FONASBA COVID-19 BULLETIN

FONASBA

AN UPDATE ON MEASURES BEING TAKEN TO PREVENT THE SPREAD OF COVID-19 BY MERCHANT SHIPPING – No. 10 31.03.2020

Further updates on COVID-19 precautions have been received from members as summarized below. As always, please contact the relevant association for more guidance.

European Union	Attached is a copy of a communication from the European Commission in respect of a temporary ban on all non-essential travel within the Schengen Zone. Thanks to Marco Tak for bringing this paper to our attention.
France	All French ports remain fully mobilized to ensure the continuity of the various essential services for the treatment of ships and the transit of goods through our ports. Ports remain operational and shipping agents are working 24/7 as usual, applying recommended sanitary measures. All port services are operational as well. All Ships are required to submit a list of the last ten ports of calls and each ship must submit health reports indicating that its crew are free of Corona virus. No crew members can go ashore or change crew for the time being.
Russia	The port of St. Petersburg is open for vessels and working as usual in terms of cargo and marine operations. Stevedores, pilots, crew members of tugs and etc. must wear personal protective equipment if visiting vessels or going to be in contact with vessel's crew members who have to wear the same items in case of contact. All crew remain on board while their port stay in the port, no crew change is allowed. Health control is in charge to analyse details of the Maritime Health Declaration provided as well as to examine crew members on board on arrival and take decisions as to hospitalization and further quarantine measures if required. There are no clear instructions in place for each situation and therefore every case is considered individually and action taken on a case by case basis. The above mentioned can also be used as a basic list of restrictions that is applied in other Russian ports.

EUROPEAN
COMMISSION

Brussels, 16.3.2020
COM(2020) 115 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL AND THE COUNCIL

COVID-19: Temporary Restriction on Non-Essential Travel to the EU

The coronavirus crisis is now a pandemic which has spread across the globe, with cases on five continents. Globalisation and international movements of people create conditions which facilitate the spread of the virus across borders. A public health crisis has, through travel, resulted in a large number of imported cases in several countries, which progressively set off local outbreaks through gradual but large-scale community transmission. The sooner the link between the transmission chain and travel is lost, the faster local transmission intensifies, exerting great pressure on healthcare systems.

At this moment, the European Union is considered to be at the epicentre of the COVID-19 pandemic. Over the past few weeks, Member States have taken a number of drastic measures to limit the spread of the virus. However, the cases of COVID-19 have increased exponentially within a short period of time, putting the healthcare systems of Member States under significant strain, which also increases exponentially on a daily basis.

While travel restrictions are generally not seen by the World Health Organisation as the most effective way of countering a pandemic, the rapid spread of COVID-19 makes it essential that the EU and Member States take urgent, immediate and concerted action not only to protect the public health of our populations, but also to prevent the virus from further spreading from the EU to other countries, as has been observed in recent weeks.

Travel restrictions should focus on drastically reducing incoming people flows at the external borders of the Union, thereby also slowing transmission to other countries on travellers' return, and discouraging outgoing travel of EU citizens and other persons residing in the EU+ area.[1]

By this Communication, the Commission recommends to the European Council to act with a view to the rapid adoption, by the Heads of State or Government of the Schengen Member States together with their counterparts of the Schengen Associated States, of a coordinated decision to apply a temporary restriction of non-essential travel from third countries into the EU+ area.

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The EU's external border has to act as a security perimeter for **all Schengen States**. It is of common interest and a common responsibility. In the current circumstances, with the coronavirus now widespread throughout the EU, the external border regime offers the opportunity of concerted action among Member States to limit the global spread of the virus.

Any action at the external border needs **to be applied at all parts of the EU's external borders.** A temporary travel restriction could only be effective if **decided and implemented by Schengen States for all external borders at the same time and in a uniform manner**. Uncoordinated travel restrictions by individual Member States for their parts of external borders risk being ineffective. Any unilateral decision of a Schengen State to apply a temporary travel restriction at its own part of the external borders could be easily undermined by those who would enter the Schengen area at another part of the external borders: likewise a coordinated decision requires the participation of all.

[1] The "EU+ area" should include all Schengen Member States (including Bulgaria, Croatia, Cyprus and Romania), as well as the four Schengen Associated States. It would also include Ireland and the United Kingdom if they decide to align.

Such a measure would also enable the lifting of internal border control measures, which several Member States have recently reintroduced in an effort to limit the spread of the virus. These measures risk having a serious impact on the functioning of the Single Market as the EU and the Schengen area is characterised by a high degree of integration, with millions of people crossing internal borders every day.

Scope

The temporary travel restriction should apply to all non-essential travel from third countries to the EU+ area.

For such a temporary travel restriction to have the desired effect in terms of restricting the spread of the virus, exceptions need to be limited to travel for essential purposes.[2]

The temporary travel restriction must **exempt nationals of all EU Member States and Schengen Associated States**,[3] for the purposes of returning to their homes. This exemption must apply to:

- all EU citizens[4] and citizens of the Schengen Associated States, and their family members;

- third-country nationals who are long-term residents under the Long-term Residence Directive[5] and persons deriving their right to reside from other EU Directives or national law or who hold national long-term visas.

It should also not apply to other travellers with an essential function or need, including:

- Healthcare professionals, health researchers, and elderly care professionals;
- Frontier workers;
- Transport personnel engaged in haulage of goods and other transport staff to the extent necessary;
- Diplomats, staff of international organisations, military personnel and humanitarian aid workers in the exercise of their functions;
- Passengers in transit;[6]
- Passengers travelling for imperative family reasons;
- Persons in need of international protection or for other humanitarian reasons.

Coordinated and reinforced health checks should be carried out for the individuals allowed to enter the EU+ area.[7]

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[2] The special transit scheme to Kaliningrad should continue to apply, but the trains under this scheme should not stop in the territory of Schengen.

[3] Iceland, Liechtenstein, Norway, Switzerland.

[4] UK nationals are still to be treated in the same way as EU citizens until end 2020.

[5] Council Directive 2003/109/EC of 25 November 2003 concerning the status of third-country nationals who are long-term residents, OJ L 16, 23.1.2004, p. 44.

[6] Including those having been repatriated through consular assistance.

[7] Guidelines for border management measures to protect health and ensure the availability of goods and essential services, 16.3.2020, C(2020) 1753 final.

Duration

The temporary travel restriction should apply for 30 days. Any possible prolongation of this period should be assessed depending on further developments.

Conclusion

A temporary restriction on non-essential travel from third countries into the EU+ area requires an **EU-coordinated decision** in agreement with the Schengen Associated States.

For that purpose, the Commission invites the European Council to act with a view to the rapid adoption, by the Heads of State or Government of the Schengen Member States, together with their counterparts of the Schengen Associated States, of **a decision on applying a travel restriction on non-essential travel from third countries into the EU+ area with immediate effect** at all part of the Schengen external borders.

Ireland and the United Kingdom, taking into account the Common Travel Area, are encouraged to also implement this temporary travel restriction.

EU Member States and Schengen Associated States should also strongly encourage citizens and residents not to travel outside their territories in order to prevent the further spread of the virus to other countries.

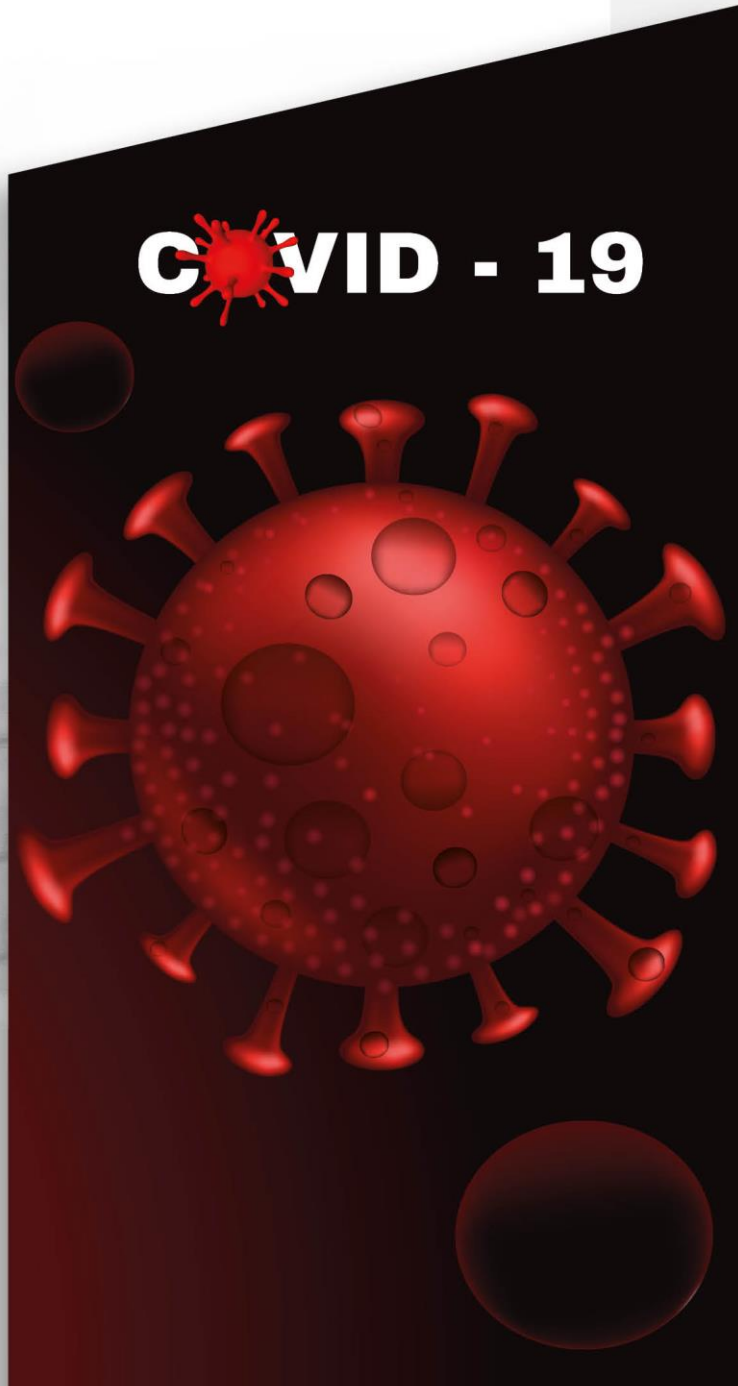
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

TRADE AND DEVELOPMENT REPORT UPDATE

Global trade impact of the coronavirus (COVID-19) epidemic

4 MARCH 2020



UNITED NATIONS
UNCTAD

OVERVIEW

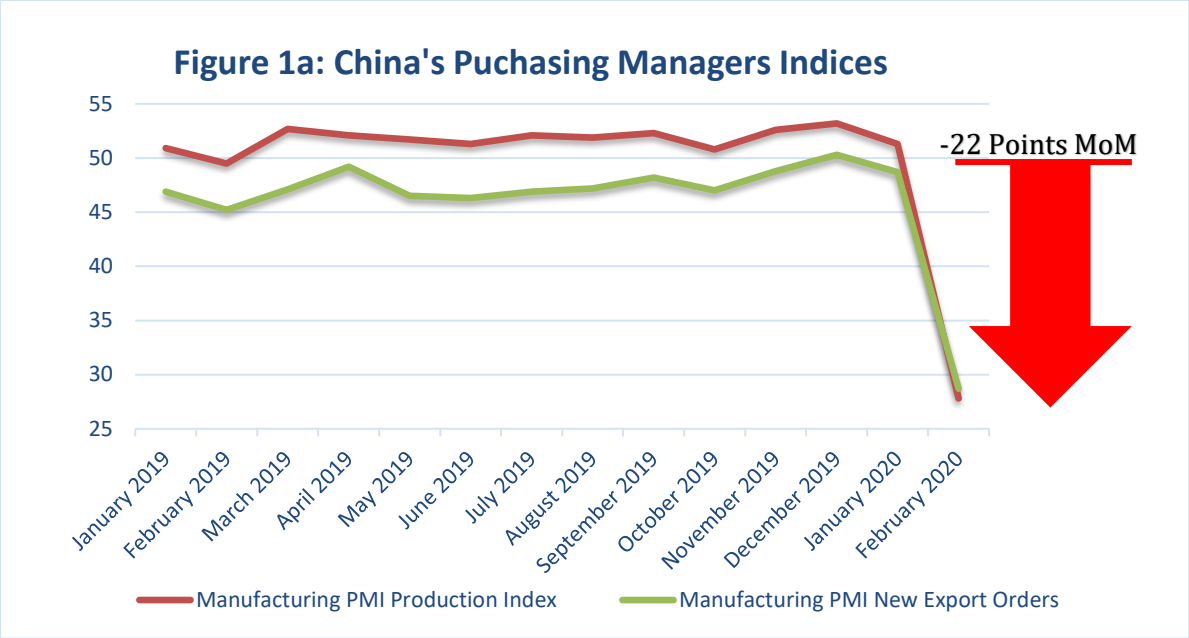
"It is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society" - China's president Xi Jinping, televised address, February 23, 2020.

"The spread of the new coronavirus is a public health crisis that could pose a serious risk to the macro economy through the halt in production activities, interruptions of people's movement and cut-off of supply chains" - Japanese Finance Minister Taro Aso. G20 gathering in Riyadh, Saudi Arabia, February 24, 2020.

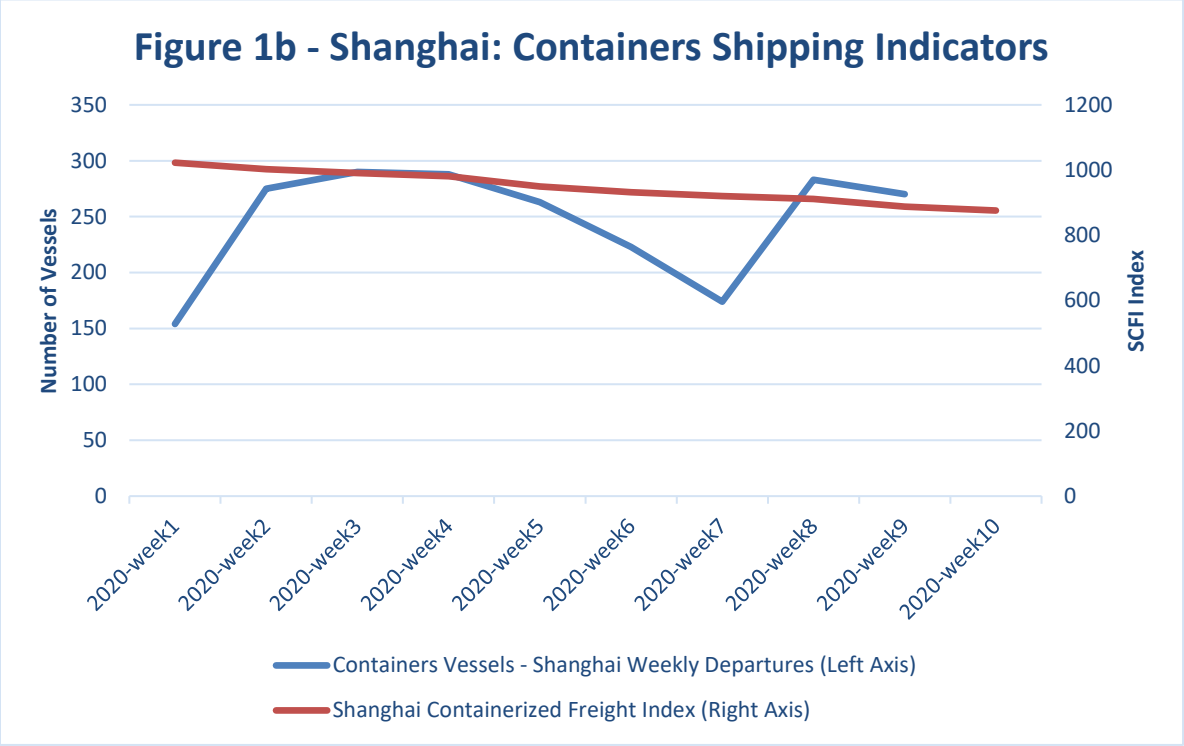
"Honda Motor Co. will reduce vehicle output at two of its domestic plants in Saitama Prefecture for a week or so in March due to concerns about parts supply from China where a new coronavirus outbreak continues to disrupt economic activities" - Honda spokesperson, March 3, 2020.

Besides its worrying effects on human life, the novel strain of coronavirus (COVID-19) has the potential to significantly slowdown not only the Chinese economy but also the global economy. China has become the central manufacturing hub of many global business operations. Any disruption of China's output is expected to have repercussions elsewhere through regional and global value chains.

Indeed, most recent data from China indicate a substantial decline in output. China Manufacturing Purchasing Manager's Index (PMI), a critical production index, fell by about 22 points in February (Figure 1a). This index is highly correlated with exports and such a decline implies a reduction in exports of about 2 percent on an annualized basis. In other words, the drop observed in February spread over the year is equivalent to -2 percent of the supply of intermediate goods. Indicators on shipping also suggest a reduction in Chinese exports for the month of February (Figure 1b). Container vessel departures from Shanghai were substantially lower in the first half of February with an increase in the second half. However, the Shanghai Containerized Freight Index continues its decline thus indicating excess shipping capacity and lower demand for container vessels.



Source: National Bureau of Statistics of China



Source: MarineTraffic global ship tracking intelligence provider and Shanghai Shipping Exchange.

ANALYSIS METHODOLOGY

The methods used in this note are meant to identify the economic sectors and countries that are most exposed to a disruption of China's exports of intermediate inputs. The analysis is

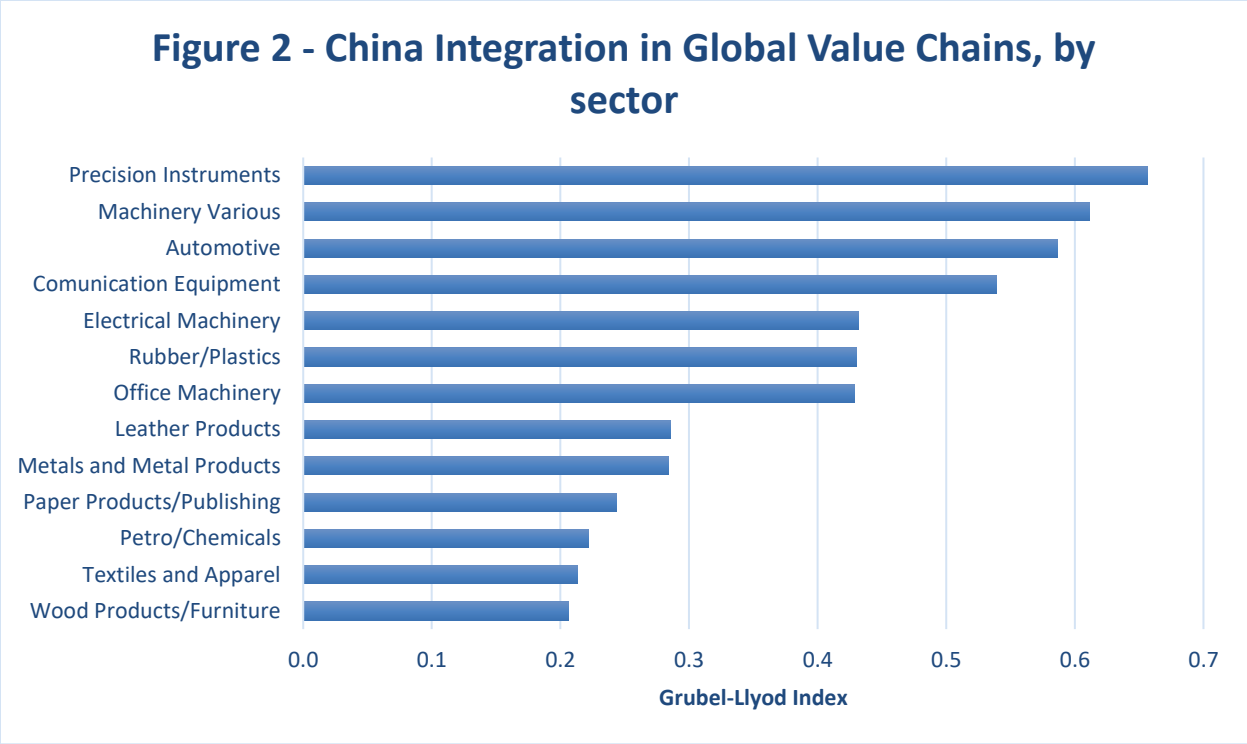
based on United Nations Statistics Division trade data covering about 200 countries and 13 manufacturing sectors. In summary, each country's and industry's integration with the Chinese economy is measured by the Grubel-Lloyd Index (GLI) of intra-industry trade. The GLI is calculated on products categorized as manufacturing intermediate inputs (e.g. parts and components), computed at the industry level (as defined by the 4 digit Harmonized System classification) and then aggregated at the sectoral level using bilateral trade shares. The GLI is then used as a proxy measuring the percentage of a given country's exports in each industry that is vulnerable to supply disruption in China.

Notably, the analysis assumes that supply disruptions are limited to China. Disruptions that COVID-19 may directly cause in the output of other countries are not considered at this stage. The results of the analysis are to be interpreted as short-term effects as they assume the supply capacity in the rest of the world to remain constant. This note does not consider commodities and minerals (e.g. rare earths) but focuses only on manufacturing output. Finally, this note does not examine the impact of reduced remand due to any economic slowdown in China (e.g. impact on third country of the reduced Chinese imports of commodities).

IMPACT ON GLOBAL VALUE CHAINS

During the last two decades China has become crucial to the global economy. China's rising importance in the global economy is not only related to its status as a manufacturer and exporter of consumer products. China has become the main supplier of intermediate inputs for manufacturing companies abroad. As of today, about 20 percent of global trade in manufacturing intermediate products originates in China (up from 4 percent in 2002).

Figure 2 shows China's current integration in global value chains across sectors as measured by the GLI. Chinese manufacturing is essential to many global value chains, especially those related to precision instruments, machinery, automotive and communication equipment. Any significant disruption in China's supply in these sectors is deemed to substantially affect producers in the rest of the world. Indeed, many companies around the world are fearful that the measures put in place to contain COVID-19 (i.e. restrictions to economic activities and movement of people), could hinder the supply of critical parts from Chinese producers, therefore affecting their own output.



IMPACTED COUNTRIES

A reduction in Chinese supply of intermediate inputs can affect the productive capacity and therefore the exports of any given country depending on how reliant its industries are on Chinese suppliers. For example, some European auto manufacturers may face the shortage of critical components for their operations, companies in Japan may find difficult to obtain parts necessary for the assembly of digital cameras, and so on. For many companies, the limited use of inventories brought by a lean and just-in-time manufacturing process would result in shortages that will impact their production capabilities and overall exports. Table 1 reports by sector the potential effect of COVID-19 on exports in the most exposed countries to Chinese supply disruptions. Overall, the most impacted economies will be the European Union (machinery, automotive, and chemicals), the United States (machinery, automotive, and precision instruments), Japan (machinery and automotive), the Republic of Korea (machinery and communication equipment), Taiwan Province of China (communication equipment and office machinery) and Viet Nam (communication equipment).

KEY POINTS

While there is still uncertainty about the impact of the COVID-19 on China's productive capacity, the most recent statistics point to a significant downturn. The full effect of COVID-19 on global value chains will become clearer in the coming months. However, one question

of importance is how a disruption in Chinese supply of intermediate inputs will affect the rest of the world. Based on the analysis of this note, two key points can be made.

First, even if the outbreak of COVID-19 is contained mostly within China the fact that Chinese suppliers are critical for many companies around the world implies that any disruption in China will be also felt outside China's borders. European, American and East Asian regional value chains will be disrupted. The estimated global effects are subject to change depending on the containment of the virus and or changes in the sources of supply.

Second, it is expected that the spillover effects of a disruption in Chinese supply will be diverse across economic sectors and dependent on the geographic localization of the COVID-19 outbreak and of the containment measures within China. For example, automotive industry's intermediate exports may fall relatively more as the industry is geographically localized in the region where the outbreak of COVID-19 occurred. Importantly, because of lack of information this note does not consider this second aspect. Once sectoral data on Chinese output is available the likely effect on the various global value chains will become clearer.

Table 1: Global effects of China's slowdown through global value chains, 20 most affected economies

(US$ million from a 2 percent reduction of China exports in intermediate inputs)

Country	Automotive	Comunication Equipment	Electrical Machinery	Leather Products	Machinery Various	Metals and Metal Products	Office Machinery	Paper Products and Publishing	Chemicals	Precision Instruments	Rubber and Plastics	Textiles and Apparel	Wood Products and Furniture	*TOTAL*
Australia	9	1	1	0	12	9	1	2	9	12	1	1	2	***61***
Bangladesh	0	0	0	15	0	0	0	0	0	0	0	1	1	***16***
Belarus	0	1	0	0	3	0	0	0	0	1	1	3	2	***12***
Brazil	42	0	2	0	7	12	0	6	6	3	2	2	1	***84***
Cambodia	0	0	2	7	0	0	0	0	0	0	0	0	0	***10***
Canada	176	25	22	1	138	48	8	3	86	86	20	11	36	***660***
Costa Rica	0	2	2	0	0	0	0	0	0	10	1	0	0	***15***
European Union	2543	498	1191	56	4001	1171	60	188	2653	1427	515	538	757	***15.597***
Hong Kong, SAR	2	37	19	10	40	9	4	6	18	44	6	107	30	***332***
India	34	0	12	13	24	27	1	1	129	13	13	64	15	***348***
Indonesia	40	36	24	66	7	8	18	6	44	9	12	11	33	***312***
Israel	2	4	7	0	27	3	15	1	17	54	9	1	50	***189***
Japan	974	395	558	1	1477	343	234	48	352	367	161	34	244	***5.187***
Korea, Republic of	578	687	336	1	918	492	186	40	172	165	130	84	25	***3.816***
Malaysia	32	268	78	1	124	25	325	10	69	55	56	3	31	***1.077***
Mexico	493	71	341	1	228	23	58	2	16	57	26	2	52	***1.369***
Morocco	2	5	18	0	0	0	0	0	0	0	0	0	0	***26***
New Zealand	1	3	0	0	2	0	0	1	0	1	0	1	2	***11***
Norway	20	3	8	0	22	25	0	0	2	7	1	0	10	***100***
Pakistan	0	0	0	0	0	0	0	0	0	0	0	43	0	***44***
Philippines	22	115	42	1	17	2	77	0	7	17	1	0	1	***300***
Russian Federation	8	1	2	0	5	21	0	1	97	9	2	1	3	***149***
Saudi Arabia	0	0	0	0	1	0	0	1	37	0	0	0	0	***40***
Singapore	96	1027	367	4	206	30	157	16	77	160	21	1	3	***2.165***
South Africa	9	0	0	0	3	7	0	1	16	1	0	2	0	***39***
Switzerland	42	17	65	0	177	87	24	9	283	226	15	12	130	***1.087***
Taiwan Province of China	147	674	295	2	247	213	383	51	164	171	101	102	97	***2.645***
Thailand	91	99	85	4	104	27	51	12	100	30	105	16	8	***733***
Tunisia	5	2	27	0	1	0	1	0	0	0	0	0	0	***38***
Turkey	107	0	6	1	36	46	0	3	4	1	27	164	28	***425***
Ukraine	1	0	4	0	3	2	0	1	0	0	0	3	1	***16***
United Arab Emirates	1	0	2	0	1	4	0	2	4	2	0	0	0	***16***
United Kingdom	669	68	45	5	299	135	22	24	268	164	66	32	120	***1.917***
United States	845	391	396	13	1030	298	89	99	778	1236	255	80	269	***5.779***
Viet Nam	29	881	88	368	325	7	207	5	9	61	10	207	100	***2.296***

MARCH 2020 SPECIAL ISSUE

INVESTMENT TRENDS MONITOR

UNITED NATIONS
UNCTAD

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

UPDATED ANALYSIS

HIGHLIGHTS

- *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[1] 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

[1] Available at 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 4th 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 Cyclicals	810	-24	(-16)	16
Airlines	56	-116	(-42)	2
Hotels, Restaurants & Leisure	125	-41	(-21)	2
Consumer Non-Cyclicals	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
Total	*3'912*	*-30*	*(-9)*	*100*

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 4th)	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**
Total	*3'912*	*-30*	*(-9)*	*52*

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.

INVESTMENT TRENDS MONITOR

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For further information, please contact
Mr. James X. Zhan
Director
Investment and Enterprise Division UNCTAD

diaeinfo@unctad.org +41 22 917 57 60

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