Navigating through Turbulence: the Influence of COVID-19 and Geopolitical Tensions on International Investment Trends

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Abstract. Contemporarily, the world has experienced significant upheaval marked by two major events, i.e., the COVID-19 pandemic and escalating geopolitical tensions exemplified by the Russia-Ukraine conflict. These crises have profoundly affected social structures, economies, and international relations across the globe. This study examines the profound effects on international investment patterns resulting from these two major crises. Initially, it analyzes the consequences of COVID-19, including the initial outbreak, governmental reactions, and its drastic impacts on the service and tourism sectors. The narrative also covers the stock market's downturn and recovery, along with adjustments in investment strategies due to the pandemic's economic challenges. The second part addresses the geopolitical tensions from the Russia-Ukraine conflict, summarizing its origins, immediate economic impacts on the involved nations, and broader effects on global economic stability. This section also examines shifts in international investment patterns. These results underscore the adaptive measures by investors and policymakers, highlighting the need for resilience and innovation in navigating these global crises.

Keywords: COVID-19, geopolitical tensions, Russia-Ukraine conflict, investment trends.

1. Introduction

In recent years, global events have significantly changed the landscape of international investment. The outbreak of COVID-19 and the escalation of geopolitical tensions, especially the Russia-Ukraine conflict, became the two of the biggest universal events after the economic crisis of 2007-2009 [1]. These two major events were the cause of economic chaos and the catalyst for transform of investment trends successively. This article reviews from an objective perspective the significant impact of these two events on the world during their respective specific periods, analyzes their unique effects, and how they have changed investment strategies and investor psychology.

Initially, this study examined the universal impact of COVID-19. Its harmfulness that enabled a far higher death rate than any other infectious disease [2], and the government has made many policies, this article mainly discusses the "social distancing" policy [3]. Besides, it directly caused economic shutdowns, reduced trade, especially in the service and tourism sectors. Continued research into stock market resilience has revealed a trajectory from initial decline to recovery. The emergence of new media and medical technologies has brought about new perspectives on experience, along with shifts in investor psychology [4]. Subsequently, the discussion pivots to this conflict, exploring its origins, the direct economic fallout on the countries involved, and the broader implications for global economic stability and international investment flows, particular attention is paid to the new “energy crisis” [5]. The purpose of this article is to use the conflict between Russia and Ukraine to explain the huge blow caused by geopolitical tensions to the world economy, and the investment strategies made by investors in this uncertain investment background

2. Impacts of Covid-19 on International Investment

2.1. The Sudden Outbreak of a Pandemic

On 31 December 2019, the initial case of a new type of respiratory infection was documented in Wuhan, China, and it spread apace all over the world. Soon this novel form of pneumonia was designated Severe Acute Respiratory Syndrome Coronavirus 2, or SARS-CoV-2. It became widely known as COVID-19, a term coined by the WHO to refer to the 2019 coronavirus disease. This devastating virus is characterized by its exceptionally high rate of transmission and fatality [6]. As of April 5th 2020, at least 200 countries or regions have reported over 1.2 million confirmed cases, and up to the conclusion of November 2020, the global count of COVID-19 infections had risen to close to 63 million, resulting in more than 1.4 million deaths [7]. In reaction to the COVID-19 pandemic, administrations worldwide have implemented various restrictions on social and economic operations. These include full or partial lockdowns, the shutdown of non-essential businesses, and limitations on travel and public gatherings which was also referred to social distancing measures.

2.2. Industry Impact and Investment Changes

Under the implement of these tough policies, a large number of industries have been hard hit, which one of the most influential was services. The service industry has become a key player in the global economy, driving international trade. Recent data from the World Trade Organization shows that services now make up a large portion of economic activity, attracting a majority of foreign investment and creating many job opportunities worldwide. Developing countries especially benefit from this trend. During the 2008-2009 financial crisis, service trade showed its resilience compared to the sharp decline in goods trade. Various studies have looked into why services were less affected, pointing to factors like less sensitivity to demand changes and lower reliance on external funding. However, the COVID-19 pandemic has hit service trade hard, with restrictions on movement and social distancing measures affecting cross-border service providers. For example, in Slovakia, during the pandemic, the number of hotel or guesthouse guests was approximately 1.6 million, which dropped by over 54% compared to pre-pandemic levels in 2019. This decline indirectly contributed to a 9.3% contraction in the country's economy in 2020 [8]. Derived from balance of payments data, this table outlines the yearly trends in global service trade for the years 2019 (pre-pandemic) and 2020 (during the pandemic). It reveals that the decline in service trade exceeded that in goods trade for the year 2020. Specifically, international sales and purchases of services and goods fell by over 20% and 7%, respectively [9]. In comparison to the global financial crisis, the current pandemic has exerted a more severe downturn on service trade than on goods trade. Additionally, just as with goods, service trade exhibits industry-specific variances. The tourism sector, highly dependent on direct human contact, has been especially hard hit. The results are summarized in Table 1.

According to data from the United Nations on tourism, tourism is a major global economic sector, contributing more than 20% to the GDP of certain countries, comprising 7% of global trade in 2019, and ranking as the third largest export sector in the world economy. There are some data estimated by the EU tourism industry, which has about 13 million employees, shows about 1 billion of revenue would be lost per month. In numerous well-known tourist spots, hotels stand empty, while restaurants, bars, and attractions remain shuttered. Trade expos, conventions, and cultural happenings have been called off or rescheduled. Events like the Euro 2020 and the Olympics have been pushed to 2021. Cruise giants have ceased operations, leaving ships stranded as ports deny entry. Borders are becoming stricter, as some nations are preventing specific travelers from entering, resulting in them being stuck far away from their homes. Not only that, but the GDP of several industrialized economies, including the United Kingdom, Japan, Germany, the United States, and France, also fell, the most in France by 5.83 percent. According to China's National Bureau of Statistics, in the first quarter, GDP fell by 6.8%, wholesale and retail sales by 17.8%, and construction by 17.5%.

There was a huge turbulence attacked by covid-19 with regard to the global finance market. A total lockdown of the city would affect the stock exchange. During the COVID-19 pandemic, there has been a negative correlation between the outbreak and stock market returns. Specifically, stock returns tend to decrease as the daily count of confirmed COVID-19 cases rises. On Asia, the stock market in China encountered unexpected challenges over the New Year period. Authorities imposed a complete shutdown on trading activities at the end of 2019, with operations resuming on February 3, 2020, and The Shanghai Composite index fell almost 8 per cent in response [10]. Also, Japan's Nikkei index plunged after the cancellation of the 2020 Tokyo Olympics. For the U.S., the S&P 500 and Nasdaq

Composite closed nominally higher and fluctuated throughout the day. On the European Stock exchange, the FTSE 100 index deteriorated and fell sharply in a day. During the pandemic, both the overall volatility spillovers and the direction of spillovers in terms of transmission and reception are higher than pre-pandemic levels. Risk spillovers vary over time and are highly sensitive to the pandemic. In addition, the pandemic strengthened the spillover effects in the European and American markets but reduced the spillover effects in most Asian markets.

Table 1. Summary for different categories.

Category	2019 Value	2019 Share	2020 Value	2020 Share	Growth (%)	2019 Value	2019 Share	2020 Value	2020 Share	Growth (%)
Total services	5125	100	4045	100	-21	4690	100	3660	100	-22
Goods-related services	202	4	168	4	-17	142	3	126	3	-11
Transport	866	17	700	17	-19	990	21	777	21	-22
Travel	1111	22	405	10	-64	1170	25	453	12	-61
Other services	2946	57	2743	68	-7	2388	51	2267	62	-5
Construction	97	2	74	2	-24	59	1	51	1	-13
Insurance	106	2	104	3	-3	152	3	159	4	5
Financial services	455	9	443	11	-3	225	5	220	6	-2
IP charges	378	7	365	9	-3	338	7	323	9	-5
ICT services	502	10	494	12	-2	346	7	340	9	-2
Other business services	1235	24	1122	28	-9	1106	24	1005	27	-9
Personal services	74	1	60	2	-19	75	2	69	2	-8
Government services	61	1	57	1	-8	55	1	51	1	-8
Total goods	17644	-	16442	-	-7	18029	-	16688	-	-7

2.3. Investment mentality and economic recovery

With the implementation of lockdown policies, people worldwide are being required to work and study online, leading to widespread use of video conferencing platforms as a form of information technology. According to Microsoft's statistics, the download and usage rates of Microsoft Teams, Skype, Zoom, and other software have skyrocketed worldwide. The Fig. 1 showed that the download rates of WeChat, Tencent Meeting, and Ding software have surged significantly, after China implemented lockdown policies at the end of January [11].

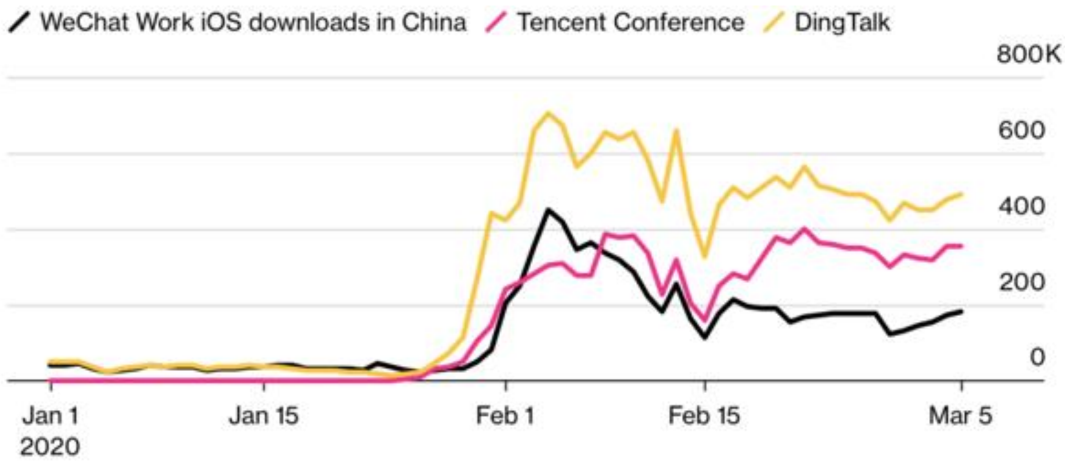

Fig. 1 Utilization of selected remote work applications in China from January 1 to March 5, 2020, measured by user numbers. [11].

People are forced to stay at home, whether for learning or working, which increases their anxiety and prompts them to change their consumption and investment patterns. In times like these, most individuals tend to prioritize essentials and fundamental requirements. The decline in mental health among people is closely linked to the pandemic, and many negative emotional reactions have been observed, such as anxiety and panic, which lead people to make less rational decisions. Additionally, Research across five nations revealed a rise in the usage of electronic cigarettes during lockdown phases, with individuals increasingly turning to these products to mitigate the stress and anxiety linked to the pandemic. After the pandemic, investors' average financial resilience has decreased (meaning their ability to bear losses), whether it's companies or individuals, both tend to preserve cash flow to deal with future unknown shocks. Furthermore, some retail investors tend to prefer immediate rewards over delayed, larger rewards, showing a trend towards short-term investment thinking among most people. In contrast, for those with higher elasticity or greater investment capacity, the pandemic has spurred their investment activities. Through cross-sectional data analysis, this may be attributed to factors such as experiencing the virus (testing positive), having family members affected or deceased, increased savings, and speculative behavior amid crisis-induced depreciation, all aimed at mitigating future financial instability [12].

Rebecca Greenspan, Secretary-General of UNCTAD, mentioned that as the initial health threats of COVID-19 begin to subside, the global economy is grappling with a substantial cost-of-living crisis. She stressed the importance of reflecting on and learning from the COVID-19 crisis to enhance the preparedness for the future. [13]. In order to achieve economic recovery, countries around the world have made significant efforts, particularly in trade. As shown in the Fig. 2, global trade began to rebound in the second half of 2020, with the value of global trade experiencing a strong resurgence, reaching approximately $28.5 trillion [14]. This shows a rise of approximately 13% over levels seen before the pandemic. Each country has designated corresponding measures to revitalize economic development. For instance, in the tourism sector, governments have taken steps like lowering interest rates and using digital marketing to promote local attractions, leading to successful outcomes.

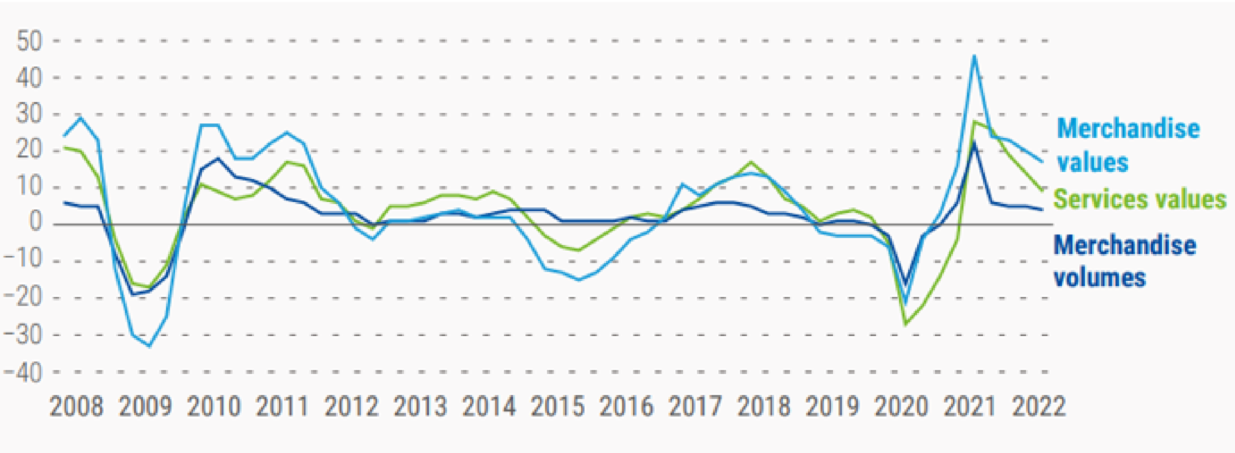

Fig. 2 International trade trends: Year-on-year growth rates [14].

2.4. Result and Inspiration

Based on the current situation, COVID-19 continues to impact us physically and mentally, no longer just seen as a scare. As a result, there will be a greater focus on personal and collective insurance, with companies setting aside more money for unexpected events. Additionally, there will be a push towards ESG (Environmental, Social, and Governance) or environmentally friendly investments due to government influence. In the last four years, online technologies have made big strides, especially in areas like online healthcare, video conferencing, and medical technology. These advancements have attracted a lot of interest from investors. As mentioned above, the development of services is still a top priority, especially tourism.

3. Geopolitical Tensions: the Russia-Ukraine Conflict

The escalation of geopolitical tensions, epitomized by the conflict between Russia and Ukraine that began in earnest in 2014 and saw significant developments over the past five years, has had a profound impact on international investment dynamics. This article aims to explore the direct responses of the world markets, the impacts on specific industries, the long-term adjustments of investment strategies arising from this conflict, and predictions for future investment strategies, all from a relatively objective perspective devoid of ideology. Additionally, it concludes with a hopeful wish for world peace.

3.1. Conflict Context and development

Since gaining independence in 1991, Ukraine has been working to carve out its own path, aligning closely with Western institutions like the European Union and NATO. This has had a significant impact on Europe's security landscape and beyond. Interestingly, Ukraine's internal divisions have deep historical roots. The western regions, where Ukrainian is the main language, tend to lean towards Europe, while the eastern regions, where Russian is more common, lean towards Russia. Despite Russia's warnings against Ukraine getting closer to Western organizations, the EU started negotiations for an alliance agreement in 2012. The Maidan Revolution, starting on February 18, 2014, fueled pro-European sentiments and led to escalating tensions. Russia's annexation of Crimea came after its invasion of the region. Analysts point to Ukraine's growing ties with NATO and the possibility of joining the alliance as key factors in the outbreak of the Russo-Ukrainian conflict in 2022 [15]. So far, the conflict is raging and risks exacerbating. Russian forces are continuing their military operations, especially in the Donetsk region. During this period, Ukraine has repeatedly announced major counterattacks, and both sides have experienced a transfer of territorial control.

3.2. Direct Economic Impact

The conflict will impact the global economy, directly reflected in dragging down GDP. In this turbulent context, there will be significant loss of life, reduced trade, a sharp increase in military spending, and an increase in inflation rates. Fig. 3 depicts a decline in investments between nations that are geographically distant and have differing political interests or foreign policies, falling from 23 percent in 2013 to 13 percent in 2022. [16]. Moreover, Russia and Ukraine are respectively major suppliers of key food, minerals, and energy. With geopolitical tensions greatly influencing the volatility of commodity markets, as the situation escalates, prices of agricultural products, energy, and raw materials soar (seen from Fig. 4) [17].

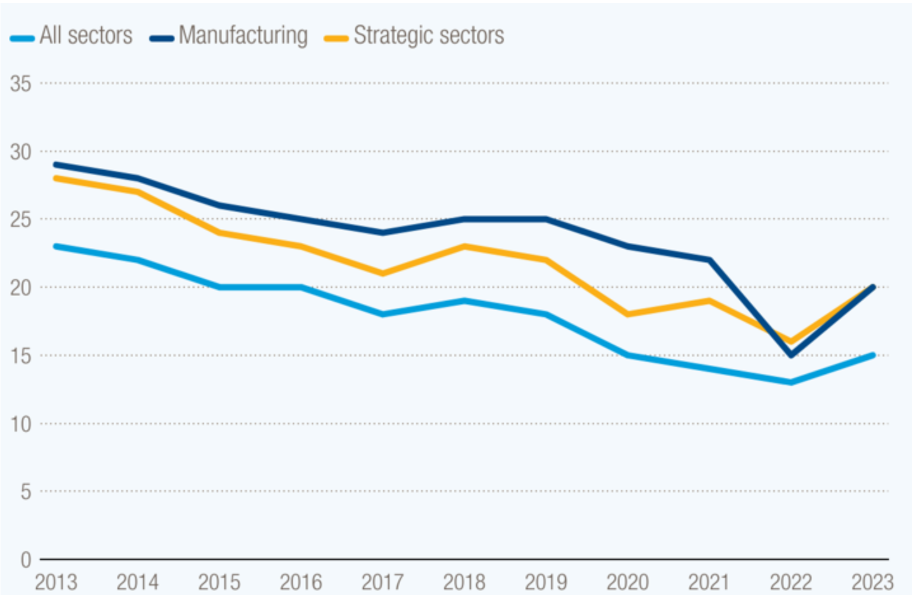

Fig. 3 Geopolitics play a growing role in investment decisions [16].

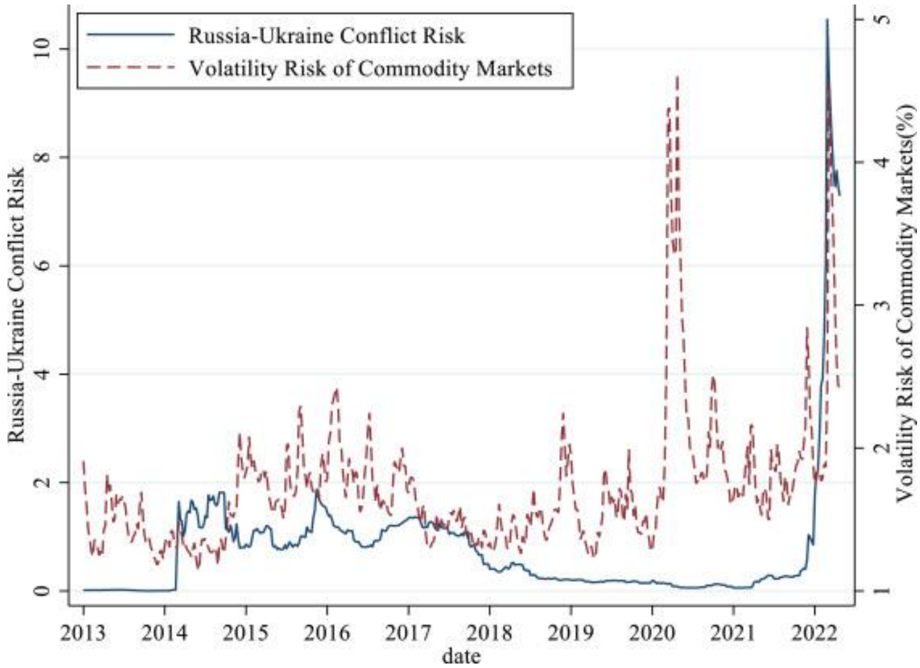

Fig. 4 The relationship between Russia-Ukraine conflict and volatility of commodity markets [17].

Conflict severely disrupted sea transport in both the Black Sea and the Sea of Azov, stopping Ukrainian port operations and halting the export of agricultural goods via the Black Sea. These agricultural exports represent 45% of Ukraine's total export volume. Shipping activities in these areas were completely suspended. Initiated in early August 2022, the Black Sea Grain Initiative created a corridor for exporting certain agricultural goods and partially resumed maritime operations from Ukraine, although this agreement ended in July 2023. Additionally, ports and vessels in these seas experienced frequent shelling, leading to extensive damage. It is worth noting that over half of Ukraine's exports are transported by sea, and the war led to a sharp decline in Ukrainian exports, severely affecting its economy. The global energy market has been severely impacted by this conflict, leading to a marked rise in energy prices. Sanctions against Russia have worsened the imbalance between supply and demand, causing prices to skyrocket. With Russia being a major oil supplier, the conflict has caused oil prices to exceed $100 per barrel. This instability in energy prices has hindered economic growth, as highlighted by the International Energy Agency's research showing a rise in global energy consumption. The energy challenges arising from the prolonged conflict are crucial for the world economy.

3.3. Sanctions and Financial Market Shocks

Following the conflict between Russia and Ukraine, Russia has been hit with a wide range of sanctions from various countries and international organizations, mainly from America and the EU. These sanctions target different sectors including finance, energy, technology exports, and personal assets:

- Financial sanctions: The U.S. has frozen Russian central bank assets, restricted certain banks from using the SWIFT banking system, and prevented U.S. investors from trading Russian securities, impacting a significant portion of Russia's banking industry assets.
- Energy sanctions: The U.S. has prohibited the import of Russian oil, natural gas, and coal, as well as limited investment in Russian energy companies. Price controls have also been implemented for Russian oil by the U.S. and its G7 allies.
- Technology and military sanctions: The U.S. Department of Commerce has limited the export of advanced products to Russia, like aircraft equipment and semiconductors, to weaken its military capabilities.
- Individual and entity sanctions: The EU has frozen assets of President Putin and his Foreign Minister in Europe, and imposed restrictions on Belarus, including banning the import of certain

products. Sanctions have also been placed on Russian media, such as prohibiting the activities of Russia Today and Sputnik in the EU.

The examples of sanctions mentioned above are just a few that happened before February 23,2024, not an exhaustive list. These sanctions have caused some difficulties for the Russian economy. With the introduction of price limits, the income from oil and gas decreased, and the Russian central bank's assets were at risk of being taken. However, it is important to note that these sanctions did not lead to a widespread economic collapse in Russia or end the conflict. In fact, the IMF predicts that Russia's GDP grew by 2.2% in 2023, surpassing the growth rates of the United States and other Western countries. This could be attributed to the significance and uniqueness of Russian export products, leading to high demand. Additionally, Russia has taken various measures in response to Western sanctions, such as seizing U.S. assets in Russia and using rubles for trade transactions.

3.4. Financial Market Turbulence

The escalation of the Russo-Ukrainian conflict has intensified geopolitical risks and global economic policy uncertainty, leading to increased international tensions. In the early stages of the conflict, the ruble depreciated significantly. To stabilize ruble fluctuations and respond to a series of sanctions, the Central Bank of Russia raised its key interest rate from 9.5% to 20% and implemented capital controls. Besides, the Russia-Ukraine conflict has significantly fueled global inflation, particularly through disruptions in energy and agricultural supplies. These disruptions have led to a sharp increase in prices, straining economies worldwide and pushing central banks to reconsider monetary policies to curb rising costs.

Research shows that political uncertainty can have a negative impact on financial markets, with the fear of political instability leading to lower stock market returns and increased risk for financial assets. The conflict between Russia and Ukraine has disrupted not only regional but global economic dynamics, leading to significant shifts in investment strategies. In the stock market, sectors like energy have seen considerable volatility due to Russia’s key role as a global energy supplier [18]. Sanctions and disruptions have led to uncertainty about oil and gas supply, causing price spikes and affecting stocks related to energy production and distribution. Likewise, the financial sector has been under stress due to potential risks associated with sanctions and the freezing of assets, which has influenced banking and financial services stocks worldwide. Amidst these shifts, gold has reinforced its status as a 'safe haven' asset. As stock markets tumbled and investor confidence waned, gold prices climbed as investors looked for stability and a hedge against inflation. This trend underscores gold's enduring appeal during geopolitical crises, where its value often inversely correlates with the overall market performance, offering a refuge for capital preservation. Furthermore, the broader commodities market, including precious metals like silver and platinum, has also reflected similar trends, with prices fluctuating in response to the ongoing conflict and its economic ramifications.

3.5. Inspiration and expectation

This international event revealed the fragility of international relations and the destabilizing global influence of geopolitical tensions stability. Many view this conflict as the beginning of the Third World War, as geopolitical tensions have escalated, with subsequent conflicts like the Israel-Palestine conflict drawing global attention to the Gaza Strip. In any case, large-scale conflicts fueled by geopolitical tensions are deadly for human life and economic stability. As investors, it's imperative to seek more suitable investment strategies in such a backdrop, while also hoping for world peace.

4. Conclusion

As this study has demonstrated, the pandemic and the conflict have each played a crucial role in reshaping international investment trends, revealing the profound interconnectedness of global markets and the fragility of economic stability. The pandemic highlighted the vulnerabilities in global supply chains and consumer markets, necessitating swift and innovative responses from governments and investors alike. Meanwhile, the Russia-Ukraine conflict underscored the immediate and far-reaching impacts of geopolitical tensions on economic security and investment climates. Moving forward, it is imperative that investors and policymakers continue to foster adaptability and strategic foresight, learning from these crises to better navigate future challenges. By embracing resilience and proactive planning, the global investment community can aim to mitigate risks and capitalize on opportunities in an increasingly uncertain world.

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