



# INVESTMENT TRENDS MONITOR



UNITED NATIONS  
UNCTAD

## IMPACT OF THE COVID-19 PANDEMIC ON GLOBAL FDI AND GVCs

### UPDATED ANALYSIS

#### H I G H L I G H T S

- *The outbreak and spread of Coronavirus (Covid-19) will cause a dramatic drop in global foreign direct investment (FDI) flows. Since our first Special Issue on the impact of the pandemic (early March), updated economic impact estimates and earnings revisions of the largest multinational enterprises (MNEs) now suggest that the downward pressure on FDI could be -30% to -40% during 2020-2021.*
- *Earnings guidance by multinational enterprises (MNEs) in UNCTAD's Top 100, a bellwether of FDI trends, confirms the rapid deterioration of prospects: 61% of MNEs have issued new statements since the first week of March. In addition to earlier concerns on production and supply chain disruptions among firms with strong supply chain links to China, 57% of MNEs have added warnings on the impact on sales of the global demand shock caused by the pandemic. Covid-19 is no longer just a global value chain (GVC) problem.*
- *On average, the top 5000 MNEs, which account for a significant share of global FDI, have now seen downward revisions of 2020 earnings estimates of 30% due to Covid-19, and the trend is likely to continue. Hardest hit are the energy and basic materials industries (-208% for energy, with the additional shock caused by the drop in oil prices), airlines (-116%), and the automotive industry (-47%). The latter industry was the first to see earnings revisions anticipating the supply chain shock. Industries now expecting to be hit by a global decline in demand are rapidly catching up.*
- *Downward revisions of earnings estimates are now more serious in developed countries, contrary to the situation in early March. Developed country MNE profit guidance has been revised downwards by 35%, compared to 20% in developing economies. Average downward revisions have been particularly strong in the United States (projected profits halved) due to the weighting of energy sector MNEs. Downward revisions in Europe have now also exceeded those in Asia.*

*Capex decline in China, first 2 months 2020: -25%*

Capex decline of top 5000 MNEs post global financial crisis: **-20%**

Decline in FDI after the global financial crisis: **-35%**

MNE earnings revisions in China: **-21%**  
Average revisions developed countries: **-35%**

*Average dependence of FDI on reinvested earnings: >50%*

*Announced cross-border M&As Q1 2020: -70%*

- *Downward revisions have stabilized in developing Asia (-21%).* Encouragingly, earnings estimate revisions for Chinese MNEs averaged -21%, compared to -26% in our first assessment early March suggesting that, for now, analysts expect the effect of Covid-19 in China to be fully factored in. However, the Republic of Korea still saw the opposite trend (from -20% to -29% now).
- *The pandemic and the mitigation measures and lockdowns that governments are forced to impose are affecting all components of FDI.* Real capital expenditures, greenfield investments and expansions are being hampered by physical closures of sites and production slowdowns. Cross-border M&As are being delayed and new M&A announcements are on course to drop by 70% globally in Q1.
- While the global supply chain shock that initially appeared to be the main concern for FDI prospects has now clearly been overtaken by the expected worldwide recessionary effects of Covid-19, *the damage done to GVCs may well have the more persistent effects in the long term.*

Projections of the economic impact of Covid-19 are becoming more serious by the day. Early expectations that the impact would be felt first and foremost through the ripple effects caused by production stoppages and supply chain disruptions in East Asia – China in particular – and felt especially in economies that are closely integrated in global value chains are being overtaken by events. (Our first Special Issue on the impact of Covid-19 on FDI<sup>1</sup> projected a -5% to -15% impact based on data up to March 4th, replacing pre-pandemic forecasts projecting marginal growth in the FDI trend.) It is now evident that pandemic mitigation efforts and lockdowns around the world will have devastating effects on all economies, independent of their links to global supply networks.

The demand shock will thus be the biggest factor pushing down investment. The trend in capital expenditures by firms and the trend in FDI usually react to changes in GDP growth with a delay. After the global financial crisis, capital expenditures by the top 5000 MNEs dropped only in 2009. They declined by 13% on average in developed economies, from 15% growth in previous years – a net drop of almost 30 points. The decline was highest in the United States (-20%), the center of the crisis at the time. The decline was much less pronounced in developing economies, where top 5000 capex saw zero growth for one year (down from above 15% growth rates before). In line with capex of the top 5000 MNEs, global FDI flows dropped 35% over the two years to the low point in 2009, with most of the decline again concentrated in developed economies.

The comparison with the global financial crisis can provide some insights on orders of magnitude. The actual negative impact of Covid-19 could be significantly worse on several accounts. First, it could be much more widespread, affecting FDI and capex in developing countries as much as in developed economies, or more. Second, the impact could be much more immediate, as the demand shock is accompanied by forced interruptions and postponements of investment projects. Third, while the pandemic is not a financial sector crisis, should it become one as businesses hit by the crisis are unable to meet financial obligations, it will have a further cascade effect on global investment flows.

The physical closure of places of business, manufacturing plants and construction sites is causing immediate delays in the implementation of investment projects. Some investment expenditures – e.g. the fixed running costs of projects – will continue despite their being little or no new asset value created for project owners. Other outlays will be blocked entirely. As an indication of the potential immediate impact of lockdowns, investment in fixed assets fell by 24.5% in China in the first two months of this year (as reported by the National Bureau of Statistics on 16 March). With the lockdown measures having taken effect only after mid-January and unevenly across China it is likely that the peak-effect is far higher.

Both greenfield investment projects and expansion investments will be affected by this. As new investment projects have a long gestation period and a lifecycle that can span decades, many projects will only be delayed. However, depending on the severity of the recessionary impact of the pandemic, projects could be interrupted or shelved indefinitely.

Announcements of *new* greenfield projects (normally reported in UNCTAD's data for the purpose of projecting future trends) are likely to be delayed. Similarly, mergers and acquisitions (M&As) could see a slowdown. Like greenfield projects, M&As are generally long-term commitments to overseas markets. Nevertheless, completions of already announced M&A transactions are running into delays that could result in cancellations. Financial markets have

<sup>1</sup> Available at [https://unctad.org/en/pages/publications/Global-Investment-Trends-Monitor-\(Series\).aspx](https://unctad.org/en/pages/publications/Global-Investment-Trends-Monitor-(Series).aspx).

been pricing down stocks of firms that had been the subject of takeover plans or that were awaiting regulatory approval for a merger. (The Financial Times reported on 19 March that regulators in the United States and in Europe are seeing delays in approval processes for some of the world's biggest planned mergers, including Amazon's acquisition of Deliveroo and Boeing's acquisition of Embraer.)

Announced cross-border M&A transactions worldwide averaged 1'200 deals per month in 2019 (with all months above 1'000). They fell to 874 in February and 385 in March so far (until 20 March). They would be on course for a 50% decrease in March, and at this clip a 70% decline from last year's levels next month. (The decrease is the same in value terms.)

## Lower MNE earnings: lower reinvested earnings and lower capex

Tables 1 and 2 below report updated numbers on earnings forecasts for fiscal year 2020 of the global top 5000 (listed) MNEs. Almost 80% of the top 5000 MNEs (by revenues) have seen earnings revisions since 1 February (until 23 March). Our first impact assessment based on data until March 4<sup>th</sup> showed average 9% downward revisions. The majority of MNEs have seen further revisions during the last two weeks. Expected earnings were further revised downwards especially in the energy, basic materials and consumer cyclical sectors; the travel and tourism industries have been among the worst hit. MNEs in the automotive industry – a typical GVC industry – were among the first to see earnings estimates revised but have now stabilized. Table 1 also reports the relative importance of each industry in overall top 5000 capital expenditures, showing that some of the worst hit industries are normally important investors.

**Table 1. Earnings revisions and capital expenditures of the top 5000 MNEs**

Sector/industry	Number of companies with earnings revisions	Average earnings revision by March 23rd (%)	(March 4th)	Share of capital expenditures, 2019 (%)
Basic Materials	483	-20	(-13)	8
Consumer Cyclical	810	-24	(-16)	16
Airlines	56	-116	(-42)	2
Hotels, Restaurants & Leisure	125	-41	(-21)	2
Consumer Non-Cyclical	447	-8	(-4)	6
Energy	289	-208	(-13)	20
Healthcare	216	-2	(0)	3
Industrials	910	-20	(-9)	14
Automobiles & Auto Parts	169	-47	(-44)	9
Technology	412	-7	(-3)	11
Telecommunications Services	125	-4	(1)	11
Utilities	220	-9	(-5)	10
<b>Total</b>	<b>3'912</b>	<b>-30</b>	<b>(-9)</b>	<b>100</b>

Source: UNCTAD, based on data from Refinitiv SA.

Note: Top 5000 public companies with at least one earnings forecast revision for fiscal year 2020 since 1 February. A few outliers (5) were excluded as extreme revisions of earnings were driven by idiosyncratic factors not related to Covid-19.

The data by region shows that developed economies have caught up just in the last two weeks, as mitigation and lockdown measures have gradually been put in place across Europe and North America. The average downward revision for developed country MNEs is now 35%, with much of the difference caused by the significant weight of the energy industry among United States MNEs. The demand shock effect in the sector is further compounded by the oil price war, resulting in an oil price drop in just one month from \$50 to just over \$20, and a downward revision of 2020 earnings forecasts in the sector by about -200%.

Table 2 further lists the share of the reinvested earnings component of FDI for each region, indicative of the potential indirect effect that earnings losses could have on FDI. For example, the average -30% earnings losses projected to date for 2020 could affect 52% of FDI flows (this assumes losses are spread uniformly across MNE operations; in reality it is more likely earnings losses would be concentrated in foreign affiliates in affected areas, further augmenting the impact on reinvested earnings).

Table 2. Earnings revisions of the top 5000 and relative importance of reinvested earnings in FDI, by region

Region/economy	Number of companies with earnings revision	Average earnings revision by March 23rd (%)	(March 4 <sup>th</sup> )	Share of reinvested earnings in FDI, 2018 (%)
Developed	2'663	-35	(-6)	61
Developing economies	1'249	-20	(-16)	40
Africa	54	-11	(-1)	27
Developing Asia	1'031	-21	(-18)	41
Singapore	20	-30	(-30)	..
Thailand	36	-28	(-15)	72
Republic of Korea	149	-29	(-20)	22
Malaysia	35	-26	(-20)	..
China	416	-21	(-26)	..
Latin America and Caribbean	124	-14	(-6)	43
Transition economies	40	-18	(-10)	93
<b>Total</b>	<b>3'912</b>	<b>-30</b>	<b>(-9)</b>	<b>52</b>

Source: UNCTAD, based on data from Refinitiv SA.

## Downward pressure on FDI: -30% to -40%

UNCTAD's reassessment of the impact on FDI of the Covid-19 pandemic is far more severe than the first projections, which were based on data limited to February and on earlier expectations that the primary immediate impact would be on East Asia, with spillover effects to other regions through global supply networks. Now the rapid worldwide spread of the pandemic and the implementation of mitigation and lockdown measures across much of the world have made a far larger demand shock and supply disruption inevitable and the consensus is that most if not all major economies will experience a deep recession.

The new projection of downward pressure on FDI is based on:

- the decline in FDI and top 5000 MNE capex experienced after the last global recession
- a potential 50-70% decline in the cross-border M&A part of FDI for part of the current year
- the immediacy of the projected decline in capex, based on the first data reported by China
- the mechanical effect of reduced MNE earnings on the reinvested earnings component of FDI

Ultimately, the decline will depend on the severity and duration of the pandemic across different regions and countries, and the scope of the containment measures that governments are forced to put in place. Importantly, it will also depend on the nature and scale of policy packages that most governments are now putting together to support their economies, which will determine the duration of the recession and the speed of recovery. Most of these packages are expected to include investment support measures, such as accelerated depreciation of post-pandemic capital expenditures (especially in Asia, where a larger proportion of GDP is tied to investment demand).

A further degree of uncertainty stems from the asymmetric effects of the different shocks that global FDI will absorb. The demand shock is expected to be deep, but if the policy response proves effective recovery could be relatively quick when delayed investments are brought back on track. However, the negative impact of the pandemic on investment linked to global production networks could be more durable. As observed in our first Special Issue, the Covid-19 outbreak risks accelerating pre-existing trends of decoupling (the loosening of GVC ties) and reshoring driven by the desire on the part of MNEs to make supply chains more resilient.

For these reasons, the current assessment will be subject to continuous re-evaluation. UNCTAD will continue to monitor the outbreak and its potential impact on FDI.



The next regular issue of UNCTAD's Investment Trends Monitor will be released in October 2020.



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