Commonwealth Trade Review 2018

Strengthening the Commonwealth Advantage

Trade, Technology, Governance

The Commonwealth

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Trade • Technology • Governance

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Introduction

The Commonwealth is an association of 53 independent countries, 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.

Foreword

Profound changes are taking place in the global trade landscape, including the technologies and governance frameworks that underpin and support contemporary trade in goods, services and the digital economy. This dynamic environment presents challenges, and also enormous opportunities to expand and deepen trade, investment and innovation among the 53 member countries of our growing Commonwealth family.

Strengthening the Commonwealth Advantage: Trade, Technology, Governance has been prepared ahead of the Commonwealth Heads of Government Meeting in April. Building on the 2015 Commonwealth Trade Review, this second review presents new empirical findings, rich insights and practical recommendations on how to boost the 'Commonwealth advantage' in trade and investment.

Deepening intra-Commonwealth trade and investment – and using these opportunities to empower women and young entrepreneurs – can help drive economic growth, create jobs and increase the prosperity of our citizens. These factors combine towards success in achieving the internationally agreed goals of the 2030 Agenda for Sustainable Development.

The theme for this year's Commonwealth Heads of Government Meeting is 'Towards a Common Future'. This review demonstrates that economic and governance ties in the Commonwealth, interwoven as they are, provide ready and robust foundation fabric from which collectively as a family of nations we can tailor a future that is fairer, more sustainable, more prosperous and more secure.

Trade and investment flows among our members are strong and continue to grow. Despite the unexpected contraction in world trade since our 2015 Trade Review, intra-Commonwealth trade in goods and services, and productive 'greenfield' investment, is growing fast and projected to exceed US$1 trillion by 2020.

Increasing use of new digital technologies, including greater digitisation, is already transforming trade-led sustainable development prospects for many of our poorest members. When combined with the impact of many shared inheritances, including the Common Law that provides the basis for international law, there is a Commonwealth effect and advantage that yields multiple tangible commercial benefits for traders and investors.

This publication is the product of drawing together an impressive range of inputs and expertise on international trade policy issues from throughout the Commonwealth. Our ambition through collective Commonwealth action is for our most capacity-constrained members, namely the least developed countries, small states and sub-Saharan African countries, to share with more economically developed nations in the prosperity and other fruits yielded by more open and inclusive trade and investment.

When the leaders of our member countries gather in London for the 2018 Commonwealth Heads of Government Meeting, with representatives of business and commerce alongside, we can expect to see significant new impetus added to driving forward the many opportunities for trade and investment analysed in this review. By seizing these opportunities, we will collectively be better placed to deepen and make more of our Commonwealth advantage for more inclusive prosperity – building together in ways that are fairer, more secure and more sustainable towards our common future.

The Right Hon Patricia Scotland QC

Secretary-General of the Commonwealth

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Acronyms and abbreviations

4IR	Fourth Industrial Revolution
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AfT	Aid for Trade
AI	artificial intelligence
APEC	Asia-Pacific Economic Cooperation
AU	African Union
B2B	business-to-business
B2C	business-to-consumer
BaTIS	Balance of Trade in Services Statistics
BPO	business process outsourcing
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CBR	Correspondent Banking Relation
CETA	Comprehensive Economic and Trade Agreement
CFTA	Continental Free Trade Agreement
CHOGM	Commonwealth Heads of Government Meeting
COMESA	Common Market for Eastern and Southern Africa
CSME	CARICOM Single Market and Economy
CSSTFF	Commonwealth Small States Trade Finance Facility
DDA	Doha Development Agenda
DFID	UK Department for International Development
DRE	distributed renewable energy
DSM	Dispute Settlement Mechanism
EAC	East African Community
EBA	Everything But Arms
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	foreign direct investment
fintech	financial technology
FTA	free trade agreement
G20	Group of Twenty

GATS	General Agreement on Trade in Services
GDP	gross domestic product
GPT	general purpose technology
GVC	global value chain
ICT	information and communication technology
IIA	international investment agreement
IoT	Internet of Things
IPR	intellectual property right
IPv4/6	Internet Protocol version 4/6
ITA	Information Technology Agreement
LDC	least developed country
LPI	Logistics Performance Index
MRTA	mega-regional trade agreement
MSME	micro-, small and medium-sized enterprise
NTM	non-tariff measure
OCCJR	Office of Civil and Criminal Justice Reform
OECD	Organisation for Economic Co-operation and Development
ODA	official development assistance
PACER	Pacific Agreement on Closer Economic Relations
PIC	Pacific island country
RTA	regional trade agreement
RCEP	Regional Comprehensive Economic Partnership
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAFTA	South Asian Free Trade Area
SDG	Sustainable Development Goal
SIDS	small island developing states
SSA	sub-Saharan Africa
SVE	small vulnerable economy
TFA	Trade Facilitation Agreement
TPP	Trans-Pacific Partnership
UN	United Nations
VCS	voluntary coupled support
WGI	World Governance Indicator
WTO	World Trade Organization

Overview

Fundamental changes are taking place in global trade with implications for all 53 Commonwealth members. The technology-driven Fourth Industrial Revolution is escalating the fragmentation of production processes; trade in intermediate goods and services is growing; and cross-border relationships between firms, governments and other stakeholders are shifting. All of these are contributing to fundamental – and probably irreversible – changes in the character and composition of global trade. These changes present risks, but there may also be new opportunities for more meaningful participation in world trade, particularly for the Commonwealth's developing country members.

The Commonwealth is not a formal trading bloc, yet the 53 Commonwealth members enjoy a formidable trade advantage without any formal collaboration. Historical ties, familiar administrative and legal systems, the use of largely one language, English, as the means of communicating with foreign partners, and large and dynamic diasporas have contributed to strong trade relationships among its members. The 2015 Commonwealth Trade Review found that Commonwealth countries, on average, tend to trade around 20 per cent more and generate 10 per cent more investment with each other than with non-member countries.

The 2018 Commonwealth Trade Review explores how Commonwealth members, individually and collectively, can strengthen this Commonwealth advantage in two ways: by harnessing new technologies, especially digitisation, to trigger new trade and investment opportunities; and by strengthening certain aspects of their domestic trade governance regime to reduce trade costs further.

There has never been a time of faster technological innovation than today, unleashing new opportunities for trade, investment and innovation among the 53 Commonwealth members.

Equally, there has never been a time potentially more disruptive to international trade. Technological transformation is already helping improve prospects for sustainable development across many Commonwealth member countries. It is also altering their competitive advantage by eroding limitations owing to geographic remoteness and distance, lack of connectivity and other constraints on their economic performance, output, growth and employment. Digitisation especially is enabling transformation and change in all economic sectors, including finance – from mobile money systems to advanced financial technology – energy, agriculture, the oceans economy and tourism, among many others.

At the same time, harnessing and sustaining new economic opportunities arising from a more connected Commonwealth requires strengthening the domestic institutions, rules and frameworks that govern trade: from goods and services to investment and intellectual property. There is an enormous historical fabric of institutional and governance ties that influence intra-Commonwealth commerce, trade and investment. Leveraging these linkages and bonds offers an immense comparative advantage and opportunity for Commonwealth members to further drive down intra-Commonwealth trade costs and to expand intra-Commonwealth trade and investment. Commonwealth members already enjoy an advantage when it comes to efficient contract enforcement, for instance, and strengthened regional integration and improvements in trade facilitation are likely to yield disproportionately high gains for Commonwealth members.

This publication considers the impact of the changing global trade landscape on Commonwealth members. It comprises four parts. Part 1 analyses major trends in global trade since the 2015 Commonwealth Trade Review and the performance of Commonwealth and intra-Commonwealth trade and investment. Given the importance of the Sustainable Development Goals, building productive capacity and creating jobs in developing countries, special attention is given to the role of greenfield investment, or new capital investment, in intra-Commonwealth investment flows. Part 2 examines the Commonwealth's role in promoting trade multilateralism and limiting trade protectionism, and highlights the deepening influence of regional economic integration across the Commonwealth. Part 3 discusses the critical impact of technology on global trade and highlights Commonwealth experiences in harnessing new technologies for trade. Part 4 considers the role of trade governance in influencing trade, investment and the costs of trade in the Commonwealth.

Executive summary

Highlights

An unprecedented slowdown in world trade growth has adversely affected all countries, including Commonwealth members. The combined total exports of goods and services of all Commonwealth members were US$3.1 trillion in 2016, compared with $3.5 trillion prior to the global downturn.

Trade among Commonwealth members – that is, intra-Commonwealth exports of goods and services – stood at US$560 billion in 2016, which is a slight reduction owing to the effects of the global trade slowdown. On the positive side, intra-Commonwealth trade as a proportion of global trade is rising and is now 20 per cent of Commonwealth countries' total trade with the world. This underlines the growing significance of Commonwealth markets for many member countries.

With world trade growth forecast to rebound in 2017–18, the Commonwealth appears on track to achieve US$700 billion in intra-Commonwealth trade in goods and services by 2020, while proactive policy measures can trigger even greater gains.

In terms of foreign direct investment (FDI) flows within the Commonwealth, productive investment – also known as greenfield investment – is increasingly important; it is also considered to have a more positive impact on economic development than other types of FDI flows, such as mergers and acquisitions.

Intra-Commonwealth greenfield investment comprises one-quarter of global greenfield FDI flows, and members are investing three times more in each other, creating more jobs, than the global average. Intra-Commonwealth greenfield investment is projected to reach almost US$1 trillion ($870 billion) by 2020, under certain conditions.

Greater digitisation in the Commonwealth can improve the prospects for trade-led sustainable development in many member countries, especially if measures are taken to address the gender disparity in digital access and connectivity. Universal broadband digitisation could add up to US$1 trillion to the gross domestic product of the Commonwealth.

Business-to-consumer e-commerce sales in Commonwealth countries were over USS$350 billion in 2015, representing 3.5 per cent of GDP. With an estimated 144 million online shoppers – or only 6 per cent of the Commonwealth's population – there is tremendous potential to increase digital trade, but this requires significant improvements in digitisation, regulation, logistics and infrastructure.

Trade governance arrangements in the Commonwealth contribute to the Commonwealth advantage in trade and investment. Contract enforcement is already more efficient among Commonwealth members, requiring 20 per cent less time than the world average. Improvements to certain aspects of trade governance, such as trade facilitation, could also boost Commonwealth countries' individual and collective trade performance. For example, a 10 per cent reduction in the costs incurred for a good to exit a country can increase intra-Commonwealth exports by 5 per cent.

Commonwealth members, collectively, are less protectionist than other countries, having applied almost 5 per cent fewer harmful trade-restrictive measures since the global crisis.

Regional trade agreements (RTAs) are an anchor for intra-Commonwealth trade, and improved trade governance at the regional level and the effective implementation of RTAs can help boost intra-Commonwealth trade and investment. Trade between Commonwealth countries is estimated to be more than three times higher when they belong to an existing RTA than when they do not.

Main policy messages

Fragmentation of global production processes, the increasing proportion of intermediate goods and services in total trade, and the transformation of the technologies, institutions and governance frameworks that underpin world trade are fundamentally transforming the global trade landscape. A steadily increasing proportion of global trade is now located in global and regional value chains.

These changes present challenges to Commonwealth trade competitiveness. But they also offer opportunities, particularly for Commonwealth small states, least developed countries (LDCs) and sub-Saharan African (SSA) countries, to overcome barriers to trade, including distance, concentration of production and exports, and diseconomies of scale. Addressing the factors that influence these, better understanding, adapting to and integrating within the emerging and complex 21st-century trade governance framework, and accessing the technologies that underpin and drive it are increasingly important priorities among all Commonwealth members.

The Commonwealth is a longstanding champion of free trade in a transparent, inclusive, fair and open rules-based multilateral trading system. This system continues to play a crucial supportive role for developing countries. Commonwealth developing countries can take advantage of several World Trade Organization-led initiatives, including implementation of the Trade Facilitation Agreement, especially by leveraging international support, and Aid for Trade initiatives, to strengthen their institutional, policy and governance capacities for trade. Many can take advantage of existing trade preferences, including LDC duty-free and quota-free exports and services waivers.

Commonwealth countries have achieved wide-ranging successes in harnessing the new digital and other technologies that underpin and drive contemporary global trade. Individually, these are helping transform access to and economic activity in many sectors crucial to their sustainable development, including finance – from mobile money payments to advanced financial technology (fintech) – renewable energy, agriculture, the oceans economy and tourism, among many others. Collectively they provide an opportunity and platform, through concerted Commonwealth action, to systematically harness technology to grow Commonwealth trade and investment. But much more is needed for Commonwealth developing countries to access these technologies and to close gaps, including addressing the gender disparities in digital access and connectivity.

Strengthening certain aspects of trade governance can help Commonwealth members expand exports, increase inward FDI and significantly reduce trade costs. Achieving this requires a new strategic approach to Commonwealth engagement with the institutions, networks and governance structures that underpin 21st-century trade. Recent simulation exercises suggest that several factors, including strengthened regional integration and improvements in customs administration and broader government effectiveness, are likely to yield disproportionately high gains for Commonwealth members.

Even without any formal arrangements, proactive initiatives by Commonwealth member countries can generate new commercial opportunities. For example, Commonwealth members could focus on achieving improved trade logistics and implementing trade facilitation measures; tackling non-tariff barriers; harnessing new technologies, including for e-commerce, fintech and transforming trade and productive capacities; utilising the opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; promoting a gender-responsive approach to the development of trade policy and to promote women's economic empowerment; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors, including micro-, small and medium-sized enterprises (MSMEs) and young entrepreneurs.

At a co-ordinated pan-Commonwealth level, member countries can strengthen dialogue and cooperation, and share country experiences and best practices on issues of physical, digital, regulatory, business-to-business and supply-side connectivity, all framed by the need for inclusive and sustainable trade to contribute towards the achievement of the Sustainable Development Goals.

Key findings and way forward

Part 1: Commonwealth trade and investment trends

Almost a decade after the global financial crisis in 2008–09, there are signs that the global economic recovery is gaining some momentum. The World Bank projected global gross domestic product (GDP) growth in 2017 at 2.7 per cent, increasing to 2.9 per cent by 2018; and the WTO has forecast a modest rebound in world trade growth in 2017, which is expected to remain solid at 3.2 per cent in 2018.

Despite the improved prospects for the world economy, including a more positive growth outlook for the Eurozone, there is still deep uncertainty about near-term economic and policy developments. The effects of an unprecedented global trade slowdown between 2012 and 2015 are also inescapable, with implications for the pace of growth of Commonwealth countries' trade with the world and intra-Commonwealth trade.

Commonwealth countries' trade with the world

Commonwealth trade performance has closely tracked changes in the global economic and trade landscape, with combined total exports of goods and services of Commonwealth members declining from US$3.5 trillion to $3.1 trillion between 2013 and 2015.

Consistently with a longer-term trend, the Commonwealth's share in global exports of goods and services declined marginally between 2013 and 2015, from 15 per cent to 14.8 per cent. This is owing to the growth of many large non-Commonwealth developing countries, including China. However, the average share of intra-Commonwealth trade in Commonwealth countries' total world trade has increased to almost 20 per cent in recent years.

Changing dynamics of Commonwealth trade

There have been several modest but perceptible shifts in the drivers of Commonwealth trade. Commonwealth developed economies still account for more than half of total exports, although their share is declining over time, while Commonwealth Asian members now account for 41.1 per cent of the combined total Commonwealth exports of goods and services in 2016.

Commonwealth developed countries were the largest exporters of services in 2016, valued at US$498 billion, or 54.5 per cent of total Commonwealth services exports. However, the relative share of Commonwealth Asian countries' services exports has risen significantly in recent years: from 25 per cent of total Commonwealth services trade in 2005 to 39.6 per cent ($361.6 billion) in 2016.

The Commonwealth Caribbean members are the most dependent on services exports. In 2016, all but two countries – Belize and Guyana – depended on the services sector for over 70 per cent of their exports.

Commonwealth export sophistication

Export sophistication serves as a catalyst for economic growth, as countries upscale to the production of more modern services and manufactured goods, in turn ensuring that higher income accrues from exports. Productivity also tends to increase, with countries not only producing and exporting new goods and services, but also increasing the share of value added in existing goods and services.

Applying a widely used measure of export sophistication to Commonwealth countries' merchandise exports reveals that Commonwealth members have improved their export sophistication in recent years. However, the Commonwealth still lags behind the sophistication of exports of large developing countries including China and developed countries such as the USA. This may be attributable to the fact that most Commonwealth developing countries are largely exporters of natural resources and primary goods; and the relatively low level of technological content embodied in these products.

Commonwealth trade with developing countries

Commonwealth countries' trade with developing countries has expanded significantly since 2000. The proportion of total Commonwealth merchandise imports from developing countries increased from 31 per cent in 2000 to 50 per cent in 2016.

Among developing countries, the fastest growth in Commonwealth trade has taken place with China. Between 2000 and 2016, China's total trade with the Commonwealth grew 8.4 times from US$33 billion to $277 billion. This is a remarkable increase, given that Commonwealth trade with the rest of the world increased by only 1.1 times in the same period.

State of intra-Commonwealth trade

In 2016, intra-Commonwealth trade in goods and services was approximately US$560 billion, a slight reduction owing to the effects of the global trade slowdown.

In absolute terms, Asian Commonwealth countries continue to drive intra-Commonwealth trade, accounting for 52 per cent of the total in 2016. Developing Commonwealth members now account for 29 per cent of intra-Commonwealth trade, up from just over one-quarter in 2015.

Travel makes up the largest proportion of intra-Commonwealth trade in services, followed by transportation and then other business, which is a catch-all for corporate services. India has moved into the top five providers of intra-Commonwealth services trade, surpassing Canada, along with Australia, Singapore and the UK.

Prospects for intra-Commonwealth trade

Using new data on bilateral services trade, and taking into consideration the prospects for world trade growth, new estimates are presented for intra-Commonwealth trade. Intra-Commonwealth trade is projected to reach US$700 billion by 2020. The adoption of proactive and pragmatic policy measures by member countries can further boost intra-Commonwealth trade.

Commonwealth FDI flows in a global context

Overall, global foreign direct investment (FDI) flows into the Commonwealth are increasing. In 2017, inflows were estimated at US$250 billion compared to almost $430 billion in 2016; the latter boost in FDI was due to three merger and acquisition megadeals in the UK. The accumulated FDI stock in the Commonwealth is now over $5 trillion.

The Commonwealth is a net recipient of global FDI flows. Commonwealth member countries held about one-fifth of global FDI stock in 2016; and this is considerably more than their share of global GDP, which is approximately 14 per cent. However, FDI inflows into the Commonwealth have been uneven: 10 members received more than 90 per cent of inflows between 2010 and 2016. The top five recipients were the UK, Singapore, Canada, Australia and India, in that order. These five countries accounted for nearly 80 per cent of total FDI flows into the Commonwealth.

In 2015, some US$3.6 trillion outward FDI stocks were registered in the Commonwealth and it was estimated that some 20 per cent of these stocks came from intra-Commonwealth investments – or around $720 billion.

Trends in productive investment in the Commonwealth

In terms of FDI flows within the Commonwealth, productive investment – also known as greenfield investment – is increasingly important. It is also considered to have a more positive impact on economic development than other types of FDI flows, such as mergers and acquisitions. It is therefore significant that intra-Commonwealth greenfield investment is projected to reach almost US$1 trillion ($870 billion) by 2020, under certain conditions.

Intra-Commonwealth investments have substantially greater job-creating impacts than investments attracted to the Commonwealth from other countries, generating 3.3 times more jobs.

In 2017, cumulative global greenfield FDI into Commonwealth countries was estimated at US$2.7 trillion, generating 7.2 million jobs; by comparison, cumulative intra-Commonwealth greenfield FDI was estimated at $700 billion, creating 1.4 million jobs through 10,000 projects.

Part 2: The Commonwealth in multilateral and regional trade

For most Commonwealth developing countries, and especially for small states, least developed countries (LDCs) and sub-Saharan African (SSA) countries, international trade is a crucial driver of growth, poverty reduction and employment. If these countries are to achieve the Sustainable Development Goals (SDGs), they need an enabling global trading environment that both supports and enhances their participation in world trade.

The Commonwealth and trade multilateralism

The Commonwealth has always championed free trade in a transparent, inclusive, fair and open rules-based multilateral trading system as the foundation for economic growth and sustainable development. The Commonwealth has emphasised this commitment through an extensive programme of trade policy support and technical assistance, consensus-building and global advocacy. Currently, 49 of the Commonwealth's 53 countries are members of the WTO, with The Bahamas undergoing its accession process.

Despite the challenges in concluding the Doha Development Agenda negotiations, there have been some important outcomes for the multilateral trading system; these include the Trade Facilitation Agreement (TFA), which most Commonwealth members of the WTO have now ratified, the broader WTO-led Aid for Trade (AfT) initiative, a work programme for small vulnerable economies and decisions in support of the world's poorest countries, including duty-free market access and services preferences.

The multilateral trading system plays a crucial role in ensuring transparency and predictability in world trade, especially given continuing post-crisis uncertainties and the rise in protectionist measures since 2008.

The Commonwealth and resisting protectionism

Trade protectionism still remains rife in the world economy, although G20 countries are now demonstrating greater restraint against adopting harmful measures. The Commonwealth continues to play a leading role in building awareness and understanding of the adverse developmental impacts of protectionism and the benefits of greater trade openness, especially to support the world's poorest nations.

Commonwealth members collectively have been less protectionist than others. Commonwealth countries, on average, tend to implement fewer harmful non-tariff measures towards each other and towards the rest of the world, having applied almost 5 per cent fewer harmful trade-restrictive measures since the global crisis. There is now also an increasing incidence of liberalising measures by Commonwealth member countries.

Poorer countries have been affected by global trade protectionism. The value of LDC exports could have been 31 per cent higher if post-crisis protectionism had been avoided. Removing the remaining trade restrictions against LDCs could help them move towards the SDG target of doubling their share of global exports by 2020.

The Commonwealth and an enabling global trading environment

Improving national and regional trade facilitation and logistics can reduce trade costs and boost intra-Commonwealth trade. At the end of February 2018, 42 of the 49 Commonwealth WTO members had ratified the WTO's TFA, which can potentially increase global merchandise exports by up to US$1 trillion per annum. Commonwealth developed countries – Australia, Canada, New Zealand and the UK – remain strong advocates and leading donors of AfT as a means of building supply-side capacity in developing countries.

Many Commonwealth members, including several SSA countries, have made important strides in simplifying customs procedures and upgrading infrastructure and systems to expedite goods trade. More than half of the Commonwealth members ranked on the World Bank's Logistics Performance Index improved their overall scores between 2014 and 2016.

The future of the multilateral trading system

Notwithstanding important instances of progress, trade multilateralism remains at a crossroads, facing multiple challenges, including delays in concluding the WTO's Doha Round, the proliferation of bilateral and regional trade deals and the emergence of several plurilateral initiatives such as the Environmental Goods Agreement and the Trade in Services Agreement. While the WTO's

Dispute Settlement Mechanism (DSM) appears to have worked, there are concerns about the proliferation of new cases (especially in new areas, such as renewable energy) and the capacity to manage these. And, while the DSM is formally available to all WTO members, accessing the system is challenging for small states and LDCs, given their human and financial resource limitations.

As WTO membership has increased to 164 members, there is an opportunity to take stock of these challenges, the pressure they place on the system and the ability of the system to manage these challenges. How to address new issues at the WTO – from e-commerce and micro-, small and medium-sized enterprises to the role of trade in climate change mitigation and adaptation – and the implications for the most capacity-constrained members needs better understanding and consideration.

Commonwealth members in regional trade and integration initiatives

Efforts to promote deeper regional integration have accelerated in some Commonwealth regions. In SSA, the 55 African Union Member States intend to launch a Continental Free Trade Agreement this year; the Pacific countries have concluded the Pacific Agreement on Closer Economic Relations Plus; and in Asia, there is some progress on the Regional Comprehensive Economic Partnership negotiations and practical measures to improve transport connectivity. Commonwealth members comprise more than half of the eleven parties to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which was signed in March. Post-Brexit bilateral trade deals involving the UK and interested Commonwealth members are also possible in the future, which would help boost intra-Commonwealth trade.

Although the 2030 Agenda is silent on the issue, regional integration can contribute in many ways to achieving the SDG targets. More effective regional cooperation and integration can facilitate the free movement of goods, services, investment and people; enable the competitive production of exports; and strengthen participation in and upgrading of regional and global value chains.

RTAs exert a strong effect on intra-Commonwealth trade, compared to the global average. Trade between Commonwealth members is more than three times higher when they belong to an existing regional trade agreement (RTA), highlighting the importance of effective regional integration for boosting the Commonwealth advantage.

Part 3: Harnessing digitisation to boost Commonwealth trade, investment and prosperity

Technology has historically served as a critical driver of globalisation, underpinning the rapid expansion in world trade and helping transform prospects for sustainable development across the Commonwealth.

New technologies are altering their competitive advantage, eroding constraints owing to lack of connectivity, remoteness, distance and other limitations in accessing global trade and financial markets. However, securing the gains from rapidly evolving new technologies while navigating their potential disruptive effects, including pressure on jobs, trade and economic activity, presents challenges for all Commonwealth member countries, as well as other countries.

Disruptive technologies, trade and jobs

Digitisation is enabling transformation and change in all economic sectors. Global market penetration of the core technologies underpinning digitisation – mobile telephony, internet usage and cloud computing – is occurring at unprecedented speed. The costs of these technologies are also declining rapidly at an estimated rate of over 10 per cent annually.

Mobile phones are now owned or used by two-thirds of the global population, or almost 5 billion people, with many countries in Africa 'leapfrogging' landline telephony to mobile connectivity with enormous developmental gains. Internet access has also accelerated rapidly. The number of internet users has more than tripled in a decade – from 1 billion in 2005 to an estimated 3.2 billion at the end of 2015. Yet several billion citizens in the world's poorest and most vulnerable developing countries have no access to the internet; and despite the potential opportunities unleashed by new technologies, there remains a significant gender disparity between women and men in mobile phone usage and access, digital connectivity and participation in the digital economy.

Technological innovation will be key to tackling unemployment, especially among young people, across the Commonwealth.

While automation may disrupt employment, the transition to a digitised economy also requires new investment, jobs and skills, especially in industries relevant to the Fourth Industrial Revolution. For many Commonwealth countries, beyond specific new technologies in agriculture, manufacturing and services, digitisation can potentially transform multiple sectors, using many business models.

Harnessing digitisation for Commonwealth trade and development

Many Commonwealth countries are demonstrating extraordinary success in identifying, adopting and implementing transformative new technologies to help improve productivity, competitiveness, growth and exports; to reduce costs of production and trade; and to accelerate sustainable development. However, if technology is to be truly transformative, it is imperative to bridge the gender gap in digital connectivity, mobile access and usage, and employment in information and communication technology sectors. Some of the more digitally connected Commonwealth member countries can offer valuable experiences and best practices in developing inclusive digital strategies.

Six countries accounted for around 85 per cent of estimated business-to-consumer e-commerce sales in the Commonwealth in 2015. Harnessing the potential gains from digital trade remains a challenge for many Commonwealth member countries, especially small states, LDCs and SSA countries. International partners can assist these countries to tackle the range of policy, regulatory, infrastructure, educational and cultural constraints that stifle their transition from analogue to digital economies.

Almost a half of Commonwealth citizens have no access to basic banking services, including 927 million citizens in Asia and almost 300 million in Africa. Several Commonwealth developed and developing countries are world leaders and pioneers in financial technology (fintech); and they are providing innovative solutions for greater financial inclusion and empowerment in many regions of the Commonwealth. Blockchain and digital currencies have been flagged as possible solutions to de-risking in the Caribbean and Pacific.

Digital technologies are also helping enhance and transform productive and trade capacities across the Commonwealth, including in energy, agriculture, the oceans economy and tourism. Productive capacity-building and improved trade performance in individual member countries will reinforce intra-Commonwealth trade and investment flows.

Overcoming technology gaps in the Commonwealth

Despite the opportunities from digital technology, evidence across the Commonwealth suggests that there remain significant gaps in access to critical enabling technologies in many member countries; and that there is wide divergence in the membership in access to and use of these technologies, including in internet usage and internet speed. Commonwealth members continue to face challenges in investing in internet infrastructure.

The Commonwealth has a lower level of internet access than the global average (per capita), as well as some of the largest offline populations (by country). On average, internet usage across all Commonwealth countries is 30 per cent, which is substantially lower than the global average of 50 per cent. This partly reflects the challenge of providing access in Commonwealth developing countries with large populations, especially rural and remote communities.

Closing the gaps: implications for growth and development

Results of several multicountry studies show that increased broadband penetration and increased internet speed contribute to increased growth and employment. Consequently, narrowing these technology gaps across the Commonwealth is a priority.

Applied to Commonwealth countries, if all member countries achieved a minimum broadband penetration of 50 per cent, equivalent to the global average, Commonwealth GDP could increase by between US$74 billion and $263 billion, with similar large increases in both direct and indirect jobs. Although no members have achieved it, reaching 100 per cent broadband penetration could increase Commonwealth GDP by between $377 billion and $1.1 trillion. However, the most pragmatic target would be for those Commonwealth member countries below the world average to commit to a doubling of their present broadband coverage, while countries above the world average would work towards full universal broadband provision. This would contribute around $600 billion to the GDP of the Commonwealth.

Part 4: Deepening the Commonwealth advantage through 21st-century trade governance

There is an enormous historical fabric of institutional and governance ties that influence intra-Commonwealth commerce, trade and investment. Strengthening certain aspects of trade governance – namely the institutional, policy, regulatory and other factors that influence the costs of trade, the efficiency of institutions that support trade and the effectiveness of the inter-relations among stakeholders participating in trade – can help further drive down intra-Commonwealth trade costs and expand intra-Commonwealth trade and investment.

The Commonwealth advantage and trade costs

While Commonwealth countries already enjoy a trade cost advantage, there are many further avenues to streamline trade governance and procedures, which would unleash enormous economic opportunities and could further strengthen this advantage. For example, on average, small states' trade costs are estimated to be at least 50 per cent higher than those for developing countries as a whole.

Multiple policy initiatives can be taken to reduce trade costs. They include, among others, improving logistics performance; improving the efficiency of land, air and sea transport; streamlining and simplifying international transit regimes and behind-the-border regulations; and strengthening trade facilitation.

Commonwealth member countries also have the benefit of a wide array of tools, toolkits and model laws to help strengthen the institutional and governance ties that connect membership and help facilitate intra-Commonwealth trade and investment.

Governance impacts on Commonwealth trade and investment

A model is used to estimate if an improvement in trade-related governance indicators leads to higher exports from and between Commonwealth member countries. Overall, Commonwealth countries' exports are positively correlated with FDI flows, intellectual property rights and trade facilitation variables, while efficient contract enforcement is important for intra-Commonwealth trade.

The model also presents evidence of the export-enhancing impact of RTA membership for Commonwealth members. Trade between Commonwealth members is more than three times higher when they belong to an existing RTA, highlighting the importance of effective regional integration for boosting the Commonwealth advantage.

Part 1: Commonwealth trade and investment trends

The Commonwealth is not a trading bloc, yet there exist tremendous opportunities to boost trade and investment between members. After an unprecedented slowdown in global trade growth affecting all economies, there are signs that both world trade and intra-Commonwealth trade are recovering. By adopting proactive policy measures, Commonwealth countries can further expand intra-Commonwealth trade and investment. Part 1 analyses the recent performance of Commonwealth world trade and trends in intra-Commonwealth flows of goods, services and investment.

There are five major findings with policy implications for Commonwealth member countries:

- Intra-Commonwealth exports of goods and services stood at US$560 billion in 2016, with a rising share of intra-Commonwealth trade in members' total world trade of approximately 20 per cent.
- Although the global trade slowdown adversely affected intra-Commonwealth trade, the Commonwealth is on track to achieve US$700 billion in trade by 2020, although proactive policy measures could trigger even greater gains.
- Global foreign direct investment (FDI) flows to the Commonwealth in general are on an increasing trend, with FDI stock now exceeding US$5 trillion.
- Intra-Commonwealth productive investment ('greenfield investment') is projected to reach almost US$1 trillion by 2020, under certain conditions.
- In 2017, cumulative intra-Commonwealth greenfield FDI was estimated at US$700 billion, creating 1.4 million jobs through 10,000 projects.

After the massive slump in world trade growth affecting most countries, intra-Commonwealth trade and greenfield investment is on track to exceed

US$1 trillion

by 2020...

while proactive policy measures can trigger even greater gains

SNAPSHOT OF CUMULATIVE INTRA-COMMONWEALTH GREENFIELD INVESTMENT, 2003–2016

Total intra-Commonwealth greenfield investment

$ $ $ $ $ $ $

US$700 billion

Top source country

UNITED KINGDOM

Top destination country

INDIA

Total number of projects

10,000

Total jobs created

1.4 million

Source: Data from fDi Markets, Financial Times

1.1 Introduction

Almost a decade after the global financial crisis in 2008–09, there are signs that the global economic recovery is gaining some momentum. The World Bank projected global gross domestic product (GDP) growth in 2017 at 2.7 per cent, increasing to 2.9 per cent by 2018 (World Bank, 2017b); and the World Trade Organization (WTO) has forecast a modest rebound in world trade growth in 2017, which is expected to remain solid at 3.2 per cent in 2018 (WTO, 2018).

The effects of an unprecedented global trade slowdown between 2012 and 2015 are, however, inescapable, with implications for the pace of growth of Commonwealth trade with the world and intra-Commonwealth trade. World GDP growth in 2016 recorded its lowest level since the crisis. The pace of growth in world trade has also been sluggish, with world trade volumes growing a mere 1.4 per cent on average between 2010 and 2015. The developing world continues to power global economic growth; and this trend has accelerated especially in the post-crisis era. However, despite the improved prospects for the world economy, including a more positive growth outlook for the Eurozone, there is still deep uncertainty about near-term economic and policy developments. Since the global crisis, there has also been a progressive weakening in the hitherto longstanding relationship between trade and GDP, making the prognosis for recovery uncertain.

Part 1 of the *Commonwealth Trade Review 2018* analyses the recent performance of Commonwealth world trade and trends in intra-Commonwealth flows of goods, services and investment.

1.2 The state of Commonwealth countries' trade with the world

1.2.1 Volumes and trends

Despite historical trends, both global economic growth and global trade growth have decelerated in recent years. The pace of global trade slowed substantially between 2015 and 2016, with growth in merchandise trade volumes declining from 2.8 per cent to 1.6 per cent. This marked the third consecutive year in which trade volumes remained below 3 per cent (WTO, 2017a).

The Commonwealth's trade performance has closely tracked these changes in the world economy. **The combined total exports of goods and services of Commonwealth countries rebounded from the global financial crisis of 2008–09 and grew significantly between 2010 and 2014 before being hit by the global trade slowdown that occurred in 2012–15.**

The global trade slowdown, coupled with a reduction in the US dollar value of international trade flows,[1] has affected the performance of all countries in the world, including the Commonwealth. Because of the global trade slowdown, the value of total Commonwealth trade declined by US$200 billion in terms of the average annual value 2014–16 compared with 2011–13. **This means the combined total exports of goods and services of all Commonwealth members was $3.1 trillion in 2016, compared with $3.5 trillion prior to the global slowdown.**

The Commonwealth's share of global exports of goods and services declined marginally between 2013 and 2015, from 15 per cent to 14.8 per cent. This is consistent with a longer-term trend, which has seen the Commonwealth's share of world exports consistently, although marginally, decline since 2005.

The Commonwealth's share of global trade is declining because of the growth of many large non-Commonwealth developing countries, including China. The evidence suggests that some Commonwealth members will continue to face challenges in maintaining their global competitiveness. Within this context, closer scrutiny of intra-Commonwealth trade is required. This is because the average share of intra-Commonwealth trade in Commonwealth countries' total world trade has increased to almost 20 per cent in recent years (Figure 1.1).

1.2.2 Changing dynamics of Commonwealth trade

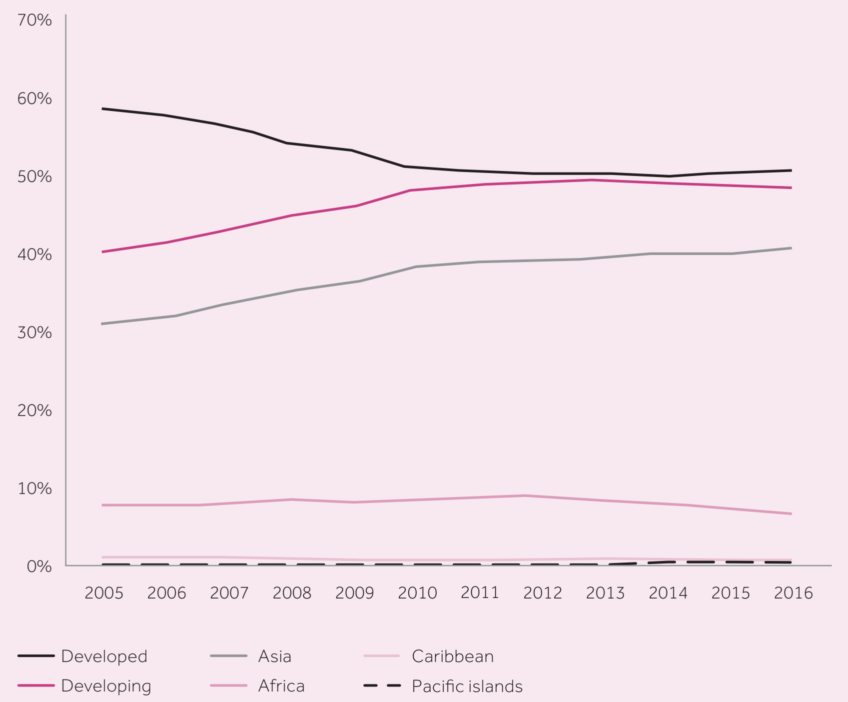
In tandem with changes in the size and relative proportion of the Commonwealth's trade with the world, there have been several modest but perceptible shifts in the drivers of Commonwealth trade since 2005 (Figure 1.2).

Commonwealth developed economies still account for more than half of total exports, although their share is declining over time. The UK is the biggest exporter of goods and services; its combined exports were US$734 billion in 2016, representing a quarter of all Commonwealth exports. The Commonwealth's second largest exporter, Canada, exported $474 billion in 2016, comprising 16 per cent of Commonwealth exports. Commonwealth developed countries' share of total Commonwealth exports has declined, particularly between 2005, when their share

FIGURE 1.1
RELATIVE SIGNIFICANCE OF INTRA-COMMONWEALTH TRADE IN COUNTRIES' TOTAL TRADE, 1994–2018 (%)

Source: Commonwealth Secretariat (calculated from UNCTADStat data)

FIGURE 1.2
CONTRIBUTION OF VARIOUS COUNTRY GROUPS TO OVERALL COMMONWEALTH TRADE, 2005–16 (%)



Note: Derived from individual-country data that are in many cases UNCTAD estimates. This is the case for almost all countries for 2016.
Source: Commonwealth Secretariat (calculated from UNCTADStat data)

was 59.3 per cent, and 2010 (51.4 per cent), and has subsequently remained just above half the total of Commonwealth exports.

Commonwealth Asian members – Bangladesh, Brunei Darussalam, India, Malaysia, Pakistan, Singapore and Sri Lanka – accounted for 41.1 per cent of the combined total Commonwealth exports of goods and services in 2016. This represents a significant increase from 31.4 per cent in 2005. India, Singapore and Malaysia are the dominant contributors, accounting for 38 per cent of total Commonwealth exports and 93 per cent of Commonwealth Asian exports.

Among the Commonwealth's members in sub-Saharan Africa (SSA), South Africa and Nigeria exported 62 per cent of goods and services, or 4 per cent of total Commonwealth exports, in 2016. However, the share of these two countries has progressively declined over time, from 76 per cent of Commonwealth SSA exports and 6 per cent of total Commonwealth exports, respectively, in 2005.

Other SSA members have increased their regional share over the same period. This includes Ghana, which more than trebled its share of the region's exports, from 2.4 per cent (2005) to 8.1 per cent in 2016; Tanzania, whose share more than doubled, from 1.8 per cent to 4.9 per cent; and Kenya, whose regional share increased from 3.3 per cent to 5 per cent between 2005 and 2016.

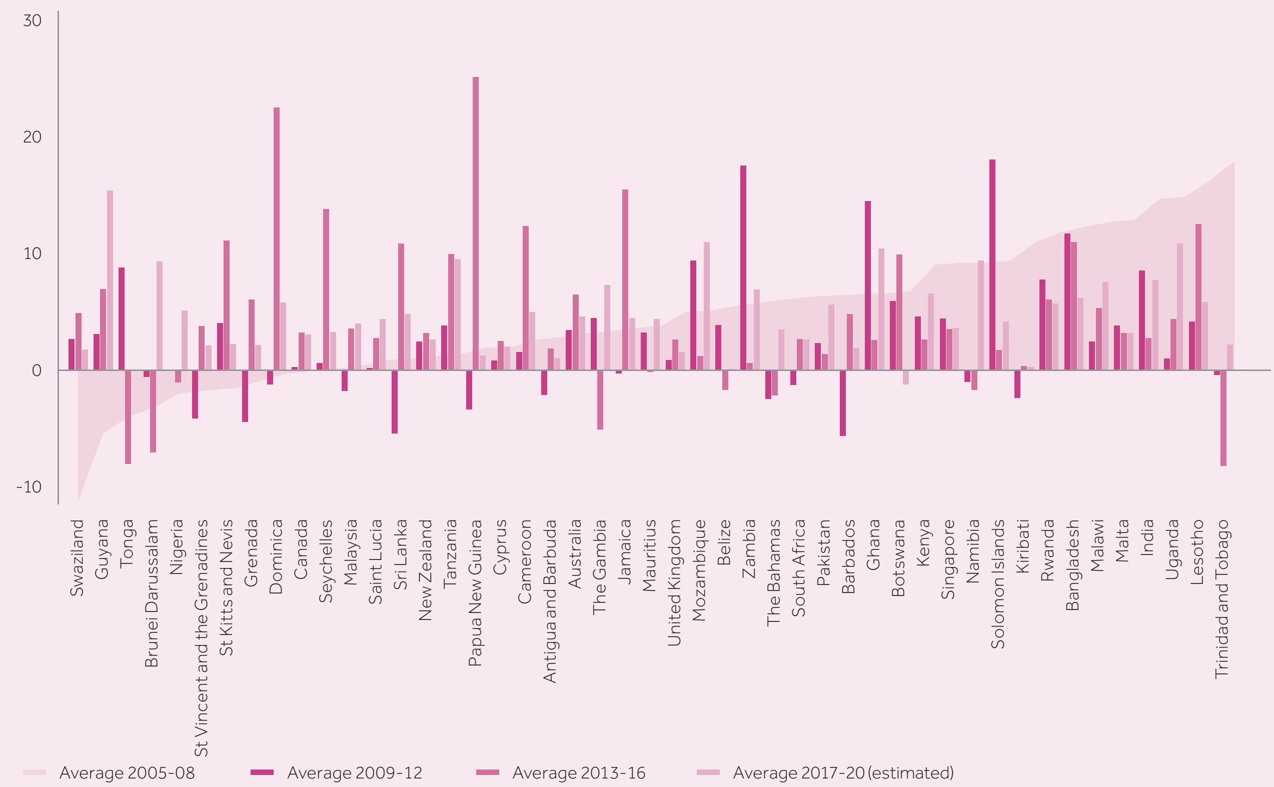
Commonwealth SSA countries, particularly Nigeria and South Africa, are highly dependent on merchandise exports, which comprised 90 per cent and 84 per cent, respectively, of their export baskets in 2016. Merchandise exports also comprised over 90 per cent of the total for Lesotho, Malawi and Swaziland.

Commonwealth developed countries were the largest exporters of services in 2016, valued at US$498 billion, or 54.5 per cent of total Commonwealth services exports. However, the relative share of Commonwealth Asian countries' services exports has risen significantly in recent years: from 25 per cent of total Commonwealth services trade in 2005 to 39.6 per cent ($361.6 billion) in 2016. The largest Commonwealth exporters of services in 2016 were the UK ($327.1 billion, or 45 per cent of its total exports), India ($161.8 billion, or 38 per cent of its total exports) and Singapore ($149.6 billion, or 29 per cent of total exports). SSA members exported just $41 billion in services, contributing 4.5 per cent of total Commonwealth services exports.

The Commonwealth Caribbean members are the most dependent on services exports. In 2016, all but two countries – Belize and Guyana – depended on the services sector for over 70 per cent of their exports. Commonwealth Pacific members have similarly high proportions, with the exception of Papua New Guinea, whose exports in 2016 comprised almost entirely merchandise trade. For four countries, services exports exceeded 70 per cent of total exports: Tuvalu (94 per cent), Vanuatu (88 per cent),

FIGURE 1.3

GROWTH IN EXPORTS OF GOODS AND SERVICES OF INDIVIDUAL COMMONWEALTH COUNTRIES, 2005–08, 2009–12, 2013–16 AND 2017–20 (PROJECTED) (%)



Note: These data are for percent change in volume of exports of goods and services. Sierra Leone is not included owing to extremely high variations in growth rates. Information is not available for Fiji, Nauru, Samoa, Tuvalu and Vanuatu.
Source: Commonwealth Secretariat (calculated from IMF World Economic Outlook data October 2017)

Tonga (78 per cent) and Samoa (74 per cent). Figure 1.3 presents growth in exports of goods and services for individual Commonwealth countries.

Overwhelmingly, it is the developed economies that account for most of the Commonwealth' s trade in services, followed by Asia, as shown by Table 1.1. Services exports have been stronger and more resilient, with an observed rebound since the global trade slowdown. In comparison with the structure of world trade, where services exports constituted 23.6 per cent of global exports in 2016, the Commonwealth has a substantially higher orientation towards services trade, at around 30 per cent.

Small states, which constitute almost two-thirds of the Commonwealth's membership, have a steadily declining share of global trade. Small states are among the most open economies in the world, and their average export-to-GDP ratio remains high at 50 per cent, whereas the global average is around 30 per cent.[2] Small states depend crucially on international trade for growth, poverty reduction and employment. Yet their relative trade openness has made them particularly vulnerable to trade and other shocks. Their trade costs are estimated to be on average at least 50 per cent higher than those for developing countries as a whole (Razzaque and Keane, 2015). Their competitiveness has been affected by disproportionately large preference erosion owing to multilateral and regional trade liberalisation initiatives, particularly since these countries typically have highly concentrated exports.

Commonwealth Caribbean small states' share of global trade in goods and services declined from 0.5 per cent in 1980 to 0.18 per cent in 2005 and has declined further to around 0.1 per cent in recent years. The share of Pacific small states' total exports has been below 0.1 per cent of global exports since 1980, and in a narrow band of between 0.4 per cent and 0.6 per cent of global exports since 2005.

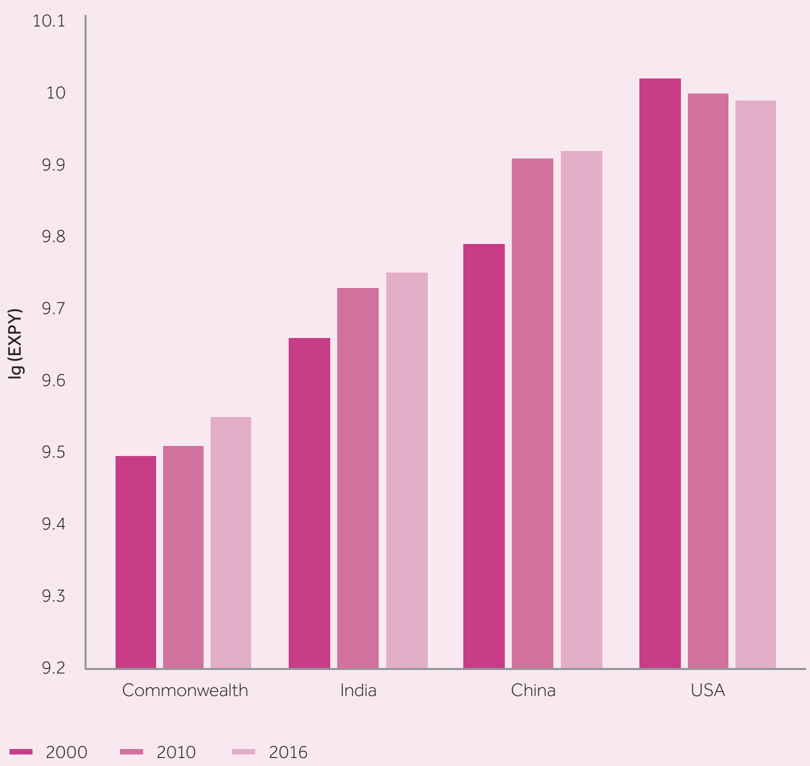
TABLE 1.1
SHARE OF GOODS AND SERVICES EXPORTS BY COMMONWEALTH REGION, 2016 (%)

Region	Percentage		US$ million	
	Goods	*Services*	*Goods*	*Services*
Commonwealth total	**70**	**30**	**2,091,018**	**916,034**
Developed	67	33	1,031,020	498,112
Africa	80	20	170,226	41,528
Asia	70	30	865,911	364,439
Caribbean	59	41	13,991	9,917
Pacific	83	17	9,870	2,037

Note: Six countries have no 2016 data (Cameroon, Guyana, Kiribati, Nauru, Sierra Leone, Trinidad and Tobago).

Source: Commonwealth Secretariat (calculated from UNCTADStat data)

FIGURE 1.4
EXPORT SOPHISTICATION WITHIN THE COMMONWEALTH, 2000, 2010 AND 2016



Source: Commonwealth Secretariat (calculations using data from WITS)

1.2.3 Commonwealth export sophistication

Export sophistication can be a catalyst for economic growth, as countries upscale to produce more modern services and manufactured goods, which ensure that higher income accrues from exports. However, export sophistication requires a conducive macroeconomic policy environment that supports human capital development, among other determining factors (see Anand et al., 2012).

Measures of export sophistication seek to identify and rank the implied productivity of a country's exports, by broadly capturing the collective factors that determine a country's export basket. A quantitative index of export sophistication (abbreviated to EXPY), developed by Hausmann, Hwang and Rodrik (2007), ranks the sophistication of traded goods based on the average income of the basket of exports produced by each country. It therefore measures relative productivity by assuming that higher average incomes generated reflect a greater sophistication of exports.[3]

Applying this measure to Commonwealth countries' merchandise exports reveals that Commonwealth members have improved their export sophistication in recent years, although the absolute value is below that of other large developing countries including China and developed countries such as the USA (Figure 1.4). The focus of the export sophistication approach is on the income generated by trade, with an assumption that knowledge and technology spillovers are embedded within the more sophisticated products.

For many Commonwealth developing countries, low levels of export sophistication may be attributable to the fact that most Commonwealth developing countries are largely exporters of natural resources and primary goods; and the relatively low level of technological content embodied in these products. However, in view of recent trends in Commonwealth export sophistication, which can also be indicative of export diversification processes, a deeper appreciation of 21st-century trade, typically organised within global value chains (GVCs) and the variables that influence productive engagement, is required (Box 1.1).

The intensification of GVC mechanisms has meant that 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 (WTO, 2014). There are opportunities for Commonwealth members to expand their trade and value added by taking advantage of existing trade fragmentation processes, and strategic initiatives to benefit from future fragmentation processes. By participating in international production networks, countries that have hitherto been unable to do so can also gain access to new technologies and new sources of foreign direct investment (FDI).

In relation to future fragmentation processes, the major shifts anticipated within global trade are increasingly within the services sectors. Several interlinked factors are contributing to the rising influence of services in world trade; these include the transition from analogue to digital economies, including greater digitisation and digital trade, which largely comprises data flows (Part 3); the growing intensity of services trade within economies (or 'servicification'); an increase in the share of trade in intermediate goods and services within global trade; and the complementarity of trade and investment. The rise of GVCs has demonstrated that goods trade and services trade are deeply interconnected.

Recent advances in the measurement of trade in services using the same approach as used to measure GDP –

BOX 1.1

COMMONWEALTH COUNTRIES' TRADE IN GLOBAL VALUE CHAINS

GVCs are not a new phenomenon, but they have increasingly been used to describe and explain trade. A value chain is defined as the full range of activities that are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers and final disposal after use.

An increasing proportion of global trade is conducted through GVCs, which are increasingly coordinated by large international firms with operations that span multiple jurisdictions. Often these production networks have a strong regional dimension. The spread of these production networks can offer new trade opportunities (Keane and Baimbill-Johnson, 2017).

A gravity model was used to explore the influence of variables on Commonwealth members' current trade in GVCs, as indicated by trade in parts and components within dominant subsectors, compared with the global average. The findings of the gravity model are contained in the annex to this chapter and include the following:

- Distance exerts an even greater penalty on Commonwealth GVC exports than the global average. This means there are major gains to be reaped by enhancing connectivity and reducing trade costs for Commonwealth member countries.
- Connectivity improvements induced by improvements in international telecommunication have the potential to increase Commonwealth trade in GVCs by almost four times the global average.
- There are major gains from improvements in logistics performance indices in *destination*, rather than *origin*, markets for Commonwealth members.

The significance of these variables for Commonwealth trade and investment flows are further explored in Parts 3 (technology) and 4 (governance).

Source: Adapted from Sturgeon et al. (2017) and Farole (2017) and hence moving away from the uncomfortable juxtaposition of gross numbers for trade and value-added estimates of GDP (Low, 2016) – now allow much clearer estimation of the relative contribution of services to overall trade. Together with accelerating recognition of the untapped advantages from trade in services for growth, trade and investment, and the proliferation of new opportunities to develop services exports to support existing and future GVC fragmentation processes, these factors are all rapidly transforming appreciation of the contribution made to total trade by services.

However, despite these advancements, data limitations and capacity constraints severely limit opportunities for Commonwealth developing countries and small states to leverage emerging opportunities to accelerate trade in services. Data limitations prevail across all the modes of supply included in the General Agreement on Trade in Services (GATS), especially Mode 1 (cross-border trade, particularly digital trade) and Mode 3 (commercial presence), presenting particularly acute limitations for African countries in disaggregating data at sectoral level. Least developed countries (LDCs), which currently comprise 14 of the Commonwealth's 52 member countries, also face particular challenges (Box 1.2).

BOX 1.2

LDCS' SERVICES TRADE

Approximately one-fifth of Commonwealth members are LDCs. Because of this, the Commonwealth Secretariat is a partner of the LDC IV Monitor. This group comprises eight academic institutions and think-tanks. It monitors the progress of the LDCs against the commitments made by the international community, as well as by LDCs themselves, under the Istanbul Programme of Action.

In the LDC IV Monitor report *Achieving the Istanbul Programme of Action by 2020: Tracking Progress, Accelerating Transformations*, analysis of recent export performance suggests the services export basket of LDCs has become more concentrated over time. While travel (tourism) is the main source of services revenue and registers a net surplus, Mode 4 (presence of natural persons) is an important source of net exports but cannot be satisfactorily measured. The value of LDCs' participation in royalties and licence fees remains negligible and in some cases has declined. This may be a reason for concern, since many island LDCs often rely on foreign fishing vessels. 'Other commercial services' (e.g. communication, construction) provided by the LDCs have progressively shrunk (WTO, 2015).

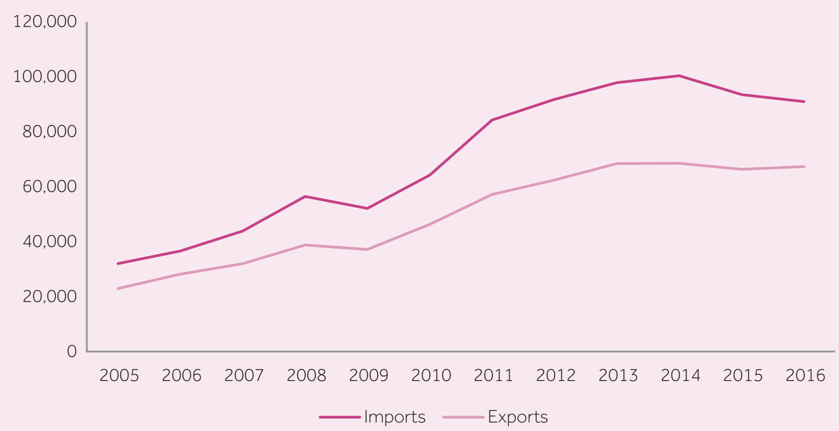
Overall, the LDCs' services trade deficit has increased in recent years.

The available evidence suggests increasing specialisation within services sectors at low levels of income. As emphasised by Rodrik (2015), the profound implications of these trends for the achievement of structural economic transformation remain underexplored within the literature. In addition, there is no historical precedent. Although this pattern is now becoming more apparent among LDCs, it has been the case for some Commonwealth small states for several decades.[4]

Source: LDC IV Monitor 2016

FIGURE 1.5

COMMONWEALTH LDC TRADE IN GOODS AND SERVICES, 2005–16, US$ MILLION



Source: Commonwealth Secretariat (calculated from UNCTADStat Goods and Services (BPM6))

1.2.4 Commonwealth trade with developing countries

South–South trade involving Commonwealth members continues to grow. Commonwealth countries' merchandise trade with developing countries has expanded significantly since 2000. The share of total Commonwealth merchandise imports from developing countries grew from 31 per cent of total imports in 2000 to 50 per cent in 2016.

Among developing countries, the fastest growth in Commonwealth trade has taken place with China. Between 2000 and 2016, China's total trade with the Commonwealth grew 8.4 times from US$33 billion to $277 billion. This is a remarkable increase, given that Commonwealth trade with the rest of the world increased only 1.1 times in the same period.

Between 2000 and 2016, Commonwealth Asian countries' imports from China increased from 4.8 per cent to 17.6 per cent of total imports, and exports to China increased from 3.2 per cent to 9.2 per cent of total exports. Similar rapid increases in Commonwealth trade with China have occurred among Commonwealth members in SSA, the Caribbean and the Pacific (Table 1.2). However, only Pacific members appear to have taken greater advantage of growing trade relations with China, by expanding both imports and exports, assisted by these countries' much more favourable geographical position in relation to emergent Asian countries, including China.

TABLE 1.2
COMMONWEALTH COUNTRIES' TRADE WITH CHINA, 2000 AND 2016 (%)

Commonwealth region	Imports from China (% of total imports)		Exports to China (% of total exports)	
	2000	2016	2000	2016
Developed	4.2	12.6	1.3	9.8
Developing	4.5	17.4	2.8	8.8
Africa	3.8	18.1	1.2	6.9
Asia	4.8	17.6	3.2	9.2
Caribbean	1.0	5.9	0.1	1.0
Pacific	1.8	12.4	6.5	16.4
Commonwealth total	4.3	14.9	1.9	9.3

Source: Commonwealth Secretariat (calculated using UNCTADStat data)

In 2016, the largest Commonwealth exporters to China by volume comprised Australia, Singapore, the UK, India, Canada and Malaysia. By value, India's total imports from China, aggregating US$62 billion, represented the largest among Commonwealth countries. Australia ranked as the largest Commonwealth exporter to China, with exports aggregating $60 billion. Singapore and Malaysia also recorded large exports to China, of $42 billion and $24 billion, respectively.

Australia is the only developed Commonwealth country whose share of exports, at 31.6 per cent, exceeds its share of imports from China, at 23.4 per cent. Among Commonwealth developing countries, the relative shares of imports from and exports to China differ widely. Nigeria, for example, imported a substantial 25.1 per cent of its total imports from China in 2016, but exported only 2.8 per cent of its total exports to China. Solomon Islands imported 24.3 per cent of its total imports from China while exporting 61.6 per cent of its total exports to China.

1.3 The state of intra-Commonwealth trade

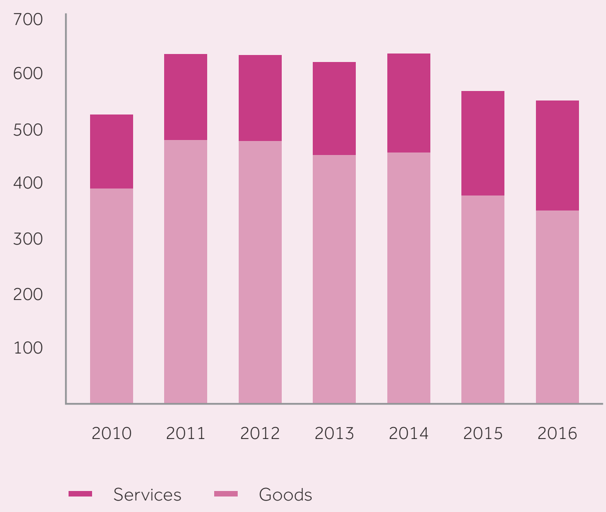
Although world trade growth has resumed, the global trade slowdown affected intra-Commonwealth trade performance between 2013 and 2016.

Intra-Commonwealth trade in goods and services in 2016 was around US$560 billion, a slight reduction from previous years (Figure 1.5).

Intra-Commonwealth trade accounts for a large proportion of the merchandise trade of small states in Southern Africa, especially the Southern African Customs Union (SACU) members, the Pacific and the Caribbean (Figure 1.7). Overall, Commonwealth trade accounts for between 6 and 65 per cent of members' total trade in goods.

In absolute terms, however, Asian Commonwealth countries continue to drive intra-Commonwealth trade in goods, accounting for 52 per cent of the total in 2016 (Table 1.3). Developing Commonwealth members now account for 29 per cent of intra-Commonwealth trade, up from just over one-quarter in 2015. At the individual country level, in 2016 Asian Commonwealth members, including Singapore, Malaysia and India, recorded the largest shares of intra-Commonwealth exports, comprising 19.4 per cent, 17.7 per cent and 14.2 per cent, respectively.

FIGURE 1.6
INTRA-COMMONWEALTH TRADE IN GOODS AND SERVICES, 2010–16 (US$ MILLION)



Source: Commonwealth Secretariat (calculated using UNCTADStat and projections derived from OECD-WTO BaTIS data)

Australia and the UK also contributed 10 per cent and 9.6 per cent of total intra-Commonwealth exports (Figure 1.8). South Africa's intra-Commonwealth export share of 7.3 per cent is the largest from an SSA member country. The UK, India and Singapore constitute by far the largest importers from within the Commonwealth. A large proportion of imports into Australia, Malaysia and Canada are also undertaken on an intra-Commonwealth basis. SSA Commonwealth members have maintained their share of intra-Commonwealth trade at around 16 per cent in recent years. Similarly, the Caribbean and Pacific countries have also maintained their shares at around 1 per cent each.

In relation to the composition of intra-Commonwealth services trade, travel comprises the largest share of intra-Commonwealth trade in services, followed by transportation and then other business, which is a catch-all for corporate services (Figure 1.9).

In relation to intra-Commonwealth services exports, expressed as a percentage of total world trade, the highest proportions are accounted for by the Pacific (Figure 1.10). The UK's share of intra-Commonwealth services exports within the categories analysed (as indicated in Figure 1.6) is around the same as that of Canada: approximately 11.5 per cent of its total services exports are destined for Commonwealth trade partners. Intra-Commonwealth services trade accounts for between 11 and 50 per cent of total services exports by member countries.

1.4 Prospects for intra-Commonwealth trade

Since the 2015 Commonwealth Trade Review, new sources of bilateral services trade data have become available. The Organisation for Economic Co-operation and Development (OECD) and WTO have developed an experimental data set on bilateral services trade flows. Despite certain gaps, this database appears to be the best possible source of information. This OECD-WTO BaTIS data set is used to provide an updated estimate of intra-Commonwealth trade in services. Because the new data set contains information only up to 2012 a figure for 2016 is derived based on previous growth rates (while taking into account the global trade slowdown between 2012 and 2016).

However, a major challenge is that, in recent times, particularly during 2015 and 2016, the world economy has seen an unprecedented decline in global trade growth. An analysis of the growth rate of trade in goods and services from UNCTADStat shows that Commonwealth global trade declined considerably. However, it was not only Commonwealth global trade that was affected; during 2015 and 2016, global trade in goods and services fell by US$3.1 trillion. More than 180 economies experienced an absolute decline in their exports in 2015, and 116 reported falling exports in 2016.

Given this unprecedented decline in global trade, it is extremely challenging to make a medium- to long-term projection for global and Commonwealth trade flows. The current pace of trade recovery could be more subdued, since there are concerns about US policy reversals, trade protectionism and popular discontent about globalisation and dubiety of its benefits in many countries.

To update the Commonwealth trade projections, a cautious approach is adopted. The WTO's

FIGURE 1.7

INTRA-COMMONWEALTH TRADE IN GOODS BY MEMBERS AS A PERCENTAGE OF TOTAL WORLD TRADE, 2016 (%)

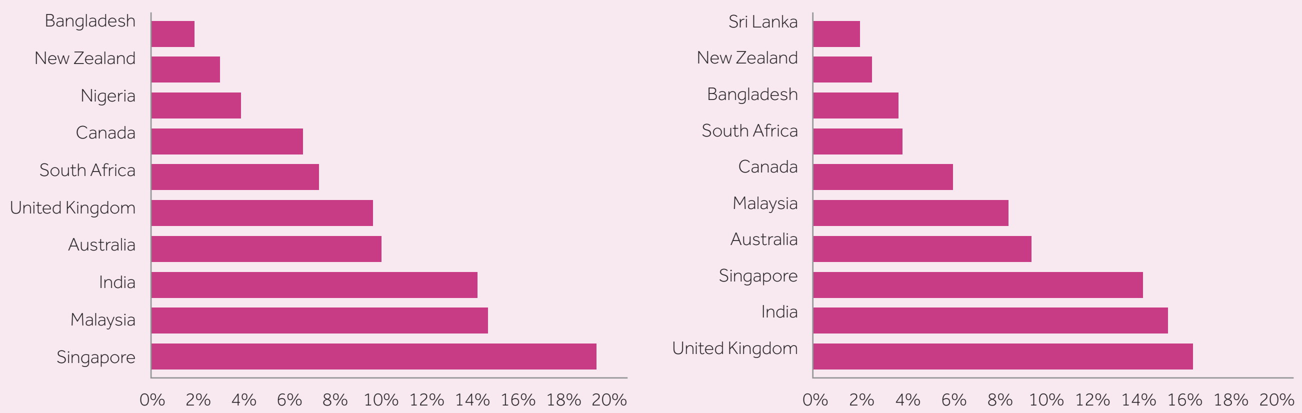
Source: Commonwealth Secretariat (calculated using UNCTADStat data)

TABLE 1.3
SHARE OF MERCHANDISE EXPORTS AND IMPORTS OF COMMONWEALTH COUNTRIES BY REGION, 2016

Commonwealth group	Exports		Imports	
	Share of Commonwealth total (%)	Value of intra-Commonwealth exports (US$ million)	Share of Commonwealth total (%)	Value of intra-Commonwealth imports (US$ million)
All Commonwealth	**100**	**354,063**	**100**	**351,598**
Developed	29	104,029	35	124,341
Africa	16	57,882	16	55,623
Asia	52	185,708	47	165,106
Caribbean	1	2,823	1	3,473
Pacific	1	3,621	1	3,057

Source: Commonwealth Secretariat (calculated using UNCTADStat)

FIGURE 1.8
COUNTRY SHARES OF INTRA-COMMONWEALTH EXPORTS (LEFT) AND IMPORTS (RIGHT), 2016 (%)

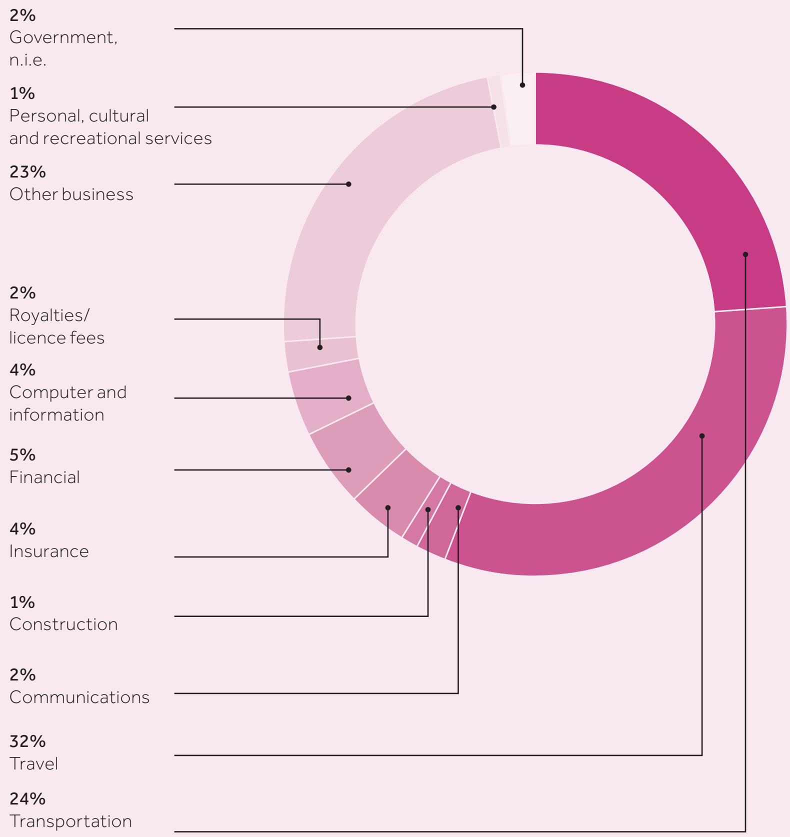


Source: Commonwealth Secretariat (calculated using UNCTADStat data)

latest projections for developed and developing countries in the medium term are used. It is assumed that Commonwealth trade will grow at the same rate, with the same rate of expansion for intra-Commonwealth trade. It is assumed that the global trade recovery expected in 2017 and 2018, amid major policy uncertainties, is sustained into 2020.[5]

With these assumptions and caveats about the global trade situation, the results from the projection exercise show that intra-Commonwealth trade is broadly on a growth track, although it might take a few more years to reach US$1 trillion, as predicted in the 2015 Commonwealth Trade Review. In this scenario, intra-Commonwealth trade is projected to reach $700 billion by 2020, while proactive policy measures can trigger even greater gains (Figure 1.11).

FIGURE 1.9
COMPOSITION OF INTRA-COMMONWEALTH TRADE IN SERVICES, NEAREST YEAR (%)



Source: Commonwealth Secretariat (calculated from OECD-WTO BaTIS data)

1.5 Trends in intra-Commonwealth investment

1.5.1 Commonwealth FDI flows in a global context

Global FDI fell by 16 per cent in 2017, to an estimated US$1.52 trillion, from $1.8 trillion in 2016. This is in stark contrast with world GDP and trade growth, which saw improvements in 2017 (UNCTAD, 2018).

Overall, global FDI flows into the Commonwealth are increasing (Figure 1.12). In 2017, inflows were estimated at US$250 billion compared to almost $430 billion in 2016; the latter boost in FDI was owed to three merger and acquisition megadeals in the UK (UNCTAD, 2018). The accumulated FDI stock in the Commonwealth is now over $5 trillion.[6]

The Commonwealth is a net recipient of global FDI flows. Commonwealth member countries held about one-fifth of global FDI stock in 2016; and this is considerably more than their share of global GDP, which is approximately 14 per cent (Table 1.4). However, FDI inflows into the Commonwealth have been uneven: 10 members received more than 90 per cent of inflows between 2010 and 2016. The top five recipients were the UK, Singapore, Canada, Australia and India, in that order. These five countries accounted for nearly 80 per cent of total FDI flows into the Commonwealth.

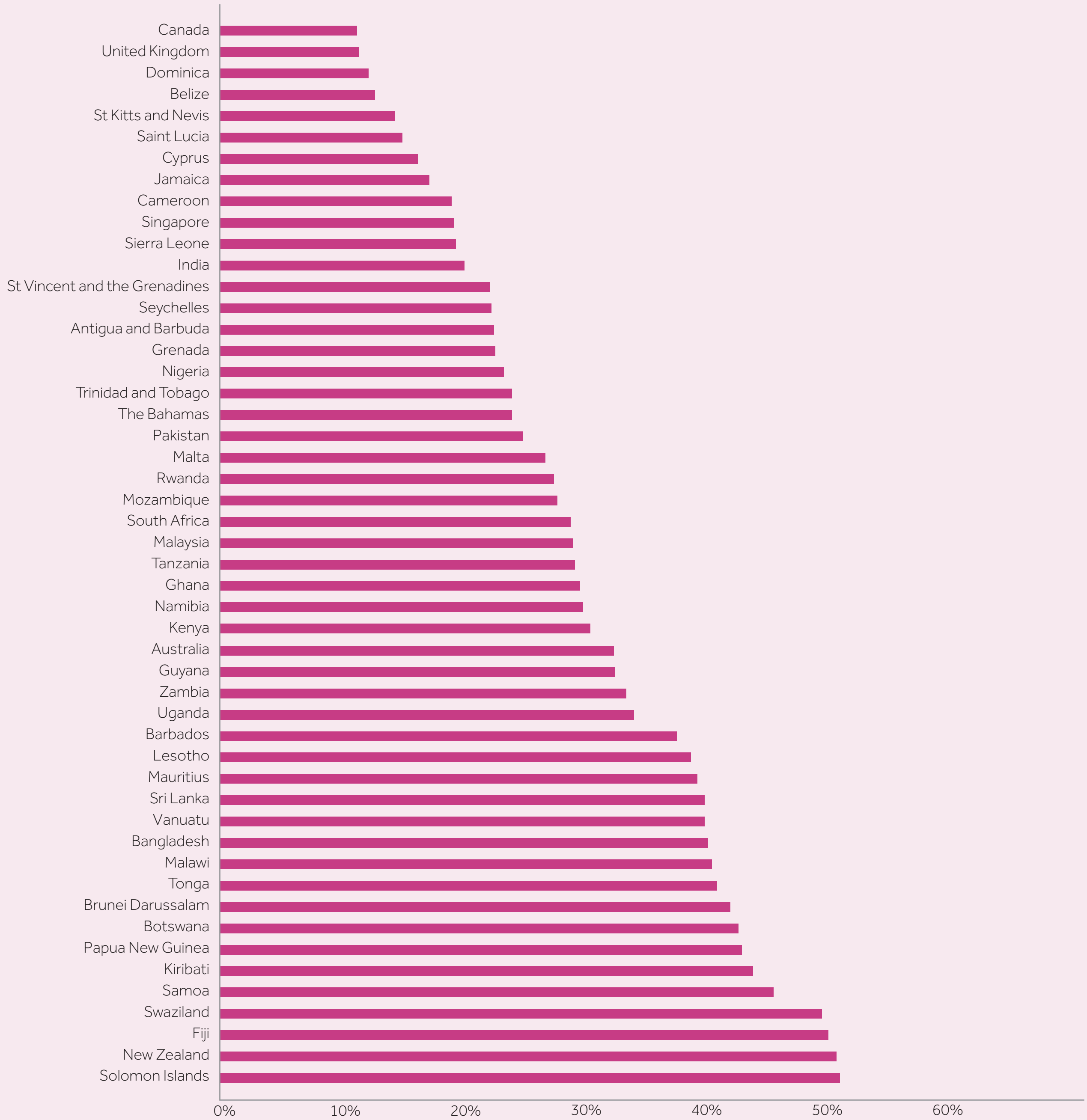
Geographical proximity invariably plays a role in determining the investment relationship between the Commonwealth countries. For example, Mauritius is the largest investor in India (accounting for more than 20 per cent of total FDI inward stock in India between 2010 and 2015). South Africa has significant investment in other Commonwealth SSA countries, such as the SACU countries, and Mozambique and Nigeria.

In 2015, some US$3.6 trillion outward FDI stocks were registered in the Commonwealth and it was estimated that some 20 per cent of these stocks came from intra-Commonwealth investments – or around $720 billion (UNCTAD, 2017a). Intra-Commonwealth investment remained steady at 20 per cent of total outward FDI stock from the Commonwealth since 2010. Intra-Commonwealth investment is likely to remain stable in 2016 at about 20 per cent of total outward FDI stock.

1.5.2 Trends in productive investment in the Commonwealth

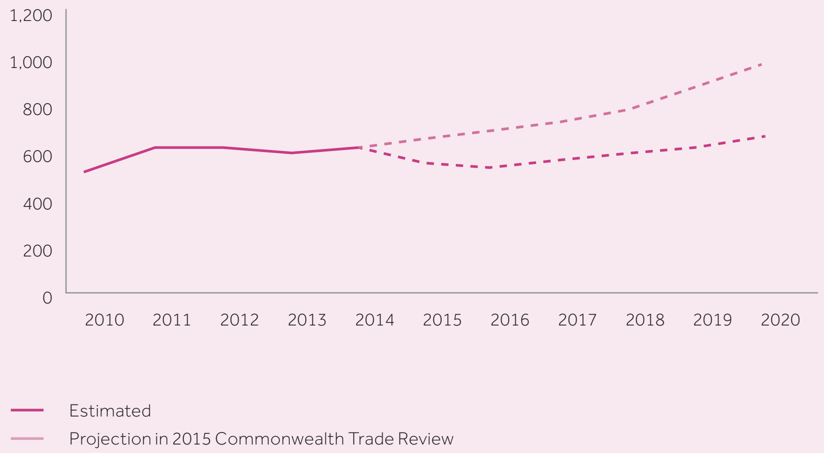
In terms of FDI flows within the Commonwealth, productive investment – also known as greenfield investment – is increasingly important, especially to help advance the

FIGURE 1.10
INTRA-COMMONWEALTH TRADE IN SERVICES BY MEMBERS AS A PERCENTAGE OF TOTAL WORLD TRADE, NEAREST YEAR (%)



Note: The Gambia was not included at the time of the analysis.
Source: Commonwealth Secretariat (calculated from OECD-WTO BaTIS data)

FIGURE 1.11
INTRA-COMMONWEALTH TRADE PROSPECTS BY 2020: THE IMPACT OF THE GLOBAL TRADE SLOWDOWN, 2010–20 (US$ BILLION)



Source: Commonwealth Secretariat's projection exercise based on WTO trade growth estimates

Sustainable Development Goals (SDGs), build productive capacity and create jobs. A greenfield investment initiates a new venture under which a parent company builds its operations in a foreign country from the ground up. It includes construction of production and processing facilities, building of new distribution hubs and offices, and developing new project sites. The economic impact of greenfield FDI is considered more positive than other types of FDI, for example flows emanating from mergers and acquisitions. This is because it represents new capital investment and leads to an increased number of jobs in the host economy.

This Review uses the latest data from fDi Markets (*The Financial Times*) to analyse intra-Commonwealth greenfield FDI. This is currently the only data source on bilateral greenfield investment flows. It is also the most comprehensive online database of cross-border greenfield investments, giving information on investment projects, capital investment and job creation. Greenfield FDI can be significant for economic development because of its direct impact on employment; therefore, it is critical to examine the flows of such investment and where it is showing results in the Commonwealth. However, some caution is necessary when interpreting the greenfield FDI data, because they capture investment project announcements, which are only actualised in the future.

FIGURE 1.12
INCREASING TREND OF FDI FLOWS TO THE COMMONWEALTH, 1991–2017 (US$ MILLION)

Note: 2017 is based on preliminary estimates.
Source: UNCTAD

TABLE 1.4
FDI IN THE COMMONWEALTH, 2015–17 (US$ BILLION, %)

	FDI flows (US$ billion)	Share in world FDI inflows (%)	Inward FDI stock (%)	Share in world inward FDI stock (%)	Share of world GDP (%)
2017	250	16	5,793	20	-
2016	428	22	5,542	19	14
2015	255	13	5,151	19	14

Note: 2017 is based on preliminary estimates.

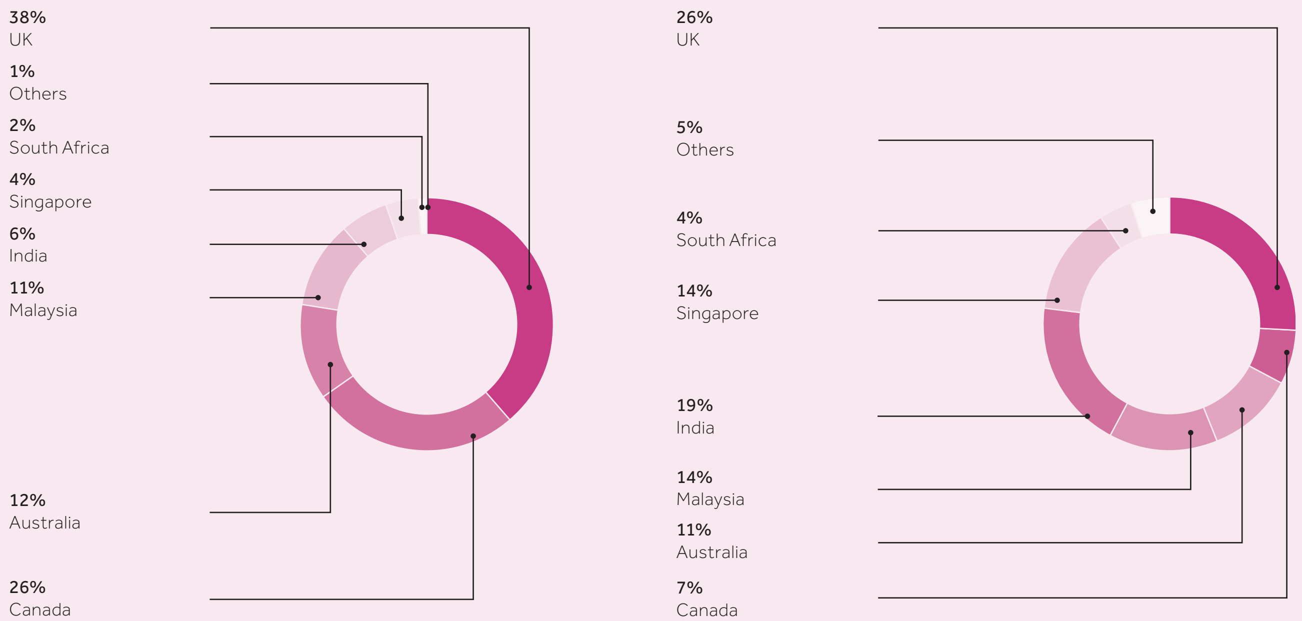
Source: UNCTAD

In the Commonwealth alone, cumulative greenfield investments from the world created 7.2 million jobs in nearly 50,000 projects between 2003 and 2016. Commonwealth member countries are investing more in each other than the rest of the world is; the rate of growth in intra-Commonwealth greenfield FDI is greater than the comparable rate of growth in greenfield FDI into Commonwealth countries from the rest of the world. In total, the percentage change in intra-Commonwealth greenfield investment between 2003 and 2016 is 2.9 times higher than greenfield investments by Commonwealth countries in the rest of the world, suggesting that Commonwealth countries invest almost three times more in each other than in other countries.

Cumulative greenfield investment over the duration 2003–17[7] into the Commonwealth was valued at US$2.8 trillion in 2017 and generated 7.2 million jobs, while intra-Commonwealth greenfield investment generated total cumulative intra-Commonwealth greenfield FDI – defined as both the destination and source being Commonwealth members – generated 1.4 million jobs through 10,000 projects, with capital investments of almost $700 billion. Intra-Commonwealth investment comprises around 24 per cent of total greenfield investment.

The top sources of intra-Commonwealth investment are the UK, followed by India and Malaysia and Singapore. Figure 1.13 clearly shows a dramatic rise in the increased prominence of

FIGURE 1.13
TOP SOURCES OF INTRA-COMMONWEALTH GREENFIELD INVESTMENT, 2005 (LEFT) AND 2016 (RIGHT) (US$ BILLION)



Note: Based on total value of greenfield investment (US$ billion).
Source: Commonwealth Secretariat (calculated using fDi Markets (The Financial Times) data)

intra-Commonwealth investment driven by India. In comparison, the share contributed by Australia has remained relatively stable. A decline in intra-Commonwealth investment is apparent for Canada, between 2005 and 2016. Table 1.5 summarises the available data on job creation derived from the project investments.

Major destinations of intra-Commonwealth greenfield investment

Between 2005 and 2016, India remained the top recipient of greenfield FDI from the Commonwealth, more than doubling the amount it received over 10 years. In 2016, Bangladesh, Singapore, Nigeria and Sri Lanka emerged as the other major destinations attracting such FDI from the Commonwealth, whereas Canada, Malaysia, Pakistan and Tanzania lost ground in relative terms. India is the leading country for attracting greenfield FDI, not only from the Commonwealth but also from the world. In 2015, it overtook China for the first time as the biggest destination for greenfield FDI. While greenfield FDI contributes to economic development and growth, high-growth economies attract more investments, creating a virtuous cycle of growth and investment.

Using simple trend analysis, cumulative intra-Commonwealth greenfield investment is estimated to reach approximately US$870 billion by 2020 under certain conditions.

While several Commonwealth developing countries are becoming increasingly attractive destinations for global FDI, the broader global investment environment for LDCs as a whole remains structurally weak, in large part because of the aforementioned economic slowdown and fall in commodity prices since 2014. Since most LDCs are commodity exporters, and depend heavily on the economic performance of advanced economies, their recovery from the global slowdown is likely to be slower than those of the countries upon which they depend. Intra-Commonwealth FDI inflows to LDCs, however, have proved resilient to these impacts.

While the percentage of global FDI to LDCs declined by as much as 13 per cent in 2016, intra-Commonwealth LDC FDI investment fell by only 2 per cent in the same period, suggesting a greater concentration of intra-Commonwealth investment in LDCs in comparison with inflows to LDCs from the rest of the world. This pattern can be seen from Figure 1.14. An average of 13 per cent of intra-Commonwealth FDI was invested in Commonwealth LDCs between 2003 and 2016, aggregating a total of US$81 billion over this period; and the number of Commonwealth FDI projects to these member countries has increased by 1.6 times since 2003, or 160 per cent. Five Commonwealth LDCs – Bangladesh, Mozambique, Uganda, Tanzania and Zambia – have received 89 per cent of this total. Papua New Guinea, which is the highest recipient of FDI flows among Commonwealth small states, recorded a remarkable total of $9 billion in intra-Commonwealth FDI investment between 2003 and 2016.

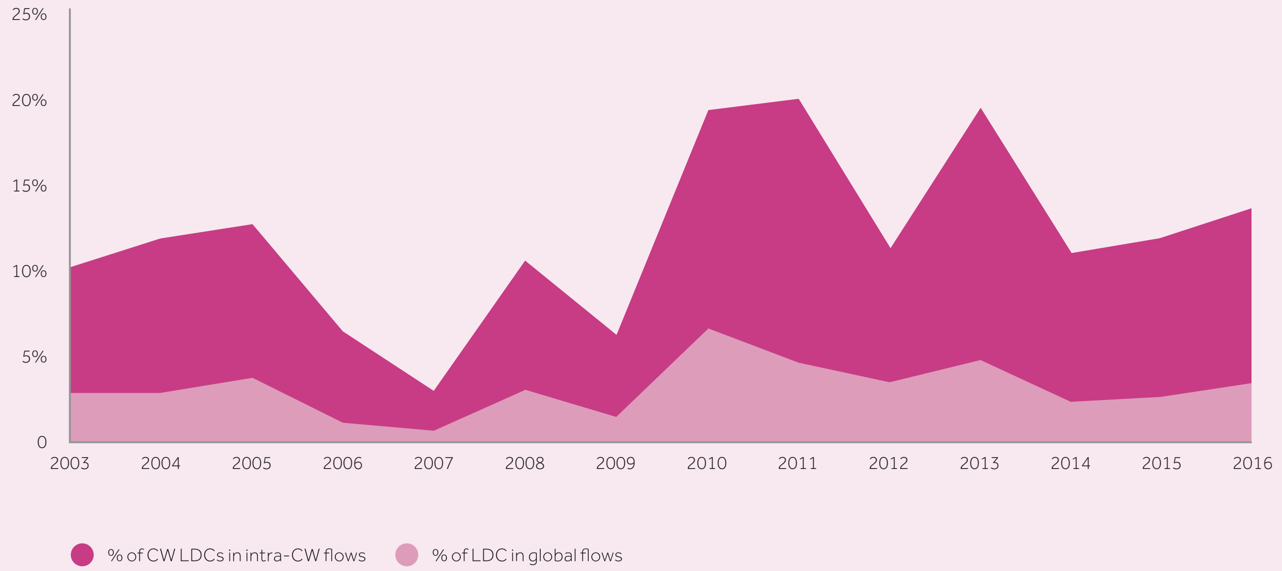
While analysis suggests no relationship between greenfield investment and the presence of policy instruments such as a bilateral investment treaty, other policy variables such as contract enforcement and the protection of minority investors may exert an influence. Because greenfield investment is the creation of new capital, investment policy frameworks will influence investors' decisions. Recent trends are suggestive of the Commonwealth advantage in practice and the continued development of intra-Commonwealth trade and investment networks, building on

TABLE 1.5
MAJOR SOURCES OF INTRA-COMMONWEALTH INVESTMENT AND JOB CREATION

Major sources	No. of FDI projects	No. of jobs created	No. of FDI projects	No. of jobs created
	2005		2016	
United Kingdom	137	34,949	251	29,845
Canada	76	17,306	72	5,566
Australia	49	10,828	100	10,047
Malaysia	19	5,575	15	10,183
India	65	6,647	97	10,252
Singapore	26	8,529	51	16,817
South Africa	16	3,172	54	4,814
Others	25	2,961	86	5,509
Total	413	89,967	726	93,033

Source: fDi Markets (The Financial Times)

FIGURE 1.14
INTRA-COMMONWEALTH INVESTMENT IN COMMONWEALTH LDCS, 2003–16 (%)



Note: Commonwealth LDCs are Bangladesh, Kiribati, Lesotho, Malawi, Mozambique, Rwanda, Sierra Leone, Solomon Islands, Tanzania, The Gambia, Tuvalu, Uganda, Vanuatu and Zambia.
Source: Commonwealth Secretariat (calculated using fDi Markets (The Financial Times) data)

common frameworks and doing business practices (see Part 4).

1.6 Conclusion and way forward

The already substantial trade between Commonwealth members and its rising relative significance will call for leveraging the Commonwealth effect for greater trade gains. While Commonwealth members enjoy an inherent trade advantage that promotes their intra-Commonwealth trade, this unique factor has not been driven by any coordinated policy interventions like the ones under regional or bilateral trading blocs. Productive capacity-building and improved trade performance in individual member countries will reinforce intra-Commonwealth trade and investment flows.

Even without any formal arrangements, proactive initiatives by Commonwealth member countries can generate new commercial opportunities. For example, Commonwealth members could focus on achieving improved trade logistics and implementing trade facilitation measures; tackling non-tariff barriers; harnessing new technologies, including for e-commerce, financial technology (fintech) and transforming trade and productive capacities; utilising the opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; promoting a gender-responsive approach to the development of trade policy and to promote women's economic empowerment; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors, including micro-, small and medium-sized enterprises (MSMEs) and young entrepreneurs.

At a coordinated pan-Commonwealth level, member countries can strengthen dialogue and cooperation, and share country experiences and best practices, to promote greater connectivity in the Commonwealth. Such a connectivity agenda could focus on issues of physical, digital, regulatory, business-to-business and supply-side connectivity, all framed by the need for inclusive and sustainable trade to contribute towards the achievement of the SDGs.

Annex

COMMONWEALTH GVC PARTICIPATION AND ENABLERS

Variables	Commonwealth		Global	
	Log of non GVC exports	Log of GVC exports	Log of non GVC exports	Log of GVC exports
Log of GDP of exporter country (2005 US$)	−0.04**	0.79***	0.02***	0.36***
	(0.02)	(0.08)	(0.01)	(0.02)
Log of distance	0.11	−1.34***	−0.07***	−0.65***
	(0.08)	(0.32)	(0.02)	(0.06)
Common language	0.07	0.00	0.03	0.71***
	(0.05)	(0.20)	(0.02)	(0.07)
Log of ITU in origin	−0.01	0.23***	−0.01	0.06***
	(0.01)	(0.04)	(0.00)	(0.01)
Log of ITU in destination	−0.00	0.01	−0.01	0.02
	(0.01)	(0.04)	(0.01)	(0.02)
Log of LPI in origin	0.16	0.88	−0.26***	1.85***
	(0.16)	(0.62)	(0.05)	(0.13)
Log of LPI in destination	−0.11	1.05*	−0.05	0.04
	(0.15)	(0.62)	(0.07)	(0.18)
Log of time zone difference	−0.08	0.49**	−0.02	0.22***
	(0.05)	(0.22)	(0.01)	(0.04)
Log of total exports	1.02***	0.49***	1.03***	0.52***
	(0.01)	(0.04)	(0.00)	(0.01)
1 for contiguity	0.12	0.72	−0.11*	1.29***
	(0.15)	(0.64)	(0.06)	(0.19)
1 if origin is GATT/WTO member	−0.12	1.14	0.04*	0.07
	(0.17)	(0.70)	(0.02)	(0.06)
1 if destination is GATT/WTO member	0.18	1.31	0.20	0.15
	(0.20)	(0.82)	(0.13)	(0.37)
1 for RTA	0.04	0.94**	−0.08***	0.63***
	(0.09)	(0.38)	(0.02)	(0.07)
Constant	−0.65	−17.44***	−0.39*	−3.86***
	(0.85)	(3.50)	(0.23)	(0.65)
Observations	1090	1104	18341	18640

Note: GVCs are defined as vertically fragmented trade and identified through trade in parts and components and comprise the following: electronics, autos, apparel, footwear, textiles and clothing.

Source: Sturgeon et al., 2017; Farole, 2017

Endnotes

1 Between 2013 and 2015, the US dollar value of global exports of goods and services declined from US$23.4 trillion to $20.6 trillion. Notwithstanding positive increases in trade volumes, significant fluctuations in global commodity prices and exchange rates in recent years have combined to significantly reduce the US dollar value of international trade flows. These fluctuations have been influenced by several factors: slowing economic growth in China, divergent monetary policies across leading economies, volatility in financial markets and resilient fuel production in the USA, among others (WTO, 2015).

2 Three-year average between 2014 and 2016; compared with 55.25 per cent for Commonwealth small states 2010–12 and 59.87 per cent 2006–08. Based on total GDP (current US$ million) and total exports of goods and services (current US$ million).

3 EXPY is a measure of the productivity level associated with a country's exports.

4 The profound implications of GVCs for the achievement of structural economic transformation continue to be explored within the literature. Structural economic transformation can be broadly defined as the reallocation of economic activity across three broad sectors (agriculture, manufacturing and services), which accompanies the process of economic growth (Kuznets, 1966). This is no longer the case since the ascendency of GVCs.

5 Global growth in merchandise trade was estimated to be 3.6 per cent in 2017, according to the upper range of the estimates provided by the WTO (WTO, 2017c). These estimates were revised to 3.9 per cent in September 2017, with the developing world estimated at 5.8 per cent and Asia between 6.7 and 7.0 per cent. The projection exercise uses the WTO's estimates for the developed and developing world in light of the composition of the Commonwealth and the fact that the global rebound in trade is being driven primarily by Asia.

6 According to UNCTAD (2018), preliminary data on the value of announced greenfield FDI projects show a decline of 32 per cent to US$571 billion (-17 per cent by number of projects), their lowest level since 2003. If confirmed, the drop in greenfield project announcements would be a negative indicator for the longer term. Of particular concern is the near halving of the value of project announcements in developing economies, although the fall in project numbers was limited to 23 per cent (UNCTAD, 2018).

7 Data are available up until the last quarter of 2017.

Part 2: The Commonwealth in multilateral and regional trade

International trade is a crucial driver of growth, development and prosperity. To achieve the Sustainable Development Goals (SDGs), Commonwealth developing countries need an enabling global trading environment that both supports and enhances their participation in world trade. Part 2 explores recent dynamics in multilateral and regional trade, and how Commonwealth member countries, individually and collectively, are pursuing stronger trade-led growth and development.

There are three major findings with policy implications for Commonwealth member countries:

- The Commonwealth and its members remain at the forefront of global advocacy to promote free trade in a transparent, inclusive, fair and open rules-based multilateral trading system to help achieve the SDGs, as reflected in the first-ever Commonwealth statement delivered to the World Trade Organization's 11th Ministerial Conference in December 2017.
- Commonwealth members, compared with non-Commonwealth countries, are less protectionist, applying on average 3.5 per cent less harmful measures that discriminate against foreign firms.
- Commonwealth developed countries remain strong advocates and leading donors of Aid for Trade (AfT) as a means to help developing countries with supply-side capacity-building, with the UK committing approximately US$1 billion to multilateral and regional AfT initiatives.

Overall, Commonwealth countries are less protectionist and apply even fewer harmful measures against other Commonwealth members

Commonwealth countries apply fewer harmful measures

Globally	Commonwealth
3.5% less	5% less

2.1 Introduction

For most Commonwealth developing countries, and especially for small states, LDCs and SSA countries, international trade is a crucial driver of growth, poverty reduction and employment. If these countries are to achieve the SDGs, they need an enabling global trading environment that both supports and enhances their participation in world trade. The Commonwealth is committed to free trade in a transparent, inclusive, fair and open rules-based multilateral trading system and, through practical support to member countries, is contributing significantly to this process. Indeed, faced with the prospect of rising protectionist sentiments in many countries, the Commonwealth is emerging as both an important buffer against protectionism and a significant exemplar of global leadership in deepening integrative trade practices, for mutual benefit among its members.

Part 2 of the Commonwealth Trade Review examines the Commonwealth's role in promoting trade multilateralism and limiting trade protectionism, and highlights the deepening influence of regional economic integration across the Commonwealth.

2.2 The Commonwealth and trade multilateralism

The Commonwealth has always championed a multilateral trading system that is transparent, inclusive, fair, open and rules-based, and that provides a multilateral foundation to support economic growth and sustainable development. The Commonwealth has emphasised this commitment through an extensive programme of trade policy support and technical assistance to the most capacity-constrained members; through consensus-building; and as a leading advocate for deepening and extending the benefits of rules-based trade multilateralism for the world's smallest and poorest nations. Currently, 49 of the Commonwealth's 53 countries are members of WTO, with The Bahamas currently undergoing its accession process.

The Commonwealth's contributions to strengthening and promoting free trade in a transparent, inclusive, fair and open rules-based multilateral trading system, including through a mix of policy proposals to the G20, supportive actions by individual country members and collective Commonwealth advocacy, have escalated. Most recently, the Commonwealth made significant – indeed historic – progress in contributing the collective perspectives of its 53 member countries to multilateral decision-making within the WTO, issuing for the first time a Commonwealth Statement to the WTO at its 11th Ministerial Conference in Buenos Aires in December 2017. The statement anchors Commonwealth-wide support for a rules-based multilateral trading system at the highest governing level of world trade, conveying a powerful signal to the WTO members that, notwithstanding the Commonwealth's diverse membership and economic interests, there are important commonalities that unite its members and facilitate consensus-building on complex issues, such as the multilateral trading system. It also offers an example, spanning almost a third of the WTO's membership, showing that such unity of purpose can be achieved.

Despite the challenges in concluding the Doha Development Agenda (DDA) negotiations, some progress is being made, both through the multilateral trading system and through other initiatives, including those taken by the Commonwealth and its member countries. For example, the Trade Facilitation Agreement (TFA), adopted in 2013, represents the largest multilateral trade arrangement secured in the past 20 years. Most Commonwealth members of the WTO have now ratified this landmark agreement.

The broader WTO-led AfT initiative shows that trade multilateralism can be responsive to the concerns of the most capacity-constrained members and can help address their development needs, especially in addressing the supply-side capacity and other trade-related constraints facing Commonwealth small states, LDCs and SSA countries (Box 2.1). The WTO's 2017 Global Review of Aid for Trade focused on the theme of 'Promoting Trade, Inclusiveness and Connectivity for Sustainable Development', underscoring the importance of both physical and digital connectivity for enabling greater trade in goods and in services, as well as achieving the SDGs (e.g. platforms for delivering education and training, tele-medicine, e-Government services, and news and information). Part 3 of the Review highlights that there are still significant gaps in access to and use of critical information and communication technologies (ICTs) in many Commonwealth member countries. Commonwealth global advocacy could support the establishment of an Aid-for-e-Trade initiative to enable developing countries to better participate in the digital economy, accelerate access to trade-enabling technologies and empower women and young people as entrepreneurs and traders (see Part 3; Box 3.3).

Specific groups of WTO member countries, including small vulnerable economies (SVEs), have also made important advances within the multilateral trade system, opening new channels to address their concerns and the limitations they face in integrating into the global economy. For example, the WTO has established a dedicated Working Group for SVEs within its Committee on Trade and Development, facilitating progress with the challenges and opportunities faced by small economies when linking into GVCs in goods and services, and in identifying ways to reduce trading costs.

Building on the positive momentum achieved at the WTO's Ninth Ministerial Conference in Bali in 2013, the Nairobi Package, adopted by trade ministers at the WTO's 10th Ministerial Conference in 2015, also delivered several notable achievements, including a special safeguard mechanism enabling developing countries to temporarily increase tariffs on agriculture products in the event of import surges or price declines; a decision on export subsidies and other elements of export competition; a decision on cotton and

BOX 2.1

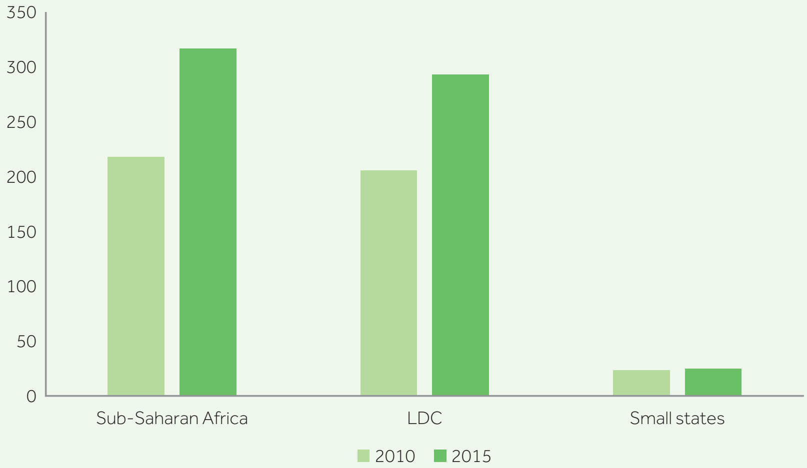
AID FOR TRADE DISBURSEMENTS TO COMMONWEALTH SMALL STATES, LDCS AND SSA

Over US$300 billion has been disbursed since the WTO's Aid for Trade (AfT) initiative was established in 2006, reaching 146 countries, helping build their trading infrastructure and capacity (WTO, 2017b). AfT disbursements to Commonwealth small states, LDCs and SSA countries increased between 2010 and 2015, while LDCs and SSA member countries also grew their share of overall disbursements to developing countries. As illustrated in Figure 2.1, AfT to SSA members increased by just under $100 million, from $208 million in 2010 to $302 million in 2015. Over this same period, AfT to LDCs increased from around $194 million to around $275 million, while small states received $24.6 million, an increase of only $10 million from previous disbursements in 2010.

In 2015, Bangladesh was the top recipient of AfT to Commonwealth LDCs, followed by Tanzania and Uganda. In SSA, Kenya was the largest recipient, with Tanzania in second place and Nigeria and South Africa joint third. 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 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 (Commonwealth Secretariat, 2015).

FIGURE 2.1

AID FOR TRADE NET DISBURSEMENTS TO COMMONWEALTH DEVELOPING COUNTRIES, 2010–15 (US$ MILLION)



Source: Commonwealth Secretariat (calculated from OECD data)

public stockholding for food security purposes; and decisions on the LDC services waiver and duty-free and quota-free market access. Advanced Commonwealth economies – namely Australia, Canada and New Zealand, as well as the three Commonwealth EU member countries: Cyprus, Malta and the UK – together with India already offer duty-free market access for a range of LDC exports. These countries, in addition to Singapore, have also notified the WTO on the services waiver. Although defining such a preference regime in services is challenging, this is an area where gains for LDCs could be quite substantial.

The WTO's 11th Ministerial Conference in Buenos Aires in 2017 endeavoured to continue the work on a number of areas of interest to Commonwealth countries. WTO members made a commitment to secure, by the end of 2019, a deal on fisheries subsidies that delivers on SDG 14.6. In addition, members took a number of other ministerial decisions, including on the work programme for small economies and extending the practice of not imposing customs duties on electronic commerce (e-commerce) for another two years. They also committed to continue negotiations in all areas. Three proponent groups announced new initiatives to advance talks at the WTO on the issues of e-commerce, investment facilitation and MSMEs, as well as prioritising women's economic empowerment.

The effective implementation of WTO decisions and progress in other areas of work will be crucial to strengthen the multilateral trading system, and, if effectively and timeously implemented, can contribute significantly to supporting the achievement of various SDG targets. While much remains to be done for these initiatives to bear fruit and bring meaningful benefits to the world's poorest nations, these achievements are not insignificant given the slow progress in the DDA negotiations.

In addition, the multilateral trading system plays a crucial role in ensuring transparency and predictability in the global trading system. This is important given the continued uncertainty in the global economic and trading landscape, especially with the proliferation of protectionist measures over the past decade since the onset of the global financial crisis.

2.3 The Commonwealth and resisting protectionism

A decade after the global financial crisis, trade protectionism remains rife in the world economy, stifling trade flows and the potential for achieving trade-led sustainable development. Following the steady increase in trade-restrictive measures by G20 economies since the 2008 crisis, most of these countries are now demonstrating greater restraint, despite continuing economic uncertainties. Building on its longstanding support for an open, inclusive, rules-based multilateral trading system and the many successes in advancing developing countries' interests in world trade, the Commonwealth can play – and indeed is already playing – a significant role to build awareness and understanding of the adverse developmental impacts of greater protectionism and to promote global advocacy for increased trade openness and reduced trade protectionism.

But the Commonwealth has a further rationale – and indeed a compelling credibility – in advocating reduced protectionism: Commonwealth members themselves are, on average, demonstrating less inclination to practice trade protectionism than non-Commonwealth countries. While the impacts of tariff changes can be measured easily, non-tariff measures (NTMs) are harder to monitor. However, an analysis of the frequency and extent of use of harmful NTMs, using data collected from the Global Trade Alert, suggests that Commonwealth countries, on average, tend to be less protectionist towards each other and also less protectionist towards the rest of the world. As Table 2.1 highlights, Commonwealth members have tended to apply almost 3.5 per cent fewer 'red' measures than non-Commonwealth countries. This finding is commensurate with and sustains the Commonwealth advantage, whereby trade costs, on average, are lower between Commonwealth partners.

Deeper analysis of the data suggests that a handful of countries account for more than 80 per cent of the 'red' measures imposed by Commonwealth members, several of which may indeed have been adopted for legitimate public policy purposes. There is now also an increasing incidence of 'green' measures by Commonwealth member countries and these tend to liberalise market access. By contrast, small states – which are among the world's most open and

TABLE 2.1
COMMONWEALTH TRADE MEASURES (AVERAGE) SINCE 2008

Implementing jurisdiction	Affected jurisdiction	Green[a]	Amber[b]	Red[c]
Commonwealth	Non-Commonwealth	63	15	91
Commonwealth	Commonwealth	49	11	67
Commonwealth	All	57	14	81
Non-Commonwealth	Non-Commonwealth	211	31	324
Non-Commonwealth	Commonwealth	154	22	214
Non-Commonwealth	All	197	28	296
All	Non-Commonwealth	525	85	794
All	Commonwealth	203	31	278
All	All	249	40	370

[a] *Liberalising measures are government interventions that benefit foreign commercial interests by liberalising market access.*

[b] *Interventions that almost certainly include discrimination against foreign commercial interests but cannot be documented with an official statement, or are announced interventions that, if implemented, would almost certainly involve discrimination of foreign firms.*

[c] *Interventions that have been implemented and almost certainly discriminate against foreign commercial interests.*

Source: Commonwealth Secretariat (calculated from the Global Trade Alert data; http://www.globaltradealert.org/global_dynamics/flow_all) trade-dependent economies – and other capacity-constrained Commonwealth developing countries have rarely initiated harmful NTMs, but instead been affected by global trade protectionism. According to one estimate, the loss of exports LDCs have incurred as a result of protectionist measures since the crisis has been US$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.

Commonwealth members – working individually, collectively and with international partners – can further assist these poorest and most vulnerable economies, including by championing the immediate removal of remaining trade restrictions against LDCs. This will help the LDCs move towards the SDG target of doubling their share of global exports by 2020.

2.4 The Commonwealth and an enabling global trading environment

The WTO's TFA, which entered into force on 22 February 2017 following its ratification by two-thirds of the WTO membership, presents a significant opportunity to revive world trade growth. Implementation of the TFA will also contribute to improving domestic trade governance, which is an important determinant of export success for many Commonwealth members – and deepens the Commonwealth advantage in trade and investment (Part 4). At the end of February 2018, 42 of the 49 Commonwealth WTO members had ratified the agreement.

The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. Through the TFA Facility, developing countries and LDCs can access the technical assistance and capacity-building needed to implement the agreement. Commonwealth developed countries such as Australia, Canada, New Zealand and the UK have been strong advocates and leading donors of AfT as a means to help developing countries with supply-side capacity-building. The UK, for example, has contributed approximately US$1 billion to help developing countries and LDCs boost their regional and world trade. Most recently, at the WTO's 11th Ministerial Conference in 2017, the UK announced an additional £18 million (around US$25 million) of support to assist the world's poorest countries strengthen their trade capacity. The UK Department for International Development's (DFID's) inaugural Economic Development Strategy, launched in January 2017, prioritises and seeks to strengthen the UK's approach to AfT.

Improving trade facilitation and logistics at national and regional levels can significantly reduce trade costs and boost intra-Commonwealth trade, with the greatest benefits expected to accrue to those poorest and smallest countries facing high trade costs owing to distance from markets or their landlocked status. The TFA is estimated to have the potential to increase global merchandise exports by up to US$1 trillion per annum, while also reducing WTO members' trade costs by an average of 14.3 per cent; and gains are expected to accrue to African countries and LDCs (WTO, 2015). Besides reduced trade costs, additional benefits accruing to traders include greater predictability, reduced time and delays, and reduced complexity.

Many Commonwealth members have already made important strides in simplifying customs procedures and upgrading infrastructure and systems to expedite goods trade. More than half of the Commonwealth members ranked on the World Bank's Logistics Performance Index (LPI) improved their overall scores between 2014 and 2016.[1] In SSA, Botswana, Kenya, Mozambique, Rwanda and Tanzania significantly raised their scores, with Botswana in particular rapidly strengthening logistics performance and advancing from 120th place to 57th in the overall LPI ranking. While many other Commonwealth developing countries in the SSA, Caribbean and Pacific regions rank in the third and fourth quartiles of the LPI framework, underlining their acute trade capacity challenges, new Commonwealth initiatives are needed, to help better share knowledge and experience of successes in improving logistics capacity and to enable these countries to make similar progress (Part 4).

2.5 The future of the multilateral trading system

Notwithstanding important instances of progress, the outcome of the WTO's

Buenos Aires Ministerial Conference in 2017 suggests that trade multilateralism remains at a crossroads. After more than 16 years of negotiations, delays in concluding the WTO's Doha Round have diluted confidence in the organisation's ability to open markets and to effectively govern 21st-century world trade in goods, services and the digital economy.

Limited multilateral progress over the years has contributed to the proliferation of bilateral and regional trade deals. These include so-called 'mega-regional' agreements such as the Trans-Pacific Partnership (TPP) – now termed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership,[2] which was signed on 8 March 2018 – and the Transatlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP), which are still being negotiated. In comparison with the inclusive and consensual nature of the multilateral trade regime, these regional negotiations exclude the majority of the world's countries and people while affecting them in significant ways (Box 2.2). Failure to advance through consensus at the WTO has also led to plurilateral initiatives, such as the Environmental Goods Agreement and the Trade in Services Agreement, whose final relationship to the WTO is yet to be determined.

While the WTO's Dispute Settlement Mechanism (DSM) appears to have worked effectively to resolve disputes among the membership, concerns are now being expressed about the proliferation of new cases (especially in new areas, such as renewable energy) and the capacity of the system to manage these. The majority of Commonwealth member countries have participated in the WTO's DSM as complainant, respondent or third party. However, the level of participation remains extremely low for Commonwealth small states and LDCs, even though international trade accounts for over 50 per cent of GDP. While the DSM is formally available to all WTO members, accessing the system is challenging for small states and LDCs, given their human and financial resource limitations. To date, Commonwealth small states and LDCs have initiated only two WTO disputes: Antigua and Barbuda in 2003 and Bangladesh in 2004. The participation of Commonwealth small states and LDCs as third parties has been greater than their participation as complainants or defendants. Commonwealth developed countries have made most recourse to the system, while developing country members, such as India, have also frequently used the system.

The WTO's reform has always been a very sensitive issue. However, with the advent of recent global

BOX 2.2

MEGA-REGIONAL AGREEMENTS: GAME-CHANGERS IN WORLD TRADE

Mega-regional trade agreements (MRTAs) 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. MRTAs, like any other trading arrangements, could result in a loss of preferences for non-members. 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 countries.

Source: Commonwealth Secretariat, 2015 challenges, emerging issues and the organisation's increasing membership, which now stands at 164, it has become necessary to look seriously into the capacity of the system and of the organisation to deliver on its mandate. Reforms, if any, should work towards strengthening the multilateral trading system and WTO structures. The world economy has undergone tremendous changes during the past decade and a host of emerging issues are now influencing global trade. These issues include the fragmentation of GVCs, the rise of 'servicification', the digitisation of trade, climate change and growing importance of MSMEs (Soobramanien and Worrall, 2017). Whether or not these issues should be addressed at multilateral level is debatable but it is important to analyse and understand the implications in terms of policies and infrastructure, especially for the system's most capacity-constrained members. There is no doubt that looking at the future of the multilateral trading system without looking at the emerging issues can give only a partial picture.

2.6 Commonwealth members in regional trade and integration initiatives

In the context of the fragile recovery in world trade growth, and limited progress in multilateral rule-making as reflected most recently at the WTO's Buenos Aires Ministerial Conference in 2017, efforts to promote deeper and more effective regional integration have accelerated and have emerged as an important means for achieving SDG targets. The 2030 Agenda is, however, silent on the potential role of regional integration in promoting inclusive growth and sustainable development.[3] Yet it is clear that regional integration can contribute to these goals in many ways.

Regional integration is no longer only about promoting regional markets through tariff preferences. Today, it is also a process whereby deeper and effective regional cooperation allows free movement of goods, services, investment and people to enable competitive production of exports, and participation and upgrading in regional and global value chains. Strengthened regional cooperation to address behind-the-border measures, including technical regulations, improving connectivity, for example by strengthening transport infrastructure, and triggering structural transformation, including by identifying and developing new regional value chains, can all accelerate regional trade, reduce the costs of trade and increase intra-regional FDI. Part 4 of this Review presents new evidence of the export-enhancing impact of regional trade agreement (RTA) membership for Commonwealth members. It is found that trade between Commonwealth members is more than three times higher when both members belong to an existing RTA, highlighting the importance of effective regional integration for boosting the Commonwealth advantage. The results suggest that intra-Commonwealth initiatives to strengthen trade facilitation and further reduce the costs of intra-Commonwealth trade, particularly among Commonwealth countries that are both members of RTAs, are likely to yield significant gains to Commonwealth trade (see Part 4).

Since the last Trade Review in 2015 and in recognition of these advantages, Commonwealth members have successfully concluded various bilateral and RTAs. Through their membership in the EU, Cyprus, Malta and the UK concluded a substantive trade agreement with Canada, comprising the EU–Canada Comprehensive Economic and Trade Agreement (CETA), which entered into force in September 2017. The CETA is the most ambitious trade agreement concluded by the EU, covering goods, services and public procurement. It brings the number of EU free trade agreements (FTAs) to more than 40. Brexit – the UK's decision to withdraw from the EU by the end of March 2019 – might necessitate the UK replicating or renegotiating many of these agreements, including the CETA, to continue to benefit from the reciprocal market access arrangements these offer. Since the UK has been a member of the EU for more than four decades, including over 20 years in the Single Market, Brexit will have wide-ranging economic implications for the UK, the EU and many Commonwealth members (Box 2.3). However, there may also be important opportunities for the UK in the post-Brexit period to continue to champion an inclusive global trading system, establish pro-development initiatives for the world's poorest countries and negotiate new bilateral trade agreements with interested Commonwealth members.

Some important trade agreements involving Commonwealth advanced and developing economies have also recently been successfully finalised after several years of negotiations. The Southern African Development Community (SADC)–EU Economic Partnership Agreement was

BOX 2.3

BREXIT, THE COMMONWEALTH AND TRADE

Brexit – the UK's withdrawal from the EU – is the result of a June 2016 referendum in which the UK voted to leave the EU. On 29 March 2017, the UK Government triggered Article 50 of the Lisbon Treaty, commencing the two-year period of withdrawal negotiations that will see the UK formally cease to be a member of the EU on 29 March 2019, followed by a transitional period to 31 December 2020. In the future, the UK will have the autonomy to develop its own independent trade policy. For developing countries, the UK has already announced three important commitments. First, LDCs will continue to enjoy their current Everything But Arms (EBA) terms of access.[5] Second, the UK will create its own trade preference scheme to support economic and sustainable development in developing countries. Third, the UK will seek to replicate existing EU trade deals, including the Economic Partnership Agreements (EPAs). Overall, there may be opportunities to enhance further the development-friendly nature of the UK's future trade regime by simplifying rules of origin, enhancing access for LDC services under the WTO waiver and addressing onerous non-tariff barriers.

UK–Commonwealth trade linkages are strong. Total merchandise trade flows of Commonwealth members involving the UK (i.e. Commonwealth countries' exports to the UK plus the UK's exports to other Commonwealth members) expanded from US$57 billion in 2000 to around $85 billion in 2016; and such trade actually reached a peak of US$120 billion in 2012 before being affected by the global trade slowdown. The UK absorbs about 18 per cent of Commonwealth developing countries' exports to the EU. Several Commonwealth developing countries depend heavily on the UK market for their exports, from beef and bananas, through sugar and fresh vegetables, to textile and apparel products, as well as tourism services.

Source: Vickers and Khorana, 2018

implemented in October 2016, providing Botswana, Lesotho, Mozambique, Namibia and Swaziland with duty- and quota-free access for all goods (except arms and munitions) into the EU market, with some exceptions for South Africa.[4] Since the economic partnership agreements (EPAs) are reciprocal yet asymmetrical agreements, the SACU partners will remove customs duties on approximately 86 per cent of imports from the EU, while Mozambique will remove 74 per cent of customs duties on the same imports.

Four other SSA EPA groups involving Commonwealth members – namely with Eastern and Southern Africa (ESA), the East African Community (EAC), Central Africa and West Africa – are at varying stages of finalisation or signature. Some interim EPAs are being provisionally implemented, although there is uncertainty about whether or not full regional EPAs are indeed feasible or desirable, given that these reciprocal tariff-cutting arrangements may conflict with Africa's own integration and industrialisation priorities, as outlined in the African Union's (AU's) Agenda 2063.

SSA constitutes the largest geographical grouping in the Commonwealth, with 19 members, and includes an overwhelming majority of the world's LDCs. African countries have adopted an ambitious developmental integration agenda based on three pillars: market integration, infrastructure development and industrialisation. In June 2015, 26 countries launched the Tripartite FTA involving three regional blocs: Common Market for Eastern and Southern Africa (COMESA), the EAC and the SADC. The Framework Agreement for the Continental FTA (CFTA) was signed by 44 AU member states on 21 March 2018, creating the world's largest FTA according to the number of parties.

Effective implementation of the CFTA could increase intra-African trade by an estimated US$35 billion per year by 2022, particularly if complemented by effective operationalisation of the AU's Action Plan for Boosting Intra-African Trade and other trade facilitation and infrastructure plans at the regional level. Indeed, operationalising these initiatives offers enormous untapped opportunities for growing intra-African trade among both Commonwealth and non-Commonwealth members, especially in food products, basic manufactures and services. Building and diversifying productive capacity is an overriding priority as part of the continent's structural transformation agenda. It is estimated that by 2025 Africa could almost double its current manufacturing output to $930 billion, with threequarters of this growth triggered by intra-African demand and substituting imports of manufactured goods (MGI, 2016a). However, there remain many political, economic and institutional challenges to deeper integration and the effective implementation of existing RTAs, including for the movement of professionals (Vickers, 2017).

Traditional Commonwealth development partners, especially Australia, Canada and the UK, and emerging donors such as India continue to provide substantial support for regional trade and integration initiatives in Africa. The UK has consistently recorded the highest level of AfT disbursements to Africa through multilateral channels, including through the African Development Bank and the World Bank, while bilateral AfT is also substantial (AAPG, 2016). The UK's DFID has also operated or participated in key regional AfT programmes supporting trade reforms, regional integration and trade facilitation in Africa.

In Asia, while the RCEP negotiations remain complex and challenging, progress has been made recently. The 16 countries participating in the negotiations, including six Commonwealth members, have determined an outline agreement.[6] Among prominent Asian RTAs, Singapore, Malaysia and Brunei are members of the Association of Southeast Asian Nations, the third-largest trading bloc in the world, after the EU and the North American Free Trade Agreement. In South Asia, four Commonwealth members – Bangladesh, India, Pakistan and Sri Lanka – are implementing the South Asian Free Trade Area (SAFTA) along with three non-Commonwealth countries (Afghanistan, Bhutan and Nepal). Despite SAFTA being operational since 2006, trade among South Asian countries remains low, constituting approximately 5 per cent of their total trade. These countries also share few transport and power connections with each other. Several regional initiatives have therefore been launched to promote greater sectoral cooperation and improve connectivity. Prominent examples include the Bangladesh–India–Nepal [7] Motor Vehicles Agreement and the Asian Highway project under the Bangladesh–China–India–Myanmar corridor. There are also opportunities for Commonwealth Asian countries to benefit from China's Belt and Road Initiative; some SSA Commonwealth members could also stand to gain.

Commonwealth small states – comprising almost two-thirds of the Commonwealth's membership – are also making progress in deepening regional integration and taking initiatives to expand intraregional trade. These countries, especially the Caribbean and Pacific small island developing states (SIDS), face unique structural challenges related to small size and geography. These challenges include diseconomies of scale, limited human resource capacity, inadequate infrastructure, limited diversification and exports prone to preference erosion (e.g. sugar; Box 2.4), high dependence on imported fossil fuels, disproportionately high trade costs and vulnerability to external and endemic shocks. The scale of this last challenge is evident from recent extreme weather events in the Caribbean, notably Hurricane Irma and Hurricane Maria in 2017, which wrought catastrophic damage on some of the region's most vulnerable countries, including Barbuda and Dominica; estimates of the damage caused are over 200 per cent of GDP. Elsewhere, in 2015, Tropical Cyclone Pam caused such devastation in the Pacific that Vanuatu's graduation from LDC status was delayed to December 2020. Accelerated regional integration can help address many of the challenges to achieving economic growth, sustainable development and greater competitiveness in the SIDS.

The Caribbean Community (CARICOM) comprises 15 member states with a total population of 18 million. Twelve are Commonwealth members: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, and Trinidad and Tobago.[8] Five of these Commonwealth members also belong to a highly integrated subregional grouping, the Organisation of Eastern Caribbean States. CARICOM members are pursuing both functional cooperation, where important strides have been made in advancing social development at the regional level, and economic integration through the CARICOM Single Market and Economy (CSME). The CSME formally provides for the free movement of goods, services, capital and labour among its members, although implementation challenges and obstacles persist.

To support trade-led development, CARICOM members are also pursing external partnerships with advanced and emerging economies, particularly China. The latter is increasing its commercial presence in the Caribbean, investing significantly in construction and infrastructure, including, for example, a new trans-shipment port in Kingston, Jamaica. Yet several challenges remain. For example,

BOX 2.4

THE NEW EU SUGAR REGIME: A STICKY END TO A SWEET DEAL FOR THE AFRICAN, CARIBBEAN AND PACIFIC STATES?

At the time of the UK's accession to the European Economic Community in 1974, a Sugar Protocol was negotiated to replace the Commonwealth Sugar Agreement, allowing the continued duty-free access of raw and white sugar for a defined volume of 1.3 million tonnes at guaranteed prices. This tonnage was divided up into fixed country quotas. The EU revoked the Sugar Protocol in its 2009 reforms. These reforms removed the underlying price guarantees but, in addition to unlimited access from LDCs becoming effective at that time, beneficiaries of the Sugar Protocol were also given unlimited access to the EU market. The European Commission further reformed its sugar regime in 2017 by removing quotas on its own production and thus increasing the domestic supply dramatically. This reform came into effect on 1 October 2017 and the sugar market had already started to adjust.

EU production has increased substantially to over 20 million tonnes, dramatically reducing prices to levels that are near and even below world market levels, a world market distorted by subsidies in some of the largest producers. Refiners of imported cane sugar have steadily reduced their requirement for raw sugar as they struggle to compete against the large EU surpluses internally. The consequence for African, Caribbean and Pacific (ACP)/LDC suppliers is that deliveries to the EU market, which peaked at 2.3 million tonnes in 2013/14, were only 1.3 million tonnes in 2016/17. In the first few months of the new regime since 1 October 2017, deliveries were at a rate that would suggest, if annualised, that this will halve again to just 600,000–700,000 tonnes.

In 2013, while urging developing country suppliers to adapt to a more market orientated regime, the EU agreed a support package for its own farmers, voluntary coupled support (VCS). It is estimated that in 2016/17 VCS sustained 3.6 million tonnes of production in the EU that would have not otherwise have been viable. This additional production has contributed to the erosion of both domestic prices and demand for ACP sugar. A further consequence of the increased production has been a sharp rise in EU exports from 1.1 million to 3.5 million tonnes. These exports also compete with ACP/LDC sugar exports in their regional markets.

All ACP/LDC sugar industries are taking steps to adapt to the reforms and are developing new regional markets. However, the relative certainty that the EU market provided, in terms of a remunerative price and reliable offtake, no longer exists.

Source: De Pass, 2018

although the Caribbean Forum (CARIFORUM) EPA was signed in 2008, with substantial EU support for implementation, non-tariff barriers and regulations continue to prevent easy exports of goods and services to the EU market. A further challenge for the region's financial services sector involves de-risking and the withdrawal of correspondent banking relationships from local banks in the Caribbean by global banks in the USA and the UK. Canadian banks have, however, continued their operations, partly offsetting the harmful effects from the loss of these arrangements, while blockchain and digital currencies have been flagged as possible solutions to de-risking (see Part 3).

Of the 14 independent Pacific island countries (PICs), nine are Commonwealth small states. These countries span three distinct Pacific subregions: Melanesia (Fiji, Papua New Guinea, Solomon Islands, Vanuatu), Micronesia (Kiribati, Nauru) and Polynesia (Samoa, Tonga, Tuvalu). These Commonwealth small states, together with other PICs, have made substantial progress in expanding and deepening regional integration.

This progress has been driven by multiple and overlapping policy mandates that recognise the importance of regional integration. Some of these decisions taken by Pacific leaders have emerged from public consultations undertaken by the Pacific Islands Forum Secretariat. This public policy consultative process takes place under the Framework for Pacific Regionalism, which commits PICs to working together to address common challenges through deeper regionalism. The Framework has also yielded progress on regional integration through policy work on labour and business mobility and harmonisation of business practices.

The decisions taken by Pacific leaders have led to concrete actions aimed at securing a high level of regional integration. This includes the negotiation and/or implementation of RTAs, often through variable geometry, such as the Pacific Island Countries Trade Agreement, including its trade in services protocol, and the Melanesian Spearhead Group Trade Agreement.

A key linchpin of efforts aimed at regional integration was the negotiation of the Pacific Agreement on Closer Economic Relations (PACER) Plus concluded in 2017 by Australia, New Zealand and eight PICs.[9] PACER Plus is a comprehensive FTA covering goods, services and investment, with important development provisions.

Australia and New Zealand have both set AfT funding targets for PICs under the PACER Plus Development and Economic Cooperation and an accompanying implementation arrangement, as well as broader AfT initiatives in the Pacific region, which aim to improve the PICs' supply capabilities and trade-led sustainable development prospects (Box 2.5). Australia and New Zealand have committed resources to a `readiness package' (A$4 million and NZ$4 million) to help the PICs ratify the PACER Plus Agreement and prepare for entry into force. Additional support will be provided to help implement the agreement so PICs can take advantage of the opportunities PACER Plus offers.

In addition to regional efforts at integration, the PICs are also seeking to integrate into GVCs through FTA negotiations with extraregional partners. While trade between PICs and the EU remains limited, Fiji and Papua New Guinea (separately) are implementing an interim EPA with the EU. Samoa and Solomon Islands have recently informed the European Commission of their interest in joining the EPA. The interim EPA includes flexible rules of origin for fisheries, which allows globally sourced fish to enter the EU market as a Pacific-originating product, provided that such fish were landed and processed in the Pacific ACP state. Fisheries-related conservation and management measures, however,

BOX 2.5

AUSTRALIA AND NEW ZEALAND AFT: PROMOTING INCLUSIVE PROSPERITY IN THE PACIFIC

Australia will provide A$1.1. billion in official development assistance (ODA) to the Pacific in 2017–18.[10] Australia has also committed to an AfT target of 20 per cent of ODA by 2020, which is consistent with the level of investment by other key donors and the increasing demand from developing countries, especially in the Pacific. In 2016–17, total ODA to the Pacific was estimated to be around A$770 million. Australia's AfT has supported, among other things, women's empowerment in the South Pacific and Indian Ocean Rim countries; trade facilitation and integration; infrastructure and finance; agriculture and services; and health and disability. Examples of specific projects that have benefited from Australian AfT are the Papua New Guinea Expansion of Microfinance Project, for which Australia provided a grant equivalent to A$6 million; the Samoa Submarine Cable Project linking Samoa to Fiji, which Australia co-financed to the value of A$1.5 million; the Pacific Financial Inclusions Programme (Phase 1), to which Australia contributed A$10 million; and the Vanuatu Interchange Cable Network, to which Australia provided a grant of A$20 million.

New Zealand's aid programme will invest NZ$1 billion in the Pacific region over the period 2015/16–2017/18. This includes an increase of NZ$111 million over the previous funding period. The country has also committed to a funding target of 20 per cent of its total ODA to AfT in the Pacific. New Zealand aims to contribute to economic infrastructure development in the Pacific through investments in renewable energy, ICT and transport; productive capacity-building, especially in agriculture, fisheries and tourism (see Part 3 for new technologies in these sectors); and trade and labour mobility and economic governance. Examples of specific projects that have benefited from New Zealand AfT are solar power grid installations in the Cook Islands, for which New Zealand has provided NZ$23.5 million; support to the Solomon Islands Inland Revenue Department to improve tax administrative operations; the Fisheries Employment Initiative pilot for experienced and/or trained fishing workers from Kiribati and Tuvalu; and the Canterbury Reconstruction Employment pilot for skilled carpenters from Fiji, Tonga and Samoa.

Sources: Commonwealth of Australia, 2017 (http://dfat.gov.au/aid/topics/development-issues/aid-for-trade/pages/aid-for-trade.aspx; http://dfat.gov.au/about-us/publications/Documents/new-zealands-approach-to-aid-for-trade.pdf) remain unresolved and the negotiations towards a comprehensive EPA involving all 15 Pacific ACP countries have been suspended for three years starting in September 2016.

2.7 Conclusion and way forward

Notwithstanding rising protectionist sentiments, modest recovery in world trade growth and persistent challenges in global trade governance, the multilateral trading system continues to play a pivotal role in supporting the trade, growth and sustainable development objectives of many of the world's poorest, smallest and most vulnerable countries. However, at this crucial juncture, a key priority for the international community is to sustain the recovery in world trade growth and strengthen the multilateral trading system.

The Commonwealth is actively contributing towards these goals. The Commonwealth and its members remain at the forefront of international advocacy to promote free trade in a transparent, inclusive, fair and open rules-based multilateral trading system; are extending substantive political, financial and technical support to a host of multilateral initiatives, among others on trade facilitation and AfT; and, in supporting extensive efforts to deepen regional integration, are providing large-scale financial and technical support to Commonwealth and other countries.

Looking ahead, further consideration could be given to how Commonwealth members – working individually, collectively and with international partners – can contribute towards sustaining the world trade recovery; and to how international trade can be better harnessed, to play an effective role in realising the SDGs. Building on the Commonwealth's diverse experiences and crucial dependence on international trade, Commonwealth members can contribute valuable perspectives within global discourse, through the WTO, UN, G20 and other multilateral and regional organisations, on the role of trade in promoting growth, jobs and sustainable development. Given popular discontent about globalisation in many countries, they can accompany this with a new global narrative that trade represents an abiding force for human advancement.

Endnotes

1 The LPI is an overall metric of supply chain efficiency. It lists information on a country's relative logistics performance and provides a broad indication of the challenges and constraints to improving logistics performance. The coverage of LPI extends to 160 countries (in LPI 2016), and is built on more than 5,000 country assessments by over 1,000 freight forwarders and logistics professionals worldwide. The respondents rate the logistics performances of their country and eight other countries on a scale of 1 to 5. The LPI is published every two years, and covers 2007, 2010, 2012, 2014 and 2016.

2 Commonwealth members comprise more than half of the 11 parties to the Comprehensive and Progressive Agreement for TPP. The USA withdrew from the TPP in January 2017. In January 2018 the UK government stated it is exploring becoming a member of the TPP after Brexit in March 2019 and has held informal discussions with some of the members.

3 The Addis Ababa Action Agenda, which mobilises resources to implement the SDGs, commits participants to strengthening regional cooperation and regional trade and investment agreements (paragraph 87).

4 The EU has fully or partially removed customs duties on 98.7 per cent of imports coming from South Africa.

5 The EU's EBA scheme provides duty-free and quota-free market access for all LDC-originating goods except armaments.

6 Joint Leaders' Statement on the Negotiations for the Regional Economic Comprehensive Partnership, 14 November 2017, Manila, the Philippines.

7 Originally with Bhutan but the country has withdrawn, citing environmental objections.

8 CARICOM also includes Montserrat, a British overseas territory, Guyana and Suriname in South America and Haiti in the French Caribbean.

9 The agreement was signed in Nuku'alofa in Tonga on 14 June 2017 by Australia, New Zealand and eight PICs: Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon Islands, Tonga and Tuvalu. Vanuatu signed in Apia in Samoa on 7 September 2017. Fiji and Papua New Guinea are not part of the agreement, although they are free to join later.

10 In 2017–18, Australia will provide A$3.9 billion in total ODA (Commonwealth of Australia, 2017).

Part 3: Harnessing digitisation for Commonwealth trade, investment and prosperity

In an age of rapid technological innovation, Commonwealth members are making extraordinary progress in accessing and harnessing new digital and other technologies to boost trade and investment and transform their prospects for sustainable development. Part 3 examines the extensive opportunities and potential gains from digital technology, which also requires addressing some of the gaps in access to critical enabling technologies in many member countries.

There are three major findings with policy implications for Commonwealth member countries:

- Full access to broadband internet could add up to US$1 trillion to the GDP of the Commonwealth, triggering more trade and investment and underpinning improved prospects for sustainable development across member countries.
- Business-to-consumer (B2C) e-commerce sales in Commonwealth countries were an estimated US$350 billion in 2015. With only 144 million online shoppers – or 6 per cent of the population – there is potential to increase digital trade, but this requires significant improvements in digitisation, logistics and regulation.
- Several Commonwealth member countries, both developed and developing, are global leaders, pioneers and innovators in the fintech sector; and one outcome is greater financial inclusion and empowerment in many regions of the Commonwealth.


Full access to broadband internet could add up to
US$1 trillion
to the Commonwealth's GDP
This would trigger more trade and investment and help transform the prospects for sustainable development

3.1 Introduction

Technology has historically served as a critical driver of globalisation, underpinning the rapid expansion in world trade and driving human progress, raising living standards and welfare, and precipitating transformative improvements in human health, education and economic and social development. The 2030 Agenda for Sustainable Development recognises the catalytic and transformative role of technology: 'The spread of information and communications technology and global interconnectedness has great potential to accelerate human progress, to bridge the digital divide and to develop knowledge societies, as does scientific and technological innovation across areas as diverse as medicine and energy' (UN, 2015). The importance of ICTs is further enshrined in SDG Target 9.c, where the international community commits to 'significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020'.[1]

There has never been a time of faster technological innovation than today, unleashing new opportunities for trade, investment and innovation among the 53 Commonwealth members. Equally, there has never been a time potentially more disruptive to international trade. Rapid developments – such as automation, artificial intelligence (AI), 3D printing, the Internet of Things (IoT), blockchains and virtual currencies (Table 3.1) – are fundamentally changing the way we live and work. The technology-driven Fourth Industrial Revolution (4IR) is forecast to disrupt traditional patterns of trade and investment, as well as production, consumption and supply chains, although the timeline for achieving scale for many of these new technologies can be decades rather than months (Brooks, 2018). Nonetheless, digital technology applications are already generating new products, services and solutions with direct and indirect benefits to the Commonwealth's 2.4 billion citizens (Box 3.1).

Technology's multiple roles and diverse impacts offer all Commonwealth countries opportunities to diversify their economies; to increase productivity, output, growth and employment; to connect economically with large and dynamic diasporas; to access global trade and financial markets; to increase participation in global trade by taking advantage of the unbundling of production processes within larger GVCs; and to drive down the costs of trade. In doing so, technology – especially digital technologies and new business models that create, exchange and distribute value – provides untapped new ways of growing intra-Commonwealth trade and investment, especially for small states, LDCs and SSA members.

Part 3 of the Commonwealth Trade Review explores the potential to expand Commonwealth trade by harnessing new technologies, especially digital technologies.

TABLE 3.1
SUMMARY OF KEY EMERGING TECHNOLOGIES BY EXPECTED TIMESCALE FOR IMPLEMENTATION

2–5 years	5–10 years	10 years+
Machine learning	Virtual reality	Autonomous vehicles
Software-defined anything	Cognitive expert advisors	Enterprise taxonomy and ontology management
Natural language question answering	Blockchain	Brain–computer interface
Blockchain	Connected home	Human augmentation
Servicisation of cars	IoT platform	4D printing
	Micro-data centres	Smart dust

Source: Various, compiled by MacGregor, 2018

BOX 3.1

EXAMPLES OF DIGITISATION TRANSFORMING THE COMMONWEALTH

Five years ago:

... a rural smallholder farmer in Kenya would rely on middlemen and neighbours for information on weather, inputs, finance and prices. Today, digitisation sees rural smallholders using their mobile phones and the internet to connect with traders and access considerably more information from a variety of sources, including accurate local weather data. The result is higher productivity and revenue.

... a rural householder in Bangladesh would probably have relied for energy on paraffin, biomass and occasional diesel generators. Yet widespread government-subsidised solar heating systems for households are increasingly digital and being pooled to form nanogrids, making the households potential prosumers as well as ensuring that payment for energy is activated seamlessly.

... Caribbean and some Pacific islands saw planeloads and shiploads of tourists arriving daily, but less than 5 per cent of the total spend remaining in the destination country. Today, with software apps such as TripAdvisor and Airbnb, the benefits from mass tourism are beginning to genuinely trickle down to the destination.

... sick people living in remote or rural areas in some developed and developing Commonwealth countries, looking for a diagnosis, would have relied on formal healthcare delivered by the government, for which they might have needed to travel – incurring time and travel costs as well as the attendant discomforts. Today, with decentralised models of healthcare, local community representatives and the internet can bring expertise to you in your home, saving people's money and resources for only the most essential trips.

3.2 Disruptive technologies, trade and jobs

The pace of technological progress and transformation is unprecedented. Only 21 general purpose technologies (GPTs) – defined as single generic technologies, eventually used widely and for multiple purposes, which produce multiple spillover effects – have been identified in the 11,000-year period to the end of the 20th century (Lipsey et al., 2005). Examples include the wheel, electricity, steamships and the internet. But no fewer than three new GPTs have already emerged since 2000, including nanotechnology, business virtualisation and AI. Global market penetration of the core technologies underpinning digitisation, namely mobile telephony, the internet and cloud computing, is occurring at unprecedented speed. The costs of these technologies are also declining rapidly at an estimated rate of over 10 per cent annually, making them more readily accessible and available (WeAreSocial, 2017).

Mobile phones are now owned or used by two-thirds of the world's population, almost 5 billion people; and usage transcends wide disparities in economic and social status and in geographical profile. Africa is today one of the fastest growing ICT markets in the world, with many countries 'leapfrogging' landline telephony to mobile connectivity. Affordable prices for handsets and cheaper and better broadband connections are helping drive this transformation, resulting in nearly 700 per cent growth in the mobile telephone market between 2005 and 2015 (Vickers and Peña-Méndez, 2015). However, more than 1.7 billion women in low- and middle-income countries do not own mobile phones; and a further gender gap in mobile phone usage prevents women from reaping the full benefits of this technology (GSMA Connected Women, 2015).

Internet access has also accelerated rapidly. The number of internet users has more than tripled in a decade – from 1 billion in 2005 to an estimated 3.2 billion at the end of 2015 (World Bank, 2016). It is estimated that 30 per cent of young people (15–24 years old) in LDCs are using the internet, and that 35 per cent of all individuals using the internet in LDCs are young people (ITU, 2018). The speed of internet access is also increasing: in 2016, broadband speed increased by 2.3 per cent to 6.3 Mbps (Akamai, 2016). Yet the internet still remains unavailable to 3.9 billion people globally, many of whom live in LDCs. Among the LDCs, only one in six people currently use the internet (UNCTAD, 2017b). Without universal and affordable access to the internet, the outlook for achieving all 17 SDGs is extremely challenging (UNCTAD, 2017c; ITU, 2018).

Cloud computing, or server-based computing, improves the agility of businesses by relying on ICT services provided over the internet, and promises to reduce costs of software, hardware, laptops, risk to company data, and document and data storage. An explosion in the flow of digital data, containing flows of information, searches, communication, video, transactions and intracompany traffic, has meant that digital flows now wield a greater influence on GDP growth than trade in goods (MGI, 2016b).

Securing the gains from rapidly evolving new technologies while navigating their potential disruptive effects presents a vast challenge for all Commonwealth member countries, as well as other countries. Technology has historically exerted pressure on jobs, businesses, economic activity and trade. From the mechanisation of agriculture to blockchain use in digital trading transactions, technology has made some jobs obsolete, and created anxiety for many more workers in a range of sectors. On the one hand, there are many reports about the demise of jobs owing to automation; on the other hand, reports show that, while automation often replaces human labour, it very rarely eliminates an entire occupation; for example, just one of 270 occupations in the US Labor Census 1950 has disappeared owing entirely to automation, namely lift operator (Bessen, 2016; Kessler, 2017).

Technological innovation will indeed be key to tackling unemployment, especially among young people, across the Commonwealth. The transition to a digitised economy requires new investment, jobs and skills, especially in 4IR-relevant industries. This could counterbalance the 6–12 per cent expected automation redundancy, but would require considerable investment (Arntz et al., 2016; MacGregor, 2018). Overall, however, the employment disruption in Commonwealth countries – and elsewhere – is difficult to discern (Box 3.2).

In summary, for many Commonwealth countries, beyond specific new technologies in agriculture, manufacturing and services, digitisation and the digital technologies that underpin it have the potential to transform multiple sectors, using many business models; and they offer enormous economic, financial and developmental benefits. Table 3.2 provides an illustrative example of the enormous potential across economic sectors from the application of digital technologies in India.

3.3 Harnessing digitisation for Commonwealth trade and development

The digitisation of goods and services offers substantial and largely untapped opportunities to Commonwealth small states, LDCs and SSA countries

BOX 3.2

TECHNOLOGICAL INNOVATION, AUTOMATION AND JOBS

In the Commonwealth and elsewhere, technological progress induces both increased and decreased demand for labour. There are small – and possibly positive – effects of technological change on aggregate labour demand and employment, but also evidence of negative effects, with costs often disproportionately borne by certain groups or communities in the form of declining incomes or job losses (WTO, 2017a). For example, technological change has propelled the creation of new industries and the decline of existing ones; precipitated shifts in employment from lower-to higher-productivity industries and sectors; and created new high-value-added employment in new sectors. Yet, through mechanisation, automation and the rapid increase in use of industrial robots, technological change has also replaced labour and reduced demand for labour, particularly in industries in which cognitive or manual tasks can be completed without human intervention. Activities most susceptible to automation involve physical activities in highly structured and predictable environments, as well as the collection and processing of data (e.g. manufacturing, accommodation and food service, and retail trade, and some middle-skill jobs). Key development benefits could include better access to higher-quality, more immediate healthcare, education, information, financial services, leisure activities and commercial opportunities.

Source: MGI, 2017; MacGregor, 2018

TABLE 3.2
DIGITAL TECHNOLOGY: ESTIMATED BENEFITS TO THE INDIAN ECONOMY

Sector	Technology	Evolving business model	Estimated benefits to 2025, profile (2014 US$)
Agriculture	Mobile technology, internet, digital payments, extension services over internet	Information on market prices and extension increasing production and reducing post-harvest losses	Improved incomes for 100 million people, improved nutrition to 300–400 million people, US$45–80 billion
Finance	Blockchain, mobile technology	Disintermediation, improved financial access and (through Aadhaar digital biometric identity) facilitated financial access	Higher productivity, higher incomes, US$32–140 billion
Energy	IoT, mobile technology	Smart metering	Electrification, improved investment, greater efficiency, less redundancy, US$50–95 billion
Healthcare	Mobile technology, internet	Remote health services, digitally enabled healthcare workers, who can tap expert systems	Improved healthcare provision to 400 million people, US$25–65 billion
Education	Internet	Information access through massive open online courses and other approaches to education through the internet	Higher productivity through better educated workforce, US$60–90 billion

Source: MGI, 2014; MacGregor, 2018

to overcome several barriers to trade brought about by their lack of connectivity, high transport costs and geographical remoteness, as well as their limited access to global trade and financial markets. Many Commonwealth countries are demonstrating extraordinary success in identifying, adopting and implementing these new technologies to help improve productivity, competitiveness, growth and exports; to reduce costs of production and trade; and to accelerate sustainable development (e.g. platforms for delivering education and training, tele-medicine, e-government services, and news and information). Digital trade, where accessible, is empowering women and young people as entrepreneurs and traders, allowing them to access new resources, to transform their marketing and distribution processes and to connect to new suppliers and new markets.

However, if technology is to be truly transformative, it is imperative to bridge the gender gap in mobile phone access and usage, digital connectivity and employment in ICT sectors in low- and middle-income countries (Box 3.3). Some of the more digitally connected Commonwealth member countries, such as Australia and the UK, have experience in developing inclusive digital strategies. There is an opportunity for greater knowledge-sharing within the Commonwealth, to enable fellow Commonwealth members to draw on these experiences to foster and accelerate inclusive and sustainable development by closing the digital gender gap and harness the transformative potential of ICTs for women's empowerment.

The section below provides three examples, among many, of how Commonwealth countries are already harnessing transformative technologies for greater trade, investment and development: digital trade and e-commerce, fintech, and enhancing productive and trade capacities.

3.3.1 Digital trade and e-commerce

Global e-commerce is expanding rapidly, removing barriers to transactions in goods and services, driving down cross-border transaction costs, transforming distribution and consumption systems and catalysing new GVCs. Business-to-business (B2B) e-commerce alone – hence excluding e-commerce conducted with and between either governments or individuals – is estimated to have exceeded US$25 trillion (domestic and cross-border) in 2015 (UNCTAD, 2017b).

Table 3.3 presents the first-ever estimate of business-to-consumer (B2C) e-commerce sales in the Commonwealth. In 2015, Commonwealth member countries

BOX 3.3

TACKLING THE 'DOUBLE DIGITAL DIVIDE' CONFRONTING WOMEN

Despite the potential opportunities unleashed by new technologies, there remains a significant gender disparity between women and men in mobile phone access and usage, digital connectivity and participation in the digital economy.

Women on average are 14 per cent less likely to own a mobile phone than men, which translates into 200 million fewer women than men owning mobile phones in low- and middle-income countries; and this gender gap in mobile phone ownership is most pronounced in South Asia (GSMA Connected Women, 2015). The impact on women's empowerment is significant, since various surveys suggest that mobile phones can help women feel safer and more connected, save time and enable access to key services such as mobile money, health information or potential education and employment opportunities (ibid).

Mobile technology can also empower women as entrepreneurs in both the formal and the informal economies. For example, vulnerable cross-border traders in many Commonwealth developing countries, particularly women, have limited market information and face multiple barriers to trade, and mobile technology provides them with greater personal security in making payments and receiving money electronically and without the need to carry cash. It also reduces uncertainty and loss of time, by providing mobile-enabled updated market price, customs, tariff and other information related to border procedures.

Digital connectivity is especially a challenge in LDCs, where women are 31 per cent less likely than men to be connected (ONE, 2016; EIU, 2017). According to GSMA Connected Women (2015), closing the 14 per cent gap in women's mobile access worldwide could unlock an estimated US$170 billion market opportunity for the mobile industry from 2015 to 2020, bringing growth and prosperity to many households.

Women are underrepresented in the digital economy (ITU, 2017). About 100 million people worldwide are employed in ICT services, which provide relatively well-remunerated employment for women. However, the share of women in ICT specialist occupations remains very low, especially in developing countries (UNCTAD, 2017b). A report by PLAN (2018) lays bare the inequality in the digital economy, with fewer than a quarter of employees in ICT being female.

TABLE 3.3
B2C E-COMMERCE SALES IN COMMONWEALTH COUNTRIES, 2015

Country	B2C e-commerce, 2015		Online shoppers, 2015	
	US$ billion	% of GDP	Million	% of population
United Kingdom[a]	199.8	7.0	39.4	60
India[b]	19.6	0.9	28.2	2
Canada[c]	47.9	3.1	13.5	37
Australia[d]	27.8	2.1	9.7	40
Singapore[e]	2.7	0.9	2.2	40
Malaysia[f]	1.5	0.5	2.6	8
Six above	299.3	3.5	95.6	6
Estimate for the Commonwealth	354.0	3.5	144.0	6

[a]B2C includes small enterprises, source: ONS
[b]B2C, source: IAMAI and IMRB. Shoppers refer to 2014, source: Pew
[c]B2C refers to 2013 and shoppers to 2012, source: Statistics Canada
[d]B2C, source: UNCTAD estimate based on ABS data. Shoppers, last 3 months, source: ABS
[e]B2C refers to 2014, source: Singapore Post. Shoppers, source: Statistics Singapore
[f]B2C refers to 2014, source: MITI. Shoppers, source: DOS
Source: UNCTAD estimates based on data from the sources cited in the footnotes

generated around US$354 billion in sales, representing 3.5 per cent of GDP.[2] With only 144 million online shoppers – or 6 per cent of the Commonwealth's population – there appears to be some potential to increase both domestic and cross-border sales in the future, especially by tapping into a large and dynamic diasporic community. In developing countries, particularly in Asia and Africa, B2C e-commerce is expanding rapidly (Baker, 2017).[3] However, expanding e-commerce in the Commonwealth will require significant investment in digitisation, vastly improved distribution and delivery systems, and tackling the range of policy, regulatory, infrastructure, educational and cultural constraints that stifle the transition from analogue to digital economies.

Digital trade in the Commonwealth in 2015

Improvements in digitisation, infrastructure, logistics and regulation can trigger further opportunities

Source: UNCTAD estimates

Deeper analysis of the data reveals the magnitude of this challenge: six Commonwealth countries account for around 85 per cent of B2C e-commerce sales, while the other members generated only US$54.7 billion in 2015. Although an increasing number of Commonwealth citizens are online, this is often for social media and entertainment rather than commercial purposes. Many small states, LDCs and SSA countries still have a long way to go to catch up and improve their e-commerce ecosystems to benefit from new digital trade opportunities. This includes reducing the costs of broadband and increasing access to it; accelerating access to affordable and accessible energy, mobile finance and ICT technologies; increasing technology-related education and skills development and strengthening human resource capacities and technical skills in information-intensive activities; expanding technological research and development, including through closer collaboration between government, industry and the scientific and educational sector; and establishing a supportive and strengthened regulatory and legal framework for transacting e-commerce and payments.

Bilateral donors and multilateral agencies have a key role to play in providing technical and financial assistance to help achieve the SDG target of providing universal and affordable access to the internet in LDCs by 2020 – and, by extension, helping improve the e-commerce ecosystem. Through the WTO's Work Programme on e-commerce, the Commonwealth can advocate reduced trade barriers to e-commerce affecting developing country exporters and the provision of technical assistance and capacity-building for the poorest countries. It can support the establishment of an Aid-for-e-Trade initiative to support developing countries in their initiatives to access the burgeoning e-commerce ecosystem. The WTO's expanded Information Technology Agreement (ITA) could potentially also help Commonwealth member countries access more affordable information technology products and equipment to enable greater digital connectivity and commerce (Box 3.4).

3.3.2 Fintech and financial innovation

Several Commonwealth member countries, both developed and developing, are global leaders, pioneers and innovators in the fintech sector. Fintech offers significant potential to enhance efficiencies, reduce costs, enable more effective risk management and expand access to financial services across a range of different areas, including lending, payments, personal finance, money transfer and insurance. Global fintech investments increased from US$2.5 billion in 2012 to over $17 billion in 2016. Investment in Asia represents half of investment, followed by the traditional fintech 'hubs' of North America and Europe, including the UK, while Canada and Australia play an increasingly important role (Rutherford and Zaman, 2017). People and organisations in Commonwealth member countries – from central banks and regulators to the public and private sectors, including young entrepreneurs

BOX 3.4

ACCESSING TRADE-ENABLING TECHNOLOGIES: A ROLE FOR THE WTO'S INFORMATION TECHNOLOGY AGREEMENT?

Since 2015, there has been progress to expand multilateral efforts to widen access to IT products, among others by reducing and eliminating tariffs on these products. The ITA is a plurilateral agreement operating under the aegis of the WTO. It was originally concluded by 29 participants in the WTO's First Ministerial Conference in Singapore in 1996. Since its conclusion, the number of participants has grown to 82 countries, including 11 Commonwealth members,[4] representing about 97 per cent of world trade in IT products. Participants are committed to completely eliminating tariffs on IT products covered by the Agreement.

The WTO's 10th Ministerial Conference in Nairobi in 2015 made further progress, with over 50 members agreeing to an expansion of the Agreement, which now covers an additional 201 products valued at over US$1.3 trillion per year. The initiative has been successful; the WTO's report on G20 trade measures, issued in November 2017, estimates that the additional import-facilitating measures implemented in the context of the expanded ITA are worth approximately $300 billion.

Source: Commonwealth Secretariat

and tech start-ups – are engaging with the fintech sector in a number of ways.

Almost a half of Commonwealth citizens have no access to basic banking services, including 927 million citizens in Asia and almost 300 million in Africa (MacGregor, 2018). However, mobile technologies and the development of mobile money systems, which store money in the national currency as credit on smart cards, and enable payments online or through mobile phones, are now transforming access to finance, enabling the unbanked to hold or save cash electronically, improving the array of banking services and underpinning all pay-as-you-go services and applications; these include energy payments for households and MSMEs, transport and healthcare provision. Kenya's M-Pesa system has led the mobile money phenomenon to the point of becoming a global benchmark (Box 3.5).

Fintech, including blockchain and digital currencies, have been flagged as possible solutions to de-risking, which continues to affect a range of Commonwealth members, particularly small states in the Caribbean and Pacific. For example, there have been proposals to use a blockchain-based settlement framework to improve the surveillance of transactions and even to bypass the need for correspondent banks altogether (Rutherford and Zaman, 2017).

With several member countries at the forefront of global fintech innovation and implementation, including some SSA member countries, there is an opportunity for greater sharing of knowledge, information and experiences among Commonwealth members. Strengthening partnerships with the private sector, including young entrepreneurs and tech start-ups, can accelerate the provision of financial services in new and inclusive ways. Commonwealth members, individually and collectively, can deploy a 'regulatory sandbox' as a safe environment for financial institutions and fintech start-ups to experiment with innovative financial products or services; and promoting wider pan-Commonwealth collaboration through 'innovation hubs' could also deliver great gains.

3.3.3 Enhancing productive and trade capacities

Technological innovations and applications can help overcome some of the constraints to building and transforming productive capabilities in many small states, LDCs and SSA countries. Productive capacity is the fundamental determinant of what a country is able to produce competitively and trade in internationally, including with other Commonwealth members. While there are many factors that determine or could enhance a country's productive capacity, and many fall well outside the boundaries of trade or trade-related policy,[5] four examples briefly highlight the contribution of transformative technologies in energy, agriculture, the oceans economy and tourism.

BOX 3.5

COMMONWEALTH SSA MEMBERS AS GLOBAL LEADERS IN FINTECH

Mobile technology plays a crucial role in promoting financial inclusion in Africa, where fewer than 20 per cent of households have access to formal financial services. M-Pesa ('M' for 'mobile', and 'pesa' is Swahili for 'money') is a Kenyan mobile phone-based money transfer, financing and microfinancing service operated by Safaricom. M-Pesa allows users to deposit, withdraw and transfer money and pay for goods and services easily with a mobile device. The service was established in 2007 with the support of a grant from the UK DFID. Ten years later, M-Pesa had nearly 30 million users in 10 countries, including several Commonwealth member countries: Ghana, India, Lesotho, Mozambique and Tanzania. M-Pesa has also played a major part in bridging the gender gap in mobile ownership in Kenya, which has decreased to only 7 per cent.

Rwanda envisions becoming a cashless economy by 2020, and all government financial transactions being done electronically and via mobile phones by the end of 2018. There are three major mobile operators in Rwanda – MTN, Tigo and Airtel – and they have all successfully launched payments and remittance services (domestic and international) for their customers. It is estimated that there are more than 300 fintech start-ups in Africa. Kenya, Nigeria and South Africa are at the forefront of this start-up activity. Nairobi and envisaged technology hubs such as Konza Techno City, currently under construction using smart city planning principles, are fast gaining a reputation as Africa's 'Silicon Savannah'.

Sources: Vickers and Peña-Méndez, 2015; Joseph, 2017; Rutherford and Zaman, 2017

Power generation and renewable energy

Power shortages are seen as one of the most critical impediments to developing productive and trade capacities further. While electrification is comprehensive in Commonwealth developed country members, only 24 per cent of citizens in Pacific member countries and 43 per cent of citizens in SSA have access to electricity. Across the Commonwealth some 675 million people or 28 per cent of all Commonwealth citizens have no access to electricity, including 301 million people in Africa and 365 million in Asia (MacGregor, 2018).

Renewable energy is growing at an unprecedented pace globally, with solar photovoltaic capacity expanding from 6 GW in 2006 to 303 GW in 2016 (MacGregor, 2018). New models of distributed renewable energy (DRE), leveraging technological breakthroughs enabling mass production of solar photovoltaics and improvements in battery storage capacity, are quickly bypassing and complementing existing electricity grid infrastructure, bringing access to reliable, cheap and clean energy to households, to the rural and urban poor and to previously off-grid communities in remote areas. Globally, DRE is expected to deliver 70 per cent of all new rural electricity connections by 2030 (IEA and World Bank, 2014).

Commonwealth countries are global leaders in adoption and innovative application of these technologies. Many Pacific members, for example, are rapidly shifting from dependence on fossil fuel to renewable energy; and Tuvalu has set the goal of becoming entirely dependent on renewable energy by 2020. If this target is met, Tuvalu will become the first country in the world to achieve this goal. In South Asia, India's commitment to have 40 per cent renewable energy in 2030 is expected to be surpassed by 2025; and Bangladesh is now the world's largest market for solar home systems. Several other Commonwealth developing countries, including Guyana, India, Kenya, Tanzania and Uganda, are rapidly expanding small-scale renewable systems, including nano- and microgrids.

Agriculture

Digital technologies, including blockchains, are transforming agricultural production, marketing and productivity across the Commonwealth, empowering small farmers, enabling connectivity to agricultural value chains, removing loss of value through intermediaries, allowing the development of international and local trading platforms, and bringing access to previously inaccessible information and services, including commodity information, weather services and agricultural insurance. For example, the digital application of weather insurance helps farmers in East Africa take averting measures against episodic shocks (e.g. hailstorms), and will provide financial assistance when problems occur. In India, precision farming (using sensors and geographic information system-based soil, weather and water data to guide farming decisions) and mobile internet-based farm extension and market information services are significantly increasing value in this sector (MGI, 2014).

Oceans economy

With the large number of Commonwealth small and coastal states, new initiatives are also needed to access many other digital, satellite and remote-sensing technologies that support sustainable development of the fisheries and other oceans economy sectors. These include floating offshore marine cage operations and submersible nets; remote monitoring and intelligent processing of fish stocks; satellite technologies that enhance maritime surveillance, detect and respond to illegal, undisclosed and unreported fishing and enable traceability of fish breeds and stocks; and transport and logistics infrastructure to ensure rapid transport of processed fish to global markets.

Globally, ocean renewable energy technologies are also proliferating. Several Commonwealth small states are pioneering energy generation from these sources, including Seychelles through wind and solar energy, and Mauritius through deep ocean electricity generation.

Tourism

Commonwealth and other SIDS derive over 30 per cent of employment and between one-fifth and half of their GDPs from tourism (UNCTAD, 2014); and tourism accounts for almost a half of small states' services exports. Digital technologies, including the development of call centres and data-processing facilities, are all enabling Commonwealth developing countries and small states to expand the tourism value chain by supporting travel organisation and booking, transport, accommodation, food and beverage provision, the development of niche craft industries and promotion of cultural and natural assets.

Expanding the use of these technologies is also enabling the expansion of tourism value chains to include new backward linkages within traditional and emerging sectors in the domestic economy, including agriculture, fisheries, environmental and oceans economy activities, for example by sourcing high-quality agricultural produce, fish, crustaceans and molluscs for the domestic tourism industry from local sources; through conference and events management; and by developing new niche tourism markets, including ecotourism, environmental tourism and marine-based tourism.

3.4 Overcoming technology gaps in the Commonwealth

Despite the extensive opportunities and potential gains from digital technology, evidence from across the Commonwealth suggests there remain significant gaps in access to critical enabling technologies in many member countries, and that there is wide divergence in the membership in access to and use of these technologies (MGI, 2016b). While the populations of developed Commonwealth countries have access to high-speed internet and reliable electricity, this is not the case for most Commonwealth developing countries, especially small states, LDCs and SSA. The latter countries experience internet speeds approximately a third of the average in developed member countries; and most have lower levels of internet access than the global average: SSA (33 per cent), South Asia (24 per cent) and the Pacific (15 per cent). The sections below briefly outline the challenges of access to and speed of the internet, as well as internet infrastructure investment in Commonwealth countries.

3.4.1 Access to the internet

The Commonwealth has a lower level of internet access than the global average (per capita), as well as some of the largest offline populations (by country). On average, internet usage across all Commonwealth countries is 30 per cent, which is substantially lower than the global average of 50 per cent (Figure 3.1). This partly reflects the challenge of providing access in Commonwealth developing countries with large populations, especially rural and remote communities, including Bangladesh, India, Pakistan and Nigeria. There are also stark differences both between developed and developing Commonwealth members and across the Commonwealth regions.

3.4.2 Speed of internet access

Access to the internet is a critical enabling technology, providing the foundational technological platform for e-commerce, ICT, social networking and myriad other activities. Speed of access is also crucial.

Figure 3.2 depicts comparative data on speed of internet access in Commonwealth members, by country. It illustrates that internet speeds are lowest among the Commonwealth's Pacific and SSA members, but also highlights that several Commonwealth developing countries, including Kenya,

FIGURE 3.1
PROPORTION OF THE POPULATION WITH ACCESS TO THE INTERNET, COMMONWEALTH MEMBERS, BY COUNTRY, 2015 (%)

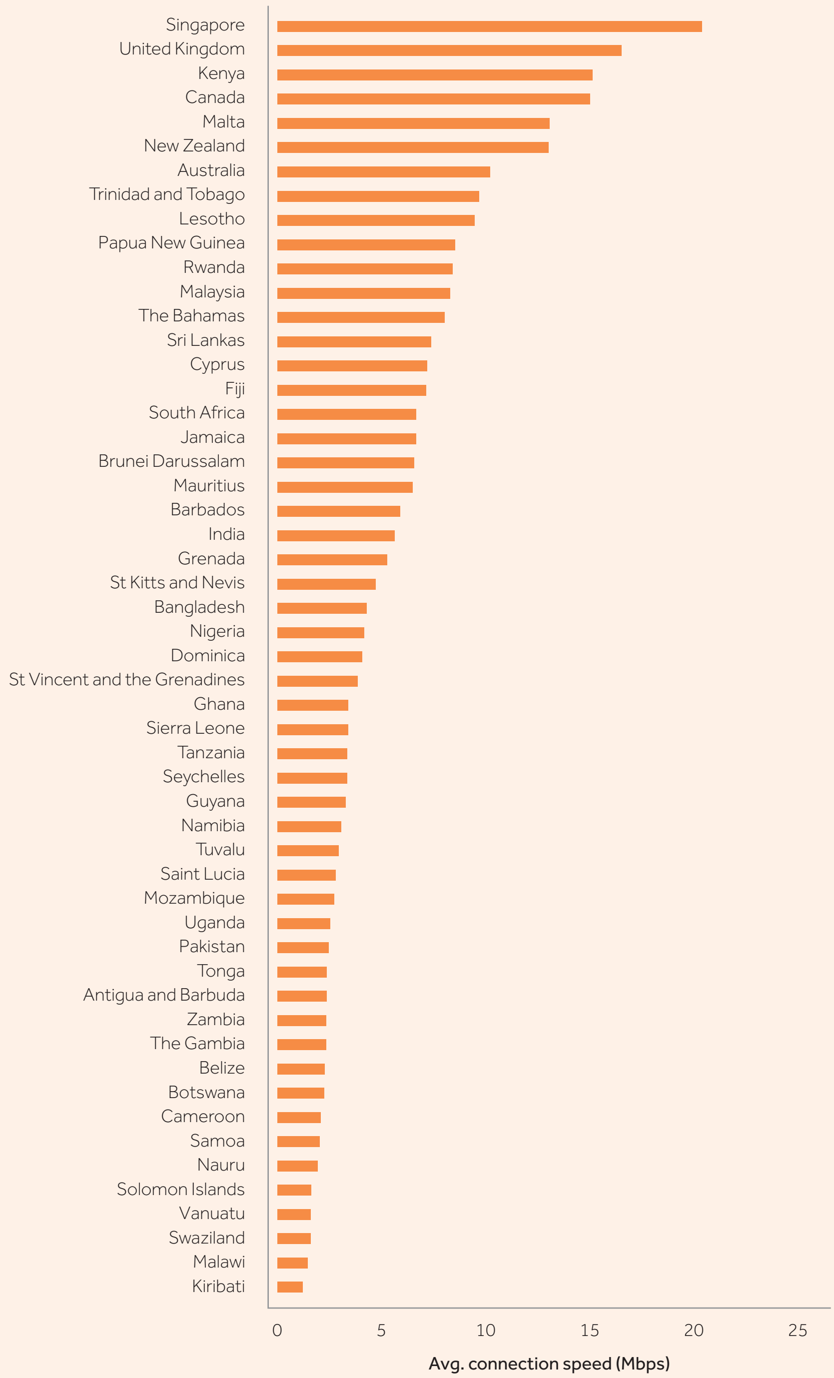
Source: Commonwealth Secretariat (calculated from ITU and World Bank data)

Lesotho, Papua New Guinea, Rwanda, and Trinidad and Tobago, can establish faster broadband capabilities and have successfully done so. Moreover, levels of development and economic size do not necessarily represent critical obstacles to establishing quicker internet access across the Commonwealth: of the 20 Commonwealth countries with access to the fastest internet speed, half are SSA countries (five) and SIDS (five), including three Caribbean and two Pacific members. However, physical distance from major trading markets does appear to be a critical limitation, with most Pacific small states other than Fiji and Papua New Guinea recording the slowest internet speeds.

3.4.3 Investments in internet infrastructure

Commonwealth members continue to face major challenges in investing in internet infrastructure, including the communications protocol that routes traffic across the internet and provides the identification and location system for all computers using the internet, using unique numerical signifiers. The most recent protocol, termed IPv6 (Internet Protocol version 6), uses 128-bit addresses, in comparison with the previous protocol, IPv4, which used 32-bit addresses. This speeds up data transmission and improves security as well as the management of digital data, file-sharing, home automation and other applications. Some of the world's most popular websites – Facebook, Google, YouTube, Yahoo! and Wikipedia – have been using IPv6 for several years. Yet the financial investment in IPv6 for countries and the

FIGURE 3.2
SPEED OF ACCESS TO THE INTERNET, COMMONWEALTH MEMBERS, BY COUNTRY



Source: Akamai, 2016

private sector is not trivial. It includes upgrading hardware and switching routers and servers to either dual-stacked servers or full IPv6, and having access to the professional and technical skills of IPv6 certified engineers.

While investment in IPv6 connections is expanding globally, Commonwealth uptake of this new protocol technology has been slow. Only 11 members have taken substantive steps to adopt IPv6 (Table 3.4). Like the constraints on increasing internet speed, countries' levels of development or sizes do not appear to be binding limitations to adoption of the new protocol: three SSA members are among the ten Commonwealth countries using the new protocol, and, among all Commonwealth countries, Trinidad and Tobago has led this process, with almost a fifth of internet users now utilising this protocol for their internet connections.

TABLE 3.4
IPV6 ADOPTION IN COMMONWEALTH MEMBERS (2017) (% OF INTERNET USE)

Countries	IPv6 adoption (% of total internet use)	Estimated population served
Trinidad and Tobago	19.0	179,463
India	16.7	57,609,724
United Kingdom	12.5	7,487,806
Canada	12.1	3,884,410
New Zealand	10.9	439,002
Malaysia	10.4	2,272,747
Australia	4.6	945,580
South Africa	0.5	142,723
Tanzania	0.2	5,907
Cyprus	0.1	844
Kenya	0.1	21,557
All other members	0.0	2,139
Total Commonwealth	**10%**	72,991,902

Source: Akamai, 2016; Cisco, 2017; WeAreSocial, 2017; World Bank, 2017a

3.5 Closing the gaps: implications for growth and development

Successfully closing technology gaps across the Commonwealth offers enormous potential for growth and, by implication, greater intra-Commonwealth trade and investment flows. Several multicountry studies suggest that each 10 per cent increase in broadband penetration increases GDP growth by 0.9–3.19 per cent, on average (Quiang et al., 2009; Czernich et al., 2011; Scott, 2012; Zaballos and Lopez-Rivas, 2012). When applied across the Commonwealth as a whole, the implications are extraordinary.

The GDP of Commonwealth countries adds up to approximately US$10 trillion. Table 3.5 reveals the expected GDP impact if all Commonwealth countries increased their broadband penetration to 50, 75 or 100 per cent, making two assumptions: access is broadband, whether mobile or fixed; and GDP across all countries reacts similarly (i.e. no thresholds exist). To analyse the effect of improvements in broadband penetration, three scenarios are considered and the results reported in MacGregor (2018):

Scenario I: All Commonwealth countries achieve a minimum level of broadband penetration of 50 per cent of the population, equivalent to the world average, which would necessitate

TABLE 3.5
INCREASING BROADBAND COVERAGE: IMPLICATIONS FOR COMMONWEALTH GDP

% increase in GDP for each 10% broadband (BB) increase	Scenario I: 50% BB (US$ billion)	Scenario II: 75% BB (US$ billion)	Scenario III: 100% BB (US$ billion)	Scenario IV: <50% double BB, 100% BB if >50% (US$ billion)
0.90	74	163	317	
1.38	114	250	486	
3.19	263	577	1,124	598

Source: MacGregor, 2018

some 32 member countries catching up to meet this threshold. This would increase Commonwealth GDP between US$74 billion and $263 billion.

Scenario II: All Commonwealth members achieve 75 per cent broadband penetration, which would require 44 countries catching up to this threshold. This would increase Commonwealth GDP between US$163 billion and $577 billion.

Scenario III: All Commonwealth countries achieve 100 per cent broadband penetration. This would increase Commonwealth GDP between US$317 billion and $1.1 trillion.

While Scenario III might be regarded as unrealistic, since no members currently achieve this standard, it provides an important perspective on gains that can be obtained from digitisation: adding up to US$1 trillion to the GDP of the Commonwealth annually. Scenario I, on the other hand, can be considered a more rational target for Commonwealth developing countries, especially since the international community has committed to strive to provide universal and affordable access to the internet in LDCs by 2020, although many challenges persist (ITU, 2018).

The GDP impact for individual Commonwealth member countries is presented in Annex 3.1.

From a policy perspective, the most pragmatic approach and target would be for the 32 Commonwealth countries below the world average to commit to a doubling of their present broadband coverage, while countries over 50 per cent would work towards full universal broadband penetration. This would contribute around US$600 billion to the GDP of the Commonwealth (see Annex 3.1 **Scenario IV**).

Similarly, there is potential to significantly increase the Commonwealth's collective GDP by achieving increased broadband speed. The average broadband speed among Commonwealth members is 5.7 Mbps while the global average is 6.3 Mbps (Czernich et al., 2011). A study of OECD countries suggests that a doubling of broadband speed can add 0.3 percentage points to GDP growth, while similar studies for China and Brazil suggest that the impacts on GDP are higher, at 2.2 and 4.7 percentage points, respectively (ITU, 2012; Rohman and Bohlin, 2012). Applied to all Commonwealth countries, this suggests that investments in internet speed could add US$4 billion to $444 billion to the GDP of the Commonwealth annually (Table 3.6). The GDP impact for individual Commonwealth member countries is presented in Annex 3.2.

TABLE 3.6
PROJECTED INCREASE IN GDP ACROSS THE COMMONWEALTH FROM IMPROVED BROADBAND SPEED, 2017 (US$ BILLION)

Speed (Mbps)	GDP increase (US$ billion)		
	0.3%	2.2%	4.7%
6.3	4	30	65
9	11	80	170
15	28	208	444

Source: MacGregor, 2018

Achieving both increased broadband penetration and increased speed can also significantly enhance employment (Kelly and Rossotto, 2012). For the German economy, for example, achieving these goals is estimated to increase employment by 960,000 people and output by more than €170 billion (Katz et al., 2010). A similar study of African countries suggests that improving both broadband penetration and speed can add 1.3 million direct jobs and 2.4 million indirect jobs and contribute 6.7 per cent to African GDP (GSMA, 2016).

3.8 Conclusion and way forward

Many Commonwealth countries are leveraging the catalytic role of technology to help improve productivity, competitiveness, growth and exports; to reduce costs of production and trade; and to accelerate sustainable development. These technologies are slowly breaking down constraints owing to limited size, concentration of production, limited diversification, lack of interconnectedness, remoteness and inability to achieve a presence in both established and emerging regional and GVCs. But much more can be done by Commonwealth members, individually and collectively, to further leverage technology's transformative potential to enhance Commonwealth trade and investment and to accelerate access to new technologies, particularly among the poorest, smallest and most vulnerable Commonwealth members.

The Commonwealth as a whole can also play a catalytic role, through several initiatives. First, a new Commonwealth initiative can help promote much wider sharing of country knowledge and experience of the gains from digital technologies; and to share knowledge of emerging new technologies for sustainable development and the impacts these are having in transforming growth, trade and development.

Second, the Commonwealth could consider establishing a Commonwealth Digital Readiness Framework and an e-Readiness Framework, to help identify limitations and constraints on the wider diffusion and adoption of technologies that can foster greater digital connectivity and e-commerce.

Third, new momentum can be given to Commonwealth global advocacy, especially emphasising the particular transformative role of technology in accelerating the more equitable participation of developing countries in global trade, and the need to accelerate access to trade-enabling technologies. Commonwealth advocacy can encourage multilateral agencies to accelerate technical and financial assistance to help Commonwealth and other LDCs achieve universal and affordable access to the internet by 2020.

Annexes

ANNEX 3.1
PROJECTED INCREASE IN GDP (US$ MILLION) ACROSS COMMONWEALTH (AGAINST CURRENT DATA) FROM INCREASED PENETRATION OF BROADBAND TO THE POPULATION (3.19 PER CENT)

Commonwealth countries	Population	GDP per capita (US$)	Estimated GDP increase (US$)			
			Scenario I: 50% BB	Scenario II: 75% BB	Scenario III: 100% BB	Scenario IV: <50% double BB, 100% BB if already >50%
Antigua and Barbuda	92,738	15,626	-	45	161	161
Australia	24,309,330	49,554	-	-	59,330	59,330
The Bahamas	392,718	23,037	-	-	635	635
Bangladesh	162,910,864	1,359	25,145	42,803	60,461	10,171
Barbados	285,006	16,096	-	-	350	350
Belize	366,942	4,811	47	188	329	234
Botswana	2,303,820	6,630	1,096	2,315	3,533	1,340
Brunei Darussalam	428,874	26,582	-	138	1,047	1,047
Cameroon	23,924,407	1,012	2,264	4,194	6,124	1,597
Canada	36,286,378	42,158	-	-	56,266	56,266
Cyprus	1,176,598	16,830	-	207	1,787	1,787
Dominica	73,016	7,196	-	12	54	54
Fiji	897,537	5,160	54	424	793	685
The Gambia	2,054,986	473	102	180	257	53
Ghana	28,033,375	1,523	3,612	7,016	10,421	3,197
Grenada	107,327	9,468	-	69	150	150
Guyana	770,610	4,472	130	405	679	420
India	1,326,801,576	1,706	173,295	353,811	534,327	187,737
Jamaica	2,803,362	5,004	348	1,467	2,585	1,889
Kenya	47,251,449	1,493	985	6,610	12,234	10,265
Kiribati	114,405	1,449	20	33	46	7
Lesotho	2,160,309	1,018	238	414	589	113
Malawi	17,749,826	307	707	1,141	1,575	161
Malaysia	30,751,602	9,637	-	3,721	27,356	27,356
Malta	419,615	26,093	-	-	832	832
Mauritius	1,277,459	9,522	-	965	1,935	1,935
Mozambique	28,751,362	383	1,441	2,319	3,198	316
Namibia	2,513,981	4,084	907	1,726	2,545	731
Nauru	10,263	9,944	16	24	33	-
New Zealand	4,565,185	40,528	-	-	6,951	6,951

(Continued)

ANNEX 3.1 (*Continued*)
PROJECTED INCREASE IN GDP (US$ MILLION) ACROSS COMMONWEALTH (AGAINST CURRENT DATA) FROM INCREASED PENETRATION OF BROADBAND TO THE POPULATION (3.19 PER CENT)

Commonwealth countries	Population	GDP per capita (US$)	Estimated GDP increase (US$)			
			Scenario I: 50% BB	Scenario II: 75% BB	Scenario III: 100% BB	Scenario IV: <50% double BB, 100% BB if already >50%
Nigeria	186,987,563	2,166	3,305	35,610	67,915	61,306
Pakistan	192,826,502	1,471	28,956	51,578	74,200	16,288
Papua New Guinea	7,776,115	2,177	2,274	3,624	4,974	427
Rwanda	11,882,766	705	855	1,523	2,191	481
Saint Lucia	186,383	7,397	-	100	210	210
Samoa	97,026	4,040	62	124	187	64
Seychelles	97,026	14,711	-	77	191	191
Sierra Leone	6,592,102	557	556	849	1,141	29
Singapore	5,696,506	52,131	-	-	16,954	16,954
Solomon Islands	594,934	2,021	153	249	345	38
South Africa	54,978,907	5,363	-	21,709	45,222	45,222
Sri Lanka	20,810,816	3,908	5,191	11,677	18,162	7,780
St Kitts and Nevis	56,183	16,320	-	-	71	71
St Vincent and the Grenadines	109,644	7,030	-	57	119	119
Swaziland	1,304,063	2,858	233	531	828	361
Tanzania	55,155,473	860	6,755	10,538	14,320	810
Tonga	106,915	3,696	6	38	69	57
Trinidad and Tobago	1,364,973	15,377	-	388	2,062	2,062
Tuvalu	9,943	3,442	1	4	6	5
Uganda	40,322,768	633	2,506	4,542	6,578	1,565
United Kingdom	65,111,143	40,222	-	-	66,831	66,831
Vanuatu	270,470	2,860	68	130	192	55
Zambia	16,717,332	1,170	1,809	3,368	4,927	1,310
Commonwealth total			**263,137**	**576,938**	**1,124,275**	**598,002**

Source: MacGregor, 2018

ANNEX 3.2
PROJECTED INCREASE IN GDP (US$ MILLION) ACROSS COMMONWEALTH (AGAINST CURRENT DATA) FROM INCREASED SPEED OF BROADBAND (0.3 PER CENT PER DOUBLING OF SPEED)

Countries	National speed (Mbps)	Estimated GDP increase (US$ million)		
		6.3	9	1.5
Antigua and Barbuda	2.3	7	12	24
Australia	10	-	-	1,754
The Bahamas	7.9	-	4	24
Bangladesh	4.2	325	748	1,690
Barbados	5.8	1	8	22
Belize	2.3	10	16	30
Botswana	2.2	85	141	265
Brunei Darussalam	6.5	-	13	45
Cameroon	2	151	247	459
Canada	14.9	-	-	45
Cyprus	7.1	-	16	66
Dominica	4	1	2	4
Fiji	7	-	4	16
The Gambia	2.3	5	8	16
Ghana	3.4	112	215	444
Grenada	5.2	1	2	6
Guyana	3.2	10	18	38
India	5.6	902	4,199	11,526
Jamaica	6.6	-	16	54
Kenya	15	-	-	1
Kiribati	1.2	2	3	6
Lesotho	9.4	-	-	4
Malawi	1.5	55	85	153
Malaysia	8.2	-	87	737
Malta	12.9	-	-	5
Mauritius	6.4	-	15	49
Mozambique	2.7	44	78	151
Namibia	3	33	60	121
Nauru	1.9	1	1	2
New Zealand	12.9	-	-	92
Nigeria	4.1	639	1,434	3,200
Pakistan	2.4	1,350	2,293	4,389
Papua New Guinea	8.4	-	3	40
Rwanda	8.3	-	2	20

(Continued)

ANNEX 3.2 (*Continued*)
PROJECTED INCREASE IN GDP (US$ MILLION) ACROSS COMMONWEALTH (AGAINST CURRENT DATA) FROM INCREASED SPEED OF BROADBAND (0.3 PER CENT PER DOUBLING OF SPEED)

Countries	National speed (Mbps)	Estimated GDP increase (US$ million)		
		6.3	9	1.5
Saint Lucia	2.8	5	9	18
Samoa	2	5	8	15
Seychelles	3.3	4	7	15
Sierra Leone	3.4	10	19	38
Singapore	20	-	-	-
Solomon Islands	1.6	11	17	30
South Africa	6.6	-	323	1,127
Sri Lanka	7.3	-	57	257
St Kitts and Nevis	4.7	1	3	6
St Vincent and the Grenadines	3.8	2	3	7
Swaziland	1.6	34	53	96
Tanzania	3.3	128	244	501
Tonga	2.4	2	3	6
Trinidad and Tobago	9.6	-	-	36
Tuvalu	2.9	0	0	0
Uganda	2.5	115	197	380
United Kingdom	16	-	-	-
Vanuatu	1.6	7	11	20
Zambia	2.3	100	168	320
Commonwealth total		**4,151**	**10,844**	**28,354**

Source: MacGregor, 2018

Endnotes

1 Similarly, the Istanbul Programme of Action for the LDCs for the decade 2011–20 recognises ICT networks as an infrastructure priority on a par with water, electricity and transport.
2 The estimate is based on the top six economies and then extrapolated to all Commonwealth members on the assumption of similar percentages of population and GDP.
3 One study shows a positive effect of e-commerce on intra-African trade, with more than one-third of Nigerians having purchased goods from other African countries. South Africa is the main destination, with 30 per cent of Nigerian cross-border shoppers buying from the country compared to Kenya with 2 per cent, Egypt with 1 per cent and the rest of the continent with 3 per cent (Vickers and Peña-Méndez, 2015).
4 The following Commonwealth members are parties to the ITA: Australia, Canada, India, Malaysia, Mauritius, New Zealand, Singapore and Seychelles, and Cyprus, Malta and the UK as part of the European Communities.
5 These include health, education and skills, 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 (see Part 4).

Part 4: Deepening the Commonwealth advantage through 21st-century trade governance

The ‘Commonwealth advantage’ is rooted in the historical fabric of institutional and governance ties that influence commerce, trade and investment within the Commonwealth. Traders and investors benefit from familiar legal and administrative systems, as well as similarities in business, commercial and legislative practice. Part 4 examines how improvements in trade governance can further reduce trade costs and boost intra-Commonwealth trade.

There are four major findings with policy implications for Commonwealth member countries:

- Contract enforcement is more efficient among Commonwealth members, in general, and requires 20 per cent less time compared to the world average.
- A 10 per cent reduction in the costs incurred for a good to exit a country can increase intra-Commonwealth exports by 5 per cent.
- Every 1 percentage point improvement in government effectiveness triggers a greater increase in exports from Commonwealth traders, at 3.4 per cent, compared to the rest of the world, at 2.4 per cent.
- Trade between Commonwealth members is more than three times higher when they belong to an existing regional trade agreement, highlighting the importance of effective regional integration for boosting the Commonwealth advantage.

Commonwealth courts generally take

20% less

time than the world average to enforce contracts... boosting business and investor confidence

For exporters, lowering transaction costs by

10 %

5%

Can increase intra-Commonwealth exports

42 out of 49*

Commonwealth WTO members have ratified the Trade Facilitation Agreement

*By the end of February 2018

4.1 Introduction

The Commonwealth is not a formal trading bloc, yet there is evidence to suggest that the 53 Commonwealth members enjoy an important trade advantage. Commonwealth members on average tend to trade more between themselves (about 20 per cent more considering goods and services together) and generate more FDI flows (10 per cent more), while bilateral trade costs are estimated to be 19 per cent less, on average (Commonwealth Secretariat, 2015). And, as demonstrated in Part 2, Commonwealth countries, on average, tend to be less protectionist towards each other and also less protectionist towards the rest of the world, having applied fewer harmful trade-restrictive measures since the global crisis.

Several factors contribute to the Commonwealth advantage. Among them is an enormous historical fabric of institutional and governance ties that influence intra-Commonwealth commerce, trade and investment. Leveraging these linkages and bonds offers an immense comparative advantage and opportunity for Commonwealth members to further drive down intra-Commonwealth trade costs and to expand intra-Commonwealth trade and investment.

Traders and investors within the Commonwealth already benefit from familiar legal and administrative systems in other member country jurisdictions, as well as the similarities in business, commercial and legislative practices relating to the trade in goods, services and investment (Box 4.1).

In every country, the framework of laws, rules and regulations influences the costs of trade, the efficiency of the institutions that support trade and the effectiveness of the inter-relations among stakeholders participating in trade. By implication, harnessing and sustaining new economic opportunities arising from a more connected Commonwealth requires strengthening certain trade governance and regulatory frameworks – from goods and services to investment and intellectual property rights (IPRs) – particularly to enable greater GVC participation and upgrading processes within regional and global value chains that characterise 21st-century world trade. Effective and gainful value chain participation requires a proactive trade governance agenda in order to stimulate a virtuous trade–services–investment nexus, especially to attract greenfield investment to build productive capacity (see Part 1). Many Commonwealth members, large and small, are adjusting to this changing landscape in which trade, finance, investment, tax and other regulatory compliance regimes closely intersect.[1]

Part 4 of the Commonwealth Trade Review presents new empirical evidence on the role of governance in influencing trade and investment flows in the Commonwealth.

BOX 4.1

EXAMPLES OF LEGAL SYSTEMS FACILITATING INTRA-COMMONWEALTH TRADE AND INVESTMENT

Largely owing to the common law heritage of almost all legal systems within the Commonwealth, much harmony can be found between Commonwealth countries' legal systems as they exist today. These harmonies of laws, it is suggested, can have a significant effect on the levels of trade and investment between Commonwealth member countries and may go a long way to explaining the Commonwealth advantage.

Business operators can trade with, and invest in, countries with similar legal frameworks with greater certainty as to the legal ramifications of their activities and also with reduced costs associated with modifying their operations to comply with the foreign country's legal framework. Accordingly, when choosing which nation to trade with, or invest in, a harmonious legal framework is surely an attractive feature capable of influencing such a decision.

Multiple examples of harmonies of laws between Commonwealth countries can be found. In relation to company law, the first British Companies Act of 1844 was replicated in many affiliated jurisdictions and continues in various updated versions in most Commonwealth member countries. The result of this is the mirroring of key company law provisions between Commonwealth countries; according to the World Bank indices of starting a business, just four of the 53 Commonwealth countries have minimum capital requirements, being Cameroon, Ghana, Malta and Swaziland. In addition, the minimum number of shareholders required has been reduced to one in the Commonwealth countries of Australia, Canada, Cyprus, India, New Zealand and Singapore. Moreover, Commonwealth countries within the Caribbean region have largely based their domestic companies' legislation on the Canadian Business Corporations Act, which was itself influenced by the UK's Companies Act.

The Caribbean region also exemplifies the harmonies of insolvency laws between Commonwealth countries. When reforming its insolvency legislation, Barbados copied key provisions of the Canadian Bankruptcy and Insolvency Act and this pattern was replicated by Jamaica, Trinidad and Tobago, St. Kitts and Nevis and St. Vincent and the Grenadines.

Globally, other important harmonies can be found between Commonwealth countries in relation to insolvency legislation. For example, Australia, Cyprus, Malaysia, New Zealand, Singapore and the UK have incorporated a scheme of arrangement mechanism to allow for a court-approved agreement between the insolvent company and its creditors, thereby affording a route for potentially viable companies to survive insolvency. The scheme of arrangement originated within the common law.

Anecdotal evidence for the positive influence of harmonious legal frameworks on trade and investment between countries can be found in the tendency for companies within Commonwealth countries to expand to other Commonwealth countries. For example, the Bank of Nova Scotia has expanded from Canada into 21 Commonwealth regions, representing almost half of the countries in which it operates. Considering the Caribbean region, the Royal Bank of Trinidad and Tobago (now known as the Royal Bank of Canada) has expanded to 16 Caribbean countries, nine of them being members of the Commonwealth.

Another striking example is the way in which Vodafone, a UK telecommunications conglomerate, has been able to capitalise on the common-law legal structure throughout parts of the Commonwealth to establish or acquire control of business ventures. Vodafone is active in South Africa after acquiring majority shareholding of Vodacom. In Ghana, Vodafone bought a majority stake in Ghana Telecom. It entered into partnership in Cameroon with Afrimax, under the name Vodafone Cameroon. In the Asia-Pacific region, it bought BellSouth New Zealand and rebranded it as Vodafone New Zealand and it created a joint venture operation in Australia to create Vodafone-Hutchinson Australia. It also has operations and business alliances in India and in the Caribbean region.

Source: Commonwealth Secretariat

4.2 The Commonwealth advantage and trade costs

While Commonwealth countries already enjoy a trade cost advantage, there are many further avenues to streamline trade governance and procedures, which would unleash enormous economic opportunities and could further deepen this advantage. There are many forms of trade costs; and targeted policy interventions and trade governance reforms are necessary to drive down costs in each case. For example, Commonwealth traders face costs in getting their goods and services to the border (e.g. logistics services, hard infrastructure, such as seaports and airports, and trade finance; Box 4.2.); costs at the border; and 'behind-the-border' costs.

Trade costs matter in multiple ways: they determine the ability of the most efficient firms to expand their market share, with high trade costs increasing the costs of critical inputs and decreasing returns from exports; they affect the cost of not only goods but also services, which account for a significant proportion of firms' total production costs, including, for example, the costs of business and professional services, finance, insurance, transport, telecommunications, construction and wholesale, retail and hotel accommodation. They also have a direct impact on the ability of developing countries to achieve their sustainable development objectives, with many SDGs involving services, including education, transport, telecommunications and health services (Hoekman, 2016).

Beyond deepening the Commonwealth advantage, a systematic initiative to further reduce Commonwealth trade costs offers important benefits to the Commonwealth's poorest and smallest members. These countries face disproportionately large trade cost disadvantages; and reducing these can help transform their trade, investment and growth prospects. For example, on average, small states' trade costs are estimated to be at least 50 per cent higher than those for developing countries as a whole (Razzaque and Keane, 2015); and this factor, coupled with the disproportionately large geographical distances that many small states face in getting their goods to world markets, has contributed to a secular decline in their share of global trade (Part 1). Similarly, the trade costs of poor countries are substantially higher than those of other countries (Arvis et al., 2013) and, among LDCs, trade costs are much higher than, for example, prevailing tariff rates of protection (Hoekman, 2016).

BOX 4.2

COMMONWEALTH SMALL STATES TRADE FINANCE FACILITY

Access to and the costs of trade finance are critically important for the Commonwealth's 31 small states, which face the challenges of weak credit ratings, reluctance of global providers to extend the terms of lines of credit, volatile global market conditions, high pricing and short tenors, and absence of domestic export credit agencies. These challenges are compounded by international banks de-risking, which is attributed to regulations to combat money laundering and terrorism financing. The 2013 Commonwealth Heads of Government Meeting (CHOGM) directed the Commonwealth Secretariat to initiate, with the support of the Government of Malta, a focused effort to develop a Commonwealth Small States Trade Finance Facility (CSSTFF). In 2015, Commonwealth Heads of Government welcomed the launch of the voluntary CSSTFF and offers of investment in the facility. Four Commonwealth member countries have pledged to provide anchor capital: India (US$2.5 million), Sri Lanka ($1.5 million), Mauritius ($1 million) and Malta ($250,000) – a total of $5.25 million. Standard Chartered Bank and the Bank of Baroda of India are the facility's managers.

The facility is structured as a guarantee fund, which will offer risk coverage to providers of trade credit to financial institutions in Commonwealth small and developing states. This enables them to deliver greater volumes of trade finance to their importer and exporter customers. The facility will seek to motivate major banks to offer incremental trade finance access to banks in Commonwealth small states by reducing the risks and costs of their doing business in these markets, which are otherwise not attractive to them. This reduction in risks and costs will be accomplished by the facility by making its guarantee fund available, up to an agreed amount. The facility will be operational in May 2018.

Source: Commonwealth Secretariat

In the past, trade reforms were almost entirely focused on reducing tariffs at the border as the means of lowering trade costs. However, the intensification of GVC-driven trade, the dramatic rise in trade in intermediate goods and services, and increasing digitisation and digital trade, as discussed in Part 3, now require addressing multiple – and often interlinked – policies to reduce trade costs, build productive and supply capabilities, and enhance trade competitiveness in manufacturing and services. Services are the backbone of connectivity – 'facilitating' the physical movement of goods and people (transport services) and the exchange of knowledge and information (communications services) – and many business and professional services are now vital inputs for a competitive manufacturing sector. The performance of the services sector matters for economic growth and the overall productivity of the economy as a whole (Hoekman, 2017).

Multiple policy initiatives can be taken to reduce trade costs, including improving logistics performance, reducing the costs and improving the efficiency of land, air and sea transport, streamlining and simplifying international transit regimes and behind-the-border regulations, and strengthening trade facilitation. Doing so can help all Commonwealth members tap into and leverage enormous new opportunities to expand trade, brought about by fragmentation, the ascendancy of GVCs and shifts in the pattern of global trade towards services trade, including the contribution of services not only as end products in themselves but also as inputs into GVCs.

Commonwealth members, individually and collectively, could consider working towards informal targets for reducing trade costs over a number of years. In that regard, instructive lessons can be drawn from the Asia-Pacific Economic Cooperation (APEC) Forum (Box 4.3).

Initiatives that successfully reduce trade costs can be of particular benefit to Commonwealth small states, LDCs and SSA members. These countries and their firms can take advantage of production fragmentation processes, the transformation to digitalisation and digital trade, the increasing outsourcing of services functions and the general rise in world trade in intermediate goods and services. By specialising in niche export markets, these Commonwealth members can seek to supply global markets with comparatively small consignment sizes, overcoming previous limitations owing to lack of capacity for large-scale production and limited economies of scale. By specialising in services, including newly outsourced or digitally enabled services, whether directly or as inputs into GVCs, they may be able to overcome disproportionately high trade costs. Through this process, many MSMEs can progressively develop internationalisation strategies, initially by supplying services to lead firms; as competitiveness and reliability improve, they can attract inward FDI – from both lead firms and other investors – thereby facilitating inward transfers of technology, technical knowledge and skills.

That said, it is also important to distinguish more carefully between interventions designed to assist different types of firms' participation in GVCs. This necessarily entails understanding both what it takes to attract lead firms' interest and incentives for producers to upgrade to higher-value-added activities. Different strategies will invariably be required in view of the nature of GVC participation, with implications for public policy (Pathikonda and Farole, 2016). For

BOX 4.3

REDUCING TRADE COSTS: LESSONS FROM ASIA-PACIFIC?

The 21 APEC members adopted a common trade facilitation performance target, to reduce trade costs by 10 per cent over a 10-year period from 2001 (Hoekman, 2016). APEC total trade (goods and services) increased by more than 6.7 times to US$20 trillion between 1989 and 2015. APEC's Trade Facilitation Action Plan, which includes streamlining customs procedures, reached its target of a region-wide reduction in costs at the border by 5 per cent between 2004 and 2006. A further 5 per cent decrease was achieved between 2007 and 2010, which saved businesses in the Asia-Pacific a total of $58.7 billion. Over time, the APEC agenda has broadened its focus to address behind-the-border barriers such as improving regulatory practices and the local business climate.

Source: APEC, 'Achievements and Benefits' (https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits) example, MSMEs entering into GVCs and developing relationships with lead firms require a conducive environment that promotes investment and long-term and contractual relationships with lead firms. It is recognised that contractual frictions play an important role in shaping the integration choices of firms around the world (Alfaro et al., 2017); reducing these frictions can boost trade within GVCs.

The transformation of the global trade and investment landscape has resulted in several investment policy-related challenges for poor and small developing countries. Two challenges in particular have emerged: the evolution and increasing complexity of international investment agreements (IIAs) and challenges in effectively negotiating trade in services and investment commitments in RTAs. Addressing these challenges can help these countries maintain coherent investment obligations that are consistent across any overlapping treaty provisions, and can help make foreign investment supportive of development.

4.3 Governance, trade and economic performance in the Commonwealth

The concept of governance has gained immense significance over the years and comprises the mechanisms, processes and institutions through which decisions are made and authority in a country is exercised. Governance is a broad concept and can be defined in different ways. However, the important elements of governance would include the following: the political institutions of a society (the process of government selection), state capacity (capacity of the government to implement policies) and regulation of economic institutions (the formal state institutions that enact and enforce the laws) (Kaufmann et al., 2005). These dimensions are best captured in the World Bank's World Governance Indicators (WGIs) (Box 4.4). When comparing the average values of the governance index for the period 1996 to 2015 across different

BOX 4.4

WORLD GOVERNANCE INDICATORS

Kaufmann et al. (2007) constructed six aggregate governance indicators. Known as the World Governance Indicators (WGIs), they were developed for the World Bank and are based on 31 underlying data sources that report the perceptions on governance of a large number of survey respondents and assessments worldwide. Details of the underlying data sources, aggregation method and interpretation of the indicators are in Kaufmann et al. (2010). The indicators are normalised onto a 0–100 scale (as in Berden el al., 2014). Each indicator represents a different dimension of governance:

1. *Voice and accountability*, which measures the extent to which a country's citizens are able to participate in selecting their government, as well as the freedom of expression of association and media. This variable best captures most individuals' notion of how a democratic institution fosters voice and accountability.
2. *Political stability*, measuring the perceptions of likelihood that a government will not be destabilised or overthrown by unconstitutional or violent means.
3. *Government effectiveness*, measuring the quality of public services, the civil service (and its degree of independence), the policy formation and implementation process, and the overall commitment to implementing policies.
4. *Regulatory quality*, indicating the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
5. *Rule of law*, measuring the extent to which agents have confidence in and abide by the rules of society, and with particular emphasis on the quality of contract enforcement, police and courts.
6. *Control of corruption*, measuring the extent to which public power is not exercised for private gain, including both petty and grand forms of corruption as well as the extent of 'capture' by elites and private interests.

country groups, it is significant that Commonwealth countries are doing better than the average world performance (Gopalakrishnan, 2017).

Governance is an important factor that shapes a country's overall economic performance; this is demonstrated by the New Institutional Economics (North, 1995; North et al., 2008). Moreover, the new insights from development and growth economics, and from trade theory, have contributed to a better understanding of the potential benefits from a role for the state in the market. This increasing interest has been accompanied by a wide range of governance indicators in the literature, as well as specifically trade governance indicators; these include the World Bank's Doing Business database and the LPI.

A large theoretical and empirical literature has cast light on how governance affects economic growth and development. Most of these studies have highlighted that governance and economic growth are strongly positively correlated (Kaufmann et al., 1999; Hall and Jones, 1999; Kaufmann et al., 2009). Empirical tests conducted by these studies using some governance indicators – for instance corruption, the rule of law and the security of property rights – find strong evidence of the effects of these variables on long-term growth (Box 4.5). However, there has been debate about whether governance drives growth or better growth improves governance. Overall there is mixed evidence on the relationship between governance indicators and performance, and how this affects countries' economic performance. The relationship with development varies across the dimensions of governance and the stage of a country's development.

Strengthening governance, particularly governance of the institutions, policies and regulations that influence commerce, trade and investment, can significantly reduce trade costs, increase trade and investment and boost business confidence in the

BOX 4.5

FINDINGS FROM SOME STUDIES ON GOVERNANCE, TRADE AND ECONOMIC PERFORMANCE

Han et al. (2014) find that government effectiveness, political stability, control of corruption and regulatory quality have a more significant impact on growth performance than voice and accountability, and rule of law.

Studies that survey connections between governance, economic growth and inequality (Zhuang et al., 2010) report a positive and robust relationship between democratic governance variables, economic growth and income levels (Gerring et al., 2005; Persson and Tabellini, 2006). Han et al. (2014) also report that governance matters for development, and that better governance correlates with faster growth and higher income levels.

Some studies highlight that the quality of institutions is a necessary condition and an important determinant of trade and effective governance (Aron, 2000). Using trade governance indicators, Busse and Hefeker (2007) identify three channels that contribute to positive linkage between trade and institutions, and suggest that trade influences institutions from governance perspective. The linkage emanates from the following processes. First, economic agents in open economies learn from experience in trading partners' countries by adapting (or imitating) successful institutions and regulations. Second, international competition generates pressure on countries to improve institutional and regulatory settings, as domestic firms/producers are likely to go out of business without reforms. Third, rent-seeking and corruption are harder in open economies, as foreign firms' participation increases the number of economic agents in the country (Rajan and Zingales, 2003).

Some studies examining the effect of governance indicators on FDI show that government stability, absence of internal and external conflicts, lack of corruption and ethnic tensions, law and order, democratic accountability of the government, and high quality of the bureaucracy are highly significant determinants of FDI inflows (e.g. Busse and Hefeker, 2007).

A review of the literature suggests a lack of unanimous evidence on the possible causal connections between a country's regime history and economic policy. The arguments advanced, however, tend to be speculative, since the causal pathways are usually difficult to identify and test empirically (Montinola and Jackman, 2002; Keefer, 2003; Bohara et al., 2004; Lederman et al., 2005; Kapstein and Converse, 2008).

Commonwealth. Commonwealth member countries have the benefit of a wide array of tools, toolkits and model laws to help strengthen the institutional and governance ties that connect the membership (Box 4.6). However, evidence on the impact of improved governance on Commonwealth trade – as well as an understanding of the impact of specific measures taken by Commonwealth governments, firms and other stakeholders in trade – has not been systematically explored.

4.4 Governance impacts on Commonwealth trade and investment

In order to contribute towards developing a new narrative on 21st-century trade governance within the Commonwealth, this section presents new empirical evidence on the relationship between Commonwealth countries' trade and certain aspects of trade governance. Khorana and Martínez-Zarzoso (2018) explore whether or not an improvement in trade-related governance indicators leads to higher exports from and between Commonwealth member countries; and they also examine the effects on Commonwealth trade of some of the more conventional 'good governance' indicators. The methodology and findings are outlined below.

BOX 4.6

STRENGTHENING PAN-COMMONWEALTH GOVERNANCE, LAW AND LEGAL CAPACITY

The Commonwealth Office of Civil and Criminal Justice Reform (OCCJR) was established in 2017. It supports Commonwealth countries in delivering access to justice and sustainable development through the creation of fair and effective national laws; making available good legislative practice from across the Commonwealth through model laws, standards, templates, legal insight and legal networks; and also delivering technical assistance to member countries based on these resources. In supporting common practices across Commonwealth member countries, these initiatives are fostering pan-Commonwealth confidence in the appropriateness and acceptability of Commonwealth laws, regulatory provisions and institutions for the purposes of bilateral trade.

Recent initiatives by the OCCJR include support to member countries seeking to understand and participate in ICT and expand ICT services trade. Recognising that the rapid development of ICT requires modern, effective legal frameworks for promoting ICT growth and trade in ICT services, including effective laws in areas such as telecommunications regulation, privacy and data protection, e-commerce and access to public information, the Commonwealth has developed several model laws and other legal tools, including on computer and computer-related crime, electronic transactions, broadcasting and the protection of personal information. These initiatives help strengthen the legislative and policy frameworks across Commonwealth countries, improving institutional and legislative capacity.

Further examples of collective Commonwealth initiatives to advance growth and trade in economic sectors with wide relevance across the Commonwealth membership include support for the development of anticorruption measures and support in addressing cybercrime. Both issues, when effectively addressed, serve as positive indicators of sound governance. Commonwealth legal tools against corruption already include model legislative provisions on money laundering, terrorism financing, preventive measures and proceeds of crime, as well as a model Act on Integrity in Public Life. Building on these tools, work is currently under way on examining options for the development of Commonwealth benchmarks for the prevention of corruption. Supportive Commonwealth initiatives in preventing and addressing cybercrime include detailed assessments of the threats posed by cybercrime and the necessity for collaboration among Commonwealth countries to develop up-to-date and comprehensive legal frameworks to combat cybercrime. The Commonwealth has also established a Commonwealth Working Group on Virtual Currencies.

Source: Commonwealth Secretariat

4.4.1 The gravity model

In line with recent empirical studies that investigate the determinants of bilateral trade flows (Head and Mayer, 2014), the research modelling framework uses the gravity model of trade. The rationale for the selection of the gravity framework is that the model provides a good statistical fit for most data sets and can be extended with policy variables. A gravity model is augmented with governance indicators, to determine the role of governance on trade flows.

The hypothesis is that each governance indicator has an equal effect on trade. The indicators included measure domestic regulatory and institutional quality, logistics performance and the control of corruption. However, the model goes beyond these conventional indicators in order to also explore investment, the protection of IPRs and contract enforcement. Using these variables, the model tests if, for each indicator, the results are different for Commonwealth countries' exporters and for intra-Commonwealth trade, in comparison with the global results.

In addition, the model estimates the effect on and importance for Commonwealth countries' export performance of trade governance at the regional and multilateral levels. The model tests if results for countries with either RTA or WTO effects differ for intra-Commonwealth trade, compared to results for the global average.

The augmented gravity model, indicators and explanatory notes are in the annex to this chapter. The results, as reported by Khorana and Martínez-Zarzoso (2018), are summarised in the following sub-sections.

4.4.2 Major findings for Commonwealth trade and investment

The model estimated the impact on Commonwealth trade flows of a number of trade-related governance indicators. The results reported below highlight only those variables that exert the most significant influence on trade for Commonwealth member countries compared with the global average. This means that many of the 'good governance' indicators are excluded from the discussion. This is because the effects of improvements in indicators such as corruption control, regulatory quality and rule of law are found to be relatively marginal for intra-Commonwealth traders. While this finding may be interpreted positively, much deeper analysis is required and this is beyond the scope of the present review.

The model, after controlling for all other factors, finds that, when two countries are both Commonwealth members, there is a positive and significant effect on trade: Commonwealth country pairs trade 20 per cent more than any other country pairs (Table 4.1, column 1). This means that membership of the Commonwealth has a positive and significant effect on trade. These results validate the evidence from a similar exercise undertaken for the 2015 Commonwealth Trade Review (Commonwealth Secretariat, 2015).

The other major finding is the significant effect that RTA membership has on intra-Commonwealth trade. As expected, there is a strong positive effect on trade creation for all countries that belong to RTAs. In fact, a country's exports are found to be 115 per cent higher when trading with another RTA partner compared to partners outside such arrangements (column 1). However, for Commonwealth countries, this export-enhancing effect of RTA membership is especially pronounced. Commonwealth exporters trade more than twice (230 per cent) as much as a result of the RTA effect. The effect is most significant for intra-Commonwealth trade, where exports are boosted by more than three times (356 per cent) (column 3). The results suggest that intra-Commonwealth initiatives to strengthen trade facilitation and further reduce the costs of intra-Commonwealth trade, particularly among Commonwealth countries that are both members of RTAs, are likely to yield significant gains to Commonwealth trade.

Although the model finds that RTA membership has a more significant impact on export growth than WTO membership, the model still underlines the importance of the multilateral trading system. The results show that WTO members trade 20 per cent more with each other than with non-members (column 1). However, this trade effect is even greater for Commonwealth exporters, at 30 per cent (column 2). Since WTO membership does not appear to be a major determinant of intra-Commonwealth trade, there must be other factors beyond WTO membership that exert a far greater influence.

This result is perhaps not surprising, given that most RTAs often go beyond WTO commitments when liberalising trade in goods and in services; moreover, not all Commonwealth members belong to the WTO (see Part 2). Nonetheless, the significance of the RTA effect for intra-Commonwealth trade deserves further policy attention. It would seem to suggest that the rise in intra-Commonwealth trade can take place at a much faster pace if the UK succeeds in its stated intention of establishing bilateral trade deals with interested Commonwealth members in the future. However, this finding needs to take into consideration that currently the UK, like Canada, trades a low proportion of all its goods with other Commonwealth countries (Part 1; Figure 1.7). A Commonwealth-wide preferential trade deal would also be extremely difficult to achieve, as Malta and Cyprus remain EU members. In addition, the Commonwealth is an association of very diverse members in terms of their sizes, locations and levels of development. The experience of WTO-led multilateral trade negotiations suggests that trading arrangements involving a large number of diverse countries can be very time-consuming and often yield marginal gains.

Part 1 of the Review provided an analysis of the state of intra-Commonwealth FDI, focusing specifically on greenfield investment flows. The complementarity of investment and trade, as opposed to their substitution, is one of the features of 21st-century integrated production networks and GVC-driven trade. For this reason, the gravity model also explored the relationship between trade and investment – both inward and outbound[2] – for Commonwealth member countries.

It is found that every 10 per cent increase in inward investment leads to a 3 per cent increase in exports, globally. This effect is slightly less pronounced on an intra-Commonwealth basis, where the inbound investment from a Commonwealth partner triggers only a 2.5 per cent increase in intra-Commonwealth exports.

In absolute terms, this is still a large increase. To further explore the differential effect between the global average and the Commonwealth average, the model examines intra-Commonwealth outbound investment and intra-Commonwealth trade. It is found that a 10 per cent increase in outbound FDI to an average exporter country is associated with a 1.4 per cent increase in exports, and a 1.3 per cent increase for Commonwealth exporters. However, when both partners are Commonwealth member countries, the same increase of 10 per cent in outbound FDI increases intra-Commonwealth exports by 1.5 per cent. Although this is a small percentage point differential compared with the global average, it deserves further attention in the future given the evolution of contemporary production networks across member countries; it also provides evidence to support the analysis undertaken in Part 1.

4.4.3 Findings for trade governance

In terms of the governance indicators, improvements in 'government effectiveness', which can be related to capacity constraints, are found to have the strongest and most significant effect on intra-Commonwealth exporters (Table 4.1, column 3) and Commonwealth exporters (column 2) compared with the global average (column 1). These results imply that an increase of 1 percentage point in the government effectiveness index increases exports by 3.4 per cent for Commonwealth exporters to the world, and almost 3.1 per cent for intra-Commonwealth exporters. The increase for any world exporter is 2.4 per cent, holding all other factors constant. The findings on the import side are similar and significant, although the effects on trade are lower, at around 1 per cent.

TRADE BETWEEN COMMONWEALTH COUNTRIES IS MORE THAN 3 TIMES HIGHER WHEN THEY BELONG TO AN EXISTING TRADE AGREEMENT

TABLE 4.1
SUMMARY OF GRAVITY MODEL RESULTS

Variable	All	Commonwealth	Intra-Commonwealth
Commonwealth membership	0.187***	-	-
	(0.064)		
Regional Trade Agreement	0.768***	1.193***	1.517***
	(0.038)	(0.087)	(0.159)
World Trade Organization membership	0.188***	0.307***	0.148
	(0.031)	(0.070)	(0.174)
Government Effectiveness (exporter)	0.024***	0.034***	0.028***
	(0.001)	(0.003)	(0.006)
Government Effectiveness (importer)	0.012***	0.020***	0.015***
	(0.001)	(0.002)	(0.005)
Inward FDI (exporter)	0.307***	0.281***	0.246***
	(0.014)	(0.029)	(0.052)
Outward FDI (exporter)	0.144***	0.129***	0.152***
	(0.009)	(0.018)	(0.036)
Logistics Performance Index	1.722***	1.173***	1.710***
	(0.060)	(0.132)	(0.304)
Documents needed to export	−0.478***	−0.669***	−0.220
	(0.061)	(0.110)	(0.252)
Documents needed to import	0.128***	0.232***	−0.003
	(0.046)	(0.074)	(0.141)
Days to enforce a contract (exporter)	−0.426***	−0.534***	−0.648***
	(0.042)	(0.080)	(0.159)
Days to enforce a contract (importer)	−0.409***	−0.403***	−0.368***
	(0.043)	(0.080)	(0.150)

*Note: Standard errors in parentheses; * $p<0.10$, ** $p<0.05$, *** $p<0.01$.*

Source: Adapted from Khorana and Martinez-Zarzoso, 2018, which summarises number of observations and R^2

All Commonwealth developed country members have government effectiveness rankings above 90. However, for most Commonwealth developing countries, greater improvements in government effectiveness could reap major trade gains; this includes the effective implementation of trade strategies and agreements. Assuming that all Commonwealth developing countries achieve the same score of government effectiveness as Malaysia (70 in 2016), this translates into an average increase in the index of around 26 percentage points. When the corresponding increase in the index for individual Commonwealth developing countries (i.e. countries below 70) is considered, this translates into an annual average increase in exports from these Commonwealth members to the world of around 5.6 per cent. This finding reaffirms the importance of government effectiveness in trade and the importance of identifying and addressing implementation gaps in trade strategies and agreements to ensure that their intended benefits materialise.

The results furthermore emphasise the potential trade gains from reducing trade costs further, especially through trade facilitation measures and improved logistics services. The model uses the World Bank's LPI indicator as a measure of trade facilitation. For average world exporters, it finds that a 1 per cent improvement in a country's LPI index increases exports by 1.4 per cent (column 1). However, a similar improvement in the LPI index increases intra-Commonwealth exports by 1.6 per cent (column 3). These results strengthen the case for dedicated Commonwealth initiatives to improve trade facilitation among the members; given the RTA effect, this is especially the case where Commonwealth countries belong to the same formal trading bloc. The 2015 Commonwealth Trade Review also found substantial GDP and employment gains for Commonwealth countries that achieved the same level of efficiency as South Africa's LPI score (see Box 4.7).

Facilitating more efficient trade requires not only investments in 'hard' infrastructure, but also improvements in 'soft' infrastructure in line with the WTO's TFA and regional trade facilitation deals (see Part 2). Improving customs administration and reducing the number of documents needed to export and to import can trigger substantially higher Commonwealth exports and intra-Commonwealth trade. The model finds that a 10 per cent reduction in the costs incurred for a good to exit a country is associated with a 6.8 per cent increase in exports for the average world exporter (column 1). However, when the exporter is a Commonwealth member, the gains in exports increase to 7.4 per cent (column 2). Where both countries are Commonwealth members, intra-Commonwealth exports increase by 5 per cent (column 3).

The final governance indicator examined for its impact on Commonwealth trade is the enforcement of contracts when commercial disputes arise. The World Bank's enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court, and the quality and efficiency of the court system. The efficiency of courts varies greatly around the world, including the Commonwealth. For example, enforcing a contract through the courts can take less than 10 months in Rwanda, New Zealand and Singapore but almost 4 years in Bangladesh and India.[3]

The analysis delivers a significant result: contract enforcement is more efficient among Commonwealth members, in general, and requires 20 per cent less time than the world average. This finding is integral to deepening our understanding of the Commonwealth

BOX 4.7

IMPROVING LOGISTICS PERFORMANCE: A BOON FOR COMMONWEALTH PROSPERITY

The 2015 Commonwealth Trade Review examined the impact of improved trade logistics, using the World Bank's 2014 LPI rankings of Commonwealth member countries. To analyse the effect of improvements in trade logistics, two scenarios were considered:

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 because it is seen as an achievable 'above-average' score.

The simulation results revealed that, under Scenario I, combined Commonwealth GDP would increase by US$501 billion; under the more realistic Scenario II, it would increase by $177 billion. There would 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.

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. 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 US$138 billion, with employment effects of 24 million, and additional intra-Commonwealth exports of $124 billion.

Source: Commonwealth Secretariat, 2015 advantage, since efficient contract enforcement increases trade and investment, reduces trade costs and boosts business confidence.

In addition to the Commonwealth's comparative advantage in contract enforcement, the results of the model suggest that there are further trade gains to be derived from greater efficiency. For every 10 per cent reduction in the number of days taken to enforce a contract, there is a corresponding 6.4 per cent increase in intra-Commonwealth exports.

A key underlying reason contributing to this more efficient structure of contract enforcement among Commonwealth member countries is the overall procedural efficiency of the legal system. Compared with other legal systems, such as civil law systems, the common law system predominant across the Commonwealth offers certain advantages. Litigation procedural rules in the common law system, for instance, promote the use of procedural steps such as 'lists of issues', 'position statements' and 'statements of assumed facts', which help narrow down the point of dispute. Where there is no real dispute about facts, a court may decide questions of law summarily or on an expedited basis, eliminating the need for lengthy disclosure, pleadings and witness statements.

In addition to the reduced time taken to enforce contracts, certain features of the common law system – such as the sanctity of contract and the degree of legal certainty in proceedings – may also contribute to the link between effective contract enforcement and enhanced trade and investment.

Courts in the common law system will not, except in limited circumstances, deny the effect of a contract on the grounds of unfairness alone, such as a particularly high contract price. This is in contrast to civil law systems, where a good faith principle generally enables the courts to examine at length the fairness of contract provisions. Combined with the common law system approach to legal certainty through the notion of legal precedent, sanctity of contract means that courts are able to advance contract litigation in a predictable and efficient manner.

This increase in efficiency and predictability enables commercial enterprises in Commonwealth countries to form reasonable expectations of the outcome of litigation, increasing their incentive to engage in business and trade agreements. In addition, although not captured directly by the quantitative findings of the Review on contract enforcement, the interoperability of common law systems can also support effective enforcement of contracts *across* Commonwealth countries. The recently adopted Commonwealth Model Law on the Recognition and Enforcement of Foreign Judgments, for example, builds on common approaches to the enforcement of foreign judgments by courts in Commonwealth countries, in order to further harmonise the ways in which a national court can give effect to the decision of a court from another country. Resulting confidence in the recognition and enforcement of judgements across borders can be expected to further encourage enterprises to engage in contracts for goods and services across borders.

4.5 Conclusion and way forward

Governance ties in the Commonwealth yield multiple tangible commercial benefits for traders and investors. However, Commonwealth members – working individually, collectively and with international partners – can take several steps to strengthen certain aspects of their 21st-century trade governance frameworks in order to further reduce trade costs and trigger greater flows of intra-Commonwealth trade and investment.

The first involves greater focus on trade facilitation. Countries enhance their connectivity through investments in both institutional and physical infrastructures. A major finding of Part 4 is that intra-Commonwealth initiatives to strengthen trade facilitation and further reduce the costs of intra-Commonwealth trade, particularly among Commonwealth countries that are both members of RTAs, are likely to yield significant gains to Commonwealth trade. Enhanced trade facilitation initiatives can help Commonwealth members improve transit times and reduce costs, thereby improving trade competitiveness and increasing intra-Commonwealth trade. Evidence for low-income countries suggests that improving the availability of trade-related information, simplifying and harmonising documents, streamlining procedures, and using automated processes can reduce trade costs by nearly 15 per cent (Moïsé and Sorescu, 2013).

Several Commonwealth members are recognised leaders in the trade facilitation field. These include Singapore, which is ranked among the top five performers globally on the World Bank's LPI, and has consistently been the world-leading performer among Commonwealth members. The UK, Canada, Australia and South Africa are all ranked among the top 20 LPI performers. These countries offer valuable experiences and best practices in trade facilitation, providing opportunities for greater knowledge sharing within the Commonwealth, to enable fellow Commonwealth members to draw on these lessons to improve their trade competitiveness and enable greater participation in regional and global value chains.

The second areas of focus should be to strengthen the trade–investment–IPR policy nexus, especially to attract greenfield investment to upgrade production capabilities and take advantage of the opportunities arising from the fragmentation of production networks (Part 1).

Annex

The model in its basic form assumes that trade between countries is directly related to a country's size and inversely to the distance between them. Exports from country *i* to country *j*, *Xij*, are explained by the economic size (i.e. GDP) of each country, direct geographical distance between them and a set of dummies that include shared characteristics such as common language, common border or colonial relationships. The specification of the gravity model of trade in its original multiplicative form for a single year is given by:

$$X_{ij} = \beta_0 GDP_i^{\beta_1} GDP_j^{\beta_2} DIST_{ij}^{\beta_3} A_{ij}^{\beta_4} u_{ij} \qquad (1)$$

where *GDPi* (*GDPj*) indicates the GDP of the exporter (importer) and *DISTij* measures the distance between the two countries' capitals (or economic centres).

A high level of income in the exporting country indicates a high level of production, which increases the availability of goods for exports. Therefore, β_1 is expected to be positive. The coefficient of *Yj*, β_2, is also expected to be positive, since a high level of income in the importing country suggests higher imports. The distance coefficient is expected to be negative, since it is a proxy of all possible trade cost sources. A_{ij} represents any other factors aiding or preventing trade between pairs of countries, and u_{ij} is the error term. Usually, A_{ij} includes dummy variables for trading partners sharing a common language, colonial ties and a common border, as well as trading bloc dummy variables that evaluate the effects of preferential trade agreements. The coefficients of all these bilateral variables are expected to be positive.

When the gravity model of trade is estimated using panel data, the time dimension is incorporated into the model. For estimation purposes, equation (1), in log-linear form, is augmented with governance indicators and with time dimension, and written as:

$$\begin{aligned} lnX_{ijt} &= \beta_0 + \beta_1 lnGDP_{it} + \beta_2 lnGDP_{jt} + \beta_3 PClnGDP_{it} + \beta_4 lnPCGDP_{jt} \\ &+ \beta_5 lnArea_i + \beta_6 lnArea_j + \beta_7 LANDL_i + \beta_8 LANDL_j + \beta_9 (lnDIST_{ij}) \\ &+ \beta_{10}(CONTIG_{ij}) + \beta_{11}(COMLANG_{ij}) + \beta_{12}(COLONY_{ij}) + \beta_{13}\mathrm{RTA}_{ijt} \\ &+ \beta_{14}\mathrm{WTO}_{ijt} + \beta_{15} VA_{it} + \beta_{16} PS_{it} + \beta_{17} GE_{it} + \beta_{18} RQ_{it} + \beta_{19} RL_{it} \\ &+ \beta_{20} CC_{it} + \beta_{21} VA_{jt} + \beta_{22} PS_{jt} + \beta_{23} GE_{jt} + \beta_{24} RQ_{jt} + \beta_{25} RL_{jt} \\ &+ \beta_{26} CC_{jt} + \delta_t + \varepsilon_{ijt} \end{aligned} \qquad (2)$$

where the variables include:

- $lnGDP_{it}$ and $lnGDP_{jt}$ as defined above;
- $lnPCGDP_{it}$ and $lnPCGDP_{jt}$, the GDP per capita of an exporter (importer);
- $lnArea_i$ and $lnArea_j$, the area of the corresponding country in square kilometres;
- $lnLANDL_i$ and $lnLANDL_j$, dummy variables that take the value of 1 if the country *i* (*j*) is landlocked;
- $DIST_{ij}$, the bilateral distance between the economic centres of *i* and *j*;
- $CONTIG_{ij}$, a dummy variable assuming a value of 1 if the two countries share a common land border (and 0 otherwise);
- $COMLANG_{ij}$, a dummy variable that takes a value of 1 if the two countries share a common language;
- $COLONY_{ij}$, a dummy variable that takes the value of 1 when countries *i* and *j* have ever had a colonial relationship, and 0 otherwise;
- RTA_{ijt}, which takes the value of 1 if countries *i* and *j* belong to the same regional integration agreement;
- WTO_{ijt}, which takes the value of 1 if countries *i* and *j* are members of the WTO in year *t*.

The other variables include the six measures of the WGIs from the World Bank:

- voice and accountability (VA);
- political stability (PS);
- government effectiveness (GE);
- regulatory quality (RQ);
- rule of law (RL);
- control of corruption (CC).

Each variable is specified in equation (2) with the subscript $_{it}$ or $_{jt}$, denoting that these vary by exporter and time or by importer and time. As in Berden et al. (2014), the WGI variables are standardised to range between 0 and 100 to aid the interpretation of results.

RTA: As a proxy for regional governance, a dummy variable is used that takes the value of 1 when a pair of countries has an RTA in a given year; otherwise 0 is used.

WTO: As a proxy for global governance, a dummy variable is used that takes the value of 1 if a pair of trading countries both belong to the WTO; otherwise 0 is used.

The model tests how the RTA and WTO effects vary for Commonwealth countries and intra-Commonwealth trade (i.e. all countries within the Commonwealth group) in comparison with non-Commonwealth countries to examine if and how there is an impact on the Commonwealth advantage.

A similar comparison and analysis are carried out for WGIs, FDI, IPR, LPI and Doing Business indicators.

It should be noted that the gravity model adopted does not incorporate multilateral resistance. This is whereby analysis of not just bilateral trade resistance, but also multilateral trade resistance – the barriers to trade that each country faces with all its trading partners – are incorporated. However, it controls for time fixed effects.

Endnotes

1 The Government of Vanuatu, for example, has developed draft legislation to introduce a Trade Governance Act, to manage intersectoral coordination and to leverage opportunities for trade and value addition.

2 It is important to distinguish between the two investment flows. An inward direct investment is when a foreign firm either invests in or purchases the goods of a local economy. It comprises the value of the capital and reserves in the local economy attributable to a parent enterprise resident in a different economy. It can occur when one company purchases another business, or establishes new operations for an existing business. By contrast, an outward direct investment happens when a domestic firm expands its operations into a foreign country. This can take the form of a greenfield investment (see Part 1), but also mergers and acquisitions transactions or the expansion of an existing foreign facility. Employing outward direct investment is a natural progression for firms if their domestic markets become saturated and better business opportunities are available abroad.

3 The World Bank 'Doing Business', http://www.doingbusiness.org/data/exploretopics/enforcing-contracts/why-matters

Summary and conclusions

Fundamental changes are taking place in the global trade landscape with implications for all 53 Commonwealth member countries. These include the fragmentation of global production processes, the increasing proportion of intermediate goods and services in total trade, and the transformation of the technologies, institutions and governance frameworks that underpin trade in goods, services and the digital economy. A steadily increasing proportion of global trade is now located in global and regional value chains. These changes present challenges to Commonwealth trade competitiveness, but there may also be new opportunities for more meaningful participation in world trade, particularly for the Commonwealth's developing country members.

Although trade among Commonwealth members reached only US$560 billion in 2016, reflecting the effects of the downturn in global trade, intra-Commonwealth trade as a proportion of global trade is rising and is now 20 per cent of Commonwealth countries' total trade with the world. This underlines the growing significance of Commonwealth markets for many member countries, especially the smallest and most vulnerable countries. Intra-Commonwealth trade in goods and services, as well as productive greenfield investment among Commonwealth members, which is significant for job creation, are broadly on track to reach US$1 trillion in the next few years.

The pace and scale of change in global trade, however, mean that retaining the Commonwealth advantage cannot be taken for granted. New Commonwealth initiatives will be needed to support the smallest and most vulnerable countries to bolster inward FDI, to strengthen access to digital trade and to increase opportunities for these countries to supply intermediate goods and services in regional and global value chains, particularly those in which other, large, Commonwealth countries have gained a presence. Improved market access to major importing countries is needed for the poorest and smallest countries, to increase participation in GVCs by these countries, and to provide adequate and effective support for trade capacity-building.

Even without any formal trading arrangements, proactive initiatives by Commonwealth member countries can help generate trade and investment opportunities. For example, Commonwealth members could focus on achieving improved trade logistics and implementing trade facilitation measures; tackling non-tariff barriers; utilising the opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; promoting a gender-responsive approach to the development of trade policy and to promote women's economic empowerment; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors, including MSMEs.

More specifically, this Review explored how Commonwealth members, individually and collectively, can trigger greater trade gains in two ways: by harnessing new technologies, especially digitisation; and by strengthening certain aspects of their trade governance regime to reduce trade costs further.

Technology, trade and prosperity

Commonwealth members have made extraordinary progress in accessing and harnessing the new digital and other technologies that underpin and drive contemporary global trade. These technologies are slowly breaking down constraints owing to limited size, concentration of production, limited diversification, lack of interconnectedness, remoteness and inability to achieve a presence in both established and emerging regional and global value chains. Individually, these are helping transform access to and economic activity in many sectors crucial to their sustainable development, including finance – from mobile money payments to advanced fintech – renewable energy, agriculture, the oceans economy and tourism, among many others. Collectively they provide an opportunity and platform, through concerted Commonwealth action, to systematically harness technology to grow Commonwealth trade and investment.

But much more can be done by Commonwealth members, individually and collectively, to further leverage technology's transformative potential to enhance Commonwealth trade and investment and to accelerate access to new technologies, particularly among the poorest, smallest and most vulnerable Commonwealth members. Across the Commonwealth, the potential gains in trade, growth and employment are limited by major gaps in key enabling infrastructure, including access to broadband, poor internet speed, electrification and access to financial technologies. Finding practical measures to close these gaps, including bridging the gender disparity in digital connectivity, offers very substantial untapped opportunity to deepen Commonwealth trade, investment and innovation, especially in the fintech sector, where several Commonwealth member countries are already world leaders.

Efficient and effective trade governance

Efforts to strengthen the Commonwealth advantage will also hinge on the ability of Commonwealth members to strengthen the institutional, policy, regulatory and other factors that influence the costs of trade, the efficiency of institutions that support trade and the effectiveness of the inter-relations among stakeholders participating in trade. Strengthening certain aspects of Commonwealth trade governance can help Commonwealth members expand exports, increase inward FDI and significantly reduce trade costs. Achieving this requires a new strategic approach to Commonwealth engagement with the institutions, networks and governance structures that underpin 21st-century trade.

Commonwealth members are already taking substantive steps to strengthen logistics performance, streamline and simplify international transit regimes and behind-the-border regulations, and strengthen trade facilitation. Countries can further enhance their connectivity through investments in both institutional and physical infrastructures. This will require more precisely targeted support for multilateral initiatives including the TFA and AfT; continued support from Commonwealth developed country members for these multilateral initiatives; and ongoing measures across all Commonwealth regions and countries to reduce trade costs and deepen regional integration. Commonwealth members already enjoy an advantage when it comes to efficient contract enforcement, for instance, and strengthened regional integration and improvements in trade facilitation are likely to yield disproportionately high gains for Commonwealth members.

Towards greater Commonwealth co-operation

Many Commonwealth initiatives are helping deepen and strengthen the institutional and governance ties that connect Commonwealth members, including the development of model laws, standards, templates, legal insights and legal network as well as technical assistance to member countries. However, with new evidence of the unique and disproportionate advantages when these tools and modes of support are implemented in Commonwealth member countries, new initiatives are needed to scale up these forms of support and widen access to them among Commonwealth members. The members could consider strengthening dialogue and cooperation at the pan-Commonwealth level, and sharing country experiences and best practices on issues of physical, digital, regulatory, business-to-business and supply-side connectivity, all framed by the need for inclusive and sustainable trade to contribute towards the achievement of the SDGs.

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