The Commonwealth

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COVID-19 and Commonwealth FDI: Immediate Impacts and Future Prospects

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1. Introduction

COVID-19 has created large-scale social and economic crises across the world. In October, the International Monetary Fund (IMF) forecast a 4.4 per cent contraction in global gross domestic product (GDP) for 2020. The World Trade Organization estimates the volume of world merchandise trade will fall by 9.2 per cent in 2020. Projections in the *World Investment Report 2020*, published by the United Nations Conference on Trade and Development (UNCTAD), indicate foreign direct investment (FDI) flows will fall by up to 40 per cent in 2020 (UNCTAD, 2020a). This is occurring on the back of a decade of already sluggish growth in international investment, marked by slowing cross-border investment in physical productive assets and several years of stagnation in global FDI flows (UNCTAD, 2020b).

The adverse effects of COVID-19 on FDI flows are likely to have major implications for Commonwealth trade. FDI and trade are highly complementary. FDI contributes to international trade integration and can enable domestic firms to access international production networks, global value chains (GVCs) and export markets (OECD, 2002; Alfaro, 2016). FDI may also support diversification and upgrading of exports (Echandi et al., 2015). Consequently, reduced FDI flows are likely to constrain intra- and extra-Commonwealth trade in the medium and long term.

Against this backdrop, this issue of *Trade Hot Topics* examines the impact of the COVID-19 pandemic on Commonwealth FDI. It presents the current picture globally and across the Commonwealth, based on available data and evidence, and offers projections for the likely trajectory of FDI inflows into the Commonwealth over the next two years, with the disclaimer that the pandemic is not yet over and its economic impacts, and their implications for investment flows, continue to evolve.

2. The emerging impact of COVID-19 on global FDI flows

COVID-19 has exacerbated a long-term downward trend in global investment flows (UNCTAD, 2020b). The pandemic has created simultaneous supply, demand and policy shocks affecting all aspects of FDI. A slowdown in the implementation of existing investment projects has delayed FDI flows. Many firms have deferred investment decisions amid heightened uncertainty as they contend with significant losses in income and, in certain cases,

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Table 1. Annual growth in FDI inflows, by group of economies and regions, 2019 (actual) and 2020 (forecast)

	Actual	Projections
Group of economies	**2019**	**2020**
World	3%	(-40% to -30%)
Developed economies	5%	(-40% to -25%)
Developing economies	-2%	(-45% to -30%)
Transition economies	59%	(-45% to -30%)
Regions		
Africa	-10%	(-40% to -25%)
Asia	-5%	(-45% to -30%)
Latin America and the Caribbean	10%	(-55% to -40%)

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Numbers are rounded.

factory closures and supply disruptions resulting from the pandemic (IMF et al., 2020).

These effects are expected to be felt throughout 2020. Projections by UNCTAD suggest that after modest growth of 3 per cent in 2019, global FDI flows may decline by up to 40 per cent in 2020 (see Table 1). This would see the annual value of global FDI flows drop below US$1 trillion for the first time since 2005 (UNCTAD, 2020b). The impact in developing economies may be even more severe. Projections by UNCTAD suggest global FDI inflows into developing economies could fall by up to 45 per cent in 2020. According to the IMF (2020), US$84 billion in investment had already been withdrawn from developing countries in the period between the start of the COVID-19 pandemic and late March 2020. This represents the largest capital outflow from developing countries on record (Seric and Hague, 2020).

Across the world, impacts on FDI flows at the regional level are likely to vary, but are expected to be substantially negative in all cases. According to UNCTAD projections, FDI flows into Latin America and the Caribbean (declining by between 40 and 55%) and Asia (down by between 30 and 45%) are likely to be most affected, in relative terms, in 2020. In Africa, an overall decline in FDI inflows of between 25 and 40 per cent is anticipated.

UNCTAD (2020a) forecasts earnings of the world's top 5,000 multinational enterprises (MNEs) will decline by 40 per cent, on average, for the whole of 2020. This will have severe knock-on effects on reinvested earnings, which are a major source of finance for FDI deals.[1] Those industries in which the loss of earnings is expected to exceed 30 per cent in 2020 collectively account for more than 70 per cent of global FDI projects (UNCTAD, 2020b).[2]

Preliminary data confirm the severity of these projected effects on FDI. In the first three quarters of 2020, global FDI flows fell by 49 per cent compared to 2019 levels (UNCTAD, 2020c). The decline was most pronounced in developed countries, falling by 75 per cent (ibid). FDI flows into developing countries were relatively resilient, but still fell by 16 per cent (ibid.).

New investments across the world have been affected by declining equity capital flows since the start of the pandemic. As a result, substantial numbers of mergers and acquisitions (M&As) and greenfield investments[3] have been put on hold. Since greenfield FDI involves new capital investment, this may have significant adverse implications for job creation and technological upgrading. In the first eight months of 2020, both the value and number of new greenfield project announcements fell by 37 per cent (UNCTAD, 2020c). Newly announced cross-border M&A deals declined by 15 per cent in the first three quarters of the year (ibid.).

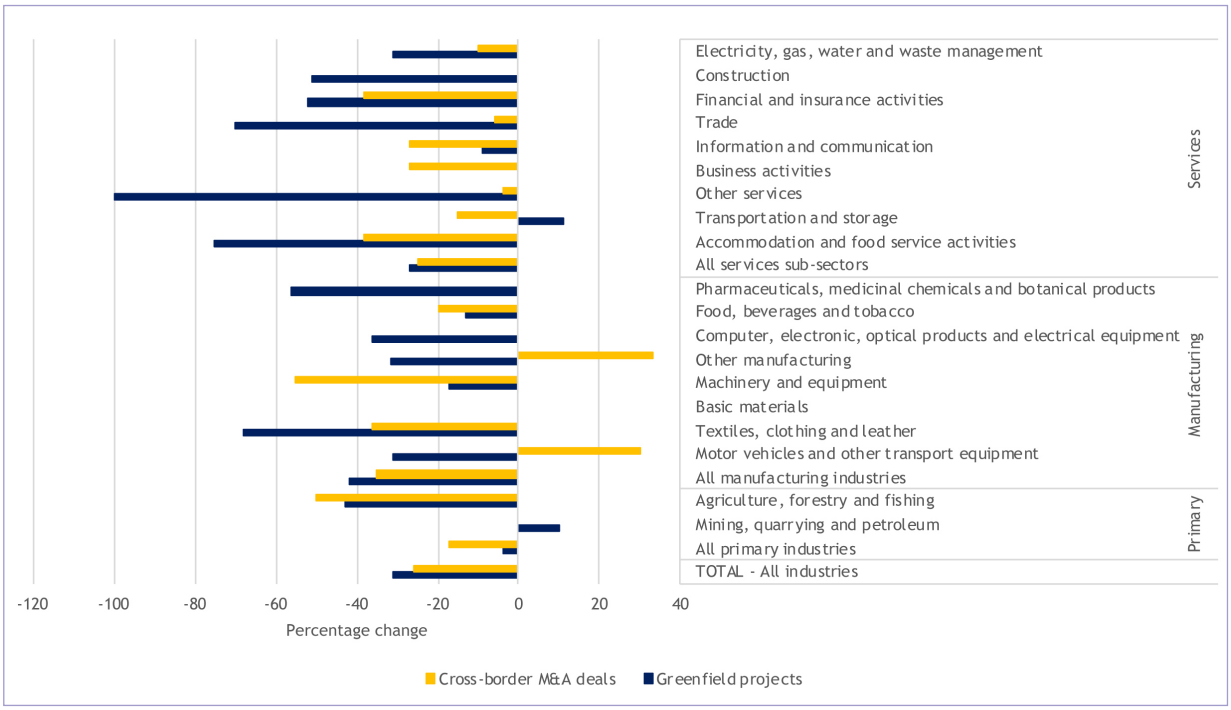
The emerging effects on both cross-border M&A

1 Reinvested earnings accounted for 52 per cent of global FDI flows in 2018, and even more in the world's developed economies (61%). Reinvested earnings are also key components of FDI flows to developing economies (40% of total FDI in 2018), particularly in Asia (41%) and Latin America and the Caribbean (43%) (IMF et al., 2020).

2 As of May 2020, the industries with the largest downward revisions in earnings globally were accommodation and food service activities (down by 94%); mining, quarrying and petroleum (70%); transportation and storage (63%); motor vehicles and other transport equipment (50%); and textiles, clothing and leather (49%).

3 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, 2018). This may involve constructing production and processing facilities, building new distribution hubs and offices, or developing project sites.

Figure 1. COVID-19 impacts on greenfield projects and cross-border M&A deals announced by the world's top 5,000 MNEs, by industry, 2019 and early 2020



Sources: UNCTAD, based on data from Refinitiv SA. Cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield projects.
Note: In the case of greenfield projects, the reported values reflect percentage changes in the monthly average growth rate of the number of greenfield projects for all of 2019 versus January–March 2020. For cross-border M&A deals, the values reflect equivalent changes for all of 2019 versus January–May 2020.

deals and greenfield projects at the sectoral level are substantial. Figure 1 illustrates the impacts of COVID-19 on investments announced by the world's top 5,000 MNEs across a range of primary, manufacturing and services sectors. Almost all subsectors have been adversely affected in 2020. In aggregate across all subsectors, the growth of announced greenfield projects declined by 31 per cent in January–March 2020 compared with all of 2019; meanwhile, cross-border M&A deals declined by 26 per cent (when comparing January–May 2020 with all of 2019).

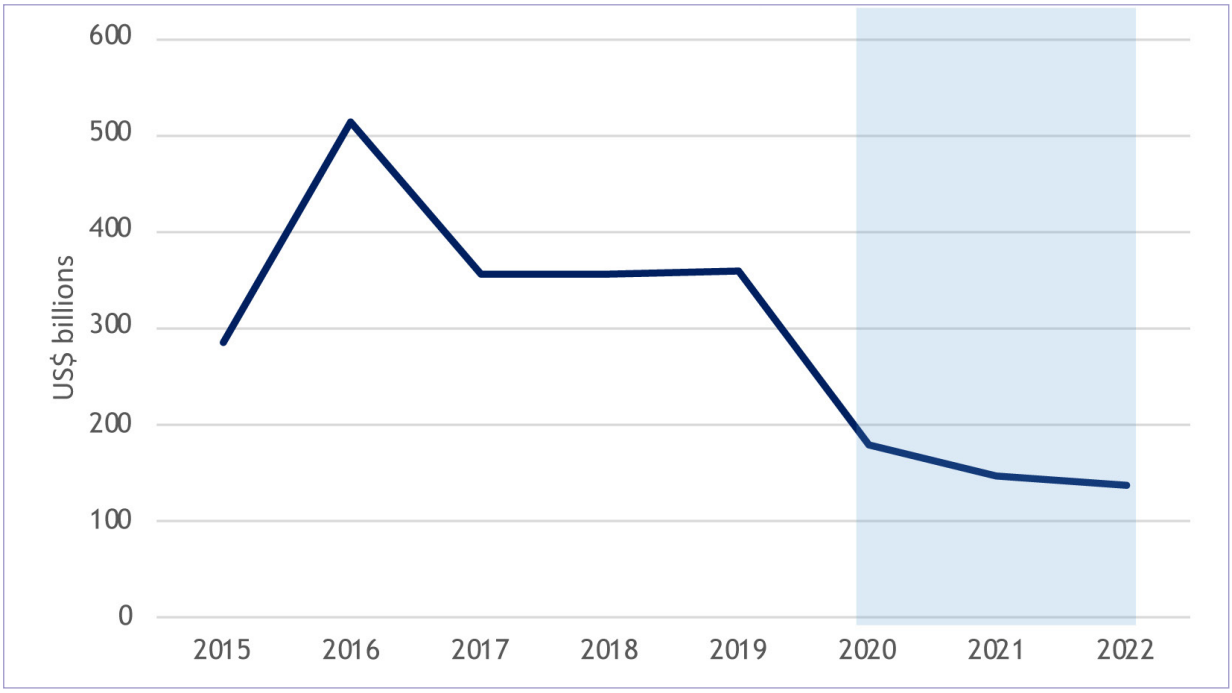
Greenfield projects and M&A deals in manufacturing industries have been hit particularly hard. Across all manufacturing industries collectively, monthly average growth in the worldwide number of greenfield projects announced by the top 5,000 MNEs declined by 42 per cent in January–March 2020 compared with all of 2019. The equivalent decline involving cross-border M&A deals in manufacturing was 35 per cent. Across the world, monthly average growth in the number of announced greenfield projects in services sectors declined by 27 per cent in early 2020, compared to a 25 per cent fall in the case of cross-border M&A deals. The implications of these sectoral impacts are likely to be especially severe for Commonwealth developing countries, wherein greenfield investments typically account for around 50 per cent of overall FDI.

The global trend of falling FDI flows is expected to persist into 2021, although the magnitude of the decline may be relatively less severe. UNCTAD's projections for 2021 suggest a further decline in global FDI flows in the range of 5 to 10 per cent. This is likely to be accompanied by changes in the sectoral composition of FDI flows, with potentially prolonged contractions in FDI into the airlines, hotels, restaurants and leisure, manufacturing, energy and transportation industries. In turn, there is likely to be growth in investment flows into the health sector, as well as telecommunications and information and communications technology (ICT) on the back of ever-greater reliance on digitalisation. Much will depend, however, on the trajectory and pace of the post-COVID-19 economic recovery.

3. COVID-19 impacts on Commonwealth FDI inflows: The evidence so far

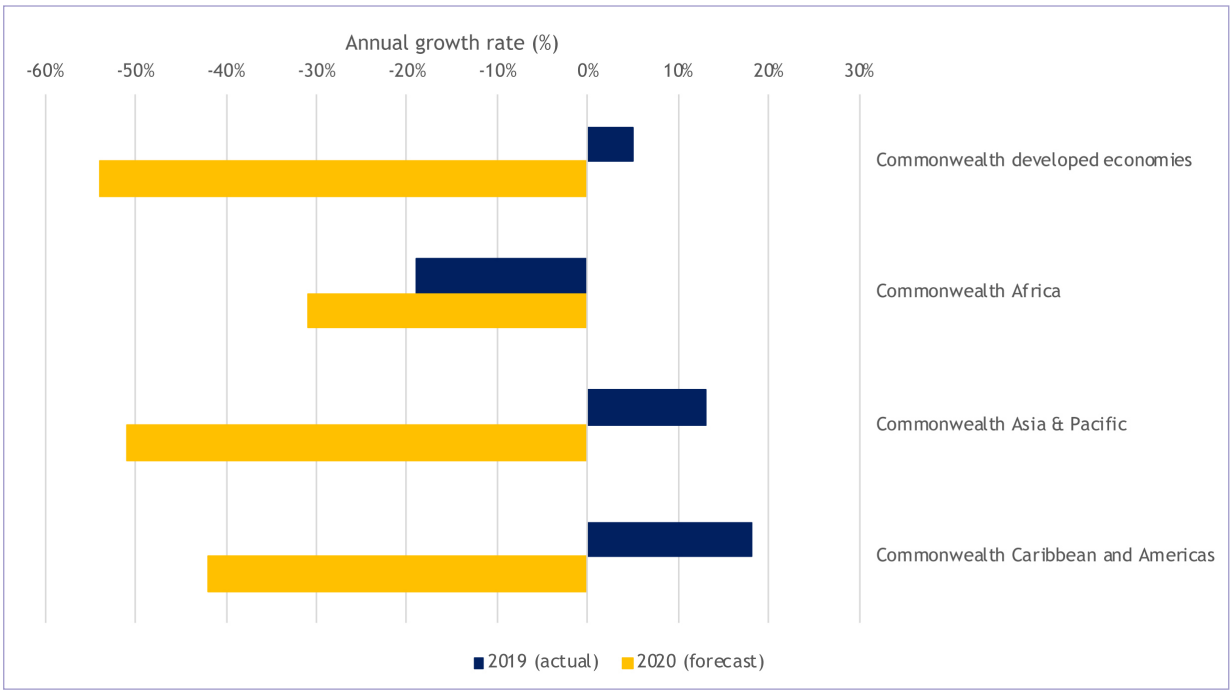
This section examines the available evidence on Commonwealth FDI inflows since the onset of the COVID-19 pandemic.

Figure 2. FDI inflows into Commonwealth countries, 2015–19 and forecast 2020–22



Source: UNCTAD.

Figure 3. Annual growth in Commonwealth FDI inflows, by group of economies and regions, 2019 (actual) and 2020 (forecast)



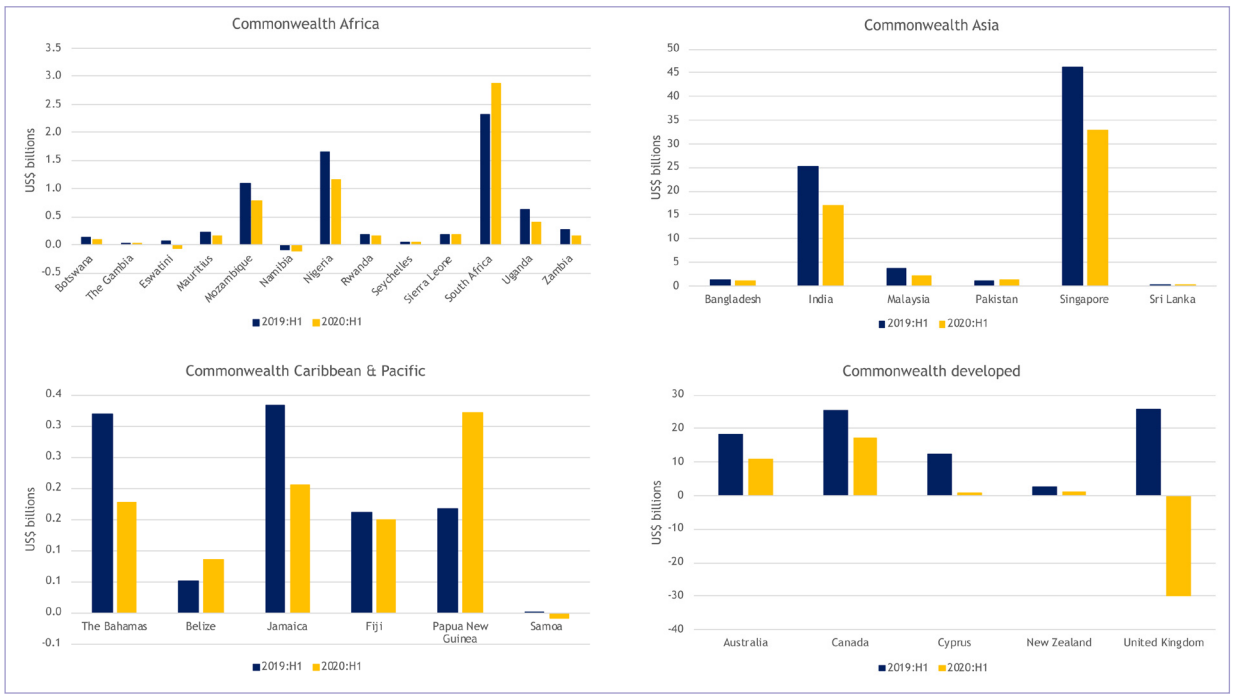
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Numbers are rounded.

3.1 Projected short- and medium-term impacts

Forecasts by UNCTAD suggest FDI inflows into Commonwealth countries will decline significantly in 2020, followed by further – but more moderate – declines in 2021 and 2022 (see Figure 2). In 2019, the aggregate value of FDI inflows into all Commonwealth countries stood at US$358.6 billion. This is expected to fall by 50 per cent in 2020 to US$178 billion, before declining by 18 per cent in 2021 and an additional 7 per cent in 2022 to reach US$136 billion.

UNCTAD forecasts for 2020 show a sharp reversal across all Commonwealth regions compared to actual annual growth rates of FDI inflows in 2019 (see Figure 3). Developed Commonwealth economies are expected to be the worst hit in relative terms (a 54% contraction), followed by Commonwealth Asia (51%), Caribbean (42%) and Africa (31%).

Figure 4. Value of FDI inflows into Commonwealth countries (US$ billions), 2019H1 and 2020H1



Source: UNCTAD data.
Note: Antigua and Barbuda, Brunei Darussalam, Cameroon, Dominica, Ghana, Grenada, Guyana, Kenya, Lesotho, Malawi, Maldives, Malta, Nauru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Solomon Islands, Tonga, Trinidad and Tobago, Tuvalu, United Republic of Tanzania, and Vanuatu are excluded due to a lack of data on FDI inflows for 2020H1.

3.2 Emerging evidence of impacts on actual Commonwealth FDI flows

Emerging evidence, for Commonwealth countries with available data, points to mostly substantial adverse impacts on FDI inflows in the first half of 2020 (2020H1). Figure 4 shows Commonwealth developed countries, which attract large shares of the Commonwealth's total FDI inflows by value, were impacted significantly. This is in line with the global trend, in which flows to developed economies in 2020H1 amounted to only one-quarter of their value in the first half of 2019 (2019H1) (UNCTAD, 2020c). FDI inflows declined by 55 per cent, 40 per cent and 32 per cent in New Zealand, Australia and Canada, respectively in 2020H1 (ibid.). The United Kingdom saw a sharp reversal in the value of inflows, from US$25.7 billion to US$-29.8 billion on the back of large negative intra-company loans.

In Commonwealth Africa, FDI flows into Nigeria and Mozambique – down by 29 per cent and 27 per cent, respectively – were hit hard in 2020H1 by a slowing down in the implementation of natural resource projects (ibid.). Mauritius and Uganda also saw relatively large declines in FDI inflows (by 36% and 37%, respectively).

FDI inflows into India and Singapore, the largest FDI recipients among Commonwealth Asian countries, fell by 33 per cent and 28 per cent, respectively in 2020H1. The decline in Singapore was driven in part by a sharp fall in cross-border M&As (UNCTAD, 2020c). In Bangladesh and Sri Lanka, where export-oriented apparel manufacturing typically attracts significant shares of overall investment, FDI flows were down by 19 per cent and 38 per cent, respectively, as production activity in the apparel sector halted and global demand contracted.

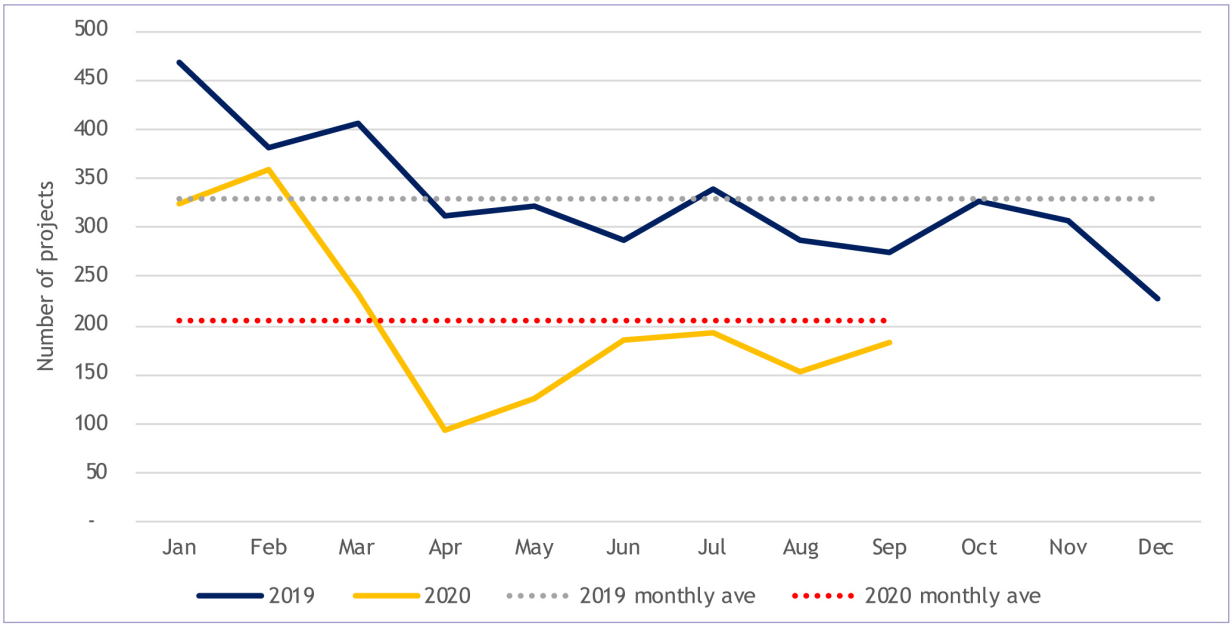
Reduced investment in the tourism industry on the back of COVID-19 induced travel restrictions affected FDI flows into several Commonwealth Caribbean countries. Inflows into The Bahamas and Jamaica fell by 44 per cent and 38 per cent, respectively in 2020H1. In the Pacific, inflows into Fiji were down by 8 per cent.

In contrast, a handful of Commonwealth countries managed to record growth in FDI flows in 2020H1 compared to 2019H1. For example, inflows into South Africa grew by 24 per cent, mostly as a result of intra-company transfers by foreign companies to their subsidiaries based in the country (UNCTAD, 2020c). In the Pacific, FDI inflows into Papua New Guinea expanded by 92 per cent from a small base to just over US$0.3 billion in 2020H1.

3.3 Impacts on greenfield FDI in the Commonwealth

Greenfield projects are a key component of FDI, particularly in Commonwealth developing countries. Data on greenfield FDI project announcements –

Figure 5. Announced greenfield FDI projects in the Commonwealth, monthly and average number 2019 and 2020



Source: fDi Markets data, from the Financial Times Ltd 2020.
Note: No data for Kiribati, Nauru, Tonga and Tuvalu in the Pacific.

including intra-Commonwealth projects – is examined in this section to provide an indication of the emerging impact of COVID-19 at the sectoral level and on job creation.

On average, 328 greenfield announcements were made monthly across the Commonwealth in 2019, whereas this figure fell to 205 in the first nine months of 2020. Figure 5 shows the sharpest decline occurred between February and April 2020 (from 358 to 94 projects). New project announcements rebounded somewhat from May 2020 onwards, reaching 182 in September 2020, but remained well short of the equivalent number in September 2019 (275) and still below the lowest monthly number recorded in 2019 (228 in December).

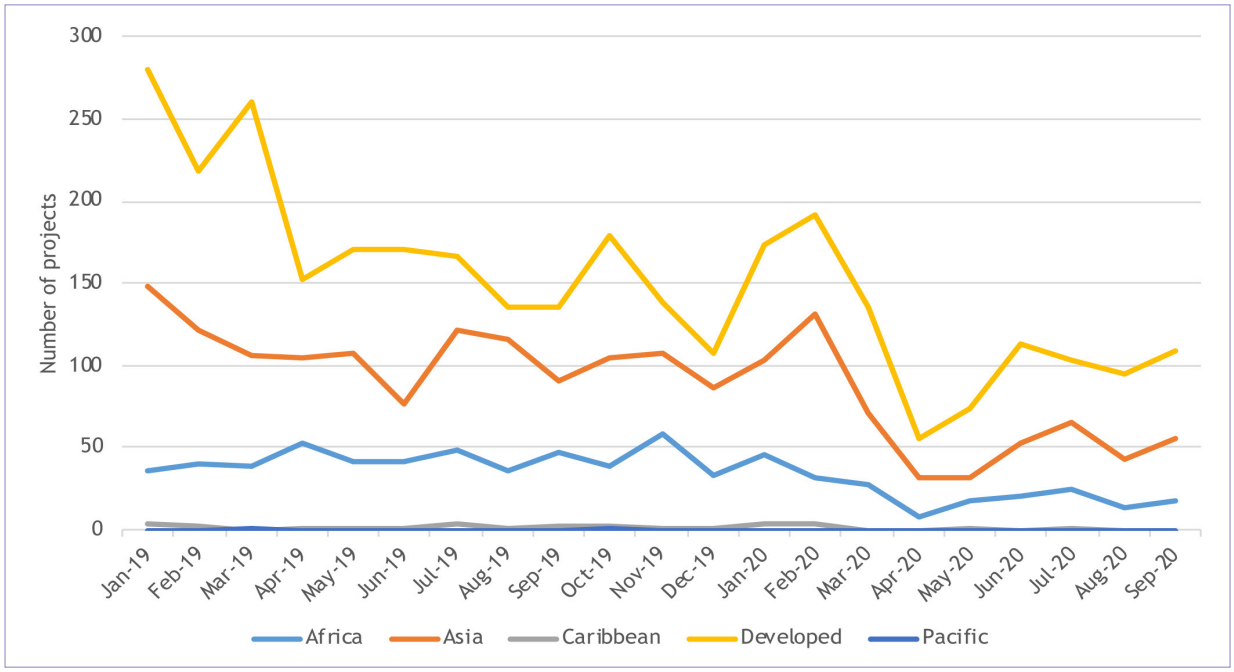
At the regional level, Figure 6 shows large declines in greenfield FDI project announcements were recorded in Commonwealth developed (from 192 to 55) and Commonwealth Asian (from 132 to 31) countries between February and April 2020. Over the same subperiod, project announcements in Commonwealth Africa fell from 31 to 8. New announcements rebounded in all Commonwealth regions from May 2020. This was mainly driven by comparatively large increases in new project announcements into a handful of services sectors: software and information technology (IT), business and financial services (Commonwealth developed and Asia), communications (Commonwealth developed and Africa) and transportation and warehousing (Commonwealth developed). However, trends in new project announcements remained volatile between July and September 2020 across all Commonwealth regions.

The impact of COVID-19 on the *value* of greenfield FDI into the Commonwealth was more nuanced in the first nine months of 2020 (see Figure 7). In certain months (i.e., February, April and May) the aggregate value of announced greenfield FDI into the Commonwealth – measured as the monthly value of capital investment – was higher compared to the corresponding month in 2019. Nevertheless, the monthly average over January through September 2020 (US$11.3 billion) remained well short of the equivalent average for the whole of 2019 (US$14.8 billion). In August 2020, announced greenfield FDI into the Commonwealth totalled US$6.1 billion – well short of the corresponding value in 2019 and down from almost US$13 billion in January 2020. However, the value of announced greenfield investments grew strongly in September 2020 (US$19.1 billion), outstripping the equivalent figures in September 2019 and January 2020.

Sectoral impacts

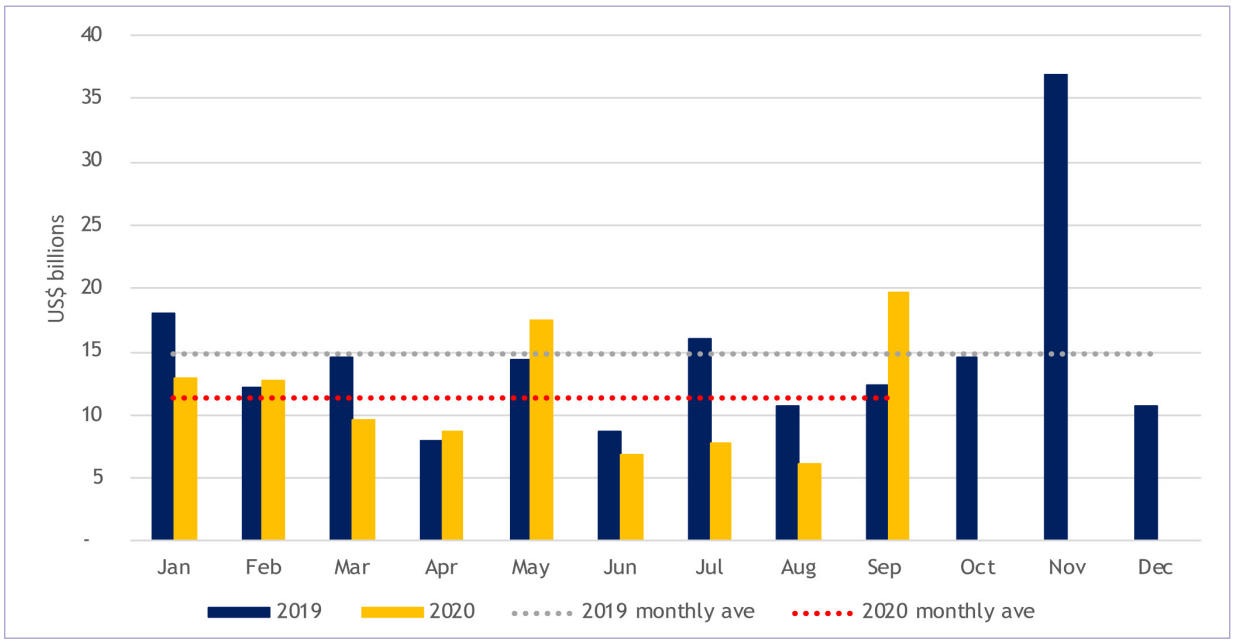
Greenfield FDI into almost all sectors in the Commonwealth slowed following the emergence of COVID-19 (see Figure 8). The only exceptions to this broad trend were observed in the wood products, and business machines and equipment sectors. The largest relative declines in numbers of announced greenfield projects between January and September 2020 compared to the same

Figure 6. Number of announced FDI projects by Commonwealth region, January 2019–September 2020



Source: fDi Markets data, from the Financial Times Ltd 2020.
Note: No data for Kiribati, Nauru, Tonga and Tuvalu in the Pacific.

Figure 7. Aggregate value of announced greenfield FDI into the Commonwealth, monthly capital investment (US$ billions), 2019 (all months) and 2020 (January–September)



Source: fDi Markets data, from the Financial Times Ltd 2020.
Note: No data for Kiribati, Nauru, Tonga and Tuvalu in the Pacific.

months in 2019 were recorded in the minerals (by 83.3%), hotels and tourism (by 82.9%), healthcare (by 79.2%) and plastics (by 75.6%) sectors.

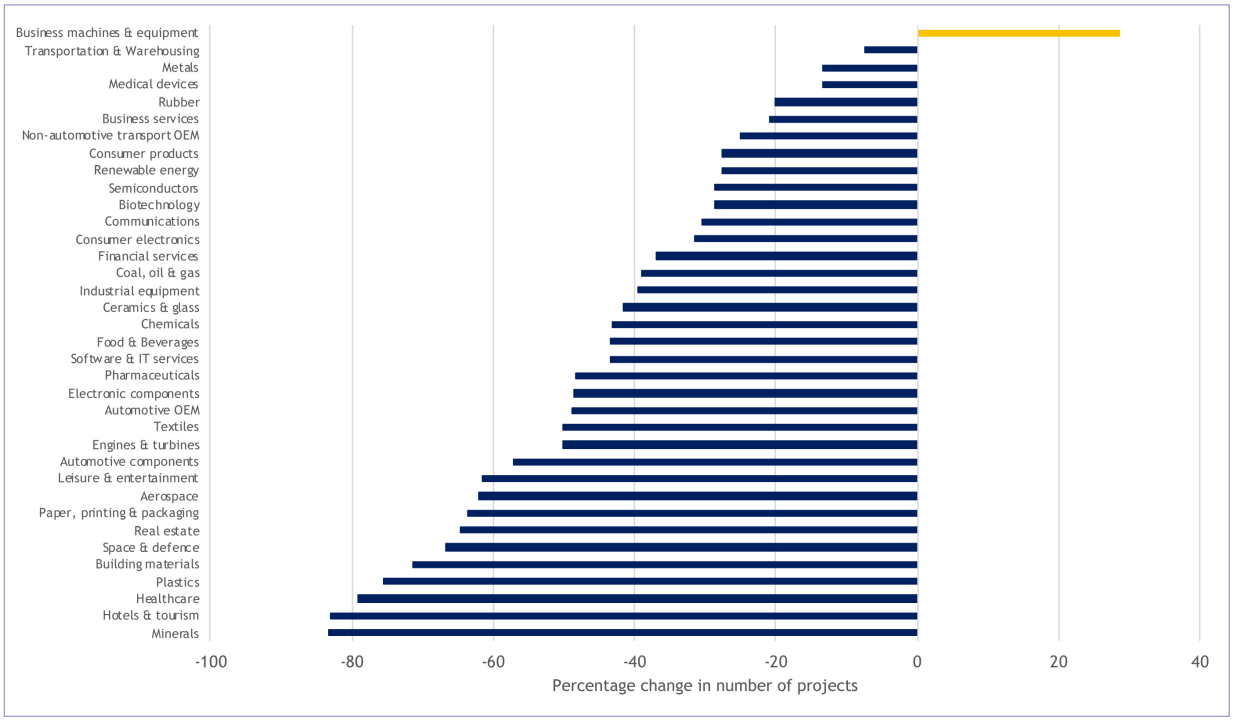
Table 2 outlines the top sectors in each Commonwealth region by total numbers of announced greenfield FDI projects in 2019, and then examines changes for these sectors in January–September 2020 versus the same period in 2019.

Project announcements in most sectors were lower up to September 2020 in all four Commonwealth regions with available data.[4] Among the top 10 sectors attracting greenfield FDI projects in each region in 2019, those registering the largest relative declines (measured as percentage changes in the number of announced projects) up to September 2020 were:

- real estate, pharmaceuticals, software and IT

4 The Commonwealth Pacific region is excluded due to the absence of data for 2020.

Figure 8. Percentage changes in numbers of announced greenfield FDI projects in the Commonwealth, by sector, January–September 2019 and 2020



Source: Author's own calculations using fDi Markets data, from the Financial Times Ltd 2020.
Note: For each sector, the chart illustrates the percentage change in the total number of FDI projects in the Commonwealth between the periods January and September 2019 and 2020. The wood products sector, which grew by 260 per cent, is an outlier and is excluded to increase the overall visibility of the chart.

services, and food and beverages for Commonwealth developed countries;

- hotels and tourism, financial services, real estate and industrial equipment in Commonwealth Africa;
- chemicals, consumer products, software and IT services, and electronic components for Commonwealth Asia; and
- communications, pharmaceuticals, financial services, and food and beverages for Commonwealth Caribbean countries.

Impacts on job creation

The job creating contributions of FDI in the Commonwealth were notably constrained in the first nine months of 2020 compared to 2019. Monthly average numbers of greenfield FDI jobs created between January and September 2020 were around half the average for the whole of 2019 (23,903 compared to 43,583). There was a particularly sharp decline in jobs created through FDI in February, March and April 2020 (from 42,425 to just 9,480), before climbing to 26,897 in September (see Figure 9). The job intensity of monthly greenfield investment in the Commonwealth fell from 3.3 jobs per US$1 million invested for the whole of 2019 to 2.3 jobs, on average, between January and September 2020.

Far fewer jobs were created, on average, in all Commonwealth regions through announced greenfield projects from January to September 2020 compared to 2019 (see Table 3). Commonwealth Asia was most affected – with 114,543 fewer jobs created; this was followed by Commonwealth Africa (37,650 fewer jobs), developed (16,826 fewer jobs) and Caribbean (7,169 fewer jobs) countries. The job intensity of these investments declined in all Commonwealth regions across the two periods.

4. Looking Ahead: Prospects for post COVID-19 recovery in Commonwealth FDI flows

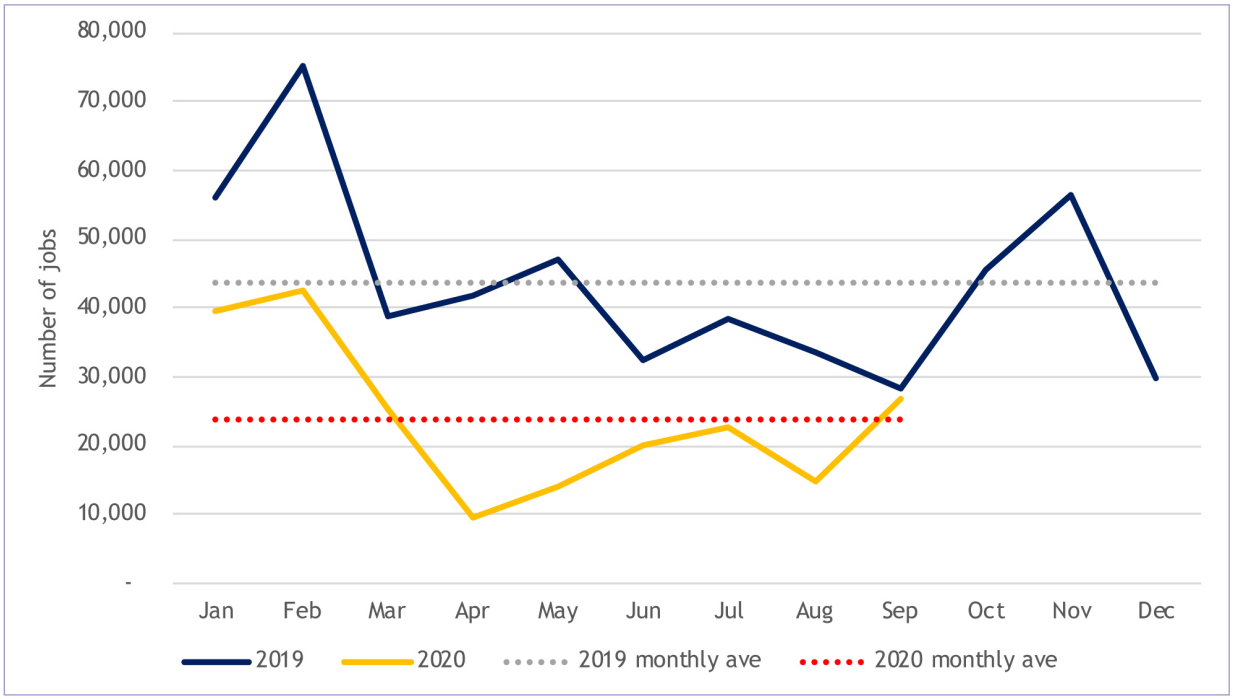
The outlook for global FDI flows remains challenging, with significant uncertainty. Nevertheless, the implications for Commonwealth countries of a sustained COVID-19 induced slowdown in international investment, and FDI in particular, are potentially severe. FDI is a major source of external finance for Commonwealth members and, in recent years, has contributed more than aid, remittances and portfolio investment in developing countries across the world (Gonzalez, 2017; UNCTAD, 2020c). FDI can enhance productivity and support economic growth in Commonwealth countries, including through knowledge, skills and technology transfers

Table 2. Numbers of announced greenfield FDI projects, by top sectors and Commonwealth regions, January–September 2019 versus 2020

Commonwealth region	Main sectors	No. of announced projects in 2019	No. of announced projects Jan–Sept 2019	No. of announced projects Jan-Sept 2020	Percentage change Jan-Sept 2019 versus Jan-Sept 2020
All Commonwealth	All sectors	3,936	3,078	1,870	-39.2
Developed	Software & IT services	634	468	215	-54.1
	Business services	270	227	176	-22.5
	Real estate	124	111	28	-74.8
	Communications	143	113	65	-42.5
	Financial services	133	114	57	-50.0
	Industrial equipment	118	94	52	-44.7
	Food & beverages	81	66	31	-53.0
	Transportation & warehousing	61	49	43	-12.2
	Pharmaceuticals	50	45	18	-60.0
	Renewable energy	55	44	26	-40.9
Africa	Financial services	98	77	26	-66.2
	Business services	59	37	29	-21.6
	Software & IT services	48	37	27	-27.0
	Food & beverages	35	24	20	-16.7
	Renewable energy	23	16	11	-31.3
	Industrial equipment	23	19	10	-47.4
	Communications	21	15	22	46.7
	Transportation & warehousing	18	16	13	-18.8
	Real estate	17	11	4	-63.6
	Hotels & tourism	15	15	1	-93.3
Asia	Software & IT services	366	286	150	-47.6
	Business services	144	116	97	-16.4
	Financial services	90	69	82	18.8
	Industrial equipment	83	64	45	-29.7
	Communications	71	48	36	-25.0
	Transportation & warehousing	51	43	29	-32.6
	Chemicals	48	33	15	-54.5
	Real estate	40	22	14	-36.4
	Consumer products	36	32	16	-50.0
	Electronic components	35	29	18	-37.9
Caribbean	Business services	7	2	3	50.0
	Hotels & tourism	3	3	1	-66.7
	Transportation & warehousing	2	2	2	0.0
	Communications	1	1	0	-100.0
	Financial services	1	1	0	-100.0
	Pharmaceuticals	1	1	0	-100.0
	Food & beverages	1	0	1	100.0

Source: Author's own calculations using fDi Markets data, from the Financial Times Ltd 2020.
Note: Commonwealth Pacific countries are excluded due to the absence of data for 2020. The disaggregation by Commonwealth region considers only the top 10 sectors in each region by numbers of announced greenfield FDI projects in 2019.

Figure 9. Aggregate monthly number of jobs created through announced greenfield FDI in the Commonwealth, 2019 (all months) and 2020 (January–September)



Source: fDi Markets data, from the Financial Times Ltd 2020.
Note: No data for Kiribati, Nauru, Tonga and Tuvalu in the Pacific.

Table 3. Total and monthly average numbers of jobs created through announced greenfield FDI, by Commonwealth region, January–September 2019 versus 2020

	Total jobs created		Monthly average number of jobs created		Job intensity of investment	
Commonwealth region	Jan-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Sep 2020
Africa	56,211	18,561	6,246	2,062	3.3	2.5
Asia	230,573	116,030	25,619	12,892	5.9	3.8
Caribbean	8,784	1,615	976	179	85.9	11.6
Developed	95,751	78,925	10,639	8,769	2.1	2.0
Pacific	61	0	7	0	1.8	0

Source: Author's own calculations using fDi Markets data, from the Financial Times Ltd 2020.
Note: No data for Kiribati, Nauru, Tonga and Tuvalu in the Pacific. The job intensity of investment reflects the number of jobs created for every US$1 million worth of investment.

that enable upgrading of domestic production,[5] and by helping to 'crowd-in' or complement domestic investment.[6] While these benefits are not guaranteed and may accrue unevenly across countries, a significant loss of FDI is, overall, expected to undermine economic growth and transformation in Commonwealth countries.

Commonwealth developing countries – and those in Asia and Africa in particular – are likely to be most affected owing to their greater reliance on investment in GVC-intensive and extractive industries. Structurally weak and vulnerable Commonwealth economies – especially least developed countries and small island developing states (SIDS) – face a heightened risk, as they depend heavily on foreign investment in a few key industries (UNCTAD, 2020b). By constraining FDI flows, COVID-19 threatens to accentuate existing challenges in these economies and retard progress towards sustainable and inclusive economic transformation.

That said, as the global economy recovers and international capital begins to flow again, there is hope for a recovery in long-term investment flows by 2022 (UNCTAD, 2020a). This will create new opportunities for Commonwealth countries to

5 See, for instance, Borensztein et al. (1998), OECD (2002), Echandi et al. (2015), Alfaro (2016) and Godart et al. (2020).
6 See, for example, Kumar and Chandramohan (2018) and Baiashvili and Gattini (2020).

attract FDI. They may benefit from efforts to diversify investment destinations as investors and MNEs look to reduce their exposure to location-specific shocks and future crises. Investment flows to Commonwealth African countries may also benefit from implementation of the African Continental Free Trade Area (AfCFTA), particularly if agreement can be reached on an AfCFTA Investment Protocol.

Recovery prospects are, however, likely to vary across sectors. Depressed FDI inflows into the oil and gas industries – and the mining sector more generally – may continue for some time, with adverse impacts on both established Commonwealth producers such Canada and Trinidad and Tobago, as well as Nigeria and Ghana in Africa. Similarly, suppressed demand in the energy sector may have longer-term implications for Commonwealth economies reliant on resource-seeking FDI, particularly those in Africa (Chichede, 2020; OECD, 2020). In comparison, FDI into the agriculture sector has been – and is likely to continue to be – much less disrupted by the pandemic. This is because demand for food and beverages has been relatively less affected, and global food supply chains have remained fairly resilient throughout the pandemic (EIU, 2020). Heightened food security concerns are likely to mean these trends continue. In addition, investment in telecommunications and ICT services is likely to grow on the back of greater reliance on digital technologies, higher levels of internet usage, more home-working and rising e-commerce. Moreover, the need for medical solutions to the pandemic, as well as the amplified demands it has placed on public and private healthcare, are likely to sustain growth in investment in the health sector.

Ongoing structural shifts in production and value chains, which predated the emergence of COVID-19 but accelerated due to the pandemic, will have implications for manufacturing FDI inflows into Commonwealth countries in the medium term. Restructuring of GVCs to focus on de-risking and building resilience to future crises is likely to result in shorter supply chains, leading to some reshoring and potentially benefiting those countries 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.

FDI prospects will also depend on policy developments. In the case of tourism, for example, recovery in investment flows, and the industry more generally, is contingent on the lifting of travel restrictions imposed to combat COVID-19. This is of critical importance to many Commonwealth SIDS, which are heavily reliant on tourism for revenue generation and job creation. Investment into other services sectors is likely to be more resilient going forward, and the accelerated reliance on digitalisation and ICT due to COVID-19 may help to sustain longer-run growth in knowledge-seeking FDI into these sectors in Commonwealth countries.

As global FDI flows recover in most sectors and competition for international capital intensifies, Commonwealth countries should look to opportunities to boost intra-Commonwealth FDI. Empirical evidence points to a significant Commonwealth advantage in investment – FDI flows between Commonwealth countries are approximately 27 per cent higher than between Commonwealth and non-Commonwealth members, a near tripling from 10 per cent as previously reported (Commonwealth Secretariat, 2015), while Commonwealth membership is associated with 19 per cent more greenfield investment (Shingal and Aggarwal, 2020). Common legal origins and historical antecedents, similar administrative systems, and a strong history of institutional and governance ties between countries are all likely to contribute to this advantage. Given the depressed state of the current global investment environment, and the ongoing uncertainty regarding post COVID-19 recovery, this Commonwealth advantage in investment has arguably never been more important.

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