

A STUDY ON FOREIGN DIRECT INVESTMENT IN OECD COUNTRIES DURING COVID -19

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ABSTRACT

This paper aims to analyse foreign direct investment in Organisation for Economic Co-operation and Development(OECD) countries. Due to COVID -19 pandemic there was a steady decline and resulting in sinking global FDI flows since 2005. In this study an attempt is being made to understand change in FDI inflows and outflows of OECD countries during global pandemic situation. Finally we will also analyse FDI Income of OECD countries. The study is undertaken to understand FDI situation in 37 member countries which are part of OECD & data for the study is taken from OECD website.

Keywords: *FDI, OECD, COVID-19, Pandemic*

INTRODUCTION

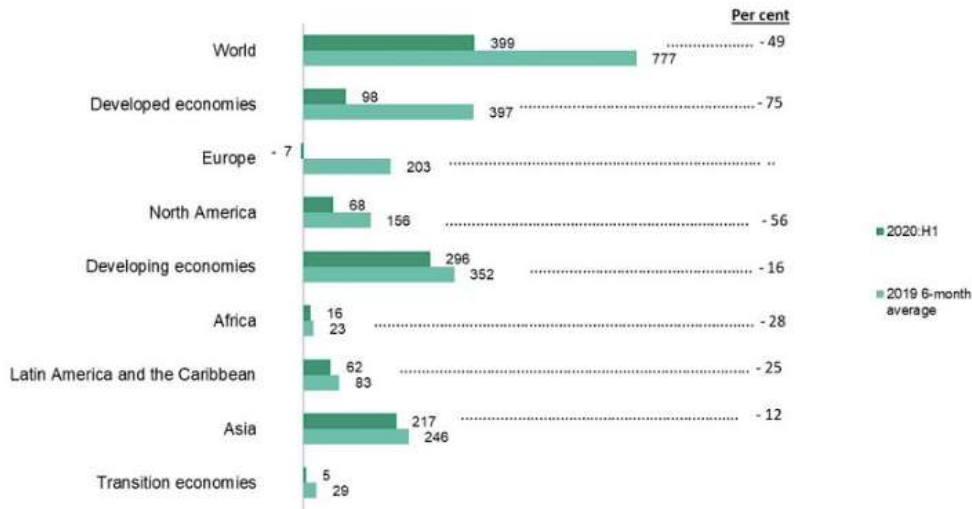
Foreign direct Investment is the life blood of both developed and developing economies. After the globalisation and liberalisation policies the countries all over the world are inviting investment from capital rich nations. To minimise the cost of production the developed countries are looking out for investment in those nations where there is availability of cheap labour, scope for expansion, market for product consumption and higher profit maximisation can be achieved.

The Paris-based Organisation for Economic Co-operation and Development (OECD) is an international organisation that promotes policies to improve the economic and social well-being of people worldwide. It provides a forum in which governments can work together to share experiences and seek solutions to the economic, social and governance challenges they face.

The OECD's 37 members are: Austria, Australia, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

As per the report published by OECD during COVID-19 the global FDI flows have sunk by 38%. Moreover China overtook United States as the top destination for FDI worldwide. Global foreign direct investment (FDI) flows fell 49% in the first half of 2020 compared to 2019, due to the economic fallout from COVID-19 (UNCTAD Report). According to the report, developed economies saw the biggest fall, with FDI reaching an estimated \$98 billion in the six-month period – a decline of 75% compared to 2019.

The trend was exacerbated by sharply negative inflows in European economies, mainly in the Netherlands and Switzerland. FDI flows to North America fell by 56% to \$68 billion.



Source: UNCTAD

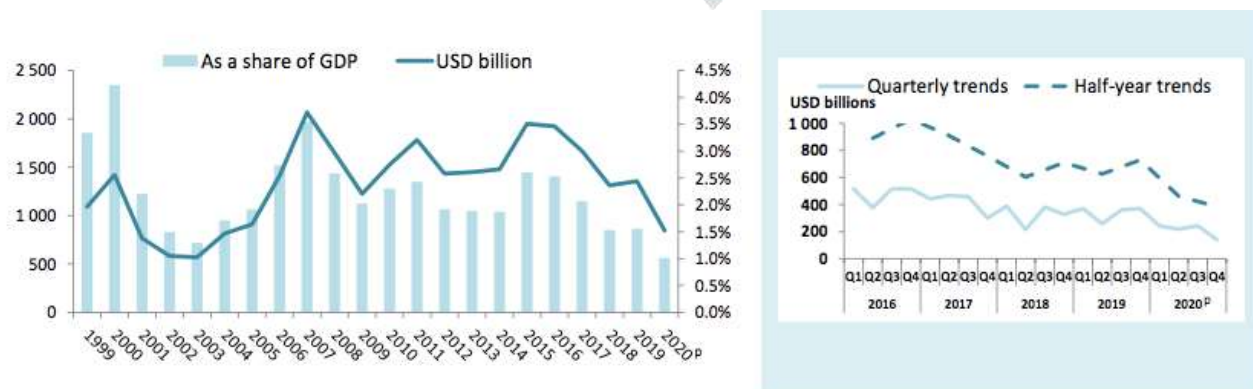
Figure1 : FDI inflows by region, 2020 H1 vs 2019 6-month average (Billions of US dollars and percent)

Objectives of the study:

- 1.To study the Global FDI outflows in OECD countries.
- 2.To study the Inflows and outflows in OECD areas.

Global FDI flows

From figure 2 it is clear that global FDI in the year 2020 represents only 1% of GDP this is the lowest value since 1999. This decrease represents the lowest level of equity flows in OECD countries seen since 2005, resulting from major divestments from Switzerland and the Netherlands. Figure 2 also depicts the annual global FDI flows from 1999-2021 and quarterly and half-year trends from 2016 to 2020. Seeing half-year values, FDI flows dropped by 37% in the first half of 2020 to the lowest half-year level recorded since 2013, before dropping by a further 17% in the second half of the year. Looking at quarterly values, global FDI flows declined throughout 2020, except in the third quarter where they rebounded by 11%, before dropping again by 42% in the last quarter.



Source: OECD International Direct Investment Statistics database.

Figure2 : Global FDI flows(1999-2021)

Inflows

FDI Inflows in **OECD area**, decreased by **51%** to USD 389 billion shown in Figure 3, their lowest level since 2005. Inflows to the OECD area only accounted for 38% of global FDI inflows in 2020, compared to 52% in 2019 and 58% in 2018. FDI flows to **EU27** countries fell by 70%, mostly due to divestments from the Netherlands and decreases that surpassed USD 10 billion in a number of EU countries (OECD REPORT)

FDI inflows to **G20** economies decreased by 28%. They dropped by 40% in OECD G20 economies and 9% in non-OECD G20 economies. China and India recorded higher FDI inflows of 14% and 27% respectively, which was due to increase in cross-border merger and acquisition activity in the

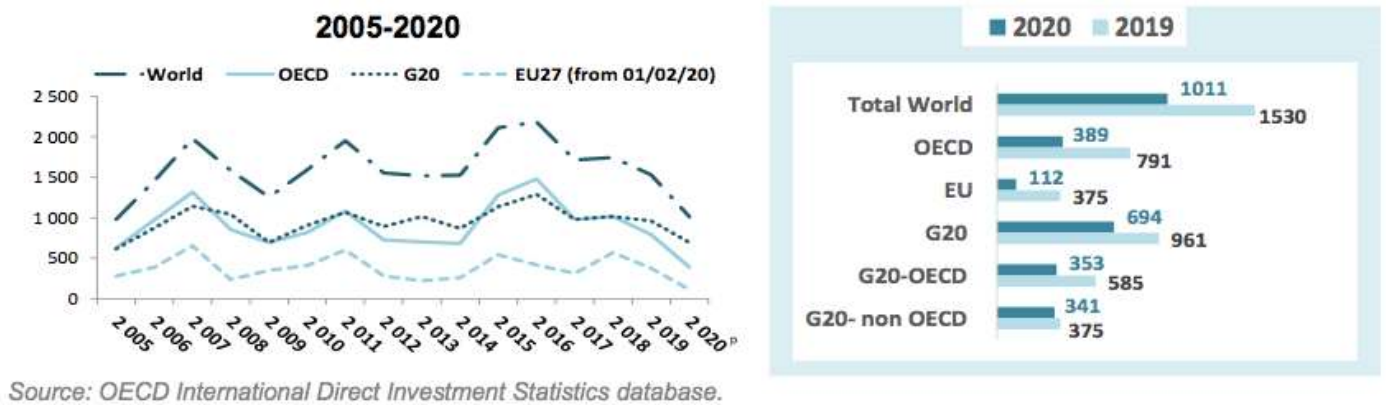


Figure3 :FDI inflows to selected areas, 2005-2020 (USD billion)

second half of the year. China overtook the United States as the top destination of FDI worldwide, for the second time six years on (Figure 4). Both of these countries had FDI inflows worth USD 212 billion and USD 177 billion respectively. India and Luxembourg received inflows of USD 64 billion and USD 62 billion respectively in the year 2020 which is more than Inflows received by both the countries in the year 2019.

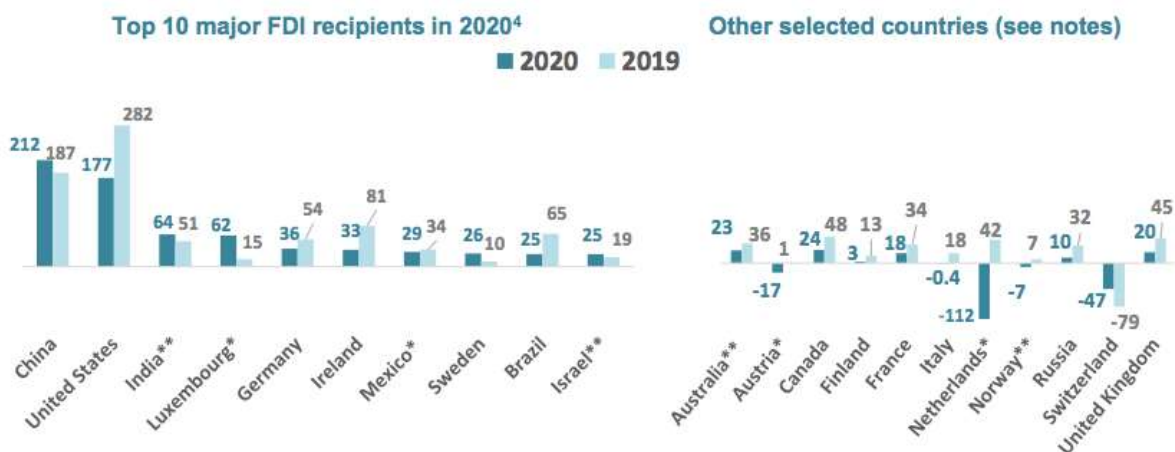


Figure 4: FDI inflows to selected countries during 2019-2020 (USD Billion)

Outflows

FDI outflows from OECD nations fell from USD 824 billion to USD 425 billion dollars in 2020 which is lowest since 2005. European nations outflows decreased by 77%. In case of G20 Countries FDI outflows dropped to 43%

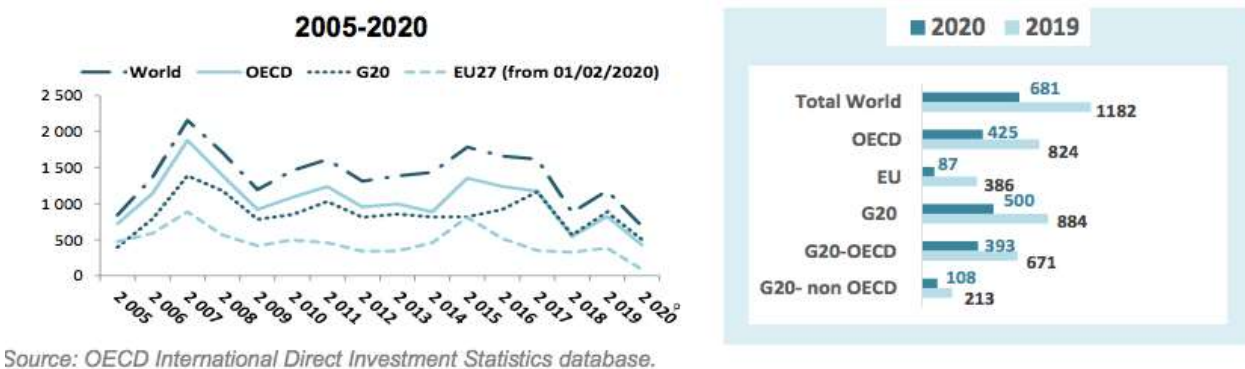


Figure 4: FDI outflows from selected areas during 2005-2020 (USD Billion)

Conclusion

COVID-19 is uprooting economic globalisation. The pandemic has exposed how globally interconnected the flow of goods and services has become, and countries are now rethinking their international trade strategies to reduce their vulnerability to global economic shocks. From the OECD report it is clear that the Global FDI flows decreased by 38% in 2020 to USD 846 billion, their lowest level since 2005. China overtook the United States as the top destination for FDI worldwide. Inflows to the OECD area decreased by 51%, partly due to significant divestments from Switzerland and the Netherlands. Outflows from the OECD area decreased by 48% to historically low levels not seen since 2005, also largely influenced by major divestments by companies in the Netherlands.

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