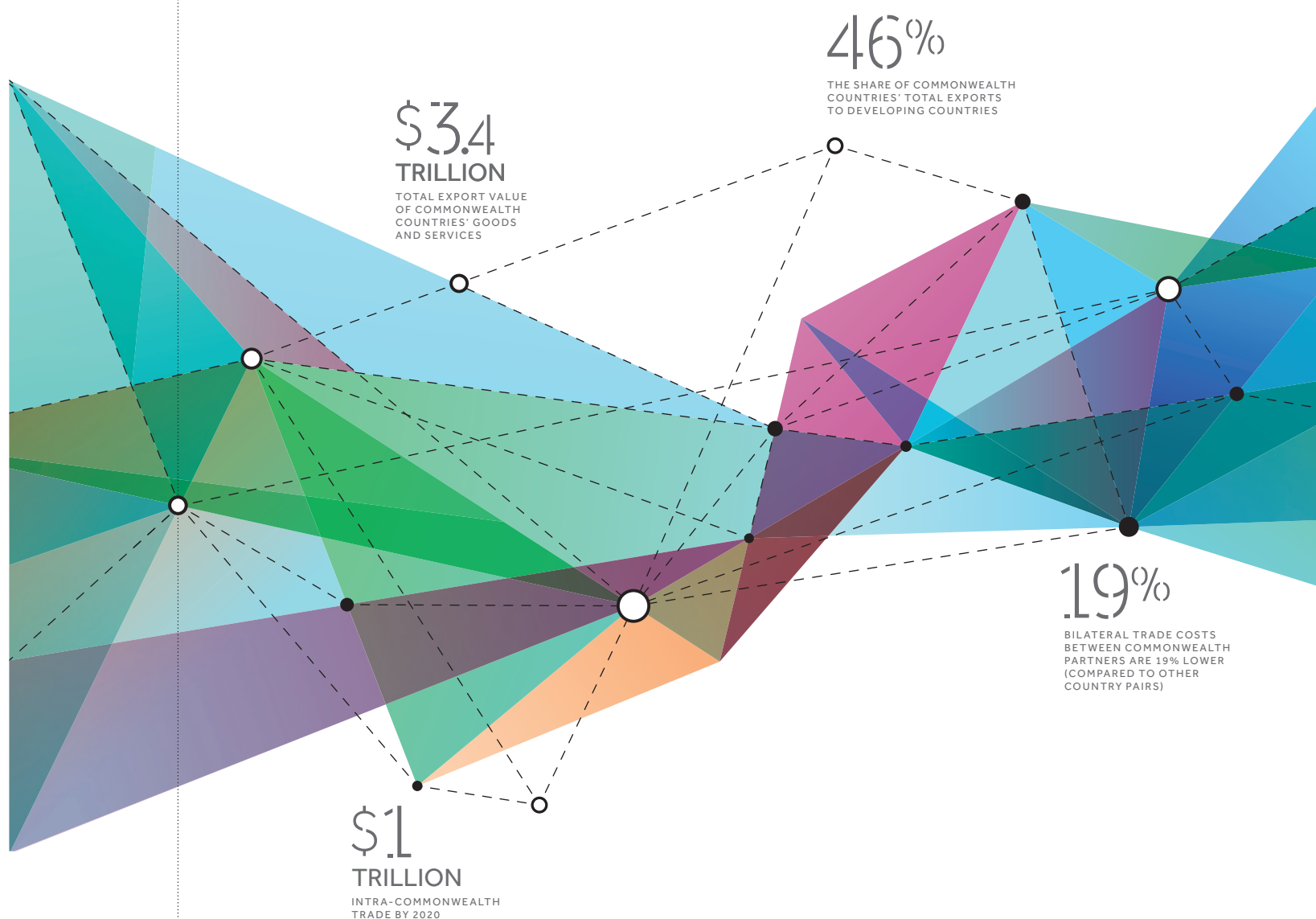


# The Commonwealth in the Unfolding Global Trade Landscape: Prospects • Priorities • Perspectives

## Executive Summary and Key Findings



# Structure of the Commonwealth Trade Review 2015

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# 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.

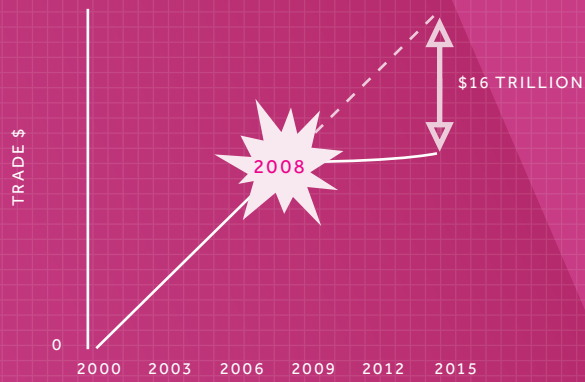
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# Key findings and way forward

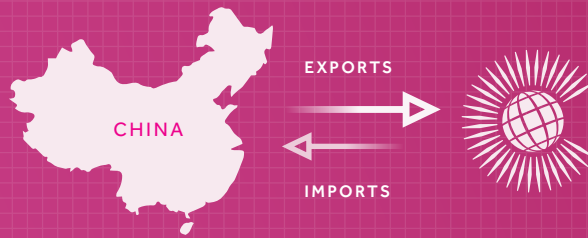
Commonwealth members fully recognise the value of international trade as a powerful means of achieving economic and social progress. With its diverse membership, the Commonwealth has consistently advocated for a global trading system that ensures effective participation of all countries, especially least-developed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

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.





## 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 billion, 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**

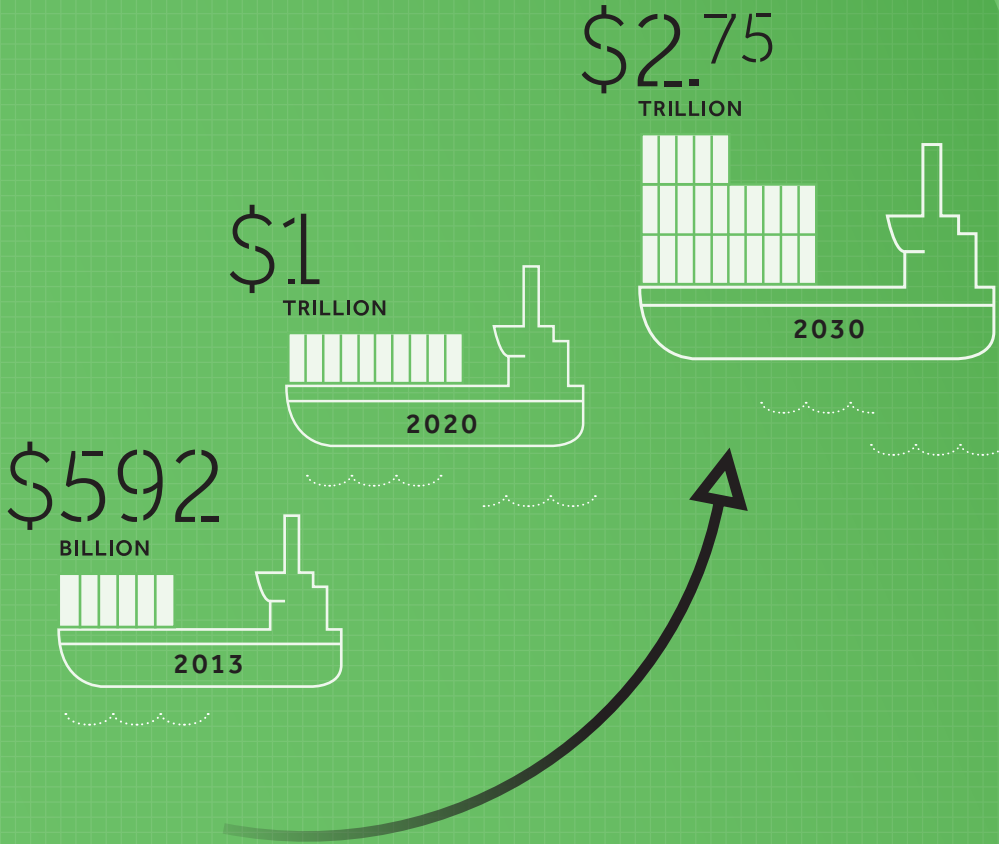
Climate change is one of the greatest challenges facing the international community, with important implications for trade, growth and sustainable development. The resultant economic, social and environmental consequences are likely to be most severe for the world's poorest and most vulnerable economies, 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**

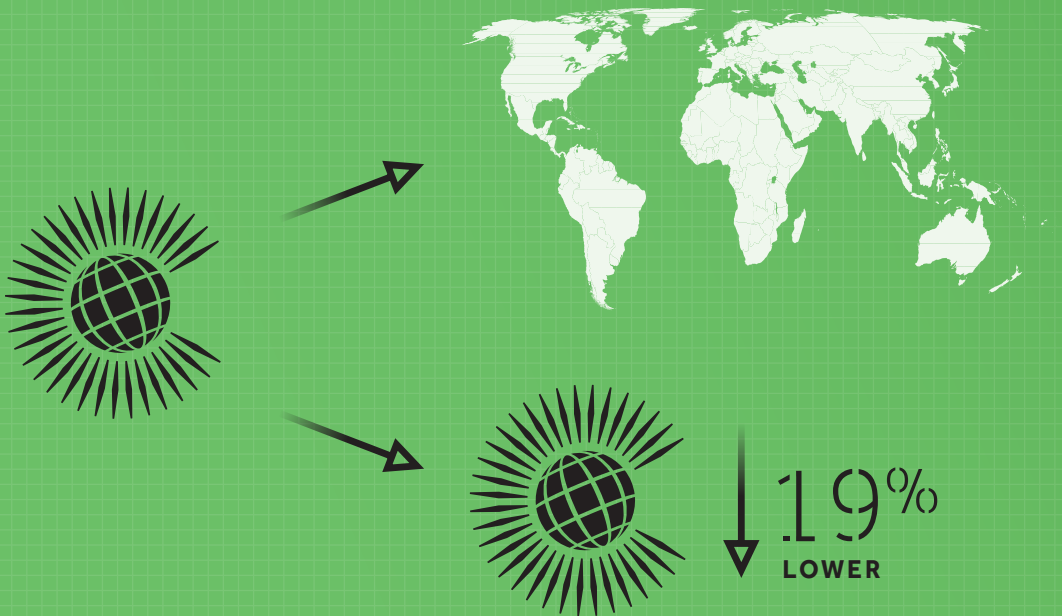
Securing a coherent, accountable and enabling global trading environment is of crucial importance to many Commonwealth developing members. The adoption of the SDGs and the upcoming climate change agreement both offer opportunities to strengthen the global trade architecture in ways that enhance the participation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



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



TRADE COSTS ARE 19% LOWER BETWEEN  
COMMONWEALTH MEMBERS.



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

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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:

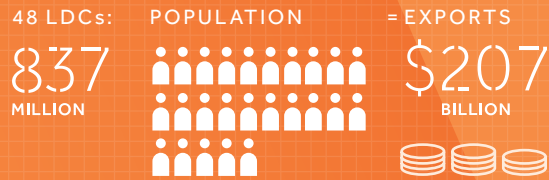
- Achieve improved trade logistics and facilitation measures;
- Make use of the scope of tariff rationalisation and tackle non-tariff barriers (NTBs);
- Promote deeper integration within their existing regional mechanisms and utilise the opportunities for developing regional supply chains in certain 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.



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.

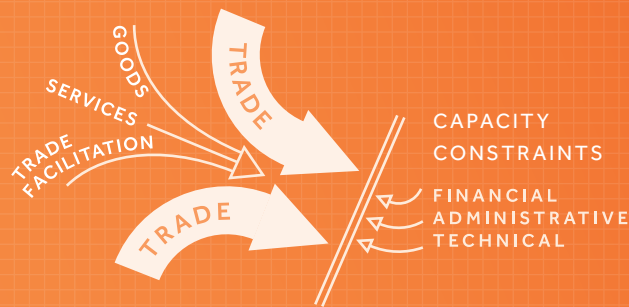
1 BUILDING PRODUCTIVE CAPACITY

BUILDING AND DIVERSIFYING PRODUCTIVE CAPACITY IS FUNDAMENTAL FOR TRADE SUCCESS.



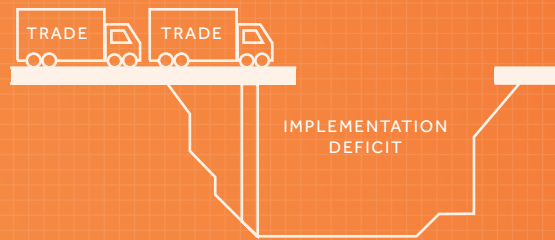
2 MANAGING TRADE POLICY AND NEGOTIATIONS

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



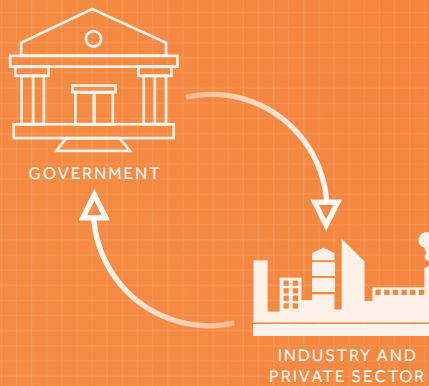
3 TACKLING IMPLEMENTATION DEFICIT

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.





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

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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.



**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.**

### 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.



**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.**



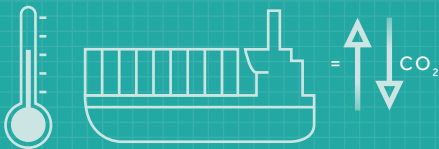
THE MULTILATERAL TRADING SYSTEM IS AT A CROSSROADS.



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



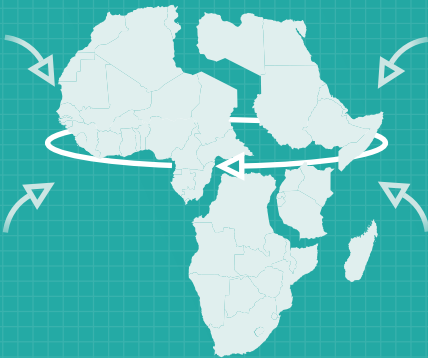
CLIMATE CHANGE IS ONE OF THE GREATEST CHALLENGES FACING THE INTERNATIONAL COMMUNITY.



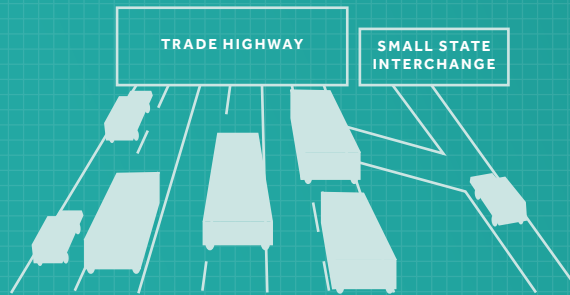
A GENDER-EQUITABLE APPROACH TO TRADE POLICY AND NEGOTIATIONS IS A PRIORITY.



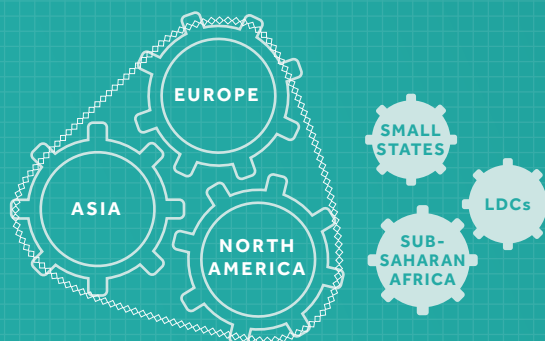
EFFECTIVE INTEGRATION IN AFRICA IS CRITICAL FOR TACKLING ITS DEVELOPMENT CHALLENGES.



SMALL STATES' TRADE CHALLENGES REQUIRE INNOVATIVE AND HETERODOX SOLUTIONS.



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



## 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.



**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.**

Commonwealth Secretariat  
Marlborough House  
Pall Mall  
London SW1Y 5HX  
United Kingdom

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