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

Dr. Vinod Kumar Patchigalla[1],Dr Vikram V Khare[2],Dr. Heena Tiwari[3],Dr. Rahul VC Tiwari[4],Dr. Amit Dalmia[5],Dr. Prashik Parvekar[6]

[1]COO, Starcare Hospital & Medical Center, Oman (Corresponding author);
[2]Professor and Head, Oral Medicine and Radiology, Dr.DYPatilVidyapeeth Pune, Maharashtra;
[3]BDS, PGDHHM, MPH Student, ParulUniversity, Limda, Waghodia, Vadodara, Gujarat, India;
[4]OMFS, FOGS, PhD Scholar, Department of OMFS, Narsinbhai Patel Dental College and Hospital, Sankalchand Patel University, Visnagar, Gujarat, 384315;
[5]MDS, Consultant Oral Pathologist, Chief Clinician, Om Dental World, SambalpurOdisha, India;
[6]Endodontist, Root Dental Center, Kuwait
[1]E mail: vinod.p@starcareoman.com,Vinod.p9999@yahoo.com

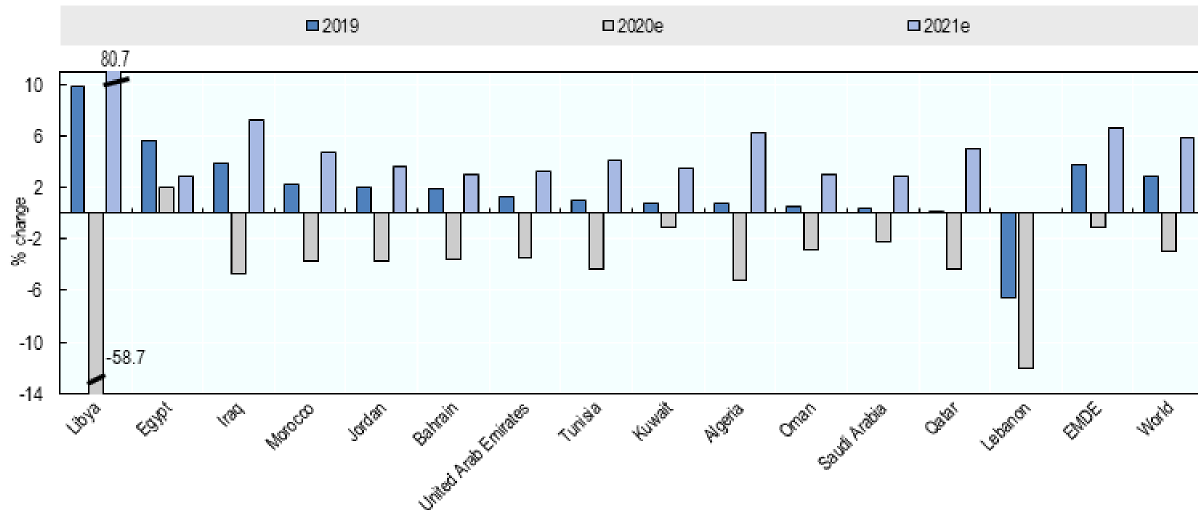
ABSTRACT:
The COVID-19 pandemic has brought an additional set of challenges to theeconomiesoftheGulf Cooperation Council (GCC). Theregionhasbeen struggling to attract more and better FDI, constrained by investment climateweaknesses and regional geopolitical tensions. While the projected short-termdeclinesareexpectedtohittheGCC economieshard,thecrisiscouldalso bring new opportunities to benefit from global trends, such as reshoringand restructuring of global and regional value chains. The extent to whichthisispossiblewilldependonsustainingexistingreformsunderway,enactingtargetednew strategiesandmeasuresforthepost-COVID-19context,andreinforcingregionalcooperation.Thisbriefprovidesanoverviewoftheimpactofthe COVID-19crisisoninvestmentintheregionandhighlights GCC government policy responses to catalyze investment andfoster 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 thespread of the virus and directed specific support to mitigate the economic impact of the crisis. While it isdifficult to estimate the magnitude of repercussions on GCC economies, severe disruptions to economicactivity 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,theInternationalMonetaryFund (IMF) forecasts that all GCC economies, will contract in 2020 (Figure1). However,theIMFpredictsarelativelyrapidV-shapedrecoveryfor theregion,withnearlyall GCC countries expectedtorecoverin2021.[2]

Figure1.Grossdomesticproductinselected GCC &MENAeconomies(y-o-ypercentchange)



Note:e=estimates;EMDE=Emergingmarketanddevelopingeconomies

Source:InternationalMonetaryFund,WorldEconomicOutlookDatabase,April2020

AttractingmoreandbetterFDItotheregionwillbecriticaltothesuccessof GCC'spost-COVIDeconomicreconstruction. Besides being a much needed source of private investment, FDI would help countries inthe region strengthen the resilience of their economies and enhance participation in value chains. It would also help spur more sustainable,inclusiveandtechnologicalgrowth,asmultinationalenterprises(MNEs)tendtobelarger,moreinnovativeand more productive than domestic firms. It could also play an important role in accelerating economicdiversification 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 revampedattractionstrategiesinaglobaleconomytransformedbyCOVID-19.Theimmediateandlong-termeffectsof FDIflowswilldepend on theglobalrecoveryand effectiveeconomicpolicyresponses. This note provides an overview of trends in foreign direct investments in the MENA region.[3,4] It alsoshowcases information collected through research and consultations with in-country stakeholders on immediate policy responses to the crisisandpolicy considerations forrecovery.

COVID-19 impact on investment

Sharp decline in FDI

TheOECDexpectsadropinglobalFDIflowsbyatleast30%in2020(mostoptimisticscenario)comparedt

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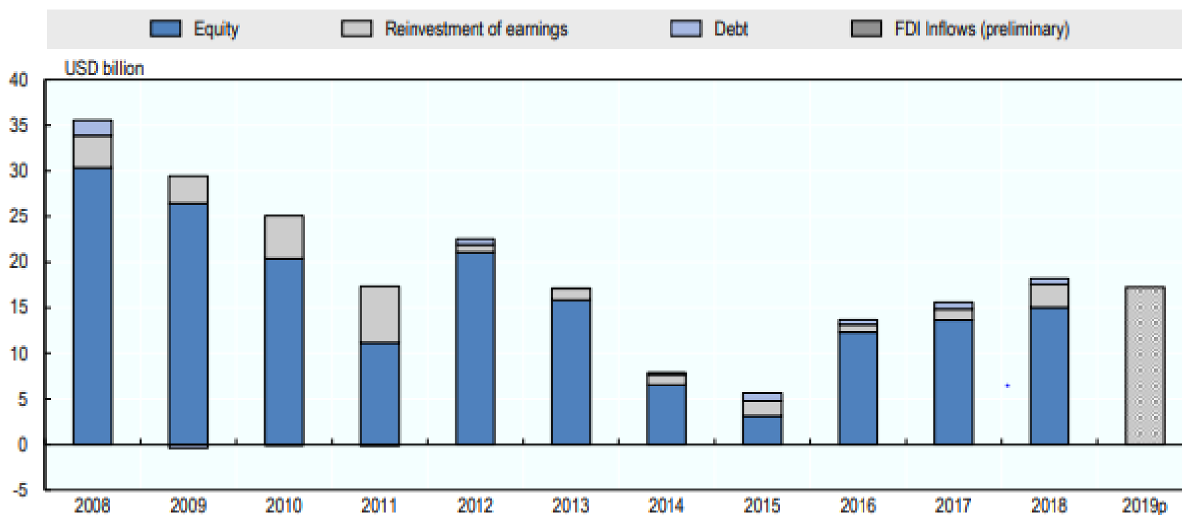
o2019beforereturningtopre-crisislevelsbytheendof2021. The resulting demand and supply shocks, coupled with the drop in oilprices and lower confidence of investors, are expected to lead to an even more significant decline of FDIin GCC. The UN's Economic Commission for West Asia estimates that the Arab region is likely to lose45% of its FDIinflowsin2020.[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. Duringthe same year, FDI inflows in MENA including GCC[7] also amounted to USD 17.2 billion, a 10% increase compared to2017, but still less than half of the level recorded in 2008, which was a peak year for FDI inflows in theregion (Figure 2). With the advent of COVID-19, there will be an immediate impact on FDI globally and inMENA from a reduction in equity investments, as investors put Greenfield investments and mergers andacquisitions(M&A)onhold.PreliminaryestimatessuggestthatthevalueofM&Adealsalreadydecr easedby 71% in the first four months of 2020, from USD 89.6 billion to USD 26.2 billion compared to the sameperiodin2019.[8]Greenfieldinvestmentsrepresentmorethan80%oftotalFDIprojectsinmostoil-importingMENA& GCC economies,[9]whileM&AmostlytakeplaceinthecountriesoftheGulfCooperationCouncil(GCC).[10]

Figure2.FDIinflowsintheMENAregionbyinstrument,2008-2019

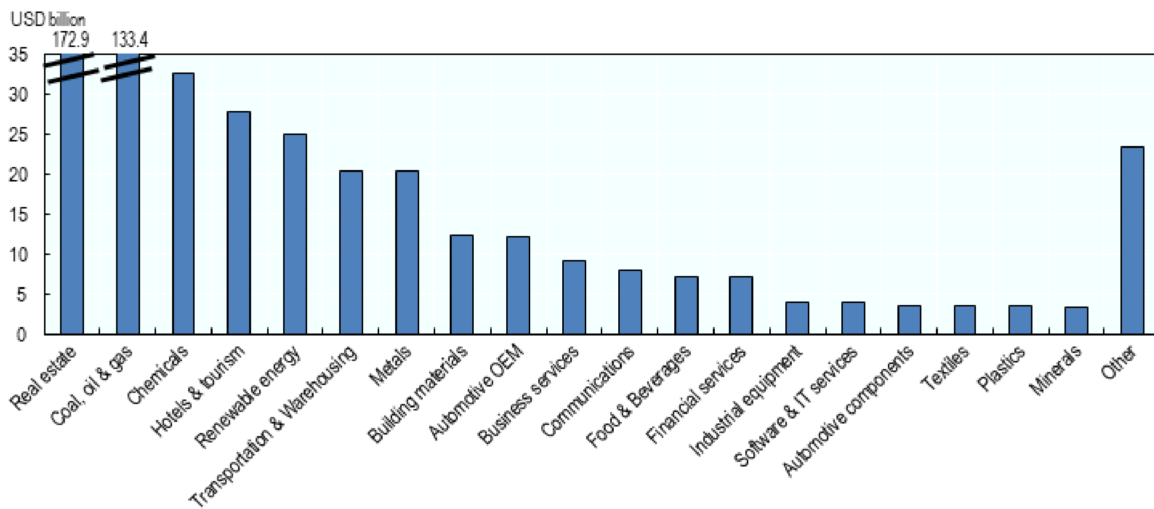


Investment drop in major industries and source countries

A sectorial breakdown of announced greenfield investments to the eight countries surveyed for the MENA and GCC regionbetween2003and2019showsthatrealestateandcoal,oilandnaturalgasaccountedfor32%and25 % 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

ofinvestmentsintheregion.Egyptdominatestheinvestmentlandscapewithnearlyhalf(USD245billion)ofthe announced greenfield FDI in the eight countries. The extensive lockdown measures, implementedwidely across the region, are likely to have severe repercussions on greenfield FDI in many strategicsectors for the economies in the coming months. The region is expected to suffer large declines in themanufacturingsector,inlinewiththetrendsinnon-OECDcountriessincethebeginningof2020. Accordingtorecentconsultationswith GCC andMENAInvestmentPromotionAgencies(IPAs),therearenotyetdivestmenttrendsorcancellationso fprojects,butimportantinvestmentdelaysareexpected.

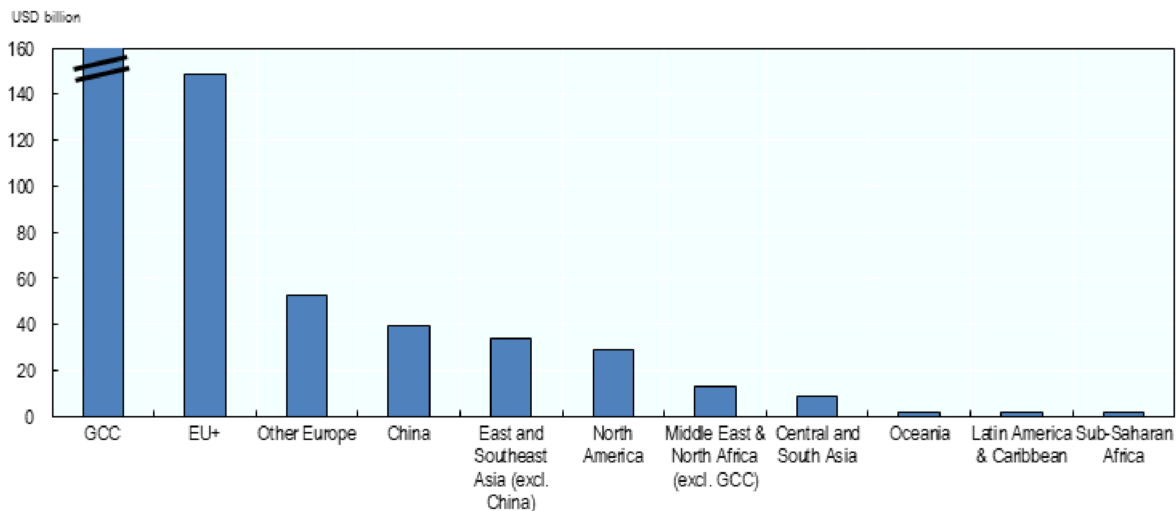
Figure4.ValueofannouncedgreenfieldFDIintheMENAregion,bysector,2003-2019



ThedropinoilpricesisalsoexpectedtoleadtofewerinvestmentsfromneighboringGulfcountries,which werethelargestsourceofgreenfieldFDIintheeightsurveyedMENAeconomiesbetween2003and2019. TotalannouncedgreenfieldFDIfromGCCcountriestotaledUSD193billion,withinvestmentsprimaril yinreal 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 Unionalso remained a key source of FDI to the region (28%), while Chinese investments have significantlyincreasedfromUSD1.4billionduring2008-13toUSD34.9billionduring2014-2019,drivenbythelaunchof the Belt and Road Initiative in late 2013.[12] In addition, intra-regional investments among the eightsurveyed economies have been low at only 3% of total announced greenfield FDI. The crisis may offerfurtherscopefor investmentsamongthesecountries.

Figure5.GreenfieldFDIintoMENA and GCCregion(excl.GCC)(2003-2019),bysource



Immediateinvestmentpolicyresponses

Governmentmeasures

Thecontainmentmeasurestakenbygovernmenttocombatthenegativeeffectsofthepandemichaveledto a halt of large segments of production for many enterprises, including multinational enterprises (MNEs)operatinginMENA and GCCeconomies.Insomesectors,supplydisruptionsledtotheadoptionofimportreductionsand export bans. However, in the health and digital sectors, some MENA governments reduced importtariffs,providedspecificsectoralsupportandencouragedshiftingproduction.

Some countries have also taken fiscal and financial measures to release pressure on some industriesandsupportcontractedeconomicactivities– measuresthatalsobenefitforeigninvestors.Forexample:

Qatar:Thegovernmenthastemporarilyexemptedfoodandmedicalgoodsfromcustomsduties.

UAE: Governments of several emirates have introduced financial assistance measures. Dubaiproposed a refund of 20% of customs fees on imported goods and a 10% reduction in water andelectricitybills.ThegovernmentofAbuDhabihasreducedorsuspendedvariousgovernmentfeesan d penalties and granted substantial rebates to lease payments for companies in the tourism,hospitalityandentertainmentsectors.Theoffshorefreezonesapplyfeereductionstocompanies .TheAbuDhabi'GlobalMarketimplemented100%waiveroncommerciallicence,businessactivityand dataprotectionrenewalfeesforalimitedperiod.TheDubaiInternationalFinancialCentrealsowaived annual licences for new companies until the end of 2020 and lowered of 10% the renewalfeesforexistinglicences.TheDubaiFreeZoneCouncilannouncedaneconomicstimuluspackag eon28Marchthatincludesthepostponementofrentsforsixmonths,improvedfacilitationinstalments

for payments, refunds of security deposits and guarantees and cancellation of freezonesappliedfines.

Sustainingandretainingexistinginvestment

With the COVID-19 outbreak, IPAs are enhancing their role as interlocutor between foreign investors andthe government, favoring aftercare activities versus attraction functions. IPAs are taking emergencyactions to support existing investments and retain them to avoid possible divestments. Some agencieshavesetupcrisisunitstoinformandcommunicatewithinvestors,torespondtotheirqueriesandto followonproductiondisruptions.For example:

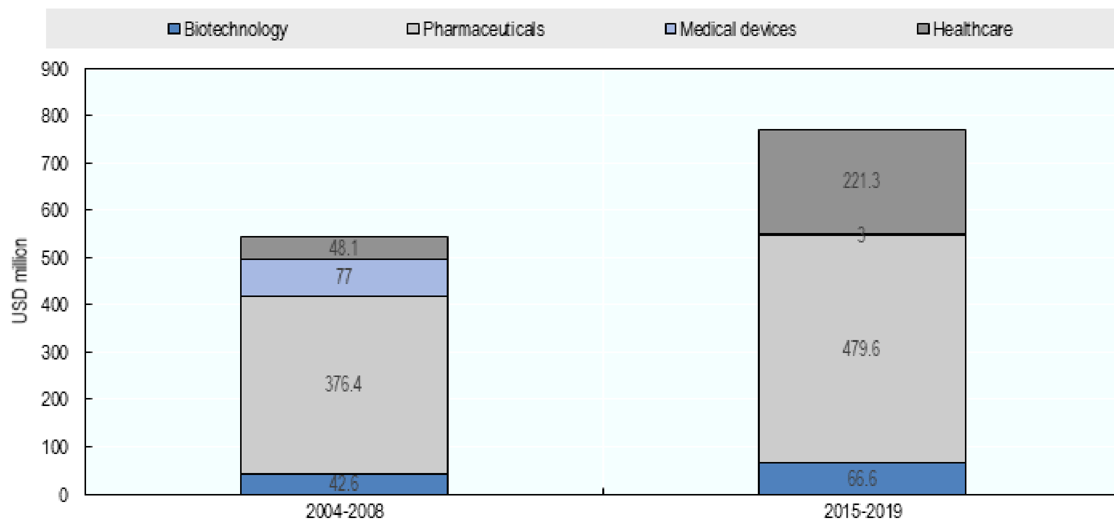
Saudi Arabia: The Ministry of Investment formed a taskforce called MISA COVID-19 ResponseCenter to answer to company inquiries 24/7 and solve issues to allow businesses to continueoperating.[15]

UAE: Abu Dhabi's Department of Economic Development placed all regulatory services such asbusinessregistration, licensingand permitting,online 24/7.

Reorganisationofsupplychains:reshoringandnearshoring?

The disruptions caused by the pandemic may affect MNEs' decisions to reorganise the geographical andsectoral spread of their production activities, providing possible opportunities for the MENA region. MNEscouldshortentheirsupplychainsandreducethedistancebetweensuppliersandclients(nearshorin g),orchosetomovemanufacturingactivitiesbacktothehomecountry(reshoring).[17]Similarly,somecom paniesmaydiversifytheirsupplynetworksinordertoincreaseresiliencetoshocks,whichwillinvolvediv estmentsfromsomelocationsbutexpansioninothers. The COVID-19 crisis also comes at a time when global trade tensions are causingcompanies to reconsider their supply chains due to concerns about possible vulnerabilities of GVCs. Thepandemic may also increase demand by consumers and companies for more sustainable and inclusiveproductionmethods(seeOECDnote on COVID-19andresponsiblebusinessconduct).Theimplicationsofsupplyconsiderationsarealsoimportantforgo odsandservicesneededforthehealthsector such as pharmaceuticals, medical supplies and equipment, and increasingly healthcare provision,whichdependmuchmorethaninthepastonglobalvaluechains. In the GCC, MENA region, announcedgreenfieldinvestments in these sectors have increased by 42% to USD 771 million during 2015-2019, upfrom USD 544 million during 2004-2008 (Figure 6). Ensuring sufficient supply to fight the pandemic hasbecome the immediate priority for trade and investment policymakers in the region. For instance, theEgyptian Ministry of Industry and Trade banned for a period of three months the export of infectionpreventionsupplies,includingfacemasks andalcohol aswellasits derivatives.[18]

Figure6.GreenfieldFDIintohealth-relatedindustriestoselectedMENAeconomies



Whileinvestmentsinhealth-relatedvaluechainshaveincreasedinrecentyears,the GCC &MENAregionoverallhas a rather low participation in regional and global value chains. Yet, given its strategic location, the regioncould benefit from reshoring or nearshoring while companies are looking to produce closer to end usersand limitsupplyrisks.

Reflectionsoncontinentalvaluechains

The GCC & MENA region (not including the Gulf countries) is one of the least integrated region in terms of tradeand investment in the world.[19] 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 toincrease intra-African trade by 52% by 2022.[20] Currently, only 6.5% of GCC and MENA's total trade is with the restof Africa and only 3.9% of North African exports go to sub-Saharan Africa (SSA). Such limited intra-regionalintegration is the result of policies and strategies favoring developed and emerging markets and lookingtotheNorth.

Infrastructureforinvestment

The economic fallout caused by the COVID-19 pandemic is also creating the need for technologicallyadvanced,sustainableandresilientinfrastructurethatcansupportthepost-COVID-19economicrecoveryand better integration in value chains. The region is facing an infrastructure investment gap of USD 100billion per year over the next five to ten years.[24] Some countries are strategically using the period of thepandemictofinaliseinfrastructureprojectsinordertoattractinvestorsoncetheeconomystartsrecovering,whileothers hadtodelayinfrastructureprojects.

Towardsrenewedinvestmentstrategies

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 theircompetitive advantages (e.g. e-commerce, digital technologies, healthcare, renewable energies, andautomotiveindustries),revisingtheirincentivesframework,andenhancingtheroleofeconomiczon eswithimproved electronic procedures and services.

Keepingupinvestmentclimatereforms

The COVID-19 crisis may affect investors and economies differently depending on the national andregional contexts and FDI motivations. Undeniably, the GCC and MENA region will suffer from the lasting effects ofdecreasing FDI flows, already constrained in pre-crisis times by an insufficiently conducive investmentclimate:complexandsometimesunclearinvestmentframeworks,restrictionsandburdenso meprocedures, insufficient infrastructure logistics, and regional geopolitical tensions. Over the past decade,countries have undertaken significant reforms to improve their investment environments. However, thosereforms will need to be sustained and new measures implemented for countries to durably improve theirinvestmentclimateand diversifytheireconomiesinapost-COVID-19context.Over the past years, investment laws have been enacted or amended in many GCC and MENAeconomiestomodernizetheregulatoryframeworkforinvestmentandinvestmentpromotionage ncieswereendowed witha widerrangeof mandatesand responsibilities.[28]Morerecentreforms include:

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

Oman: The new Foreign Capital Investment Law, issued in January 2020, enables investors toestablish a company in some permitted activities and does not require for any minimum sharecapitalrequirement,noranygenerallimitonforeignownershipof anOmanicompany.

Qatar: Full foreign ownership is now permitted in all sectors with the exception of banking,insuranceandcommercialagencies,followingthe issuanceof the2019 investmentlaw. Therearemanyuncertaintiesonfuturereactionsofinvestors,butalready,giventhemagnitudeofthecrisis andglobalpublichealthrequirements,independentexpertshavecalledforan“immediatemoratorium”o nall arbitration claims that may emerge between private investors and governments.[31] They suggest a“permanent restriction” on all arbitration claims following the measures implemented by the governmentsto contain the COVID-19 pandemic, which are related to health and economy. The crisis may also be anopportunity to advance countries’ efforts to reform their BITs network to ensure right to regulate in thepublicinterestandwider policyspacefor States.

Towardsaninclusive,greenandresilientinvestmentrecovery

Whilemany GCC and MENAgovernmentsarecurrentlyfocusingontheshort-termresponsestoalleviatetheoverallimpact of the pandemic, this period also represents an opportunity for the region to design an ambitiousreform agenda. Further opening to investment and reducing restrictions will not be enough. Governmentsneedtobereadytoattractqualityinvestmentsthatpromoteaninclusive,greenandresilientr ecovery.Therecovery should respond to the needs of everyone equally, from consumers, entrepreneurs, to the mostvulnerable people in the society, including informal workers and women. In GCC and MENA, just like at the globallevel, 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 FDIQualities Initiative can contribute to this reassessment, presenting a new policy toolkit to maximise thesustainable development impacts of FDI.IPAs will play an important role in achieving these objectives, including through their aftercare and policyadvocacy roles. They will need to rethink their strategies and adjust to priority sectors. The GCC and MENA IPAMapping,capacity-building,peer-learningandnetworkingactivitiesconductedundertheEU-OECDProgramme on Investment in the Mediterranean, as well as the policy dialogue under the MENA-OECDWorking Group on Investment and Trade, could further support countries to assess, implement andimprovequalityinvestmentclimatereforms inapostCOVID-19 world.Continuedco-operationattheregionalandinternationallevelsalsomattersfortherecovery.The30March2020 Ministerial Statement of the G20 Trade and Investment Working Group, under G20 Saudi ArabiaPresidency, 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 andinvestment environment, and to keep our markets open”. The 14 May Ministerial Statement of the Groupreiterated in particular the need to share information on taken actions and best practices on promotinginvestments in impacted sectors, encourage government agencies to work with companies and investorsin identifying investment opportunities, and encourage consultations with the private sector, as part ofpolicy making on FDI.[32] MENA and GCC economies are already engaged in these measures and should remainactive 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 COVID19 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.

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