Chapter 3: The Impact of COVID-19 on Commonwealth FDI

Despite sluggish growth in international investment, foreign direct investment (FDI) inflows to Commonwealth countries were robust in the decade prior to the emergence of COVID-19. The pandemic disrupted FDI globally and most Commonwealth countries experienced a significant decline in inflows in 2020.

This chapter examines how FDI in the Commonwealth has been affected by the COVID-19 pandemic. Some of the key takeaways are:

- Annual FDI inflows to the Commonwealth grew 2.5 times faster, on average, than global inflows in the decade before the pandemic. The Commonwealth's share of global inflows expanded by nearly 3 percentage points over this period to reach 23.3 per cent in 2019.
- Globally, investment flows to the renewable energy sector have reached record highs. The renewable energy sector was the second largest recipient of greenfield FDI across the Commonwealth in 2019, with inflows growing by 179 per cent since 2010 to reach US$26 billion.
- Most Commonwealth countries experienced a significant decline in overall FDI inflows in 2020, although the developed countries, Singapore and large African economies – Nigeria and South Africa – had the largest declines in absolute terms.
- The pandemic dealt a blow to global and intra-Commonwealth greenfield FDI. Announced intra-Commonwealth greenfield investments were US$1.6 billion lower in the second quarter of 2020, $4.7 billion lower in the third quarter and $2.9 billion lower in the fourth quarter.
- Before the pandemic, estimated investment flows between Commonwealth countries were 27 per cent higher than those between other country pairs, on average. Greenfield FDI flows between Commonwealth country pairs were around 19 per cent higher overall and 37 per cent higher for African members. The Commonwealth advantage can help revitalise FDI inflows and complement domestic and diaspora investment.

Most Commonwealth countries experienced a significant decline in FDI inflows in 2020, leading to fewer productive investments and jobs. Revitalising FDI inflows will be key to supporting economic recovery.

FDI inflows to the Commonwealth

$153
BILLION
LOWER
in 2020

Intra-Commonwealth greenfield FDI flows

$8.3
BILLION
LOWER
in 2020

(versus 2017-2019 average)

Almost

50%

the number of jobs created through intra-Commonwealth greenfield FDI in 2020

(versus 2017-2019 average)

3.1 Introduction

Having examined the implications of COVID-19 for the Commonwealth's trade, as well as increased digitalisation and digital trade by many countries in response to the pandemic, this chapter considers how foreign direct investment (FDI) has been affected. As discussed in Chapter 1, the pandemic has created simultaneous supply, demand and policy shocks affecting all aspects of trade and FDI. FDI flows have been disrupted primarily through delays to the implementation of existing investment projects, the deferral of decisions on new investments, reductions in reinvested earnings and declining equity capital flows. These disruptions exacerbated a pre-pandemic trend of sluggish growth in international investment.[1]

Global FDI flows fell by 42 per cent in 2020, reaching a level of US$859 billion by the end of the year (UNCTAD, 2021a). All forms of FDI were affected, from cross-border mergers and acquisitions (M&As) to greenfield investments[2] and international project finance deals. United Nations Conference on Trade and Development (UNCTAD) data shows that developed countries have felt the impact of the pandemic most severely, where FDI flows had declined by 69 per cent to $229 billion in 2020. FDI flows into developing economies have been comparatively more resilient, declining by 12 per cent to $616 billion. This has seen developing countries grow their share of global FDI to 72 per cent, the highest on record. Even so, the impacts across developing economies have been uneven, with overall FDI inflows to Latin America and the Caribbean (down by 37 per cent) affected to a greater degree than inflows to Africa (down by 18 per cent) and developing Asian countries (down by 4 per cent).

Moreover, while overall FDI flows to developing economies have been fairly resilient, greenfield investments have declined sharply. Greenfield FDI project announcements fell by 46 per cent in developing countries in 2020, compared with an overall decline of 35 per cent globally and 19 per cent in developed economies (UNCTAD, 2021a). African countries were especially affected, where the number of greenfield announcements fell by 63 per cent, compared with 51 per cent in Latin America and the Caribbean, and 38 per cent in developing Asia. Similarly, while international project finance has been more resilient in general, with flows down by just 2 per cent in 2020, these deals declined by 40 per cent in Africa. The adverse impact of COVID-19 in constraining greenfield FDI and international project finance is concerning given their importance for developing productive capacity and infrastructure, both of which will be crucial in driving sustainable post-pandemic economic recovery. A prolonged decline in greenfield investments, and FDI inflows more generally, threatens to undermine economic growth and transformation in Commonwealth countries.

The chapter is divided into five sections. Section 3.2, which follows, provides an overview of Commonwealth investment trends in the decade preceding the pandemic, focusing on the aggregate picture of inward FDI into the Commonwealth, developments in intra-Commonwealth FDI and trends in greenfield investment. Section 3.3 analyses the impact of COVID-19 on overall FDI inflows and productive greenfield investment into Commonwealth countries. Section 3.4 looks ahead to 2025, setting out the prospects for post-COVID recovery in Commonwealth FDI inflows. Section 3.5 concludes with the way forward.

3.2 Commonwealth investment trends pre-COVID-19

Trade and investment are closely integrated. This is especially true in the case of FDI, which is a key driver of international trade and production, particularly in the context of the structure and operation of global value chains (GVCs) (Box 3.1). This section focuses on broad trends in inward investment into the Commonwealth in the decade preceding COVID-19. It does so by examining the global stock held by Commonwealth countries (3.2.1) before looking at intra-Commonwealth FDI (3.2.2) and the specific contribution of productive greenfield investment (3.2.3).

3.2.1 FDI into the Commonwealth in global perspective

FDI inward stock held by Commonwealth countries reached nearly US$7.5 trillion in 2019, up from $4.4 trillion in 2010 (Figure 3.1). Despite absolute growth during this period, the Commonwealth's share in global FDI stock declined by 1.5 percentage points to 20.4 per cent in 2019.

Commonwealth developed countries hosted more than 60 per cent of this stock (top panel in Figure 3.2). Regionally, based on the Commonwealth regions defined in Chapter 1, Europe (namely, Cyprus, Malta and the UK) accounted for more than one-third of inward stock, with a slightly smaller share held by Commonwealth Asian countries. The Caribbean and Americas, Pacific and Africa regions were less significant in terms of the overall stock (bottom panel in Figure 3.2). Commonwealth small states collectively hosted 10.3 per cent of the total inward stock in 2019, while just 1.7 per cent was located in least developed countries (LDCs).

Annual FDI inflows to the Commonwealth (Figure 3.3) grew faster – on average – than global inflows (6.1 per cent versus 2.4 per cent). The Commonwealth's share of global FDI inflows also expanded, from 20.5 per cent in 2010 to 23.3 per cent in 2019. Annual inflows averaged US$356 billion over the decade and totalled $359.1 billion in 2019.

In the three years immediately preceding the onset of COVID-19 (2017–2019), more than 80 per cent of cumulative FDI inflows to the Commonwealth were directed to just five countries: Singapore (23.9 per cent), the UK (21.1 per cent), Australia (14 per cent), India (12.4 per cent) and Canada (11.2 per cent) (Figure 3.4). Malaysia (2.3 per cent), Nigeria (1.3 per cent) and South Africa (1.1 per cent) were other important developing country destinations for FDI inflows.

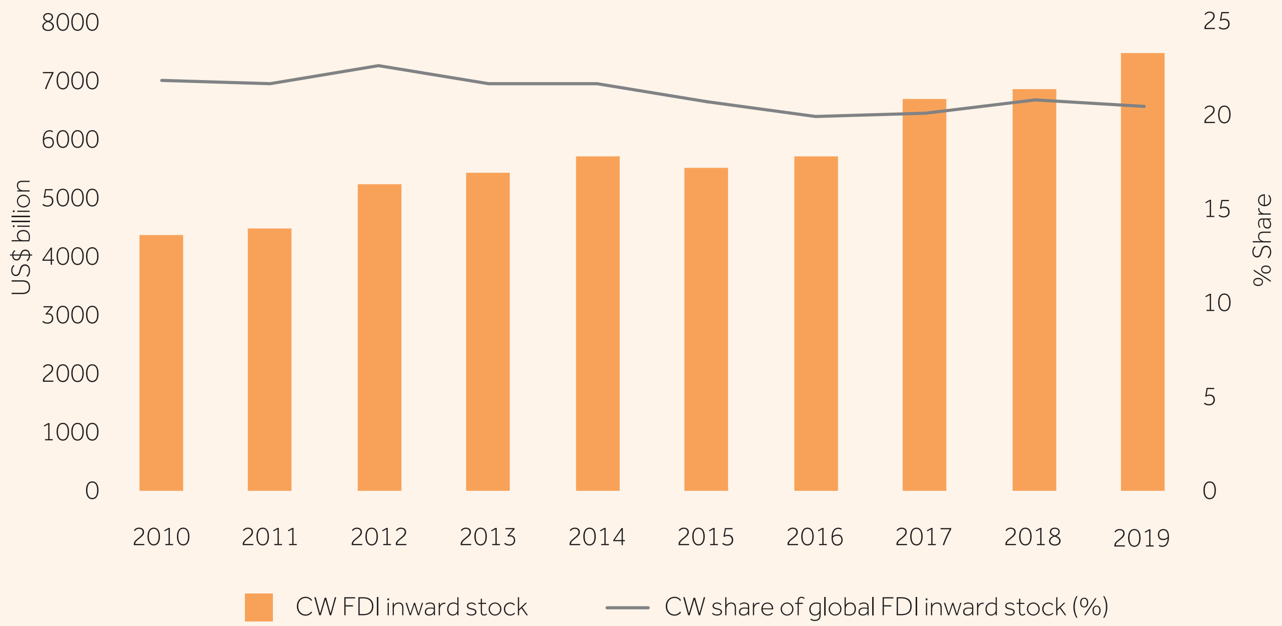
BOX 3.1

TRADE AND INVESTMENT LINKAGES, AND BROADER FDI BENEFITS

FDI can help domestic firms participate in international production networks and access foreign markets, in part by aiding their integration into cross-border supply chains (Alfaro, 2016; Gonzalez, 2017). FDI may also support export sophistication and upgrading, potentially enabling greater export diversification on both the intensive and the extensive margins (Echandi et al., 2015). Trends and factors influencing Commonwealth FDI stocks and flows thus have an important bearing on both intra- and extra-Commonwealth trade.

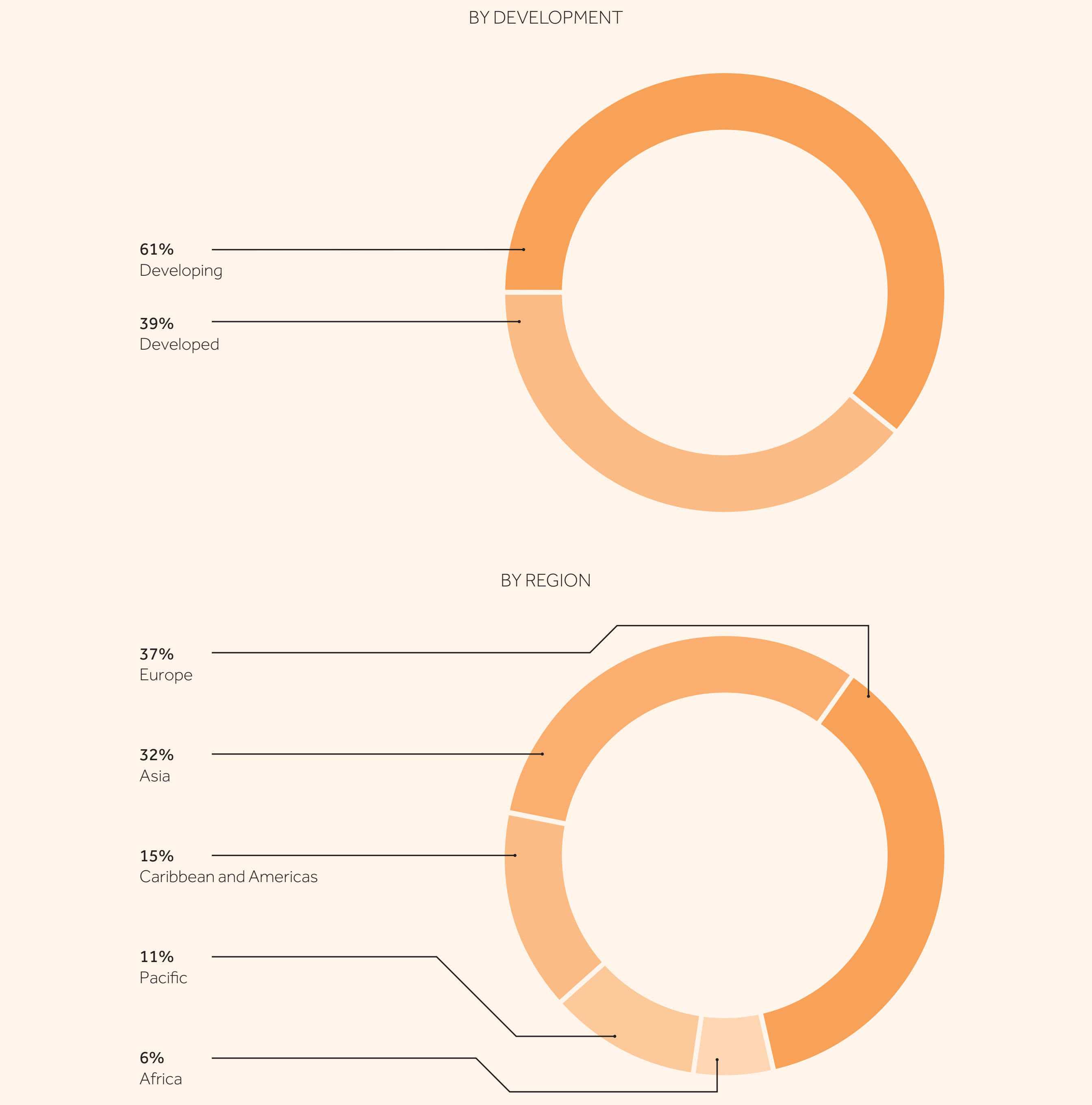
The potential benefits of FDI extend beyond these trade dimensions. FDI can make a significant contribution to growth, development and prosperity in Commonwealth countries by transferring technology and skills, creating jobs and building productive capacity, especially where stocks of domestic capital and savings are insufficient to finance productive investments. The transfer of technology, skills and modern management techniques from foreign to domestic firms can support upgrading to higher-value-added production and potentially enhance firm-level productivity (Farole and Winkler, 2014; Alfaro and Chen, 2015; Godart et al., 2020). FDI often also creates higher-skilled and better-paid jobs (Hijzen et al., 2013; Echandi et al., 2015), sometimes accompanied by improved working environments and standards relative to local firms. While such benefits are not guaranteed and may be spread unevenly across and within countries, in the presence of appropriate policies in host countries FDI can serve as an important driver of structural economic transformation (OECD, 2002).

FIGURE 3.1
FDI INWARD STOCK IN THE COMMONWEALTH, 2010–2019



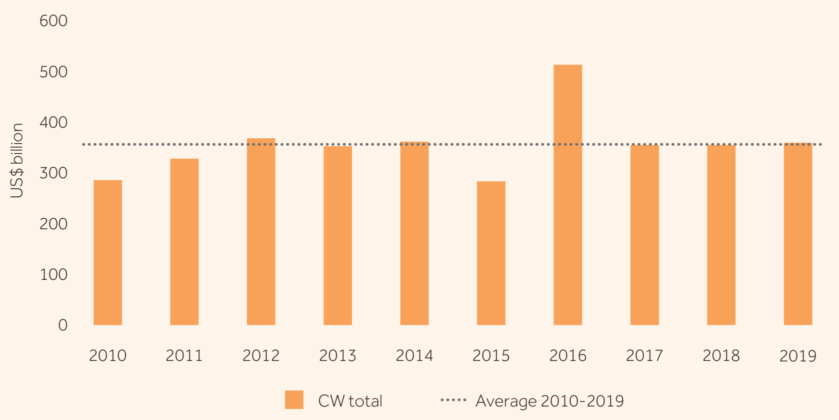
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FIGURE 3.2
DISTRIBUTION OF FDI INWARD STOCK IN THE COMMONWEALTH, 2019



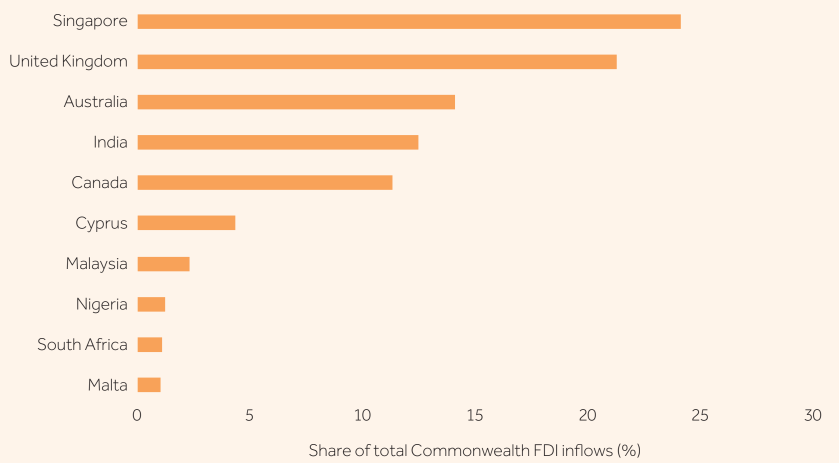
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FIGURE 3.3
TOTAL VALUE OF FDI INFLOWS INTO THE COMMONWEALTH, 2010–2019



Source: Commonwealth Secretariat (calculated using UNCTAD data)

FIGURE 3.4
TOP 10 HOSTS OF BILATERAL FDI INFLOWS INTO THE COMMONWEALTH, 2017–2019 (CUMULATIVE)



Source: Commonwealth Secretariat (calculated using UNCTAD data)

3.2.2 Intra-Commonwealth FDI trends

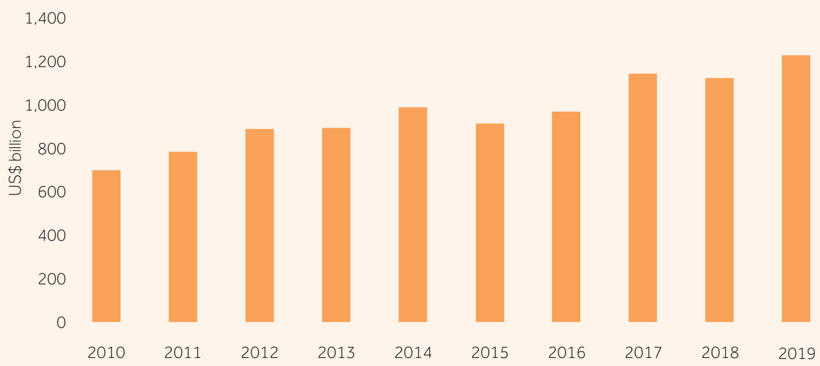
The cumulative value of intra-Commonwealth FDI stock reached US$1.2 trillion in 2019, up from $693.7 billion in 2010 (Figure 3.5). Despite this absolute growth, the relative share of the Commonwealth in member countries' overall FDI stock declined marginally from 19.6 per cent in 2010 to 18.2 per cent in 2019.

Intra-Commonwealth FDI inward stock is highly concentrated. In 2019, just three countries held half of the overall stock – Singapore (20.3 per cent), India (16.6 per cent) and Australia (13.3 per cent). Four other developing members ranked among top ten FDI hosts – Mauritius (9.4 per cent), South Africa (4.5 per cent), Barbados (3.8 per cent) and Malaysia (3.5 per cent), along with three developed economies – the UK (6.5 per cent), Canada (5.1 per cent) and New Zealand (4.1 per cent).

Intra-Commonwealth investments represent an important component of overall FDI inflows to Commonwealth countries. A significant "Commonwealth advantage" is at play, with bilateral investment flows generally larger between Commonwealth countries compared with flows in which at least one of the parties is not a Commonwealth member (Box 3.2).

Intra-Commonwealth FDI inflows have grown over the past decade, buoyed by the Commonwealth advantage. The aggregate value of these inflows reached US$75.2 billion in 2019, up from $42.6 billion in 2010 (Figure 3.6).[3] The total value of bilateral intra-Commonwealth

FIGURE 3.5
INTRA-COMMONWEALTH FDI INSTOCK (US$ BILLION), 2010–2019



Notes: Based on data on bilateral FDI instocks in 42 Commonwealth countries from 50 source countries between 2010 and 2019. Mirror data is used in instances where no data is available for the host country in a particular year or across all years. The mirror data is based on information reported by the source country from which the investment originates.
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FDI inflows rose consecutively in each year between 2015 and 2019.

In the three years preceding the onset of COVID-19, investors from the UK, Singapore, Canada and Mauritius contributed almost 90 per cent of overall FDI flows within the Commonwealth (Figure 3.7). Over the same period, just five countries attracted 86 per cent of intra-Commonwealth FDI inflows – namely, India, Australia, Singapore, Canada and the UK. Four other Commonwealth developing countries – Barbados, Malaysia, South Africa and Bangladesh (a LDC) – ranked among the top ten recipients of inflows.

BOX 3.2

THE INTRA-COMMONWEALTH ADVANTAGE IN INVESTMENT

The 2015 Commonwealth Trade Review found that, on average, Commonwealth country pairs attract 10 per cent more FDI compared with Commonwealth and non-Commonwealth country pairs as well as country pairs in which neither partner is a Commonwealth member.

Revised gravity estimates based on more recent data spanning the period from 2000 to 2018 indicate the persistence of a large and statistically significant "Commonwealth effect" on FDI flows (Table 3.1). This means, on average, the investment flows between Commonwealth country pairs (when both host and investor are members of the Commonwealth) are about 27 per cent[5] higher than those between the other country pairs (column 1). As expected, common language, membership of the same free trade agreement (FTA) (in some cases), geographical contiguity in various regions and similar legal systems strengthen these flows. Among all these FDI facilitating factors, existence of a common language has a leading role: having English as one of the official languages in both investor and host countries is associated with 9 per cent more FDI flows.

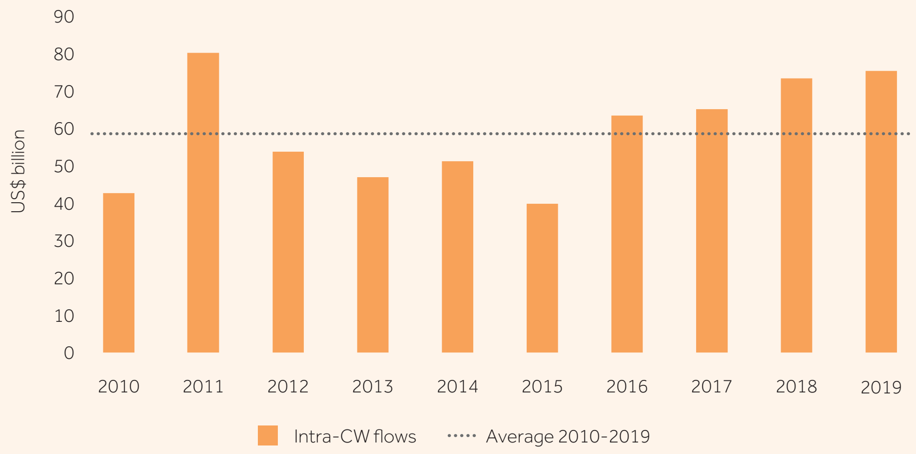
TABLE 3.1
THE COMMONWEALTH EFFECT IN FDI FLOWS – GRAVITY MODEL RESULTS

	Aggregate FDI	Greenfield FDI
	(1)	(2)
Commonwealth membership	0.244***	0.183***
FTA	0.364***	0.112***
Contiguity	0.448***	0.081***
Common language	0.876***	0.418***
Distance (km)	–1.132***	–0.446***
Colony	0.879***	0.321***
Legal	0.107***	0.095***
Origin-year FE	Yes	Yes
Dest-year FE	Yes	Yes
Sample size	42,158	27,436
Period	2000–18	2003–18
R-squared	0.610	0.657

Notes: The dependent variables in the model are bilateral FDI flows. All bilateral pairs of countries have been considered, including both Commonwealth and non-Commonwealth members. ***, **, and * denote the statistical significance of the estimated coefficients respectively at 1 per cent, 5 per cent and 10 per cent levels. These estimations include time-varying fixed effects for countries to account for omitted variables. The Pseudo Poisson Maximum Likelihood (PPML) method with fixed effects was employed for estimation of the Commonwealth effect in greenfield FDI, while Ordinary Least Squares (OLS) was used for overall FDI because of negative values for some country pairs.
Source: Commonwealth Secretariat (estimated using data from UNCTADstat (column 1) and fDi Markets (column 2))

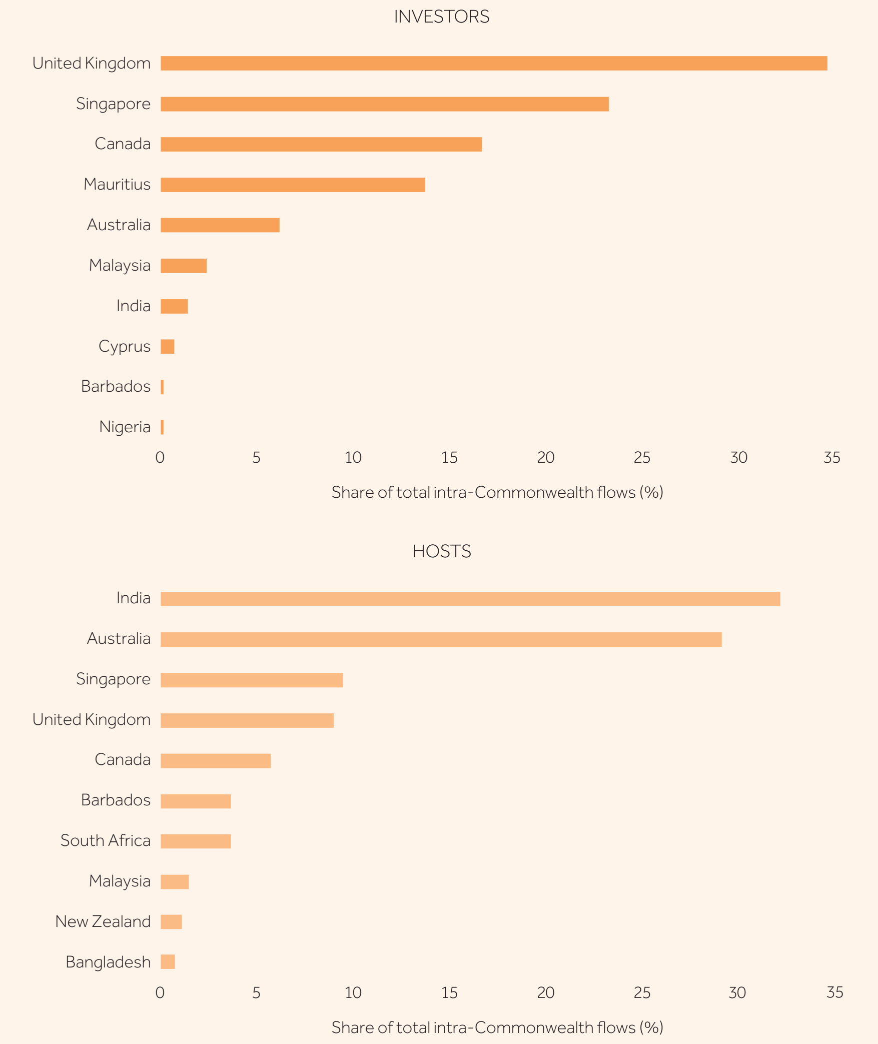
This aggregate data masks the combined effects of brownfield as well as greenfield investments.[6] Since greenfield investments are relatively more important for job creation and technological upgrading, the estimations are replicated in column 2 specifically for greenfield investment using data from the fDi Markets database. The results indicate that, on average, greenfield investment flows between Commonwealth country pairs are around 19 per cent higher than those between other pairs. The Commonwealth effect is relatively stronger for African members: they are found to attract 37 per cent more in intra-Commonwealth greenfield investments than other Commonwealth countries (18 percentage points above the Commonwealth average).

FIGURE 3.6
TOTAL VALUE OF INTRA-COMMONWEALTH FDI FLOWS, 2010-2019



Notes: Based on bilateral FDI flows for 42 Commonwealth countries between 2010 and 2019. Mirror data is used in instances where no data is available for the host country. The mirror data is based on information reported by the source country from which the investment originates.
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FIGURE 3.7
TOP 10 INVESTORS AND HOSTS OF INTRA-COMMONWEALTH FDI INFLOWS BY VALUE, 2017–2019 (CUMULATIVE)



Notes: Based on bilateral FDI flows for 34 source and 36 host Commonwealth countries between 2017 and 2019. Mirror data is used in instances where no data is available for the host country. The mirror data is based on information reported by the source country from which the investment originates.
Source: Commonwealth Secretariat (calculated using UNCTAD data)

3.2.3 Trends in productive greenfield investment in the Commonwealth

Annual greenfield FDI inflows to the Commonwealth averaged US$145.3 billion between 2010 and 2019. These mostly involved investments from outside the Commonwealth. The intra-Commonwealth share generally declined over the decade, reaching 15 per cent in 2019 (Figure 3.8). Greenfield FDI inflows to the Commonwealth amounted to $150.3 billion in 2019, with intra-Commonwealth flows accounting for $26.6 billion of this total.

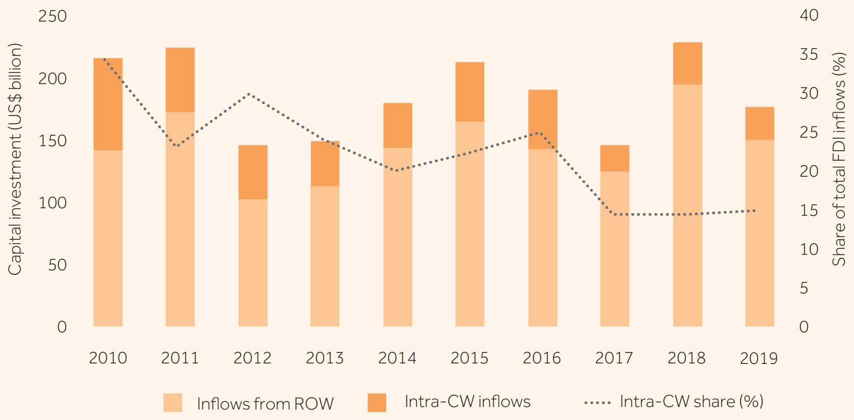
These figures should not be equated directly with the magnitude of the Commonwealth FDI advantage (Box 3.2) because there are greater numbers of global investors compared with Commonwealth investors, capital and savings; and they have more diversified interests, leading to greater FDI in the Commonwealth.[4] Nevertheless, this illustrates the relative importance of Commonwealth partners as sources of greenfield investment.

Commonwealth Asian countries hosted around one-third of cumulative intra-Commonwealth greenfield investment between 2010 and 2019. African (28 per cent) and Pacific (20 per cent) Commonwealth countries were also key destinations for these investments, with smaller shares directed to Europe (13 per cent) and the Caribbean and Americas region (5 per cent).

Greenfield investments have been a major source of new jobs in the past decade, with 4,839,341 created across the Commonwealth. Around one-fifth of these jobs were created through intra-Commonwealth investments, predominantly in Asian countries (Table 3.2). On average, 2.3 jobs were created for every US$1 million in intra-Commonwealth greenfield FDI between 2010 and 2019.

In the three years preceding COVID-19, investors in Commonwealth developed countries were responsible for 57 per cent of announced greenfield projects in other Commonwealth members (Table 3.3). The UK led the way, with US$24.1 billion in outward investment creating 79,414 jobs (nearly one-third of the total generated through intra-Commonwealth investment). Among developing members, Singapore, India and South Africa were key

FIGURE 3.8
AGGREGATE VALUE AND SHARE OF ANNOUNCED GREENFIELD FDI INFLOWS TO THE COMMONWEALTH, 2010–2019



Notes: Greenfield FDI value represented as the total value of capital investment. No data for inflows into Kiribati, Nauru, Tonga and Tuvalu. The data covers 145 source countries (including 37 Commonwealth members) investing in 50 destination Commonwealth countries.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

TABLE 3.2
JOBS CREATED THROUGH ANNOUNCED GREENFIELD FDI IN THE COMMONWEALTH, 2010–2019

	Source of investment			Employment intensity by source of investment	
	Rest of world	Intra-Commonwealth	Intra-Commonwealth share (%)	Rest of world	Intra-Commonwealth
Commonwealth total	3,870,316	969,025	20.0	2.7	2.3
Of which					
Developed	968,412	241,151	19.9	1.7	1.6
Developing	2,901,904	727,874	20.1	3.3	2.7
Of which					
Africa	408,551	207,557	33.7	1.9	1.8
Asia	2,418,772	500,061	17.1	3.8	3.5
Caribbean and Americas	257,969	45,218	14.9	1.5	2.1
Of which					
Caribbean SIDS	69,777	13,822	16.5	6.0	2.8
Europe	562,692	98,044	14.8	1.9	1.8
Pacific	222,332	118,145	34.7	1.6	1.4
Of which					
Pacific SIDS	4,804	6,434	57.3	1.0	1.0
Vulnerable groups					
LDCs	144,505	86,915	37.6	1.9	1.5
Small states	113,457	52,957	31.8	3.4	2.2
SIDS	271,888	92,172	25.3	2.3	2.3

Notes: The data covers 145 source countries (including 37 Commonwealth members) investing in 50 destination Commonwealth countries (no data for investments in Kiribati, Nauru, Tonga and Tuvalu). Employment intensity is measured as the number of jobs created per US$1 million in greenfield investment.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

sources of intra-Commonwealth investment and jobs, as were Malaysia and Bangladesh to a lesser extent.

Bangladesh is an interesting example of intra-Commonwealth greenfield investment originating from a LDC. Between 2017 and 2019, the bulk of outward greenfield FDI from Bangladesh went to India (totalling US$1.1 billion), around 90 per cent of which was in coal, oil and gas projects, with much smaller capital investments in financial services, plastics, and transportation and warehousing. Over this period, Kenya benefited from $140 million in announced greenfield FDI from Bangladesh into projects in the metals and pharmaceuticals sectors; there was also outward investment from Bangladesh into the pharmaceuticals sector in Malaysia ($56.1 million) and financial services in South Africa ($9.5 million).

The UK was the largest recipient of announced intra-Commonwealth greenfield FDI between 2017 and 2019, accounting for nearly one-fifth of total inflows. Several developing country members – India, Singapore, Nigeria, Malaysia, South Africa, Namibia and Bangladesh – featured among the top 10 destinations (Table 3.3). Of these, India welcomed the largest share (nearly US$13.8 billion), creating a total of 91,698 new jobs.

Over the same period, 70 per cent of intra-Commonwealth greenfield FDI was directed into services (Figure 3.9). More than one-third of this went into real estate, while communications, software and IT services, financial services and renewable energy (Box 3.3) were also significant destinations. The manufacturing sector attracted nearly a quarter (23 per cent) of intra-Commonwealth inflows, with the metals, food and beverages, and chemicals industries receiving the greatest shares. Inflows to the primary sector were notably smaller, accounting for just 7 per cent of total intra-Commonwealth greenfield FDI in 2017–2019, with 96 per cent of this investment in coal, oil and gas.

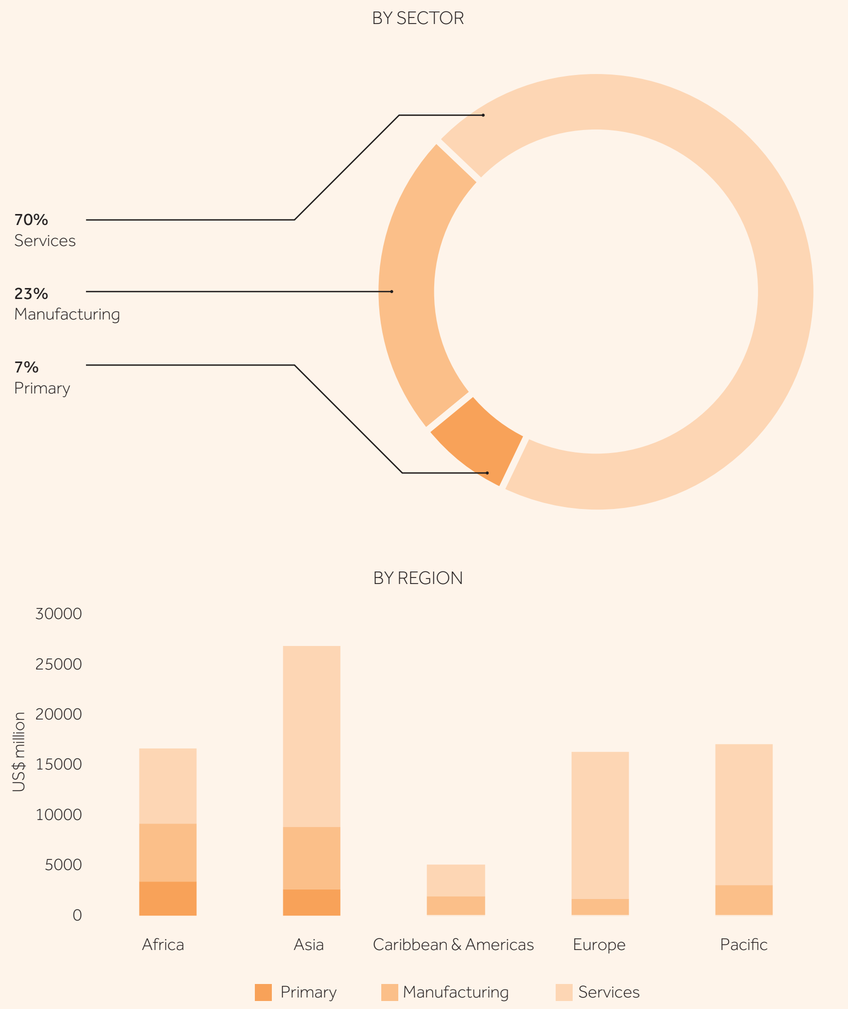
Services also dominated intra-Commonwealth greenfield inflows at the regional level, although to varying degrees. They accounted for 90 per cent of inflows to Commonwealth Europe and 82 per cent in Pacific member countries between 2017 and 2019, compared with 67 per cent in Asia, 63 per cent in the Caribbean and Americas region, and 45 per cent in Africa. Real estate was the top sector for intra-Commonwealth inflows to European and Asian member countries; whereas this was renewable energy (Pacific), software and IT

TABLE 3.3
TOP 10 SOURCES AND HOSTS OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI INFLOWS TO COMMONWEALTH MEMBERS, BY CUMULATIVE VALUE, 2017-2019

Sources			Hosts		
	Value of outward investment (US$ million)	Share of intra-Commonwealth total (%)		Value of inflows (US$ million)	Share of intra-Commonwealth total (%)
United Kingdom	24,121	29.6	United Kingdom	15,810.8	19.4
Singapore	18,964	23.3	Australia	15,064.7	18.5
Australia	10,930	13.4	India	13,765.5	16.9
Canada	7,080	8.7	Singapore	4,646.4	5.7
India	6,261	7.7	Nigeria	4,590.4	5.6
South Africa	3,601	4.4	Malaysia	4,392.5	5.4
New Zealand	2,530	3.1	Canada	4,049.7	5.0
Malaysia	2,026	2.5	South Africa	3,029.0	3.7
Cyprus	1,691	2.1	Namibia	2,267.0	2.8
Bangladesh	1,305	1.6	Bangladesh	1,904.5	2.3

Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

FIGURE 3.9
SECTORAL COMPOSITION OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI INFLOWS, 2017–2019 (CUMULATIVE)



Note: Industries are grouped into primary, manufacturing and services sectors as per Annex 3.1.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

services (Caribbean and Americas) and communications (Africa) in other Commonwealth regions.

Manufacturing was a relatively more important sector for intra-Commonwealth greenfield FDI in the Caribbean and Americas region (36.7 per cent of total inflows, mostly to Canada, with very limited inflows to Antigua and Barbuda, and Barbados), Africa (35 per cent) and Asia (23.4 per cent). In the Caribbean and Americas, the largest manufacturing inflows went to electronic components and metals; compared with metals, chemicals and food and beverages in Africa; and metals, aerospace, and paper, printing and packaging in Asia. Primary sectors attracted 20 per cent and 9.4 per cent of inflows in Africa and Asia, respectively.

BOX 3.3

INVESTORS SET THEIR SIGHTS ON RENEWABLES IN THE COMMONWEALTH

The profile of global investment is shifting amid increasing emphasis on reorienting the world towards a more sustainable development path. In the energy sector, investors are rapidly adapting their portfolios to focus on clean energy. This is evident in the increasing share of international project finance earmarked for the renewable energy sector, aided by improved availability of multinational financing for solar and wind projects (EIU, 2020; UNCTAD, 2020a).

Globally, investment flows to the renewable energy sector have reached record highs. In 2019, renewable energy companies initiated 516 projects in foreign countries (38 per cent more than in 2018), with a combined value of US$92.1 billion (Shehadi, 2020).

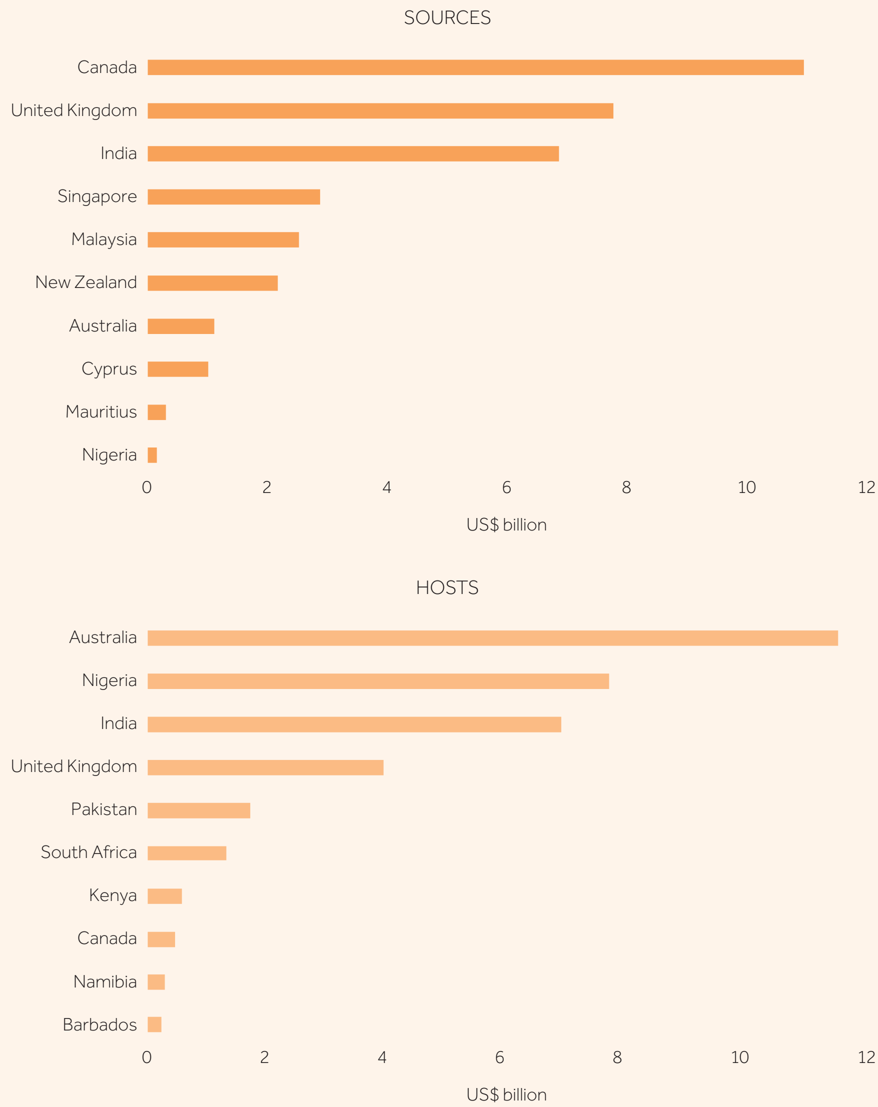
In the Commonwealth, these trends are reflected in expanding productive greenfield investments in renewables. The renewable energy sector was the second largest recipient of greenfield FDI across the Commonwealth in 2019, with announced inflows growing by 179 per cent since 2010 to reach US$26 billion. The sector's share in the Commonwealth's total greenfield inflows has also expanded in relative terms – from 4.4 per cent in 2010 to 14.8 per cent in 2019.

Intra-Commonwealth greenfield investments in renewables are also on the rise. The renewable energy sector was the fourth-largest recipient of intra-Commonwealth flows in 2019, with US$2.9 billion in capital investment through announced projects. This represented a 152 per cent increase over the figure in 2010. As a result, the share of renewable energy projects in total intra-Commonwealth greenfield FDI increased from just 1.6 per cent in 2010 to 11 per cent in 2019.

These intra-Commonwealth investments remain highly concentrated, in terms of both major investors and hosts (Figure 3.10). More than 70 per cent of the investments in renewables over the past decade have originated from three Commonwealth countries: Canada, the UK and India. In turn, just four Commonwealth members - Australia (32 per cent), Nigeria (21.4 per cent), India (19.2 per cent) and the UK (11 per cent) – absorbed more than 80 per cent of the inflows. Aside from these countries, a few developing members, including Pakistan, South Africa and Kenya, are increasingly popular destinations for intra-Commonwealth greenfield FDI in renewables. Some Commonwealth LDCs have also received sizeable inflows into the sector over the past decade, including Zambia (US$231.7 million), Bangladesh ($215.4 million) and Tanzania ($194.9 million).

Continued growth in investments in renewable energy will likely generate considerable economic and environmental benefits for Commonwealth countries. Productive greenfield investments

FIGURE 3.10
TOP 10 SOURCES AND DESTINATIONS FOR INTRA-COMMONWEALTH GREENFIELD FDI IN THE RENEWABLE ENERGY SECTOR, BY VALUE OF CUMULATIVE CAPITAL INVESTMENT 2010–2019



Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

in this area can help lessen reliance on fossil fuels, thereby lowering greenhouse gas emissions and reducing some types of air pollution. This is important for strengthening the health and well-being of Commonwealth citizens. Similarly, investments in renewables help diversify the energy supply and lower dependence on imported fuels. They can also generate new jobs and create opportunities for micro, small and medium enterprises (MSMEs), particularly when activities related to the transition to green energy are factored in. While investment in renewable energy has inevitably slowed on the back of the wide-ranging economic impacts of COVID-19 (see Section 3.3.2), it should form an important part of efforts to build more sustainable and resilient economies in the post-COVID-19 era.

Source: Data reported here is extracted from the fDi Markets database, from the Financial Times Ltd 2020

3.3 The Impact of COVID-19 on Commonwealth FDI

COVID-19 affected all types of FDI in 2020, and its multi-faceted impacts on investment flows are likely to persist for some time amid the on-going uncertainty surrounding the pandemic's endpoint. The effects of COVID-19 in constraining investment have important implications for Commonwealth trade (through the channels outlined in Box 3.1) and threaten to exacerbate existing challenges to inclusive growth (as explained in Box 3.4). This section examines the available evidence on the performance of Commonwealth FDI inflows since the onset of COVID-19, illustrating where, and how, the pandemic has up-ended the key trends outlined above.

3.3.1 Impacts of COVID-19 on overall FDI inflows into Commonwealth countries

Most Commonwealth countries experienced a significant decline in overall FDI inflows in 2020 as the crippling social and economic effects of COVID-19 took hold. This is evident from Table 3.4, which reports UNCTAD's full-year estimates of FDI inflows in 2020 based on available partial-year data for 36 Commonwealth members and compares them against average annual

BOX 3.4

COVID-19 HAS EXACERBATED GENDER IMBALANCES IN INVESTMENT

Women are more vulnerable to the economic shocks generated by COVID-19. Female-dominated sectors such as textiles and garments, food, hospitality and tourism rank among those most affected, and a larger share of the job losses resulting from the pandemic have been among women (Durant and Coke-Hamilton, 2020; Madgavkar et al., 2020). Some estimates suggest women are almost twice as likely as men to lose their job during the pandemic (Madgavkar et al., 2020). COVID-19 is also exacerbating gender-differentiated challenges in accessing finance for productive investment. This threatens to widen the existing financing gap for women-owned MSMEs, which was already estimated at US$1.5 trillion prior to the onset of the pandemic.[7] Mindful of these multiple and interrelated challenges, the International Monetary Fund has warned that COVID-19 threatens to unravel the past three decades of economic progress made by women (Georgieva et al., 2020).

Addressing these gender imbalances should be a priority in policy responses supporting post-COVID economic recovery. New financing channels and innovative financial instruments are required to streamline access to investment for women entrepreneurs. This could be achieved, for example, through the provision of tax incentives to encourage investment in women-led enterprises (UN Women, 2020). Promoting greater competition in digital financial products and services, while supporting the digital empowerment of women, can also help boost availability and access. In addition, efforts to promote diversity among investors and support women angel and venture capital investors can unlock new sources of private capital (ibid.).

TABLE 3.4
COVID-19 SHOCK AND FDI INFLOWS TO COMMONWEALTH COUNTRIES, AVERAGE FOR 2017–2019 VS. 2020

Commonwealth region	Country	Average 2017–2019 (US$ million)	2020* (US$ million)	% change 2017–2019 vs. 2020
Developed	United Kingdom	75,225.8	–1,257.5	–101.7
	Cyprus	15,359.2	1,285.7	–91.6
	Australia	49,835.8	21,626.8	–56.6
	Canada	40,104.2	31,718.7	–20.9
	New Zealand	3,267.1	3,019.9	–7.6
	Malta	3,667.9	3,697.3	0.8
Africa	Eswatini	36.9	–156.1	–523.1
	Namibia	171.0	–120.7	–170.6
	Zambia	756.4	332.9	–56.0
	Rwanda	386.2	174.1	–54.9
	Nigeria	4,504.3	2,595.4	–42.4
	Seychelles	145.7	85.2	–41.5
	South Africa	4,027.5	2,506.3	–37.8
	Mauritius	441.3	279.6	–36.6
	Uganda	1,041.3	807.8	–22.4
	Botswana	269.2	206.0	–23.5
	Lesotho	123.1	102.0	–17.2
	Mozambique	2,402.6	2,044.5	–14.9
	Malawi	96.7	98.7	2.1
	Sierra Leone	238.1	348.7	46.4
	Gambia	27.7	45.7	65.3
Asia	Malaysia	8,222.5	2,451.8	–70.2
	Sri Lanka	1,248.3	466.0	–62.7
	Singapore	85,141.0	57,816.1	–32.1
	Bangladesh	2,453.9	2,148.2	–12.5
	Pakistan	2,150.3	2,158.7	0.4
	India	44,204.3	57,235.3	29.5
Caribbean SIDS	Trinidad and Tobago	–309.6	67.0	–121.6
	Jamaica	776.1	384.8	–50.4
	The Bahamas	828.5	552.6	–33.3
	Belize	83.1	98.8	18.8
	Guyana	1,073.7	1,926.3	79.4
Pacific SIDS	Samoa	8.9	–17.6	–296.9
	Solomon Islands	32.6	12.1	–62.9
	Fiji	392.8	273.5	–30.4
	Papua New Guinea	163.9	641.5	291.4

Notes: * Annual figures are full-year estimates based on available partial-year data, in most cases up to the third quarter of 2020. Countries with no available data for 2020 are excluded.
Source: UNCTAD (2020a) (2017-2019 data) and UNCTAD estimates (2020 data)

inflows over the period from 2017 to 2019. The adverse effects on inflows are clear across Commonwealth regions.

Commonwealth developed countries, which collectively account for a large share of all FDI inflows to the Commonwealth, have been hit particularly hard. This mirrors the global pattern wherein much of the decline in global FDI inflows in 2020 was registered in developed economies. The UK was hit by divestments by foreign investors totalling nearly US$1.3 billion, primarily because of negative intra-company loans and some equity divestments (UNCTAD, 2021a). Inflows to Cyprus were $14 billion lower than the 2017–2019 average, falling to $1.3 billion; and inflows to Australia were less than half the average for the preceding three years. Canada's FDI inflows were more than $8 billion lower in 2020, owing in part to a 50 per cent reduction in new investments from multinational enterprises (MNEs) headquartered in the USA (ibid.). Malta was the only developed Commonwealth economy to register positive growth – albeit marginal – with FDI inflows $29 million higher in 2020 compared with the 2017–2019 average.

In Africa, the impacts of COVID-19 on FDI inflows were exacerbated by a slump in prices and demand for commodities in the first half of 2020. Project finance deals in Africa also took a significant hit in the second half of the year. Certain African LDCs were among the worst affected. Inflows to Rwanda were less than half the pre-pandemic (2017–2019) average, while those to Uganda and Zambia were US$423 million and $234 million lower, respectively. FDI inflows to the two largest African economies also saw significant impacts. Inflows to South Africa were more than $1.5 billion lower. In Nigeria, on the back of low crude oil prices and pandemic-induced closures of oil development sites, FDI inflows were $1.9 billion shy of the 2017–2019 average. Two African SIDS were also among the worst affected, with inflows to Mauritius and Seychelles markedly lower in 2020. The relative impact of COVID-19 on FDI inflows to Botswana, Lesotho and Mozambique was more muted, with the latter benefiting from the on-going implementation of a $2 billion LNG project (UNCTAD, 2021a). Among Commonwealth African members, only The Gambia, Malawi and Sierra Leone – all LDCs – registered growth in FDI inflows in 2020 compared with 2017-2019 averages, albeit off small bases.

In Commonwealth Asia, India bucked the trend, with FDI inflows expanding by more than US$13 billion in 2020. This growth was spurred by investments in consulting and digital sectors (including significant greenfield investment) and M&A deals in energy and infrastructure (UNCTAD, 2021a). However, other Asian members did not fare so well. Singapore, a key conduit for FDI inflows in Southeast Asia, and the largest Commonwealth Asian recipient of FDI in 2019, saw inflows decline by $27.3 billion in 2020 against the average for the preceding three years, in part because of a sharp fall in cross-border M&As (ibid.). Sri Lanka and Bangladesh saw inflows reduced by $782 million and $306 million, respectively. This owed in a large part to collapsing demand in the apparel sector: both economies have significant linkages to export-oriented apparel manufacturing GVCs (ibid.). A prolonged shock to trade and investment in GVC-dominated manufacturing sectors may severely constrain exports from Sri Lanka, Bangladesh and other Asian economies reliant on labour-intensive manufacturing. This is especially significant given that it is occurring against the backdrop of broader structural shifts – including greater emphasis on re-shoring, regionalisation and replication and a pivot in focus to regional market-seeking FDI and shorter value chains – that were already occurring in global manufacturing GVCs even prior to the emergence of the pandemic (discussed further in Section 3.4).

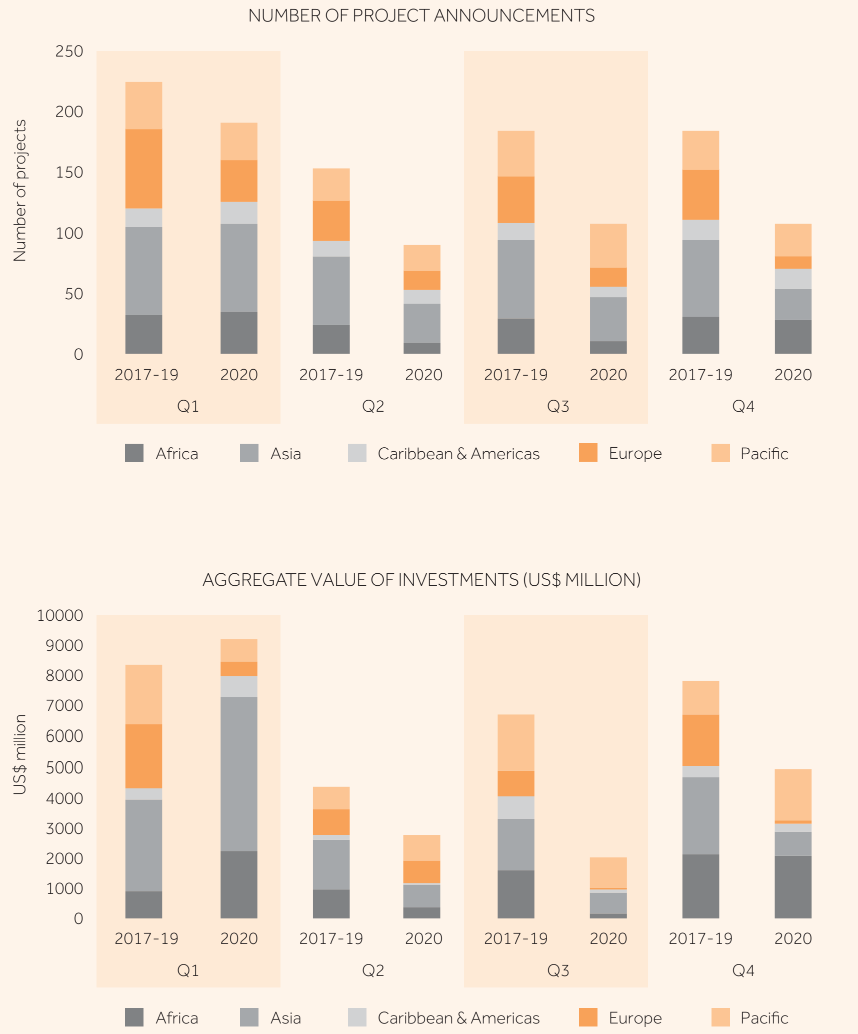
Among the Caribbean SIDS for which full-year estimates are available for 2020, FDI inflows to Jamaica (US$391 million lower) and The Bahamas ($276 million lower) were most affected relative to pre-pandemic averages. In contrast, Belize, Guyana, and Trinidad and Tobago fared much better, registering positive growth in FDI inflows in 2020.

In the Pacific, FDI inflows into Papua New Guinea expanded from a relatively low pre-pandemic level to reach US$641.5 million in 2020. Pacific SIDS elsewhere in the region fared less favourably, despite being relatively shielded from the spread of COVID-19. FDI inflows to Fiji, Solomon Islands and Samoa were lower in 2020 compared with pre-pandemic averages.

3.3.2 Impacts on productive greenfield investment in the Commonwealth

Greenfield projects are a key component of FDI, particularly in Commonwealth developing countries. They can be instrumental in enhancing productive capacity, transferring skills and technology, and creating jobs. Greenfield investments thus have the potential to play an important role in driving the long-term structural transformation of Commonwealth economies and in supporting post-COVID economic recovery. It is therefore concerning, as this section shows,

FIGURE 3.11
NUMBER AND AGGREGATE VALUE OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI PROJECTS BY COMMONWEALTH REGION AND QUARTER, AVERAGE 2017–2019 VS. 2020



Note: Figures for 2017–2019 represent annual averages over the three-year period.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

that the COVID-19 pandemic has hit greenfield project announcements hard across the Commonwealth.

The analysis assesses the impact of COVID-19 on intra-Commonwealth greenfield FDI[8] by comparing trends in greenfield project announcements between 2017 and 2019 (hereafter "the pre-pandemic period") and 2020. This covers much of the first wave of the pandemic, which hit most Commonwealth countries at the end of the first quarter (Q1) or early in the second quarter (Q2) of 2020, and, in the case of some members, the emergence of second waves of COVID-19 infections in the latter half of 2020.

Aggregate numbers of announced intra-Commonwealth greenfield FDI projects were notably lower in all four quarters of 2020 compared with the averages over the pre-pandemic period (top panel in Figure 3.11). The effects were most pronounced in Q2 and Q3. All Commonwealth regions registered fewer intra-Commonwealth greenfield announcements in these two quarters, with the largest relative declines in Africa and Europe. Across all four quarters, 251 fewer intra-Commonwealth greenfield FDI project announcements were made in Commonwealth countries in 2020 compared with the pre-pandemic average (745 in 2017-2019 versus 494 in 2020).

This translated into significantly lower levels of announced intra-Commonwealth greenfield investments in the second, third and fourth quarters of 2020 compared to pre-pandemic averages (bottom panel in Figure 3.11). In 2020, overall intra-Commonwealth inflows were US$1.6 billion lower in Q2, $4.7 billion lower in Q3 and $2.9 billion lower in Q4. The pattern of COVID-19 impacts on greenfield investment values varied across Commonwealth regions. Intra-Commonwealth inflows to member countries in Africa (down by 60 per cent and 91 per cent) and the Caribbean and Americas region (down by 35 per cent and 80 per cent) were most severely affected in Q2 and Q3 of 2020. European member countries registered sharp reversals in greenfield FDI inflows in Q3 2020 (falling by 93 per cent), alongside steep declines in Commonwealth Asia (60 per cent) and the Pacific (47 per cent). Greenfield investment inflows began to recover in Q4 of 2020 compared with pre-pandemic averages in Commonwealth African (just 3 per cent lower) and Pacific countries (up by 55 per cent) but were still severely constrained in member countries in Asia (69 per cent lower), Europe (96 per cent lower) and Caribbean and Americas (24 per cent lower).

Impacts on jobs created through greenfield investments

The estimated number of jobs created through announced greenfield investment in the Commonwealth declined steeply in 2020 compared with pre-pandemic levels.[9] Overall, an estimated 297,098 jobs were created through these announced investments across the Commonwealth, 212,682 fewer than the annual average between 2017 and 2019, representing a decline of 42 per cent. The estimated number of jobs created through intra-Commonwealth greenfield FDI declined even more steeply, halving from an annual average of 87,959 in the pre-pandemic period to 45,252 in 2020 (Table 3.5). This saw the intra-Commonwealth share in total estimated jobs created through announced greenfield investments fall by more than 2 percentage points to 15.2 per cent in 2020.

TABLE 3.5
JOB CREATION AND EMPLOYMENT INTENSITY OF INTRA-COMMONWEALTH GREENFIELD FDI, BY COUNTRY GROUP, 2017–2019 AVERAGE VS. 2020

	Average 2017–2019	2020	% change 2017–2019 vs. 2020	Intra-Commonwealth share of total jobs created in region (%)		Employment intensity	
				Average 2017–2019	2020	Average 2017–2019	2020
Commonwealth total	87,959	45,252	–48.6	17.3	15.2	3.2	2.4
Of which							
Developed	25,957	14,859	–42.8	20.2	13.5	2.1	2.2
Developing	62,002	30,393	–51.0	16.3	16.3	4.2	2.5
Of which							
Africa	15,273	6,698	–56.1	22.7	24.4	3.0	1.4
Asia	44,917	23,648	–47.4	14.8	15.1	5.0	3.3
Caribbean and Americas	4,522	2,478	–45.2	11.9	7.9	2.7	2.0
Of which							
Caribbean SIDS	1,761	47	–97.3	16.9	1.6	11.2	3.7
Europe	11,027	3,069	–72.2	16.4	5.7	2.1	2.3
Pacific	12,219	9,359	–23.4	35.6	33.6	2.2	2.2
Of which							
Pacific SIDS	76	–	–100.0	14.4	–	1.9	–
Vulnerable groups							
LDCs	5,843	841	–85.6	23.9	14.4	3.1	1.2
Small states	3,975	857	–78.4	23.1	10.5	2.9	3.0
SIDS	6,454	1,856	–71.2	17.3	9.8	3.1	2.1

Note: Employment intensity is measured as the number of jobs created per US$1 million in greenfield investment. Figures for 2017–2019 represent annual averages over the three-year period.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

The pandemic's adverse impact on the job-creating potential of intra-Commonwealth greenfield FDI was felt across all Commonwealth regions in 2020. In aggregate, the relative impact on jobs was greater in developing members compared with their developed counterparts, and Commonwealth LDCs and small states, including SIDS (especially Caribbean SIDS), registered large declines off relatively small bases.

Sectoral impacts

Global greenfield FDI inflows to the primary, manufacturing and services sectors in the Commonwealth declined in 2020. Inflows to the primary sector were US$7.1 billion lower in 2020, a drop of 19 per cent compared with the pre-pandemic average. Inflows into manufacturing were less than half their pre-pandemic level ($53.3 billion versus $22.5 billion). Greenfield inflows to services were the least affected in relative terms at 11.5 per cent lower than the pre-pandemic average ($93.7 billion compared with $82.2 billion).

Intra-Commonwealth greenfield FDI inflows to the primary and services sectors were affected significantly in 2020, declining by 56 per cent (US$2 billion compared with $861.1 million) and 34 per cent ($19 billion versus $12.5 billion) relative to the pre-pandemic averages. Contrary to the steep drop in global FDI to manufacturing, this sector fared relatively better overall, with intra-Commonwealth greenfield investment in 2020 just 11 per cent (or $666 million) lower than the pre-pandemic average. The more muted impact was mainly driven by a very large investment of $3.4 billion in the chemicals industry in Malaysia in 2020 as well as substantial investments in the metals and non-automotive transport original equipment manufacturing (OEM) industries in Malaysia, and the pharmaceutical industry in the UK.

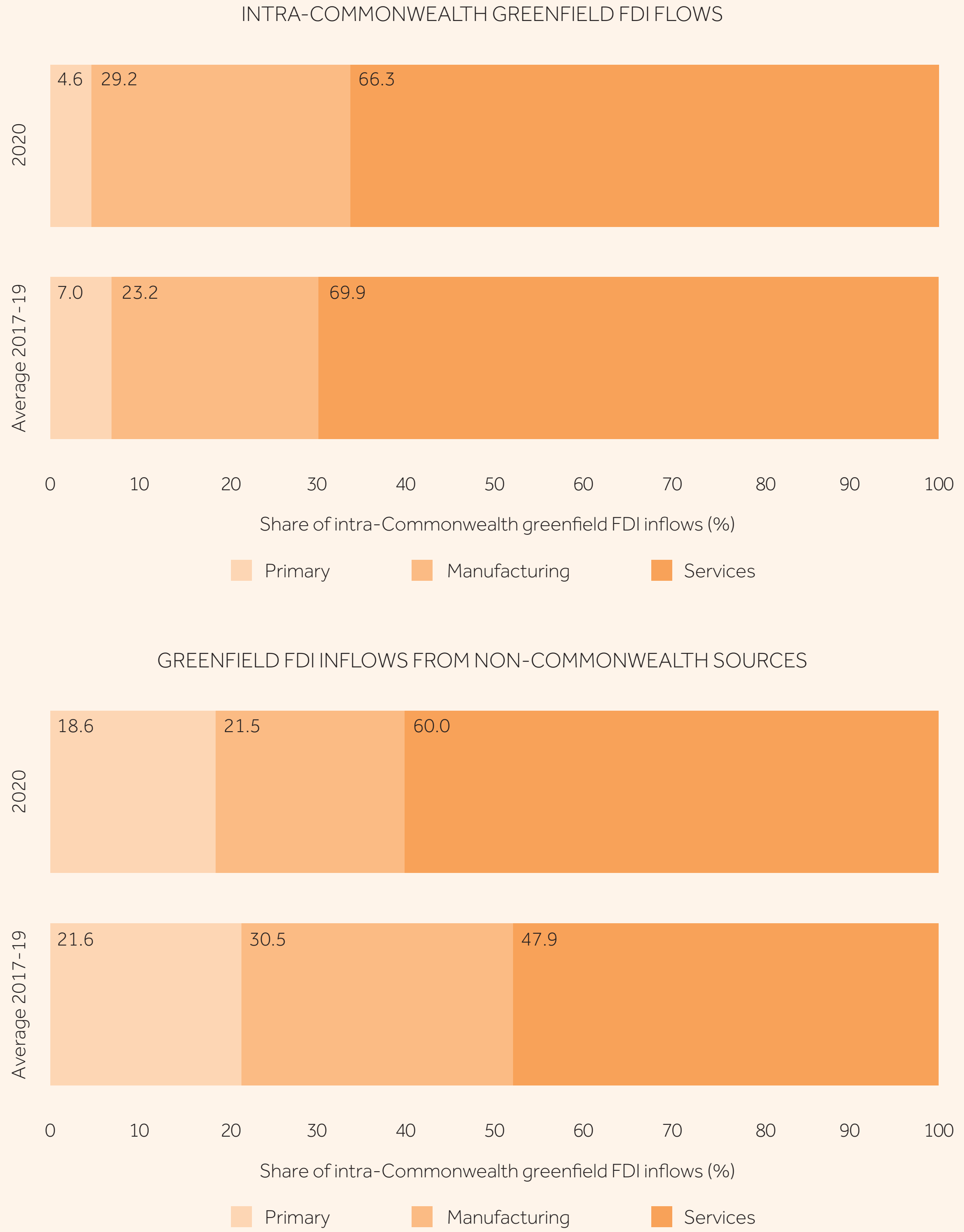
Overall, across the Commonwealth, only one primary industry (minerals), three services sectors (transportation and warehousing, renewable energy and communications) and five manufacturing industries (business machines and equipment, chemicals, medical devices, non-automotive transport OEM and wood products) registered higher greenfield inflows in 2020 compared with pre-pandemic averages. Many of these sectors were less exposed to the demand, supply and policy shocks affecting other investment sectors. In some of the primary and manufacturing industries, production methods tend to use highly automated assembly lines and employ more industrial robots (compared with the garments industry, for example, as discussed in Chapter 1). They also tend to be more capital-intensive, and some are linked to GVCs originating in the Asian region, which was quick to rebound from the pandemic.

The relatively less severe impact on greenfield investment in manufacturing resulted in changes to the sectoral composition of intra-Commonwealth greenfield FDI compared with pre-pandemic levels (Figure 3.12), with the share of manufacturing in total inflows increasing by 6 percentage points amid declining shares for the primary and services sectors. Services remained the dominant sector by value, accounting for two-thirds of announced intra-Commonwealth greenfield FDI flows in 2020.

The broad picture in relation to the pandemic's sectoral impacts is largely replicated across Commonwealth regions. Aside from one additional greenfield project in the primary sector in Asia, and three more manufacturing projects in the Caribbean and Americas region, numbers of greenfield announcements were lower in 2020 compared with pre-pandemic averages in the primary, manufacturing and services sectors in all other regions (top panel in Figure 3.13). This translated into generally lower levels of intra-Commonwealth capital investment, with the notable exceptions of investments in services in Africa, manufacturing in Asia and the primary sector in Caribbean and Americas (bottom panel in Figure 3.13).

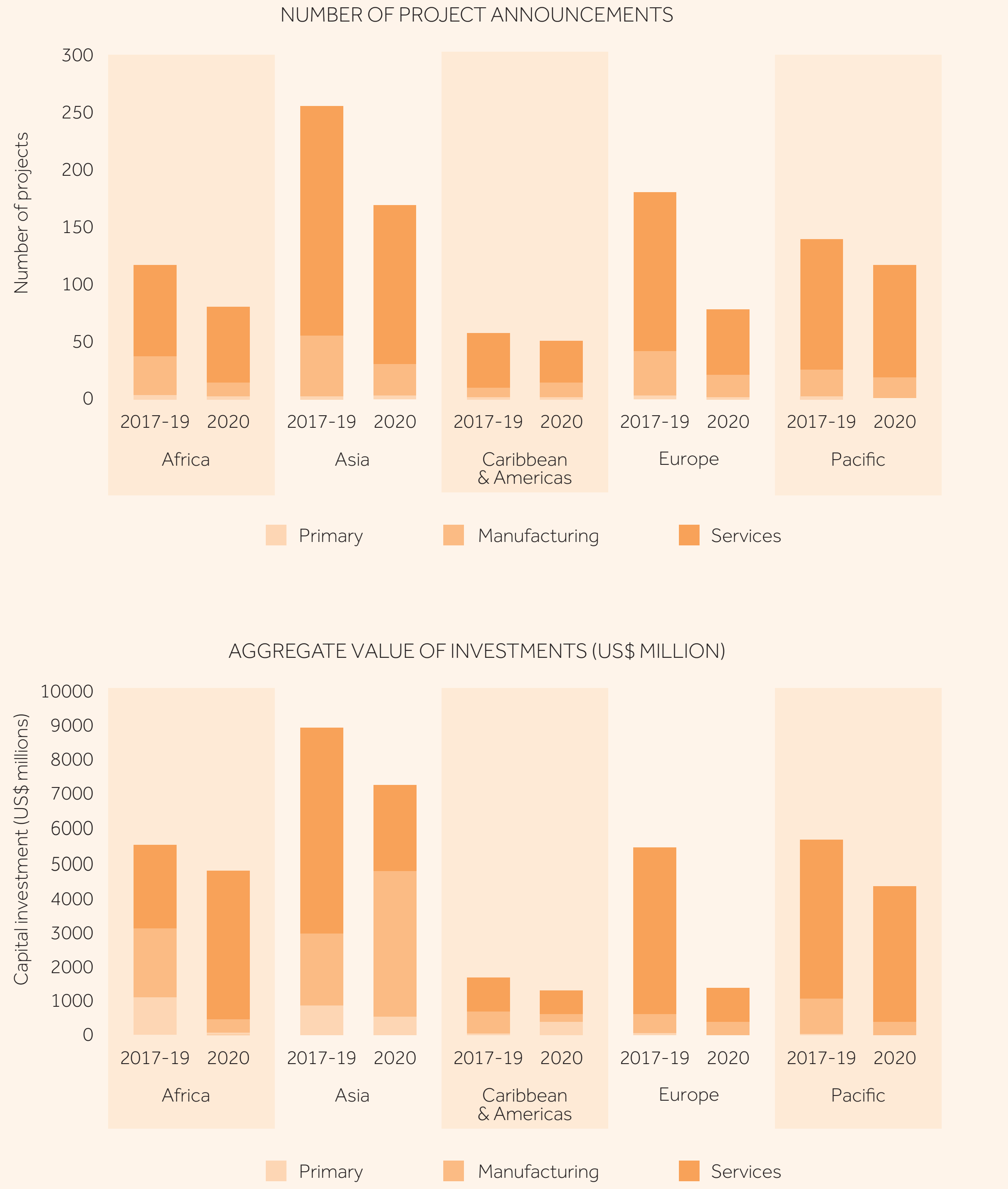
Table 3.6 shows the primary, manufacturing and services industries most affected by falling greenfield investment inflows since the start of the pandemic, highlighting some variation across Commonwealth regions. For manufacturing in the Commonwealth as a whole, metals, food and beverages, and electronic components were most affected. Real estate, financial services, and hotels and tourism experienced the largest declines in greenfield FDI relative to pre-pandemic averages among services across the Commonwealth.

FIGURE 3.12
CHANGES IN SECTORAL COMPOSITION OF ANNOUNCED GREENFIELD INVESTMENT IN THE COMMONWEALTH, 2017–2019 AVERAGE VS. 2020



Notes: The disaggregated breakdown of industries into primary, manufacturing and services sectors is presented in Annex 3.1. The sector concordance follows UNESCAP (2020). Figures for 2017-2019 are based on annual averages over the three-year period.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

FIGURE 3.13
CHANGES IN SECTORAL COMPOSITION OF INTRA-COMMONWEALTH GREENFIELD FDI, BY COMMONWEALTH REGION, 2017–2019 AVERAGE VS. 2020



Note: Figures for 2017–2019 are based on annual averages over the three-year period.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

TABLE 3.6
SECTORAL IMPLICATIONS OF COVID-19 FOR INTRA-COMMONWEALTH GREENFIELD FDI, 2017–2019 AVERAGE VS. 2020

	Primary		Manufacturing		Services	
	Industry	Decline in investment (US$ million)	Industry	Decline in investment (US$ million)	Industry	Decline in investment (US$ million)
Commonwealth total						
	Coal, oil and gas	–1,442.0	Metals	–1,457.0	Real estate	–5,992.5
			Food and beverages	–355.8	Financial services	–1,367.0
			Electronic components	–311.3	Hotels and tourism	–734.1
Commonwealth region						
Africa	Coal, oil and gas	–1,030.5	Chemicals	–752.0	Transportation and warehousing	–357.9
	Minerals	–34.6	Metals	–743.4	Financial services	–191.1
			Building materials	–276.6	Hotels and tourism	–183.6
Asia	Coal, oil and gas	–384.8	Paper, printing and packaging	–648.9	Real estate	–2,276.5
			Metals	–285.1	Financial services	–817.7
			Automotive OEM	–227.8	Communications	–227.8
Caribbean and Americas	-	-	Electronic components	–381.4	Renewable energy	–320.4
			Metals	–177.3	Software and IT services	–128.4
			Medical devices	–100.0	Hotels and tourism	–84.7
Europe	Coal, oil and gas	–21.9	Food and beverages	–73.9	Real estate	–3,431.0
	Minerals	–0.7	Automotive OEM	–72.3	Hotels and tourism	–221.9
			Wood products	–31.4	Financial services	–206.0
Pacific	Coal, oil and gas	–7.4	Metals	–386.9	Real estate	–230.1
			Automotive OEM	–121.1	Hotels and tourism	–189.6
			Food and beverages	–91.7	Communications	–189.4

Note: Figures for 2017–2019 are based on annual averages over the three-year period.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

3.4 Commonwealth FDI prospects to 2025

In the short to medium term, FDI prospects will continue to be determined largely by the trajectory of the COVID-19 pandemic and its eventual endpoint, with which the prospects for economic and trade recovery globally and in the Commonwealth are closely inter-twined. The outlook for global FDI flows remains challenging, with significant uncertainty. This may lead to further delays in the implementation of existing investment projects and cause investors to continue to defer investment decisions as they exercise caution before committing capital to new investment projects. This will continue to act as a break on global FDI flows in the short to medium term.

Against this backdrop, the decline in FDI inflows to the Commonwealth is set to persist, at least up to 2022. That said, after the steep decline observed in 2020 (see Section 3.2.1), FDI inflows into Commonwealth countries are expected to fall more moderately in 2021 and 2022. UNCTAD projections indicate that these inflows will decline by 18 per cent across the whole of 2021, followed by a further drop of 7 per cent in 2022. This would see the total value of FDI inflows to the Commonwealth decline to US$136 billion in 2022, or a loss of around $220 billion compared with 2019. Thereafter, a U-shaped recovery is expected as global FDI flows begin to pick up.

The pace of recovery and future investment prospects for Commonwealth members is likely to vary significantly by their economic size and geography, the structure of their economies and the composition of their exports (see Chapter 1). Table 3.7 summarises the implications for investment in specific industries and sectors. Overall, greenfield investment in industrial sectors may be constrained for some time if investors remain hesitant to commit capital to new productive investments in an environment of significant uncertainty (UNCTAD, 2021a). This has major implications

TABLE 3.7
COVID-19 IMPACTS AND FUTURE INVESTMENT PROSPECTS FOR SELECTED SECTORS

Sector	COVID-19 impacts	Post-COVID-19 prospects to 2025	Commonwealth countries most affected/advantaged
Oil and gas	– Suppressed demand – Sharp fall in oil prices – FDI inflows constrained	Demand boost expected as global economy rebounds	Canada, Trinidad and Tobago, Nigeria, Ghana
Other commodities	– Low commodity prices in 2020:H1 – Rebound in prices for some commodities in 2020:H2	– Possible commodity supercycle on the way with rising commodity prices – Potentially improved prospects for resource-seeking FDI	Commodity-dependent African members
Manufacturing	– Acceleration of pre-COVID headwinds: re-shoring constraining efficiency-seeking FDI, shift to regional market-seeking FDI and shortening of value chains – Investors hesitant to commit capital to new investments in industrial sectors owing to COVID-related uncertainty	– Further structural shifts likely in manufacturing value chains, focusing on de-risking – Shortening of supply chains may benefit Commonwealth manufacturers located close to international production centres	Commonwealth Asia and Africa members engaged in GVC-intensive manufacturing and exporting (e.g. Bangladesh, Sri Lanka)
Tourism	Restrictions on travel and social distancing measures severely affecting tourism activity	– Recovery contingent on policy developments (e.g. travel corridors, testing and quarantine) – Rollout of vaccines offers hope for wider reopening of international travel – Possibility of rapid growth and new investment owing to pent-up demand if COVID-19 induced restrictions on travel subside	Commonwealth SIDS
Information and communication technology (ICT)/ digital sectors (see Chapter 2)	– Significantly less affected – Accelerated reliance on digital technologies, leading to rising demand for ICT equipment, internet and broadband solutions, digitally deliverable services, etc.	– Demand for digital technologies and services likely to continue to grow – Growth in knowledge-seeking FDI into digital sectors should be sustained in the longer term	Commonwealth countries with strong digital capabilities (e.g. India, Singapore, UK)
Health	– Massive pressure on health care resources – Amplified demand for medical solutions to combat COVID-19	Growth in investment likely to be sustained	All

for the Commonwealth's developing members that rely heavily on greenfield FDI to provide the capital investment necessary to develop productive capacity for industrialisation, trade, economic transformation and new jobs.

In the aftermath of COVID-19 there are also likely to be further structural shifts in production and value chains, centring on the restructuring of GVCs to de-risk and build resilience to future crises. This may lead to shorter supply chains, resulting in some re-shoring that could benefit Commonwealth members located close to international production centres (East and Kaspar, 2020; UNCTAD, 2020a). This will have implications for producers in Commonwealth Asia and Africa engaged in GVC-intensive manufacturing and export industries.

When the COVID-19 pandemic eventually ends and the world begins a transition towards normalcy, FDI can serve as an integral component of wider economic recovery in the Commonwealth and help build greater resilience to future crises, particularly in Commonwealth developing countries.

There remains hope for a recovery in long-term investment flows by 2022 (UNCTAD, 2020a). This, in tandem with the other developments discussed in the concluding section, may create opportunities for Commonwealth member countries to attract higher levels of FDI. For example, the rapid recovery in economic growth in China is likely to create early opportunities to further leverage Chinese infrastructure investment in the Commonwealth (Box 3.5) as part of broader efforts to build back better after the pandemic.

BOX 3.5

CHINA'S GROWING INFRASTRUCTURE INVESTMENT IN THE COMMONWEALTH

Chinese investment in the Commonwealth, especially in developing African and Asian members, has accelerated over the past two decades. Overall, Chinese FDI flows into Commonwealth countries averaged US$13.7 billion annually between 2017 and 2019.[10]

In African member countries, China is a major source of investment through commercial loans and FDI in transport, power and telecommunications infrastructure projects. Chinese investments have also been directed into infrastructure supporting productive capacity, including through export-oriented industrial parks and/or special economic zones in Kenya, Malawi, Mauritius, Mozambique, Nigeria, South Africa and Tanzania.

Much of China's recent investment has been channelled through the Belt and Road Initiative (BRI). Announced in 2013, the BRI aims to promote regional integration and economic growth through enhanced connectivity generated by means of investments in infrastructure and other areas. There is widespread involvement in the BRI among Commonwealth countries in Africa, Asia, the Caribbean and the Pacific.

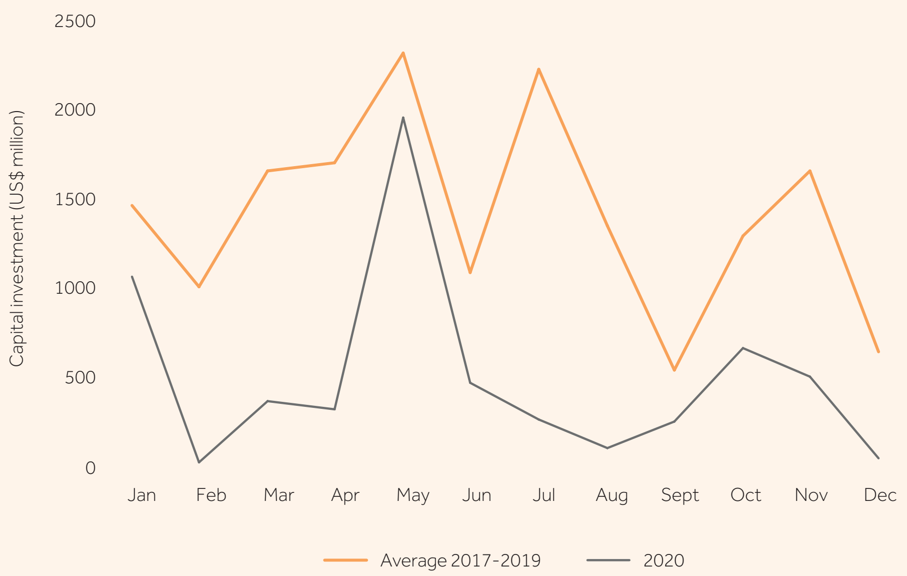
In Africa, several on-going or recently completed port development projects have targeted improvements in port performance and connecting infrastructure. These include BRI-linked finance and construction projects in Cameroon, Ghana, Kenya and Nigeria (EIU, 2021). In South Asia, the corridor economies of Bangladesh and Pakistan have benefited from the bulk of BRI-related investments. In the Pacific, significant BRI projects to strengthen both hard and soft infrastructure are underway in Tonga.

The Digital Silk Road (DSR), a component of the BRI launched in 2015, is a growing conduit for Chinese investment in telecommunications in Commonwealth countries. The DSR is helping develop China's own technological independence while also positioning the country at the centre of global technology networks (Hillman, 2021). This has contributed to the intensification of USA-China competition in technology-related sectors, spurred by China's growing digital investments globally and its expanding influence in the realm of telecommunications infrastructure and digital technologies.

China also plays a lead role in the New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB), which have a core focus on infrastructure development. While these development banks still account for a relatively small share – estimated at 5 per cent in 2020 – of new lending disbursed by international financial institutions (Bird, 2020), they are well capitalised and appear to possess the capacity to scale up their infrastructure investment operations.[11] The AIIB has also managed to rapidly switch focus to support countries' responses to the pandemic, including through a dedicated COVID-19 Crisis Recovery Facility.

In line with the general picture globally (see Section 3.3), the pandemic has adversely affected Chinese FDI in Commonwealth countries. The Chinese economy contracted for the first time in four decades during the first quarter of 2020. This had a knock-on effect on Chinese greenfield FDI for much of 2020, with the monthly values of announced capital investments in Commonwealth countries lower than the averages for 2017–2019 (Figure 3.14). With Chinese economic growth registering a rapid recovery in the final quarter of 2020 (during which the economy expanded at a faster rate than before the COVID-19 crisis), a return to pre-pandemic levels of Chinese investment in the Commonwealth is unlikely to be far away.

FIGURE 3.14
ANNOUNCED CHINESE GREENFIELD FDI IN THE COMMONWEALTH, 2017–2019 AVERAGE VS. 2020 (US$ MILLION)



Note: The total value of investment for September 2020 excludes an outlier in the form of a very large announced capital investment of US$13.6 billion in the coal, oil and gas sector in Brunei Darussalam.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

3.5 Conclusion and way forward

This chapter has examined investment trends in the Commonwealth and explored the impact of COVID-19 on these flows. It has shown that most Commonwealth countries experienced a significant decline in FDI inflows in 2020. Greenfield FDI was hit especially hard, with notably fewer project announcements in all four quarters of 2020 compared with pre-pandemic averages. This has generally translated into significantly lower levels of capital investment and steep declines in the estimated number of jobs created through these investments. As countries look beyond the pandemic and start developing policy frameworks to support a more inclusive and sustainable recovery, they should carefully consider the following issues.

First, Commonwealth countries could face more competition to attract FDI inflows as a result of increased divestment, investment diversion and changes in the key locational determinants of investment, as well as a generally shrinking pool of efficiency-seeking investment (UNCTAD, 2020a). However, they could also benefit from opportunities to attract investors looking to diversify supply bases and increasingly prioritising market-seeking FDI (East and Kaspar, 2020; UNCTAD, 2020a). For example, MNEs are reportedly considering diversifying out of China because of rising operating costs, supply chain restructuring and the effects of the USA-China trade and technology conflict (see Chapter 4). Although some Commonwealth Asian economies could possibly benefit from this shift of light manufacturing investment, Africa's low costs and attractive market also make it a logical geographic choice, although this is not without many challenges (Xu at al., 2017; Altenburg, 2019).

Second, Commonwealth developing countries and LDCs must create incentives to mobilise domestic savings and FDI inflows into investments in productive capital, including new technologies to upgrade existing sectors or in pursuit of future diversified opportunities, including ICT-enabled digitally deliverable services (see Chapter 2). FDI can be targeted to develop exporting capacities, but this will require trade promotion policies to attract investment into these sectors and generate a supply response. For example, LDCs could take advantage of favourable tariff preferences and rules of origin in developed economies and some developing countries, like China, to attract investment in new facilities and, where possible, export tariff-free to these markets. It is not uncommon for China to impose tariffs of 25–30 per cent on imports, so this is a huge advantage.

Third, regional trade and integration developments will continue to shape FDI prospects for Commonwealth countries, especially the African Continental Free Trade Area (AfCFTA) and the Regional Comprehensive Economic Partnership (RCEP) in Asia-Pacific (see Chapter 4). The AfCFTA will enable greater intra-African investment, especially by Commonwealth African countries, which contributed over 70 per cent of announced intra-African greenfield FDI from 2010 to 2020, on average, and 85 per cent in 2020.[12] These countries may also benefit from greater investment inflows as a result of this new continental trade deal, particularly if agreement is reached on an AfCFTA Investment Protocol. Negotiations on investment provisions in the AfCFTA are seeking to establish a framework and commitments around investment governance to boost intra-African investment, while also creating a platform for African countries to undertake investment negotiations with third parties.[13] This will support efforts to attract market- and efficiency-seeking FDI into African countries (Chidede, 2020). Similarly, RCEP, which represents one of the world's largest trade and investment agreements and includes five Commonwealth countries (Australia, Brunei Darussalam, Malaysia, New Zealand and Singapore), is likely to boost investment flows to the Commonwealth's Asia-Pacific members. The signing of the RCEP is a positive signal to investors of the region's commitment to investment integration and liberalisation around a rules-based regional investment regime.

Fourth, the Commonwealth advantage in investment (outlined in Box 3.2) means investments from Commonwealth partners should remain a key source of FDI inflows into Commonwealth economies up to 2025 and beyond. Intra-Commonwealth FDI can play a key role in supporting economic recovery and building greater resilience in Commonwealth countries post-COVID-19. Moreover, the Commonwealth has a strong diasporic community with considerable potential for diaspora investment, although this has yet to be realised (Commonwealth Secretariat, 2018b).[14] Mobilising diaspora savings, including through bonds or crowdfunding investment platforms, can lead to new business opportunities, connect investors and innovators and build a strong foundation of investment that can potentially jumpstart FDI in these countries (Manlan and Ojomo, 2020). In some countries, diaspora investment has had greater developmental benefits than other FDI by being more stable, creating local employment and having more significant spill-over effects (Riddle and Nielsen, 2011).

Finally, at the multilateral level, the discussions in the Joint Statement Initiative on investment facilitation by some World Trade Organization (WTO) members may result in outcomes that boost FDI inflows to Commonwealth countries. These discussions have focused on ways to streamline investment procedures, the role of the WTO in investment facilitation and possible multilateral rules in this area.[15] They are expected to serve as a basis for formal negotiations towards a multilateral agreement on investment facilitation. However, trade multilateralism remains at a crossroads and there is widespread recognition that the WTO needs strengthening and reform to remain credible and relevant for tackling new and emerging trade and trade-related issues beyond the pandemic, as discussed in the next chapter.

Annex 3.1 Concordance for fDi Markets industries to broad sectors

fDi Markets industry	Broad sector
Coal, oil and gas	Primary
Minerals	Primary
Aerospace	Manufacturing
Automotive components	Manufacturing
Automotive OEM	Manufacturing
Biotechnology	Manufacturing
Building materials	Manufacturing
Business machines and equipment	Manufacturing
Food and beverages	Manufacturing
Ceramics and glass	Manufacturing
Chemicals	Manufacturing
Consumer electronics	Manufacturing
Consumer products	Manufacturing
Electronic components	Manufacturing
Engines and turbines	Manufacturing
Industrial equipment	Manufacturing
Medical devices	Manufacturing
Metals	Manufacturing
Non-automotive transport OEM	Manufacturing
Paper, printing and packaging	Manufacturing
Pharmaceuticals	Manufacturing
Plastics	Manufacturing
Rubber	Manufacturing
Semiconductors	Manufacturing
Space and defence	Manufacturing
Textiles	Manufacturing
Wood products	Manufacturing
Business services	Services
Communications	Services
Financial services	Services
Health care	Services
Hotels and tourism	Services
Leisure and entertainment	Services
Real estate	Services
Renewable energy	Services
Software and IT services	Services
Transportation and warehousing	Services

Note: The sector concordance follows UNESCAP (2020).

Endnotes

1 Global FDI inflows were US$1.5 trillion in 2019, only marginally above their level ($1.2 trillion) immediately after the global financial crisis in 2009, and down from $2 trillion in 2015 (UNCTAD, 2020a).

2 A greenfield investment involves the initiation of a new venture in which a parent company builds its operations in a foreign country from the ground up (Commonwealth Secretariat, 2018a). This may involve constructing production and processing facilities, building new distribution hubs and offices, or developing project sites. Such investments can have significant economic impacts in Commonwealth countries – often greater than those of other forms of FDI – because they involve injections of new capital supporting the development of productive capacity and creating new jobs in the host economy. Greenfield investments typically play a more important role in FDI in emerging and developing economies (OECD, 2020c).

3 Based on the latest available UNCTAD data capturing bilateral FDI inflows between 42 Commonwealth countries.

4 The dominant global investors in the Commonwealth include several of the world's largest and most powerful economies. Between 2010 and 2019, 61 per cent of greenfield FDI inflows to the Commonwealth from non-Commonwealth partners originated in five countries: the USA (27 per cent of inflows from the rest of the world), China (12 per cent), Japan (8 per cent), Germany (8 per cent) and The Netherlands (6 per cent). Greenfield investments from these countries were mostly concentrated in a small number of Commonwealth members, with India, Malaysia, the UK, Australia and Canada featuring prominently.

5 Computed as (EXP(0.244)-1)*100=27.4%

6 A greenfield investment involves a company building its operations in a foreign country from the ground up. In contrast, a brownfield investment involves a company purchasing or leasing an existing facility.

7 https://www.smefinanceforum.org/data-sites/msme-finance-gap

8 See Balchin (2020) for a broader analysis of COVID-19 impacts on overall greenfield FDI in the Commonwealth.

9 These estimates are drawn from fDi Markets data tracking the number of jobs planned to be created through greenfield investment projects.

10 Calculations based on UNCTAD's bilateral investment data.

11 The AIIB's estimated US$100 billion capitalisation represents around two-thirds of the capitalisation of the Asian Development Bank and half of that of the World Bank (Campbell, 2021).

12 Calculated using fDi Markets data, from the Financial Times Limited 2021.

13 A rules-based continental framework covering issues such as investment facilitation, investment protection and investor obligations can help promote, facilitate and protect investors while also lowering investment transaction costs in Africa.

14 A survey of diaspora communities in the UK from six Commonwealth countries – Bangladesh, Fiji, Ghana, Jamaica, Kenya, and Nigeria – found that over 80 per cent of business owners and over 60 per cent of professionals expressed an interest in saving or investing in the Commonwealth country with which they had a connection. Moreover, potential diaspora investors are frequently entrepreneurial, with more interested in setting up a business than any other form of investment (Commonwealth Secretariat, 2018b).

15 Discussions have focused on issues such as streamlining and speeding up administrative procedures, domestic co-ordination, cross-border co-operation, provisions for temporary entry for investment persons and the facilitation of movement of businesspersons for investment purposes.