POTENTIAL INVESTMENT OPPORTUNITIES IN GCC HEALTHCARE DURING COVID PANDEMIC: A RESEARCH & REVIEW

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ABSTRACT:
The COVID-19 pandemic has brought an additional set of challenges to the economies of the Gulf Cooperation Council (GCC). The region has been struggling to attract more and better FDI, constrained by investment climate weaknesses and regional geopolitical tensions. While the projected short-term declines are expected to hit the GCC economies hard, the crisis could also bring new opportunities to benefit from global trends, such as reshoring and restructuring of global and regional value chains. The extent to which this is possible will depend on sustaining existing reforms underway, enacting targeted new strategies and measures for the post-COVID-19 context, and reinforcing regional cooperation. This brief provides an overview of the impact of the COVID-19 crisis on investment in the region and highlights GCC government policy responses to catalyze investment and foster an inclusive post-crisis recovery.

Keywords: COVID-19, health care, ecoconomy.

INTRODUCTION
Governments in the GCC regions just like many worldwide, enacted containment measures to avoid the spread of the virus and directed specific support to mitigate the economic impact of the crisis. While it is difficult to estimate the magnitude of repercussions on GCC economies, severe disruptions to economic activity are expected to be accompanied by a sharp contraction in foreign direct investment (FDI) flows. Based on the containment measures implemented by GCC
economies, the subsequent disruption inglobalsupplychainsandthestructuralcharacteristicsofindividualeconomies, the International Monetary Fund (IMF) forecasts that all GCC economies, will contract in 2020 (Figure 1). However, the IMF predicts a relatively rapid V-shaped recovery for the region, with nearly all GCC countries expected to recover in 2021.2

Figure 1. Gross domestic product in selected GCC & MENA economies (y-o-y percent change)

Note: e = estimates; EMDE = Emerging market and developing economies
Source: International Monetary Fund, World Economic Outlook Database, April 2020

Attracting more and better FDI to the region will be critical to the success of GCC’s post-COVID economic reconstruction. Besides being a much-needed source of private investment, FDI would help countries in the region strengthen the resilience of their economies and enhance participation in value chains. It would also help spur more sustainable, inclusive and technological growth, as multinational enterprises (MNEs) tend to be larger, more innovative and more productive than domestic firms. It could also play an important role in accelerating economic diversification and stimulating small and medium-sized enterprises (SMEs) through business linkages. Governments in the region see FDI as a key priority and have already started to think about revamping attraction strategies in a global economy transformed by COVID-19. The immediate and long-term effects of FDI flows will depend on the global recovery and effective economic policy responses. This note provides an overview of trends in foreign direct investments in the MENA region.3,4 It also showcases information collected through research and consultations with in-country stakeholders on immediate policy responses to the crisis and policy considerations for recovery.

COVID-19 impact on investment
Sharp decline in FDI
The OECD expects a drop in global FDI flows by at least 30% in 2020 (most optimistic scenario) compared to
o 2019 before returning to pre-crisis levels by the end of 2021. The resulting demand and supply shocks, coupled with the drop in oil prices and lower confidence of investors, are expected to lead to an even more significant decline of FDI in GCC. The UN’s Economic Commission for West Asia estimates that the Arab region is likely to lose 45% of its FDI inflows in 2020.\(^5\)\(^6\) In 2019, global FDI increased by 12% to USD 1426 billion but was still stalling when COVID-19 hit, remaining below the levels recorded between 2010 and 2017. During the same year, FDI inflows in MENA including GCC\(^7\) also amounted to USD 17.2 billion, a 10% increase compared to 2017, but still less than half of the level recorded in 2008, which was a peak year for FDI inflows in the region (Figure 2). With the advent of COVID-19, there will be an immediate impact on FDI globally and in MENA from a reduction in equity investments, as investors put Greenfield investments and mergers and acquisitions (M&A) on hold. Preliminary estimates suggest that the value of M&A deals already decreased by 71% in the first four months of 2020, from USD 89.6 billion to USD 26.2 billion compared to the same period in 2019.\(^8\) Greenfield investments represent more than 80% of total FDI projects in most oil-importing MENA & GCC economies,\(^9\) while M&A mostly take place in the countries of the Gulf Cooperation Council (GCC).\(^10\)

**Figure 2. FDI inflows in the MENA region by instrument, 2008-2019**

**Investment drop in major industries and source countries**

A sectorial breakdown of announced greenfield investments to the eight countries surveyed for the MENA and GCC region between 2003 and 2019 shows that real estate and coal, oil and natural gas accounted for 32% and 25% respectively of a total of USD 525.8 billion in investments (Figure 4). Manufacturing of chemicals, services such as hotels and tourism, and renewable energy also account for an important share.
of investments in the region. Egypt dominates the investment landscape with nearly half (USD245 billion) of the announced greenfield FDI in the eight countries. The extensive lockdown measures, implemented widely across the region, are likely to have severe repercussions on greenfield FDI in many strategic sectors for the economies in the coming months. The region is expected to suffer large declines in the manufacturing sector, inline with the trends in non-OECD countries since the beginning of 2020. According to recent consultations with GCC and MENA Investment Promotion Agencies (IPAs), there are not yet divestment trends or cancellations of projects, but important investment delays are expected.

Figure 4: Value of announced greenfield FDI in the MENA region, by sector, 2003-2019

The drop in oil prices is also expected to lead to fewer investments from neighboring Gulf countries, which were the largest source of greenfield FDI in the eight surveyed MENA economies between 2003 and 2019. Total announced greenfield FDI from GCC countries totaled USD193 billion, with investments primarily in real estate (65%) and coal, oil, and gas (14%). Most of these investments came from the UAE (55%), followed by Bahrain (17%) and Saudi Arabia (12%). With 28% of greenfield projects, the European Union also remained a key source of FDI to the region (28%), while Chinese investments have significantly increased from USD1.4 billion during 2008-2013 to USD34.9 billion during 2014-2019, driven by the launch of the Belt and Road Initiative in late 2013. In addition, intra-regional investments among the eight surveyed economies have been low at only 3% of total announced greenfield FDI. The crisis may offer further scope for investments among these countries.

Figure 5: Greenfield FDI into MENA and GCC region (excl. GCC) (2003-2019), by source
Immediate investment policy responses

Government measures

The containment measures taken by governments to combat the negative effects of the pandemic have led to a halt of large segments of production for many enterprises, including multinational enterprises (MNEs) operating in MENA and GCC economies. In some sectors, supply disruptions led to the adoption of import reductions and export bans. However, in the health and digital sectors, some MENA governments reduced import tariffs, provided sectoral support and encouraged shifting production.

Some countries have also taken fiscal and financial measures to release pressure on some industries and support contracted economic activities—measures that also benefit foreign investors. For example:

Qatar: The government has temporarily exempted food and medical goods from customs duties.

UAE: Governments of several emirates have introduced financial assistance measures. Dubai proposed a refund of 20% of customs fees on imported goods and a 10% reduction in water and electricity bills. The government of Abu Dhabi has reduced or suspended various government fees and penalties and granted substantial rebates to lease payments for companies in the tourism, hospitality and entertainment sectors. The offshore free zones applied fee reductions to companies. The Abu Dhabi Global Market implemented 100% waiver on commercial licence, business activity and data protection renewal fees for a limited period. The Dubai International Financial Centre also waived annual licences for new companies until the end of 2020 and lowered of 10% the renewal fees for existing licences. The Dubai Free Zone Council announced an economic stimulus package on 28 March that includes the postponement of rents for six months, improved facilitation instalments...
for payments, refunds of security deposits and guarantees and cancellation of freezones applied fines.

Sustaining and retaining existing investment
With the COVID-19 outbreak, IPAs are enhancing their role as interlocutor between foreign investors and the government, favoring aftercare activities versus attraction functions. IPAs are taking emergency actions to support existing investments and retain them to avoid possible divestments. Some agencies have set up crisis units to inform and communicate with investors, to respond to their queries and to follow on production disruptions. For example:
Saudi Arabia: The Ministry of Investment formed a taskforce called MISA COVID-19 Response Center to answer to company inquiries 24/7 and solve issues to allow businesses to continue operating.15
UAE: Abu Dhabi’s Department of Economic Development placed all regulatory services such as business registration, licensing and permitting online 24/7.

Reorganisation of supply chains: reshoring and nearshoring?
The disruptions caused by the pandemic may affect MNEs’ decisions to reorganise the geographical and sectoral spread of their production activities, providing possible opportunities for the MENA region. MNEs could shorten their supply chains and reduce the distance between suppliers and clients (nearshoring), or choose to move manufacturing activities back to the home country (reshoring).17 Similarly, some companies may diversify their supply networks in order to increase resilience to shocks, which will involve divestments from some locations but expansion in others. The COVID-19 crisis also comes at a time when global trade tensions are causing companies to reconsider their supply chains due to concerns about possible vulnerabilities of GVCs. The pandemic may also increase demand by consumers and companies for more sustainable and inclusive production methods (see OECD note on COVID-19 and responsible business conduct). The implications of supply considerations are also important for goods and services needed for the health sector such as pharmaceuticals, medical supplies and equipment, and increasingly healthcare provision, which depend much more than in the past on global value chains. In the GCC, MENA region, announced greenfield investments in these sectors have increased by 42% to USD 771 million during 2015-2019, up from USD 544 million during 2004-2008 (Figure 6). Ensuring sufficient supply to fight the pandemic has become the immediate priority for trade and investment policymakers in the region. For instance, the Egyptian Ministry of Industry and Trade banned for a period of three months the export of infection prevention supplies, including face masks and alcohol as well as its derivatives.18

Figure 6. Greenfield FDI into health-related industries to selected MENA economies
While investments in health-related value chains have increased in recent years, the GCC & MENA region overall has a rather low participation in regional and global value chains. Yet, given its strategic location, the region could benefit from reshoring or nearshoring while companies are looking to produce closer to end users and limit supply risks.

Reflections on continental value chains
The GCC & MENA region (not including the Gulf countries) is one of the least integrated region in terms of trade and investment in the world. As the largest free trade area in the world, comprising of a market of over 1 billion people and worth USD 3.4 billion, the AfCFTA is expected to increase intra-African trade by 52% by 2022. Currently, only 6.5% of GCC and MENA’s total trade is with the rest of Africa and only 3.9% of North African exports go to Sub-Saharan Africa (SSA). Such limited intra-regional integration is the result of policies and strategies favoring developed and emerging markets and looking to the North.

Infrastructure for investment
The economic fallout caused by the COVID-19 pandemic is also creating the need for technologically advanced, sustainable and resilient infrastructure that can support the post-COVID-19 economic recovery and better integration in value chains. The region is facing an infrastructure investment gap of USD 100 billion per year over the next five to ten years. Some countries are strategically using the period of the pandemic to finalise infrastructure projects in order to attract investors once the economy starts recovering, while others had to delay infrastructure projects.

Towards renewed investment strategies
Investment promotion frameworks, strategies and working methods will evolve in the post-crisis recovery, with possibly a refocus on specific markets and sectors, and institutional restructuring. Some MENA IPAsshared some reflections inter alia on better seizing opportunities in specific
sectors in line with their competitive advantages (e.g. e-commerce, digital technologies, healthcare, renewable energies, and automotive industries), revising their incentives framework, and enhancing the role of economic zones with improved electronic procedures and services.

Keeping up investment climate reforms

The COVID-19 crisis may affect investors and economies differently depending on the national and regional contexts and FDI motivations. Undeniably, the GCC and MENA region will suffer from the lasting effects of decreasing FDI flows, already constrained in pre-crisis times by an insufficiently conducive investment climate: complex and sometimes unclear investment frameworks, restrictions and burdensome procedures, insufficient infrastructure logistics, and regional geopolitical tensions. Over the past decade, countries have undertaken significant reforms to improve their investment environments. However, those reforms will need to be sustained and new measures implemented for countries to durably improve their investment climate and diversify their economies in a post-COVID-19 context. Over the past years, investment laws have been enacted or amended in many GCC and MENA economies to modernize the regulatory framework for investment and investment promotion agencies were endowed with a wider range of mandates and responsibilities.  

More recent reforms include:

UAE: The 2018 FDI Law enables an increased participation of foreign investors, allowing foreign shareholders to own up to 100% of companies in certain designated sectors (122 economic activities across 13 sectors).

Oman: The new Foreign Capital Investment Law, issued in January 2020, enables investors to establish a company in some permitted activities and does not require for any minimum share capital requirement, nor any general limit on foreign ownership of an Omani company.

Qatar: Full foreign ownership is now permitted in all sectors with the exception of banking, insurance and commercial agencies, following the issuance of the 2019 investment law. There are many uncertainties on future reactions of investors, but already, given the magnitude of the crisis and global public health requirements, independent experts have called for an “immediate moratorium” on all arbitration claims that may emerge between private investors and governments.  

They suggest a “permanent restriction” on all arbitration claims following the measures implemented by the governments to contain the COVID-19 pandemic, which are related to health and economy. The crisis may also be an opportunity to advance countries’ efforts to reform their BITs network to ensure right to regulate in the public interest and wider policy space for States.
Towards an Inclusive, Green and Resilient Investment Recovery

While many GCC and MENA governments are currently focusing on the short-term response to alleviate the overall impact of the pandemic, this period also represents an opportunity for the region to design an ambitious reform agenda. Further opening to investment and reducing restrictions will not be enough. Governments need to be ready to attract quality investments that promote an inclusive, green and resilient recovery. The recovery should respond to the needs of everyone equally, from consumers, entrepreneurs, to the most vulnerable people in the society, including informal workers and women. In GCC and MENA, just like at the global level, the main challenges will be to design and integrate in a coherent manner the healthcare, labour, gender, environment and trade policies into an ambitious investment reform agenda. The OECD FDI Qualities Initiative can contribute to this reassessment, presenting a new policy toolkit to maximise the sustainable development impacts of FDI. IPAs will play an important role in achieving these objectives, including through their aftercare and policy advocacy roles. They will need to rethink their strategies and adjust to priority sectors. The GCC and MENA IPAMapping, capacity-building, peer-learning and networking activities conducted under the EU-OECD Programme on Investment in the Mediterranean, as well as the policy dialogue under the MENA-OECD Working Group on Investment and Trade, could further support countries to assess, implement and improve quality investment climate reforms in a post-COVID-19 world. Continued cooperation at the regional and international levels also matters for the recovery. The 30 March 2020 Ministerial Statement of the G20 Trade and Investment Working Group, under G20 Saudi Arabia Presidency, recalls “the importance of strengthening international investment” and the need to “continueto work together to deliver a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open”. The 14 May Ministerial Statement of the Group reiterated in particular the need to share information on taken actions and best practices on promoting investments in impacted sectors, encourage government agencies to work with companies and investors in identifying investment opportunities, and encourage consultations with the private sector, as part of policy making on FDI. MENA and GCC economies are already engaged in these measures and should remain active to ensure that the COVID-19 crisis becomes a turning point for greater investment in the MENA and GCC region.

Conclusion:

It can be concluded from the review that COVID-19 has brought about a new set of challenges to all the countries including GCC. Though there was an initial crisis, with the cooperation among the nations and the strategic planning, this crisis can be turned into an excellent investment opportunity.

References:

1. https://www.imf.org/en/News/Articles/2020/05/13/na051320-covid-19-poses-formidable-


3. Based on available official FDI statistics from the IMF Balance of Payment database and using publicly available and commercial databases on FDI flows.

4. Between 2018 and 2020, the OECD undertook a review of FDI statistics for Morocco, Egypt, Jordan and Tunisia. In order to improve the availability of FDI information for the region, further reviews could be undertaken for other MENA countries in the future.


7. Data excludes FDI flows in Qatar, Saudi Arabia and the United Arab Emirates. See more details on the country coverage in the note to Figure 2.


17. The academic literature provides some guidance on the definition of nearshoring or reshoring but still shows disagreement over the exact terminology. Ellram (2013) defined re-shoring as “moving manufacturing back to the country of its parent company”, but others have described reshoring merely as a generic change of location with respect to a previous
off-shore country (Fratocchi et al., 2014). In contrast, near-shoring has been described as the decision to relocate previously offshored activities not necessarily back to the home country of the company, but rather to a neighbouring country of the home country. See: De Backer, K., et al., (2016), "Reshoring: Myth or Reality?", OECD Science, Technology and Industry Policy Papers, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/5jm56frbm38s-en


19. The OECD is working jointly with the Union for the Mediterranean Secretariat to analyse progress of economic integration in the Euro-Mediterranean region and to recommend policy action to enhance integration. A report on regional integration in the Euro-Mediterranean region will be published in the second half of 2020.


27. World Bank, (April 2020), The Initial Response of Investment Promotion Agencies to COVID-19 and Some Observed Effect of Foreign Direct Investments

28. For example: enactment of a new investment law in Jordan in 2014; revision of the Tunisian Investment Code and the investment institutional framework in 2016; additional revision of the investment law in Egypt in 2017 with further guarantees and incentives for investors and a revamped role for GAIFI on investment promotion and dispute settlement; the Investment Charter of Morocco currently under revision and significant transformation of the Agencemarocaine de développement des investissements et des exportations (AMDIE) to merge export and investment functions in 2018.


