The Commonwealth

ISSUE 148

Trade Hot Topics

Transitioning from Least Developed Country Status: Achieving Trade-Related Adjustment, Enhanced Diversification and Reduced Economic Vulnerability

Jodie Keane and Howard Haughton*

1. Introduction

In view of the likely graduation of a number of Pacific Island Small States, on income grounds, from LDC status, there will be an 'Africanisation' of the LDC Group by 2021. This raises obvious questions regarding the creation of appropriate international support measures (ISMs) for highly indebted commodity-dependent LDCs and the importance of sustainable infrastructure development.

This *Trade Hot Topic* provides information on a recent Kickstarter assignment on the Transition from Least Developed Country Status, funded by the UK Government as part of preparatory processes for the Commonwealth Heads of Government Meeting on 16–20 April 2018 (CHOGM18). First, it provides an introduction to LDCs and their classification by the international community. Second, it focuses on Commonwealth LDCs to distinguish between forthcoming graduates and those far from graduation, based on the criteria applied by the United Nations Committee for Development Policy (CDP). It then proceeds to explore some of the contentious issues related to continued economic vulnerability, and the challenge of export diversification post-graduation. Finally, it explores how existing ISMs, both pre- and post-graduation, might adapt, including through the sustainable infrastructure investments which reduce economic vulnerability, as well as boost trade.

1.1 Background and graduation from least developed country status

An unprecedented number of LDCs are expected to reach graduation thresholds, established by the CDP, by 2021. A number of these are Commonwealth LDCs, located in the Pacific. While some countries welcome their move towards graduation from LDC status, for others it remains contentious in the absence of alternative support mechanisms commensurate with their needs.

Many of the forthcoming LDC graduates will make the move because of their country income status, as opposed to substantial progress on

* The authors are Economic Adviser (International Trade Policy) and Quantitative Analyst (Debt Management Unit) at the Commonwealth Secretariat. Any views expressed in this article are those of the authors and do not necessarily represent those of the Commonwealth Secretariat.

the reduction of economic vulnerabilities and improvements in human capital (see Razzaque and Selvakumar, 2017). This raises obvious concerns regarding sustaining graduation with momentum, as well as with respect to advancement of the 2030 Agenda and the Sustainable Development Goals (SDGs).

It has been recognised that development system entities such as the World Bank and the International Monetary Fund (IMF) do not always have specific graduation support programmes or mechanisms for the LDCs. Overall, continuous engagement after graduation is determined mainly on the basis of mutually agreed country programme frameworks. There is no established institutional mechanism for the phasing-out of LDC country-specific benefits. As a result, entities may not always be able to support a country's smooth transition process – though it must be duly emphasised that, since only five countries have graduated from LDC status since the category was created in 1971, there is currently a very limited empirical basis from which to derive any firm conclusions.

In anticipation of LDC status graduation, there is a need for more focused impact assessments, in order to 'enhance inter-ministerial collaboration and private sector involvement in graduation' – a need the CDP recognises. Through the CHOGM18 Kickstarter assignment funded by the UK, the Commonwealth Secretariat has developed a new approach to better assess potential costs and benefits arising from transitioning from LDC status. In view of the fragmented nature of trade and the relative position of countries within GVCs, the competitiveness challenges arising from loss of preferential market access must be better identified and targeted.

For most if not all LDCs, increased private sector engagement in infrastructure development will be necessary to ensure countries' smooth transition out of the LDC classification as well as the achievement of broad-based structural economic transformation. In view of this, the Commonwealth Secretariat has explored the applicability of the InfraCompass framework of the G20 GIH and used it to assess the attractiveness of an LDC in relation to financing of its infrastructure projects. The aim is to adapt and bolster this assessment framework so as to facilitate sustainable infrastructure with a greater potential for inclusivity within LDCs.

1.2 Commonwealth LDCs

Currently, 14 out of the 53 members of the Commonwealth are classified as LDCs. Between 2021 and 2024, this number is likely to reduce to 11, as Bangladesh, Solomon Islands and Vanuatu proceed to move out of this category in view of their recent progress on the criteria that comprise the LDC classification and their acceptance of the recommendations of the CDP. On the other hand, Kiribati and Tuvalu have resisted the graduation process so far because of their extreme vulnerability to climate change and other environmental shocks. Table 1 provides details of the LDCs that are also Commonwealth members. The following sub-sections describe the indicators used to determine whether or not a country falls into the LDC category.

Table 1: Commonwealth LDCs

Country	Graduating	Delayed
Bangladesh	✓	
The Gambia		
Kiribati		✓
Lesotho		
Malawi		
Mozambique		
Rwanda		
Sierra Leone		
Solomon Islands	✓	
Tuvalu		✓
Uganda		
United Republic of Tanzania		
Vanuatu	✓	
Zambia		

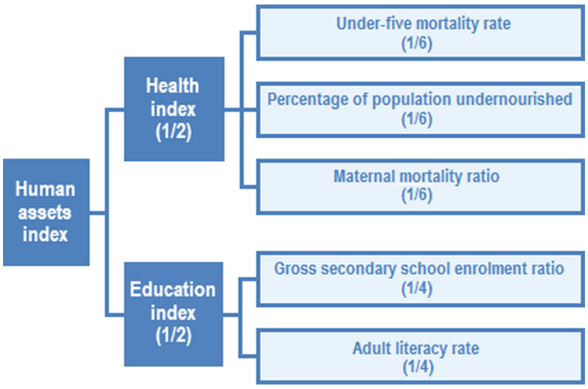
Three indicators/criteria are used to classify countries as LDCs:

1. Gross national income (GNI) per capita;
2. The Human Assets Index (HAI);
3. The Economic Vulnerability Index (EVI).

First, GNI in a country's national accounts is converted to US dollars, using the World Bank Atlas method to calculate conversion factors. The GNI in US dollars is then divided by the annual population to give GNI per capita. The GNI threshold for graduation from LDC status is US$ 1,230. However, countries can graduate from LDC status if their GNI reaches twice the level of the threshold set (US$ 2,460).

Second, the HAI comprises a Health and Education Index, as Figure 1 illustrates. The graduation threshold is set at 66. In general, the higher the index value the better.

Figure 1: Human Assets Index



Source: Adapted from UN, Department of Economic and Social Affairs (https://www.un.org/development/desa/dpad/resources.html?target=data)

Finally, the EVI can be classed as a structural index, in as much as its components measure the effect of vulnerabilities, as opposed to policy-makers' ability to respond to exogenous shocks. The graduation threshold is set at 32. In general, the lower the index value the better.

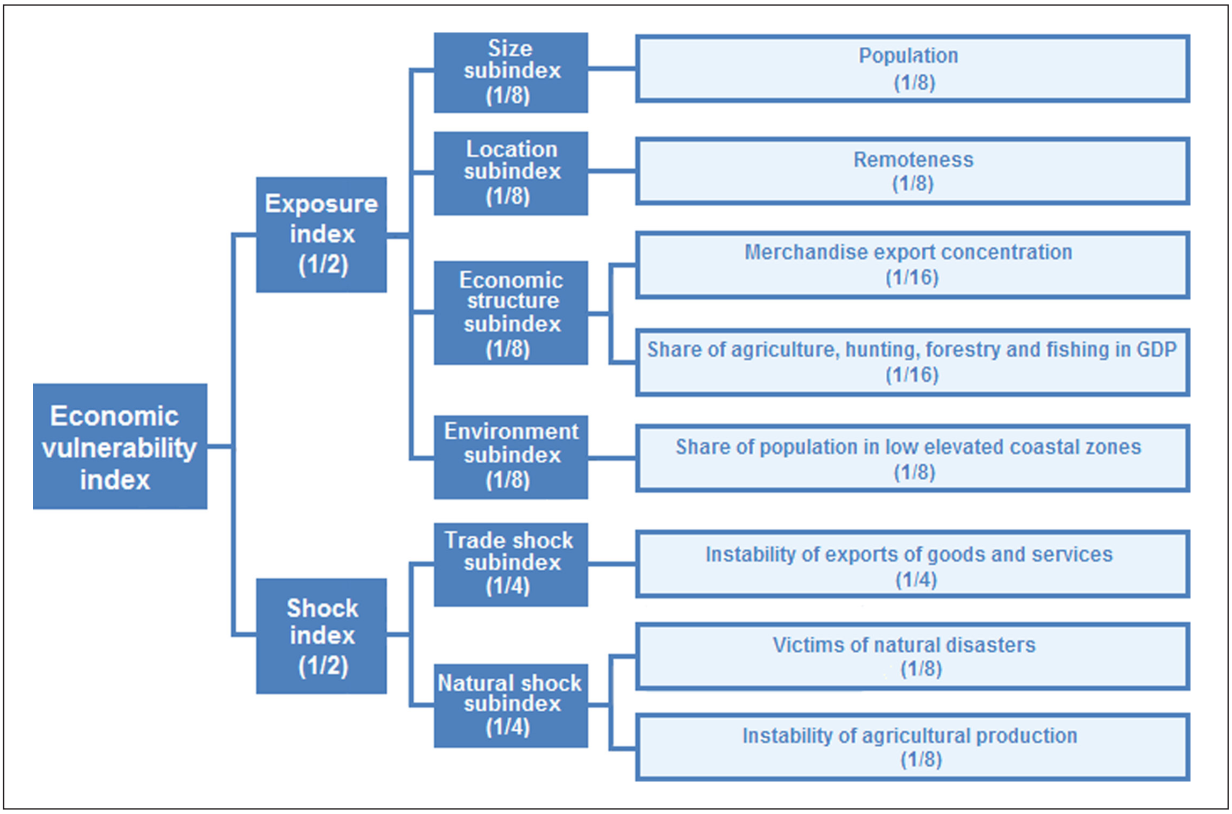
As Figure 2 shows, the EVI is calculated as the sum of two equally weighted sub-indexes: exposure and shock. The Exposure Index is the sum of four equally weighted sub-indexes: population size, location, economic structure and the environment. The Shock Index is the sum of two equally weighted sub-indexes: trade and natural. The weights of the sub- and the sub-sub-indexes can, therefore, be seen as equally proportioned for each lower level of index.

Table 2 presents the scores for Commonwealth LDCs across each of the components – GNI, HAI and EVI. As we can see, there is a large degree of variation in scores. GNI and the HAI present the largest variations in values and scores across our members. Malawi, The Gambia and Mozambique are the Commonwealth members with the lowest GNI values; Tuvalu, Vanuatu and Kiribati have the highest. In relation to the HAI, Tuvalu, Kiribati and Vanuatu have the highest index scores whereas Sierra Leone, Mozambique and Uganda have the lowest. The range of scores for Commonwealth LDCs in relation to the EVI is less broad. Kiribati, Tuvalu and Solomon Islands have the highest index scores; Bangladesh, United Republic of Tanzania and Uganda have the lowest.

2. The issues

Never before have so many countries been identified at a single review of the CDP and recommended for graduation as at the CDP plenary

Figure 2: Economic Vulnerability Index



Source: Adapted from UN, Department of Economic and Social Affairs (https://www.un.org/development/desa/dpad/resources.html?target=data)

Table 2: Commonwealth least developed countries indicator values (2018)

Country	Income status	GNI per capita (US$)	EVI	HAI
Bangladesh	Lower-middle-income	1,274	25.2	73.2
The Gambia	Low-income	449	72.2	51.8
Kiribati	Lower-middle-income	2,986	73.7	84
Lesotho	Lower-middle-income	1,296	42.0	61.6
Malawi	Low-income	331	47.1	52.5
Mozambique	Low-income	564	36.7	45.8
Rwanda	Low-income	707	36.4	55
Sierra Leone	Low-income	582	51.6	27.4
Solomon Islands	Lower-middle-income	1,763	51.9	74.8
Tuvalu	Upper-middle-income	5,388	56.0	90.1
Uganda	Low-income	661	31.7	50.2
United Republic of Tanzania	Low-income	902	27.9	56.0
Vanuatu	Lower-middle-income	3,014	47.0	78.5
Zambia	Lower-middle-income	1,561	40.5	58.6

Source: Adapted from UN, Department of Economic and Social Affairs (https://www.un.org/development/desa/dpad/resources.html?target=data)

on 12–16 March 2018. However, while some LDCs (such as Bangladesh) embrace and celebrate their graduation, for others the issue remains contentious.

The outcomes of the recent CDP meeting include recognition that, while Kiribati per capita income has almost tripled and it has continued to perform very well on health and education since 2003, the country remains one of the most environmentally vulnerable LDCs, given its exposure to climate change. It has an EVI score of 73.7 as of the 2018 CDP review. For this reason, the CDP has recommended that Kiribati's graduation be contingent on the creation of a category of countries facing extreme vulnerability to climate change and other environmental shocks. Kiribati and other extremely vulnerable countries should receive support targeting their specific vulnerabilities to climate change and other environmental shocks. A similar situation exists for Tuvalu, which has an EVI score of 56.

In summary, we can observe the following from Table 1:

- Only one country – Bangladesh – currently meets the graduation criteria for all indicators.
- Only three countries – Bangladesh, Uganda and United Republic of Tanzania – have an EVI score less than the graduation threshold.

The matrix in Table 3 shows the Pearson correlation coefficient between the three indicators across all 47 LDCs worldwide.

Table 3: Correlation matrix between LDC criteria

	GNI	EVI	HAI
GNI	1	0.291867	0.612451
EVI	0.291867	1	0.055016
HAI	0.612451	0.055016	1

Since a lower EVI score denotes less vulnerability, and vice versa, one would expect the correlation between the EVI score and GNI to be negative (in the ideal case), or very low if one assumes that less/more vulnerability implies more/less growth per capita. However, what is observed is a moderately low level of positive correlation.

The fact that the correlation is positive substantiates an argument that improvements in GNI cannot be attributed to corresponding improvements in EVI score. This can also be interpreted as an inability of growth to induce structural economic transformation of the economy so as to influence the economic structure sub-index (holding other components constant).

Intuitively, one would expect there to be a positive relationship between the HAI score and GNI. This is observed in the matrix, where the value of the correlation suggests a moderately high positive value.

There is a strong relationship between improvements in human capital, as proxied by the HAI score, and improvements in GNI, as a proxy for economic growth.

Finally, it should be noted that there is a very low correlation between the HAI and EVI scores, indicating next to no significant correlation between the indicators. This suggests that improvements in human capital are not statistically related to the ability to reduce economic vulnerability.

Looking more specifically at the relationship between these variables within the Commonwealth (Table 4) we can see that the correlation between HAI score and GNI is stronger, compared with the global average. This is also the case for EVI score and GNI. Whereas the correlation between EVI and HAI is higher, its value still suggests the relationship is statistically weak.

Table 4: Correlation matrix between Commonwealth LDC criteria

	GNI	EVI	HAI
GNI	1	0.348651	0.827909
EVI	0.348651	1	0.244642
HAI	0.827909	0.244642	1

Applying a logistic regression equation[1] model where the dependent variable is a coded value of GNI (i.e. where the value is 0 if GNI per capita is less than the graduation threshold and 1 otherwise) and the independent variables are the HAI and EVI scores, the following results are obtained (Table 5).

The "Bs" corresponds to the coefficients (shown in the second column) of the regression equation, with B0 denoting a constant and B1 and B2 denoting the coefficients of the EVI and HAI scores, respectively. Note the positive sign of the B1 coefficient, which suggests a positive relationship between the EVI score and GNI, contrary to expectation: an increased likelihood of meeting the GNI threshold is significantly associated with an increase in the EVI score and therefore an increase in economic vulnerability. This result is worrying since the converse should apply. The P-values suggest that all predictors are significant at the 5 per cent level.

Table 6 presents the results from applying the logic regression to the case where the GNI threshold is set to twice the graduation level. These results confirm that, at the 5 per cent level, all coefficients are significant; again, there is a positive value for B1.

Two important conclusions can be drawn from the above analysis:

- Economic prosperity resulting in graduation (where GNI per capita is used as a proxy) is significantly associated with incremental improvements in human capital as denoted by the HAI score. However, no analysis has been undertaken to assess whether this owes to the persistence of prior prosperity levels or, alternatively, whether GNI has causality for the HAI score.
- Economic prosperity resulting in graduation is not necessarily positively affected by improvements in the EVI score (as indicated by a reduction in the score). This result suggests only a tenuous relationship between improvements in income and reduction of the EVI score, which deserves far greater attention by the international community.

Table 5: GNI threshold and relation to HAI and EVI

	Coeffs	S.E.	Z-value	P	5% level
B0	-11.1136	3.539933	-3.13949	0.0848%	Yes
B1 (EVI)	0.084751	0.046409	1.826168	3.3918%	Yes
B2 (HAI)	0.127785	0.040383	3.164301	0.0777%	Yes

Table 6: GNI graduation threshold and relation to HAI and EVI

	Coeffs	**S.E.**	**Z-value**	**P**	**5% level**
B0	-12.5478	4.164696	-3.0129	0.1298%	Yes
B1 (EVI)	0.096255	0.051718	1.861156	3.1360%	Yes
B2 (HAI)	0.097488	0.044538	2.188893	1.4310%	Yes

1 A logistic regression is used since the coded dependent variable now denotes the case where GNI has either reached the threshold for graduation (i.e. US$ 1,230) or otherwise, and hence has only a binary response.

It is important to point out, however, that these results do not necessarily imply that improvements to the components underlying the EVI score cannot result in improvements to economic prosperity (as per intuition). What the analysis does suggest is either that insufficient efforts have gone into effecting such improvements or that there are natural limits to the extent to which such improvements can be effected.

Undiversified exports and limited structural economic transformation undermine LDCs' resilience to external shocks, including environmental shocks. Their infrastructure is inadequate to support the structural transformation that their economies demand and they are thus highly vulnerable to external shocks (UN-OHRLLS, 2017). In 2016, the Political Declaration resulting from the Comprehensive High-Level Midterm Review of the Istanbul Programme of Action for LDCs recognised the importance of a revitalised global partnership for sustainable development.

ISMs should be maintained in some way, as recommended by the CDP, for those LDCs that meet some of the LDC thresholds for graduation but continue to exhibit extreme vulnerability to environmental shocks. However, it must also be recognised that some adaptation to existing support measures is required in order to induce structural economic transformation and the reduction of economic vulnerability. Adaptations to existing ISMs could include recognition of sustainable infrastructure development as a catalyst for structural economic transformation and export diversification. The follow section explores these aspects further.

3. Developing appropriate international support measures

Forthcoming graduates from LDC status face the need to adapt to the loss of conventional trade support measures and a continued requirement to ensure productive investments necessary to sustain growth. It is estimated that the average rate of investment growth in the LDCs as a whole must increase to about 10 per cent per annum over the period 2016–2020 – an increase of about 2.4 percentage points relative to the baseline period (2011–2015) (see UN-OHRLLS, 2017).

The research findings arising from the CHOGM18 Kickstarter assignment suggest that ISMs should be upgraded in line with contemporary understandings of global trade and investment trends. This type of support could be provided both pre- and post-graduation.

At the CDP meeting on 12–19 March 2017, Bangladesh, a proud graduate from LDC status, emphasised that development partners should increase their assistance regarding access to private finance, in order to enhance infrastructure financing. Infrastructure is a critical enabler of export diversification. The ability to access multiple markets also contributes to upgrading processes within GVCs (what is termed 'multi-chain' upgrading). As a result, productive investments in infrastructure can assist in the reduction of economic vulnerability.

3.1 Adapting to loss of LDC trade preferences

In relation to the costs of adjustment involved in moving out of the LDC category through graduation, policy-makers must confront competitiveness challenges – should the available evidence suggest that these are arising because of the loss of tariff preferences, induced through graduation.

Some of the strategies that could be adopted are as follows:

- Extension of the transition period: In order to anticipate and adapt to the trade-related effects of preference loss, an extension of the transition period could be sought. This may provide greater flexibility, for example to ensure workers are retrained and can achieve productivity gains to counteract any adverse effects related to increased competition.

- Legal assistance to transition from the EU's Everything But Arms to the enhanced Generalised Scheme of Preferences: The loss of tariff preferences could be mitigated through seeking to operate under a different trade regime. For example, the EU's GSP+ offers an additional preference (in some cases comparable with the EBA) for countries that adhere to particular social and environmental objectives. Legal support may be available on request from development partners, including the Commonwealth Secretariat.

- A transitional services waiver arrangement: The LDC services waiver is a new mechanism made available to and yet barely utilised by the next wave of graduates. Given the importance of services to trade nowadays, as organised within GVCs, perhaps a particular transitional arrangement could be secured for forthcoming graduates from LDC status for this preference.

- More targeted Aid for Trade support: To improve the effectiveness of Aid for Trade disbursements pre- and post-graduation, the GVC approach towards assessment of needs for trade-related adjustment must be adopted. Ensuring the private sector perspective is obtained is critical. Surveying lead firms and buyers can help to reveal ways in which trade costs can be reduced as well as alternative ways to harness competitiveness. These could include, for example, investments in infrastructure to further reduce trade costs in view of heightened competition after graduation.

These actions form part of a broader transition strategy as LDCs proceed to graduate. In the case of Solomon Islands, one of the CDP's recommended graduates, the Commonwealth Secretariat has estimated the hypothetical cost of graduation in the EU market at approximately €15 million, if GSP+ status is not achieved or equivalent market access secured through a free trade agreement. It is challenging to explore the opportunity costs in relation to the fact that, as a new graduate, Solomon Islands will be unable to benefit from the LDC services waiver in the future. This aspect deserves further attention in view of the upgrading opportunities that may arise from movement up into higher-value services sectors, related to, for example, the marine economy.

3.2 Focus on the sustainable financing of infrastructure

The future Africanisation of the LDC Group makes it clear that much more critical reflection is required regarding the appropriateness of ISMs. It is for this reason that a cross-divisional team was mobilised to undertake the CHOGM18 Kickstarter assignment on LDC transition. From this process, the concept of leveraging the principles of the Commonwealth Charter for Infrastructure Development emerged. Such an approach could help to better assess the extent to which LDCs' frameworks for infrastructure development meet benchmark international best practice standards but also uphold the principles of the Charter of the Commonwealth, which includes sustainable development.

Empirical evidence suggests that adherence to better standards of infrastructure development increases the chances of projects being viewed as bankable and can also enhance the risk adjusted returns to investment. However, bankability does not imply that such developments will be sustainable, result in increased equity, reduce poverty, etc. Application of the principles of the Commonwealth could encourage the delivery of infrastructure that enhances the chances of projects producing such desirable outcomes. Since infrastructure development is an ongoing process, in most countries support to its development could be viewed as an ISM that can be continuously employed pre- and post-LDC-graduation. This approach could better assist in providing the increased investment support called for by the Addis Ababa Action Agenda (Box 1).

Box 1: Facilitating infrastructure investments

While public–private partnerships (PPPs) in infrastructure can play an important role in mobilising additional capital, their costs and benefits need to be carefully assessed. The international community should increase coordinated investment support for LDCs with the contribution of all stakeholders in line with decisions in the Addis Ababa Action Agenda (para. 46) to adopt and implement investment promotion regimes including 1) financial and technical support for project preparation and contract negotiation, 2) advisory support in investment-related dispute resolution, 3) access to information on investment facilities and 4) enhanced risk insurance and guarantees such as those available through the Multilateral Investment Guarantee Agency.

Source: Adapted from UN-OHRLLS (2017)

In order to explore these aspects further, the GIH toolkit called InfraCompass, which is used to assess the quality of the framework supporting infrastructure development was adapted.[2] The InfraCompass tool takes into account six categories, to assess Governance, Regulatory, Permits, Plans, Procure and Delivery:

1. **Governance:** institutional, governance and legal environment for infrastructure investment;
2. **Regulatory:** openness to investment and the extent to which regulation and competition frameworks support infrastructure delivery;
3. **Permits:** efficiency of the planning and licensing procedures for the issuance of permits and acquisition of land required for infrastructure development;

2 The GIH is an initiative of the G20 whose remit is to 'grow the global pipeline of quality, bankable infrastructure projects'. See www.gihub.org/about/about/, accessed 20 March 2018.

4. **Plans:** ability of government to plan, coordinate and select infrastructure projects;

5. **Procurement:** extent to which procurement processes and bid management frameworks are standardised, transparent and non-onerous to bidders;

6. **Delivery:** track record of delivery and quality of infrastructure assets.

Modifications were made to InfraCompass to remove evaluation criteria that made reference to Organisation for Economic Co-operation and Development data, since this would not be applicable for countries such as Mozambique. Also, two additional categories were included:

7. **Contingent liability and state-owned entity:** effectiveness of risk management framework for contingent liabilities deriving from state-owned entities as well as natural disasters;

8. **Macroeconomics and financial market development:** financial stability, depth/efficiency of domestic market, debt sustainability and levels of financial innovation.

In applying the infrastructure assessment toolkit to Mozambique, data was obtained from a number of sources:

- World Bank Worldwide Governance Indicators data bank, with 2016 as the most recent year;[3]
- World Bank Doing Business Report, 2016;
- IMF Capital Account Openness, 2016;[4]
- Global Competitive Index, World Economic Forum, 2017;
- World Bank Benchmarking Public Procurement, 2017;[5]
- Institutional Profiles Database, 2016;[6]
- World Bank data;[7]
- In-country: interviews, documents.

The following tables provide details of the score for each category/criteria.

Table 7: Governance, regulatory and permits

Category	Criteria	Score
Governance	Control of corruption index score, -2.5–2.5 (best)	-0.87
	Rule of law index score, -2.5–2.5 (best)	-1.02
	Cost of enforcing contracts, as % of claim	119%
	Recovery rate, cents on US$	31.50%
	Shareholder governance index, 1–10 (best)	3
	Extent of conflict of interest index, 1–10 (best)	5.3
	Dedicated PPP unit (1=Yes, No=0)	1
	Post-completion reviews (1=Yes, No=0)	1
Regulatory	Capital Account Openness Index, 0–1 (best)	0
	Regulatory quality index, -2.5–2.5 (best)	-0.7
	Prevalence of foreign ownership, 1–7 (best)	4.5
	Strength of insolvency framework index, 1–16 (best)	10
	Effect of taxation on incentives to invest, 1–7 (best)	3.5
Permits	Dealing with construction permits, no. of days	118
	No. of procedures to start a business	10
	Registering property, no. of days	40
	Quality of land administration index, 1–30 (best)	9.5
	Time required to start a business, no. of days	19
	Cost to start a business, % of GNI per capita	18.10%

3 See http://info.worldbank.org/governance/wgi/#home, accessed 21 March 2018.
4 See www.imf.org/external/datamapper/datasets/CL/1, accessed 21 March 2018.
5 See http://bpp.worldbank.org/, accessed 21 March 2018.
6 See www.cepii.fr/institutions/en/ipd.asp, accessed 21 March 2018.
7 See https://data.worldbank.org/indicator, accessed 21 March 2018.

Table 8: Plans, procurement and delivery

Category	Criteria	Score
Plans	Preparation of PPPs, 0–100 (best)	50
	National/sub-national infrastructure plan (1=Yes, No=0)	0
	Pipeline projects in national/sub-plans (1=Yes, No=0)	0
	Guidelines for infrastructure appraisal (1=Yes, No=0)	1
Procurement	Procurement of PPPs, 0–100 (best)	73
	Bid evaluation, 0–100 (best)	43
	Publish guidelines for procurement of projects (1=Yes, No=0)	1
	Post award management of procurement, 0–100 (best)	64
	Degree of transparency in public procurement score, 0–4 (best)	1
	Calling for tenders, 0–100 (best)	54
	Average procurement duration (in months)	13
Delivery	Infrastructure quality, 1–7 (best)	2.5
	Gross fixed capital formation % of GDP (5-year average)	34%
	Private finance of infrastructure, % of GDP (5-year average)	21%

Table 9: Contingent liabilities, macroeconomics and financial market development

Category	Criteria	Score
Contingent liability/SOE	Management of contingent liabilities/SOE, 0%–100% (best)	12.50%
Macroeconomics and financial market	Local content – effectiveness (1=Yes, No=0)	0
	Framework for incentives (1=Yes, No=0)	1
	Imposition of fees (1=Yes, No=0)	1
	Domestic market efficiency and depth (1=Yes, No=0)	0
	Adoption of best practice corporate governance (1=Yes, No=0)	0
	Sustainable debt (1=Yes, No=0)	0
	Financial innovation facilitation (1=Yes, No=0)	0
	Stable macroeconomics, 1–7 (best)	1.9
	Financial market development, 1–7 (best)	2.8

Overall, the GIH was described as being more geared to PPP delivery, rather than project finance with a need for much greater depth in view of sovereign risk. Given the challenges of government backed guarantees and sovereign risk especially in the case of African LDCs, and need to move projects to market it is clear the innovations within the GIH framework are required. In addition to this, closer adherence to the principles of the Commonwealth Charter within the realm of infrastructure development could serve to further reduce associated risks as well as economic vulnerabilities.

4. Concluding remarks

The issues related to persistent economic vulnerability pre- and post-graduation from LDC status is clearly a major concern. The tenuous relationships between improvements in income and reductions in economic vulnerability (as identified by the EVI score) deserves far greater attention by the international community. ISMs could adapt through securing sustainable infrastructure investments which reduce economic vulnerability, as well as boost trade, in line with the adapted framework described in this paper.

It is generally accepted that infrastructure is an important enabler of economic growth, but the processes surrounding its development should recognise, among other things, the need to promote inclusive and sustainable development and the need to support access to finance for small-scale and other enterprises and their inclusion in value chains and markets. In addition to official development assistance, investors in infrastructure can include infrastructure service providers[8] and passive investors.[9] The potential investors that the infrastructure assessment toolkit is primarily aimed at are service providers and passive investors (hereafter called investors).

There are, potentially, numerous criteria that could make a country attractive for investments for any one investor. These include the criteria already described in the GIH framework, based on a combination of empirical analysis of infrastructure practice across 49 countries,[10] as well as research conducted by the Commonwealth Secretariat.

Evaluating the quality of an LDC's infrastructure framework on the basis of the amount of foreign direct investment received or the gross domestic product growth rate is not adequate as these metrics/indicators do not look at quality: such growth could occur at the expense of the rule of law, gender equality, equitable poverty reduction, etc. A more holistic approach is required, which assesses the extent to which such indicators contribute to improvement on these core principles. Given that Commonwealth member countries already tend to invest around three times more with each other, than compared with the rest of the world, it seems timely to assess the extent to which these investments reflect the principles of the Commonwealth Charter, particularly in view of the development aspirations and trajectories of LDC member states.

References

Commonwealth Secretariat (2018) *Commonwealth Trade Review*. London: Commonwealth Secretariat.

Keane, J. (2018) 'A Guide to Leaving Least Developed Country Status: Sustaining Graduation with Momentum'. Report prepared for the GradJet platform developed by the UN CDP.

Haughton, H. (2018) 'Application of the Global Infrastructure Hub Assessment Framework to Mozambique'. Report prepared for the Commonwealth Secretariat.

Razzaque, M.A. and Selvakumar, K. (2017) 'Putting LDCs Back on Track: Challenges in Achieving the IPoA Targets'. *Trade Hot Topic 139*, 8 March. London: Commonwealth Secretariat.

UN-OHRLLS (2017) 'State of the Least Developed Countries: Follow-Up on the Implementation of the Istanbul Programme of Action'. New York: UN.

8 This would include those that provide services under a concession or other arrangement for a fee in return for also financing parts of infrastructure development.
9 This would include those that purely invest to receive an economic return from the revenues generated from the infrastructure but are not part of its operations.
10 This relates to the work of the GIH. See www.gihub.org/, accessed 21 March 2018.

International Trade Policy Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade Policy (ITP) Section of the Trade Division of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth – an association of 52 independent states, comprising large and small, developed and developing, landlocked and island economies – facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITP is entrusted with the responsibilities of undertaking policy-oriented research and advocacy on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITP approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on highly vulnerable Commonwealth constituencies – least developed countries (LDCs), small states and sub-Saharan Africa.

Scope of ITP Work

ITP undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research, consultations and advocacy to increase understanding of the changing international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance more beneficial participation of Commonwealth developing country members, particularly, small states and LDCs and sub-Saharan Africa.

ITP Recent Activities

ITPs most recent activities focus on assisting member states in their negotiations under the WTO's Doha Round and various regional trading arrangements, undertaking analytical research on a range of trade policy, emerging trade-related development issues, and supporting workshops/ dialogues for facilitating exchange of ideas, disseminating informed inputs, and consensus-building on issues of interest to Commonwealth members.

Selected Recent Meetings/Workshops Supported by ITP

5-6 June 2018: Commonwealth-CII Regional Consultation on Multilateral, Regional and Emerging Trade Issues for Asia held in New Delhi, India.

24 May 2018: Presentation of the Commonwealth Trade Review held in Geneva, Switzerland.

11 April 2018: The Commonwealth Prosperity Agenda: Towards a Common Future held in London, United Kingdom

18 December 2017: Reducing Risks, Vulnerabilities and Enhancing Resilience held in London, United Kingdom.

10 December 2017: Trade and Climate Change: Opportunities and Challenges for SIDs, LDCs and Sub-Saharan Africa held in Buenos Aires, Argentina in collaboration with UNCTAD.

29 -30 November 2017: Dhaka Retreat and Public Dialogue on Towards Eleventh Ministerial of the WTO Reclaiming the Development Agenda held in Dhaka, Bangladesh in collaboration with Centre for Policy Dialogue, Friedrich-Ebert-Stiftung Dhaka, Think Tank Initiative and LDC IV Monitor.

23-24 October 2017: Inaugural Meeting of the Commonwealth African Trade Negotiators Network held in Cape Town, South Africa.

Previous Ten Issues of the Commonwealth Trade Hot Topics Series

Issue 147:	The Commonwealth Games: A role for economic diplomacy in the Commonwealth?
Issue 146:	Post-MC11: Charting a way forward for LDCs, SVEs and SSA
Issue 145:	Enhancing access for LDC services to the UK post-Brexit
Issue 144:	WTO Ministerial Conference in Buenos Aires: What's at stake for small, least developed and sub-Saharan African countries?
Issue 143:	China's Belt and Road Initiative: Boosting trade opportunities for Sub-Saharan Africa
Issue 142:	Small Vulnerable Economies and Fisheries Subsidies Disciplines: Issues, Debates and Alliances
Issue 141:	Trade Policy Issues for a Regional Sugar Market in CARICOM
Issue 140:	Revitalising world trade: Issues and priorities for the Commonwealth
Issue 139:	Putting LDCs back on track: challenges in achieving the IPoA targets
Issue 138:	Staging Brexit at the WTO

The Commonwealth

Trade Hot Topics

ISSN: 2071-8527 (print) ISSN: 2071-9914 (online)

Commonwealth Trade Hot Topics is a peer-reviewed publication which provides concise and informative analyses on trade and related issues, prepared both by Commonwealth Secretariat and international experts.

Series editor: Teddy Soobramanien

Produced by Trade, Oceans and Natural Resources Directorate of the Commonwealth Secretariat

For further information or to contribute to the Series, please email y.soobramanien@commonwealth.int