THE “COVID EFFECT” ON GLOBAL BUSINESS EXPANTION

A rapid shift to online processes and procedures is allowing companies to bypass some of the usual setup roadblocks when entering new markets.

Global markets continue to seesaw as countries grapple with the need to re-start their economies whilst also controlling the further spread of COVID-19.

Authorities are expanding relief schemes to cover more sectors and extending deadlines for businesses to apply for financial support.

As governments focus inwards to protect national interests, they’re also acutely aware of the need to continue to attract foreign investment. The “Covid effect” has inadvertently cleared some hurdles for businesses looking to establish in new markets.

TMF Group’s Global Business Complexity Index (GBCI) 2020 examines how global and local factors interact and impact the ease of doing business in 77 jurisdictions worldwide. It points to the trend of modernisation slowly winning the battle against more traditional business practices, such as the use of official stamps, chops or seals. Samuel Farmer, Consultancy Solutions Associate at TMF Group, has found that in the past few months this modernisation trend has accelerated:

“Before COVID-19, a lot of government authorities required company setup or change documents to be apostilled by a notary and filed in person. Now, we’re seeing a rapid switch to online systems and administrative departments – such as the Luxembourg Trade and Companies Register – are being more flexible. They’re accepting simplified applications and allowing verification documents to be submitted later. This removes some of the usual headaches that come with doing business.”

Rafael Cifuentes, Consultancy Solutions Manager, points to a US-based medical manufacturing client who is in the process of expanding as a stand-alone business in more than 40 countries.

“Our client is pleasantly surprised at how accommodating the authorities have been due to COVID-19. Many, including those in Sweden, Ireland and New Zealand, have adjusted their usual establishment procedures to make entering their markets as smooth as possible in these challenging times.”

The streamlining of processes and requirements to give a warmer welcome to foreign businesses is not surprising. The Organisation for Economic Co-operation and Development (OECD) expects Foreign Direct Investment (FDI) flows to fall by more than 30% in 2020, even under the most optimistic scenario.

Some countries will slow the FDI freefall more effectively than others. Indonesia is ranked the most complex country for business according to the GBCI, and this is – in part – due to its Negative Investment List, which restricts the percentage of foreign ownership in industry sectors and poses major obstacles for foreign investors.

China also appears on the complexity index top 10 list along with six Latin American countries, including Brazil. The Americas region is highlighted in the report as having the longest incorporation times for private companies – more than three months in some cases, and businesses can be required to interact with 30 or more bodies to incorporate.

Farmer notes: "Indonesia, China, Brazil, where it's already so complex – these countries are likely to see a greater decrease in FDI. So COVID-19 is serving as a bit of a wakeup call for government authorities. They're realising they need to adjust to the changing world and make their business environments easier to operate in."

But will the switch to more streamlined processes last? Cifuentes believes for the most part, yes.

"I think we're going to see a transition to more of a flexible system even after the pandemic, when things are getting back to normal. Countries will want to retain foreign business interests, which will develop into a smoother administrative cycle, and ultimately make matters easier for both parties."

Sectors including hospitality, travel and retail have been hit hard by the global pandemic, and it will be some time before these businesses can begin to recover. However other businesses, including those in technology and logistics, are looking to expand their footprint sooner.

Cifuentes believes it's more important than ever for these companies to show jurisdictions how their expansion will add value. "It is of paramount importance to have a well-thought-out business plan that clearly communicates to local governments and other stakeholders how their business will contribute to the regional economy; *'we'll create x number of jobs, we'll be investing in technology and creating/contributing to x number of on-going community initiatives.'* In our experience as we help companies expand and operate across the world, if you're able to articulate that value well, governments will be accommodating."

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