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"FOREIGN DIRECT INVESTMENT IN THE POST-COVID-19 WORLD: HOW DO FIRMS REACT?"

RELATORE:

CH.MO PROF. DIEGO CAMPAGNOLO

LAUREANDA: FANTONI SARA

MATRICOLA N. 2004254

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Executive summary

This thesis examines the impact of the COVID-19 crisis on foreign direct investment as a tool for internationalisation; looking at how businesses can respond to the uncertainty and changes brought about by this shock. The assumption is that resiliency is the best practice, and one of the ways to do that is through reshoring.

The discussion begins with a macroeconomic snapshot of FDI flows in recent years to understand current trends and stress the impact on enterprises of previous crises, focusing on the trajectories of this shock. The aim is to present the overall environment in which COVID-19 arrived and to point out that the following economic impacts depend largely among trends which were already in place before the Pandemic hit. These trends concern a New Technology Revolution with the ongoing development in terms of automation, digitalization, and additive manufacturing, an increasing sustainability awareness and imperative, and a growing nationalism sentiment, with governments imposing increasingly protective trade policies.

The second chapter is aimed at providing a theoretical presentation of the different typologies of FDI and highlighting FDI's internalisation and location determinants. After a general overview on the global scenario and on the drivers that guide company's choice on Foreign Direct Investment, the third chapter is focused on the COVID-19 pandemic impact. Starting from a chronology of the main stages through which the virus has spread across the globe, and continuing with its impact on global demand, supply, and value chains. Then, these shocks are taken into consideration together with the ongoing trends presented before creating new normality in which firms have to redesign their GVCs to fit new emerging paradigms. Therefore, although the growing uncertainty of the global scenario, it becomes imperative for firms to try to balance their investment attitude with accurate risk management practices across the entire value chain to be as flexible and responsive as possible.

The practical implications of the above discussion are presented in the last chapter, which focuses on the available trajectories that companies may follow to build their recovery strategies. These approaches come naturally at the conjunction between the new pillars above which the international environment rests and the pandemic crisis geopolitical and economic consequences. In particular, these are regionalization, diversification, replication, and reshoring.

The overall discussion ends with an example of a company which has decided to rethink its business as usual and try to follow the ongoing trends. The focal company is Benetton Group that at the beginning of 2021 has decided to begin a reshoring initiative, repatriating part of its production location in Asia back to the Mediterranean area. This case study is presented mainly to highlight how a company which is in a distress situation can exploit the new emerging paradigm to reconfigure its global value chain to become more flexible and responsive to future challenges.

Chapter 1
A macroeconomic overview of FDI

1.1 Introduction:

This first chapter of the thesis is focused on providing a general macroeconomic overview of the Foreign Direct Investment phenomenon. The final aim is delivering a clear picture of the global scenario and how it has changed over the recent history, focusing on the main drivers that have enhanced these shifts. Deeply understanding what happened in the past and what were the main trajectories followed during crisis and consequent recovery periods, is going to better comprehend what has pushed companies towards certain managerial decisions.

The analysis began in the late 1990s and early 2000s, when FDI became increasingly important in the field of internationalisation. A major part of this first section is dedicated to the main drivers that push companied towards investments into foreign markets. It is extremely important to understand these trajectories because they will be important variables also in later times.

The second section concerns with the global financial crisis of 2008-09, the first important shocks that disrupted the international equilibrium, emphasizing the different impact on developing and developed countries. Afterwards, the following recovery period is taken into consideration, to provide an overview of the countries reactions and the following trends arising in the global environment.

At the end a brief summary of the highlights that is important to keep in mind to fully appreciate the subsequent analysis.

1.2 General Overview

Foreign Direct Investment (FDI) is an essential element in international economic integration and in globalization process because it helps firms to internationalize their business and creates stable and long-lasting links between economies (OECD Library). FDI emerged largely internationally in the 1980s and has been growing since the late 1990s, especially in developed countries and, within a few years, it has become a key to improving global prosperity and driving the global economy (World Economic Forum, 2013).

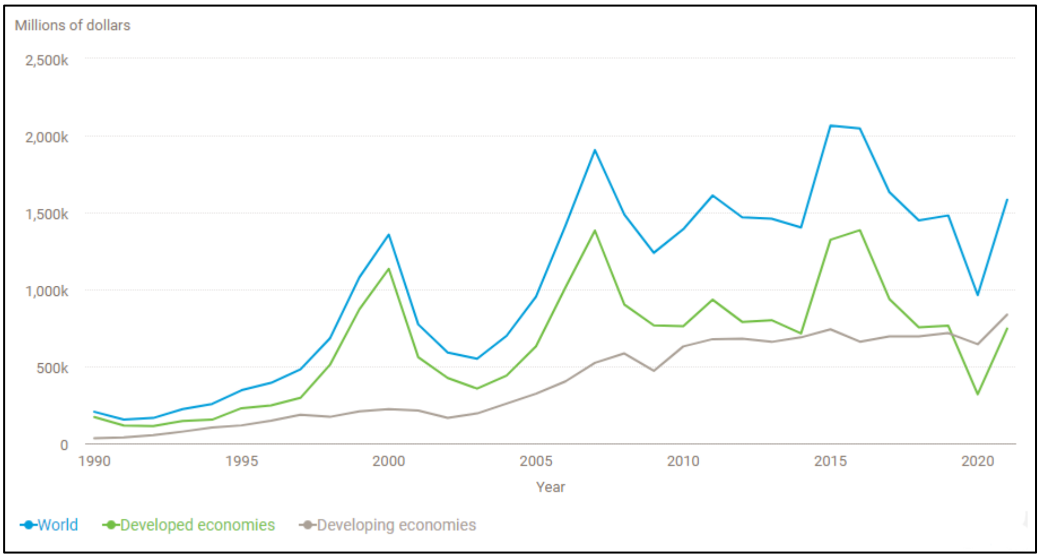

Figure 1: *world FDI stocks overview from 1990 to 2021*

Source: *UNCTAD World Investment Report, 2022.*

As visible from Figure 1, over the last two decades the global pattern of inward and outward FDI has changed significantly. Traditionally, developed countries have played a major role as both destination and source of investments: until the Great Recession, almost 90% of the outward FDI flows came from these advanced economies. Nevertheless, since the beginning of the new millennium, and in particular from 2008, a change was observed as developing countries[1] gradually increased their importance as the destination and source of FDI. By 2014

[1] The group of developing economies comprises three regions: “Africa”, “America”, “Asia and Oceania”, where the group of African developing economies coincides with Africa, and the group of American developing economies coincides with Latin America and the Caribbean, as defined in the “Standard Country or Area Codes for Statistical Use (M49)” (UNSD, 2020).

emerging economies represented 41% and 56% of global outward FDI (OFDI) and inward FDI (IFDI) respectively (Carril-Caccia & Pavlova, 2018).

It is interesting to note that FDI stocks have fluctuated not only according to their specific drivers but also in line with the specific economic and geopolitical dynamics of a define period. Therefore, given the ever-changing environment, a macroeconomic overview of FDI fluctuations and a description of the main factors and events which have led to changes in the world map may be useful. Moreover, it is extremely important to analyse companies' behaviours and attitudes towards previous crisis and geopolitical events in order to try to estimate the future of the global FDI landscape after today’s shocks and try to forecast how entities will deal with this uncertain environment in which they operate.

An important assumption for further discussion is that financial crises are caused by different phenomena and are therefore expected to have different consequences. It is expected that these different outputs will have also various impacts depending on the type of FDI being considered. FDI typologies are discussed in detail in the next paragraph, but in a nutshell, one of the main distinctions is between M&A and greenfield investment. One of the key distinctions is that mergers and acquisitions do not involve the construction of a new facility but involve the establishment of a relationship with an existing foreign counterparty. On the other hand, a greenfield investment involves the expansion of a company out of its national borders setting up a new facility. As a result, the main underlying differences relate to the funds required and the time perspective of the investment. Having said that, due to the perceived duration of the crisis and the resulting level of uncertainty, one of the two options may be more favourable (Stoddard & Noy, 2015).

The following discussion begins with a short description of the trends of the early 2000s focusing on the main drivers that firstly push FDI to raise so fast in emerging and developed economies. Then an analysis of FDI fluctuations due to the Great Financial Crisis, proceeding with a focus on the following years of recovery. In the end an overview of the recent environment, focusing on the shocks that have altered the equilibrium pushing companies towards new international strategies and on the main trends raised from those changes. The crisis caused by the COVID-19 pandemic arrived on top of these existing challenges: the main impacts and measures taken to counteract the shock are discussed in more detail in the third chapter.

1.3 From 1990 to 2007

In the 1990s an acceleration of globalisation began: the total value of FDI rose dramatically from $209 billion in 1990 to $865 billion in 1999 (UNCTAD, 2000). Developed economies, primarily through the United States and the United Kingdom, have played a key role in outsourcing activities, whereas emerging markets were for the most part destination countries for efficiency and low-cost investment. However, as we shall show, the geographical composition of FDI has changed considerably over time, it suffices to consider the constant growth of developing Asia as a source of foreign investment: its share of total stock of FDI has increased from a 23% in 1980 up to 62% in 2005 (UNCTAD, 2006).

This section looks at the first significant increase in FDI by examining its main drivers and the great changes which have characterized the global framework in the early years of the new millennium.

As shown in Figure 1.1, after reaching the initial peak in 2000, the slope of FDI then declined steadily until 2004. This negative trend started early in 2001 when global inward and outward FDI fell by 51% and 55% respectively, the largest drop in three decades, with dozens of countries, including the world's largest economies, entering recession (UNCTAD, 2002). The major drivers that contributed to this negative shift were short-term shocks such as the bursting of the dotcom bubble in the early 2000s and the September 11 terrorist attacks. The decline was mainly concentrated in developed economies, where inflows fell by 59%, while in emerging economies the decline amounted to only 14%. Among developed countries, United States were affected largely, the American economy decreased in 2001 and for the following two years: from $349.13B in 2000 to $172.50B in 2001 and $111.06B in 2002. The effect was due to the uncertainty of the environment and the related decreasing in the attraction capacity of FDI flows.

Over the next two years, 2002 and 2003, economic growth struggled to rebound, and prospects are bleak in most parts of the world, especially in developed countries, which are still losing their place in the global FDI scenario. Only in 2004 FDI recorded a slightly increase. As visible from Table 1.1, this shift was due to the contribution of developing countries, especially China, which began to play a central role also as foreign investors (Jungbluth, 2019). In 2005 FDI accounted for another year of increasing trend: they rose by 29% reaching $916 billion, having already increased by 27% in the previous year. The main driver of this growth is the highest number of mergers and acquisitions and their respective value (as in the late 1990s). This growth was broad based on a geographical point of view; nevertheless, the higher result was registered in developed countries which return to be main characters in the global FDI economy. The main reason for this increase is that the five largest host economies – the United Kingdom, the United States, France, the Netherlands, and Canada – accounted for 75% of total FDI inflows to developed countries. Their contribution was fundamental to the recovery trend of these years. As picture 1.1 shows, since 2005, a real recovery has begun and FDI flows have experienced a new boom, which continued until 2007, before the global financial crisis.

The positive correlation between the increase in M&A deals and the consequent upward trend in developed countries is going to be visible also in the subsequent years. This relationship is due to the fact that those economies are the major source of this type of foreign investment and therefore a decrease in value or number of merger and acquisition contribute to a decrease in the share of FDI flows coming from and directed to established market.

Region	**Inflow**			**Outflow**		
	1988-1990	**1998-2000**	**2003-2005**	**1988-1990**	**1998-2000**	**2003-2005**
Developed economies	82.5	77.3	59.4	93.1	90.4	85.8
European Union	40.3	46.0	40.7	50.6	64.4	54.6
Japan	0.04	0.8	0.8	19.7	2.6	4.9
United States	31.5	24.0	12.6	13.6	15.9	15.7
Developing economies	17.5	21.7	35.9	6.9	9.4	12.3
Africa	1.9	1.0	3.0	0.4	0.2	0.2
Latin America and the Caribbean	5.0	9.7	11.5	1.0	4.1	3.5
Asia and Oceania	10.5	11.0	21.4	5.6	5.1	8.6
South-East Europe and CIS	0.02	0.9	4.7	0.01	0.2	1.8
World	100.0	100.0	100.0	100.0	100.0	100.0

Table 1: *Distribution of FDI by region and selected countries, 1988-2005 (Per Cent)*

Source*: UNCTAD World Investment Report, 2006.*

4.2.1 The main drivers

FDIs had gained more importance in the world economy and the nature of the international production has changed accordingly. The rapid expansion of FDI both globally and regionally can be attributed to several factors (Urata & Sasuya, 2007). The main drivers are rapid technological change, liberalisation and, as a consequence, intensified competition. Together they have resulted in a new economic environment in which the international integration of production and other corporate functions have become easier because of the reduction of transport and communication costs. This tendency was termed “deep integration”: a cohesive global production system with specific activities spread in different locations but linked by tight relationships (UNCTAD, 1999).

It is important to stress that these factors should be taken into account together in order to provide a positive and effective stimulus to FDI. For example, FDI liberalisation is a necessary but insufficient determinant of investment in host countries; it cannot guarantee that foreign investment is really going to happen (UNCTAD, 2009). Likewise, technological innovation can only be used as an instrument to reinforce globalisation and stimulate foreign investment but only if the political environment is conducive to exploiting opportunities driven by the industrial development (UNIDO, 2017). At the same time, an effective regulatory framework is important to restrict the level of competitiveness and maintain it at an optimum level.

These factors, which contributed to the huge increase in FDI flows at the end of the 1990s, also match those which was instrumental in the recovery from the crises of the early 2000s. So it's important to understand what those factors were, how they developed before and after the global financial crisis, and how they were helpful in the subsequent recovery.

1.3.1.1 Liberalization

One of the most important drivers that contributed to the FDI expansion is liberalization. Once FDIs were no longer seen with suspicion, restrictions over the entry and various operations of foreign firms were replaced by policies aimed at encouraging FDI inflows and at eliminating discrimination against foreign enterprises (Banga, 2003).

Over the period 1991-1999, 94% of the 1,035 changes worldwide in the laws governing foreign direct investment created a more advantageous framework (UNCTAD, 2000). This trend continued also in the following years with an increasing number of countries introducing positive changes in their investment regimes. In particular, this tendency towards liberalizing policies and investment treaties facilitating FDI can be seen as a pull factor for international businesses (UNCTAD, 2006). The openness towards foreign investment wasn't obstacle even by the security concerns of several countries after 9/11 attack (Poulsen & Hufbauer, 2011): the environment remained the one where investment liberalization and promotion "replaced red tape with red carpet treatment of foreign investors" (Sauvant 2009, p. 222).

Foreign investment-friendly regimes include many components and approaches that vary from country to country in terms of incentives, including generous tax incentives and special economic zone, etc. An open, stable, and transparent FDI regime can both encourage foreign investment and help maximize spillovers and associated benefits for the broader economy. (OECD, 2000).

While countries are interested in attracting foreign investment, they would like to retain the right to inspect, filter, and ultimately restrict FDI for any reason, such as national security or protection of strategic assets (Urata & Sasuya, 2007). In this context, International Investment Agreements (IIAs) have played an important role in regulating relationships between investors: they enhance investment protection and try to create a transparent environment to stimulate responsible FDI flows (UNCTAD, 2009).

However, over the years, a more concern attitude has begun to increase and, as the chart shows, since 2004-05, countries have moved in the opposite direction towards more restrictive behaviour. As a result, restrictive and protectionist behaviour will characterise the economic environment in the years leading up to the world financial crisis.

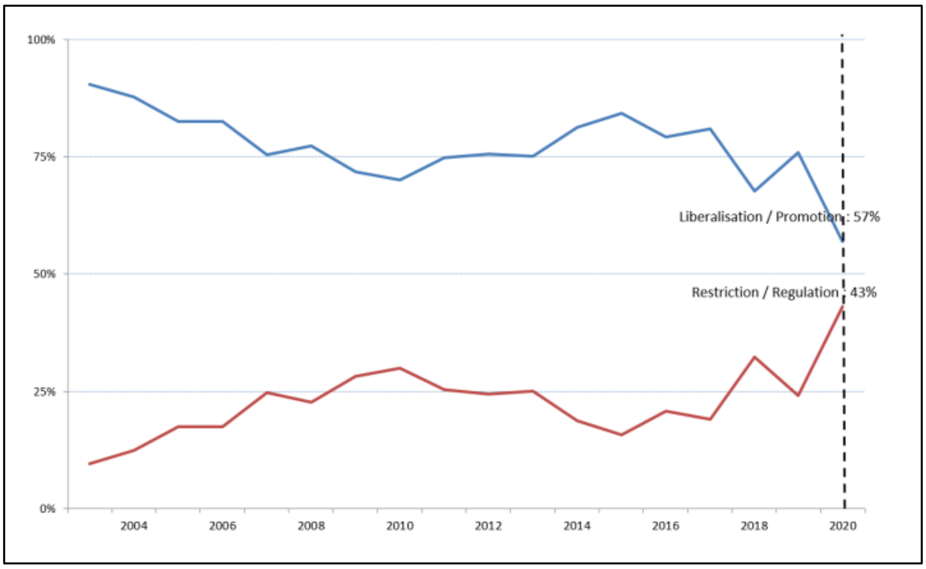

Figure 2: *Changes in national investment policies, 2003 – 2020*

Source*: UNCTAD, 2021.*

1.3.1.2 Technological change

A rapid technological change took place in the early 200s with a contextual acceleration in R&D internationalisation. An OECD study conducted in 2008 showed that in OECD countries, between 1995 and 2005, business R&D under foreign control had raised up from 37 to more than 83 billion dollars (Cozza et al., 2014). As expected, this rapid technological innovation process has involved costs and risks, making imperative for firms to tap foreign markets trying to minimize those liabilities. Simultaneously, in helping these necessary of creating relationship and thanks to the technological progress, a reduction in transportation and communication costs helped companies to internationalise their businesses, allowing them to reach more further markets. In particular, in those years started to rise the so-called efficiency seeking FDI: the offshoring of value chains in developing countries with low-cost workforces and the attempt to share the associated risks.

1.3.1.3 Increasing competition

Authors like Dunning and Lundan in 2008 had already considered the level of market competitiveness as an important determinant of FDI inwards (Mariotti & Marzano, 2021). Furthermore, literature has highlighted how the policy framework of the host country is a key influencing factor in influencing this optimal level of competition between foreign and domestic investors (Caves, 1996): governments should establish a fair and non-discriminatory environment. In these circumstances, competition can become a powerful catalyst for economic growth and can help attract foreign investment.

This can then create a vicious cycle: the higher the competition and the higher the necessity to increase efficiency with a consequence increase in the outward FDI flows. The increase in competitiveness led developed economies to explore new and emerging market in search for production efficiency; moreover, prices increase for many commodities, such as oil and minerals, have stimulated natural resource seeking FDI directed to those equipped countries, mainly developing ones.

1.4 The Global Financial Crisis and beyond

1.4.1 Introduction

The Global Financial Crisis (GFC) refers to the period of extreme tensions on global financial markets and banking systems from mid-2007 to early 2009. This acute stress was caused by a downturn in the US housing market which acted as a catalyst for a financial crisis that spread from the US to the rest of the world by tapping into financial market links (Reserve Bank of Australia, 2009).

One of the aspects that contributed to the increase of FDI flows until 2007 was the globalization and the resulting interconnection between foreign economies, which facilitated investment and trade. During the global financial crisis, this factor magnified the domino effect and played a key role in spreading the consequences for the financial and banking sectors (Carp, 2012). With the beginning of the crisis in Western countries, it is not surprising that FDI flows to and from developed countries have decreased more strongly. It was the largest crisis since the Second World War, so has been the trade flows collapse due to the impact on the most important regions, United States and European Union (IMF, 2010). The slowdown has had a particular impact not only on economic growth, but on western banks and financial institutions as well; this has led to a reduction in the number of mergers and acquisitions of enterprises from developed countries (Poulsen & Hufbauer, 2011). Despite the larger effect on developed economies, emerging countries wasn't saved: they initially proved to be resilient to the impact of the crisis but, however, they registered a drop of 15% from 2008 to 2009 (UNCATD, 2010). Much of the superior performance of emerging markets was due to the continued fast growth of China and India; however, even by excluding them from the equation, most emerging markets will outperform the developed world in 2009 (Sauvant et al., 2011).

Several reasons contributed to the different impact (both considering the amount of the decreasing and the period in which it occurred) in the performance between developed and emerging countries. One of these concern with the importance of mature economies as source of FDI: they suffer a large liquidity shortage which had an indirect impact on developing market at the end of 2009 due to the lower amount of investment coming from these nations.

Then, also the shares and typologies of foreign investment conducted in these economies are different compared to those in developed market. As visible, developing countries attract a larger share of greenfield investments 42% compared to merger and acquisitions that were only 22% in 2007. Considering the enormous impact of the financial crisis on M&A, it is clear that developing countries have been much faster to recover and much less affected.

Host country	**Mergers and acquisitions**			**Greenfield investments**		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
World economy	100	100	100	100	100	100
Developed economies	74	72	69	52	46	46
EU	39	38	32	39	34	30
United States	18	17	17	7	6	9
Japan	2	2	2	1	1	1
Developing countries	22	23	23	42	47	48
Africa	2	2	1	3	5	5
Latin America and Caraibe	6	6	5	7	7	9
Asia	14	16	16	32	35	34
South-East Europe and CSI	4	5	8	6	7	6
Russian Federation	2	3	4	3	4	3
Total number of cases	7018	6425	4239	12210	16147	13727

Table 2: *The structure of FDI by type and host country in period 2007-2009*

Source: *UNCTAD Investment Report, 2010.*

Considering the time perspective, FDI are considered as long-term investments and therefore, according to the literature they are less subject to financial crisis shocks. Given the gap between the short-term shocks caused by the crisis and the long-term perspective of the foreign investment, a phenomenon known as "fire-sale" seems to happen during period of crises: merger and acquisitions increase at the expense of portfolio investments (Denisia Mariana, 2011). However, in this case, FDI has not been subject to such a phenomenon: the proportion of the global financial crisis were with no precedence in history and therefore FDI couldn't not register a decrease.

The United States acted quickly to stem the financial collapse in 2008 but the subsequent recovery has been sluggish by historical standards and unbalances in the distribution of gains between the middle-class and the wealthy and between finance and industry. The crisis in Europe was more pronounced. A principal reason is that the severity of the crisis led EU to opt for a strong fiscal stimulus in the form of quantitative easing and low interest, forcing many countries to retreat from their expansionary fiscal stance. The withdrawal of the single countries' fiscal stimulus contributed to reduce their growth; the subsequent European interventions and liquidity infusions weren't enough to successfully boost customer spending and firms' investments (UNCTAD, 2017a). Secondly, the following Sovereign Debt crisis didn't help those economies to recover and didn't push investors to look for foreign markets but rather to search for resilience to lower risks as much as possible and to try to protect their business from possible future shocks. This resilient approach continued up until 2015 when the first recovery signs were registered.

The consequences of the crisis were contextual to the context in which the crisis first took place. In particular, two emerging trends characterised the global scenario: the geographical shift in FDI distribution with an increasingly important role of the emerging economies at the expense of developed countries; a protectionist attitude towards more regional policies. On top of that, the impact of the global shock helped to emphasize these current trends.

The following sections explore the primary channel through which the crisis had impacted the global FDI map. Secondly, the years after the crisis and the subsequent recovery are taken into account.

1.4.2 The effects of the crisis

The factors which contributed to the sharp decline in FDIs were the same that in the previously should acted as drivers but that during this period had been lacking as a result of the impact of the shock (UNCTAD, 2009):

- One of the drivers of FDI flows is the availability of **liquidity** that companies can invest to expand their business abroad or to enhance their already established foreign affiliates. The Global Financial Crisis had led to liquidity constraints for transnational corporation worldwide, undermining companies' investment capacity. The strong impact on banks and financial institution resulted in a tighter access to the credit and in a consequent weaker capacity to invest. The prime signal of this was the large and steep decline of M&A deals: even where merger an acquisition deals were signed, they involved a much lower value, depressing the corresponding value of FDI flows (Sauvant et al., 2011). The impact of liquidity shortages also persisted in the post-crisis years because of government austerity reforms which had dampened the ability of firms to expand their activities domestically and internationally (Poulsen & Hufbauer, 2011).
- Furthermore, there is a strong link between **economic growth** and FDI in both sense: the former implies more funds and liquidity to be invested through FDI, and foreign direct investments are a driver of economic growth in host countries (OECD, 2000). Because the crisis started in the Western countries where the greatest number of flows came from, FDI inflows and outflows concerning developed countries decline more sharply than in developing economies. At the same time the shortage of funds to be invested hampered the economic growth of those nations, making them less attractive as destination countries (Sauvant et al., 2011). This different tendency contributed to reduce the gap between those two realities and boosting the increasing importance of emerging markets in the global scenario. It has also been strengthened by the fact that most governments in advanced economies have attempted to counter the effects of the crisis through austerity measures that hampered economic growth, reducing their possible future recovery. Therefore, as previously mentioned, their recovery was slower than expected, enabling developing countries to be at the forefront as new characters in the future global FDI scenario.

- Another important driver of FDI investments is the **economic stability** of the domestic and host environment: literature agree on the negative impact of a financial crisis on FDI conveyed by increasing uncertainty of the macro-economic environment (Urata, 1999). The Global Financial Crisis and the subsequent Sovereign Debt Crisis had altered this stability, consequently fostering more cautious attitude and risk-adverse behaviours among managers resulting in safer and closer (geographically speaking) investments. (Poulsen & Hufbauer, 2011)

Those variables, as analysed in the third chapter, were also some of the ways in which the more recent crisis, caused by the Covid-19 Pandemic, had a huge impact on the whole global economy.

1.4.3 The recovery

In 2010 and 2011, a slight upward trend occurred: developed and developing countries have demonstrated an important sign of recovery respectively +26% and +43.2%. Nevertheless, the road to a complete recovery was bumpy and took longer than expected, mostly because of global economic fragility and political uncertainty. As evidence of this, FDI fell by 18% to $1.35 trillion in 2012.

For the first time in history in 2012, there was an overtaking by developing countries that absorbed alone more than developed economies.: 52% of FDI global inflow (ESCAP, 2013). This countertrend is the result of the sovereign debt crisis that occurred in Europe but that had a worldwide impact on the global system: there was a breakdown of the investments towards developed countries (-34,3%) while, in contrast, FDI flows directed to developing economies continued their positive increase. In fact, apart from a small dip in 2009, developing economies have been slowly but steadily increasing their outward investments since 2007, catching up with the developed countries as a source of FDI.

The shift in the role of developing countries continued in the years that followed, with emerging economies reaching a peak also in outward investments mainly due efficiency-seeking. While emerging economies continued their renaissance, developed countries registered negative trends both in 2013 and 2014 making the overall global FDI decreasing. The main reasons stem from the fact that developed countries were already the hardest hit by the previous financial crisis and they were slowly recovering from that once another shock happened, making the environment unstable again.

Finally, in 2015 FDI stocks started an upward trend following a recovery sentiment with a 34% increase from the year before, reaching the higher level since 2008 before the Crisis. This rebound was mainly due to higher inward FDI to developed countries (+74,7%), in particular they concerned with merger and acquisition made by multinational enterprises in emerging markets. The recovery in FDI from the global financial shock was a process that start with some difficulties caused by the persistent uncertainty of the economic and financial environment which affected the investment climate: multinational companies showed cautious attitude towards foreign expansion (Carp, 2012). These difficulties that have characterised the investment climate continue to have a negative impact on FDI flows: in 2016, they registered a positive result but lower peace (UNCTAD, 2017a).

According to the World Investment Report (UNCTAD, 2017b) one aspect that helped companies in their recovery and that is going to become a real trend in the following years is the “digital economy”. It is described as a key driver of growth and development, moreover, it can help companies in developing their business and access to new entrepreneurial opportunities. The adoption of digital technologies is able to shape the way of doing business and it can have

The following paragraph focuses the main motivations behind this turnaround and the subsequent arising tendencies which characterised the social, political, and economic scenario in which the Covid-19 Pandemic began.

1.5 The Turnaround

After positive results had been recorded in the previous two years, a change in the global tendency occur. The decline in the global FDI flows was due to the shift in the investment landscape across the globe which was influenced by the fragility and uncertainty of the political and economic environment (UNCTAD, 2019). The FDI flows for developed countries decreased by 27% for 2018. Despite this, developing countries accounted for a growing share (by 2%) of global FDI from 46% in 2017 to 54% in 2018 (UNCTAD, 2019).

In this case the discussion is made separating the analysis on what happened in developed and emerging economies. It is going to start with the former and a description of what were the variables that contributed to this turnaround. Then, taking into consideration developing countries, the discussion is focused on the differences in trends and on how they continued to gain importance in the global scenario. In the end, a focus on the on going trends that characterized the pre-pandemic environment. It is important to understand what was the framework within which the Covid-19 began in order to better justify and predict the future firms' behaviours.

1.5.1 Developed countries

It was uncertainty that characterized the geopolitical and economic events of the following three years, 2017-18 and 2019, before the COVID-19 pandemic struck the world. Considering the global FDI scenario, in 2016 the two advanced economies which acted at the forefront as FDI recipient were the United States and the United Kingdom (Simionescu & Doctor, 2017). Therefore, it is not surprising that an unstable environment in those countries had a huge impact on the overall FDI performance of developed economies. In particular, insecurities raised due to several factors, especially a mixture of the threat of Brexit in the UK and the "Trump factor" in the US have contributed to create a dubious environment that was not ideal for improving foreign investment.

Since Donald Trump took office in 2016, both developed countries' foreign direct investment outflows from and inflows to the United States have halved. It was not only the uncertainty caused by the image of the president himself but also the extreme protective and nationalism policies that he decided to enhance that contribute to increase the trouble of the domestic market. The so called "**Trump factor**" had an impact not only on the long-term relationship that US had constructed with international players but also on the ability of the country to attract inward foreign investment (Posen, 2018). Looking at the data of the US Bureau of Economic Analysis on the flows of FDI in the first quarter of 2018 compared to the same period of 2017 and 2016 a clear difference is visible. In the first quarter of 2016, the total inflow was $146.5 billion, in 2017 it was $89.7 billion, while in 2018 it fell down to $51.3 billion. This falloff is the result of a general decline in the attractiveness of United States as a location to start long-term business commitments. What drove the initial increase of FDI flows was a liberalization and favourable trade agreements and government policies: all these factors were lacking during this period.

One example of the changing attitude towards foreign investment concerns with the tax reform, the so-called Tax Cuts and Jobs Act (TCJA): it was aimed at encouraging U.S. firms to repatriate earnings, effectively sucking FDI out of foreign projects. The US Bureau of Economic Analysis (BEA) has reported that US multinational enterprises (MNEs) repatriated more than four times the amount of foreign affiliate earnings in 2018 than in the years preceding enactment of the TCJA: MNEs repatriated nearly $665 billion of foreign earnings in 2018 compared to $155 billion in 2017. As a result of the large repatriations, the flow of earnings reinvested abroad reported by the BEA was negative in 2018, which reflects the repatriation of previously accumulated foreign earnings. Nevertheless, the overall negative result recorded at the end of 2018 was not so high due to a M&A boom occurred in the last quarter (UNCTAD, 2019). TCJA made radical changes to the US corporate income tax, including a 14-point cut in the statutory rate and temporary full expensing of equipment investment (Matheson et al., 2022). A similar provision was enhanced in 2005, the Homeland Investment Act, which bring home two thirds of the foreign retained earnings; today the impact of the tax reform is higher due to the amount of funds available for repatriation, seven times larger than in 2005.

In sum, the uncertainty and hostile attitude towards globalisation and Community institutions demonstrated by two of the largest countries in the past and current global FDI scenario, are two early indicators of where the world economy is headed, and which are the main drivers of this development.

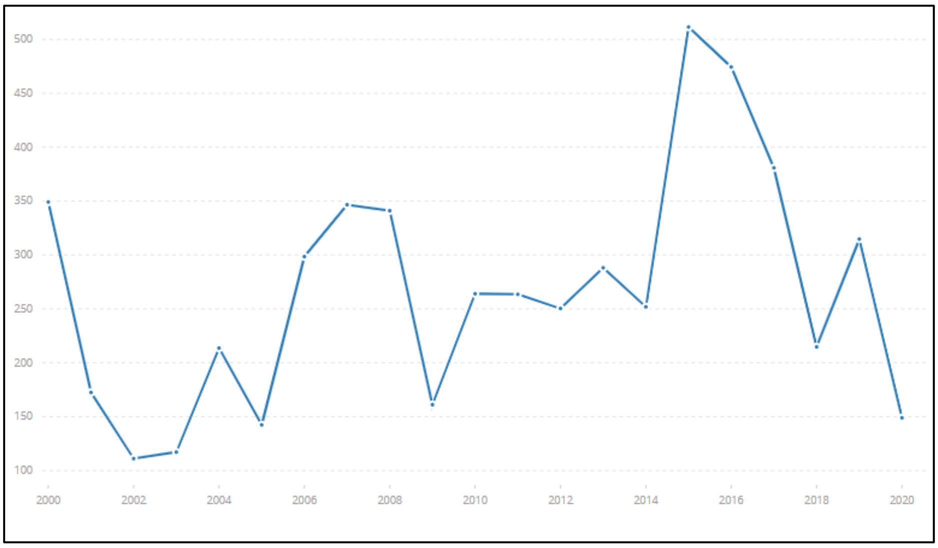

Figure 3: *Foreign direct investment, United States Net inflows (Millions of US$)*

Source: *The World Bank, 2021.*

1.5.2 Developing economies

A specific section focused on developing countries is worthwhile because they have considerably increased their importance and their influence on the international equilibrium.

While during past years, as mentioned above, developing countries were mainly destination of outflows foreign investment because of their low-cost workforce or due to the presence of specific natural resources; now their share of inflows FDI has reached consistently. In 2009 they constituted only 20% of global FDI outflows, this percentage grew up until 40% in 2019. One of the key drivers was the "China factor": more than 30% of the total investment flows came from China (Liming et al., 2020).

Despite the continuous increasing in the FDI flows concerning these emerging economies, the pace of their move out of the recessionary conditions was slower, similar to the one registered in the first decade of the new millennium (UNCTAD, 2017a). Two factors contributed to this situation. The first concerns with the commodity prices; as mentioned above the difference in procurement prices between emerging and developed economies was one of the factors that contributed to the growth of these commodity-exporting countries. The problem of these years was that oil and commodity prices are up but they still further below the highs they experienced during the boom years, leading to a less fulfilling result compared to the one recorded previously.

1.5.3 Emerging trends from 2016

According to the UNCTAD 2019 Report, three main themes characterize the economic environment and have significantly influenced companies' foreign investment choices. First of all, the pace and magnitude of adoption of key technologies which have reshaped international production. The second element relates to the political environment for trade and investment: it tends to adopt more interventionist and protectionist behaviour and shifting from multilateral policy frameworks to regional and bilateral policy frameworks. Thirdly, sustainability concerns play an important role in setting goals and restricting the configuration of international production and supply chain.

The implications for international production of technological advances, policies and sustainability concerns are multiple: they could be mutually reinforcing or moving in the opposite direction (UNCTAD, 2019).

The discussion in the following sections will began with a thorough analysis of the ongoing trends mentioned above, to gain a clear understanding of what the environment was like prior to the pandemic, and what were the forces that influenced and shaped the firms’ economic and political choices. Furthermore, the knowledge of these trajectories is essential to understand why resilience is now part of the management verb as a post-COVID recovery strategy.

1.5.3.1 New industrial revolution:

The New Industrial Revolution (NIR) or Industry 4.0 is a term initially published by the German government during the Hannover Trade Fair in 2011; it corresponds with the use of digital technologies in the manufacturing processes aimed at producing higher-quality goods at a lower cost (Senn-Kalb & Mehta, 2022). Moreover, Industry 4.0 refers to the diffusion of new digital industrial technologies so that production devices can be connected and interact each other, collecting and exchanging valuable information (Strange & Zucchella, 2017).

Even though developments in electronics and information technology have started in the previous Revolution (since the early 1960s), in this case the scope and the reliability is wider that they can be exploited reliably in production processes. Exponential speed and connectivity are two terms that try to describe the major differences between this revolution and the previous one: the velocity of development has no precedence in history, it was helped also by the level of interconnection between countries and subjects. This long-distance relationship has come with an enormous power of sharing information at a lower cost and time: it has enhanced companies to become more efficient along all their global value chains. (Schwab, 2016).

NIR technologies are heterogeneous in terms of technological scope, adoption across industries and technical and market maturity. They should be broken down into their main components: digitalization, automation and 3D printing. This ranking is based on the two major strengths that drive the NIR: the use of digital technologies in production processes (digitalization) on the one hand, and the employment of machines to replace physical labour (automation) on the other. Even tough, digitalization and automation work synergically to disrupt traditional patterns of production, their impact may differ and, in some cases, even push in opposite directions (van Tulder et al., 2018). 3D printing is actually an example of synergy between digitalization and automation that has specific implications for international production.

As pointed out by the UNIDO Report (2016), Industry 4.0 has the potential to improve productivity and competitiveness, increase the efficiency and effectiveness of energy and resources, and promote the environment by reducing waste and improving recycling. Despite the impact of Industry 4.0 in production, which is unprecedent but beside the point, it has been also a huge impact on how and why firms approach foreign market through FDI and where they decide to locate their investments. An example is that higher automation will lower the cost of production irrespective of the cost of the human workforce, therefore instead of a lower-skilled labour market, there may be an increase in the demand for higher-skilled labour (e.g., software specialists, mechatronics engineers, data analysts) (Strange & Zucchella, 2017). Furthermore, a close integration and communication throughout the overall GVC will lead firms to exploit these new technologies to increase their level of flexibility and implement risk management practices.

Although the pros of this Revolution, literature agree on existence of a problem of inequality which has arisen from the between developed and developing countries in their readiness in the adoption of these new technologies. There is a substantial gap between those two realities for what concern their digitalization level; as manufacturing processes are becoming gradually more digitalized and interconnected, those deficiencies in emerging countries can harm them in the adoption of Industry 4.0's technologies. A proof of this is the number of individuals a percentage of the country's population that has access to internet connection. As visible form the graph the division is enormous: OECD countries in 2020 have reached a percentage close to 90%, while the least developed countries didn't overcome the threshold of 30%. This difference will have a severe influence on the capacity of Industry 4.0 to reshape the FDI flows conformation.

Having said that, the changing in the global value chain configuration is going to modify the location and internationalisation determinants that have driven the firm's choice about their international projects. It is therefore important to understand which will be the trajectories that are going to arise from these new production configurations. They are taken into consideration in the following chapters.

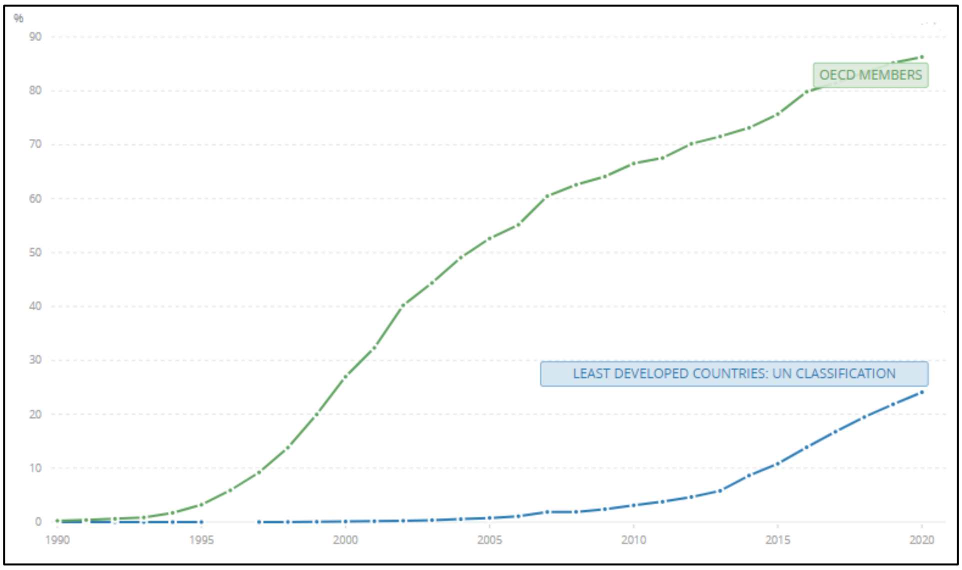

Figure 4: *Individuals using the Internet (% of population) - Least developed countries*

Source: *The World Bank, 2021.*

1.5.3.2 Government policies restrictiveness

The role of a state and its ability to implement certain policies is crucial as it is able to influence the nature of a country and its consequent ability to attract foreign investors. As mentioned above, the implementation of policies aimed at sustainable development (both in the environmental, social, and governmental sense) depends on the direction a government wants to take and the focus it puts on certain issues. Similarly, the level of digitalisation of a country and its subsequent level of development also depends on the policies being implemented.

Furthermore, for what concern FDIs in a broad sense, as happened in early 2000s, liberalization was one of the drivers that allow their huge increase: literature agree on the positive correlation between globalization and liberalized trade policies and the country's ability to attract foreign investors (Rathnayaka Mudiyanselage et al., 2021). However, in recent years, countries have moved from an economic approach of laissez-faire in many economies to an increasingly interventionist role on the part of the state. In particular, economies have improved their trade policies to protect their strategic interests from foreign investment: this alters the perspective of liberalization and globalization which characterized the previous decade (UNCTAD, 2019).

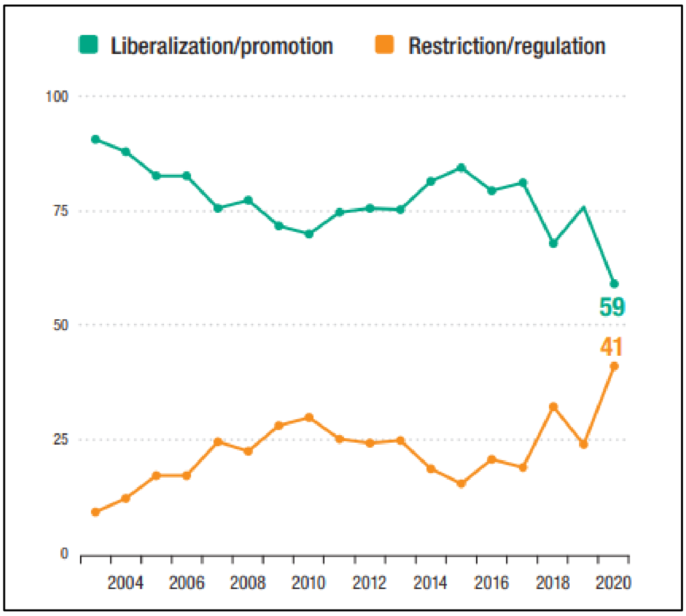

Figure 5: *Changes in national investment policies, 2003-2020 (Per Cent)*

Source: *UNCTAD Investment Policy Hub, 2021.*

1.5.3.3 Sustainability imperative

The concept of sustainability has become relevant in the internationalization decision-making process both because of the climate crisis and the customers' growing moral awareness, and their increasing attention regarding the origin and the environmental footprint of a product or a service. This trend has highlighted the need to adopt a strong sustainability position for the discussion and implementation of future sustainable development policies.

According to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Foreign direct investment (FDI) is considered as the principal means of financing the 2030 Agenda for Sustainable Development[2]. This instrument can contribute in several ways, such as bringing foreign exchange, contributing to skills and know-how expansion, technology transfer, increasing foreign exchange and competition in hot markets.

With regard to developing countries, FDI can only be used to foster sustainable development if the right conditions are in place. In particular, it is not enough to identify and prioritize investment projects associated with certain sustainable sectors, but there is also a need to put in place a supportive social and governmental environment that can maximize this sustainable development (ESCAP, 2019). Therefore, sustainability imperative needs to be analysed not only considering the environmental aspect but in a broader view, taking into consideration all the ESG dimensions: Environment, Society and Governance. There is no generally accepted definition of sustainable FDI, but according to ESCAP, it can be defined as an investment that generates sufficient profits to maintain effective business engagement without harming host country interests, while generating net positive benefits for the country's long-term development goals.

The following paragraphs take into consideration the three dimensions of the ESG concept and try to analyse how they can impact of FDI flows, starting with the environmental one.

While the positive relationship between foreign direct investment and economic growth is amply documented in literature, in recent time this debate has been extended to include the sustainability factor and trying to understand whether there is a correlation between the letter

[2] Signed on 25 September 2015 by the governments of the 193 Member Countries of the United Nations, the UN Agenda 2030 for Sustainable Development is an action program which sets out 17 Sustainable Development Goals. These seventeen targets aim to end poverty, fight against inequality, tackle climate change, and build peaceful societies that respect human right (Agenzia per la coesione territoriale, 2017)

and FDI. However, the link between FDI inflows destined for a country and its impact on the environment of the host economy is not so basic (ESCAP, 2019).

One theory that has attempted to describe the existing relationship between FDI and environmental pollution is known as "pollution havens". It refers to the possibility that multinational companies engaged in highly polluting activities will tend to relocate their companies to countries where environmental standards are lower and therefore where the cost of complying with relative regulations is lower (Smarynska & Wei, 2001). Given this theory, it is not surprising that a large proportion of these investments is directed to developing countries, which have consequently increased their share of FDI flows in recent decades (UNCTAD, 2006). The large increase in FDI inwards directed to developing countries, described in the previous paragraphs, can therefore be explained by this factor: to encourage globalization, these countries have increasingly liberalized their FDI regimes, as well as pushed back on sustainable development (Aust et al. in Singh & Kapuria, 2022). This tendency started to cause serious problems, and one of the main concerns of these emerging economies has become finding a balance between encouraging foreign investment policies and a supporting sustainable development (ESCAP, 2019). In his research Bokpin (2017) showed that FDI has a negative impact on environmental sustainability, however, when it interacts with a high-quality institution, a reverse toward a positive correlation is documented. Therefore, reforms to governance and institutions are required to anchor this enabling relationship in the context of environmental sustainability (Bokpin, 2017).

Taking into consideration the social dimension, the best investment is the one that not only is able to enhance the value of the business in economic terms but also contributes to a long-term social development (Singh & Kapuria, 2022a).

Considering the governance dimension, as we will be further discussed in the following chapter, literature agrees on a positive correlation between a good host country's institutional quality and FDI inflows (Singh & Kapuria, 2022a). Corruption and political instability are two of the most important factors negatively affecting the attractiveness of investments. city (Wei, 2000). Therefore, it is extremely important that a country government not only put attention on the level of restrictiveness of its policies but also and foremost on their quality

1.6 Conclusion

In conclusion, the key points of this chapter are that FDIs have a major role to play in the global economy: after their initial rise in the late 1990s, they started to become essential and instrumental to enhance both globalization and internationalization processes. Liberalization, technological development and increasing competition have been highlighted as the engines of this development of increasing importance of FDI. Apart from their inherent drivers (analysed in Chapter 2), FDI are exposed to the events and shocks that happen in the global scenario: once a major event, as the global financial crisis, undermines the economic equilibrium, FDI flows react accordingly.

Also, toward the discussion, another important point that has been highlighted is the process of shaping the global FDI map that has occurred over the past decade. Foreign direct investments have been a major driver in the evolution of emerging countries, helping them to exploit their inherent characteristics to attract foreign investors. Now, the current trend is towards a more conscious investment realized by exploiting the potential of new technologies and limited in the location selection by more restrictive government policies. In particular, these three trends that have arisen after the global financial crisis, have had a huge impact on FDI flows, nor in increasing neither in decreasing their value, but on the other hand, in redesigning their determinants and features. These variables are affecting companies' operations though a digitalization and automation of manufacturing process, governments behaviours towards foreign investors trough a more restrictive international approach, and customers perspective and preferences through a higher sustainability awareness. Having said that, companies should consequently align their internationalization and business strategies to these new trajectories. In summary what has changed is the companies' attitude towards the environment in which they operate, starting to take resilience as one of the drivers and decision-making determinants for their investments.

In conclusion, it is important to remember that the impact of those factors on FDI flows is not precise and unique: these variables are affecting foreign investments only indirectly through companies and population. They have played an important role in directing economic actors to reshape and restructure their traditional activities and behaviours and, consequently, they have contributed to change FDI's determinants and global configurations.

In the following chapter, the main location and internalization determinants will be analysed, then in the third chapter, the current trajectories mentioned above will be discussed, along with the effects of the COVID-19 pandemic, to describe the major ways through which businesses can recover.

Chapter 2
FDI: a theoretical framework

2.1 Introduction

Foreign Direct Investment, also known as FDI, has been central in the economic debate for a long time: they represent the clearest sign of globalization in the past decade and even today they continue to play a key role in the internationalization field. Before starting with a theoretical description of what FDIs are and what are the models that guide the firms' decisions about them, a brief introduction about internationalization may be worthwhile.

Literature is full of different definitions and views on the internationalization concept; however, in this thesis the formulation proposed by Johanson & Vahlne in their Uppsala model is followed. In particular, the internationalisation of a firm is seen as a process in which an enterprise increases gradually its international presence because of subsequent adjustments to changing conditions of the internal and external environment in which it operates (Johanson & Vahlne, 1977). Changing conditions imply the rise of new opportunities which can be grasped outside the national borders. Once one of these chances is identified a twofold decision must be taken: a firm has a set of available alternatives among which to choose, and FDI is just one of these different options (Franco et al., 2008). As soon as the previous call is made and the firm has chosen how to go international, it is crucial to decide where to locate the investment: taking the so-called location choice.

Therefore, there are two sets of variables that the focal entity must analyse and consider: the internalisation determinants which are those factors that guide the firm in deciding which of the viable alternative is the best way to undertake become international; the location determinants that help in figure out where to place a such investment. The components of those groups will be further discussed in detail in the following paragraphs.

In particular, the discussion begins with a pure theoretical paragraph that highlights the most important definitions and typologies of FDI; secondly, the primarily theoretical models on internalisation and location determinants will be presented, focusing on how those models can be adapted to today's environment to help firm shaping their internationalization decisions.

2.2 Definitions and typologies

According to the Organization for Economic Co-operation and Development (OECD) a foreign direct investment (FDI) is a cross boarder investment with the objective of establishing a lasting interest that a company in one country may have in an enterprise operating in another country. Lasting interest implies a significant degree of influence on the management of the enterprise along with building a long-term relationship between the corporate pursuing the investment, the direct investor, and the entity operating in the foreign economy, the direct investment enterprise. According to the OECD and the International Monetary Fund (IMF), ownership of 10% of voting power by foreign investors is evidence of such a relationship: this percentage is the dividing line between foreign direct investment and a portfolio investment[3].

FDIs are considering a good means to persecute the internationalization and integration process and they are able to provide benefit for both developed and developing countries. In a nutshell, FDIs can help countries to offset the so-called saving investment gap[4] by bringing foreign investments into the national borders and overcome possible gaps in management, technology, entrepreneurship, and skills.

2.2.1 Components

Direct investment involves both the initial transaction establishing such relationship and all subsequent capital transactions occurring between the subject involved and among incorporated and unincorporated affiliated enterprises. In particular, Foreign Direct Investment has three components:

- **Equity capital** is the foreign direct investor's purchase of shares of an enterprise located in another country, assuming control over its assets (UNCTAD, 2007). As previously mentioned, a 10 percent or more equity stake is normally considered as the threshold for having this type of relationship.

[3] Portfolio investment is defined as cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets (International Monetary Fund).
[4] According to the Economic and Social Commission for Western Asia, saving investment gap commonly refers to the deficit between current aggregate savings and the level of savings required to provide funds for business investment.

- **Reinvested earnings** comprise the direct investor's share of earnings not distributed as dividends by subsidiaries or affiliates, and earnings not remitted to the direct investor. Such oversea retained profits are therefore reinvested.

- **Intra-company loans** or **intra-company debt transactions** refer to short- or long-term borrowing and lending of funds between the parent enterprise and the direct investment companies.

2.2.2 FDI classifications

Foreign Direct Investment is a broad and non-homogeneous concept and for this reason, it may be appropriate to give a short presentation of its main type, before explaining its theories (Hansson et al., 2004). There are four main dimensions that could be considered to classify FDI: the nature of the underlying business, the motive, the entry mode, and the measurement criteria.

First of all, FDIs can be broken down considering the nature of the business in which the direct investor and the direct investment entity operate:

- **Horizontal FDI** occurs when a company is investing in the same business abroad that it operates domestically. It is like a geographical diversification, and it is a quick strategy to establish a competitive advantage in the host country exploiting the know-how about the production process performed at home, duplicating the manufacturing phases. They are categorized as market seeking investments because the main purpose is to penetrate in a new market in order to reduce costs related to transportation, cultural barriers, tariffs, etc.

- **Vertical FDI** takes place when a company is investing in activities along the firm's existing value chain, either a supplier or a distributor. In another words, it is a geographical decentralization of the firm's production value chain, where foreign subsidiaries located in low-cost and labour-intensive countries manufacture products that are then shipped back to high-wage countries (Bjorvatn et al., 2001). By definition, therefore, they are low-cost and efficiency seeking investments.

The second way to classify FDI follows a **motive-based view** (Rahman & Semenovskiy, 2022):

- **Resource seeking**: whether the attempt is to acquire a particular resource(s) at a lower real cost than could be obtained domestically. This is particularly true in sectors such as oil, natural gas, metals, etc. By definition and considering the historical FDI flows, this type of FDI is more likely to be directed towards EMEs which have abundant natural resources (Asiedu, 2013).

- **Market seeking** foreign direct investment attempts to secure market share and reach economies of scale in the promising foreign markets. Following this perspective, inward FDI should tend to be positively correlated with the size of the host country's economy and its potential in terms of economic growth (Nielsen et al., 2017).

- **Efficiency seeking** when investments are aimed at taking advantage of differences in the availability and costs of factor endowments, of the possibility to exploit economies of scale and scope and take advantage of discrepancies in consumer preferences. This type of investment is therefore generally directed towards developing countries with large supplies of cheap labour force (e.g., China and Vietnam) (Nielsen et al., 2017). In today's economy, a particular category of efficiency seeking FDI is referred to as "technology seeking" FDI: in this case the attraction of the location is not necessarily the low cost of labour, but rather the existence of a unique competence (Bjorvatn et al., 2001).

- **Strategic asset seeking** whether the aim is to access new, complementary resources and capabilities to improve or expand the existing labour, technological or managerial skills. As opposed to the previous case, this type of investment is expected to be directed to advanced economies: for example, in the EU, the technological level of progress represented one of the drivers of FDI inflows. acquire a specific asset of a foreign firm (Villaverde & Maza, 2015).

Thirdly, FDIs can be achieved in a twofold way based on the entry mode:

- **Greenfield investment:** A company can set up new factories and plants from the ground up. The direct investor creates new productive infrastructures in a place that has been unused before, trying to increase the production capacity in the host country. Greenfield Investments are primarily motivated by the desire of the focal entity to exploit its competitive advantage abroad, pursuing economic activities that are similar and complementary to those already performed domestically by the parent company (Carril-Caccia & Pavlova, 2018).
- **Acquisition:** it is a typology of investment that consists of the acquisition of an existing enterprise in the country of interest. This second option is further less expensive than the previous one because it doesn't imply constructing a new manufacturing plant from scratch; at the same time, it bears a percentage of risk regarding the possibility of fully exploiting the acquired infrastructures and their compatibility with the existing production system. The main objectives that drive this kind of investment concern increasing the market share by acquiring a competitor, exploiting synergies between the parent and the target entity and/or internalizing specific assets owned by the target company (Davies et al., 2018).

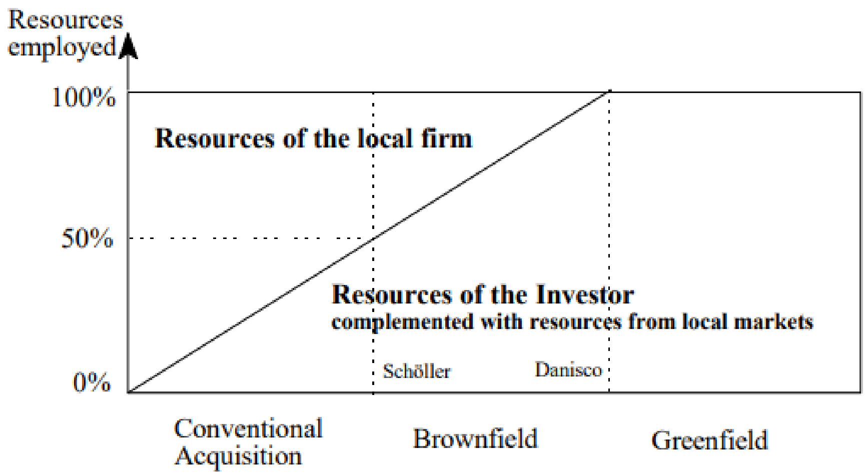

Figure 6: *Origin of resources employed in alternative entry modes.*
Source: *Greenfield et al., 1999.*

Greenfield et al., 1999

What differentiates these two typologies is the origin of the resources invested: in a greenfield project, as suggested by Figure 2.1 all the necessary funds are coming from the direct investor, while in an acquisition case the resources are coming from the local firm.

This is a clear distinction only in theory because in practice, what at the beginning is a simple acquisition may become a greenfield project due to the necessary injections to align the acquired business/infrastructure with the existing one: this brings to the existence of a third category which is a mix of the previous two, called the brownfield investment. A brownfield FDI is a foreign entry that starts with an acquisition but builds a local operation that uses more resources from the parent firm than from the acquired firm (Greenfield et al., 1999).

Furthermore, the fourth dimension of classification concerning the measurement according to which the notion of FDI can be analysed as a stock or as a flow. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor (UNCTAD, 2017b). According to the OECD, Foreign Direct Investment flows[5] record the value of cross-border transactions related to direct investment during a given period of time, usually a quarter or a year. Depending on the "direction" of the investment, FDI could be classified as outward or inward flows. As stated in the UNCTAD Training Manual on Statistics for FDI and the Operations of TNCs (2009), in order to better understand this difference, it must be set country, the "reporting economy" which is separated from other economies. That said, inward FDIs are those flows of money that come from a non-resident investor in the home market of the so-called reported country; on the contrary, outward FDIs are flows of capital that an agent inside the reported country utilises to invest in other economies.

[5] Financial flows consist of equity transactions, reinvestment of earnings, and intercompany debt transactions (OECD).

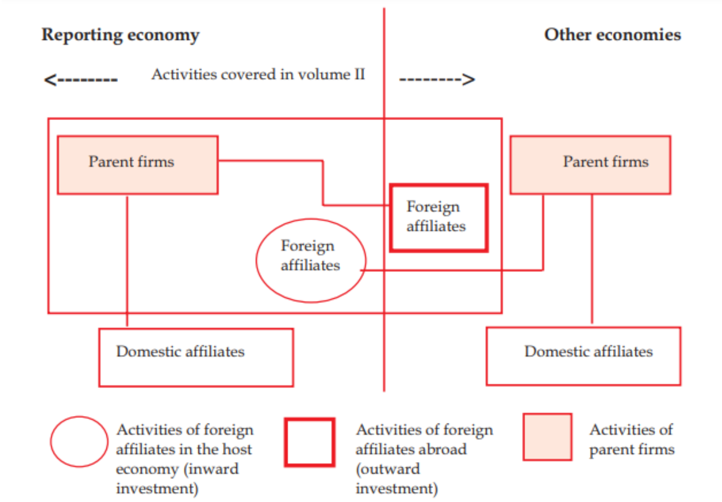

Figure 7: *Explanatory graph of outward and inward FDI flows.*

Source*: UNCTAD, 2015.*

On the other side, Foreign Direct Investment (FDI) stocks measure the total level of direct investment at a given point in time, usually at the end of a quarter or of a year. Even in this case, the definition can be further broken down considering the "course" of the stock. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies; the inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy[6].

[6] Definitions provided by OECD dictionary

2.3 Theoretical models

After a general introduction of what FDIs are and a brief definition of the main typologies of this internationalization instrument, this section focuses on the main theoretical models. The letters are helpful to identify the main motivations behind the choice of Foreign Direct Investment as internationalization instrument among other available alternatives and to highlight which are the main variables to be considered when deciding the location(s) of such investment.

Various theories have been developed since 1960, trying to explain FDI's patterns and pointing out several determinants both macro and micro. Even if the factors concerning both internationalisation and localization decisions strongly depend on the kind of opportunity the firm is pursuing, there are models that try to delineate a framework to be followed.

2.3.1 Internalisation determinants

As mentioned in the previous section, the premise of the discussion is that FDIs are just one of the possible alternatives that a firm has to develop its business internationally. Therefore, following the definition proposed by Franco et al. (2008) the term internalisation determinants include all those factors that shape the set of available internationalization alternatives. In particular, in the following discussion, the focus is on those drivers affecting the decision to engage in FDI.

Over the years, a lot of models have been trying to explain what those internalisation determinants look like and how they are working, nevertheless, there is not a unique accepted framework: each firm has several aspects to consider depending on the nature of its business and the entity-specific necessity that has to face. Despite this, the so-called Eclectic Paradigm theorized by Dunning is one of the most famous models in this field which tries to explain the decision-making process in internationalisation choices. Analysing the OLI framework should therefore be useful to highlight some of the drivers that push companies to engage in FDI.

2.3.1.1 The Eclectic Paradigm

The Eclectic theory or OLI model which stands for Ownership-Location-Internalization was first conceptualized by Dunning in 1976 and further developed in a series of publications (Dunning 1980, 1981, 1988, 1992) and it could be seen as a method for analysing the level of attractiveness of making a foreign direct investment.

According to the Author, and as the name suggests, there are three main factors that drive a firm's internationalization choices: firm-specific advantages also known as ownership advantages, location advantages, and internalization advantages. Depending on the existence of only one, two, or all three advantages, a firm has different suitable options among which to choose to internationalize its business. The image below summarizes the available alternatives for the four possible conditions.

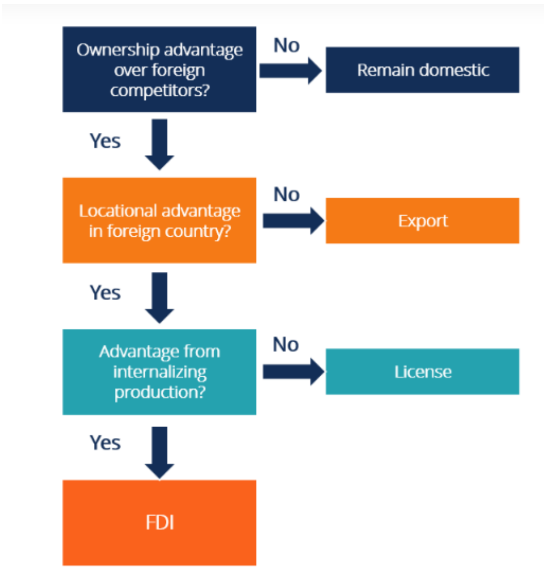

Figure 8: *The OLI Model decision-making process*

Source: *Corporate Financial Institute, 2022.*

As it is shown, a company needs all three advantages to be able to successfully engage in a Foreign Direct Investment; if one or more of these advantages is not present the focal company may opt for one of the other available options.

The premise at the foundation of the model is that undertaking an outsourcing strategy only makes sense, financially speaking, if the contracting company can comply with the company's policies, standards, and quality requirements at a significantly lower cost compared to the in-house situation. The higher the difficulty of the transaction and the higher the costs to be incurred; the maximum is reached in the FDI case and therefore, as expected, a company has to hold all three advantages to perform conveniently.

Specifically, the essence of the eclectic theory is that the O, L, and I advantage interact to produce a rich explanation of the patterns of overseas FDI at industry level (Rugman, 2009).

Ownership advantages

As visible from the image above, according to the economist who theorized the model, this is the only category that is strictly essential for an entity to exit the national borders. The motive is that every internationalisation strategy comes with some costs and a company needs an ownership advantage to overcome this "liability of foreignness". The letter is the inherent disadvantage that foreign firms experience in host countries because of their non-native status: it could range from language barriers to lack of knowledge about the local customer base. Therefore, it is essential for the focal entity to possess at least these ownership advantages with respect to the local competitors to be able to cover these additional expenses.

These benefits are related to the proprietorship of resources, information, and in general the ownership rights of a company, such as marks and rights. Ownership advantages are, by definition, merely intangibles but they need to be quantified in order to understand if they are enough to support the internationalization of the firm's business. Therefore, what can be measured is the subsequent competitive advantage that derives from their exploitation: it is imperative to understand whether the competitive advantage that can be transferred abroad is enough to offset the value of liabilities arising. Obviously, the answer to the previous question should be yes in order to prove the convenience of internationalizing the business.

Location advantages

Location advantages are those nation-specific benefits that a firm can assess only by performing its business in a certain place. Typically, these advantages include natural or manufacturing resources, but they can be related also to lower taxes and tariffs or to access transport routes. Therefore, the second important question that the manager of the focal firm should ask herself is whether there are any of these location advantages present in the target market. If the answer is no, it could be convenient for the company to keep the production domestic and export the manufactured products instead; if the answer is yes, it could be convenient to relocate the production outside the national borders and the most convenient way to that depends on the following aspect.

Internalization advantages:

According to Dunning, the existence of market imperfections[7] makes it more convenient for a company to internalize its value chain activities rather than externalize them to the market. However, the choice among those two modes of governance depends on so-called internalization advantages: the benefit of an in-house (acquisition) solution versus that of a market or contractual (network) solution. (Kristjánsdóttir & Margeirsson, 2019).

In this latter case, the optimal solution is a licensing agreement or outsourcing the production to an Original Equipment Manufacturer (OEM), in order to take advantage of lower costs, better skills, specific know-how, and knowledge about the local market. On the other hand, if it is more convenient to keep control over the activities and perform them in-house, the ideal instrument is foreign direct investment: internalizing value chain activities through joint ventures with local partners or establishing a wholly owned facility. This solution allows the company to have the value chain activities performed by exploiting the existing team.

[7] Inherent characteristic of the market such as the uncertainty of the environment, the agents' opportunistic behaviours, etc.

2.3.2 Location determinants

Proceeding in the discussion, after having introduced why a firm should choose FDI as an internationalization instrument, the second important question to be asked is where to place this investment to maximize the return and, above all, which are the variables that can influence this decision.

The existence of large differences in the distribution of FDI inflows not only at national but also at the regional and global level has initiated numerous studies on the location determinants. An extensive knowledge of the manner in which multinational corporations choose a location for investment is essential to explain these differences in inward FDI flows, but it is also useful to enhance adequate policies in host countries (Petrović-Ranđelović et al., 2013).

It is important to consider that this choice couldn't be driven only by the aim of obtaining more favourable conditions from the selected country: the main driver should be the possibility to integrate fully the domestic existing business and the external new value chain (Dejong et al., 2010). In the end, the existing business should get out strengthened thanks to the synergies with foreign investments. In a nutshell, in my own words, a company has to compare the available location doing a weighted average considering all the attributes that make these destinations attractive, and weight them considering the importance that these factors play in the business internationalization strategy.

A useful theoretical framework to understand the decision-making process behind the localization strategy of a firm is the one conceptualized by Caroli in 2000. Figure 2.4 synthesizes the author's view about the main variables that a company considers or should consider of a possible location in order to pick the best option.

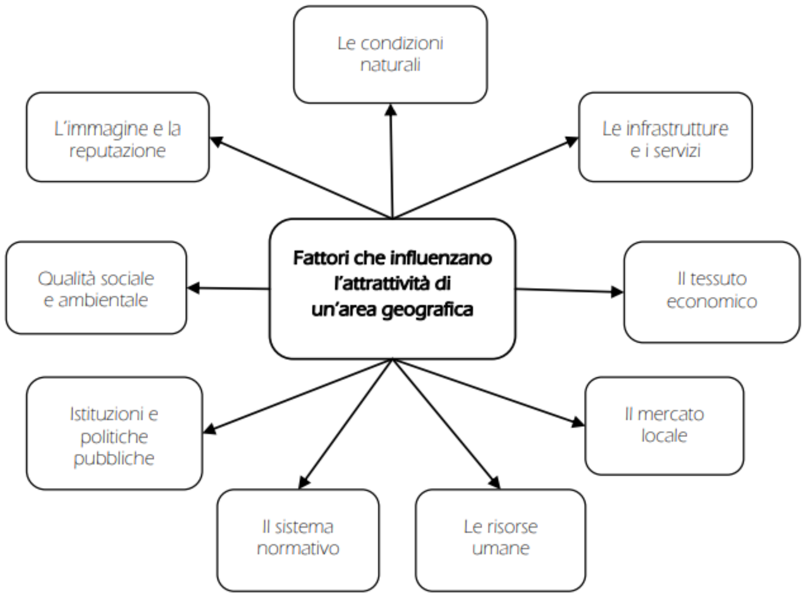

Figure 9: *Factors influencing the attractiveness of a specific geographical location according to the Cairoli model.*

Source: *Caroli, 2000.*

As mentioned before, an important premise of the following discussion is that a good internationalization strategy should include the enhancement of the existing domestic business through the synergies arising from the foreign business, it is imperative to consider this framework as firm specific. Each entity has to evaluate subjectively the importance and the possible impact that each of these variables may have. Furthermore, it is important to consider that each of these factors will evolve according to the interaction with the direct investor's business, and it is imperative to consider this change in the decision.

2.3.2.1 Natural conditions

Natural conditions are the intrinsic characteristic of a place such as the presence of natural resources, the weather, the population patterns, etc. They represent, in a way, the first conditions that influence the final localization decision. Surely the globalization process has decreased the importance of such factors: countries are much more interconnected and transporting resources from one site to another has become easier and faster. Nevertheless, today's increasing attention on sustainability with the imperative to take actions to fight the climate crisis and the logistics problems raised with the Pandemic that persist due to the uncertain geopolitical environment has highlighted new issues and has posited the necessity to rethink the global value chains. Therefore, the advantages connected with the proximity the natural resources and the independence from the trade restrictions policies, have regained importance.

2.3.2.2 Infrastructures and services

The term “infrastructures” refers to the stock of investments made in a specific place; it needs to be adequate and large enough to sustain the economic and manufacturing environment. Even in this case the specific infrastructures that are considered essential are changed over the years. The digitalization and automation process has lowered the production, governance, and transaction costs in developed countries (UNCTAD, 2020); therefore, companies tend to value more factors such as the presence of good universities and a solid education system which are the premises and the synonymous of high skilled workers (Blonigen, 2005). Moreover, also communications systems and digital infrastructures have increased their importance in the scale of variables to be considered: be connected is essential in today’s economic environment.

2.3.2.3 Economic framework and local market

For what concern the economic environment, the main variables to be considered are the accessibility and the availability of the inputs necessary in the production process. Therefore, suppliers’ characteristics and infrastructure (financial and logistic systems) have to be (are) under the length. Having a shorter supply chain with the main suppliers located near the manufacturing plants leads to speed-up the procurement process together with a transportation costs reduction; moreover, a closer relation, geographically speaking, may increase the coordination and allow the exchange of know-how.

Similar reasoning may be done for the local market: having the target customer closer to the firm can bring benefits related to cost and time cutting. Moreover, it is possible to improve the knowledge about the customers and try to develop the product/service accordingly.

2.3.2.4 Human resources

Human resources have to be evaluated both in terms of quality of the possessed know-how and also in terms of availability, the amount of supply is important because it implies a larger possibility of specialization. Besides the quality and quantity of available workforce, the cost of labour, the productivity level, and other economic indicator need to be analysed.

According to UNCTDA, MNEs, mainly from developed economies, have offshored many production processes over the last 30 years to exploit lower labour costs. Labour cost arbitrage has been one of the major forces shaping modern patterns of international production. Nevertheless, the spreading of automation mainly through industrial robots has reversed this trend. The fact that also developed countries can produce at a reasonable cost by exploiting new technologies is reducing the relative convenience of delocalizing the manufacturing process.

2.3.2.5 Public institutions and policies

Since the late 1990s economic literature has focused on institutional quality as a crucial factor in explaining differences in development between countries. Moreover, research such as the one by Nielsen et al. in 2007 points to good institutions, in terms of quality, as the driving force of increasing FDI inflows due to the fact that, low institutional quality implies a higher cost of doing business and higher transaction costs (Dunning, J. 1993)

In particular, the quality of an institution can be measured by considering on one side the actions put in place to favour or obstacle the arising of economic opportunities and the attraction of foreign investment; on the other side, considering the general interventions that have an impact on the overall social environment in which a firm would operate. Starting from the latter, authors such as Bénassy-Quéré, A. et all (2007) and Wei, S. (2000) pointed out respectively the correlation between a high level of corruption and bureaucracy and a high degree of instability with a decline of FDI flows, given the implied extra cost and the perceived uncertainty of the general framework.

The former aspect, concerning the ability of a country to be appealing, has gained importance over the years due to the increasing regionalist view of some of the most important economies in the world. Over the past few years, there has been an increase in countries' interventionist tendency trying to protect local business reducing the competition coming from outside the borders. New investment restrictions or regulations often reflect concerns about national security and foreign ownership of strategic assets; several countries have considered new

screening and monitoring systems, related in particular to those sectors which are considered as central in the specific country economic framework such as financial services, telecommunication, electronics, biotech, and even agriculture (UNCTAD, 2020). The Covid-19 crisis, as will be deeply analysed in the following paragraph, has increased the attention over the production of medical supplies and devices, which has become crucial for every country.
As would be expected, this propensity towards nationalism has had an impact in terms of FDI stock as mentioned in the previous chapter.

2.3.2.6 Social and environmental quality

As time goes by, the degree of importance related to these two categories has been rising profoundly, especially hanks to increased pressure coming from the citizenry and stakeholders. The so-called ESG (Environmental, Social, and Governance) criteria have gained a central role in the social and political debate as more investors are recognizing the importance of these factors as part of the investment decision-making process (Chipalkatti et al., 2021). The economic framework has been influenced too, and, as a consequence, companies have changed accordingly the way they operate abroad and their GVCs configuration.
The number of policies to monitor those aspects have increased profoundly in the last few years, in particular it is the environmental pillar that seems to drive broader changes in international production configurations (UNCTAD, 2020).

A recent McKinsey report suggests that ESG factors are driving investment value for portfolio investors highlighting three main motivations: enhance returns, strengthen risk-management for ESG issues, and align the priorities of different stakeholders. For the time being, this correlation is proved only with regard to portfolio investments and the authors didn’t find the same statistical relation regarding FDI. Nevertheless, the increasing social importance of this factor will also increase the capacity of ESG to become a factor in attracting foreign investments (McKinsey & Company, 2017).

2.3.2.7 Image and reputation:

The image and the reputation of a country influence the perception that a consumer has about products/services manufactured in it. The so-called *Country of Origin* effect represents how a manufacturing place can become an indicator of the intrinsic quality and value of a specific product that is manufactured in it (Vianelli & Marzano, 2012). Therefore, the perception of a country is an influencing variable in the decision-making process of a customer and can lead her to buy or not. The fact that a product is produced in Italy for certain customers is a synonym of high quality and artisanship, different values from the one recalled by the “made in China” effect. This effect is not transferable, it is intrinsic in a specific country; therefore, it is important to choose well where to locate the FDI in order to exploit this “brand” advantage.

2.4 Conclusions

Given today’s critical economic and geopolitical scenario, one of the key drivers of FDI location may become resilience, using this internationalization tool as an instrument to protect the business from market shocks. Later in the thesis, the concept of resilience as strategic response to environmental uncertainty will be deeply analyzed. briefly, nowadays the main issue of every firm should be to ensure that the business infrastructure is as much flexible as possible, in such a way that the entity will be prepared to tackle with future shocks.

The models proposed in the previous section were conceptualized years ago and since then a lot has changed in the international environment. New trends have been emerged and have revolutionized the today economic environment, such as the focus on sustainability, the regionalization attitude of some of the most important developed countries, and the so called New Industrial Revolution. All of them, matched with the today geopolitical shocks, are creating a “perfect storm” which is shaping the firms’ decisions about their global value chain and international presence. It is therefore of the utmost importance to understand which are the emerging trend in the market to try to be aware of the direction of the future FDI flows. The next paragraph is addressing this topic focusing on the recent shocks, the ongoing trends, and the impact of the formers on the letters.

Chapter 3
The covid-19 impact

3.1 Introduction

At the start of a new decade, the global system of international production is experiencing a perfect storm, with the crisis caused by the COVID-19 pandemic arriving on top of existing challenges arising from the new industrial revolution (NIR), growing economic nationalism and fragmentation, and the sustainability imperative.

The discussion began in the first chapter with an overview of the development and distribution of FDI flows over recent history and a description of current trends raised in the pre-Pandemic scenario. In this section the aim is to bring together the previous analysis and the COVID-19 consequences over the economic and geopolitical environment.

The initial point is a discussion of the timeline of the COVID-19 pandemic spreading in the global scenario. Next, an analysis of the key impacts of the COVID-19 crisis on global FDI flows, the balance between international supply and demand, and global value chains. Internationalization process has brought nations to be strictly connected to each other, increasing the possibility of a domino effect of a crisis in one country to the rest of the world. Having said that, it is interesting to understand how a health crisis started in a Chinese city and triggered a chain reaction involving the entire global economic scenario.

Afterwards, to provide a complete picture of the global scenario in which firms have enhanced their reaction strategies, it is provided a brief overview of the additional shocks that characterized the recent and today's scenario. Especially a description of the impact of the war in Ukraine and the recent energy crisis.

Then, after a general overview of the post-pandemic world, the analysis continues takin into consideration the ongoing trends previously mentioned, in order to understand how they interact with the today's environment creating a "new normality". Specifically, the last section aims to describe the economic, social, and political framework that has characterized the post-COVID-19 world. It will be functional to the discussion of the next chapter centred on the managerial and strategic trajectories at the disposal of companies for a sustainable recovery.

3.2 COVID-19 diffusion

3.2.1 The timeline

COVID-19 is a respiratory disease caused by SARS-CoV-2, a coronavirus discovered in 2019. It spreads primarily from person to person through respiratory droplets produced by an infected person coughing, sneezing, or speaking (CDC, 2022).

The coronavirus disease (COVID-19) pandemic is unquestionably one of the most important global events in the recent history, it has had profound repercussions on the world and on every aspect of people's lives. This was really the first worldwide pandemic since the so-called Spanish fuel in 1918; since then, the economic scenario has experienced "only" diseases like Ebola, and HIV/AIDS. Previous literature has demonstrated the negative effects of these latest shocks on FDI (Asiedu et al., 2015), however, they did not stop global production, so having said this, their effects were not comparable to those observed in the post-COVID-19 environment. The coronavirus has completely disrupted global value chains due to the devastating but necessary precautionary actions strengthened by governments. In October 2020, a joint declaration by four international organisations (International Labour Organisation, Food and Agriculture Organization, International Fund for Agricultural Development, and the World Health Organization) described the economic and social disruptions caused by the pandemic as “devastating”.

Coronavirus disease was first reported in Wuhan (People’s Republic of China) in December 2019 and since then it has spread worldwide. To prevent and control the pandemic, China has decided to implement strict quarantine measures from the outset, such as the complete containment of all infected individuals. That said, on October 23, 2019, the first mass lockdown in history begins, with 60 million people in Hubei province entering severe lockdown (Banfi, 2020).

Since February 2020, the epicentre seems to have shifted from China to Iran, Italy, then to Spain, France, the United Kingdom and finally the United States. It was the beginning of the first devasting wave: states, such as Italy, have begun to implement strict containment measures to try to contain the virus. On March 11, after more than 118,000 cases in 114 countries and 4,291 deaths, the director of the World Health Organization, Tedros Adhanom Ghebreyesus, characterized COVID-19 as a global pandemic: the highest level of health emergency (Sencer, 2022).

Since then, the emergency has become a global health and economic crisis and, in April, attention was focused on the United States, where a growing number of infections were registered (Jackson et al., 2021). Suddenly, on April 10, 2020, with over 18,600 confirmed deaths and more than 500,000 confirmed cases in under four months, the U.S. became the country with the most reported COVID-19 cases and deaths, surpassing Italy, and Spain (Sencer, 2022).

In May 2020, the situation was as illustrated in Figure 3.1, with almost all countries in the world reporting officially confirmed cases of COVID-19. In particular, the United States of America ranks first regarding the most confirmed cases of COVID-19 worldwide. Russia took over from Spain and has now the second highest number of officially confirmed cases; the third place is occupied by the UK which is the most impacted European country (Oloruntoba et al., 2020).

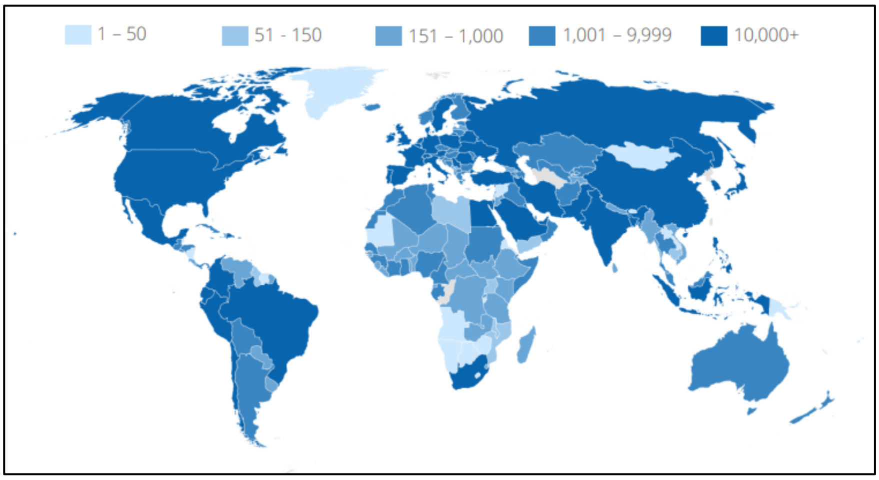

Figure 10: *Total number of officially confirmed cases by country as of May 14, 2020*

Source: *Statista Mobility Market Outlook 2020.*

The number of cases continued to raise even in the following year: on February 8, 2021, the numbers of the world's total infected cases reached 106 million, while the number of deaths were 2.32 million (Fang et al., 2021). In mid-September 2021, more hazardous variants of the virus began to spread, particularly the Delta variant, which is more globally dominant. This force governments to enhance additional protective measures (Jackson et al., 2021).

Global efforts by governments and organizations to speed up the development of effective vaccines have been successful and a variety of vaccines (eg, Pfizer and BioNTech, Moderna, Sinopharm, etc.) have been produced and distributed. By the end of February 2021 more than

250 million people have received a dose of the vaccine against the COVID-19 virus (Tatar & Wilson, 2021). Evidence has shown that the spread of the vaccination campaign helps countries contain the diffusion of the virus and the negative impacts of new variants.

Entering the third year (2022) of the coronavirus pandemic, more than 621 million people have been infected and the virus has killed more than 6.5 million globally (Bloomberg, 2022). However, the advanacement of the vaccination campaign massively decreased the death ratio, allowing countries to reduce the restrictive measures and the global economy to start a recovery path.

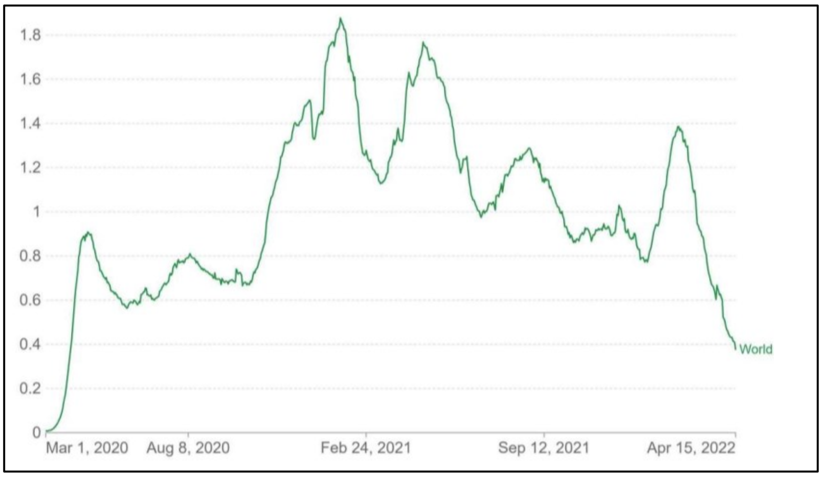

Figure 11: *Daily new confirmed COVID-19 deaths per million people*

Source: *Johns Hopkins University in Our World in Data, 2022*

However, even before the virus infected millions of people across the globe, this shock spread from Chinese production and consumption to the global economy as a result of the "contagion of the supply chain" (Baldwin and Tomiura, 2020, and Gerschel et al., 2020). Over the years, internationalisation has led to strong inter-country interconnection in the global scenario, strengthened by the presence of instruments such as foreign direct investment. Thus, a global pandemic that began in a strategic and central country like China, not surprisingly, had a domino effect on the global economy. The following sections are going to deeply analysed the impact of this unprecedent crisis on FDI, on the global demand-supply equilibrium and on global value chains (GVCs).

3.2.2 The effects of COVID-19 on FDI

The COVID-19 pandemic had a significant impact on all types of FDI and all regions and industries in 2020. Global foreign direct investment (FDI) flows fell by 35 per cent in 2020, reaching the lowest level since 2005. The impact was even 20 per cent worse than the one in 2009 after the global financial crisis (UNCTAD, 2021). Forced lockdowns in response to COVID-19 had a substantial effect on demand-supply equilibrium and, the prospects of a recession led firms to rethink their investment plans. These measures increase pre-investment survey costs, site, and worker research costs, and FDI operating costs. (Hayakawa et al., 2022).

Therefore, the fall in FDI was huger and sharper than the fall in GDP (- 3.1 per cent) and trade (- 7.9 per cent): the main reason may be found in the slowdown in both merger and acquisition deals and greenfield projects. Especially for the cross-border M&A the decline was huge in the first half of 2020 while in recent quarters the recovery has started, with an overall decrease of 13 per cent in number and 6 per cent in volume in 2020. On the other hand, taking into account greenfield projects, as mentioned in the first chapter, they have registered a downturn trend since 2018, but it has become steeper after the global spreading of COVID-19. They have trended downwards throughout 2020 with a total of minus 29 percent in number and 33 per cent in volume (UNCTAD, 2021). The growing uncertainty in the overall scenario and the liquidity constraints resulting from the economic and financial crisis have led companies to rethink their internationalisation strategies. As a result, many FDI projects were delayed or even cancelled.

The decline in FDI inflows mainly affected investment in value chain-intensive activities, tourism, and resource-based activities. Primary and manufacturing sectors were therefore seriously touched by the crisis both for what concern M&A deals and greenfield projects. The former fell by 31 per cent; while the aggregate value of the greenfield FDI in these sectors drop of $11 billion, representing less than 2 per cent of the total, while in 2003 it seized 24% (UNCTAD, 2021).

The impact of COVID-19 on FDI flows trends have varied greatly from one region to another as a result of economic and geopolitical factors; therefore, it is interesting to analyse the effects in a geographic and maturity perspective. Taking into consideration developed countries, FDI inflows fell by 58 per cent. This significant decline is due to a sharp decline in cross-border M&A, normally the most important type of FDI in these markets, which fell by 11%; moreover, greenfield projects registered an overall minus 16 per cent. In addition, with respect to the outward FDI flows of these economies, the decline was significant.: minus 56 per cent.

Their share of global outward FDI dropped to a record low of 47 per cent. Major economies were hit by the pandemic, with the US recording a 40% decline in FDI inflows and foreign investments from and to European countries plummeted by 80 per cent (UNCTAD, 2021).

On the other hand, foreign direct investments to developing countries decreased less significantly, by only 8 per cent; while FDI outflows declined by 7 per cent. FDI flows in Asia have been fairly stable over the past five years, and during the pandemic, they have trended more resilient, with an even 4% increase from 2019 to 2020 (Almarzooqi, 1994). In particular, China and India accounted for a large share of this good performance: Chinese FDI markets rose 5.7% while India rose 26.7%. (UNCTAD, 2021). However, even if the decrease recorded was lower, foreign investors started to shift their preferences towards more stale and structured markets; therefore, the value of greenfield projects in emerging markets fell significantly. The hardest hit region was Africa with a drop of 65 per cent, followed by Latin America and the Caribbean which recorded a 51 per cent decrease, thirdly Asia with a drop of 36[8] per cent (Koçak & Barış-Tüzemen, 2022).

As happened in the previous crisis three of main trajectories through which the crisis impacted on FDI were economic growth, liquidity constraints and economic instability. Starting from the bottom, as already mentioned, uncertainty affects investment attitudes in a negative way. The pandemic brought out the importance of economic and environmental stability in attracting foreign investment, and COVID-19 disrupted the previous balance, dramatically raising the global level of doubt over the future. With the start of the vaccination campaign, this pessimistic attitude became more optimistic, but it only occurred at the beginning of 2021 (Koçak & Barış-Tüzemen, 2022). The perceived level of uncertainty differs significantly between developed and developing countries, with the letters accounting for a higher value. This was visible, as previously mentioned, by an investment geographical shift towards developed economies.

At a time when government interventions were fundamental, both for precautionary policies and for monetary and fiscal interventions in support of economic infrastructure, developing countries have shown how vulnerable they are. With a more fragile infrastructure, they experienced a higher level of instability that impacted the investment sentiment (Koçak & Barış-Tüzemen, 2022). Therefore, their policies should aim to create a more reliable investment environment that can attract foreign investors, helping them contrast with the crisis. This is achieved by focusing on sustainable development goals, new incentives, and tax arrangements.

[8] These percentages refer to the decline in the value of new project announcements.

The second trajectory is economic growth. As previously mentioned, GDP and Trade fell less sharply than FDI, minus 3.1 and 7.9 per cent respectively: a lower level with respect to the previous global financial for trade but a higher one for what concern GDP. The extended restrictions have had an enormous impact on economic activity in developed countries and, given the tight economic ties in the global scenario, have spread to developing markets. Large decline in consumer spending in economies such as the United States and the European Union has led to a sharp reduction in demand and FDI inflows as a consequence. Global supply chains were disrupted by this shock, and it was an inevitable impact on the world GDP (United Nations, 2020).

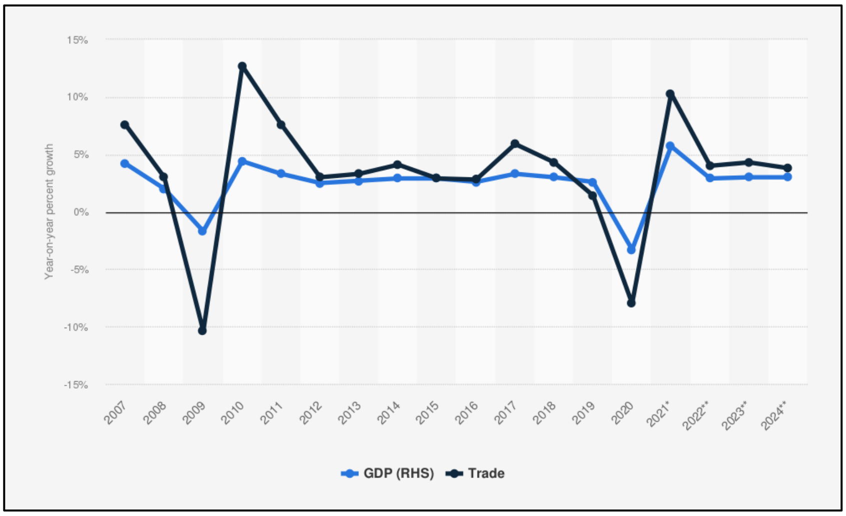

Figure 12: *Growth in GDP and Trade volume worldwide from 2007 to 2024*

Source: *World Bank – Statista, 2022*

Moreover, the last factor is liquidity availability. After the COVID-19 pandemic and the consequent economic and financial crisis began, the amount of liquidity available to customers and firms decreased significantly. This negative effect on the amount of liquidity available has been induced both by the rigidity of costs and financial commitments and by the reduction of sales due to restrictions on economic activities (Bellucci et al., 2022).

As shown in the Figure 3.4, consumer spending in the second quarter of 2020 fell by 9.8 percent from the same period of the previous year. After one year, in 2021, although the pandemic was still affecting the global economic environment, there was an increase of the spending indicator which were 15.7 higher than a year earlier (U.S. Bureau of Labor Statistics, 2022). One of the fundamental factors of this change has been government interventions aimed at supporting commercial activities and private subjects injecting cash into the economy.

Therefore, one of the main challenges that governments have faced has been to prevent illiquid but solvent businesses from going bankrupt.

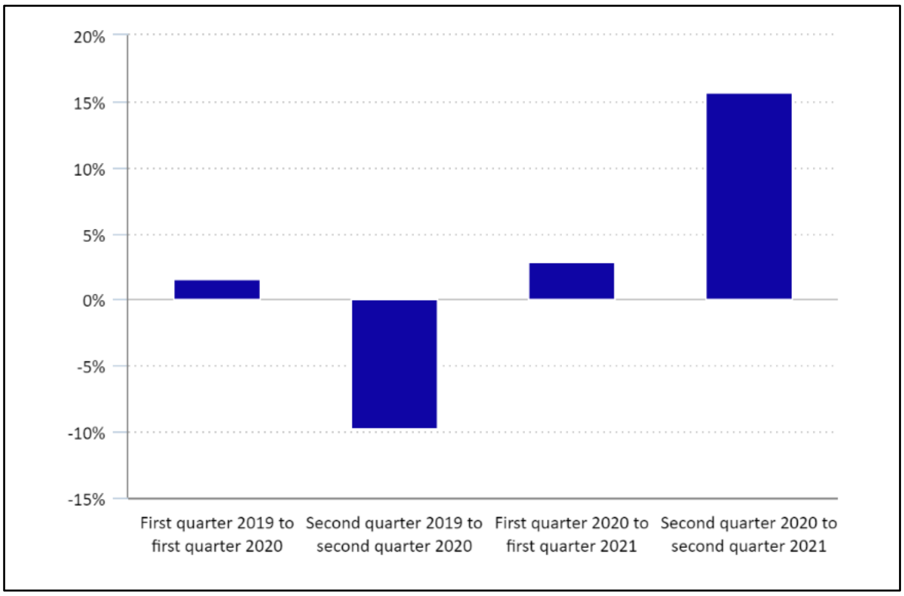

Figure 13: *over-the-year percentage change in total customer expenditures before and after the COVID-19 pandemic*

Source: *U.S. Bureau of Labour Statistics, 2022*

FDI started a recovery trend in 2021 in all regions: an increase of 64 per cent of global FDI flows from the previous year level when a drop of $ 1 trillion was registered. The main driving force behind this surge was a boom in mergers and acquisitions, which grew by 53% in value and 43% in number. The favourable interventions of the public authorities and the main recovery plans have helped to increase the availability of liquidity and therefore to strengthen the investment attitude (UNCTAD, 2022).

Taking into consideration greenfield FDIs, they rose by 15 per cent from 2020 to 2021. This result was mainly due to the developed countries share, while the trend remained stable and flat in developing countries. This is a quite important aspect given that these investments are crucial for economic growth and development. The increase in value was not homogenous even in terms of the sectors. The number of greenfield FDI targeting the primary sector remained small and it represented less than 2 per cent of the total. For what concern the manufacturing sector, the number of projects rose by 8 per cent: it represents only a small initial recovery after a significant drop in 2020 of about 33%. Nevertheless, the best results were the one recorded in 2021 by typical GVC-intensive industries such as electronics and automotive that more than doubled their numbers of the previous year; this large increase was the consequence of a major drop after the COVID-19 burst. In particular, the microchip industry was subject to mega investment projects.

	Value (Billions of dollars)		**Growth rate (%)**	**Number**		**Growth rate (%)**
Sector/industry	**2020**	**2021**		**2020**	**2021**	
Total	575	659	15	13248	14710	11
Primary	11	13	15	100	98	-2
Manufacturing	240	297	23	5258	5688	8
Services	323	350	8	7890	8924	13

Table 3*: Announced green eld projects, by sector and selected industries, 2020–2021.*

Source: *UNCTAD, 2022.*

Net cross-border M&As						
	Value (Billions of dollars)		**Growth rate (%)**	**Number**		**Growth rate (%)**
Sector/industry	**2020**	**2021**		**2020**	**2021**	
Total	475	728	53	6201	8846	43
Primary	25	28	11	658	639	-3
Manufacturing	228	239	5	1136	1674	47
Services	221	461	108	4407	6533	48

Table 4*: Net cross-border M&As, by sector and selected industries, 2020–2021.*

Source: *UNCTAD, 2022.*

Geographically speaking, starting with developed economies, they were the most affected by this crisis reflecting a more volatile nature of FDI in those economies, given the largest financial components. However, as previously mentioned, investors' confidence increased in those markets and a large flow of investments started, mainly supported by recovery stimulus packages. Mature economies represented the bulk of global growth, returning to their central role in the global investment scenario: they were up +134% compared to FDI flows in 2020 (UNCTAD, 2022). Among subregions, flows rose in North America (+ 145 per cent increase), in the United States which more than doubled to $ 367 billion, remaining the largest recipient of FDI; on the other hand, foreign investments flows fell by 34 per cent in the EU.

FDI flows to developing economies increased by 30 per cent, to $837 billion: their share of global flows returned to the pre-pandemic level of about half of the total (UNCTAD, 2022). Nevertheless, investor confidence remained weak and therefore greenfield project announcements were flat in value terms.

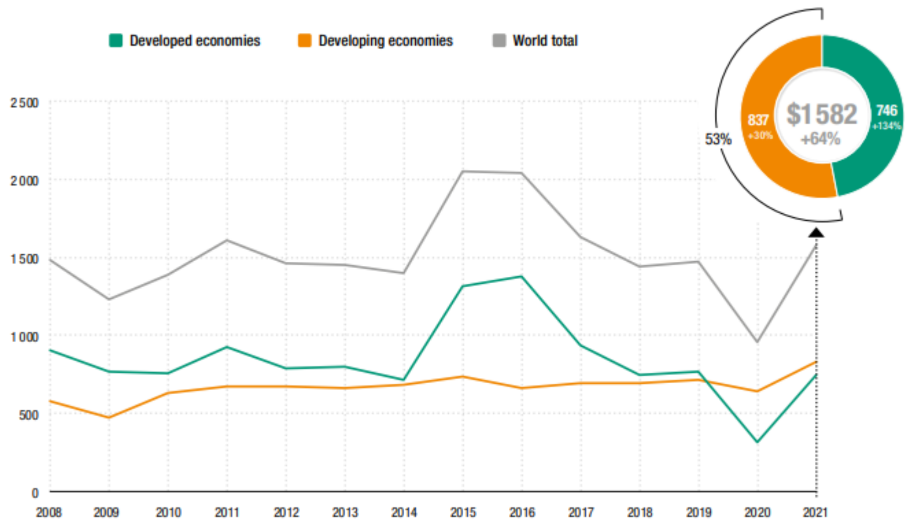

Figure 14: *FDI inflows, global and by economic grouping, 2008–2021 (Billions of dollars and per cent).*

Source: UNCTAD, 2022.

The high bounce in 2021 is unlikely to recur in 2022. Early indicators reveal a worrisome FDI outlook: FDI project activity in the first months of 2022 shows investors' uncertainty and risk aversity. The war in Ukraine, the sanctions against the Russian Federation and the rise in energy prices have created a highly dubious environment in developed countries. Nonetheless, in the first quarter of 2022, cross-border M&A, which are the major FDI typologies in those markets, accounted for a 59 rise in from the levels of 2021 (UNCTAD, 2022).

The instability caused by the consequences of COVID-19 and the other geopolitical and economic shocks that have destabilized the global environment, has also impacted developing countries. An offsetting trend may be provided by new investments in resource-based economies given the higher commodity prices. Although this uncertainty spreading, cross border M&A recorded a positive trend also in emerging economies with an increase of 13 percent in the first quarter of 2022, 40 per cent of which targeted extractive industries (UNCTAD, 2022).

3.2.3 Effects on Global Value Chains (GVCs)

3.2.3.1 GVCs' development

Given the macroeconomic overview mentioned in the first chapter, it is clear that in the last decade a dramatic change in the overall global equilibrium has happened with an increasing internationalization attitude. Through international trade and exploiting foreign direct investment (FDI), transactional corporations have come to build complex global networks of manufacturing activities (Sako, 2006). In recent years global economy were characterized by a fragmentation of the production across nations: according to a recent estimation from the Organization for Economic Cooperation and Development, GVCs account for 85% of international trade (Chen & Shen, 2021). Firms have become international, and their value chains have expanded accordingly becoming global value chains (GVCs), gaining a central role in the international production, investment, and commerce. Raw materials and intermediate goods are shipped around the globe and then assembled in another location; then the final output is re-exported where the final customer is located in both developing and developed markets (Seric et al., 2020).

According to the World Investment Report 2011, this process has spilled over through the following three trajectories:

- **Unbundling**: it is a business process where a series of products or blocks inside a value chain are broken down to provide better value by removing those parts that are less valuable to consumers and keeping only those that consumers worth the most (Cuofano, 2022).

- **Offshoring**: in International Business, offshoring is defined as the procurement of services and products from an outside supplier of producer to reduce costs. It occurs when firms move productive activities abroad, whether they are conducted by separately owned affiliates or by fully owned subsidiaries. According to Johanson and Vahlne and their Uppsala Model, this process is usually made gradually. They have theorized a dynamic model which implies that the more experiential knowledge will be gained, the higher will be the involvement and the commitment to that specific market and, simultaneously, the lower the perceived uncertainty. Hence, given the causal relationship between knowledge, reduction of perceived risk and size of the investment, and given that the initial knowledge about a specific market is limited by definition, the initial commitment will accordingly be limited. The firm should start its involvement with a foreign market in the form of a sporadic export, then it should hire a sales agent, a commercial facility, and, only when the experiential knowledge will be sufficient, a production facility can be created (Johanson & Vahlne, 2006).

- **Outsourcing**: it occurs when firms opt to "buy" rather than "make" in-house those inputs that go into the final product or service (Gospel & Sako, 2009).

However, global value chains have been undoubtedly disrupted in the past, a part from the pandemic, the most recent shock was the one caused by the global financial crisis. After that, as already mentioned, this process of globalisation and internationalization had suffered a visible setback from a sharp drop in foreign direct investment since 2017. The new technological revolution, the increasing economic nationalism and the sustainability imperative have contributed together to this structural slowdown (UNCTAD, 2020); this effect was amplified by the COVID-19 shock. While in the past crisis it was more a factor of demand than supply, in this todays' crisis both dimensions have been significantly impacted (Goel et al., 2021). The complexity of a globalized business strategy became increasingly evident during the pandemic and demonstrated the need for entities to reconfigure their GVCs to make them more resilient and suitable to an every-changing unstable environment. In this "new-normality", adaptability and flexibility have become fundamental to survive (Kersan-Škabić, 2022).

3.2.3.2 COVID-19 impact on GVCs

COVID-19 is first and foremost a global health crisis that has strongly impacted firms in several ways. As previously mentioned, as the COVID-19 pandemic outbreak, strict quarantine measures and control of the social distancing were imposed by the Chinese government; it had a considerable negative effect on the Chinese economy. However, an advantage was that these severe measures created the prerequisites for a faster recovery (Chang et al., 2021). In sharp contrast, most of western countries have been delayed the enhancement of such restrictive measures, missing precious opportunity to contain the infection, and consequently allowing the virus to spread freely.

The need to shut down productive infrastructure to try to reduce people's travel and contact has had a tremendous impact on all businesses. However, the firms more impacted were those whose supply and value chains depend on other countries: in these cases, even if the virus has not affected the national production site, they may require inputs from an affected area (Hoekman et al., 2020).

Pandemics are characterised by three kinds of successive economic shocks. The first is to put pressure on the health care system due to the increasing number of people in need of treatment. The second is due to the introduction of containment measures as a result of limited social and economic activities. The third is the impact on overall sentiment regarding both citizen and customer behaviour and business decision-making, because of the increasing level of uncertainty going forward. In summary, from a macroeconomic perspective, the enforcement of lockdowns coerced many firms to stop their production contracting the aggregate offer: supply-side shock.

Transportation is also a source of risk. It was indirectly affected by the measures taken by governments: although these were intended to limit the movement of people, this, along with border control, led to a disruption of the transport network. Consequently, these fragilities of the shipping network caused problems ad interferences in the international supply chains (Hoekman et al., 2020). As mentioned in the previous section, this closure of production has resulted in a reduction in the spending capacity of citizens; it has been amplified by the increasing uncertainty regarding health and economics, to which customers responded postponing unnecessary expenses and reducing consumption. The same reasoning can be extended to firms: managers decided to postpone investments and spending, and, in some cases, stop projects already in place. Therefore, there was a strong domino effect on the demand-side (Salustri Cristiana, 2020).

This demand-supply shock has been particularly visible in commodities prices. As the COVID-19 pandemic began to decline, demand picked up again due to the expiry of restrictive policies. In a number of cases, this huge increase on the demand side was not supported by a proportional rise on the supply side. That is what happened with oil prices, which fluctuated massively during the pandemic years, given the imbalance in the economic market and the geopolitical instability. It is just an example of a phenomenon that impacted in the overall economic scenario. From this reasoning, the crucial point that emerges is the fact that the authorities have played a major role in the attempt to balance preventative measures with incentives for economic recovery (Chang et al., 2021).

Governments tried to intervene embracing many policy tools: initially they adopted monetary policies aimed at stabilizing financial market and trying to ensure the necessary capital. In a second phase, they focused on fiscal measures pointed to sustain economic growth which was harmed by lockdown and production shutdown. In the last phase governments played an active role in purchasing and distributing vaccines. (Jackson et al., 2021 and World Bank Group, 2022). These programs varied considerably from country to country because of the different needs and geographical impact of the virus.

In order to better understand the consequences of the COVID-19 it is important to highlight that the pandemic hit at a time when the legacy of the global financial crisis was still hanging over public and private sector balance sheets, and while people were still being affected by the austerity measures adopted by most countries. As previously stated, COVID-19 is not only a health crisis, but it has also massively blocked the entire global economy, trade, and foreign direct investment (FDI) flows (Moosa & Merza, 2022). The adoption of prevention action taken by governments of different countries to address the COVID-19 infection, such as lockdowns and social distancing, resulted in economic disruption: aggregate demand and supply shock, which has generated a domino effect on all sectors of the economy, including FDI (Chattopadhyay et al., 2022).

Governments interventions have led companies in a number of developed countries to rethink their international approaches to make their global value chain as resilient and flexible as possible. COVID-19 has put a question mark on the previous internationalisation and location determinants that may be too simplistic, taking into consideration mainly cost and efficiency variables. In the today’s environments a risk-management approach needs to be adopted: firms should assess potential risks along their value chain relationships and try to identify possible strategies to minimize them. This is the reason, together with the ongoing nationalization of the supply chains, that led companies to reduce GVC distances. Such a development will almost certainly disrupt GVC equilibrium and affect emerging countries development: industrialization of those markets took place through foreign investments coming from more developed countries. Regionalization behaviours could therefore significantly affect this evolution. Thus, governments should strengthen policies with a multinational approach trying to assist those countries towards more inclusive and sustainable industrial development (Seric et al., 2020).

The impact that the COVID-19 pandemic had on the international trade and the global value creation configuration was amplified by the intrinsic strong links that relate every country in the today's economic world. China, together with Japan, the USA and the European Union, is at the heart of the world production system. It has a role of primary producer of intermediate inputs and high-value products and components, and it is also a large consumer marketplace of both commodities and industrial products. Therefore, China plays a central role in the export and import side in a lot of countries' global value chains. That said, it is obvious that the significant decline of the Chinese market has had a major domino effect on the countries, with significant contractions across global trade flows, even before COVID-19 turned into a pandemic (Seric et al., 2020).

Chinese imports decreased by 4 per cent[9] in January and February 2020, compared with the same period of 2019: this implies that a substantial proportion of production is missing in foreign countries. Exports followed the same downward trend but dropped by 17 per cent over the same period (Santander, 2022).

[9] US dollars

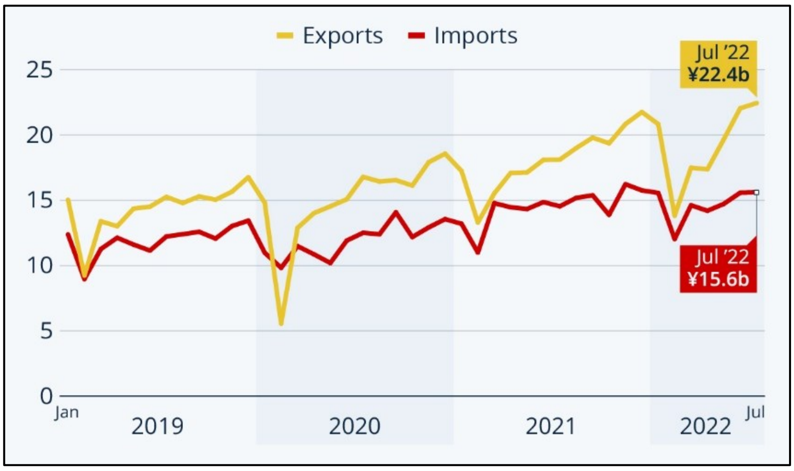

Figure 15: *Value of export and import from and to Chinese market*

Source: *China Customs Administration via Statista, 2022*

During the recovery, as the direct effect of the COVID-19 pandemic began to disappear and countries' supply and demand began to find a different balance, another shock started to show its impact. As mentioned before, China, as the first country affected by the virus, was even the first to implement restrictive measures and lockdown and, therefore, the first to go through a full cycle of the epidemic. In this context, it has had to deal with a "second shock": apart from the consequence of their own lockdown, Chinese firms faced the foreign customers drop in demand due to the time lag in the pandemic fight. Once the manufacturing supply has started its recovery, foreign customers were locked into their houses and foreign firms were closed, significantly reducing their demand. Thus, it is to be expected that the effects of the "second shock" will have a more lasting effect on the global production compared to the more temporary one caused by the COVID-19 itself (Seric et al., 2020): as Figure 3.5 shows, the biggest decline in exports took place in the second half of 2020. These events have highlighted how much countries were dependent from the Chinese inputs; therefore, politicians on both sides of the Atlantic have started to call for a "repatriation" of global value chains (GVCs) (Eppinger et al., 2020). However, this specific and managerial aspect will be further analysed in the following sections.

3.3 Additional crises

3.3.1 The Ukraine-Russia war

The war in Ukraine started on February 24, 2022, and since then it has caused significant disruptions to the global trade and investment environment. This occurred at a time when the world was still slowly grappling with the massive recession brought on by the COVID-19 pandemic, which continues to hit the broader economy with the emergence of new and more infectious variants. Nevertheless, prior to the conflict, favourable investments conditions such as vaccination efforts, supportive macroeconomic and financial policies were expected to help the recovery. However, the new COVID-19 outbreak in China, resulting in further lockdowns in certain strategic regions, has the potential to further disrupt investments in GVC-intensive firms (OECD, 2022). The OECD, in an in-depth report on the social and economic impact and political implications of the Ukraine war, estimates that global economic growth would drop by more than one percentage point in 2022 due to the conflict. Moreover, an already high inflation could rise an additional 2.5 percentage point globally.

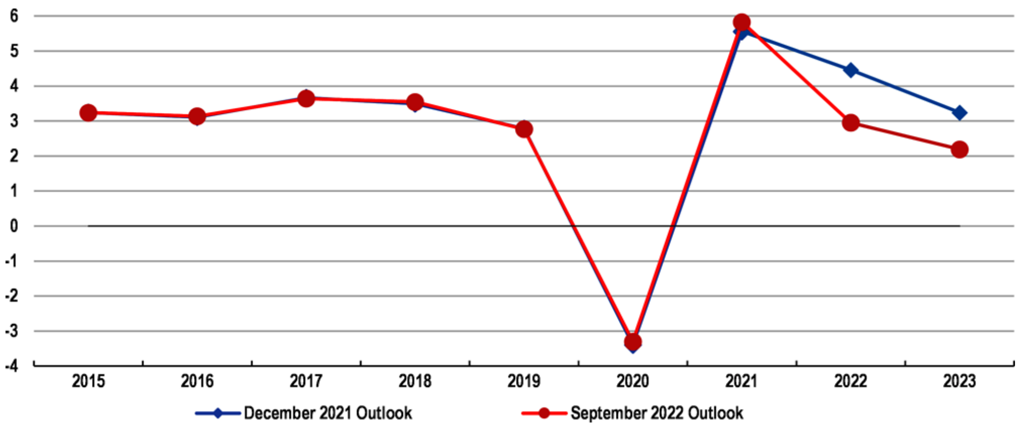

Figure 16: *World GDP growth, per cent*

Source: *OECD, 2022.*

The war is not only curbing economic growth, but it is also putting additional pressure on prices, above all food and energy. As a result, this economic and humanitarian crisis could be said to be moving towards different trajectories, including commodity markets, foreign direct investment, and global supply chains (OECD, 2022a).

Starting from the bottom, according to the National Institute of Economic and Social Research the war has led to a 30% increase in oil prices, a 90% increase in European gas prices and a 17% increase in food prices. In addition, wheat and other commodities have significantly changed their value based on the conflict. Of course, with the composition of the consumer price index, higher prices contribute to higher inflation (Macchiarelli, 2022). The analysis conducted by the Institute suggests that the war will add 2 percentage points to the global inflation in 2022 and one in the year after, compared to the pre-conflict forecasts.

All of this follows from the world trade configuration. Russia and Ukraine are major agricultural exporter: according to the U.S. Department of Agriculture, their wheat exports account for a quarter of the world total. The two countries are also important providers of corn (fifth of the total) and sunflower oil (80 per cent of the total exports). Therefore, the massive restrictive measures against the Russian Federation and the disruption in the Ukraine's production and transportation system led to a strong inflationary pressure. Russia is also one of the most important oil producers and energy exporters in the world. That had a huge impact on oil prices on both Brent and WTI (Macchiarelli, 2022). Therefore, the commodities' prices increase is happening together with a huge increase in energy prices and a consequent increase in production and manufacturing costs for firms across all sectors. Figure 3.7 shows how wheat, and Brent and WTI oil have followed the same upward trajectories since the beginning of the conflict. This upward trend has continued also in the second quarter of 2022.

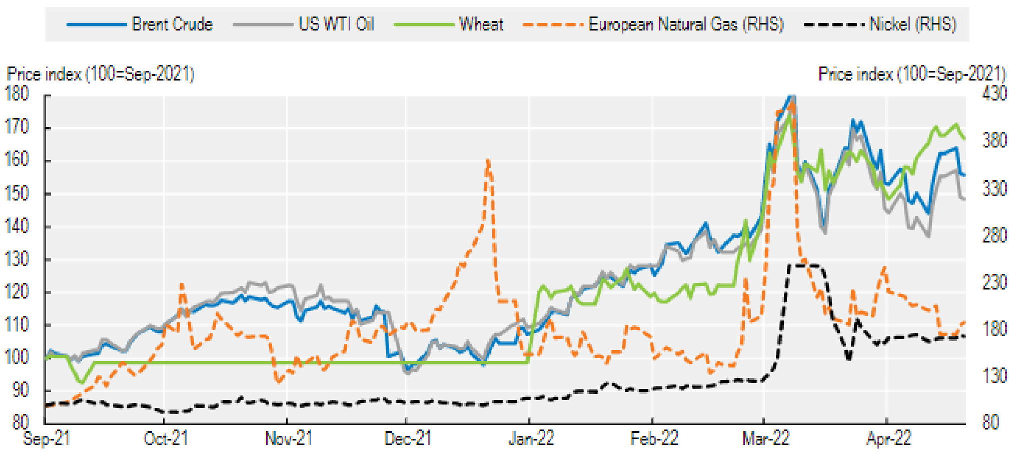

Figure 17: *Commodity prices from September 2021 to May 2022*[10]

Source: *Refinitiv via OECD statistics, 2022.*

[10] European Natural Gas and Nickel's trends refer to the right hand scale while the first three variables refer to the left hand scale.

The significant rise in commodities prices led to a high inflationary pressure almost everywhere: more than half of the items in the price index show inflation above 4% in the United Kingdom, the United States and the Euro area (OECD, 2022b).

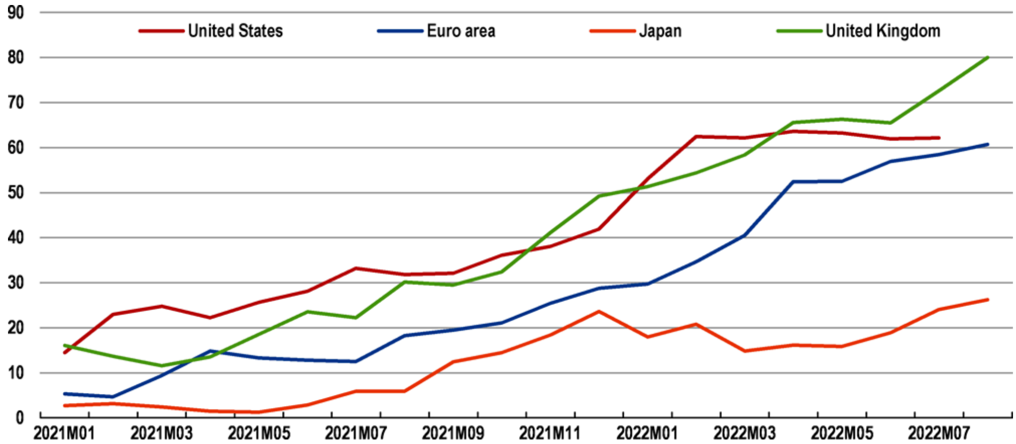

Figure 18: *Inflation trend in major advanced economies*

Source: *OECD, 2022.*

The second trajectory towards which the crisis is influencing the overall economic environment is the impact on **Foreign direct investments and global supply chain.** The conjunction between tightening of monetary policy in major economies, low consumer confidence and high prices for some energy products and commodities, will affect both private consumption and business investment scenario (OECD, 2022a). Consequently, those most affected should be developing countries, given the fragility of their governments, the weakening of financial conditions and the greater dependence on fluctuating commodity prices. In addition, increasing investment uncertainty has not helped emerging economies, which, as noted earlier, were already on a downward trend (Unctad, 2022).

The impact on foreign direct investment from and to both Ukraine and Russia has been immediate and profound not only due to the war itself but also to the subsequent international response. The latter has led to significant restrictive and punishing measures again the Russian Federation, compromising the global supply chains' equilibrium. This disruption has caused subsequent input shortage and price increase: Ukraine is a key supplier of a large variety of inputs necessary in strategic sectors such as electronics and logistics (Ruta, 2022). On the other hand, apart from its importance as a natural resource exporter, Russia is not a major player in the global FDI map: according to OECD FDI statistics, even before February 2022, Russian inward and outward foreign direct investments stocks accounted for 1-1.5% of global FDI stocks. Nevertheless, the impact was severe on several countries whose FDI profile are linked with the Russian Federation such as Armenia and Moldova, and European countries including Finland, Germany, and Norway that have major stakes in Russia's energy sector (Ruta, 2022).

For what concern investments flows to and from the Russian Federation and Ukraine, the value at risk is enormous: it includes the halting of existing investment projects and the cancellation of announced ones. FDI flows declined not only at the beginning of the war, but also at the start of foreign government responses and the adoption of international investment measures in relation to tough economic sanctions against the Russian Federation. Those sanctions are aimed at discouraging investments made by individuals and firms inside the Russian market and at affecting those subjects which are close and strategic to the Russian economy and government. Since the beginning of the war, 67 new trade policies have been announced; companies in various sectors (technology, food, media, retail trade, etc.) have begun to divest their activities in the country. The Russian governments have not been idle, but they have reacted with coercive and protective measures aimed at striking the countries that have adopted the previous punitive policies. Therefore, the amount of FDI at risk is higher given that those developed countries that support sanctions are those that account for more than two thirds of FDI stock in the country. While, on the other hand, stocks coming from those countries that have showed a more accommodating attitude, such as China and India account for a negligible share of the total value.

The consequences are not only strictly correlated with the Russian economy, but an indirect effect has struck the entire world economy with a significant rise in prices: export restrictions alone have added seven percentage points to the price of wheat (Ruta, 2022).

3.3.2 Energy crisis

Since the late '90s the main variables that play a central role in attracting FDI are traditionally the price and quality of natural resources, physical infrastructure, macroeconomic conditions of the host country and its political stability and investment certainty (Inglesi-Lotz & Ajmi, 2021). A s a result, energy is a key determinant in the location choice of FDI flows.Nevertheless, due to a significant slowdown in world output, when supply began to recover, equilibrium was no longer possible and, as a result, prices rose sharply. Therefore, disruptions in the energy market have begun since the summer of 2021, when the recovery from the COVID-19 pandemic started: energy has become of the central topics of the geopolitical and economic global equilibrium.

At the end of February 2022, when the Ukrainian invasion started, energy markets were even more affected by another important shock, and the precedent instability was even worsened. One of the countries most affected by this shock is European Union, due to its strict dependency on Russian gas furniture. Although EU has raised the storage levels to almost 90% of capacity, there may not be sufficient gas to cover the entire demand. Moreover, governments restrictive and punitive policies towards Russia have tightened up the uncertainty and instability of commodity market. Therefore, this crisis has triggered a rapid reshaping of the European energy policy and supply configuration: diversification is essential to be protected from other shocks (OECD, 2022).

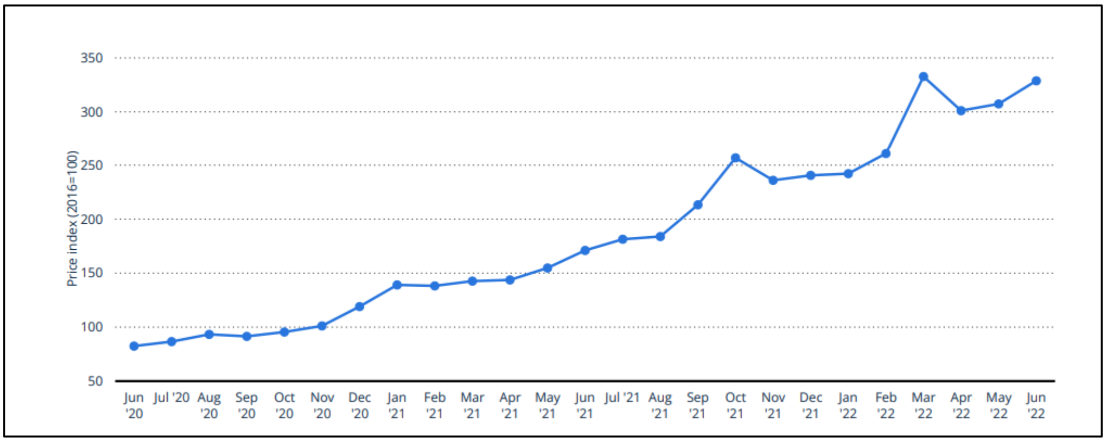

Figure 19: *monthly fuel energy price index worldwide from June 2020 to June 2022*

Source: *IMF via Statista, 2022*

The huge increase in energy prices, as shown in the Figure 3.9, has had an impact not only on supply but also on demand. Shortages have push up prices with a consequent dramatic increase in manufacturing costs for firms. Moreover, this additional shock hit business confidence, which was already greatly affected by the previous crisis, leading to a further contraction of investment sentiment.

The description of these additional shocks that have destabilized the international scenario, completes the overview of the post-COVID-19 for what concern FDI fluctuations, impact on global value chain and on demand-supply equilibrium. The following paragraph focuses on how this scenario interact with the trends present in the market before the pandemic started.

3.4 Ongoing trends changes

The COVID-19 pandemic, as mentioned early, has halted the global economic infrastructure by introducing operational and managerial constraints. The problem has expanded on all global supply chain and has affected them in many ways challenging their long-term continuity (Hussain et al., 2021).

It has happened inside a scenario that was already characterized by factors such as digitalisation of the world economy with the emergence of Industry 4.0, the spreading of the sustainability imperative and the rise of more protectionist and nationalist tendencies. What happened at the conjunction between these trends and the start of the spread of the virus was recently referred to as a "perfect storm". This section will discuss how these variables were shaped and interacted with the new post-COVID-19 economic, social, and geopolitical reality. The final output will be a “new normality” in which the bases of the internationalisation process are different: firms have therefore to rethink their business strategies and to consider different variables in their decision-making processes.

3.4.1 New Industrial Revolution

In 2020 industrial digitalization faced its biggest crisis. A paradoxical situation has happened: if on one side COVID-19 crisis has disrupted companies value and supply chains, on the other, it has pushed companies towards a technological and digital transition. Companies were forced into extraordinary lockdown to protect people, although they led to unprecedent slowdown of the production process.

An analysis of a Mckinsey's survey shows some important features on the relationship between the pandemic and the technological revolution. First of all, those companies who were early adopters (who had already scaled to digital technologies before the pandemic started) have performed better with respect to those that haven't started to implement industry 4.0. This awareness induced an increase excitement: companies that haven't already started this new technological transition, have had a wake-up call. In July 2020 a McKinsey poll estimates that in the first six months of the COVID-19 pandemic, new technologies have been implemented in a proportion that, under normal conditions, would take seven years (McKinsey, 2021). This technological evolution has affected different functional areas: supply chain, customer relationships, operations, etc.

Therefore, the COVID-19 pandemic, on one hand has advanced a digital transformation in many businesses, however, on the other hand, it has put some constraints and has raised some barriers to this development. Some of the key challenges faced by companies in implementing Industry 4.0 during the pandemic period have to do with cash flow constraints and the challenges associated with lockdowns and travel restrictions. The implementation of these technologies inside the production and manufacturing processes has brought some important benefits.

As mentioned in the first chapter, this new technological revolution is based on three main pillars: digitalization, automation and adaptive manufacturing (3D painting) which is a mix of the previous two. Starting from the former, the main advantages that have been brought about by automation relate to the higher efficiency in production processes and, therefore, the lesser need to relocate operations in high-intensity, low-cost destination countries. As a result, world value chains have been reduced. Moreover, digitalization has helped the coordination of production processes which are distant from each other: it is possible thanks to the exchange of a significant amount of information flows. The opportunity of using Cloud technologies allows companies to reduce fixed costs and consequently reduce entry barriers for SMEs that otherwise would need too much effort to replicate processes. In a period in which movement of people is forbidden, the monthly volume of information[11] exchange has increased by ten times (Corò, 2021). Even more disruptive are the implications of the adaptive manufacturing that allows to “materialize" near the user a product generated by a flow of information originating from a remote location, even a foreign one. Some of these technologies are only at an embryotic stage of but their evolution is following an exponential trend therefore they are going to evolve fast.

In a nutshell, at a time in which embedded market dynamics and consumers’ habits are going to change due to the disruptions left by the pandemic crisis, it is mandatory to optimize and adapt production processes to this new normality. Therefore, it can be said that COVID-19 has accelerated the technological and digital transaction, and companied are trying to exploit the benefits of this development to enhance strategic reactions to the pandemic crisis.

Especially the availability of these disruptive technologies makes it possible to reduce costs and increase efficiency in these managerial and strategic changes. This will also be reflected in the next chapter when focusing on the alternatives available for the strategic response of businesses in the post-COVID-19 world.

3.4.2 Government policies

The trend towards more restrictive policy measures has been present and growing in recent years, but it has become more pronounced during the COVID-19 pandemic, increasing the firms’ concerns on the future global scenario. Therefore, this trend is not only a response to this unprecedent crisis but also a continuation of a trend that was already in place since the global financial crisis (O’Farrell, 2021).

As reported by UNCTAD Report (2021), the number of new regulatory changes on FDI in 2020 accounted for 152, 41% of them are aimed to restrict foreign investments, only 72 went in the opposite liberalising direction. This percentage is high if compared with the previous years: the number of restrictive policies was only 24% of the total in 2019 and 28% in 2009 (UNCTAD, 2021). In the following year the trend was a bit different with a higher number of new measures (109) but a lower percentage of less favourable investment policies (only 40). The war in Ukraine pushed this number up, with 75 new investment policy measures adopted in the first quarter of 2022 alone (UNCTAD, 2022).

[11] Information coming from mobile devices.

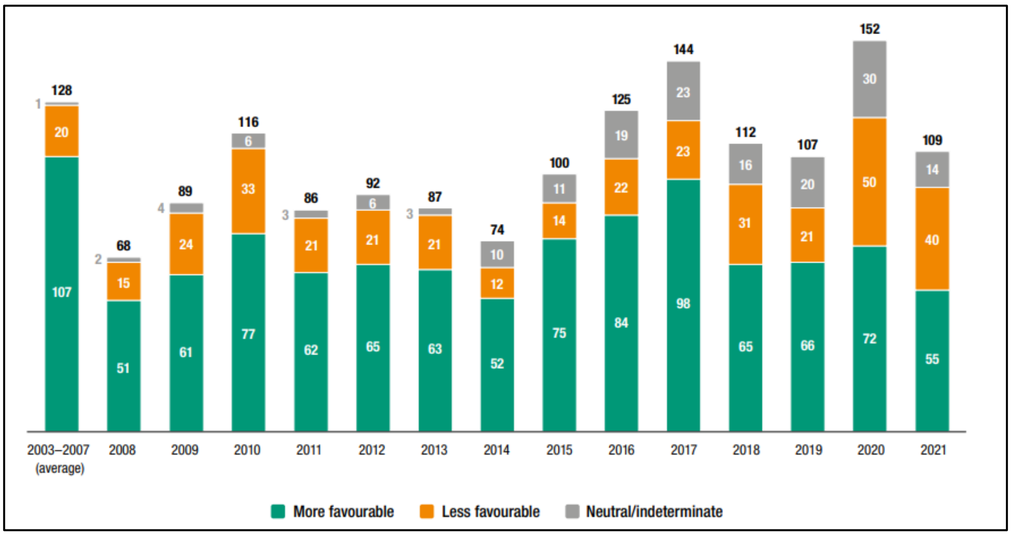

Figure 20: *changes in number of national investment policies from 2003 to 2021.*

Source: *UNCTAD, Investment Policy Monitor, 2022.*

Analysing this aspect is extremely important because a technological and sustainable development depends strongly on the policy developments. On the other hand, policy measures are contingent to the political direction, environmental shocks, and on international cooperation. COVID-19 pandemic has changed all these variables, making the future of multinational corporation uncertain. In particular, there is a paradox arising from the crisis: on one hand all the difficulties raised during the pandemic period have highlighted how much international coordination and cooperation is important, mainly for what concern coordinated fiscal and industrial measures to sustain the overall productive infrastructure. On the other hand, the ongoing anti-liberalism attitude is challenging this consciousness.

COVID-19 pandemic has underscored the need for greater attention on foreign direct investment: FDI screening has therefore become crucial in the political discussion. The pandemic has increased the attention over critical and strategic assets and the necessity to protect them from foreign opportunistic investors (Kenner, 2020).

In a period like the one during and after the COVID-19 pandemic, many countries have revised their foreign direct investment screening regimes. These measures apply mainly to sectors such as technology, infrastructure, telecom, and raw materials (Margaux, 2020). The main effort to protect critical and strategically important firms operating in strategic sectors. In particular, first of all, one of the reasons for this was the awareness that those business that are important to a country might be captured by foreign investors at a lower price due to the COVID-19 disruptions. Secondly, the realisation that to fight efficiently the pandemic a wide range of businesses is necessary and therefore it is better to protect those firms that are strategically important. At the end, as mentioned above, the firms that were most affected are those that depend on foreign suppliers and therefore governments have to protect those businesses (Cuninghame, 2021)

The role of governments was not simple: first, they need to mitigate the negative impact of the pandemic and support the recovery; on the other, they have to protect the country interests from possible foreign opportunistic behaviours. Also prior to the COVID-19 spreading, and since the internationalisation started to become a global phenomenon, screening processes became essential to protect strategic interests. According to that, an investment may require government approval, and the screening process might review the nature of the buyer and the motivations behind the request. While the United States and China had strict regulations already in place, the EU was considered to be one of the most open economies for FDI (Kenner, 2020). Nevertheless, this attitude is destinated to change.

The analysis of governments interventions can be broken down at a regional level. For what concern developed countries, in a continuation of a trend towards tighter trade regulations, they introduce new measures to reinforce investment restrictions and to protect ownership of critical infrastructures. In sharp contrast, developing countries continued to adopt measures to liberalize and facilitate foreign investments (UNCTAD, 2022). This trend was a confirmation of the important role that FDI played in the development of those emerging economies.

Considering the European Union market, as mentioned above, it has already begun a protectionist path taking some steps towards expanding FDI legal framework in view of the pandemic impact. In March 2019 the EU adopted the Foreign Direct Investment Screening Regulation which came into effect in October 2020. The purpose of the regulation was to put in place a single EU mechanism to control foreign investments in strategic sectors and to reinforce existing screening processes. Given the nature of the regulations, it has only created a framework and a recommendation for Member States that are free to decide whether or not to abide by them. Having said that, the main problem is the harmonisation between the single measures enhanced by single member states (Cuninghame, 2021). Nevertheless, the aimed was reached in a sense that a most of the Member Countries adopted new mechanisms for investment assessment; moreover, they have added new sectors to the list of those subject to these new policies (Margaux, 2020).

In accordance with the above-mentioned Regulation, the European Commission has also published FDI Guidelines on 25 March 2020. At the beginning the EU reaffirmed the central role that FDI have played and need to continue to play for the country economic growth; and its desire to remain a favourable destination country for foreign investments. However, it is explicated that vigilance is necessary during this turbulent period to avoid further disruptions in the Union economic infrastructure. Guidelines recommend that companies make full use of FDI screening mechanisms to reduce possible risks related to critical sectors and, for those Member States that do not have those instruments, they have to use all the available options to address cases in which a foreign acquisition would create a risk to security or public order (European Commission, 2020).

In a similar way also the United States, under the presidency of Donald Trump, has tightened its regulatory framework. In February 2020 the Committee on Foreign Investment in the United States decided to expand the scope of the screening mechanism to include other critical sectors such as technology and data.

3.4.3 Sustainability concerns

As mentioned in the first chapter, the term "sustainable" should not be considered solely from an environmental perspective, but rather from a social and government perspective. The increasing concerns coming from citizens and the consequent initial effort coming from governments and supranational communities, have led private investors and companies to consider new variables inside their internalisation and location choices. COVID-19 has triggered one of the worst economic recessions in nearly a century and has caused significant damage to society as a whole (OECD, 2020). Due to this crisis, the world is facing un unprecedent disruptive historic moment; demand and supply equilibrium has collapsed and all the previous economic mechanisms in the international context have been put in discussion. It could be said that on one side, the pandemic crisis has reversed decades of social progress, especially in developing countries: according to the United Nations Annual Report on Sustainable Development, the impacts of COVID-19 will push about 88 million to 115 million people into extreme poverty in 2020 (UN, 2020).

On the other hand, the pandemic crisis has had some indirect positive impacts. First of all, it has had a beneficial effect on the natural environment with a reduction in greenhouse gas emissions and air pollution (Sajjad, 2021). Moreover, the influence of COVID-19 has motivated SMEs to rethink their businesses as usual and try to shift them into more sustainable infrastructures. Developing new skills and bringing together experiential knowledge is necessary not only to survive this short-term shock, but also to emerge from the crisis in a better and stronger way. Companies have a unique opportunity to revisit their business models from an economic and environmental sustainability perspective and try to obtain new transparent, resilient and socially sustainable supply chains. New technologies available to companies in this period are essential to implement this transaction (Gregurec et al., 2021).

Therefore, companies all over the world need to rethink their operations to adapt to this "new normality". Firms have to find a new trajectory to follow to reconfigure their businesses trying to reduce their vulnerabilities and weaknesses: this transition makes Sustainable Development Goals (SDGs) even more relevant to try to address companies to a new sustainable recovery (OECD, 2020). The term Sustainable Development Goals (SDGs) was included for the first time in the UN Conference on Trade and Development's annual report in 2014. It consists of 17 goals aimed at transforming the financial, economic, and political system to try to guarantee the human rights of all (UN, 2020). They represent an effort to shift the global economy into a more sustainable trajectory for its growth and development which has to be sustainable in the long-term. In a survey conducted in 2020 by OECD, 80 per cent of the respondents agree that the SDGs can be used as a framework to guide the recovery from COVID-19 crisis. FDI are essential to finance and enhance these new projects in strategic sectors such as renewable energy, education, health, water and sanitation (Singh & Kapuria, 2022). However, as previously mentioned in the section focusing on government restrictions, the political infrastructure is extremely important to support this shift towards a more inclusive and equal environment. Stimulus packages and government policies need to be coherent and sustain this sustainable recovery. COVID-19 has highlighted how interconnected the world is and how a shock in one country can have a significant domino effect on the overall economy (Newell & Dale, 2020). Therefore, the ongoing trend towards restrictive trade behaviours is dangerous in this perspective: it may lead to halt coordinative and common effort to align developed and developing countries efforts (OECD, 2020).

In conclusion, it is important to take into account that the COVID-19 pandemic has not only caused disruptions in global supply chains in general terms, however, it has led to systemic changes in the three pillars that sustain the today's economic evolution. In the future, firms are expected to take into account the new determinants of location and internalisation in their decision-making processes for internationalisation strategies. In the next chapter the output of these changes is analysed: the four main managerial and strategic trajectories raised at the conjunction between the COVID-19 crisis and the evolution of these trends in the economic and social environments.

3.5 Conclusion

In conclusion, COVID-19 pandemic and the other shocks that have characterized the last two years have disrupted massively the global economic and social equilibrium. They have interacted with the mentioned trends creating a “perfect storm”: a kind of perfect disruptive movements that have affected massively both developed and developing counties. Massive containment measures had been implemented to try to limit the negative effect of the pandemic and try to confine the spreading of the virus.

The process of locking down economies around the world has put a question mark against the process of internationalization, with all its weaknesses showing up. Although, these policies were necessary, they have a devastating effect on firms’ businesses. The total or partial closing of borders or the imposition of limitations on the free movement of people across borders had a significant influence on foreign trade, foreign direct investment (FDI), and global value chains (GVCs) in forward and backward directions.

Uncertainty has quickly become the predominant sentiment not only on a social perspective but also concerning the economic and political environment. Firms need to operate changes to their business models to be aligned to the new normality: they are rethinking their business strategies in the context of intensifying digitalization and increasing protectionist towards foreign investment (Hysa et al., 2022). However, the lack of awareness about what will happen in the near future has affected their behaviours. Having said that, the keyword in managerial perspective has become resilience: firms have to be more flexible and reactive to possible fast changes.

Therefore, even if deaths are diminishing the economic and social effects of the pandemic will not disappeared. In interaction with current market trends, they have created a new normal in which companies have to revisit their internationalization strategies in order to survive.

The next chapter is going to deeply analysed the above-mentioned strategic trajectories available to firms to react in the post-COVID-19 world, focusing on reshoring as a valid alternative in light of the evolution of the trends.

Chapter 4
Firms' reactions to the new normality

4.1 Introduction

This last chapter is focus on studying how firms react in this post-COVID-19 world, what are the managerial trajectories available for their recovery. The subsequent analysis is going to take stock of the previous sections. In particular, the focus is put on the implications arising from the combination of the recent FDI flows and the ongoing trends analysed in the first chapter with the shocks that have recently disrupted the global scenario, mentioned in the third chapter. These are considered in light of the internalisation and location determinants that characterized Foreign Direct Investments, described in the second section.

That said, the analysis began with an introduction on resilience and how it has influenced global value chains configuration. Afterwards the focus shifts towards the four trajectories available to firms to face the "perfect storm" and enhance their strategic relaunch. Out of these four possibilities, the subsequent analysis concentrates on reshoring as a favourable choice to undertake this transition.

The last section is dedicated to a case study: the company in question is Benetton. After a general review of the company history and business model, the paragraph considers the Group strategic approaches to the international scenario and its response to the pandemic crisis. Then, an accounting perspective is taken, trying to justify why Benetton has decided to undertake reshoring among other alternatives.

4.2 Post-COVID-19 scenario – The new normality

COVID-19 crisis has put a strain on the world economic balance but on the other hand it has also accelerated the emergence of new business paradigms pushing companies at a choice: stay "faithful" to the status-quo or have an anticipative attitude and act in advance towards the “new normality” (Pincetti et al., 2020). This “new normality” comes from the combination of the COVID-19 and the already mentioned ongoing changes – technological, political, and environmental - spreading in the global scenario (Casella, 2020).

Coronavirus pandemic and the other shocks of the last years have created a new normality in which firms have to operate and have to reconfigure their global value chain to adapt their business to the new challenges of the economic environment. In particular, there are four possible trajectories for international production configurations: reshoring, regionalization, replication, and diversification (UNCTAD, 2020). These follow logically from the analysis of the ongoing trends mentioned in the previous chapter.

Each of the recent events by itself would not be enough to disrupt global value chains and lead managers to rethink their businesses as usual, but the two together (COVID-19 pandemic and ongoing tends in the market) may do so. GVCs were previously designed to maximize efficiency and margins, now the imperative is to re-organize them to make them more resilient, whether in the event of logistical or political disruptions.

4.2.1 Resilience as the key to recovery

The COVID-19 pandemic and other shocks, which characterized the current age, are having a significant impact on global value chains around the world. Traditional GVCs were designed to maximize efficiency and consequently they have led to an increasing interconnection between suppliers and manufacturers located in different countries, resulting in a great dependency from low-cost countries (Choksy et al., 2022). Nevertheless, the pandemic crisis has highlighted all the weaknesses of this rooted system. Therefore, businesses must respond and develop specific characteristics to survive and adapt to externalities, not only in the short-term but also in a long-term perspective. Resilience is one of the key elements that enables organizations to strategically interact with this uncertain global scenario: it can be defined as "the capacity for an enterprise to survive, adapt, and grow in the face of turbulent change." (Fiksel 2006, p.16 in Sajjad, 2021).

Companies must rethink their global value chains in the most flexible way possible to address the shocks that have already occurred, but also those that will occur in the future.

However, it is important to highlight that the nature of resilience changes from one crisis to another (Kalotay & Sass, 2021), depending on the external environment in which companies have to operate and build their recovery strategies. While the COVID-19 crisis has without doubt caused significant disruptions in GVCs, there were a variety of structural trends pre-dated the pandemic that have interacted to shape GVC configurations (Kano et al., 2022). Resiliency has to encompass the increasingly looming sustainability warning, the increasing digitalization and automation of value chains, and the growing nationalism attitude of major countries' governments. Together these features provide a wide image of the challenges that needed to be faced.

From the above discussion it could be thought that in order to become more resilient a company needs to give up the idea of efficiency preferring instead the concept of risk management. Indeed, the two concepts - resilience and efficiency - are not mutually exclusive by definition: what a company needs to do is develop an appropriate balance between these two dimensions. Digitalization and automation can help to create a system of GVCs with both the above characteristics: these new disruptive technologies may improve the flexibility of firms' processes and enhance risk management practices. Global supply chain should become increasingly digital supply networks (DSN). Nevertheless, although the urgent need of a radical change in the global value chains configurations and in the FDI map, this will be a long process including long-term changes.

After a general outline of the broader concept of resilience and how it can adapt to the current global scenario, now it is important to discuss how it may be constructed in practice. In particular, there are four main trajectories that companies can pursue each of them with specific implications in terms of future development. First of all, it has been suggested that to better manage supply chains disruptions, organizations need to consider diversification, both in terms of production and sourcing of inputs. A second trajectory is replication or distributed manufacturing which is going to radically change previous production models mainly based on economies of scale and mass-production. Afterwards, there is regionalisation which is bringing to light the importance of international cooperation especially with neighbouring countries. In the end, reshoring is the option which is going to have the most significant consequences on global production equilibria (Casella, 2020). The next sections will look at each of these prospects and their impacts on global value chains.

4.2.1.1 Diversification

According to Pandya & Rao (1998), diversification is a strategy where a company expands its business activities: in the form of industrial diversification this expansion is into a different industry with respect to its core business; in the form of global diversification, it is into multiple countries. This strategy is considered as a form of resilience in the post-Covid-19 world, because even if the business itself will be diversified, the geographical distribution of the value added will be lower and therefore the concentration will be higher.

Diversifying European value chain, among a greater number of trading partners, could mean that EU is both less dependent on external production in critical sectors and, where it is not possible it could avoid completely this dependence. Therefore, if one part of the world will be disrupted, then the impact will be only on one supplier and the value chain would be better able to adapt itself to replace it with another one from second country.

This aspect opens another important consequence regarding the geographical diversification of the business and the location determinants of the correlated choices. Where diversify the business is a key decision and must be taken considering the new uncertain environment in which firms have to operate. Considering this, more and more firms have started to coordinate a diversification process with a regionalization one: diversify the business making it more geographically compact (Kenner, 2020).

According to this definition, this strategy involves more locations and suppliers inside the value chain, this means giving up some economies of scale. Therefore, in order to make this process less costly and more efficient, digitalization of the value chain is crucial to the enhancement. Digitalization through industry 4.0 allows firms to make processes more efficient, reducing governance and transaction costs and simplifying coordination and control processes. Involving third parties could be easier exploiting the digitalization processes through which information could be easily shared between subjects, and activities could be easily and constantly replicated, valuated, and improved to make the overall processes more efficient.

Therefore, resilience through diversification will be more present and will be more exploited by industries that have significant level of digitalization of their GVCs (UNCTAD, 2020).

4.2.1.2 Replication

Replication, also known as distributed manufacturing, is a localized form of production characterised by a decentralization of production processes close to the point of consumption. (Sharp, 2022). It is a system of strategies that change the economics and organisation of manufacturing with regard to location and scale (Singh Srai et al., 2020).

Traditional manufacturing models lead companies to mass produce in lower-cost locations and then delivering their products to target customers. On other hand, this new concept allows manufacturers to spread production across several facilities in order to make it closer to the final consumers. Therefore, production becomes a network of geographically dispersed industrial facilities, each of which can produce the final output and tailor it to the preferences of local customers.

The overall process is smarter and more flexible due to the proximity of both suppliers and distributors. Nevertheless, flexibility doesn't come at the expense of efficiency: by exploiting new technologies, companies can leverage economies of scale and scope through their regional factories. Moreover, the pressure on firms to reduce their environmental footprint, and the possibility of higher customization trough additive manufacturing, are making this process more feasible (Sharp, 2022).

Among the four trajectories, it is the least likely to be applicable across multiple industries. The reason is that it demands specific business conditions: given the necessity to use certain technologies, the production process must be relatively simple, otherwise the cost of automation would become unsustainable. Secondly, through Industry 4.0 products could be easily customized and adapted to different necessities, therefore the business in question needs to have the possibility to profit from customization. Given these difficulties, usually companies decide to turn to distributed manufacturing in case of expanding demand or market coverage. However, this has changed with COVID-19 crisis.

As has happened in many respects, the pandemic has also accelerated the transition to replication as a method to strategically recover and redesign global value chains. Restrictions imposed by governments, travel bans, and the related difficulties in international trade coordination have highlighted the benefits associated with distributed manufacturing. The existence of a network of decentralized production facilities capable of manufacturing products closer to customers makes supply chains more resilient, and easier to adapt to changing scenarios (Fast Radius, 2021).

The biggest benefits related to distributed manufacturing are:

- Lower production costs: in traditional manufacturing the intrinsic costs for shipping products and make them available to far and even foreign customers are compensated by a cost-effective mass production. With a replicative approach, the above-mentioned costs are drastically cut due to the closeness to the final consumer: it therefore makes it possible to produce effectively through a local manufacturing network (Rapid direct, 2021).

- Faster delivery times: In today's age in which clients want everything available as quickly as possible, making products made and shipped earlier is a valuable advantage. Decentralized manufacturing enables businesses to reduce production volumes and shipping times, making it possible to get products to customers faster than with a traditional production process.

- Enhanced sustainability: in addition to the lower environmental impact related to a shorten supply and delivery chains in which products have to travel less to reach customers; replication allows companies to produce lower volumes and therefore to reduce waste exploiting a more just-in-time approach (Fast Radius, 2021). Furthermore, sustainability involves not only the environmental footprint, but also social and economic factors. Decentralisation of production processes helps to restore the visibility of regional networks which would otherwise remain unknown as a result of low competitiveness (Guicciardini, 2021).

- Higher flexibility: distributed manufacturing includes shorter value chains and lower dependency from foreign suppliers. As a result, supply chain should be more agile and companies more ready to react to possible shocks. Moreover, businesses are less exposed to shocks from remote countries, as was the case with the COVID-19 crisis and greater reliance on large Chinese companies (Fast Radius, 2021).

In conclusion, replication makes it possible to perfectly match the resilience and efficiency needs of businesses with the characteristics of the current scenario. Nevertheless, it is important to remember that it is expensive to implement both in terms of bearing costs and time consumed.

4.2.1.3 Regionalisation

Regionalisation implies the creation of regional value chains which are more fragmented (the geographical distribution of the value added would tend to increase) and vertically specialised at the regional or local level. These can be the result of either:

- A pull-back from global value chains resulting from firms replicating their activities at the regional or local level. In this process, digital technologies and infrastructures plays a key role in facilitating the coordination along the value chain. Replication processes, as previously mentioned, can become extremely complex therefore technological transition become indispensable.

- The growth of international production on a regional base with multinational enterprises structuring their manufacturing operations closer to home (UNCTAD, 2020).

Nevertheless, regionalisation is not easy to be established for different reasons. For starters, it is more difficult for a single region to attract investments or develop a value chain than for an entire country; moreover, locally there is less competitive advantage to exploit. In relation to that, one of the barriers to the development of regional value chain is the existence of high cost of equipment and difficulties in exploiting economies of scale. Moreover, also in terms of labour cost it is difficult at a regional basis to find cheap and specialized workforce or suppliers. As a result, it is extremely important a high level of coordination towards the entire system in order to better link and integrate the existing activities with the new replicate ones.

Having said that, it becomes evident that regionalisation, by configuration, is not a process which can be improved by all types of enterprises without distinction. For those industries in which cost, and scale economies are key competitive factors or those deeply dependent on raw materials procurement, a global configuration remains the most efficient solution (Pla-Barber et al., 2021a). However, COVID-19 has put a question-mark on this reasoning, and, in the aftermath of the pandemic crisis, many firms have started to see this process as a valid alternative to internationalization for enlarge the business but at the same time maintain a good level of resilience.

Apart from resilience itself this process is fuelled by other behaviours. First, considerations of regional strategic autonomy, in line with the ongoing nationalism attitude of a lot of developed countries. Moreover, concerns related to the regional development objective of certain regions:

as FDI were and still essential for the development of emerging markets. Among the benefits, it has to be taken into consideration also the sustainability dimension: for a regional value chain it is easier to reduce distances, and as a consequence reduce the environmental impact of transportation.

Despite all the pros related to regionalization, it is important to highlight that it may be a long and difficult process. Firms need to sustain significant costs relative to the introduction of new infrastructure and technologies, as well as to develop a new supply chain closer to the local market. Moreover, the globalization process has led over years to destruct industrial districts in many developed countries to their lower competitiveness; it has consequently reduced the regional availability of raw materials and intermediate products (McKinsey, 2020). That being said, this shift is unlikely to occur immediately; however, it remains a good opportunity for businesses to reconfigure their global value chains in a more resilient way.

4.2.1.4 Reshoring

The rising of trade protectionism, together with other factors and shocks, contributes to the rise of this fourth trajectory. Reshoring implies a direction towards a simplification of the production processes and the use of onshore rather than offshore outsourcing. The term onshore or domestic refers to the outsourcing to suppliers who come from the same country (Q. Chen & Shen, 2021). With this process the fragmentation (unbundling), the geographical dispersion (offshoring) mentioned in the previous sections as catalysts for the born of global value chains, are challenged. The focus is indeed on the regional and local geographic level.

Several factors contributed to the diffusion of this notion in managerial and economic literature. First of all, the already mentioned propensity towards regionalism and the huge price increase after the environmental shocks that have succeeded one another in the recent history. Bringing activities closer, reduces geographic dispersion and, consequently, reduces costs of transportation and coordination. Moreover, the technological diffusion and the automation make reshoring a sustainable process for many firms, helping to reduce coordination, integration, and efficiency costs.

This trend will be further analysed in the following sector as the favourable trajectory for firms to react to COVID-19 crisis and reorganize their businesses and global value chains in this "new normality".

4.3 Reshoring: a favourable trajectory

The early 1990s to the mid-2000s had seen an exponential growth of the offshoring[12] phenomenon with a huge increase in FDI flows, as shown above in the first chapter. In a favourable environment characterised by competition, liberalism trade behaviours and technological innovations, firms started to internationalize their businesses in searching for efficiency and low-cost raw materials and labour. All of this was available in developing markets that started to become the preferred destination countries for multinational enterprises. These massive internationalization movements have created networks between different economies; as a result, companies have become increasingly dependent on foreign markets and production (Bolter & Robey, 2020).

The global financial crisis of 2008-09 was the first trigger for reshoring: numerous firms have decided to move their operations back to domestic borders from foreign countries (Bernasconi & Pollara Tinaglia, 2022). In particular, reshoring refers to an enterprise's strategy of repatriating to its home country part or entire manufacturing operations that were previously dislocated into foreign economies.

The recent events have increased the attention on the theme emphasizing its importance as one of the main trajectories that firms can follow to strategically recover and adapt their business to the new normality of the post-COVD-19 world. Disruptions brought in with the pandemic crisis and the other shocks of the recent history, have accelerated and amplified a phenomenon that was already in place and prompted companies to rethink their internationalisation strategies. The pandemic could also be a catalyst, as MNEs will aim to benefit from government support programs and fiscal stimulus packages. Within the framework of budgetary policies, which have been strengthened following the crisis, many incentives for reshoring have been proposed to companies (UNCTAD, 2020).

[12] Offshoring represents the relocation of production and other value chain activities to lower cost countries (Pourhejazy & Ashby, 2021).

Nevertheless, given that reshoring decisions should be based on long-term implications rather than being a reaction to trigger events (Hartman et al., 2017), this recent geopolitical and economic shocks may have accelerated a trend which was already in place due to other factors. The letters concern with the ongoing trends mentioned in the previous chapters that are still rethinking the precedent pillars of the business strategies: new technological revolution, sustainability imperative and nationalism behaviours.

4.3.1 Geographic distribution

A geographical distinction could be made between FDI reshoring flows in Europe and in the US. Starting from the letter, the United States represents the country with the highest number of reshoring cases, especially in the period between 2010 and 2018 after the global financial crisis. The factors that have contributed most to this result are not just economic, but also legislative and political (Denicolai & Noris, 2022). For what concern the countries of origin of those movements of capital: in the period between 2010 and 2020, 61% of the reparations were coming from Asia, 30% from North America and only 7% from Western Europe. Among them, China was definitely the country of origin from where the greatest number of companies decided to return to the United States, around 46%, followed by India with 6% and thirdly Japan with 4%. This phenomenon of reshoring represents one of the main drivers of the recovery in the US manufacturing sector.

Analysing this trend from a legislative standpoint, a major aspect that has made reshoring an increasingly attractive option for businesses, has been the Tax Cuts and Jobs Act. As already mentioned in the first chapter, it was a tax reform enhanced by the Trump administration aimed at incentivized American companies to return their earnings back to the States. Moreover, the trade was between US and China put the global supply chain under additional stress (Bolter & Robey, 2020) and has had a huge impact on reshoring initiatives.

Similarly for what concern **Europe**, the phenomenon was important even if, at Community level, it has not been adopted in an organic manner and encouraged actions such as those in the USA have not been strengthened (Bolter & Robey, 2020). The European Reshoring Monitor collected number on the process and an analysis of these can provide a clear picture of the regional phenomenon. The highest number of relocations came from companies based in the UK (17%), Italy (15%), France (14%), Denmark (8%), Norway (8%) and Germany (7%). What is surprising is that only 42 per cent of these cases concern companies which have relocated from Asia, while a higher percentage, 47 per cent, refers to those firms coming from Economic Europe Zone (Econopoly, 2021).

A further geographical distinction could be made considering developed and developing countries: the impact is nearly opposite for two main reasons. The first concerns with the process itself and its configuration: FDI for reshoring are moving mainly from emerging markets towards advanced economies. Therefore, the final variation of FDI stock will result as opposite between emerging and developed economies (UNCTAD, 2020).

On the other hand, it is interesting to consider that this process of repatriation, as will be analysed better further in the discussion, is significantly driven by a technology development which permits to reduce part of the cost-gap between wages in those locations. This will consequently lead to the creation of new jobs that required more skilled workers which can be find more easily in developed countries. Also when it comes to the impact on the labour market, the result is contrary (Bárcia De Mattos et al., 2020).

This is a long-term process; therefore, it is not easy to have a clear picture of the economic and social impact of the phenomenon; however, considering the drivers and the laws that guide investment flows these are going to be the outcomes.

4.3.2 Drivers

Enhancing reshoring should be a conscious decision, not only considering those risks related to offshoring and trying to minimize them, but also considering the intrinsic advantages that repatriation brings to a local firm. In particular, while cost reduction is recognized as a key driver for offshoring, reshoring is a more complicated concept that need to be motivated by multiple considerations (Johansson & Olhager, 2018).

As a result, this does not depend solely on economic factors: the recent literature suggests that business decisions are increasingly linked to their expected effects on customer perception (Bernasconi & Pollara Tinaglia, 2022). Accordingly, the reasoning of reshoring can be divided into two main categories: external factors and customer value perspective.

4.3.2.1 Customer value perspective

In the today's economic scenario customers still increasing their importance in the firms' decision-making process. As customer-centric attitudes develop, businesses increasingly need to listen and adapt their strategies to consumer behaviours and preferences. Particularly today, people's awareness of quality and sustainability is significantly higher than it was ten years ago, and they are increasingly demanding customization. According to the reasoning, companies repatriate part or all of their operations because it enables a faster product development, better quality and personalization, while managing costs (Theyel et al., 2018).

Available evidence emphasises the importance of the country-of-origin or the "made-in" effect as a synonym of quality, craftsmanship, and even more of sustainability (Bernasconi & Pollara Tinaglia, 2022). It appeared to be particularly relevant in industries such as fashion, where the place of production can function as a product quality index. Consequently, many firms receive a boost to relocate their production back to domestic borders to leverage this positive "made-in" effect. For some countries, such as Italy, it seems to rank first among the motivations for reshoring. However, it is not already proved the existence of an actual correlation between this motive-based relocation and an increase in the level of customer-perceived quality (Cassia, 2020).

Moreover, it seems that reshoring decision increasingly results also from a more significant emphasis on sustainability aspects: having production closer to the target customer base could decrease substantially the environmental impact of the overall shipping chain (Pourhejazy & Ashby, 2021).

4.3.2.2 External factors

Among these variables there are two main components that need to be analysed: the first concerns change in the socio-economic context with increasing uncertainty raising after the recent shocks, the second regards to development of new technologies that are still disrupting the previous manufacturing operations.

Starting from the former there have been serious shocks in the recent history, starting from the US-China trade war up to the COVID-19 pandemic and the Ukraine-Russia war. They have highlighted difficulties concerning logistics, transportations and increasing costs (Bernasconi & Pollara Tinaglia, 2022); moreover, they have led to an increasing uncertainty in the overall economic and social environment. Together these factors contributed to a significant change of the overall context in which firms have to operate and led some of them to redesign their international infrastructures.

From a cost perspective, there are two main determinants. The first is represented by an increase of those expenses related to transportation and control in value chain (Pla-Barber et al., 2021a) higher oil prices have increased transport costs and global value chain risk in the overall economic climate. Secondly, it is in place a trend of closing labor cost gap: emerging markets are experiencing increased pressure for wealth and welfare with a consequent price increasing and a closing of the gap in wage with developed economies (Arlbjørn & Mikkelsen, 2014).

The second aspect is related to an increasing uncertainty over the future in the post-COVID-19 world which highlights the necessity to make value chain flexible and protected from risks. This has highlighted the presence of some hidden costs related to offshoring which may have significant environmental and social implications. They include costs related to language and culture which may be less quantifiable but not irrelevant (Gray et al., 2013). Reshoring can therefore be driven by a willingness to reduce the risk of such environmental and social problems (H. Chen et al., 2022). As cited in the previous section, resilience is one of the preferred attitudes towards which companies can face this problem, and reshoring is one of the trajectories that companies can follow to achieve this goal.

The other variable concerns with changes in the technological dimension which has enhanced production in developed countries at a lower cost, making those markets competitive again. In particular, related to the previous section on customers preferences, the increasing focus on quality as a purchasing determinant justifies the growing importance on innovation which, in turn, can be enhanced through R&D investments (Pla-Barber et al., 2021a). Current literature emphasises the existence of a relationship between reshoring and various form of technological development (Ancarani & di Mauro, 2018). Digitalization and new manufacturing technologies enable companies to implement more integrate production processes able to reduce physical distance to the target market and costs related to transactions and governance. All of this without gave up the focus on customers: automation and digitalization allow to efficiently customize the final product making it more appealable to the target customers (Pla-Barber et al., 2021a). This has a significant implication in terms of reshoring given the presence of larger research hub and higher-skilled workers in developed countries, rather than in developing one. The significant reduction in costs reduces the importance of labour-intensive locations and highlights the importance of a highly skilled workforce capable of improving automation and digitization processes. Automation and digitalization are therefore becoming essential processes for the successful completion of this return process and for the survival of the company itself in today's market.

The major change is that technology revolution has highlighted the fact that being present in a lot of locations is not important to achieve sustainable competitive advantage. Industry 4.0 and related innovations enable companies to be efficient placing the production closer to the final customers (Pla-Barber et al., 2021a).

4.4 Benetton Case study

4.4.1 History of the Benetton Group

Benetton Group is one of the most famous fashion companies in the world, thanks to a unique identity built on quality, colour, and respect for diversity. Its origins are dated back to the mid-1950s when Luciano Benetton began to distribute colourful wool sweaters in some clothing stores in Veneto and then in Rome. These clothes quickly met consumers' preferences and in 1965, in Ponzano Veneto, a province of Treviso, the Benetton Group was founded by the brothers Luciano, Gilberto, Giuliana and Carlo Benetton. In the same year the first store was opened in Belluno. The owners initiated a wide franchise business model, and more than 300 independent Benetton retail outlets were opened within 15 years. Encouraged by the success the next level of the firm's strategy was to get from a national to an international company. The first step was made in 1969 with the first store opened in Paris, followed by the one in New York in 1980 and two years later the one in Tokyo. In the early 2000s the company was already present in 120 countries with 5.000 shops all around the world.

In 1974 the company decided to acquire Sisley; thus, the brand was included in the Benetton portfolio with the aim of expanding the range of products offered and get a new more universal and flexible strategy. In the late 80's, the Group joined the stock exchanges of Milan, Frankfurt, and New York, but the companies left the public markets in early 2012, returning under private control.

The company investments are focus exclusively on fashion but comprise interesting not related projects. The first is a proprietary Formula One team constructed in 1986 that will then be acquired by Renault in 2000. Benetton Group has been very involved in the field of sport in general, with a great sponsorship also of the regional teams of basketball and volleyball, winners of several Italian and international titles. The second project is a communication research centre founded in 1994 under the name of Fabrica: the firm has always had a focus on development and innovation.

The story of the Group was a successful one, however Benetton encountered many economic obstacles in the years following the global financial crisis with a huge drop in sales. Nevertheless, the continue desire to innovate and be aligned with customers preferences, has led the company towards a new era of recovery started in 2018.

On top of this, the COVID-19 pandemic arrived and it has drastically impacted the Benetton business: the company has decided to hire a new Chief Executive Officer, Massimo Renon, to try to give continuity to the relaunching process started in the previous two years. All of this inside a difficult international context, even more disrupted by the pandemic crisis. Starting in April 2020, the Group's management drew up a plan for the period 2021-2026: it involves a business transformation process to ensure financial balance.

Today Benetton Group is one of the best-known fashion companies and it is present in all the most important markets in the world with a network of about 4.000 stores. Moreover, it is not a simple fashion firm, although it is also involved in a variety of beneficial projects. On top of this in 2020 United Colors of Benetton became the first Italian brand for transparency according to Fashion Transparency Index[13].

Throughout its history, Benetton Group has emphasized the environmental and social impact of its activities. In particular, after the announcement in September 2015 by the United Nations of the approval of the Global Agenda for a sustainable development and its related 17 sustainable development goals (SDGs); Benetton has decided to contribute to the cause trying to take active actions in those field which are related to its core business (Benetton Group, 2021).

The effort of the company to be more sustainable it is visible even in the modes of transport chosen. Benetton Group has repeatedly announced the will to decreased as much as possible the CO_2 emissions trying to find the best solution in terms of environmental footprint, preferring the rail transport instead of the one trough air. Given the numbers visible in Table 4.1, it seems that the efforts made have been successful; although the extremely low number in 2020 due to the COVID-19 restrictions, in 2021, when the distribution chain has already fully recovered, the amount of CO_2 emissions were extremely lower compared to 2019.

[13] The Fashion Transparency Index analyses and ranks 250 of the world's biggest fashion brands and retailers based on their public disclosure of human rights and environmental policies, practices, and impacts, in their operations and in their supply chains (Fashion Revolution, 2021).

Reduction in CO_2 emissions	u.m.	2019	2020	2021
Logistics	t CO_2	23.783	10.997	16.566

Table 5: *CO_2 emissions of the Benetton Group*

Source: *Benetton Integrated Report, 202).*

The company has kept up with the times also with regard to digital development. With an internal department entirely focused on testing strategies and markets for new digital tools; and an extremely performing websites to be suitable for the growing trend of online purchases, which was further emphasized by the COVID-19 pandemic (see Table 4.2). All accompanied by multi-channel campaigns aimed at achieving a broader customer base and transmitting the values that characterize the company, making them conveyed by the most famous influencers of the moment. The company has significantly increased is social media presence and engagement: the official profile has now 750.000 follower and the number of contents has increased by 179% between 2020 and 2021. Benetton is more focused on the production of high-quality consents to attract and retain target followers. Understand the customers' desires and act accordingly without fear (Benetton Group, 2021).

Online Sales (€ mln)			
	2019	**2020**	**2021**
Benetton.com	24,6	43,1	55,4
Sisley.com	2.9	3.3	5.2

Table 6: *Value of Benetton Group's online sales from 2019 to 2021*

Source: *Benetton Integrate Report, 2022.*

In addition to this, the automation of production processes is also extremely advanced and, as analysed below, it is going to be one of the drivers that will allow the Group to move part of the production previously located in Asian countries with low-cost labour to Mediterranean countries.

4.4.2 Reshoring of the Global Value Chain

Given the large international presence of the Benetton business, its global value chain needs to be perfectly coordinated, flexible and protected from possible risks. In particular, there are different typologies of threats that can challenge the overall Benetton infrastructure. The company in its yearly integrated report, mentioned four main categories of risks that need to be addressed: strategic, financial, legal, and executive.

Already in October 2016 the company has announced its first reshoring project. The initiative is part of the "Reshoring Project" promoted by Sistema Moda Italia in collaboration with the Ministry of Development and PriceWaterhouseCoopers. According to the European Reshoring Monitor (Eurofound, 2016), the main reasons that led the company to enhance this transition:

1. The will to exploit the "made in Italy" effect. As mentioned in the previous section, today's customers are increasingly quality conscious, and their purchases are even more addressed to high quality and sustainable products even if price premium. Therefore, it could be said the power of the so called "country of origin" effect has raised dramatically. Luckily Italy occupies the seventh place as one of the countries with the highest "made-in" effect potential (Statista, 2017). Benetton has consequently decided to exploit the high potential of its domestic production, and reshoring a small part of the production to Treviso.

2. Implementation of strategies based on product/process innovation. The president of the Group itself, Francesco Gori, affirmed:

   "This project is only the tip of an iceberg, [...], it is not only a project of productive relocation, but also of knowledge, of knowing how to do. Cutting distances and bringing styles and designs closer to production also means shortening the value chain, finding solutions quickly, responding to the market» (il Sole 24 Ore, 2016).

   The entire process was possible thank to an elevated level of automation: only exploiting new technologies the cost gap with low-wages countries can be reduced, even if it still considerable. Moreover, the cost cut due to the automation of production process has enable the company to choose high quality materials (il Sole 24 Ore, 2016).

3. Loyalty to the home country: another important driver of this process was the launch of a new line tribute to Benetton seamless knitwear that was produced in the 1990s, entirely home-made (considering Italy, and in particular Treviso as home). The line will be on sale in the stores in Europe, India, and Mexico from November 2016.

This first step has been called “intelligent reshoring”, because it is not to be considered a perfect reshoring due to some important limits that are left. The Italian manufacturing costs were not competitive enough to justify a complete reshoring; nevertheless, the increasing attention of target costumers on quality and environmental impact of products have opened a new business opportunity.

Therefore, Benetton has decided to satisfy the growing demand of most sophisticated products: in this context, Italy has added value through its creativity and the sophistication of its production processes (Affaritaliani, 2016).

Other important steps have been made in recent years. The COVID-19 crisis, as happened for many firms, has significantly challenged the Group infrastructure. The external uncertainty, and the other shocks that have characterised the recent history, have questioned the previous equilibrium. In particular, the pandemic has led the company to rethink its international presence and redesign the overall global value chain in order to make it more flexible and resilient. This process started in 2021 with already 10% of the production carried out so far in Bangladesh, Vietnam and India which has been moved to the Mediterranean area - in particular, in Tunisia and Turkey. As reported in the company Integrated Report (2022), this change has followed three main trajectories:

1. Nearshoring: the rapprochement of productive activities to the country of origin with the aim of making the overall value chain more sustainable and efficient through a better integration of the processes.

2. The rationalization of sources through a complex process of integration aimed at increasing punctuality and synchronization, making the entire value chain more flexible and resilient. By virtue of this strategic objective, during 2021 Benetton Group pursued a substantial balancing of production sources between the EMEA (47%) and Asia (53%). In light of the recent geopolitical shocks, this allowed the Group to increase control over the entire value chain as much as possible and to try to secure the requested supply within the required timeframe.

3. The rationalization of materials: in the future, Benetton aims to limit the variety and improve the quality of raw materials, which have always been considered a strong point of the company business model (Benetton Group, 2021)

Moreover, the Venetian group has declared to Reuters that within the end of 2022 it will move in the area of the Mediterranean (but not directly in Italy) even more productive activities until now localized in Asia, in answer to the necessity to have efficient supply chain, but also in order to contrast the increasing costs and the delays of the transport via sea. Benetton Group aims to halve the production which is now carried out in Asia by the end of 2022, focusing more on Turkey, Croatia, Tunisia, and Egypt (Fashion Magazine, 2021).

The managing director of the Group has commented:

"*The cost advantage of producing in Asia in now nullified by the long delivery times required; moreover, the costs for shipment of a container passed from 1.200-1.500 dollars to 10.000-15.000 dollars, without certainty on the delivery date. […]. The lead time has increased drastically from 4-5 months previous the COVID-19 crisis up to 8-9 months.*" (Supply Chain Italy, 2021).

These higher expenses have made the higher costs of producing in Mediterranean countries, around +20% with respect to Vietnam and Bangladesh (Supply Chain Italy, 2021), irrelevant.

The previous statement summarizes perfectly the discussion made in the previous sections: external factors which lead companies to choose reshoring are mainly cost increase in previous lower-cost countries, additional expenses related to logistics, and uncertainty of the external environment. In addition, even for customer-related drivers, Benetton represents a perfect fit with respect to its commitment to creating even more quality apparel.

4.4.3 Accounting implications

The reshoring process is a long-term transition which requires time to be implemented and to record effective impacts on the financial and economic performance of a firm. Moreover, the process in question in this case it is implemented in 2021 and it is going to continue up to end of 2022, therefore it is practically impossible to assess the overall performance analysing current financial statements. Nevertheless, it could be interesting to analyse the Benetton's performance and consequently trying to justify why the company has decided to repatriate part of its production. All the data presented are coming from the Orbis database.

Analysing financial statements what stands out is the different composition of the Balance sheets and of the Income Statement from 2021 to 2012[14]. It would say that a lot has changed over the years in strategic and managerial terms.

Mln USD	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Total value of production	730	706	1.018	1.146	1.272	1.213	1.316	1.602	1.660	1.857
Costs of raw materials	351	406	567	674	735	693	835	940	1.161	1.232
% on total value of production	*48,04*	*57,53*	*55,69*	*58,81*	*57,76*	*57,12*	*63,46*	*58,67*	*69,96*	*66,32*
EBIT	-106	-232	-68	-76	-93	-31	-82	-92	-374	4
Net income	-161	-400	-161	-175	-259	-39	-76	-20	-191	-20

Table 7: *Main accounting Figure of the Benetton Group*

Source: *Personal elaboration of Orbis database data*

Starting from the Income statement, as visible from Table 4.3, the total value of production as decreased by 154% from 2012 to 2021: the most dramatic decline was recorded during the pandemic crisis years, but a downward trend was registered even before COVID-19 started to spread. For what concern the cost of raw materials, it can be seen that the percentage of these expenses on the total value of production has decreased over the years. Although quality is

[14] Latest year available into Orbis database.

increasing, automation of production processes to reduce waste could have contributed to the decline. This trend is confirmed also looking at the operating income: it follows a downturn trend. The dramatic result registered in 2013 was due to the disposal of minor brands, the exit from 60 markets out of 120 and the decrease in stores (Muret, 2014).

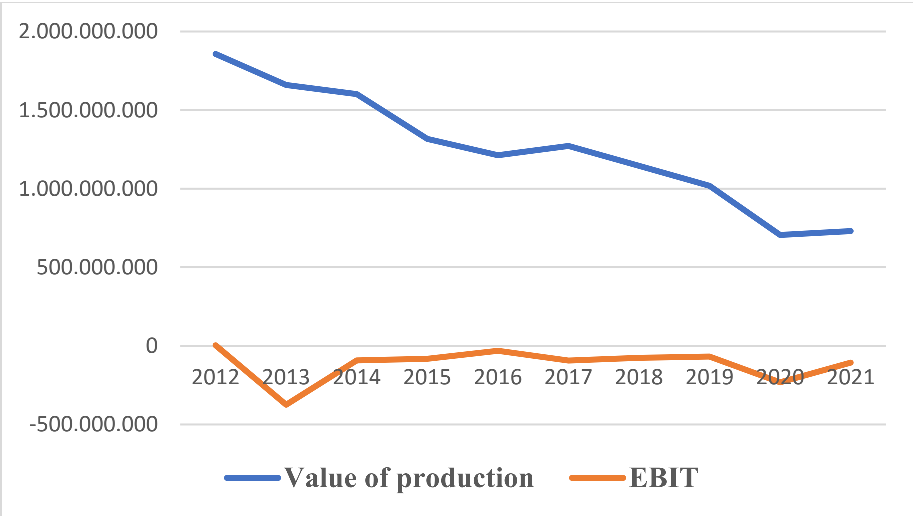

Figure 21: *Value of production and EBIT trends from 2012 to 2021*

Source: *Personal elaboration of Orbis database data*

Proceeding with the Balance Sheet, following a risk-based approach, those figures that are most interesting to analyse to have a picture of the company financial health.

Mln USD	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Net working capital	93	50	66	77	150	243	288	552	267	494
Equity	472	554	657	726	855	1.006	1.077	1.477	1.175	1.306
Debt (long+short term)	598	664	654	648	716	583	643	778	978	1.006
Fixed Assets	484	618	679	717	811	832	878	1.023	981	1.127

Table 8*: Main accounting Figure of the Benetton Group*

Source*: Personal elaboration of Orbis database data*

Balance sheet values are coherent with the Income Statement ones in depicting a picture of a company which is going through a period of transition and since long time it is facing significant difficulties. Generally, the overall company's structure has reduced significantly over the period considered, form a total funds/source equal to 2.312.260.997 USD in 2012 down to 1.070.166.751 USD in 2021. It is another sign of how the company is reducing its business and how important it is a business model relaunch.

Shifting to a leverage perspective, it could be note that the company has always has a huge amount of equity coming from shareholders which continue to sustain the company with large injections of liquidity. The debt amount has been always lower than the company own funds, however, during the last years of crisis and need to recovery, external financing have been essential.

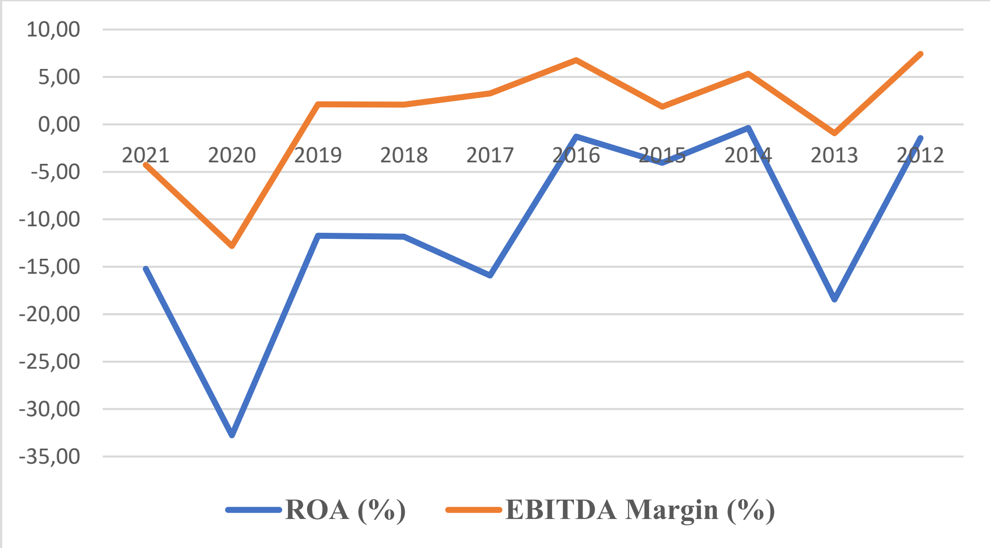

Figure 22: *ROA and EBITDA margin trends from 2012 to 2021*

Source: *Personal elaboration of Orbis database data*

Looking at profitability ratios, trying to assess how efficiently a business can generates profits, both EBITDA margin and ROA trends show a prominent V-shape in correspondence of 2013 and 2020, two of the most difficult year for the company. In general, the profitability and the return on assets are not in line with the those of an healthy company, important changes need to be made to increase the efficiency and the return on resources.

From the data presented it is clear that the company has gone through a really difficult periods in recent times which were further exacerbated by the COVID-19 pandemic crisis. Therefore, it is not surprising that the new business plan proposed in 2020 contains the main strategies to relaunch the Group. Two main trajectories that the company should follow are the one towards resilience and the other towards customers, resulting in a reshoring choice.

Starting form the former, the first objective for a company in this time is trying to survive into the "new normality" and trying to make its business model as much resilient as possible. For what concern the other, Benetton has been always a customer-centric firm, always focused on consumer preferences which are even more directed towards high-quality and sustainability imperative. Together, these two points result in reshoring as a favourable strategy to the company relaunch. Exploiting its automation and digitalization processes, Benetton would be able to repatriate part of its operations and focalize more on materials quality and improve its environmental footprint.

4.5 Conclusion

In conclusion, it could be said that the todays' environment has specific characteristics which, interacting with the recent shocks, have created a "perfect storm", resulting in a new normality according to which companies should adapt their businesses as usual. These disruptive events arrived on top of major changes began just after the global financial crisis, when these trends[15] started to reshape the companies' business strategies contributing to the arising of new managerial options.

In this recent history, companies need to understand that the environment is changing, new pillars are emerging, and older paradigms are "become obsolete". Change is imperative and will become an increasingly necessary process with more or less scale of investment and importance. However, given the growing uncertainty of the global scenario, it becomes imperative for firms to try to balance their investment attitude with accurate risk management practices across the entire value chain to be as flexible and responsive as possible.

Therefore, key word of managerial literature became resilience: firms need to manage present and future risks to survive and adapt their businesses to the new global scenario. In particular, they have four main available trajectories to follow in order to reach resilience: diversification, replication, regionalization, and reshoring. The letter is further analysed as a favourable opportunity to be exploited.

The case of Benetton Group represents a good example of how firms can react aligning their business models to the trends in customers preferences, choosing the strategy which represents the best fit with the internal characteristics.

Nevertheless, it is important to highlight that although the presence of favourable conditions, this process is likely to be gradual due to the procedural and managerial difficulties. Therefore, even if these trajectories, together with the previous three described in the sections above are becoming prominent in the literature, internationalization is not going to stop totally.

[15] the increasing citizenship sustainability imperative and the incessant technological development.

Conclusions: managerial implications

From the overall discussion, the key lesson is that the world is constantly changing, and this process has been accelerated even more by the COVID-19 pandemic. Enterprises in developed and developing countries should adjust their activities and try to make them as flexible as possible to be prepared for each situation.

Therefore, managerial implications are significant: firms need to find a balance between the search for efficiency and the objective of being resilient. Be profitable should remain an important target for every business but survive in the new economic and geopolitical context has become even more important. Being part of an international network has represented a key for development for decades, now it is important to find a trade-off between continuing to be a character of the global scenario and be protected from externalities. As a result, future FDI flows should be aimed at making global value chains more resilient and secure.

Although the impact has been the most significant since decades, environmental crisis could also offer an opportunity for those decision makers who can perceive it accurately and manage it wisely (Pedersen et al., 2020). In a nutshell there is not a unique trajectory to follow in order to accomplish efficiently a recovery path, there is a set of managerial possibilities.

The case study presented represents an example of one of these available routes for recovery: reshoring. The company chosen is Benetton Group, a firm which was already in trouble before the crisis but that has lost even more during the pandemic. Having said that, even if it is not possible to address the financial and economic impact of the reshoring activity, due to the proximity of the event, some important considerations could be made. Before starting, it is important to point out that this initiative is only a single event inside a broad business strategy which was already struggling: Benetton is a company that has had some intrinsic managerial and operational problems that can't be solved immediately. The focal point should remain what drives the company to undertake this strategy, which may be the same that will lead to future improvements.

First, what seems to be the goal of the company's strategy is repatriating part of its international investments to avoid possible foreign shocks: implementing risk management practices to become as flexible as possible to protect the business from external shocks and possible future shifts of todays' equilibria.

Afterwards, the path pursued by Benetton has been undertaken to align the company' infrastructure with the new emerging paradigm: increasing customers' sustainability awareness and digital predisposition, preference towards quality and origin of products.

Moreover, the overall strategy has been less time and resource consuming due to ability of the company of exploiting technology evolution: the continuous development in the fields of automation and digitalization is a significant support for companies in trying to be more efficient and it plays a key role in implementing new operational strategies.

In conclusion, the overall initiative is aimed at redesigning the GVC considering the new paradigms of the economic and geopolitical scenario; consequently, even the judgment parameters should be designed accordingly.

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