International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 6 Issue 1, November-December 2021 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Current Trends and Issues in Foreign Direct Investment Post-Covid-19 Pandemic

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ABSTRACT

No commercial sector is left untouched by the brunt of the Covid-19 pandemic. The global economic picture is ravaged due to the crisis and is still recovering from it. Among all, Foreign Direct Investment (FDI) is one of the significantly impacted domains. There has been a significant fall in the FDI due to the disrupted financial market across the globe. This paper discusses the current issues relating to FDI and the policies and measures adopted to limit the damage. The paper also focuses on the recent trends post-pandemic to balance the upheaval caused to health and the economy. There are various initiatives that the nations are taking to improve the position of FDI. The initiatives taken by various countries post-pandemic include changes in fiscal policies, tariff rates, investment policies, and other related policies.

The FDI is an excellent source for supporting the economies. It helps a nation financially and, on many fronts, such as technology, innovation, assisting in coping with the pandemic, and much more. Therefore, in the light of the importance highlighted, it is crucial to study the challenges and reasons for the decline in FDI. There is also a need to attract more and more economists and industrialists to come forward and take the initiative to help build the economy by formulating policies, plans, and strategies to recover from the loss. The research conducted reveals that reliance is placed on sustainable development by both the investors and the government. Although the industries have started gearing up, it will take time to catch up and fix the prevailing FDI issues. An argument is made that one such issue which leads to a decline in FDI is the lack of transparency. The evidence is presented to show that how lack of transparency has resulted in decline in the FDI. The discussion will revolve around the primary issues concerning the fall in FDI and the plans adopted to revive it in the present scenario.

KEYWORDS: *fiscal policy, tariff rates, sustainable development, transparency*

How to cite this paper: Gunjan Agarwal "Current Trends and Issues in Foreign Direct Investment Post-Covid-19 Pandemic" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-6 | Issue-1, December 2021, pp.1155-1160, URL: www.ijtsrd.com/papers/ijtsrd47987.pdf

IJTSRD47987

Introduction to the research area

The research revolves around the issues leading to a decline in FDI in recent years. The aim is to analyze the key factors contributing to such downfall and suggest ways to overcome the same. The current trends are also analyzed to understand the prevailing trends in the world economy to attract more FDI. An attempt is there to dive deep into the root cause of the problem and suggest inputs to push the graph of foreign investment in a positive direction.

Statement of the problem

The decline in FDI affects the welfare and growth of the nation. The issue leading to such a fall in the inflow of investments needs to be recognized. The development of a country is impacted due to a lack of technological assistance, innovation, financial support, and many more reasons. The reasons leading to the downward trend on the graph of FDI are to be determined.

Research questions
1. What are the issues for the decline in FDI over the past few years?
2. What are the significant factors contributing to the resistance from investors in FDI?
3. What are the rising trends and practices in the world economy concerning FDI?

Objectives of the research
1. To identify the major issues leading to a declining trend in FDI
2. To understand the significant areas of concern and factors leading to such problems which result in resentment from foreign investors.
3. To suggest policy changes to attract foreign investors.
4. To access the present status of FDI post-pandemic.
5. To discuss the concept of the importance of FDI for the welfare of the nation.
6. To study the present regulatory framework regarding the policies for attracting FDI.
7. To discuss and critically analyze the problems and barriers arising in maintaining a balance between the domestic interests and FDI and further suggest the potential solutions for improving the present state of imbalance to protect the stakeholder's rights without causing harm to the other.

Scope of the research

The research will include the history of FDI and how it evolved over a period of time. The issues which arose due to Covid-19 leading to a decline in FDI will be analyzed. The research will be limited to the problems in recent years. The paper will also focus on the policy measures adopted by various nations to attract foreign direct investment.

Methodology adopted

The researcher will use the doctrinal research method for the study. The secondary sources such as articles, reports, textbooks, and existing studies are analyzed to identify the gap in the literature. The historical method is adopted to trace the origin and development of FDI. Its contribution to the growth and development of the nation is also analyzed. The researcher has collected various primary and secondary sources of data available on e-resources for the study.

The main objectives of this study are to find out the issues for decline in FDI; the factors that attract FDI and how these can be enhanced, and the factors that hinder the flow of FDI into and how these can be reduced. The study is entirely based on secondary data collected from local, regional and international agencies like Economic Forums, World Economic Forum, International Monetary Fund, Transparency International, World Bank group, United Nations and various publications of the statistical departments, governments, and the press. The collected data are analyzed using appropriate analytical tools

Literature reviewed

The history of FDI is evident of the fact how it helps shape the economy and development of a nation. In the era of globalization and liberalization the territorial limits of business have been expanded. The Foreign Direct Investment has seen a phenomenal growth over the years and is a major source of finance for developing nations.[2]The OECD[3] defines foreign direct investment as a cross-border investment wherein an investor in one economy establishes a significant interest in an enterprise in another economy known as the host country. The investor may have voting rights in the enterprise ranging from 10% or more. This fact is evidence of having a significant influence over the enterprise and forming a lasting interest therein. The FDI has grown more hastily than world trade and world output.[4]The presentation of the literature review is arranged in such a way that the literature relating to issues is presented first, followed by challenges and then all literature relating to the recent trends to enhance FDI are discussed.

The pandemic has affected the flow of investment across the globe. The FDI levels significantly dropped due to economic slowdown. According to the author (PreetiMechan, 2018) the primary and manufacturing sectors are most impacted accounting for the larger share with respect to FDI.[5] The FDI is given so much importance because it helps the host country to combat the after effects of pandemic as it has linkages with the local firms. There has been a steady decline in the FDI over past few years and the pandemic has aggravated the pace of such decline. If measures are not put in place in health and economic sector than picture is deemed to worsen in the near future. The author in the article *'FDI Inflows in India: An Analysis of the Trend During 2004–2018 and Future*

[2]PreetiMechan, Sovereignty and Investment Protection Obligations in International Law, Special Issue IJLIA 28, 2018.

[3]The Organisation for Economic Cooperation and Development.

[4]Madaan, R., Bhandari, J. and Mishra, S. (2018) 'FDI Inflows in India: An Analysis of the Trend During 2004–2018 and Future Projections for the Next Decade', Asia-Pacific Journal of Management Research and Innovation, 14(3–4), pp. 120–131.

[5]Foreign direct investment flows in the time of COVID-19, Tackling Corona virus (Covid-19), 4 May 2020.

Projections for the Next Decade' argues that there is more reliance on Multi National Enterprises than domestic firms as they are more research and developed intensive and productive due to use of modern technology.[6] They have better access to resources which in turn accelerate the rate of development in the developing nations.

In the article *'Sovereignty and Investment Protection Obligations in International Law'* author argues that the sovereign powers exercised by the host countries result in dispute with the investor is one of the major issues at present which requires an amicable resolution.[7] There is a contradiction between the investment protection of investors and the sovereign rights of host nation. The investors overlook the environment and human rights to maximize their profit out of the investment made. The host nation in such case is bound by the Bilateral Investment Treaties and do not have an upper hand to protect the interest of its people.

Another issue for decline in FDI is non-transparency in government policies. The author in his paper *'The Impact of Transparency on Foreign Direct Investment'* is of the view that the risk and uncertainty due to lack of transparency is resulting in decline in the FDI.[8] There are various other issues and challenges posed by various nations reflected in the UNCTAD[9] Report. Some of these issues includes restrictive entry and exit barrier, high tariffs, enhanced screening, imposing penalties on foreign investors and the like.

The FDI is impacted by the global risk factors which cannot be ignored by the foreign investors. According to White & Fan (2006, p. 131), a global risk is that risk which has an efficient tendency at the global level.[10] The issues are recognized by various nations and have come up with policies to strike a balance between the foreign investment and domestic interest of people. The UNCTAD Report lists out various challenges and trends with respect to Foreign Direct Investment post pandemic. The reliance is placed on sustainable development and green energy to save the cost and help build the economy. The UNTACD Report also highlights the incentive measures adopted by nations post pandemic to attract FDI in their respective nations.

Analysis and Discussion

The analysis of the literature reveals that there are various economic and political factors impacting the FDI regime. The factors are dealt with in detail to understand better and suggest the possible policy changes to improvise the present situation. The issues impacting FDI are discussed below.

Contradiction between sovereignty and international investment

The FDI involves Bilateral Investment Treaties to protect the rights of the investors. These include policies such as Fair and equitable treatment, Umbrella clauses, National Treatment and similar policies to safeguard the interest of the foreign investor. The issue which arises is that the policies laid down in BITs contradict with the policy of the sovereign made for the protection of environment and good of its people. This issue can be seen in the case of Bangladesh where foreign investment laws and BITs primarily protect foreign investors; however, neither comprise any explicit provisions of protecting sovereignty, national interest, and security.[11]There have been huge claims on India as well under various BITs due to which there has been policy changes in FDI leading to decline in investment.[12]The new model BITs drafted by India raised the bar to bring a claim by investor and inserted protecting measures by limiting the liability of host. Amidst this tussle between investor and host nation to protect their rights under BITs, FDI has been impacted significantly in recent years.

Non-transparency

The lack of transparency in government policies is one of the major reasons for decrease in the attractiveness for FDI investors. This issue stems from weak economic policies, bribery, corruption, and inefficient government institutions. Transparency is a key factor in investment sector which builds up the trust and encourage the investor to proceed with the investment decision. Therefore, M. Camdessus, the Managing Director of the IMF, in one of his speeches spoke of transparency as the "golden rule" of the new international financial system.[13]An

[6]Ibid

[7]Supra at 1, 29

[8]ZdenekDrabek, Warren Payne, The Impact of Transparency on Foreign Direct Investment, World Trade Organization Economic Research and Analysis Division, 3, 2001

[9]United Nations Conference on Trade and Development

[10] Colin White, Miao Fan, Risk and Foreign Direct Investment, ISBN : 978-1-349-52310-8, 2006

[11]Hossain, M. B., Yeon, A. L. B., and Aziz, A. S. B. A. Sovereignty, National Interest & Security and the Bilateral Investment Treaties of Bangladesh and the Netherlands: a Comparison. African Journal of Legal Studies 12, 2, 183-214, 2019

[12]Abhishek Dwivedi, India's Flawed Approach to Bilateral Investment Treaties, The Diplomat, Dec4, 2020

[13]M. Camdessus speech at the 24the Annual Conference of the International Organization of Securities Commission in

important element of non-transparency is the domain or property rights and its protection in a country. The property rights include the intellectual property rights as well. The most common breach of such rights includes copyright infringement, patent infringement and lack of enforcement of contract as per the terms of contract. Therefore, due to lack of robust policy system in place investors fear investing in such countries where there is risk of return on investment.[14]

Corruption

Another issue which has a negative impact on FDI is corruption. The high level of corruption decreases the level of FDI as the investors are not sure about high rate of return on their investment.[15] The public investments are distorted due to corruption. Not only investment regimes are impacted but also the country's income distribution and poverty level worsen.[16] The frequent mention of FDI is due to its growing importance for developing nation to improve the welfare of the state. The developing nations are in more need for foreign investment to cope with the ill-effects of pandemic.

Economic Uncertainty

The economic and political environment's unpredictability has a significant impact on FDI inflows. In this regard, it may be claimed that the worldwide pandemic will have an impact on FDI inflows to nations.[17] Furthermore, as this study demonstrates, there is a strong link between uncertainty and FDI. This worldwide epidemic has undoubtedly created global economic uncertainty. Especially in the recent decade, uncertainty has been a popular issue. The influence of uncertainty on FDI flows has long been debated by academicians. A growing number of studies have looked at the link between EPU (Economic Policy Uncertainty) and FDI in recent years. For example, Hsieh et al. (2019)[18] use the recently constructed Economic Policy Uncertainty Index to examine the influence of EPU on FDI. They investigate the influence of economic policy uncertainty on the United States' external FDI. The EPU Index and external FDI flows have a substantial link, according to the findings. This influence may be seen not only in the EPU Index of the United States, but also in the EPU Indices of the host nations.

Restrictive conditions

The countries are in a vulnerable position post pandemic. They have started imposing restrictive conditions on foreign trade to protect the interest of the locals. The countries have adopted and strengthened the FDI screening process due to which there is a steep decline in foreign investment. Foreign corporations may elect to cancel their investment plans before reaching the screening phase, or not pursue business prospects in those industries under investigation. There is a list of restrictive conditions that countries have adopted which led to decline in FDI. Some of them includes the following[19]-

1. The scope of local content laws in Angola has been expanded to cover all enterprises who provide goods and services to the oil sector.
2. Indonesia has implemented new rules for e-commerce enterprises to assist government programmes by preferring locally made goods and services and allowing them to be promoted online. Indonesia implemented new local ownership rules in the non-bank payment services industry in December 2020.
3. Kenya mandated local involvement in a number of businesses, including insurance, telecommunications, and information and communication technology (ICT).
4. In preparation for the anticipated implementation of special economic zones, Namibia eliminated various tax benefits offered to manufacturers, export processing zone enterprises, and management companies. Namibia mandated that all mining license applications have a 15% interest reserved for local owners by April 2021.
5. In order to encourage local products and home business, Oman released a list of activities that are restricted for foreign investment.
6. Nepal announced new foreign investment regulations in January 2021. Foreign investors must now bring in 70% of their intended

Lisbon, on May 25, 1999. Also reported in IMF Survey, June 7, 1999.

[14]North, Douglas, The Rise of Western Civilization; Cambridge University Press, 1987.

[15]Salih TÜREDİ, The Effect of Corruption and Country Risk on FDI Inflows: Empirical Evidence from Developing Countries, Issue 21, 151 - 172, 2018

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[17]Suleyman, S., How Economic Uncertainty Affects Foreign Direct Investment Inflows: Evidence from Central and Eastern European Countries, Ekonomski Vjesnik, vol. 33, no. 2, pp. 451-462, 2020

[18]Hsieh, H. C., Boarelli, S., Vu, T. H. C.,effects of economic policy uncertainty on outward foreign direct investment, International Review of Economics & Finance, Vol. 64, pp. 377-392, 2019

[19]UNCTAD Report, 2021

investment before starting operations, with the remaining 30% coming in over the next two years.

7. They must also transfer the funds they have committed within a year of receiving approval for their project.

Trends

The COVID-19 epidemic prompted a sharp drop in global FDI flows, prompting a surge in promoting and facilitating initiatives in a number of developing nations in 2020. At least 27 nations have implemented similar policy changes.

Several governments have enacted new policies to encourage inbound investment. China, for example, has issued comprehensive implementing rules for the 2019 Foreign Investment Law. The laws stress, among other things, the goal to treat domestic and international businesses equally. China has also released a series of pilot initiatives to encourage foreign investment in the Yangtze River Delta. Furthermore, China increased the number of industries in which foreign investment is welcomed by 10%.[20]

At least 18 nations announced new investor incentives, the majority of which are fiscal in nature. Angola, for example, passed legislation to encourage the formation of free trade zones by providing incentives and advantages.[21] The tax advantages for industrial and high-tech parks in Azerbaijan have been increased.[22] Colombia enacted a unique tax scheme for investments worth more than a particular amount.[23]

In 2020, a number of nations streamlined or simplified their administrative procedures for foreign investment. For example, For Australian wholesale clients, Australia implemented a licensing scheme for overseas financial services companies.[24] c

Agriculture, manufacturing, mining, defense, financial services, transportation, digital media, and the pharmaceutical industry were all subject to FDI liberalization policies. Developing economies in Asia, as in previous years, were the most active in liberalizing international investment.

Recommendations and Conclusion

In the light of issues and trends post pandemic the following recommendations are provided.

- The measures require to deal with the issue differ from case to case. In a particular circumstance a policy reform is enough while for other legislation is not sufficient. The overall change in the societal behavior and pattern needs to be considered to make such decisions.
- The corruption can be eliminated by less government intervention in the markets and restricting it only to the essential sectors. This can be implemented by way of elimination of price controls, reducing the government regulatory controls or elimination or reduction of licensing schemes etc. The elimination of corruption needs to be handled very sensitively and with care.
- Another concern with respect to property rights can be dealt with by incorporating property laws in uniformity with internationally accepted standards. Also, foreign investors must be safeguarded Pari passu from nationalization and other types of expropriation, which are the most egregious violations of property rights. Last but not least, business transactions must be backed by laws that can be enforced.
- Administrative inefficiency is perhaps the most common impediment to FDI today. Many of these issues may be solved by implementing policies and processes that promote openness and diminish government decision-making arbitrariness. This can be done by adopting a system based on well-designed tenders for government procurements and public investments, public offers and other competitive methods for privatization of state assets, solid compensation for public officials, and other measures as the particular circumstances may require.
- Policy makers to ensure that their policies are transparent to potential foreign investors to lure more and more FDI. In order to do so attention needs to be paid on the features of the policy ensuring it is pro investor.

Therefore, in the light of the literature reviewed and research conducted it can be concluded that there are various issues which require immediate attention. The roadmap has been laid down to follow in order to attract FDI and improve the current economic scenario to push the graph in positive direction.

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