected host countries. For example, Japan implemented a US$2.2bn allocation support plan to encourage its industries to move production from China to other Asian countries.[49]

---

47 Investment Trends Monitor, UNCTAD, available at: https://unctad.org/system/files/official-document/diaeiainf2020d3_en.pdf

48 China COVID-19 Policy Tracker: What Businesses Should Pay Attention To

49 Japan to Fund Firms to Shift Production Out of China - Bloomberg

Although this incentive scheme was initially triggered by the trade war between the USA and China in late 2019, major supply chain disruptions in February 2020 especially affecting high value-added output, have put the initiative back at the top of the agenda. The Japanese government has highlighted this incentive scheme as part of the US$989bn global economic support package it announced in early April 2020.[50]

Supporting Local Industries and Disrupted Supply Chains

The crisis hit local small and medium industries. Many were struggling with economic survival and the risk of losing their linkages with foreign investors as the latter no longer buy parts, materials, or services from local suppliers or because of disruptions in the international value chains. Other negative effects on industries included the potential loss of technology and skill transfers and other human capital spillovers.[51]

Due to the pandemic and the lockdowns across nations, everything is happening in the world, the most and worst hit were MSMEs and other local industries. Many still struggle for economic survival and risk losing their backward linkages with foreign investors.

Fiscal and financial aid to MSMEs were the core of the aid packages provided by states. This included recovery of delayed payments, financing to suppliers through their buyers, credits, no-tax policies, co-financing, and other help to the local firms. For example, the Australian government provided temporary cash-flow support. Under this scheme, up to US$100,000 cash flow was introduced to support SMEs with regular cash flows for paying salaries and running under the regular cost of business.[52]

In Brazil, a US$30bn package was announced by the government. The package was used to fund Small and Medium Industries, along with the credit line of US$14.9bn for working capital, to be made available for loans in service industries. Tax deferrals were also identified with other flexible arrangements, which allowed the smooth running of the industries and establishments. The Government of South Africa also announced a US$27mn to assist small and medium enterprises. Tourism and hospitality were at the centre of the government relief funds.

India relaxed its FDI rules and adjusted the application of several aspects of its inward investment rules.

Indonesia established the National treatment for inward foreign investment principle 2020, introduced rules to acquiree foreigners to meet certain obligations (form joint ventures when

50 *Ibid*

51 UNCTAD, Creating Business Linkages – A Policy Perspective, 2010, available at https://unctad.org/en/Docs/diaeed20091_en.pdf

52 Twice the size in a fraction of the time: government responses to the global financial crisis and covid-19, United States Studies Centre.

investing in certain sectors or commit higher paid-up capital when investing in others), or bar foreign investors from using certain legal forms for their enterprises operating in the country.

Acquiring Shares in Crisis-affected Companies

Some governments have voiced their readiness to intervene more actively in the market to keep strategic businesses afloat. For example, in the United States, on April 14, 2020, the government adopted a US$25bn bailout for the airline industry.[53] According to the Treasury Secretary, 30 percent of the assistance would be repaid, and airlines will have to offer stock warrants – giving the government the right to buy company shares – on a portion of those funds. France announced it would not hesitate to refer to any equity instruments at its disposal, including capitalisation, investment, and even nationalisation.

Protecting National Security and Public Health through Foreign Investment Screening

The COVID-19 pandemic has intensified foreign investment screening for national security as countries strengthen their legal frameworks or introduce new regimes. These measures aim at safeguarding domestic capacities relating to health care, pharmaceuticals, medical supplies, and equipment. Consequently, countries either expand their screening mechanisms to cover these sectors or broaden the meaning of national security and public interest to include health emergencies. Furthermore, they employ FDI reviews to protect other critical domestic businesses and technologies that may be particularly vulnerable to hostile foreign takeovers. Before the pandemic outbreak, according to UNCTAD's count, at least 29 countries had a specific FDI screening mechanism in place.[54]

For instance, in Spain, the FDI liberalisation regime was suspended.[55] The underlying Royal Decree-Law 8/2020 explains that the pandemic "poses a certain threat to listed Spanish companies, but also to unlisted Spanish companies that are seeing their equity value decline, many of them in strategic sectors of our economy." Such companies have become an easy target of foreign takeovers, which poses certain risks for public order, safety, and health. Consequently, *ex-ante* governmental approval is required to acquire 10 percent or more stock in numerous sectors.

53 US government agrees on $25bn bailouts for airlines as pandemic halts travel, available at: https://www.theguardian.com/business/2020/apr/14/us-government-coronavirus-bailout-airlines-industry

54 Investment Policy Monitor: Special Issue, available at: https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2582

55 Real Decreto-ley 8/2020, de 17 de marzo, de medidas urgentes extraordinarias para hacer frente al impacto económico y social del COVID-19

In Australia, for example, the monetary screening threshold for all foreign investments was temporarily lowered to zero to "*protect Australia's national interest*" thus now covering all foreign acquisitions.[56] Likewise, the time frame for the screening procedures has been extended from 30 days to 6 months.

The Canadian government published its Policy Statement on Foreign Investment Review and COVID-19, which announced "enhanced scrutiny" of "foreign direct investments of any value, controlling or non-controlling, in Canadian businesses that are related to public health or involved in the supply of critical goods and services to Canadians or the Government".[57]

This measure is a response to "opportunistic investment behaviour" caused by declines in valuations of Canadian businesses as well as by investment of State-owned enterprises that "may be motivated by non-commercial imperatives that could harm Canada's economic or national security interests, a risk that is amplified in the current context".

COVID-19 and Sustainable Development Path

For sustainability investors, COVID-19 offered a catastrophic reminder of the need to prepare for large-scale threats. The worldwide public health crisis claimed millions of lives, crippled economies, and disrupted every aspect of daily life. It also brought into stark focus other systemic vulnerabilities, such as climate change, socio-economic inequality, and the proliferation of plastic pollution.

This made the sustainable development goals even more relevant than today, as they aim to transform the systemic condition that perpetuates the vulnerabilities of our societies and economies. While COVID-19 has been damaging to many people and prosperity-related SDGs, it has positively impacted planet-related SDGs. For example, annual CO_2 emissions for 2020 are projected to be 4-7 percent lower than last year.[58] Air and water have become cleaner, and in many places, a resurgence of nature has been observed.

The most obvious impacts of the pandemic have been its social and economic costs—loss of life, rising unemployment, food insecurity, and related health outcomes. According to the United Nations, the pandemic has negatively impacted 13 of the 17 Sustainable Development

56 Changes to foreign investment framework, available at: https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/changes-foreign-investment-framework

57 Policy Statement on Foreign Investment Review and Covid-19, available at: https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk81224.html

58 Global Energy Review: CO2 Emissions in 2020. Available at: https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020

Goals, including inadequate access to clean water and loss of income, leading vulnerable segments of society to fall below the poverty line.[59]

Success with the SDGs is tied to Success in Dealing with COVID-19

The extent to which a country suffered from the pandemic and the rapidity with which it emerged from those damages depend on its success in dealing with the COVID-19 crisis itself. Therefore, the post-COVID-19 pessimistic and optimistic scenarios at the global level depend on the distribution of countries in terms of their success in dealing with the COVID-19 crisis.

The COVID-19 experience shows that countries that had made more progress in achieving the SDGs could better deal with the COVID-19 crisis. For example, countries that had achieved access to clean water (SDG 6); reduced the number of people living in slums (SDG 11); and decreased pre-existing health conditions such as non-communicable diseases (SDG 3) had more success in mitigating the COVID-19 risk.

Similarly, past progress in smartphone and internet penetration (SDG 9) helped ensure greater communication between the public and the authorities, helping containment measures to be more successful. Of all the determinants of COVID-19 performance, the most important proved to be the healthcare system (SDG 3), social protection system (SDG 1 and 8), and the overall governance system (SDG 16).

Unique country-specific factors did play an essential role in the COVID-19 performance. However, their role was mediated through their impact on healthcare, social protection, and overall governance systems. Momentum for ESG integration has also been building in recent years, with companies recognising they cannot exist in isolation from environmental and social issues and are more dependent than ever on their social license to operate.

Investors across the economies will look into sustainable investment ways to build back our economy in a more resilient and sustainable way. Investors will also prepare to focus on resilience in the face of long-term risks and growth. This will help in improving holistic risk assessment and disclosure practices. There is more than ever a focus on social issues, and investors expect companies to play their part in addressing issues such as climate change, labour standards, and human rights. The COVID-19 crisis has reinforced our belief by highlighting the interconnected and interdependent nature of the world's social and economic systems.

59 Sustainable Development Goals, available at: https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf

Investment Policy Actions at the International level

In a statement issued on March 27, 2020, G20 leaders committed to protecting workers, and businesses, especially micro, small and medium enterprises (MSMEs), and the most affected sectors.[60] They also stated that they inject over US$5tn into the global economy as part of targeted fiscal policy, economic measures, and guarantee schemes to counteract the pandemic's social, economic, and financial impacts.

They committed to giving large-scale fiscal support to ensure the flow of vital medical supplies, critical agricultural products, and other goods and services across borders and to work to resolve disruptions to global supply chains. They reiterated their goal to realise a free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment and keep their markets open.

In a press release on March 28, 2020, the Asia Pacific Economic Cooperation Business Advisory Council recognised that "*any eventual recovery would take longer if the engines of trade and investment could not be re-started quickly*".[61] Also, it urged member economies to announce a standstill on all new trade-restrictive measures for the rest of this year and to agree on concrete actions to reduce protectionism going forward.

Preparing for the Post-pandemic Period

The COVID-19 pandemic is a game-changer of our lifetime and has affected almost every aspect of human society. In particular, the economic impact has been direct on people's livelihood and will likely affect a wide range of political and social institutions. Cross-border economic activities have been severely affected as trade, investment, and people flow between countries have been disrupted. These economic trends also affected the FDI of multinational corporations, which has been a key source of global value chains in past decades.

The paper analyses COVID-19 damage-affected FDI flows between countries. It also aims to analyse how COVID-19 damage in the home (investing) and host countries measured by COVID-19 confirmed cases, deaths, and the stringency of social distancing policies, such as government lockdown or mobility restrictions, affected the flow of FDI.

Vast support packages and rescue programmes of international and domestic institutions seek to prevent the worst global economy. For investment policies, this means, above all, keeping companies liquid, incentivising investment in COVID-19 related industries, providing businesses with maximum administrative support in their day-to-day operations, keeping

[60] Extraordinary G20 Leaders' Summit: Statement on COVID-19, available at: http://www.g20.utoronto.ca/2020/2020-g20-statement-0326.html

[61] Combat Covid-19, says Business, available at: https://www2.abaconline.org/page-content/22620331/apec-collaboration-the-first-best-strategy-to-combat-covid-19-says-business

supply chains alive, and, if necessary, protecting countries' national security in respect of core domestic industries.

Looking ahead, structured investment policies will have a long-lasting effect. It may solidify and reinforce the trend of more restrictive admissions for foreign investment in industries considered critical for host countries. At the same time, the pandemic has resulted in more competition for investments in other industries as economies strive to recover from the crisis, and disrupted supply chains need to be re-established. The crisis may also enhance the utilization of online administrative approval procedures for investors and staff.

The re-construction of economies in terms of Investment policies will be an individual struggle, and it will differ from economy to economy. However, all governments will face the common challenge of how to make the best use of investment policies in bringing their economies back onto a sustainable development path. In addition to national efforts, successful international cooperation will be crucial, especially for the recovery of developing countries, including least developed countries.

Following Annexure is the list of Investment policy measures undertaken by the identified economies along with their identified sources **Annexure 1: Investment Policy Measures in COVID-19**

Economies	**Measures**	**Source**
Australia Investment policy measures – and measures relating to social security	On January 01, 2021, reforms to Australia's foreign investment framework (set by the Foreign Acquisitions and Takeovers Act 1975, the Foreign Acquisitions and Takeovers Fees Imposition Act 2015, and their associated regulations) entered force. The reforms update the framework in three broad ways: they address national security risks, streamline foreign investment in non-sensitive businesses,[62] and strengthen the existing system, including compliance and enforcement powers. These powers included increased penalties, directions powers, and new monitoring and investigative powers, in line with those of other regulators. Amendments to the Foreign Acquisitions and Takeovers Fees Imposition Act 2015 and the introduction of the Foreign Acquisitions	Foreign Acquisitions and Takeovers Act 1975, January 01, 2021; Foreign Acquisitions and Takeovers Regulation 2015, January 01, 2021; Foreign Acquisitions and Takeovers Fees Imposition Act 2015, January 01, 2021; Foreign Acquisitions and Takeovers Fees Imposition Regulations 2020, January 01, 2021;

62 Sensitive businesses include defence and military-related industries; the extraction of uranium or plutonium; and the operation of nuclear facilities.

Economies	Measures	Source
	and Takeovers Fees Imposition Regulations 2020 made foreign investment fees fairer and simpler and established new fees for new actions. Other aspects of the reforms included a new register of foreign-owned assets which will be an amalgamation of the existing registers that record all foreign interests acquired in Australian land, water entitlements, and contractual water rights and expanded to include business acquisitions that require foreign investment approval. On January 01, 2021, the reforms to Australia's foreign investment review framework addressing national security risks came into effect. The new rules test for a narrower set of national security interests and supplement the existing national interest test, which already allowed national security concerns to be considered concerning foreign investments above relatively higher monetary thresholds.	Foreign Acquisitions and Takeovers Act 1975, January 01, 2021; Foreign Acquisitions and Takeovers Regulation 2015, January 01, 2021; "Foreign Investment Review Board, Guidance 8 – National Security Test", Foreign Investment Review Board, December 17, 2020.
P.R China Investment policy measures – and measures relating to social security	On December 16, 2020, the Negative List of Market Access (2020 Edition) entered into force. The new list reduces the number of items to 123, down from 131 items in the 2019-version, and relaxes market access rules requirements in several sectors, such as trading and financial services, oil and gas, and resource management. On December 27, 2020, the National Development and Reform Commission and the Ministry of Commerce issued the Catalogue of Encouraged Industries for Foreign Investment (2020 Version) to be implemented from January 27, 2021, replacing its 2019 version. On December 31, 2020, the National Development and Reform Commission and the Ministry of Commerce released the	Decision on Amending the Implementation Rules of the Regulations of the People's Republic of China on Foreign-funded Insurance Companies, China Banking and Insurance Regulatory Commission, March 19, 2021; "CBIRC Releases the Decision on Amending the Implementation Rules of the People's Republic of China Regulations on Foreign-funded Insurance Companies", China

Economies	Measures	Source
	Special Administrative Measures for the Access of Foreign Investment in Hainan Free Trade Port (2020 Edition), also known as the "Hainan FTP FI Negative List". The Measures apply as of 1 February 2021. The Hainan FTP FI Negative List enumerates industries and sectors restricted or prohibited from foreign investment in Hainan island. Among others, the decision removes the 51 percent cap on foreign ownership of insurance companies while explicitly pointing to the possibility that acquisitions could be subject to a foreign investment security review.	Banking and Insurance Regulatory Commission Media release, March 19, 2021. Order No.37 of 2020, "Measures for the Security Review of Foreign Investment", National Development and Reform Commission, Ministry of Commerce, December 19, 2020
India Investment policy measures – and measures relating to social security	On October 16, 2020, the Ministry of Commerce and Industry issued a Clarification on FDI Policy for uploading/streaming of new and current affairs through digital media that had allowed entities in the News Digital Media Sector to receive FDI up to 26 percent through the government approval route ("Review of Foreign Direct Investment (FDI) policy on various sectors", Press Note 4 (2019). The clarification specifies the entities covered by these rules, makes transitional arrangements and sets out additional conditions that the receiving entity must meet. On March 25, 2021, The Insurance (Amendment) Act, 2021 was published in the Gazette of India. The amendment authorises foreign investment in Indian insurance companies of up to 74 percent, an increase from the hitherto applicable ceiling of 49 percent of paid-up equity capital.	"Clarification on FDI Policy for uploading/streaming of new and current affairs through Digital Media", Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, October 16, 2020. The Insurance Amendment Act, 2021, No.6 of 2021, Gazette of India, March 25, 2021.
United Kingdom Investment policy measures – and measures	As per the Finance Bill 2021 and the Provisional Collection of Taxes Act (Budget Resolutions) of March 03, 2021, from April 01, 2021, purchases of dwellings in England and Northern Ireland made by non-UK resident purchasers, including certain UK resident companies for corporation tax	"Guidance - Rates of Stamp Duty Land Tax for non-UK residents", March 08, 2020, HM Revenue & Customs.

Economies	Measures	Source
relating to social security	purposes that are close companies controlled by non-residents, will attract a Stamp Duty Land Tax (SDLT) that is two percentage points higher than those that apply to purchases made by UK residents. The surcharge applies to purchases of both freehold and leasehold property, as well as increasing the SDLT payable on rents on the grant of a new lease. On April 29, 2021, the National Security and Investment Act 2021 received Royal Assent. The Act establishes an investment screening mechanism that allows the UK's authorities to scrutinise, impose conditions on, and block transactions that pose an undue risk to the country's security interests. The government can further intervene to review business activities responding to emergencies such as artificial intelligence, health emergencies, cryptographic authentication technology, etc. Any transaction could be reviewed under "public interest" if they fall under the merger control threshold, which is generally based on the supply share.	National Security and Investment Act 2021, April 29, 2021

This Discussion Paper is authored by Tanya Goyal (tng@cuts.org) Assistant Policy Analyst at CUTS International. The author gratefully acknowledges the contribution of Amol Kulkarni, Director (Research) to this paper.