



FDI TRENDS UPDATE

QUARTERLY REPORT

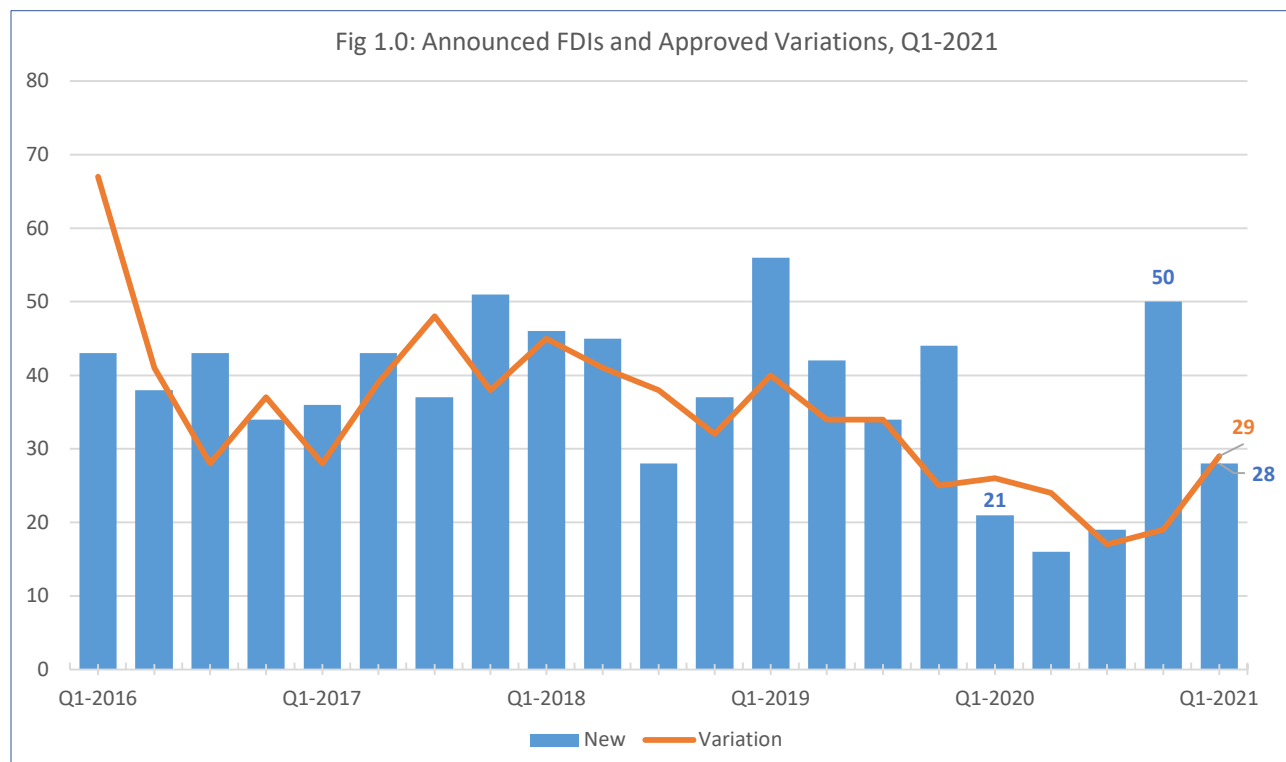
March: 2021



VANUATU FOREIGN INVESTMENT PROMOTION AGENCY

Thinking Investment – Choose Vanuatu

Total announced FDI projects registered during the 1st quarter of 2021 remained low at 40% of the average pre-crisis level, outlook a major concern for Vanuatu as a developing economy.



MAIN POINTS

- Announced FDI projects increased 33% during the 1st quarter (Q1, Jan-Mar) 2021 year-on-year (YoY) compared with the same quarter of previous year (2020), driven largely by *Accommodation and Food Services and Wholesale Retail* projects and supported by divergence in sectors and industries. A spike in project announcements during the 4th quarter of 2020 was due to fee exemption for new applications.
- Total announced investment amount and jobs during the quarter were VT 6 Billion and 367 respectively with construction industry accounting for the majority of the share.
- Of the total announced investment amount, 83% was attributed to the Construction Industry, a classic example of industry-divergence by source markets in line with national efforts to shift to other priority sectors due to the pandemic.
- China and Australia remained Vanuatu's top key investing countries with China dominating in overall number of announced projects worth over VT95 Million and offering 42 job opportunities for the locals. Total announced investment amount and job opportunity from Australia were VT 5 Billion and 218 respectively.

- Regards announced projects by sectors and industry, *Wholesale and Retail* ranks top accounting 33% of all announced projects followed by *Accommodation, Food and Services Activity and Construction* with 13% and 8% respectively.
- In terms of total announced projects by location, 79% are located in Port Vila and Efate, 13% in Luganville and Sanma while the remaining 8% chose to locate in the provinces of Malampa and Tafea.
- The number of Variations¹ approved was 29 (up 12%) during the 1st quarter 2021 YoY compared to same period of the previous year. Compared to the previous quarter (Q4,2020), existing FDI projects intending to maintain their investment through expansion of activities and strengthening their business ownership structures maintains a strong upward trend.

Announced FDI projects

Announced FDI projects increased 33% during the 1st quarter (Q1, Jan-Mar) 2021 year-on-year (YoY) compared with the same quarter of previous year (2020) however, when compared to the previous quarter (Q4 2020) announced FDIs were down 44 %. The total number of projects during the quarter was 40% of the average pre-crisis level, due largely to the prevailing uncertainty about the COVID-19 pandemic's evolution and the global investment policy environment.

According to the VFIPA's FDI registry, announced FDIs declined significantly during the first half of 2020, down from 44 to 21 projects (down 52 %) in Q1 (Jan-Mar), and slipping further to an average of 18 projects during Q2 and Q3 (down 3%), reflecting the onset and spread of COVID-19 globally over the first half of 2020.

While announced FDIs showed a positive shift in Q1 2021, global forecasts indicated FDI flows were down 40% in 2020 and will likely to maintain a downward trend during most part of 2021 due to the covid-19 pandemic. The level of announced FDIs during the 1st quarter compared to the pre-crisis level is in line with the global FDI flow forecast.

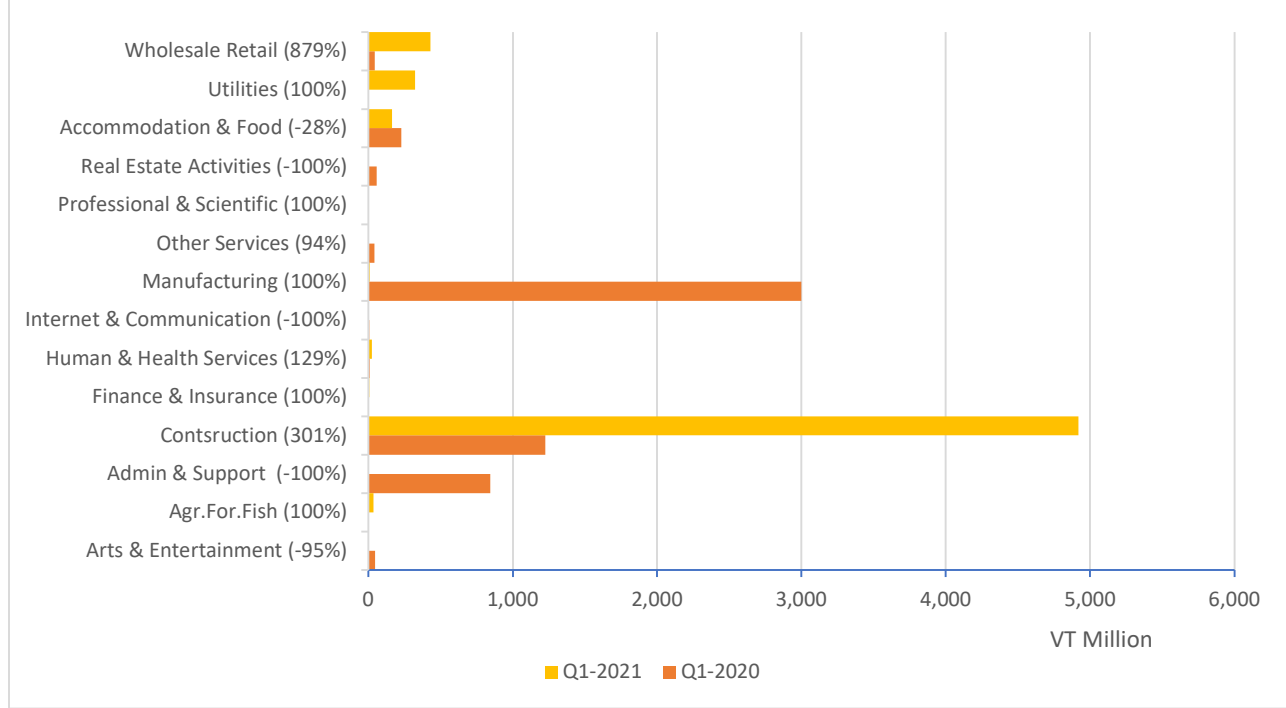
Existing FDI projects intending to maintain their investment through expansion of activities and strengthening their business ownership structures showed a strong upward trend, a behaviour that is in line with the Agency's top strategic priority activity of "*FDI retention and Expansion*". A classic example of this service is the export of Vanuatu water to China's top city of "Shanghai. Similar services of this type are also provided to existing FDIs whose goal is to export to overseas market. The approved Variations during Q1 2021 will offer 95 jobs for the local with an estimated investment value of VT368 million.

Divergence in industries and sectors

Data from the announced FDIs during the quarter showed there is divergence in industries and sectors. As shown in fig 2.0 below, the Industry Sector, represented by the *construction and manufacturing industries* are now becoming the lead industries in terms of announced investment amounts rather than the all-time *Accommodation and Food Services Activities (Tourism) and Wholesale and Retail industries*). Total announced investment amounts from both industries over the year (Q1 2021 and Q1 2020) was VT6 Billion with more than 100 direct jobs to be created.

¹ Variation – refers to application from existing FDIs requesting to expand their operations by adding new activities, change of ownership and addition of new owners.

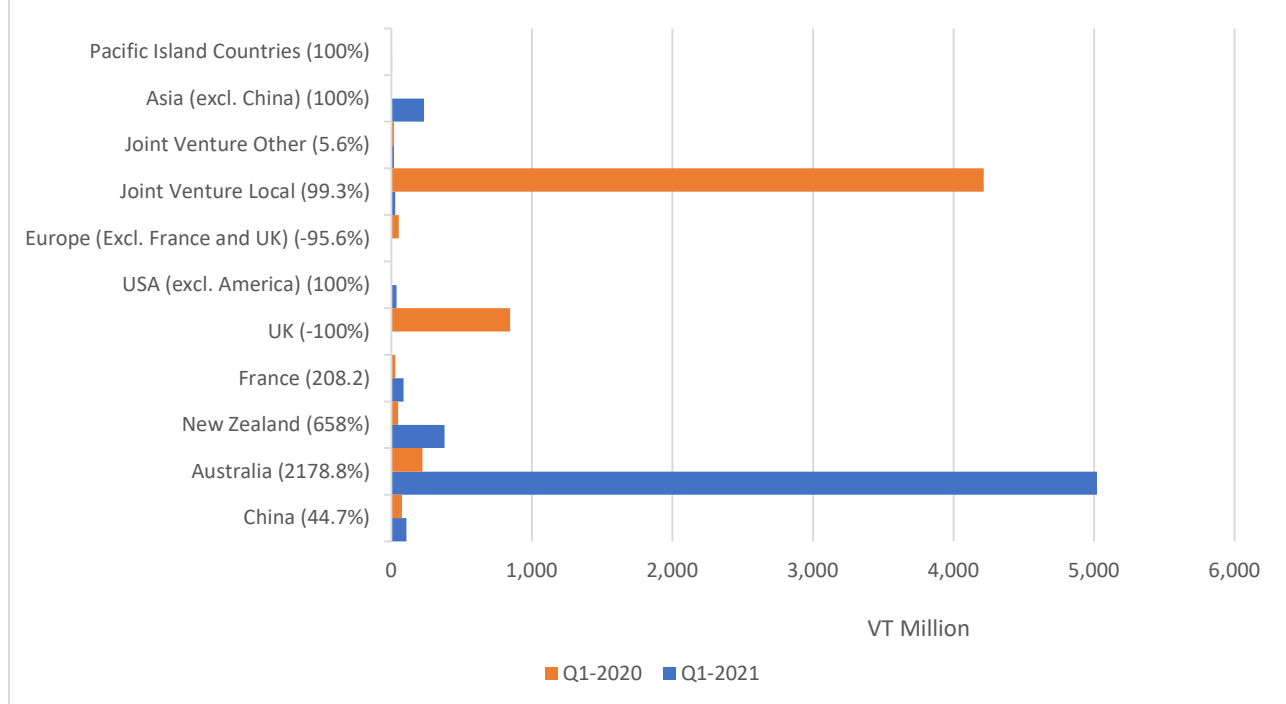
Fig 2.0: Year on Year announced FDI projects by industry, Q1 2021



The Services Sector industry of *Accommodation and Food Services Activities (Tourism)* performance on the other hand have shown to be seriously affected. As shown in fig 2.0, announced investment amounts from *Accommodation and Food Services Activities (Tourism)* declined further by 28 % in Q1 2021. Based on this trend and combined with delayed lifting of lockdowns and covid-19 vaccination, the tourism industry will remain in a bad state for a long time.

Announced investments by source market

Fig 3.0: Year on Year announced FDI projects by source market, Q1 2021



Among the major key FDI source markets for Vanuatu, there were variations in terms of announced investment amounts on industries approved to undertake. For example, Australia will invest VT5 Billion in a construction industry (up 2179% YoY) followed by New Zealand (up 658% YoY) and Asia (Excluding China) (up 100% YoY) respectively. China on the other hand, being one of Vanuatu's lead FDI source have maintained a low profile in terms of announced investment amounts. These patterns reflect severe disruptions in selected global supply chains for source markets such as China while at the same time shows that there are potential recovery options between closer trading partners – a strategy worth noting and pursuing over the short to medium term.

Investor sentiment:

Feedbacks from the 2021 Annual Surveys by registered foreign investors have confirmed significant adverse effects of the COVID-19 pandemic on their current and planned investment and operations, most of whom have stated that the future of their businesses remain highly uncertain and reported that Government support and economic recovery are essential as a way forward for them. This is further supported by data from the [Vanuatu Outlook Report, September 2020](#) produced by the VCC showing that the majority of the private sector of which most are Foreign Direct Investment Businesses are negatively affected by the covid-19 crisis. Results from the survey comprising of 86 face-to-face interviews and 203 online respondents showed more than 50% are experiencing serious problems with a few reported to be permanent closing and owners leaving the country. Loss of employment is serious amongst the majority of the businesses with employees in shefa being the hardest hit where 40% of those surveyed had lost their jobs. Revenue and profits were also down for most of the firms interviewed as result of reduced demand from the local businesses.

Looking ahead: growth with significant risks

Based on current domestic and global trends, prospects for FDI inflows will be a concern for Vanuatu as a developing economy given the prevailing uncertainty about the COVID-19 pandemic's evolution and the global investment policy environment. A positive growth in announced FDIs during Q1 2021 (Fig 1.0) YoY over the same period of previous year could be a signal that recovery is commencing despite new virus outbreaks in many other economies however, continued policy support and reforms are necessary to ensure risks relating to the pandemic are properly mitigated while coordinated efforts are made to improve the business environment for a sustainable and inclusive growth recovery.

VFIPA roles of investment facilitation and monitoring are crucial over the medium to long term during and post-covid-19. As a direct intermediary between the Government and investors, VFIPA has a crucial role to play in terms of information and advisory provision. On this note, the following proposals are important in this regard.

1. **Improved Facilitation for retention and expansion of existing investments:** Given FDI flow will remain weak over the medium to long term due to the prevailing uncertainty about the covid-19 evolution, a focus on the existing FDIs we have should be a priority for the VFIPA. According to the VFIPA FDI registry, 674 FDI businesses captured from the 2021 annual survey were reported as active however, the majority are in desperate need for support in order to maintain ongoing operations. Some admitted their operations have come to a standstill and requested for special consideration from the VFIPA management.

Those classified as “Pipeline FDIs” comprising 13 % of the total 2021 annual survey respondents are yet to be implemented.

Policy support including incentives (fiscal and non-fiscal) targeting specific sector or industry based on certain criteria could be an option. And this calls for greater collaboration between Government agencies responsible.

2. **Need to identify and establish short-term versus long-term FDI opportunities:** This is very crucial as the Tourism Industry has been damaged with activities to remain in a limbo state for quiet sometime. Therefore, the need to be able to identify and establish short-term versus long-term FDI investment opportunities is crucial.

While it is urgent to have this selection in place, it is best that the VFIPA and its Board are aware on the level/type of scenario *“based on the success of the “Government’s Public Health and Economic Policy Support Measures in place”* we are currently in. A good understanding of this will assist VFIPA have in place a more focussed promotion and facilitation activities.

3. **Building effective partnership and coordination:** Pursuing sustainable and inclusive growth recovery can be achieved through a coordinated approach? Therefore, the need for VFIPA to engage with strategic partners and mobilize resources that will contribute to improved national development goals is crucial.

The Agency through its CEO, Mr. ARU has been actively participating in high-level Government and Private Sector meetings and consultations. It is encouraging to note that outcomes of such meetings in line with point (2) above are materialising. More positive outcomes of this type resulting from effective partnership and coordination is the way forward for a sustainable and inclusive growth recovery.

The next VFIPA FDI Trend Update will be released in mid-July
2021



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This report including other publications we release are available in our website at: www.investvanuatu.vu

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