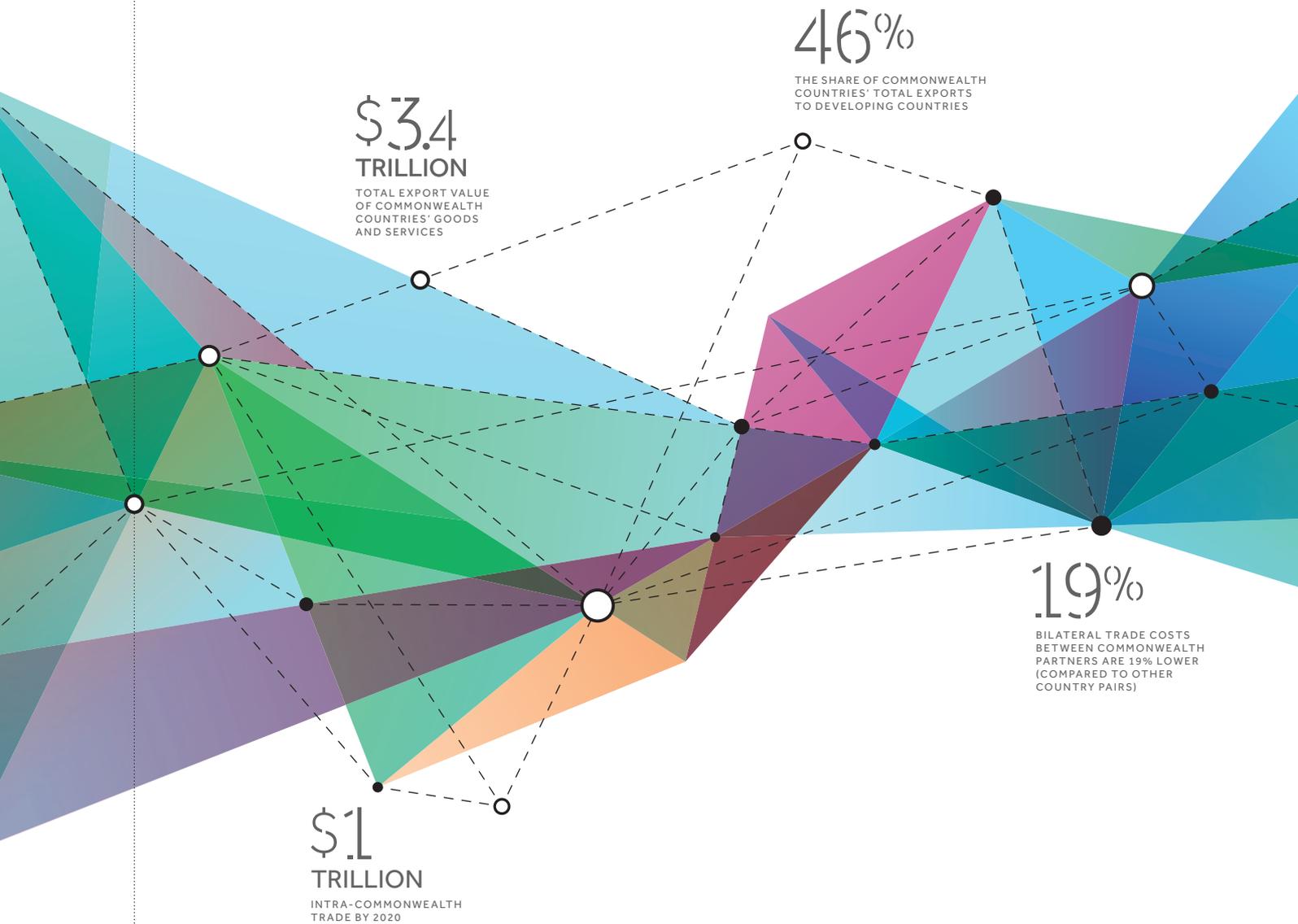


The Commonwealth in the Unfolding Global Trade Landscape: Prospects • Priorities • Perspectives



The Commonwealth in the
Unfolding Global Trade Landscape:
Prospects ◦ Priorities ◦ Perspectives

Commonwealth Trade Review 2015



The Commonwealth

Commonwealth Secretariat
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London SW1Y 5HX
United Kingdom

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The Commonwealth is an association of 53 independent states, comprising large and small, developed and developing, landlocked and island economies. As the main intergovernmental body of the association, the Commonwealth Secretariat works with member governments to deliver on priorities agreed by Commonwealth Heads of Government and promotes international consensus-building. It provides technical assistance and advisory services to members, helping governments achieve sustainable, inclusive and equitable development. The Secretariat's work programme encompasses areas such as democracy, rule of law, human rights, governance and social and economic development.

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Foreword

Trade is the lifeblood of the Commonwealth, serving as it does as a major contributor to output, growth, employment and livelihoods for all of our 53 member countries. This centrality is reflected regularly by the Commonwealth Heads of Government, most recently in the 2013 Kotte Statement on International Trade and Investment.

This *Commonwealth Trade Review* brings together for our members for the first time the Secretariat's widely respected body of specialised research on trade, in view of its potential influential input into economic development. It reflects on the pivotal role of trade within growth strategies and draws attention to important new opportunities, as well as to challenges arising alongside emerging global trading prospects. The Commonwealth Secretariat has traditionally supported long-term capacity-building for developing country members. One major initiative is the Hub and Spokes programme, which comprises a strategic partnership between the European Union (EU),

the Organisation International de la Francophonie (OIF) and the African, Caribbean and Pacific (ACP) Secretariat.

The Review is relevant and timely in the context of the growing contribution of developing countries to global trade, the intensification of global value chains, the proliferation of regional trading arrangements and stalled multilateral trade negotiations. Added to this, the adoption of the '2030 Agenda for Global Action' has led to a rejuvenated commitment to sustainable development. This evolving context presents unique challenges and opportunities for Commonwealth members. The Review collates a wealth of empirical, practical and country-specific information on the effects of these changes on the Commonwealth's regions and member countries.

The Review focuses on trade between Commonwealth members and presents refreshing new evidence of a 'Commonwealth effect', which reinforces the growth of intra-Commonwealth trade and investment.

Offering perspectives on important trade issues, the publication seeks to inform the global policy discourse and puts forward important lessons learnt. It also identifies examples of best practice in leveraging trade to achieve development based on members' experiences to date.

I hope this flagship publication will reinforce calls to action for Commonwealth members to unlock the enormous opportunity of their collective trade potential as they seek to realise their development aspirations. In this 50th year of the Commonwealth Secretariat, this is a powerful demonstration of the Commonwealth adding global value to its membership.



Kamallesh Sharma
Commonwealth Secretary-General

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Acronyms and abbreviations

\$ Dollar refers to US\$ unless otherwise specified			
ACP	African, Caribbean and Pacific	E-7	Emerging Seven
ADB	Asian Development Bank	EAC	East African Community
AfDB	African Development Bank	EBA	Everything But Arms
AfT	Aid for Trade	EC	European Commission
AGOA	African Growth and Opportunity Act	ECDPM	European Centre for Development Policy Management
AOSIS	Alliance of Small Island States	ECOSOC	UN Economic and Social Commission
APEC	Asia-Pacific Economic Cooperation	ECOWAS	Economic Community of West African States
ASEAN	Association of South-East Asian Nations	EIF	Enhanced Integrated Framework
AU	African Union	EMA	Effective Market Access
BIA	Built-In Agenda	EPA	Economic Partnership Agreement
BIMSTEC	Bay of Bengal Multi-Sectoral, Technical and Economic Cooperation	ERS	Economic Research Service
BOP	Balance of Payments	ESA	Eastern and Southern Africa
BRICS	Brazil, Russia, India, China, South Africa	EU	European Union
CARICOM	Caribbean Community	FDI	Foreign Direct Investment
CARIFORUM	Caribbean Forum	FTA	Free Trade Area
CBI	Caribbean Basin Initiative	FVA	Foreign Value-Added
CBW	Commonwealth Businesswomen's Network	G-7	Group of Seven
CDM	Clean Development Mechanism	GATS	General Agreement on Trade in Services
CER	Certified Emission Reduction	GDP	Gross Domestic Product
C-FTA	Continental Free Trade Area	GIZ	German Development Cooperation
CHOGM	Commonwealth Heads of Government Meeting	GSP	Generalised System of Preferences
CMT	Cut, Make and Trim	GTAP	Global Trade Analysis Project
COMESA	Common Market for Eastern and Southern Africa	GVC	Global Value Chain
COP21	21st Conference of the Parties	ICT	Information and Communication Technology
CSME	CARICOM Single Market and Economy	IDE	Institute of Developing Economies
CWEIC	Commonwealth Enterprise and Investment Council	IFC	International Finance Corporation
DDA	Doha Development Agenda	IGAD	Intergovernmental Authority on Development
DFAT	Department of Foreign Affairs and Trade	IMF	International Monetary Fund
DFATD	Department of Foreign Affairs, Trade and Development	IOC	Indian Ocean Commission
DFID	Department for International Development	IPCC	Intergovernmental Panel on Climate Change
DFQF	Duty-Free, Quota-Free	IPOA	Istanbul Programme of Action
DIE	German Development Institute	ITC	International Trade Centre
DTIS	Diagnostic Trade Integration Study	LDC	Least-Developed Country
DVA	Domestic Value-Added	LPI	Logistics Performance Index

MDG	Millennium Development Goal	SARDC	Southern African Research and Documentation Centre
MEA	Multilateral Environmental Agreement	SDG	Sustainable Development Goal
MERCOSUR	Common Market of the South	Sida	Swedish International Development Cooperation Agency
MFA	Multi-Fibre Arrangement	SIDS	Small Island Developing State
MFN	Most-Favoured Nation	SITC	Standard International Trade Classification
MRTA	Mega-Regional Trade Agreement	SPS	Sanitary and Phytosanitary
NAMA	Non-Agricultural Market Access	SSA	Sub-Saharan Africa
NAFTA	North American Free Trade Agreement	SWVE	Structurally Weak and Vulnerable Economy
n.e.s.	Not Elsewhere Specified	SVE	Small, Vulnerable Economy
NES	National Export Strategy	TBT	Technical Barriers to Trade
NTB	Non-Tariff Barrier	TFA	Trade Facilitation Agreement
ODA	Official Development Assistance	T-FTA	Tripartite Free Trade Area
ODI	Overseas Development Institute	TiSA	Trade in Services Agreement
OECD	Organisation for Economic Co-operation and Development	TMEA	TradeMark East Africa
OIF	Organisation Internationale de la Francophonie	TPP	Trans-Pacific Partnership
OSBP	One-Stop Border Post	TRA	Trade-Related Adjustment
PACER	Pacific Agreement on Closer Economic Relations	TRIPS	Trade-Related Aspects of Intellectual Property Rights
PICTA	Pacific Island Countries Trade Agreement	TTIP	Trans-Atlantic Trade and Investment Partnership
PICs	Pacific Island Countries	UN	United Nations
PIF	Pacific Islands Forum	UNCTAD	UN Conference on Trade and Development
PPML	Pseudo-Poisson Maximum Likelihood	UNECA	UN Economic Commission for Africa
PPP	Public-Private Partnership	UNEP	UN Environment Programme
PPP	Purchasing Power Parity	UNESCAP	UN Economic and Social Commission for Asia and the Pacific
PTA	Preferential Trading Arrangement	UNFCCC	UN Framework Convention on Climate Change
R&D	Research and Development	UNGA	UN General Assembly
RCEP	Regional Comprehensive Economic Partnership	UNIDO	UN Industrial Development Organization
REC	Regional Economic Community	UNLDC	UN Conference on LDCs
RoO	Rules of Origin	UNWTO	World Tourism Organization
RTA	Regional Trading Arrangement	USA	United States of America
S&DT	Special and Differential Treatment	USDA	US Department of Agriculture
SAARC	South Asian Association for Regional Cooperation	WHO	World Health Organization
SACU	Southern African Customs Union	WTO	World Trade Organization
SADC	Southern African Development Community		
SAFTA	South Asian Free Trade Area		

Executive summary

Highlights

The 53 Commonwealth members' combined exports of goods and services are valued at \$3.4 trillion (in 2013), which is about 15 per cent of the world's total exports. Almost half of it comes from developed country members; other members since 2000 have collectively grown their share from 36 per cent to just above 50 per cent.

The growing significance of developing countries in the world economy presents vast trading opportunities for all Commonwealth members. Twenty-nine per cent of Commonwealth developed countries' merchandise exports go to developing countries – up from just 16 per cent a decade ago. Overall, since 2000, the proportion of Commonwealth exports destined for developing countries has increased from 26 per cent to 46 per cent.

Commonwealth members' trade expansion with China has been particularly spectacular, and there remains untapped export potential. Total Commonwealth exports to China between 2000 and 2013 increased more than 14-fold to \$268 billion; imports from China rose almost eight-fold to \$359 billion. While on average 12 per cent of Commonwealth imports of goods are

sourced from China, there are 35 members that export less than 5 per cent of their exports to China.

Intra-Commonwealth trade is estimated at \$592 billion (in 2013) and is projected to surpass \$1 trillion by 2020. Although it is not a trading bloc, historical ties, shared values, long-established trading relations, familiar administrative and legal systems, the use of largely one language as the means of communicating with foreign partners and a strong diasporic community all contribute to increased trade flows among members.

Econometric results suggest that, when both bilateral partners are Commonwealth members, they tend to trade 20 per cent more, and generate 10 per cent more foreign direct investment inflows than otherwise. This 'Commonwealth effect' implies bilateral trade costs between Commonwealth partners are on average 19 per cent lower compared with those for other country pairs.

There exists substantial potential for increasing trade between members, estimated to be \$156 billion – that is, about 34 per cent of the current intra-Commonwealth goods trade. Under a plausible scenario, intra-Commonwealth trade (including goods and services) is projected to rise to \$2.75 trillion by 2030.

Main policy messages

The global trade landscape is fundamentally changing and Commonwealth members are adapting to these new realities.

As trade with the South is rising, a key challenge for many developing country members lies in better harnessing these opportunities to build their productive and trade capacities and diversify their exports, particularly to China and other emerging markets. Small states in particular are confronted with serious challenges and have experienced declining export orientation in their economies.

Developed countries remain important markets. Commonwealth developing countries should continue to explore opportunities for trading more with them, including making effective use of available preferential schemes and broader trade and investment cooperation.

There has been a significant rise in regional trading arrangements (RTAs), with most Commonwealth members participating in several of these mechanisms. Effective implementation of RTAs is a challenge for many. Strengthened regional cooperation dealing with behind-the-border measures and ensuring improved connectivity should be given the utmost consideration.

An increasing number of final goods are being produced through production networks involving different countries. Some Commonwealth members have taken advantage of this, but many African, Caribbean and Pacific countries, being predominantly natural resource-based exporters, have limited ability to gainfully link to global value chains (GVCs).

Promoting the rules-based multilateral trading system remains a priority. Given the adoption of the 2030 Global Agenda for Development, trade multilateralism must be consistent with this framework and should contribute to achieving the Sustainable Development Goals (SDGs).

The Commonwealth provides an important avenue to enhance members' trade performance. To promote intra-Commonwealth trade, members should, among other things:

- Achieve improved trade logistics and facilitation measures;
- Rationalise tariffs and tackle non-tariff barriers;
- Promote deeper integration within existing RTAs;
- Exploit the potential of the strong and diverse diasporas;

- Harness the Commonwealth as a platform for establishing and strengthening linkages between traders and investors;
- Leverage the 'Commonwealth effect' (e.g. the lower trading costs) for greater gains.

There is huge potential for Commonwealth developing countries to expand their trade. They should address five priorities to unleash this potential:

- Make effective use of international trade, including through trade preferences, Aid for Trade and lower bilateral trading costs in the Commonwealth as one means to build and transform their productive capacity;
- Better manage trade policy and negotiation, which requires enhanced technical and administrative capacities;
- Address the huge implementation gap associated with trade strategies and agreements;
- Actively promote the role of the private sector in trade, including by using available support and mobilising further assistance to improve the enabling environment, especially infrastructure;
- Work towards securing a coherent global trade support architecture to ensure the effective participation of developing countries, especially small states, least-developed countries (LDCs) and Sub-Saharan Africa, in world trade.

The Commonwealth offers insightful perspectives on topical trade issues that can contribute to promoting the role of trade in development. Some of these for the global community to consider are:

- Strengthening trade multilateralism and promoting better coherence among relevant multilateral bodies to create an integrated trade-related global governance framework to drive forward the 2030 Agenda and the SDGs, and to catalyse support to effectively implement the Istanbul Programme of Action for LDCs;
- Rejuvenating a global partnership to address the unique and inherent trade challenges of small states;
- Promoting a more gender-sensitive policy and institutional trade architecture at the national, regional and multilateral levels;
- Considering policies and mechanisms to ensure greater inclusion and gainful participation of small, poor and vulnerable countries in GVCs.

Key findings and way forward

Commonwealth members fully recognise the value of international trade as a powerful means of achieving economic and social progress. With its diverse membership, the Commonwealth has consistently advocated for a global trading system that ensures effective participation of all countries, especially least-developed countries (LDCs), small states and Sub-Saharan Africa (SSA).

This publication considers the changing global trade landscape and explores opportunities and challenges for Commonwealth members. It comprises four parts. Part 1 provides an analysis of some major trends characterising the changing circumstances and how Commonwealth countries are responding to them. Part 2 analyses the dynamics and prospects of intra-Commonwealth trade. Part 3 discusses broad priorities for unleashing trade potentials. Part 4 provides some perspectives on a range of major topical trade issues.

Part 1: The Commonwealth in a changing trade landscape

Fundamental changes are taking place in global trade. Significant transformations are underway, influencing the sources and direction of trade, its patterns and, in turn, individual countries' comparative and competitive advantages. These changes are mainly driven by factors such as the rapidly growing trade of developing countries; growing trade interconnectedness through global value chains (GVCs); proliferation of regional trading arrangements (RTAs); lack of dynamism in trade multilateralism; and the impending need for actions to combat climate change. Against the backdrop of the unfolding trade landscape, the global community has now adopted the Sustainable Development Goals (SDGs), in which international trade has an important role to play.

Global trade prospects in the post-financial crisis period

The global economic slowdown following the 2008 global financial crisis has had a significant impact on trade. Had the post-crisis period matched the 2000-08 trend, global exports of goods and services in 2014 could have been as much as \$16 trillion higher. Since 2012, average annual trade growth in

the world economy has been less than 3 per cent in comparison with long-term average growth of 7 per cent. A weakening of the relationship between trade and gross domestic product (GDP) growth in the world economy is observed.

Commonwealth members' global exports

Since 2000, the combined total global exports of goods and services of Commonwealth countries have almost tripled, from \$1.3 trillion to \$3.4 trillion, accounting for 14.6 per cent of global exports in 2013. Almost half of total Commonwealth exports come from its developed members, comprising Australia, Canada, Cyprus, Malta, New Zealand and the UK. The share of developing countries in the total trade of Commonwealth members has also increased, from 36 per cent in 2000 to just above 50 per cent in 2013. This has been mainly driven by the Asian members, which account for more than four-fifths of the exports of all Commonwealth developing countries.

The combined exports of 18 Commonwealth African members have also recorded significant increase, contributing about 10 per cent of total Commonwealth exports (\$300 billion in 2013). In both Asian and African regions, a few countries generate a large proportion of exports, notably India, Malaysia and Singapore in Asia and Nigeria and South Africa in SSA. The exports of other countries within each region have also increased considerably.

Given their size, the contribution of the Caribbean and Pacific regions to overall Commonwealth exports is small, accounting for 1.14 per cent of Commonwealth exports (\$39 billion) in 2013. Trinidad and Tobago accounts for more than 60 per cent of Commonwealth Caribbean exports. Pacific Island economies contribute 0.3 per cent of all Commonwealth exports (\$11 billion), with almost two-thirds of it generated by Papua New Guinea and a further quarter by Fiji.

Overall, 76 per cent of Commonwealth exports are merchandise goods, whereas the share of services is 24 per cent. The Caribbean region has a much higher share of services: 60 per cent of its exports in contrast with 13 per cent for Commonwealth African countries.

Impact of the global financial crisis on Commonwealth members

Commonwealth members have not been immune to the global financial crisis. For 36 members, the 2011-13 average GDP growth was lower than the immediate pre-crisis period 2006-08 average growth. The same

number of countries will not have matched their pre-crisis growth performance during 2014-16.

In the immediate aftermath of global financial crisis, Commonwealth countries' total exports fell by a massive \$600 billion: from \$2.9 trillion in 2008 to \$2.3 trillion in 2009. Following global trends, the annual average growth of Commonwealth trade during 2009-13 was much lower, at 4.3 per cent.

The trade-growth nexus in the Commonwealth

On the whole, a strong positive relationship between the growth of GDP and trade is found across the Commonwealth. One very encouraging development since the 1990s is SSA's generally impressive economic growth and trade performance, which, despite the global economic slowdown, remains steady.

However, the trade-growth nexus is found to be weak for small states. Competitive disadvantages arising from such factors as their inherent characteristics, for example their small domestic markets and unfavourable geographical location, yielding excessive trade costs, as well as the erosion of trade preferences have resulted in their continued declining share in global trade. Export orientation in their economies has also suffered. In the early 1990s, the average export-GDP ratio for Commonwealth small states was about 20 percentage points higher than the world average (53 per cent as against 34 per cent). By 2010-12, the same ratio for small states had fallen by 6 percentage points while that for the world had risen by 9 percentage points.

Lack of export diversification being a salient feature of trade orientation of both Commonwealth small states and SSA constitutes a critical trade-related development challenge. Commodity price hikes and increased demand from many Southern partners, while contributing to impressive export earnings, particularly for SSA countries, have also aggravated the concentration on primary exports. In the aftermath of the boom, the outlook of weak commodity prices is a concern for commodity exporters.

Growing prominence of developing countries

Over the past two decades, developing countries' share in global GDP has doubled from 20 per cent to 40 per cent, and their share in world merchandise trade has gone from 30 per cent to about 50 per cent. The trade profile of Commonwealth countries has accordingly altered: their overall merchandise exports to developing countries as proportion to their total exports increased from 26 per cent in 2000 to 46 per cent in 2013. In 2000, 20 Commonwealth

countries procured half or more of their merchandise imports from developing countries. This rose to 41 in 2013.

For many countries, trading with China has been one of the defining features of global trade. Since 2000, total Commonwealth exports to China have increased more than fourteen-fold, from \$19 billion to \$268 trillion, and imports from China have risen almost eight-fold, from \$46 billion to \$359 billion.

In 2000, China accounted for 10 per cent or more of imports for just one Commonwealth member; in 2013, the corresponding number of members had increased to 28. Turning to exports of goods, while there has been a general increase in exports to the Chinese market, this has been much less spectacular. For as many as 35 Commonwealth members, less than 5 per cent of their exports in 2013 were destined for China. Therefore, the Chinese market remains a potentially important but as of yet untapped export destination for most Commonwealth countries.

While there are many benefits of South-South trade, significant challenges remain, especially in diversifying exports to emerging economies. On the other hand, despite their diminishing relative significance, developed countries remain important markets. Almost all advanced developed countries have maintained various preferential trading schemes for different groups of developing countries. Over time, however, the value of tariff preference has fallen because of unilateral and/or regional trade liberalisation.

Global value chains

GVCs are fundamentally changing the traditional concept of an entire production process taking place in one country. This geographic separation of production processes presents opportunities for many countries, since it requires specialisation in a relatively limited number of tasks.

The experience of Commonwealth countries' participation in GVCs varies widely. Many Commonwealth African, Caribbean and Pacific (ACP) countries, being predominantly natural resource-based exporters, have limited abilities to gainfully link to GVCs. For small states in particular, participation in GVCs is constrained by their unique trade challenges.

Regional trading arrangements and the multilateral trading system

The proliferation of RTAs is another factor reshaping the global trade landscape. Since the mid-1990s, the number

of active RTAs notified to the World Trade Organization (WTO) has increased from 150 to more than 600. Most Commonwealth nations are members of multiple RTAs involving non-Commonwealth countries. These arrangements differ widely in terms of number of countries involved, coverage of goods and services, depth of liberalisation measures undertaken and ambit of policy issues considered.

The world economy is also witnessing the formation of large RTAs that are unprecedented given the number of partner countries from different continents. The most prominent examples are the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). These RTAs can result in new trading opportunities. It is also important that capacities of non-member countries are built to adjust and to take advantage of any opportunities these agreements present.

The proliferation of RTAs in recent years can be ascribed partly to the stalled Doha Round of multilateral trade negotiations. Important issues that would have generated new trading opportunities have not been settled. Despite the challenges encountered, the Doha Round has, however, delivered several important results to date. Promoting a rules-based, fair and dynamic multilateral trading system is considered to be in the best interests of small, poor and vulnerable economies.

Climate change concerns

Climate change is one of the greatest challenges facing the international community, with important implications for trade, growth and sustainable development. The resultant economic, social and environmental consequences are likely to be most severe for the world's poorest and most vulnerable economies, especially SSA, LDCs and small states. These countries have the least capacity to manage and adapt to changing circumstances. Many Commonwealth members have high export concentrations in a range of climate-sensitive sectors, including agriculture, resource extraction, fisheries and tourism. Over the medium to long term, climate change can significantly affect their trading capacity and competitiveness.

An enabling global trading environment

Securing a coherent, accountable and enabling global trading environment is of crucial importance to many Commonwealth developing members. The adoption of the SDGs and the upcoming climate change agreement both offer opportunities to strengthen the global trade architecture in ways that enhance the participation of these countries in international trade.

Part 2: Intra-Commonwealth trade: emerging dynamics and opportunities

Intra-Commonwealth trade is already substantial and is growing rapidly. As members strive to enhance their overall trade performance, the evidence presented suggests the Commonwealth can be an important avenue to accomplish this objective.

Cooperation among countries in trade within the global economy has increasingly been manifested in RTAs. The Commonwealth, on the other hand, is not a trading bloc. Yet, historical ties, long-established trading relations, familiar administrative and legal systems, the use of largely one language as the means of communicating with foreign partners and large and dynamic diasporic communities all suggest the association can boost trade and investment flows.

Growing intra-Commonwealth trade

In 2013, intra-Commonwealth trade, including in goods as well as services, stood at \$592 billion, achieved through an average annual growth of almost 10 per cent each year since 1995. It is projected to exceed \$1 trillion by 2020. The share of intra-Commonwealth trade in Commonwealth members' total global trade increased from 13 per cent in 1995 to 18 per cent in 2013.

Seventy-six per cent of intra-Commonwealth trade (\$450 billion in 2013) is in goods. However, it is the services trade that has grown, albeit from a low base, at a rate higher than goods: 12 per cent per annum compared with 8 per cent in the case of goods.

Direction of intra-Commonwealth goods trade

The Commonwealth Asian members account for 55 per cent of intra-Commonwealth exports. India, Malaysia and Singapore collectively contribute more than half of total intra-Commonwealth goods exports. Among other major exporters, the UK has a share of 10 per cent, Australia 8 per cent, Nigeria and South Africa each 6 per cent and Canada 5 per cent. About three-quarters of intra-Commonwealth goods trade comes from its developing members.

African members' exports increased to all Commonwealth regions but particularly within Africa and to Asia. In 2000, Commonwealth European countries, largely because of the UK alone, were the largest destination of African goods, accounting for 40 per cent of all their intra-Commonwealth exports. In 2013, 45 per cent of African intra-Commonwealth exports went to other African countries, about 30 per cent to Asia and just 18 per cent to Europe.

Intra-Caribbean exports account for 55 per cent of Caribbean members' intra-Commonwealth exports. Another 40 per cent is due to developed countries, mainly Canada and the UK. On the import side, the comparable share of developed countries was 25 per cent in 2013.

More than four-fifths (83 per cent) of Commonwealth Pacific Island members' intra-Commonwealth exports are directed to developed members, with Australia being the single most important destination. For intra-Commonwealth imports of Pacific countries, the relative significance of developed countries saw a reduction from close to 73 per cent in 2000 to about 54 per cent in 2013. This can be explained by the rising relative significance of Asian suppliers, mainly Singapore.

Broad-based growth of intra-Commonwealth goods trade

The growth of intra-Commonwealth goods trade has been broad-based: 47 of 53 Commonwealth members have grown their intra-Commonwealth exports by over 5 per cent per year since 2000. As many as 33 members registered double-digit annual average intra-Commonwealth export growth during 2000-13.

The share of intra-Commonwealth exports in countries' total exports is found to be generally higher for small states. The countries for which this share is the largest are all small economies, such as Barbados, Botswana, Dominica, Grenada and Swaziland. For as many as 40 members, at least 20 per cent of their goods exports are intra-Commonwealth; for 10 countries, it is more than 50 per cent.

Intra-Commonwealth trade in services

Intra-Commonwealth services exports are estimated at \$139 billion in 2013. Five countries together account for over 80 per cent of this trade: the UK (32 per cent), Singapore (17 per cent), India (12 per cent), Australia (11 per cent) and Canada (9 per cent).

The direction of intra-Commonwealth services trade has also seen significant changes, as the importance of Commonwealth

Asia both as a source and as a destination has increased. For as many as 33 members, at least a quarter of their services exports are directed to the Commonwealth. For several small states, the dependence on the Commonwealth is much higher.

Intra-Commonwealth foreign direct investment and remittance flows

Intra-Commonwealth FDI flows have increased remarkably – from \$10 billion in 2002 to \$80 billion in 2007 before being hit by the global financial crisis. On average, intra-Commonwealth FDI is estimated to be more than a quarter of total FDI inflows into Commonwealth countries. The combined FDI stock of the seven largest Commonwealth economies in other Commonwealth countries has increased from \$160 billion to \$716 billion.

Intra-Commonwealth remittances are estimated to have totalled \$45 billion in 2014, representing 30 per cent of all remittances received by Commonwealth countries. Of these intra-Commonwealth flows, \$42 billion were received by Commonwealth developing countries, including \$11 billion by Commonwealth SSA countries, \$833 million by Caribbean members and \$357 million by Pacific Island members.

Evidence of a strong 'Commonwealth effect'

The Commonwealth represents a group of countries that are widely dispersed geographically and are members of various RTAs. Yet there have been suggestions and there is anecdotal evidence that doing business between Commonwealth countries is more convenient.

Econometric results suggest that, when bilateral partners are both Commonwealth members, they trade on average 20 per cent more and generate 10 per cent more FDI inflows than otherwise. Another way of looking at it is to consider if the Commonwealth effect is to be translated into lower trading costs. Econometric estimates suggest that, compared with for other country pairs, the bilateral trade costs for Commonwealth partners are, on average, 19 per cent lower.

Intra-Commonwealth trade potential and future prospects

There exists substantial potential for increased trade between Commonwealth members. This potential is estimated to be \$156 billion – that is, about 34 percent of the current total intra-Commonwealth goods trade.

Improved trade logistics can have further positive implications for enhanced trade flows. Simulation exercises undertaken

show that, if the Commonwealth countries that at present have lower logistics performance can achieve the same level of efficiency of South Africa, the combined GDP gains in the Commonwealth will be \$177 billion, exports will increase by \$124 billion and employment will expand by \$24 million. In comparison, if countries abolish only their tariffs on intra-Commonwealth trade, GDP gains will be \$80 billion.

Under a plausible scenario, intra-Commonwealth trade (including goods and services) is projected to rise from the current level of close to \$600 billion in 2013 to \$2.75 trillion in 2030.

Way forward for promoting intra-Commonwealth trade

This huge potential suggests member countries should leverage the Commonwealth effect for great trade gains. Any trade response generated either by building productive capacity or by tackling supply-side bottlenecks is likely to be amplified given the advantage of lower trade costs between members. To promote intra-Commonwealth trade, members should, among other things:

- Achieve improved trade logistics and facilitation measures;
- Make use of the scope of tariff rationalisation and tackle non-tariff barriers (NTBs);
- Promote deeper integration within their existing regional mechanisms and utilise the opportunities for developing regional supply chains in certain sectors;
- Exploit the potential of strong and diverse diasporas to catalyse innovation and investment and bridge into new markets;
- Make use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors.

Part 3: Unleashing the trade potential: priorities for the Commonwealth

While the opportunities for the expansion of trade – both between members and externally – are substantial, for many countries so are the obstacles.

Part 3 explores five broad priorities to harness these potential. In the context of the shifting landscape, these priorities are becoming even more critical.

Building productive and trade capacities

Productive capacity is a fundamental determinant of what a country is able to produce competitively and trade internationally. Using international trade to build and transform productive capacity is particularly important. While trade preferences have historically played an important role in helping develop trade capacity, these mechanisms have gradually been eroded or not been effectively utilised. Beneficiaries should make as much use of trade preferences, both from developed and other emerging countries, as possible before they disappear. This should be pursued in conjunction with trade promotion policies to attract investment in the relevant sectors and diversify exports.

Effectively managing trade policy and negotiation

Trade policy and negotiations present a substantial challenge for many capacity-constrained countries. The scope of policy measures and negotiations has expanded considerably over time. This brings a new set of objectives, regulations and stakeholder interests to the fore. Lack of reliable information and data furthermore complicate informed trade policymaking and negotiation. Most Commonwealth members also participate in multiple regional trading schemes. While managing these negotiations is a major undertaking, the resultant outcomes also require countries to maintain different policy regimes, further stretching their already weak administrative capacities.

Addressing implementation gaps

Implementation gaps in trade strategies and agreements are huge for many Commonwealth developing countries. While investments in 'hard' infrastructure are considered most essential for implementation, Commonwealth experience suggest they must be matched by improvements in 'soft' infrastructure (e.g. building key stakeholder awareness and capacity) to realise the intended benefits. Realising the gains from trade agreements is not straightforward, as their implementation gets delayed for years, or even decades. Trade agreements involving broader areas of commitments without the required technical and financial assistance implies a much larger implementation gap.

Implementation may require governments to adopt a multifaceted work programme, backed by dedicated institutions.

Countries that have recently developed national export/trade strategies have taken this into consideration. However, with weak administrative capacity, the task of ensuring coordination among all the concerned public bodies is a difficult one.

Promoting private sector development

The critical importance of the private sector in trade-development linkages cannot be over-emphasised. Despite reforms undertaken by many developing countries, there remain important bottlenecks in unlocking private sector dynamism, including lack of access to finance, inadequate and inefficient infrastructure and political instability.

There exists ample scope to more effectively integrate the private sector into policy and negotiation processes. Active and open consultations with the private sector can equip governments with negotiating capacity, as well as insights into trade and investment constraints. One challenge to inclusive cooperation and consultations is the fact that a large majority of private sector enterprises are micro, small and medium enterprises (MSMEs), often operating in the informal sector. Although underappreciated, they can play an important role in promoting trade between countries (especially in regional trade) and developing cross-border production networks.

Mobilising additional and making use of the available support for private sector development is extremely important. Commonwealth developed countries such as Australia, Canada and the UK strongly support developing country efforts in this respect. Multilateral donor agencies have similar dedicated programmes. The Commonwealth also provides an important platform for establishing and strengthening linkages between private enterprises, traders and investors across member countries.

The global trade-supporting architecture

An enabling trade-supporting architecture is critical for most capacity-constrained countries adapting to changes in the global trade landscape. The SDGs provides a useful framework but developing countries face a huge investment gap in SDG-relevant sectors, with a direct and indirect impact on trading capacity. Although alternative sources of funding, including innovative financing and private sector involvement, are being actively sought, the role of official development assistance (ODA) in promoting trade-related infrastructure and capacity-building will continue to be critical.

One particular component of ODA, Aid for Trade (AfT), has become increasingly important in addressing supply-side

capacity challenges in developing countries. There is a growing body of evidence on AfT having a positive impact. However, there is further scope for making this support even more effective. Availability of adequate resources is of course one of the most important issues. The implementation of the Trade Facilitation Agreement (TFA) as well as other regional trade facilitation deals will demand far more resources. Support for trade-related adjustment, which can range from tackling export shortfalls to capacity development for dealing with new trade measures and provisions, requires more attention. Increased support for targeted sectors to promote export competitiveness and diversification is also critical for many countries. Finally, ensuring effective market access in both developed and emerging economies should also be considered part of the enabling global trade support architecture.

Part 4: Perspectives on topical issues in trade

Commonwealth countries proactively engage with the global community on trade and related development issues. They participate in various regional and multilateral negotiations with a view to securing their enhanced participation in international trade. Beyond these negotiations, they offer insightful perspectives for promoting the role of trade in development. With the changing global trade landscape, these are becoming even more important for the global community to consider. Part 4 outlines Commonwealth perspectives on seven important trade issues.

Trade multilateralism and development

Trade multilateralism is under increased scrutiny with the proliferation and deepening of RTAs as against the stalled Doha Round of trade negotiations. Despite the stalemate, the Round has recorded valuable achievements, including, among others, the adoption of the Trade Facilitation Agreement. The WTO-led AfT initiative also demonstrates that trade multilateralism can address development concerns.

As WTO members negotiate a work programme with a view to concluding the Doha Round, it is extremely important that development dimensions be given due priority. Several recommendations in this regard include addressing the specific needs and concerns of LDCs and small states, including expansion and improved targeting of AfT; tailoring S&DT provisions to assist developing countries

to derive benefits from them; replicating or adapting the special and differential treatment (S&DT) model in the TFA in other areas; and ensuring progress made on trade multilateralism is consistent with the SDG framework.

The multilateral trading system and the SDGs

The 2030 Agenda for Global Action includes several trade-related targets and other references to the role of international trade in supporting the achievement of the SDGs. This will require a multilateral trading system that is better integrated with the SDG framework. A number of practical steps have been suggested for this matter.

Among other things, it is proposed that the WTO and other trade-related institutions develop a clear programme of action in support of the SDGs, including a short- and medium-term implementation plan. A recommendation is also made for the WTO to conduct regular reviews of progress on trade-related aspects of the SDG framework. This could be conducted on a triennial basis and would be akin to the Global Review of AfT undertaken by the WTO.

Trade and climate change

While many Commonwealth members, especially small states, LDCs and SSA, are highly vulnerable to the impacts of climate change, there may also be enhanced trade and investment opportunities, particularly with the transition to a lower carbon or 'green economy' and new market openings for green goods and services. Capacity-constrained countries must also use international measures such as carbon trading mechanisms, climate financing and AfT to adapt and diversify their economies.

With the expected adoption of a new climate treaty by the UN Framework Convention on Climate Change (UNFCCC) Paris Conference of the Parties (COP21), this Review emphasises the need for greater alignment, coherence and mutual supportiveness between the multilateral trade and environmental regimes. It is also important to make adequate technical, financial and other assistance available to diversify into new products and services. It is recommended that more country-specific analysis be undertaken so appropriate support mechanisms can be devised and tailored to specific country circumstances and challenges.

Gender and trade

This Review proposes a number of concrete measures to bring about transformative shifts towards a more gender-

sensitive and gender-equitable approach to formulating trade policy and negotiating international trade agreements. These include, among others, collecting appropriate gender-disaggregated trade data to inform, develop and monitor government policies and the support of development partners; more systematic and widespread use of gender impact assessments; better integration of social and gender dimensions into current sustainability impact assessments; identifying successful gender-sensitive trade policies and practices and developing a nationally led and multilaterally supported programme to upscale these initiatives; and strengthening women's voices and agencies in trade policy formulation and in regional and multilateral trade negotiations.

Tackling the trade challenges of small states

Small states, constituting 31 of the Commonwealth's membership, depend crucially on international trade for their overall economic prospects. Many of them confront excessive trade costs because of their unique and inherent characteristics. Disproportionately large preference erosion owing to trade liberalisation initiatives has also affected their competitiveness.

There is widespread acknowledgement today that small states require heterodox solutions to address their specific challenges and vulnerabilities. Some proposals are outlined to shift gear in addressing the trade challenges of small states – namely, rejuvenating a global partnership and prioritising innovative approaches to targeting international support at small states; strengthening regional integration to address the constraints of small market size; taking advantage of growing South-South trade; building or deepening comparative advantages in services trade; and, more strategically, directing AfT resources towards diversifying and developing competitive export sectors.

Managing regional integration in Africa

African countries are embarking on ambitious plans for continent-wide integration. Besides advancing their continental integration agenda, they are also deepening trade and investment relations with their established partners such as the European Union (EU) (e.g. economic partnership agreements, EPAs) and the USA (e.g. African Growth and Opportunity Act, AGOA), and emerging global players, especially China and India. Managing these wide-ranging integration schemes is going to be quite daunting.

Along with the proposals and action plans outlined in vast existing literatures, this Review has emphasised a few short- to medium-term priorities for African countries to promote more effective trade integration: prioritising

and fast-tracking the Continental Free Trade Agreement (C-FTA) negotiations; focusing on achieving deeper integration arrangements that address 'behind-the-border' issues such as improved connectivity, investment and standards and regulations; and effectively managing external trading relationships beyond regional initiatives to minimise adverse trade and welfare consequences.

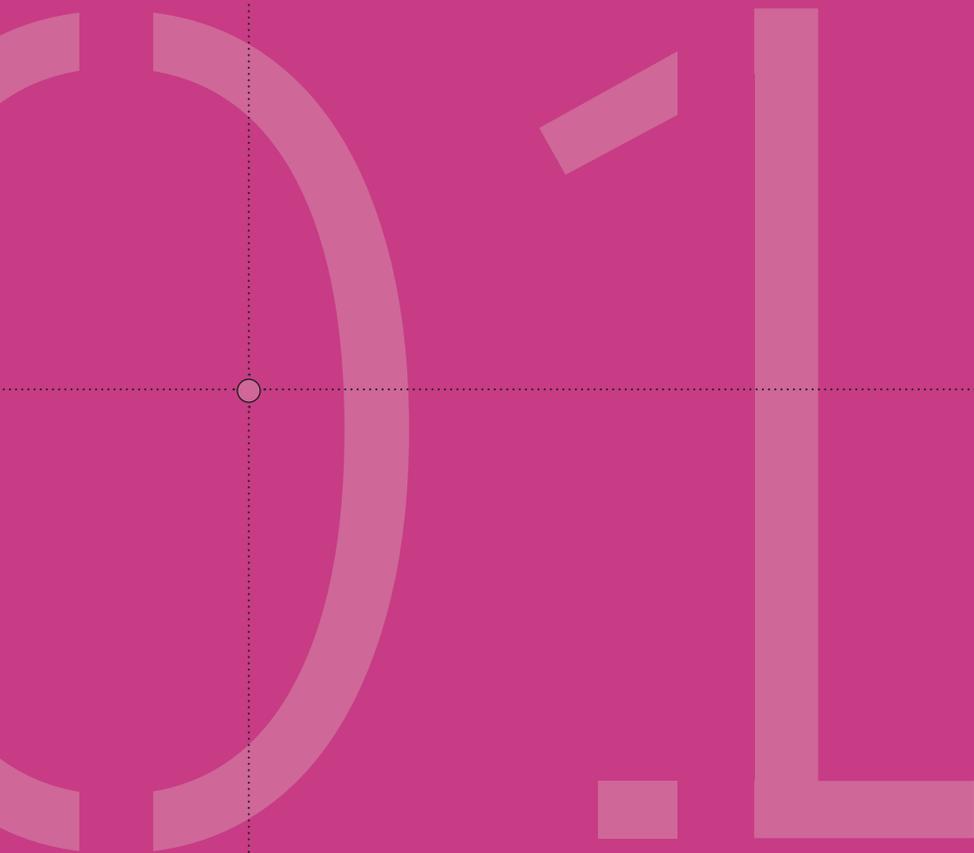
Effective and gainful participation in global value chains

The intensification of GVC-driven trade is attracting considerable policy attention. This Review argues that securing effective and gainful participation of SSA, LDCs and small states will require, among other things, greater consideration of and an appropriate policy response to their special development challenges (e.g. excessive trade costs owing to geographical location and small size) and characteristic features of the on-going GVC mechanism (e.g. highly asymmetric distribution of value-added along the supply chains).

Considerations in strategic policy choices outlined to advance participation in GVCs include exploring and expanding value chains involving regional Southern partners; harnessing positions as distributors of goods and services within marketing and distribution networks; using trade policy instruments, including trade preferences and policy incentives, to attract investment linking the sector to GVCs; leveraging AfT to link into GVCs; and better understanding and addressing the governance of GVCs, including the distribution of value-added across the supply chains and relationships between lead firms and local suppliers.

PART 01

The Commonwealth in a changing global trade landscape



The global trade landscape is changing rapidly. Deeply scarred by the financial crisis of 2008, the world has seen the economic recovery marked by a weakening trade–growth nexus.

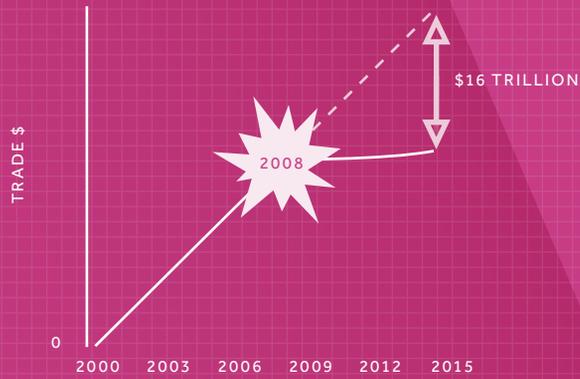
Along with this, the phenomenal rise of developing countries, the intensification of global value chains, the proliferation and deepening of regional trading arrangements, the stalled Doha Round of multilateral trade negotiations and climate change concerns are all having profound implications for global trade.

The global community, with the Millennium Development Goals having expired, has now entered into a new paradigm with the adoption of the Sustainable Development Goals, in which international trade has a crosscutting role to play.

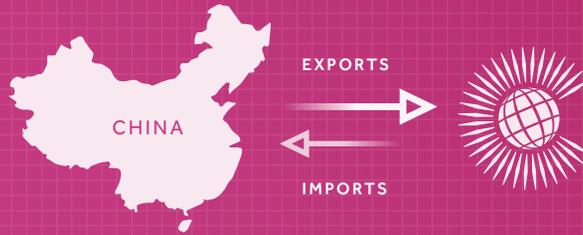
The Commonwealth is coming to terms with this changing landscape. With its diverse membership of advanced economies and developing countries, including least-developed countries, Sub-Saharan African countries and small states, it offers valuable insights into the emerging implications of the underlying changes that are taking place and their impact on trade and development objectives.

HIGHLIGHTS

WORLD TRADE WOULD HAVE BEEN \$16 TRILLION HIGHER IF THE 2008 GLOBAL FINANCIAL CRISIS HAD NOT OCCURRED.



IN THE PAST DECADE COMMONWEALTH EXPORTS TO CHINA HAVE INCREASED FROM \$19 BILLION TO \$268 BILLION, AND IMPORTS FROM \$46 BILLION TO \$359 BILLION.



IN THE PAST DECADE, SOUTH-SOUTH MERCHANDISE TRADE EXPANDED FROM \$1 TRILLION TO \$5.5 TRILLION.



SINCE 1980 COMMONWEALTH SMALL STATES' SHARE OF WORLD TRADE HAS DECLINED FROM MORE THAN 0.7 PER CENT TO 0.46 PER CENT.



1.1 Introduction

Profound changes are taking place in the global trade landscape. More than seven years after the financial crisis in 2008, the world economy is still struggling to gain momentum in terms of returning to its pre-crisis growth trajectory. A slower pace of trade expansion has marked the post-crisis period, causing concern for countries that consider trade an important vehicle to promote growth and achieve other development goals. Meanwhile, issues related to the global financial crisis-led economic slowdown aside, several other major developments over the past two decades or so have become prominent in determining trade flows and patterns.

First and foremost, the world economy has seen a phenomenal rise in developing economies as new growth poles, which has for many countries rapidly changed their bilateral trade relations. Second, the intensification of global value chain (GVC) mechanisms has meant products are increasingly being produced through complex cross-border production networks, which has redefined countries' comparative advantage in terms of trade in tasks rather than in entire products. Third, along with their proliferation, regional trading arrangements (RTAs) are considering far more ambitious and encompassing trade liberalisation measures for their members. Fourth, progress on multilateral trade openings has stalled: World Trade Organization (WTO)-led trade negotiations have been at an impasse for several years now, with the Doha Development Round completing its 14th anniversary this year. This may also have contributed to a rise in regional trading arrangements. All these factors are fundamentally reshaping global trade.

Apart from the above factors, climate change challenges urgently require the generation of appropriate adaptation and mitigation strategies, which are likely to have important implications for individual countries' participation in global trade. With the adoption by UN members of the Sustainable Development Goals (SDGs), the global community has already entered into a new paradigm to tackle development challenges for the next 15 years. Furthermore, the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) is expected to achieve a legally binding and universal agreement on climate, which will come into force from 2020. The contribution of trade to these new architectures and to development cannot be overemphasised.

The Commonwealth, with its diverse membership of advanced economies, developing countries, least-developed countries (LDCs), Sub-Saharan African (SSA) countries and small states, is coming to terms with this changing context¹. For much of the Commonwealth's developing country membership, enhanced supply response and effective participation in world trade continue to represent the overarching means to promote economic growth, structurally transform their economies and achieve social progress. A variety of factors represent the preconditions for improving the trade prospects of these countries, ranging from ensuring unrestricted market access for exports to confronting domestic productive capacity bottlenecks. For all Commonwealth members, the unfolding trade landscape has important implications. The Commonwealth offers valuable insights into the emerging implications of the underlying changes taking place and their impact on trade and development objectives.

The main objective of Part 1 of *Commonwealth Trade Review* is to provide a brief overview of the context of the shifting global trade landscape and to highlight how Commonwealth countries are coming to terms with this, so as to ascertain the implications for their trade prospects. Section 1.2 gives a brief account of the state of trade in Commonwealth countries, including its trends and composition by different country groups; the impact of the global financial crisis on the Commonwealth; and the trade-growth nexus, while highlighting the trade-related development challenges for certain Commonwealth country groups. Section 1.3 provides brief assessments of the major developments in global trade that have implications for the Commonwealth. Section 1.4 concludes, while placing an emphasis on harnessing opportunities in the changing trade landscape.

1.2 The state of Commonwealth countries' trade

1.2.1 Volume, trends and structure

Since the turn of this century, the combined total of exports of goods and services of Commonwealth countries has increased about three-fold, from \$1.3 trillion to \$3.4 trillion, accounting for 14.6 per cent of global exports in 2013. Although the annual average growth of Commonwealth trade during 2009–13 was somewhat lower, at 4.3 per cent, in absolute terms it has expanded by more than \$1 trillion, from \$2.3 trillion in 2009 to about \$3.4 trillion in 2013 (Table 1.1).

The relative significance of different country groups in total Commonwealth trade has changed remarkably. In 2000, developing members accounted for only 36 per cent of this trade; by 2013, the corresponding share had increased to reach just above 50 per cent (Figure 1.1). A rapid expansion in exports from Asian developing countries has been the main contributing factor to this development. Of the combined total of developing country exports, close to four-fifths originate from Asia (Figure 1.2).

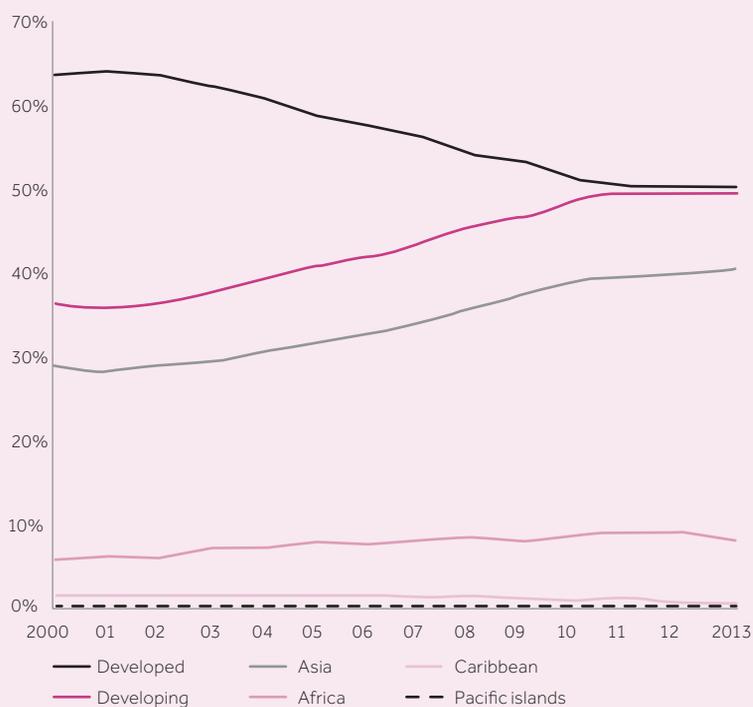
While Singapore, Malaysia and India are among the world's largest exporters, three other South Asian countries – Bangladesh, Pakistan and Sri Lanka – have also seen their combined trade volume grow, from \$23 billion to almost \$80 billion during the same period. Singapore has the largest share, of

around 41 per cent, in the Asian export basket, followed by India (34 per cent) and Malaysia 19 per cent (Figure 1.3). On the whole, the total of combined exports of eight Asian developing countries (including Brunei and Maldives) increased from less than \$380 billion in 2000 to about \$1.4 trillion in 2013, reflecting an impressive average growth rate of 9.7 per cent per annum.

The 18 members of Commonwealth Africa on the whole also demonstrated strong trade performance, with their combined exports increasing from \$79 billion to more than \$300 billion. Their share in total Commonwealth export trade has also increased, from less than 6 per cent to about 9 per cent (Figure 1.1). Although just two countries, Nigeria and South Africa, account for about 70 per cent of Commonwealth African trade, Botswana, Cameroon, Ghana, Kenya, Mauritius, Mozambique, Namibia, Uganda, Tanzania and Zambia have also emerged as sizeable exporters (Figure 1.4). The latter countries' combined exports of goods and services during 2000–13 rose from \$20 billion to about \$95 billion. Commodity price booms and an increase in the demand for primary commodities have been major driving factors behind this export expansion.

The Caribbean and Pacific regions constitute an overwhelming majority of the Commonwealth's small state membership. Given their size, their contribution to overall global and Commonwealth exports is small. Like elsewhere, within these regional groups the distribution of exports also reflects their relative size along with, in some cases, their endowment of natural resources. The total of the exports of all Caribbean members is just about 1.14 per cent of total Commonwealth exports and 2.25 per cent of Commonwealth developing countries' combined exports.

FIGURE 1.1. CONTRIBUTION OF VARIOUS COUNTRY GROUPS TO OVERALL COMMONWEALTH TRADE, 2000–13 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

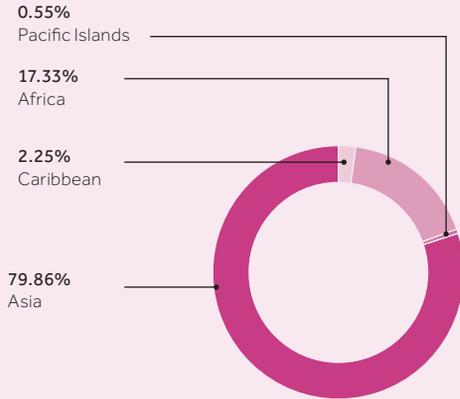
TABLE 1.1.
EXPORTS AND IMPORTS OF GOODS AND SERVICES, 2000–15 (\$ BILLION)

	Exports						Imports					
	2000	2008	2009	2010	2013	2015f	2000	2008	2009	2010	2013	2015f
World	7,940.6	19,845.1	15,924.0	18,968.7	23,316.3	25,049.6	7,948.9	19,505.7	15,538.6	18,499.0	22,606.2	24,170.7
<i>Developed economies</i> of which	5,328.3	11,637.2	9,422.1	10,718.2	12,492.5	13,313.9	5,540.9	12,151.1	9,520.6	10,878.8	12,507.4	13,531.8
Japan	528.8	897.0	671.8	869.5	834.3	964.8	459.9	878.7	649.1	794.7	959.5	1,071.5
EU	3,053.0	7,503.2	6,061.2	6,689.0	7,818.8	8,504.6	3,036.6	7,488.0	5,887.4	6,519.9	7,325.7	7,969.8
USA	1,073.9	1,843.0	1,581.1	1,846.4	2,275.8	2,407.3	1,451.3	2,545.3	1,964.8	2,345.8	2,750.3	2,991.0
<i>Developing Economies</i>	2,612.3	8,207.9	6,502.0	8,250.5	10,823.8	11,781.6	2,408.0	7,354.7	6,018.0	7,620.2	10,098.7	11,183.8
Brazil	64.6	228.4	180.7	233.6	281.1	297.8	72.4	220.2	175.0	244.4	326.3	306.0
China	279.6	1,581.8	1,329.5	1,742.2	2,428.2	2,744.8	250.7	1,233.0	1,112.9	1,523.3	2,194.7	2,486.2
Russian Federation	114.8	522.8	347.5	447.6	596.8	576.5	61.7	367.3	249.6	323.7	473.3	312.0
Commonwealth	1,323.6	2,909.4	2,343.2	2,874.0	3,433.0	3,772.6	1,296.8	3,004.8	2,428.9	2,966.1	3,572.4	3,960.1
<i>Developed</i>	844.7	1,574.5	1,248.9	1,466.3	1,699.0	1,810.7	836.1	1,651.8	1,319.0	1,545.7	1,787.8	1,934.3
Australia	83.9	234.3	195.1	260.2	307.7	344.0	87.8	242.3	205.1	254.1	314.4	294.2
Canada	329.3	530.0	389.7	467.3	546.5	602.7	288.1	506.6	411.0	499.0	579.4	598.6
UK	404.5	748.6	612.7	678.2	773.1	805.3	433.7	837.8	653.1	734.4	825.4	873.5
<i>Developing</i>	478.8	1,335.0	1,094.3	1,407.7	1,734.0	1,961.9	460.7	1,353.0	1,109.9	1,420.4	1,784.6	2,025.8
Africa	79.1	246.8	190.5	250.4	300.6	333.3	71.9	254.2	205.5	258.2	324.8	353.4
Nigeria	21.0	88.0	58.4	81.0	97.1	113.0	12.0	64.2	49.5	67.8	73.4	95.3
South Africa	37.0	98.9	78.6	104.0	109.1	115.7	33.1	107.5	80.8	101.5	119.4	121.7
Asia	381.2	1,044.7	874.6	1,123.2	1,384.8	1,576.5	369.5	1,056.8	872.2	1,127.5	1,406.2	1,617.0
India	59.9	305.7	260.8	348.0	464.2	528.2	73.1	380.1	328.3	439.1	559.8	681.5
Malaysia	112.4	230.1	186.4	231.3	255.7	309.8	94.3	178.7	144.9	189.5	226.7	271.9
Singapore	181.4	443.2	369.2	471.1	567.6	609.9	169.2	403.3	323.9	408.6	499.1	552.7
Caribbean	14.9	34.7	22.4	25.2	39.1	41.2	15.9	32.8	24.5	24.7	39.7	39.5
The Bahamas	2.4	3.5	3.1	3.2	3.4	3.5	3.0	4.6	3.7	3.8	4.8	5.0
Jamaica	3.6	5.5	4.0	4.0	4.4	6.1	4.4	9.9	6.4	6.5	7.7	11.3
Trinidad and Tobago	4.8	19.6	10.0	12.1	24.7	25.5	3.7	9.9	7.4	6.9	18.9	21.8
Pacific	3.7	8.8	6.8	8.8	9.6	10.9	3.5	9.2	7.7	10.0	13.9	15.9
Fiji	1.0	1.8	1.4	1.8	2.3	2.5	1.1	2.7	1.7	2.0	3.0	3.3
Papua New Guinea	2.3	6.2	4.6	6.1	6.0	9.6	1.8	5.0	4.7	6.3	8.9	7.9

Note: Developed Commonwealth countries comprise Australia, Canada, Cyprus, Malta, New Zealand and the UK.

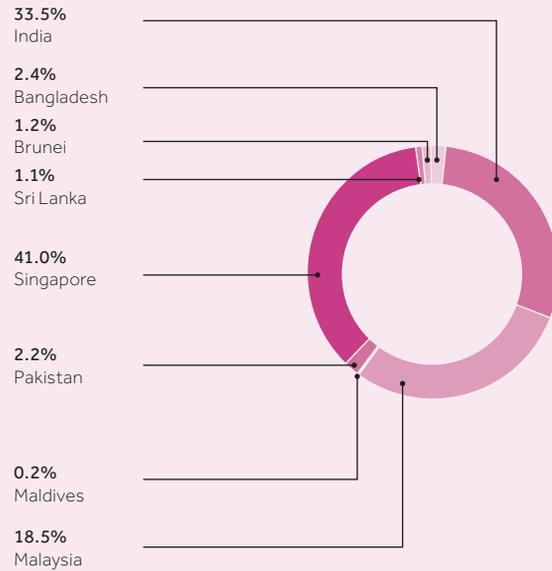
Source: Commonwealth Secretariat (calculations using data from UNCTADStat) and IMF projections

FIGURE 1.2. SHARE OF DIFFERENT REGIONS IN TOTAL COMMONWEALTH DEVELOPING COUNTRIES' TRADE



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

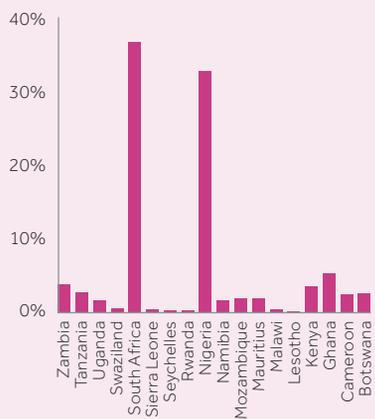
FIGURE 1.3. EXPORT SHARE BY SOURCE IN ASIAN COMMONWEALTH REGION



Note: This figure shows the relative contribution of each country in the total exports of Asian Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.4. EXPORT SHARE BY SOURCE IN AFRICAN COMMONWEALTH REGION



Note: This figure shows the relative contribution of each country in the total exports of African Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.5. EXPORT SHARE BY SOURCE IN CARIBBEAN COMMONWEALTH REGION



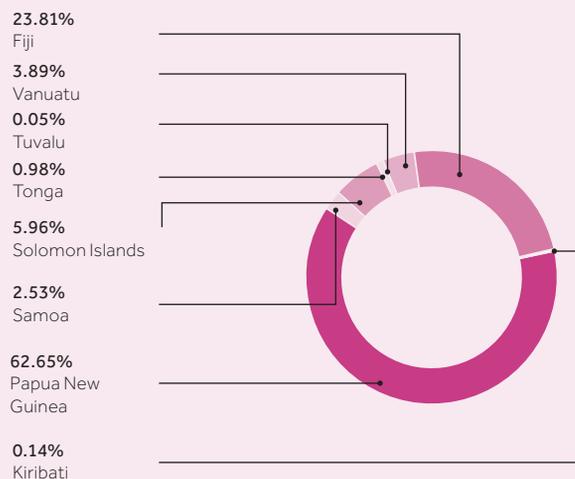
Note: This figure shows the relative contribution of each country in the total exports of Caribbean Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Oil-rich Trinidad and Tobago is the largest exporter, accounting for more than 60 per cent all Commonwealth Caribbean exports (Figure 1.5). Between 2000 and 2013, total exports from the Caribbean increased from \$14.8 billion to about \$39 billion. Of this \$24 billion expansion, more than \$20 billion came from Trinidad and Tobago alone. Jamaica, The Bahamas and Barbados are the three other top Caribbean exporters.

The Pacific region, meanwhile, contributes 0.3 per cent of all Commonwealth exports (and 0.6 per cent of the exports of developing Commonwealth countries). Almost two-thirds of all Pacific exports come from Papua New Guinea alone; Fiji accounts for a quarter (Figure 1.6). Vanuatu, Solomon Islands and Samoa are the other major Pacific small state exporters.

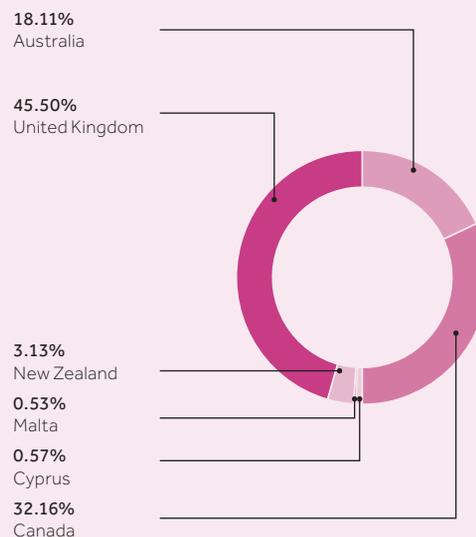
FIGURE 1.6.
EXPORT SHARE BY SOURCE IN PACIFIC ISLAND
COMMONWEALTH COUNTRIES' TOTAL EXPORTS



Note: This figure shows the relative contribution of each country in the total exports of Pacific Island Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.7.
SHARE OF DEVELOPED COMMONWEALTH COUNTRIES IN THEIR
TOTAL EXPORTS OF GOODS AND SERVICES, 2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

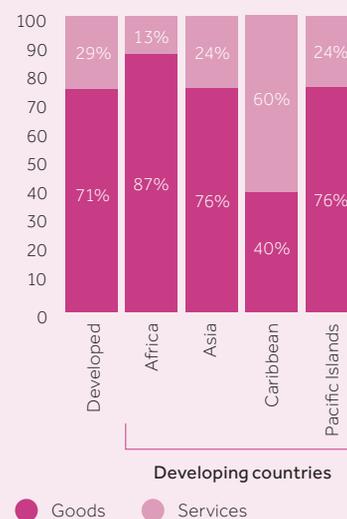
The total exports of the Commonwealth developed countries, comprising Australia, Canada, New Zealand and three European Union (EU) members (Cyprus, Malta and the UK) increased from \$844 billion in 2000 to almost \$1.7 trillion in 2013. The UK has the largest export trade (\$773 billion), followed by Canada (\$547 billion) and Australia (\$308 billion). Given their size, the contribution of the other three economies – namely, New Zealand, Malta and Cyprus – is relatively small (Figure 1.7). The combined share of developed countries in total Commonwealth exports has, as Figure 1.1 showed, fallen over time, from more than 64 per cent in 2000 to just less than 50 per cent in 2013.

Merchandise exports dominate Commonwealth export baskets, capturing 76 per cent of all exports, whereas the share of services exports is 24 per cent. Given that

services exports constitute just 20 per cent of world exports, the Commonwealth has higher services trade orientation. This owes largely to major exporting countries like the UK and India, and some small state members' greater reliance on services exports. Within the Commonwealth, the Caribbean region is the most dependent on services exports: 60 per cent of its export receipts are services-related (Figure 1.8).² Apart from Guyana (10 per cent) and Belize (42 per cent), for all other individual Commonwealth members, services exports comprise more than half of their total exports; Antigua and Barbuda, Dominica, Grenada and St Kitts and Nevis depend on the sector for more than three-quarters of their exports.

For the developed country group, the share of services exports is 29 per cent. Small states like Cyprus and Malta have

FIGURE 1.8.
SHARE OF GOODS AND SERVICES
IN EXPORTS, BY COMMONWEALTH
COUNTRY GROUPS, 2013 (%)



Note: Estimates for Caribbean exclude Trinidad and Tobago due to unavailability of data.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

very high dependence on services (more than 70 per cent in each case), but the comparable significance for Australia and Canada is just 16-17 per cent. For the UK, 40 per cent of its exports come from services. For New Zealand, the corresponding figure is 25 per cent.

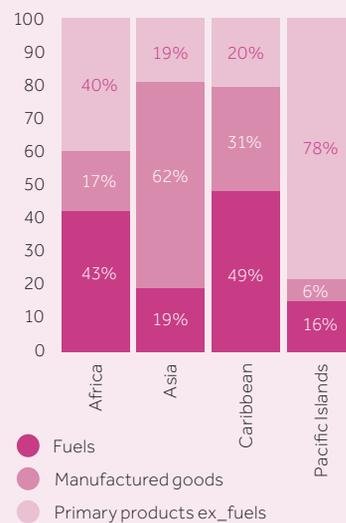
For the Asian developing country group, the average share of services exports is 24 per cent. Among the large economies, India is the most prominent exporter, with 32 per cent of its exports attributable to services. Maldives is the most services-dependent economy, with almost 90 per cent of its export receipts coming from services.

Commonwealth African countries on the whole have the least dependence on services exports: only 13 per cent of their total export earnings. Although countries such as Mauritius (54 per

cent), Seychelles (44 per cent), Uganda (45 per cent) and Tanzania (38 per cent) have proportionately large services exports, it is the relatively low proportion of services exports of bigger economies like Nigeria (2 per cent) and South Africa (13 per cent) that make the overall share of services exports quite low. Zambia, Botswana, Lesotho and Sierra Leone are other countries that have less than 10 per cent of their exports in services.

Within merchandise exports, Commonwealth Asian countries are predominantly manufacturing exporters, whereas African, Caribbean and Pacific (ACP) countries are overwhelmingly dependent on primary commodities and/or natural resource-based exports (Figure 1.9). Fuels and primary commodities together account for 94 per cent of

FIGURE 1.9.
COMPOSITION OF MERCHANDISE EXPORTS BY COMMONWEALTH DEVELOPING REGIONS (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

TABLE 1.2.
EXPORT PERFORMANCE OF TOP THREE PRODUCTS, BY COMMONWEALTH COUNTRY GROUPS, 2000 AND 2013

Region	Product group (SITC Rev. 3, 1 digit level)	2000 exports (\$ million)	2013 exports (\$ million)	2000 share of group exports (%)	2013 share of group exports (%)
Developed	Mineral fuels, lubricants and related materials (SITC 3)	748.93	2,504.81	11.5	19.2
	Machinery and transport equipment (SITC 7)	2,470.50	2,866.04	37.9	22.0
	Commodities and transactions, n.e.s. (SITC 9)	498.93	1,668.30	7.6	12.8
Africa	Crude materials, inedible, except fuels (SITC 2)	50.05	240.87	7.6	9.1
	Mineral fuels, lubricants and related materials (SITC 3)	249.50	1,135.77	38.0	43.0
	Manufactured goods (SITC 6)	143.61	418.70	21.9	15.9
Asia	Mineral fuels, lubricants and related materials (SITC 3)	246.64	2,037.81	8.1	19.4
	Manufactured goods (SITC 6)	351.59	1,354.90	11.6	12.9
	Machinery and transport equipment (SITC 7)	1,580.21	3,245.16	52.1	30.9
Caribbean	Food and live animals (SITC 0)	9.95	13.98	13.4	7.7
	Mineral fuels, lubricants and related materials (SITC 3)	28.15	88.78	38.0	48.9
	Chemicals and related products, n.e.s. (SITC 5)	10.70	37.20	14.4	20.5
Pacific	Crude materials, inedible, except fuels (SITC 2)	7.35	21.51	25.8	27.8
	Mineral fuels, lubricants and related materials (SITC 3)	6.43	12.38	22.6	16.0
	Commodities and transactions, n.e.s. (SITC 9)	4.09	17.28	14.4	22.3

Note: SITC stands for Standard International Trade Classification.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Commonwealth Pacific Island exports, 83 per cent for Africa and 69 per cent for the Caribbean. In contrast, the comparable figure for Asian countries is just 38 per cent.

Table 1.2 provides information on Commonwealth countries' exports of the top three product categories, defined as Standard International Trade Classification (SITC) 1 digit level, for the years 2000 and 2013. Mineral fuels, lubricants and related materials (SITC 3) are the top export category for Caribbean and African countries and the relative significance of this export item increased during the time period considered.

However, although it is included within the top three product categories for Pacific countries, its share has declined. Machinery and transport equipment (SITC 7) are important exports for developed and Asian countries, although for both groups the share of this item in their respective total exports has fallen quite significantly. The identified top three broad categories collectively accounted for 77 per cent (the highest share) of Caribbean exports in 2013 and 54 per cent (the lowest share) for developed Commonwealth members.

Table 1.3 summarises Commonwealth members' top three services exports.

Travel-related services, capturing tourism activities, is clearly the most important export of Caribbean countries (accounting for almost 80 per cent of all services exports). For African and Pacific members as well, travel accounts for the largest export category. In all these cases, the share of this category of services exports increased between 2000 and 2013. For Commonwealth developed and Asian countries, exports are more diversified, with other business services the single largest category for both groups.

1.2.2 Global economic recovery and trade prospects

Recent global economic growth and trade performance

The world economic slowdown in the aftermath of the 2008 global financial crisis has had serious impacts on trade flows between countries. A simple trend projection suggests that, had post-crisis world trade matched the growth rate during the period 2000-08, exports of goods and services in 2014 could have been as much as \$16 trillion higher (Figure 1.10). After a massive 12 per cent fall in 2009, the trade volume in 2010 experienced a substantial growth of about 13 per cent in 2010 (Figure 1.11).³ However, expectations of a rapid and sustained recovery have met with setbacks as reflected in subsequent very modest trade expansion. For 2012-14, average trade growth in the world economy was less than 3 per cent, while major global growth projection exercises, undertaken by the World Bank, the International Monetary Fund (IMF) and WTO, have put the corresponding figure for 2015 at around 3 per cent.

Two recent trends in global trade are particularly worth noting. First, the return of global trade to its long-term average growth has been sluggish. Despite a

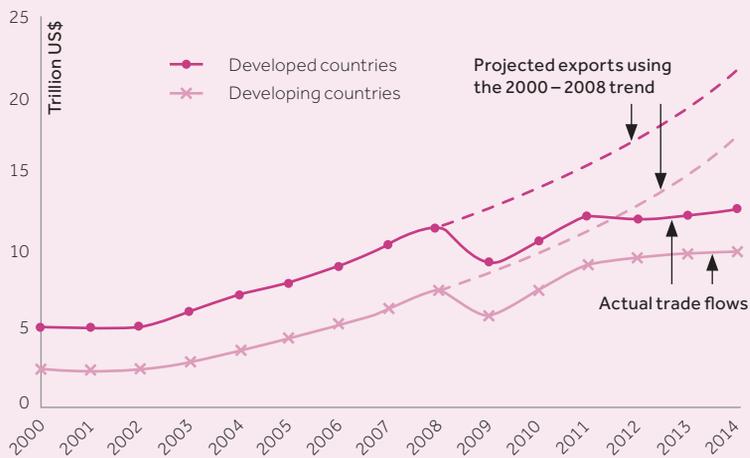
TABLE 1.3.
EXPORT PERFORMANCE OF MAJOR SERVICES CATEGORIES BY COMMONWEALTH COUNTRY GROUPS, 2000 AND 2013

Region	Service category (UNCTAD)	2000 exports (\$ million)	2013 exports (\$ million)	2000 share of group exports (%)	2013 share of group exports (%)
Developed	Financial services	21.87	70.41	11.5	15.5
	Other business services	47.49	127.68	25.0	28.0
	Travel	47.33	101.25	24.9	22.2
Africa	Other business services	3.17	2.75	25.1	10.4
	Transport	2.77	4.5	22.0	17.0
	Travel	5.25	15.10	41.6	57.1
Asia	Other business services	13.74	88.27	23.8	27.7
	Transport	17.86	68.69	30.9	21.5
	Travel	14.31	63.18	24.8	19.8
Caribbean	Other business services	0.45	0.52	6.3	6.2
	Transport	0.75	0.56	10.5	6.7
	Travel	5.04	6.67	71.0	79.8
Pacific	Other business services	0.33	0.31	35.5	17.8
	Transport	0.17	0.40	18.6	23.5
	Travel	0.31	0.79	33.1	46.3

Note: 'Other business services' category includes merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services (legal, advertising, consulting, accounting, research and development etc.). 'Travel' includes goods and services acquired from an economy by non-resident travellers during visits shorter than one year. 'Transport' includes all transportation services that involve carriage of passengers, movement of goods (freight), rentals with crew and related supporting services but excludes freight insurance, which is included with insurance services.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.10.
EXPORTS OF GOODS AND SERVICES BEFORE AND AFTER THE FINANCIAL CRISIS:
ACTUAL VIS-À-VIS PROJECTED TRENDS FOR DEVELOPED AND DEVELOPING
COUNTRIES, 2000-14



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

robust bounce-back immediately after the 2009 collapse and growth in 2011 that was above the long-term average, trade flows since 2012 have been much lower than long-term average trends. The IMF forecast (April 2015) for 2016, if proved accurate, would

imply global trade not reaching its long-term average export growth rate – as Figure 1.11 shows – even after a period of five long years (since 2011). This would be unprecedented since the early 1980s. On the other hand, the global gross domestic product

(GDP) growth rate after the 2009 trough was relatively quick to return to the long-term average rate, mainly because of resilient economic activities in the developing world on the whole.⁴

The second trend, which can also be inferred from Figure 1.11, is the weakening of the relationship between trade and GDP. It has been estimated that, during 1986-2000, a 1 per cent increase in global GDP was associated with a 2.2 per cent increase in the volume of trade. This elasticity for the period since 2001 has fallen to just 1.3 per cent (World Bank, 2015a). While weak demand can certainly explain part of the trade slowdown, structural aspects have also been identified as contributing factors. It has been suggested the consolidation of production processes in two major economies, the USA and China, has resulted in more local sourcing of intermediate inputs. Composition of demand is another factor where investment spending with high import content is found to remain subdued, resulting in a lower impact on trade. Among others, increased trade

FIGURE 1.11.
WORLD GROSS DOMESTIC PRODUCT AND TRADE GROWTH RATES: ANNUAL AND LONG TERM, 1980-2016 (%)



Note: Long-term growth rates are based on the annual average growth of 1980 - 2008.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015)

protection and a generally slower pace of trade liberalisation have also been identified as factors affecting the trade–GDP relationship (ibid.).

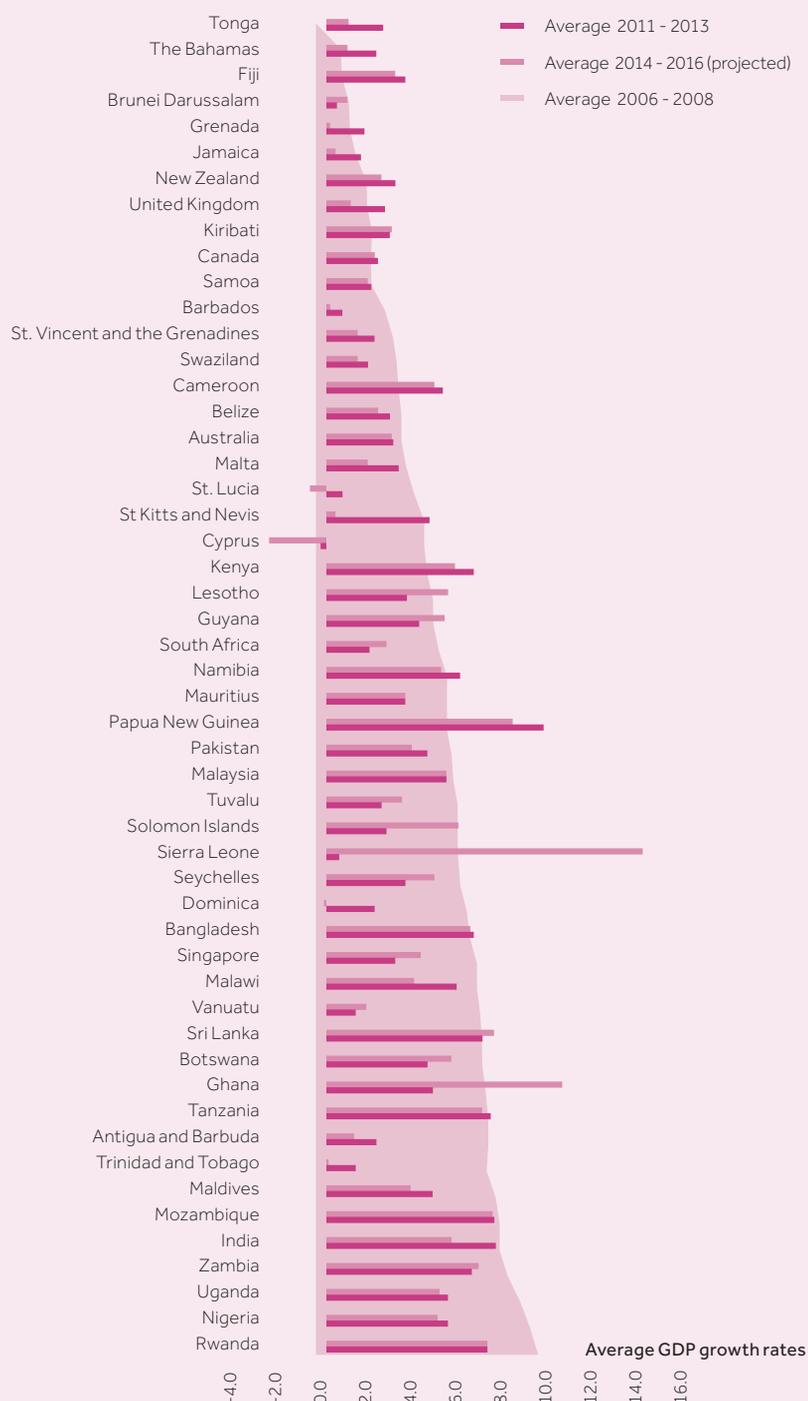
Indeed, a range of old and new trade protectionist measures have proliferated and persisted since the onset of the global financial crisis. This has had a detrimental impact on trade flows, particularly those from the world's poorest and most vulnerable economies. According to one estimate, the loss of exports LDCs have incurred as a result of these protectionist measures has been \$264 billion (Evenett and Fritz, 2015). In other words, the value of LDC exports could have been 31 per cent higher if post-crisis protectionism had been avoided.

Impact of the crisis on the growth and trade performance of the Commonwealth

Commonwealth members have not been immune to the global financial crisis. Although individual country experiences differ widely, Figure 1.12 shows that, for at least 36 member countries (almost 70 per cent), average GDP growth for 2011–13 was lower than pre-crisis average growth. This figure summarises the growth performance of individual Commonwealth countries during the immediate pre-crisis (i.e. average growth during 2006–08) and post-crisis (average growth during 2011–13) periods.

Figure 1.12 also contains the projected average rate of output expansion during 2014–16 as provided by the IMF. The projected average growth rates for 2014–16 seem to suggest 36 Commonwealth countries will not have matched their pre-crisis growth performance. Only 17 countries are expected to have higher

FIGURE 1.12.
AVERAGE GDP GROWTH RATES OF INDIVIDUAL COMMONWEALTH COUNTRIES,
2006–08, 2011–13 AND 2014–16 (PROJECTED) (%)



Note: Maldives had unusually high GDP growth rate during reference period, therefore a longer term average over 2000–2008 was used instead of 2006–2008 average. The countries are sorted in the ascending order of 2006–2008 average growth rates.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015)

FIGURE 1.13.
GROWTH IN EXPORTS OF GOODS AND SERVICES OF INDIVIDUAL COMMONWEALTH COUNTRIES, 2006-08, 2011-13 AND 2014-16 (PROJECTED) (%)



Note: Per cent change of volume of exports of goods and services refers to the aggregate change in the quantities of total exports whose characteristics are unchanged. The goods and services and their prices are held constant, therefore changes are due to changes in quantities only. For Maldives, the 2000-2008 average growth is used. Sierra Leone is not included due to extremely high variations in growth rates. Information is not available for Nauru, Fiji, Samoa, Tuvalu and Vanuatu. The countries are sorted in the ascending order of 2006-2008 average growth rates.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015)

growth during 2014-16 in comparison with 2006-08. Within this group, countries such as The Bahamas, Brunei, Fiji, Jamaica and Tonga had very low average growth rates (less than 2 per cent) during the pre-crisis period. Among the developed countries, Canada and the UK are projected to have higher average growth in 2014-16 compared with the pre-crisis period. Some of the large Commonwealth developing countries, such as India, Nigeria, Pakistan and South Africa, will also continue to grow at a rate slower than in the pre-crisis period.

The global economic slowdown has similarly affected the picture of Commonwealth trade. In the immediate aftermath of the global

financial crisis, Commonwealth countries' total exports fell by a massive \$600 billion – from \$2.9 trillion in 2008 to \$2.3 trillion (Table 1.1). The developed countries within the Commonwealth suffered an on average 21 per cent decline (\$325 billion in absolute terms). The corresponding figure for Commonwealth developing countries was 18 per cent (\$241 billion). Between 2010 and 2013, developed countries in the Commonwealth managed to expand their exports at just above 5 per cent per annum, whereas developing countries recorded a comparable growth rate of 7.2 per cent. In terms of impact on exports, Caribbean small states were hardest hit, wiping off 37 per cent of their exports in 2009 (from

\$35 billion in the previous year to just \$22 billion). However, the region also saw the highest rate of expansion, of 15.7 per cent, during 2010-13, as its exports increased from \$25 billion to \$39 billion. Given the massive fall earlier, this growth mostly helped regain the lost exports. Pacific Island states also managed to recoup much of their lost exports in 2010 and since then have, on average, achieved an annual export growth rate of 2.94 per cent.

The average growth rates of exports for individual Commonwealth countries in the pre- and post-global economic crisis periods also differ significantly. For as many as 25 Commonwealth members, export performance during 2011-13 was weaker compared with their

FIGURE 1.14.
GROWTH OF EXPORTS AND GDP IN THE COMMONWEALTH, 2000-12 (%)



Note: The estimates have been done using data from UNCTADStat. Export data includes exports of goods and services and are measured in constant 2005 prices and exchange rates. GDP data represent output measured in real terms. Although average growth rates over a reasonably long period have been used, certain countries, particularly many small states, have high export instability over the sample period.

Source: Razzaque (2015)

average 2006-08 export expansion rates (Figure 1.13). The same number of countries are also projected to have lower export growth during 2014-16. These export growth figures from IMF (2015a) consider 'real' growth, discounting for changes in export prices.

This subdued growth in overall exports is attributable to weaker demand in the global economy. However, a closer look at Figure 1.13 also reveals that, for a large number of Commonwealth countries, particularly small states, export performance was already disappointing during 2006-08 and the

prospects remain so. Guyana, Papua New Guinea, St Kitts and Nevis, St Lucia, St Vincent and Grenadines, Swaziland and Tonga had negative real growth of exports during 2006-08. Their positive projected expansion during 2014-16 merely implies export growth bouncing back because of a low base created as a result of an absolute decline in exports.

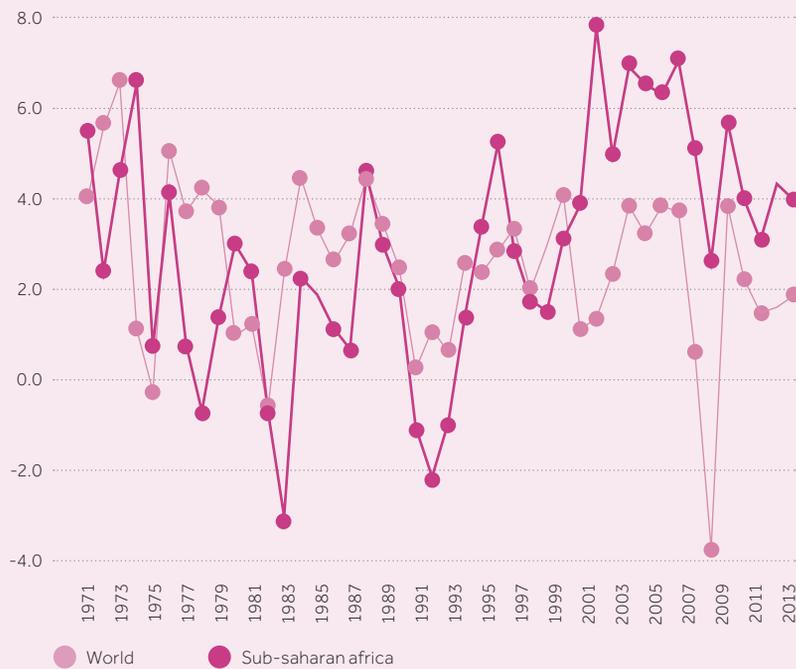
Trade-growth nexus and trade orientation

As for any other country group, the trade-growth nexus is extremely important for the Commonwealth.

Without inferring the direction of causality, Figure 1.14 depicts a strong cross-country positive relationship between growth of exports of goods and services and GDP growth of Commonwealth members.

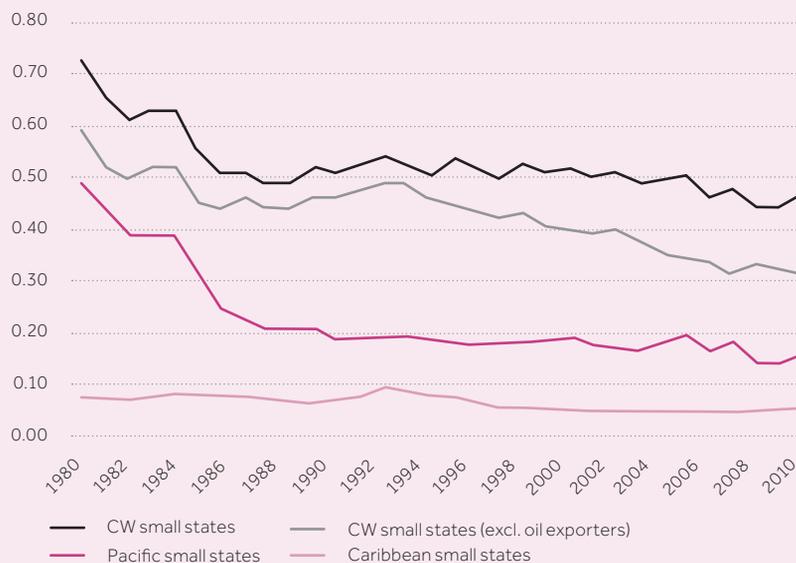
Commonwealth developing countries such as Bangladesh, Ghana, India, Mozambique, Nigeria, Rwanda, Sierra Leone, Tanzania, Uganda and Zambia have recorded high exports and GDP growth. On the other hand, low exports and output growth feature prominently for a number of countries, many of which are small states. Among others,

FIGURE 1.15.
GDP GROWTH RATES: WORLD AND SUB-SAHARAN AFRICA, 1971-2013 (%)



Source: Razzaque and Gosset (2014)

FIGURE 1.16.
SHARE OF COMMONWEALTH SMALL STATES IN WORLD TRADE, 1980-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Antigua and Barbuda, The Bahamas, Fiji, Grenada, Jamaica, St Kitts and Nevis, St Vincent and Grenadines, Tonga and Tuvalu concentrate in the lower left corner of Figure 1.14, because of their disappointing export and GDP growth. Commonwealth advanced members such as Australia, Canada and the UK, with their high per capita income and large export volumes, depict performances as generally expected for large developed countries.

One very encouraging development since the 1990s is SSA's impressive economic growth, which, despite the global economic slowdown, remains steady. During the 2000s, SSA's combined GDP grew at an annual average rate of more than 5 per cent. As Figure 1.14 shows, eight Commonwealth SSA countries (out of total of 18) registered average GDP growth of more than 5 per cent. Indeed, for the first time in many decades, SSA has outpaced overall global economic performance during a period when the world economy has experienced a downturn (Figure 1.15). Both World Bank and IMF projections show growth in SSA economies over the medium term at a significantly higher rate than that of world output growth.

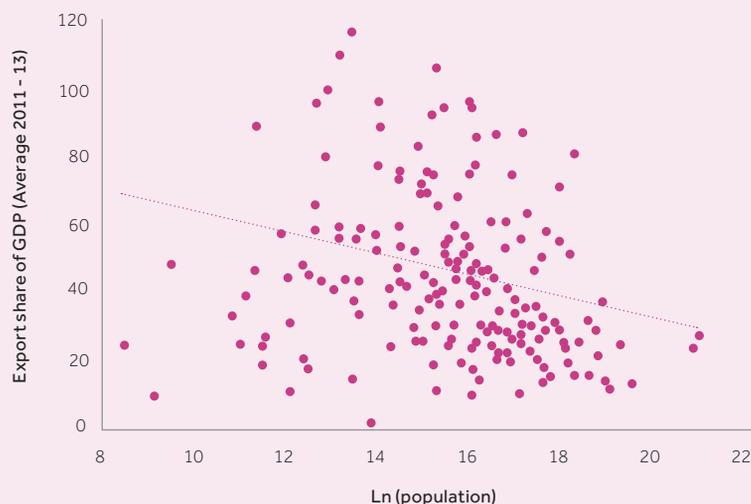
One particular concern regarding the weak trade-growth nexus comes from small states. The inherent disadvantages of these states are well known. Their small domestic markets mean scale economies in production, public sector projects and investment in research and development (R&D) cannot be exploited. For most of these countries, remoteness and isolation result in excessive trading costs, owing to both small consignment sizes and the costs of shipping, which contribute to a lack of competition and efficiency in their domestic economies. All of this leads to a relatively high cost of

doing business. In addition, many small states suffer from general developmental challenges, such as poor investment climates, weak institutions and inadequate human capital resources. The interactions of these challenges are manifested in higher unit production costs, making their exports uncompetitive in global markets. Erosion of trade preferences has also contributed to small states' loss of competitiveness.⁵ Since the early 1980s, Commonwealth small states' share in world trade has declined, from more than 0.7 per cent in 1980 to 0.46 per cent in 2011 (Figure 1.16). Various subgroups within small states have also seen their relative significance diminish.

However, small states have historically been more dependent on international trade for their growth and development. Indeed, an inverse relationship is borne out between the export-GDP ratio (as a measure of trade dependence) and country size (as measured by population) in the sample of global economies, indicating that countries with smaller populations tend to have bigger trade orientation (Figure 1.17). However, over time, the relative export orientation of Commonwealth small states is on the decline (Figure 1.18).⁶

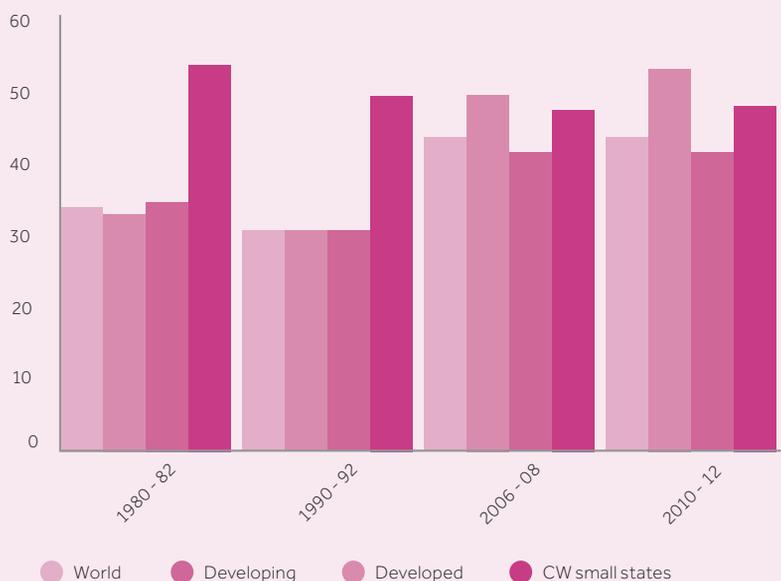
In the early 1980s, the (unweighted) average export-GDP ratio for small states was about 20 percentage points higher than the world average (53 per cent as against 34 per cent). Since then, export orientation in small states has fallen by, on average, 6 percentage points, whereas that of other groups of countries has risen. The average export-GDP ratio for developed countries is now about 8 percentage points higher, and the group of developing countries has also almost caught up with small states. This tends to suggest there has been

FIGURE 1.17.
COUNTRY SIZE AND THE EXPORT ORIENTATION OF GLOBAL ECONOMIES



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.18.
AVERAGE EXPORT-GDP RATIOS BY COUNTRY GROUPS, BETWEEN 1980-82 AND 2010-12 (%)



Note: Exports include both goods and services. The growth rates represent unweighted average for country groups.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.19.
EXPORT-TO-GDP RATIOS: WORLD ECONOMIES AND SMALL STATES



Note: Exports include both goods and services.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

a 'de-globalisation' of Commonwealth small states. Their inherent characteristics, along with other countries' more active participation in global trade, have been a part of this development.⁷ It is not just the performance of a few small states that has contributed to the declining average export-GDP ratio. Figure 1.19 scatterplots average export-GDP ratios for 1995-97 and 2010-12 for individual global economies. It becomes quite clear that, while an overwhelming majority of global economies lie on the left side of the 45 degree line, indicating increased export orientation of their economies

during 2010-12, a large number of Commonwealth small states fall on the other side or are located very close to the line, depicting either falling or unchanged export ratios.⁸

The trade challenges of small states may have had some significant impact on their growth performance in recent years. It is estimated that, over a longer period of 1970-2014, while the GDP per capita of the group of developing countries grew at an average annual compound rate of 2.82 per cent, the comparable figure for Commonwealth small states was 1.38 per cent. For the more recent period of 2000-14,

Commonwealth small states excluding the five oil-exporting countries managed to grow (in GDP per capita terms) at a rate of just 1.13 per cent (annual compound rate), compared with 4.08 per cent achieved by developing countries, 2.43 per cent by SSA and 1.34 per cent by the overall world economy (Razaque and Gosset, 2015).

One salient feature of trade orientation of both small states and SSA (including Commonwealth members) relating to one of their trade-led development challenges is lack of export diversification. While economic development would imply countries progressing from primary and traditional activities to more productive manufacturing and modern services sectors, such a transformation mechanism has largely been absent for these two groups of countries. For instance, the rather remarkable performance of all SSA (including non-Commonwealth) merchandise exports, swelling from \$97 billion in 2000 to \$429 billion in 2013, is greatly overshadowed by the fact that commodities and natural resource-based products have been the single most important driver of this growth, accounting for about 86 per cent of exports – up from 80 per cent in 2000.⁹ Commonwealth SSA countries alone were responsible for a combined export increase of \$65 billion in 2000 to \$255 billion in 2013, again with primary commodities accounting for 81 per cent of exports – up from 75 per cent in 2000. In the case of Commonwealth small states, the picture is more or less the same: their \$62 billion merchandise export basket included only \$14 billion worth of manufactured goods in 2013.

On an index of export diversification, which compares individual countries' export structure to the world average, ranging from a value of 0 (for highly diversified, reflecting the world average)

to 1 (highly concentrated and thus far away from the world average), the average value of SSA and small states turns out to be 0.70 as against 0.22 for developing countries as a group.¹⁰ For almost three-quarters of individual countries in Commonwealth small states and SSA, the estimated index value is either 0.70 or above. There is now strong evidence to show high export concentration adversely affects income growth.¹¹ Therefore, both domestic production and export structures vividly portray the challenge of achieving structural transformation in small states and SSA. International trade seems to have not helped much in terms of ameliorating the situation.¹²

Commodity price hikes and increased demand from many Southern partners, while contributing to impressive export earnings, particularly for SSA countries, have also aggravated the deepening of concentration on primary exports. However, severe price volatility characterises commodity markets, and growth prospects in major emerging markets can cause excessively high-risk exposure. For example, economic growth in China is faltering and, over the medium term, is likely to settle around a considerably low rate of 7.5 per cent in comparison with its historical average of around 10 per cent (Yao, 2015). It has been estimated that a 1 percentage point decrease in China's investment growth is associated with a 0.6 percentage point decline in SSA exports (Drummond and Liu, 2013). Given this, the World Bank (2015a) suggests that, under a scenario of persistent slowdown in emerging countries, growth during 2015-25 could result in a 13 percentage point decline in SSA exports. The weakness in global growth has already resulted in a spectacular oil price crash, affecting Commonwealth exporters like Nigeria.

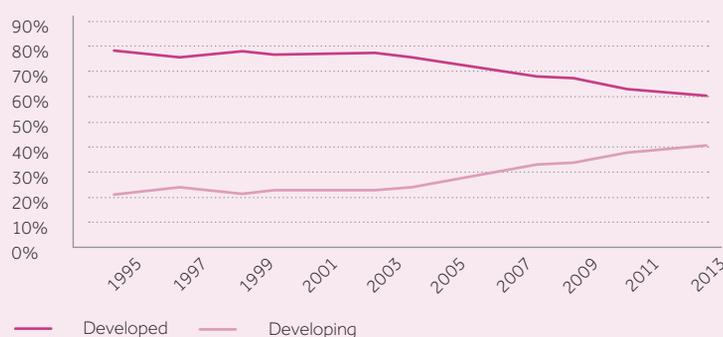
1.3 The Commonwealth embracing major developments in the global trade landscape

The rise of developing countries as significant drivers of global trade and growth has been one of the defining features of globalisation in recent times. This has resulted in spectacular changes in the direction of exports and imports for many countries. While traditional developed country markets remain important for Commonwealth exporters, developing countries have also provided significant trading opportunities.

1.3.1 Growing prominence of developing countries

The rising prominence of developing countries in global trade and output

FIGURE 1.20.
SHARE IN GLOBAL GDP, 1995-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

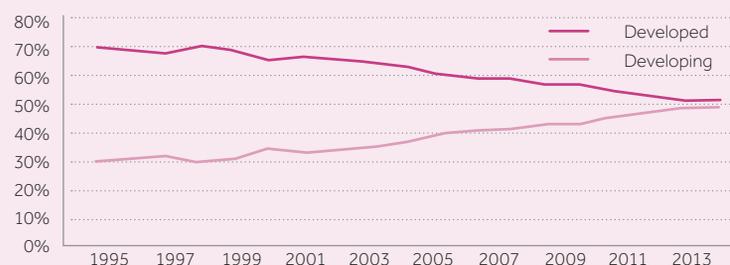
FIGURE 1.21.
GDP BASED ON PURCHASING-POWER-PARITY EXCHANGE RATES FOR E-7 VS. G-7, 1995-2019f (\$ BILLION)



Note: E7 countries comprise Brazil, China, India, Indonesia, Mexico, Russia and Turkey. G7 countries comprise Canada, France, Germany, Italy, Japan, United Kingdom and United States.

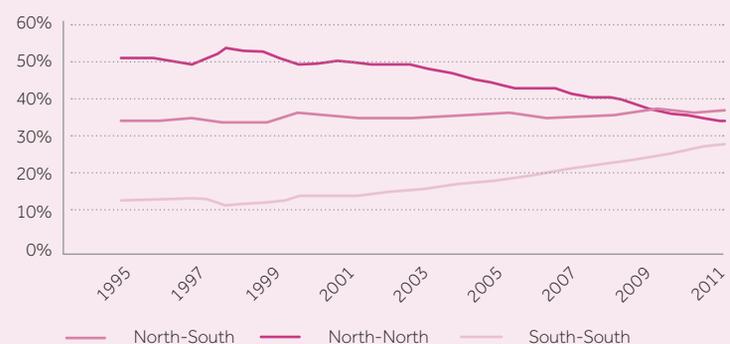
Source: Commonwealth Secretariat (calculations using data from IME-WEO Database 2015)

FIGURE 1.22.
SHARE IN GLOBAL MERCHANDISE TRADE, 1995-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.23.
RELATIVE SIGNIFICANCE OF TRADE BY DIFFERENT COUNTRY GROUPS, 1995-2011 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Over the past 20 years, the developing country share in global GDP has doubled from 20 per cent to 40 per cent (Figure 1.20). When measured in purchasing power parity (PPP) exchange rates, as Figure 1.21 shows, the combined gross domestic outputs of the group of the largest seven developing economies (China, India, Brazil, Russia, Indonesia, Mexico and Turkey), dubbed the emerging seven (E-7), in 2012 surpassed the same for the group of G-7 economies (France, Germany, Italy, Japan, United Kingdom, USA and Canada).¹³

Since the mid-1990s, buoyant economic growth has been widespread in much of the larger developing countries, resulting in their remarkable export expansion.

Indeed, during the 20 years between 1995 and 2015, developing countries' share in global merchandise trade has increased from less than 30 per cent to about 50 per cent (Figure 1.22). An important feature of the rise of the South is trade between developing countries has expanded much faster: the average annual growth of South-South trade since 2000 has been 17 per cent as against a world trade growth rate of 10 per cent. This led to a decline in the relative significance of the trade between developed countries (i.e. North-North trade) from about 53 per cent in the late 1990s to just 34 per cent in 2012 (Figure 1.23). In absolute terms, South-South merchandise trade has expanded quite dramatically

– from less than \$1 trillion in 2002 to about \$5.5 trillion in 2013. The most striking feature in the growing prominence of the South has been the rise of China. Over three decades of close to 10 per cent annual growth has made it as one of the world's largest economies and trading nations. China's share of world exports has risen spectacularly, from just over 1 per cent in 1985 to 12 per cent by 2013.

Commonwealth members' trade with the South

The rising prominence of developing countries in the global economy is also reflected in Commonwealth countries' rapidly growing trade with them. In 2013, half of total Commonwealth imports of merchandise goods were sourced from, and 46 per cent of exports were destined to go to, developing countries (including non-Commonwealth developing countries). Both the shares are just about 20 percentage points higher than those of 2000 (Table 1.4). In 2000, the number of individual Commonwealth members procuring at least half of their merchandise imports from developing countries was 20, with none of them from Commonwealth developed and Caribbean country groups. This rose to a staggering 41 in 2013, as reflected in Figure 1.24 (panel A), which includes two Commonwealth developed countries – Australia and New Zealand – and seven Caribbean countries. Thirteen Commonwealth African countries in 2000 already had 50 per cent or more of their imports coming from developing countries. This had increased to 17 in 2013, with the only exception being South Africa, which procured 47 per cent of its imports in 2013, up from 32 per cent. Looking at all Commonwealth regions, the Asian countries have the highest imports from developing countries (70 per cent), followed by 58 per cent for Africa, 49 per cent for the Caribbean,

TABLE 1.4.
COMMONWEALTH COUNTRIES' TRADE WITH DEVELOPING COUNTRIES AND CHINA, 2000 AND 2013 (%)

	Merchandise imports				Merchandise exports			
	From developing countries		From China		To developing countries		To China	
	2000	2013	2000	2013	2000	2013	2000	2013
Total Commonwealth of which	31	50	4.3	12	26	46	1.9	10
Developed	21	32	4	11	14	29	1.3	10
Developing	49	67	4.5	13.4	46	64	2.9	10
Africa	44	58	3.8	15.0	32	55	1.6	13
Asia	50	70	4.8	13	49	66	3.2	9
Caribbean	34	49	1.1	5	27	35	0.1	1
Pacific	39	46	1.8	9	22	33	7.1	13

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

46 per cent for the Pacific and 32 per cent for the developed country group.

At the individual country level, for 33 Commonwealth members, import dependence on developing countries rose by at least 10 percentage points (Figure 1.24, panel A). Of these, the rises for St Lucia (from 39 per cent to 83 per cent), Antigua and Barbuda (from 18 per cent to 64 per cent), Sierra Leone (from 24 per cent to 63 per cent), Samoa (from 21 per cent to 60 per cent), St Vincent and the Grenadines (from 37 per cent to 64 per cent), Barbados (from 25 per cent to 50 per cent), India (from 47 per cent to 71 per cent), Rwanda (from 53 per cent to 74 per cent), Australia (from 37 per cent to 53 per cent) and Canada (from 16 per cent to 30 per cent) are worth pointing out. Certain countries maintained a very high dependence on imports from developing countries, such as Lesotho (98 per cent), Swaziland (96 per cent) and Namibia (79 per cent), which are all members of the Southern African Customs Union (SACU) and have strong economic ties to South Africa.

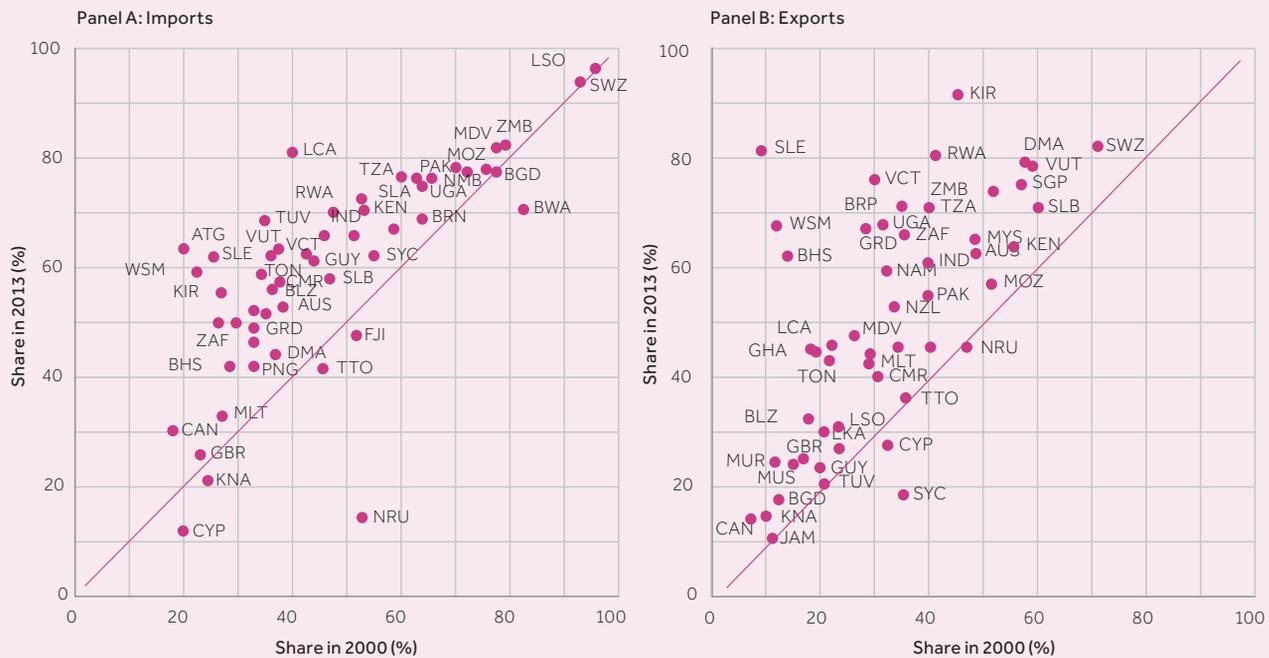
An almost similar picture emerges for merchandise exports to developing countries. As Table 1.4 shows, the relative significance of developing countries in the Commonwealth's total exports increased from 26 per cent in 2000 to 46 per cent in 2013. During the same time, for the Commonwealth developed country group, the share of export receipts from developing country markets more than doubled, going from 14 per cent to 29 per cent. On the whole, Southern partners contributed 64 per cent to the total exports of Commonwealth developing countries. At the individual country level, 25 members exported at least half of their exports to developing country markets in 2013 as against 11 in 2000 (Figure 1.24, panel B). Compared with imports, export dependence on the South is lower, which is more evident for Caribbean and Pacific island states.

In terms of expanding exports to developing countries, the case of Sierra Leone has been most spectacular. The country saw its share of exports to developing countries rise from 7 per cent in 2000 to 83 per cent in 2013. Among others, Australia (from 49 per cent to

64 per cent), New Zealand (from 33 per cent to 53 per cent), Ghana (from 17 per cent to 45 per cent), Namibia (from 31 per cent to 60 per cent), Nigeria (from 28 per cent to 44 per cent), Rwanda (from 41 per cent to 82 per cent), South Africa (from 35 per cent to 67 per cent), Uganda (from 30 per cent to 69 per cent), Tanzania (from 39 per cent to 72 per cent), Zambia (from 52 per cent to 75 per cent), India (from 39 per cent to 62 per cent), Maldives (from 25 per cent to 48 per cent), The Bahamas (from 12 per cent to 63 per cent), Barbados (from 34 per cent to 72 per cent), Dominica (from 59 per cent to 81 per cent), Grenada (from 27 per cent to 68 per cent), St Lucia (from 20 per cent to 46 per cent), St Vincent and the Grenadines (from 29 per cent to 78 per cent), Fiji (from 17 per cent to 45 per cent), Kiribati (from 45 per cent to 94 per cent), Samoa (from 10 per cent to 69 per cent) and Tonga (from 20 per cent to 43 per cent) have seen remarkable growth in the significance of developing countries in their exports.

It needs to be pointed out here that, despite their diminishing significance,

FIGURE 1.24.
TRADE WITH DEVELOPING WORLD, 2000 VS. 2013 (%)



developed countries remain important export markets for many Commonwealth developing country members. Along with being traditional export markets, almost all advanced developed countries have maintained various preferential trading schemes for different groups of developing countries. These include the EU's Everything But Arms (EBA), providing duty-free, quota-free (DFQF) access to all LDCs; the EU Generalised System of Preferences (GSP) schemes for other developing countries; Australia, Canada and New Zealand's DFQF schemes for LDCs; the USA's preferences to African countries through the African Growth and Opportunity Act (AGOA) and to the Caribbean through the Caribbean Basin Initiative (CBI); etc. Over time, however, the value of tariff preference has fallen because of unilateral trade opening and liberalisation carried out under RTAs.

Commonwealth countries' trade with China

For many countries, trading with China has been one of the defining features of global trade since the late 1990s. Between 2000 and 2013, total Commonwealth exports to China increased more than 14-fold, from \$19 billion to \$268 billion, and imports from China rose almost eight-fold, from \$46 billion to \$359 billion. When considered against the fact that, during the same period, Commonwealth trade with the world rose by only 2.5 times, the rapid expansion of trade with China becomes obvious. In 2013, on average, 12 per cent of Commonwealth countries' imports originated from and 10 per cent of their exports were destined to China.

Figure 1.25 captures the changes in bilateral trade with China. In 2000,

China accounted for 10 per cent or more imports for just one Commonwealth member (Bangladesh); in 2013, the corresponding number had increased to 28. Turning to exports of goods from Commonwealth countries, there is a general rise to the Chinese market but this is much less spectacular (Figure 1.25, panel B). Australia, New Zealand, Rwanda, Sierra Leone, Solomon Islands, Tanzania and Zambia have been able to expand their exports to China significantly. However, for 35 Commonwealth members, less than 5 per cent of their exports in 2013 were destined for China. Therefore, the Chinese market remains a potentially important but as of yet untapped export destination for most Commonwealth countries. It is mainly the exporters of primary commodities and nature resources that have experienced an export rise to China.

FIGURE 1.26.
SHARE OF FVA IN EXPORTS, 2000 AND
2012 (%): DEPTH OF GVC INTEGRATION
FOR THE COMMONWEALTH



Source: Commonwealth Secretariat
(calculations using data from UNCTAD
Eora database)

of SSA's own manufacturing sector. It is in this context that the current structure of South–South trade appears to have important bearing on economic and export diversification in small states and SSA.

1.3.2 Global value chains

GVCs, although not new, have intensified over the past two decades or so. This has important implications for understanding countries' comparative advantage and the role of trade policy in securing participation in cross-border production networks.

Increasingly inter-connected cross-border production networks

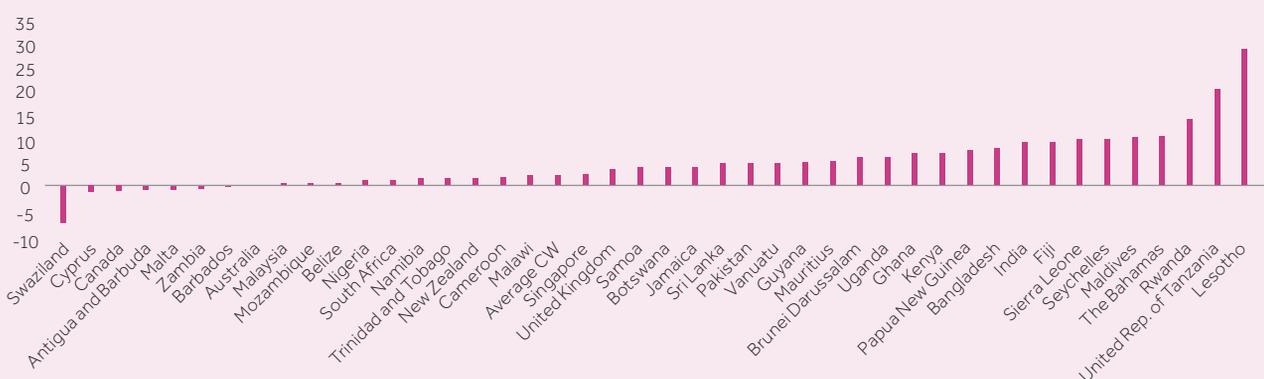
Fostered by trade liberalisation, along with the revolution in information and communication technology (ICT) and services trade, the GVC trade has fundamentally changed the traditional concept of one firm located in one country undertaking an entire production process. For example, at least nine countries are involved in the manufacture of Apple's iconic iPhone, from the mining of rare earths, to the design and assembly of the various parts and components, to branding and marketing the final products. As many as 10 countries produce parts and components for Boeing's 787 Dreamliner aircraft, which is then assembled in the USA. Similarly, the production process of a typical T-shirt could comprise cotton being grown in one country, yarn and fabric manufactured in another and cut, make and trim (CMT) undertaken in a third country, with required accessories procured further from different countries before the final products are shipped to retailers.

Because of the increasingly interconnected nature of production processes, more trade is taking place in

intermediate inputs. The Organisation for Economic Co-operation and Development (OECD) (2013) estimates such trade to comprise at least two-thirds of all global trade in goods and 70 per cent in the case of services trade. Fast growth in the world export-GDP ratio, rising from 20 per cent to 30 per cent over the short span of 1995–2008, is also an indication of the intensification of GVCs (IMF, 2013). A large proportion of East Asian countries' growing exports, especially China's, owe to this kind of processing trade: low-cost assembly of intermediate and semi-processed components, which are produced internationally, into final products for the consumer market. North America, Europe and East Asia have been recognised as the three major global hubs of GVCs.

The geographic separation of production processes can represent an opportunity for countries. This requires specialisation in relatively limited number of tasks, and allows firms to enter into the export market without developing the full range of vertical capabilities along the value chain (WTO, 2014). It opens up the possibilities of associating with a global production process even by adding relatively smaller amounts of value-added to any particular product. By becoming part of an international production network, a country may be able to access foreign direct investment (FDI) and technology, which is likely to have other favourable spillover effects. However, participating in a global production network does not automatically guarantee positive development gains (UNCTAD, 2013). Value-added contribution can be low: countries could be trapped into the lower end of value chains, and competition for simplified tasks is likely to be fierce, with countries offering very generous financial

FIGURE 1.27.
CHANGE IN THE SHARE OF FVA BETWEEN 2000 AND 2012 (PERCENTAGE POINTS)



Source: Commonwealth Secretariat (calculations using data from UNCTAD Eora database)

and fiscal incentives to attract investment. In the process, costs could outweigh benefits accrued.

Commonwealth countries' participation in global value chains

Experiences related to Commonwealth countries' participation in GVCs vary. While the measurement issues associated with assessing the depth of participation, including various data sources and their caveats, are discussed widely elsewhere (AfDB, 2014; IMF, 2015b; UNCTAD, 2013), the extent of foreign value-added (FVA) in a country's exports is generally used as the most prominent indicator of GVC participation.¹⁵ Essentially, exports of a country can be decomposed into (1) FVA, which comprises imported inputs to be used in export production; and (2) domestic value-added (DVA), which can be consumed directly in the export destination and/or will be used as the FVA of other countries' exports. Given limited productive capacity, which constrains the production of an entire export good in a competitive way, linking to GVCs and making use of FVA (e.g. imported intermediate goods and technology) in order to stimulate exports and, over time, DVA, has become

very attractive. However, it must be emphasised that use of FVA in exports will not automatically augment DVA content to maximise gains from exports.

To understand how the Commonwealth is positioned globally with respect to GVC development, the UNCTAD Eora trade in value-added database is used.¹⁶ Based on the information available for only 43 member countries, it is estimated that, between 2000 and 2012, the Commonwealth's share of global trade in value-added remained almost unchanged, at close to 16 per cent. In 2012, the last year for which the information is available in the database, the average share of DVA in Commonwealth member countries' total exports is estimated to be 67.7 per cent as against the global average of 70 per cent. On the other hand, the share of FVA within the Commonwealth export basket (32.3 per cent) is found to be higher than the global average (29.9 per cent).

Among Commonwealth countries, the share of FVA in exports in 2012 is found to be highest in Singapore. This is expected, given Singapore is positioned within one of the most dynamic GVC hubs of the world, deeply integrated

within regional and global production networks involving the East Asian countries and China. Malaysia is another Commonwealth East Asian member to have strong FVA presence. Within the set of Commonwealth developed countries, EU member states (Cyprus, Malta, the UK) and Canada show relatively high FVA shares. Although in many cases the emergence of FVA is only at a nascent stage, 33 countries saw some increase in the ratio of FVA in total exports between 2000 and 2012 (Figure 1.26).

Many Commonwealth ACP countries, being predominantly natural resource-based primary product and processed commodity exporters, are at the start of the GVC integration stage. Between 2000 and 2012, countries such as The Bahamas, Fiji, Ghana, Kenya, Lesotho, Papua New Guinea, Rwanda, Seychelles, Sierra Leone, Tanzania and Uganda saw their FVA share in total exports rising by at least 5 percentage points (Figure 1.27). According to the IMF (2015b), the better performance of countries in East Africa and the SACU could reflect the benefits of regional economic integration.

For small states in particular, participation in GVCs is constrained by their inherent

characteristics and associated trade challenges, for example their small market size and remoteness from global commercial centres related to GVC hubs. Despite their trade challenges and their falling share in global trade, as Figure 1.26 shows, such Caribbean countries as Antigua and Barbuda, Belize, Guyana and Jamaica have managed to maintain at least close to a 20 per cent FVA share. This could be attributable to their being involved in more intra-regional trade (World Bank, 2015b). Disaggregated analysis undertaken in WTO (2015) suggests agri-food products and seafood are two major areas of integration into GVCs for a number of small states, particularly in the Caribbean.

On the other hand, despite being successful apparel exporters, South Asian countries Bangladesh, Pakistan and Sri Lanka have relatively low GVC integration. It is possible these countries are now adding more DVA to their traditional exports (e.g. textiles and apparels) while new breakthroughs in other sectors have not yet become prominent. Four oil-exporting countries, Brunei, Cameroon, Nigeria and Trinidad and Tobago, appear to be among the Commonwealth members least integrated into GVCs.

Going beyond the information in Figures 1.26 and 1.27, which makes use of both goods and services inputs, two services value chains are worth mentioning for Commonwealth small states. Tourism and IT and business process outsourcing have become important GVC networks (WTO, 2015). Tourism is especially important for a number of Commonwealth small states, with the sector contributing at least 10 per cent of GDP in Antigua and Barbuda (16 per cent), Barbados (11 per cent), Belize (13 per cent), Dominica (10 per cent), Fiji (14 per cent), Maldives (48 per cent), Mauritius (11 per cent), Seychelles (21 per cent), St Lucia (13

per cent) and Vanuatu (23 per cent). Travel organisation and booking, transportation, accommodation, food and beverage provision, guided tours and cultural and natural assets all are part of tourism value chains (UNWTO, 2013). Given their importance, many Commonwealth small states are making efforts to expand tourism products. For example, Mauritius has focused on becoming a destination for medical tourism (WTO, 2015). Seychelles has been diversifying away from its traditional developed country markets towards visitors from Asia. Pacific Island states have seen rising numbers of tourists from Asian countries, providing opportunities for two-way linkages between tourism and agricultural development (Chen et al., 2014). Given the remoteness of their economies and their high trading costs, small states would find IT and business process offshoring-related services value chains of interest. However, according to the analysis conducted in WTO (2015), among the Commonwealth small states, only Jamaica and Mauritius have been relatively successful in developing IT and offshore business services.

As mentioned above, a high share of FVA in total exports may not reflect export success, because of the small size of the export volume at present, the low level of the DVA of total exports or a combination of both. That is, it is possible for countries to be linked to GVCs but not participate in a gainful way (Banga, 2013).¹⁷ Measurement of gainful participation is also not straightforward. Notwithstanding, for a majority of Commonwealth developing countries, enhanced participation in GVCs to break into new export sectors will likely remain a challenge (See Section 4.7 for further discussions).

1.3.3 Proliferation of RTAs and stalled multilateral trade negotiations

The proliferation of RTAs, transcending regional boundaries through widened coverage of policy areas, is another factor reshaping the global trade landscape.¹⁸ When the WTO was established in 1995, the number of active RTAs was 150; by 2010, it was close to 300. The number has increased rapidly in the past five years: by April 2015, the WTO had been notified of 612 RTAs, 406 of them in force. WTO (2011a) details various economic and political factors underlying their formation. As RTAs continue to flourish despite falling and already quite low levels of Most-Favoured Nation (MFN) tariffs, deeper policy integration is increasingly becoming apparent as one clear motive for this.

Commonwealth countries' participation in regional trading arrangements

Many developing countries, including Commonwealth members, have small domestic markets, which undermines their competitiveness. This presents a strong case for regional integration.¹⁹ The premise for the relatively recent broad-based consensus on the importance of regional integration for low-income developing countries is quite different from the traditional approach of promoting regional markets through preferential arrangements. Regional integration is now considered a process whereby deeper and effective cooperation allows free movement of goods and services to enable competitive production of exports for the regional and world markets. This may involve services trade, investment agreements, technical regulations, infrastructure (including energy) development, transshipment, etc.²⁰

Figure 1.28, prepared by the International Trade Centre (ITC), provides an illustration of Commonwealth countries' participation in various regional/preferential trading schemes. These arrangements differ widely in terms of number of countries involved, coverage of goods and services, depth of liberalisation measures undertaken and ambit of policy issues considered. A large number of RTAs involve developing countries only. There are also prominent North-South arrangements such as the economic partnership agreements (EPAs) involving the EU and ACP countries. The RTAs in Figure 1.28 show that, in almost all cases, these arrangements include non-Commonwealth members.

Through their membership in the EU, Cyprus, Malta and the UK are active in all 35 EU agreements in force with its external trading partners.²¹ Apart from the EPAs, Commonwealth SSA countries participate in various regional deals. SACU is the oldest functioning customs union in the world, and all five members – Botswana, Lesotho, Namibia, South Africa and Swaziland – happen to be Commonwealth countries. Other prominent arrangements are the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD) and the Economic Community of West African States (ECOWAS).

Among prominent Asian RTAs, Singapore, Malaysia and Brunei are part of the Association of South-East Asian Nations (ASEAN), which is the third-largest trading bloc in the world after the EU and the North American Free Trade Agreement (NAFTA). In South Asia, five Commonwealth members – Bangladesh, India, Maldives, Pakistan and Sri Lanka – implement

the South Asian Free Trade Area (SAFTA) along with three other non-Commonwealth countries (Afghanistan, Bhutan and Nepal). Bangladesh and India are also members of the Bay of Bengal Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC), and there are several bilateral trade deals involving India and Sri Lanka and Pakistan and Sri Lanka, among others.

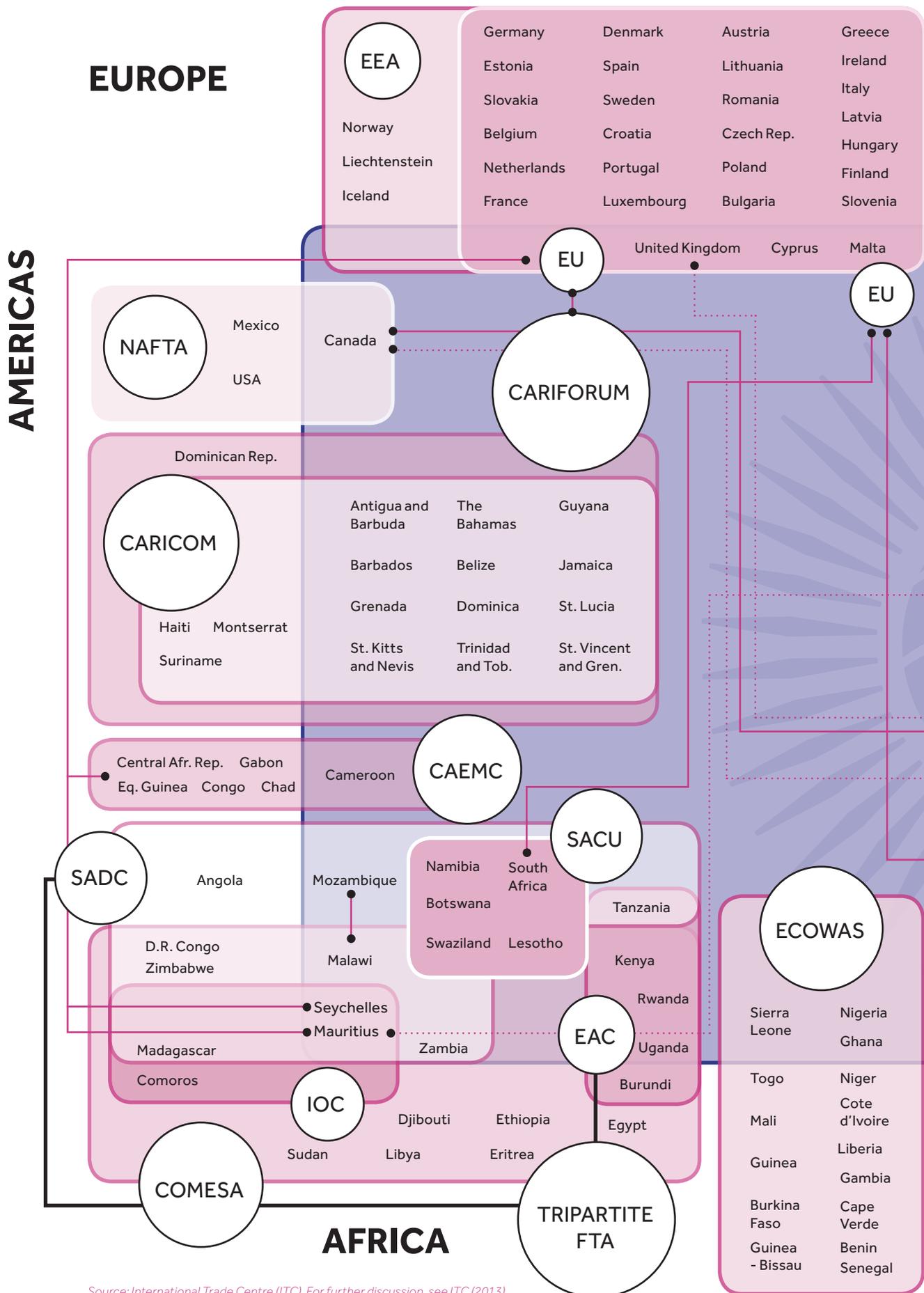
Twelve of the 15 Caribbean Community (CARICOM) members are Commonwealth countries. The CARICOM Single Market and Economy (CSME) formally provides for the free movement of goods, services, capital and labour among its members. The Caribbean Forum (CARIFORUM) EPA, which includes all Commonwealth Caribbean countries, remains the only comprehensive trade deal concluded between the EU and the ACP, covering trade in goods and services, investment and other trade-related issues. CARICOM has also signed trade agreements with its hemispheric partners, such as Colombia, Costa Rica, Cuba, the Dominican Republic and Venezuela, and is negotiating a free trade area (FTA) with Canada.

Eleven of the 16 Pacific Islands Forum (PIF) countries are Commonwealth members. The Pacific Island Countries Trade Agreement (PICTA) aims to establish an FTA among 14 PIF countries, while the Pacific Agreement on Closer Economic Relations (PACER)-Plus is being negotiated between Australia, New Zealand and the PIF countries. The four largest Pacific Island countries provide duty free treatment on virtually all goods under the Melanesian Spearhead Group Trade Agreement. Fiji and Papua New Guinea are implementing the Interim EPA signed with the EU, while negotiations continue to reach a comprehensive EPA with the Pacific region.

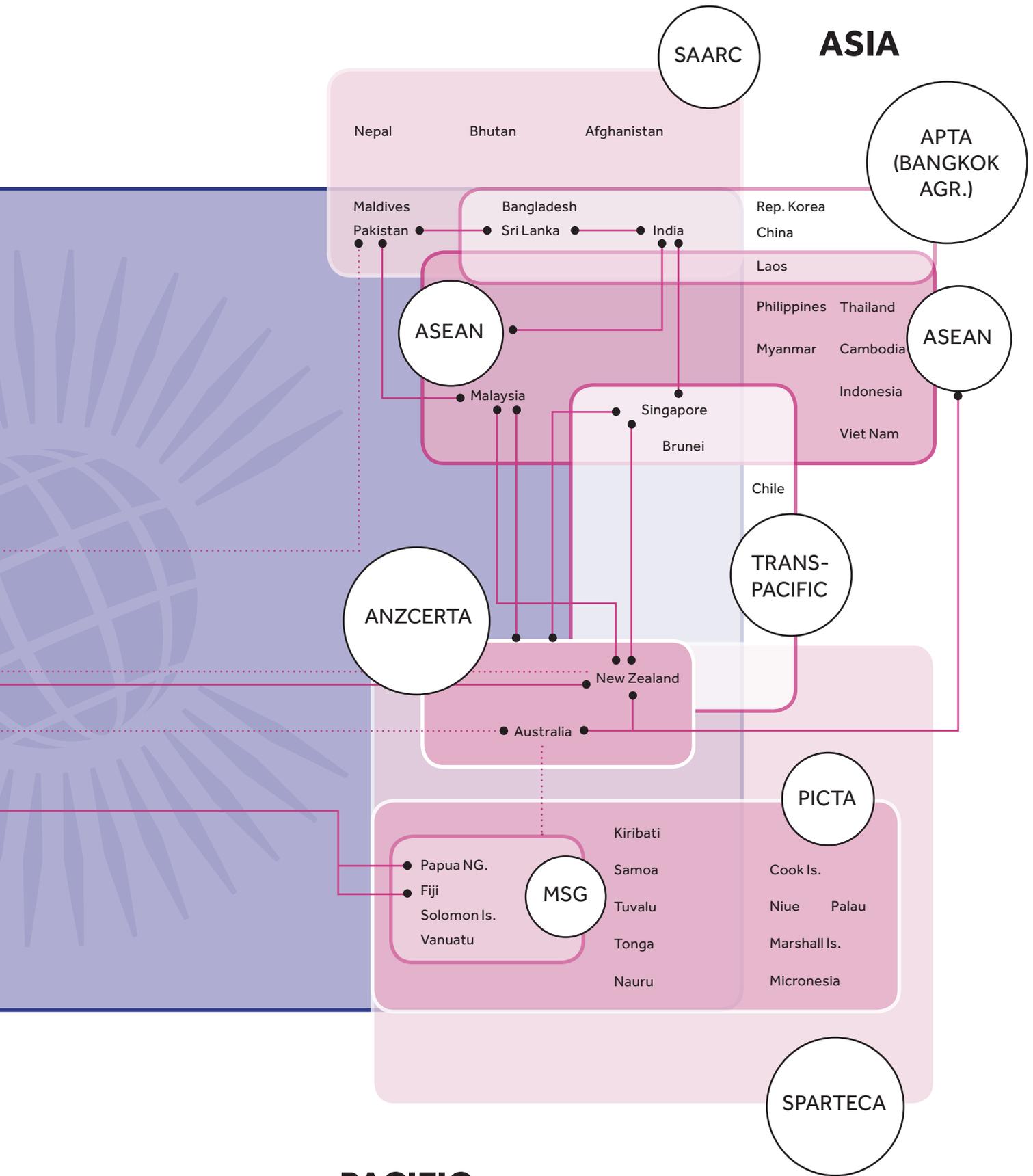
It is, however, worth noting one major problem in most RTAs involving developing countries is they have not been very successful in energising regional trade. As Figure 1.29 shows, the share of intra-regional trade in the total trade of the South Asian Association for Regional Cooperation (SAARC) has been 5–6 per cent and for ECOWAS and COMESA it has been just around 10 per cent. Even the relatively higher shares of SADC (17 per cent) and CARICOM (14.6 per cent) are substantially lower than that of ASEAN (25 per cent). And the clear picture Figure 1.29 paints is there is no substantial secular increase in intra-regional trade in any of the regions.

While negotiating and implementing these arrangements is already an enormous undertaking, as Part 3 of this Review discusses further, participation in multiple trading blocs can make achieving certain policy objectives even more challenging. This is particularly true for Commonwealth ACP countries that are concluding or implementing North-South trading arrangements such as EPAs; taking part in various South-South RTAs, with African countries aiming to establish a continent-wide FTA; and at the same time striving to develop productive trade and investment engagements with important emerging market economies such as the BRICs (see Part 4). Welfare consequences of moving from a non-reciprocal arrangement to one based on reciprocity have long been discussed and therefore remain a concern for EPAs (Raihan et al., 2008). On the other hand, under South-South RTAs, one key challenge is to ensure a balanced distribution of gains among the members, as weaker economies in such arrangements tend to lose out (Panagariya, 1998; Venables, 2003). In addition, RTAs such as EPAs and a likely African-wide FTA could also result in trade

FIGURE 1.28.
NETWORK OF TRADE AGREEMENTS INVOLVING COMMONWEALTH MEMBERS, 2015

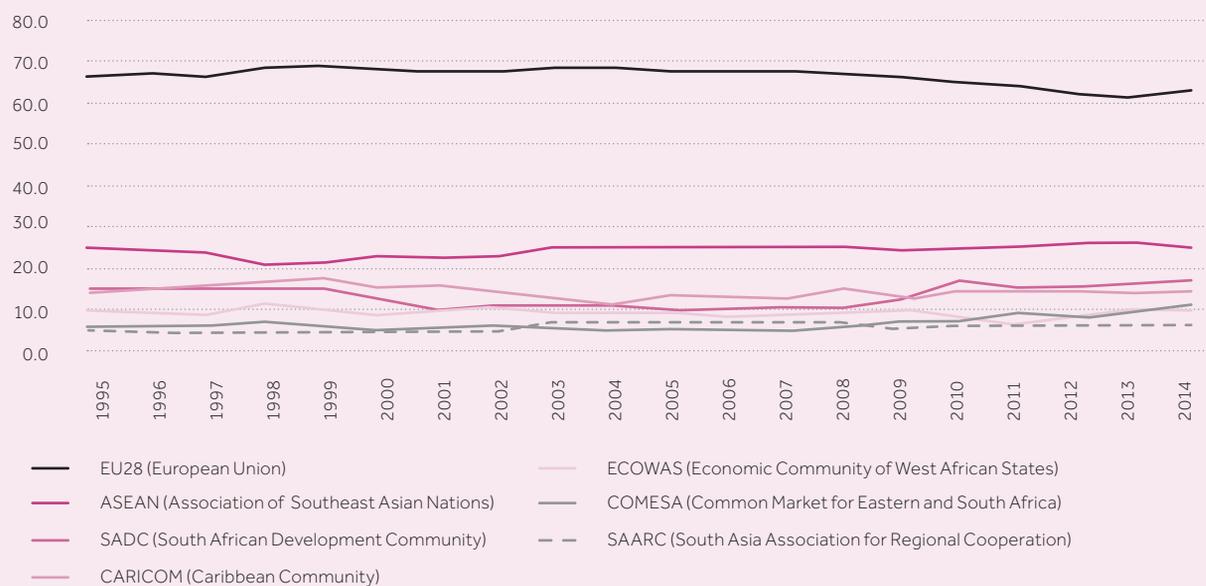


Source: International Trade Centre (ITC). For further discussion, see ITC (2013)



●—● Free Trade or Economic Partnership Agreements
 ●...● Partial Scope Agreements

FIGURE 1.29.
SHARE OF INTRA-REGIONAL TRADE IN TOTAL TRADE BY SELECTED REGIONS, 1995-2014 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

diversions and ensuing adverse welfare consequences if globally competitive suppliers are discriminated against. Given that developing countries have now become dominant trading partners for many Commonwealth members, the scope of such adverse implications is even greater.

The emergence of mega-regional trade agreements (MRTAs)

The world economy is witnessing the formation of new, large free trading arrangements that are unprecedented in terms of the number of partner countries from different continents, their varying levels of development, the volume of trade and the spread and depth of policy areas covered (Rollo et al., 2013). The most prominent examples of these proposed MRTAs are the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership

(RCEP)²². Of these three, only the TPP has been concluded so far in terms of the negotiation process²³. All of them are major regional hubs driving global production networks (value chains) and collectively the three MRTAs account for the majority of global FDI outflows.

These proposed regional arrangements could result in new trade opportunities and gains. For example, if MRTA members can enhance their trade, this may subsequently provide an impetus for global growth and spur trade expansion elsewhere, also benefiting non-members. As MRTAs aim for the harmonisation or mutual recognition of trade rules, such as non-tariff measures and standards, they can stimulate trade flows by reducing the time and costs firms usually incur when adhering to many different product certifications and procedures across multiple markets.

There will, however, be implementation costs. For members, these include

any adjustment costs related to the removal of tariffs and the introduction of new trade rules and standards. For non-participating countries, although the changing circumstances may present opportunities, there may be new challenges as well, unless they adopt proactive measures to address these. The standard theory on the effects of any form of preferential/regional trading arrangements suggests that they increase trade between members and reduce flows with third countries, leading to welfare effects for non-member countries (WTO, 2011a). MRTAs, like any other trading arrangements, could result in a loss of preferences for non-members (Chang and Winters, 2002; UNECA, 2015). Rules and provisions, technical regulations, standards and conformity assessments are likely to be more elaborate and encompassing under the new arrangements. Therefore, commensurate support and capacity-building will be required for many Commonwealth developing

country members, which may face constraints in complying with such new requirements and standards.

In order to adapt to these new realities of the global trade landscape, Commonwealth developing countries should seek to better integrate with the individual MRTA members through existing regional arrangements. For example, more effective utilisation of existing preferential schemes such as AGOA, CBI and EU-EBA, among other things, should be a priority. Deepened integration as envisaged under EPAs (for ACP regions) and the PACER-Plus Framework (for the Pacific) could also be an important avenue to better access markets in MRTA members. Since the full implementation of trade agreements usually takes several years, there is likely to be scope for gradual adjustments as well as considering measures related to the required trade capacity-building support.

Regionalism and the multilateral trading system

The proliferation of RTAs in recent years is partly ascribed to very slow progress in the multilateral trade negotiations, as manifested in the failure to conclude the WTO's Doha Round (further discussed in Part 4). This has also triggered some plurilateral trading arrangements on specific issues, such as services. It is in this context that the future role and relevance of trade multilateralism has attracted a great deal of discussion. There are also those who feel the multilateral trading system and RTAs can coexist side-by-side.

Strengthening the rules-based multilateral trading system remains an important priority for the Commonwealth.²⁴ It is unfortunate that the Doha Round, which placed a priority on development, has been at an impasse for several years now.

Important issues relating to generating new trading opportunities have not been settled. Market openings in agriculture, along with tackling domestic support measures and export subsidies detrimental to many low-income country suppliers, remain a major challenge. The long-standing issue of DFQF market access for LDCs has still not been resolved.²⁵ There has been some progress in considering preferential access to services exports by LDCs, but realising its benefits might not occur in the near future.²⁶

Despite all its challenges, the WTO's Doha Round has generated some important results. These include the WTO-led Aid for Trade (AfT) initiative and the adoption of the Trade Facilitation Agreement in 2013 (considered further in Part 3 of this Review). These show trade multilateralism can be an effective means for supporting development in capacity-constrained countries.

There is little disagreement that, in the absence of a dynamic multilateral trading system and framework, the poorest and most vulnerable countries would be most disadvantaged and become further marginalised. Transparent rules and their enforcement under the WTO-led multilateral trading system and negotiation processes generally provide better opportunities for developing countries compared with bilateral or regional deals. As WTO members consider a work programme with a view to concluding the Doha Round, it is extremely important that development dimensions be given due priority (discussed further in Part 4).

1.3.4 Climate change concerns

Climate change poses a serious challenge to prospects of sustainable

growth and development. In many Commonwealth countries, climate change is already affecting their trade prospects, and future mitigation and adoption measures are likely to have further implications for their comparative and competitive advantages in many sectors and, as such, their trade-led development prospects.

The latest report of the UN Intergovernmental Panel on Climate Change (IPCC, 2014) confirms climate change is unequivocal and human influence, especially global economic and population growth, has been a major driver. Recent manmade emissions of greenhouse gases (including carbon dioxide, methane, nitrous oxide and industrial gases) are now the highest in recorded history. Over the past century, global average temperatures are reported to have increased by about 0.85°C and sea levels have risen by about 20 cm. It is projected that sea levels will continue to rise, threatening, among others, many Commonwealth small island developing states (SIDS). In this regard, it is not insignificant that 46 of the 53 Commonwealth countries have coastlines, and the vast majority of these have large cities and populations dependent on land and marine resources along the coastline. Among the non-SIDS Commonwealth members, Bangladesh, with a population of more than 160 million, is highly vulnerable to climate change effects, with 30-70 per cent of the country affected frequently by freshwater flooding and coastal inundation and sea level rises likely (Worrall, 2015). In Tanzania, more than 70 per cent of all natural disasters are linked to extreme droughts and floods resulting from climatic variability and change (Commonwealth Secretariat, 2013).

Without an urgent and significant effort by all countries to curb greenhouse gas emissions, including the expected adoption of a new legally

binding and universal agreement at the UNFCCC COP21 in Paris, global temperatures by the end of this century could be more than 4°C above what they were before the Industrial Revolution (IPCC, 2014).²⁷ The EU, the USA, China and Japan, which together account for more than half of global CO₂ emissions, have already unveiled some of their national mitigation plans and targets.²⁸ In addition, the G-7 countries at their 2015 summit in Germany reaffirmed their commitment to the official 'two-degree target' – that is, to keep global warming down to a rise of no more than 2°C as compared with the pre-industrial era. Other UNFCCC parties, including the Alliance of Small Island States (AOSIS) and the African Group, are calling for stronger climate action and a more ambitious temperature cap of 1.5°C above pre-industrial levels.

There is no doubt climate change will have an impact on all countries, developed and developing. Recent extreme storms, flooding, heat waves and droughts highlight the world is already vulnerable to climate and weather events. However, the economic, social and environmental impacts of climate change will be most severe for the world's poorest and most vulnerable economies, especially SSA, LDCs and SIDS. While these countries have contributed the least to the causes of climate change, they are the most vulnerable to its consequences. These countries also have the least capacity to manage and adapt to the risks and impacts of climate change. Measures to deal with climate challenges as set out in Part 4 (e.g. capacity-building, technological up-gradation, 'climate-proof' infrastructure and export diversification or other 'green growth' strategies) would also involve significant costs and pose a development challenge to weaker developing countries.

As a result, and from the perspectives of the poorest and smallest Commonwealth countries, climate change is not only an environmental problem but also a major development challenge (Gueye et al., 2009). At the same time, as Part 4 of this Review highlights further, the global transition to a lower carbon or 'green economy' may trigger new trade and investment opportunities, and these possibilities should be pursued (UNEP, 2013)

1.3.5 An enabling global trading environment

One important issue for many Commonwealth developing members is to achieve an enabling global trading environment supportive of their participation in global trade. This will require, among other things, greater coherence and accountability among international support mechanisms and regimes.

In the past, there have been many international programmes and expressions of commitment to support development challenges. These include commitments in terms of the Millennium Declaration of 2000, most notably Millennium Development Goal (MDG) 8, which called for a global partnership for development with the objective of addressing the special needs of LDCs, landlocked developing countries and SIDS; the WTO Doha Round in 2001, with the promise of placing development at the heart of international trade; the Monterrey Consensus on financing for development; and the Fourth UN Conference on LDCs (UNLDC IV), which adopted the Istanbul Programme of Action (IPOA) for LDCs for 2011-20.

The Sustainable Development Goals (SDGs), having been adopted by the UN General Assembly in September 2015 (UNGA, 2015), now stand at the apex of these international commitments, providing an overarching framework. There are 17 SDGs with 169 associated

targets covering a broad range of sustainable development issues (many of which Part 4 of this Review discusses). It is worth noting trade and economic development are much more deeply integrated into the SDGs. Featured as a cross-cutting issue in the realisation of the goals by 2030, international trade is also specifically included in SDG 17, which aims to revitalise the global partnership for sustainable development and strengthen the means of implementation – namely, finance, technology, capacity-building and trade. It particularly calls for the promotion of a universal, rules-based multilateral trading system and enabling developing countries, especially LDCs, to significantly increase their share of world exports, among other things.²⁹

Two other international processes during 2015 are closely linked to the SDGs: the Addis Ababa Financing for Development Conference and the UNFCCC COP21. Implementation of the SDGs will have significant resource implications, and the Addis Ababa Action Agenda, which was adopted at the Third UN International Conference on Financing for Development in July 2015, provides important directions in this regard. It contains over 100 measures covering a range of topics such as taxes, international finance, trade and data-gathering to support SDG implementation. Despite all of these intentions, including reaffirming rich countries' commitment to allocating 0.7 per cent of their GDP to development assistance, raising the quantum of finance to achieve the SDGs by 2030 will be an enormous challenge.

Enabling sustainable development also requires ambitious and concerted actions to combat climate change. Following years of negotiations, the UNFCCC COP21 in Paris is expected to achieve a legally binding and universal agreement on climate change that would come into force from 2020. Directly or indirectly, trade will feature prominently in this new global climate regime.

The 2030 Agenda for Sustainable Development builds on the foundation of past international programmes and commitments to assist the poorest and most vulnerable countries in overcoming their development challenges. However, many of these past commitments were not effectively linked to the decision-making processes in various fora. For example, WTO negotiations rarely, if at all, took cognisance of the stipulations in MDG 8 or UNLDCs. Furthermore, they were often non-binding in nature. As a consequence, several key development issues for such countries, most often intimately linked to trade matters, tended to be marginalised. The 2030 Agenda provides an opportunity to achieve greater coherence and accountability among all relevant international support mechanisms available for capacity-constrained developing countries, so commitments made under different frameworks (e.g. global trade, development financing, aid effectiveness, etc.) can be fully operational and effective and help improve poor and vulnerable countries' participation in global trade.

1.4 Way forward: tackling challenges and harnessing opportunities in the changing trade landscape

Global trade is at a crossroads, with several emerging developments exerting important implications for the Commonwealth. For Commonwealth developing countries, especially LDCs, small states and SSA, these trends are already having a profound impact and will

likely continue to influence their trade and development prospects and strategies.

The period of recovery since the 2008 global financial crisis has been much longer than anticipated. Most countries are experiencing lower-than-long-run average trade growth in the medium term. In the period immediately after the global financial crisis, the growth momentum in fast-growing large developing countries helped many other developing countries maintain a decent pace of trade expansion. Subsequently, subdued economic activities in the emerging market economies, particularly in China, has weakened the demand for primary commodities and natural resources, with oil prices plummeting, affecting many SSA and small state exporters.

The medium-to long-term growth prospects for the global economy remain positive, however: according to one projection exercise, global GDP, measured in real 2010 prices, will rise from \$73 trillion in 2015 to more than \$122 trillion in 2030 (USDA ERS, 2014). This will certainly lead to huge trading opportunities for the countries that will be able to generate supply response, tackling the associated challenges.

The growing significance of trade with developing countries presents important opportunities for Commonwealth members. For LDCs, small states and SSA, one key challenge is making this trade beneficial. Many of these countries have not been able to take advantage of it by increasing their exports to emerging markets. For example, as shown above, the Chinese market remains an untapped export destination for a majority of Commonwealth countries. Therefore, building capacities to export more to emerging and large developing countries markets should be an important consideration. In other cases where Commonwealth developing countries

have succeeded in increasing exports to larger Southern partners, they have failed to diversify their export baskets. Given the unfolding international specialisation that continues to make these exporters merely suppliers of primary commodities, the measures to promote structural transformation in SSA and small states should be carefully assessed and supported.

Many LDCs and SSA countries now have access to preferential market access to some emerging countries, and this should be utilised for expanding diversified exports. As compared with developed countries, tariffs are generally higher in developing countries, and preference margins in the latter countries are also likely to be higher, providing considerable incentives. Constraints to effective utilisation of these preferences should be addressed, including through implementation of crafted export strategies.

Developed countries remain important markets, and they also offer various trade preferences for many Commonwealth developing countries. Although in some cases the value of preferences has declined because of multilateral and/or regional trade liberalisation, the existing preferential margins should be better utilised. Attracting investment to better exploit market access opportunities in both developed and emerging developing countries should be an important option for LDCs, small states and SSA. The use of domestic policy space and other incentives can also help mobilise local and foreign investments to take advantage of exporting opportunities.

Many Commonwealth countries are also increasingly exploring trading opportunities through various regional/trading arrangements in which they participate. Rather than tariff

preference-based trade opening, deeper integration involving behind-the-border measures is likely to result in more trade. Dealing with non-tariff measures, enhancing trade facilitation, improving border trade infrastructure and facilities and facilitating regional production networks and supply chains all are important for promoting regional trade.

There are some promising trends in South-South engagement, for example intra-SSA trade being more diversified and more manufacturing-intensive. This trade can also be enhanced through strengthened regional integration mechanisms. Along with this, it needs to be emphasised that trading with developed countries should be enhanced further.

Attaching priority to trade multilateralism is also critical. A strong, rules-based multilateral system can best protect small and poor countries. As WTO members negotiate a post-Bali Work Programme with a view to concluding the long-running Doha Round, an important objective for Commonwealth developing countries will be to consider and support a deal that will deliver on development dimensions (see Section 4.1 for further discussion).

While GVCs offer potential opportunities for integrating into the world economy and effectively participating in global trade, most LDCs, SSA and small states continue to rely on commodities and raw materials for their production and export activities, constraining their ability to gainfully link to global supply networks. It does not help these countries break into diversified production activities. This is an area where Commonwealth developing countries have to pay particular attention with regard to a number of issues, as Part 4 highlights.

Enhanced participation of capacity-constrained Commonwealth developing countries will critically rely on securing a coherent, accountable and effective global enabling environment. Improved market access in major importing countries, adequate and effective trade capacity-building support and fulfilment of international commitments in all trade-related development areas are all integral parts of this. The transition to the SDG framework marks a paradigmatic shift in terms of strengthening the role of trade in development and in supporting the developing countries benefiting from it.

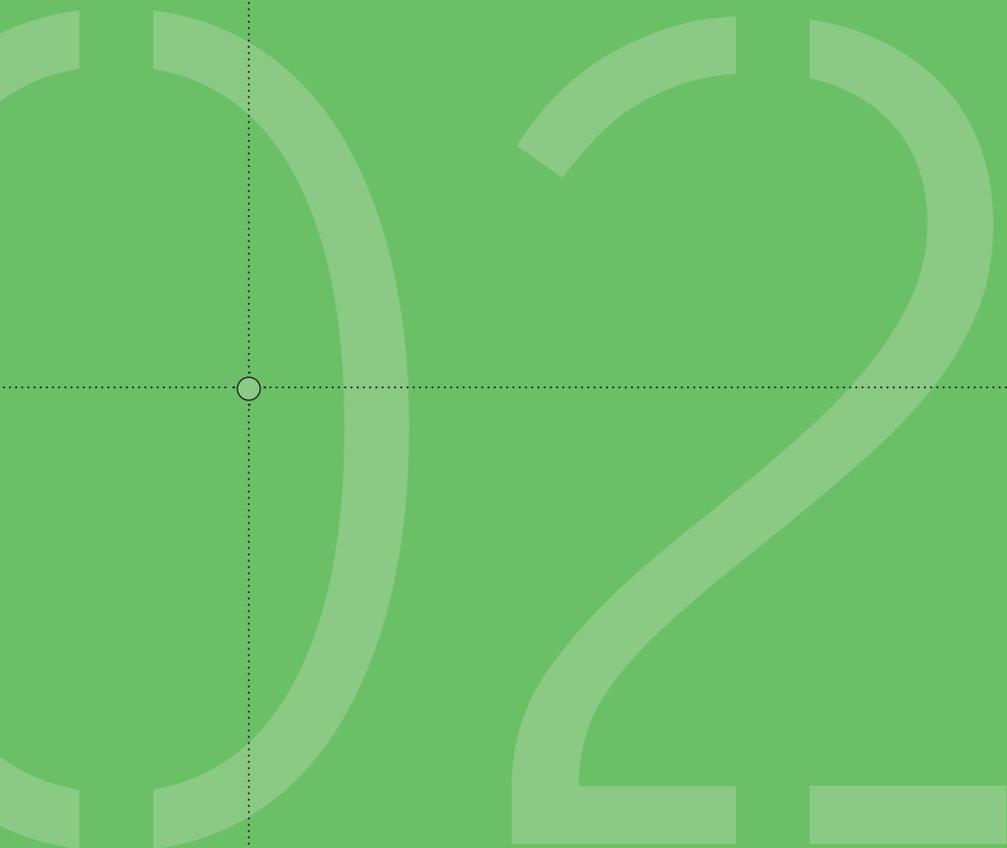
Endnotes

1. The Commonwealth is a voluntary association of 53 members. Members classified under such groups as LDCs, SSA countries and small states are not mutually exclusive. LDC is a UN category comprising 48 countries, of which 11 are from the Commonwealth. There are 18 SSA countries that are Commonwealth members. Eight of these countries are LDCs. The Commonwealth Secretariat defines small states as independent states with populations of up to 1.5 million, with a few exceptions. Thirty-one Commonwealth members are considered small states. In the Commonwealth, six countries are considered advanced or developed countries: Australia, Canada, Cyprus, Malta, New Zealand and the UK.
2. Shares of services and merchandise exports are calculated as the combined exports by all members in the region of each category as a proportion of the total exports of all members.
3. If measured in current prices, the absolute decline in trade flows in 2009 is estimated to be 19.8 per cent. Growth rates used in Figure 1.11 are in real terms.
4. Yet global GDP in absolute terms, as estimated by the World Bank (2015a) in its World Economic Prospects, is 4.5 per cent below what it would have been had post-crisis growth rates been equivalent to the pre-crisis long-term average.
5. Many Commonwealth ACP countries have been the beneficiaries of preferential trade schemes operated by developed countries (more recently, some emerging developing countries have introduced similar schemes). Although these have not been utilised effectively, some small states have benefited from the trade preferences associated with certain commodities, such as sugar and banana. However, over time, unilateral and regional liberalisation undertaken by donor countries has resulted in the erosion of some of these preferences. As a result, between the early 1990s and 2005, banana exports from Windward Islands (Dominica, Grenada, St Lucia and St Vincent and the Grenadines) to the EU declined from 20 per cent of these countries' GDP to 5 per cent. Similarly, under a major sugar regime reform, the EU introduced a 36 per cent price reduction for raw sugar, affecting several Commonwealth ACP countries, including Belize and Guyana. While Mauritius has been successful in diversifying away from preference-dependent commodity production, other small states have found it difficult to make a similar transition. Part 3 offers more discussion on this.
6. The countries defined as small states are independent states with populations of up to 1.5 million, with a few exceptions. This definition follows the World Bank small states classification, with some exclusions of countries that the UN Conference on Trade and Development (UNCTAD) classifies as 'developed'. This sample includes 49 countries, 31 of which are Commonwealth members.
7. It needs to be mentioned here, as discussed later in Part I, that cross-border fragmentation of production processes leading to global value chains-led trade has resulted in more trade in intermediate goods. This is one important factor in driving up worldwide export-GDP ratios. Exports include both value-added and intermediate inputs; GDP contains value-added only. Therefore, it is possible for the ratio to rise substantially without adding much domestic value-added. Nonetheless, the figure demonstrates small states' relatively lower participation in global trade.
8. Using a panel fixed-effects regression framework, it is estimated that small states' export orientation over the sample period has increased at a rate of 0.2 percentage points only; the corresponding figure for other countries is estimated to be 1.8 percentage points.
9. Data from UNCTADStat product group 'primary commodities, precious stones and non-monetary gold' (SITC 0 + 1 + 2 + 3 + 4 + 68 + 667+ 971).
10. This is based on the widely used UNCTAD export diversification index. For the countries included in LDCs, SSA and small, vulnerable economies (SVEs), the average index values are, respectively, 0.74, 0.76 and 0.70.
11. Among others, Hesse (2008) provides recent empirical evidence.
12. The African Development Report 2010 (by the UN Economic Commission for Africa, UNECA) observes that the most important source of economic growth in Africa has been the capital-intensive natural resource extraction sector, with limited linkages to the rest of the economy. Value-added in the mining sector, which employs less than 10 per cent of the labour force, has grown at more than 10 per cent per year in the past two decades, whereas agriculture, manufacturing and services, with combined employment of more than 80 per cent of the labour force, has grown at less than 2.5 per cent annually.
13. PricewaterhouseCoopers originally coined the term 'E-7'. See also Hamilton (2011).
14. Similarly, close to 80 per cent of small states' exports of goods to the South comprise fuels and primary commodities.
15. Several approaches have been used to measure participation in GVCs, including the use of statistics on trade in parts and components, customs statistics on processing trade and estimation of trade in value-added embodied in gross exports.
16. This database has some key advantages over other sources of value-added trade data. Computation of value-added trade requires inter-country input-output tables, and the Eora database provides the maximum coverage of such information for 189 countries, including 43 Commonwealth countries. The use of this database allows estimation of value-added trade over time. Furthermore, it includes both goods and services trade, disaggregated into 26 ISIC-comparable sectors. For further information, including caveats, see IMF (2015b).
17. Where countries are located within the value chain matters, as we move past the traditional competitiveness benchmark that has underpinned most models of national welfare (Baldwin and Evenett, 2015).
18. A distinction is often made between regional trading arrangements (RTAs) and preferential trading arrangements (PTAs), with RTAs considered trading arrangements and PTAs, non-reciprocal trade preferential schemes. This report uses the two terms interchangeably to denote regional integration processes.
19. An excellent presentation of this argument can be found in a Commonwealth Secretariat-sponsored study (Collier, 2011).

20. A number of Commonwealth SSA members are landlocked. For these, improved and efficient infrastructures in neighbouring countries are as important as those in their domestic economies. It is in this context that renewed regional integration initiatives are underway in SSA. Caribbean and Pacific Island states have pursued regional integration to ease the constraints their small size imposes on their economic development.
21. The EU has notified the WTO of 37 RTAs, including the EC Treaty and European Economic Area.
22. 1. TTIP is being negotiated between the United States (US) and the 28-members of the EU, including Commonwealth members the UK, Malta and Cyprus. Collectively, these two economies have a combined GDP of \$34.6 trillion (46 per cent of global GDP), and a total population of over 827 million. They collectively account for nearly one-third of world trade in goods.
2. TPP is being negotiated between 12 countries (including six Commonwealth members) – namely, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam. They have a combined GDP of \$28 trillion (37 per cent of the global total) and a combined population of about 811 million.
3. RCEP is being negotiated between the 10 ASEAN members and six other major economies – namely, Australia, China, India, Japan, New Zealand and South Korea. These 16 economies have a combined GDP of \$23.1 trillion (31 per cent of the global total) and a total population of 3.4 billion (48 per cent of the global total) in 2015.
23. The TPP Agreement will now have to be ratified by all member countries involved.
24. This is reflected in the Kotte Statement of International Trade and Investment, adopted by Commonwealth Heads of Governments in their 2013 meeting in Colombo, Sri Lanka.
25. Since 2000, there has been a significant improvement in LDCs' market access, with Australia, Canada and the EU offering generous unilateral preferential schemes to all LDCs and the USA providing preferential market access offers to SSA countries under AGOA. However, these offers remain donor countries' unilateral schemes and have not been bound by multilateral arrangements. Under the Doha Round, WTO members in their Hong Kong Ministerial could agree on providing DFQF access for 97 per cent of tariff lines in developed countries. As the current unilateral preference schemes by some high-income countries cover more than this agreed threshold, the Doha Round offers are actually redundant. Crucially, however, as LDC export baskets are heavily concentrated in a few products, it is possible to eliminate nearly all of their exports from DFQF provisions and still be consistent with the Hong Kong Declaration. A significant development during the Doha Round was the Hong Kong Ministerial Declaration urging, in a non-mandatory manner, developing countries 'in a position to do so' to extend DFQF access to LDC products. In response, a number of emerging economies such as China and India have offered preferential market access packages. Compared with developed countries, average tariffs in the relatively advanced developing countries are considerably higher. Consequently, the preferential market access offers by these countries could be significant incentives for recipient countries. However, thus far these initiatives have been marked by various omissions and exceptions and subject to stringent rules of origin. Given the highly undiversified export structures in the poorest and most vulnerable countries, and their limited supply-side capacity, such partial preferential offers have the effect of limiting their benefit to these countries.
26. The WTO's Hong Kong Ministerial Declaration of 2005 asked its members to develop appropriate mechanisms for according special priority to services sectors and modes of supply of interest to LDCs. The 2011 Ministerial Conference adopted a decision to operationalise a waiver mechanism to grant LDCs preferential market access in services. Although the decision falls short of a firm commitment, it provides an opportunity to look for mechanisms through which such preferences can be provided, and WTO members may start using them. The Bali WTO Ministerial of December 2013 took a decision on the operationalisation of the waiver while not altering the non-mandatory nature of the provision. By 2015, following a High Level Meeting in February, offers were beginning to be made. This meeting agreed Members would endeavour to submit notifications no later than 31 July 2015. By that date, 11 members had notified their preferential measures and two more had communicated their intention to notify preferences as soon as their domestic procedures had been completed. However, lack of technical clarity and meaningful offers means concrete benefits may not result in the near future.
27. Baseline climate change scenario modelling projections by the IPCC, based on current economic and population growth patterns, forecast an increased atmospheric concentration of carbon dioxide equivalent (CO₂e) of between 750 and 1,300 parts per million over pre-industrial levels or an average increase in temperature rise of between 3.7° C and 4.5° C by 2100. There will also be regional differences in the temperature increases and the impacts of climate change (Worrall, 2015).
28. In August 2015, for instance, US President Barack Obama unveiled a revised Clean Power Plan. This will aim to reduce CO₂ emissions from the power sector by 32 per cent by 2030, compared with 2005 levels.
29. SDG 17.11 aims to significantly increase the exports of developing countries, in particular with a view to doubling the LDCs' share of global exports by 2020; SDG 17.12 calls for the timely implementation of DFQF market access on a lasting basis for all LDCs, consistent with WTO decisions, including by ensuring preferential rules of origin applicable to imports from LDCs are transparent and simple and contribute to facilitating market access.

PART 02

Intra-Commonwealth trade: emerging dynamics and opportunities

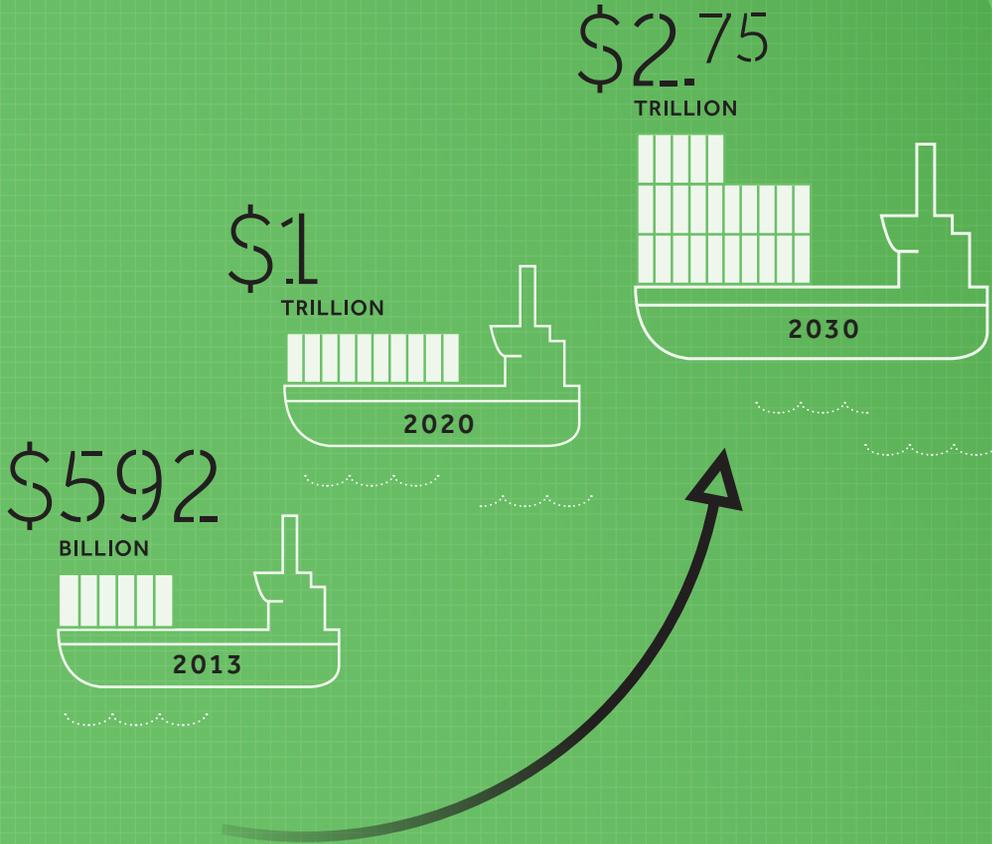


The Commonwealth is not a trading bloc. Yet trade between members is rising strongly, and is projected to surpass US\$1 trillion by 2020. This trade is also of growing importance to Commonwealth members, as the share of intra-Commonwealth trade in their total trade continues to rise.

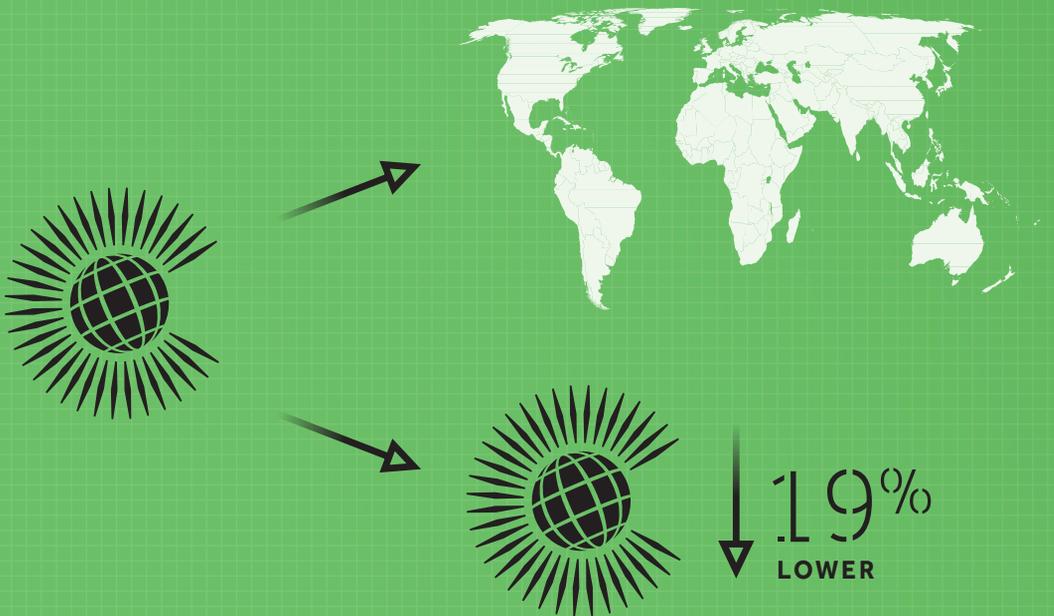
Among the drivers of increased intra-Commonwealth trade and investment flows is an observed 'Commonwealth effect', whereby trade between Commonwealth members is on average 20 per cent higher and trade costs are 19 per cent lower compared with in trading between other partners.

Along with already impressive intra-Commonwealth trade flows, there remains enormous potential to further increase intra-Commonwealth trade by hundreds of billions of dollars, particularly with regard to increased trading opportunities with developing country members.

TRADE BETWEEN COMMONWEALTH MEMBERS
COULD RISE TO \$2.75 TRILLION BY 2030.



TRADE COSTS ARE 19% LOWER BETWEEN
COMMONWEALTH MEMBERS.



2.1 Introduction

"[W]e recognise the potential for growth in intra-Commonwealth trade and investment as well as the importance of promoting practical measures to overcome constraints to such growth."

Kotte Statement on International Trade and Investment, adopted by Commonwealth Heads of Government, CHOGM 2013, held in Colombo, Sri Lanka.

The Commonwealth is a voluntary association and is not a trading bloc. It does not possess association-wide policy-induced mechanisms to promote trade between members. As Commonwealth countries strive to achieve enhanced trade performance, evidence presented in this Part of the Review would suggest trade between members can be an important avenue to accomplish this objective.

Cooperation among countries in trade in the global economy has increasingly been manifested in regional trading arrangements (RTAs). As Part 1 of this Review noted, there are more than 600 RTAs, with most Commonwealth nations having signed up to several such arrangements.

The Commonwealth is widely dispersed across the globe, and its members have attained very different levels of economic development. As such, many observers do not consider the Commonwealth members 'natural' trading partners.¹ Most Commonwealth countries have also become active in their 'natural' regional trading clubs, which involve non-Commonwealth countries. Furthermore, irrespective of their association with regional arrangements, countries have looked for trading opportunities with dynamic and emerging economic and trading powers both within and outside the Commonwealth.

Yet members consider there are significant gains to be made from closer cooperation with and integration into the Commonwealth. Historical ties, long-established trading relations, familiar administrative and legal systems, the use of largely one language as the means of communicating with foreign partners and large and dynamic diasporic communities, etc. all tend to suggest the association can boost trade and investment flows and economic cooperation. This view is reflected in the Commonwealth

Heads of Governments' 2013 Kotte Statement on International Trade and Investment, as cited above.

Despite the drive towards regional or preferential arrangements in conjunction with lacklustre movement in the opening-up of multilateral trade, there is also recognition that trade between a group of countries can be promoted even in the absence of proactive policy-induced mechanisms. In fact, the 2011 World Trade Report suggests that, on average, only about 16 per cent of all trade that takes place within regional trading blocs is preferential in nature. That is, as much as 84 per cent of all trade actually takes place without the cover of any discriminatory policy support mechanism. The rise of global value chains (GVCs) in promoting trade-led fragmented production network across countries, as well as widespread recognition of improved trade logistics facilitating the cross-border movement of goods as determinants of increased trade flows, present the case for non-policy induced trade cooperation within the Commonwealth.

Part 2 of Commonwealth Trade Review sheds light on the trends, nature and potential of intra-Commonwealth trade. It provides an analysis of trade between Commonwealth members – both in goods and services and in terms of intra-Commonwealth foreign direct investment (FDI) and remittance flows. It also undertakes empirical assessments of determinants of trade and investment flows between global economies to find out whether there is any inherent 'Commonwealth effect' providing impetus to increased trade propensity between Commonwealth members. It also provides some quantitative assessment of further trade prospects between Commonwealth members.

2.2 Trends in goods and services trade between Commonwealth members

2.2.1 Total intra-Commonwealth trade

Intra-Commonwealth trade is already quite substantial and is growing rapidly. In 2013, the total value of goods and services traded between member countries stood at \$592 billion. This represents average growth of almost 10 per cent each year since 1995. The volume of this trade is estimated to have grown to \$687 billion in 2015 and is projected to exceed \$1 trillion by 2020 (Figure 2.1). Such growth means intra-Commonwealth trade is increasingly important to its members. Between 1995 and 2013, the average share of intra-Commonwealth trade in Commonwealth countries' total world

trade increased from 13 per cent to 18 per cent (Figure 2.2). During the same period, the relative significance of Commonwealth countries in total global trade declined slightly, from 16.8 per cent to 14.6 per cent. This is mainly attributable to rapid growth in many non-Commonwealth developing countries, particularly China.

The rising share of intra-Commonwealth trade in Commonwealth countries' total trade is particularly impressive when considered against the fact that most Commonwealth members are also active in various other formal regional trading arrangements (RTAs) involving non-Commonwealth countries. Many developing members have also expanded their trade with non-Commonwealth advanced countries under the latter's unilateral preferential trade offers. For example, African and Caribbean countries have increased their trade under the USA's African Growth and Opportunity Act (AGOA) and the Caribbean Basin Initiative (CBI), respectively; least-developed countries (LDCs) have benefited through the European Union's Everything But Arms (EBA)

scheme, etc. Large developing countries like China and India have also been providing preferential market access opportunities to certain countries in Africa and within the LDC group. Many of the beneficiaries of this are Commonwealth members. In addition, all Commonwealth countries actively seek greater trading opportunities with the emerging countries. Part 1 of this Review demonstrated the rising significance of developing countries in global trade, with China becoming a major trading partner for most Commonwealth members. Considering all this, the rising share of trade between Commonwealth members as a proportion of Commonwealth countries' total global trade is remarkable.

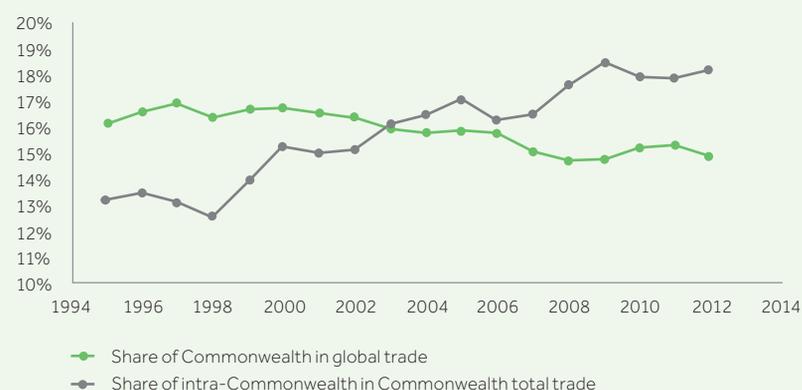
Seventy-six per cent of intra-Commonwealth trade (\$450 billion) is trade in goods (Figure 2.3). Yet it is the rapid expansion of services trade that has significantly contributed to growth (Figure 2.1): goods trade has grown by a solid 8 per cent per year since 1995 but services trade has increased by a much higher rate of 12.6 per cent per year, albeit from a low base. Intra-Commonwealth services

FIGURE 2.1.
 INTRA-COMMONWEALTH TRADE IN GOODS AND SERVICES, 1995-2020F (\$ BILLION)



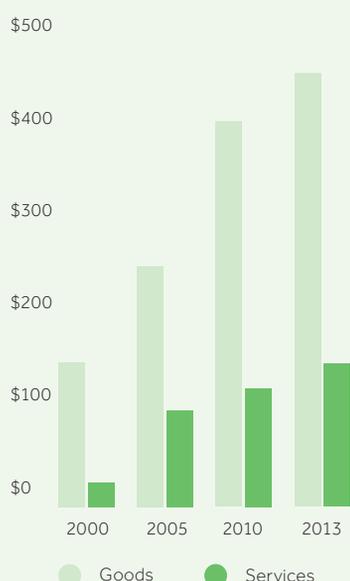
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.2.
 RELATIVE SIGNIFICANCE OF INTRA-COMMONWEALTH TRADE IN COUNTRIES' TOTAL TRADE, 1995-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.3.
INTRA-COMMONWEALTH TRADE IN
GOODS AND SERVICES, 2000-13
(\$ BILLION)



Note: Services export for 2013 are projections

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

trade now represents 18 per cent, on average, of the total world services trade of Commonwealth countries.

2.2.2 Intra-Commonwealth trade in goods

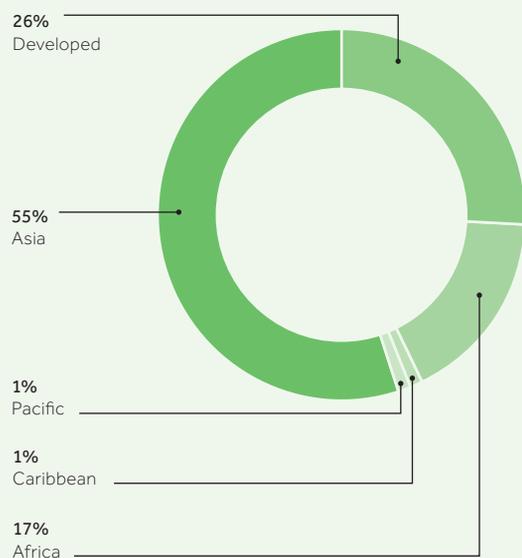
Intra-Commonwealth trade in goods in 2015 is estimated at \$525 billion. This trade can be characterised as being led by a dominant Asia and a rising Africa. As Figure 2.4 shows, Asian countries accounted for 55 per cent (\$249 billion) of this trade in 2013. Singapore, Malaysia and India are the largest exporters, contributing 22 per cent, 16 per cent and 14 per cent, respectively, to total intra-Commonwealth goods exports. Beyond the Asian countries, the UK remains an important contributor to the goods trade, although its share has declined in recent years. In both 1995 and 2000, it accounted for 16 per cent of intra-Commonwealth

trade in goods, but in 2013 this share had dropped to 10 per cent.

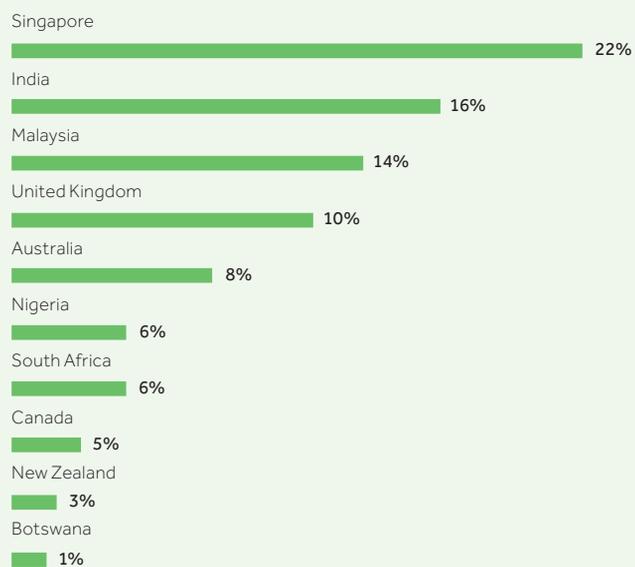
Asia's dominance of the goods trade holds in intra-Commonwealth imports, accounting for 46 per cent of total value in 2013 (Figure 2.5). The largest importer of Commonwealth goods is India, accounting for 15.2 per cent of intra-Commonwealth imports. India is followed by Singapore (14.8 per cent), the UK (14 per cent), Australia (10.5 per cent), Malaysia (9 per cent) and Canada (6 per cent).

Table 2.1 provides information on the direction of intra-Commonwealth trade (both exports and imports) for different country groups. It is worth noting that, while between 2000 and 2013 the intra-Commonwealth combined exports of developed members (Australia, Canada, Cyprus, Malta, New Zealand and the UK) rose from \$50 billion to \$118 billion, their share in the overall export trade

FIGURE 2.4.
SHARE OF MERCHANDISE EXPORTS OF COMMONWEALTH
COUNTRIES BY REGIONS, 2013 (\$450 BILLION)

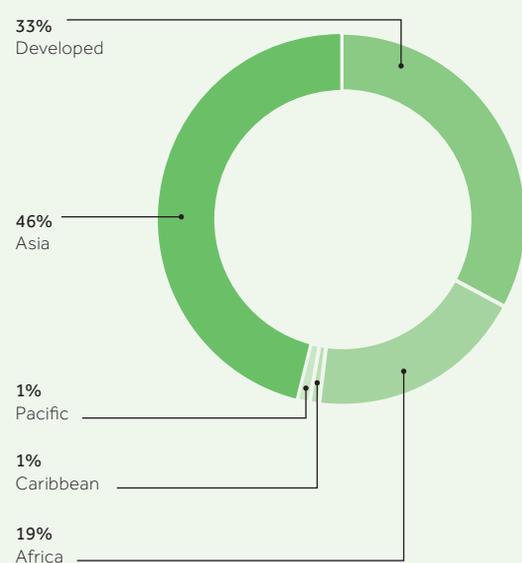


TOP 10 COUNTRIES, 2013
(% SHARE OF INTRA-COMMONWEALTH TRADE OF
MERCHANDISE EXPORTS)

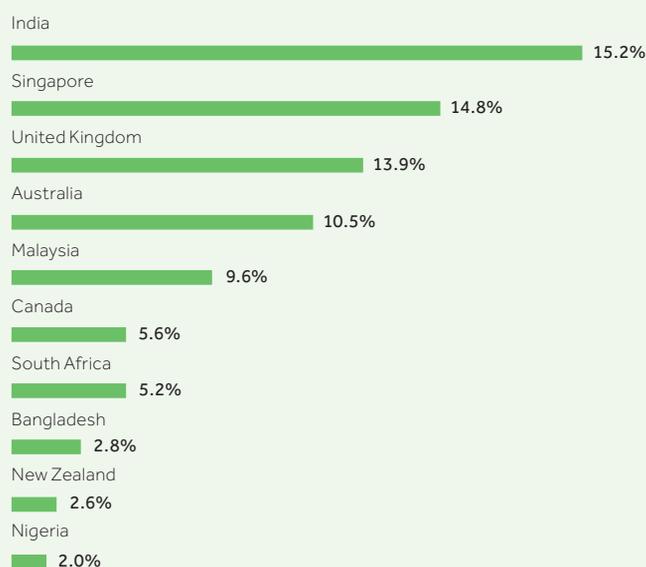


Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.5.
 SHARE OF MERCHANDISE IMPORTS OF COMMONWEALTH COUNTRIES BY COUNTRY GROUPS, 2013



TOP 10 COUNTRIES, 2013
 (% SHARE OF INTRA-COMMONWEALTH TRADE OF MERCHANDISE IMPORTS)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

declined from 33 per cent to 26 per cent. During the same period, developing members' intra-Commonwealth exports increased from just over \$100 billion to \$332 billion, resulting in their relative significance rising from 67 per cent to 74 per cent. Therefore, the rise of the South, as Part 1 highlighted, is also reflected in export trade between Commonwealth countries. A similar trend is noticed in intra-Commonwealth imports: developed countries' collective share has declined from 44 per cent to 32 per cent as against the rising share of developing countries from 56 per cent to 68 per cent.

It is also interesting to note that, within the Commonwealth, developed members are doing more trade with developing countries. In 2000, less than half of developed members' exports went to and imports were sourced from developing countries. In contrast, in 2013, 56 per cent of developed countries'

exports were destined to and 57 per cent of imports were sourced from developing countries. This rise of trading with developing countries owes mostly to increasing intra-Commonwealth trade with Asian countries, although in absolute terms developed countries' exports to and imports from Africa have also increased remarkably.

Analysing the growth of African goods trade also reveals interesting trends in the direction of intra-Commonwealth trade. In absolute terms, African exports between 2000 and 2013 increased to all other Commonwealth regions but particularly within Africa and to Asia: for instance, exports within Africa rose from \$5.7 billion to \$35 billion, those to Europe from \$7 billion to \$14 billion and those to Asia from \$4 billion to \$23 billion.

In 2000, Commonwealth European countries (Cyprus, Malta and the UK) were the largest destination of African goods,

accounting for 40 per cent of all their intra-Commonwealth exports. Africa itself accounted for 32 per cent and Asia for 21 per cent of these goods exports. In 2013, 45 per cent of African exports went to other African countries, about 30 per cent to Asia and just 18 per cent to Europe. Almost similar shifts have taken place in intra-Commonwealth imports.

Slightly above a quarter of exports originating in Asia is destined for Commonwealth developed countries. This changed only marginally during 2000-13. However, the share of Africa in Asian exports rose from less than 4 per cent to more than 11 per cent. This increase is matched by a similar decline in intra-Asian exports within the Commonwealth. A comparable picture emerges in imports by Asian countries.

In terms of direction of exports, Caribbean countries do not show any noticeable change. Intra-Caribbean

TABLE 2.1.
DIRECTION OF INTRA-COMMONWEALTH TRADE

A: Exports (US \$ Billion)

Group		Developed		Africa		Asia		Caribbean		Pacific		All	
		2000	2013	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013
Developed	Value	26.01	52.10	5.60	14.00	17.00	47.00	0.80	1.50	1.30	3.70	50.70	118.20
	Share	51.3%	44.0%	11.0%	11.8%	33.5%	39.8%	1.6%	1.3%	2.6%	3.1%	32.9%	26.2%
Africa	Value	8.60	19.00	5.70	35.00	3.90	23.00	0.05	0.27	0.01	0.01	18.27	77.32
	Share	47.1%	24.6%	31.2%	45.3%	21.3%	29.7%	0.2%	0.3%	0.4%	0.2%	11.9%	17.1%
Asia	Value	21.0	64.0	2.9	28.0	55.0	150.0	0.3	2.6	0.4	2.6	79.6	247.2
	Share	26.4%	25.9%	3.6%	11.3%	69.1%	60.7%	0.3%	1.1%	0.5%	1.1%	51.7%	54.8%
Caribbean	Value	0.8	1.8	0.1	0.1	0.1	0.1	1.1	2.5	0.0	0.0	2.0	4.5
	Share	41.0%	39.7%	2.1%	2.0%	1.1%	3.3%	55.8%	55.1%	0.0%	0.0%	1.3%	1.0%
Pacific	Value	1.3	3.2	0.01	0.01	0.1	0.3	0.0	0.0	0.1	0.3	1.4	3.8
	Share	89.8%	83.2%	0.4%	0.2%	5.8%	8.1%	0.0%	0.0%	4.0%	8.5%	0.9%	0.9%

B: Imports (US\$ Billion)

Group		Developed		Africa		Asia		Caribbean		Pacific		All	
		2000	2013	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013
Developed	Value	40.0	63.1	9.3	21.0	24.2	58.0	1.10	1.5	1.3	3.5	75.7	147
	Share	52.8%	42.9%	12.3%	14.3%	31.7%	39.5%	1.5%	1.0%	1.7%	2.4%	44.0%	32.4%
Africa	Value	6.0	15.00	8.80	40.00	2.50	27.00	0.07	0.29	0.01	0.01	17.38	82.30
	Share	34.5%	18.2%	50.6%	48.6%	14.4%	32.8%	0.4%	0.4%	0.0%	0.0%	10.1%	18.1%
Asia	Value	18.00	51.00	5.20	26.00	47.00	130.00	0.04	0.36	0.09	0.39	70.32	207.75
	Share	25.6%	24.5%	7.4%	12.5%	66.8%	62.6%	0.1%	0.2%	0.1%	0.2%	40.9%	45.8%
Caribbean	Value	0.85	1.40	0.01	0.23	0.15	1.10	1.10	2.80	0.00	0.01	2.12	5.54
	Share	40.1%	25.3%	0.6%	4.2%	7.3%	19.9%	51.9%	50.5%	0.0%	0.1%	1.2%	1.2%
Pacific	Value	1	3.80	0.01	0.04	0.31	2.40	0.00	0.00	0.05	0.26	1.38	6.50
	Share	72.7%	58.5%	1.0%	0.6%	22.7%	36.9%	0.1%	0.0%	3.6%	4.0%	0.8%	1.4%

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

exports account for 55 per cent of Caribbean countries' intra-Commonwealth exports; another 40 per cent goes to developed countries, mainly Canada and the UK. On the import side, there has been a significant change: the share of developed countries in Caribbean intra-Commonwealth imports declined from 40 per cent in 2000 to 25 per cent in 2013. A significant part of this can be explained by increased imports from Asia. The African share in intra-Commonwealth Caribbean imports has also increased remarkably, from 0.6 per cent to 4.2 per cent.

Pacific Island countries continue to rely heavily on developed countries for their intra-Commonwealth trade, despite trading more with developing members, mainly Asian members. In 2013, their intra-Commonwealth exports to developed countries accounted for 83 per cent, down from almost 90 per cent in 2000. The single most important destination is Australia, where more than three-quarters of their intra-Commonwealth exports are marketed. For intra-Commonwealth imports, however, the relative significance of developed countries has declined considerably,

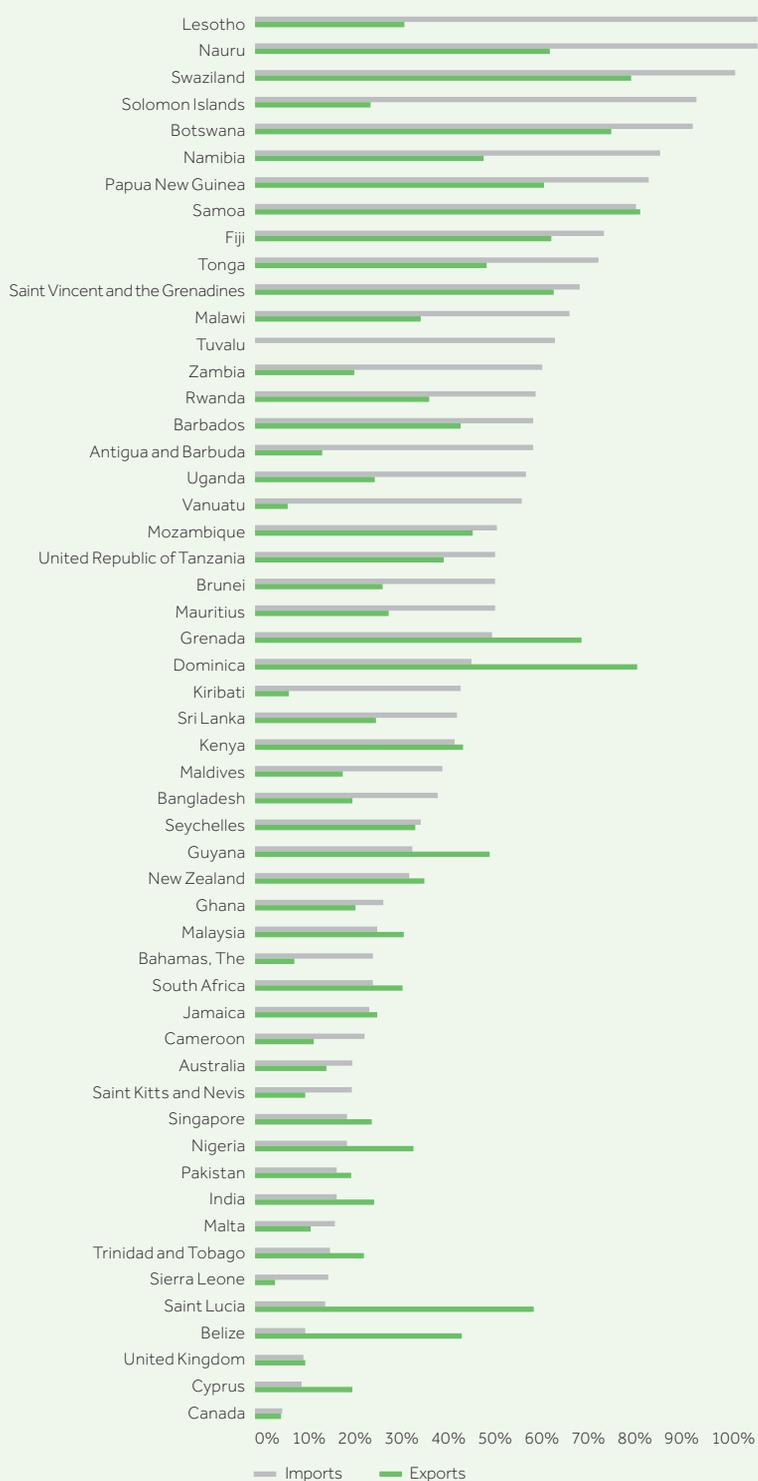
from close to 73 per cent in 2000 to about 54 per cent in 2013. This reduced share of developed countries can be explained by the rising relative significance of Asian suppliers. In particular, imports from Singapore have increased from \$0.25 billion to \$1.7 billion, raising Singapore's share in intra-Commonwealth Pacific imports from 18 per cent to 26 per cent. Of the total Pacific intra-Commonwealth imports of about \$6.5 billion, just above \$3 billion come from Australia. However, over time, Australia's share has declined, from 57 per cent in 2000 to 46.3 per cent in 2013.

The growth of intra-Commonwealth trade has been broad-based: 47 of 53 Commonwealth members have grown their intra-Commonwealth goods exports by over 5 per cent per year since 2000. As many as 33 Commonwealth members registered double-digit annual average export growth during 2000-13. Considering both exports and imports, members showing rapidly expanding intra-Commonwealth trade include Antigua and Barbados, the Bahamas, Bangladesh, Belize, Cameroon, Ghana, India, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nauru, Nigeria, Papua New Guinea, Rwanda, Sierra Leone, Solomon Islands, South Africa, Trinidad and Tobago, Uganda, Tanzania, Vanuatu and Zambia.

The analysis so far has considered the absolute level of trade, which inevitably overlooks the Commonwealth's small states to a large extent. It is notable that, when the proportional importance of intra-Commonwealth goods trade to each country's total trade is considered, this actually tends to be higher among the smaller states. There is an inverse relationship between country size (measured by population) and share of intra-Commonwealth exports in total exports (Razaque et al., 2015). The countries for which this share is the largest are all small economies: Dominica (80 per cent), Grenada (73 per cent), Botswana (72 per cent), Swaziland (70 per cent) and Barbados (66 per cent). For as many as 40 members, at least 20 per cent of goods exports are intra-Commonwealth; for 10 countries, it is more than 50 per cent (Figure 2.6).

The relative importance of intra-Commonwealth trade to these smaller economies is explained largely by their geographical location and their proximity to other Commonwealth markets. As detailed further on, 'effective market access' is an important determinant of international trade,

FIGURE 2.6.
INTRA-COMMONWEALTH TRADE IN GOODS BY MEMBER COUNTRIES, 2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

and intra-Commonwealth market access tends to be strong for such countries. Dominica and Grenada, for example, form part of a collection of Commonwealth islands in the Caribbean among which trade is proportionally high. Barbados, St Lucia and St Vincent and the Grenadines also have intra-Commonwealth export shares of over 50 per cent. Botswana and Swaziland both border a major Commonwealth importer, South Africa, which accounts for a substantial share of their total exports.

Table 2. 2 provides information on top three product categories as per 1-digit level Standard International Trade Classification (SITC) , within intra-Commonwealth export trade by various country groups. Machinery and transport equipment is the largest export category for developed countries, although its share in intra-Commonwealth exports from the same group of countries declined from 30 per cent in 2000 to 24.2 per cent in 2013. The export intensity index of manufactured goods for developed countries has a

value greater than 1, indicating that, compared with the rest of the world, proportionately more of their exports are destined for the Commonwealth.

For African countries, there has been significant rise in mineral fuels, lubricants and related materials (SITC 3). In 2000, this category took up a share of about 23 per cent of Africa's total intra-Commonwealth exports; in 2013 it had increased to about 44 per cent. For Asian countries as well, the same export category

TABLE 2.2.
INTRA-COMMONWEALTH COMPOSITION OF EXPORT TRADE, TOP THREE PRODUCTS, BY COUNTRY GROUP 2000 AND 2013

Region	Product Group (SITC Rev. 3, 1 digit level)	2000 exports (\$million)	2013 exports (\$million)	Export intensity 2000	Export intensity 2013	2000 share of group intra-Commonwealth exports (%)	2013 share of group intra-Commonwealth exports (%)
Developed	Manufactured goods (SITC 6)	6636.5	15,649.1	1.0	1.4	13.0	13.2
	Machinery and transport equipment (SITC 7)	15,486.1	28,789.1	0.8	1.1	30.2	24.2
	Commodities and transactions, n.e.s. (SITC 9)	8,137.0	17,467.2	2.1	1.1	15.9	14.7
Africa	Mineral fuels, lubricants and related materials (SITC 3)	4,137.9	34,057.8	0.6	1.0	22.6	43.6
	Manufactured goods (SITC 6)	5,167.9	12,599.3	1.3	1.0	28.3	16.1
	Machinery and transport equipment (SITC 7)	2,002.5	7,344.2	1.4	1.3	11.0	9.4
Asia	Mineral fuels, lubricants and related materials (SITC 3)	6,372.3	76,217.3	1.0	1.6	8.0	30.7
	Manufactured goods (SITC 6)	8,210.3	26,094.3	0.9	0.8	10.2	10.5
	Machinery and transport equipment (SITC 7)	44,398.4	67,472.0	1.1	0.9	55.4	27.2
Caribbean	Food and live animals (SITC 0)	516.6	707.0	2.0	2.0	26.2	15.7
	Mineral fuels, lubricants and related materials (SITC 3)	542.5	2,082.2	0.7	0.9	27.5	46.4
	Commodities and transactions, n.e.s. (SITC 9)	135.9	424.2	2.4	2.1	6.9	9.4
Pacific	Mineral fuels, lubricants and related materials (SITC 3)	534.7	723.1	1.6	1.2	36.2	18.6
	Manufactured goods (SITC 6)	41.1	475.3	1.4	1.8	2.8	12.2
	Commodities and transactions, n.e.s. (SITC 9)	324.7	1,589.9	1.5	1.8	22.0	40.9

Note: The export intensity index with a value higher than 1 suggests that the associated product group has a higher propensity to be exported within the Commonwealth compared to the rest of the world markets.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

has expanded rapidly, mainly due to re-exporting activities involving East Asian members. Largely because of this, the relative significance of machinery and transport equipment has fallen.

The share of mineral fuels exported by the Caribbean in its total intra-Commonwealth exports has also led to a large increase. However, for the Pacific countries an opposite trend is observed. It is clear from Table 2.2 that exports of food from the Caribbean and manufactured goods from the Pacific have much higher export intensity value associated with them within the Commonwealth. More detailed intra-Commonwealth product-level information for available countries can be found in the data appendix section of the Review.

2.2.3 Intra-Commonwealth trade in services

Intra-Commonwealth services exports are valued at \$139 billion in 2013, the last year for which bilateral services trade data are available. This trade is projected to have risen to \$162 billion in 2015. Services trade within the Commonwealth is powered by five countries that together account for over 80 per cent of such total trade: the UK (32 per cent), Singapore (17 per cent), India (12 per cent), Australia (11 per cent) and Canada (9 per cent) (Figure 2.7). The top 10 Commonwealth trading countries globally accounted for 95 per cent of the Commonwealth's services trade. A similar pattern of intra-Commonwealth services trade holds across both imports and exports.

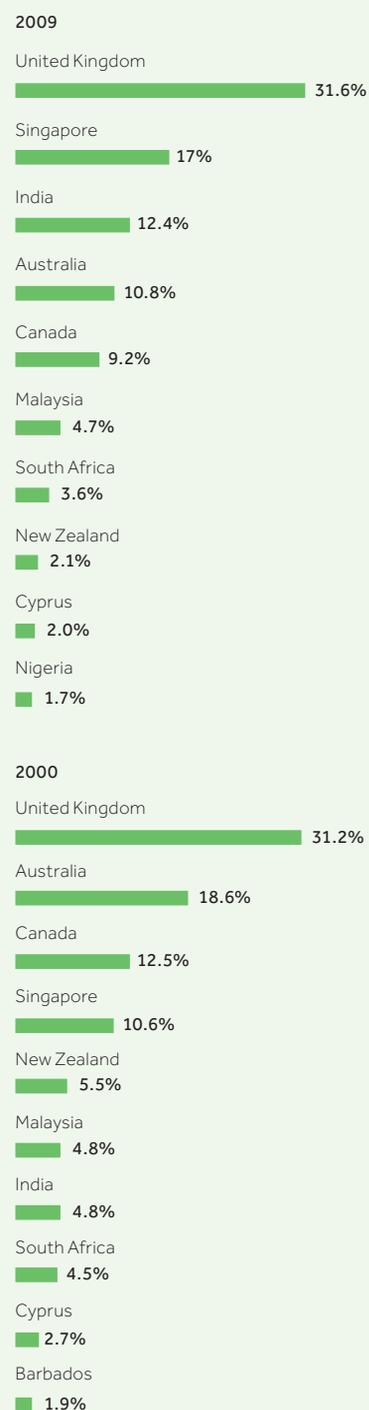
The UK is the most dominant intra-Commonwealth services trader, accounting for nearly one-third of the total. Nine of the top 10 intra-Commonwealth services traders featured in the top 10 list in both 2000 and 2009. Between 2000 and 2009,

India and Singapore became more important services exporters.

The direction of intra-Commonwealth services trade by region witnessed significant changes over 2000–09 (Figures 2.8 and 2.9). The importance of Commonwealth Asia, as both a source (36 per cent in 2009 from 21 per cent in 2000) and a destination (35 per cent in 2009 from 20 per cent in 2000) region increased. This was accompanied by a declining share for Commonwealth developed countries: from 72 per cent in 2000 to 61 per cent in 2009 as a source of imports and from 70 per cent to 53 per cent as a source of intra-Commonwealth exports. The share of Commonwealth Africa in imports has remained steady over time at around 4 per cent, while the share of its exports increased from 6 per cent to 9 per cent during the same period.

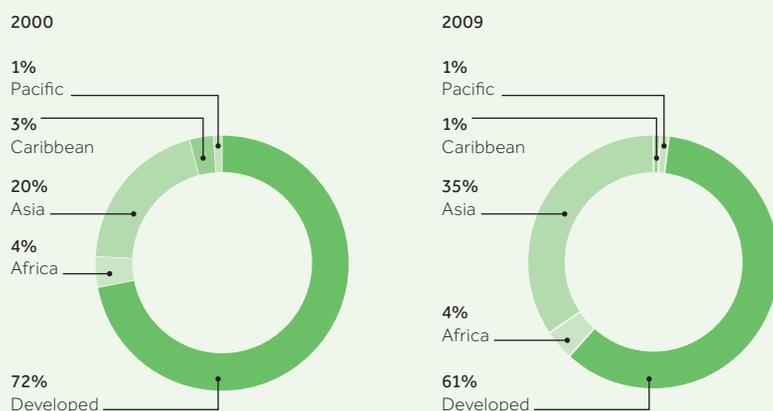
Table 2.3 gives a further breakdown of intra-Commonwealth services exports by member countries for 2000 and 2009. Dependence on the Commonwealth is very high for Kiribati (100 per cent), Barbados (81 per cent), Solomon Islands (87.2 per cent), Tonga (98.2 per cent) and Papua New Guinea (60.2 per cent). For 33 members, at least a quarter of their services exports are sent to the Commonwealth. Services imports data, as presented in Shingal and Razzaque (2015), show certain countries have also become significant importers of services. For example, India is not only a major services exporter but also a major importer; its imports during 2000–09 from the world and the Commonwealth increased close to six and five times, respectively. Other rapidly growing services importers include Brunei, Nigeria and Samoa. Analysis of the composition of intra-Commonwealth average services trade for 2009 – the last year for which the bilateral services data are available – reveals

FIGURE 2.7.
INTRA-COMMONWEALTH SERVICE TRADERS, 2000 VS 2009 (%)



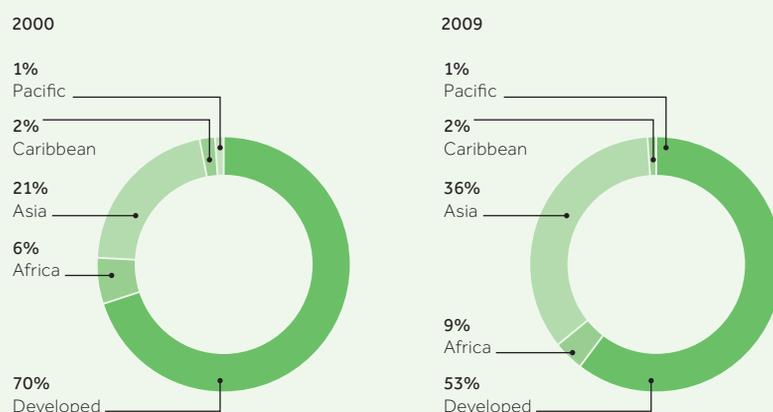
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.8.
SHARE OF INTRA-COMMONWEALTH SERVICES IMPORTS BY REGION, 2000 VS. 2009 (%)



Source: Commonwealth Secretariat (calculations using data from Francois & Pindyuk, 2013)

FIGURE 2.9.
SHARE OF INTRA-COMMONWEALTH SERVICES EXPORTS BY REGION, 2000 VS. 2009 (%)



Source: Commonwealth Secretariat (calculations using data from Francois & Pindyuk, 2013)

that unallocated services accounted for 34.6 per cent of intra-Commonwealth services trade. Of those allocated, other business services, transportation, travel and personal, cultural and recreation (PCR) services accounted for more than 90 per cent; all other services contributed the remaining 8 per cent (with government, financial, insurance and construction services the major sectors) (Figure 2.10).

Business services were dominated by merchanting and other trade-related services, which contributed more than 95 per cent of the total intra-Commonwealth trade in other business services. Other important other business services traded included business, management consulting and public relations services, and advertising and market research services. Trade transportation services owes mainly to

sea (primarily freight) and air (primarily passenger) transport services, which together contribute 62.8 per cent of intra-Commonwealth trade in transportation services. Personal travel services dominate travel services within the Commonwealth, accounting for more than 75 per cent of total travel services (Shingal and Razzaque, 2015).

2.3 Investment and remittance flows

2.3.1 Foreign direct investment

Mirroring global trends, intra-Commonwealth FDI flows have also increased remarkably over the past decade. Using UNCTAD's bilateral FDI data, it is estimated that – as Figure 2.11 shows – intra-Commonwealth FDI flows grew from \$10 billion in 2002 to \$65 billion in 2012. Such flows actually reached a peak of \$80 billion in 2007 before being hit by the global financial crisis. On average, intra-Commonwealth FDI flows are estimated to make up more than a quarter of total FDI inflows into Commonwealth countries.

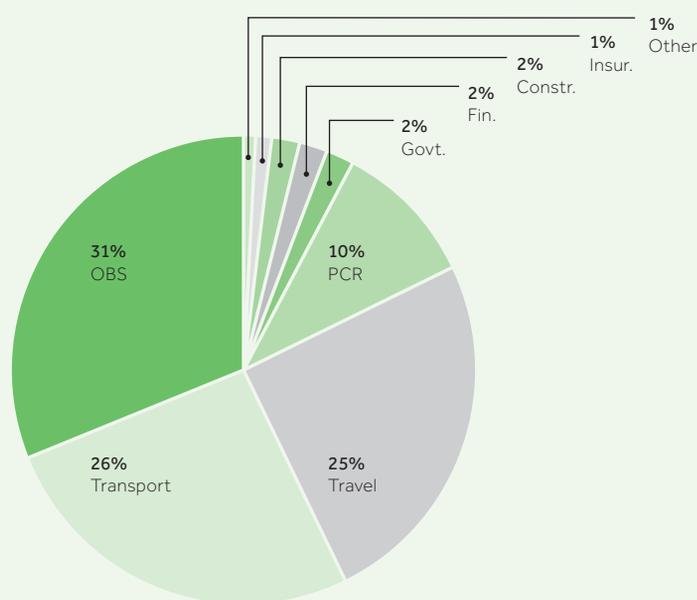
The FDI figures comprise mainly annual flows that represent equity capital, reinvested earnings and intra-company loans. As these flows have increased, the stock of FDI the Commonwealth countries hold in other members has also increased, as Figure 2.12 demonstrates. It is estimated that, between 2001 and 2012, the combined FDI stock of seven major economies (Australia, Canada, India, Malaysia, Singapore, South Africa and the UK) in 38 Commonwealth countries, for which information is available, increased from \$160 billion to \$716 billion.² The relative

TABLE 2.3.
SERVICES EXPORTS BY MEMBERS TO THE COMMONWEALTH AND
THE REST OF THE WORLD, 2000 VS. 2009 (MILLION US\$)

Country	Exports to world (\$ Million)		Exports to Commonwealth (\$ Million)		Exports to Commonwealth as % of total	
	2000	2009	2000	2009	2000	2009
Antigua and Barbuda	170.3	98.9		6.3		6.3
Australia	19,493.7	47,152.4	6,015.6	13,615.5	30.9	28.9
Bahamas, The	1,026.5	925.0	22.9	336.8	2.2	36.4
Bangladesh	1,623.4	582.4	0.5	264.8	0.0	45.5
Barbados	718.2	1,202.1	475.8	973.9	66.3	81.0
Belize	123.0	184.0		23.4		12.7
Botswana	549.6	3.2		1.1		34.2
Brunei Darussalam	80.7	1,420.6	75.7	399.7	93.8	28.1
Cameroon	958.0	534.7		164.5		30.8
Canada	44,795.3	87,896.9	4,105.2	7,208.7	9.2	8.2
Cyprus	1,728.8	8,703.7	223.8	1,059.4	12.9	12.2
Dominica	59.6	38.2		1.5		4.0
Fiji	334.4	25.3	118.9	14.1	35.6	55.8
Ghana	584.1	976.1		504.2		51.7
Grenada	107.1	39.9		4.7		11.9
Guyana	194.4	124.3		56.4		45.3
India	19,287.9	92,670.0	1,767.6	14,392.6	9.2	15.5
Jamaica	1,423.2	377.3	35.7	148.1	2.5	39.3
Kenya	720.3	890.9		273.2		30.7
Kiribati	0.0	4.7		4.7		100.0
Lesotho	43.4	26.3		12.6		47.8
Malawi	167.3	97.2		45.7		47.0
Malaysia	16,748.7	21,604.1	2,211.0	6,737.9	13.2	31.2
Maldives	110.4	38.9		17.2		44.2
Malta	905.3	4,450.1	86.6	914.6	9.6	20.6
Mauritius	763.6	646.1		248.2		38.4
Mozambique	447.0	424.6		131.6		31.0
Namibia	334.0	130.9		40.7		31.1
Nauru	0.0	0.1				
New Zealand	4,555.9	7,337.0	2,031.3	2,053.3	44.6	28.0
Nigeria	3,302.0	5,810.9	13.5	2,101.2	0.4	36.2
Pakistan	2,252.0	1,467.6	73.4	656.0	3.3	44.7
Papua New Guinea	870.2	216.0	242.7	130.0	27.9	60.2
Rwanda	201.2	70.6		11.0		15.6
Samoa	3.2	9.2	3.2	0.0	100.0	0.0
Seychelles	190.6	181.8		50.4		27.7
Sierra Leone	113.0	1,416.7		73.7		5.2
Singapore	30,982.8	51,705.6	2,916.5	9,862.6	9.4	19.1
Solomon Islands	72.6	10.9		9.5		87.2
South Africa	6,433.1	13,944.3	1,882.4	3,753.6	29.3	26.9
Sri Lanka	1622.3	366.5		131.0		35.7
St Kitts and Nevis	80.7	104.9		4.7		4.5
St Lucia	139.5	28.3		4.7		16.7
St Vincent and the Grenadines	61.6	56.2		4.7		8.4
Swaziland	417.2	76.6	0.0	45.8	0.0	59.7
Tanzania	684.3	388.0		83.2		21.4
Tonga	0.0	8.0		7.8		98.2
Trinidad and Tobago	388.2	643.1	39.0	337.4	10.1	52.5
Tuvalu	0.0	2.1		0.2		9.2
Uganda	459.2	344.9		112.7		32.7
United Kingdom	115,411.0	278,563.0	10,597.6	22,643.8	9.2	8.1
Vanuatu	70.2	9.9		1.5		15.5
Zambia	355.0	149.7		72.4		48.3
Average	5,323.8	11,965.7	1,497.2	1,726.0	23.6	33.3

Source: Commonwealth Secretariat's calculations using data from Francois & Pindyuk (2013)

FIGURE 2.10.
COMPOSITION OF INTRA-COMMONWEALTH AVERAGE SERVICES TRADE (% SHARES, 2009)

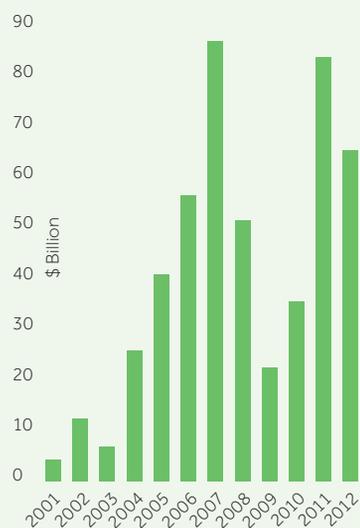


Source: Francois & Pindyuk (2013); Shingal and Razzaque (2015)

significance of intra-Commonwealth stock on average rose from 13 per cent in 2001 to 24 per cent in 2012. Based on the trend growth rate of FDI stock in the global economy and within the Commonwealth, it is estimated that intra-Commonwealth FDI stock could reach \$920 billion in 2015, and it is projected to be \$1.4 trillion by 2020.

The majority of intra-Commonwealth FDI stock is held in developed countries with – as Figure 2.13 shows – Australia, Canada, Singapore and the UK together accounting for over 65 per cent of it. Barbados is the only Caribbean country in the top 10 of FDI in-stock, of which Canada owns a major share. Among Asian developing countries, India, Malaysia and Singapore account for 17 per cent of in-stock. Three Africa countries – Mauritius, Nigeria and South Africa – are now among those in the top 10, with a combined share of 10 per cent.

FIGURE 2.11.
INTRA-COMMONWEALTH FDI FLOWS 2001 - 2012 (\$ BILLION)



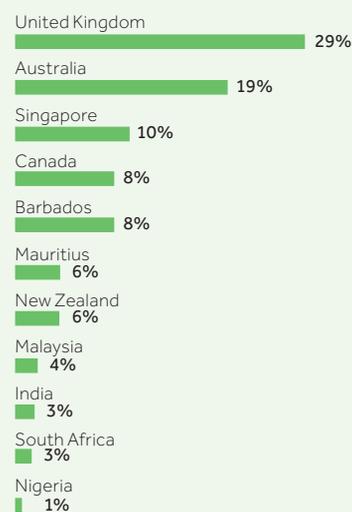
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.12.
INTRA-COMMONWEALTH FDI STOCK (\$ BILLION) AND ITS SHARE IN GLOBAL FDI STOCK IN COMMONWEALTH COUNTRIES (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.13.
MAJOR LOCATIONS OF INTRA-COMMONWEALTH FDI STOCK, 2012 (% SHARE)



Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

The Commonwealth's FDI out-stock is also mostly held by investors from the developed countries. Canada and the UK own by far the largest stock of overseas investments, with each owning almost \$180 billion in other Commonwealth countries in 2012. Australia and Singapore have stakes of almost \$120 billion each; India, Malaysia and South Africa each provides in excess of \$40 billion.

As the largest investor and largest recipient of intra-Commonwealth FDI, the UK provides an interesting case in analysing the direction of FDI movements. Table 2.4 details the locations of the UK's FDI out-stock and the origins of its FDI in-stock. First, it is notable that the majority of the UK's FDI stock is held in developed countries, although it also holds sizeable stock in emerging markets such as India, Kenya, Malaysia and Nigeria. Second, it is also developed economies, particularly Canada, that hold the vast majority of FDI stock in the UK. Finally, the UK's in-stock was around \$30 billion

higher than its out-stock as of 2012. This means the other Commonwealth countries hold a larger stock of FDI in the UK than the UK does elsewhere.

The FDI stock of India and South Africa are notably more diverse with substantial shares held in developing countries (Figure 2.14). Mauritius and Nigeria are major beneficiaries of FDI from both India and South Africa. India holds over \$12 billion in FDI stock in Mauritius and South Africa over \$10 billion. South Africa in particular invests a large share of its FDI in the Africa region: 23 per cent in Mauritius, 5 per cent in each of Mozambique and Nigeria and 4 per cent in Ghana. Cumulatively, South Africa has over \$21 billion in FDI stock in other African Commonwealth countries.

2.3.2 Remittance flows

The Commonwealth has strong diasporic connections, resulting in trade and investment linkages, of which one important element is remittance flows. Remittances

and personal money transfers have become one of the main sources of external financing for developing countries. Globally, remittance flows to developing countries reached \$436 billion in 2014, approximately three times larger than official development assistance (ODA).³ Remittances were also found to be more resilient during the global financial crisis than other forms of international capital.

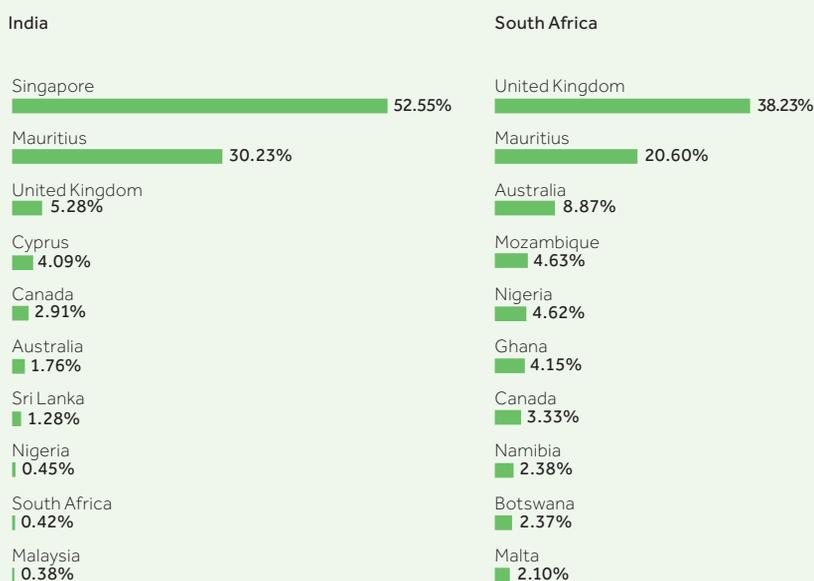
Using World Bank data, it is estimated that intra-Commonwealth remittances totalled \$45 billion in 2014, representing 30 per cent of total remittance flows received by Commonwealth countries. Of these intra-Commonwealth flows, \$42 billion went to developing countries, including \$11 billion to Commonwealth Sub-Saharan Africa (SSA), \$833 million to the Caribbean and \$357 million to Pacific Island countries. The largest sending countries of intra-Commonwealth remittances are the UK (27 per cent of the total), India (15 per cent), Canada (12 per cent) and Australia (10 per cent) (Figure 2.15). Collectively,

TABLE 2.4.
THE UK'S INTRA-COMMONWEALTH FDI POSITION, 2012 (\$ BILLION)

Stock-holders in UK	FDI stock (\$ billion)	UK's Commonwealth stock	FDI stock (\$ billion)
Canada	87.22	Australia	67.20
Australia	58.51	Canada	52.53
Singapore	53.73	South Africa	21.19
South Africa	17.97	Singapore	14.50
Malaysia	4.56	India	9.53
India	2.16	Malaysia	3.34
		Nigeria	3.06
		Cyprus	2.75
		Malta	2.67
		Kenya	0.84
Total	206		177

Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

FIGURE 2.14.
LOCATION OF INDIAN AND SOUTH AFRICAN FDI OUT-STOCK (%)



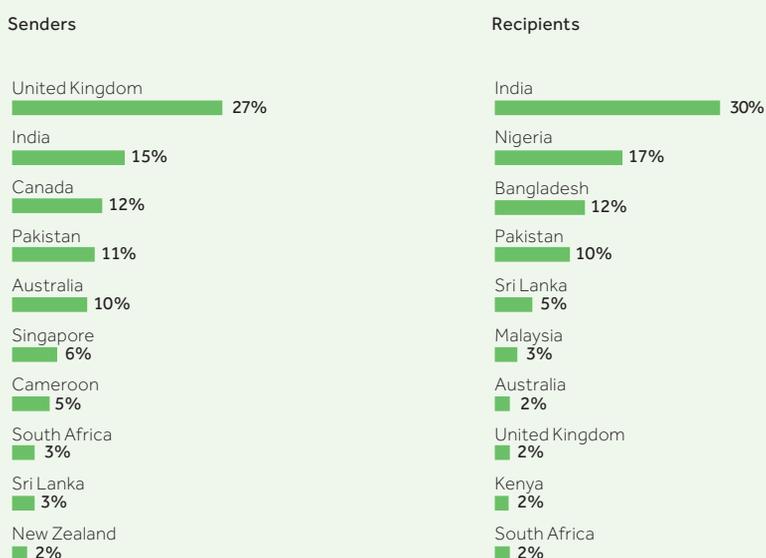
Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

these five countries accounted for 75 per cent of total intra-Commonwealth remittances in 2014.

Figure 2.15 also highlights the largest recipient countries of intra-Commonwealth remittance flows in 2014. As for the senders, the bulk of remittance flows involve a small number of relatively large countries. India alone receives over a third of intra-Commonwealth remittance flows, and Bangladesh, India, Nigeria and Pakistan together receive 75 per cent of the total. The largest recipients among the developed economies are Australia and the UK, but together they receive only 4 per cent of the total flows. Around half of their remittance flows are to each other.

Although a few large countries dominate overall intra-Commonwealth flows, for a number of Commonwealth small states the significance of remittances in the economy is substantial. In Lesotho and Tonga, the remittance to GDP ratio is almost 25 per cent. For each of Guyana, Jamaica and Samoa, this ratio is 15 per cent or higher. Remittance flows are therefore a vital source of income for these small economies. This is particularly true given that a number of these states are remote islands that face large costs in trading with major global markets and the rest of the Commonwealth. Remittance flows therefore help offset some of the physical and geographic challenges such countries face in interacting with the global economy.

FIGURE 2.15.
LARGEST SENDERS AND RECIPIENTS OF INTRA-COMMONWEALTH REMITTANCES (\$ MILLION)



Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

2.4 Drivers of trade and investment within the Commonwealth

2.4.1 Exploring the 'Commonwealth effect'

As mentioned above, Commonwealth members do not use policy instruments to promote trade flows between them. Trade policy relations within the Commonwealth are determined by individual members' multilateral, regional and bilateral commitments, which, in an overwhelming majority of cases, involve non-Commonwealth countries. In recent times – as Part 1 discussed – while there have been massive efforts to expand trade flows through RTAs, with most countries involved in more than one such initiative, a Commonwealth-wide policy-induced trade promotional mechanism has not been one of these. As various nations and country groups emerge as important economic and trading powers in the global economy, Commonwealth members have made attempts to trade more with them. Over many years, this has resulted in a significant rise in trade with Japan, the EU as a group, the USA and, most recently, China.

Furthermore, Commonwealth members are also widely dispersed geographically. Milner (2008) calculates the average distance between each Commonwealth country and the five major markets of Australia, Canada, India, South Africa and the UK. Figure 2.16 maps these distances, with two clear messages emerging from analysing them. First, distances between Commonwealth markets are consistently high: the

average is 9,500 km and even the country with the shortest distance to these five major markets – Pakistan – is 7,500 km away on average. Although reducing transport costs will help in promoting intra-Commonwealth trade, it should be borne in mind that distance will remain an important constraint.

Second, given these large distances, some of the 'natural' trading partners of many members are to be found outside the Commonwealth. This is particularly true for such members as the Bahamas, Belize, Canada, Cyprus and the UK, which are positioned close to large non-Commonwealth markets. For such countries, the Commonwealth accounts for a relatively small share of their market access, and consequently their international trade. At the other end of the spectrum are countries such as Lesotho, Malaysia, Namibia, Pakistan, Singapore and Swaziland, for which Commonwealth markets potentially represent a large share of the total international demand for their goods and, hence, of their total trade. There are also regions, for example, South Asia, where, despite the concentration of Commonwealth members, intra-regional trade is quite small (Razzaque and Basnett, 2014).

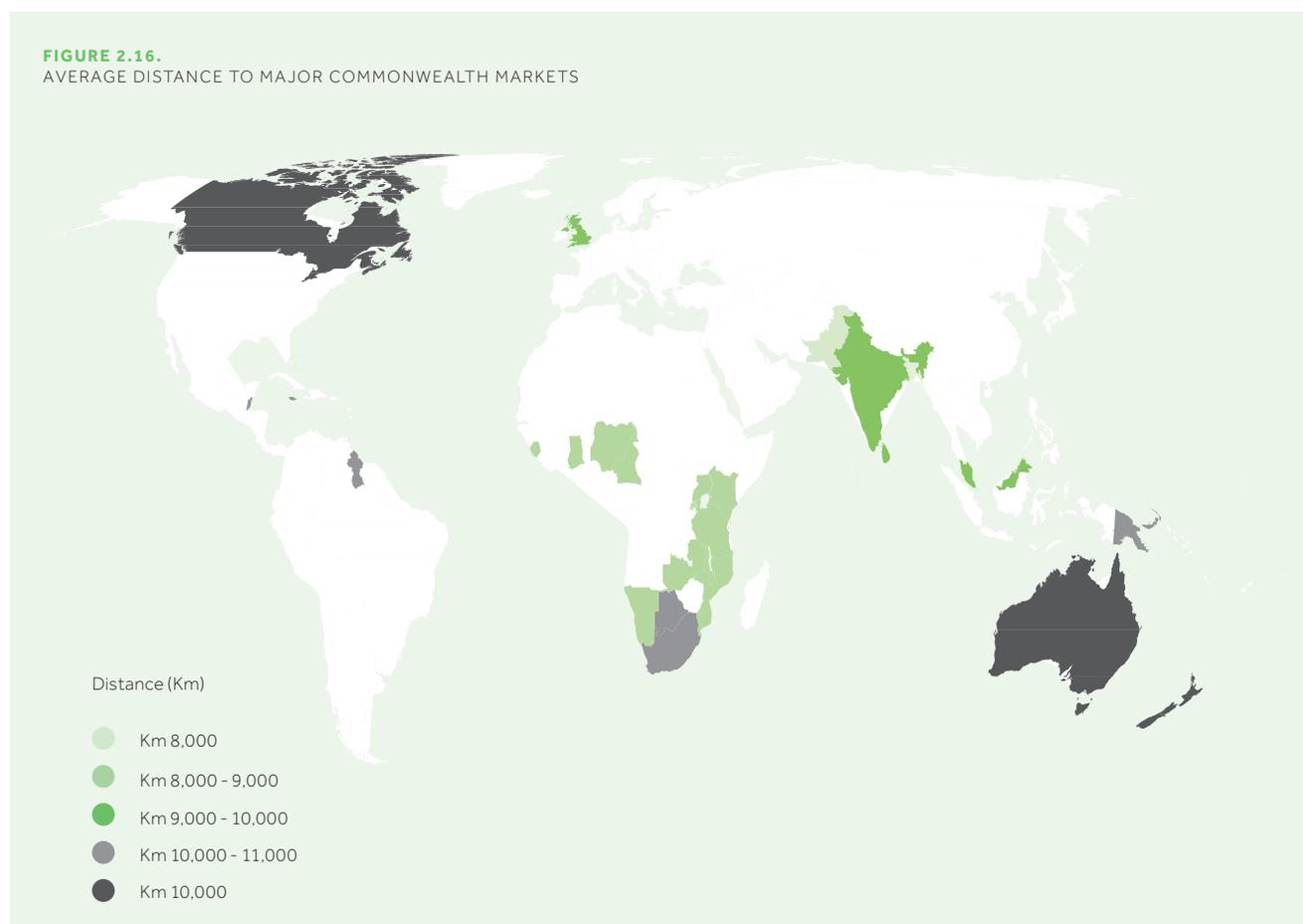
Yet there has been a suggestion of a 'Commonwealth effect' positively influencing trade between members. Anecdotal evidence from various business leaders' dealing with trade and investment issues across global economies has often suggested that doing business that involves Commonwealth countries is more convenient. Sharing a common language and familiarity with institutions and legal systems are considered the reasons for this. Not many studies have looked into this issue empirically. Lundan and Jones (2001) use data on 53 Commonwealth and 18 non-Commonwealth countries to suggest an overall tendency towards high levels of intra-Commonwealth trade.



ANECDOTAL EVIDENCE FROM VARIOUS BUSINESS LEADERS' DEALING WITH TRADE AND INVESTMENT ISSUES ACROSS GLOBAL ECONOMIES HAS OFTEN SUGGESTED THAT DOING BUSINESS THAT INVOLVES COMMONWEALTH COUNTRIES IS MORE CONVENIENT.

Economists often use the so-called 'gravity model' to explain international trade flows (Box 2.1). This suggests larger and richer countries would trade more than the smaller and poorer countries, other factors remaining the same; and geographical proximity promotes bilateral trade flows as it reduces transport and information costs. Additional factors, such as common borders, language, past colonial linkages and regional trade agreements, are also typically considered in such analytical exercises. Bennett et al. (2010) use such a framework utilising merchandise trade data for 1990-2008 to provide evidence of Commonwealth countries trading more between themselves.

FIGURE 2.16.
AVERAGE DISTANCE TO MAJOR COMMONWEALTH MARKETS



Recent advances in empirical methodologies and the availability of bilateral services and investment data have allowed for more in-depth and rigorous assessments of Commonwealth trade (e.g. Razzaque et al., 2015; Shingal and Razzaque, 2015). The key results of these econometric exercises, summarised in Table 2.5 suggest that, after controlling for all other factors, when two countries are both Commonwealth members, their bilateral trade in goods and services is about 10 per cent and 42 per cent higher, respectively, and bilateral FDI is 10 per cent higher. Combining the goods and services effects together using their relative weights, the results would indicate the Commonwealth is boosting trade between its members by 20 per cent. Detailed results from various

other econometric specifications as presented and discussed in Shingal and Razzaque (2015) also confirm the positive and statistically significant effect of the Commonwealth on members' bilateral trade.

There is therefore strong evidence of a Commonwealth effect: when two countries are both Commonwealth members, they trade and invest significantly more with each other than they would otherwise have done. It is worth noting here that results reported in Table 2.5 do provide evidence that factors such as the following positively influence bilateral trade: sharing a border and a common language (in the cases of services and FDI) and having been part of the same colonial system and/or the same preferential trading

system. But the Commonwealth effect is additional to this. As all the variables listed in Table 2.5 are already accounted for, the Commonwealth effect must be explained by factors not included.

One driving factor behind the Commonwealth effect could be the large Commonwealth diasporic community. Lundan and Jones (2001) argue that the 'psychic' costs of international trade are lower in the Commonwealth. Psychic costs stem from an unfamiliarity with the culture and institutions of the foreign market. This view is supported by the fact that firms expanding to international markets typically begin in countries that are culturally similar. Such similarity reduces the costs involved with learning about the new market – such as understanding business and legal institutions and local consumer tastes.⁴

BOX 2.1.

THE GRAVITY MODEL OF TRADE

The gravity model explains the level of trade between two countries. It is so successful in doing so, and has become so widely used in academic trade work that it is sometimes known as 'social physics' – social interactions that behave according to well-established laws (Head and Mayer, 2015). The analogy with physics goes further, as gravity models emerged from an analogy to Newton's Law of Universal Gravitation. Bilateral trade, even today, is reasonably well explained simply by the economic mass of the two countries, captured by their combined GDP, and the distance between them. Recent work has extended the gravity model to be consistent with mainstream economic theory. As Head and Mayer demonstrate, a range of different underlying assumptions and derivations all lead to the following gravity equation, typically credited to Anderson and van Wincoop (2003):

$$X_{ij} = \frac{Y_i Y_j}{P_i P_j} \tau_{ij}^\theta \quad (1)$$

where X_{ij} is the value of exports from country i to country j , Y_i and Y_j are the GDPs of countries i and j , respectively, P_i and P_j are the 'multilateral resistance terms' of countries i and j and τ_{ij} are the trade costs between i and j (θ is the responsiveness of trade to trade costs). The multilateral resistance terms essentially account for the fact that country j has additional trading partners beyond country i (and vice versa). If country j is located near other large economies, fewer of its imports will be sourced from i . The easiest way to apply the gravity model in practice is to take logarithms of equation (1), and include exporter (i) and importer (j) fixed effects to account for the multilateral resistance terms:

$$\ln(X_{ij}) = \ln(Y_i) + \ln(Y_j) + \theta \ln(\tau_{ij}) + \delta_i + \delta_j + \varepsilon_{ij} \quad (2)$$

where δ_i and δ_j are the fixed effects and ε_{ij} is an error term. A practical problem with equation (2) is that many bilateral trade observations are zero, which must be discarded when taking logarithms. Silva and Tenreyro (2006) have developed an alternative estimation approach (using a pseudo-poisson maximum likelihood (PPML) estimator to deal with this issue. This approach is now widely considered best practice, and is used below to estimate the Commonwealth effect on trade.

Estimating equation (2) shows how each of the trade costs in τ_{ij} affects trade. The exact list of factors that affect trade costs are unknown, however, so researchers have experimented with a host of different variables. A number of these have consistently been shown to be important, and are now included as standard. These include distance, capturing transport and information costs, plus a number of binary variables: whether countries share a common language, belong to the same trade bloc, have a past colonial linkage, etc.

2.4.2 Trade costs in the Commonwealth

Does the Commonwealth effect, along with such favourable factors as common language and similar institutions and legal systems, translate into lower trade costs between two Commonwealth countries? It is difficult to test this hypothesis directly because there are no standard measures of trade costs between countries. Data on bilateral transport costs are extremely limited, and transport costs are just one element of the overall costs of international trade.⁴

Given that measuring this overall cost is not straightforward because so many factors may be influential, one approach is to infer trade costs from the actual level of trade flows. Intuitively, countries that trade heavily with each other are likely to have low trade costs. Technically, the gravity model can be used to reverse-engineer the cost of trade from actual trade values. Arvis et al. (2013) take this approach: they created a joint UN Economic and Social Commission for Asia and the Pacific (UNESCAP)-World Bank global database on bilateral trade costs for 178 countries over 1995-2010 (Box 2.2). These bilateral trade costs are interpreted similar to *ad valorem* equivalent.

Given the availability, bilateral trade cost (Box 2.2) can replace the standard control variables in the gravity model, the results of which are reported for goods and services in columns 2 and 4 of Table 2.5, respectively. It is found that the coefficient on the cost variable is negative, as expected, while that of the Commonwealth effect remains positive and statistically significant.

When both countries are Commonwealth members, goods trade is 17 per cent and services trade is 28 per cent higher. An analysis of

TABLE 2.5.
GRAVITY MODEL RESULTS: THE COMMONWEALTH EFFECT IN TRADE IN GOODS, SERVICES AND FDI FLOWS

	Goods		Services		FDI
	1	2	3	4	5
Commonwealth membership (Yes=1; 0 otherwise)	0.093**	.173**	0.42***	0.28***	0.104**
Whether members of the same trading blocs (Yes=1; 0 otherwise)	0.45***		0.26***		-0.022
Countries share a border (Yes=1; 0 otherwise)	0.44***		0.24***		0.374***
Countries share an official language (Yes=1; 0 otherwise)	-0.021		0.13***		0.499***
Distance between countries (km)	-0.79***		-0.59***		-0.97***
Member of common colony post-1945 (Yes=1; 0 otherwise)	0.10***		0.15***		0.729***
Countries share common legal systems (Yes=1; 0 otherwise)	0.24***		0.17***		0.426***
Bilateral trade costs		-1.12***		-0.98***	
Sample size	82,428	82,428	57,339	57,339	43,204
Sample period	2000-10		2000-10		2001-12
R-squared	0.87		0.89		0.61

*Notes: The dependent variables in the model are bilateral flows in goods, services and 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 at 1%, 5% and 10% levels, respectively. These estimations include fixed effects for countries and time. Not all variables used in the regression are reported here. The detailed results including various models are available in the background papers as in the source below. The PPML method with fixed effects was employed for goods and services equations. Because of the negative values associated with FDI flows for certain country pairs, the FDI equation could not be estimated using PPML. It was estimated using the two-way fixed effect panel data model.*

Source: Razzaque et al. (2015). Further results and analysis can be found in Shingal and Razzaque (2015)

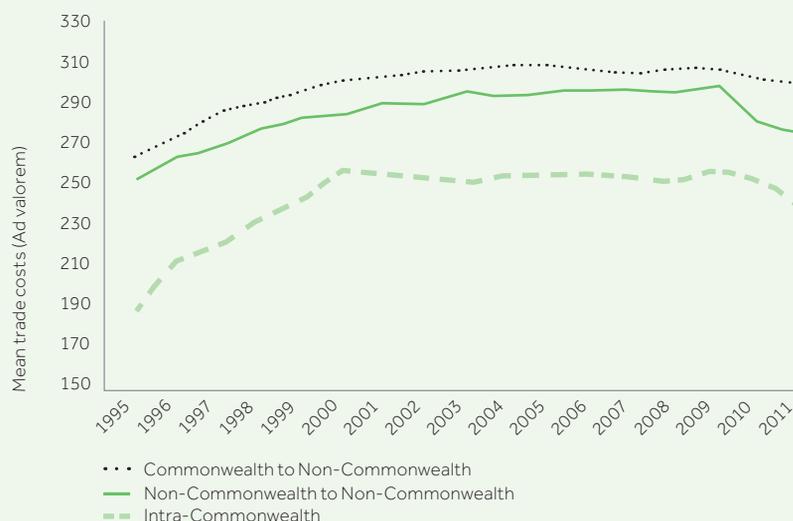
BOX 2.2.
USING THE GRAVITY MODEL TO ESTIMATE TRADE COSTS

Estimating bilateral trade costs (τ_{ij}) is complicated for two reasons. First, it is not known exactly what factors influence the cost of trade between countries. Distance is the most obvious factor, but it is almost certainly not the only one, and there is no agreement as to which factors are important. Second, it is not known exactly how factors such as distance influence the cost of trade, whether linearly, exponentially or otherwise. In estimating equation (2), an assumption is required for this. Such assumptions are ultimately arbitrary (Anderson and van Wincoop, 2004).

An innovative approach is therefore to rearrange equation (1) to express the unmeasurable trade costs τ_{ij} as a function of (easily measured) trade values X_{ij} . This is the approach Arvis et al. (2013) take, deriving an expression for trade costs that depends only on the observed trade flows between and within countries. The resultant bilateral trade costs data have been made available in a joint UNESCAP-World Bank project.

bilateral trade costs for different sample partners reveals they are on average the lowest among intra-Commonwealth trading partners and have been so consistently over time (Figure 2.17).⁵ For example, in 2010, average bilateral trade costs for intra-Commonwealth partners were 265 per cent as against 276 per cent between non-Commonwealth bilateral pairs. When Commonwealth members trade with non-Commonwealth members, the average costs are highest, at 300 per cent. These results seem to be consistent with the findings of declining overall Commonwealth trade as a share of global trade along with rising intra-Commonwealth trade as a share of the Commonwealth's global trade over time.

FIGURE 2.17.
BILATERAL TRADE COSTS BETWEEN COMMONWEALTH MEMBERS AND OTHER PARTNERS, 1995-2011



Note: OECD country pairs are excluded from the calculations.

Source: Commonwealth Secretariat (calculations using data from UNESCAP and World Bank)

TABLE 2.6.
THE COMMONWEALTH EFFECT ON TRADE COSTS

	(1)	(2)
Commonwealth membership (Yes = 1; 0 otherwise)	-0.190***	-0.190***
Distance (km)	0.428***	0.429***
Fixed effects	Time	Time Trend
Sample size	190,000	190,000
Period	1995-2010	1995-2010
R-squared	0.74	0.74

Note: The dependent variable is bilateral trade costs. The estimated coefficients are statistically significant at 1 per cent level, as indicated by ***. Estimated using the Ordinary Least Squares (OLS) panel regression method.

Source: Razzaque et al (2015)

The dataset of Arvis et al. (2013) has also been formally used to test whether the Commonwealth is indeed associated with reduced trade costs between its members. A regression of bilateral trade costs on a binary indicator for whether the two countries are Commonwealth members or not is estimated. The results, shown in columns 1 and 2 of Table 2.6, provide strong evidence

that the Commonwealth is associated with lower trade costs. Even when distance in combination with time fixed effects is accounted for, bilateral trade costs are 19 per cent lower for Commonwealth partners than they are for other pairs of countries (i.e. Commonwealth and non-Commonwealth or both countries being non-Commonwealth).

2.4.3 Trade costs, market access and growth spillovers

The trade costs derived from the gravity model can in essence help assess any country's 'effective market access', or the extent to which it has easy or cheap access to international markets. Countries with low trade costs (cheap access) to large economies (markets) have strong market access. Given their favourable access, such countries can be expected to have higher levels of international trade than countries remote from large global markets. This concept of market access can therefore be used to analyse the distribution of intra-Commonwealth trade.

Figure 2.18 plots each country's, as estimated in Moore (2015), intra-Commonwealth effective market access – its access to other Commonwealth markets – against its level of intra-Commonwealth goods trade. For comparability, all the numbers are expressed relative to Singapore (as the market access numbers have no intuitive meaning and Singapore is the largest goods trader). Although the relationship is not perfect, there is a clear positive correlation between intra-Commonwealth EMA and intra-Commonwealth goods trade. The countries with better access to other Commonwealth markets tend to be the ones with the highest levels of intra-Commonwealth trade.

India, Malaysia and Singapore are highlighted as together they account for over half of intra-Commonwealth trade flows. Singapore and Malaysia benefit from easy access to each other's markets, with extremely low trade costs. The two countries are neighbours, share common languages and colonial history, are part of a regional trade agreement and are both members of the World Trade

BOX 2.3.
MEASURING A COUNTRY'S MARKET ACCESS

Based on the gravity theory and discussions in Boxes 1 and 2, an effective market access (EMA) expression for country i can be calculated as:

$$EMA_i = \sum_j \tau_{ij}^\theta Y_j \quad (3)$$

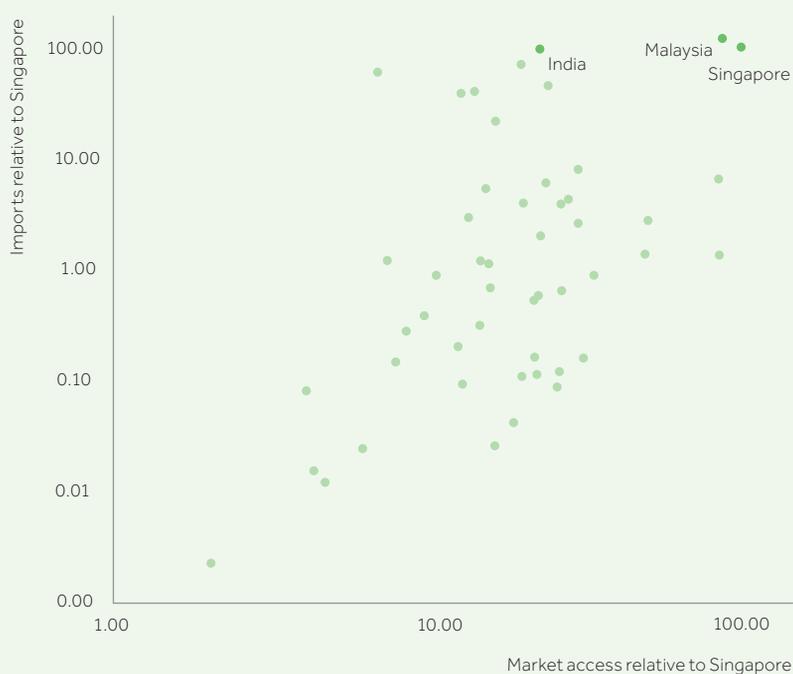
where, as before, τ_{ij} are the trade costs between countries i and j , θ is the responsiveness of trade to trade costs, and Y_j is the GDP of country j . To calculate the effective market access term in (3), a gravity model is first applied, as in equation (2), to get estimates for the θ terms.

Intuitively, the EMA in (3) is capturing the international demand for country i 's products. If there are many large countries (Y_j) with which i has low trade costs (τ_{ij}), demand for country i 's products will be high. Equivalently, i has good 'effective market access'. Based on similar expressions to (3), market access has been shown to be an important determinant of income levels across countries (e.g. Mayer, 2009; Redding and Venables, 2004).

Organization (WTO). The distance between the main areas of economic activity is less than 500 km. India is somewhat of an outlier in that its level of intra-Commonwealth trade is somewhat higher than that predicted by its relative market access.

The countries for which intra-Commonwealth market access is the lowest are all located in the Pacific region. The five countries with the lowest intra-Commonwealth market access are Kiribati, Samoa, Tonga, Tuvalu and Vanuatu. Four of these countries also have the lowest volumes of intra-Commonwealth goods trade, and the other – Samoa – has the seventh lowest volume. Market access therefore helps explain the distribution of intra-Commonwealth trade across countries and regions, and particularly the contrast in shares between the Asian and Pacific regions.

FIGURE 2.18.
INTRA-COMMONWEALTH MARKET ACCESS AND TRADE, 2013



Source: Moore (2015)

As well as directly promoting trade and development, market access increases the benefits countries gain from the growth of their neighbours. High trade costs dampen this effect. Countries with high trade costs therefore receive smaller 'growth spillovers' from their neighbours.⁶

The extent of such growth spillovers between Commonwealth countries can be represented as the increase in domestic growth resulting from 1 percentage point higher growth in the largest Commonwealth economies. Table 2.7 details the strongest spillover effects, as estimated in Moore (2015). The importance of South Africa to the African economy is immediately clear, in particular its importance to its small neighbours Lesotho and Swaziland. Each additional 1 percentage point of South African growth is estimated to add 0.56 percentage points of growth in Lesotho and 0.50 percentage points in Swaziland.

The other two countries with large estimated impacts on their Commonwealth neighbours are Australia and India. Australia is the largest importer of goods from both New Zealand and Papua New Guinea, and, given the large distances from the Pacific countries to other major markets, accounts for a major share of the market access of both countries. Similarly, India is the largest of the Commonwealth South Asian economies, and is estimated to have a substantial influence on the growth of its neighbours. The estimates of India's spillovers is quite striking given that intra-South Asian Commonwealth trade is generally thought to be substantially lower (Hashim and Razzaque, 2015).

The Commonwealth's remote economies, such as the small island states, typically have much smaller intra-Commonwealth growth spillovers. In the Pacific, Australia is the largest importer of goods from Samoa and among the largest importers of goods from Fiji and Solomon Islands. The spillovers from higher Australian growth for these three economies are just 0.09 percentage points, 0.13 percentage points and 0.15 percentage points, respectively, however. Similarly in the Caribbean, Canada is the largest importer of products from Guyana and among the largest importers for Jamaica and St Kitts and Nevis. Its spillover coefficients for the three economies are just 0.04 percentage points, 0.05 percentage points and 0.05 percentage points, respectively. Indeed, for the Commonwealth's Caribbean economies, spillovers from US growth are much higher. Canada itself is estimated to gain an additional 0.63 percentage points of growth for each additional 1 percentage point of US growth.

TABLE 2.7.
LARGEST INTRA-COMMONWEALTH GROWTH SPILLOVERS
(% POINT INCREASE IN ANNUAL GROWTH)

Country	Trade partner	Growth spillover
Lesotho	South Africa	0.56
Swaziland	South Africa	0.50
Namibia	South Africa	0.45
Malaysia	Singapore	0.40
Pakistan	India	0.38
New Zealand	Australia	0.30
Papua New Guinea	Australia	0.27
Bangladesh	India	0.25
Sri Lanka	India	0.24
Malta	UK	0.23

Source: Moore (2015)

2.5 Trade potential and future prospects

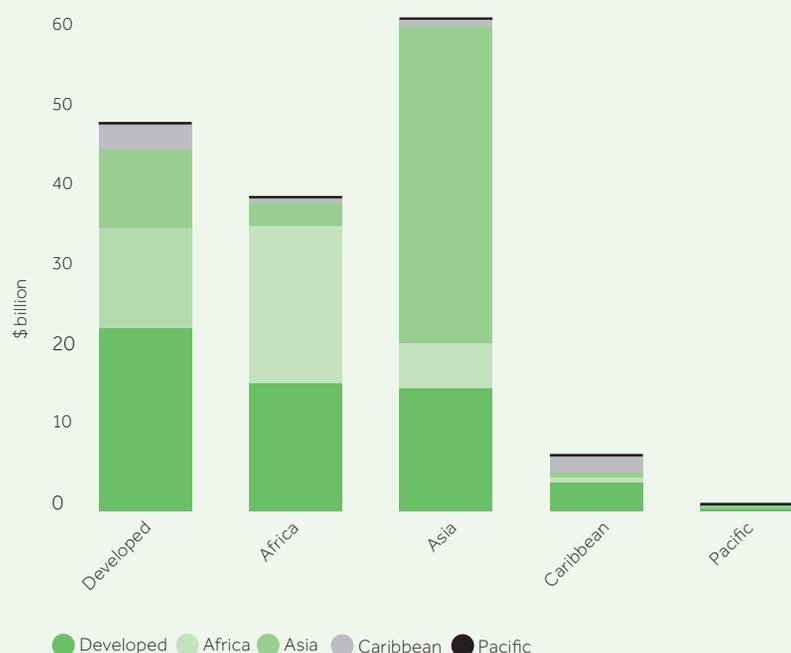
2.5.1 Existing trade potential

As the gravity model explains trade flows, it can be used to predict the level of trade between two countries based on the size of their economies and their bilateral trade costs. This prediction from the model can then be compared with the actual level of trade between two countries, to look for cases of 'over-trading' and 'under-trading'. Under-trading, whereby countries trade less than predicted by the model, indicates the potential for trade expansion.⁷ Cases of under-trading across Commonwealth members are examined to identify countries and regions where the potential for increased intra-Commonwealth trade is the greatest. For data availability reasons, this analysis is limited to trade in goods.

The analysis suggests that, in 2013, potential export trade among Commonwealth countries amounted to \$156 billion. This is around 34 per cent of the total intra-Commonwealth exports of goods trade that year. Figure 2.19 demonstrates the distribution of this immaterialised trade across the Commonwealth regions, together with the partner regions that each is under-trading with. Clearly, the scope of potential trade is largest between the Commonwealth Asian countries. Intra-Asian Commonwealth exports in 2013 were \$39 billion below what is predicted from the gravity model. This is particularly striking given that Asia already dominates intra-Commonwealth trade flows in goods. South Asian countries accounted for the vast majority of this deficit – almost \$38 billion in 2013. This is largely a result of the potential to increase exports from India to Bangladesh, Pakistan and Sri Lanka, as well as a large potential for Bangladesh and Pakistan to increase exports to India.

The next major area of trade potential is intra-African. Under-trading within the Commonwealth African countries

FIGURE 2.19.
INTRA-COMMONWEALTH TRADE POTENTIAL, 2013 (\$ BILLION)



Source: Commonwealth Secretariat (calculations using gravity model results)

is estimated at \$19 billion in 2013. As discussed above Africa has rapidly grown in importance both as an exporter and importer of Commonwealth goods. This importance would increase even further if the African countries traded as much as expected based on their economic fundamentals captured by the gravity model.

Among others, major sources of potential intra-Commonwealth trade are developed country exports to Africa, which are about \$12 billion lower than predicted. This is mainly because of the UK under-exporting by almost \$8 billion to Africa.

Another major source of potential intra-Commonwealth trade lies in Africa's exports to the UK, which was estimated to have the potential to increase by \$12 billion in 2013. Within the African group of countries, Cameroon, Nigeria and

South Africa have the most potential to increase their exports to the UK.

The Caribbean has relatively low potential to increase intra-Commonwealth trade compared with Africa and Asian regions. Nevertheless, Caribbean countries have the most potential to increase exports with traditional developed trading partners such as Canada and the UK – by almost \$4 billion in 2013.

Again, Pacific Island countries have low potential when compared with other regions. However, when put in the context of the current volume of their exports, there are significant gains to be had: the region has the potential to increase its intra-exports by more than \$1 billion, which is 14 per cent of its goods exports in 2013. This potential lies mostly in their trade involving the UK and Canada.

2.5.2 Trade potential with policy interventions

Another way of assessing trade potential is to study the likely impact on trade flows of certain policy interventions. Milner (2008) and the International Trade Centre (ITC) (2013) discuss policy options for promoting intra-Commonwealth trade. One conclusion that emerges from these discussions is that legal, administrative and political economy considerations would severely constrain the establishment of a Commonwealth-wide RTA. However, certain measures, like improving trade logistics and unilateral actions to tackle tariff and non-tariff barriers, can help augment trade flows.⁸

The importance of trade logistics and streamlining procedures in the cross-border movement of goods cannot be overemphasised in promoting trade. This is particularly so as developing nations are increasingly trading more, and many of these countries suffer from serious bottlenecks, including inadequate and inefficient port management and lack of other supporting hard and soft infrastructure. The WTO-led Trade Facilitation Agreement (TFA) has recently catapulted this issue into prominence. In WTO parlance, trade facilitation is somewhat narrowly defined, and it contains provisions for expediting the movement, release and clearance of goods, including goods in transit. Measures are set out for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.⁹ Even before the TFA, there was general consensus on improving trade logistics in developing countries in support of their trading capacity.

Any improvement in trade logistics is not about promoting trade between Commonwealth members only; rather,

it will have an impact on trade involving all other partners. Nevertheless, it is of interest to understand the potential implications for intra-Commonwealth trade, for which Narayan et al. (2015) undertake a modelling exercise using the widely used Global Trade Analysis Project (GTAP) model. The GTAP is a multi-country, multi-sector general equilibrium-based analytical framework that 'simulates' the impact of various changes on a country's output, trade, employment, etc.¹⁰ In the GTAP database, 140 countries are included as separate 'regions', including 30 Commonwealth members.

To examine the impact of improved trade logistics, hypothetical improvements in the Logistics Performance Index (LPI), prepared by World Bank, associated with Commonwealth members are considered. The LPI is based on a

worldwide survey of freight operators providing feedback on the logistics 'friendliness' of the countries with which they operate. The 2014 LPI exercise is used, which covers 160 countries. To analyse the effect of improvements in trade logistics, two scenarios are considered:¹¹

Scenario I: Each Commonwealth country achieves the same level of LPI score as that of Singapore, which is the best performer among the Commonwealth countries.

Scenario II: Each Commonwealth country with a lower LPI score than South Africa achieves the same score as South Africa; this is chosen as it is seen as an achievable 'above-average' score.

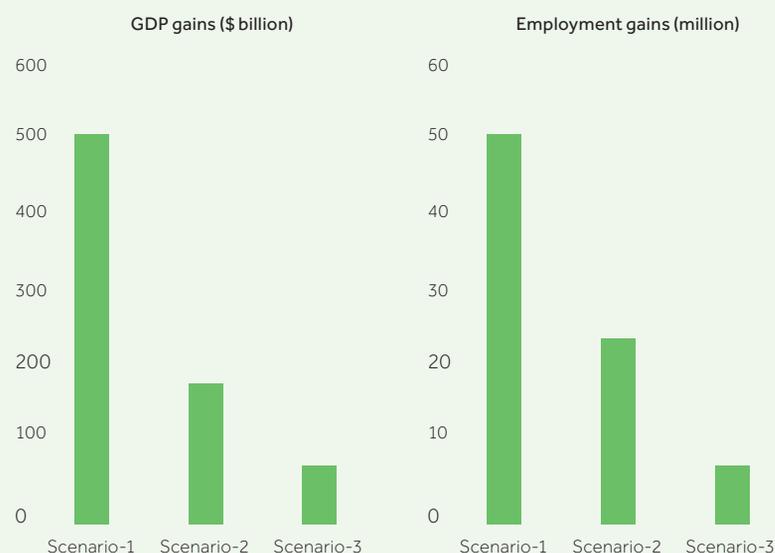
To better appreciate the impact of improved trade logistics, a further scenario is considered.

Commonwealth countries do not make any improvement in their LPI score but abolish all tariffs on their intra-Commonwealth trade (Scenario III).

While Scenario I might be regarded as unrealistic, it provides an important perspective on gains that can be obtained from achieving such a high level of efficiency. Scenario II, on the other hand, can be considered a rational target for most developing countries.

The simulation results, reported in Narayan et al. (2015), reveal that, under Scenario I, combined Commonwealth GDP will increase by \$501 billion; under the more realistic Scenario II, it will increase by \$177 billion (Figure 2.20). There will also be substantial employment gains. Without any improvement in trade logistics, abolition of all tariffs on intra-Commonwealth trade results in an increase in combined Commonwealth GDP of \$80 billion.

FIGURE 2.20.
WELFARE GAINS FROM TRADE FACILITATION



Source: Narayan et al. 2015

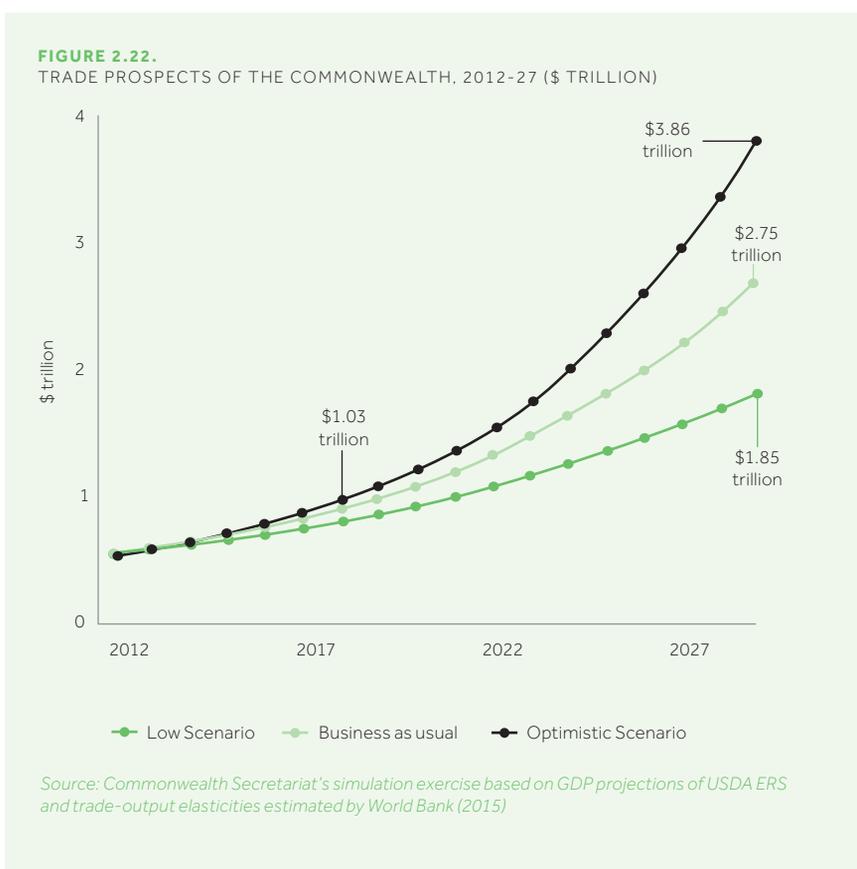
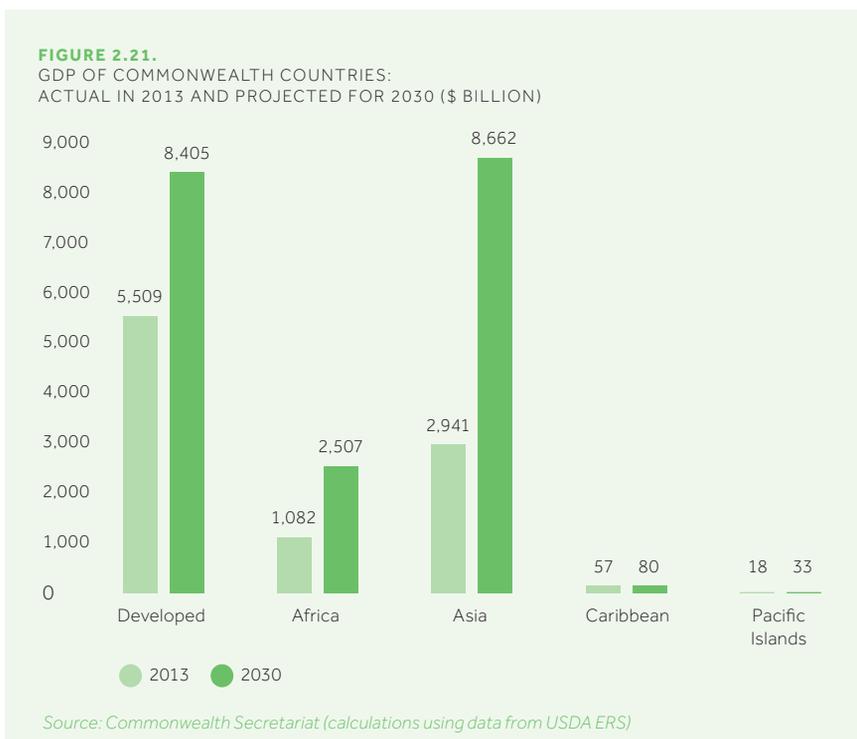
Economists most often report impact in terms of welfare changes. Measured in 'equivalent variations', they represent the amount of money consumers would have to pay if they did not obtain the changes in prices and trade quantities foreseen in the scenarios. Narayan et al. (2015) also consider welfare changes along with employment gains associated with the scenarios. The aggregate welfare changes are in line with the GDP gains mentioned above, and, in almost all cases, the gains are substantial for Commonwealth countries. Under the more plausible Scenario II, in which each country achieves at least South Africa's level of efficiency, the total welfare gains in the Commonwealth are \$138 billion with employment effects of 24 million, and additional intra-Commonwealth exports of \$124 billion.¹²

2.5.3 Future prospects

While the trade potential analysis above shows trade opportunities currently not being utilised, another avenue through which trade can expand is via improved future economic prospects in the Commonwealth. As Part 1 of this Review revealed, buoyant economic growth has been widespread in many developing countries over the past two decades or so. Commonwealth members are likely to achieve expanded economic output with traded goods and services over medium- to long-term horizons.

Using projections for global economies from the US Department of Agriculture’s Economic Research Service (USDA ERS), it can be estimated that the combined GDP of the Commonwealth, measured in constant 2010 dollars, will double over the next 15 years to reach about \$20 trillion in 2030. Figure 2. 21 demonstrates the projected increase in GDP in each of the Commonwealth regions. It is clear the largest expansion is anticipated in South Asia, driven primarily by India, which is set to be the largest Commonwealth economy by 2020. By 2030, India’s economy will be at \$6.6 trillion. South Asia less India will have about a \$1 trillion market, from less than \$400 billion in 2013. The seven largest Commonwealth developing countries (India, Nigeria, South Africa, Malaysia, Singapore, Pakistan and Bangladesh) will see their combined GDP rise from less than \$4 trillion in 2013 to more than \$10 trillion, which will be just above 50 per cent of Commonwealth GDP in 2030.

Given the growth in economic activities, the trade volume of Commonwealth countries will also expand significantly. If the relative significance of intra-Commonwealth trade is maintained at its current level, under the most plausible scenario trade between Commonwealth members, as Figure 2. 22 shows, could rise to \$2.75 trillion by 2030.¹³ If a ‘low-export expansion’ scenario is considered to



depict a weak export-output relationship across countries, intra-Commonwealth exports are projected to reach \$1.85 trillion. Under an optimistic scenario, such trade could reach \$3.86 trillion.

2.6 Way Forward: Promoting Intra-Commonwealth Trade

This Part of the Review has considered the state and dynamics of intra-Commonwealth trade and investment, analysing the drivers of the associated emerging trends. It has also provided some quantitative assessment of further trade prospects between members. Despite not being a trading bloc, and members not being considered natural trading partners - with substantial distances separating many of them - intra-Commonwealth trade has been growing in both absolute and relative terms and now accounts for 18 per cent of Commonwealth members' total (world) trade.

There is strong evidence for a 'Commonwealth effect' that seems to be contributing to increased trade and investment flows between members. The econometric estimates suggest that, when both countries are Commonwealth members, trade in goods and services, taken together, is 20 per cent higher, and bilateral FDI is 10 percent higher than they would otherwise have been. The Commonwealth effect is also captured in trade costs: bilateral trade costs between Commonwealth members are estimated to be 19 percent lower than those involving other trading partners.

Under current economic conditions, there exists substantial potential for increased trade between members. This is estimated to be \$156 billion – that is, about 34 percent of the total intra-Commonwealth goods trade in 2013. A significant proportion of this potential is a result of under-trading between Asian members and between African members.

Improved trade logistics in the Commonwealth can have far-reaching positive implications. Simulation exercises show that, if the Commonwealth countries that currently have lower LPI scores can achieve the same level of efficiency of South Africa, the combined GDP gains in the Commonwealth will be \$177 billion, exports will increase by 124 billion and employment will expand by 24 million. In comparison, if Commonwealth countries only abolish all their tariffs on intra-Commonwealth trade, GDP gains will be \$80 billion.

As Commonwealth economies, particularly the large developing ones, are expected to achieve significant expansion in their output over the medium to long term, trade between members is also likely to see huge growth. Under a plausible scenario, intra-Commonwealth trade (including that of goods and services) is projected to rise from the current level of close to \$600 billion in 2013 to \$2.75 trillion in 2030.

As mentioned earlier, the Commonwealth is a voluntary association and not an RTA and thus does not exercise association-wide policy mechanisms to promote trade between members.¹⁴ Nevertheless there are several practical options for materialising the huge trade potential.

Measures that boost Commonwealth countries' overall trade performance and capacity are also likely to contribute to

enhanced intra-Commonwealth trade. Increasing trade and investment flows between Commonwealth members has been possible without any association-wide coordinated policy actions. Therefore, focussing on broad areas for trade development is also about creating trading opportunities for members. In this respect, Part 3 of this Review discusses five priorities for Commonwealth countries in terms of unleashing their trade potential, namely, building productive capacities, managing trade policy and negotiation, addressing implementation gaps, promoting private sector development, and creating an enabling global trade architecture. Any trade response generated by addressing these priorities will likely get amplified through the observed Commonwealth effect (i.e. the lower trade costs between members). Similarly, the inherent advantages should also be leveraged for greater gains by members.



AS COMMONWEALTH ECONOMIES, PARTICULARLY THE LARGE DEVELOPING ONES, ARE EXPECTED TO ACHIEVE SIGNIFICANT EXPANSION IN THEIR OUTPUT OVER THE MEDIUM TO LONG TERM, TRADE BETWEEN MEMBERS IS ALSO LIKELY TO SEE HUGE GROWTH. UNDER A PLAUSIBLE SCENARIO, INTRA-COMMONWEALTH TRADE (INCLUDING THAT OF GOODS AND SERVICES) IS PROJECTED TO RISE FROM THE CURRENT LEVEL OF CLOSE TO \$600 BILLION IN 2013 TO \$2.75 TRILLION IN 2030.

Given the huge gains to be materialised, the Commonwealth should be an effective means of promoting trade logistics and facilitation in developing countries. The presence of world class performers in the area such as Singapore and the UK provides a forum to better appreciate the associated challenges, and share experiences of practical ways of dealing with them. The developed country members of the association, such as Australia, Canada and the UK, are also important sources of technical and financial assistance programmes supporting developing countries' efforts in improving their trade logistics, infrastructures and facilitation measures. Furthermore, emerging developing countries such as India and South Africa also have significant regional trade support assistance.

Both in Part 1 and earlier in this Part, the growing significance of trade between and with developing countries was highlighted. There is broad-based consensus that improved trade facilitation measures in developing countries can greatly boost trade flows. The Commonwealth can assist by promoting cooperation between members and disseminating best practices, thereby encouraging the learning process. It can also play an advocacy role (with member states, international agencies and national institutions) to support the development of proposals and implementation of infrastructure projects for improved trade logistics and facilitation.

Despite falling average tariffs, the substantial scope of tariff rationalisation and tackling non-tariff barriers (NTB) in promoting intra-Commonwealth trade should be considered. In many cases, especially in trade involving developing countries, tariffs are quite high. According to one estimate (ITC, 2013), between Commonwealth developing members, tariff rates are on average more than

7 per cent. And, intra-Commonwealth trade flows are also subject to 'tariff escalation', whereby tariffs increase as the level of processing of the product increases, which could be more than 20 per cent for agricultural products. Under such circumstances, unilateral tariff cuts by members can promote trade. Although much of the focus of trade liberalisation has been on tariffs, NTBs are likely to have a much larger impact on trade. For example, it has been estimated that removing NTBs in intra-African trade in leather and leather products could result in additional trade of over \$2 billion (Banga et al. 2015) with a significant proportion of it being intra-Commonwealth in nature.

Given the above, a combination of such measures as unilateral tariff rationalisation, tackling NTBs and improved trade logistics and facilitation constitutes a more pragmatic approach to boosting intra-Commonwealth along with overall trade. Individual countries are already pursuing some of these measures and all available opportunities should be utilised to trigger trade response.

Since the Commonwealth is not a trading bloc, one way of promoting trade between members is through strengthening integration processes in various regions. Many of the existing arrangements have not helped stimulate regional trade flows. Therefore, further promotion of intra-Commonwealth trade, albeit for sub-sets of the membership, could be achieved through strengthened integration at the regional level. It needs to be pointed out here that deeper regional cooperation should go much beyond the traditional emphasis on expanding intra-regional trade through protected regional markets. As mentioned earlier, despite increasing trade of RTAs, more than fourth-fifths of such trade is without the support of discriminatory tariff preferences.



A COMBINATION OF SUCH MEASURES AS UNILATERAL TARIFF RATIONALISATION, TACKLING NTBs AND IMPROVED TRADE LOGISTICS AND FACILITATION CONSTITUTES A MORE PRAGMATIC APPROACH TO BOOST INTRA-COMMONWEALTH TRADE. MEASURES THAT BOOST COMMONWEALTH TRADE PERFORMANCE AND CAPACITY ARE ALSO LIKELY TO CONTRIBUTE TO ENHANCED INTRA-COMMONWEALTH TRADE.

Therefore, effective integration to unlock trade potential should include such measures as improved connectivity, a strengthened investment climate, harmonisation of standards and policies, etc to result in a bigger market with trade expansion benefiting from scale and agglomeration economies.

There is tremendous potential for developing cross-border production networks and regional value chains across the Commonwealth regions. Several member countries are located in regions with much recognised comparative advantage in particular sectors. The textiles and clothing sector in South Asia, for example, involves four Commonwealth members (Bangladesh, India, Pakistan and Sri Lanka), fetching more than \$80 billion in exports collectively for the region, and providing employment to close to 60 million people directly and more than 90 million indirectly.¹⁵ While each of the

four countries sources the majority of its inputs for exports from outside the region, the region is also exporting the same to global markets.¹⁶ It has been estimated – in a study undertaken jointly by the Commonwealth Secretariat, UNCTAD, and the Centre for WTO Studies (2011) – that the untapped potential for intra-regional (and therefore intra-Commonwealth) trade in the sector could be more than five times the existing level of \$650 million.¹⁷ Given the current trends and state of the supply-side capacity, it is most likely that exports of textile and apparels from South Asia will continue to rise. Therefore, this is an attractive sector for investment both from within and beyond the Commonwealth. Similarly, according to a Commonwealth-UNCTAD study, for SSA Commonwealth members, leather and leather products is a sector that holds great promise for developing supply chains in the region, involving a number of Commonwealth countries (Banga et al. 2015).¹⁸

The Commonwealth has a strong diasporic community, which is already playing an important role in driving trade and investment between member countries, but much of the potential of this remains unutilised. Diasporas often demand what are known as ethnic, nostalgic and identity goods, thereby providing an important bridge into new markets. Mobilising diaspora savings can lead to new business and investment opportunities. There are already innovative examples regarding the money transfer business in Kenya, through M-Pesa - a mobile money transfer system, which was first launched in 2007 by the Kenyan mobile network operator, Safaricom, partly owned by Vodafone Group plc. Indeed, the potential benefits offered by Commonwealth diaspora are not well-understood (Nurse, 2015). They may present a hidden strategic resource to promote trade and development and to catalyse innovation, investment and the development of new markets.

Finally, the Commonwealth as a platform for establishing and strengthening contacts between traders and investors should be enhanced and effectively utilised. International trade is also about business-to-business networks. Under advanced regional integration schemes, for example, the EU, the Association of South-East Asian Nations (ASEAN), and the North American Free Trade Agreement (NAFTA), governments and various chambers of commerce and other bodies facilitate private sector corporation. Similar initiatives can also be promoted even in the absence of any formal preferential trading mechanism like the Commonwealth. Regular interactions and information-sharing between private sector enterprises can result in new trading and investment opportunities. This can also help in identifying trade complementarities between various Commonwealth regions.

Endnotes

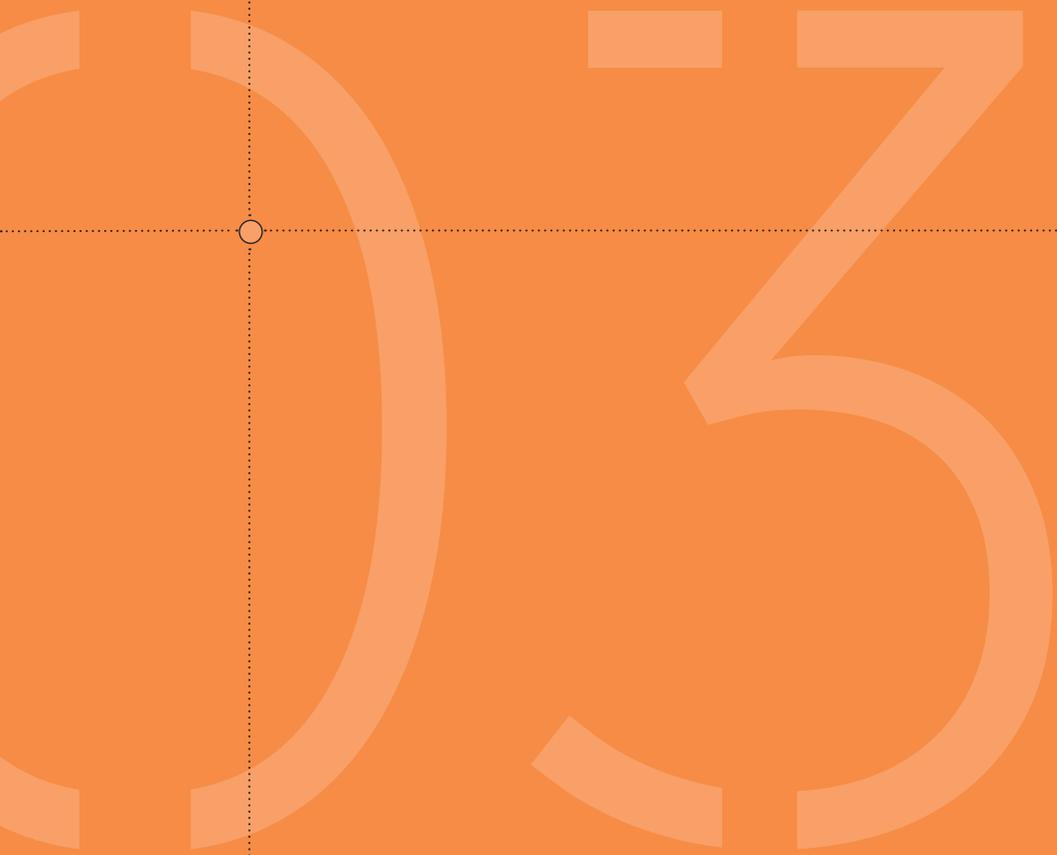
1. However, in recent times the emergence of such mega-regionals as the Trans-Pacific Partnership (TPP) seems to suggest regional trading arrangements (RTAs) involving countries from different continents with different levels of development are quite plausible. Economic partnership agreements (EPAs) between the European Union (EU) and African, Caribbean and Pacific (ACP) countries are also examples of PTAs involving countries with different levels of economic development.
2. FDI refers specifically to investments made by foreign investors to acquire a long-term stake in domestic enterprises. According to UNCTAD, the investor must acquire at least a 10 per cent equity stake in the domestic firm for the transaction to be classified as FDI. Since the defining feature is that it involves (partial) foreign ownership of a domestic enterprise, only capital that is provided directly by the investor, or through enterprises related to the investor, is considered. The forms of investment classified as FDI are equity capital, the reinvestment of earnings and the provision of long- and short-term intra-company loans (between parent and affiliate enterprises). As FDI flows transfer ownership of enterprises across countries, investors accumulate stocks of foreign enterprises. Specifically, FDI in-stock are all direct investments held by non-residents in the domestic economy. FDI out-stock are the investments of domestic residents held abroad.
3. Net ODA from the Development Assistance Committee (DAC) members totalled \$135.2 billion in 2014.
4. According to Bennett et al. (2010), the Commonwealth effect may also be driven in part by behavioural factors. In addition to the factors outlined above, they suggest shared preferences regarding open democracy, human rights and the rule of law are also important factors.
5. In this figure trade costs for all the three bilateral pair groups appear to be rising between 1995 and 2000. There could be three potential reasons for this rise. First, as the explanatory note to the trade cost dataset contains, these costs are measured in relative terms as a ratio of cost of trading with another trading partner (bilaterally) to the costs of trading in the domestic market (intra-national costs). If the domestic trade costs fall, the ratio might go up. Second, there is evidence of transport costs actually increasing in this period, probably due to higher fuel prices (ESPAS, 2013; P-42). Finally, the third potential contributory factor is an increase in air transport of goods especially for high value items as a result of the surge in intermediates trade.
6. From the market access formula in Box (3), foreign growth increases Y_j and so increases the domestic country's market access. Based on estimations of the impact of market access on output, it is therefore possible to simulate how faster foreign growth impacts domestic output and growth. Although the 'demand channel' is emphasised here, there is an additional channel coming from lower consumer prices owing to easier access to imports. This also serves to boost domestic growth.
7. This should be treated with some caution, as the level of predicted trade can be affected by the particular specification of the empirical model. To some extent, over-trading and under-trading can also be considered a failure of the model to accurately fit the data. Nevertheless, it has been standard practice in the academic literature to use predicted values to assess trade potential.
8. For certain countries like the UK, which is part of the EU, undertaking unilateral tariff measures may be difficult. Average tariffs in the EU are, however, already low.
9. The TFA further contains provisions for technical assistance and capacity-building support for developing countries in all these areas.
10. The GTAP model is described in Hertel (1997), while the details of simulations undertaken to understand the impact of improved trade logistics on the Commonwealth can be found in Narayan et al. (2015).
11. For the first two scenarios, the percentage changes required in the LPI for a given country to reach the levels in Singapore and South Africa, respectively, are introduced as shocks in the model. In the GTAP model, changes in bilateral trade flows are determined by (1) changes in the prices of imports, (2) aggregate imports in the domestic market and (3) all other factors captured under 'import-augmented technological change'. The improvement in the LPI score for individual countries was introduced through the last route.
12. These results are consistent with others in the literature. Hufbauer and Schott (2013) show a \$960 billion gain in global GDP owing to improved trade facilitation, whereas Wilson et al. (2003) suggest export gains of \$254 billion within Asia-Pacific Economic Cooperation (APEC) members. The Organisation for Economic Co-operation and Development (OECD) (2014) estimates that every 1 per cent decline in trade costs is associated with \$40 billion in income gains in the global economy. Similarly, Djankov et al. (2010) find an extra day of transit time reduces trade volumes by around 1 per cent.
13. The projected scenarios are based on USDA ERS projected GDP growth rates between 2015 and 2030 and the trade-out elasticities provided in World Bank (2015). An elasticity value of 1.3 per cent is considered for the low scenario, whereas 1.5 per cent is used for the business-as-usual scenario. For the high scenario, the elasticity value for India, Nigeria and developed countries is 1.5 per cent; for all other countries a value of 1.7 per cent is used.
14. Options for promoting intra-Commonwealth trade have also been reviewed in Milner (2008) and ITC (2013). One conclusion that emerges from these discussions is that setting-up of a Commonwealth-wide preferential trading arrangements would be severely constrained by legal, administrative and political economy considerations. Milner (2008) suggests that there would be fewer legal and administrative constraints on the development of specific bilateral and/or regional FTAs within the Commonwealth. Also, it was argued that the association could promote certain regional integration schemes involving Commonwealth countries (e.g. South Asia). ITC (2013) advocated for unilateral measures to tackle tariff escalation and promote further trade liberalisation in the Commonwealth. The discussions below consider a number of options.
15. The region's share in global exports of the sector increased from just about 2 per cent in 2002 to more than 10 per cent in 2013. Export earnings from this sector in 2013 for individual countries stood at, \$25 billion for Bangladesh; \$36 billion for India; \$14 billion for Pakistan, and \$5 billion for Sri Lanka. The sector provides direct employment to 3.5 million people in Bangladesh, 38 million in India, 15 million in Pakistan and 0.3 million in Sri Lanka. Its critical importance

is also reflected in the contribution to individual countries' export earnings. Textiles and apparel products constitute 75 per cent of total merchandise exports in Bangladesh; around 12 per cent in India; 45 per cent in Sri Lanka; and 55 per cent in Pakistan.

16. The study finds regional suppliers already have lower export unit values than the preferred global suppliers in many of these identified products. Even without discriminatory tariff policies, promoting regional supply chains could boost the region's competitiveness.
17. Why the intra-regional trade is currently not taking place within the textiles and clothing sector is also analysed in the same study. Various policy and non-tariff barriers including poor trade logistics and lack of trade facilitation measures impeding cross-border movement of goods, particularly in relation to land-borders, have been found to be the main reasons. In some cases, buyers' preference in procuring inputs is also a constraint; this can be eased through the formation of an effective regional supply chain network.
18. The study utilises the bilateral trade data of individual countries involved in the regional trade in leather to estimate potential trade at \$554 million against actual yearly average intra-regional trade of just \$245 million.

PART 03

Unleashing the trade potential: priorities for the Commonwealth



There exists tremendous potential for the expansion of trade of Commonwealth states – both between members and their overall trade.

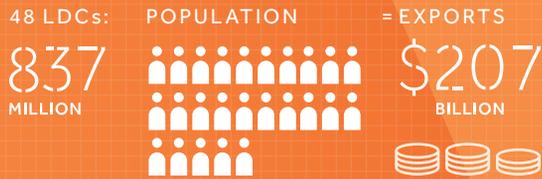
The opportunities are substantial but for many Commonwealth countries, so are the obstacles to fulfilling the potential.

Harnessing the Commonwealth's trade potential will require focusing on five broad priorities: building productive capacity, managing trade policy and negotiations, tackling implementation deficit, promoting private sector development, and securing a trade-supporting global architecture.

These are mammoth tasks. But the Commonwealth experience demonstrates that some countries have been able to 'punch above their weight' while dealing with these challenges. Reflecting on the experiences of Commonwealth countries give valuable insight into trade-related policy and practice in action.

1 BUILDING PRODUCTIVE CAPACITY

BUILDING AND DIVERSIFYING PRODUCTIVE CAPACITY IS FUNDAMENTAL FOR TRADE SUCCESS.



2 MANAGING TRADE POLICY AND NEGOTIATIONS

THE SCOPE OF TRADE POLICY MEASURES AND NEGOTIATIONS IS INCREASING BUT CAPACITY CONSTRAINTS REMAIN.



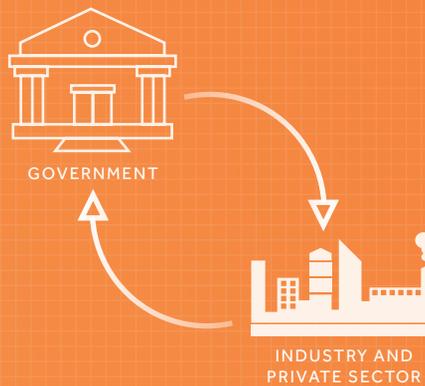
3 TACKLING IMPLEMENTATION DEFICIT

THERE ARE HUGE GAPS IN THE IMPLEMENTATION OF TRADE STRATEGIES AND AGREEMENTS.



4 PROMOTING PRIVATE SECTOR DEVELOPMENT

A DYNAMIC AND VIBRANT PRIVATE SECTOR REQUIRES AN ENABLING ENVIRONMENT.



5 SECURING A TRADE-SUPPORTING GLOBAL ARCHITECTURE

1. ENSURING ADEQUATE AND EFFECTIVE TRADE CAPACITY BUILDING.
2. FULFILLING INTERNATIONAL COMMITMENTS IN ALL AREAS.
3. IMPROVING MARKET ACCESS.



3.1 Introduction

Parts 1 and 2 of this Review identified substantial trade potential for Commonwealth states. However, the obstacles to fulfilling this potential are also significant. Therefore, one key question relates to what the key priorities should be for promoting Commonwealth countries' trade while at the same time tackling the challenges. Answering this question requires consideration of all major developments as well as identifying the constraints inhibiting trade capacity. Parts 1 and 2 did this by briefly discussing some of the specific issues emerging for the Commonwealth. Of course, countries are heterogeneous and the strategies for their trade development vary. Nevertheless, it is possible to obtain a broader picture.

One characteristic of the majority of Commonwealth developing countries is a limited and undiversified productive capacity constraining their ability to trade. A fundamental challenge for many relates to making their production structure more flexible so it can better adapt to changes in the world economy. Many small and Sub-Saharan African (SSA) states have made insufficient progress in terms of reducing the heavy concentration of their exports on a small number of goods, many of them unprocessed raw materials. Trade preferences and, more recently, booming demand for raw materials as a result of growth mainly in large emerging economies, particularly in China, have masked this overconcentration for some. Achieving structural transformation of their economies and export diversification has proven a steep hill to climb.

As the scope of trade policy has broadened, so the task of establishing policy priorities and implementing the obligations has become more demanding. Key trade policy choices with major development implications are buried in technical detail, yet mastering the latter is essential to achieving a desired outcome on the former. Coordination within the public sector and with the private sector stretches resources to the limit. A substantial 'implementation gap' has emerged between what countries have committed to do, as stipulated in their national trade development strategies and regional and multilateral trade agreements, and what is happening on the ground.

Even when market access opportunities exist and domestic policies are no barriers, countries' trade performance is generally determined by the response from business enterprises. In many developing countries with a poor investment climate, developing a dynamic private sector has been a major challenge. While increasingly fragmented production processes are opening up new trading prospects, profiting from this will depend on the private sector's taking advantage of the changing circumstances.

Much of the required action lies with developing countries themselves, but there is much the international community can do to help. The Sustainable Development Goals (SDGs) offer pegs for a wider range of actions in this respect, in terms of supporting sustainable, equitable and development-oriented production and trade. However, traditional measures such as development assistance, Aid for Trade (AfT) and improved market access all need to be broadened to support the full range of actions required in small, least-developed and SSA states to unlock the potential for development through trade identified in Parts 1 and 2.

Indeed, building productive capacity, managing trade policy and negotiations, tackling the implementation deficit, promoting private sector development and securing a trade-supporting global architecture are the broad determinants of trade success across the Commonwealth developing world. As these factors are interlinked, ensuring complementarities is important. This Part briefly discusses these factors while reflecting on the experiences of Commonwealth countries.

3.2 Building productive and trade capacities

Productive capacity represents the foundation of each country's strategy to benefit from trading opportunities. Such capacity essentially determines what a country is able to produce efficiently and competitively (UNCTAD, 2011) and trade internationally. Much of what determines or could enhance a country's productive capacity falls well outside the boundaries of trade or trade-related policy. These include health (Box 3.1), education, and training of its population, social and gender development and physical infrastructure (including transport networks and power generation), as well as the framework of laws, institutions and regulations within which commerce and investment take place.

Clearly, members of a group as large and diverse as the Commonwealth start from very different positions in terms of the range of goods and services produced and capacity to shift resources between activities. This variety goes part of the way to explaining the differences in trade and GDP performance. Large countries can produce domestically a wider range of goods and services than can small states. And states with flexible economies, able to shift resources from sunset to sunrise sectors, are better placed than others to take advantage of changes in global supply and demand. The Commonwealth includes states in all of these categories.

Lack of productive capacity is the most important constraint facing least-developed countries (LDCs), small states and SSA. To put things in perspective, 48 LDCs (including non-Commonwealth ones), with a total

population of 837 million, had combined merchandise exports of about \$207 billion in 2014, which is lower than what Malaysia, a country of 27.8 million people, exported in the same year (\$234 billion). Similarly, annual production in LDCs, as measured by GDP, is estimated at \$833 billion dollars, approximately 1.15 per cent of global GDP (\$74 trillion) and the same size as the 249 million person-strong Indonesian economy.

Poor economic infrastructure in many Commonwealth developing countries raises transport and logistics costs and impairs productive and trade capacities and competitiveness. Efficient transport networks, especially roads, rails and ports, are essential to connect people, goods and markets and to deepen regional integration. Power shortages are seen as one of the most critical impediments to developing capacities further. According to World Bank estimates, of Africa's overall infrastructure funding gap of

about \$93 billion annually, more than one-third relates to the power sector (Foster and Briceño-Garmendia, 2010).

Many developing countries, including those in SSA, have experienced sustained growth over the past two decades or so, leading to their expanded productive capacity. International trade and the development of productive capacities are mutually reinforcing. Trade can result in efficiency gains, technological upgrading and capital accumulation, contributing to competitive productive capacity development. However, the continued dependence of these developing countries on a narrow range of primary sectors implies not much progress is being made in relation to achieving structural transformation, while the beneficial impact of trade is also being limited. Only transformed productive capacity offers a long-term solution in cases where a country's current trade position does not support the desired development goals.

BOX 3.1.

THE EBOLA CRISIS, HEALTH AND PRODUCTIVE CAPACITY

The primary cost of the Ebola outbreak is the loss of human lives. Sierra Leone bears the highest burden in terms of numbers of infection, with 13,250 people infected and 3,949 deaths as of end-July 2015, according to the situation report by the World Health Organization (WHO). The World Bank estimates the virus has cost Sierra Leone an estimated \$920 million in 2015.

The economy of Sierra Leone was booming prior to the Ebola crisis, mainly because of increases in iron ore and other mining activities, increased agricultural production, continued construction activities, expansion in the services sector and recovery of the tourism sector. However, the impact of closed borders on transport and connectivity as well as the ailing workforce has affected cross-border trade and overall consumption of all commodities and services including health care. In the aftermath of the crisis, slow economic growth is projected, as stigmatisation of the affected countries continues to limit the prospects of trade in the affected region. Guinea, Liberia and Sierra Leone are expected to lose more than 12 per cent of their combined gross domestic products (GDPs) in 2015.

Source: Games and Vickers (2015); WHO (2015)

3.2.1 Trade preferences and productive capacity

As an earlier era comes to an end, many Commonwealth developing countries are facing the challenges of productive capacity transformation. The post-war economic order was marked by certain stabilising mechanisms, including preferential schemes for newly independent countries' exports, which were mainly agricultural commodities and unprocessed raw materials. Trade preferences associated with many primary activities created economic rents that could, with adequate supply and transportation, provide a guaranteed hard currency income stream for developing countries while assuring supplies for importers in developed countries. This ensured a degree of recognition for the needs of developing countries, as they embarked on nation-building in the face of constraints arising from smallness, isolation, low incomes and vulnerability. Although this economic and political framework – anchored in a vision of trade-led growth – sought to promote industrialisation, diversification of economic activities has been very difficult to achieve. Nearly five decades after the original UN Conference on Trade and Development (UNCTAD) resolution calling for the granting of preferences to developing countries, trade negotiation, autonomous liberalisation in preference-granting markets and the entry into traditional Commonwealth markets of new and more competitive suppliers have gradually eroded these stabilising mechanisms.

The apparent impact of the decline in preference margins on trade has varied among Commonwealth developing countries, for different reasons. Because of commodity price hikes, partly fuelled by growth in large developing countries, SSA countries have managed to post

significant export growth by expanding exports to the emerging Southern economies. Small states, on the other hand, have been hit hard.¹

An undiversified export basket carries with it latent problems, even for those states that have experienced buoyant export growth on the back of the commodity booms to which rapid growth in emerging economies (notably China) has contributed. Part 1 flagged the potential effect the slowdown in China and other emerging economies can have on commodity and natural resource-supplying countries. But the problems go wider than this: as the substantial literature on the 'resource curse' attests, the dominance of one export good can distort the rest of the economy, especially when it is derived from an extractive industry with weak linkages to other sectors. As such, dominant commodity exports may be a double-edged sword. On the one hand, they generate needed foreign exchange and employment; on the other, they may hinder the process of diversification.

3.2.2 Moving on from traditional preferences

One main priority for many Commonwealth countries is to make use of international trade to transform productive capacity. Utilisation of existing preferences, commodity price hikes, trade policy options, etc. can help. Despite declining margins, preferences have not yet come to an end, and beneficiaries should seek to make as much use of traditional trade preferences in goods as is possible before they disappear. A major reason for non-utilisation of preferences is recipient countries do not export the goods on which the preference confers a competitive margin over other suppliers. The World Trade Organization (WTO) (2011a) notes only 16 per cent of imports into the 20 largest



DOMINANT COMMODITY EXPORTS MAY BE A DOUBLE-EDGED SWORD. ON THE ONE HAND, THEY GENERATE NEEDED FOREIGN EXCHANGE AND EMPLOYMENT; ON THE OTHER, THEY MAY HINDER THE PROCESS OF DIVERSIFICATION.

importing states qualify as preferential. One explanation is some preferential agreements exclude important high-tariff goods; another is some rules of origin (RoO) are unrealistically restrictive. But the greatest single explanation is half of world goods trade now takes place over zero most-favoured nation (MFN) tariffs. Consequently, effective preference utilisation is integrally linked to the transformation of trading capacities.

As Part 1 mentioned, some large developing countries now provide improved market access for exports from many poor countries. Since tariffs are generally higher in emerging economies compared with in developed countries, the preferential margins in the former are likely to be higher. Taking advantage of these preferences, however, requires the same sorts of supply-side adaptation as is required for the better utilisation of traditional preferences. Trade promotion policies to attract investment in the relevant sectors to generate supply response can also be a way of using the trade route to contribute towards structural transformation. Climate financing and AfT support also offer opportunities for countries to access financing to adapt and diversify their economies.

Part 1 noted trade between SSA countries is more diversified than their trade with the rest of the world. This is also therefore an opportunity to break into manufacturing activities, with potential scope to build regional value chains. Strengthened regional integration, among other things, can help in this process.

The second area for formal preferences is services trade. Liberalisation of services trade now features quite prominently under various regional trading arrangements (RTAs). This can be an important route to expanding

trade and building capacity in the relevant areas. While trade preferences in services remain largely limited to free trade areas (FTAs), the WTO's LDC services waiver has opened up the possibility of making them more widely available on a non-reciprocal basis.

However, implementation of this waiver remains a challenge. The Bali WTO Ministerial of December 2013 took a decision on the operationalisation of the waiver while not altering the non-mandatory nature of the provision.² Although the decision on whether to offer preferences lies with the country that grants it, there is much LDCs can do to help advance the process, which would also help them identify the preferences most valuable to their service providers.

In addition to these traditional and new trade preferences, it is clear from Part 2 there has been a 'helping hand' at work, in the form of intra-Commonwealth trade. The costs of trading, on average, between two Commonwealth states are found to be lower, which in essence is tantamount to the effects of trade preferences. The relative significance of intra-Commonwealth trade is on the rise, and huge potential for further trade expansion remains.

3.3 Effectively managing trade policy and negotiation

Trade policy can be an effective means of building productive capacity. Most Commonwealth developing countries attach special significance to trade policy and negotiation. However, experience shows it also presents a very substantial challenge.

3.3.1 Managing the expanding boundaries of trade policy and negotiations

The scope of trade policy measures and negotiations is expanding over time, further challenging already capacity-constrained countries. Just in the area of goods trade, policy and negotiation are expanding from traditional discussions on tariff reductions, RoO, customs cooperation and dispute settlement to more behind-the-border measures (e.g. standards). Increasingly, FTAs now tend to cover negotiations on newer-generation areas – from services to intellectual property to investment. This brings a new set of objectives, regulations and stakeholder interests to the fore.

While the ministry in charge of the trade portfolio generally coordinates trade policymaking and negotiations, other ministries and government agencies – particularly those responsible for finance, customs, agriculture, industry/commerce, foreign affairs, standards and investment – are all involved in the actual determination and execution of trade policy. Quite often, these institutions will ultimately determine the positions taken in a negotiating setting.

When framing trade-related policy and negotiating positions, effective stakeholder consultations are imperative. Given the large number of potential stakeholders, broad consultation and consensus are very difficult to manage. Despite their relatively small and thinly stretched institutional capacity, some small states have developed sophisticated models for trade-related consultation, albeit not without some challenges. In Botswana, for example, the Ministry of Trade and Industry and the Botswana Export Development and Investment Authority jointly coordinate a national Trade Support Network, which acts as a coordinating forum for a large number of different institutions from the private, public and civil society sectors. Botswana also belongs to the Southern African Customs Union (SACU), which means there is a second tier of inter-governmental negotiations to arrive at a common negotiating position for all five member states (Government of Botswana, 2010).

Mauritius has developed a successful model of public-private consultation and collaboration on trade policy. This is achieved in part through the Joint Economic Council, which acts as the private sector voice on critical economic decisions, including proposals for the national budget, and a standing committee on multilateral and regional trade negotiations that combines sectoral organisations (e.g. the Mauritius Sugar Producers' Association and representatives of the Export Processing Zones) with umbrella organisations such as the Chamber of Industry and Commerce (Makoond, 2011).

In the Pacific region, countries such as Fiji, Kiribati and Papua New Guinea have consultative mechanisms that include private sector representatives, notably women in business, ministries and non-governmental organisations.

Varying degrees of recognition and power are granted to these bodies.

Larger Commonwealth developing countries such as India, Malaysia and South Africa have also put in place consultation mechanisms that allow a degree of public scrutiny of trade policy and proposals for negotiating positions. Their experience shows the obligation to undertake deep and broad consultation acts as a double-edged sword. On the one hand, outside stakeholders relieve some of the capacity constraints within government by providing technical inputs and, on the other hand, they act as important filters for policy before it is sent for political approval (Silva, 2015).

On the negotiating side, the same institutions involved in trade policy may reconfigure themselves for each negotiation, depending on the subjects to be treated within each forum or the interests of each negotiating partner. Traditional trade policy bodies are often closely involved in crafting national positions, yet the actual interlocutor with negotiating partners may be a completely different institution. In the case of many small and least-developed Commonwealth countries that negotiate as regional groupings, that institution may not even be based in their country, raising serious problems related to coordination and securing national interests.

3.3.2 Informed policy-making and negotiation

Many Commonwealth countries face significant difficulties in understanding even basic trends at the national level, in large part because of severe data constraints. Key economic data either are missing or exhibit serious gaps in terms of timeliness and reliability. These shortcomings complicate any effort to understand where trade-related strengths and weaknesses



THE SCOPE OF TRADE POLICY MEASURES AND NEGOTIATIONS IS EXPANDING OVER TIME, FURTHER CHALLENGING ALREADY CAPACITY-CONSTRAINED COUNTRIES.

might be found and also make it hard to assess the potential impact of likely negotiation outcomes (e.g. on revenue collection or production) to form national positions.

Information gaps in services trade are an example in this respect (Box 3.2). Yet services trade negotiations are increasingly commonplace. In Africa, where RTAs have focused largely on trade in goods, services negotiations are covered under Phase II of the Common Market for Eastern and Southern Africa (COMESA)-East African Community (EAC)-Southern African Development Community (SADC) Tripartite FTA and will be pursued as part of the Continental FTA. They are also mandated by rendezvous clauses in the economic partnership agreements (EPAs). Mauritius has joined the plurilateral Trade in Services Agreement (TiSA). Pacific Island Countries (PICs) have been in discussions (albeit not negotiations) on services with the European Union (EU) under their EPA negotiations. These countries are negotiating trade in services and investment as an integral part of the Pacific Agreement on Closer Economic Relations (PACER)-Plus Agreement, while some of the Pacific economies have signed and ratified a services agreement under the Pacific Island Countries Trade Agreement (PICTA).

Despite the challenges, Commonwealth experience demonstrates some countries have been able to 'punch above their weight' in both trade and trade-related policy and practice and to increase economic flexibility in ways that allow firms to take better advantage of world market trends. It also suggests these two favourable features are interlinked: countries that 'negotiate well' over a period of time also tend to have a domestic environment that supports economic flexibility.

This is partly because the benefits from any negotiation, however successful, tend to erode over time as the world economy changes. Effective negotiation is not a specific event but a process. The recent past has underlined this graphically in the Commonwealth as trade preferences have run their course: countries that have been able over the years to use the 'economic rent' conferred by the preference to help diversify the economy have been less adversely affected than others. In Mauritius, for example, part of the economic rent arising from sugar preferences contributed to the investment that utilised clothing preferences. And

there has now been a transition into services, some of which, such as IT-aided design, were initially developed in the garments sector. In others (such as tourism), part of the investment was derived from the sugar industry.

For some Commonwealth LDCs that have been beneficiaries of the Enhanced Integrated Framework (EIF), the Diagnostic Trade Integration Study (DTIS) represented the first time a comprehensive trade-related needs assessment and strategy had been formulated. Coming at the end of an intensive period of stakeholder outreach and technical study, the DTIS identifies constraints to competitiveness,

BOX 3.2.

THE CHALLENGES OF USING SERVICES DATA

Informed policy analysis is often an extremely difficult task using services trade data. There are several reasons for this. First, unlike for trade in goods, there is usually no physical product that crosses a border that can be observed, counted and measured. Balance of payments (BOP) statistics provide some information, but the collection of traditional BOP statistics relies primarily on measuring cross-border transfers of money, and does not 'see' the actual service transaction that is being paid for. Even if the service provider can be identified as the recipient of the payment, it is often not clear which service was provided or in which mode of supply.

Second, sectoral classifications traditionally used in BOPs are largely out of synch with the categories usually used in trade policy, making it difficult for policymakers to use BOP data for many sectors. Third, services provided by a supplier of one country in the territory of any other country, known as Mode 3 in services negotiation parlance, is almost entirely under the BOP radar screen as it triggers local, not international payments (from a local services consumer to a foreign-invested but locally established provider). Mode 3 services provision can go largely unmeasured, except to the extent that it appears as part of foreign direct investment (FDI) statistics.

All these (and some more) issues have long been recognised, and a group of international agencies, including, among others, the International Monetary Fund (IMF), Eurostat, the WTO and UNCTAD, have made significant efforts to make recommendations and identify international best practices. However, for most LDCs and small states, good-quality disaggregated services represent a severe challenge.

Source: Hadil Hijazi, in Silva (2015)

supply chain weaknesses and sectors of greatest growth and/or export potential. The result is an action matrix of priority reforms. Evidence from DTIS reports in Commonwealth states reveals both successful approaches and continuing challenges (Silva, 2015).

3.3.3 Managing multiple trading arrangements

As Part 1 highlighted, most Commonwealth members participate in multiple regional trading schemes. While managing these negotiations is a daunting task, the resultant outcomes also require countries to maintain and implement different policy regimes for different trading partners, especially RoO and other standards. Using the 2008 Caribbean Forum (CARIFORUM)-EU EPA as one example, Article 238 of the final text provides for a so-called 'regional preference clause', whereby the CARIFORUM countries commit to providing no less favourable treatment to each other than what they have granted to the EU.

On the one hand, the regional preference obligation created a positive 'lock-in' effect for both the signatories to the CARICOM Single Market and Economy (CSME) and those countries committed to tariff liberalisation under the FTA between CARICOM and the Dominican Republic. On the other hand, the EPA created a de facto liberalisation commitment for CARIFORUM countries that were not signatories to the CSME (i.e. The Bahamas), and also reversed a long-standing practice (enshrined under the Revised Treaty of Chaguaramas) whereby the so-called CARICOM Less Developed Countries were exempt from tariff liberalisation. This led to the concern that the CARIFORUM-EU EPA undermined internally agreed regional integration dynamics within the Caribbean (Girvan, 2009).

In the Pacific region there are similar concerns, given the proliferation of different regional trade agreements. Some economies have signed onto PICTA Trade in Goods and have abandoned PICTA Trade in Services; others have opted for the opposite. On the other hand, PACER-Plus is being negotiated as a fully fledged agreement covering goods, services, investment, development cooperation, standards and labour mobility, among other issues. Along with the longstanding EPA with the EU, negotiations of the Melanesian Spearhead Group Agreement are currently underway involving the major Pacific Island economies – namely, Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

Among others, Eastern and Southern Africa is marked by the existence of several overlapping regional integration arrangements. The three main integration groupings (SADC, COMESA and EAC) – each with overlapping membership and independent integration agendas – contain or are straddled by other smaller or single purpose groupings – namely, SACU, the Indian Ocean Commission (IOC) and the Intergovernmental Authority on Development (IGAD). In addition, some SSA countries have now also signed EPAs with the EU, while the 54 African Union member states have the aim of putting in place a Continental FTA in the near future. Managing all of these regional integration mechanisms is likely to be a major challenge (see Part 4 of this Review for a discussion on African integration).



MOST COMMONWEALTH MEMBERS PARTICIPATE IN MULTIPLE REGIONAL TRADING SCHEMES. MANAGING ALL OF THESE TRADING ARRANGEMENTS IS A MAJOR CHALLENGE.

3.4 Addressing implementation gaps

3.4.1 Implementation is domestically challenging

Implementation of trade strategies and agreements has proved exceedingly challenging for many Commonwealth developing countries. Without full and effective implementation, the expected economic benefits from a country's trade policy and negotiated trade deals will not materialise. Non-implementation can lead to an erosion of a government's standing in front of key stakeholders and, in the case of treaty commitments, to legal challenges. Failure to implement may also result in areas of weakness within a policy or treaty that will require rethinking, or in adjustment going unnoticed.

The implementation gap mirrors the less visible problems faced in easing supply constraints and helping a country's economy become more flexible and adapt to changing world market conditions. Commonwealth experience seems to suggest the implementation gap can be particularly large for small and least-developed economies. These states are often confronted by a combination of weak institutional and regulatory mechanisms, an underdeveloped private sector and severe resource constraints (Chauffour and Kleimann, 2012).

While lack of financial resources is a major factor in non-implementation, weak administrative capacities exacerbate the challenge. For example, Part 2 suggested improvements in trade logistics could reap gains much larger than those accruing simply from tariff liberalisation.

However, implementation of trade facilitation measures may make even greater demands on administrations than does tariff liberalisation. Measures as seemingly straightforward as improving border crossings have to be designed and implemented with care. While investments in 'hard' infrastructure are essential, they must be matched by 'soft' infrastructure to increase competitiveness and create pro-development outcomes. These soft interventions need to focus on building key stakeholder awareness and capacity, among other things.

The Chirundu One-Stop Border Post (OSBP) project between Zambia and Zimbabwe illustrates this (Box 3.3). Previous projects had focused merely on new infrastructure investment and had largely failed to create tangible improvements in trading costs and clearance times. Only under the OSBP project – which also focused on such factors as regulatory changes and capacity-building of key officials – did

the necessary changes occur, thus improving revenue collections and increasing regional competitiveness.

Another example is infrastructure related to ensuring product quality and standards. The value of quality infrastructure is increasingly recognised in a world where traditional border measures such as tariffs are of declining importance relative to standardisation, metrology, accreditation, testing, control and certification, technical regulation and market surveillance systems. It ensures products meet increasingly stringent consumer expectations and also enhances producer opportunities to expand into new markets, such as those emerging in the South.

Case studies from the Commonwealth suggest that, as with other forms of infrastructure, simply building physical resources is not sufficient. Of equal importance to actual investment is awareness of the economic benefits of quality infrastructure, which has

BOX 3.3.

THE CHIRUNDU ONE-STOP BORDER CROSSING

Before implementation of the Chirundu OSBP project, truck drivers crossing the border experienced delays that were often long: 30 per cent of truck drivers spent up to three days at Chirundu. The delays were also unpredictable, which badly hampered the ability of Zambian businesses to participate in modern supply chains, with their emphasis on just-in-time inventory management. Many of the challenges encountered during the project were institutional in nature. The construction of the new bridge and terminals did little to expedite cross border trade, as massive queues of vehicles waiting to cross still accumulated on both sides. But tackling soft aspects of the project – such as building the capacity of customs officials – has progressively yielded results. There has been increased efficiency and capacity to handle larger volumes of traffic within a shorter period of time.

Source: OECD and WTO (2011), in Silva (2015)

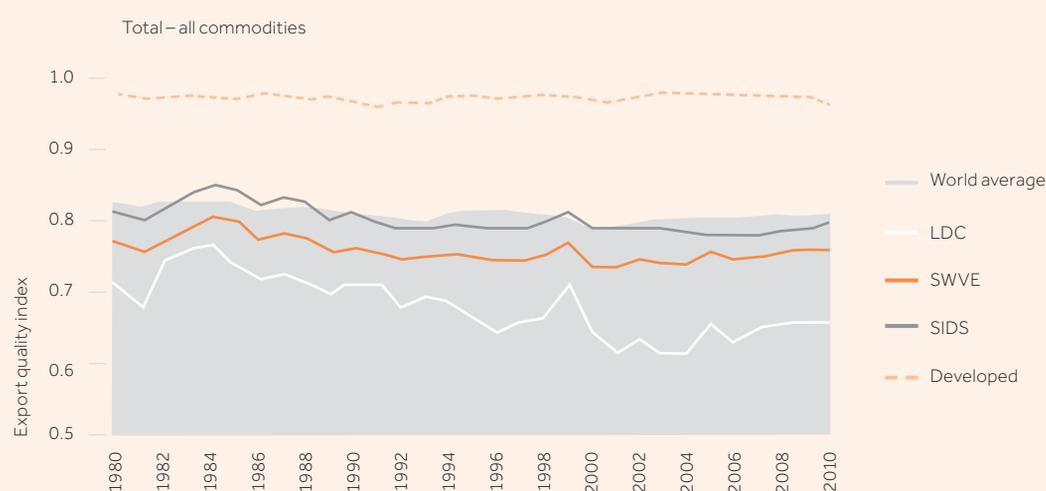
BOX 3.4.**EXPORT QUALITY AS A MAJOR CHALLENGE FOR COMMONWEALTH DEVELOPING COUNTRIES**

Increasingly, participation in world trade in a variety of sectors requires suppliers to comply with standards determined by importers and lead buyers in global and regional value chains. Producers face growing pressure to meet quality requirements through certification, which in turn requires countries maintain the proper institutional infrastructure, from laboratories to coordinating institutions, across sectors, countries and stakeholders.

The export quality index scores of Commonwealth LDCs are much lower than the world average (see figure). To a lesser extent, the scores of Commonwealth structurally weak and vulnerable economies (SWVEs) and small island developing states (SIDS) are also lower than the average, and much lower than those of Commonwealth developed countries. Perhaps the most worrying feature of the figure is that the index of especially LDCs has been falling relative to the world average over the past three decades.

FIGURE 3.1.

AVERAGE EXPORT QUALITY INDEX: WORLD AND VARIOUS COMMONWEALTH COUNTRY GROUPS



Among several such incidents, in 2008 Fiji was de-listed from exporting fish and fishery products to the EU. This was a result of a Food and Veterinary Office visit that found deficiencies in Fiji's food safety inspection and control system. As a result, the Fiji government established a Food Unit within the Ministry of Health with the responsibility of the Competent Authority. The Competent Authority inspectors received practical hands-on training in auditing the fish supply chain and activity and participated in the development of pilot-testing of inspection checklists and reporting protocols. Subsequently, Fiji earned its place on the EU approved list of fish exporters.

Note: Higher index values indicate higher quality levels.

Source: Data on quality indices are from the IMF-Department for International Development (DFID) Export Quality Database. The case study on Fiji comes from Government of Fiji (2011)

implications for training and human resource development. Two contrasting cases of quality infrastructure development from Sri Lanka reflect the importance of domestic ownership, awareness of the project objectives and acceptance by key stakeholders of the relevance and importance of those objectives (Box 3.5).

3.4.2 Challenges of implementing trade agreements

Implementation of trade agreements can be delayed for years, or even decades. For example, despite the existence of the PICTA Trade in Goods for more than a decade, less than half of the Pacific Islands Forum countries that are members of the agreement have announced their readiness to trade under its provisions. The CARIFORUM-EU EPA illustrates further how the new trade agenda involves much broader commitments – which, without additional support, implies a much larger implementation gap (Box 3.6). Five years after signature, the EPA has not yet formally entered into force, as it has not achieved the necessary ratifications by member states on both the Caribbean and the EU sides. Many critical development cooperation programmes have only recently come on-stream or to be effectively leveraged by Caribbean countries. As a result, the ability of economic operators to harness opportunities from the negotiated arrangements remains limited.

To compound the Caribbean Commonwealth's difficulties, provisional implementation⁷ of the EPA began at the very moment when a global economic recession hit economic lifelines: tourist arrivals, demand for exports and development cooperation all declined. Signatories still struggle to fully implement their EPA obligations, in part because of the sheer size of the

BOX 3.5.

TWO EXAMPLES OF QUALITY INFRASTRUCTURE FROM SRI LANKA

In one case, involving investment in sanitary and phytosanitary (SPS) testing centres' facilities and staff, difficulties were encountered initially (but eventually overcome) because of a low level of domestic buy-in and a lack of awareness regarding the importance of quality infrastructure for domestic producers. Testing facility officials were often not aware of the challenges facing the private sector actors who relied on them to provide efficient and accurate testing services. Staff motivation at the sites was low and recruitment and retention of qualified staff were difficult. Accreditation through a foreign accreditation body was difficult to obtain owing to the high costs involved.

In the other case, strengthening an independent accreditation body to avoid technical barriers to trade (TBTs), there was strong domestic commitment and a heightened awareness of the importance of the objectives to be achieved. The project over-achieved, and this was attributed to strong local ownership (from ministerial level to that of the laboratories), having the right legislation already in place, continuity of support and active mentoring and knowledge transfer with an external counterpart organisation.

Source: UNIDO (2011); Sida (2011)

task as against national and regional institutions' thinly stretched capacity and existing legislative bottlenecks. Some countries are still unaware as to which areas are already in compliance and which require new legislation or new institutional procedures. Implementation (whether of a specific trade agreement or more generally of measures designed to facilitate trade) requires governments to adopt a multifaceted work programme, backed by dedicated institutions. These days, implementation is built into key trade policies and strategies. Most Commonwealth developing states that have recently developed their national export/trade strategies have also emphasised institutional arrangements to oversee their implementation.

For example, among many others, Botswana has established a National Investment and Export Strategy Implementation Council; the Sierra Leone Export Strategy entails a National Steering Committee; Jamaica has established a

secretariat to act as a central point for all matters relating to the preparation, implementation and execution of the National Export Strategy (Box 3.7); and Fiji has instituted a Trade Policy Framework to identify trade priorities and ensure coordination among all Commonwealth stakeholders. Some of the more advanced Commonwealth developing countries have developed relatively sophisticated and well-resourced mechanisms to ensure effective implementations of their trade obligations. In Malaysia, for example, the lead Ministry of International Trade and Industry is tasked with both negotiating and coordinating the implementation of FTAs, and enjoys competence over other critical areas of trade policy, including rules (and certificates) of origin and economic cooperation. However, for many of the Commonwealth developing countries, weak administrative capacity means the task of ensuring coordination among all the public bodies with related portfolio responsibilities remains a challenge.



IMPLEMENTATION (WHETHER OF A SPECIFIC TRADE AGREEMENT OR MORE GENERALLY OF MEASURES DESIGNED TO FACILITATE TRADE) REQUIRES GOVERNMENTS TO ADOPT A MULTIFACETED WORK PROGRAMME, BACKED BY DEDICATED INSTITUTIONS.

BOX 3.6.
THE CARIFORUM-EU EPA, FIVE YEARS ON

Signed in 2008, the CARIFORUM region (15 Caribbean countries that are part of the African, Caribbean and Pacific (ACP) group of countries) is still the only ACP regional grouping to have signed a 'full' EPA – that is, one with all members of the original regional configuration. CARIFORUM also remains the only region to have comprehensively treated the entire suite of negotiating issues in the final text, including commitments on trade in services and trade-related issues ranging from competition policy to public procurement.

Around half of EU and CARIFORUM member states have ratified the EPA, and 10 out of 15 CARIFORUM countries have given effect to the agreed tariff reductions. Institutions tasked with guiding implementation efforts have been established at the national and regional level within CARIFORUM, supported by EU cooperation funds that have generally covered the key priority areas envisioned under the EPA. Yet serious and important deficits remain on both sides in some basic areas of implementation. Delays in ratification and tariff reduction mean the EPA has yet to enter into force and some CARIFORUM countries have had to resort to implementing the tariff reductions administratively. Many key development cooperation projects have only very recently come on-stream.

A recent study on the impact and implementation of the EPA from 2008 to 2013 found legislative capacity was a key bottleneck. Between the normal work of government, unforeseen demands and the programme requirements of donors and multilateral financial agencies, there is little spare capacity to draft new and/or amend existing legislation to comply with CARIFORUM-EU EPA obligations.

The lessons that can be learnt include the following: (1) implementation is just as challenging as negotiation; (2) early mobilisation of resources is critical; and (3) an 'early harvest' of key pillars of implementation, including ratification of the agreement and the launching of flanking aid-funded projects would generate momentum in taking forward the implementation agenda.

Source: Silva (2015)

BOX 3.7.
JAMAICA'S NATIONAL EXPORT STRATEGY 2015

Jamaica launched its second National Export Strategy (NES) in August 2015. The Commonwealth Secretariat supported the Government of Jamaica to design the second NES using a methodology that enabled key stakeholders to define a market driven approach to export competitiveness.

In the design phase, the NES Secretariat, comprising the Jamaica Promotion Corporation, the Jamaica Exporters Association and the Trade Board Limited, with advisory support from the Commonwealth Secretariat, held consultations with the export community and all relevant institutions forming part of the Trade Support Network. This wide stakeholder consultative process resulted in the validation of five prioritised sectors: agroprocessing, film and animation, IT-enabled services, mining and light manufacturing. Stakeholders also agreed on high-level targets for each prioritised sector, which are stated in the monitoring and evaluation framework. These targets are further distilled into initiatives that will then be tracked to measure progress over the implementation period. Moreover, in order to ensure policy coherence and accountability at the highest level of government, the National Export Strategy 2015-2019 is aligned with the national development plan, Vision 2030 Jamaica.

Source: Commonwealth Secretariat, London

3.5 Promoting private sector development

3.5.1 The private sector as a driver of development

The critical importance of the private sector in trade-development linkages cannot be overemphasised. Without a dynamic and vibrant private sector, Commonwealth developing countries cannot make use of existing or future trading opportunities. While in a way entrepreneurial human resources may be considered part of productive capacity, when it comes to production and trade the private sector duly deserves dedicated attention, especially in the context of capacity-constrained developing countries.

According to one estimate, the private sector provides 90 per cent of employment in the developing world, taking together both formal and informal sector jobs (OECD, 2015). An important mechanism for trade-led economic growth is higher productivity and knowledge transfer, and the private sector is known to be critical facilitator of this process (IFC, 2011). There is strong evidence that private investment and private sector-led productivity increases in conjunction with appropriate policy support can result in transformational productive capacity (Box 3.8).

The private sector's ability to innovate and increase productivity helps countries achieve more with the resources at their disposal (DFID, 2011). Under supporting environment, it also ensures efficient allocation of resources and distribution of goods and services within the country. The sector's contribution to

BOX 3.8.

APPAREL EXPORTS-LED TRANSFORMATIONAL PRODUCTIVE CAPACITY IN BANGLADESH

Even as recent as the mid-1980s, raw jute, jute goods and tea comprised almost three-quarters of the total merchandise export earnings (\$800 million) of Bangladesh, making it a predominantly primary commodities-based exporter. However, the rapid expansion of apparel exports transformed the country's export structure in a remarkable way; within the next 15 years, the sector's share would rise 75 per cent, pushing the relative significance of traditional primary exports to less than 10 per cent. In 2015, the \$25 billion export industry provides employment to 4.2 million, 80 per cent of whom are women.

The sector had a very humble beginning, in which a small private sector enterprise, Desh Garments, under a joint venture project with Daewoo Corporation, sent 130 workers to South Korea for technical training and marketing knowhow in apparel manufacturing and exporting. After their return, many of the workers started their own enterprises. The Multi-Fibre Arrangement (MFA) regime that maintained quantitative restrictions on imports of textiles and clothing from many different countries helped Bangladeshi exporters develop and mature. Various export incentives provided by the government of Bangladesh also helped the sector grow. While Bangladesh has challenges associated with the sector, it nevertheless shows how export success can contribute transformational productive capacity led by the private sector.

Source: *The Daily Star* (2015)

infrastructural development is already quite high. According to the 2014 World Investment Report (UNCTAD, 2014), the private share of investment in infrastructure in developing countries ranges from 30 per cent to 80 per cent depending on the sector. On critical public issues with important international trade dimensions, such as food security, climate change and environmental sustainability, the private sector has a key role to play.

3.5.2 Creating an enabling environment for the private sector

In many Commonwealth developing countries, ensuring an enabling environment by the public sector to help support the private sector and promote investment-trade linkages is a

monumental task. A sound investment environment is a precondition for attracting private savings into productive uses. The investment climate includes all factors that affect the opportunities and incentives for a firm to invest and expand (ADB and WTO, 2013): from policy measures such as investment promotion schemes to governance-related issues (e.g. corruption and political stability). The government and private sector generate an essential complementarity in which the public sector provides the appropriate regulatory framework, institutions and public investment and the private sector innovation, goods and services and wealth and taxes (IFC, 2011).

To support their private sector, many Commonwealth countries have undertaken reforms that have

included implementation of structural adjustment policies and export and investment promotional measures. In some cases, this has generated tangible results. For example, policy reforms in Rwanda significantly accelerated trade-related procedures and reduced trade costs: the country now ranks 46 out of 189 in the World Bank 2015 Doing Business Report. However, in a majority of developing country members, there remain important bottlenecks in unlocking private sector dynamism while boosting trade and investment response. Limited access to finance, poor infrastructure and political instability are among the major constraints facing firms in developing countries, as found in the World Bank Enterprise Surveys 2006-10 (IFC, 2011).

If the private sector cannot make use of them, policies to promote exports and investment will not be meaningful. Similarly, although it is the government that signs trade agreements, their implications eventually rest with the private sector, as it deals with the resultant consequences and/or takes advantage of the emerging opportunities (UNCTAD, 2015). Although many Commonwealth countries make efforts to undertake wider consultations involving private sector stakeholders in preparing trade policies and export strategies, there exists ample scope to effectively integrate the private sector further in policy and negotiation processes.

Participatory processes enhance the perceived legitimacy of policies and foster commitments to policy implementation (Krampe, 2013). The trading environment and business practices are best known to firms, and they are best placed to articulate their potential constraints and opportunities. Also, the modern trading environment is becoming increasingly complex, as reflected in, among other things, global value chain

(GVC) processes. On such evolving issues, first-hand information on comparative advantage and prospective trade gains can be sourced from the private sector.⁹ Therefore, active and open consultations can equip governments with negotiating capacity as well as insights into the constraints to trade and investment that exist in the domestic economy (ADB and WTO, 2013).

A number of factors discourage participation of the private sector in Commonwealth developing countries, such as the high cost of such participation, lengthy negotiation processes and difficulties in finding a common position owing to conflicting interests. Facilitating and sustaining regular dialogue with relevant stakeholders is a challenge for any developing country government. While faced with heterogeneous interests, only effective consultations will help policymakers consider informed positions. It is also important to ensure collaboration with the private sector does not result in promoting

rent-seeking activities. It has been suggested that the inclusion of civil society groups in public-private dialogues may reduce the scope of such unproductive activities (UNCTAD, 2015).

Ensuring inclusive cooperation with the private sector is not easy for policymakers in developing countries. A large majority of private sector enterprises are in the informal sector, often headed by women entrepreneurs (Box 3.9). These are most likely to remain outside of any formal consultation mechanism.

Because of a lack of information, the role of micro and small enterprises in the economy can be underappreciated. However, these enterprises can play an important role in promoting trade between countries (especially between neighbouring ones) and developing cross-border production networks. It follows from the discussions in Parts 1 and 2 of this Review that strengthening regional cooperation is important for promoting Commonwealth

BOX 3.9.

WOMEN CROSS-BORDER TRADERS

Intra-regional African trade is characterised by the prevalence of informal cross-border trading and by the strong role of women in this. Women are responsible for more than 70 per cent of cross-border trade (Ghils, 2013; TMEA, 2015). According to one estimate, among SADC countries, such trade accounts for 30-40 per cent of all trade (Makombe, 2011) and generates \$20 billion per year (SARDC, 2008, in Brenton et al. 2013).

Cross-border trade is hugely important, both in sustaining livelihoods and household incomes and in contributing to wider economic growth, regional integration and development. Often, women traders are the sole breadwinners of their household, and they rely on the income from cross-border trade to support themselves and their families (Brenton et al., 2013). Most of the items they trade are food products, so this trade is also significantly contributing to regional food security. However, its value and potential is going largely unrecognised and undocumented. Taking a closer look at it highlights new opportunities for further gains, including for poverty reduction, trade-led regional development and women's empowerment.

countries' trade – both overall as well as intra-Commonwealth. Streamlining and simplifying the processes involved can boost cross-border trade related to small and micro enterprises. It can also generate an inclusive process of trade-led growth.

3.5.3 Making use of the support available

Promoting private sector development by improving the investment climate and providing adequate infrastructure is hugely resource-intensive, and most Commonwealth developing countries require financial and technical support to do this. Development partners have increasingly recognised the pivotal role of the private sector, and more support is now available in this regard. Among others, Canada is helping developing countries pursue private sector-led growth through its sustainable economic growth strategy (OECD, 2015). DFID has elaborated its vision of putting the private sector centre-stage in generating opportunities and prosperity for poor people in developing countries (DFID, 2011). Australia has made private sector development one pillar of its aid programme, indicating that the design of all new AfT initiatives should seek to involve relevant private sector stakeholders (DFAT, 2015). Multilateral donor agencies also have dedicated private sector development programmes. Along with support from traditional donors, assistance provided by emerging economies in building infrastructure, among other things, should also ease the difficulties facing the private sector.

There are different ways of considering development partners' support for private sector development. Almost 60 per cent of official development assistance (ODA) is allocated to building productive capacity in such sectors as agriculture, fisheries and forestry, banking and financial services with strong linkages to the private sector. Effective utilisation of such assistance will have positive impacts on enterprise

development. It may be possible to leverage ODA to facilitate public-private partnerships (PPPs) that can encourage private investment. Channelling remittances to productive investment can also boost private sector development. It needs to be pointed out, however, that, compared with the overall need of developing countries, ODA remains insufficient.

3.5.4 Taking advantage of the Commonwealth

International trade happens when importers and exporters in different countries connect with each other and enter into commercial contracts. In many cases, governments facilitate such business matchmaking, including through trade promotion activities (e.g. trade shows and exhibitions) and

exporter development programmes. While not a trading bloc, the Commonwealth offers an important and unique platform to facilitate and develop greater private sector cooperation. Currently, there exist a number of avenues for promoting business-to-business linkages and Commonwealth countries can take advantage of the networks available and the activities taking place (Box 3.10). Rising trade and the lower costs of trading within the Commonwealth are an advantage of promoting business-to-business linkages. Currently, there exist a number of avenues, and Commonwealth countries can take advantage of the networks available and the activities taking place (Box 3.10). Rising trade and the lower costs of trading within the Commonwealth are an advantage for promoting business-to-business linkages.

BOX 3.10.

THE COMMONWEALTH NETWORK FOR PROMOTING TRADE AND INVESTMENT LINKAGES

The Commonwealth has a strong network of institutions, private sector bodies and trade experts. There are more than 80 accredited organisations working to deliver dedicated work programmes and facilitate people-to-people contacts. Among others, the Commonwealth Enterprise and Investment Council (CWEIC) and Commonwealth Businesswomen's Network (CBW) work towards strengthening business and investment linkages.

The CWEIC represents private sector businesses. It promotes trade and investment flows by facilitating engagement between governments and the private sector. It also helps member companies expand their businesses and make new investments in other Commonwealth countries, and provides a platform for sharing information and developing business-to-business networks. Some of the CWEIC's activities include sharing good business practices, capacity-building, facilitating infrastructure investment, improving sustainability and supporting small and medium enterprises in accessing new markets. The CWEIC also organises the Commonwealth Business Forum alongside the biennial Commonwealth Heads of Government Meeting.

The CBW focuses on women's economic empowerment. It works through regional partners and national leadership groups to connect a community of about 60,000 women at various stages of their business journey. It imparts training and skills and provides other necessary support to women entrepreneurs to increase their global reach. The CBW also supports businesswomen in connecting with other entrepreneurs across the Commonwealth and organises multilateral trade missions to develop trade and investment networks and learn first-hand about potential export markets. The annual Commonwealth Women in Business Awards celebrates achievement in entrepreneurship and other areas.

Source: Commonwealth Secretariat, London

3.6 The global trade-supporting architecture

Creating a flexible economy able to adapt to changes in the global trade landscape is a huge task, and one that needs support at all levels to achieve. Some aspects of this task lie in the realm of the countries concerned. Also necessary, though, are a supportive framework to help developing countries with their productive and trading capacity needs, favourable trade policies in richer countries and, of course, aid and investment facilitation.

3.6.1 Support for productive capacity

Following the 15-year implementation period of the MDGs, the international community has adopted a new set of goals, the SDGs. For many Commonwealth developing countries, an important consideration when moving from the MDGs to the SDGs related to reorienting the focus of the international community from only development goals towards the means of achieving them. As several of the perspectives in Part 4 detail, the SDGs offer the opportunity to achieve this shift.

A major limitation of the MDGs was they addressed long-term social development without any explicit link to economic transformation and development. Yet, for Commonwealth countries with low levels of production and diversification, poor infrastructure and weak institutions, it is the transformation of these capacities that is the sine qua non for any wider socioeconomic change. While the value of the MDGs is universally recognised, some have argued that, by focusing on the social sectors (with trade and investment only sub-goals of MDG

8), they reduced the priority donors previously attached to infrastructure, agriculture and industrial development, with a possibly detrimental effect on growth, job creation and poverty reduction (ODI et al., 2013). The SDGs have addressed this issue by including the promotion of sustained, inclusive and sustainable economic growth (Goal 8) and building resilient infrastructure (Goal 9) as specific goals.¹⁰ International trade is considered to play a cross-cutting role in achieving the goals.

Another major shortcoming of the MDGs was the lack of resource-provisioning for implementation. The SDGs initiative has attempted to address this issue more explicitly. It has been estimated that, at current levels of investment in SDG-relevant sectors, developing countries face an annual gap of \$2.5 trillion per year (UNCTAD, 2014) for basic infrastructure (roads, rail and ports, electricity, etc.), food security, climate change mitigation and adaptation, health and education. Most of these investment areas have direct and indirect impacts on trading capacity.

ODA provides an important source of financing, particularly for LDCs and many other low-income developing countries. Although every high-income country is committed to contributing the agreed international target of 0.7 per cent of its GDP as ODA, so far only a few countries, including the UK, have met this. Given the prolonged nature of the recovery from the recent global economic crisis, there has been some concern about high-income countries not being in a position to increase their ODA contribution (Bhattacharya and Ali, 2014). While alternative sources of funding, including increased efforts towards domestic resource mobilisation, innovative financing and private sector involvement, are actively being sought, the role of ODA in promoting trade-related infrastructure and capacity-building

will continue to be critical for many Commonwealth developing countries.

With the rise of the South, several emerging economies are now becoming important sources of development cooperation and technical assistance. New institutional and policy initiatives, including the Brazil, Russia, India, China, South Africa (BRICS)-led New Development Bank and the Asian Infrastructure Investment Bank, could, for instance, play an instrumental role in financing major infrastructure and development projects in developing countries.

3.6.2 Aid for Trade

One particular component of ODA, AfT, has become increasingly important in addressing trade-related supply-side capacities in developing countries. For a long time, indeed, since ODA was first used to support growth and development in poor countries, financial and technical assistance from bilateral and multilateral donors has been used to promote trade. WTO members during the Hong Kong Ministerial in 2005 called for the operationalisation of AfT against a backdrop of lack of effective participation in global trade by many developing countries because of weak supply-side capacity. The main components of AfT support include trade policy and regulation; trade-related infrastructure; productive capacity; and trade-related adjustment (TRA). The WTO conducts the biennial Global Review of Aid for Trade with the purpose of strengthening the monitoring and evaluation of the support provided.

One important impact of such assistance being discussed at the WTO-led multilateral forum has been development partners' greater response to and engagement with relevant stakeholders to make the trade components of their programmes more prominent. Regular

A GROWING BODY OF EVIDENCE SHOWS AID FOR TRADE IS EFFECTIVE IN REDUCING THE COST OF TRADING AND INCREASING TRADE CAPACITY, INCOME AND GROWTH IN RECIPIENT COUNTRIES.

reviews of AfT have also ensured a continued focus on AfT. As a result, there has been conspicuous sharing of information and discussion of issues with regard to donors' commitments vis-à-vis disbursements, the effectiveness of the support available and issues of interest to developing countries (Razzaque and te Velde, 2013).

A growing body of evidence shows Aid for Trade is effective in reducing the cost of trading and increasing trade capacity, income and growth in recipient countries but that factors such as the type of AfT flow, recipient country-specific factors, the sectors receiving AfT flows and geographic region tend to determine its impact. Of all the results, the effect on reducing trade costs is particularly prominent and is maintained in many different studies. For example, in a Commonwealth Secretariat-sponsored study, Cali and te Velde (2013) find each doubling of AfT is associated with a decrease in the costs of importing by 5 per cent. The effect of aid to economic infrastructure has also been demonstrated to be positive (Vijal and Wagener, 2010).

Considering the samples of countries from SSA and small states, it has been found AfT that goes into trade facilitation is likely to have significant cost-reducing effects in handling imports and exports (Cali et al., 2011). For both groups of countries, the positive effect of economic infrastructure on export performance is also found (Razzaque and te Velde, 2013). However, the evidence on aid to productive capacity contributing to increased exports is found to be weak or non-existent.

One priority issue for small states and SSA is to achieve export diversification and structural transformation of their economies, as discussed above and also in Part 1. For these countries, generating supply response from non-

traditional sectors will be helpful. It is in this sense that trade capacity-building should be linked to AfT support. In a Commonwealth Secretariat study, Cirera and Winters (2015) empirically assess whether AfT programmes helped the process of structural transformation in SSA. Using a dataset on trade and aid flows for 1995–2010, they fail to find any statistically significant impact on structural transformation.

3.6.3 Support for trade negotiation

Support for trade negotiation is provided under the AfT component of trade policy and regulation. As discussed above, for many Commonwealth developing countries, managing trade policy and negotiation is a severe challenge. Donor support for regional integration and regional trade negotiations has increased considerably within the past decade, notably from the European Union (EU) (via the European Commission, EC), the UK (DFID), Germany (German Development Cooperation, GIZ), Canada (Department of Foreign Affairs, Trade and Development, DFATD) and Australia (DFAT). But still more emphasis is needed on building trade negotiation skills. In most cases, support is focused on implementation, and only a minor share is allocated to trade negotiations. Some organisations that are closely linked to negotiating forums are limited by their mandate in terms of the depth and scope of their technical assistance activities. The WTO Secretariat, for example, provides training throughout the year for its member countries on the substance of trade negotiations and on basic trade negotiating skills. But it does not have a mandate to place long-term experts within any of the many small and least-developed members. The Hub and Spokes Project jointly delivered by the Commonwealth Secretariat, the EU, Organisation Internationale de la Francophonie (OIF) and the ACP Secretariat is an example

of long-term capacity-building support regarded to be vital for capacity-constrained ACP countries (Box 3.11).

Another drawback of many technical assistance programmes with a negotiating component is their time-limited nature. Both the ACP-EU TradeCom Facility and the ACP Multilateral Trading System Programme Management Unit ended in 2012, although the negotiations they were supporting (EPAs and the WTO Doha Round) continued; in the case of the EPAs, activity increased substantially after the conclusion of TradeCom's activities.

It is often more challenging to provide support to trade negotiation capacity than it is to assist in the area of trade policy in general.¹² First of all, there is an all-important element of trust between the donor, the beneficiary

and the contracted team of technical experts. Trade negotiations involve sensitive issues of national interest and require consensus-building on difficult issues. Only a handful of organisations and initiatives are likely to be perceived as, on the one hand, objective and sufficiently removed from national circumstances to balance competing domestic interests and, on the other, close enough to have a clear understanding of the national context.

In addition, trade negotiations are linked to a process that is inherently unpredictable. Both the EPA negotiations and the WTO Doha Round, for example, have seen periods of intense activity and periods of lull. Even within periods of activity, the area of focus can suddenly shift so timelines change and positions need to be reviewed and agendas amended, often at a very short notice. This unpredictable dynamic is

difficult to accommodate within normal multi-year aid programming cycles, where guidelines generally require a strict delineation of outputs and a firm timeline. These two aspects of trade negotiating issues clearly demonstrate the need for sustained and long-term support in the form of independent advice, as Box 3.11 illustrates.

3.6.4 Trade facilitation

Improved trade logistics and trade facilitation measures are critical for promoting trade between countries. Support for trade facilitation has so far been a relatively small component within the overall AfT support mechanism. Given the adoption by WTO members of the Trade Facilitation Agreement (TFA), its implementation will demand far more resources. Trade facilitation is generally understood as the simplification and harmonisation of trade-related procedures and a balancing act between economic efficiency gains and regulatory objectives. Key economic actors seek to reduce the risks and transaction costs (time and money) associated with moving goods across international borders. But national authorities also have to protect legitimate regulatory objectives, such as by safeguarding trade tax collection, ensuring prohibited or restricted goods such as drugs or weapons do not enter into the domestic market and protecting both consumer welfare and environmental wellbeing. While trade facilitation can be perceived in a broader sense as covering all aspects of trade (including productive capacity), there is a narrowly defined general core set of activities in line with the WTO's TFA.

The TFA contains approximately 35 technical measures. These provisions have been included to expedite movement, release and clearance of goods; to improve governance through disciplines, rules and decision-making

BOX 3.11.

LONG-TERM TRADE CAPACITY-BUILDING: THE HUB AND SPOKES PROJECT

Launched in 2004 jointly by the Commonwealth Secretariat, the EU, OIF and the ACP Secretariat, the Hub and Spokes Project aims to promote the effective participation of ACP countries in international trade negotiations and to strengthen their capacity to formulate, negotiate and implement trade policies enabling them to take advantage of expanded or new market opportunities. This is intended to enhance the ACP countries' integration into the world economy and to contribute to sustainable development and poverty reduction in these countries. Among other things, the beneficiaries of the project have benefited from high-quality and trusted advice on trade policy matters provided through the services of long-term experts placed in regional organisations ('hubs') and government ministries ('spokes').

During the first phase of the project (2004-12), the Commonwealth Secretariat deployed and managed 60 experts across the ACP regions. In the ongoing second phase, 29 experts are working to help countries deal with their trade policy matters. Along with regular trade advisory services, the project has trained more than 34,000 stakeholders from parliaments, businesses, academic institutions and civil society organisations on national, regional and international trade policy issues.

Source: Commonwealth Secretariat, London

processes; to implement streamlined border procedures; and to enhance the movement of goods in transit. The agreement contains the Special and Differential Treatment (S&DT) provision based on the understanding that, without external financial and technical assistance, developing and least-developed countries may not be able to implement some or all of the technical measures. Also, members themselves should determine what support they require and when they will be able to implement the measures.

Apart from the TFA, Commonwealth ACP countries have been engaged in negotiations on trade facilitation at the bilateral and regional level. In most cases, the implementation of regional trade facilitation deals will help achieve the WTO's TFA. Although AfT for trade facilitation has risen over the past decade or so, the amount of assistance provided in 2013, approximately \$650 million, indicates that much more resources will be required for any meaningful implementation of the relevant agreements. Indeed, there are concerns that effective implementation of the WTO's TFA deal in many LDCs, small states and SSA countries may not be possible because of inadequate resource support.

3.6.5 Making AfT even more effective

While AfT has been generally useful, there is scope for making it even more effective. Given the positive impact of aid to trade-related economic infrastructure and to trade facilitation measures, increased allocations in these areas can result in significant gains. Support mechanisms targeting certain sectors to promote diversification and enhance export competitiveness are required. One encouraging development has been that development partners are increasingly supporting these specific interventions to promote export supplies.



Although AfT resources have increased, it is important to recognise availability is still very low as against need. Capacity development triggering export response requires sustained efforts in terms of both resource and policy attention. One important omission in this respect has been the very limited use of one component of AfT, known as support to trade-related adjustment (Figure 3.2). Various adjustment requirements may emerge, ranging from tackling export shortfalls to the development of capacity to deal with new trade measures and provisions. Nevertheless, adjustment support remains negligible. It has been argued that one main reason for the low utilisation of such assistance could relate to the problem of defining 'adjustment' (Silva, 2013). Another potential reason could be the AfT reporting system's bias away from emphasising TRA needs. For many of the top recipients, AfT priorities are dominated by non-TRA categories, such as the need to improve infrastructure or address gaps in trade facilitation. Whatever the reason for not making use of it, any potential adjustment support

can also be utilised to develop specific sectors in the beneficiary countries.

Predictability of AfT has been another issue. Despite the expansion of trade support measures, their volatility is an important concern. This can result in loss of momentum in trade-capacity building, hamper the implementation of associated economic policies and reform measures and discourage private sector investment (UNECA, 2014). Again, in spite of a generally increasing trend, resources disbursed fall short of commitments on a regular basis. For example, AfT commitments by donors for small states have been significantly higher than the amounts actually disbursed (Figure 3.3) Indeed, for Commonwealth small states accumulated annual shortfalls between 2002 and 2012 are estimated to be close to \$3 billion in constant 2013 prices. This is more than three times the AfT resources small states received in 2013.

The reasons for this phenomenon should be better understood. It can indicate the problem of absorptive

capacities of recipient countries. However, as the UN Economic Commission for Africa (UNECA) (2014) points out, such a tendency adds to unpredictability concerns and should be linked to the mutual accountability pillar of the Paris Declaration on Aid Effectiveness. The regular gap between commitments and disbursements suggests lessons are not being learnt in designing and implementing projects.

As follows from the above, for many Commonwealth developing countries, building productive capacity, particularly to diversify the export structure, should be considered a priority, and this is an area where a strategic approach to AFT can be most useful. Supporting specific sectors is often considered not an ideal approach, but within a relatively open trade regime such a policy option is worth considering, especially when there are inherent structural disadvantages and supply responses are generally weak. It is, however, encouraging to find some of the sectoral initiatives in small states are currently already underway. The

Caribbean Rum Sector Programme is one example. The purpose of this scheme was to assist the sector to enhance competitiveness and move towards higher-value products. According to the Organisation for Economic Co-operation and Development (OECD) (2013), the intervention was extremely successful, as it resulted in the introduction of new brands in the EU market. A 20 per cent rise in female employment in the sector has also been reported. The programme was implemented with the direct involvement of the private sector in each CARICOM country. Another example is the Caribbean Trade and Private Sector Development Programme, under which about 200 companies and business support organisations were awarded grants.

3.6.6 Market access

Ensuring effective market access should also be considered part of the enabling global trade support architecture. Part 1 mentioned protectionist measures following the global financial crisis

have had adverse consequences for trade flows, particularly those from the world's poorest countries.

While global average tariffs on industrial goods have fallen significantly, there are exceptions in certain sectors. Despite improvements, as mentioned in Part 1, the duty-free, quota free (DFQF) market access for LDCs has not materialised. The preferences some emerging developing countries have offered to LDCs and SSA also have gaps. Tariff structures often exhibit strong tariff escalation, with higher tariffs on processed goods (ITC, 2013), which could prevent countries participating in GVCs. Requirements for strict RoO, standards and SPS measures also make it difficult for SSA, LDCs and small states to access developed country markets. Going beyond industrial goods, subsidies and domestic support measures – an area of intense negotiations in the Doha Round – severely constrain market access in agriculture. Furthermore, market opening in services has been very limited for capacity-constrained countries.

FIGURE 3.3.
AFT FLOWS IN SMALL STATES: COMMITMENTS VS. DISBURSEMENTS, 2002-13
(CONSTANT 2013 \$ MILLION)



Source: Commonwealth Secretariat (calculations using data from OECD-CRS)

Given the rise of the South in global trade, a significant part of market access is also to be accrued in developing countries. Developing countries, including LDCs, face much higher tariffs in developing country markets. For example, as mentioned in Part 2, within the Commonwealth, developing countries face average tariffs for processed goods of around 20 per cent when exporting to other countries. These high tariffs inhibit trade expansion between them. NTBs are also serious barriers in many developing countries. As trade between developing countries has risen remarkably, as highlighted in Parts 1 and 2, further expansion of this will depend on addressing NTBs.

3.7 Conclusion and way forward

This Part of the Review has considered several broad priorities for Commonwealth members in order to unleash the substantial trade potential that exists.

First, developing productive capacity is one of the most critical factors in determining trade success. International trade can help build and transform productive capacity to achieve economic diversification. In this regard, Commonwealth developing countries should take advantage of and make effective use of existing trade preference schemes, from both developed and emerging economies. They should also explore new opportunities for preferential trade in sectors such as services. This needs to be done in conjunction with active trade promotion policies to attract investment into the relevant sectors and generate supply response.

In addition, there is an opportunity to make use of lower trading costs within the Commonwealth. Part 2 highlighted bilateral trade costs for Commonwealth partners are significantly lower. This provides an implicit trade preference for Commonwealth members that should be harnessed.

Second, Commonwealth developing countries need to strengthen their technical and administrative capacities to develop and manage trade policy and effectively negotiate and implement trade agreements. This is particularly so as the realm of policy issues and negotiating areas have expanded immensely and requires the involvement of many different stakeholders. There is an urgent need to improve

the collection and collation of reliable economic data. This will better inform trade policymaking and equip trade negotiators to better assess the likely implications of trade agreements.

Third, governments should identify and address the implementation gaps in trade strategies and agreements to ensure their intended benefits materialise. Investments in 'hard' infrastructure should be accompanied by improvements in 'soft' infrastructure (e.g. building key stakeholder awareness and capacity). In addition, governments should adopt a multi-faceted work programme, backed by dedicated institutions with adequate financial resources and technical capacities, to guide the implementation of trade agreements and/or strategies.

Fourth, a productive and dynamic private sector should be promoted in order to make trade happen and take advantage of the new economic opportunities arising from trade agreements. There is considerable scope to mobilise support from traditional donors and emerging countries to develop and strengthen the private sector and provide, among other things, an enabling environment. Active and open consultations with the private sector can also equip governments with negotiating capacity, as well as insights into trade and investment constraints.

Finally, enhancing the participation of capacity-constrained Commonwealth developing countries in world trade will also depend on securing a coherent global trade support architecture. Adequate and effective trade capacity building, fulfilling international commitments in all trade-related development areas and improved market access are all an integral part of this. The recently adopted SDGs provide a useful framework to effectively address these issues. While mobilising additional resources is critical

for meeting SDG targets, the role of ODA will continue to be important in building trade capacity, among other things. Governments and international development partners should work together to ensure AfT support is made more effective by improving the predictability of resource disbursements and better targeting to promote export diversification and competitiveness.



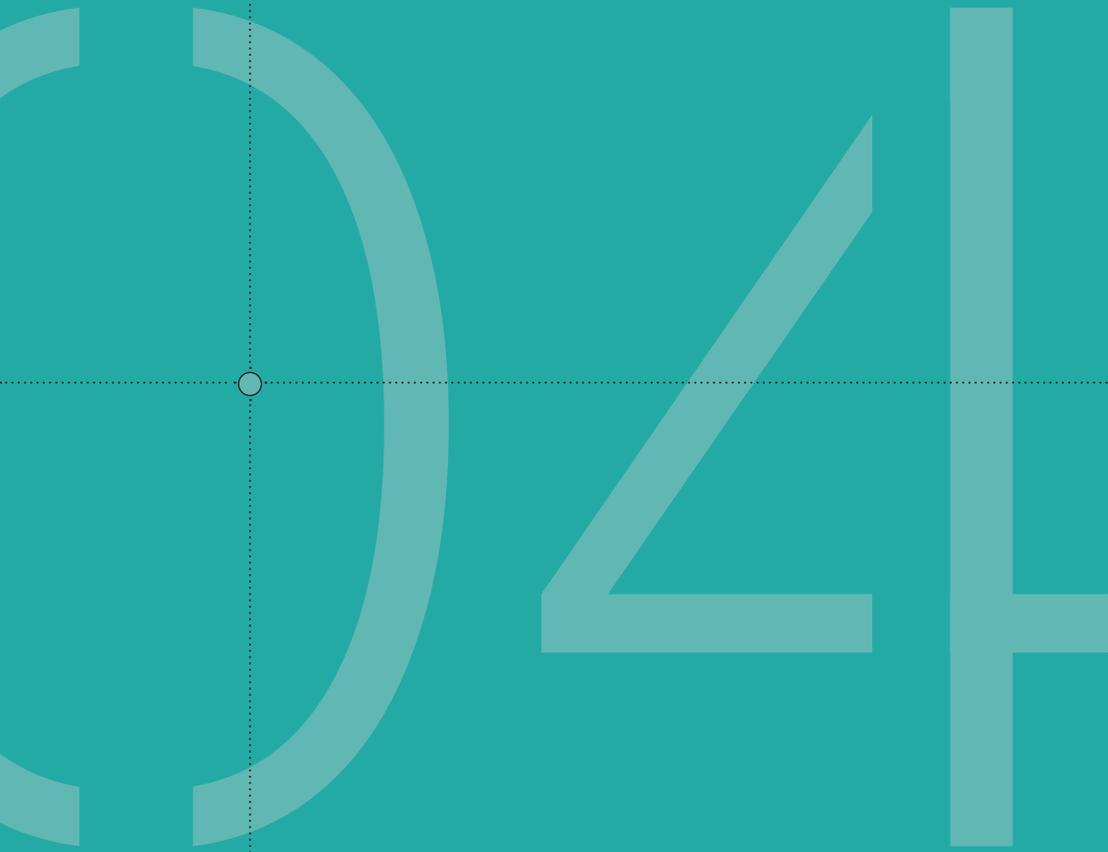
ENHANCING THE PARTICIPATION OF CAPACITY-CONSTRAINED COMMONWEALTH DEVELOPING COUNTRIES IN WORLD TRADE WILL ALSO DEPEND ON SECURING A COHERENT GLOBAL TRADE SUPPORT ARCHITECTURE.

Endnotes

1. Many small states have failed to expand exports because of their inherent characteristics, as Part 1 of this Review discussed. The average of every Commonwealth member's growth in goods export value between the two years 2000 and 2010 was 9.34 per cent. Of the 16 states with export growth two-thirds or less of this average, all but one (Sri Lanka) are small states. Most of these countries have particularly concentrated exports, and preference erosion appears likely to have played a part in this poor trade growth. Among others, Dominica and St Vincent and the Grenadines have seen a decline in exports of bananas; for Jamaica and Mauritius, the decline has been in sugar and clothing.
2. By 2015, offers were beginning to be made, following a High Level Meeting on the operationalisation of the LDC services waiver on 5 February 2015. This meeting agreed members would endeavour to submit notifications no later than 31 July 2015. By that date, 11 WTO members (four of them from the Commonwealth) had notified the Council for Trade in Services of preferential measures to enhance LDCs' participation in world services trade; two more (including the European Union, EU) had communicated to the Council for Trade in Services their intention to notify preferences as soon as their domestic procedures had been completed.
3. There are three approaches to compiling such a list of requests, which are not mutually exclusive. One is to rely on the developed countries to identify restrictions they are willing to remove – but there is no automatic reason why their choice of preferences should necessarily accord with LDCs' perceptions of their needs. Another is for LDCs to work from the bottom up to compile a detailed list of demands (based on submissions by services producers) of the barriers they face in foreign markets. This is in many ways the ideal approach and should be the objective – but it may take time to achieve. The third option is for an LDC to combine this approach with an analysis of the non-MFN services liberalisation some members have already promised in the context of FTAs under the General Agreement on Trade in Services (GATS) Article V to see which could be of interest.
4. Despite the Trade Support Network being divided into six thematic areas (ranging from market promotion and access to entrepreneurial development), Botswana's National Export Strategy notes that the sheer number of stakeholders and the diversity of interests often leads to duplication of roles, with lack of clarity on the activities each institution provides being provided at any given time, and little time to effectively coordinate the network on salient issues.
5. The CSME member states are Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.
6. Antigua and Barbuda, Belize, Dominica, Grenada, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines.
7. The CARIFORUM-EU EPA provisionally came into force two months after its signature in October 2008.
8. CARIFORUM consists of Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Haiti, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.
9. For example, RoO need to be framed very carefully to avoid the twin dangers of preventing legitimate local firms benefiting from integration and allowing the emergence of a very low value-added sector with minimal domestic processing, which can take advantage of GVC-led trade. If a broad measure of private sector knowledge is not brought to the discussion, there is the danger the RoO will be framed to serve the interest of the best-established firms in the strongest regional economy. Recent trends in GVCs noted in Part 1 are making the task increasingly hard.
10. It also has a goal of ensuring access to affordable, reliable, sustainable and modern energy for all (Goal 7).
11. The detailed results are reported in Razzaque and te Velde (2013).
12. This is drawn on Silva (2015) as the background paper prepared for this report.
13. The phenomenon of disbursements being smaller than commitments is not typical to small states alone. Globally, the shortfalls between disbursements and commitments have been quite significant.

PART 04

Perspectives on topical issues in trade



Commonwealth countries proactively engage with the global community on trade and related development issues. They participate in various regional and multilateral negotiations with a view to securing their enhanced participation in regional and global trade.

Beyond these negotiations, they offer insightful perspectives that can contribute to promoting the role of trade in development. With the changing global trade landscape, such perspectives are becoming even more important for the global community to consider.

The seven issues considered are trade multilateralism and development; the new global development framework, including the Sustainable Development Goals; the challenges and opportunities of climate change; gender and trade; the trade challenges of small states; regional integration in Africa; and effective and gainful participation in global value chains.¹



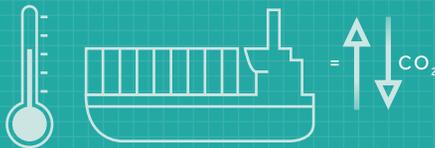
THE MULTILATERAL TRADING SYSTEM IS AT A CROSSROADS.



TRADE IS INDISPENSABLE TO THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS.



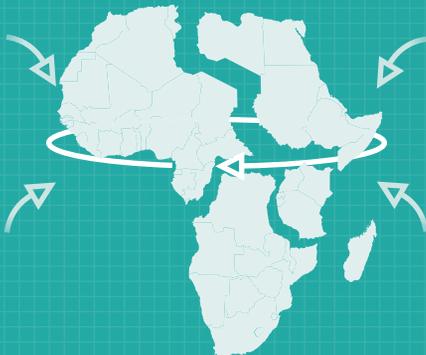
CLIMATE CHANGE IS ONE OF THE GREATEST CHALLENGES FACING THE INTERNATIONAL COMMUNITY.



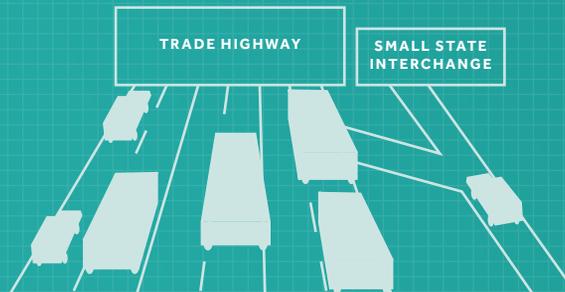
A GENDER-EQUITABLE APPROACH TO TRADE POLICY AND NEGOTIATIONS IS A PRIORITY.



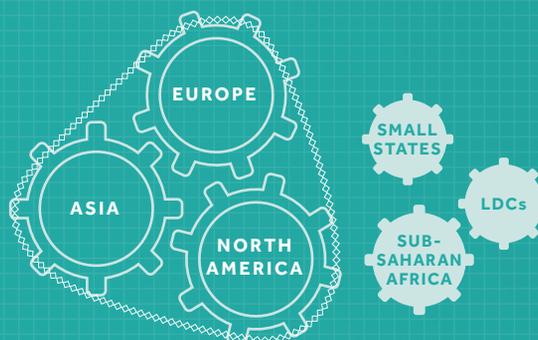
EFFECTIVE INTEGRATION IN AFRICA IS CRITICAL FOR TACKLING ITS DEVELOPMENT CHALLENGES.



SMALL STATES' TRADE CHALLENGES REQUIRE INNOVATIVE AND HETERODOX SOLUTIONS.



ADVANCEMENT OF GAINFUL AND INCLUSIVE PARTICIPATION IN GVCs REQUIRES CAREFUL CONSIDERATION AND STRATEGIC CHOICES.



4.1 Trade multilateralism and development

Twenty years after the World Trade Organization's (WTO's) establishment, trade multilateralism is at a crossroads. Its role and relevance in further opening up world trade and in providing governance are under increased scrutiny, with the proliferation and deepening of regional trading arrangements (RTAs) covering new and broader areas and trade rules. The centre-piece of the WTO – the Doha Development Agenda (DDA) negotiations, launched in November 2001 – is now the longest running trade round in the history of the multilateral trading system. A large number of issues were originally included in the negotiating mandate, from the traditional subjects of agriculture and industrial products to the newer-generation trade issues such as services, investment, competition and the environment. WTO members initially envisaged concluding the Round within three years. However, more than 14 years down the road, it is still on. Under these circumstances, it has become

increasingly clear that the Round should be brought to a positive conclusion to revive trade multilateralism.

The recent adoption of the 2030 Agenda for Global Action and the associated Sustainable Development Goals (SDGs) offers a new opportunity to catalyse momentum to finally conclude the Round. SDG 17.10 specifically provides for the promotion of a universal, rules-based, open, non-discriminatory and equitable multilateral trading system, including through the conclusion of negotiations under its DDA. The WTO is mentioned at several points, and trade has a cross-cutting role in the broader SDG framework (see Section 4.2 of this Part). Despite the challenges, rules-based multilateralism is an indispensable global public good. Through its trade rules and binding dispute settlement system, the WTO-led multilateral trading system formally provides a level playing field to all its members (Box 4.1).

4.1.1 Defining 'development' in the 'development round'

When initiated, the Doha Round negotiating agenda included almost all the trade issues of interest to both developed and developing countries. However, it also established a clear hierarchy among them. The so-called Development Issues² were to be dealt with first, to be followed by the WTO Built-In Agenda (BIA)³ and thereafter other issues (e.g. trade and environment, fisheries subsidies and rules for RTAs).

The Doha Ministerial Declaration was replete with references to 'development' and undertook to place developing countries' needs and interests at the heart of the Work Programme adopted in the Declaration. This is what prompted it to be dubbed the 'Doha Development Agenda'. Debates on the DDA's development dimension have been broadly polarised between those who champion greater flexibility for

developing countries and LDCs when undertaking obligations and those who equate development with market opening. It has also been asserted, with acceptance by many, although not all, that development issues are those that are presented as such by developing countries. While applying this rule of thumb to the requests and concerns of LDCs, small, vulnerable economies (SVEs) and other smaller developing countries is relatively easy, there has been opposition to extending this right to emerging economies. This has become even more apparent given the rapid growth of several emerging economies, and the South globally, as Part 1 of this Review highlighted, since the launch of the DDA.

4.1.2 Recognising and expanding Doha Round harvests

Despite the protracted negotiations and numerous missed deadlines, the Doha Round has not been futile. Valuable achievements, experiences and lessons have emerged whereby trade multilateralism has promoted development, and these should be acknowledged and capitalised on. There are also areas where the negotiations have already yielded some concrete results. A non-exhaustive list of these would include:

- Adoption of the Trade Facilitation Agreement (TFA) at the Bali Ministerial in 2013;
- Flexibilities in Trade-Related Aspects of Intellectual Property Rights (TRIPS) in dealing with public health issues following the General Council Decision of 30 August 2003 and subsequent amendment to the TRIPS Agreement;
- Agreement in principle to establish a Monitoring Mechanism for Special and Differential Treatment (S&DT) provisions in favour of developing countries and LDCs;

BOX 4.1.

AN EVEN-HANDED DISPUTE SETTLEMENT SYSTEM

The WTO dispute settlement system formally provides opportunities for any member to seek redress of its grievances against other members. This was vividly demonstrated when the WTO's Appellate Body ruled in favour of Antigua and Barbuda in its dispute with the USA over measures applied by central, regional and local authorities in the USA that affected the cross-border supply of gambling and betting services. In 2013, the WTO Dispute Settlement Body authorised Antigua and Barbuda to retaliate against the USA by suspending its obligations under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement at a level not exceeding \$21 million annually. Antigua and Barbuda is yet to recourse to the favourable ruling. Many observers however caution that accessing the WTO dispute settlement system is challenging for capacity-constrained countries such as least-developed countries (LDCs), small states and Sub-Saharan Africa (SSA), given their human and financial resource limitations. Nevertheless, it should be recognised that the multilateral trading system led by the WTO allows for such a fair system of settling trade disputes.

Source: Kaukab (2015)

- A Transparency Mechanism for RTAs established through a General Council Decision of December 2006 that has been operationalised on a provisional basis;
- Provision of preferences in services for LDCs and its operationalisation.

Even more importantly, the DDA negotiations have dealt with a number of new concepts, built an impressive inventory of technical and analytical work and already secured many political compromises. The knowledge and shared understandings thus created are valuable assets that can be built upon to conclude the Round meaningfully. There are examples of such achievements in all areas of the negotiations. These include Special Products and the Special Safeguard Mechanism in agriculture, the hybrid approach to identify environmental goods and services in trade and environment, mandatory technical and financial assistance in trade facilitation, measures to deal

with preference erosion in agriculture and non-agricultural market access (NAMA) and special provisions for SVEs in agriculture and NAMA (Box 4.2). The Doha Round may have also played an instrumental role in the decision of several larger emerging economies to offer their duty-free, quota-free (DFQF) market access schemes to LDCs.

The Doha Round has also contributed to the strengthened capacity of developing countries to deal with trade policy and negotiation issues. These improvements in capacity have resulted from greater investment in trade-related capacity-building by both the developing countries and their development partners. The WTO-led Aid for Trade (AFT) initiative, discussed in Part 3 of this Review, demonstrates trade multilateralism can indeed consider and address the development concerns of its most capacity-constrained members.

In addition, a successful conclusion of the Doha Round will provide a boost

BOX 4.2.**SIZE AND VULNERABILITY MATTER**

While the Commonwealth has always recognised and actively strived to assist its small state members, there was no similar recognition or support in the WTO prior to the Doha Round. Paragraph 35 of the Doha Ministerial Declaration established a Work Programme for small states that has led to greater recognition of the special challenges confronting this group of countries. Called 'small, vulnerable economies' (SVEs), these WTO Members individually account for only a very small fraction of world trade and are particularly vulnerable to economic uncertainties and environmental shocks.

While several WTO members were initially reluctant, the persistence and hard work of SVE negotiators, supported by substantial technical work by organisations such as the Commonwealth Secretariat, ensured SVE concerns were taken on board. As a result, current draft texts, on, among other things, modalities for agriculture and NAMA, include provisions allowing for additional flexibilities for SVEs going beyond those stipulated for other developing countries. This can be considered a valuable achievement of the Doha Round negotiations.

Source: Kaukab (2015)

to the world economy. According to most influential analytical exercises, plausible Doha proposals (based on 2008 modalities) can add \$360 billion in new trade each year (The Economist, 2011) and overall annual global welfare gains of \$160 billion (Martin et al., 2011). Despite sceptics' scrutiny about the relative magnitude of these potential benefits, the latter should be regarded as quite significant, particularly since they exclude the gains from new policy disciplines, additional bindings by countries, trade facilitation measures and AfT support.

Notwithstanding the potential for quite considerable global welfare and trade gains, benefits from the Doha liberalisation scenarios for the world's poorest countries – the LDCs – appear to be very small or non-existent (Bouët and Laborde, 2011). True, LDCs (many of them are from SSA) are not required to undertake any tariff cuts, yielding no significant gains from allocative efficiencies in their domestic economies. However, it is also quite clear the Round

has not generated any additional market access for them.⁴ A successful conclusion of the Doha Round would require addressing these issues.

4.1.3 Concluding the Doha Round for development

As WTO members negotiate a post-Bali Work Programme with a view to concluding the Doha Round, it is extremely important that development dimensions be given due priority. There are several opportunities to catalyse momentum.

First, it is imperative to address the specific needs and concerns of LDCs and SVEs. Given their size and productive capacity, these countries hardly pose any real commercial threat to other WTO members. Moreover, many of their interests are already reflected in the existing draft modalities on agriculture and NAMA, as well as in discussions and understandings in the services negotiations. Along with this,

of particular interest to these countries is the expansion of and improved targeting of AfT in helping with their trade capacity-building. It is clear more can and should be done to help them.

Second, S&DT provisions should be tailored to assist developing countries to derive benefits from them, including from their own trade reforms. Market access opportunities in NAMA, agriculture and services should be accompanied by assistance to developing countries, especially the most capacity-constrained ones, to help them take advantage of these opportunities. Greater attention should be given to simplifying rules of origin, providing market information and promoting measures that will facilitate the transfer of technology and strengthen the ability of these countries to participate more gainfully in global value chains (GVCs) (see Section 4.7 of this Part).

Third, the S&DT model in the TFA provides a useful approach that could be replicated or adapted in other areas under the Doha Round. Under the TFA, implementation of members' obligations is linked directly to their capacities and to the extent of availability of the assistance they require to meet their obligations.

Finally, the progress made on trade multilateralism must be consistent with the SDG framework the global community has adopted and should contribute to enhancing the role of development as envisaged therein.

TABLE 4.1.
A STRONGER ROLE FOR TRADE IN THE SDGS

Para. 30	States are strongly urged to refrain from promulgating and applying any unilateral economic, financial or trade measures not in accordance with international law and the Charter of the United Nations that impede the full achievement of economic and social development, particularly in developing countries.
Target 2.b	Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round.
Target 3.b	... provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Trade-Related Aspects of Intellectual Property Rights Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights ...
Target 8.a	Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries.
Target 10.a	Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements.
Target 14.6	By 2020, prohibit certain forms of fisheries subsidies ... recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation.
Target 17.10	Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda
Target 17.11	Significantly increase the exports of developing countries, in particular with a view to doubling the Least Developing Countries' share of global exports by 2020 .
Target 17.12	Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access.
Para. 62	This Agenda, including the SDGs, can be met within the framework of a revitalized global partnership for sustainable development, supported by the concrete policies and actions outlined in the Addis Ababa Action Agenda ... These relate to domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability ...
Para. 63	... national development efforts need to be supported by an enabling international economic environment, including coherent and mutually supporting world trade, monetary and financial systems, and strengthened and enhanced global economic governance.
Para. 68	International trade is an engine for inclusive economic growth and poverty reduction, and contributes to the promotion of sustainable development. We will continue to promote a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system under the World Trade Organization (WTO), as well as meaningful trade liberalization. We call on all WTO members to redouble their efforts to promptly conclude the negotiations on the Doha Development Agenda. We attach great importance to providing trade-related capacity-building for developing countries, in particular African countries, least-developed countries, landlocked developing countries, small island developing states and middle-income countries, including for the promotion of regional economic integration and interconnectivity.

4.2 The multilateral trading system and the SDGs

A new global development framework – the 2030 Agenda for Global Action, which includes a set of SDGs – has now replaced the 2000 Millennium Development Goals (MDGs). MDG 8, which was concerned with a ‘global partnership for development’, included several international trade-related targets. The new framework similarly includes various targets and other references to the role of international trade in supporting achievement of the SDGs. Indeed, international trade is expected to play a frontline role in the realisation of the new goals.

4.2.1 Trade in the SDGs

Key trade-related references in the new framework are highlighted in Table 4.1. Collectively, they point to six salient features.

- A substantial part of the earlier agenda is transferred to the new one, signalling a significant lack of progress under

the MDGs. This includes the most important trade-related provision contained in the MDG framework – the promotion of a rules-based, open, non-discriminatory and equitable multilateral trading system and DFQF market access targets for LDCs.

- The SDG framework conveys a stronger sense of urgency and determination to achieve selected targets, notably the inclusion of a more decisive target to double LDCs’ share of global exports by 2020 in line with the target specified in the Istanbul Programme of Action (IPOA) for LDCs 2011-20.
- It also makes more explicit references to the WTO’s Doha Round and its completion.
- In contrast with the MDGs, the WTO is mentioned at several points in the SDG framework, perhaps signalling an underlying expectation of a stronger

and more direct role for the multilateral trading system in helping facilitate the achievement of some SDGs.

- The new framework emphasises the cross-cutting role of trade more directly, for example with clearer linkages between trade-related goals and those related to agriculture, food security and fisheries, among others.
- The role of AfT is emphasised and a target to increase its volume is included.

THE 2030 AGENDA SHOULD ALSO BE LEVERAGED TO FACILITATE THE IMPLEMENTATION OF THE ISTANBUL PROGRAMME OF ACTION (IPOA) FOR LDCs, ESPECIALLY TO HALVE THE NUMBER OF LDCs BY 2020.

Beyond the specific references to trade-related goals and targets, there is also a stronger emphasis in the new framework on achieving growth, developing infrastructure and promoting prospects for productive employment. Trade has a central role to play in contributing to these objectives. While achieving them will be a challenging task in itself, the situation is likely to prove all the more complex given the recent relatively poor track record of accomplishments of the trade-led components of the MDG framework. There is an acute burden on the multilateral trading system to deliver trade-related gains for the world's poorest, smallest and most vulnerable countries. The 2030 Agenda should also be leveraged to facilitate the implementation of the IPOA for LDCs, especially to halve the number of LDCs by 2020.

4.2.2 Operationalising trade in the 2030 Agenda for Global Action

As both the direct and the cross-cutting roles of trade are heavily emphasised in the new 2030 Agenda, a great deal will depend on the effective functioning of the multilateral trading system in materialising them. In this respect, five proposals of ways to better integrate the multilateral trading system with the SDG framework are outlined below.⁵

First, it is important to render the SDG trade-related targets relevant to the contemporary global trading landscape and its increased complexity. The landscape in 2015 is markedly different from the context for the 2000 goals (as a result of several important shifts that Part 1 outlined). Under these circumstances, it is clear the multilateral trading system and the institutions at its core, notably the WTO, will need to assume a more direct role in supporting the world's poorest and most vulnerable countries in achieving the SDGs.

Second, and as Section 4.1 of this Part reaffirmed, a successful conclusion to

the WTO's Doha Round is imperative. This is now explicitly recognised as a target in the new SDG framework. The conclusion of an agreement binding all members together in a development-focused trade agenda is clearly the optimal outcome and will strengthen the multilateral trading system. Achieving this will require dealing with the progressive erosion over time of consensus among countries on the original Doha mandate; the escalating challenge of concluding the Round as a single undertaking, as was the case with the predecessor Uruguay Round; and the absence of an in-built toolkit within the multilateral trading system itself to galvanise momentum towards conclusion of a single undertaking Round.

Third, practical ways to strengthen and 'promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the WTO' (SDG 17.10) should be explored and encouraged. Continuing the status quo and assuming this goal will be achieved indirectly is not an option in light of experience with MDG 8a. A more pragmatic approach would require, among other things (Wilkinson, 2015):

- Considering and evaluating alternatives to the 'round'-based approaches, which in future could include a progressive and managed shift away from highly pressured big-expectation rounds towards realistic piecemeal negotiations that operate on a continuing and continual basis and that could help strengthen the adeptness, responsiveness and ability to act of the multilateral trading system;
- Reviewing the manner in which trade deals are negotiated, to discern how best to introduce rules-based procedural mechanisms – and, through this process, progressively developing a set of rules governing the



**THERE IS A VALUABLE
OPPORTUNITY FOR THE WTO
TO CONDUCT REGULAR REVIEWS
OF PROGRESS ON TRADE-
RELATED ASPECTS OF THE
SDG FRAMEWORK.**

conduct of negotiations that enable all interests to be represented;

- Developing greater clarity on the substantive agenda of negotiations and specifying how these will unfold;
- Developing measures that allow for a process of arbitration for instances where differences of interpretation and/or blockages exist, and that allow for redress;
- Offering adequate and more targeted technical assistance on the practice, substance and organisation of negotiations to poorer and smaller countries.

Fourth, there is a need to deepen and extend the utility for developing countries of several elements of the WTO's current institutional architecture. These include the dispute settlement system, the technical and support services the WTO Secretariat offers and the trade policy review mechanism. There may be scope to better calibrate each of these, to help contribute more directly to the attainment of specific 2030 Agenda for Global Action goals and trade-related targets. As Section 4.1 of this Part proposed, it may also be useful to identify and extend relevant innovations that have emerged from the multilateral trading system under the Doha Round, notably AfT and S&DT measures associated with the TFA.

Fifth, an important priority should be to strengthen institutional coherence, coordination and communication among the relevant multilateral bodies to create a more effectively integrated trade-related global governance framework to drive forward the 2030 Agenda.

In this regard, the WTO and other trade-related institutions responsible for SDG implementation should develop a clearer institutional programme of action in support of the SDGs, including a short- and medium-term implementation plan. They should also establish closer working relationships with other, particularly UN, intergovernmental bodies, accompanied by an objectively verifiable monitoring and results framework. In pursuing this approach, there is a valuable opportunity for the WTO to conduct regular reviews of progress on trade-related aspects of the SDG framework. Such reviews could be carried out on a triennial basis and would be akin to the approach the institution has already adopted for the AfT initiative through regular biennial reviews, known as the Global Review of Aid for Trade.

4.3 Trade and climate change

Climate change is one of the greatest challenges facing the international community, as Part 1 of this Review outlined. The 2030 Agenda for Global Action, specifically SDG 13, calls for urgent action to combat climate change and its impacts. The UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) in Paris in December 2015 is expected to adopt a new global climate accord with effect from 2020. This will be an essential stepping-stone in mitigating and reducing the global implications. Promoting climate adaptation also remains essential to increase developing countries' resilience to the consequences they are confronted with.

Commonwealth members, especially small states, LDCs and SSA countries, are highly vulnerable to the physical impacts of climate change. These countries also have the least capacity to diversify their production and exports in response to these impacts. In addition, there is a risk that international mitigation policies and other measures could impair their trade competitiveness. Overall, these physical and regulatory impacts of climate change can affect their development prospects through trade. However, there may also be enhanced trade and investment opportunities in economic sectors associated with the transition to a lower carbon or 'green economy', and these should be pursued.

4.3.1 Physical impacts on trade activities

Climate change may have a direct impact on what countries produce, with consequences for their trade in goods

and services. Increases in temperature or reductions in rainfall may, for instance, impose a direct constraint on commodity exporters. Over the longer term, this will likely alter the comparative advantage of some countries and regions, especially where it is based on environmental factors (IPCC, 2014). Extreme weather hazards, including tropical storms and flooding, may also damage or destroy critical trade infrastructure, such as ports, roads and rails, and incur tremendous reconstruction costs. Countries vulnerable to these impacts thus confront three possibilities: 'climate change-proofing' existing products and production processes; diversifying into new products and methods of production; and diversifying into new tradable services.

Many Commonwealth countries have high export concentrations in climate-sensitive sectors such as agriculture, mining, fisheries, forestry and tourism.

In Barbados, for instance, a decrease in rainfall, rising sea levels, shifts in coastal swells and beach erosion are projected to have significant impact on the tourism industry and incur huge costs of rebuilding damaged facilities in the future (Worrall, 2015).⁶ For others, like Maldives, Namibia, Tonga and Tuvalu, fisheries are important sectors of the economy and climate change may affect stocks and sustainability. In Fiji, the consequences may cause a drastic reduction in the production of sugarcane, which is a key export after fish products and bottled water.⁷

Commonwealth countries with concentrated exports in oil and gas, such as Brunei, Nigeria and Trinidad and Tobago, may find their export revenues affected by lower world demand for fossil fuels. These countries will need to diversify their economies and seek alternative sources of foreign revenues.

Agriculture is of critical importance to many SSA countries, especially LDCs, where the sector employs up to 80 per cent of the workforce. In Africa, the majority of crops are generally rain-fed and/or cultivated in marginal lands, and the capacity and institutions to assist in adapting are underdeveloped. The likely impacts on African agriculture may be unpredictable and uneven: some parts of the continent may experience more frequent droughts that severely impair farming conditions, rural livelihoods and food security; other regions may see increased rainfall and longer growing seasons that potentially increase agricultural outputs (Cosbey, 2010; IPCC, 2014).

4.3.2 Regulatory impacts on trade

Apart from these physical impacts, changing rules and regulations related to the mitigation initiatives could adversely affect the trade interests of many Commonwealth members. As these

countries seek to achieve economic diversification to reduce their exposure to risks, international mitigation and other measures could make their entry into new sectors difficult.

In the absence of agreed multilateral rules on trade and climate change,⁸ there is considerable scope for countries to adopt unilateral policies that may potentially distort international trade and investment. These policy measures could take the form of border carbon taxes, emissions trading schemes, subsidies, local content requirements or a range of non-tariff barriers (NTBs), such as carbon footprints, eco-labelling schemes or standards, among others.

International agreements on aviation airfares (through carbon taxation), as well as behavioural shifts owing to consumers' increased awareness, may also affect the tourism attractiveness of many countries. The Caribbean, for instance, is the most tourism- and travel-intensive region of the world, with almost 60 per cent of arrivals coming from long-haul destinations (Greene and Nurse, 2013). In sum, climate mitigation policies could potentially reduce market opportunities for some types of producers and constrain efforts to diversify exports across products and markets.

4.3.3 Harnessing the green economy

Climate change also presents economic opportunities. The transition to a lower-carbon or 'green' economy has the potential to enhance trade and investment in key economic sectors, including agriculture, fisheries, forestry, manufacturing, renewable energy and tourism (UNEP, 2013). Opening up new markets for green goods and services,⁹ building capacity to implement climate-related voluntary sustainability standards and the greening by lead firms of their global supply chains are some opportunities for developing countries to benefit from such a transition.



CLIMATE CHANGE ALSO PRESENTS ECONOMIC OPPORTUNITIES. THE TRANSITION TO A LOWER-CARBON OR 'GREEN' ECONOMY HAS THE POTENTIAL TO ENHANCE TRADE AND INVESTMENT IN KEY ECONOMIC SECTORS.

The benefits for countries that do start to adapt their productive structure to climate change are increasing, as are the opportunity costs of not doing so. Acquiring environmentally friendly technologies and adopting cleaner production methods will be vital for countries to increase their competitiveness through greater efficiency. There could even be advantages in being less developed: a country can adopt the most recent technologies and leapfrog to low-carbon resilient development, such as through distributed renewable energy generation, which does not need grid infrastructure.

International measures such as carbon trading mechanisms, climate financing and AfT also offer opportunities for capacity-constrained countries to access financing to adapt and diversify their economies, including in low-carbon mitigation technologies (Box 4.3). Under the UNFCCC, developed countries have committed to mobilising jointly with the private sector \$100 billion per year by 2020 to support climate action in developing countries. Thus far, however, the money raised is nowhere near that target, despite an early \$30 billion commitment during the 'fast start finance' period.¹⁰ The UNFCCC parties have also established a Green Climate Fund based in South Korea to support projects, policies, programmes and other activities in developing countries. While the Green Climate Fund is considered a major vehicle to bankroll global climate finance, it remains severely under-capitalised.

Carbon trading schemes such as the Kyoto Protocol's Clean Development Mechanism (CDM) offer developing countries a potential avenue to support the transition to a low-carbon development phase. The CDM allows emission reduction projects in developing countries to earn certified emission reduction (CER) credits, each

BOX 4.3.

PROPOSED COMMONWEALTH CLIMATE FINANCE SKILLS HUB

Commonwealth member countries face significant challenges when it comes to climate change, with small island developing states (SIDS) and LDCs topping the list of the most vulnerable. Within these countries, there is a lack of capacity and resources to adapt to the impacts of climate change. Although financial resources are slowly being made available to support climate change-related actions, SIDS, LDCs and other countries in Africa find it difficult to access international climate finance. This was the finding of a Commonwealth Expert Group on Climate Finance in 2013.

Against this background, the Expert Group proposed the establishment of a Commonwealth Climate Finance Skills Hub, which Mauritius offered to host. In 2013, Commonwealth Heads of Government mandated the Commonwealth Secretariat to work with member countries to develop a full proposal for a Commonwealth Climate Finance Skills Hub for consideration at their next meeting, scheduled for November 2015 in Malta.

The aim of the Hub is to facilitate improved access by small and vulnerable countries to climate finance to meet their priority needs in pursuing sustainable development. To do this, it will undertake on-job long-term capacity development at national and regional levels within these countries. The ultimate aim is to support national efforts to access and effectively use international climate finance for climate-resilient development.

Specifically, the Hub will deliver much-needed counterpart absorptive capacity within SIDS, LDCs and other countries in Africa to enable improved engagement with the wide range of climate readiness services that are currently on offer by the international community. The project places emphasis on strengthening existing regional climate finance platforms and linking these to national systems, recognising that countries with small administrations can draw significant benefits from pooled expert services in this area.

The project's design is based on the successful Hub and Spoke model delivered jointly by the Commonwealth Secretariat, the EU, the OIF and the ACP Secretariat in the area of trade policy (see Part 3 of this Review). The Hub will consist of a centre in Mauritius with nodes in the Asia, Africa, Caribbean, India and Pacific regions.

Source: Commonwealth Secretariat, London

equivalent to 1 tonne of carbon dioxide. These CERs can be traded and sold, and used by industrialised countries to meet a part of their emission reduction targets under the Kyoto Protocol. Kenya, for example, has greatly benefited from the CDM and is considered one of the success stories for renewable energy in Africa. Compared with most other SSA countries, Kenya has attracted a relatively high proportion of CDM projects and climate financing for several projects in energy efficiency, renewable energy and reforestation (Worrall, 2015). While a number of weaknesses of the CDM have been identified, there are continuing discussions on how a reformed CDM could be used under the Paris climate agreement.

4.3.4 Translating challenges into opportunities

Several issues are important to turn the challenge of climate change into trade opportunities. First, trade and climate issues lie at the intersection of two of the world's major multilateral regimes: the WTO and the UNFCCC. However, the WTO does not have specific provisions to deal with climate change and the ongoing Doha Round negotiations do not directly address it. While the UNFCCC COP21 is expected to adopt a new global climate treaty, the interaction between these two multilateral regimes with respect to combating climate change remains unclear. This has manifested itself in a growing number of WTO disputes that involve energy, especially renewable energy.¹¹ This points to the need for greater alignment, coherence and 'mutual supportiveness'¹² between the multilateral trade and environmental regimes, especially following adoption of the 2030 Agenda for Global Action.

Second, over the medium to long term, climate change will affect the productive and trading capacity,

as well as the competitiveness, of the poorest and most vulnerable countries. Development partners should provide technical, financial and other assistance, including transferring relevant technologies, to assist these countries to 'climate change-proof' their economies and diversify into new products and methods of production. The transition to a 'green economy' also generates new trade and investment opportunities for Commonwealth countries, and these should be pursued.

Third, and related to the above, more country-specific analysis should be undertaken so appropriate support mechanisms, including for adaptation and access to climate finance, can be devised. Since countries are heterogenous and differ by geographic location, size, levels of development and trade structure, the likely implications of climate change will vary. To be effective, support mechanisms need to be targeted and tailored to specific country circumstances and challenges.



THERE IS NEED FOR GREATER ALIGNMENT, COHERENCE AND 'MUTUAL SUPPORTIVENESS' BETWEEN THE MULTILATERAL TRADE AND ENVIRONMENTAL REGIMES, ESPECIALLY FOLLOWING ADOPTION OF THE 2030 AGENDA FOR GLOBAL ACTION.

4.4 Gender and trade: the need for more gender-equitable distribution of gains

International trade and trade agreements affect women and men differently, and can have significant implications for household wellbeing and for gender equality.¹³ These differential gender impacts are influenced and determined by social norms and values, as well as factors such as access to resources, endowments, skills levels, rights and entitlements (sometimes enshrined in law) and regulatory processes. Differential gender impacts can also depend on the goods and services produced within tradable sectors, whether production occurs in the formal or informal sector and whether or not discriminatory practices are being applied within labour markets. In turn, all these factors have implications for how women and men are employed.

4.4.1 Why gender matters for trade and trade policy

Understanding and measuring the impact of trade on women is important

not only because they are typically half of any population but also because the constraints women face in developing businesses or entering the labour market make them less able to benefit from the opportunities trade creates. This differential impact may also have implications for women's social mobility and their participation in public life. An underlying factor in this process is the socio-culturally derived differing roles and responsibilities of women and men within the household, coupled with differences in access to resources and entitlements. The differentiated impacts of both trade policy and trade agreements substantiate the need to recognise women not only as consumers but also as producers and socio-political agents in efforts to achieve gender equality.

Yet, despite manifest linkages between the content of international trade agreements and their differential gender impacts, there have been limited

attempts over several decades of global trade negotiations to mainstream¹⁴ or integrate gender concerns into trade policy and negotiations. With the adoption of the SDGs, there is a valuable opportunity to agree to a focused set of practical country-led and internationally supported measures to advance gender-sensitive trade-related policies. Several of the goals and targets in the 2030 Agenda for Global Action have a direct bearing on the nexus between trade policy and gender equality (Table 4.2).

4.4.2 Building gender-sensitive trade policies

Outlined below are five proposals to bring about transformative shifts towards a more gender-sensitive and gender-equitable approach to the formulation of trade policy and the negotiation of international trade agreements.

First, there is an urgent need to systemically collect and collate

TABLE 4.2.
SUMMARY OF GENDER AND TRADE LINKAGES IN THE SDGS

SDGs	Relevant target
1. Ending poverty in all its forms everywhere.	1.4 Providing for equal rights to economic resources among men and women.
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	2.3 Providing for, among other things, equal access to markets as well as to value addition.
5. Achieve gender equality and empower all women and girls.	<p>5.1 End all forms of discrimination against all women and girls.</p> <p>5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.</p> <p>5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources in accordance with national laws.</p> <p>5.c Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.</p>
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	<p>8.5 By 2030 achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.</p> <p>8.8 Protect labour rights and promote safe and secure working environments of all workers, including migrant workers, particularly women migrants, and those in precarious employment.</p>
10. Reduce inequality within and among countries.	<p>10.2 By 2030 empower and promote the social, economic and political inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.</p> <p>10.3 Ensure equal opportunity and reduce inequalities of outcome, including through eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and actions in this regard.</p>
17. Strengthen the means of implementation and revitalise the global partnership for sustainable development.	17.18 By 2020, enhance capacity-building support to developing countries, including for LDCs and SIDS, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts.

accessible, comparable and measurable gender-disaggregated trade data. These data can then be used to inform, develop and monitor government policies and the support development partners provide in promoting gender equality in trade-related issues. For example, data on women employment in different sectors, wages and salaries earned, education and skills levels and kind of employment are crucial before negotiating trade agreements and evaluating their impact. The absence of such data seriously undermines governments' capacity to formulate effective trade policy and, more broadly, constrains global efforts to eradicate poverty and deliver sustainable development. Addressing this challenge will require strengthening the national architecture for collecting and collating data on gender and trade.

Second, there should be more systematic and widespread use of gender impact assessments, which are comprehensive tools to aid gender mainstreaming and explain how changes to trade policy and the pattern of trade can have wide-ranging gender-differentiated impacts. These impacts are typically experienced at a sector or industry level. Measuring the extent of positive or negative consequences at these levels is important when planning adjustment policies or mitigation interventions. These social and gender dimensions should be better integrated into current sustainability impact assessments. It has also been suggested that the WTO develop the technical capacity to undertake gender analysis of trade rules (Viilup, 2015).

Third, successful gender-sensitive trade policies and practices should be identified and a cohesive nationally led and multilaterally supported programme developed to upscale these initiatives. Opportunities to promote gender-sensitive trade policies are often untapped or poorly understood.

A case in point relates to improving women's participation in tradable sectors that have benefited from trade liberalisation. Actions could include supporting women-owned export enterprises, providing fiscal and training-related incentives and targeting AfT support. Other interventions could include accelerating the integration of women in dynamic and technologically advanced economic sectors and enabling better access to finance to develop products and services in these sectors.

Fourth, it is imperative to strengthen women's voice and agency in trade policy formulation and in regional and multilateral trade negotiations. Women are underrepresented in forums that typically help shape and define the global trade regime. However, their inputs have the potential to fundamentally transform the way communities experience globalisation and, in so doing, better balance the distributional impact of international trade and improve inclusive access to resources. A crucial step towards achieving this goal will be to significantly augment opportunities for both the promotion and the training of women in senior trade negotiating roles¹⁵. An analysis undertaken specifically for this Review on the composition of Geneva-based trade negotiators and Heads of Delegation to the WTO found a male to female ratio of just under 2:1 among trade negotiators and approximately 3:1 at Head of Delegation level. In addition, as at March 2015, only one of the 15 councils and bodies reporting to the WTO's General Council is chaired by a female Ambassador.

Finally, a coherent medium-term action programme (national, regional and multilateral) should be developed to promote a more gender-sensitive institutional and policy architecture. This is a longer-term objective that

is only likely to be achieved through early and thereafter consistent action at all levels. Implementation of the 2030 Agenda for Global Action offers an important vehicle to hasten this process, with its emphasis on policy interconnectedness, cohesiveness and coherence, plus cross-cutting policy approaches to achieving sustainable development. While many required interventions will be directly derived from trade-related actions, solutions must also be found through initiatives in specific economic sectors and policies on finance, the environment, education, training and the labour market.



IT IS IMPERATIVE TO STRENGTHEN WOMEN'S VOICE AND AGENCY IN TRADE POLICY FORMULATION AND IN REGIONAL AND MULTILATERAL TRADE NEGOTIATIONS. WOMEN ARE UNDERREPRESENTED IN FORUMS THAT TYPICALLY HELP SHAPE AND DEFINE THE GLOBAL TRADE REGIME.

4.5 Tackling the trade challenges of small states

More than half the Commonwealth's members are small states. These countries confront specific developmental challenges that have been characterised by such tags as 'Small States, Small Problems?', 'Big Problems for Little Countries', 'Beautiful but Costly', 'Small States Face Big Challenges', 'Small Is Dangerous', etc.¹⁶ Recognition of the distinct characteristics of small states, as Part 1 of this Review discussed, and the impact of these on their prospects for achieving growth and participating effectively in the global trading system has emerged gradually. Global advocacy and analytical work led by, among others, the Commonwealth Secretariat,¹⁷ has developed into an extensive treatment of small states' vulnerability and how to build their resilience (Box 4.4).¹⁸

Early studies of the impacts of size and remoteness on macroeconomic performance and trade competitiveness tended to see little need for

differentiated policy approaches on account of the special characteristics of small states (e.g. Easterly and Kraay, 1999). Subsequently, and with the emergence of a stronger body of empirical evidence, including by the International Monetary Fund (IMF) and the World Bank, there now appears to be a consensus on the unique characteristics of small states affecting their economic performance (e.g. Chen et al., 2014; World Bank, 2015b).

4.5.1 Trade competitiveness challenges

Small states are among the most open economies in the world and are crucially dependent on international trade for growth, poverty reduction and employment.¹⁹ Their relative openness makes them highly vulnerable to trade and other shocks and to fluctuations in the availability of trade and other sources of development finance. Several small states confront excessive trade costs owing to their geographic location and

remoteness. Their trade costs are, on average, estimated to be at least 50 per cent higher than those for developing countries as a whole (Razzaque and Keane, 2015). Disproportionately large preference erosion owing to multilateral and regional trade liberalisation initiatives has also affected their competitiveness (Cali et al., 2013). Since their exports are often highly concentrated, the loss of trade preferences for these products (especially rice, sugar and bananas in the EU market, for instance) has had serious implications for their overall export performance. Part 1 of this Review showed small states' share of global trade continues to decline and export-orientation in their economies has suffered both absolutely and relative to other groups of global economies.

4.5.2 Tackling challenges and transformative opportunities

Several decades of collective national and international policy analysis

have shifted the diagnosis of small states' challenges from requiring traditional solutions to needing heterodox measures. The shifting global trade landscape presents a range of alternatives and possibilities to shift gear for small states. To help advance this agenda, several proposals are outlined below.

First, with the adoption of the 2030 Agenda for Global Action and growing recognition of the specific challenges and vulnerabilities small states confront, there is a unique opportunity to rejuvenate a global partnership for small states' development. This partnership should prioritise innovative approaches to targeting international support to assist small states. Access to trade finance is one of the challenges impairing their export supply response. The proposed Commonwealth initiative to establish a trade financing facility for small states is a concrete example of the innovative approaches required to support small states and help improve their trade performance (Box 4.5).

Second, strengthening regional integration can address the constraints of small domestic markets and enable small states to benefit from economies of scale to augment their competitiveness. However, given the geographic remoteness and insularity of many small island states, increasing regional trade flows is often a difficult option. Nevertheless, several policy actions can be employed: at the national level to strengthen customs efficiency and trade logistics capacity; at the regional level to harmonise trade policies and promote regional value chains; and beyond this to deepen trade integration with other larger trading arrangements – for example, the Caribbean small island states with the North American Free Trade Agreement (NAFTA) and the Common Market of the South (MERCOSUR) and the

BOX 4.4.

RESILIENCE PROFILING FOR SMALL STATES

In 2004, recognising the need for a strategic approach to addressing the impact of persistent shocks on the sustainable development of small states, the Commonwealth Secretariat collaborated with the University of Malta to produce a Vulnerability/Resilience Framework. This includes a practical assessment tool aimed at helping national, regional and international stakeholders agree priority areas for policy intervention and development assistance. The tool was initially used to profile the vulnerability and resilience of three small island states – Seychelles, St Lucia and Vanuatu – yielding a set of policy recommendations and technical assistance for these countries. The initial 2004 framework prompted the development of several other indices and frameworks, contributed by a range of development partners, to study and appropriately assist small states.

The Commonwealth Framework has been periodically refreshed and strengthened, most recently in 2014. Spearheaded by an international panel of experts and founded on a series of consultative workshops, the preparation of several policy studies and the conduct of a pilot resilience profiling exercise in four countries, the framework has been adjusted and improved, incorporating additional components in resilience-building, among others the critical role of governance, in particular regulatory regimes, including the social, economic, environmental and political factors relevant to these. A practical Resilience Toolkit is also being developed to facilitate exchange of information and best practices and to enable countries to conduct self-assessments on the status of their overall vulnerability/resilience in the context of governance. These tools and methodologies are all widely disseminated, to help ensure international regulatory processes, policies and development assistance are all rendered more responsive to the development needs of small states.

Source: Commonwealth Secretariat, London

BOX 4.5.

COMMONWEALTH SMALL STATES TRADE FINANCING FACILITY

An important fallout from the 2008 global financial crisis was the contraction in trade finance, especially for many developing countries. In November 2013, Commonwealth Heads of Government through the Kotte Statement on International Trade and Investment requested the Secretariat to assess the need for and viability of a Commonwealth finance facility for those small and developing member countries without access to such resources. In addition, Heads welcomed an offer by the government of Malta to initiate a pilot mechanism among interested members to help augment trade and investment finance, particularly for small and vulnerable developing countries.

The resultant feasibility study found significant demand for such a finance facility that could trigger over \$1 billion in trade.

Source: Commonwealth Secretariat, London

Pacific small island states under wider Pacific regional cooperation such as PACER-Plus and with the Association of South-East Asian Nations (ASEAN).

Third, small states should take advantage of the growth in South-South trade to boost and diversify their trade. Many of the major emerging markets are geographically closer to small states and some also offer DFQF market access to LDCs. Pacific small states, for example, have several opportunities to expand trade with Asia, including through tourism (Chen et al., 2014); to expand natural resource-based exports in minerals, hydrocarbons, fisheries and forestry products; and to invest in agriculture where there are relatively high levels of arable land. The rise of the emerging economies also enables small states to tap into new institutional and policy initiatives, including the Brazil, Russia, India, China, South Africa (BRICS)-led New Development Bank and the Asian Infrastructure Investment Bank. In addition, small states could take advantage of favourable trade preferences in major economies (such as the economic partnership agreements, EPAs) to attract export-oriented foreign direct investment (FDI) focused on those markets.

Fourth, many small states are well placed to benefit from the growth in services trade, since many sectors, like information and communication technology (ICT), business processing and some business and financial services (including business registrations and the incorporation or registration of international cargo ships), are not necessarily impeded by geographical distance. Many small states have already developed and can further benefit from their comparative advantages in these sectors (e.g. Mistry and Treebhoohun, 2009). In other services sectors, particularly tourism, there is significant scope to diversify and expand trade,

including through identifying and developing niche tourism services. There may also be opportunities to link the agriculture and services sectors, such as by increasing agricultural production to supply domestic and regional tourist industries.²⁰

Finally, as Part 3 elaborated, there is need for more strategically directed AfT to assist small states to improve their trade performance and address their unique trade challenges. Both the Caribbean Community (CARICOM) and the Pacific Island states are implementing regional AfT strategies. These can be useful regional approaches for identifying trade-related needs, mobilising resources and facilitating implementation. It is also important to draw lessons from AfT implementation so future interventions can be better targeted and more effective. For instance, while many small states have experienced disproportionate preference erosion, there has been insufficient support to their trade-related adjustment needs. Under these circumstances, adjustment support is needed to diversify their economies and to develop and expand new sectors of export interest.



THERE IS NEED FOR MORE STRATEGICALLY DIRECTED AID FOR TRADE TO ASSIST SMALL STATES TO IMPROVE THEIR TRADE PERFORMANCE, ACHIEVE EXPORT DIVERSIFICATION AND ADDRESS THEIR UNIQUE TRADE CHALLENGES.

4.6 Managing regional integration in Africa

SSA constitutes the largest geographical grouping in the Commonwealth and includes an overwhelming majority of the world's LDCs. Notwithstanding the development challenges, today many regard Africa as the 'rising continent', with ambitious plans for continental integration, industrialisation and infrastructure development being put in place. Unlike many small island states, where distance and economic geography can compromise regional integration efforts, Africa's contiguous borders and numerous landlocked countries²¹ make deepening regional integration more practical and indispensable for reducing trade costs and improving trade performance.

4.6.1 Regional integration progress and challenges

Within a period of two weeks during June 2015, African countries launched two grand initiatives: the Tripartite Free Trade

Area (FTA) (T-FTA), stretching from Cape Town to Cairo,²² and negotiations to establish a continent-wide FTA by the indicative date of 2017. The envisaged Continental FTA (C-FTA) is one of the key pillars of the African Union's (AU's) recently adopted Agenda 2063 (AU, 2015), which sets the developmental vision and pathway for Africa over the next five decades. By one estimate, the implementation of the C-FTA among the 54 AU member states could lead to a 52 per cent (\$35 billion) increase in intra-African trade by 2022 (UNECA, 2012).²³

This larger market could also trigger a trade-investment nexus that supports Africa's structural transformation objectives. In addition to traditional mining and extractive industries, attracting greater domestic and international investment into SSA's industrial and services sectors, as well as economic infrastructure, would contribute to building more diversified productive capacity.

Currently, the SSA market is highly fragmented, with producers, traders and investors confronting a range of non-tariff and regulatory barriers in the movement of goods, services, people and capital across borders. However, in most Regional Economic Communities (RECs) there has already been substantial tariff liberalisation, and there are initiatives to consolidate this process and address the 'spaghetti bowl' of overlapping REC memberships. This has resulted in some important achievements, such as the launch of the Economic Community of West African States (ECOWAS) common external tariff in January 2015, to be implemented in a phased process. Some RECs, such as the Southern African Development Community (SADC), are more focused on consolidating their existing FTAs before embarking on deeper forms of integration. Rationalising the number of RECs and the eventual establishment of an African Economic Community as envisaged by the Abuja

Treaty may be important ways to manage well the challenges associated with overlapping memberships in different regional groupings.

To date, most regional integration initiatives have focused largely on trade in goods and border barriers to such flows. The importance of services is increasingly recognised, with both the T-FTA (Phase II) and the C-FTA including services negotiations. It is important the RECs start addressing services trade and other 'behind-the-border' issues such as investment, competition, standards and regulations and the movement of businesspersons. Establishing regional rules in these trade-related areas will help boost intra-African trade and investment and improve SSA's ability to competitively produce tradeables for regional and world markets.

More transparent and efficient implementation of regulations on standards, as well as the simplification, standardisation and harmonisation of customs and border management procedures would also facilitate greater intra-African trade. It is noteworthy that the Tripartite RECs (SADC, the East African Community, EAC, and the Common Market for Eastern and Southern Africa, COMESA), have already established an online notification mechanism that increases transparency with respect to NTBs. However, this is not an effective NTB elimination mechanism. A dispute resolution process, with access for private parties, may be important. As Part 3 noted, it is the private sector that produces and trades in goods and services; and when they encounter NTBs, for example, goods stuck at a border post, expeditious resolution of such problems is essential (Hartzenberg, 2015).

4.6.2 Diversifying trade and investment partners

Besides advancing this continental integration agenda, African countries are also deepening trade and investment relations with their established partners, such as the EU and the USA, and emerging global players, especially China and India. Distinct shifts in trade flows are taking place in which the relative significance of trading with developing country partners has increased remarkably, as Part 1 showed. Managing these multiple trading arrangements and external partnerships will be a key challenge for the coming decades.

Traditional partners such as the EU and USA remain important to SSA for trade, investment and development cooperation. After more than a decade of negotiations, the conclusion of EPAs between the EU and some countries in the SADC, West Africa and EAC EPA Groups is a major achievement,²⁴ notwithstanding some concerns about the developmental impact of these new trade treaties. The EPAs could also present a puzzle for Africa's continental integration agenda. Most of the EPA groupings do not match the AU's official RECs, which may further complicate the institutional 'spaghetti bowl' in Africa.²⁵ The various SSA EPA Groups have also negotiated different tariff and legal provisions with the EU, with implications for the process of establishing customs unions. The next step is to ratify and implement the EPAs, for which SSA countries require considerable AfT and other support, especially for trade-related adjustment.

The African Growth and Opportunity Act (AGOA), recently renewed until 2025, is the centrepiece of US-Africa trade and



BESIDES ADVANCING AN AMBITIOUS CONTINENTAL INTEGRATION AGENDA, AFRICAN COUNTRIES ARE ALSO DEEPENING TRADE AND INVESTMENT RELATIONS WITH THEIR ESTABLISHED PARTNERS, SUCH AS THE EU AND THE USA, AND EMERGING GLOBAL PLAYERS, ESPECIALLY CHINA AND INDIA.

investment relations. However, trade between Africa and the USA remains very limited and highly concentrated in certain sectors, especially clothing and textiles and hydrocarbons. Overall, exports from AGOA countries to the USA fell from \$72.4 billion in 2011 to \$25.6 billion in 2014.

Several countries have benefited significantly from AGOA. Lesotho, a small landlocked LDC, has developed a thriving garment industry, attracting investment into this sector as a result of favourable tariff preferences and rules of origin, which permits Less Developed Countries (as defined in AGOA) to import fabric from a third country. South Africa has the most diversified profile of exports benefiting from US trade preferences, and AGOA has helped integrate its motor vehicles and components industry into the global automotive value chain. The other main beneficiaries of AGOA are oil-exporting countries such as Angola, Chad and Nigeria.

A MAJOR PRIORITY FOR SSA COUNTRIES IN THEIR RELATIONS WITH THE EMERGING ECONOMIES IS TO SHIFT THE STRUCTURE OF TRADE, REDUCING THEIR DEPENDENCE ON PRIMARY COMMODITIES AND NATURAL RESOURCES FOR EXPORTS.

While AGOA trade preferences have supported a few SSA countries to develop much-needed industrial capacity, specifically in the garments sector, most countries have not directly benefited (Condon and Stern, 2010; Naumann, 2015). Many SSA countries are unable to take advantage of the available preferences owing to their lack of productive capacity and trade-enabling infrastructure, as outlined in Part 3. The same challenge afflicts many LDCs when seeking to export to the EU under the Everything But Arms (EBA) scheme. Many SSA countries have also called for broader product coverage under AGOA and more flexible rules of origin, which would have a greater developmental impact in the continent.

Many SSA countries are also strengthening South-South economic ties with the major emerging economies. Trade with Brazil, China and India, among others, is growing rapidly, as is economic cooperation activities across a wide range of sectors. If not managed judiciously, the potential benefits of these engagements could be undermined by Africa's own trade integration arrangements or trade agreements. Where these and other arrangements divert trade away from more competitive and dynamic trading partners, including developed countries, SSA could be confronted with adverse welfare consequences.

A major priority for SSA in their relations with the emerging economies is to shift the structure of trade, reducing their dependence on primary commodities and natural resources for exports. SSA countries should consider practical measures to promote diversification under their regional integration initiatives. As Part 1 highlighted, intra-African trade is more manufacturing-oriented than Africa's overall trade. Investment and technology transfer from emerging

economies and elsewhere can boost the related capacity further. SSA countries should also seek to attract investment that refines and processes minerals and commodities at source and develops value chains in the continent. Many African governments have already signed trade, investment and development cooperation agreements or entered into deals that transact infrastructure for minerals, although these are not without controversy. Some emerging economies, mainly China, are investing in infrastructure and this should be promoted further, since efficient infrastructure facilitates trade, reduces trade costs and helps promote greater economic integration within the region.

4.6.3 Towards more effective trade integration

There is an extensive literature on the obstacles and challenges for Africa's integration agenda. These reports and studies, by the World Bank, the UN Conference on Trade and Development (UNCTAD), the UN Economic Commission for Africa (UNECA), the RECs and donors,²⁶ among others, propose a range of concrete measures and action plans to ensure more effective integration in Africa. That said, there are at least four short- to medium-term key considerations for SSA countries.

First, AU member states should prioritise and fast-track the negotiations to establish an Africa-wide FTA by the indicative date of 2017. They will need to carefully consider how to progress from the T-FTA to the C-FTA, and what measures may be necessary to ensure a balanced distribution of the gains from trade integration, especially for the poorest SSA countries. In order to materialise the benefits, the implementation challenges associated with trade agreements, as highlighted in Part 3 of this Review, should be given the utmost consideration.



AFRICAN COUNTRIES NEED TO DELICATELY MANAGE THEIR MULTIPLE TRADING RELATIONSHIPS WITH COUNTRIES IN BOTH THE NORTH AND THE SOUTH TO ENSURE THESE PARTNERSHIPS SUPPORT THE CONTINENT'S INTEGRATION AND INDUSTRIALISATION OBJECTIVES AS OUTLINED IN THE AU'S AGENDA 2063.

Second, the policy focus should be to achieve deeper regional integration rather than trade agreements that reduce tariffs only. A deeper integration agenda that addresses 'behind-the-border' issues will be most effective in promoting trade and investment linkages.

Third, market integration needs to be accompanied by coordinated investments in cross-border infrastructure (such as the North-South Corridor) and measures to build more diversified productive capacity, including through regional value chains.²⁷ This will require mobilising domestic and international investment, as well as leveraging development finance. The BRICS-led New Development Bank, which includes an Africa Regional Centre to be based in South Africa, as well as other regional and multilateral development banks and bilateral donors could play an important role

in financing cross-border infrastructure and industrial projects in the continent.

Finally, African countries need to delicately manage their multiple trading relationships with countries in both the North and the South to ensure these partnerships support the continent's integration and industrialisation objectives as outlined in the AU's Agenda 2063.

4.7 Effective and gainful participation in global value chains

The intensification of GVC-driven trade continues to attract considerable policy attention. The idea of fragmented production processes involving firms located in different places is not new. Rather, the implications for conventional trade and industrialisation strategies and the distributional consequences of participation in the process are now being acknowledged, especially for countries with limited trading capacities and primary commodity exporters. A burgeoning literature explores various issues, including statistical measures of the current level of participation in GVCs and policy options for promoting them. However, securing effective and gainful participation of such countries as SSA, LDCs and small states will require greater consideration of and appropriate policy response to their certain special development challenges and characteristic features of the ongoing GVC mechanism.

4.7.1 Measuring 'gainful' participation

The increasing internationalisation of production processes has resulted in a dramatic rise in trade in intermediate goods. The measurement of value-added trade and GVC participation has thus assumed particular importance. A range of methods to assess the extent of participation in GVCs exist. However, it is simply not possible to get an accurate picture of 'gainful' participation through the use of a single method. How countries participate and where they are located within the value chains matters. Countries specialising in pre-manufacturing (e.g. research and development, standardisation and design) and post-manufacturing (e.g. logistics, marketing and brand development) activities are able to capture more value in GVCs compared with countries that specialise in the manufacturing of the products.

Participation at the lower end in GVCs by merely exporting raw materials and basic commodities is generally considered not very helpful. A large majority of LDCs, small states and SSA countries have failed to add more value by processing their primary exports and moving up the value chains. Therefore, commodity exporters tend to become trapped in captive value chains (Keane, 2012; Nissanke, 2010), exporting low value-added items with lower gains accruing over time (Banga, 2013). This disadvantageous process is also known as 'immiserising growth' (Kaplinsky, 2005) – a phenomenon recognised in the literature of the 1980s and 1990s but not given due attention in the current policy discourse.

4.7.2 Asymmetric distribution of value and inherent country characteristics

There is concern that the breaking down of complex products into a large set of small tasks could relegate some states to a peripheral role – a location for the lowest-value addition tasks within a GVC without any offsetting growth in the number (and breadth) of tasks being performed. So far, the greatest gains are concentrated on a small number of countries. There have been longstanding concerns regarding the distribution of value-added within established GVCs. For example:

- It has been estimated that the farm-gate price of coffee, which is subsequently divided up domestically among traders, producers and labourers, represents only around 10 per cent of the final retail price of coffee sold on supermarket shelves, as against at least 22 per cent accruing to retailers (Fitter and Kaplinsky, 2001).
- Lead firms in developed countries retain an estimated 70 per cent of the retail price for garments; manufacturing activities, including sourcing of raw materials from third countries and the involved shipping costs, account for the remaining 30 per cent (Moongate Associates, 2013).
- In horticulture, it has been estimated that Kenyan growers receive 15 per cent of the final retail value as against the 64 per cent retailers retain (Hortwise, 2012).

The highly asymmetric distribution of values, along with implied power relations between lead firms and local suppliers, is not conducive in terms of advancing desired social and developmental objectives. Often, women's employment is concentrated in the sectors with low value-added gains. Buyers and lead firms are becoming

more demanding but they do not always provide support, transfer knowledge and capabilities or offer higher price margins to incentivise economic and social upgrading.²⁸ Therefore, there could be risks in advancing GVC integration without addressing the governance structures of value chains.

Along with the share of very low valued-added, high trade costs for many developing countries, often because of their inherent characteristics, make value chain participation extremely difficult. A large number of LDCs, small states and SSA countries are disadvantaged by the small size of their domestic markets in conjunction with their unfavourable geographical location (e.g. remote island states and landlocked countries), as reflected in very long distances from global centres of commercial activity. This inflicts serious disadvantages in terms of trade costs.²⁹ While geographical distance between bilateral trading partners exerts the largest impact on trade costs, other factors, such as poor liner shipping connectivity and the small size of the consignments of goods traded, again beyond the control of these countries, are also shown to have adverse effects (Arvis et al., 2013). The resultant excessive costs seriously affect trade competitiveness and GVC participation.³⁰ The implication is that, because of geographical location alone, foreign firms may be reluctant to move or relocate their production to these countries even when the wages are low (Redding and Venables, 2004).

Hence, the typical policy prescriptions of trade openness and improved trade facilitation measures, along with good domestic policies automatically attracting FDI and enhancing GVC participation, may not be very effective under these circumstances. It has been argued that distance matters more in supply chains, and, even with today's ICT revolution, global



THERE COULD BE RISKS IN ADVANCING GVC INTEGRATION WITHOUT ADDRESSING THE GOVERNANCE STRUCTURES OF VALUE CHAINS.

A NARROW FOCUS ON TRADE FACILITATION MEASURES, ALTHOUGH NECESSARY, WILL NOT BE SUFFICIENT TO INDUCE MORE INCLUSIVE GVC DEVELOPMENT. THERE IS A NEED FOR MORE TARGETED AID FOR TRADE SUPPORT.

production networks are likely to remain concentrated in low-wage nations that are near, or even contiguous with, high-technology nations (Baldwin, 2011).

4.7.3 Strategic choices in promoting GVC participation

In light of the foregoing discussions, advancing gainful GVC participation would require judicious strategic choices for capacity-constrained countries. A few options are outlined below.

First, there is increasing interest in the expansion of value chains involving regional Southern partners. For instance, as much as 40 per cent of trade that takes place between SSA countries is in manufacturing, indicating significant scope for developing diversified regional production networks. Intraregional value chains may be less tightly controlled by lead firms and thereby offer greater upgrading opportunities for local firms (Navas-Aleman, 2011). Another important aspect of the rise of developing countries is that new markets and growth centres may now be more closely related to growth in neighbouring countries. This can also help overcome some of the trade cost disadvantages mentioned above. For small economies and firms, regional value chains linking neighbouring countries can offer more sustainable growth opportunities and manageable scales than do global markets (Gereffi and Luo, 2014). They may also offer greater learning, as capability and absorptive gaps may be lower.³¹

Second, since high trading costs impair the ability of many Commonwealth countries and firms to compete on price in international markets, their position as distributors of goods and services could provide an important foothold within marketing and distribution networks (Rainer and Hans-Peter, 2015). Not only are nodes such as marketing,

retail and distribution where the most value-added resides within GVCs, but also recent data suggest services account for 30 per cent of the share of value-added in manufactures trade (OECD, 2013). Support services such as infrastructure, human resources, technology development, procurement and marketing are just as important as core business activities. Along with these, developing traditional services sectors of interest to many Commonwealth countries, such as tourism, can help with better integration into services-related GVCs.

Third, trade policy options remain important. Where there exist un-/ or under-utilised trade preferences, policy incentives can be used to attract investment in linking the sector to GVCs. Some policy instruments may require finer tuning in view of trade in tasks (i.e. fragmentation of production processes) rather than final goods.³² Exploring dynamic comparative advantage can also comprise a policy option in which capacities can be developed to gainfully link to GVCs in the future. In this regard, the need for productive sector (comprising manufacturing, services and agriculture) policy has been emphasised (Kaplinsky and Morris, 2014).

Fourth, capacity-constrained developing countries will require technical and financial assistance in linking to GVCs. AfT support has been in use for enhanced regional integration and improved trade facilitation measures. However, a narrow focus on trade facilitation measures, although necessary, will not be sufficient to induce more inclusive GVC development. There is a need for more targeted support, as Part 3 argued. Key donors have begun to adapt their strategies towards more focused interventions. For example, Australia, under its new AfT Strategy (DFAT, 2015), has included the regional approach to value chain

developments as a policy priority. Small states in particular should also actively seek support in developing and linking to services trade-led value chains.

Finally, governance of GVCs, including the distribution of value-added across supply chains and relationships between lead firms and local suppliers, is an area that needs to be better understood and perhaps globally addressed to make it possible to secure effective and gainful participation of weaker and vulnerable developing countries. The current pattern of highly unequal distribution of value-added is not conducive to inclusive approaches to development. Simply reducing trade costs at the border is unlikely to alter existing distributional patterns. It has been suggested that whether or not to actively promote GVCs is a strategic choice for policymakers (OECD et al., 2013). However, consideration of the viability of existing global governance in promoting effective and gainful participation has not been given due consideration.



GOVERNANCE OF GVCs, INCLUDING THE DISTRIBUTION OF VALUE-ADDED ACROSS SUPPLY CHAINS AND RELATIONSHIPS BETWEEN LEAD FIRMS AND LOCAL SUPPLIERS, IS AN AREA THAT NEEDS TO BE BETTER UNDERSTOOD AND PERHAPS GLOBALLY ADDRESSED TO MAKE IT POSSIBLE TO SECURE EFFECTIVE AND GAINFUL PARTICIPATION OF WEAKER AND VULNERABLE DEVELOPING COUNTRIES.

Endnotes

1. The topical issues outlined in Part 4 were discussed in various meetings organised by the Commonwealth Secretariat, including a Commonwealth Expert Group on Trade, the Commonwealth Trade Symposium and the G20 - Commonwealth dialogue. The seven perspectives reflect the discussions and outcomes of those meetings.
2. At the outset of the Round, a set of three issues – namely TRIPS and Public Health, Implementation-Related Issues and Concerns and Special and Differential Treatment (S&DT) – were considered priority development issues in the DDA.
3. The BIA refers to planned negotiations on agriculture and services, as well as various reviews of several Uruguay Round Agreements that were already mandated at the start of the WTO.
4. Part 3 of this Review discusses the developments with respect to preferences in services trade for LDCs. They are yet to be materialised.
5. This draws on Wilkinson (2015).
6. The tourism sector in Barbados is projected to incur annual losses of \$283 million by 2050, rising to over \$850 million by 2080, with the cost of rebuilding damaged facilities over \$400 million by 2050 and up to \$946 million by 2081 (Mandle, 2013). Barbados will need to adapt and diversify its tourism services and promote more productive sectors of the economy.
7. The Asian Development Bank (ADB) forecasts a general decline in sugarcane of 5-9 per cent by 2050 and 7-21 per cent in 2070.
8. To avoid the proliferation of climate measures adversely impacting international production and trade, UNFCCC Article 3.5 requires that 'Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.'
9. A number of WTO members are negotiating a plurilateral Environmental Goods Agreement, and this initiative is open to all WTO members to join. Asia-Pacific Economic Cooperation (APEC) countries have also agreed to reduce applied tariffs on a list of 54 environmental goods by the end of 2015.
10. At the UNFCCC COP15 in Copenhagen in 2009, developed countries promised to provide \$30 billion for the period 2010-12 (known as 'fast-start finance') and to mobilise long-term finance of a further \$100 billion a year by 2020 from a variety of sources.
11. In addition, from 2010 to 2014, 45 WTO members notified countervailing duties actions to the WTO on energy products or inputs, relating to both fossil fuels and renewable energy. From 2012 to 2014, 87 members notified anti-dumping measures on energy products or inputs. See Espa and Rolland (2015).
12. Article 31 of the WTO's Doha Ministerial Declaration calls for enhancing the mutual supportiveness of trade and environment through negotiations on (1) the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs); (2) procedures for regular information exchange between MEA secretariats and the relevant WTO committees, and the criteria for the granting of observer status; and (3) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.
13. Carr and Williams (2010); Commonwealth Secretariat (2010); Randriamaro (2006); UNCTAD (2013); World Bank (2012a).
14. 'Gender mainstreaming is the process of assessing the implications for women and men of any planned action including legislation, policies or programmes, in any area and at all levels. It is a strategy for making the concerns and strategies of women and men an integral part of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and societal spheres, so that women and men can benefit equally, and inequality is not perpetuated'. The ultimate goal of gender mainstreaming is to achieve gender equality (ECOSOC, 1997, in Commonwealth Secretariat, 2012).
15. See Atthil et al., 2007; Carr and Williams (2010); Commonwealth Secretariat (2010).
16. These tags are respectively from Easterly and Kraay (1999), The Economist (2014), Winters and Martins (2004) and Harden (1985).
17. See, for example, Briguglio et al. (2006); Commonwealth Consultative Group (1985, 1997; Commonwealth Heads of Government (1989); and, more recently, Lewis-Bynoe (2014).
18. Sustained global advocacy also led to internationally-agreed calls for platforms of action to address the wide-ranging challenges of small states, including the Barbados Plan of Action for the Sustainable Development of Small Island Developing States (BPOA) a cohesive programme of policy action for small island developing states, including recommendations for the trade-led contributions to sustainable development, adopted by the United Nations in 1994

- and subsequently refreshed every decade. The Barbados Plan of Action for the Sustainable Development of Small Island Developing States was reviewed and updated in 2005, yielding the Mauritius Strategy for the Further Implementation of the BPOA; and more recently in Samoa (2014), producing the SAMOA Pathway.
19. World Bank (2015) highlights that, for many Caribbean small states, the poorest 40 per cent of households have a higher share of workers employed in exporting than in non-exporting sectors.
 20. It is estimated that some 70 per cent of food required by the Pacific tourist industry is imported, which, if substituted with locally produced foodstuffs, can reduce foreign exchange outflows, increase domestic agricultural output and employment, improve fiscal revenue and overcome barriers to Pacific agricultural exports, including stringent sanitary and phytosanitary restrictions (Chen et al., 2014).
 21. The 54 African Union (AU) member states include three island states: Madagascar, Mauritius and Seychelles. There are 15 landlocked countries in Africa, of which seven are Commonwealth members. Lesotho is entirely landlocked by South Africa.
 22. The T-FTA links up three Regional Economic Communities (RECs) – namely, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). It was launched with the signatures of 16 of the 26 member states that are participating in the negotiations.
 23. This estimate is based on tariff liberalisation accompanied with efforts to improve trade-related infrastructure and customs procedures and reduce transit and other trade costs.
 24. Some countries in the Central Africa and Eastern and Southern Africa (ESA) EPA Groups are provisionally applying their interim agreements while negotiations continue.
 25. The EAC EPA is the most notable exception. However, Tanzania was originally a member of the SADC EPA Group.
 26. See, for example, World Bank (2012); UNCTAD's Economic Development in Africa series; UNECA's flagship reports; and AU (2012).
 27. In one estimate, removing tariffs on leather and leather products could almost quadruple average annual intra-regional trade in these products from \$245 million to \$997 million, whereas removing all NTBs could boost this figure tenfold (Banga et al., 2015).
 28. Buyers and private firms often ask for compliance with private standards. For discussions on social upgrading and the role of lead firms, see Pietrobelli (2008), among others.
 29. According to one estimate, average trade costs for small island states and landlocked SSA economies are, respectively, more than 50 and 100 per cent higher than those of developing countries as a group (Razzaque and Keane, 2015). This is based on an analysis of trade costs data, measured in ad valorem equivalent terms, from a pioneering World Bank-UN Economic and Social Commission for Asia and the Pacific (UNESCAP) project (Arvis et al., 2013). Discussions on the approach of measurement issues can be found in Part 2 of this Review.
 30. Ad valorem transport costs of 20 per cent on both final output and intermediate goods have been shown to reduce domestic value-added (including wages and profits) by 60 per cent when intermediate goods account for 50 per cent of costs (Limao and Venables, 2001; Redding and Venables, 2001).
 31. Goger et al. (2014) suggest growth in South-South trade changes the mix of requirements and standards such that the emerging value chains are likely to have different upgrading or downgrading trajectories depending on the geographic end market or firm ownership dynamics.
 32. See Keane and Basnett (2015), who argue governance capabilities are heightened within the realm of trade in tasks and the current ascendancy of GVCs.

Summary and conclusions

The changing landscape of global trade and the Commonwealth

Fundamental changes are taking place in the global trade landscape. In the process, significant transformations are underway in relation to the sources of growth of world trade, its direction of flows and patterns and, in turn, individual countries' comparative and competitive advantages. These changes are being driven mainly by such factors as the rapidly growing trade of developing countries; growing trade interconnectedness through global value chain (GVC)-led fragmentation of production processes; proliferation of regional trading arrangements (RTAs); lack of dynamism in multilateral trade negotiations; and the impending need for actions to combat climate change.

Along with the above factors, recovery from prolonged recession in the aftermath of the 2008 global financial crisis has been accompanied by a weak trade-growth relationship, giving rise to concern about the role of trade in promoting development. Notwithstanding, the global community's adoption of the 2030 Agenda for Global Action and its set of Sustainable Development Goals (SDGs) provides a renewed emphasis on the importance of international trade as a key means of achieving sustainable development and social progress.

The Commonwealth, with its diverse membership, is coming to terms with this shifting trade landscape. This Review explores the trade prospects of the association – both overall and intra-Commonwealth trade. It considers the challenges and opportunities emerging from the changing circumstances, highlights some of the broad priorities in unleashing the trade potential for Commonwealth members and offers some perspectives on emerging trade and development issues.

Adapting to the changing landscape

The growing prominence of developing countries has been one of the salient features of the shifting global trade landscape. Over the past two decades, the share of these countries in global merchandise exports has increased from around 30 per cent to 50 per cent. An almost identical change has taken place in the relative significance of Commonwealth developing countries in the Commonwealth's total exports. This implies that, while traditional developed countries remain important markets, developing countries also provide enhanced trading opportunities.

However, one challenge of South-South trade lies in making it broader-based and more diversified, as primary commodities supplied by a handful of African, Caribbean and Pacific (ACP) countries currently dominate exports to emerging

economies. This has important implications for the economic and export diversification prospects of these countries. For commodity-dependent exporters, one further concern relates to how the growth slowdown in China is going to unfold.

Opportunities to break into emerging developing country markets remain to be materialised for a majority of other Commonwealth developing countries. For example, while on average 12 per cent of all Commonwealth merchandise imports are now sourced from China, there are 35 Commonwealth countries that export less than 5 per cent of their exports to the Chinese market.

While GVCs present export opportunities through specialisation in only a relatively limited number of tasks, which is more manageable for many Commonwealth members given their limited capacity, most Commonwealth ACP countries, being predominantly natural resource-based primary product and processed commodity exporters, are at a disadvantageous position in terms of linking into these chains. They lie at the bottom of the integration stage in GVCs, with limited capacity to upgrade. For small states in particular, participation in GVCs is constrained by their inherent characteristics and associated trade challenges, for example their small market size, their remoteness from global commercial centres related to GVC hubs, their lack of competitiveness, etc.

Trading through regional arrangements is also shaping the global trade landscape in an unprecedented way. An overwhelming majority of Commonwealth developing countries are members of several RTAs. However, for many of them, realising the benefits of increased trade is yet to happen. They also have limited capacity to negotiate and manage the overlapping arrangements.

The proliferation of RTAs, including their coverage of much broader ambits to generate trade rules and provisions in new areas, could weaken the multilateral trading system, especially in the absence of lack of dynamism in World Trade Organization (WTO)-led trade negotiations. A strong rules-based multilateral system is extremely important to protect and promote the interests of small and poor countries. Promoting trade multilateralism while keeping up the momentum of RTA constitutes a key area of global policy discourse.

Climate change is one of the greatest challenges facing the international community. Most Commonwealth developing countries have limited capacity to manage and adapt to the risks and impacts of climate change. Measures to deal with the associated challenges, including capacity-building, climate-proof infrastructure, export diversification and promoting

competitiveness in new sectors, among other strategies, will incur significant costs and pose a development challenge.

Taking advantage of the Commonwealth

Commonwealth countries are striving to improve their overall trade performance, and in this regard the evidence seems to suggest there are vast opportunities to promote trade between members. The Commonwealth is not a trading bloc, and therefore does not possess policy-induced mechanisms to increase trade within the association. Nevertheless, intra-Commonwealth trade is already quite substantial, valued at \$592 billion in 2013, and is growing strongly (projected to surpass \$1 trillion by 2020). This trade is also broad-based: shares of Asian and African developing countries have increased and many small states are more dependent on it. Although member countries have increased their trade with non-Commonwealth economic powers, including, recently, China, the share of intra-Commonwealth exports as a proportion of the Commonwealth's total global exports has seen a significant rise over the past two decades or so.

Historical ties, long-established trade relations, familiar administrative and legal systems, the use of one language as the means of communicating with foreign partners and large and dynamic diasporas have all long been recognised as important factors in promoting trade. This Review provides econometric estimates suggesting, controlling for various factors that determine trade flows, Commonwealth members on average tend to trade more between themselves (about 20 per cent more considering goods and services together) and generate more foreign direct investment (FDI) flows (10 per cent more). These results also imply bilateral trade costs between members are, on average, 19 per cent lower than those for trade with other trading partners.

This Review provides quantitative estimates of current untapped trade potential (\$156 billion) and likely trade prospects over the next 15 years. Ongoing trends, huge current potential and massive future prospects suggest that some supporting measures, in the absence of RTA-type trade policy interventions, would be able to boost trade between members greatly.

Leveraging the Commonwealth effects for greater trade gains

The already substantial trade between Commonwealth members and its rising relative significance will call for leveraging the 'Commonwealth effect' for greater trade gains. There are several ways this can be achieved without any explicit policy interventions.

First of all, this Review emphasises strengthened regional cooperation, rather than just forming RTAs to exchange trade concessions. Deeper integration is more likely to result in increased trade within the regions of Commonwealth members. The Commonwealth effect, including lower trade costs, can then be exploited further in the trade between Commonwealth members within existing RTAs. Members' enhanced trading capacity is also likely to have a positive effect on intra-Commonwealth trade involving members in other regions.

Second, while average tariffs have fallen across the global regions, there exists substantial scope for further tariff rationalisation. The resultant impact of such unilateral measures can potentially be amplified for member countries through the Commonwealth effect.

Third, improved trade logistics, including trade facilitation measures, can be an effective means of promoting trade including, intra-Commonwealth flows, as Part II of this Review shows. Given the presence of world-class performers in the area (e.g. Singapore), and the elaborate technical and financial assistance programmes of Commonwealth developed countries such as Australia, Canada and the UK to support developing countries' efforts, the Commonwealth provides a forum for understanding the challenges associated with specific trade support measures and sharing experiences of practical ways of dealing with them.

Fourth, the strong and diverse Commonwealth diasporic community is a potential source of increased trade. The diaspora can help by bridging markets and circulating knowledge and information on technology and business practices. Finally, as many countries aim for integration into GVCs, the Commonwealth effect could boost the development of value chains involving Commonwealth members. Several members are located in regions that have the potential for value chain development, but any such mechanism could be spread out within the Commonwealth, even involving non-Commonwealth countries, to take advantage of the existing trade advantages.

Broad priorities for unleashing the trade potential of Commonwealth countries

The shifting nature of the trade landscape implies a need to provide more intensive attention to broad priorities for improved trade performance. This Review highlights five of these priorities: building productive capacity; effectively managing trade policy and negotiations; addressing implementation gaps; promoting private sector development; and securing a trade-supporting global architecture. These determinants

of trade success are interlinked, and concerted efforts need to be undertaken to generate the desired impact.

Limited and undiversified productive capacity is one of the most important constraints facing many Commonwealth developing countries. While international trade and trade policy can help in terms of diversification, this has not been achieved in most Commonwealth ACP member countries. Managing ever-expanding boundaries of trade policy and negotiations and membership in different RTAs, partly driven by the changing global trade landscape, has become an important priority for Commonwealth countries. For many Commonwealth developing countries, limited capacity makes this particularly challenging. Similarly, putting in place trade strategies and agreements has proved exceedingly challenging, resulting in a huge implementation deficit. Implementation of trade agreements generally takes a very long time, often decades, which implies the intended results of negotiated outcomes often do not materialise.

Good trade strategies and improved market access are meaningful only if business enterprises, including women-led and small and medium-sized ones, can make use of them. Many Commonwealth developing countries have undertaken important reforms, yet creating an enabling environment for the private sector remains a major priority. Poor infrastructure – including insufficient and unreliable power supplies and weak road and port infrastructure, all part of weak productive capacity – continues to inhibit private sector development.

Finally, securing a coherent global trade support architecture cannot be overemphasised with regard to the aim to unleash trade potential. According to an estimate provided in the World Investment Report 2014, at current levels of investment in SDG-relevant sectors, developing countries face an annual investment gap of \$2.5 trillion per year. This has direct and indirect impacts on their trading capacity. While alternative sources of funding will be increasingly sought for implementing the SDGs, the role of official development assistance (ODA) in promoting trade-related infrastructure and capacity-building will continue to be important.

One particular component of ODA, Aid for Trade (AfT), has been generally helpful in addressing the supply-side capacity limitations of developing countries. However, there remains much scope to make this even more effective. Resource availability as against needs is extremely limited. One particular objective of AfT – that is, helping countries with their trade-related adjustment needs – has hardly been utilised, even though it could be used to help develop productive capacity. Predictability of AfT has also been a major issue, with resources disbursed falling short of commitments on a regular basis. Finally, more targeted AfT support is needed to promote export sector development in developing countries.

Putting Commonwealth perspectives into action

Given its diverse membership and its active participation in global policy discourse, the Commonwealth offers insightful perspectives on emerging trade issues that are of particular interest in promoting development. The Review concludes by addressing some of these issues and providing some concrete ways forward for the global community to consider. These include, among others:

- To promote trade multilateralism so as to achieve trade-led development objectives that are consistent with the SDG framework, which offers a new opportunity to catalyse momentum to finally conclude the Doha Round.
- To achieve and strengthen institutional coherence, coordination and communication among the relevant multilateral trade bodies in creating a more effectively integrated trade-related global governance framework to drive forward the 2030 agenda.
- To institute regular reviews, led by the WTO, of progress made on trade-related aspects of the SDG framework.
- To achieve greater alignment, coherence and mutual supportiveness between the multilateral trade and environmental regimes while providing technical, financial and other assistance to capacity-constrained developing countries to effectively address climate change concerns affecting their trade competitiveness.
- To consider the adoption of the SDGs as an opportunity for focused, country-led, internationally supported measures to advance gender-sensitive policy and negotiation mechanisms in order to secure more gender-equitable distribution of trade gains.
- To use the SDG framework in catalysing support with a view to effectively implementing the Istanbul Programme of Action for least-developed countries; and to rejuvenate a global partnership to address the peculiar challenges and resultant development consequences facing small states.
- To support the effective integration of African countries and ensure greater inclusion of small, poor and vulnerable countries in GVC.



PUTTING THESE PERSPECTIVES INTO PRACTICE IS AS CHALLENGING AS ENSURING THE EFFECTIVE PARTICIPATION OF LEAST-DEVELOPED COUNTRIES, SMALL STATES AND SUB-SAHARAN AFRICA IN GLOBAL TRADE. IT IS IN THIS CONTEXT THAT THE SHIFTING TRADE LANDSCAPE HAS IMPORTANT IMPLICATIONS FOR THE ROLE OF TRADE IN DEVELOPMENT.

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Data appendix

TABLE A1								
COUNTRY PROFILES OF THE COMMONWEALTH MEMBERS								
Region	Country	Country Code	GNI per capita, Atlas method (current US\$)	Income level	HDI rank	Population (thousands)	LDCs	Small states
			2014					
Developed	Australia	AUS	64,680	High-income	2	23,630		
	Canada	CAN	51,690	High-income	8	35,525		
	Cyprus	CYP	26,370	High-income	32	871		X
	Malta	MLT	21,000	High-income	39	430		X
	New Zealand	NZL	39,300	High-income	7	4,551		
	United Kingdom	GBR	42,690	High-income	14	63,738		
Developing								
Africa	Botswana	BWA	7,880	Upper-middle-income	109	2,039		X
	Cameroon	CMR	1,350	Lower-middle-income	152	22,819		
	Ghana	GHA	1,620	Lower-middle-income	138	26,442		
	Kenya	KEN	1,280	Lower-middle-income	147	45,546		
	Lesotho	LSO	1,350	Lower-middle-income	162	2,098	X	X
	Malawi	MWI	250	Lower-middle-income	174	16,829	X	
	Mauritius	MUS	9,710	Upper-middle-income	63	1,249		X
	Mozambique	MOZ	630	Lower-middle-income	178	26,473	X	
	Namibia	NAM	5,820	Upper-middle-income	127	2,348		X
	Nigeria	NGA	2,950	Lower-middle-income	152	178,517		
	Rwanda	RWA	650	Lower-middle-income	151	12,100	X	
	Seychelles	SYC	13,990	High-income	71	93		X
	Sierra Leone	SLE	720	Lower-middle-income	183	6,205	X	
	South Africa	ZAF	6,800	Upper-middle-income	118	53,140		
	Swaziland	SWZ	2,700	Lower-middle-income	148	1,268		X
	Uganda	UGA	660	Lower-middle-income	164	38,845	X	
	United Republic of Tanzania	TZA	930	Lower-middle-income	159	50,757	X	
	Zambia	ZMB	1,760	Lower-middle-income	141	15,021	X	
Asia	Bangladesh	BGD	1,080	Lower-middle-income	142	158,513	X	
	Brunei Darussalam	BRN	-	High-income	30	423		X
	India	IND	1,610	Lower-middle-income	135	1,267,402		
	Malaysia	MYS	10,660	Upper-middle-income	62	30,188		
	Maldives	MDV	7,290	Upper-middle-income	103	352		X
	Pakistan	PAK	1,410	Lower-middle-income	146	185,133		
	Singapore	SGP	55,150	High-income	9	5,517		
	Sri Lanka	LKA	3,400	Lower-middle-income	73	21,446		
Caribbean	Antigua and Barbuda	ATG	13,360	High-income	61	91		X
	The Bahamas	BHS	21,010	High-income	51	383		X
	Barbados	BRB	-	High-income	59	286		X
	Belize	BLZ	4,510	Upper-middle-income	84	340		X
	Dominica	DMA	7,070	Upper-middle-income	93	72		X
	Grenada	GRD	7,850	Upper-middle-income	79	106		X
	Guyana	GUY	3,970	Lower-middle-income	121	804		X
	Jamaica	JAM	5,220	Upper-middle-income	96	2,799		X
	St Kitts and Nevis	KNA	14,540	High-income	73	55		X
	St Lucia	LCA	7,090	Upper-middle-income	97	184		X
	St Vincent and the Grenadines	VCT	6,560	Upper-middle-income	91	109		X
Trinidad and Tobago	TTO	15,640	High-income	64	1,344		X	
Pacific	Fiji	FJI	4,540	Upper-middle-income	88	887		X
	Kiribati	KIR	2,280	Lower-middle-income	133	104	X	X
	Nauru	NRU	-	-	-	10		X
	Papua New Guinea	PNG	2,020	Lower-middle-income	157	7,476		X
	Samoa	WSM	4,050	Lower-middle-income	106	192		X
	Solomon Islands	SLB	1,830	Lower-middle-income	157	573	X	X
	Tonga	TON	4,280	Upper-middle-income	100	106		X
	Tuvalu	TUV	5,840	Upper-middle-income	-	10	X	X
	Vanuatu	VUT	3,090	Lower-middle-income	131	258	X	X

Note: Where data from 2014 were not available, data for 2013 were used.

Source: GNI data from World Bank WDI (accessed July 2015), HDI from UNDP Human Development Report (2014) and Income level according to the World Bank classification

TABLE A2				
GROSS DOMESTIC PRODUCT OF COMMONWEALTH MEMBERS				
Region	Country	GDP	GDP per capita	GDP based on PPP per capita
		(US\$ billions, current prices)	(US\$, current prices)	GDP
		2014	2014	2014
Developed	Australia	1,444.2	61,219	46,433
	Canada	1,788.7	50,398	44,843
	Cyprus	23.3	26,115	30,769
	Malta	10.6	24,876	33,216
	New Zealand	198.1	43,837	35,152
	United Kingdom	2,945.1	45,653	39,511
Developing				
Africa	Botswana	15.8	7,505	16,036
	Cameroon	31.7	1,405	2,981
	Ghana	38.6	1,474	4,129
	Kenya	60.8	1,416	3,084
	Lesotho	2.2	1,130	2,764
	Malawi	4.3	242	780
	Mauritius	13.2	10,517	18,553
	Mozambique	16.7	630	1,174
	Namibia	13.4	6,095	10,765
	Nigeria	573.7	3,298	6,031
	Rwanda	8.0	722	1,698
	Seychelles	1.4	15,115	25,607
	Sierra Leone	5.0	808	2,027
	South Africa	350.1	6,483	13,046
	Swaziland	3.7	3,325	7,797
	Uganda	27.6	726	2,023
United Republic of Tanzania	47.9	1,006	2,667	
Zambia	26.8	1,781	4,064	
Asia	Bangladesh	185.4	1,172	3,373
	Brunei Darussalam	15.1	36,607	73,233
	India	2,049.5	1,627	5,855
	Malaysia	326.9	10,804	24,654
	Maldives	2.9	8,342	14,383
	Pakistan	250.1	1,343	4,736
	Singapore	308.1	56,319	82,762
	Sri Lanka	74.6	3,558	10,372
Caribbean	Antigua and Barbuda	1.2	14,061	22,573
	The Bahamas	8.7	24,034	25,049
	Barbados	4.3	15,579	16,183
	Belize	1.7	4,745	8,248
	Dominica	0.5	7,436	10,800
	Grenada	0.9	8,125	11,979
	Guyana	3.0	3,748	6,895
	Jamaica	13.8	4,926	8,609
	St Kitts and Nevis	0.8	14,102	21,091
	St Lucia	1.4	7,978	11,594
	St Vincent and the Grenadines	0.7	6,694	10,778
	Trinidad and Tobago	28.8	21,311	32,139
Pacific	Fiji	4.2	4,757	8,236
	Kiribati	0.2	1,647	1,713
	Nauru	-	-	-
	Papua New Guinea	16.1	2,133	2,399
	Samoa	0.8	4,308	5,180
	Solomon Islands	1.2	2,009	1,895
	Tonga	0.5	4,429	4,883
	Tuvalu	0.0	3,484	3,274
Vanuatu	0.8	3,092	2,608	

TABLE A3							
EXPORTS OF COMMONWEALTH MEMBERS (US\$ MILLIONS, CURRENT PRICES)							
Region	Country	Exports of goods		Exports of services		Exports of goods and services	
		2000	2013	2000	2013	2000	2013
Developed	Australia	64,003.8	254,516.1	19,894.4	53,164.7	83,898.2	307,680.9
	Canada	289,022.0	466,902.6	40,229.7	79,554.0	329,251.7	546,456.6
	Cyprus	950.9	1,994.3	4,068.1	7,626.3	5,019.0	9,620.6
	Malta	2,485.6	3,908.9	1,094.8	5,011.7	3,580.4	8,920.5
	New Zealand	13,445.9	39,969.5	5,010.1	13,236.7	18,456.0	53,206.3
	United Kingdom	284,352.6	476,439.1	120,150.2	296,688.0	404,502.8	773,127.0
Developing							
Africa	Botswana	2,675.4	7,599.8	324.8	482.7	3,000.1	8,082.5
	Cameroon	1,985.8	5,656.1	681.9	1,628.2	2,667.7	7,385.3
	Ghana	1,936.3	13,742.8	504.3	2,454.0	2,440.6	16,196.9
	Kenya	1,782.2	6,124.8	993.4	4,944.4	2,775.6	11,069.2
	Lesotho	245.0	847.1	23.8	60.3	268.8	907.4
	Malawi	403.1	1,311.8	34.3	109.3	437.4	1,394.0
	Mauritius	1,552.2	2,871.9	1,070.2	3,409.7	2,622.4	6,281.6
	Mozambique	364.0	4,200.3	325.4	1,717.7	689.4	5,918.0
	Namibia	1,309.5	4,725.0	173.8	686.4	1,483.3	5,411.4
	Nigeria	19,132.0	94,766.4	1,832.9	2,362.1	20,964.9	97,128.5
	Rwanda	68.4	702.9	59.3	467.6	127.8	1,170.5
	Seychelles	194.8	597.0	286.9	504.1	481.7	1,101.1
	Sierra Leone	12.8	1,989.8	42.2	182.0	55.0	1,346.5
	South Africa	31,949.7	94,917.8	5,045.6	14,174.7	36,995.3	109,092.5
	Swaziland	967.0	1,888.6	273.2	259.4	1,240.2	2,148.0
	Uganda	449.9	2,893.1	213.2	2,390.6	663.1	5,283.7
United Republic of Tanzania	733.6	5,369.7	627.4	3,016.8	1,361.0	8,386.5	
Zambia	757.0	10,649.3	115.0	467.5	872.0	9,880.9	
Asia	Bangladesh	6,399.2	28,951.1	815.1	3,792.0	7,214.3	32,743.1
	Brunei Darussalam	3,129.8	11,162.5	197.8	1,209.0	3,327.6	13,293.5
	India	43,246.6	312,801.7	16,685.1	151,386.0	59,931.7	464,187.7
	Malaysia	98,429.2	215,733.6	13,940.5	39,929.7	112,369.7	255,663.3
	Maldives	108.7	367.0	348.5	2,378.4	457.2	2,745.4
	Pakistan	8,739.0	25,172.0	1,380.0	4,899.1	10,119.0	30,071.1
	Singapore	152,807.0	445,197.1	28,546.7	122,446.9	181,353.7	567,644.0
	Sri Lanka	5,439.6	10,394.3	938.7	4,685.1	6,378.3	15,079.4
Caribbean	Antigua and Barbuda	80.9	61.6	414.5	478.7	495.4	540.3
	The Bahamas	464.8	909.3	1,973.2	2,526.7	2,438.0	3,436.0
	Barbados	274.9	776.7	1,019.7	1,240.6	1,294.6	2,017.3
	Belize	281.8	608.8	152.7	447.8	434.5	1,056.6
	Dominica	54.7	43.2	89.8	161.1	144.5	204.3
	Grenada	83.0	44.0	152.8	152.7	235.7	196.7
	Guyana	502.9	1,375.9	169.3	164.7	672.2	1,540.6
	Jamaica	1,562.8	1,597.3	2,025.7	2,755.7	3,588.5	4,353.0
	St Kitts and Nevis	51.5	63.6	98.5	213.8	150.0	277.3
	St Lucia	52.9	183.7	324.0	416.0	376.9	599.7
	St Vincent and the Grenadines	51.8	54.3	127.7	143.9	179.4	198.2
Trinidad and Tobago	4,290.3	12,769.6	553.8	-	4,844.1	-	
Pacific	Fiji	538.0	1,078.8	431.9	1,203.2	969.9	2,282.1
	Kiribati	6.2	5.2	6.4	-	12.6	-
	Nauru	29.0	70.0	-	-	-	-
	Papua New Guinea	2,094.1	5,604.2	242.7	400.2	2,336.8	6,004.5
	Samoa	14.2	25.5	59.1	193.0	73.3	224.2
	Solomon Islands	69.3	439.6	52.2	131.6	121.5	571.2
	Tonga	11.3	17.8	14.3	75.8	25.6	93.5
	Tuvalu	-	0.3	1.2	3.5	1.3	3.8
Vanuatu	27.2	39.8	129.8	333.0	157.0	372.7	
Grand total		1,049,620.0	2,580,133.3	273,966.5	836,367.1	1,323,557.4	3,402,595.8

Source: UNCTADStat

Region	Country	Imports of goods		Imports of services		Imports of goods and services	
		2000	2013	2000	2013	2000	2013
Developed	Australia	68,865.0	251,211.0	18,933.9	63,180.8	87,798.9	314,391.8
	Canada	243,975.0	473,230.8	44,118.3	106,146.8	288,093.3	579,377.6
	Cyprus	3,556.6	5,897.8	1,585.3	3,317.7	5,141.9	9,215.5
	Malta	3,241.8	5,219.3	757.5	3,126.6	3,999.4	8,346.0
	New Zealand	12,863.9	38,811.1	4,498.1	12,349.4	17,362.0	51,160.5
	United Kingdom	334,336.1	644,939.2	99,382.5	180,412.9	433,718.6	825,352.1
Developing							
Africa	Botswana	1,773.2	7,570.2	547.5	685.0	2,320.7	8,255.1
	Cameroon	1,483.9	6,480.1	1,017.5	2,128.6	2,501.4	8,159.9
	Ghana	2,766.6	17,600.3	583.7	4,897.8	3,350.2	22,498.1
	Kenya	3,044.0	15,597.7	718.7	2,384.3	3,762.7	17,982.0
	Lesotho	795.0	1,884.2	249.1	374.8	1,044.1	2,259.0
	Malawi	462.0	2,775.3	167.1	229.5	629.1	2,531.9
	Mauritius	1,944.4	5,141.2	762.5	2,708.8	2,706.9	7,850.0
	Mozambique	1,046.0	11,011.2	445.8	2,974.9	1,491.8	13,986.1
	Namibia	1,310.0	6,298.0	320.1	763.6	1,630.0	7,061.6
	Nigeria	8,717.0	51,161.1	3,300.2	22,244.7	12,017.2	73,405.8
	Rwanda	223.2	1,959.1	200.1	614.1	423.3	2,573.1
	Seychelles	311.6	1,023.2	190.2	225.3	501.8	1,248.5
	Sierra Leone	136.9	2,242.6	112.8	531.2	249.8	2,551.6
	South Africa	27,252.2	103,000.0	5,822.8	16,417.1	33,075.0	119,417.1
	Swaziland	1,127.7	1,694.2	310.3	730.7	1,438.0	2,424.9
	Uganda	949.7	4,986.3	458.8	2,635.0	1,408.5	7,621.3
	United Republic of Tanzania	1,367.6	11,035.2	682.4	2,496.1	2,050.0	13,531.2
Zambia	977.7	9,187.4	334.6	1,249.6	1,312.3	9,210.4	
Asia	Bangladesh	8,052.9	35,860.8	1,620.2	6,612.9	9,673.1	42,473.7
	Brunei Darussalam	1,644.3	3,614.7	768.3	1,824.6	2,412.6	4,783.1
	India	53,887.2	434,078.6	19,188.0	125,688.8	73,075.2	559,767.4
	Malaysia	77,602.4	181,472.4	16,747.4	45,206.2	94,349.8	226,678.6
	Maldives	342.0	2,035.9	109.7	630.7	451.7	2,666.6
	Pakistan	9,896.0	41,070.0	2,252.0	7,812.9	12,148.0	48,882.9
	Singapore	139,128.0	370,416.5	30,112.0	128,659.5	169,240.0	499,076.0
	Sri Lanka	6,483.6	18,002.8	1,621.4	3,505.2	8,105.0	21,508.0
Caribbean	Antigua and Barbuda	346.5	411.7	156.1	229.7	502.6	641.4
	The Bahamas	1,983.1	3,126.4	1,025.7	1,624.3	3,008.8	4,750.8
	Barbados	1,030.3	1,562.6	484.7	534.4	1,515.0	2,097.0
	Belize	478.4	875.9	122.6	207.8	601.0	1,083.7
	Dominica	130.4	178.0	52.7	66.6	183.1	244.6
	Grenada	220.9	320.7	89.2	100.7	310.1	421.4
	Guyana	550.1	1,847.3	193.2	500.3	743.3	2,347.7
	Jamaica	3,004.3	5,573.4	1,422.5	2,156.6	4,426.8	7,730.1
	St Kitts and Nevis	172.7	248.9	76.1	117.7	248.7	366.6
	St Lucia	312.5	508.0	133.5	194.7	445.9	702.7
	St Vincent and the Grenadines	144.4	333.1	56.1	93.1	200.5	426.2
Trinidad and Tobago	3,321.5	8,870.8	387.7	5,504.0	3,709.2	15,014.9	
Pacific	Fiji	773.7	2,383.4	329.2	609.6	1,102.9	2,993.0
	Kiribati	35.8	131.4	23.0	-	58.8	-
	Nauru	26.0	140.0	-	-	-	-
	Papua New Guinea	998.8	5,137.0	772.3	3,717.8	1,771.1	8,854.8
	Samoa	90.1	328.0	28.8	100.2	119.0	409.4
	Solomon Islands	92.3	464.8	72.6	214.1	164.9	678.9
	Tonga	60.5	189.1	18.5	70.5	78.9	259.6
	Tuvalu	5.2	16.0	11.2	33.3	16.4	58.3
Vanuatu	76.9	262.4	70.2	145.0	147.1	407.3	
Grand total		1,033,417.7	2,799,417.2	263,444.6	768,986.4	1,296,836.3	3,565,735.5

Source: UNCTADStat

TABLE A5							
MERCHANDISE EXPORTS BY MAIN PRODUCT CATEGORIES (% OF TOTAL EXPORTS)							
Region	Country	Primary commodities		Fuels		Manufactured goods	
		2000	2013	2000	2013	2000	2013
Developed	Australia	53.3	61.3	22.1	26.8	24.6	12.0
	Canada	18.7	26.3	13.9	27.2	67.1	46.5
	Cyprus	47.2	33.1	10.7	4.8	42.1	62.1
	Malta	3.3	5.2	9.4	42.4	87.3	52.3
	New Zealand	63.8	75.0	2.9	3.7	33.3	21.2
	United Kingdom	11.8	26.9	9.0	12.0	79.1	61.1
Developing							
Africa	Botswana	90.2	94.9	0.1	0.4	9.7	4.8
	Cameroon	43.5	36.1	52.5	50.7	4.1	13.2
	Ghana	83.8	51.7	6.8	38.7	9.4	9.6
	Kenya	67.0	57.8	11.2	8.4	21.8	33.8
	Lesotho	7.8	43.3	0.0	0.1	92.2	56.6
	Malawi	90.5	85.0	0.2	0.1	9.4	15.0
	Mauritius	21.6	44.6	0.0	0.0	78.4	55.3
	Mozambique	70.8	51.8	20.0	39.0	9.2	9.3
	Namibia	79.3	73.0	3.0	1.6	17.6	25.5
	Nigeria	1.5	4.4	97.9	94.0	0.7	1.5
	Rwanda	91.5	88.6	0.2	3.9	8.4	7.5
	Seychelles	67.1	86.6	28.2	4.2	4.7	9.2
	Sierra Leone	17.6	86.9	1.6	0.0	80.8	13.1
	South Africa	45.6	51.1	10.6	9.0	43.8	39.9
	Swaziland	48.7	42.5	0.7	1.8	50.5	55.8
	Uganda	91.8	65.9	2.8	0.6	5.4	33.6
United Republic of Tanzania	90.1	81.4	1.0	2.8	8.9	15.8	
Zambia	82.4	82.3	1.0	1.9	16.6	15.8	
Asia	Bangladesh	8.7	5.8	0.2	0.9	91.1	93.2
	Brunei Darussalam	0.1	0.4	89.5	97.6	10.5	2.0
	India	33.8	27.1	3.5	21.0	62.7	51.9
	Malaysia	9.4	16.7	9.7	22.4	80.9	60.9
	Maldives	29.4	97.0	0.0	0.0	70.6	3.0
	Pakistan	13.7	24.3	1.4	2.1	84.9	73.6
	Singapore	4.4	5.0	7.6	18.9	88.0	76.1
	Sri Lanka	25.1	34.2	0.5	0.3	74.4	65.4
Caribbean	Antigua and Barbuda	10.6	13.6	25.3	27.8	64.0	58.7
	The Bahamas	46.3	6.5	16.1	32.0	37.6	61.5
	Barbados	22.1	29.0	18.2	15.0	59.7	56.0
	Belize	82.4	68.9	1.3	15.5	16.3	15.6
	Dominica	41.8	24.4	0.0	0.0	58.2	75.6
	Grenada	40.8	48.6	0.0	0.1	59.2	51.3
	Guyana	89.8	97.2	0.0	0.0	10.2	2.8
	Jamaica	79.1	65.4	0.3	22.7	20.6	11.9
	St Kitts and Nevis	16.9	7.1	1.7	0.0	81.3	92.9
	St Lucia	70.8	34.8	0.0	31.7	29.2	33.4
	St Vincent and the Grenadines	52.4	52.3	0.1	0.8	47.5	47.0
	Trinidad and Tobago	6.1	4.2	63.1	62.6	30.8	33.2
Pacific	Fiji	50.1	66.1	1.1	11.2	48.8	22.8
	Kiribati	87.9	96.4	0.1	1.4	12.0	2.2
	Nauru	86.3	94.7	0.0	0.0	13.7	5.3
	Papua New Guinea	67.0	78.3	30.8	18.8	2.2	2.9
	Samoa	25.3	37.6	0.1	0.1	74.6	62.3
	Solomon Islands	96.7	98.9	0.1	0.1	3.2	0.9
	Tonga	92.9	75.4	0.0	0.0	7.1	24.6
	Tuvalu	24.6	80.9	-	0.2	75.4	18.9
Vanuatu	46.1	94.8	0.2	0.7	53.8	4.5	

Note: Primary commodities includes primary commodities, precious stones and non-monetary gold, excluding fuels (SITC 0 + 1 + 2 + 4 + 68 + 667 + 971). Fuels includes SITC 3 and Manufactured goods includes SITC 5 to 8 less 667 and 68.

Source: UNCTADStat Merchandise: trade matrix by product groups, exports in thousands of dollars, annual, 1995-2014 (accessed July 2015)

Region	Country	Exports to developed countries		Exports to developing countries		Share of developing countries (%)	
		2000	2013	2000	2013	2000	2013
Developed	Australia	31,264.2	58,912.9	31,245.6	160,746.3	50.0	73.2
	Canada	262,757.0	394,844.0	14,353.2	61,748.3	5.2	13.5
	Cyprus	430.3	1,143.1	413.1	642.4	49.0	36.0
	Malta	1,626.6	1,573.8	683.0	1,615.0	29.6	50.6
	New Zealand	8,638.3	17,382.2	4,373.6	21,417.3	33.6	55.2
	United Kingdom	248,518.1	399,658.9	45,631.4	144,302.5	15.5	26.5
Developing							
Africa	Botswana	2,404.5	5,801.4	357.7	1,771.9	12.9	23.4
	Cameroon	1,276.4	2,502.0	539.5	1,684.5	29.7	40.2
	Ghana	1,325.9	6,645.8	345.0	5,998.1	20.6	47.4
	Kenya	672.6	1,723.4	877.1	3,794.0	56.6	68.8
	Lesotho	173.7	591.1	46.9	256.0	21.3	30.2
	Malawi	259.9	588.9	119.4	619.1	31.5	51.2
	Mauritius	1,347.1	1,645.7	140.5	690.1	9.4	29.5
	Mozambique	171.3	1,640.7	192.7	2,376.7	52.9	59.2
	Namibia	908.9	1,846.3	416.7	2,776.2	31.4	60.1
	Nigeria	15,018.4	57,494.5	5,956.6	45,504.8	28.4	44.2
	Rwanda	29.1	91.4	22.9	611.6	44.1	87.0
	Seychelles	126.8	475.3	66.9	102.7	34.5	17.8
	Sierra Leone	12.2	326.2	0.9	1,596.3	6.8	83.0
	South Africa	18,936.5	30,642.9	10,470.2	64,351.2	35.6	67.7
	Swaziland	247.9	305.1	642.8	1,589.7	72.2	83.9
	Uganda	279.6	710.5	123.2	1,697.2	30.6	70.5
	United Republic of Tanzania	396.0	1,156.9	259.7	3,255.6	39.6	73.8
Zambia	425.5	2,614.5	466.8	7,979.6	52.3	75.3	
Asia	Bangladesh	5,733.7	23,669.5	655.0	5,294.5	10.3	18.3
	Brunei Darussalam	2,337.7	6,212.4	1,539.2	5,234.8	39.7	45.7
	India	23,531.0	116,638.2	17,501.0	211,493.6	42.7	64.5
	Malaysia	50,553.0	76,116.4	47,649.7	152,094.7	48.5	66.6
	Maldives	81.8	172.2	26.9	158.8	24.7	48.0
	Pakistan	5,448.8	10,801.6	3,656.2	14,319.2	40.2	57.0
	Singapore	58,634.6	96,651.8	79,148.7	313,577.1	57.4	76.4
	Sri Lanka	4,120.5	6,582.2	1,138.8	3,395.1	21.7	34.0
Caribbean	Antigua and Barbuda	34.7	36.7	17.3	31.1	33.2	45.9
	The Bahamas	488.5	348.4	66.4	606.5	12.0	63.5
	Barbados	144.8	128.0	93.4	339.4	39.2	72.6
	Belize	168.3	399.0	31.9	209.6	16.0	34.4
	Dominica	21.0	7.6	31.4	31.8	60.0	80.7
	Grenada	34.9	11.9	13.1	25.7	27.2	68.3
	Guyana	410.0	1,021.0	110.4	355.0	21.2	25.8
	Jamaica	1,195.2	1,350.9	111.8	217.0	8.6	13.8
	St Kitts and Nevis	29.8	35.1	2.8	5.9	8.5	14.3
	St Lucia	34.5	94.1	8.9	80.3	20.4	46.0
	St Vincent and the Grenadines	35.8	11.0	14.8	38.1	29.3	77.6
Trinidad and Tobago	2,731.4	8,183.7	1,492.6	4,585.1	35.3	35.9	
Pacific	Fiji	483.0	601.2	98.1	501.9	16.9	45.5
	Kiribati	2.0	0.4	1.6	6.3	44.8	93.8
	Nauru	15.4	37.7	13.6	32.3	46.9	46.1
	Papua New Guinea	1,582.0	4,371.6	451.5	1,579.4	22.2	26.5
	Samoa	58.7	19.3	6.3	42.8	9.8	69.0
	Solomon Islands	25.7	135.7	39.3	353.5	60.4	72.3
	Tonga	7.1	9.7	1.8	7.4	20.0	43.3
	Tuvalu	0.0	0.2	0.0	0.1	18.9	20.9
Vanuatu	9.3	7.2	13.9	29.1	60.0	80.1	
Grand total		755,199.9	1,343,972.4	271,681.9	1,251,773.1	-	-

Note: Developing countries includes both developing and transition countries as defined by UNCTAD.

Source: UNCTADStat

TABLE A7							
MERCHANDISE IMPORTS BY ORIGIN (US\$ MILLIONS)							
Region	Country	Imports from developed countries		Imports from developing countries		Share of developing countries (%)	
		2000	2013	2000	2013	2000	2013
Developed	Australia	42,352.5	96,305.3	25,385.8	125,125.2	37.5	56.5
	Canada	196,992.6	319,786.3	38,546.9	141,970.4	16.4	30.7
	Cyprus	2,886.6	5,560.4	909.9	854.9	24.0	13.3
	Malta	2,472.1	3,010.0	926.6	3,119.3	27.3	50.9
	New Zealand	9,860.5	19,163.3	3,973.1	20,455.4	28.7	51.6
	United Kingdom	282,579.6	474,347.1	85,152.4	177,646.1	23.2	27.2
Developing							
Africa	Botswana	318.0	2,063.9	1,749.4	5,369.6	84.6	72.2
	Cameroon	923.4	2,574.3	560.3	3,643.6	37.8	58.6
	Ghana	1,660.2	6,318.1	1,272.9	11,282.1	43.4	64.1
	Kenya	1,321.1	4,185.1	1,568.3	12,209.4	54.3	74.5
	Lesotho	13.8	42.0	795.4	2,158.0	98.3	98.1
	Malawi	109.8	577.2	422.3	2,267.4	79.4	79.7
	Mauritius	843.6	1,715.3	1,236.0	3,682.0	59.4	68.2
	Mozambique	325.1	1,981.9	837.0	8,117.1	72.0	80.4
	Namibia	323.5	1,546.9	1,111.3	6,027.6	77.5	79.6
	Nigeria	5,512.4	26,130.3	3,207.1	29,869.3	36.8	53.3
	Rwanda	93.8	592.8	117.2	1,708.8	55.6	74.2
	Seychelles	153.4	375.7	189.0	642.9	55.2	63.1
	Sierra Leone	115.0	628.0	36.7	1,124.9	24.2	64.2
	South Africa	17,907.3	43,369.3	8,613.0	59,742.3	32.5	57.9
	Swaziland	49.8	63.0	1,048.8	1,629.8	95.5	96.3
	Uganda	535.0	1,312.1	1,001.0	4,505.4	65.2	77.4
United Republic of Tanzania	618.0	2,644.1	968.4	9,881.3	61.0	78.9	
Zambia	174.4	1,629.4	713.5	8,532.4	80.4	84.0	
Asia	Bangladesh	2,255.0	6,187.6	6,627.6	30,897.5	74.6	83.3
	Brunei Darussalam	338.6	1,069.3	708.1	2,524.5	67.6	70.2
	India	26,588.1	123,283.5	26,352.1	342,761.8	49.8	73.5
	Malaysia	43,179.9	65,680.2	37,238.1	138,674.1	46.3	67.9
	Maldives	80.2	281.6	307.3	1,451.7	79.3	83.8
	Pakistan	3,667.2	8,975.7	7,400.4	34,490.4	66.9	79.4
	Singapore	65,390.5	118,461.5	69,100.3	254,536.5	51.4	68.2
	Sri Lanka	2,259.5	3,739.3	3,907.4	14,134.2	63.4	79.1
Caribbean	Antigua and Barbuda	332.4	181.1	74.6	326.7	18.3	64.3
	The Bahamas	1,415.5	1,939.6	586.6	1,425.7	29.3	42.4
	Barbados	867.6	793.1	287.9	975.6	24.9	55.2
	Belize	334.0	300.6	190.3	630.7	36.3	67.7
	Dominica	93.3	115.7	53.4	90.8	36.4	44.0
	Grenada	162.6	187.9	75.4	180.6	31.7	49.0
	Guyana	325.7	705.2	247.1	1,161.1	43.1	62.2
	Jamaica	2,079.0	2,866.7	1,015.5	3,235.8	32.8	53.0
	St Kitts and Nevis	151.5	198.2	44.2	50.7	22.6	20.4
	St Lucia	214.4	97.7	140.6	466.7	39.6	82.7
	St Vincent and the Grenadines	102.0	131.2	59.6	238.0	36.9	64.5
Trinidad and Tobago	1,795.9	4,308.5	1,509.4	4,562.3	45.7	51.4	
Pacific	Fiji	322.3	1,427.4	401.7	1,355.2	55.5	48.7
	Kiribati	29.1	42.8	9.9	54.3	25.4	55.9
	Nauru	12.3	121.5	13.7	18.5	52.9	13.2
	Papua New Guinea	701.5	3,531.0	333.4	2,549.0	32.2	41.9
	Samoa	71.4	147.1	18.7	219.5	20.8	59.9
	Solomon Islands	51.4	214.0	46.6	306.7	47.5	58.9
	Tonga	46.3	80.8	23.1	117.5	33.3	59.3
	Tuvalu	3.4	4.3	1.8	9.8	34.0	69.6
Vanuatu	55.8	106.1	30.9	182.9	35.6	63.3	
Grand total		721,067.8	1,361,100.8	337,148.2	1,479,193.8	-	-

Note: Developing countries includes both developing and transition countries as defined by UNCTAD.

Source: UNCTADStat

TABLE A8 TRADE OPENNESS OF COMMONWEALTH MEMBERS									
Region	Country	Exports of goods and services (% of GDP)				Trade of goods and services (% of GDP)			
		2000	2005	2010	2013	2000	2005	2010	2013
Developed	Australia	20.5	18.2	20.2	20.3	41.9	38.0	39.9	41.1
	Canada	44.5	36.7	29.0	30.0	83.5	69.9	59.9	61.9
	Cyprus	54.7	47.7	41.3	44.2	110.8	98.1	88.8	86.6
	Malta	88.1	75.0	92.8	95.8	186.4	155.3	185.5	185.4
	New Zealand	34.3	28.1	30.2	29.1	66.6	56.9	57.7	57.2
	United Kingdom	27.1	25.5	29.5	30.5	56.1	54.5	61.5	63.1
Developing									
Africa	Botswana	51.8	53.1	35.7	53.2	91.9	88.9	81.9	107.6
	Cameroon	28.7	25.5	23.9	28.3 ^a	55.7	51.7	51.0	59.6 ^a
	Ghana	30.6	22.7	29.3	35.9	72.5	61.2	72.6	85.6
	Kenya	22.0	28.5	27.9	24.6	51.9	64.5	70.0	64.5
	Lesotho	34.9	49.0	42.0	39.1	170.2	170.2	151.6	136.3
	Malawi	14.7	17.9	18.1	24.7 ^a	35.9	56.3	54.7	69.4 ^a
	Mauritius	56.2	57.9	51.0	52.5	114.3	121.6	114.1	118.0
	Mozambique	16.0	31.7	31.7	38.1	50.6	75.7	83.0	128.1
	Namibia	37.9	34.2	44.6	44.7	79.7	71.3	95.5	103.0
	Nigeria	45.2	50.8	35.3	34.2	71.1	79.8	64.8	60.0
	Rwanda	7.2	10.0	11.1	15.4	31.1	35.5	40.4	49.4
	Seychelles	64.5	78.3	86.4	86.2	131.7	174.6	194.0	184.0
	Sierra Leone	6.4	15.9	16.4	31.0 ^a	35.4	43.3	60.6	89.9 ^a
	South Africa	27.8	27.3	28.6	31.0	52.7	55.2	56.6	64.8
	Swaziland	81.3	74.3	53.0	60.3	175.7	163.2	120.5	128.4
	Uganda	10.9	15.3	20.2	22.6	34.0	38.8	56.1	55.1
	United Republic of Tanzania	13.1	20.5	27.0	25.1	32.7	49.5	65.4	65.5
Zambia	26.9	35.1	47.7	46.0 ^a	67.4	71.8	82.2	88.8 ^a	
Asia	Bangladesh	14.1	16.2	19.3	21.5	32.9	38.9	45.5	49.4
	Brunei Darussalam	55.4	71.9	80.5	79.6 ^a	95.6	98.4	112.5	108.3 ^b
	India	12.8	18.5	20.4	24.1	28.4	40.2	46.2	53.2
	Malaysia	115.2	112.4	93.4	82.4	211.8	203.4	170.0	155.4
	Maldives	52.0	44.4	86.0	97.2	103.4	124.0	158.5	191.7
	Pakistan	13.2	16.2	16.1	13.3	29.0	41.1	39.0	35.0
	Singapore	192.3	229.8	203.3	199.4	371.8	430.3	379.7	374.7
	Sri Lanka	38.2	32.3	22.4	22.9	86.6	73.6	53.1	55.5
Caribbean	Antigua and Barbuda	63.2	54.7	46.1	44.8	127.3	123.1	105.9	97.9
	The Bahamas	38.5	39.7	41.1	41.7	86.1	87.3	89.7	99.4
	Barbados	41.8	46.4	48.7	43.9	90.7	102.0	101.5	89.5
	Belize	52.2	56.3	59.3	66.7	124.5	120.4	117.3	135.0
	Dominica	44.5	35.8	35.9	41.3	101.0	90.0	90.8	90.8
	Grenada	45.3	21.4	23.9	24.8	105.0	78.4	73.0	77.8
	Guyana	59.1	52.7	49.5	51.0	124.5	122.5	122.9	128.6
	Jamaica	39.8	35.5	30.3	30.4	89.0	88.6	79.0	84.5
	St Kitts and Nevis	36.1	41.5	29.0	34.7	95.9	92.8	79.8	80.6
	St Lucia	48.2	56.1	48.6	44.3	105.2	119.6	111.5	96.3
	St Vincent and the Grenadines	45.3	36.4	26.9	27.5	95.9	89.3	84.0	86.7
Trinidad and Tobago	59.4	68.2	58.9	88.2 ^b	104.9	107.4	92.3	151.9 ^b	
Pacific	Fiji	56.3	51.0	56.4	55.1	120.3	116.2	118.7	127.4
	Kiribati	18.7	15.7	7.2	-	105.7	131.8	93.0	-
	Nauru	-	-	-	-	-	-	-	-
	Papua New Guinea	66.8	74.4	62.4	38.9	117.4	132.0	127.1	96.3
	Samoa	31.7	28.9	30.2	32.9 ^a	83.2	84.9	89.4	93.0 ^a
	Solomon Islands	35.9	34.0	48.4	50.8	84.7	90.6	128.8	111.2
	Tonga	13.5	19.5	15.8	19.9	55.2	78.3	76.6	74.9
	Tuvalu	10.3	8.6	10.9	9.8 ^b	143.7	123.7	130.4	160.3 ^b
	Vanuatu	57.7	45.0	48.3	48.0	111.8	97.1	102.3	100.5

Note: Trade is defined as the sum of exports and imports. Where data from 2013 were not available, data for the earlier year were used.

Source: UNCTADStat

TABLE A9						
INTRA-COMMONWEALTH TRADE (US\$ MILLIONS)						
Region	Country	Merchandise goods exports			Services exports	
		2000	2010	2013	2000	2009
Developed	Australia	15,369.4	44,247.6	35,091.3	6,015.6	13,615.5
	Canada	6,369.0	24,969.1	23,800.8	4,105.2	7,208.7
	Cyprus	186.3	192.7	371.9	223.8	1,059.4
	Malta	669.8	501.9	425.0	86.6	914.6
	New Zealand	4,591.7	11,787.3	13,052.1	2,031.3	2,053.3
	United Kingdom	24,020.6	38,430.6	46,100.9	10,597.6	22,643.8
Developing						
Africa	Botswana	2,083.8	2,968.4	5,179.3	-	1.1
	Cameroon	89.9	508.5	657.2	-	164.5
	Ghana	354.6	1,887.2	2,657.3	-	504.2
	Kenya	776.9	2,304.0	2,446.1	-	273.2
	Lesotho	45.4	318.3	244.5	-	12.6
	Malawi	97.1	338.5	417.5	-	45.7
	Mauritius	485.3	641.6	733.6	-	248.2
	Mozambique	92.6	742.7	1,753.6	-	131.6
	Namibia	637.3	1,817.9	2,064.5	-	40.7
	Nigeria	3,224.8	19,311.5	28,768.6	13.5	2,101.2
	Rwanda	16.8	86.4	235.7	-	11.0
	Seychelles	55.1	130.8	184.3	-	50.4
	Sierra Leone	0.8	33.6	77.0	-	73.7
	South Africa	8,936.1	30,450.2	26,848.5	1,882.4	3,753.6
	Swaziland	554.4	1,065.4	1,361.0	0.0	45.8
	Uganda	123.2	471.5	664.9	-	112.7
	United Republic of Tanzania	286.8	1,321.7	1,943.7	-	83.2
Zambia	412.0	1,159.1	2,031.3	-	72.4	
Asia	Bangladesh	976.8	3,349.4	5,421.0	0.5	264.8
	Brunei Darussalam	663.4	1,908.7	2,747.1	75.7	399.7
	India	7,593.8	45,213.3	71,522.0	1,767.6	14,392.6
	Malaysia	28,210.7	51,359.3	61,499.1	2,211.0	6,737.9
	Maldives	30.2	85.9	62.2	-	17.2
	Pakistan	1,552.3	3,620.1	4,675.6	73.4	656.0
	Singapore	39,946.3	88,884.4	100,009.7	2,916.5	9,862.6
	Sri Lanka	1,129.4	2,160.5	2,434.4	-	131.0
Caribbean	Antigua and Barbuda	6.3	42.9	7.9	-	6.3
	The Bahamas	64.1	130.0	69.7	22.9	336.8
	Barbados	109.0	294.6	306.2	475.8	973.9
	Belize	55.5	156.8	241.4	-	23.4
	Dominica	42.9	26.0	31.7	-	1.5
	Grenada	12.3	18.2	27.5	-	4.7
	Guyana	260.0	433.7	620.6	-	56.4
	Jamaica	351.0	321.6	375.4	35.7	148.1
	St Kitts and Nevis	7.4	5.2	6.2	-	4.7
	St Lucia	32.3	120.8	98.2	-	4.7
	St Vincent and the Grenadines	24.5	14.5	31.1	-	4.7
Trinidad and Tobago	1,004.4	2,329.5	2,674.9	39.0	337.4	
Pacific	Fiji	351.8	412.1	611.8	118.9	14.1
	Kiribati	0.7	0.3	0.3	-	4.7
	Nauru	22.5	18.2	39.6	-	0.0
	Papua New Guinea	1,030.0	2,956.7	3,108.5	242.7	130.0
	Samoa	48.1	40.1	18.8	3.2	0.0
	Solomon Islands	12.9	14.6	97.6	-	9.5
	Tonga	2.0	2.3	7.9	-	7.8
	Tuvalu	0.0	0.1	0.0	-	0.2
Vanuatu	7.3	1.8	2.6	-	1.5	

Source: Merchandise trade data from UNCTADStat and services data from Francois and Pindyuk (2013)

TABLE A10. INTRA-COMMONWEALTH GOODS EXPORTS TO DIFFERENT COUNTRY GROUPS (US\$ MILLIONS)							
Region	Country	Exports to developed countries		Exports to developing countries		Share of developing countries (%)	
		2000	2013	2000	2013	2000	2013
Developed	Australia	6,819.6	11,378.9	8,549.8	23,712.3	55.6	67.6
	Canada	4,798.4	15,664.4	1,570.6	8,136.4	24.7	34.2
	Cyprus	163.5	304.3	22.8	67.6	12.2	18.2
	Malta	220.9	137.9	448.9	287.1	67.0	67.5
	New Zealand	3,608.8	9,082.3	982.9	3,969.8	21.4	30.4
	United Kingdom	10,704.1	15,763.0	13,316.5	30,337.9	55.4	65.8
Developing							
Africa	Botswana	1,893.6	3,958.4	190.2	1,220.8	9.1	23.6
	Cameroon	69.3	129.2	20.6	528.0	23.0	80.3
	Ghana	269.3	551.0	85.3	2,106.3	24.1	79.3
	Kenya	242.0	439.0	534.9	2,007.2	68.9	82.1
	Lesotho	3.9	9.7	41.5	234.8	91.4	96.1
	Malawi	35.7	201.6	61.5	215.9	63.3	51.7
	Mauritius	449.2	415.6	36.1	318.0	7.4	43.3
	Mozambique	5.5	111.5	87.1	1,642.1	94.1	93.6
	Namibia	378.9	311.1	258.3	1,753.4	40.5	84.9
	Nigeria	471.0	8,216.8	2,753.8	20,551.8	85.4	71.4
	Rwanda	0.5	9.7	16.3	226.0	97.1	95.9
	Seychelles	50.5	134.4	4.6	49.8	8.4	27.0
	Sierra Leone	0.4	34.5	0.4	42.5	45.2	55.2
	South Africa	4,364.0	4,524.1	4,572.1	22,324.4	51.2	83.1
	Swaziland	68.0	17.8	486.4	1,343.3	87.7	98.7
	Uganda	41.4	43.5	81.8	621.5	66.4	93.5
United Republic of Tanzania	109.3	68.6	177.5	1,875.0	61.9	96.5	
Zambia	185.4	130.1	226.6	1,901.2	55.0	93.6	
Asia	Bangladesh	770.2	4,413.3	206.6	1,007.7	21.2	18.6
	Brunei Darussalam	255.4	1,414.8	408.0	1,332.2	61.5	48.5
	India	3,371.9	15,832.5	4,222.0	55,689.6	55.6	77.9
	Malaysia	6,654.1	13,674.5	21,556.6	47,824.6	76.4	77.8
	Maldives	9.5	26.7	20.8	35.5	68.7	57.1
	Pakistan	947.0	1,974.0	605.3	2,701.6	39.0	57.8
	Singapore	8,473.2	24,809.4	31,473.1	75,200.2	78.8	75.2
	Sri Lanka	854.6	1,411.5	274.7	1,022.9	24.3	42.0
Caribbean	Antigua and Barbuda	3.9	2.3	2.4	5.6	38.4	70.4
	The Bahamas	58.3	20.0	5.9	49.8	9.1	71.4
	Barbados	32.3	32.8	76.8	273.3	70.4	89.3
	Belize	44.4	135.2	11.2	106.2	20.1	44.0
	Dominica	12.9	1.3	30.0	30.4	69.9	95.8
	Grenada	1.6	2.8	10.8	24.7	87.2	89.7
	Guyana	199.2	517.0	60.9	103.6	23.4	16.7
	Jamaica	285.5	308.2	65.5	67.1	18.7	17.9
	St Kitts and Nevis	6.1	3.6	1.3	2.6	17.7	41.3
	St Lucia	23.8	37.4	8.4	60.8	26.2	61.9
	St Vincent and the Grenadines	12.8	1.2	11.8	29.9	48.0	96.2
	Trinidad and Tobago	128.7	689.0	875.6	1,986.0	87.2	74.2
Pacific	Fiji	290.6	312.7	61.2	299.2	17.4	48.9
	Kiribati	0.1	0.0	0.6	0.3	92.2	86.4
	Nauru	12.9	32.1	9.6	7.5	42.7	19.0
	Papua New Guinea	967.9	2,793.8	62.1	314.7	6.0	10.1
	Samoa	46.7	15.9	1.4	2.9	2.9	15.5
	Solomon Islands	7.6	79.4	5.3	18.2	40.8	18.6
	Tonga	0.8	5.2	1.1	2.7	58.3	34.6
	Tuvalu	0.0	0.0	0.0	0.0	91.4	53.4
Vanuatu	0.3	0.6	7.0	2.0	95.6	77.8	

Note: Where data from 2013 were not available, data for the earlier year were used.

Source: UNCTADStat

TABLE A11.				
INTRA COMMONWEALTH FDI INFLOWS				
Region	Country	Total	Intra Commonwealth (US\$ million)	Intra Commonwealth share (%)
		2012	2012	2012
Developed	Australia	48,897.2	17,036.6	34.8
	Canada	30,165.5	9,873.0	32.7
	Cyprus	2,018.5	-10.3	-0.5
	Malta	353.2	-286.9	-81.2
	New Zealand	3,656.5	4,437.3	121.4
	United Kingdom	52,302.6	2,211.5	4.2
Developing				
Africa	Botswana	26.9	-	-
	Cameroon	54.8	-	-
	Ghana	2,120.4	2.1	0.1
	Kenya	-381.0	-19.0	5.0
	Lesotho	84.7 ^b	61.9 ^b	73.0
	Malawi	161.8 ^b	99.0 ^b	61.2
	Mauritius	329.5	215.9	65.5
	Mozambique	5,144.5	1,677.9	32.6
	Namibia	526.8	-	-
	Nigeria	55,372.0	22,163.9	40.0
	Rwanda	336.6 ^a	198.7 ^a	59.0
	Seychelles	38.8	2.7 ^a	6.9
	Sierra Leone	9.9	-	-
	South Africa	9,536.2	8,010.1	84.0
	Swaziland	-22.8	-	-
	Uganda	887.8	296.3	33.4
	United Republic of Tanzania	1,665.1 ^a	1,482.9 ^a	89.1
Zambia	1,726.0	1,033.0	59.8	
Asia	Bangladesh	1,271.1	538.4	42.4
	Brunei Darussalam	1,207.3 ^a	824.5 ^a	68.3
	India	36,436.0	22,846.2	62.7
	Malaysia	13,592.1	2,384.5	17.5
	Maldives	-57.2	2.4 ^b	-4.2
	Pakistan	869.0	88.1	10.1
	Singapore	39,662.7 ^a	7025.2 ^a	17.7
	Sri Lanka	139.6	156.7	112.3
Caribbean	Antigua and Barbuda	-	-	-
	The Bahamas	1,098.0	54.7	5.0
	Barbados	4,263.5	-1.1	0.0
	Belize	14.3	1.5 ^b	10.5
	Dominica	-	-	-
	Grenada	-	-	-
	Guyana	-	-	-
	Jamaica	961.6	-	-
	St Kitts and Nevis	-	-	-
	St Lucia	-	-	-
	St Vincent and the Grenadines	-	-	-
Trinidad and Tobago	2,208.7	1,612.9	73.0	
Pacific	Fiji	533.6	366.5	68.7
	Kiribati	-	-	-
	Nauru	-	-	-
	Papua New Guinea	1,664.3	1,624.6	97.6
	Samoa	90.9	-	-
	Solomon Islands	-	-	-
	Tonga	-	-	-
	Tuvalu	-	-	-
Vanuatu	26.8	23.8	88.8	

Source: UNCTADStat bilateral FDI statistics

TABLE A12.				
INTRA-COMMONWEALTH REMITTANCE INFLOWS (US\$ MILLIONS)				
Region	Country	Total	Intra Commonwealth	Intra Commonwealth share (%)
		2014	2014	2014
Developed	Australia	2,291.6	1,123.9	49.0
	Canada	1,183.0	155.5	13.1
	Cyprus	91.1	59.3	65.1
	Malta	664.9	552.2	83.0
	New Zealand	475.9	435.0	91.4
	United Kingdom	1,839.0	955.9	52.0
Developing				
Africa	Botswana	48.3	43.0	89.1
	Cameroon	251.3	39.8	15.8
	Ghana	126.2	46.7	37.0
	Kenya	1,480.5	873.2	59.0
	Lesotho	456.5	454.1	99.5
	Malawi	29.7	21.6	72.8
	Mauritius	266.6	159.4	59.8
	Mozambique	217.9	149.9	68.8
	Namibia	11.5	11.1	97.0
	Nigeria	20,921.4	7,837.4	37.5
	Rwanda	179.4	60.1	33.5
	Seychelles	14.6	8.9	60.7
	Sierra Leone	104.5	14.1	13.5
	South Africa	1,038.8	728.7	70.1
	Swaziland	30.0	29.1	96.9
	Uganda	993.8	612.4	61.6
	United Republic of Tanzania	64.3	46.3	72.1
Zambia	58.3	47.3	81.2	
Asia	Bangladesh	14,968.6	5,628.9	37.6
	Brunei Darussalam	0.0	-	-
	India	70,389.0	16,328.6	23.2
	Malaysia	1,565.0	1,431.3	91.5
	Maldives	3.4	2.4	68.9
	Pakistan	17,060.1	4,354.2	25.5
	Singapore	0.0	-	-
	Sri Lanka	7,036.3	2,047.2	29.1
Caribbean	Antigua and Barbuda	21.1	9.1	43.1
	The Bahamas	-	-	-
	Barbados	86.6	35.7	41.3
	Belize	80.9	3.3	4.0
	Dominica	23.6	4.6	19.4
	Grenada	30.8	13.6	44.0
	Guyana	340.6	101.5	29.8
	Jamaica	2,263.9	591.2	26.1
	St Kitts and Nevis	51.6	6.9	13.3
	St Lucia	30.1	11.0	36.4
	St Vincent and the Grenadines	32.6	16.3	50.0
Trinidad and Tobago	131.0	39.5	30.2	
Pacific	Fiji	209.4	159.4	76.1
	Kiribati	13.1	6.2	47.3
	Nauru	-	-	-
	Papua New Guinea	15.2	13.7	90.0
	Samoa	140.4	89.8	64.0
	Solomon Islands	16.8	15.1	89.9
	Tonga	114.2	64.7	56.7
	Tuvalu	4.1	3.1	75.3
Vanuatu	24.1	5.0	21.0	

Source: World Bank

TABLE A13.					
AVERAGE BILATERAL TRADE COSTS (AD VALOREM)					
Region	Country	Intra-Commonwealth		With non-Commonwealth countries	
		2000	2010	2000	2010
Developed	Australia	254.2	240.3	282.9	272.4
	Canada	262.8	-	244.8	-
	Cyprus	322.3	-	278.4	-
	Malta	275.1	-	237.4	-
	New Zealand	260.8	-	285.6	-
	United Kingdom	156.2	180.2	161.6	162.3
Developing					
Africa	Botswana	263.8	335.3	285.6	388.3
	Cameroon	373.9	323.1	308.6	314.3
	Ghana	280.8	353.9	256.0	307.7
	Kenya	266.8	167.3	289.0	296.1
	Lesotho	350.7	-	313.1	-
	Malawi	316.3	273.1	330.1	355.5
	Mauritius	259.2	256.7	307.9	342.5
	Mozambique	256.4	233.5	309.2	317.1
	Namibia	306.9	275.6	317.2	277.7
	Nigeria	355.5	331.5	330.0	290.8
	Rwanda	334.7	353.8	381.0	479.1
	Seychelles	299.7	-	354.7	-
	Sierra Leone	289.7	-	315.1	-
	South Africa	224.3	233.5	287.6	256.9
	Swaziland	276.4	-	325.9	-
	Uganda	300.4	372.3	365.3	358.9
	United Republic of Tanzania	-	-	-	-
Zambia	288.4	226.6	393.0	336.0	
Asia	Bangladesh	319.6	-	300.8	-
	Brunei Darussalam	305.0	-	359.5	-
	India	268.8	215.4	238.8	212.6
	Malaysia	218.4	203.4	219.4	224.2
	Maldives	224.1	304.5	313.8	326.8
	Pakistan	-	280.8	-	268.1
	Singapore	311.3	292.8	338.4	313.0
	Sri Lanka	216.4	304.5	228.0	270.3
Caribbean	Antigua and Barbuda	167.3	232.3	228.9	354.5
	The Bahamas	-	-	-	-
	Barbados	226.5	323.8	358.8	416.4
	Belize	269.0	287.1	328.8	298.7
	Dominica	168.9	111.9	275.2	268.0
	Grenada	142.8	-	289.3	-
	Guyana	166.8	221.2	261.1	304.6
	Jamaica	244.0	282.5	295.8	357.1
	St Kitts and Nevis	-	-	-	-
	St Lucia	-	-	-	-
	St Vincent and the Grenadines	-	-	-	-
Trinidad and Tobago	259.8	-	287.0	-	
Pacific	Fiji	257.0	238.8	348.4	421.8
	Kiribati	188.4	239.6	263.4	281.6
	Nauru	-	-	-	-
	Papua New Guinea	257.0	248.4	322.5	250.3
	Samoa	-	282.4	-	430.0
	Solomon Islands	-	-	-	-
	Tonga	255.1	463.4	487.1	526.9
	Tuvalu	-	-	-	-
Vanuatu	-	305.5	-	362.5	

Source: Calculations using data from UNESCAP-World Bank bilateral trade costs database

About this Review

Fundamental changes are taking place in the global trade landscape, and the Commonwealth, with its diverse membership, is adapting to and coming to terms with these changes. This shifting landscape offers tremendous potential for Commonwealth countries to expand their trade – both between members and their overall trade. Although it is not a trading bloc, member countries can also take advantage of and leverage the Commonwealth for greater gains, while focusing on several broader priorities to improve their trade performance. Commonwealth countries offer insightful perspectives on topical issues that can contribute to promoting the role of trade in development.

This Commonwealth Trade Review addresses these issues in four parts:

- Part 1** – The Commonwealth in a changing global trade landscape
- Part 2** – Intra-Commonwealth trade: emerging dynamics and opportunities
- Part 3** – Unleashing the trade potential: priorities for the Commonwealth
- Part 4** – Perspectives on topical issues in trade

