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INVESTMENT PRIORITIES DURING THE PANDEMIC

A. G. Prarouski

PhD in Economics, Associate Professor, Head of the Department of World Economy, Marketing, Investments
Brest State Technical University, Brest, Belarus, e-mail: agprorovskij@g.bstu.by

Abstract

The work analyzes investment activity in the context of the COVID-19 pandemic that caused the global economic crisis. It is concluded that the pandemic has become a catalyst for the digitalization of the world economy. Both countries and businesses that quickly adapt to new conditions will be the leaders of the new economic cycle. Investments lead to the fact that enterprises acquire fixed assets. Capital investments are of a long-term nature, which allows companies to earn income for many years by adding or improving production capacities and increasing operational efficiency.

Additional or improved fixed assets increase labor productivity, making enterprises more productive and efficient. As labor becomes more efficient, increasing efficiency across the country leads to an increase in gross domestic product.

Investment processes in the world economy are currently undergoing significant changes. This is due to such factors as: changes in the US investment policy, the end of the next economic cycle, trade wars in the global economy, the spread of the COVID-19 coronavirus.

Keywords: investment, innovation, foreign direct investment.

ИНВЕСТИЦИОННЫЕ ПРИОРИТЕТЫ ВО ВРЕМЯ ПАНДЕМИИ

А. Г. Проровский

Реферат

В работе анализируется инвестиционная активность в контексте пандемии COVID-19, вызвавшей глобальный экономический кризис. Делается вывод о том, что пандемия стала катализатором цифровизации мировой экономики. Как страны, так и предприятия, которые быстро адаптируются к новым условиям, станут лидерами нового экономического цикла. Инвестиции приводят к тому, что предприятия приобретают основные средства. Капитальные вложения носят долгосрочный характер, что позволяет компаниям получать доход в течение многих лет за счет добавления или улучшения производственных мощностей и повышения операционной эффективности. Дополнительные или усовершенствованные основные средства повышают производительность труда, делая предприятия более производительными и эффективными. По мере того как рабочая сила становится более эффективной, повышение эффективности по всей стране приводит к увеличению валового внутреннего продукта. Инвестиционные процессы в мировой экономике в настоящее время претерпевают значительные изменения. Это связано с такими факторами, как: изменения в инвестиционной политике США, окончание следующего экономического цикла, торговые войны в мировой экономике, распространение коронавируса COVID-19.

Ключевые слова: инвестиции, инновации, прямые иностранные инвестиции.

Introduction

Forecasts about overcoming the crisis caused by the coronavirus pandemic in the world economy in 2021 are not justified. Against the background of new waves of the pandemic, the initial forecasts of a full-fledged recovery of the world economy from the crisis in 2021 are not justified until the factors that negatively affected the world economy in 2020 are eliminated. Experts expect an acceleration of global economic growth in 2021, which will be facilitated by a decrease in the intensity of the pandemic as mass vaccination and the preservation of stimulating monetary and fiscal policies in the world's largest economies. The weakening of social isolation measures and the improvement of external conditions will be key factors in strengthening consumer and investment demand.

Foreign direct investment

In 2020, the global volume of foreign direct investment (FDI) amounted to only 859 billion US dollars, while in 2019 it was at the level of 1.5 trillion dollars. There have not been such low investment investments since the early 1990s. This year's figures are 30% lower even than in 2009, when the world was in a state of global financial crisis.

The least popular among investors this year were rich countries, where FDI flows fell by 69% - to about $ 229 billion. Investments in the United States decreased by 49% and amounted to $ 139 billion.

Developing countries received 12% less investment money this year compared to the previous year. Thus, the share of developing countries in world FDI has reached 72% - this is the highest figure in history. At the same time, China led the ranking of the largest recipients of FDI.

As for the countries with economies in transition, the inflow of foreign direct investment there fell sharply by 77% - to about $ 13 billion. This is the lowest level of inflow to the region since 2002. At the same time, investment projects in Russia suffered the most due to the COVID-19 crisis. FDI to this country decreased from $ 32 billion in 2019 to $ 1.1 billion in 2020. In addition to the pandemic, there were other factors. Thus, weak international demand for crude oil and the April 2020 conflict with other major producers related to its prices undermined investors interest in the oil sector.

Many of the jobs cut due to the pandemic depend on the investments and operations of multinational corporations (TNCs), their buyers and suppliers in global value chains. New FDI in 2019 created almost 80,000 new jobs every month in OECD countries and more than 100,000 in developing countries. The decline in FDI in new industries in 2020 reduced the potential job creation by almost 50%, which means that up to 500,000 jobs that could be expected to be created in the first five months of 2020 have not materialized. Even before the pandemic, FDI into the economy of the Republic of Belarus rarely exceeded $ 2 billion per year (Figure 1) [2].

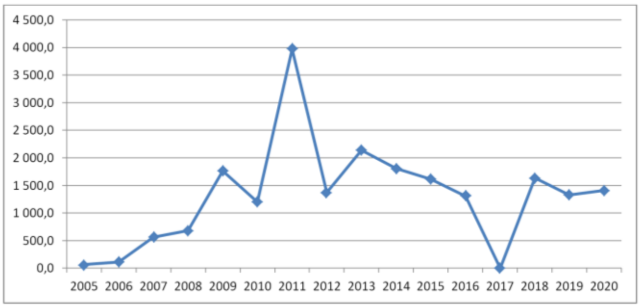

Figure 1 – Foreign direct investment on a net basis, million US dollars [2]

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In the OECD countries, new private investment in infrastructure and services protected these economies from a serious drop in GDP, job losses and even a slight recovery in employment in June and July 2020.

At the same time, developing countries have suffered from a sharp decline in FDI in infrastructure, automotive, consumer electronics, textiles and business services, which has made it difficult to create jobs. These sectors tend to be massive job creators and received large investments before the pandemic. Job creation due to FDI has remained low in developing countries since March 2020. Countries with attractive agri-food and communication sectors are experiencing the crisis with less damage, since FDI in these sectors, which create jobs, increased during the crisis.

The crisis forced foreign investors to curtail their activities in the host countries, which negatively affected jobs, income and livelihoods. Some foreign firms were able to protect their workforce from such an impact, but many had to lay off employees or reduce working hours. Foreign firms believe that the reduction of staff during the crisis will lead to significant losses of competitiveness and prevent rapid growth after the crisis.

The priority for companies operating during the pandemic is to protect the health and safety of employees, as well as reduce their exposure to Covid-19 in the workplace. This can be particularly difficult in sectors such as the garment industry, construction, or healthcare.

Foreign firms managed to adapt their way of action to the new business and work realities created by the crisis relatively better than their domestic counterparts: 30% of foreign firms surveyed by the World Bank in 2020 started or increased their online activity compared to 25% of their domestic competitors. Similarly, almost 50% of foreign companies have either started or expanded remote work, while only 27% of local firms have done so.

Unlike domestic enterprises, TNCs should take into account the differences in approaches to overcoming the pandemic in the different countries in which they operate. Which can be a difficult task for companies that use uniform global management.

TNCs can become leaders in the development and implementation of new telecommunications technologies in business processes. This will allow them not only to survive during the pandemic, but also to gain a competitive advantage.

The digital economy is gaining momentum, and remote jobs, telecommunications educational technologies, e-commerce, esports and telemedicine are all accelerated by the pandemic. As soon as the crisis subsides, there will be some technological return to its doc-like state. However, most of the digital acceleration will be permanent, and hybrid models will become permanent practices.

From a macro point of view, digital platforms are characterized by low costs and a business scaling effect. This creates winner-takes-all markets that favor global champions. In addition, the "light asset" business model, in which technology is increasingly replacing capital and labor, indicates an improvement in the free cash flow margin and an increase in the return on investment. This will allow many companies to increase their dividends and share repurchases, while maintaining overall payout ratios significantly higher than historical norms.

Digitalization, automation and globalization significantly reduce transaction costs and increase the efficiency of business processes, which will lead to a significant increase in capitalization with increased investor interest.

The year 2020 was deeply transformational and the shock from COVID became a catalyst for the digitalization of the economy. This radical transition is particularly beneficial for business models with a light asset in the technology, medical and communications sectors, but will also accelerate the development of a number of industries, including education, telemedicine, e-commerce and esports.

For investors, the COVID shock is best viewed as a forced experiment, forcing most of the economy to go online, to the digital sphere, and offering an opportunity to assess what works and what does not. The pandemic has significantly accelerated the introduction of remote activities, such as work, study, shopping, and consulting with a doctor.

With the COVID shock, the digital business is thriving and gaining an increasing market share. Even before the pandemic, the digital economy was growing more than four times faster than the rest of the economy. Other critical factors include massive improvements in technological equipment, cloud computing, the ongoing adoption of 5G, and exponential growth in AI efficiency.

In the period from 1960 to 2000, the share of full-time workers working at home never exceeded 3.5%. Over the two decades since 2000, this share has slowly but steadily grown to 5.5%, and in 2020 it may reach 37%.

This year, the rapid transition to remote work was provided by two conditions. Firstly, the capabilities of technological equipment, broadband communication in residential premises, cloud services and video conferencing capabilities. Secondly, the economy now revolves around services, not production, which has allowed most companies to participate in the experiment on remote work opportunities.

Economists are feverishly collecting data to make sense of this year's experiment, and so far the productivity data looks mixed. Whatever it was, it is clear that the nature of the work has changed a lot. To begin with, many employees have changed fixed hours from 9 to 18 hours to fragmented "Swiss cheese" schedules, while working hours are becoming more flexible, night email traffic is growing rapidly, the division of weekdays into weekends is almost disappearing,and business trips are plummeting.

Remote work at Microsoft was the subject of a July study in the Harvard Business Review, which showed that meetings were getting shorter, but there were more of them, so that the total meeting time actually increased by 10% overall. The analysis showed that more connections were planned to compensate for the lack of informal discussions. Employees worked an average of four hours more per week, as the "night shift" appeared and work on weekends increased, and managers bear the brunt of the transition to remote work.

These results were confirmed by a July study by the Harvard Business School. It covered a large number of firms and found that compared to the pre-pandemic level, the number of meetings per one person increased by 13%, while the average duration of meetings decreased by 20%. It also turned out that the average working day increased by 8% (50 minutes).

The tourism sector, including business, has seriously sagged. And there will not be a full recovery in the near future, firms expect to reduce their annual travel expenses by 30%. This large-scale reduction in travel costs not only suggests a sluggish and potentially protracted recovery for the travel, accommodation and transport industries, but also indicates that firms are counting on a shift from face-to-face meetings to cheaper virtual meetings

In the field of educational technologies, there is a need to make online learning more effective. In mid-April, at the peak of the global pandemic, 192 countries closed all their educational institutions (six countries partially closed them). According to UNESCO, this has affected a staggering 1.6 billion students and schoolchildren worldwide (90% of the total number of students). Those countries that will not be able to organize the educational process in the conditions of a pandemic, and these are the poorest countries in the world, will receive the effect of a "lost generation" and an even greater decrease in the competitiveness of their economies.

The good news is that education is rapidly moving beyond " chalk and talk", and Edtech companies are not only offering independent e-learning, but are also increasingly focusing on artificial intelligence-based learning, mixed reality tools (using AR and VR), gamification and educational bots (programs that can interact with users). Such advanced learning technologies are at the epicenter of deep innovation, and global revenues are projected to increase by an average of 25% over the next five years. Growth is expected to be particularly strong in higher and secondary education, as well as in corporations (including healthcare) and government agencies (for example, in the field of military training).

In order to ensure the stable functioning of the Belarusian economy, it is extremely necessary to achieve a positive balance of foreign trade. However, we are not able to ensure a steady excess of exports over imports (Figure 2).

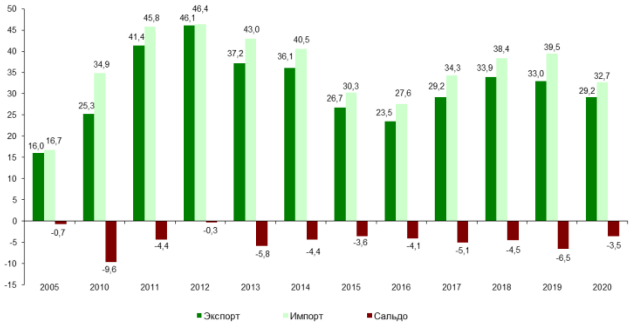

Figure 2 – Turnover of foreign trade in goods of the Republic of Belarus, million US dollars [2]

To change the structure of the Belarusian economy, it is necessary to advance the development of knowledge-intensive and innovative industries. A lot is being done in the republic for the development of innovative activity, but the innovativeness of GDP (Figure 3) lags behind the similar indicator of highly developed countries (3%).

Figure 3 – Innovation of the economy of the Republic of Belarus [2]

Economic growth is primarily driven by consumer spending and capital expenditures of enterprises. As enterprises invest in their development to increase production volumes, they hire more employees and increase wages. All these activities lead to economic growth, measured by the gross domestic product - the total volume of production of goods and services for the country in a given period.

How investments are related to economic growth.

Investments lead to the fact that enterprises acquire fixed assets. Capital investments are of a long-term nature, which allows companies to earn income for many years by adding or improving production capacities and increasing operational efficiency.

Additional or improved fixed assets increase labor productivity, making enterprises more productive and efficient. As labor becomes more efficient, increasing efficiency across the country leads to an increase in gross domestic product.

Investment processes in the world economy are currently undergoing significant changes. This is due to such factors as: changes in the US investment policy, the end of the next economic cycle, trade wars in the global economy, the spread of the COVID-19 coronavirus.

The sources of investment are:

1. Funds of enterprises, mainly retained earnings and depreciation. But the low profitability of Belarusian enterprises (Figure 2) does not allow accumulating a large amount of financial resources for investment. Belarusian enterprises also cannot apply massively accelerated depreciation methods due to the small difference between the cost and the price. An increase in depreciation charges will lead to an even greater decrease in profitability and, even, the need to raise the price of manufactured products.
2. State financial resources. The state remains a powerful investment resource for the economy, but the accumulated debt obligations and the need to maintain a balanced state budget limit the country's capabilities.
3. Bank loans. In recent years, against the background of falling inflation, interest rates on investment loans have decreased to 15-16 %. But the financial base of the Belrussian banks is limited and there is a risk of an increase in the level of problem loans against the background of the economic crisis caused by the coronavirus epidemic.
4. Funds of the population. The population has a significant amount of financial resources, but the main form of investment is bank deposits. In the conditions of lowering interest rates on deposits, it is necessary to offer the population the opportunity to invest in the economy both directly in the share capital of Belarusian enterprises and through investment funds.
5. Foreign investments could become a serious source of financing for the development of the economy of the Republic of Belarus, but for a long time they remain at the level of about $ 1.5 billion.

Investments in any economy lead to an increase in GDP. But the degree of influence varies.

The Republic of Belarus faces very serious tasks, having solved which we will enter the period of sustainable development [3]:

1. Uneven development of the country's regions. For sustainable development, it is necessary to create opportunities for self-realization for a person living in any locality of the country.
2. Logistics. The economy of the Republic of Belarus has the opportunity to make even better use of the geographical location of the country to increase the export of logistics services.
3. Export. In order to stimulate the economy of the Republic of Belarus, it is necessary to achieve a positive balance of payments and the development of exports is the main direction.
4. Innovation. Only an innovative way of developing the economy of the Republic of Belarus is able to bring the country's GDP and household incomes to a new level.

Conclusion

COVID-19 as a catalyst for the virtual economy: 2020 will be a deeply transformational year, and the shock of COVID-19 has become a catalyst for the digitalization and virtualization of the economy.

From a macro point of view, this means an asset-based economy in which technology replaces capital and labor. Understanding how companies will adapt their business models is key to assessing their ability to generate free cash flow on a sustainable basis. In light of this, the question is "What is your business strategy in the digital age?" it has become one of the most important issues for management teams.

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