Executive Summary

COVID-19 has caused an unprecedented global economic crisis, which has significantly affected Commonwealth countries' trade and investment flows. The 2021 Commonwealth Trade Review examines the pandemic's impact on the performance and prospects of the Commonwealth's global and intra-Commonwealth trade and investment. It also identifies possible pathways to help guide Commonwealth policy-makers and businesses towards a more inclusive, sustainable and resilient recovery, especially by harnessing digital trade and digital technologies.

Commonwealth trade and the pandemic

Intra-Commonwealth trade grew spectacularly, by around 10 per cent, in 2017 and 2018 before being subdued by various global economic headwinds prior to COVID-19, including the unresolved trade and technology conflict between the USA and China, rising protectionism, reconfiguring of supply chains and uncertainties about the outcome of the UK-EU negotiations. In 2019, the Commonwealth's global exports of goods and services were US$3.725 trillion, representing around 15 per cent of world trade. Although the Commonwealth's global exports grew marginally (at 0.2 per cent) in 2019, this growth still outperformed world trade, which declined by about 1 per cent in 2019.

Intra-Commonwealth trade in goods and services was US$673 billion in 2019, accounting for around 18 per cent of members' global exports. Combined, the Commonwealth's developing country members are the largest exporters of merchandise whereas the developed economy members lead on services trade. Merchandise trade accounts for two-thirds of intra-Commonwealth exports while services are around one-third.

Intra-Commonwealth trade is evolving as member countries deepen existing trade linkages or diversify their trading partners within or outside the Commonwealth. Between 2005 and 2019, 24 member countries, including several small states, considerably increased their share of intra-Commonwealth trade. Overall, Commonwealth small states and least developed countries (LDCs) depend the most on intra-Commonwealth trade. On average, around 28 per cent of small states' world trade and 24 per cent for LDCs are destined for Commonwealth members.

A significant Commonwealth "trade cost advantage" underpins this trade orientation and has remained strong and resilient over time. Revised estimates based on the most recently available data indicate that bilateral trade costs between Commonwealth country pairs are 21 per cent lower than those with non-Commonwealth countries, on average. This trade cost differential holds for both agricultural products and manufactured goods.

Commonwealth developing countries drive intra-Commonwealth trade flows. Their export share has increased over time – from 60 per cent in 2005 to 67 per cent in 2019. This owes largely to the greater expansion of trade by Asian member countries, which are undergoing a noticeable shift towards services, enabled by digitalisation, whereas African member countries still rely largely on commodity exports.

The COVID-19 pandemic has dealt a major blow to Commonwealth economies, inducing an economic recession in 45 member countries. Compared with the pre-pandemic growth trend, the combined gross domestic product (GDP) of Commonwealth countries shrank by US$1.15 trillion in 2020. This contributed to a loss of $345 billion in global exports and $60 billion in foregone intra-Commonwealth exports in just one year. The labour-intensive nature of manufacturing activities in most Commonwealth countries, a large orientation towards services, and existing structural challenges and vulnerabilities in several LDCs and small states made them particularly vulnerable to the demand, supply and policy shocks of the pandemic.

In 2020, intra-Commonwealth trade flows were estimated at US$641 billion, a drop of $30 billion from the level observed in 2019. Although all regions and member countries were affected, the decline in intra-Commonwealth trade was highest for developing countries. In absolute terms, Asian economies suffered the largest drop, followed by European and African economies. However, in relative terms, the Caribbean small island developing states (SIDS) saw an even greater decline in trade flows. COVID-19 damaged the already fragile economies of LDCs by drastically reducing external demand for their goods and services and lowering prices of key exports. This resulted in a major setback to the target of doubling LDCs' share of world exports by 2020, as envisaged by the Istanbul Programme of Action for LDCs for 2011-2020 and adopted by the Sustainable Development Goals (SDGs).

Many Commonwealth countries' exports have started to rebound as lockdowns are being lifted and the vaccination drive is gathering pace in some countries. In absolute terms, Commonwealth trade flows, both global and intra-Commonwealth, are estimated to reach 2019 levels by the end of 2021. Merchandise trade is leading the recovery; however, recovery of the services sector may take much longer. The overall trade recovery is likely to be highly uneven as countries with slower vaccine roll-outs, less fiscal space, lagging rates of information and communication technology (ICT) adoption and large dependence on tourism will face greater challenges.

Intra-Commonwealth exports are expected to surpass US$700 billion by 2022. To reach this threshold, countries will need to leverage digital technologies, utilise bilateral and regional trade agreements, promote services co-operation and improve connectivity to boost their trade, while the Commonwealth's youthful population offers another promising dividend for economic recovery. While the upsurge in using digital technologies can support recovery globally - and enables the broader transition towards digitalisation in many countries - there is still a significant digital divide within and between Commonwealth members, especially for women.

Digitalisation and trade in the Commonwealth

The Commonwealth's broad digital trade grew strongly in the decade preceding the COVID-19 pandemic, with increasing contributions from developing countries overall and Asian members in particular. The Commonwealth's ICT goods trade flows (exports and imports) expanded by US$25 billion, reaching $547.7 billion in 2019. Equivalent trade flows in ICT services increased by nearly $81 billion to reach $194.5 billion in 2019. Commonwealth exports and imports of digitally deliverable services grew by 44.8 per cent between 2011 and 2019, reaching $1.2 trillion. By 2018, more than half (54 per cent) of the Commonwealth's total services trade was delivered by digital means.

Intra-Commonwealth digital trade was also significant and, in some cases, expanding prior to the pandemic. This trade represented almost 13 per cent of the Commonwealth's total ICT goods trade flows in 2019. Intra-Commonwealth trade (exports plus imports) in electronically transmitted products – such as audio files, video files or video games and e-books – was worth more than US$4.6 billion in 2019. More than one-fifth (21.8 per cent) of ICT services exported by Commonwealth countries went to member countries in 2019.

The Commonwealth's digital trade flows, both within and outside the Commonwealth, are highly concentrated in a few Commonwealth countries, mostly developed and Asian members. Many Commonwealth SIDS and LDCs remain marginal players.

E-commerce activity is also generally more prevalent in developed Commonwealth countries. These countries recorded sizeable business-to-consumer sales in 2017 and 2018, ranging from 1.5 per cent of GDP in Australia to 9.3 per cent in the UK. Apart from Malaysia, the shares of e-commerce sales in GDP are generally lower in developing Commonwealth countries, suggesting there is considerable scope to grow e-commerce in these economies. This can be achieved by improving readiness to engage effectively in e-commerce across a range of Commonwealth countries. Developed Commonwealth economies and a few developing members are currently better prepared to support online commerce. Twelve Commonwealth countries recorded values above the world average on the E-Commerce Index, including all six developed members (four of which rank in the top twenty globally) and some developing members (Singapore, Malaysia, Mauritius, India, South Africa and Jamaica). However, a few African and Asian members – most of which are LDCs – rank lower on this Index.

COVID-19 has accelerated digital engagement, fuelling growth in digital trade and highlighting the benefits of digitisation and digital transformation. While the lockdowns and restrictions introduced to combat the pandemic led to some supply shocks affecting the manufacturing of ICT goods and the supply of products in e-commerce value chains, they also generated a range of positive demand shocks. These included increased demand for certain categories of consumer electronics and communication equipment and for digitally deliverable creative content and local and cross-border e-commerce activity.

Digital technologies have been instrumental in mitigating some of the economic losses caused by the pandemic, especially by sustaining some trade in services from education to health care. This has been enabled through switching between modes of supply as evident in a shift in favour of the supply of services through Mode 1 cross-border supply.

At the same time, the rapid acceleration in the adoption of digital technologies since the outbreak of the pandemic has the potential to exacerbate existing digital divides across and within countries. While the share of people in the Commonwealth using the internet has almost doubled in the past decade, to over 48 per cent in 2019, there remain stark differences in internet access, affordability and usage between developed, developing and LDC members. Higher costs of broadband, *inter alia*, are a key deterrent to this uptake.

The impact of COVID-19 on Commonwealth FDI

Despite sluggish growth in international investment, foreign direct investment (FDI) inflows to Commonwealth countries were robust in the decade prior to the emergence of the COVID-19 pandemic. Global FDI inward stock held by Commonwealth countries expanded by more than US$3 trillion and stood at nearly US$7.5 trillion in 2019. The value of intra-Commonwealth FDI stock reached $1.2 trillion in 2019, almost double the stock in 2010. Over the same period, annual global FDI inflows to the Commonwealth grew more than twice as fast as global inflows, on average; and the Commonwealth's share of global FDI inflows expanded by nearly 3 percentage points to reach 23.3 per cent in 2019.

Intra-Commonwealth FDI inflows grew by nearly US$33 billion and amounted to $75.2 billion in 2019. This was supported by a strong "Commonwealth advantage" in FDI. Before the pandemic, estimated investment flows between Commonwealth countries were 27 per cent higher than those between other country pairs, on average. Greenfield FDI between Commonwealth country pairs were around 19 per cent higher overall and 37 per cent higher for African members. Despite their growth, inward FDI stocks and flows from global and intra-Commonwealth sources remained highly concentrated in a relatively small number of member countries.

In 2019, global greenfield FDI inflows to the Commonwealth amounted to US$150.3 billion, with intra-Commonwealth flows accounting for $26.6 billion (or 15 per cent) of this total. Around 70 per cent of intra-Commonwealth greenfield investments were directed into services sectors between 2017 and 2019.

The UK was the largest recipient of greenfield FDI between 2017 and 2019, accounting for nearly one-fifth of total inflows. It was also the largest outward investor to the Commonwealth. Collectively, developed country members were responsible for 57 per cent of announced greenfield projects in other Commonwealth countries, while Singapore, India and South Africa were the main developing country contributors as well as recipients. Four other developing members - Nigeria, Malaysia, Namibia and Bangladesh – were also among the top 10 destinations for investment.

The pandemic had a major impact on overall greenfield FDI to the Commonwealth. There were notably fewer greenfield project announcements compared with pre-pandemic averages, significantly lower levels of capital investment and fewer jobs created. Global greenfield inflows to manufacturing and primary sectors experienced a larger decline than the services sectors.

Most Commonwealth countries experienced a significant decline in overall FDI inflows in 2020. Given the extensive linkages between trade and investment, and the role of FDI in supporting cross-border trade, these disruptions could possibly constrain the trade prospects of some Commonwealth countries. The drop affected all developed and developing countries but to a varying degree, with Australia and Rwanda notably experiencing a 50 per cent decline in inflows compared with the pre-pandemic (2017-2019) average. Only eight Commonwealth developing countries recorded higher overall FDI inflows in 2020 compared with this previous average. They were The Gambia, Malawi and Sierra Leone in Africa, India in Asia, Belize, Guyana and Trinidad and Tobago among Caribbean SIDS and Papua New Guinea in the Pacific.

Intra-Commonwealth greenfield FDI was similarly affected. In 2020, overall intra-Commonwealth greenfield inflows were US$1.6 billion lower in Q2, $4.7 billion lower in Q3 and $2.9 billion lower in Q4 of 2020. The estimated number of jobs created through these investments in 2020 was only around half the pre-pandemic average. While intra-Commonwealth greenfield inflows to manufacturing fared relatively better (11 per cent lower) in 2020, inflows to the primary (56 per cent lower) and services (34 per cent lower) sectors were affected significantly.

Overall FDI inflows to the Commonwealth are expected to decline by 18 per cent in 2021, and a further 7 per cent in 2022. As a result, the total value of FDI inflows to the Commonwealth is expected to decline to US$136 billion in 2022, or a loss of around $220 billion compared with 2019.

Looking beyond the pandemic, Commonwealth countries should aim to attract investors wanting to diversify supply bases (e.g. China) and strengthen their physical and digital infrastructure. They can take advantage of tariff preferences in major developed and developing country markets to attract investment in new facilities and, where possible, export tariff-free to these markets. Trade agreements like the African Continental Free Trade Area (AfCFTA) and the Regional Comprehensive Economic Partnership (RCEP) create new mega-regional markets for investors, especially with several Commonwealth African countries being the major sources of intra-African investment. At the multilateral level, the Joint Statement Initiative on investment facilitation by some WTO members may result in outcomes that boost FDI inflows to Commonwealth countries. The Commonwealth has a strong diasporic community with considerable potential for diaspora investment, although this has yet to be fully realised.

Multilateral and regional trade responses to the pandemic

Despite the WTO's many accomplishments, trade multilateralism is at a crossroads. The changing nature and composition of trade and supply chains, as well as managing the WTO's rulebook in the face of the geopolitical and geo-economic rivalry between the USA and China, may affect the prospects for trade multilateralism and have implications for Commonwealth countries.

COVID-19 affected trade multilateralism in multiple ways. The pandemic disrupted in-person meetings and negotiations at the WTO, leading to a shift to virtual and hybrid formats. Some WTO members adopted unilateral measures to manage the consequences of the pandemic, including restricting exports from food to medicines and vaccines. Global logistics and supply chains were interrupted, including the transit of essential goods, leading several Commonwealth countries to advocate globally for maintaining open trade and supply chains. In this situation, Commonwealth developing countries and LDCs should consider fast-tracking any relevant provisions of the WTO's Trade Facilitation Agreement (TFA) by using the TFA Facility and capacity support for implementation. Countries that implemented temporary measures to facilitate trade, like digitising paper processes, should consider permanently adopting these *ad hoc* measures.

The pandemic has highlighted the need to strengthen the multilateral trading system. Reforms should also help the WTO prepare better for future crises and build global resilience. Given the rapid adoption of ICTs in response to the pandemic and the trend towards digitalisation, the WTO will need to adapt to become more effective at promoting and facilitating digital trade and building capacity to participate in the digital economy.

Few Commonwealth countries have the capacity to manufacture vaccines, while 47 are net importers of COVID-related medical goods. Priority should be accorded to ensuring increased production and equitable distribution of affordable vaccines for all. The WTO provides a possible multilateral route for international co-operation in developing and distributing affordable COVID-19 vaccines. Several Commonwealth countries, led by India and South Africa, have requested at the WTO a general waiver to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) for drugs, vaccines, diagnostics and other technologies related to COVID-19 to enable the production of generic vaccines to meet national and global demand. More recently, the USA announced support for a waiver of intellectual property protection on COVID-19 vaccines to help end the pandemic. However, some countries still argue that the Doha Declaration on TRIPS and Public Health already provides sufficient flexibilities to strike the right balance between safeguarding intellectual property holders' rights and public health considerations.

COVID-19 has underscored the importance of deepening regional co-operation and co-ordination to combat the pandemic, support economic recovery and build resilience for future shocks. Several regional trade agreements (RTAs) involving Commonwealth countries have been completed in recent years. They include the AfCFTA, RCEP and the UK's trade agreements with Commonwealth countries, where there is considerable untapped potential to grow trade. Since most intra-Commonwealth trade takes place regionally, an urgent priority should be to tackle implementation gaps in existing or new trade agreements. Developing countries can draw on the WTO's Aid for Trade initiative as well as bilateral and regional development assistance programmes to strengthen their productive and supply capacities and improve competitiveness, while LDCs can do the same through partnerships with the Enhanced Integrated Framework for LDCs and the United Nations Technology Bank for LDCs.

Strengthened regional co-operation dealing with behind-the-border measures (e.g. technical regulations), ensuring improved connectivity (e.g. transport infrastructure) and triggering structural transformation (e.g. through regional value chains) is more likely to lead to increased trade than just tariff preferences. Developing regional value chains can also open opportunities for putting in place new manufacturing capacities to aid recovery from the pandemic. In addition, Commonwealth countries can leverage RTAs to build back better, including by developing model provisions to promote better trade co-operation in times of emergency and mechanisms supporting women's economic empowerment.

Multilateralism and regionalism can co-exist and complement each other, especially if they create new trading opportunities and deepen liberalisation. RTAs can innovate with governance arrangements for trade, such as the digital economy, while the WTO can provide a platform for inclusive discussion and learning about regional experiences, including through the Trade Policy Reviews and the Transparency Mechanism for RTAs.

Pathways to post-COVID trade recovery and resilience building

Each Commonwealth member country has its own unique pathway and policy options for trade recovery, although access to vaccines plays an indispensable part for all of them. The broader outlook for Commonwealth countries' trade recovery is inextricably linked to global economic prospects as well as the structure of their economy, the composition of their exports and their inherent characteristics and vulnerabilities, especially for LDCs and small states. Trade recovery must be framed overall by the importance of ensuring inclusive trade for women and youth and especially promoting women's economic empowerment.

Since a rules-based global trading system offers the best framework to enable trade recovery, WTO members should work collectively to strengthen and reform trade multilateralism. In the short term, consideration could be given to avoiding protectionism and improving vaccine production and distribution, strengthening the enabling environment for e-commerce, addressing fisheries subsidies and improving food security. As part of a broader reform agenda, it is paramount to find a solution to the dispute settlement impasse and to identify practical ways for trade multilateralism to support greater environmental sustainability, especially in light of the SDGs and global commitments to addressing the climate crisis.

Progress in the next decade will be critical to ensure LDCs are not left behind. Following the end of the Istanbul Programme of Action in 2020, the Fifth United Nations Conference on LDCs, which is scheduled for January 2022, will look to mobilise additional international support measures and actions for LDCs and foster a renewed partnership between LDCs and development partners. Greater focus should be placed on developing productive capabilities in higher-productivity sectors and higher value-added activities to structurally transform LDCs' economies and make them more resilient to future shocks.

The UK is a key destination for intra-Commonwealth exports, with numerous opportunities to strengthen trade and investment linkages and economic co-operation beyond the pandemic. The UK and its Commonwealth partners could aim to complete and implement bilateral FTAs, diversify food trade towards Commonwealth partners and deepen co-operation in services and the digital economy, including in relation to FinTech and tourism. They can engage in structured dialogue to further improve the UK's development-friendly trade, especially for LDCs, and resolve some challenges faced by Commonwealth exporters in triangular supply chains involving the UK and the EU.

The global tourism and travel sector has been the hardest hit by COVID-19, and the Commonwealth's tourism-dependent small states have been severely affected. Many Commonwealth members have implemented response and recovery plans for the tourism sector based on industry body guidelines, with two broad categories of measures discernible: first, short-term, immediate crisis management responses that include stimulus and relief packages; and second, measures that focus on medium- to long-term recovery, especially to make the industry more resilient. Embracing digital and technological options will be a crucial component of a future tourism recovery strategy.

Commonwealth countries can leverage digital technologies to support recovery, depending on their levels of ICT adoption and digital connectivity. In the short to medium term, digital trade, especially e-commerce and delivering certain services online, can provide a pathway for mitigating several economic losses from COVID-19 and support the opening and resumption of many activities, although some online activity may decline with the roll-out of vaccines and treatments. In the longer term, growing digital trade, investing in digital capabilities, upskilling and training the workforce, and harnessing some of the frontier technologies linked to Industry 4.0 can help transform economies, build resilience to future shocks and better integrate sustainability into supply chains.

Digital trade, however, requires developing an appropriate and enabling regulatory system, including policies and regulations governing areas like data protection and privacy, data processing, cyber-security, e-transactions and digital signatures, and consumer protection. While Commonwealth developed countries have implemented most of these, many developing countries, especially African countries and small states, still lag in terms of legislative or regulatory progress in this area. Nonetheless, many Commonwealth countries are engaged in efforts to develop, co-operate, co-ordinate or harmonise rules and standards for digital trade through bilateral or regional trade deals and initiatives at the WTO. The policy landscape for digital services, especially across borders, is rapidly evolving, with implications for negotiating commitments on trade in services under the WTO and other trade agreements.

There is a compelling case for directing more donor support to enhance developing countries' participation in digital trade. A dedicated – and additionally funded - Aid for Digital Trade agenda provides an opportunity to mainstream support for enhanced digital connectivity and adoption into AfT as part of a comprehensive approach to inclusive digital transformation. This could initially focus on supporting infrastructure, digital skills, e-government and financial inclusion in developing countries and LDCs. Commonwealth countries should also strive to digitise trade facilitation by adopting paperless trade solutions and consider making permanent any temporary digital trade facilitating measures introduced during the pandemic.

The post-COVID recovery is an opportunity for Commonwealth countries to make progress with many of the SDGs, but especially SDG 12 – namely, ensuring sustainable consumption and production – including through trade policy and trade agreements and promoting circular economy principles. The adoption of digital technologies can support this transition to sustainable growth and development, the creation of green jobs and strengthened regional and local supply chains.

Taken together, these inter-related measures provide a set of pathways towards recovery in Commonwealth trade. As the world begins to tide over the COVID-19 pandemic, Commonwealth countries can look to use their global and intra-Commonwealth trade as essential tools for building back better and promoting a more inclusive, resilient and sustainable future.

Endnotes

1 In absolute terms, the value of global trade in goods and services in 2020 (US$23.1 trillion) was around the same as the value of world trade in 2011. Moreover, LDCs' share in global trade during this period has remained stagnant, at around 1 per cent, although, in absolute terms, their exports increased marginally, from $216 billion in 2011 to $244 billion in 2019.

2 This is based on the International Monetary Fund's GDP projection for Commonwealth countries in October 2019 (prior to the outbreak of COVID-19) and April 2021 (during the pandemic).