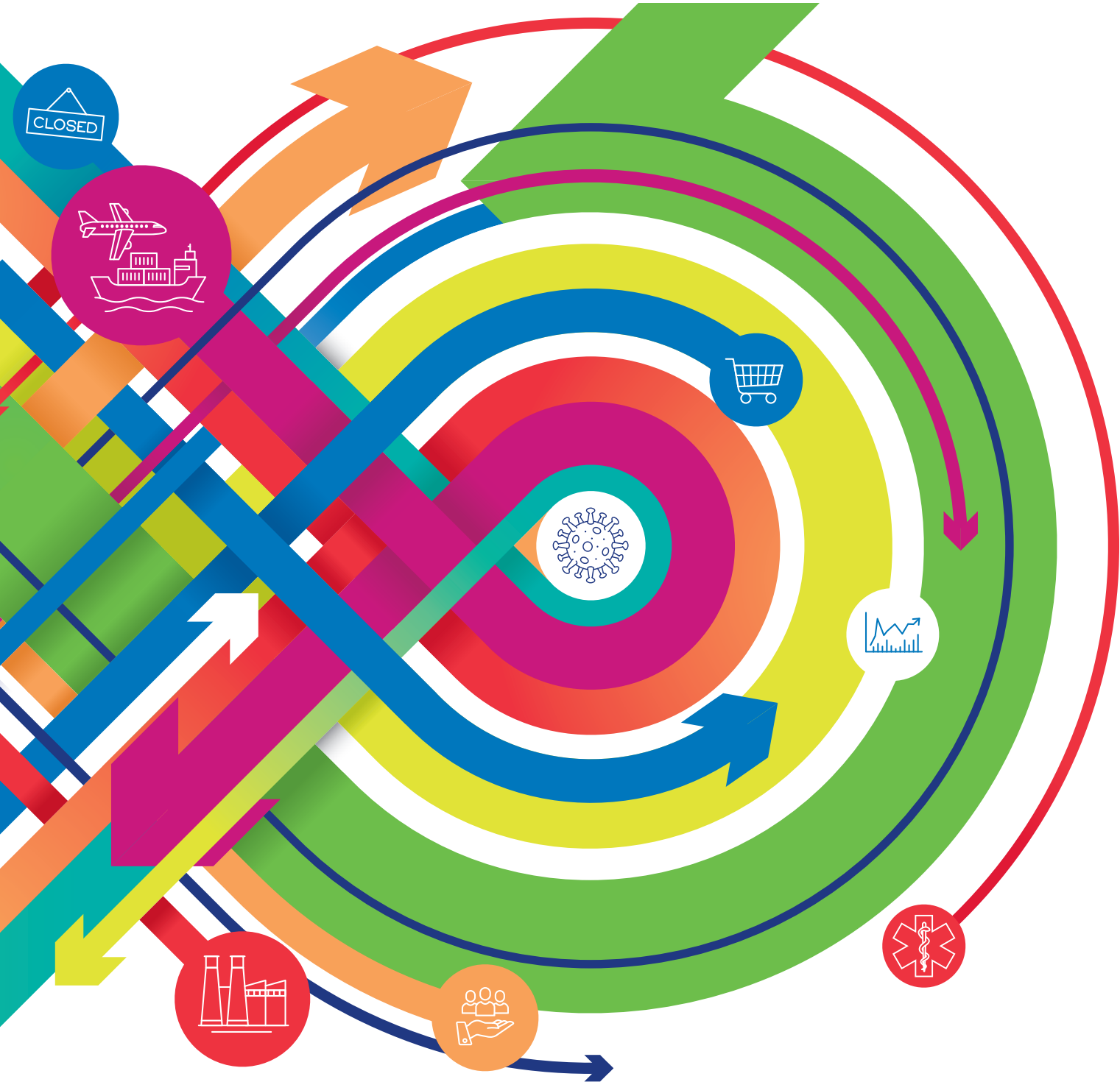


Energising Commonwealth Trade in a Digital World

Paths to Recovery Post-COVID



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Paths to Recovery Post-COVID

Commonwealth Trade Review 2021



The Commonwealth

Commonwealth Secretariat
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Introduction

The Commonwealth is an association of 54 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

The world has changed dramatically since the 2018 Commonwealth Trade Review. Since its onset in early 2020, the COVID-19 pandemic has had a devastating impact on the lives and livelihoods of our 2.4 billion Commonwealth citizens and others around the world. There has been tragic loss of life, with the number of deaths globally now having exceeded 3 million, and there are wide-ranging economic, social and environmental consequences, which present immense challenges and will take some time to overcome.

The pandemic has resulted in the worst economic contraction since the Great Depression, creating an unprecedented crisis for world trade and investment. Lockdown measures, travel restrictions and social distancing across the Commonwealth and globally brought an abrupt halt to many of our usual economic and social activities. We have been compelled to rely even more on digital technologies, innovations and solutions in a range of areas, from health care and education to work, commerce and trade.

Building on the 2015 and 2018 Commonwealth Trade Reviews, *Energising Commonwealth Trade in a Digital World: Paths to Recovery Post-COVID* provides a timely and comprehensive analysis of the impact of the COVID-19 pandemic on Commonwealth trade and investment flows. Collectively, Commonwealth countries are estimated to have lost as much as US\$345 billion worth of trade in 2020, including \$60 billion in intra-Commonwealth trade. Indeed, intra-Commonwealth trade flows have dropped to levels last witnessed

in 2011. In these troubling times for our member countries, and with less than a decade remaining until the target date for achieving the 2030 Agenda for Sustainable Development, the economic and social fallout threatens to exacerbate existing challenges to inclusive growth and sustainable development in the Commonwealth, especially given the disproportionate impacts on women, informal workers and youth.

A key message of this publication is that trade can offer positive solutions to manage the COVID-19 pandemic and will be an essential tool for economic recovery and building back better. In particular, Commonwealth members can harness the 'Commonwealth advantage', and draw on the mutual support and benefits offered through the Commonwealth Connectivity Agenda, Commonwealth Blue Charter and other initiatives, to help boost their trade recovery in a more inclusive, resilient and sustainable manner. A reassuring finding is that the Commonwealth trade cost advantage has remained strong and resilient, and is now estimated at 21 per cent, on average. Meanwhile, the investment advantage has almost tripled since the 2015 Commonwealth Trade Review was published, to around 27 per cent. Another finding about the growth of investment in renewable energy is hugely encouraging as our members aspire to greener, more regenerative development paths beyond the pandemic and achieving a net zero global economy by 2050.

Revitalising trade and strengthening connectivity among Commonwealth countries and their global partners are

indispensable for recovery efforts and future prosperity. The theme for the forthcoming Commonwealth Heads of Government Meeting is 'Delivering a Common Future'. This Review highlights the wealth of innovation, ingenuity, best practice and human capital across the Commonwealth that can be leveraged, shared and exchanged to help achieve a more prosperous future which leaves no citizen behind or offline.

In particular, the changes brought about by COVID-19 have underlined the centrality of technology in all aspects of our lives – from the rapid development of coronavirus vaccines and 3D printing of medical equipment and devices, to e-commerce and the online delivery of certain services. The greater reliance on digital technologies necessitated by the pandemic will almost certainly remain as an enduring factor that will accelerate growth in the digital economy, including digital trade, in the longer term. This must be matched by proactive efforts to close digital divides within and among countries, especially as this disproportionately affects women and girls.

As the tide begins to turn in the fight against COVID-19, we have opportunities to build more diverse and resilient trade and investment relationships among the countries, cities, communities and citizens of our Commonwealth family. These can form the richly fertile and solid foundation for more inclusive and sustainable future growth and development post-COVID.

**The Rt Hon Patricia Scotland QC
Secretary-General of the
Commonwealth**

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Contents

Introduction	iii
List of Figures	xi
List of Tables	xiv
List of Boxes	xv
Abbreviations and Acronyms	xvi
Overview	xx
Executive Summary	xxii
Chapter 1: Commonwealth Trade and the Pandemic	2
1.1 Introduction	5
1.2 The Commonwealth’s global trade before the pandemic	6
1.3 Intra-Commonwealth trade before the pandemic	12
1.4 COVID-19 implications for Commonwealth trade	26
1.5 Trade performance of LDCs, IPOA and COVID-19	37
1.6 Commonwealth trade prospects towards 2022	39
1.7 Conclusion and way forward	39
Annex 1.1 Commonwealth export profile, 2019	42
Annex 1.2 COVID-19 impact on the GDP of Commonwealth economies, 2019–2022 (constant 2010 US\$ million)	45
Annex 1.3 Immediate effect of COVID-19 on economic growth of Commonwealth countries, 2019 vs. 2020	47
Annex 1.4 Orientation of merchandise trade flows towards Commonwealth countries, 2005 vs. 2019	48
Annex 1.5 Commonwealth LDCs global and intra-Commonwealth export profile, 2019	49
Endnotes	50
Chapter 2: Digitalisation and Trade in the Commonwealth	52
2.1 Introduction	55
2.2 Digital trade in the Commonwealth pre-COVID-19	56
2.3 Investment in digital sectors in the Commonwealth	69
2.4 COVID-19 and digital trade	71
2.5 Broadening access to the internet and ICT usage	74
2.6 Conclusion and way forward	78
Endnotes	79
Chapter 3: The Impact of COVID-19 on Commonwealth FDI	80
3.1 Introduction	83
3.2 Commonwealth investment trends pre-COVID-19	84

3.3	The Impact of COVID-19 on Commonwealth FDI	95
3.4	Commonwealth FDI prospects to 2025	103
3.5	Conclusion and way forward	106
Annex 3.1	Concordance for fDi Markets industries to broad sectors	108
	Endnotes	109
Chapter 4: Multilateral and Regional Trade Responses to the Pandemic		110
4.1	Introduction	113
4.2	The Commonwealth and trade multilateralism	114
4.3	COVID-19 and trade multilateralism	116
4.4	The Commonwealth and regional co-operation in times of crisis	121
4.5	Conclusion and way forward	127
Annex 4.1	Major trade agreements involving Commonwealth countries, 2018-present	129
	Endnotes	131
Chapter 5: Pathways to Post-COVID Trade Recovery and Resilience Building		134
5.1	Introduction	137
5.2	Strengthen and reform the multilateral trading system	138
5.3	Enhance support measures for LDCs and graduates	140
5.4	Utilise new trading opportunities post-Brexit	142
5.5	Revive the tourism and travel sector, especially for small states	148
5.6	Leverage digital technologies for trade, development and competitiveness	149
5.7	Develop effective frameworks for governing digital trade	153
5.8	Develop a newly invigorated Aid for Digital Trade initiative	156
5.9	Digitise trade facilitation and strive for paperless trade	157
5.10	Promote sustainable trade and enable a more circular economy	158
5.11	Conclusion and way forward	160
	Endnotes	164
Conclusion		166
References		170

List of Figures

Figure 1.1	Commonwealth countries' global exports of goods and services, 2005–2019	6
Figure 1.2	Evolution of Commonwealth members' exports, by development level and sector, 2005–2019	8
Figure 1.3	Trade performance and composition of Commonwealth small states' exports, 2005–2019	9
Figure 1.4	Share of Commonwealth services exports in GDP by region, 2019	10
Figure 1.5	Leading services exporters and key services sectors, 2019	11
Figure 1.6	Share of average trade costs between Commonwealth trade partners vs. others, 1995–2018	13
Figure 1.7	Trends in intra-Commonwealth exports of goods and services, 2005–2019	15
Figure 1.8	Relative significance of intra-Commonwealth merchandise trade in member countries' total trade, 2017–2019 average	16
Figure 1.9	Relative significance of intra-Commonwealth services exports in member countries' total services exports, 2017–2019 average	17
Figure 1.10	Regional distribution of intra-Commonwealth trade, 2010 vs. 2019	19
Figure 1.11	Share of goods and services exports for leading exporters, by region, 2019	20
Figure 1.12	Shares of large intra-Commonwealth merchandise traders, 2019	21
Figure 1.13	Intra-Commonwealth merchandise exports by sector and region, 2019	22
Figure 1.14	Country shares of intra-Commonwealth services exports and imports, 2019	23
Figure 1.15	Regional and sectoral distribution of intra-Commonwealth services exports, 2019	24
Figure 1.16	Growth rate of intra-Commonwealth services exports, 2005–2019 average	25
Figure 1.17	Servicification of intra-Commonwealth trade over time	26
Figure 1.18	Commonwealth market share and GDP drop for large export markets (%)	27
Figure 1.19	Impact of the COVID-19 pandemic on Commonwealth countries' global exports in 2020	28
Figure 1.20	COVID-19 shock and intra-Commonwealth trade flows in goods and services, 2019 vs. 2020	29
Figure 1.21	Impact of the pandemic on Commonwealth merchandise exports, December 2019 to December 2020	30
Figure 1.22	Monthly variation in commodity price indices in 2020	33
Figure 1.23	COVID-19 impact on services exports of selected Commonwealth countries, 2020 vs. 2019	34
Figure 1.24	Potential COVID-19 pandemic effects on services trade	36
Figure 1.25	Trade performance of LDCs during Istanbul Programme of Action	38
Figure 1.26	Commonwealth's trade prospects in the short to medium term, 2019–2022	40
Figure 2.1	Commonwealth trade (exports and imports) in ICT goods, 2010–2019	57
Figure 2.2	Distribution of Commonwealth ICT goods trade (exports and imports), 2010–2019	58
Figure 2.3	Distribution of intra-Commonwealth trade in ICT goods, 2019	59
Figure 2.4	Main intra-Commonwealth exporters and importers of digitisable products, 2017–2019 (cumulative)	60

Figure 2.5	Commonwealth global trade (exports and imports) in ICT services, 2010–2019	61
Figure 2.6	Commonwealth trade (exports and imports) in digitally deliverable services, 2011–2019	64
Figure 2.7	Regional shares of total Commonwealth trade (exports and imports) in digitally deliverable services, 2011 and 2019	65
Figure 2.8	Top 10 Commonwealth countries by value of trade (exports and imports) in digitally deliverable services, average 2017–2019	66
Figure 2.9	Top 10 Commonwealth countries by value of trade (exports and imports) in digitally deliverable services per 1,000 people, average 2017–2019	66
Figure 2.10	Commonwealth countries' performance on the 2020 B2C E-Commerce Index	67
Figure 2.11	Online shoppers as a share of internet users and total population in Commonwealth countries, latest available year between 2017 and 2019	68
Figure 2.12	Changes in announced greenfield FDI inflows to communications and software and IT services sectors in the Commonwealth, 2019 vs. 2020	71
Figure 2.13	Trends in India's exports in ICT services and key export markets	73
Figure 2.14	Share of the populations of Commonwealth countries using the internet, 2019	75
Figure 2.15	Affordability and regulation factors affecting access to the internet in the Commonwealth	77
Figure 3.1	FDI inward stock in the Commonwealth, 2010–2019	85
Figure 3.2	Distribution of FDI inward stock in the Commonwealth, 2019	86
Figure 3.3	Total value of FDI inflows into the Commonwealth, 2010–2019	87
Figure 3.4	Top 10 hosts of bilateral FDI inflows into the Commonwealth, 2017–2019 (cumulative)	87
Figure 3.5	Intra-Commonwealth FDI instock (US\$ billion), 2010–2019	88
Figure 3.6	Total value of intra-Commonwealth FDI flows, 2010–2019	89
Figure 3.7	Top 10 investors and hosts of intra-Commonwealth FDI inflows by value, 2017–2019 (cumulative)	90
Figure 3.8	Aggregate value and share of announced greenfield FDI inflows to the Commonwealth, 2010–2019	91
Figure 3.9	Sectoral composition of announced intra-Commonwealth greenfield FDI inflows, 2017–2019 (cumulative)	93
Figure 3.10	Top 10 sources and destinations for intra-Commonwealth greenfield FDI in the renewable energy sector, by value of cumulative capital investment 2010–2019	94
Figure 3.11	Number and aggregate value of announced intra-Commonwealth greenfield FDI projects by Commonwealth region and quarter, average 2017–2019 vs. 2020	98
Figure 3.12	Changes in sectoral composition of announced greenfield investment in the Commonwealth, 2017–2019 average vs. 2020	101
Figure 3.13	Changes in sectoral composition of intra-Commonwealth greenfield FDI, by Commonwealth region, 2017–2019 average vs. 2020	102
Figure 3.14	Announced Chinese greenfield FDI in the Commonwealth, 2017–2019 average vs. 2020 (US\$ million)	106

Figure 4.1	Average Commonwealth export growth to the USA for tariffed and non-tariffed products	116
Figure 4.2	TFA implementation by Commonwealth developing countries as of 19 March 2021	120
Figure 4.3	Share of Commonwealth African members in intra-Africa trade, 2010-2019	122
Figure 5.1	The Commonwealth's rising trade with China, 2000–2019	141
Figure 5.2	Share of Commonwealth merchandise and services exports to the UK, 2017–2019 average	143
Figure 5.3	Potential short- and medium-term impacts on Commonwealth countries' exports, 2021–2025	147
Figure 5.4	Contribution of tourism to GDP and employment in Commonwealth small states, 2019	148
Figure 5.5	Commonwealth countries' performance on the Readiness for Frontier Technologies Index, by country and region	153

List of Tables

Table 1.1	Commonwealth countries' pre-pandemic export profile, 2019	6
Table 1.2	The Commonwealth effect on trade costs	13
Table 1.3	Share of goods and services in intra-Commonwealth exports, 2019	14
Table 1.4	Regional variation in COVID-19 impact on intra-Commonwealth trade (US\$ million), 2019 vs. 2020	28
Table 1.5	Modelling results: COVID-19 effect on Commonwealth countries' merchandise exports (% decrease)	31
Table 2.1	Commonwealth global and intra-Commonwealth trade (exports and imports) in ICT goods, by level of economic development and region, 2010 and 2019	58
Table 2.2	Commonwealth global trade (exports and imports) in ICT services, by level of economic development and region, 2010 and 2019	62
Table 2.3	Intra-Commonwealth ICT services exports, average 2017-2019	63
Table 2.4	B2C e-commerce sales for selected Commonwealth countries, 2017 and 2018	69
Table 2.5	Announced greenfield investment in communications and software and IT services	70
Table 2.6	Broadband costs and tariffs on network equipment in the Commonwealth	76
Table 3.1	The Commonwealth effect in FDI flows – gravity model results	88
Table 3.2	Jobs created through announced greenfield FDI in the Commonwealth, 2010–2019	91
Table 3.3	Top 10 sources and hosts of announced intra-Commonwealth greenfield FDI inflows to Commonwealth members, by cumulative value, 2017-2019	92
Table 3.4	COVID-19 shock and FDI inflows to Commonwealth countries, average for 2017–2019 vs. 2020	96
Table 3.5	Job creation and employment intensity of intra-Commonwealth greenfield FDI, by country group, 2017–2019 average vs. 2020	99
Table 3.6	Sectoral implications of COVID-19 for intra-Commonwealth greenfield FDI, 2017–2019 average vs. 2020	103
Table 3.7	COVID-19 impacts and future investment prospects for selected sectors	104
Table 5.1	The significance of the UK sugar market to Commonwealth ACP countries, 2017–2019 average	144
Table 5.2	Nature of the UK's import regime for Commonwealth countries, March 2021	145
Table 5.3	DEPA key policy areas	155
Table 5.4	Policy areas for revitalising Commonwealth trade	160

List of Boxes

Box 1.1	Trade costs advantage in intra-Commonwealth trade	12
Box 1.2	Rising servicification trends in Commonwealth developing and developed countries	26
Box 1.3	COVID-19 and economic contractions in the Commonwealth's largest export markets	27
Box 1.4	Linkages between COVID-19 infections and merchandise exports in the Commonwealth	31
Box 1.5	COVID-19 hits garments manufacturing in the Commonwealth	32
Box 1.6	Commodities exports and COVID-19	33
Box 1.7	Drop in services exports during the COVID-19 pandemic	34
Box 1.8	Entrepreneurship, trade and women's economic empowerment	35
Box 1.9	Switching modes? COVID-19 and the education services exports of Australia and Canada	37
Box 2.1	What is cross-border digital trade?	56
Box 2.2	Africa and the digital delivery of creative content	61
Box 2.3	COVID-19 leads to growth in exports and e-commerce sales	72
Box 2.4	India's ICT services exports and the pandemic	73
Box 2.5	Providing internet access in the Commonwealth: what can we learn from the top performers?	77
Box 3.1	Trade and investment linkages, and broader FDI benefits	84
Box 3.2	The intra-Commonwealth advantage in investment	88
Box 3.3	Investors set their sights on renewables in the Commonwealth	93
Box 3.4	COVID-19 has exacerbated gender imbalances in investment	95
Box 3.5	China's growing influence on infrastructure investment in the Commonwealth	105
Box 4.1	Implications of the USA-China trade conflict for Commonwealth countries	115
Box 4.2	The WTO goes virtual: opportunities and challenges for developing countries	117
Box 4.3	Trade responses to the pandemic	117
Box 4.4	Examples of Commonwealth trade facilitation measures in response to COVID-19	118
Box 4.5	Doha Declaration on TRIPS and Public Health	121
Box 4.6	The AfCFTA: a game changer for Africa's continental and global trade	122
Box 4.7	RCEP and trade and investment implications for the Commonwealth	123
Box 4.8	Towards "Factory Southern Africa"	127
Box 5.1	Commonwealth trade linkages with China beyond the pandemic	141
Box 5.2	The UK sugar market: a sweet or sticky deal for the ACP?	143
Box 5.3	Potential implications of future UK FTAs for Commonwealth countries	147
Box 5.4	Maldives leads the way in driving tourism recovery and a return to the "old normal"	149
Box 5.5	Rwanda bets big on digitally led development	150
Box 5.6	The Digital Economy Partnership Agreement – a model for the future?	155
Box 5.7	Commonwealth Connectivity Agenda Initiatives 2021	159

Abbreviations and Acronyms

A4AI	Alliance for Affordable Internet
AB	Appellate Body
ACP	African, Caribbean and Pacific
AfCFTA	African Continental Free Trade Area
Afreximbank	African Export-Import Bank
AfT	Aid for Trade
AI	Artificial Intelligence
AiIB	Asian Infrastructure Investment Bank
AMSP	African Medical Supplies Platform
ATQ	autonomous tariff rate quota
AU	African Union
AUC	African Union Commission
B2C	business-to-consumer
BaTIS	Balanced Trade in Statistics
BRI	Belt and Road Initiative
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARPHA	Caribbean Public Health Agency
CCA	Commonwealth Connectivity Agenda
CECPA	Comprehensive Economic Co-operation and Partnership Agreement
CHOGM	Commonwealth Heads of Government Meeting
COP	Conference of the Parties
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CUSMA	Canada–USA–Mexico Agreement
DAC	Development Assistance Committee
DDS	digitally deliverable services
DEPA	Digital Economic Partnership Agreement
DFQF	duty-free and quota-free
DIT	Department for International Trade

DSR	Digital Silk Road
DSU	Dispute Settlement Understanding
EBA	Everything But Arms
EIU	Economist Intelligence Unit
EPA	economic partnership agreement
ESA	Eastern and Southern Africa
ET	electronically transmitted
EU	European Union
FDI	foreign direct investment
FIC	Forum Island Country
FOCAC	Forum on China-Africa Co-operation
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GIZ	German Development Corporation
GNI	gross national income
GSP	Generalised Scheme of Preferences
GTAP	Global Trade Analysis Project
GVC	global value chain
ICC	International Chamber of Commerce
ICT	information and communication technology
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IoT	Internet of Things
IPOA	Istanbul Programme of Action
IPRs	intellectual property rights
IT	information technology
ITC	International Trade Centre
ITU	International Telecommunication Union
IUU	illegal, unreported and unregulated

LDC	least developed country
M&A	mergers and acquisitions
MC	Ministerial Conference
MNE	multinational enterprise
MSMEs	micro, small and medium enterprises
NDB	New Development Bank
OACPS	Organisation of African, Caribbean and Pacific States
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OEM	original equipment manufacturing
OLS	Ordinary Least Squares
PAAS	platform-as-a-service
PACER	Pacific Agreement on Closer Economic Relations
PHP-C	Pacific Humanitarian Pathway for COVID-19
PPML	Poisson Pseudo Maximum Likelihood
PSH	public stockholding
R&D	research and development
RCEP	Regional Comprehensive Economic Partnership
RESW	Rwanda Electronic Single Window
RoO	rules of origin
RoW	rest of world
RTA	regional trade agreement
SAARC	South Asian Association for Regional Co-operation
SAAS	software-as-a-service
SACU	Southern African Customs Union
SACUM	Southern African Customs Union and Mozambique
SDG	Sustainable Development Goal
SIDS	small island developing state
SMEs	small and medium enterprises
SPS	sanitary and phyto-sanitary
SSA	sub-Saharan Africa

TBT	technical barrier to trade
TCA	Trade and Co-operation Agreement
TFA	Trade Facilitation Agreement
TIDCA	trade, investment and development co-operation agreement
TiSMoS	Trade in Services by Mode of Supply
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UKSFTA	UK-Singapore Free Trade Agreement
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFCCC	United Nations Framework Convention on Climate Change
UNWTO	United Nations World Tourism Organization
USA	United States of America
WDI	World Development Indicators
WEF	World Economic Forum
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization
WTTC	World Travel & Tourism Council

Overview

The COVID-19 pandemic has caused an unprecedented global economic crisis. It has induced a deep recession in several Commonwealth countries and in their major export markets, which has significantly affected Commonwealth countries' global and intra-Commonwealth trade. Foreign direct investment inflows to Commonwealth countries have also taken a considerable hit. The pandemic's disproportionate impact on already vulnerable economies, societies and health care systems, with particularly severe effects on women, youth, the poor and the informally employed, could exacerbate existing challenges to inclusive growth in the Commonwealth and the pursuit of the 2030 Agenda for Sustainable Development. Indeed, the devastating economic consequences of COVID-19, together with other global exigencies in recent years, mean that 2011–2020¹ will be a lost decade in terms of gains from trade for the global community, especially for small states, least developed countries (LDCs) and countries in sub-Saharan Africa. This is disheartening because trade has helped lift millions of people from poverty to prosperity around the world and will be instrumental for combating the pandemic, reviving growth and achieving many of the Sustainable Development Goals (SDGs) and targets.

The 2021 Commonwealth Trade Review examines the impact of COVID-19 on the performance and prospects for trade and investment in the Commonwealth. 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. Overall, it is evident that the pandemic has had a substantial impact on all member countries' economies, leading to US\$1.15 trillion in foregone gross domestic product (GDP) in just one year.² Had there been no disruption to global trade, the Commonwealth's global exports of goods and services in 2020 could have been as much as \$345 billion higher. This includes an estimated export loss of \$60 billion for intra-Commonwealth trade as a result of the pandemic.

Most Commonwealth members have been extremely exposed to the effects of the pandemic as a consequence of the structure of their economies, the composition of

their exports, particularly when concentrated in services like transport, travel and tourism, and their level of integration in regional and global value chains (GVCs), as well as other inherent features and vulnerabilities. With the rollout of vaccines, some Commonwealth members have started opening their economies and resuming trade and travel; others confront new waves of infection or lack access to lifesaving vaccines. A sustainable and inclusive recovery globally requires enhanced co-operation to contain the pandemic, mitigate its impact on trade, livelihoods and health, and ensure open trade, undisrupted supply chains, especially for medical equipment, and equitable access to essential vaccines for all. Failure to achieve these goals, especially by vaccinating only people in wealthy countries, could lead to a delayed and asynchronous recovery and cost the global economy around US\$9 trillion in lost output (ICC, 2020).

Trade recovery will unfold in tandem with several pre-pandemic trends — the reconfiguration of supply chains, Industry 4.0 and digitalisation — which have accelerated and are transforming global production, trade and GVCs. Many governments and firms across the world are considering ways to near-shore or regionalise their supply chains to reduce risks, build resilience to future shocks and reduce the carbon footprint of production to achieve a global economy with net zero emissions by 2050. The pandemic has hastened the adoption of digital technologies and digital trade, especially e-commerce and the online delivery of certain services, as a means to mitigate some of the economic and social consequences of COVID-19. Digitalisation, more broadly, is accelerating and can support recovery globally, although many Commonwealth developing countries and LDCs still lag with their digital engagement. This evolving global trading landscape and the transition towards the so-called Fourth Industrial Revolution presents promising opportunities but also many challenges for governments, businesses, workers and consumers across the Commonwealth as they adapt to this new environment. The pandemic has furthermore amplified the nexus between trade and environment, together with an urgency to build more resilient, sustainable and circular economies.

Trade can offer positive solutions to manage the COVID-19 pandemic and will be an essential tool for economic recovery and building back better. Commonwealth countries' global exports are expected to rebound and reach US\$3.76 trillion in 2021 and \$3.94 trillion by 2022. Similarly, intra-Commonwealth exports are expected to surpass \$700 billion by 2022. To support their recovery, Commonwealth countries, especially small states that depend relatively more on intra-Commonwealth markets, can harness the "Commonwealth advantage" in trade and investment.

The Commonwealth is not a formal trading bloc, yet the 54 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. Since it was first examined in the 2015 Commonwealth Trade Review, this advantage has remained strong and compelling, and means bilateral trade costs between Commonwealth countries are 21 per cent lower, on average. The 2018 Commonwealth Trade Review furthermore found that Commonwealth members enjoy an advantage when it comes to efficient contract enforcement and strengthened regional integration, and improvements in trade facilitation are likely to yield disproportionately high gains

for member countries. New opportunities have now arisen to deepen and broaden Commonwealth trade and investment flows beyond the pandemic, including implementation of the African Continental Free Trade Area, finalisation of the Regional Comprehensive Economic Partnership covering Asia-Pacific and the UK's departure from the EU.

This publication examines the impact of the COVID-19 pandemic on trade and investment flows and the possible pathways for trade recovery. It comprises five chapters. Chapter 1 examines the impact of the pandemic on the Commonwealth's global and intra-Commonwealth trade flows. Chapter 2 maps the Commonwealth's broad digital trade before the pandemic and analyses the implications of COVID-19. Chapter 3 assesses the impact of COVID-19 on inward investment flows, both global and intra-Commonwealth. Chapter 4 examines some of the trade aspects of the global response to the pandemic, focusing specifically on multilateral developments at the World Trade Organization and regional initiatives involving Commonwealth countries. This provides the overarching global and regional contexts and frameworks to situate the proposed policy actions for trade recovery in the next chapter. Chapter 5 thus sets out some of these possible pathways for recovery from the pandemic, specifically identifying and examining 10 inter-related policy areas for revitalising trade.

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).

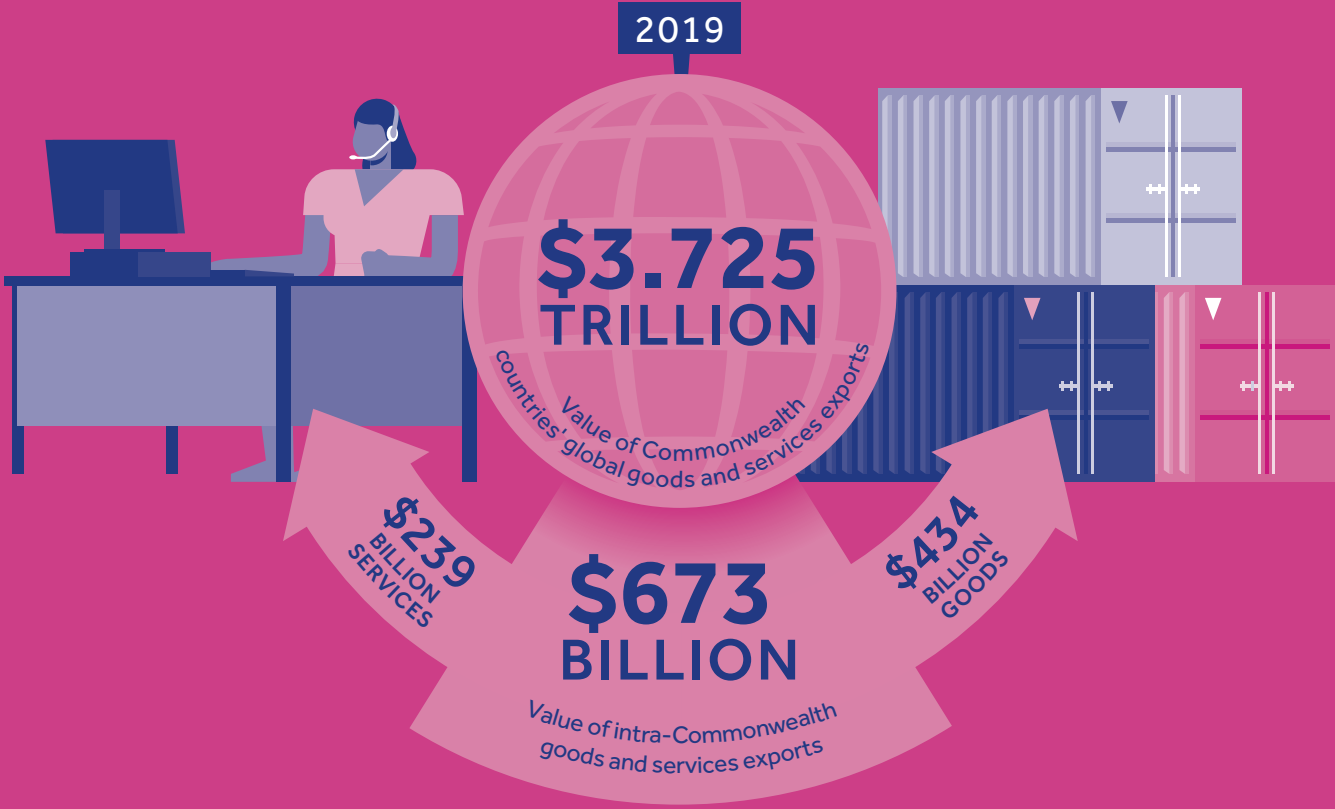
Chapter 1: Commonwealth Trade and the Pandemic

Intra-Commonwealth exports grew spectacularly, at around 10 per cent, during 2017 and 2018. However, COVID-19, together with various global economic exigencies prior to the pandemic, has subdued trade growth and affected exports from all Commonwealth regions. Many countries have been highly exposed to the effects of COVID-19 because of their large services sectors along with existing structural challenges and vulnerabilities; this is especially the case for least developed countries (LDCs) and small states. With the rollout of vaccines, some Commonwealth countries have started to open their economies and resume trade and travel but many others still face the challenge of combating the pandemic.

This chapter analyses the impact of COVID-19 on Commonwealth countries' global and intra-Commonwealth goods and services exports and explores the prospects for trade recovery. Some of the key takeaways are:

- In 2020, intra-Commonwealth trade was estimated at US\$641 billion and could have been \$60 billion higher without the pandemic. All Commonwealth regions experienced adverse effects, although the Caribbean and Pacific island countries were relatively more affected because of their dependence on tourism and travel services.
- Intra-Commonwealth trade continues to evolve as member countries deepen existing linkages or diversify trading partners within or outside the Commonwealth. Between 2005 and 2019, 24 member countries considerably increased their share of intra-Commonwealth trade.
- Commonwealth small states depend the most on intra-Commonwealth trade, which represents 28 per cent of their world trade, on average. LDC members, especially Bangladesh and African countries, also have significant exports to Commonwealth markets.
- The Commonwealth advantage remains strong and resilient and could provide a post-pandemic tailwind to support recovery. Revised estimates mean bilateral trade costs between Commonwealth country pairs are 21 per cent lower, on average, compared with non-Commonwealth countries.
- Intra-Commonwealth exports are expected to rebound and surpass US\$700 billion by 2022. Countries can leverage digital technologies, utilise 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.

Intra-Commonwealth trade has been affected significantly by COVID-19 but is expected to rebound and surpass US\$700 billion by 2022.



1.1 Introduction

Commonwealth countries' trade has been affected significantly by the global slowdown in economic growth as a result of COVID-19 and the policy measures used to contain the spread of the virus, including economic lockdowns, travel restrictions and social distancing. The world economy contracted by 3.3 per cent in 2020, with particularly severe impacts on women, youth, the poor and the informally employed. Overall, Commonwealth countries suffered a loss of US\$1.15 trillion to their gross domestic product (GDP) compared with the pre-pandemic estimate. During this time, 45 Commonwealth countries fell into recession, while only 9 developing country members registered positive growth – namely, Bangladesh, Brunei Darussalam, Ghana, Guyana, Malawi, Nauru, Tanzania, The Gambia and Tuvalu (see Annex 1.3). By contrast, when the global financial crisis hit more than a decade ago, less than half of the Commonwealth membership went into recession.

This chapter examines the impact of COVID-19 on the performance and prospects of the Commonwealth's global trade and trade among the 54 member countries. The demand, supply and policy shocks of the pandemic have affected countries' trade in multiple ways depending on the structure

of their economies, the composition of their exports and their integration into global value chains (GVCs). For example, services like transportation, travel and tourism have been hit hard, and an initial collapse in commodity prices affected the Commonwealth's 35 commodity-dependent exporters. With the easing of lockdowns and restrictions in many countries, and the (uneven) rollout of vaccinations, merchandise trade is starting to lead an economic recovery. However, the revival of the services sector, which is the economic lifeblood of many Commonwealth small states, may take longer.

The chapter consists of seven sections. The next two sections analyse the composition and performance of Commonwealth countries' global and intra-Commonwealth trade during the pre-crisis period to establish a baseline for assessing their vulnerability to the pandemic's effects. Section 1.4 examines some of the actual impacts on the Commonwealth's goods and services trade; Section 1.5 looks specifically at the Commonwealth's 14 least developed countries (LDCs) in this regard.¹ Given the focus on immediate economic recovery, Section 1.6 projects the Commonwealth's short-term trade prospects up to 2022. Section 1.7 concludes and offers ways forward.

1.2 The Commonwealth's global trade before the pandemic

1.2.1 Volume of trade and trends

Following a dramatic slowdown in world trade growth in the wake of the global financial crisis more than a decade ago, the trade flows of Commonwealth countries rebounded strongly in 2017 and 2018, with year-on-year growth of around 10 per cent. However, this promising recovery was cut short by economic headwinds, mainly the trade and technology conflict between the USA and China (see Chapter 4), which caused global trade to contract significantly in 2019.² This global contraction contributed to weak growth in the Commonwealth's

TABLE 1.1
COMMONWEALTH COUNTRIES' PRE-PANDEMIC EXPORT PROFILE, 2019

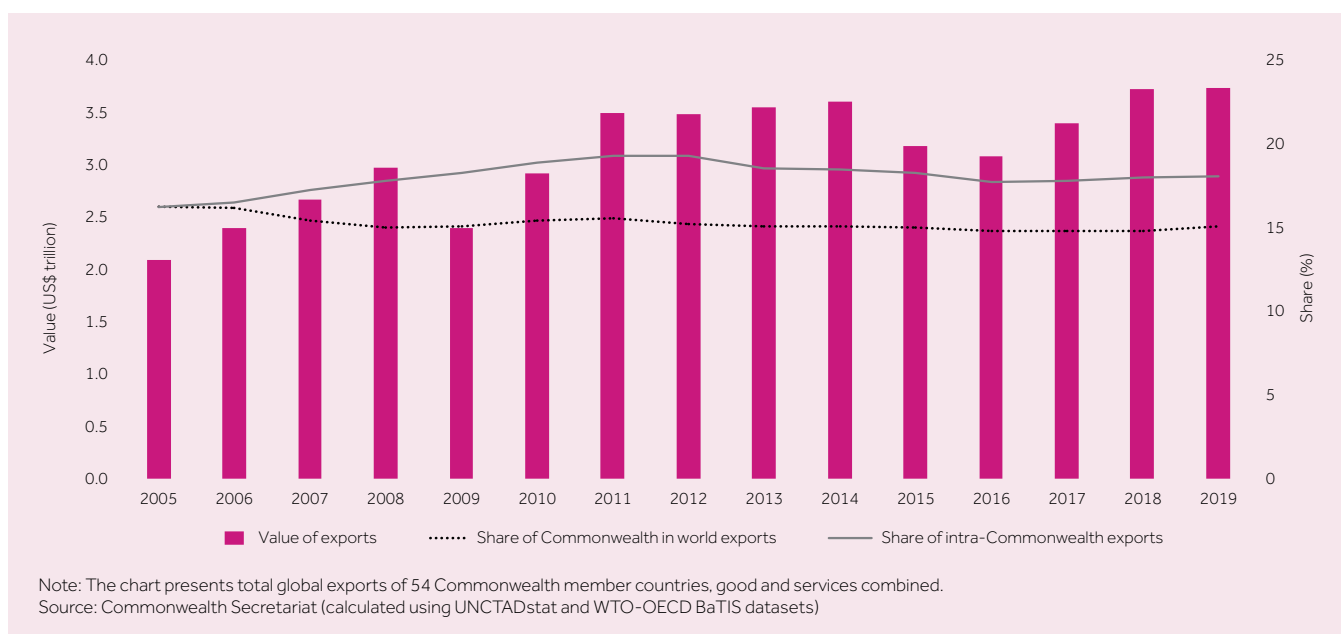
	Value (US\$ million)			Share (%)	
	Goods	Services	Total	Goods	Services
Commonwealth	2,538,222	1,187,637	3,725,859	68.12	31.88
<i>Of which</i>					
Developed	1,226,923	634,385	1,861,307	65.92	34.08
Developing	1,279,272	553,253	1,832,524	69.81	30.19
<i>Of which</i>					
Africa	219,463	51,680	271,143	80.94	19.06
Asia	1,033,714	483,121	1,516,835	68.15	31.85
Caribbean SIDS	13,074	15,558	28,632	45.66	54.34
Pacific SIDS	13,021	2,894	15,915	81.81	18.19
<i>Vulnerable groups</i>					
Small states	60,602	61,734	122,335	49.54	50.46
SIDS	29,204	25,945	55,149	52.95	47.05
LDCs	62,663	16,528	79,192	79.13	20.87

Source: Commonwealth Secretariat (calculated using UNCTADstat and WTO-OECD BaTIS datasets)

exports, which increased by only US\$3.5 billion between 2018 and 2019. In 2019, prior to the onset of the COVID-19 pandemic, the combined

value of the Commonwealth's global goods and services exports was \$3.73 trillion (Table 1.1). Developing country members contributed around half

FIGURE 1.1
COMMONWEALTH COUNTRIES' GLOBAL EXPORTS OF GOODS AND SERVICES, 2005–2019



of these global exports, making up the greater share of goods trade.

In absolute terms, the Commonwealth's total exports to the world almost doubled from 2005 (US\$2.1 trillion) to 2019 (\$3.73 trillion). However, their corresponding share of global exports declined marginally, from 16.2 per cent to 15.1 per cent of world exports (\$24.9 trillion) (Figure 1.1). China, which is now the world's largest exporter, contributed to this declining share, as did growth in other large developing countries outside the Commonwealth. At the same time, the share of intra-Commonwealth trade in member countries' overall world trade is rising, having grown from around 16 per cent in 2005 to more than 18 per cent in 2019.

In tandem with changes in the size and relative proportion of the Commonwealth's trade with the world, there have been some significant shifts in the drivers of Commonwealth trade since the 2018 Commonwealth Trade Review. There has been a convergence in the relative contributions of the developed countries – namely, Australia, Canada, Cyprus, Malta, New Zealand and the UK – and the 48 developing country members to the Commonwealth's world trade.³ The share of developing countries in the Commonwealth's total exports increased steadily from 40 per cent in 2005 to nearly 50 per cent in 2017 (Figure 1.2).⁴ Commonwealth Asian countries, led by India, are driving this convergence, having more than doubled their exports to US\$1.51 trillion in 2019 (from \$635 billion in 2005). This has translated into a rising share in total Commonwealth trade for Asian countries, from 31 per cent in 2005 to 41 per cent in 2019. The exports of

Pacific small island developing states (SIDS) increased nearly threefold to around \$15.9 billion in 2019. However, their share in total trade increased only marginally, from 0.3 per cent in 2005 to 0.4 per cent in 2019.

Pre-pandemic headwinds also affected the trade flows of the Commonwealth's 32 small states. In 2019, their combined global exports were US\$115 billion while their intra-Commonwealth exports were around \$33 billion, almost \$1 billion less than the level reached in 2018 (Figure 1.3). In relative terms, small states' goods and services exports amount to 0.45 per cent of global exports and 3 per cent of overall Commonwealth exports. Malta and Cyprus contribute the largest share – about one-third (or \$37 billion) – of small states' exports. The top three exporters from developing regions were Papua New Guinea (\$11.6 billion), Brunei Darussalam (\$7.6 billion) and Jamaica (\$6 billion) in 2019.

Most of the trade challenges facing small states precede COVID-19 and involve excessively high trade costs as a result of their small size and remote geography, diseconomies of scale, inadequate infrastructure, concentrated production and export sectors, and vulnerability to climate change and recurrent natural disasters. The trade and sustainability challenges, especially in the fisheries and tourism sectors, will now have to be tackled in tandem through devising post-COVID-19 recovery and resilience strategies, as discussed in Chapter 5.

1.2.2 Structure and composition of trade

More than two-thirds of the Commonwealth's global trade is in merchandise. In 2019, goods exports were worth US\$2.5 trillion (68 per cent of

overall trade) while services contributed \$1.18 trillion (32 per cent) (Table 1.1).

The UK was the largest exporter of both goods and services, accounting for around 24 per cent of total Commonwealth trade. In 2019, the UK's goods exports were about US\$468 billion (19 per cent of total Commonwealth goods exports) while its services exports were \$416 billion (35 per cent of total Commonwealth services exports).

Only a few large economies within each Commonwealth region drive the Commonwealth's global exports. Ten countries accounted for 94 per cent of total merchandise exports⁵ and 93 per cent of services exports⁶ in 2019 (Annex 1.1). Most of these economies contracted as a result of the pandemic. This affected their overall trade flows, as well as intra-Commonwealth trade, in 2020. The pace of economic recovery in these countries will determine the prospects for trade growth beyond COVID-19.

Commonwealth countries are active participants in the global services economy. The contribution of services exports to GDP varies enormously across developed and developing countries and regions (Figure 1.4). Developed countries have the highest share, at almost 60 per cent. Among developing countries, the Caribbean and Pacific regions have larger proportions of services exports in their GDP (54 per cent and 39 per cent, respectively). This owes to the predominance of tourism and travel services, especially in the Caribbean. The share of services exports in the GDP of the Asian (34 per cent) and African (20 per cent) regions is relatively small but still higher than the world average.

FIGURE 1.2
EVOLUTION OF COMMONWEALTH MEMBERS' EXPORTS, BY DEVELOPMENT LEVEL AND SECTOR, 2005–2019



FIGURE 1.3
TRADE PERFORMANCE AND COMPOSITION OF COMMONWEALTH SMALL STATES' EXPORTS, 2005–2019

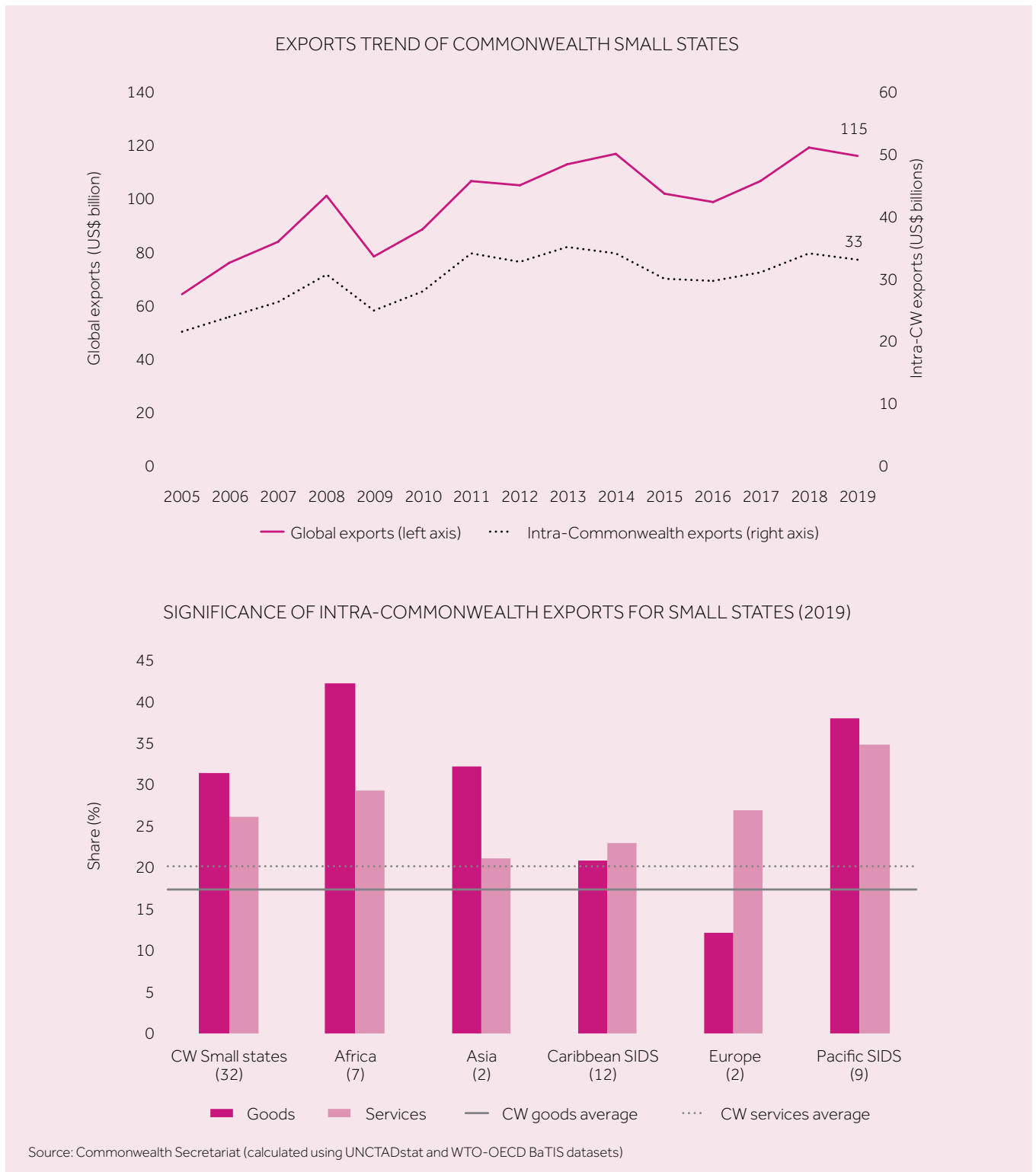
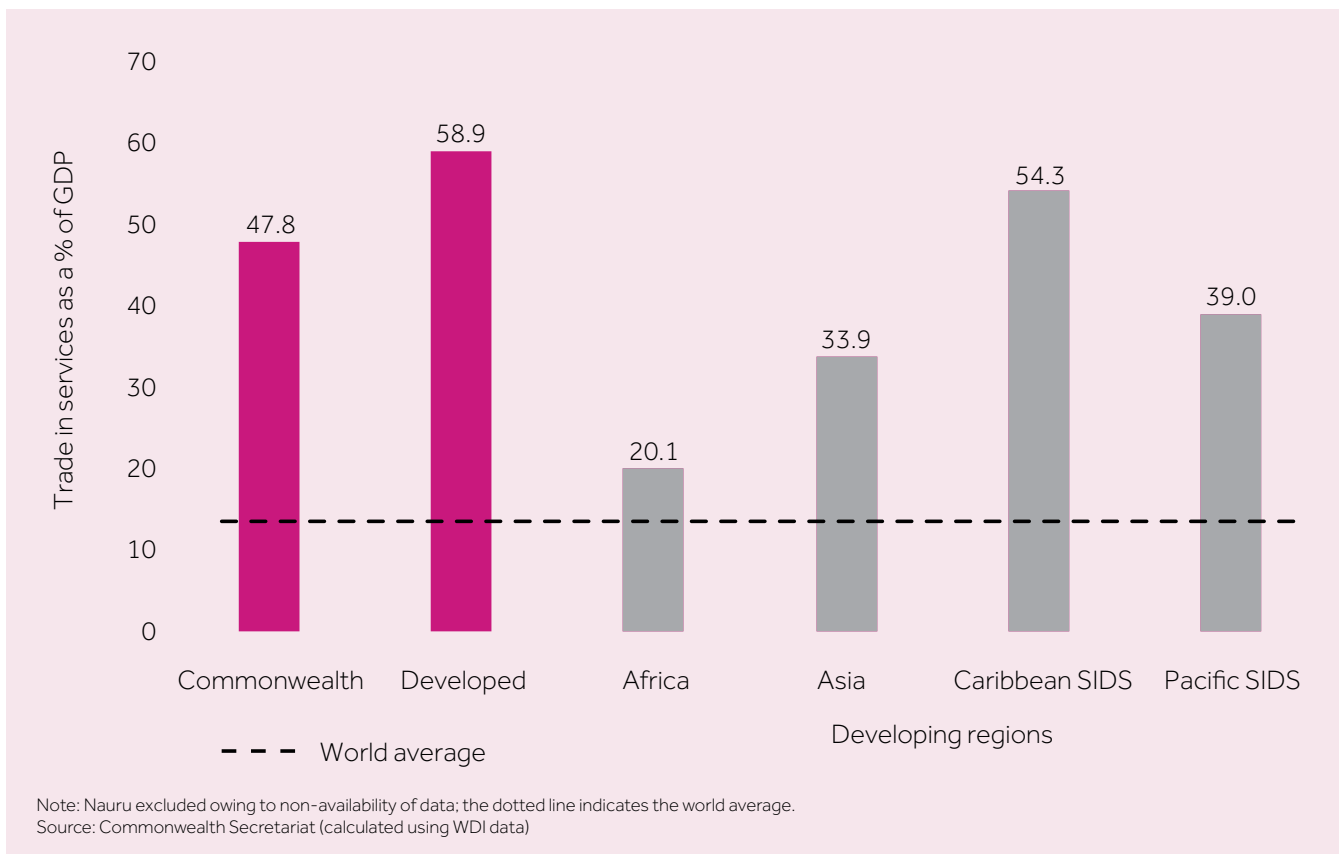


FIGURE 1.4
SHARE OF COMMONWEALTH SERVICES EXPORTS IN GDP BY REGION, 2019



Merchandise exports

Commonwealth developing countries are the largest merchandise exporters, at US\$1.28 trillion in 2019. However, there is wide variation within the Commonwealth's developing regions, as the following stylised facts reflect.

Asian members are overwhelmingly the leading exporters of goods, with exports valued at US\$1.03 trillion in 2019 (68 per cent of their total exports). Three Asian countries accounted for around 40 per cent of these exports: Singapore (\$390 billion or 16 per cent), India (\$323 billion or 13 per cent) and Malaysia (\$238 billion or 9 per cent).

For Commonwealth Africa, goods contributed more than 80 per cent of their exports in 2019 (Annex 1.1).

Three sub-Saharan African (SSA) members accounted for almost 80 per cent of the region's total merchandise exports: South Africa (\$90 billion or 41 per cent), Nigeria (\$65 billion or 29 per cent) and Ghana (\$16 billion or 8 per cent).

The Pacific SIDS depend the most on goods exports (82 per cent) and the least on services (18 per cent). In 2019, Papua New Guinea was the largest exporter (US\$11.41 billion), accounting for more than 87 per cent of the region's exports and almost 10 times the value of the next ranking country, Fiji (\$1.61 billion).

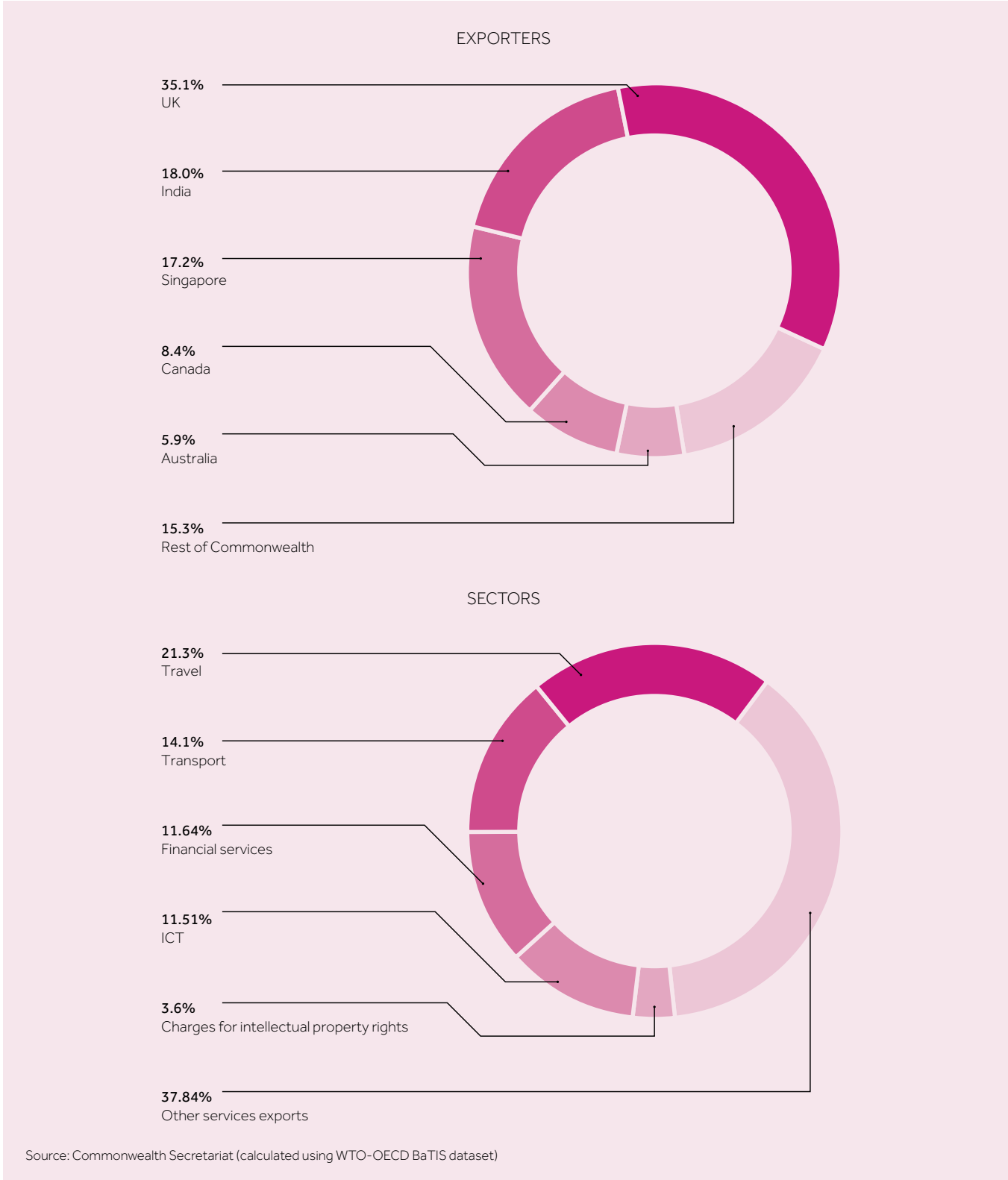
The Caribbean SIDS have narrow production sectors, such as offshore oil and gas, fisheries and commodities

like bananas and sugar. In 2019, Trinidad and Tobago accounted for two-thirds of the region's goods exports, valued at US\$8 billion, followed by Guyana (\$1.7 billion) and Jamaica (\$1.6 billion).

Services exports

Commonwealth developed countries are the largest exporters of services, valued at US\$634 billion in 2019 (Table 1.1). Among these countries, the UK supplied almost one-third of the Commonwealth's services exports (see Figure 1.5), of which around one-third was financial services (US\$80 billion) and travel services (\$50 billion). However, their share in overall services exports is declining – from 69 per cent in 2005 to 53 per cent in 2019 – because developing

FIGURE 1.5
LEADING SERVICES EXPORTERS AND KEY SERVICES SECTORS, 2019



countries, especially Asian members, are increasingly important players in this sector. India and Singapore together accounted for around one-third of the Commonwealth's services exports, comprising mainly business services and information technology (IT) support.

Commonwealth African members have one of the lowest shares of services exports (19 per cent). South Africa, Ghana and Kenya are the largest services suppliers, accounting for 57 per cent of the region's services exports; Rwanda is also an important services player. Among the SSA membership, only two countries export more services than goods – namely, Mauritius (US\$2.9 billion in 2019) and Seychelles (\$1.1 billion). More than half of these exports were travel or tourism-related.

The Caribbean SIDS have the largest orientation towards trade in services; around 54 per cent of their exports comprise services, especially related to

tourism. The COVID-19 pandemic has affected these sectors significantly.

Travel, an aggregate of tourism and business travel, is the largest category, amounting to around one-fifth of total services exports. The other three big services categories are transport, information and communication technology (ICT) and financial services. These three groups combined account for around 40 per cent of services exports (Figure 1.5). Given the importance of tourism in Commonwealth services trade, it is likely that the COVID-19 pandemic, which has made in-person travel both more difficult and less appealing to consumers, has had a major depressive effect on this trade. ICT and financial services, by contrast, could see different dynamics at play: in-person interactions have become more difficult but there has also been some shift towards online service provision (Shepherd and Shingal, 2021; see Chapter 2). The same applies to intra-Commonwealth services trade in these sectors.

1.3 Intra-Commonwealth trade before the pandemic

1.3.1 Volume of trade and trends

Intra-Commonwealth trade is historically and commercially significant for many members, especially small states, LDCs and SSA countries. The "Commonwealth advantage" has helped build, strengthen and sustain many of these trading relationships (Box 1.1). Factors such as historical ties, familiar legal and administrative systems, the use of largely one language, English, as the means of communicating with foreign partners, and large and dynamic diasporas underpin this advantage, which is particularly significant for trade in services (Commonwealth Secretariat, 2015).

BOX 1.1

TRADE COSTS ADVANTAGE IN INTRA-COMMONWEALTH TRADE

The Commonwealth advantage implies that Commonwealth member countries have on average 19 per cent lower trade costs in their bilateral trade than in trade with non-member countries (Commonwealth Secretariat, 2015). The revised estimates calculated with the most up-to-date datasets (1995-2017) indicate that, on average, aggregate bilateral trade costs between Commonwealth country pairs are lower to the tune of around 21 per cent⁷ compared with the cost of trading with non-Commonwealth countries (Table 1.2). The trade cost advantage holds for both agricultural products and manufactured goods (columns 2 and 3) but the magnitude of the effect varies marginally across sectors, mainly because of data limitations resulting in different sample sizes. A slightly lower coefficient in the manufacturing sector (column 3), besides indicating the variation in sample size, could reflect relatively lesser trade costs owing to lower tariffs in manufacturing sectors.

Many factors, such as distance, language, legal systems and tariffs, influence trade costs, with transport just one of the overall costs of international trade. This means the data for bilateral trade costs is very limited. To circumvent this challenge, Arvis et al. (2016) use an inverse gravity approach to infer bilateral trade costs between countries. This approach has a micro-foundation as it is based on a theoretical model developed in Novy (2013). Following this approach, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Bank have developed a global database on bilateral trade costs for 180 countries over 1995-2017, including 53 Commonwealth countries (excluding Solomon

TABLE 1.2
THE COMMONWEALTH EFFECT ON TRADE COSTS

	Overall	Agriculture	Manufacturing
	(1)	(2)	(3)
Commonwealth membership	-0.192***	-0.186***	-0.171***
Distance (km)	0.443***	0.373***	0.473***
Origin-year FE	Yes	Yes	Yes
Dest.-year FE	Yes	Yes	Yes
Sample size	333,668	184,824	298,968
CW countries	53	51	52
Period	1995–2017	1995–2017	1995–2017
R-squared	0.71	0.58	0.71

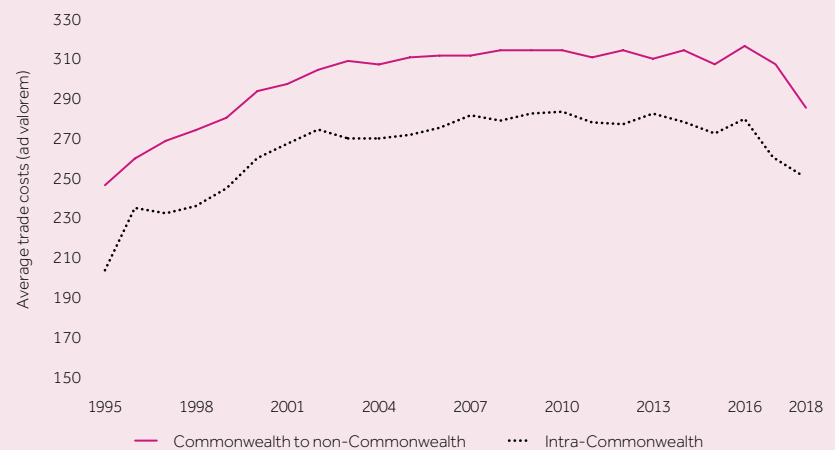
Note: The dependent variable is bilateral trade costs. The estimated coefficients are statistically significant at 1 per cent level, as indicated by ***. Estimated using the OLS panel regression method.
Source: Commonwealth Secretariat (estimated using World Bank Trade Costs dataset)

Islands). These bilateral trade costs are interpreted in a similar way to *ad valorem* equivalents.

The dataset of Arvis et al. (2016) has been used to empirically test whether the Commonwealth is indeed associated with reduced trade costs between its members. A regression of bilateral trade costs on a binary indicator for whether the two countries are Commonwealth members is estimated. The results, shown in columns 1 and 2 of Table 1.2, provide strong evidence that the Commonwealth is associated with lower trade costs. The estimated coefficient for the binary indicator, the Commonwealth membership, is statistically significant at a 1 per cent significance level. Even when distance in combination with time-varying fixed effects for countries is accounted for, bilateral trade costs are 21 per cent lower for Commonwealth partners than for other pairs of countries (i.e. Commonwealth and non-Commonwealth or both countries non-Commonwealth).

An analysis of bilateral trade costs for different sample partners reveals that the trade costs between Commonwealth country pairs have been consistently lower over time (Figure 1.6). For example, in 2000, average bilateral trade costs for intra-Commonwealth partners were 260 per cent as against 293 per cent for Commonwealth and non-Commonwealth bilateral pairs. These results seem to be consistent with the findings of rising intra-Commonwealth trade as a share of the Commonwealth's global trade over time.

FIGURE 1.6
SHARE OF AVERAGE TRADE COSTS BETWEEN COMMONWEALTH TRADE PARTNERS VS. OTHERS, 1995–2018



Source: Commonwealth Secretariat (calculated using World Bank Trade Costs dataset)

The Commonwealth advantage remains compelling for many member countries and could provide a post-pandemic tailwind to support recovery from the economic consequences of the pandemic. Indeed, re-examination of the Commonwealth advantage with the availability of a refined bilateral trade costs dataset for a longer period reveals the resilience and strengthening of this cost advantage for trading between Commonwealth countries, to 21 per cent, on average.

Intra-Commonwealth trade in goods and services was worth US\$672 billion in 2019, with almost two-thirds of trade being in merchandise (Table 1.3). The growth of intra-Commonwealth trade, like global trade, has been constrained by various pre-COVID-19 headwinds.

Developing countries are the largest exporters of goods (68 per cent); in

absolute terms, they export 2.5 times more merchandise than the developed economies. As with the global pattern, developed countries accounted for a larger share of intra-Commonwealth services trade (43 per cent) in 2019.

Intra-Commonwealth merchandise trade has gradually increased over time, from US\$240 billion in 2005 to \$433 billion in 2019. The corresponding increase in services trade was much larger, from \$98 billion in 2005 to \$238 billion in 2019 – an almost three-fold increase (Figure 1.7).

The share of intra-Commonwealth trade in Commonwealth members' total world trade has been rising since 2005, reaching a peak of 19.3 per cent in 2012 before a global trade slowdown (2012–2015) constrained growth. In 2018 and 2019, the share of intra-Commonwealth trade remained steady at around 18 per cent.

Commonwealth developing countries drive intra-Commonwealth trade flows. Over time, the developing countries' export share increased (from 60 per cent in 2005 to 67 per cent in 2019), while their exports almost doubled in value terms, going from US\$204 billion to more than \$450 billion in the same period.⁸ This shift owes largely to the greater expansion of trade by Asian member countries, which increased their intra-Commonwealth share to almost 53 per cent in 2019.

Overall, reflecting the global pattern, only a few large economies drive intra-Commonwealth trade. The UK alone accounted for around 40 per cent of the share of the developed economies in 2019. The UK also led services exports (46 per cent), while Australia had the largest share of merchandise trade (39 per cent). Among developing countries, Singapore, India and Malaysia together accounted for 93 per cent of exports of goods as well as services for Asian members (Annex 1.1).

Intra-Commonwealth trade has evolved as member countries deepen existing trade linkages or diversify their trading partners within or outside the Commonwealth. Between 2005 and 2019, 24 member countries considerably increased their share of intra-Commonwealth trade, including several small states (Annex 1.4). For instance, over this period, the share of intra-Commonwealth trade in Vanuatu's exports rose from 15 per cent to around 50 per cent, trading largely with Australia, New Zealand, Singapore, Fiji and Malaysia. Other members successfully diversified their trading partners, resulting in lower shares of intra-Commonwealth trade.

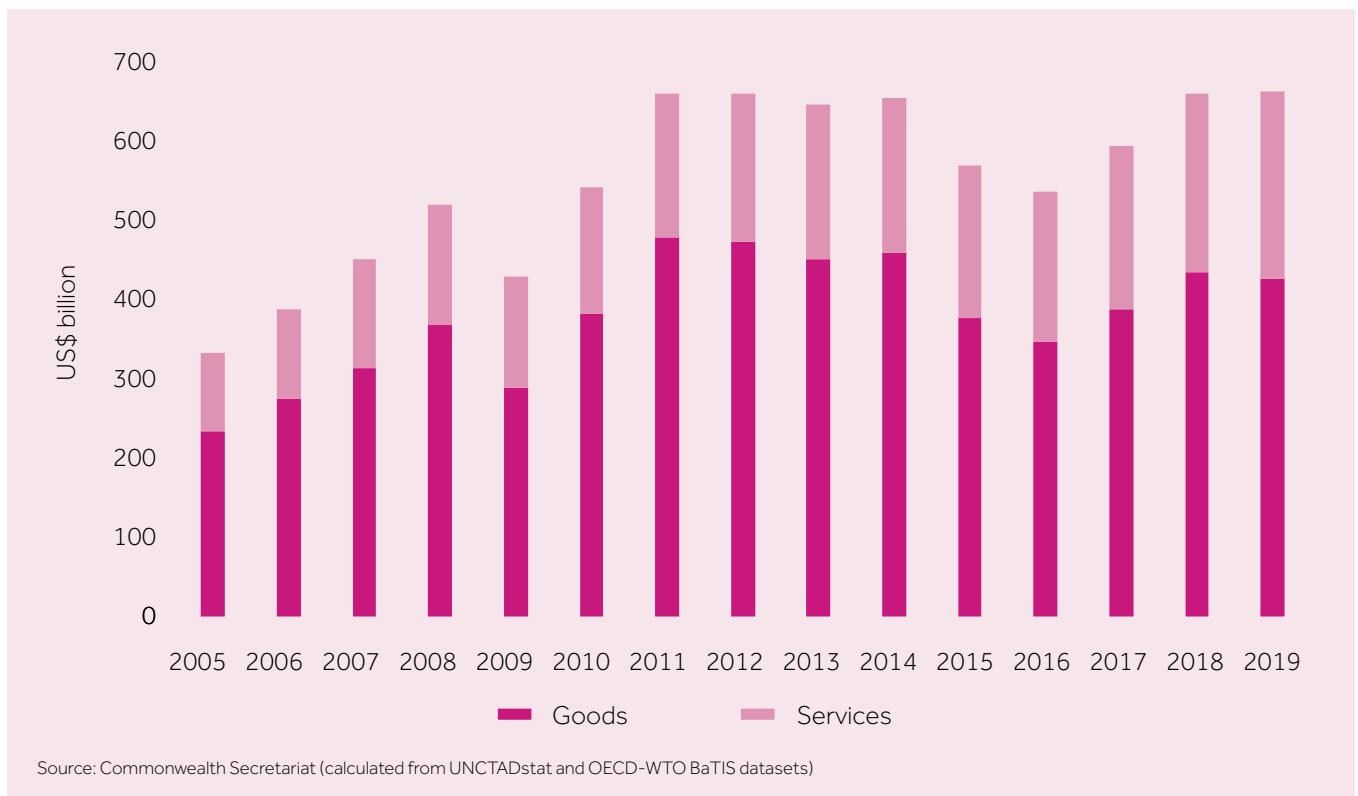
TABLE 1.3
SHARE OF GOODS AND SERVICES IN INTRA-COMMONWEALTH EXPORTS, 2019

	Goods Value (US\$ million)	%	Services Value (US\$ million)	%
Commonwealth	433,892	65	238,755	35
<i>By development</i>				
Developed	125,026	57	93,587	43
Developing	308,866	68	145,168	32
<i>By region</i>				
Africa	75,815	85	13,539	15
Asia	225,386	64	127,067	36
Caribbean and Americas	29,317	65	15,514	35
Caribbean SIDS	2,737	43	3,559	57
Europe	39,108	43	51,360	57
Pacific	64,266	67	31,275	33
Pacific SIDS	4,927	83	1,003	17

Note: The percentage share indicates the share of goods and services in the corresponding group.

Source: Commonwealth Secretariat (calculated using UNCTADstat and OECD-WTO BaTIS datasets)

FIGURE 1.7
TRENDS IN INTRA-COMMONWEALTH EXPORTS OF GOODS AND SERVICES, 2005–2019



Commonwealth small states depend the most on intra-Commonwealth trade, which represents 28 per cent of their world trade, on average. Their share of merchandise in intra-Commonwealth exports (31 per cent) is considerably higher than that of services (26 per cent). However, there is wide variation among these small economies (Figure 1.8). During 2017–2019, the share of intra-Commonwealth exports ranged from 6 per cent (for Kiribati) to more than 80 per cent (for Eswatini), while imports vary from 10 per cent (for The Bahamas) to 82 per cent (for Botswana). Most of this intra-Commonwealth trade takes place regionally. The prominence of intra-Commonwealth imports for Botswana, Eswatini, Lesotho and Namibia owes to their membership,

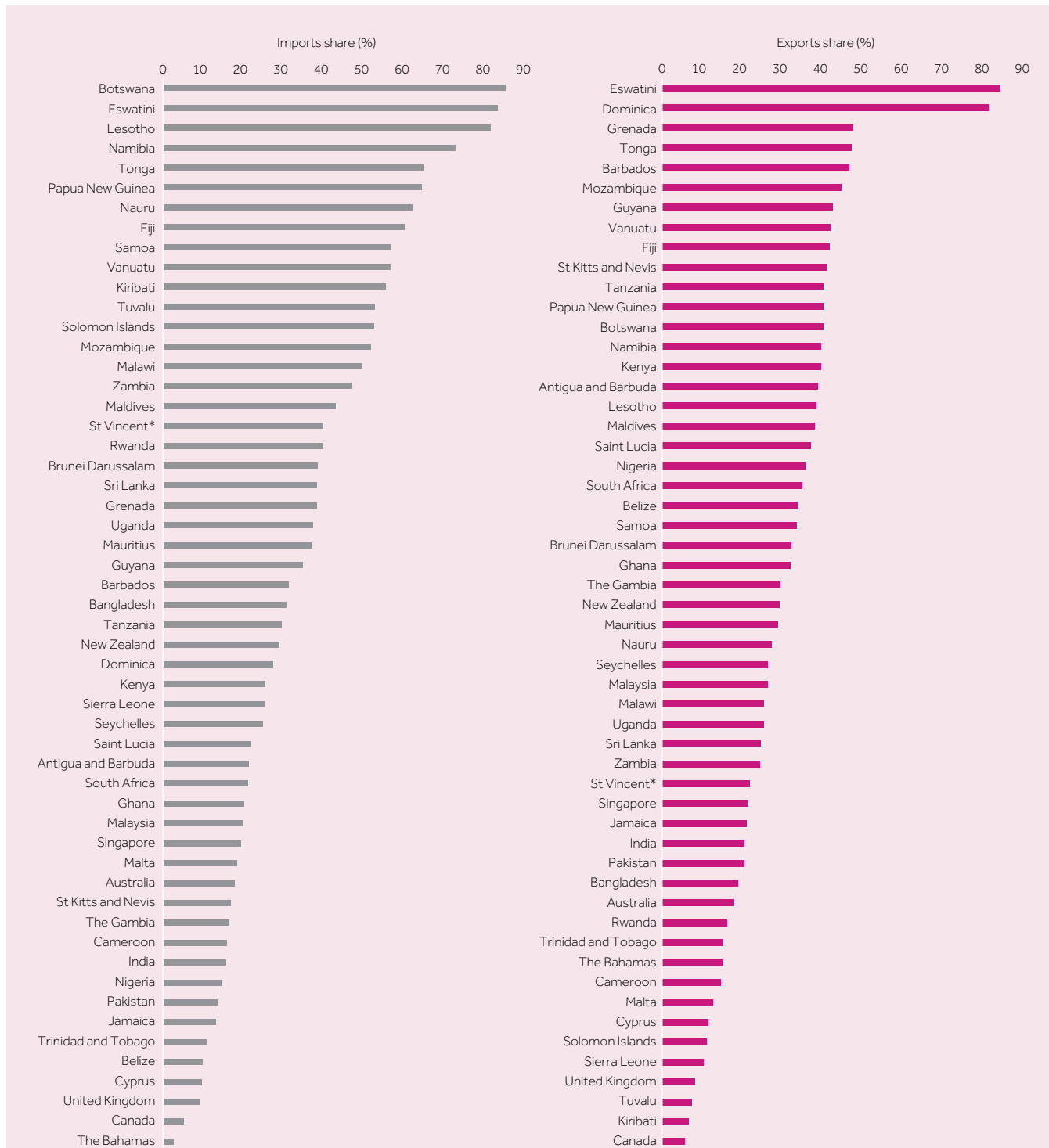
together with South Africa, in the Southern African Customs Union (SACU). Dominica and Grenada's high export shares owe to their membership in the Caribbean Community (CARICOM) and the Organisation of Eastern Caribbean States (OECS). These economies have also gained prominence in intra-Commonwealth services exports (Figure 1.9).

The Commonwealth's 14 LDCs also depend significantly on intra-Commonwealth trade; this is especially the case for Bangladesh and the African LDCs. In absolute terms, Bangladesh is the largest LDC exporter, sending almost three times more goods and services combined to the Commonwealth than the next ranked countries –

Tanzania, Zambia and Mozambique (Annex 1.5). However, the nine SSA LDCs contributed just over half of LDCs' intra-Commonwealth exports (US\$19.01 billion) in 2019.

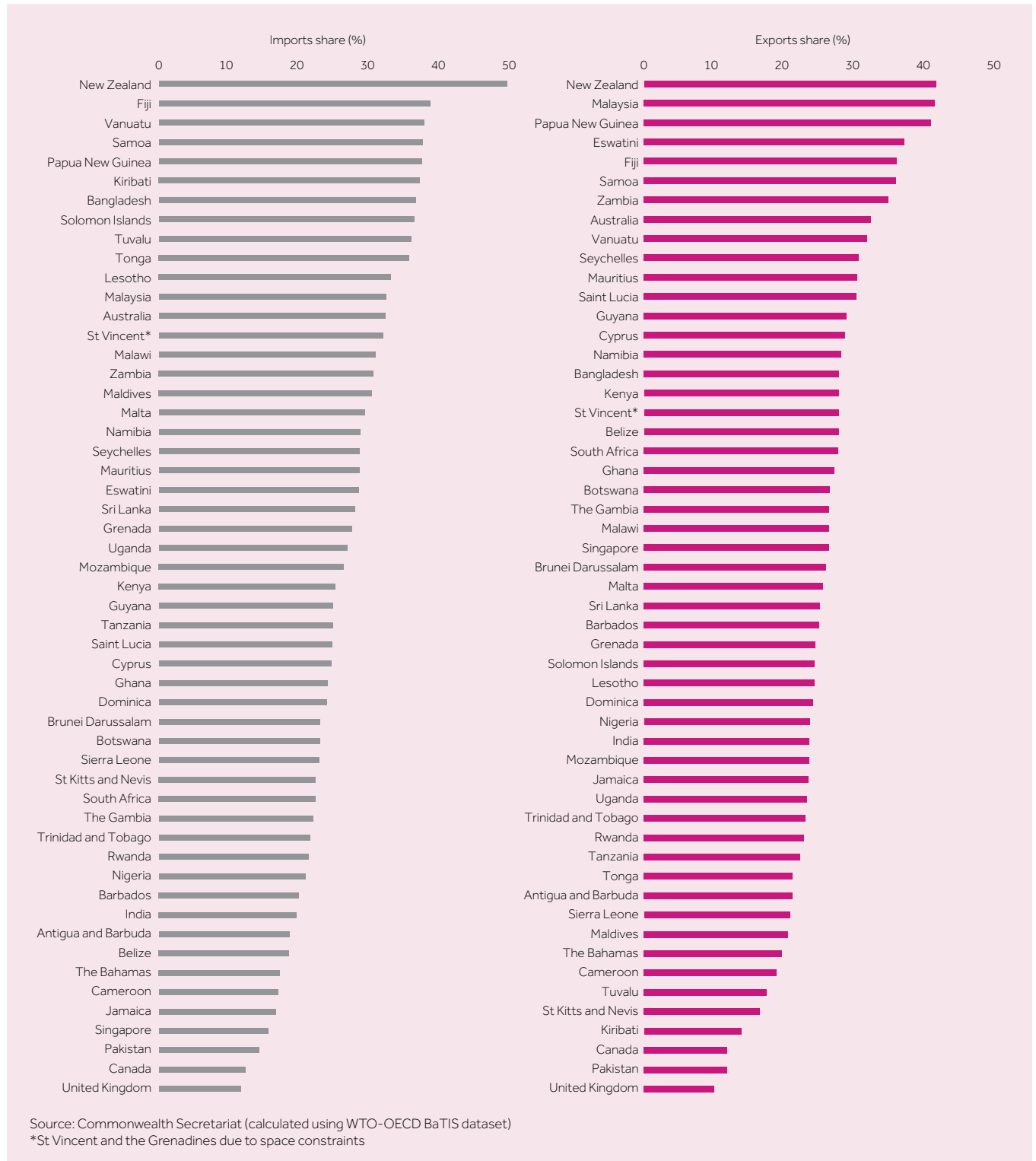
Intra-African trade accounts for a large share of this intra-Commonwealth LDC trade. Around 15–30 per cent of the exports of four LDCs – Zambia, Mozambique, Tanzania and Uganda – are with other African Commonwealth countries. LDCs' structure of intra-Commonwealth trade closely mirrors that of their global exports. Although merchandise exports dominate their trade flows, the share of services is slightly higher than in their global exports. For the Pacific LDCs, services constitute more than 70 per cent of their intra-Commonwealth exports.

FIGURE 1.8
RELATIVE SIGNIFICANCE OF INTRA-COMMONWEALTH MERCHANDISE TRADE IN MEMBER COUNTRIES' TOTAL TRADE, 2017–2019 AVERAGE



Source: Commonwealth Secretariat (calculated using UNCTADstat dataset)
*St Vincent and the Grenadines due to space constraints

FIGURE 1.9
RELATIVE SIGNIFICANCE OF INTRA-COMMONWEALTH SERVICES EXPORTS IN MEMBER COUNTRIES' TOTAL SERVICES EXPORTS, 2017–2019 AVERAGE



1.3.2 Regional distribution of intra-Commonwealth trade

Intra-Commonwealth trade is highly regional in nature, especially because of the operations of regional production networks and supply chains, which COVID-19 has brought into greater focus. Moreover, trade between Commonwealth countries is found to be more than three times higher when they belong to an existing trade agreement (Commonwealth Secretariat, 2018a; see Chapter 4). Five Commonwealth regions are used to analyse intra-Commonwealth trade – and investment (see Chapter 3) – flows: Africa, Asia, Caribbean and Americas (Canada and the Caribbean SIDS), Europe and the Pacific (Australia, New Zealand and the Pacific SIDS).

Commonwealth Asia now contributes more than half of intra-Commonwealth trade. The share of the Asian economies had risen by 4 percentage points to 52.5 per cent in 2019 (Figure 1.10). During the same period (between 2010 and 2019), the shares of the African, Caribbean, Pacific and European members declined marginally, although their exports did increase in absolute terms. In the Pacific region, Australia and New Zealand drive intra-Commonwealth trade; Canada is the leading exporter in the Caribbean and Americas region. Though Caribbean SIDS increased their exports in value terms, their relative share of intra-Commonwealth trade declined from 1.1 per cent in 2010 to 0.9 per cent in 2019. The Pacific SIDS, on the other hand, registered a marginal increase both in value and in relative terms. This reflects the large trade orientation of Pacific islands towards Australia and New Zealand.

In Commonwealth Africa, more than 75 per cent of exports originated in three members: South Africa, Nigeria and Ghana. South Africa is the largest intra-Commonwealth exporter, for both goods and services, accounting for 42 per cent of merchandise exports and 30 per cent of services exports. Thereafter, Nigeria and Ghana are the two largest merchandise exporters, while Ghana and Kenya are the largest services exporters, in that order (Figure 1.11). Rwanda is also a prominent services exporter, especially given its attraction as a tourist destination, mainly for gorilla watching.

Looking specifically at the Caribbean SIDS, three economies (Trinidad and Tobago, Jamaica and The Bahamas) accounted for 57 per cent of the Caribbean SIDS' intra-Commonwealth exports in 2019. Trinidad and Tobago accounted for 43 per cent of merchandise exports, followed by Guyana and Jamaica; Jamaica, The Bahamas and Barbados are leading services traders.

Among the Pacific SIDS, two economies (Papua New Guinea and Fiji) accounted for 93 per cent of the Pacific islands' intra-Commonwealth exports in 2019. The trade distribution is very much concentrated: Papua New Guinea alone accounted for 90 per cent of merchandise exports while Fiji accounted for around 60 per cent of services exports.

1.3.3 Structure and composition of intra-Commonwealth trade

Intra-Commonwealth merchandise trade

Amid a global trade contraction, the value of intra-Commonwealth merchandise trade in 2019 dropped to US\$433 billion, a loss

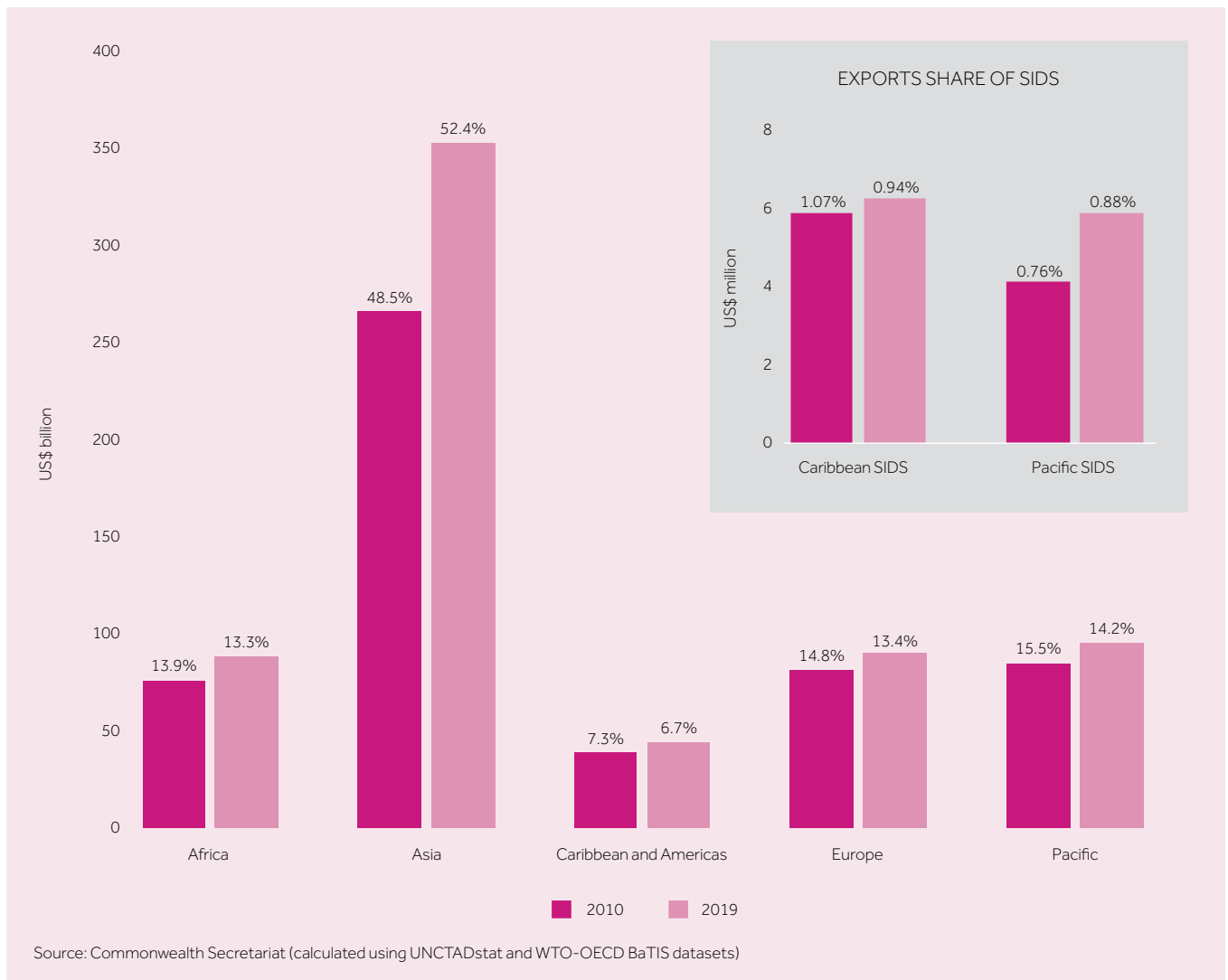
of \$8 billion on 2018. The abrupt recessions caused by COVID-19 in several large Commonwealth traders, including India, Singapore, South Africa and the UK, further dampened trade growth in 2020.

Similar to the pattern of Commonwealth total trade, Asian countries continue to drive intra-Commonwealth exports and imports of goods, in absolute terms (Figure 1.12). Three countries, Singapore, India and Malaysia, are the largest merchandise exporters, accounting for half of total exports in 2019. India and Singapore are also the largest importers. This pattern has remained largely consistent over time.

Among Commonwealth developed countries, the UK was the fifth-largest exporter and the third-largest importer while Canada was the seventh-largest exporter and the sixth-largest importer in 2019. This owes to the significant regional trade of these economies – namely, the UK with the EU and Canada with the USA and Mexico.

Two sectors contributed almost half of intra-Commonwealth merchandise exports: manufactured goods (US\$250 billion, or almost 60 per cent) and commodities comprising minerals and fuels (\$99.5 billion, or 23 per cent) (Figure 1.13). The preponderance of manufacturing in the overall goods exports of Commonwealth Europe (86 per cent) and Asia (67 per cent) suggests these countries were relatively more exposed to COVID-19-related demand and supply disruptions to this sector and trade. Commonwealth Africa, where non-manufactured goods comprise around 60 per cent of merchandise exports, was more vulnerable to volatility in commodity prices, which affected

FIGURE 1.10
REGIONAL DISTRIBUTION OF INTRA-COMMONWEALTH TRADE, 2010 VS. 2019



the revenues of several commodity-dependent countries (see Box 1.6).

Intra-Commonwealth services trade

Services trade is an important component of Commonwealth countries' exports, as noted earlier in this chapter. Intra-Commonwealth services exports are growing rapidly, having more than doubled from around US\$98 billion in 2005 to \$238 billion in 2019.

Developing countries are the leading services suppliers, accounting for around 60 per cent of intra-Commonwealth exports in 2019. Services exports by Asian countries, especially India, Singapore and Malaysia, have become more significant in recent years.

In 2019, Singapore was the largest intra-Commonwealth services exporter while India was the largest services importer (Figure 1.14). Almost all the

developed countries are ranked in the top 10 intra-Commonwealth services traders. The UK is the second-largest exporter and the third-largest importer of services, followed by Australia, which is the fourth-largest importer and exporter. Of the African members, only South Africa and Nigeria rank among the top 10 services economies.

In 2019, around 53 per cent of intra-Commonwealth services exports

FIGURE 1.11
SHARE OF GOODS AND SERVICES EXPORTS FOR LEADING EXPORTERS, BY REGION, 2019

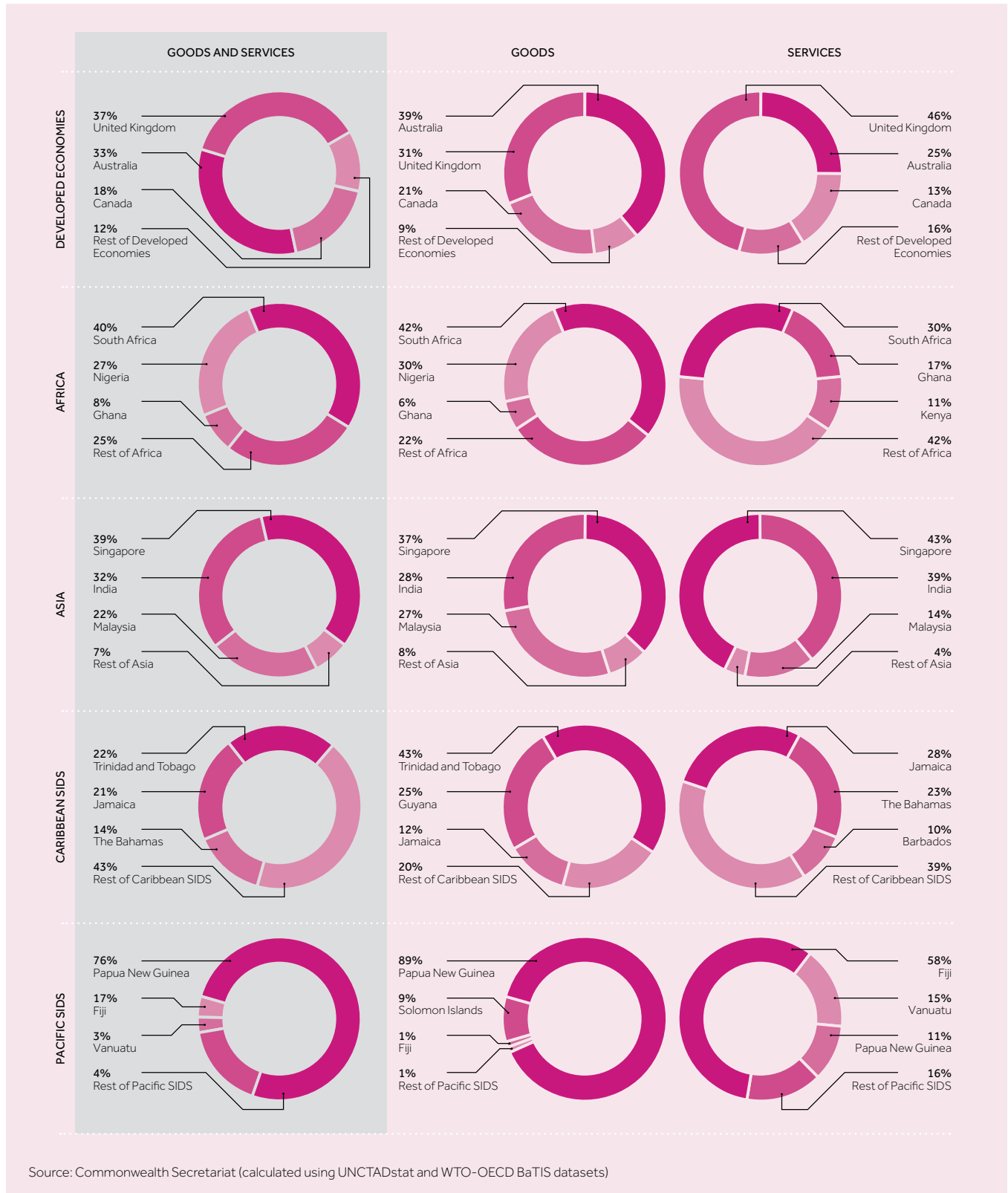


FIGURE 1.12
SHARES OF LARGE INTRA-COMMONWEALTH MERCHANDISE TRADERS, 2019

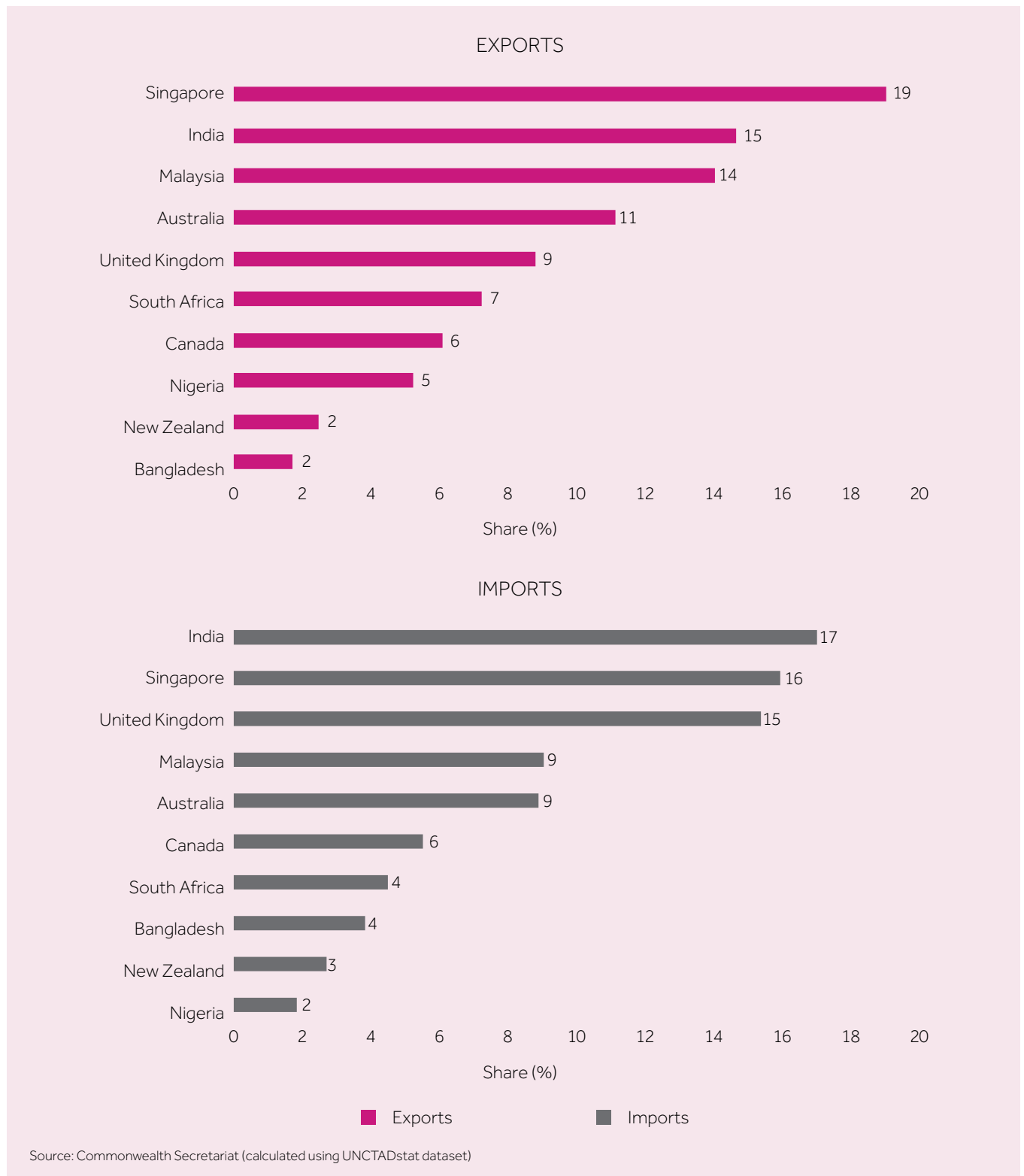
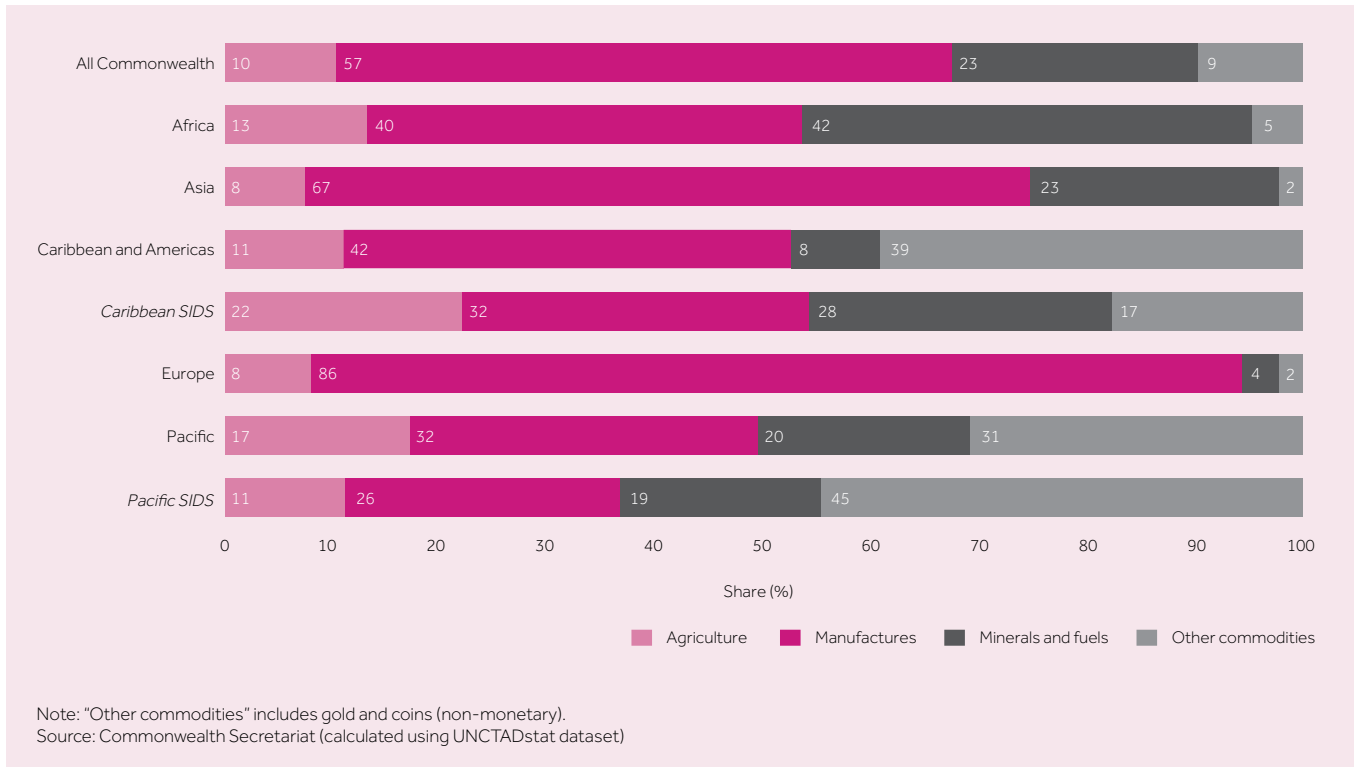


FIGURE 1.13
INTRA-COMMONWEALTH MERCHANDISE EXPORTS BY SECTOR AND REGION, 2019



originated from Asia, followed by 22 per cent from the three European members. The share of the Pacific members, although relatively smaller, is higher than the combined share of African and Caribbean members (Figure 1.15).

The sectoral composition of intra-Commonwealth services trade displays significant vulnerabilities to a shock like COVID-19. Travel is the largest category, accounting for almost 30 per cent of services exports – and this is larger than the corresponding global share (21 per cent), as discussed earlier. The share of transport services

(16 per cent) and ICT services (13 per cent) combined is around 30 per cent. Although many services sectors, such as education, financial services and health, have adapted by delivering more online, communal services such as events and hospitality require in-person interaction.

The growth of intra-Commonwealth services exports has been marginally higher than the global growth rate for this sector. During 2005–2019, intra-Commonwealth services exports grew at around 6.88 per cent per annum while the growth rate

of world services trade was around 6.38 per cent (Figure 1.16). The growth rate of intra-Commonwealth services exports in this period was also slightly higher than the same for Commonwealth countries' global exports (6.45 per cent). This is driven partly by the increase in exports of services by developing economies, especially Singapore and Malaysia, as well as the effect of the Commonwealth advantage in driving trade in services. This servicification trend is observed in both developed and developing countries (Box 1.2).

FIGURE 1.14
COUNTRY SHARES OF INTRA-COMMONWEALTH SERVICES EXPORTS AND IMPORTS, 2019

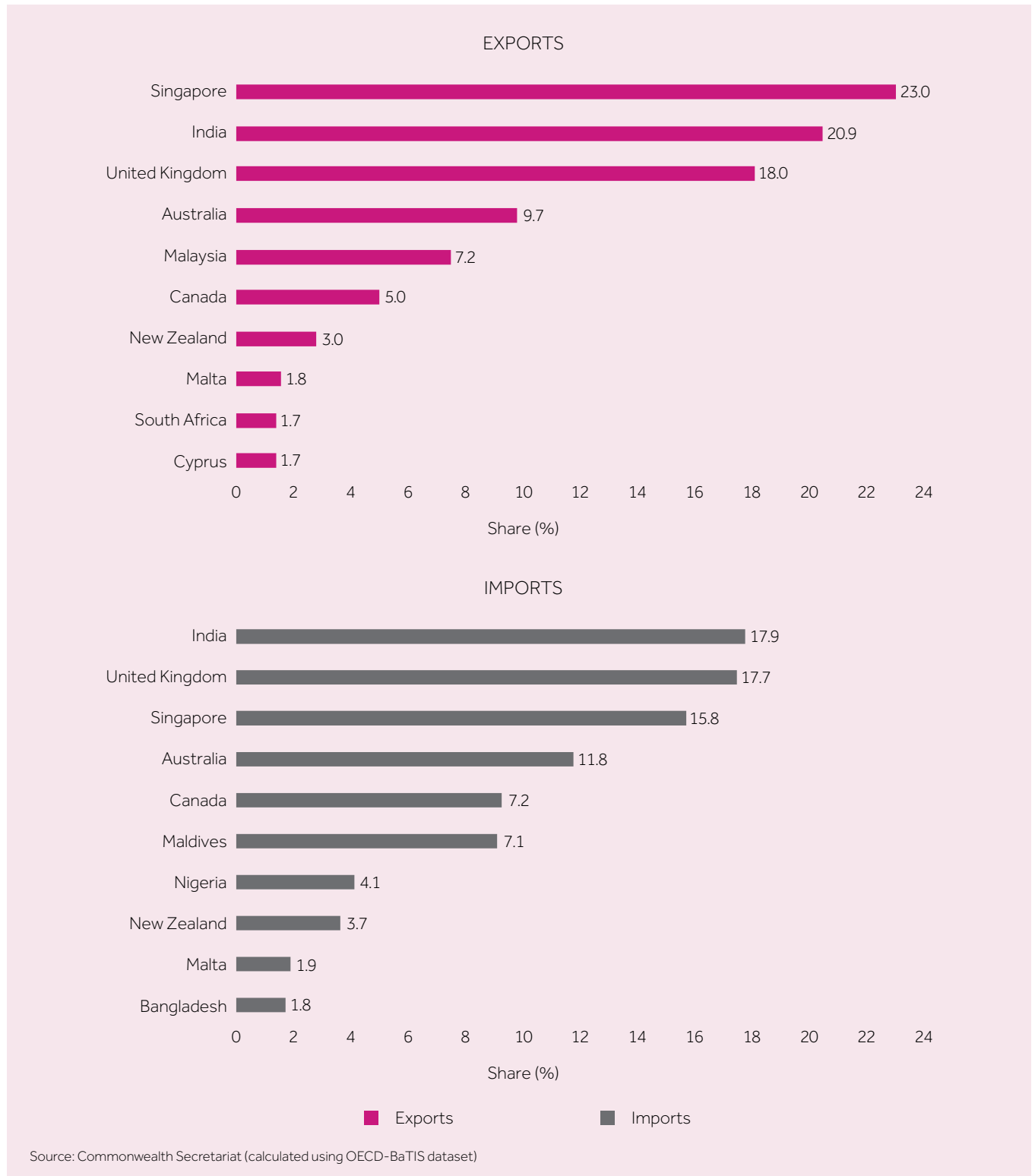


FIGURE 1.15
REGIONAL AND SECTORAL DISTRIBUTION OF INTRA-COMMONWEALTH SERVICES EXPORTS, 2019

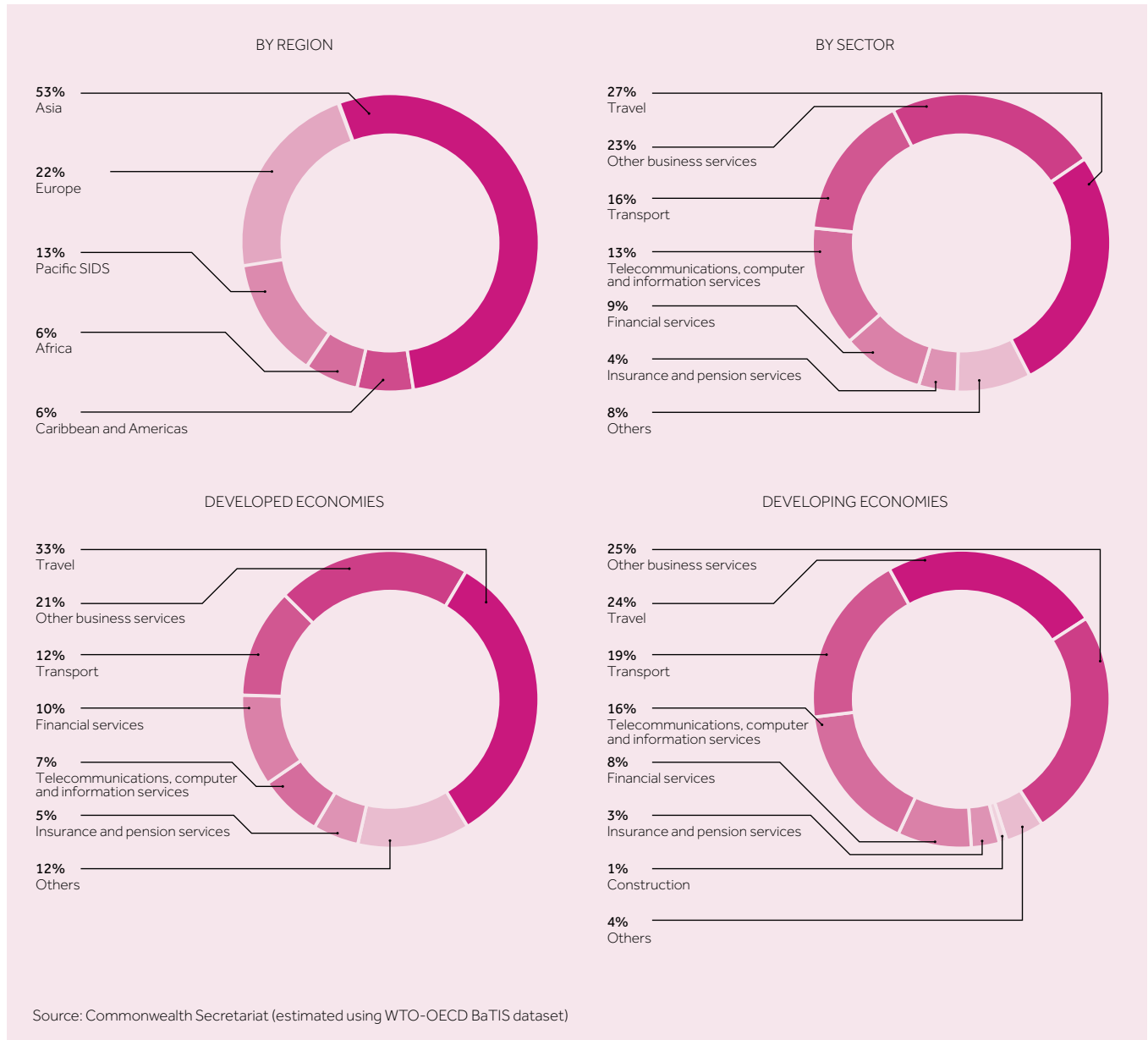
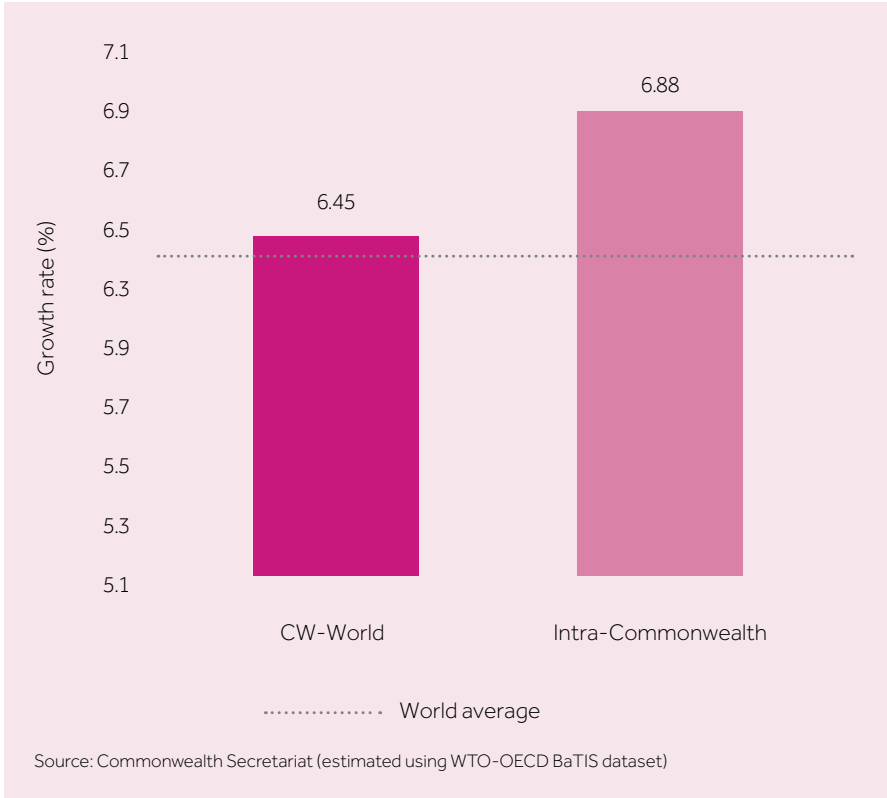


FIGURE 1.16
GROWTH RATE OF INTRA-COMMONWEALTH SERVICES EXPORTS, 2005–2019 AVERAGE



The sectoral composition of intra-Commonwealth services trade displays significant vulnerabilities to a shock like COVID-19. Travel is the largest category, accounting for almost 30 per cent of services exports.

BOX 1.2

RISING SERVICIFICATION TRENDS IN COMMONWEALTH DEVELOPING AND DEVELOPED COUNTRIES

The process of servicification has two main components. On the one hand, changes in consumption patterns as a result of increasing per capita incomes tend to shift demand and therefore production towards services. At the same time, technological change means that more activities within industrial firms are in fact services. During 2005–2019, Commonwealth developed economies increased their share of intra-Commonwealth services exports as well as services imports. A similar trend is observed in developing members (Figure 1.17) but their services exports have grown at a much faster pace.

FIGURE 1.17
SERVICIFICATION OF INTRA-COMMONWEALTH TRADE OVER TIME



Source: Commonwealth Secretariat (calculated using UNCTADstat and OECD-WTO BaTIS dataset)

1.4 COVID-19 implications for Commonwealth trade

COVID-19 has caused severe economic disruptions to the Commonwealth and globally. The global recession and GDP contraction in major trading partners (Box 1.3), together with various COVID-19-related disruptions, have dealt a strong blow to Commonwealth countries' exports. For 2020, the Commonwealth's global trade flows are estimated at US\$3.55 trillion. This amounts to a drop of \$145 billion from 2019.

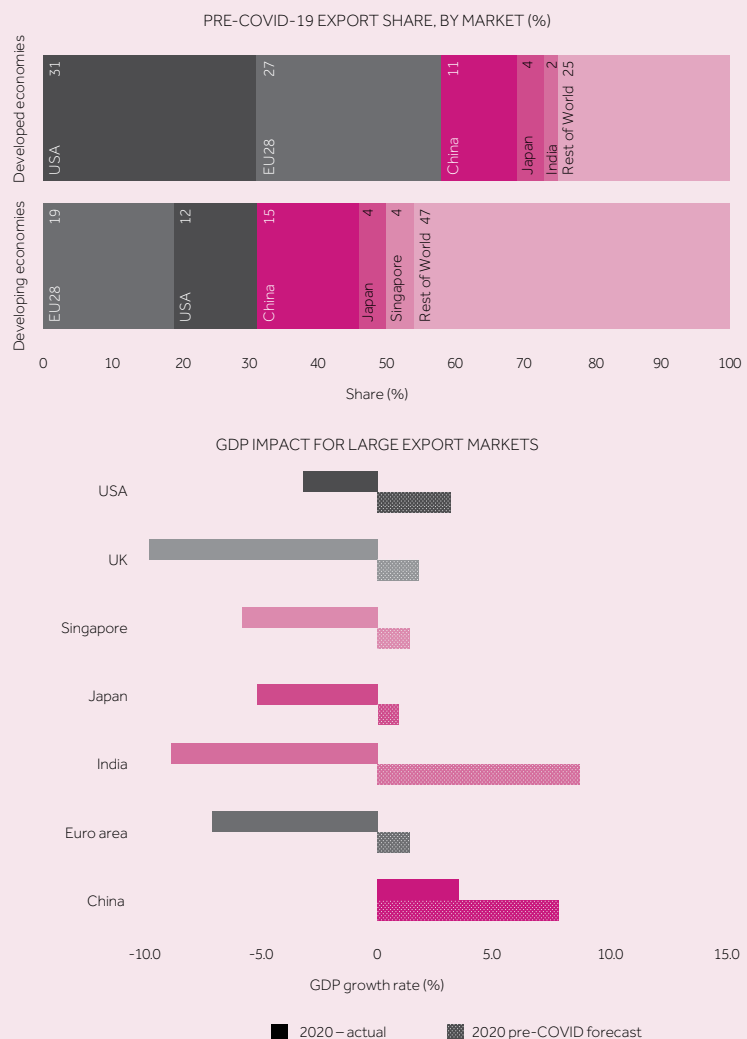
Relative to pre-pandemic growth trends, Commonwealth economies are estimated to contract by around 10 per cent in 2020 (Annex 1.2). This economic contraction has directly translated to a drop in trade flows (Figure 1.19), but with a varying effect across Commonwealth regions and development levels. Although global exports from all Commonwealth economies have declined, the drop is relatively higher for developing Commonwealth countries, whose exports have contracted by around 10.1 per cent. This could reflect, among others, limited economic support to the firms and businesses in these countries during the pandemic. Second, these countries largely rely on the export markets of advanced economies, which are still reeling from COVID-19. In absolute terms, Asian economies suffered the largest decline in exports (at US\$146 billion), followed by African (\$20 billion), Caribbean (\$4.2 billion) and Pacific members (1.3 billion). However, in relative terms, the Caribbean SIDS

BOX 1.3**COVID-19 AND ECONOMIC CONTRACTIONS IN THE COMMONWEALTH'S LARGEST EXPORT MARKETS**

International trade is highly responsive to changes in market size. COVID-19 has constrained economic growth in the Commonwealth's major export markets, adversely affecting demand for goods and services (Figure 1.18). Apart from China, where GDP expanded by 2.3 per cent, the other major destinations for Commonwealth exports recorded significant contractions in GDP in 2020. In India and Singapore, GDP declined by more than 5 per cent. In the USA, which absorbs 31 per cent of developed members' goods and services exports and 12 per cent of those from developing members, GDP contracted by 3.5 per cent. The EU, which collectively represents the second-largest market for Commonwealth exports, contracted by 6.6 per cent. Within the EU-27, growth in the three top destinations for Commonwealth exports – Germany, France and the Netherlands – fell by 4.9 per cent, 8.2 per cent and 3.7 per cent, respectively. Similarly, the GDP of the UK, a key destination for intra-Commonwealth exports (see Chapter 5), contracted by around 9.9 per cent.

These markets collectively absorb around 75 per cent of Commonwealth developed members' exports and around half from developing countries. Most of these economies are still under varying degrees of lockdown. The protracted pandemic, coupled with an on-going deep recession, not only has adversely affected short-term export demand but also portends serious challenges for a quick trade recovery in both Commonwealth developed and developing countries in 2021. Aside from these direct implications for trade in goods and services, a reduction in growth in these major economies could have several indirect knock-on effects for Commonwealth developing members, including through reduced Aid for Trade and other official development assistance to LDCs and highly vulnerable small states.

FIGURE 1.18
COMMONWEALTH MARKET SHARE AND GDP DROP FOR LARGE EXPORT MARKETS (%)



Note: The left panel reflects combined share of goods and services. EU-28 includes the UK because it was an EU member until 31 January 2020. China and Hong Kong are aggregated in the left panel. Source: Commonwealth Secretariat (calculated using UNCTADstat and WTO-OECD BaTIS datasets and data from the IMF and World Bank Outlook)

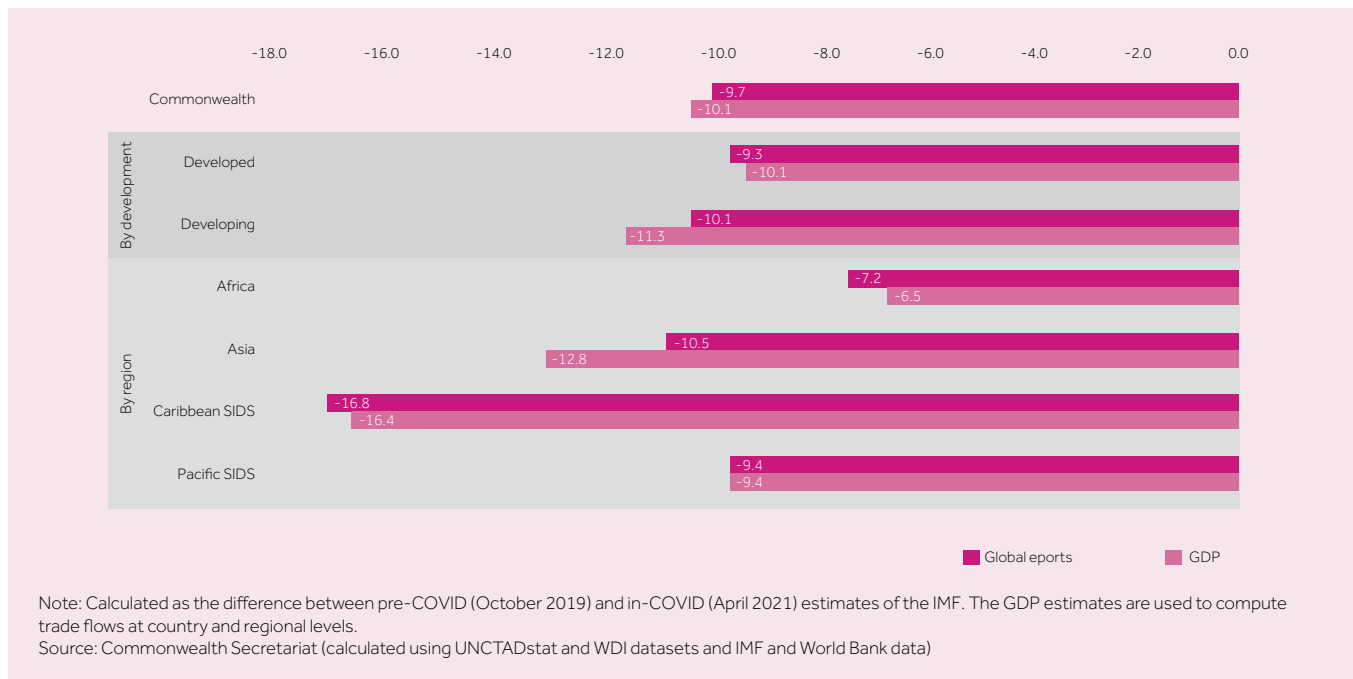
underwent a greater slump. Their global exports shrank by almost 20 per cent. These SIDS largely rely on the exports of services, particularly

travel and tourism, which were hit hard in this pandemic (see Chapter 5).

Intra-Commonwealth trade flows are estimated at around US\$641

billion in 2020. Compared with the pre-pandemic projection (\$701 billion), this suggests an export loss of \$60 billion in a single year.

FIGURE 1.19
IMPACT OF THE COVID-19 PANDEMIC ON COMMONWEALTH COUNTRIES' GLOBAL EXPORTS IN 2020



The pandemic has affected the intra-Commonwealth exports of all regions (Table 1.4). However, in absolute terms, Asian economies have suffered the biggest decline in

exports (at \$36 billion), followed by African (\$6.5 billion), Caribbean (\$4.2 billion) and Pacific members (\$5 billion). Among these groupings, the Caribbean SIDS are the most affected

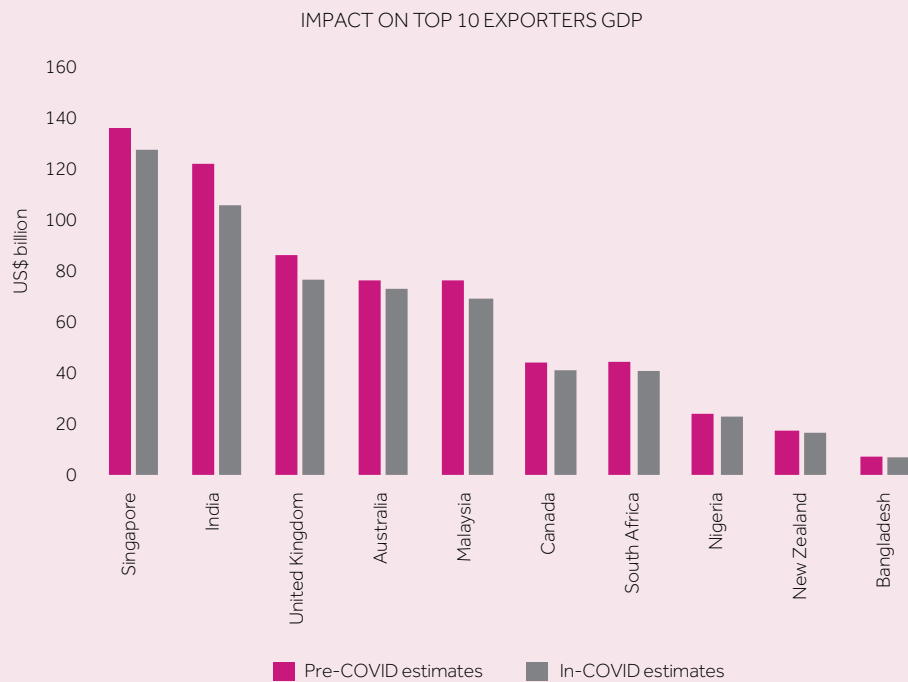
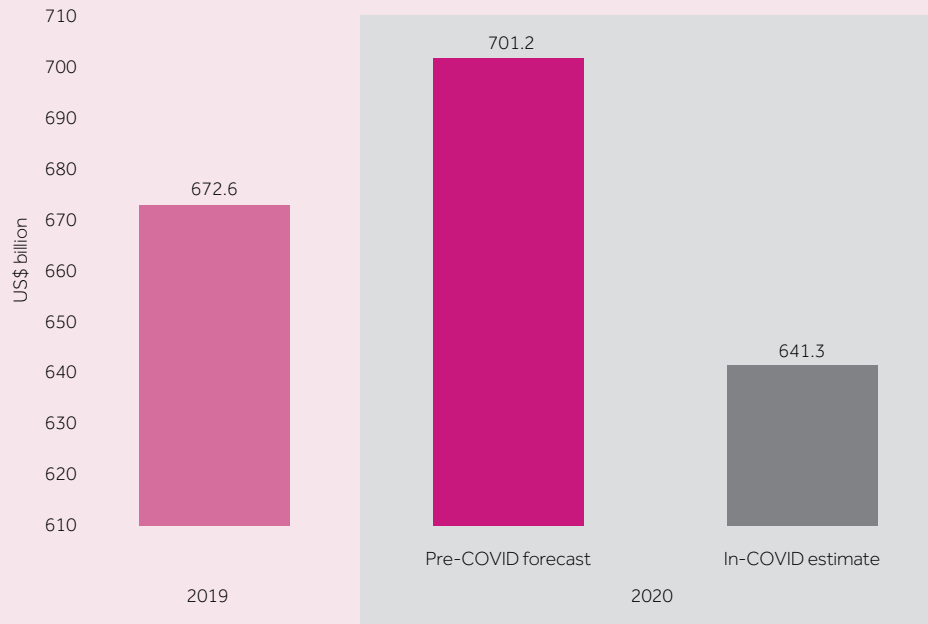
in relative terms, with their intra-Commonwealth exports shrinking by almost 16 per cent in 2020. All leading intra-Commonwealth exporters have been affected (Figure 1.20).

TABLE 1.4
REGIONAL VARIATION IN COVID-19 IMPACT ON INTRA-COMMONWEALTH TRADE (US\$ MILLION), 2019 VS. 2020

	2019	2020 (Pre- and in-COVID)	
		Forecast	Actual
Commonwealth	672,647	701,248	641,316
<i>By development</i>			
Developed	218,613	234,420	216,220
Developing	454,034	466,737	425,096
<i>By region</i>			
Africa	89,354	99,395	92,797
Asia	352,452	357,915	321,330
Caribbean and Americas	44,831	50,746	46,594
Caribbean SIDS	6,296	6,715	5,662
Europe	90,468	96,644	86,017
Pacific	95,541	99,548	94,577
Pacific SIDS	5,931	5,803	5,306

Note: Calculated as the difference between pre-COVID (October 2019) and in-COVID (January 2020) estimates of the IMF and World Bank. The GDP estimates for 2020 are used to compute trade flows at country and regional levels.
Source: Commonwealth Secretariat (calculated using UNCTADstat and WDI datasets and IMF and World Bank data)

FIGURE 1.20
 COVID-19 SHOCK AND INTRA-COMMONWEALTH TRADE FLOWS IN GOODS AND SERVICES, 2019 VS. 2020



Note: Calculated as the difference between pre-COVID (October 2019) and in-COVID (April 2021) estimates of the IMF. The GDP estimates are used to compute trade flows at country and regional levels.
 Source: Commonwealth Secretariat (calculated using UNCTADstat and WDI datasets and IMF and World Bank data)

1.4.1 COVID-19 and goods trade

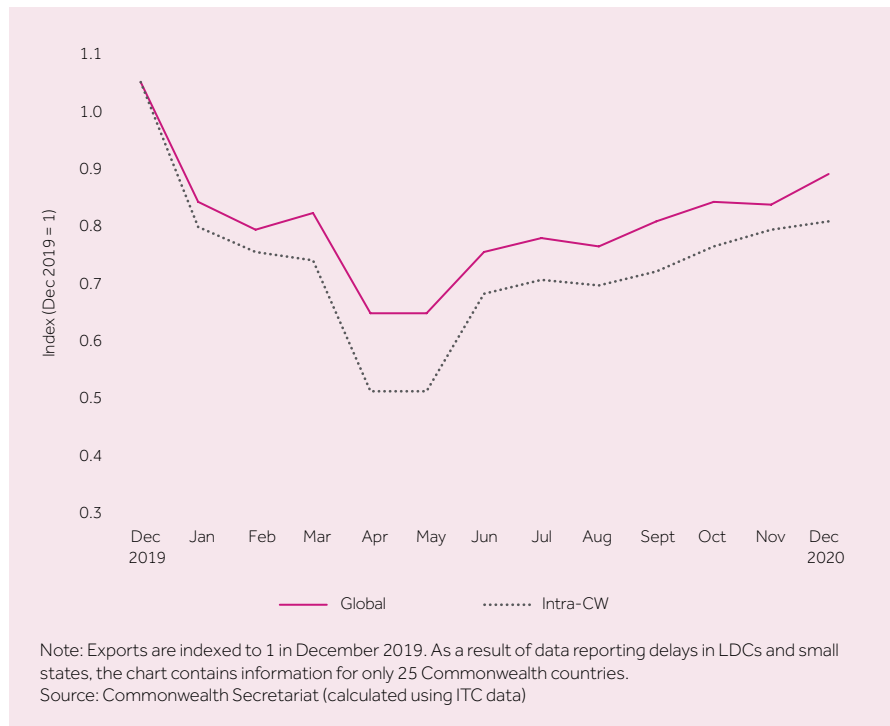
With two-thirds of the Commonwealth's global and intra-Commonwealth trade being in manufactured goods and commodities, many member countries, especially developing countries, have been hit hard by the real economy consequences of COVID-19.

The pandemic has adversely affected the global and intra-Commonwealth merchandise exports of member countries since early January 2020, immediately after the outbreak of the coronavirus in China in December 2019. However, the greatest effect occurred during April and May 2020, when many large export markets in Europe and the USA imposed lockdowns. In these two months, exports of Commonwealth members dropped to almost half compared with the baseline (Figure 1.21). The impact was relatively higher for intra-Commonwealth exports compared with global exports as many of the large intra-Commonwealth traders – including India, Singapore, South Africa and the UK – experienced an economic contraction, affecting the supply and demand of their merchandise (see Box 1.4). Exports plateaued in May 2020 but rebounded in June 2020 as firms sought to adapt to the containment measures. Merchandise exports are gradually recovering as lockdowns and restrictions on economic activities are lifted in many countries. However, in December 2020, the Commonwealth's exports were still well below the pre-pandemic level in December 2019.

The drop in Commonwealth countries' exports has strong linkages with the incidence of the virus (see Box 1.4). Countries with high numbers of infections (and deaths) and with strict lockdowns have also experienced a large decline in trade flows.

FIGURE 1.21

IMPACT OF THE PANDEMIC ON COMMONWEALTH MERCHANDISE EXPORTS, DECEMBER 2019 TO DECEMBER 2020



COVID-19 has impacted goods trade through both supply and demand shocks. Quarantines, lockdowns, social distancing and high levels of uncertainty have led to a significant drop in demand for goods and services, with GVCs transmitting the economic shock to upstream supplier countries (Escaith and Khorana, 2021). For example, reduced consumer demand and supply shocks have hit garment manufacturers and workers in the Commonwealth, especially in Bangladesh and Lesotho (Box 1.5).

Commodities constitute around one-third of world merchandise exports and approximately 20 per cent of these exports originate from Commonwealth countries. Commodities are also a key component of the Commonwealth's overall merchandise exports, accounting

for 45 per cent of these exports (higher than the world average of 33 per cent). Many developed and developing Commonwealth countries are heavily dependent on commodities exports – 31 members derive more than 80 per cent of their merchandise export earnings from primary commodities. The shares of commodities in the exports of New Zealand and Australia are above 70 per cent; they are even higher for the Pacific SIDS (97 per cent) and SSA countries (79 per cent). COVID-related restrictions have led to a sharp decline in commodity prices, adversely affecting the exports of many developed and developing countries (Box 1.6).

1.4.2 COVID-19 and services trade

Services account for at least half of total economic activity in terms of GDP in Commonwealth members. Levels

BOX 1.4**LINKAGES BETWEEN COVID-19 INFECTIONS AND MERCHANDISE EXPORTS IN THE COMMONWEALTH**

In a study for the Commonwealth Secretariat, Khorana and Martínez-Zarzoso (2021) estimate a gravity model on monthly trade flow data to explore the effect of incidence of COVID-19 on Commonwealth members' global and intra-Commonwealth merchandise exports. The results provide strong evidence of a correlation between the Commonwealth's exports and the number of infections, deaths and stringency of lockdowns⁹ in source and destination markets. A 10 per cent increase in the number of COVID-19 infections in the exporting country decreases exports by 0.33 per cent. The corresponding effect for the number of deaths is slightly lower (0.028 per cent) but that for the stringency index is higher, at about 0.4 per cent. The drop reflects interruptions in production and exporting activities in the short term at the onset of the pandemic (Table 1.5).

The estimated trade decline for five Commonwealth countries – Canada, India, Pakistan, South Africa and the UK – is very high (above 10 per cent). These five economies account for around 60 per cent of the Commonwealth's global exports and 40 per cent of intra-Commonwealth exports. The relatively high incidence of COVID-19 in these countries, in terms of numbers of infections and deaths, directly explains a larger decline in the Commonwealth's trade flows. By contrast, the Pacific SIDS have largely been shielded from the health effects of COVID-19. Moreover, these economies have relatively lesser proportions of merchandise in their exports, which is reflected in a relatively small drop in their goods trade (less than 5 per cent).

These regression results are robust to alternative estimation approaches (Pseudo Poisson Maximum Likelihood, PPML, and Ordinary Least Squares, OLS), using monthly lagged data (to account for simultaneity bias), and to the inclusion of a rigorous set of exporter and importer fixed effects to account for omitted variables and multilateral resistance. They also hold when the gravity variables – namely, distance, free trade agreement (FTA), common language and common border – are replaced by bilateral fixed effects. The projections of trade trends in the short term present a negative change in exports for all countries, raising the need for policy interventions and support to increase the resilience of supply chains.

TABLE 1.5
MODELLING RESULTS: COVID-19 EFFECT ON COMMONWEALTH COUNTRIES' MERCHANDISE EXPORTS (% DECREASE)

% decrease in exports	Commonwealth members	Share of CW trade	Share of Intra-CW trade
10+	Canada, India, Pakistan, South Africa, United Kingdom	56.91	40.83
7–10	Australia, Bangladesh, Cameroon, Ghana, Jamaica, Kenya, Nigeria, Singapore, Zambia	29.87	38.44
5–7	The Bahamas, Belize, Botswana, Cyprus, Eswatini, The Gambia, Guyana, Malawi, Malaysia, Malta, Mozambique, Namibia, New Zealand, Rwanda, Sierra Leone, Sri Lanka, Trinidad and Tobago, Uganda	11.87	18.37
0–5	Antigua and Barbuda, Barbados, Brunei Darussalem, Dominica, Fiji, Kiribati, Lesotho, Mauritius, Nauru, Papua New Guinea, Samoa, Seychelles, Tanzania, Tonga, Tuvalu, Vanuatu	1.16	2.12

Source: Commonwealth Secretariat (calculated using data from UNCTADstat dataset and estimates from Khorana and Martínez-Zarzoso (2021))

are particularly high in high-income countries but also in some SIDS, where activities like tourism and finance – both services – are important in the overall economy (Shepherd and Shingal, 2021). The pandemic has had significant impacts on the services sector. While all Commonwealth countries

have been subject to shocks related to COVID-19, extents and recovery paths have varied substantially (Box 1.7).

Services exports contribute 35 per cent of intra-Commonwealth trade, which is significantly higher than the share of services in world trade (25

per cent). Commonwealth members with large tourism and travel sectors, especially the 25 SIDS, have been hard hit, as the global tourist economy has contracted substantially.

This has adversely affected women workers (Box 1.8). As employment for

BOX 1.5**COVID-19 HITS GARMENTS MANUFACTURING IN THE COMMONWEALTH**

Global garment supply chains are highly integrated, making them extremely susceptible to the disruptions to trade and the movement of goods and persons caused by COVID-19. In the early stages of the pandemic, lockdowns in China resulted in severe delays to Chinese exports of raw materials (including fabric), with significant impacts on production for garment manufacturers in Bangladesh and other garment-producing Commonwealth countries that rely heavily on imported inputs. Across the Asia-Pacific region, garment manufactures have faced disruptions to up to 60 per cent of their supplies of imported inputs (ILO, 2020).

Lockdowns and mandatory closures of clothing retail stores in Europe, the USA and the world led to a sharp fall in consumer demand. This had a severe impact on garment manufacturing industries in Bangladesh, Lesotho and other Commonwealth countries that supply large quantities of garments to these markets. In the first half of 2020, garment-producing countries across Asia saw their exports to major buying countries fall by up to 70 per cent (ILO, 2020).

Some suppliers were hit with large-scale cancellation or postponement of production orders, often retrospectively in cases where orders were already in process or on the verge of completion.¹⁰ Many manufacturers also suffered delays to payments for completed orders, with buyers invoking "force majeure" clauses in their contracts. The direct health effects of COVID-19 have also impacted the availability of workers, dealing a further blow to production capacity in garment-producing Commonwealth countries.

The adverse impacts on the industry have major implications for garment sector workers, particularly women, who comprise most factory workers in key Commonwealth garment manufacturing countries (including Bangladesh, India, Lesotho, Pakistan and Sri Lanka). Many workers were already paid low wages and had poor job security and weak social safety nets even before the pandemic, and these vulnerabilities have been exacerbated.¹¹ In addition, incomes decreased among many workers who had retained their jobs, falling by 21 per cent, on average, between March and August 2020 compared with pre-pandemic levels (Worker Rights Consortium, 2020).

If these production constraints persist, there is a risk that clothing brands may shift their manufacturing away from some Commonwealth members in favour of other sourcing locations to mitigate supply chain risks (Teodoro and Rodriguez, 2020). This would feed into the wider structural shifts already underway in export-oriented apparel manufacturing GVCs, resulting in shorter value chains (see Chapter 3). As countries continue to battle to contain the spread of COVID-19, a wider garment sector recovery may be some way off, with a lag before garment production and demand for apparel returns to pre-pandemic levels. In the meantime, further support for garment manufacturers and workers will be necessary.

women increases globally, there has also been a corresponding shift into service sectors. An estimated 43 per cent of women across the Commonwealth were employed in the services sector in 2019, up from 30 per cent in 2000. In developed countries, over 90 per cent of women work in the services sector, an increase of 5 percentage points from 2000. In developing countries, 36 per cent of employed women work in services sectors, an increase of 16 percentage points since 2000. New trends in global trade,

particularly the rise in services, GVCs and the digital economy, now offer more economic opportunities to women.

Transport and travel constitute around half of intra-Commonwealth services exports. Air travel has been significantly affected by border closures and international travel restrictions. The International Air Transport Association has projected US\$126 billion in losses for 2020, marking the worst annual financial result in aviation history, with smaller losses of \$47.7 billion in 2021 (IATA, 2021). Airlines of several

Commonwealth countries, including Antigua and Barbuda, Australia, Canada, India, Namibia, South Africa and the UK, have entered bankruptcy protection/administration or been liquidated since the start of the pandemic. Some of the bigger airlines are expected to survive following restructurings and a rebound in demand. Aside from the direct effects on intra-Commonwealth travel and tourism-related services exports, the collapse in global aviation also impacted some goods trade, especially passenger-based air

BOX 1.6**COMMODITIES EXPORTS AND COVID-19**

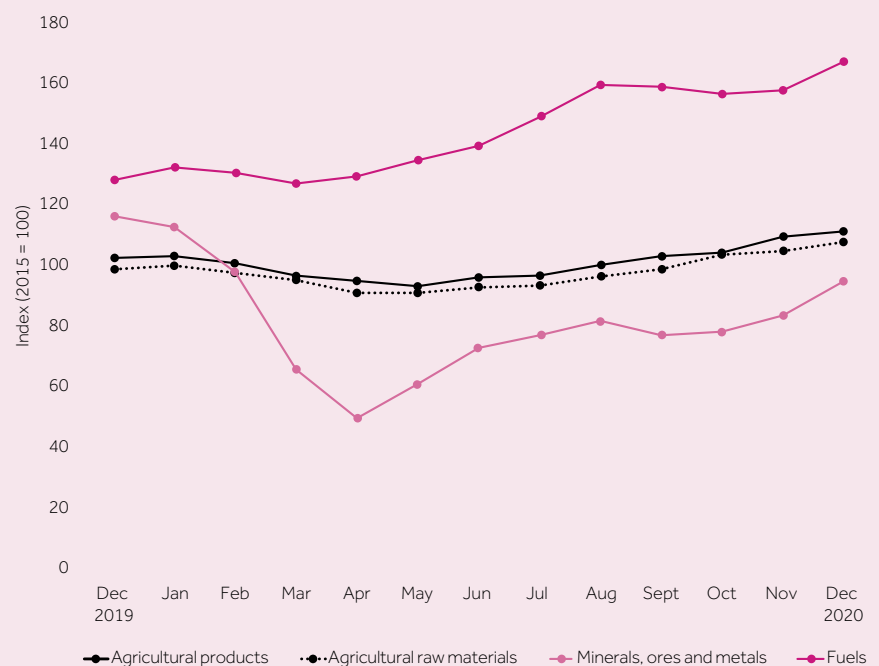
Commonwealth countries' main commodity exports are food products, mineral ores, metals and fuels. Among these, fuels are the largest exported item, constituting around 42 per cent of all commodities exports. This is followed by mineral ores (36 per cent) and agri-food products (22 per cent).

Around 55 per cent of these exports are destined for five markets: China, the USA, the EU-27, the UK and Australia. The COVID-19 pandemic has negatively affected demand for commodities in these key markets, leading to a collapse in commodity prices, particularly for fuels. Prices of other key commodities, such as agricultural products and mineral ores, have been relatively less affected. Nevertheless, the reduction in demand, along with challenges associated with production and exporting, led to an aggregate export loss of around US\$125 billion for Commonwealth countries in 2020. This represents a decline of 24 per cent compared with the pre-pandemic trend. The Commonwealth's commodity exports to the USA were hit the hardest (falling by \$50 billion) followed by those to the EU-27 (\$41 billion) and China (\$26 billion); notably, in a diplomatic dispute since Canberra's call for an international investigation into the origins of COVID-19, Australian imports have encountered difficulties entering the Chinese market, including timber, barley, beef and some types of coal (see Chapter 4). Exports to the UK were \$400 million below the estimate for a "business-as-usual" situation.

In value terms, Commonwealth developed countries experienced a large drop in commodities exports, amounting to US\$57 billion, driven mainly by a fall in exports from Australia (see above) and Canada. In absolute terms, Asian Commonwealth members were the second most affected group, closely followed by African members. However, in relative terms, Caribbean members were hit more severely. Their commodities exports dropped by 60 per cent compared with the historical average. This owed mainly to sharp declines in exports of crude and refined oil as well as of natural gases from Trinidad and Tobago and, to a lesser extent, exports of sugar and crustaceans from Belize, mainly to the EU-27. Overall, the Pacific region was the least affected.

The prices of most commodities surged in the second half of 2020, offsetting some of the trade losses in commodity-dependent economies (Figure 1.22). Resumption of transport activities is pushing up oil prices, which traded at US\$66 per barrel in the first week of March 2021. Similarly, the on-going transition towards electric and hybrid vehicles is incentivising demand for minerals used to manufacture batteries and chips. There is the possibility of a new commodity super cycle, which could support a relatively fast recovery in commodities trade for Commonwealth countries (The Economist, 2021a).

FIGURE 1.22
MONTHLY VARIATION IN COMMODITY PRICE INDICES IN 2020



Source: Commonwealth Secretariat (calculated using data from UNCTADstat dataset)

BOX 1.7

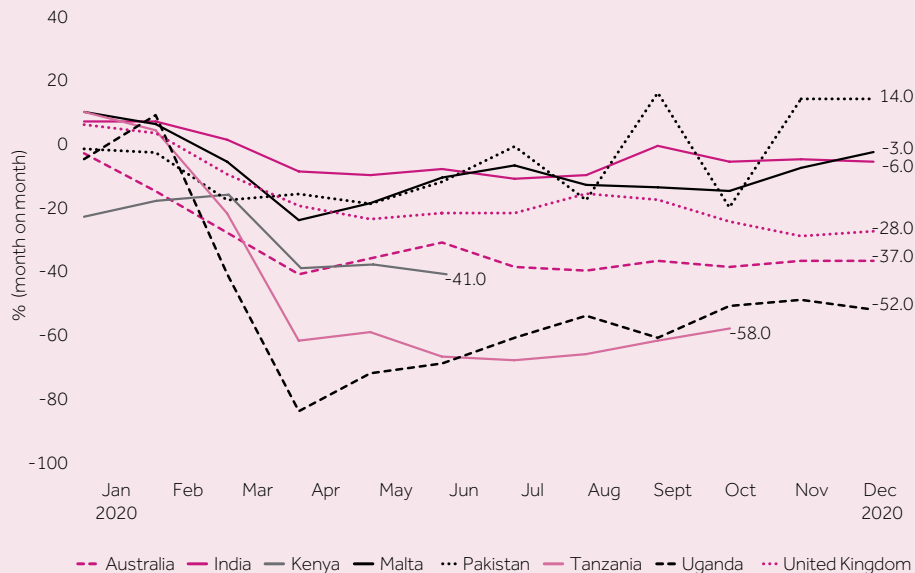
DROP IN SERVICES EXPORTS DURING THE COVID-19 PANDEMIC

Analysis of monthly services exports for eight Commonwealth countries from January to December 2020 provides some indication of the immediate and direct effects of the COVID-19 pandemic on services trade. Most countries reporting high frequency data have seen major reductions to services exports starting from January 2020 when compared with the corresponding months during 2019. The extent of the decline is striking. Services exports from Tanzania and Uganda have collapsed by over 60 per cent while those of Australia and Kenya have dipped by around 40 per cent (see Figure 1.23).

These economic shocks are massive, and the pace of recovery varies by country. The services exports of India and Malta have rebounded to a great extent, but those of Uganda in December 2020 were almost half the level recorded in December 2019. Similarly, Australia's services exports were about 60 per cent of December 2019 levels, while those of the UK were about three-quarters of the levels observed in the corresponding months of 2019. Whereas services exported by Uganda and Tanzania have declined significantly and have not yet recovered, by September 2020 Pakistan's services exports had already rebounded to December 2019 levels (despite falling by 20 per cent in April 2020).

There is no clear pattern according to development level, although sectoral specialisations have influenced the nature of impacts. Economies that are highly dependent on services trade that requires in-person interactions, such as tourism, have seen steep and sustained declines in their exports (Kenya, Uganda), while those exporting ICT-related services have performed better (India, Pakistan). The services exports of Caribbean countries, as well as those of the Pacific islands, which largely rely on travel and tourism-related services, were down by around 70 per cent in 2020 (WTO, 2020a).¹²

FIGURE 1.23
COVID-19 IMPACT ON SERVICES EXPORTS OF SELECTED COMMONWEALTH COUNTRIES, 2020 VS. 2019



Note: The chart presents percentage change in exports in 2020 compared with the corresponding month in 2019 for selected Commonwealth countries that report monthly services export data to the WTO.
Source: Commonwealth Secretariat (calculated using data from the WTO)

BOX 1.8**ENTREPRENEURSHIP, TRADE AND WOMEN'S ECONOMIC EMPOWERMENT**

Across the Commonwealth, women make up approximately 50 per cent of the population and 30 per cent of the labour force. However, compared with men, women contribute less to global GDP and significantly less to international trade. Despite 122 World Trade Organization (WTO) members and observers, including 31 Commonwealth countries, endorsing the 2017 Joint Declaration on Trade and Women's Economic Empowerment, women remain under-represented in trade. In one estimate, only 15 per cent of exporting firms are led by women (ITC, 2015). Factors such as a higher share of unpaid or underpaid work at home and in the informal sector, as well as barriers to entry for entrepreneurship and trade, limit women's participation.

Women-owned businesses have been disproportionately impacted by the pandemic. This is because they are over-represented in high-risk sectors such as tourism, transport and travel, retail, food services, accommodation, entertainment and recreation, and manufacturing across economies of all income categories. Despite the pandemic's adverse impact, some women business owners are adjusting to the new reality. According to the 2020 Mastercard Index of Women in Entrepreneurship Report, 42 per cent of women-owned businesses have shifted to a digital business model, 37 per cent are developing an area of business to meet local or global needs and 34 per cent have identified new business opportunities since the pandemic.

As employment for women increases globally, there has also been a corresponding shift into service sectors. An estimated 43 per cent of women across the Commonwealth were employed in the services sector in 2019, up from 30 per cent in 2000. In developed countries, over 90 per cent of women work in the services sector, an increase of 5 percentage points from 2000. In developing countries, 36 per cent of employed women work in services sectors, an increase of 16 percentage points since 2000. New trends in global trade, particularly the rise in services, GVCs and the digital economy, now offer more economic opportunities to women.

However, fewer women are engaged in tradeable services than men. For Commonwealth countries, on average, 5 per cent of women are engaged in tradeable service sectors compared with 18 per cent of men (calculated as the share of total employment). This varies across regions, with women in developed countries engaged in an estimated 16 per cent of tradeable services, followed by Caribbean SIDS with 15 per cent. Asian countries fall short with less than 30 per cent of women represented in overall employment, less than 5 per cent of whom are engaged in tradeable services.

Women face various challenges in taking advantage of the new opportunities for greater inclusion and empowerment. For example, they face greater non-tariff measures such as access to financing to facilitate their participation in trade. For example, female-led formal SMEs face a credit gap of roughly US\$300 billion (Gonzalez, 2017). They also face cultural barriers as well as time and skills constraints.

Given these challenges, there is a need for greater effort to advance women's participation in tradeable services and other areas of international trade. Policy-makers must strive to reduce trade barriers, promote and support women-led businesses and give equal opportunities for them to access credit and trade finance. In addition to mainstreaming gender issues in trade agreements, greater consideration should be given to fully implementing the Trade Facilitation Agreement, training women to access market opportunities and connecting women to these opportunities. The International Trade Centre (ITC) SheTrades initiative, supported by the Commonwealth Secretariat, can be used to provide training for women entrepreneurs and women-owned businesses to increase their competitiveness and participation in trade. The initiative aims to connect 3 million women to market by 2021 and has so far been utilised by four Commonwealth countries, Bangladesh, Kenya, Ghana and Nigeria, under its Commonwealth chapter.

freight services that deliver high value exports (e.g. East African horticulture and floriculture direct to the UK).

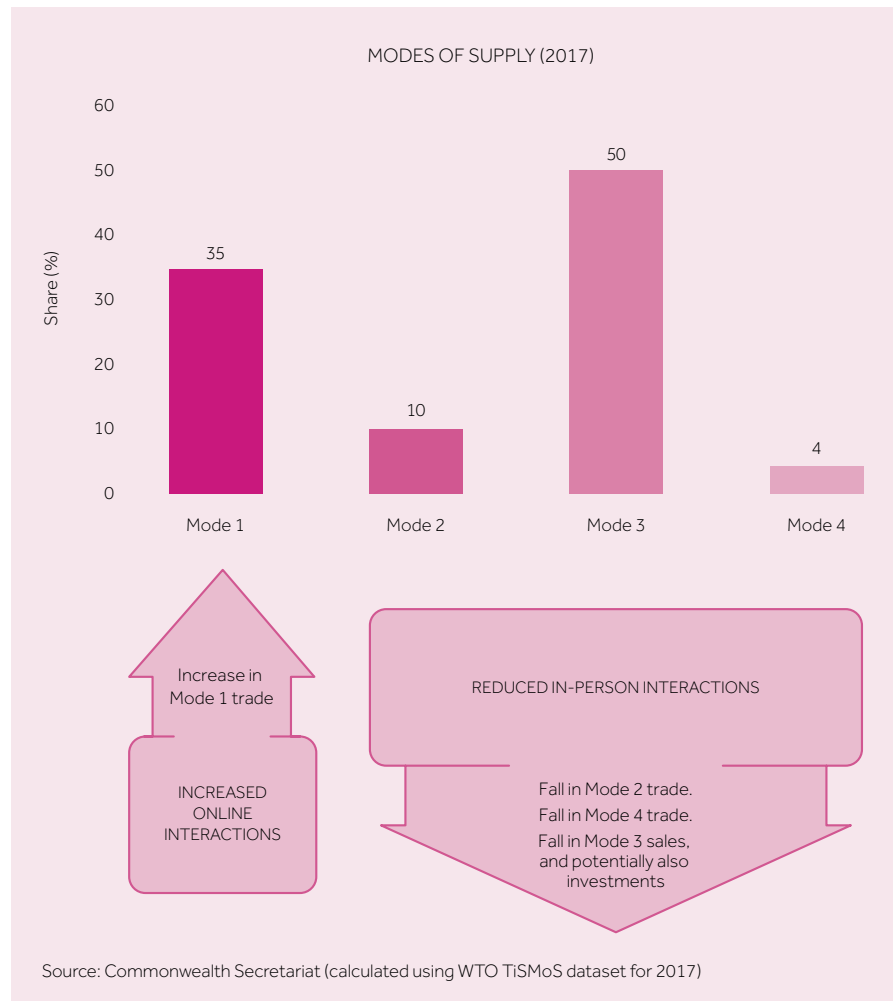
COVID-19 and substituting modes of supply

The pandemic has affected how services are traded, with some suppliers increasingly using digital means to deliver across borders, as discussed in the next chapter. Generally, there are four modes of supply for services trade, as recognised by the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO). They are:

- Mode 1 – cross-border supply using postal services or ICT; this includes digitally deliverable services (DDS), as discussed in Chapter 2
- Mode 2 – consumption abroad by consumers
- Mode 3 – commercial presence through branches or subsidiaries abroad
- Mode 4 – temporary movement of persons to deliver a service in another country

Modes 2 and 4, which directly involve movement of persons, account for around 14 per cent of the value of Commonwealth exports. The largest aggregate, however, is Mode 3 sales by foreign affiliates. Finally, Mode 1 accounts for 35 per cent of the value of Commonwealth services exports (Figure 1.24). While there is substantial evidence of a shift towards increased Mode 1 trade, including DDS, through online interactions, the ability to trade in this way is dependent on infrastructure, technological capacity, human capital and connectivity (Shepherd and Shingal, 2021). This is not always an

FIGURE 1.24
POTENTIAL COVID-19 PANDEMIC EFFECTS ON SERVICES TRADE



option for service providers in many developing countries and LDCs, as discussed in Chapters 2 and 5.

The shocks of the pandemic have clear implications for the Commonwealth's services trade via Modes 2 and 4. In the case of Mode 2, it is consumers whose movements are impeded, with a corresponding reduction in trade, including exports of tourism, health and education services (Box 1.9). For Mode 4 it is service suppliers, again with a consequent reduction in trade. The

case of Mode 3 is more ambiguous. The investment transactions at the base of Mode 3 can, in principle, take place without in-person interactions, although they have traditionally been an important part of large-scale investment decisions. To the extent that in-person interactions have become less desirable or less feasible, one effect may be to reduce the sales of foreign-owned firms in sectors where such interactions are important.¹³

Given the unprecedented scale and scope of the pandemic, it seems

BOX 1.9**SWITCHING MODES? COVID-19 AND THE EDUCATION SERVICES EXPORTS OF AUSTRALIA AND CANADA**

The international education sector is important for Australia and Canada, and their universities draw students from around the world. In particular, Australia draws students from countries in East and Southeast Asia and Canada from Commonwealth partners, especially India.

Education services are Australia's third-largest export (AU\$18.8 billion in 2014/15) and indirectly support 1.3 per cent of the country's total employment. In Canada, the sector accounts for just over 1.2 per cent of total services exports, which reflects Canada's relatively diversified economy. In both countries, especially Australia, Mode 2 accounts almost entirely for the delivery of education services. When the pandemic hit, Australia and Canada adopted extensive travel restrictions, with obvious implications for foreign students seeking entry for study purposes. Given the difficulty of safely ensuring in-person interactions, both countries transitioned to online learning for students inside the country – and via Mode 1 trade for those outside.

A notable difference between the two countries relates to the way in which travel restrictions have affected international students. In Australia, inward movements of non-Australian citizens were reduced to close to zero, with no special exemption for students. Once the extent of the disruption to the sector was clearer, including the possibility of halving the foreign student population, the federal government made changes to student visa rules to facilitate post-study work for students already in Australia, as well as rapidly allowing entry by new and returning students outside the country.

Canada, by contrast, continued to allow entry to registered students provided that their institution had an approved COVID-19 readiness plan. Partly because of this approach, industry estimates suggest that Canada's universities may see only a modest decline in revenue owing to the pandemic.

In both cases, there is an on-going question as to the level of future international student arrivals, assuming that travel restrictions are eased further. Another open question is whether the sector will transition durably to greater use of online platforms, which could potentially see some shift from a nearly exclusive reliance on Mode 2 trade to increased reliance on Mode 1 trade, especially as consumer and travel preferences change. There is no concrete indication yet that such a shift is taking place in more than a temporary way because of pandemic-related travel restrictions.

Source: Shepherd and Shingal (2021) for Commonwealth Secretariat

highly likely that trade has been reduced for Modes 2 and 4 but also potentially for Mode 3 (Shepherd and Shingal, 2021). However, the case of Mode 1 is quite different. This involves trade in services taking place through online means, subject to having access to the necessary infrastructure and services. As such, in some sectors, there is a countervailing force in the direction of increased services trade in Mode 1 specifically, as substitution across modes takes place in response to the pandemic (ibid).

1.5 Trade performance of LDCs, IPOA and COVID-19

The global recession has severely damaged the already fragile economies of LDCs by drastically reducing external demand for their goods and services, lowering prices of key exports and constraining inflows of investment and other resources. These economies

generally lack the resilience to withstand these multiple economic shocks, owing to their limited productive capabilities and lack of diversification. Consequently, the fallout from the pandemic threatens to stall, or even reverse, developmental progress made by Commonwealth LDCs and may undermine their prospects for graduating out of the LDC category (see Chapter 5).

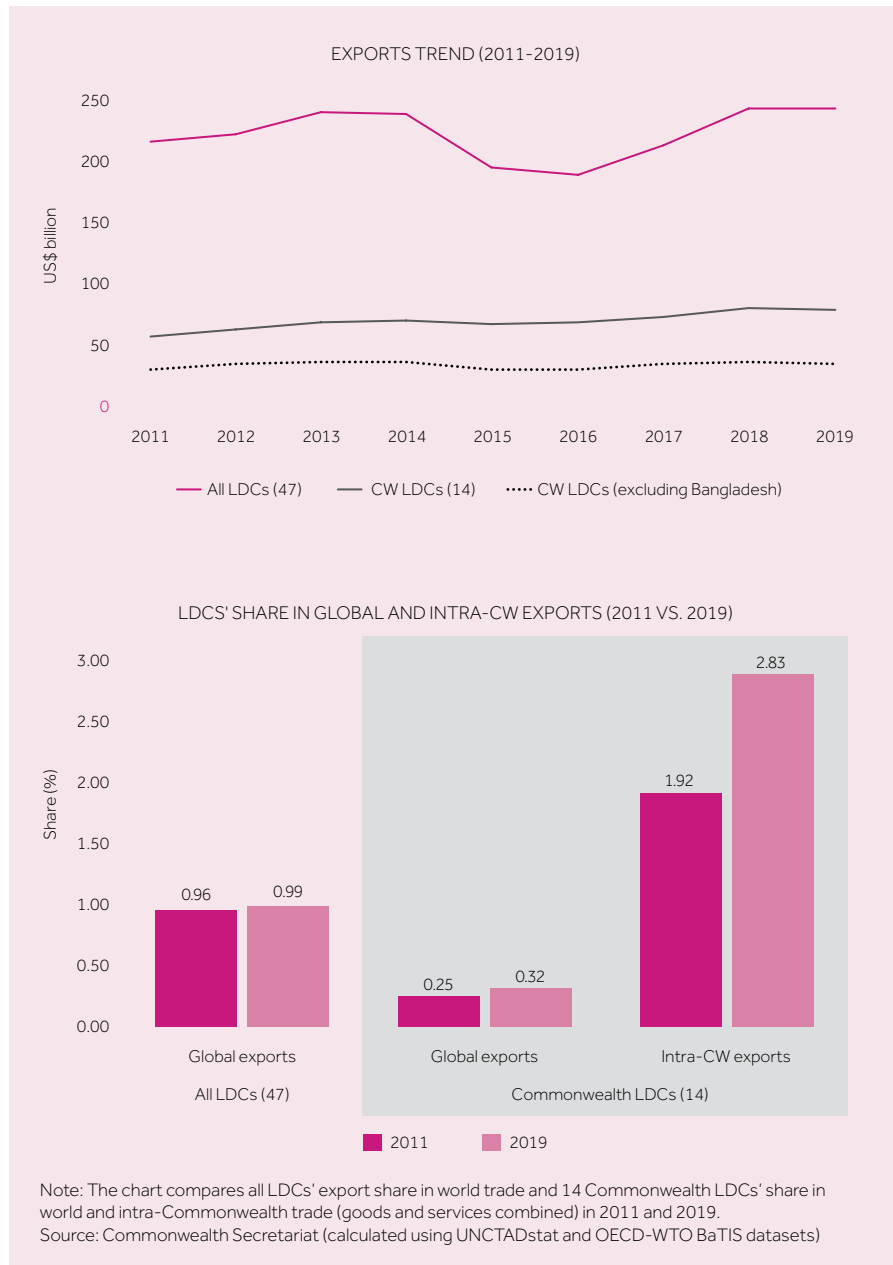
While the pandemic has set back the trade and development prospects of LDCs, they were already off track from the target to double their share of world exports by 2020, as envisaged

by the Istanbul Programme of Action (IPOA) for LDCs for 2011–2020 and adopted through the Sustainable Development Goals (SDGs) (see Chapter 5). This implied increasing the LDC share of global exports to 2 per cent, from one per cent at the start of IPOA implementation.

LDCs' global exports of goods and services rose from US\$215 billion in 2011 to just over \$243 billion in 2019. The exports of the 14 Commonwealth LDCs expanded from \$56 billion to \$79 billion (Annex 1.5). Despite some significant export growth in absolute terms over this period, the share of all LDCs in world merchandise trade stagnated just below 1 per cent, in both 2011 and 2019, although the dollar value of their exports in 2019 was the highest since 2000, at just over \$243 billion. External shocks, including structural and cyclical factors and natural disasters in the Pacific and Southern Africa regions, also contributed to missing the target.

The trade performance of Commonwealth LDCs during this period was more robust than that of the other LDCs, with their exports growing from US\$22 billion in 2005 to around \$79 billion in 2019, almost fourfold. This reflects the significant contribution of intra-Commonwealth trade for many LDCs, especially in Asia and Africa. The share of Commonwealth LDCs in intra-Commonwealth trade in 2011 was 1.92 per cent – almost twice the corresponding share of all LDCs in world trade (Figure 1.25). During 2011–2019, the share of all LDCs in world trade stagnated, whereas that of the Commonwealth LDCs in intra-Commonwealth trade

FIGURE 1.25
TRADE PERFORMANCE OF LDCS DURING ISTANBUL PROGRAMME OF ACTION



increased to 2.83 per cent over this period. Similarly, the share of Commonwealth LDCs in global trade also increased, from 0.25 per cent in 2011 to 0.32 per cent in 2019. A substantial portion of this increase is attributed to the export performance

of Bangladesh, whose global exports almost doubled from \$26 billion in 2011 to above \$45 billion 2019.

A protracted pandemic poses a significant risk to sustainable graduation pathways for LDCs. Twelve LDCs are expected to graduate within the

next four years. Vanuatu graduated in December 2020 and two more Commonwealth LDCs – Solomon Islands and Bangladesh – are set to follow in 2024 and 2026, respectively.

1.6 Commonwealth trade prospects towards 2022

The 2015 Commonwealth Trade Review estimated that the value of intra-Commonwealth exports of goods and services would exceed US\$700 billion in 2020. However, the slowdown in the Indian economy, uncertainty around Brexit negotiations and the spill-over effects of the USA-China trade and technology conflict, among other factors, contributed to lower growth in global and intra-Commonwealth trade in 2019.

Nevertheless, intra-Commonwealth exports are expected to rebound and reach 2019 levels by the end of 2021, and surpass US\$700 billion by 2022. Similarly, Commonwealth countries' global exports are expected to reach \$3.76 trillion in 2021. At this rate, the 2019 level for global exports (\$3.73 trillion) could be also surpassed by 2021 (Figure 1.26).

The long-term average growth rate of the Commonwealth's global exports of goods and services in the post-global financial crisis period from 2010 to 2019 was around 5 per cent. If this trend continues, the value of the Commonwealth's global trade is projected to surpass US\$5 trillion by 2025 and \$6 trillion by 2030.¹⁴

The slow start and increasing uncertainties about the rollout of vaccines globally and in the Commonwealth means prospects of economic recovery could vary significantly across regions and countries. The entire populations of several Commonwealth member countries might not be vaccinated until 2023 or early 2024 (The Economist, 2021b; Vickers et al., 2021). Asian Commonwealth countries could rebound quickly and reach very close to pre-pandemic levels in 2021, while the recovery in LDCs and small states could be protracted. The lingering effects of the pandemic, in terms of slow human and physical capital formation, reduced investments and a slow revival of trade and transport-related services, will affect the recovery of exports in LDCs and small states, including SIDS.

The demography of Commonwealth countries could also influence the recovery. Prospects are generally more optimistic in countries with youthful populations – for example Asian and African members (Sneader and Singhal, 2021). Overall, more than half of the Commonwealth's combined population are below the age of 25. In many countries, the youth are more tech-savvy and innovative and the crisis has sparked an upsurge in innovation and tech start-ups.

It is a promising signal that the sensitivity of economic activities to COVID-19 restrictions has diminished significantly since the first lockdowns imposed in many Commonwealth countries. Three main factors—less public fear, better-calibrated government policy and adaptation by businesses—explain the greater resilience of economic activities during the second and third lockdowns. Improvements in several high-frequency

economic indicators, including domestic travel, shipping demand, consumer spending, commodity prices and purchasing managers index, suggest trade flows could recover soon. However, in the short term, any recovery in trade in goods and services flows may not be sufficient to return to pre-pandemic trends, as the knock-on effects on physical and human capital, and the direct and indirect effects of the pandemic on innovation and investment, could continue to hamper trade flows for several years. Moreover, while merchandise trade had gained momentum by the end of 2020, exports in services sectors requiring in-person interaction – for example hospitality, tourism and education – are still struggling to adapt to these new realities.

The relatively greater resilience of intra-Commonwealth trade flows to the pre-pandemic headwinds, as well as their quick rebound after the global financial crisis (2008/09) and the more recent trade slowdown in 2015/16, offers another silver lining. Although the growth of intra-Commonwealth trade (0.5 per cent) and the Commonwealth's world trade (0.2 per cent) in 2019 were limited, both compared favourably with growth in world trade, which declined by 1 per cent.

1.7 Conclusion and way forward

This chapter has demonstrated how COVID-19 has adversely affected the goods and services exports of all Commonwealth countries, although these impacts vary by regions and sectors. Considering the monetary and fiscal support measures being implemented by several countries, and

progress in rolling out vaccinations, 2021 is likely to be a year of transition, and there is a cautious optimism about the Commonwealth’s trade prospects. World trade is expected to rebound by 8.4 per cent in 2021 and 6.5 per cent in 2022 (IMF, 2021a). Merchandise trade is leading the recovery; the services

sector, especially transportation, travel and tourism, may take longer to reach pre-pandemic levels of activity.

Like previous economic downturns, a return of consumer confidence could increase spending as pent-up demand is unleashed, thereby

incentivising growth in production and trade (Sneader and Singhal, 2021). It is reported that consumers in 21 rich economies have accumulated around US\$3 trillion in excess savings (The Economist, 2021c). Spending of this magnitude would create a demand spill-over to power a strong recovery.

Despite these promising tailwinds for recovery, the impact of this unprecedented global crisis, together with the unresolved USA-China trade conflict, create a more challenging outlook for the Commonwealth’s long-term vision of growing intra-Commonwealth trade to US\$2 trillion by 2030. Commonwealth policy-makers, parliamentarians and businesses need to consider more concerted policy actions to expedite the recovery process and ensure it is inclusive and sustainable.

Although the Commonwealth is not a trading bloc, countries can look to harness the Commonwealth advantage to boost intra-Commonwealth trade and help get past the pandemic. As has been demonstrated, the Commonwealth advantage remains strong, resilient and compelling, and leads to lower bilateral trade costs of 21 per cent, on average. Members can also strengthen co-operation and share best practices and experiences regarding trade policy and domestic reform through the Commonwealth Connectivity Agenda. Members have adopted an Action Plan to guide discussions and work in five inclusive clusters concerning physical, digital, supply side, regulatory and business-to-business connectivity. The Commonwealth as a platform for establishing and strengthening contacts between traders and investors, as well as its large and dynamic diaspora, should be enhanced and effectively utilised.¹⁵ In

FIGURE 1.26
COMMONWEALTH’S TRADE PROSPECTS IN THE SHORT TO MEDIUM TERM, 2019–2022



future, trade fairs could be linked to the biennial Heads of Government meetings.

Second, revitalising the services sector will be a boon for trade recovery and improved development prospects in the Commonwealth. Countries should identify practical ways to benefit from the rising servicification trend in most Commonwealth countries and the relatively large share of services in intra-Commonwealth exports (around one-third), including as suppliers of services tasks, which are increasingly ICT-enabled, in GVCs. Unlike the previous trade collapse in 2008/09, which primarily affected merchandise trade, this crisis has had a relatively bigger effect on the services sector, because of the restrictions on physical interaction between consumers and suppliers. Digitalisation has enabled

the online delivery of many services, although this switching of modes does not compensate for the pandemic's losses. The recovery in key services sectors, especially the travel and tourism services that underpin many small states' economies, largely depends on the performance of the health sector and progress with vaccinations. Chapter 5 discusses the recovery of the tourism sector in greater detail.

Third, since most intra-Commonwealth trade takes place regionally, it is imperative to strengthen and implement existing regional trade agreements (RTAs) and those struck in recent years, including the African Continental Free Trade Area and the signed Regional Comprehensive Economic Partnership in Asia-Pacific, as discussed in Chapter 4. In addition, several Commonwealth

developed countries, as well as other developed and some developing countries globally, including the USA, the EU and China, offer tariff preferences to LDCs. There is scope to extend these to include services under an agreed waiver at the WTO. However, as discussed in Chapter 5, it is necessary to build institutional mechanisms and key stakeholder partnerships as well as supply side capacity in LDCs to utilise these preferences. Finally, digital trade and digitalisation also open new and promising opportunities for Commonwealth countries to grow their trade in an expanding range of digitisable or digitally deliverable products, services and e-commerce. This digital transformation of goods and services trade is explored next, in Chapter 2.

Annex 1.1 Commonwealth export profile, 2019

	Global (US\$ million)			Intra-Commonwealth (US\$ million)			Intra-Commonwealth (%)			Share of goods & services (%)		Share in Commonwealth exports (%)	
	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods	Services
Commonwealth	2,538,222	1,187,637	3,725,859	433,892	238,755	672,647	17.31	20.10	18.21	64.51	35.49	100.00	100.00
Developed	1,226,923	634,385	1,861,307	125,026	93,587	218,613	10.19	14.75	11.75	57.19	42.81	48.96	53.42
Australia	266,377	69,975	336,352	48,627	23,221	71,847	18.25	33.18	21.36	67.68	32.32	10.63	5.89
Canada	446,148	100,342	546,491	26,579	11,955	38,535	5.96	11.91	7.05	68.98	31.02	17.80	8.45
Cyprus ^b	3,528	13,808	17,337	446	3,941	4,386	12.63	28.54	25.30	10.16	89.84	0.14	1.16
Malta ^b	3,007	17,081	20,088	348	4,351	4,699	11.56	25.47	23.39	7.40	92.60	0.12	1.44
New Zealand	39,540	16,870	56,410	10,712	7,051	17,763	27.09	41.79	31.49	60.31	39.69	1.58	1.42
United Kingdom	468,322	416,307	884,630	38,315	43,068	81,383	8.18	10.35	9.20	47.08	52.92	18.69	35.05
Developing	1,279,272	553,253	1,832,524	308,866	145,168	454,034	24.14	26.24	24.78	68.03	31.97	51.04	46.58
Africa	219,463	51,680	271,143	75,815	13,539	89,354	34.55	26.20	32.95	84.85	15.15	8.76	4.35
Botswana ^b	5,238	886	6,124	1,914	234	2,148	36.54	26.43	35.08	89.10	10.90	0.21	0.07
Cameroon	4,487	2,397	6,884	711	452	1,163	15.84	18.85	16.89	61.14	38.86	0.18	0.20
Eswatini ^p	2,002	89	2,090	1,723	34	1,757	86.09	37.74	84.04	98.09	1.91	0.08	0.01
The Gambia ^{bc}	133	229	362	39	60	99	29.09	26.06	27.17	39.36	60.64	0.01	0.02
Ghana	16,768	8,756	25,524	4,769	2,344	7,113	28.44	26.78	27.87	67.04	32.96	0.67	0.74
Kenya	5,838	5,389	11,227	2,513	1,497	4,009	43.04	27.78	35.71	62.67	37.33	0.23	0.45
Lesotho ^{bc}	1,014	31	1,045	386	7	394	38.09	23.81	37.67	98.15	1.85	0.04	0.00
Malawi ^c	859	179	1,038	215	47	262	25.03	26.24	25.24	82.08	17.92	0.03	0.02
Mauritius ^{ab}	2,230	2,949	5,179	624	889	1,513	27.99	30.13	29.21	41.26	58.74	0.09	0.25
Mozambique ^c	4,716	923	5,639	2,009	214	2,223	42.61	23.15	39.42	90.39	9.61	0.19	0.08
Namibia ^b	4,949	650	5,599	1,922	181	2,103	38.83	27.92	37.56	91.37	8.63	0.20	0.05
Nigeria	64,445	4,948	69,393	22,760	1,164	23,924	35.32	23.52	34.48	95.14	4.86	2.57	0.42
Rwanda ^c	1,162	992	2,153	138	225	363	11.87	22.73	16.87	37.97	62.03	0.05	0.08
Seychelles ^{ab}	518	1,123	1,641	155	342	496	29.86	30.40	30.23	31.16	68.84	0.02	0.09
Sierra Leone ^c	661	251	912	55	50	105	8.25	20.09	11.50	52.00	48.00	0.03	0.02

	Global (US\$ million)			Intra-Commonwealth (US\$ million)			Intra-Commonwealth (%)			Share of goods & services (%)		Share in Commonwealth exports (%)	
	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods	Services
South Africa	89,396	14,727	104,123	31,474	4,050	35,524	35.21	27.50	34.12	88.60	11.40	3.57	1.24
Tanzania ^c	4,544	4,119	8,663	1,811	914	2,724	39.85	22.18	31.45	66.46	33.54	0.18	0.35
Uganda ^c	3,472	2,029	5,501	681	470	1,151	19.61	23.18	20.93	59.15	40.85	0.14	0.17
Zambia ^c	7,029	1,014	8,043	1,917	366	2,283	27.28	36.06	28.39	83.99	16.01	0.28	0.09
Asia	1,033,714	483,121	1,516,835	225,386	127,067	352,452	21.80	26.30	23.24	63.95	36.05	41.25	40.68
Bangladesh ^c	38,554	6,128	44,683	7,442	1,704	9,146	19.30	27.80	20.47	81.37	18.63	1.54	0.52
Brunei Darussalam ^{b,c}	7,039	618	7,657	2,239	159	2,399	31.81	25.80	31.33	93.35	6.65	0.28	0.05
India	323,251	214,365	537,615	63,959	50,008	113,966	19.79	23.33	21.20	56.12	43.88	12.90	18.05
Malaysia	238,089	40,883	278,972	61,232	17,164	78,395	25.72	41.98	28.10	78.11	21.89	9.50	3.44
Maldives ^{ab}	361	3,421	3,781	136	691	827	37.72	20.20	21.87	16.45	83.55	0.01	0.29
Pakistan	23,749	5,418	29,167	4,576	664	5,241	19.27	12.26	17.97	87.32	12.68	0.95	0.46
Singapore	390,332	204,814	595,145	82,937	54,811	137,748	21.25	26.76	23.15	60.21	39.79	15.57	17.25
Sri Lanka	12,340	7,474	19,814	2,865	1,865	4,731	23.22	24.96	23.87	60.57	39.43	0.49	0.63
Caribbean	13,074	15,558	28,632	2,737	3,559	6,296	20.94	22.88	21.99	43.48	56.52	0.52	1.31
Antigua and Barbuda ^{ab}	37	1,157	1,194	14	244	258	38.36	21.07	21.61	5.56	94.44	0.00	0.10
The Bahamas ^{ab}	654	4,094	4,747	97	803	900	14.81	19.62	18.96	10.76	89.24	0.03	0.34
Barbados ^{ab}	454	1,503	1,957	209	371	581	46.16	24.71	29.68	36.07	63.93	0.02	0.13
Belize ^{ab}	462	686	1,148	154	192	346	33.41	27.94	30.14	44.62	55.38	0.02	0.06
Dominica ^{ab}	20	148	168	16	35	51	80.62	23.91	30.60	31.09	68.91	0.00	0.01
Grenada ^{ab}	32	650	682	15	156	171	47.15	24.02	25.10	8.73	91.27	0.00	0.05
Guyana ^{ab}	1,693	231	1,924	674	66	740	39.82	28.44	38.45	91.10	8.90	0.07	0.02
Jamaica ^{ab}	1,586	4,336	5,922	315	1,008	1,323	19.84	23.25	22.34	23.79	76.21	0.06	0.37
St Kitts and Nevis ^{ab}	63	587	650	26	95	121	40.56	16.23	18.58	21.14	78.86	0.00	0.05
Saint Lucia ^{ab}	55	1,103	1,158	20	327	347	35.53	29.66	29.94	5.64	94.36	0.00	0.09
St Vincent and the Grenadines ^{ab}	38	291	330	8	80	88	21.59	27.51	26.83	9.33	90.67	0.00	0.02
Trinidad and Tobago ^{ab}	7,981	772	8,752	1,189	181	1,370	14.90	23.44	15.66	86.80	13.20	0.32	0.06

(Continued)

	Global (US\$ million)			Intra-Commonwealth (US\$ million)			Intra-Commonwealth (%)			Share of goods & services (%)		Share in Commonwealth exports (%)	
	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods	Services
	Pacific	13,021	2,894	15,915	4,927	1,003	5,931	37.84	34.67	37.27	83.08	16.92	0.52
Fiji ^{ab}	1,031	1,613	2,644	427	578	1,005	41.37	35.85	38.00	42.46	57.54	0.04	0.14
Kiribati ^{abc}	13	11	24	1	1	2	6.46	13.66	9.68	36.92	63.08	0.00	0.00
Nauru ^{ab}	34		34	7		7	20.48		20.48		–	0.00	0.00
Papua New Guinea ^{ab}	11,369	266	11,635	4,397	109	4,506	38.67	41.16	38.73	97.57	2.43	0.45	0.02
Samoa ^{ab}	49	294	343	16	107	123	33.18	36.39	35.93	13.19	86.81	0.00	0.02
Solomon Islands ^{abc}	461	128	589	50	32	82	10.87	24.72	13.88	61.35	38.65	0.02	0.01
Tonga ^{ab}	20	88	108	8	19	26	38.84	21.16	24.46	29.63	70.37	0.00	0.01
Tuvalu ^{abc}	0.1	6	6	0	1	1	7.30	18.11	17.92	0.71	99.29	0.00	0.00
Vanuatu ^{abc}	43	489	533	22	156	178	50.42	31.92	33.43	12.31	87.69	0.00	0.04
Vulnerable groups													
Small states	60,602	61,734	122,335	18,307	15,903	34,210	30.21	25.76	27.96	53.51	46.49	2.42	5.20
SIDS	29,204	25,945	55,149	8,580	6,484	15,063	29.38	24.99	27.31	56.96	43.04	1.17	2.18
LDCs	62,663	16,528	79,192	14,766	4,247	19,013	23.56	25.70	24.01	77.66	22.34	2.50	1.39

Note: ^a represents 24 Commonwealth Small Island Developing States (SIDSs) and excludes Singapore; ^b represents 32 Commonwealth Small states; ^c represents 14 Least Developed Countries (LDCs). Source: Commonwealth Secretariat (calculated using UNCTADstat and OECD-WTO BaTIS datasets)

Annex 1.2 COVID-19 impact on the GDP of Commonwealth economies, 2019–2022 (constant 2010 US\$ million)

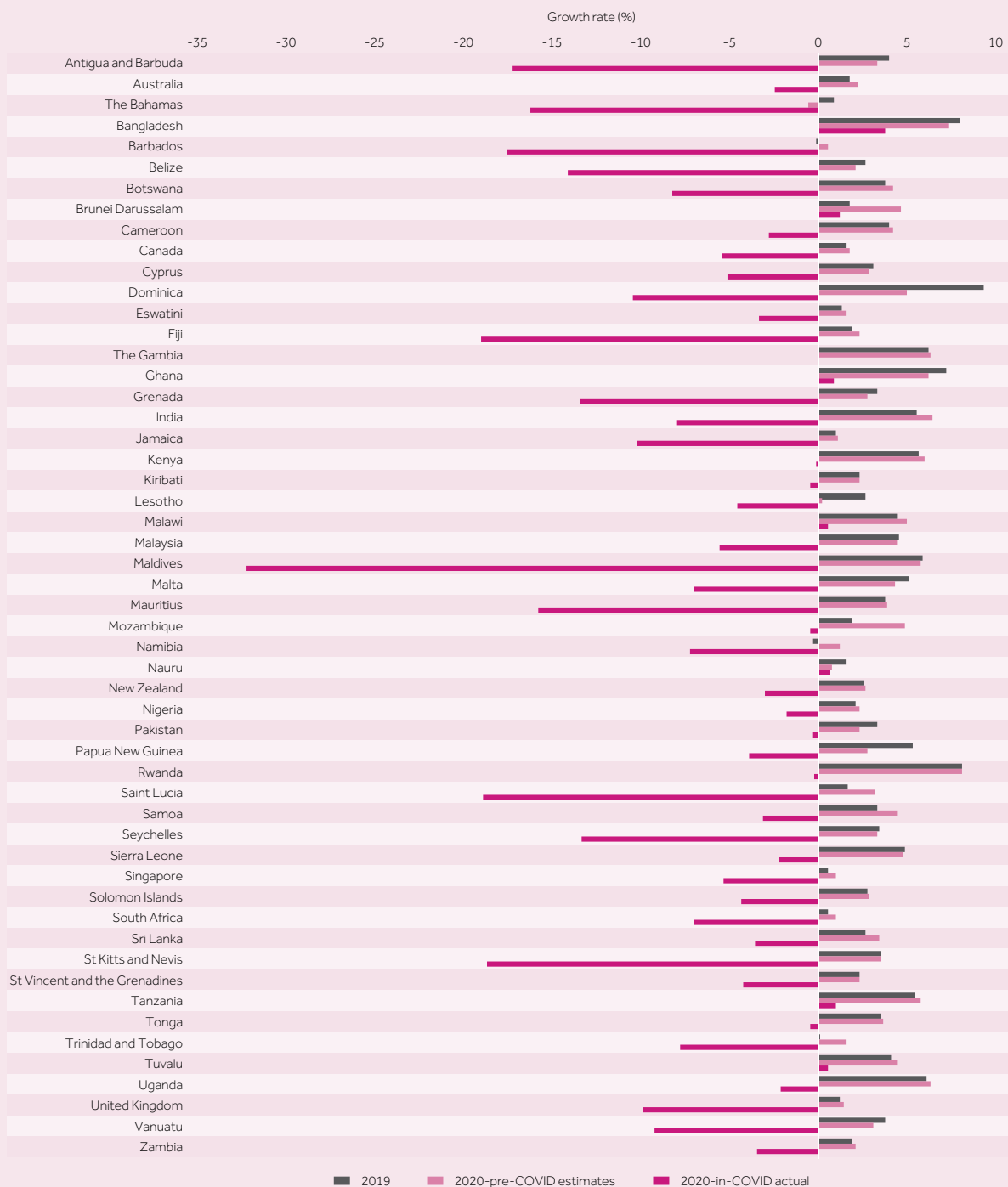
	2019	Pre-COVID			In-COVID			GDP loss (%)		
		2020e	2021f	2022f	2020e	2021f	2022f	2020e	2021f	2022f
Commonwealth	12,185,299	12,577,083	13,008,051	13,468,053	11,422,516	12,172,844	12,776,570	-10.11	-6.86	-5.41
Developed	6,546,100	6,662,007	6,787,217	6,914,590	6,107,937	6,414,311	6,693,193	-9.07	-5.81	-3.31
Australia	1,450,499	1,483,324	1,521,623	1,562,692	1,415,136	1,479,355	1,520,067	-4.82	-2.86	-2.80
Canada	1,939,183	1,973,332	2,007,984	2,042,501	1,834,409	1,926,955	2,016,617	-7.57	-4.21	-1.28
Cyprus	28,678	29,506	30,306	31,095	27,214	28,035	29,128	-8.42	-8.10	-6.76
Malta	14,565	15,193	15,762	16,314	13,545	14,177	14,967	-12.17	-11.18	-9.00
New Zealand	191,728	196,903	202,062	207,306	185,994	193,515	199,698	-5.87	-4.42	-3.81
United Kingdom	2,921,446	2,963,749	3,009,479	3,054,682	2,631,639	2,772,273	2,912,717	-12.62	-8.56	-4.87
Developing	5,639,198	5,915,076	6,220,834	6,553,463	5,314,579	5,758,533	6,083,377	-11.30	-8.03	-7.73
Africa	1,298,056	1,333,207	1,370,730	1,411,695	1,252,122	1,293,671	1,332,370	-6.48	-5.96	-5.95
Botswana	18,644	19,430	20,412	21,234	17,106	18,389	19,383	-13.59	-11.00	-9.55
Cameroon	39,288	40,932	42,735	44,757	38,201	39,513	41,214	-7.15	-8.15	-8.60
Eswatini	5,532	5,618	5,706	5,793	5,347	5,423	5,471	-5.07	-5.22	-5.88
The Gambia	1,914	2,035	2,151	2,269	1,914	2,029	2,161	-6.35	-6.05	-5.01
Ghana	57,316	60,871	63,739	66,676	57,820	60,503	64,196	-5.28	-5.35	-3.86
Kenya	65,060	68,979	72,985	77,233	64,978	69,890	73,895	-6.16	-4.43	-4.52
Lesotho	2,875	2,882	2,966	3,073	2,744	2,839	2,960	-5.04	-4.46	-3.82
Malawi	9,754	10,237	10,785	11,394	9,813	10,028	10,680	-4.32	-7.54	-6.68
Mauritius	13,787	14,320	14,887	15,484	11,608	12,375	13,018	-23.36	-20.31	-18.94
Mozambique	17,876	18,747	19,515	20,335	17,786	18,160	19,013	-5.40	-7.46	-6.95
Namibia	14,383	14,560	14,861	15,240	13,342	13,691	14,148	-9.13	-8.54	-7.71
Nigeria	477,162	488,187	499,454	511,518	468,602	480,471	491,556	-4.18	-3.95	-4.06
Rwanda	11,381	12,303	13,299	14,363	11,358	12,004	12,826	-8.32	-10.79	-11.99
Seychelles	1,469	1,518	1,574	1,633	1,273	1,296	1,351	-19.24	-21.48	-20.85
Sierra Leone	3,816	3,999	4,192	4,394	3,731	3,844	3,981	-7.19	-9.06	-10.38
South Africa	430,167	434,423	440,373	447,557	400,227	412,634	420,763	-8.54	-6.72	-6.37
Tanzania	55,482	58,673	62,220	66,107	56,053	57,543	60,199	-4.67	-8.13	-9.81
Uganda	42,611	45,320	48,049	50,946	41,715	44,362	46,576	-8.64	-8.31	-9.38
Zambia	29,539	30,173	30,826	31,690	28,506	28,677	28,979	-5.85	-7.50	-9.36
Asia	4,247,320	4,482,439	4,747,932	5,035,763	3,975,336	4,374,798	4,652,617	-12.76	-8.53	-8.24
Bangladesh	209,974	225,350	241,800	259,452	217,949	228,923	246,012	-3.40	-5.63	-5.46
Brunei Darussalam	14,007	14,666	15,193	15,730	14,175	14,409	14,775	-3.46	-5.44	-6.46
India	2,940,157	3,128,812	3,340,664	3,566,760	2,705,973	3,045,465	3,256,576	-15.63	-9.69	-9.52

(Continued)

	2019	Pre-COVID			In-COVID			GDP loss (%)		
		2020e	2021f	2022f	2020e	2021f	2022f	2020e	2021f	2022f
Malaysia	398,947	416,700	436,285	456,659	376,653	401,136	425,204	-10.63	-8.76	-7.40
Maldives	4,501	4,760	5,025	5,303	3,050	3,625	4,110	-56.11	-38.62	-29.03
Pakistan	256,729	262,826	270,712	282,120	255,740	259,566	269,871	-2.77	-4.29	-4.54
Singapore	335,539	338,871	344,201	351,829	317,450	333,951	344,744	-6.75	-3.07	-2.05
Sri Lanka	87,467	90,455	94,052	97,910	84,345	87,724	91,324	-7.24	-7.21	-7.21
Caribbean SIDS	64,138	68,931	70,835	73,736	59,241	61,305	68,267	-16.36	-15.55	-8.01
Antigua and Barbuda	1,525	1,576	1,615	1,648	1,262	1,224	1,369	-24.90	-31.97	-20.32
Bahamas	11,259	11,197	11,432	11,630	9,426	9,615	10,432	-18.78	-18.90	-11.48
Barbados	4,621	4,649	4,719	4,805	3,808	3,964	4,269	-22.09	-19.04	-12.56
Belize	1,620	1,654	1,684	1,713	1,392	1,418	1,509	-18.84	-18.70	-13.52
Dominica	497	521	543	562	445	443	469	-17.17	-22.54	-19.91
Grenada	1,033	1,062	1,091	1,126	894	880	925	-18.81	-24.01	-21.69
Guyana	4,781	8,900	9,579	11,266	6,855	7,978	11,687	-29.83	-20.06	3.60
Jamaica	14,349	14,501	14,712	15,004	12,882	13,071	13,816	-12.57	-12.55	-8.60
St Kitts and Nevis	914	946	974	1,000	743	728	801	-27.23	-33.72	-24.85
Saint Lucia	1,709	1,764	1,817	1,861	1,387	1,431	1,584	-27.18	-27.00	-17.43
St Vincent and the Grenadines	759	776	795	813	727	727	763	-6.77	-9.35	-6.60
Trinidad and Tobago	21,071	21,386	21,876	22,308	19,421	19,826	20,642	-10.12	-10.34	-8.07
Pacific SIDS	29,685	30,499	31,336	32,269	27,879	28,759	30,123	-9.40	-8.96	-7.12
Fiji	4,217	4,316	4,448	4,586	3,416	3,587	3,909	-26.36	-24.01	-17.30
Kiribati	211	216	220	224	210	213	219	-2.84	-3.09	-2.52
Nauru	103	104	106	107	104	106	107	-0.03	0.25	-0.49
Papua New Guinea	21,852	22,449	23,058	23,755	21,005	21,734	22,656	-6.88	-6.09	-4.85
Samoa	763	796	814	832	739	681	693	-7.80	-19.48	-20.07
Solomon Islands	1,172	1,205	1,238	1,272	1,121	1,138	1,190	-7.48	-8.78	-6.91
Tonga	455	472	485	497	453	442	453	-4.17	-9.89	-9.81
Tuvalu	46	48	50	52	46	47	49	-3.83	-5.62	-6.26
Vanuatu	866	893	918	943	786	811	848	-13.59	-13.19	-11.26

Source: Commonwealth Secretariat (using data from the IMF Outlook, October 2019 and April 2021)

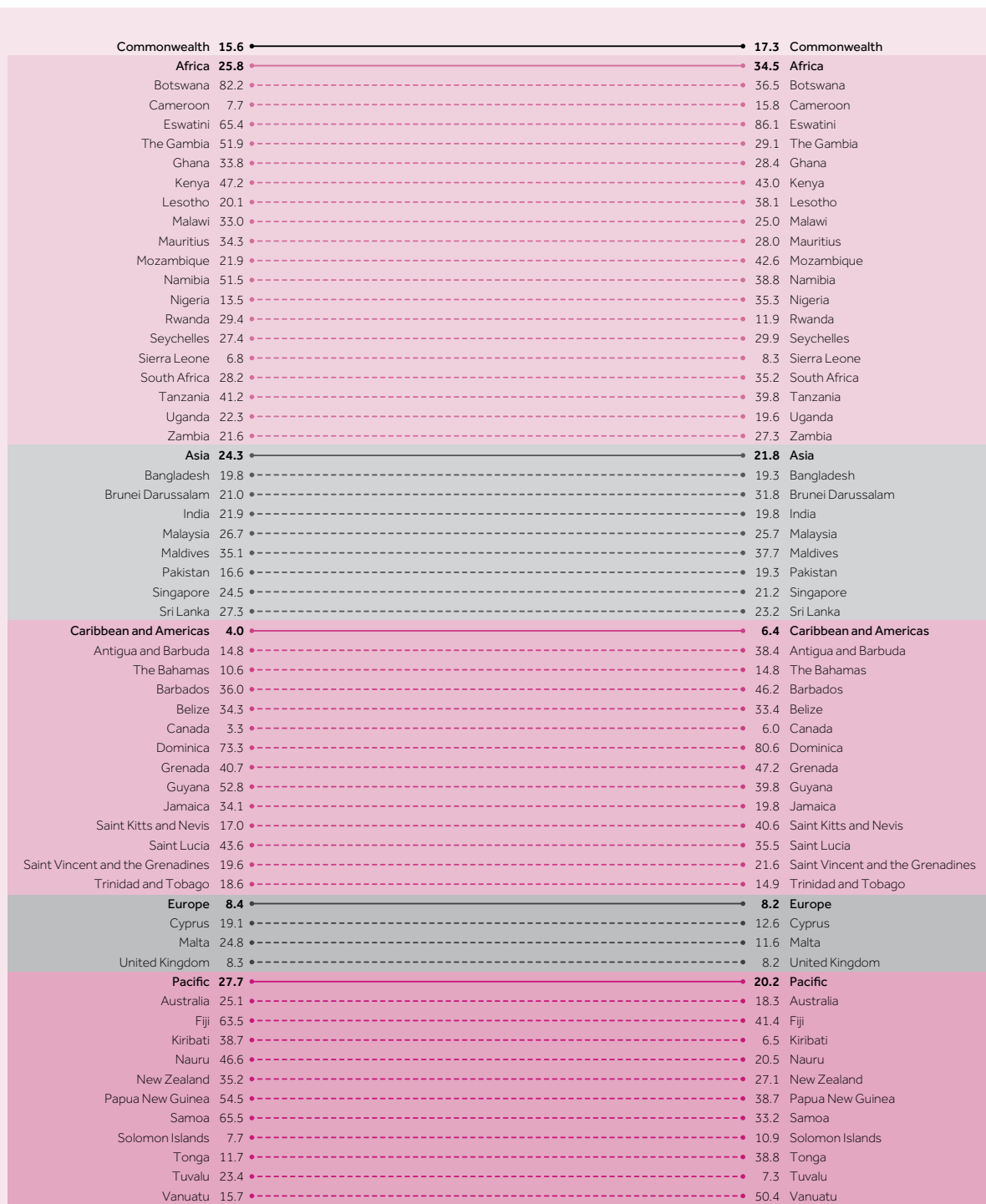
Annex 1.3 Immediate effect of COVID-19 on economic growth of Commonwealth countries, 2019 vs. 2020



Note: Pre-COVID estimates indicate IMF's growth projections made in October 2019 (before the onset of the pandemic) while in-COVID growth rates represent the actual growth figures released in April 2021. Guyana grew by 43 per cent in 2020 but is not included because it is an outlier on the chart.

Source: Commonwealth Secretariat (using data from the IMF World Economic Outlook, October 2019 and April 2021)

Annex 1.4 Orientation of merchandise trade flows towards Commonwealth countries, 2005 vs. 2019



Source: Commonwealth Secretariat (calculated using UNCTADstat dataset)

Annex 1.5 Commonwealth LDCs global and intra-Commonwealth export profile, 2019

Group/region	Global exports						Intra-Commonwealth exports						Reliance on Commonwealth market (%)		
	Value (US\$ million)			Share (%)			Value (US\$ million)			Share (%)			Goods	Services	Goods and services
	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods and services	Goods	Services	Goods and services			
Commonwealth total	2,538,222	1,187,637	3,725,859	67.3	31.9	433,892	238,755	672,647	64.5	35.5	17.3	201	18.1		
LDCs total	62,663	16,528	79,192	79.1	20.9	14,766	4,247	19,013	77.7	22.3	23.6	25.7	24.0		
<i>Of which</i>															
<i>Africa</i>	23,591	9,766	33,357	70.7	29.3	7,251	2,353	9,604	75.5	24.5	30.7	24.1	28.8		
The Gambia	133	229	362	36.8	63.2	39	60	99	39.4	60.6	29.1	26.1	27.2		
Lesotho	1,014	31	1,045	97.1	2.9	386	7	394	98.1	1.9	38.1	23.8	37.7		
Malawi	859	179	1,038	82.8	17.2	215	47	262	82.1	17.9	25.0	26.2	25.2		
Mozambique	4,716	923	5,639	83.6	16.4	2,009	214	2,223	90.4	9.6	42.6	23.1	39.4		
Rwanda	1,162	992	2,153	54.0	46.0	138	225	363	38.0	62.0	11.9	22.7	16.9		
Sierra Leone	661	251	912	72.5	27.5	55	50	105	52.0	48.0	8.3	20.1	11.5		
Tanzania	4,544	4,119	8,663	52.4	47.6	1,811	914	2,724	66.5	33.5	39.8	22.2	31.4		
Uganda	3,472	2,029	5,501	63.1	36.9	681	470	1,151	59.2	40.8	19.6	23.2	20.9		
Zambia	7,029	1,014	8,043	87.4	12.6	1,917	366	2,283	84.0	16.0	27.3	36.1	28.4		
Asia (Bangladesh)	38,554	6,128	44,683	86.3	13.7	7,442	1,704	9,146	81.4	18.6	19.3	27.8	20.5		
Pacific	518	634	1,151	45.0	55.0	73	190	263	27.7	72.3	14.1	30.0	22.9		
Kiribati	13	11	24	55.3	44.7	0.8	1.4	2.3	36.9	63.1	6.5	13.7	9.7		
Solomon Islands	461	128	589	78.3	21.7	50.1	31.6	81.7	61.4	38.6	10.9	24.7	13.9		
Tuvalu	0	6	6	1.7	98.3	0.0	1.1	1.1	0.7	99.3	7.3	18.1	17.9		
Vanuatu	43	489	533	8.2	91.8	22	156	178	12.3	87.7	50.4	31.9	33.4		

Source: Commonwealth Secretariat (calculated using UNCTADstat and WTO-OECD BatIS datasets)

Endnotes

- 1 Since January 2021, following the graduation of Vanuatu in December 2020, the Commonwealth has 13 LDC members.
- 2 Even in 2019, when the value of world merchandise trade collapsed by 3 per cent, exports of Commonwealth countries grew by 0.4 per cent. This growth was driven by Commonwealth developing countries. Between 2017 and 2019, the combined goods and services exports of developing members grew at 4.5 per cent compared with 3.4 per cent for developed Commonwealth countries.
- 3 The share of developing countries in the Commonwealth's goods exports expanded from 42 per cent in 2005 to 51 per cent in 2019. The corresponding increase in the share of developing members in services exports has been much higher, from 31 per cent in 2005 to 47 per cent in 2019. Two developing countries, India and Singapore, contributed more than a third of these services exports in 2019.
- 4 The inflection point for the merchandise exports of Commonwealth developed and developing countries had already been reached in 2009, immediately after the global financial crisis. In that year, the value of goods Commonwealth developing countries exported exceeded that of the exports of their developed counterparts.
- 5 The UK, Canada, Singapore, India, Australia, Malaysia, South Africa, Nigeria, New Zealand and Bangladesh.
- 6 The UK, India, Singapore, Canada, Australia, Malaysia, Malta, New Zealand, South Africa and Cyprus.
- 7 Computed as: $(EXP(0.192)-1)*100$
- 8 By comparison, the share of developed economies declined from 40 per cent to 33 per cent, a 7-percentage-point drop.
- 9 This is a composite measure based on nine response indicators including school closures, workplace closures and travel bans, rescaled to a value from 0 to 100 (100 = strictest).
- 10 In Bangladesh, for example, more than half of garment manufacturers in an online survey had orders cancelled (Anner, 2020). Buyers in the USA and the EU cancelled orders to the tune of US\$1.5 billion from Bangladesh alone, affecting more than 1,000 garment factories in the country (Devnath, 2020).
- 11 In Bangladesh, more than 1 million garment workers lost their jobs or were furloughed before the end of March 2020 (Anner, 2020). A survey by the Worker Rights Consortium (2020), spanning 396 garment sector workers (70 per cent of whom were women) in 158 factories across 9 countries (including Bangladesh, India and Lesotho), found that 38 per cent of workers had either lost their jobs or had them temporarily suspended as a result of the pandemic.
- 12 https://www.wto.org/english/res_e/statis_e/tradeserv_stat_e.htm
- 13 Examples include hotels and restaurants, as well as distribution (although some parts of the retail sector have been exempted from restrictions to facilitate the supply of essential goods).
- 14 This is estimated using the long-run average trade growth rate of 5 per cent during 2010–2019.
- 15 The Commonwealth has a strong network of institutions, private sector bodies and trade experts. There are more than 80 accredited organisations working to deliver dedicated work programmes and facilitate people-to-people contacts. For example, the Intra-Commonwealth SME Association, the Commonwealth Alliance of Young Entrepreneurs, the Commonwealth Businesswomen's Network and the Commonwealth Enterprise and Investment Council, among others, enable regular interaction, information-sharing and identification of commercial opportunities. Two Intra-Commonwealth SME Trade Summits have been held in India (May 2017) and Kenya (May 2019).

Chapter 2: Digitalisation and Trade in the Commonwealth

The Commonwealth's digital trade in the decade before the COVID-19 pandemic was strong and growing. However, in almost all categories – digital goods, services and e-commerce – trade flows within and outside the Commonwealth are concentrated in a few countries, mostly developed and Asian members, underscoring the need to bridge the digital divide between members. The rapid acceleration in adopting information and communication technologies (ICTs) during the pandemic and the prospect of greater digitalisation in the future could exacerbate this divide.


This chapter maps the Commonwealth's overall digital trade and assesses the effects of the COVID-19 pandemic on these flows. Some of the key takeaways are:

- The Commonwealth's ICT goods trade flows expanded by US\$25 billion in the decade before COVID-19, reaching \$547.7 billion in 2019, of which \$70.7 billion is intra-Commonwealth trade.
- There is a higher share of intra-Commonwealth trade in ICT services than there is in goods, and the Commonwealth advantage is likely to encourage these services. Overall, more than one-fifth of ICT services exported by Commonwealth countries went to fellow member countries in 2019.
- More than half of the Commonwealth's total services trade is now delivered by digital means and these flows were worth US\$1.2 trillion in 2019. This creates new trading opportunities for small states, least developed countries and countries in sub-Saharan Africa.
- Access to digital technologies and readiness to engage in digital trade are skewed between and within Commonwealth countries. 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).
- The overall share of Commonwealth citizens using the internet has almost doubled in the past decade, to nearly half the combined population in 2019, while there has been a three-fold increase for African members to 32 per cent.
- To take advantage of a more digital future and the pursuit of the Sustainable Development Goals, Commonwealth countries must urgently ensure greater access, affordability and usage of the internet, especially for women and youth.

Digital technologies have helped mitigate some of the economic and social consequences of the pandemic and will be a key driver of recovery.

DIGITAL GOODS

\$70.7 BILLION
in intra-Commonwealth ICT goods trade flows in 2019



\$4.6 BILLION
in intra-Commonwealth trade in digitisable products in 2019

DIGITAL SERVICES

\$194 BILLION
in intra-Commonwealth ICT services trade flows in 2019



54%
More than half of the Commonwealth's services trade flows are digitally delivered

e-COMMERCE



Share of e-commerce sales in GDP

2.6%	5.5%	6%	9.3%
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2.1 Introduction

The COVID-19 pandemic has accelerated existing trends related to the digitalisation of economies, societies and work (Sneader and Singhal, 2021). With economic lockdowns, travel restrictions and social distancing measures, governments, businesses, workers, students and consumers across the world have increasingly migrated online to deliver or obtain goods and services, provide or receive education and training, stream entertainment, connect socially and do their jobs. During the initial year of the pandemic, the number of people worldwide using the internet increased by 7.3 per cent (316 million), although this figure could possibly be higher, given COVID-19-related reporting constraints.¹ Globally, internet access stands at 51.8 per cent (Kemp, 2021). Although the share of people in the Commonwealth using the internet almost doubled in the decade to 2019, to over 48 per cent, most citizens remain offline and risk being left behind by an increasingly digital future. With these challenges in mind, this chapter maps the Commonwealth's broad digital trade before the pandemic and assesses the implications of COVID-19.

Across the Commonwealth and the world, mobile phone connectivity, internet expansion and information and communication technologies (ICTs) have helped mitigate some of the economic and social consequences of the pandemic (discussed in Chapter 1). For example, digitally enabled firms, including micro, small and medium enterprises (MSMEs), and farmers have adapted or switched to e-commerce platforms, digital payments, smart contracts and blockchains to continue trading; remote work is increasingly feasible, especially through videoconferencing

and cloud computing; e-health and telemedicine services and e-learning platforms have substituted for in-person interactions; and digitised trade facilitation has minimised physical contact between traders and customs officials.

While these developments are promising, the reality noted earlier is that many Commonwealth developing countries still lag in their ICT adoption, even though technological leapfrogging, like mobile telephony, has helped improve connectivity. Many small states, least developed countries (LDCs) and countries in sub-Saharan Africa (SSA) were ill-prepared for the abrupt shift online in various sectors during the pandemic. The sudden and increased dependence on ICTs since the outbreak of the pandemic has exacerbated the existing digital divide across and within countries. A digital gender divide between women and men in mobile phone access and usage, digital connectivity and participation in the digital economy also presents a significant challenge.

This chapter consists of six sections. Section 2.2, which follows, analyses digital trade flows (representing exports *and* imports)² in the Commonwealth. Section 2.3 examines investment in the ICT sector in the Commonwealth, which has strong linkages to broader trade flows. Section 2.4 then assesses the effects of the COVID-19 pandemic on digital trade, especially e-commerce. Section 2.5 examines some of the challenges involved in providing internet access in Commonwealth countries, even as mobile internet coverage grows, and highlights the need for greater investment in ICT and digital infrastructure so countries can take advantage of digital trade. Section 2.6 concludes the chapter.

2.2 Digital trade in the Commonwealth pre-COVID-19

Advances in digital technologies, alongside the emergence of new digital products and platforms, have facilitated rapid expansion in cross-border digital trade flows in recent years (Box 2.1). This section analyses trends in the Commonwealth's digital trade in the decade preceding the outbreak of COVID-19.³ Guided by the available data, it does so for the following

categories: the Commonwealth's trade in ICT goods, including electronically transmitted (ET) products (2.2.1); trade in digital services, including ICT (2.2.2); digitally deliverable services (DDS) trade (2.2.3); and e-commerce sales in Commonwealth countries (2.2.4).

2.2.1 Commonwealth trade in digital goods

Commonwealth ICT goods trade

Commonwealth countries collectively accounted for 11.7 per cent of global trade in ICT goods in 2019. This share has fallen steadily over the past decade, from a high of 14.5 per cent in 2010 (Figure 2.1). Despite the decline in relative terms, the overall

value of Commonwealth ICT goods trade expanded from US\$522.1 billion in 2010 to \$547.7 billion in 2019.

Commonwealth trade in ICT goods is dominated by only a few members. Three developing Commonwealth countries (Singapore, Malaysia and India) along with three developed members (the UK, Canada and Australia) collectively accounted for 96 per cent of this trade between 2010 and 2019 (Figure 2.2).

At the regional level, Asian member countries have contributed the bulk of Commonwealth trade in ICT goods during the past decade, with their combined share reaching around 72 per cent in 2019 (Table 2.1). Within

BOX 2.1

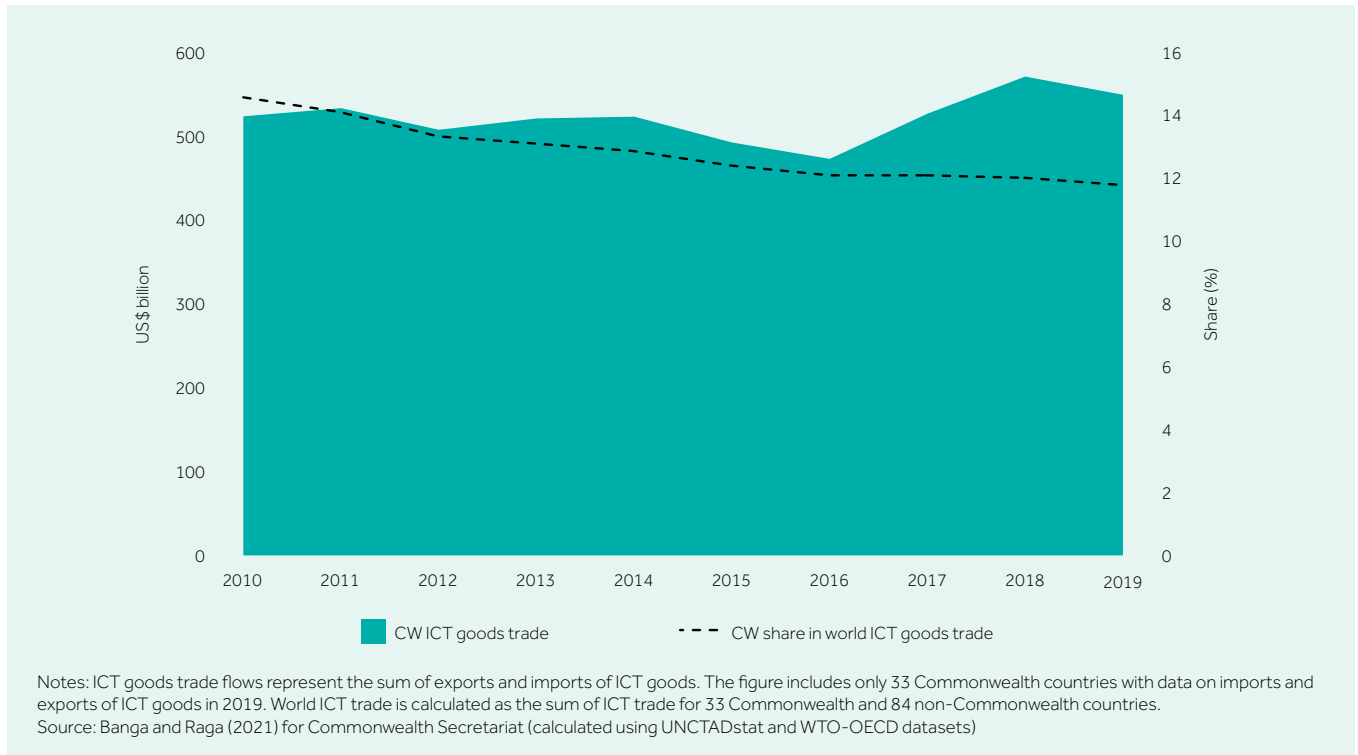
WHAT IS CROSS-BORDER DIGITAL TRADE?

Cross-border digital trade involves all international trade in goods or services that are digitally ordered and/or delivered (OECD et al., 2020). This spans an array of digital goods and digitally ordered goods as well as digitally ordered and digitally deliverable services that are, or can be, traded across borders. The digitally ordered dimension, which encompasses e-commerce activities, comprises the cross-border sale of a good or service via methods that enable orders to be placed and delivered online. In these cases, digital technologies play a critical role in enabling traditional trade in goods and services and form part of the broader category of digital trade. In turn, digitally delivered trade involves the delivery of services internationally in an electronic format through digital means (ibid.). Cross-border flows of data, information and knowledge underpin all these dimensions of digital trade.

In certain instances, the digital aspects of trade are blurring the distinction between goods and services. This is the case, for example, with software-as-a-service (SaaS) and platform-as-a-service (PaaS), which are IT infrastructure services that enable trade in both goods and services. SaaS, for instance, may enable an application that drives sales of a particular good. A PaaS may facilitate the delivery of a service or e-commerce activity online. Embedded digital content (or services) is also increasingly a part of traded goods, as, for example, in the case of exporting a smart refrigerator that requires access to the good as well as the embedded service.

Digital trade functions within a broader digital ecosystem, encompassing digital infrastructure, computer networks, mobile devices, digital intermediation platforms, e-commerce and a host of other elements comprising the digital economy. It is thus broader than purely trade in ICT goods and services and includes digital sales and purchases across a range of sectors. The need to ensure interoperability across these different dimensions, coupled with the rapid acceleration of digitalisation, has brought new attention to the policy and regulatory frameworks required to facilitate cross-border digital trade. In this respect, Commonwealth policy-makers, parliamentarians and regulators must contend with a range of often overlapping issues related to the governance of digital trade (see Chapter 5) in areas such as taxation of digitally delivered goods and services across borders, cybersecurity and data protection, the movement of data across borders, harmonisation of technical standards, online consumer protection and dispute resolution, market concentration and competition on digital platforms, and cross-border digital payments (Elms, 2020).

FIGURE 2.1
COMMONWEALTH TRADE (EXPORTS AND IMPORTS) IN ICT GOODS, 2010–2019



Commonwealth Asia, trade in these goods was dominated by Singapore and Malaysia, accounting for 57 and 32 per cent of the regional total, on average, between 2010 and 2019. The six developed Commonwealth countries collectively accounted for around one-quarter (26.1 per cent) of the Commonwealth's ICT goods trade in 2019, with their overall share having declined since 2010. The value of Commonwealth African countries' trade in ICT goods was also lower in 2019 compared with 2010, as was their share in the Commonwealth's total ICT goods trade, which had dropped to 2.2 per cent in 2019. This owed primarily to notable declines in both ICT exports and imports by South Africa, which is responsible for around 70 per cent of ICT goods trade in the region (Banga and Raga, 2021).

The shares of Caribbean and Pacific small island developing states (SIDS) in Commonwealth trade in ICT goods remained low across the decade.

Trade in electronic components (comprising intermediate goods such as valves, tubes and electrical apparatus) accounted for around half of the Commonwealth's trade in ICT goods, and their share increased between 2010 and 2019. Trade in computers and peripheral equipment (21.8 per cent) and communication equipment (18.8 per cent) also accounted for significant shares, on average, between 2010 and 2019.

Intra-Commonwealth trade in ICT goods (final two columns of Table 2.1) amounted to US\$70.7 billion in 2019, representing almost 13 per cent of the Commonwealth's total ICT goods

trade.⁴ This trade is dominated by just seven Commonwealth countries that collectively accounted for 98 per cent of intra-Commonwealth ICT goods exports in 2019 (bottom panel of Figure 2.3). Developing members contribute around 89 per cent of intra-Commonwealth trade in ICT goods (top panel of Figure 2.3), with the bulk of this trade in Commonwealth Asian members. Developing small states and SIDS (excluding Singapore) contributed less than 1 per cent of intra-Commonwealth trade in ICT goods in 2019.

Commonwealth trade in digitisable products

Trade in digitisable products that can be electronically transmitted – such as audio files, video files or video games and e-books – is significant in the

FIGURE 2.2
DISTRIBUTION OF COMMONWEALTH ICT GOODS TRADE (EXPORTS AND IMPORTS), 2010–2019

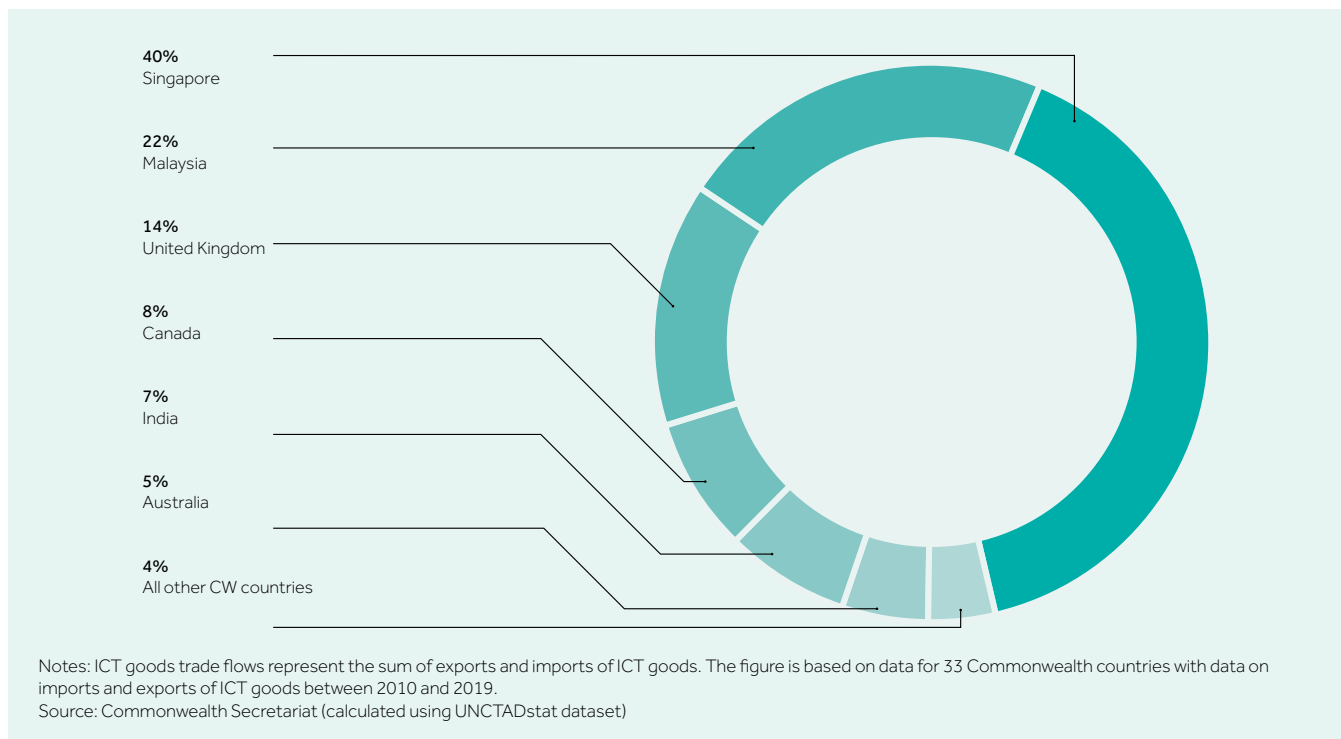


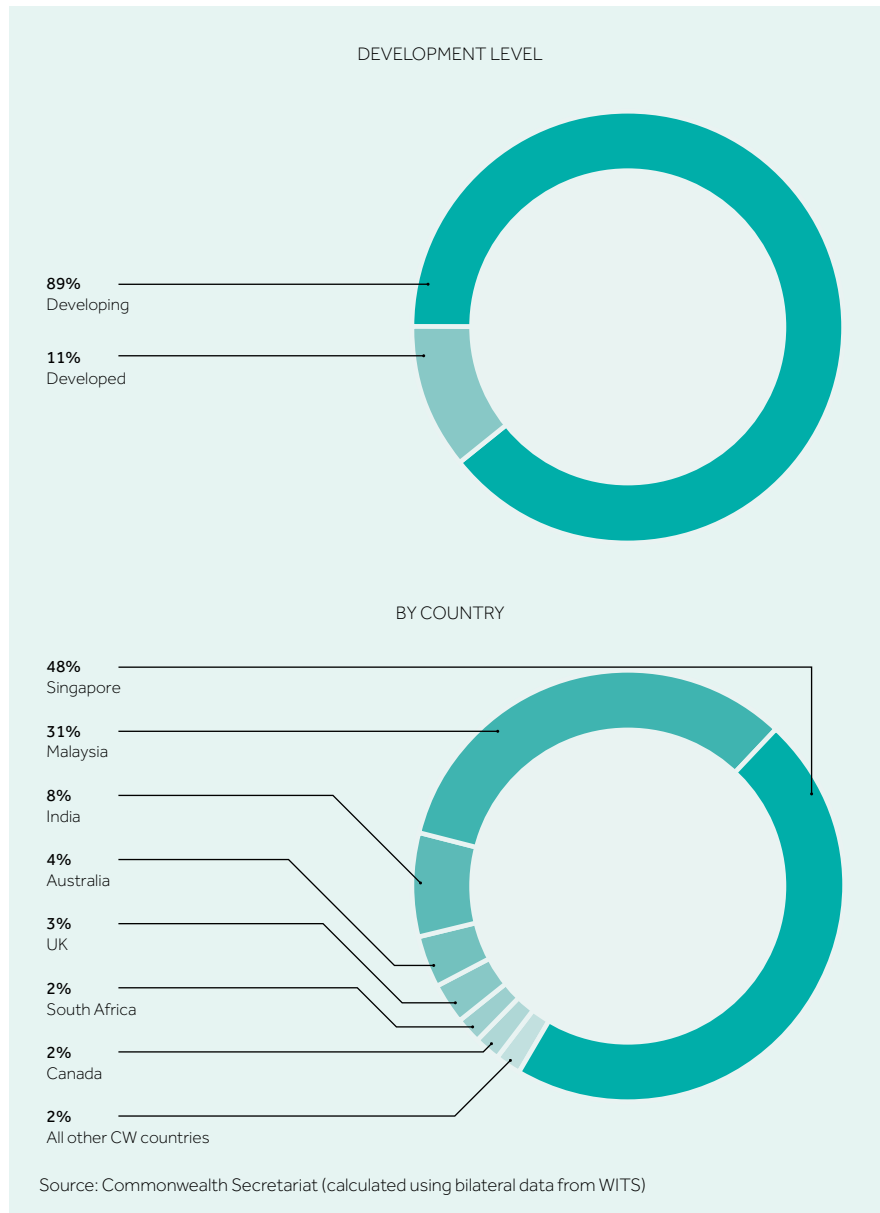
TABLE 2.1
COMMONWEALTH GLOBAL AND INTRA-COMMONWEALTH TRADE (EXPORTS AND IMPORTS) IN ICT GOODS, BY LEVEL OF ECONOMIC DEVELOPMENT AND REGION, 2010 AND 2019

	Commonwealth's global trade				Intra-Commonwealth trade	
	2010		2019		2019	
	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	Value (US\$ million)	Intra-CW share in share in global ICT goods trade (%)
Commonwealth total	522,093	–	547,697	–	70,652	12.9
<i>of which</i>						
Developed	156,164	29.9	143,073	26.1	7,780	5.4
Developing	365,928	70.1	404,624	73.9	62,872	15.5
<i>of which</i>						
Africa	14,214	2.7	12,019	2.2	1,469	12.2
Asia	351,229	67.3	391,968	71.6	61,280	15.6
Caribbean SIDS	405	0.08	424	0.08	23	5.5
Pacific SIDS	79	0.02	212	0.04	100	47.1

Notes: ICT goods trade represents the sum of exports and imports of ICT goods. Total Commonwealth ICT goods trade (US\$ million) is calculated as the sum of ICT goods trade for 33 Commonwealth countries. The Commonwealth sample for ICT goods trade covers six developed, thirteen African, five Asian, seven Caribbean and two Pacific countries. The data on ICT services trade covers 53 Commonwealth countries.

Source: Banga and Raga (2021) for Commonwealth Secretariat (calculated using UNCTADstat dataset for ICT goods trade and the WTO–OECD BaTIS dataset for ICT services trade; computations for intra-Commonwealth ICT goods trade in 2019 are based on bilateral data from WITS)

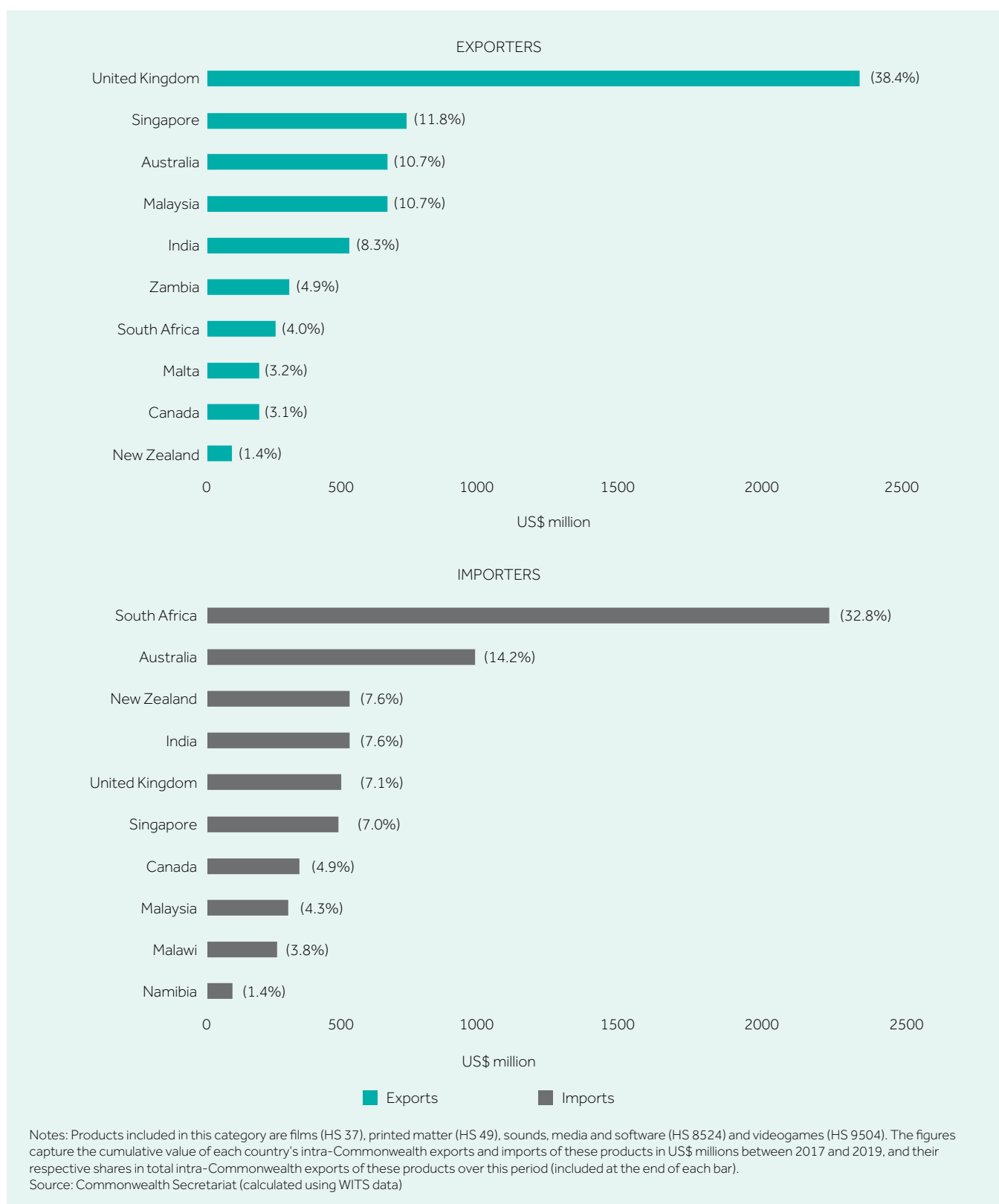
FIGURE 2.3
DISTRIBUTION OF INTRA-COMMONWEALTH TRADE IN ICT GOODS, 2019



Commonwealth, particularly in the case of intra-Commonwealth trade. New technologies such as artificial intelligence, big data applications and the Internet of Things (IoT) are fuelling growth in trade in these products by significantly reducing transaction costs and facilitating their cross-border movement (Elms, 2020).

Intra-Commonwealth trade (exports plus imports) in ET products was worth more than US\$4.6 billion in 2019.⁵ In the period immediately preceding the onset of COVID-19 (2017-2019), the UK, Singapore, Australia, Malaysia and India were major exporters of ET products to other Commonwealth countries, and two other developing African members – Zambia and South Africa – also ranked among the top ten intra-Commonwealth exporters (Figure 2.4). Around one-third of intra-Commonwealth exports of ET products went to South Africa, while Australia, New Zealand, India, the UK and Singapore were also significant importers of these products from other Commonwealth members. In addition to South Africa and Zambia, artists in other Commonwealth African countries are also increasingly creating digitisable products and content (Box 2.2).

FIGURE 2.4
 MAIN INTRA-COMMONWEALTH EXPORTERS AND IMPORTERS OF DIGITISABLE PRODUCTS, 2017–2019 (CUMULATIVE)



BOX 2.2**AFRICA AND THE DIGITAL DELIVERY OF CREATIVE CONTENT**

Music and audio-visual are creative industries that increasingly deliver their content by digital means or through streaming. In Africa, the internet and smartphones have helped Nigeria's Nollywood become a fully fledged film industry, with 89.6 per cent of its revenues coming from its online presence. Nollywood ranks second in the world behind Bollywood (India) in terms of the number of films produced and third after Hollywood and Bollywood in terms of revenues. The industry is worth around US\$3 billion (or 1.4 per cent of Nigeria's gross domestic product, GDP) and employs more than a million people directly or indirectly, making it Nigeria's second-largest source of employment after agriculture (AUC/OECD, 2021).

Africans are consuming more digital content as a result of expanding internet connectivity and the availability of an array of devices. However, high data costs have contributed to rampant piracy and this puts the sustainability of the entertainment industry at risk. Yet African entertainment start-ups had their best funding year on record in 2020, securing 2 per cent of the available funding, compared with 0.15 per cent in 2019. The immensity of the growth reflects the success of a handful of companies – all that funding went to just 10 films – and not of the sector overall. The main funding recipient was Kenya's Mdundo, a music streaming and downloading platform. Investors are reportedly looking for opportunities beyond congested spaces like fintech, health and e-commerce (Quartz Africa Weekly Brief, 2021).

2.2.2 Commonwealth trade in digital services**Commonwealth ICT services trade**

The Commonwealth has consistently been a relatively more significant contributor to global ICT services trade than it has been to ICT goods trade over the past decade. Even

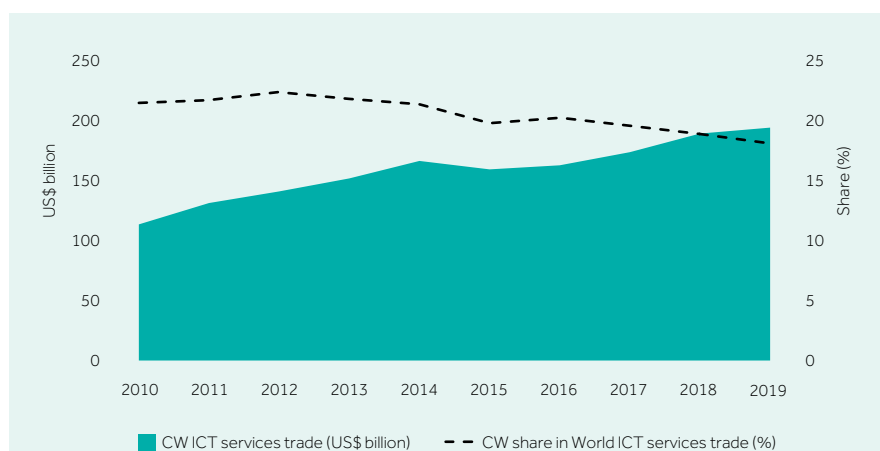
so, the Commonwealth's share in global ICT services trade declined between 2010 and 2019, falling by more than 3 percentage points to reach 18.1 per cent in 2019 (Figure 2.5). Despite this, ICT services have become an increasingly important component of the Commonwealth's total services trade, and as a share

of services GDP (Commonwealth Secretariat, 2020). Total trade in ICT services across the Commonwealth expanded from US\$113.7 billion in 2010 to \$194.5 billion in 2019.

Developing members accounted for almost two-thirds of the Commonwealth's ICT services trade in 2019, a share more than 8 percentage points higher than in 2010 (Table 2.2). Commonwealth Asian countries were responsible for a large portion of this trade (60.5 per cent in 2019, up by 9 percentage points compared with 2010), driven mostly by India and Singapore.

The share of African countries in the Commonwealth's ICT services trade, at 2.2 per cent in 2019, was identical to their share in Commonwealth ICT goods trade in that year; in both cases, their share declined after 2010. Caribbean and Pacific SIDS hold higher shares of Commonwealth trade in ICT services relative to their shares in Commonwealth trade in ICT goods, although their combined shares still amount to less than 1 per cent, and either stagnated (in the case of Pacific

FIGURE 2.5
COMMONWEALTH GLOBAL TRADE (EXPORTS AND IMPORTS) IN ICT SERVICES, 2010–2019



Notes: ICT services trade flows represent the sum of exports and imports of ICT services. The figure includes only countries with data on imports and exports of ICT services in 2019. World ICT trade is calculated as the sum of ICT trade for 33 Commonwealth and 84 non-Commonwealth countries. Source: Banga and Raga (2021) for Commonwealth Secretariat (calculated using UNCTADstat and WTO-OECD datasets)

TABLE 2.2
COMMONWEALTH GLOBAL TRADE (EXPORTS AND IMPORTS) IN ICT SERVICES, BY LEVEL
OF ECONOMIC DEVELOPMENT AND REGION, 2010 AND 2019

	2010		2019		Average share 2010-2019 (%)
	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	
Commonwealth total	113,681	–	194,491	–	–
<i>of which</i>					
Developed	51,433	45.2	71,815	36.9	40.8
Developing	62,248	54.8	122,676	63.1	59.2
<i>of which</i>					
Africa	2,982	2.6	4,299	2.2	2.6
Asia	58,592	51.5	117,644	60.5	56.2
Caribbean SIDS	552	0.49	491	0.25	0.3
Pacific SIDS	122	0.11	242	0.12	0.1

Notes: ICT services trade represents the sum of exports and imports of ICT services. The data on ICT services trade covers 53 Commonwealth countries.

Source: Commonwealth Secretariat based on Banga and Raga (2021) (calculated using WTO-OECD BaTIS dataset)

SIDS) or declined (for Caribbean SIDS) between 2010 and 2019. Likewise, the share of developing small states in the Commonwealth's ICT services trade declined over this period.

Fellow Commonwealth members are important destinations for Commonwealth ICT services exports. Based on recently released bilateral

data in the Organisation for Economic Co-operation and Development (OECD)-World Trade Organization (WTO) Balanced Trade in Services (BaTIS) dataset, intra-Commonwealth exports accounted for more than one-fifth (21.8 per cent) of ICT services exports by Commonwealth countries in 2019. This was higher

than the intra-Commonwealth share in the Commonwealth's total services exports (20.1 per cent). Intra-Commonwealth ICT services exports remain highly concentrated, with just six countries – India, the UK, Singapore, Australia, Malaysia and Canada – accounting for more than 90 per cent of these exports, on average, between 2017 and 2019 (see Table 2.3).

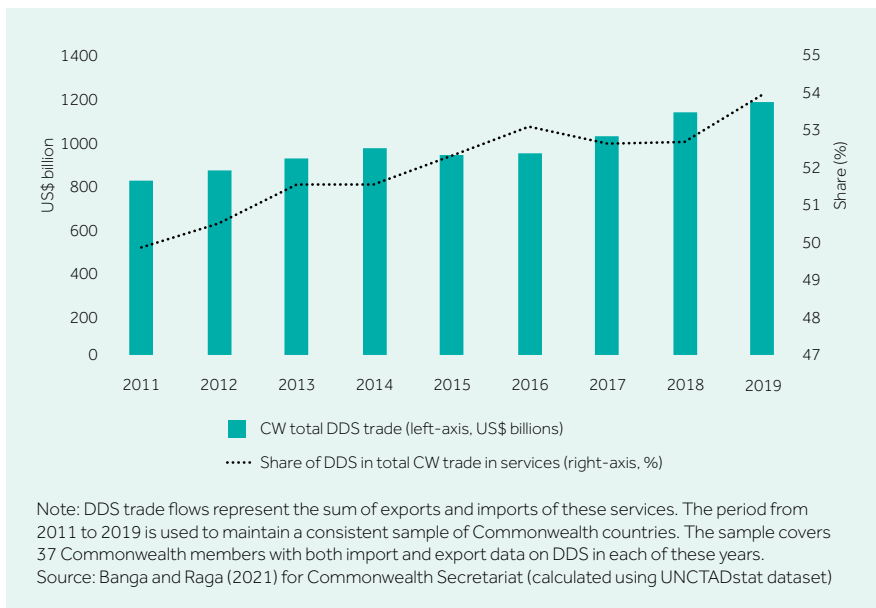
The Commonwealth represents a key market for ICT services exports from several member countries. The Commonwealth advantage, which was discussed in Chapter 1, is likely to play a key role in encouraging intra-Commonwealth trade in these services, with common language, similar legal systems and other factors potentially aiding the interoperability of ICT services across Commonwealth borders. More than half of the ICT services exported by Brunei Darussalam, New Zealand and Cameroon between 2017 and 2019 were destined for other Commonwealth countries, as were more than one-third of these exports from Australia, Bangladesh and Malaysia, and more than one-quarter of ICT services exported by Papua New Guinea, South Africa, Mauritius, Pakistan, Sri Lanka and Singapore.

TABLE 2.3
INTRA-COMMONWEALTH ICT SERVICES EXPORTS, AVERAGE 2017-2019

Country	Value (US\$ million)	Country share (%)	Reliance on Commonwealth (%)
United Kingdom	3,178	16.6	9.5
Singapore	3,109	16.4	26.3
Australia	1,155	6.1	35.9
Malaysia	710	3.8	34.9
Canada	515	2.7	6.2
Cyprus	457	2.4	23.8
Bangladesh	429	2.3	35.4
New Zealand	245	1.3	50.3
South Africa	180	1	28.5
Pakistan	102	0.5	25.7
Mauritius	92	0.5	28.4
Malta	54	0.3	12.1
Maldives	45	0.2	16.5
Nigeria	38	0.2	22.1
Barbados	37	0.2	10.9
Seychelles	26	0.1	20.1
Fiji	17	0.1	20.7
Jamaica	16	0.1	20.1
Sri Lanka	15	0.1	27.6
Papua New Guinea	12	0.1	30.1
Brunei Darussalam	9	0.1	55
Belize	8	0	12.9
Kenya	8	0	23.5
Namibia	3	0	15
Tanzania	2	0	13
The Bahamas	1	0	8.4
Cameroon	1	0	50
Eswatini	0	0	11.1

Note: The last column on reliance indicates the share of intra-Commonwealth exports in each country's total ICT services exports.
Source: Banga and Raga (2021) for Commonwealth Secretariat (calculated using WTO-OECD BaTIS dataset)

FIGURE 2.6
COMMONWEALTH TRADE (EXPORTS AND IMPORTS) IN DIGITALLY DELIVERABLE SERVICES,
2011–2019



2.2.3 Commonwealth trade in digitally deliverable services

ICT services are also a key enabler of trade in other services, for example when they facilitate the delivery of services remotely. Digitally deliverable services (DDS) include both ICT services (e.g. SaaS or Infrastructure-as-a-Service in, for instance, the case of data processing services) and ICT-enabled services such as legal services, financial services, IT consulting services, education and training, marketing and sales, health care, intellectual property charges, management and other business services (e.g. engineering, technical, and research and development services), and audio-visual and related services (UNCTAD, 2019).

Commonwealth trade in DDS has increased steadily over the past decade, both in absolute terms and as a share of the Commonwealth's total trade in services.⁶ Between 2011 and 2019, the

value of these services grew by 44.8 per cent from US\$815 billion to \$1.2 trillion.⁷ By 2018, more than half (54 per cent) of the Commonwealth's total services trade flows were delivered by digital means (Figure 2.6).

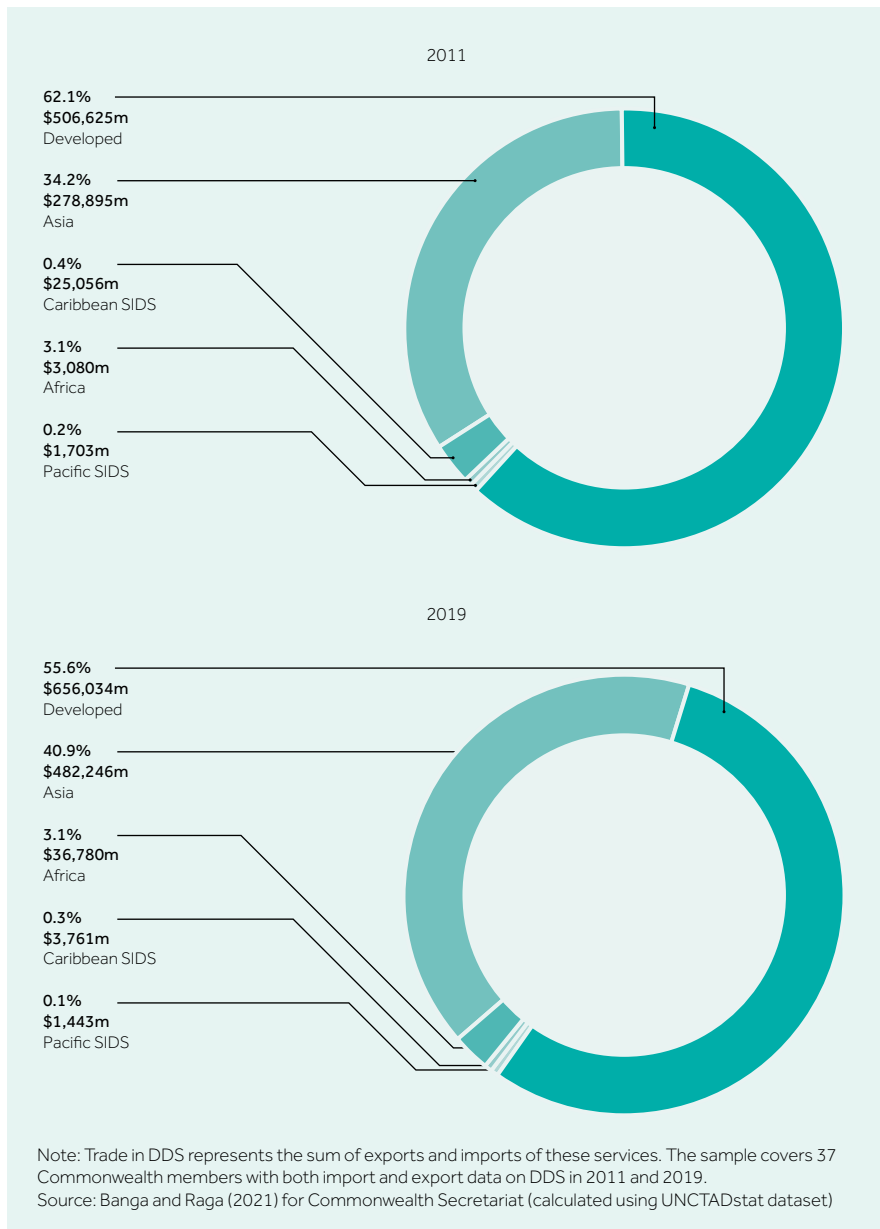
Despite this rapid growth in DDS, this trade is highly concentrated in only a few Commonwealth members, reflecting the broader pattern of the Commonwealth's global exports (see Chapter 1). In 2011, the six developed economies accounted for 62 per cent of total Commonwealth trade in these services, although their share declined by 2019, as shown in Figure 2.7. At the same time, the share of Commonwealth Asian members expanded by more than 6 percentage points to 40.9 per cent in 2019, mostly driven by Singapore and India. The share of African member countries remained stable across the decade, collectively accounting for 3.1 per cent

of Commonwealth trade in DDS in 2019. Caribbean and Pacific SIDS made only marginal contributions over this period, amounting to less than 1 per cent of the Commonwealth's trade in these services in any given year. This partly reflects the small populations in these countries, which translates into lower numbers of consumers importing DDS and fewer individuals and firms supplying DDS across borders (discussed further at the end of this section).

Likewise, eight Commonwealth LDCs⁸ with available data contributed less than 1 per cent of the Commonwealth's annual trade in DDS across the past decade, although the absolute value of their exports and imports of these services more than doubled from US\$3.6 billion in 2011 to \$7.7 billion in 2019. The overall shares of Commonwealth small states and SIDS in trade in DDS were equally small, and declined from 1 per cent to 0.7 per cent in the case of small states and from 0.9 per cent to 0.6 per cent for SIDS between 2011 and 2019. Despite these small shares, there is potential for Commonwealth LDCs, small states and SIDS to leverage DDS for trade and development, particularly given the limitations they face in terms of capital investment and shortages in physical infrastructure (Banga and Raga, 2021). Harnessing digital technologies can help entrepreneurs and businesses in these countries overcome geographic barriers to accessing and delivering services across borders, enabling them to be provided remotely at lower cost and to larger markets.

Among developed Commonwealth members, trade in DDS is largely dominated by the UK, Canada and

FIGURE 2.7
REGIONAL SHARES OF TOTAL COMMONWEALTH TRADE (EXPORTS AND IMPORTS) IN DIGITALLY DELIVERABLE SERVICES, 2011 AND 2019



Australia. All three of these countries ranked among the Commonwealth's top five by value of trade in these

services during the most recent period preceding the COVID-19 pandemic (2017–2019) (Figure 2.8). In

Commonwealth Asia, trade in these services is mostly led by Singapore and India, and, to a lesser extent, Malaysia. The annual value of trade in DDS averaged US\$209.7 billion in Singapore and \$200.4 billion in India between 2017 and 2019. Two Commonwealth African countries – Nigeria and Ghana – rank among the top 10, with, on average, \$14.4 billion and \$11.7 billion in annual trade in DDS, respectively, over this period. Several other developing members – South Africa, Pakistan, Sri Lanka, Kenya, Trinidad and Tobago, Mauritius and Cameroon along with two LDCs (Bangladesh and Mozambique) – sat just outside the top 10 but within the top 20 Commonwealth countries by average annual value of trade in these services between 2017 and 2019.

This aggregate picture masks important nuances. Several of the top 10 Commonwealth countries by absolute value of trade in DDS are large members with substantial populations. This translates into more consumers to consume digitally imported services and more individuals and firms to export such services across borders. When trade in DDS is considered on a per capita basis (as in Figure 2.9, which shows top countries by average value of DDS exports and imports per 1,000 people between 2017 and 2019), several other Commonwealth small states and Caribbean SIDS (Antigua and Barbuda, St Kitts and Nevis and The Bahamas) feature among the top 10, with others such as Grenada, Dominica and Saint Lucia falling just outside.

FIGURE 2.8
TOP 10 COMMONWEALTH COUNTRIES BY VALUE OF TRADE (EXPORTS AND IMPORTS) IN DIGITALLY DELIVERABLE SERVICES, AVERAGE 2017–2019

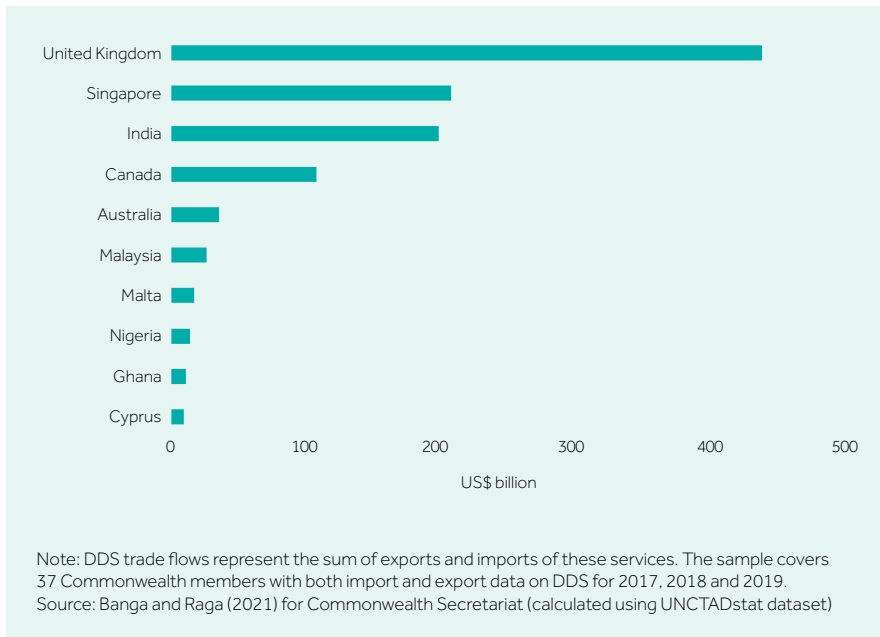
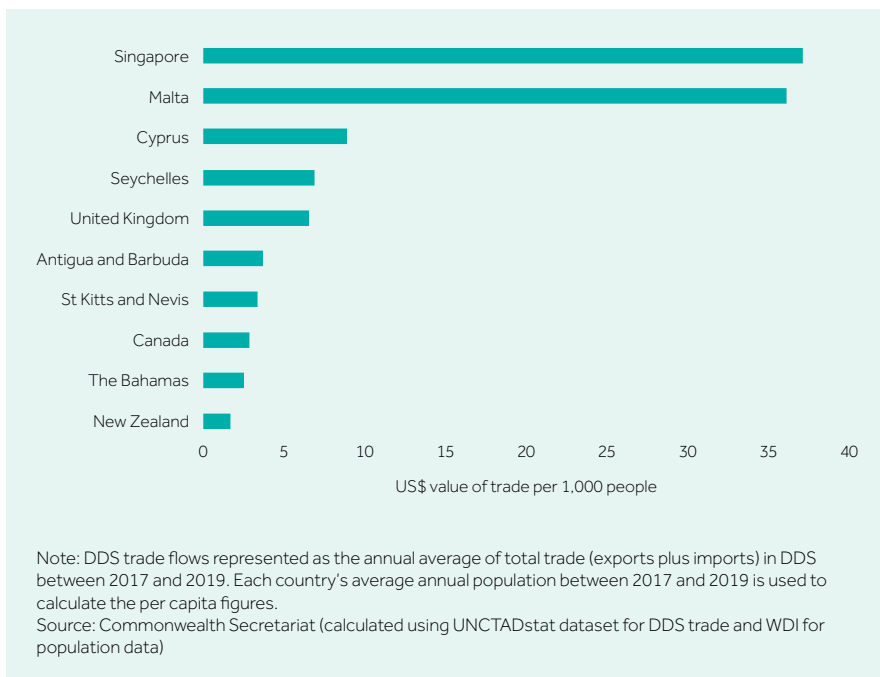


FIGURE 2.9
TOP 10 COMMONWEALTH COUNTRIES BY VALUE OF TRADE (EXPORTS AND IMPORTS) IN DIGITALLY DELIVERABLE SERVICES PER 1,000 PEOPLE, AVERAGE 2017–2019

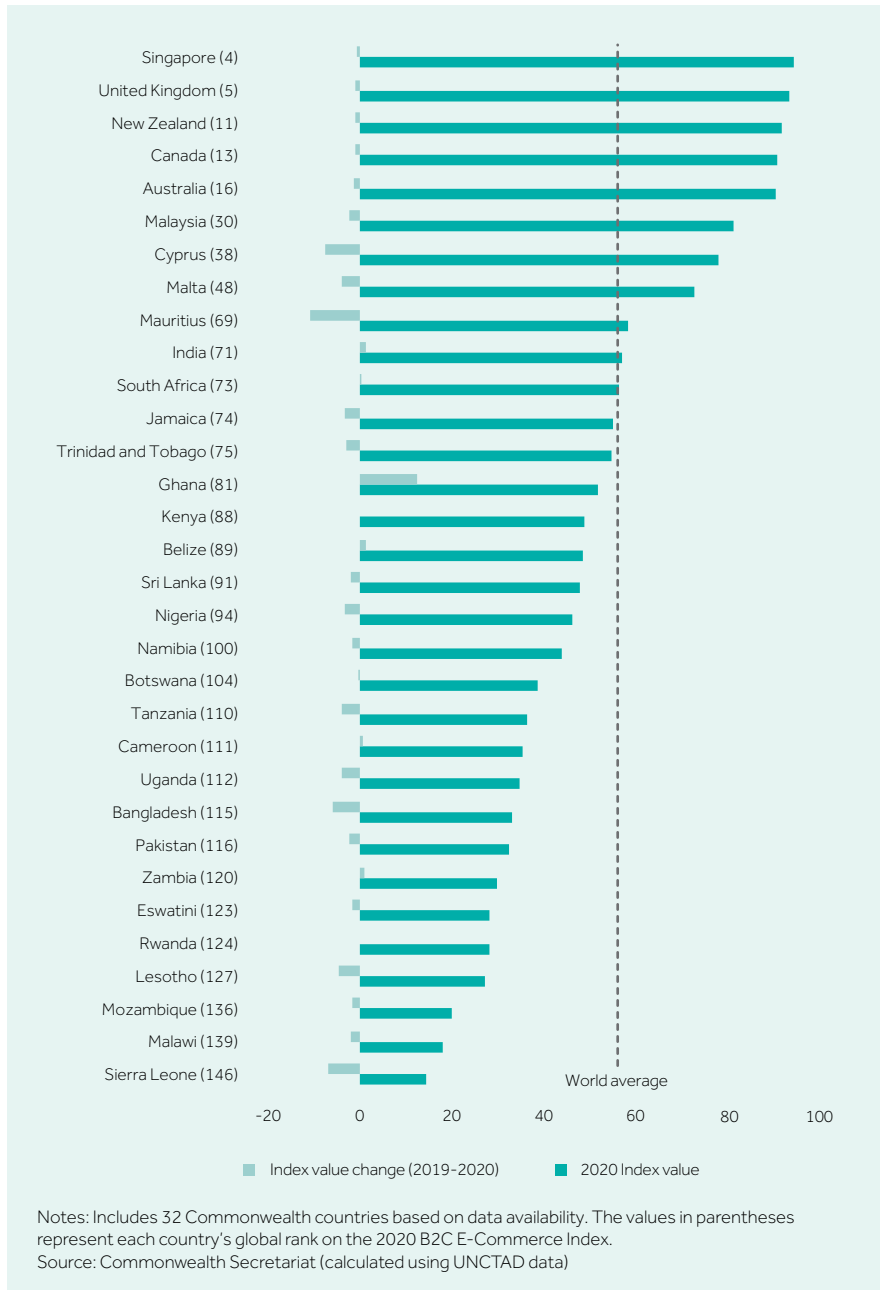


2.2.4 E-commerce in the Commonwealth

E-commerce involves the sale or purchase of goods and services via electronic means specifically designed for the purpose of receiving or placing orders (OECD et al., 2020). This may involve business-to-business, business-to-consumer, business-to-government or consumer-to-consumer transactions. The prevailing evidence based on data for the years preceding the COVID-19 crisis suggests levels of e-commerce activity vary widely across Commonwealth countries, and readiness to engage in e-commerce is uneven within and between member countries. This is clear from the 2020 edition of the United Nations Conference on Trade and Development Business-to-Consumer (B2C) E-Commerce Index, which ranks 152 countries across the world based on one dimension⁹ of their readiness to support online commerce (Figure 2.10).¹⁰

Twelve Commonwealth countries recorded values above the world average on the 2020 B2C 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 – are located on the bottom half of the Index globally. Moreover, overall scores on the Index deteriorated in 2020 compared with 2019 for 22 of the Commonwealth countries covered, with the largest declines observed in Mauritius, Cyprus, Sierra Leone and Bangladesh. This suggests there is significant scope to improve levels of preparedness to engage

FIGURE 2.10
COMMONWEALTH COUNTRIES' PERFORMANCE ON THE 2020 B2C E-COMMERCE INDEX



effectively in e-commerce across a range of Commonwealth countries.

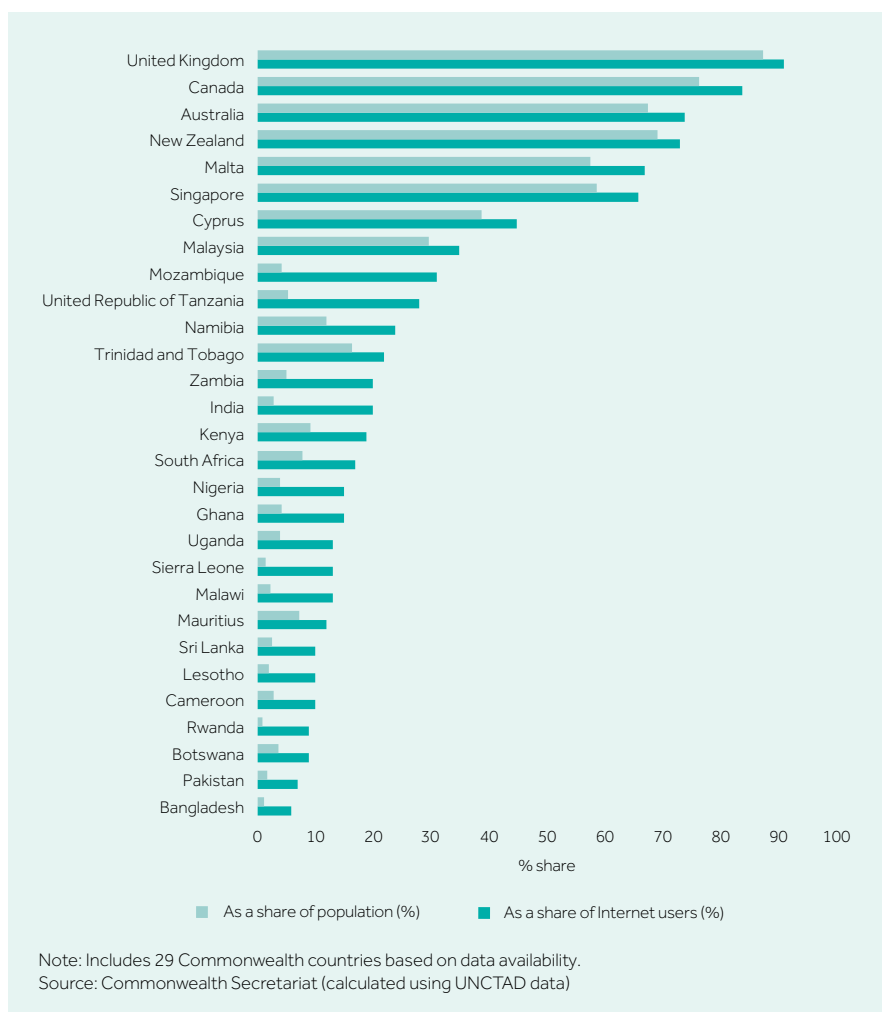
Disparities in levels of preparedness and engagement with e-commerce

across the Commonwealth are also evident in the significant variation in the proportion of individuals in Commonwealth countries participating in online shopping. Based on UNCTAD

data for the latest available year between 2017 and 2019, Figure 2.11 shows sharp differences between developed Commonwealth countries and most developing members in terms of the shares of individuals engaging in online shopping. More than 90 per cent of internet users, and 87 per cent of the population in the UK, make purchases online. These shares are also high in Canada (84 per cent of internet users and 76 per cent of the population), Australia (74 per cent and 68 per cent) and New Zealand (73 per cent and 69 per cent). In contrast, under 10 per cent of internet users participate in online shopping in Rwanda, Botswana, Pakistan and Bangladesh, and these individuals account for less than 2 per cent of the total populations of Pakistan, Bangladesh and Rwanda. In 19 of the 29 Commonwealth countries for which data is available, fewer than one-quarter of internet users engage in online shopping; in all but two of these countries (Trinidad and Tobago and Namibia), those participating represent less than 10 per cent of the total population.

Commonwealth developed countries, which are generally better prepared in terms of e-commerce readiness (Figure 2.10), have sound digital infrastructure in place and have larger proportions of their populations shopping online (Figure 2.11), also recorded sizeable B2C e-commerce sales in 2017 and 2018 (Table 2.4). In the UK, the value of these sales increased by US\$60 billion between 2017 and 2018 to reach \$266.4 billion, or 9.3 per cent of GDP. B2C e-commerce sales accounted for 5.5 per cent of Malta's GDP in 2017, and between 1.5 and 2.6 per cent of GDP in Australia, Cyprus, New Zealand and

FIGURE 2.11
ONLINE SHOPPERS AS A SHARE OF INTERNET USERS AND TOTAL POPULATION IN COMMONWEALTH COUNTRIES. LATEST AVAILABLE YEAR BETWEEN 2017 AND 2019



Canada in 2018. Among developing country members, Malaysia is one of the Commonwealth's top performers in terms of B2C e-commerce readiness and this is matched by substantial B2C e-commerce sales, amounting to \$19.2 billion, or 6 per cent of GDP, in 2017. Malaysia aside, the generally lower shares of e-commerce sales in GDP in developing countries compared with developed members suggest considerable scope to grow e-commerce in Commonwealth developing regions. To do so, these countries need to improve their enabling environments for e-commerce and eliminate obstacles to e-commerce adoption (see Chapter 5).

TABLE 2.4
B2C E-COMMERCE SALES FOR SELECTED COMMONWEALTH COUNTRIES, 2017 AND 2018

Economy	2017		2018	
	Value (US\$ billion)	% of GDP	Value (US\$ billion)	% of GDP
Australia	18.6	1.4	21.3	1.5
Canada	60.8	3.7	44.3	2.6
Cyprus	0.4	1.8	–	–
India	15.0	0.6	16.9	0.6
Malta	0.7	5.5	–	–
Malaysia	19.2	6.0	–	–
Nigeria	1.1	0.3	–	–
New Zealand	1.7	0.8	3.2	1.5
Pakistan	–	–	0.9	0.4
Singapore	2.0	0.6	–	–
South Africa	0.8	0.2	–	–
United Kingdom	206.2	7.9	266.4	9.3

Note: Countries selected on the basis of data availability. No data for 2018 for Cyprus, Malta, Malaysia, Nigeria, Singapore and South Africa.
Source: Commonwealth Secretariat (calculated using data from UNCTAD)

2.3 Investment in digital sectors in the Commonwealth

There has been notable growth in investment in specific digital sectors across the Commonwealth in the past decade. Data from the International Telecommunication Union (ITU) indicates the value of investment in telecommunication services – a crucial enabler of digitalisation – in Commonwealth countries increased by 24 per cent between 2010 and 2017, rising to US\$50.6 billion in 2017. The Commonwealth attracted a cumulative total of \$355.6 billion in investment

in telecommunications services over the period, the largest shares of which went to India (\$106.1 billion), Canada (\$78.1 billion) and Australia (\$62.9 billion). A few other large developing members also received significant shares: Malaysia (\$18.9 billion), Nigeria (\$13.8 billion), South Africa (\$13.7 billion) and Pakistan (\$6.7 billion). In addition, sizeable investments in telecommunications services were made in some Commonwealth LDCs, with the largest inflows to Bangladesh (\$8.8 billion), Zambia (\$2.3 billion) and Rwanda (\$630.6 million) between 2010 and 2017.

The overall pattern of strong growth in investment is echoed in more recent data on announced greenfield foreign direct investment (FDI) projects in the communications and software and IT services sectors. In 2019,

both sectors ranked among the top five in terms of capital investment inflows to the Commonwealth, with US\$12.3 billion and \$12.6 billion in announced projects, respectively.

Growth in greenfield FDI inflows to the communications sector over the decade was mostly concentrated in developed Commonwealth economies and developing members in Asia (Table 2.5). This sector generally fared much better than most others in attracting greenfield FDI in the face of the economic shocks generated by COVID-19 (see Chapter 3), highlighting the importance of communications technologies in sustaining economic activity during the pandemic. Overall inflows to the Commonwealth grew by more than 50 per cent in 2020 compared with 2019, driven by strong growth in developing Asian and African members, including LDCs. Intra-Commonwealth greenfield investment in the sector has been more volatile.

Growth in announced greenfield FDI into software and IT services was even more impressive. Overall greenfield inflows to the sector in the Commonwealth expanded by 91.5 per cent between 2010 and 2019. Inflows grew across all Commonwealth regions and levels of development, except for LDCs (Table 2.5). In relative terms, Commonwealth Asian members and small states recorded the largest growth in FDI inflows.

Intra-Commonwealth greenfield FDI in software and IT services has also grown considerably since 2010 – more than doubling to reach nearly US\$2.2 billion in 2019. The share of these services in total intra-Commonwealth greenfield investment flows increased from just 1.5 per cent in 2010 to more than 8

TABLE 2.5
ANNOUNCED GREENFIELD INVESTMENT IN COMMUNICATIONS AND SOFTWARE AND IT SERVICES

	Communications		Software & IT services	
	Capital investment in 2019 (US\$ million)	% change 2010-2019	Capital investment in 2019 (US\$ million)	% change 2010-2019
Commonwealth total	12,303	5.5	12,573	91.5
<i>Of which</i>				
Developed	4,933	44	7,658	77.6
Developing	7,370	-10.5	4,915	118
<i>Of which</i>				
Africa	3,382	-33.2	518	8
Asia	3,831	20.7	4,397	147.7
Caribbean SIDS	157	–	–	–
Pacific SIDS	–	–	–	–
<i>Vulnerable groups</i>				
LDCs	99	-89.4	29	-50.8
Small states	195	29.7	83	228.9
SIDS	560	-35.5	1,041	85.1

Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

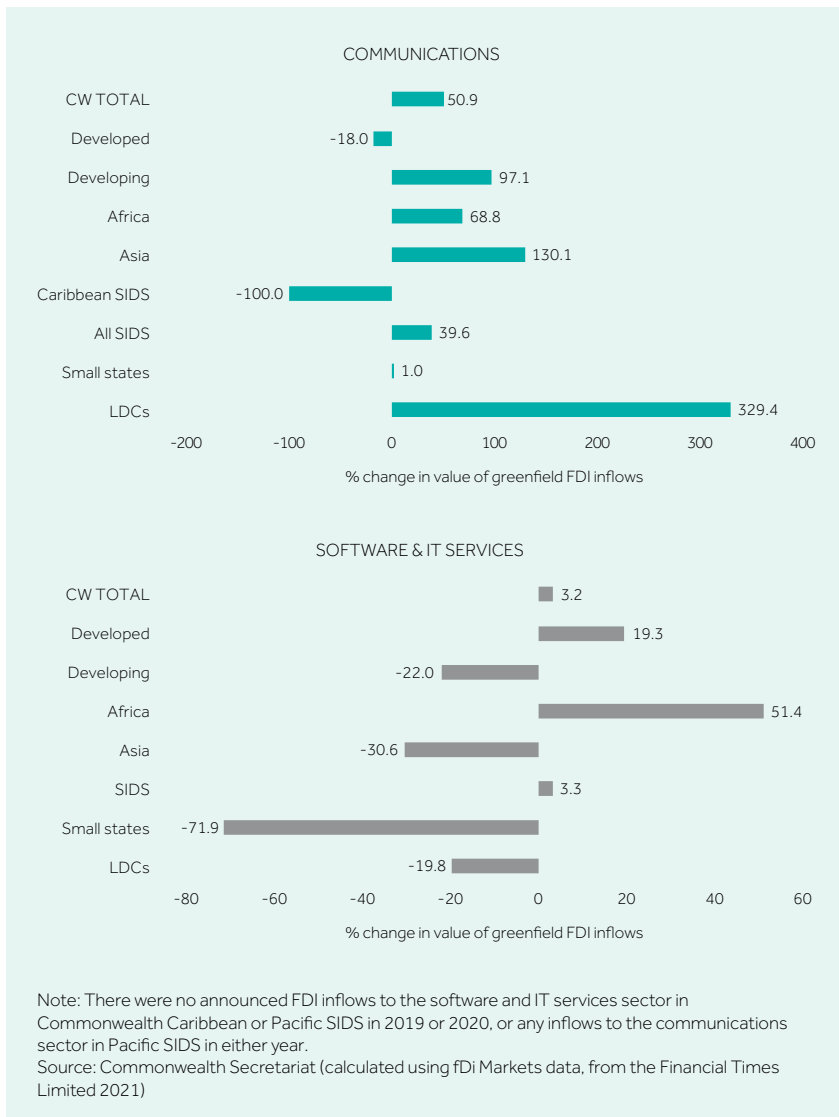
per cent in 2019. However, these flows remain highly concentrated. Just five Commonwealth countries – Australia, Singapore, the UK, India and Canada – absorbed more than 85 per cent of intra-Commonwealth inflows to the sector between 2010 and 2019. Aside from these five countries, the next

largest recipients were South Africa, Nigeria and Malaysia. Among LDCs, Rwanda, where the government has prioritised the development of digital capabilities (see Box 5.5 in Chapter 5), was the largest recipient, with a cumulative \$47 billion in announced intra-Commonwealth greenfield FDI.

The bulk of greenfield investments in the sector originated from the UK, India or Canada – these three countries accounted for nearly three-quarters of announced intra-Commonwealth flows.

As explained further in Chapter 3, greenfield investment in key digital sectors in the Commonwealth has not been immune to the economic shocks associated with COVID-19 (Figure 2.12). For instance, global greenfield FDI inflows to software and IT services sectors in developing Commonwealth countries fell by 22 per cent in 2020 compared with the 2019 level, and overall intra-Commonwealth greenfield FDI inflows to this sector declined by 8 per cent. Nevertheless, investments in digital sectors, particularly related to communications, have generally been more resilient, in keeping with the upward trend witnessed prior to the pandemic. India, for example, attracted record numbers of new mergers and acquisitions deals in digital sectors in the second half of 2020 (UNCTAD, 2021a). Pre-COVID-19 trends, accentuated by the rapid acceleration in the use of digital technologies owing to the pandemic, suggest growth in FDI into digital sectors in Commonwealth countries is likely to be sustained in the long run.

FIGURE 2.12
CHANGES IN ANNOUNCED GREENFIELD FDI INFLOWS TO COMMUNICATIONS AND SOFTWARE AND IT SERVICES SECTORS IN THE COMMONWEALTH, 2019 VS. 2020



2.4 COVID-19 and digital trade

Digital trade globally and in the Commonwealth has not escaped the adverse effects of COVID-19. The pandemic's impact has operated through both supply and demand

channels. On the supply side, for example, the manufacturing of ICT goods has been hampered by the suspension of operations during lockdowns, slower productivity and labour shortages resulting from the need to maintain social distancing and, in some cases, engage in staff rotation, shortages of raw materials and intermediate inputs, and border

restrictions affecting the flow of goods. More labour-intensive and less automated ICT manufacturing segments have been most affected (Banga and te Velde, 2020). Disruptions to agricultural and manufacturing activity and labour shortages have also affected the supply of products in e-commerce value chains. Similarly, disruptions to transport and logistics services have hampered cross-border e-commerce activity.

Despite these challenges, lockdowns and restrictions on physical movement introduced to contain COVID-19 heralded a major uptake of e-commerce, both domestic and cross-border, to keep goods and services flowing (Box 2.3). The digital economy and digital trade have been central in mitigating some of the economic losses generated by the pandemic; and new opportunities in e-commerce and digital trade arising from the resulting acceleration in the adoption of digital technologies are likely to play a key role in stimulating post-COVID-19 economic recovery. However, the growth of e-commerce also presents new challenges for ensuring consumer trust and safety and can fuel illicit trade. For example, smuggled wildlife, cigarettes, counterfeit medicines, substandard personal protective equipment and even children's toys that bypass safety checks are reportedly among the worrisome goods traded illicitly in some Southeast Asian markets (Goh, 2021).

Certain types of digital products and digital and digitally enabled services have benefited from positive shocks associated with COVID-19. For example, demand for certain categories of consumer electronics has increased rapidly in response to

BOX 2.3**COVID-19 LEADS TO GROWTH IN EXPORTS AND E-COMMERCE SALES**

Emerging evidence suggests digital trade and the use of digital technologies have helped offset economic losses incurred in traditional sectors as a result of COVID-19. Jumia, an African e-commerce platform, recorded a 50 per cent increase in transactions in the first half of 2020 (Kituyi, 2021). Estimates suggest e-commerce usage tripled in Kenya (CNBC Africa, 2020). In the UK, the share of e-commerce in total retail sales increased by 31 per cent between the first and second quarters of 2020 (OECD, 2020a).

Banga and te Velde (2020) develop a framework to assess the first- and second-order effects of COVID-19 on the digital economy (both positive and negative),¹¹ and apply this to analyse these effects in 23 countries, mostly LDCs in Africa and the Asia-Pacific region. They find a correlation between the adoption of a digital response by firms (reflected in increased online business activity) and increased exports compared with one year ago and/or growth in their deliveries of goods and services.

Results from a survey by UNCTAD (2020b) offer useful insights into the impacts of the pandemic on e-commerce activity in developing countries and likely future areas of growth. The survey covered 257 businesses located in 23 developing countries, 20 of which were LDCs.¹² The results show e-commerce sales increased for 64 per cent of third-party online marketplaces in these countries between March and July 2020, with sales through social media a key driver.¹³ They also reveal a clear shift in consumption habits towards online purchases of essential goods and services, such as groceries, pharmaceuticals, health and hygiene products, and financial services. Moreover, the survey found evidence of rapid growth in e-payments – 60 per cent of the e-commerce businesses and 70 per cent of the third-party online marketplaces included in the sample reported higher growth rates for mobile money payments and transactions through e-banking and credit cards.

sharp growth in the numbers of people working from home or engaging in remote learning. Global shipments of personal computers grew by 13.1 per cent in 2020 compared with 2019. The UK imported 20 per cent more laptops between March and October 2020 compared with the same period in 2019 (WM REDI and CITY REDI, 2021). Similarly, demand for communication equipment and devices as well as related goods and services that enable access to the internet has surged (OECD, 2020b). At the same time, demand for digitally deliverable creative content such as streaming media and digital books, music and games increased amid lockdowns and restrictions on other activities (WTO, 2021). COVID-19 has forced many artists to expand their

digital footprints, making available digital content to compensate for the loss of live audiences.

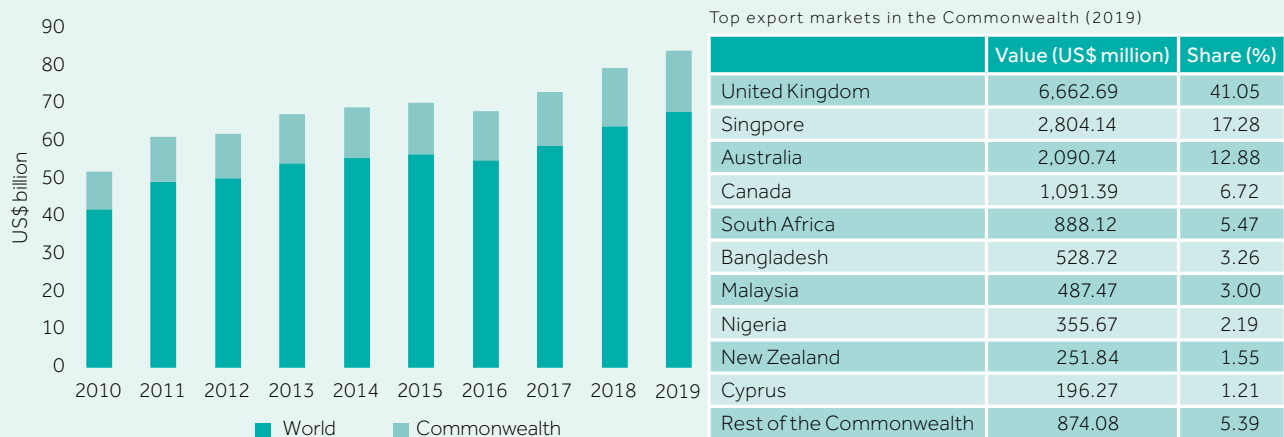
Digital technologies have been especially important for sustaining trade in services. This has mostly been enabled through switching between modes of supply, evident in a substantial shift in favour of the supply of services through Mode 1, which involves cross-border supply enabled through online or digital means (see Chapter 1). For example, as discussed in Chapter 1, to continue providing university education to international students despite government measures limiting inward travel, universities in Australia and Canada switched to online instruction, representing a shift

in the mode of supply of education services from Mode 2 to Mode 1 (Shepherd and Shingal, 2021). In India, even prior to the pandemic, a large share of the country's information technology (IT) and IT-enabled services were exported via Mode 1, meaning they have been relatively more insulated from the adverse effects generated by the pandemic (Box 2.4). Importantly, however, successfully switching to supply services via Mode 1 is contingent on having in place the requisite infrastructure, technological capacity, human capital and connectivity, meaning the extent to which this has been possible is inevitably uneven across Commonwealth countries (see Chapters 1 and 5).

BOX 2.4**INDIA'S ICT SERVICES EXPORTS AND THE PANDEMIC**

India is a leading exporter of ICT services, both globally and in the Commonwealth. In 2019, it was the second-largest global exporter of ICT services (after Ireland), and the largest ICT exporter in the Commonwealth, with exports of these services totalling US\$70 billion. India's ICT services account for around one-third of its total services exports (US\$215 billion). Around 25 per cent of these services are absorbed in Commonwealth countries, with a relatively large share destined for developed members (Figure 2.13). The value of India's ICT services exports to Commonwealth countries has almost doubled, going from US\$9 billion in 2010 to \$17 billion in 2019.

FIGURE 2.13
TRENDS IN INDIA'S EXPORTS IN ICT SERVICES AND KEY EXPORT MARKETS



Source: Commonwealth Secretariat (calculated using WTO-OECD BaTIS dataset)

In terms of delivery, nearly three-fourths of India's IT and IT-enabled services exports were delivered by Mode 1 in 2018/19, which suggests that the bulk of India's exports in this sector may be relatively insulated from the adverse effects generated by the pandemic. With close public and private sector co-operation, India was able to quickly address initial concerns around the pandemic's potential impacts on service delivery and productivity by setting up virtual private networks, improving bandwidth in the areas where employees are residing and addressing challenges related to virtual environments to support secure remote working. These innovative business solutions and government support enabled over 90 per cent of the country's IT workforce to continue working from home.

More than a quarter of India's total IT services exports delivered by Modes 1, 2 and 4 are destined for Commonwealth members and at least a fifth of Mode 3 business by foreign affiliates of Indian firms is estimated to be within the Commonwealth (UK 11 per cent; Canada 5 per cent; Singapore 3.5 per cent). While most of the non-Mode 3 exports are destined for the USA and Canada, a large proportion is sent to Commonwealth countries, including the UK (12 per cent) and Australia and New Zealand (3.3 per cent).

The pandemic has provided India with another opportunity to capitalise on this capacity as more and more services activities have moved online. The preliminary estimates show that the growth rate of the IT sector for 2019/20 has been approximately 10 per cent. Ultimately, the data will likely show some degree of cross-modal substitution in services trade, away from Modes 2 and 4 and towards Mode 1. So far, it remains unclear as to whether or not this type of substitution has compensated for

the huge demand shock that services markets have seen, as GDP growth in 2020 turned negative in much of the world as a result of the combined effect of the pandemic and the measures required to contain its spread. The Reserve Bank of India's provisional estimates show that India has continued to export services worth US\$17 billion per month since April 2020 despite the pandemic and restrictive lockdowns, which is only \$1 billion less than what the country was exporting, on average, in the first quarter of 2020.

Source: Shepherd and Shingal (2021) for the Commonwealth Secretariat

2.5 Broadening access to the internet and ICT usage

The preceding sections highlighted the growth in the Commonwealth's digital trade and investment in digital sectors prior to the onset of the COVID-19 pandemic. However, it is apparent that these flows, in almost all digital categories, are concentrated in a few larger developed and developing country members, meaning most Commonwealth countries, especially LDCs, have yet to fully benefit from some of the positive transformations brought about by digitalisation (Commonwealth Secretariat, 2020). The capabilities, readiness and skills to benefit from digital trade and participate in the wider digital economy are unevenly distributed within and between Commonwealth members as well as between women and men. This is notably the case with internet access, even as mobile internet is growing, especially in Africa (IFC and Google, 2020).

There are stark differences in internet access and usage between the Commonwealth's developed, developing and LDC members (Figure 2.14). In 2019,

the share of people using the internet in Commonwealth developed economies (89 per cent), Caribbean SIDS (62 per cent) and Asian countries (54 per cent) was above the world average (51 per cent), whereas SSA countries and the Pacific SIDS lagged at about 32 per cent.

However, internet use is growing rapidly. In simple average terms, the share of people in the Commonwealth using the internet has almost doubled in the past decade, from 27 per cent in 2010 to above 48 per cent in 2019. The corresponding increase for African members was threefold, from 11 per cent to 32 per cent. This underscores the urgent need to invest in increasing broadband access for SSA members and LDCs, where internet use is even lower, at about 20 per cent. Overall, the Sustainable Development Goal (SDG) target to provide universal access to the internet in LDCs by 2020 has been missed.

Several factors determine access to the internet, including affordable broadband, reasonably priced ICT hardware and services, investment in infrastructure and regulatory approaches to telecommunications to ensure affordability (Ashton-Hart, 2020). For example, in Commonwealth LDCs, the monthly cost for 1.5GB of mobile bandwidth in terms of per-person gross national income (GNI) is almost nine times higher than

in developed countries, and more than double the Commonwealth average (Table 2.6). However, some countries, like Rwanda, are making exemplary progress in reducing costs – from around 25 per cent in 2014 to 7.15 per cent of GNI in 2018 – while doubling their share of citizens accessing the internet.

High import tariffs on hardware, including the equipment used to develop and implement broadband networks, create further barriers to digitalisation. Import tariffs on network equipment¹⁴ in Commonwealth developing countries and LDCs are around 8 per cent, compared with 1 per cent in developed countries. Overall, the Commonwealth average tariff on these goods is a percentage point higher than that of the world. However, for the 11 Commonwealth members belonging to the WTO's Information Technology Agreement, tariffs like these will already be zero on most IT products. Although non-ITA participants have high bound tariffs on ICT goods, the applied rates are significantly lower (Ashton-Hart, 2020).

High tariffs on internet devices can also affect affordability and access. In Africa, around 60 per cent of internet users connect using mobile devices, while the remaining use laptops and personal computers. The high cost of smartphones and laptops can

FIGURE 2.14
SHARE OF THE POPULATIONS OF COMMONWEALTH COUNTRIES USING THE INTERNET, 2019



TABLE 2.6
BROADBAND COSTS AND TARIFFS ON NETWORK EQUIPMENT IN THE COMMONWEALTH

Group	GNI per capita for 1.5GB mobile broadband (%)	Import tariff on network equipment (%)
World	4.33	6.40
Commonwealth	4.26	7.50
<i>Of which</i>		
Developed	0.66	1.17
Developing	4.73	8.41
LDCs	9.30	8.45

Source: Commonwealth Secretariat (calculated using ITU ICT Price Baskets and WITS data for tariffs)

deter widespread internet use. The prices of entry-level and second-hand devices range from US\$35 to \$45, which is equivalent to almost 80 per cent of monthly wages in some African countries (IFC and Google, 2020). Asian brands are generally cheaper and account for 70 per cent of the African mobile device market. Reducing import tariffs, facilitating local manufacturing and developing structured payment plans can enable greater access to ICTs.

Speed of connectivity is also important because there is evidence it can affect GDP and productivity (Commonwealth Secretariat, 2018a). In some Commonwealth developing countries, the surge in internet demand as a result of the pandemic caused an overall decline in broadband speeds. Average download speeds during the lockdown period were higher in developed compared with developing country members, with significant differences between them. For example,

the average download speed was above 50 Mbps in Singapore, New Zealand and Canada but less than 5 Mbps in Tanzania, Mozambique, Bangladesh and Pakistan. The decline in mean speeds during lockdowns was also higher in developing countries, with declines of over 30 percentage points in Malaysia, 23 percentage points in Sri Lanka, 24 percentage points in Ghana and 21 percentage points in India (Banga and Raga, 2021). In response to the pandemic, data service providers and operators in both developed and developing countries reduced mobile transaction costs, provided free gigabits or suspended data limits and boosted capacity at no additional cost. Some governments offered additional spectrum to operators (Bajaj, 2021; Banga and Raga, 2021).

Several private sector initiatives are underway to expand internet infrastructure to developing countries and LDCs. These range from undersea cable networks, like Google's

Equiano,¹⁵ to satellite broadband (Estes, 2020) and high-altitude balloons to deliver mobile internet services. For example, balloons are now stationed over rural regions of Kenya, where they entered service on a commercial basis in July 2020 (Adegoke, 2020). China's Digital Silk Road, which is part of the Belt and Road Initiative, is also a boon for many developing countries looking to boost digital infrastructure capacity. Chinese assistance and investment through the initiative covers a range of areas from telecommunications networks, artificial intelligence capabilities, cloud computing, e-commerce and mobile payment systems to surveillance technology and smart cities (Kurlantzick, 2020). These benefits aside, Chinese investment in digital infrastructure has also fuelled some security-related concerns. This has led several countries, including Australia, Japan and the USA, to ban Chinese tech firms from building their 5G infrastructure.

Box 2.5 compares the performance of two clusters of Commonwealth countries – namely, the 14 Commonwealth countries where more than 70 per cent of the population are using the internet and the 40 countries with lower access – to illustrate some of the possible success factors associated with lower costs for mobile broadband, higher-quality ICT infrastructure and regulations, and lower tariffs applied to imports of network equipment.

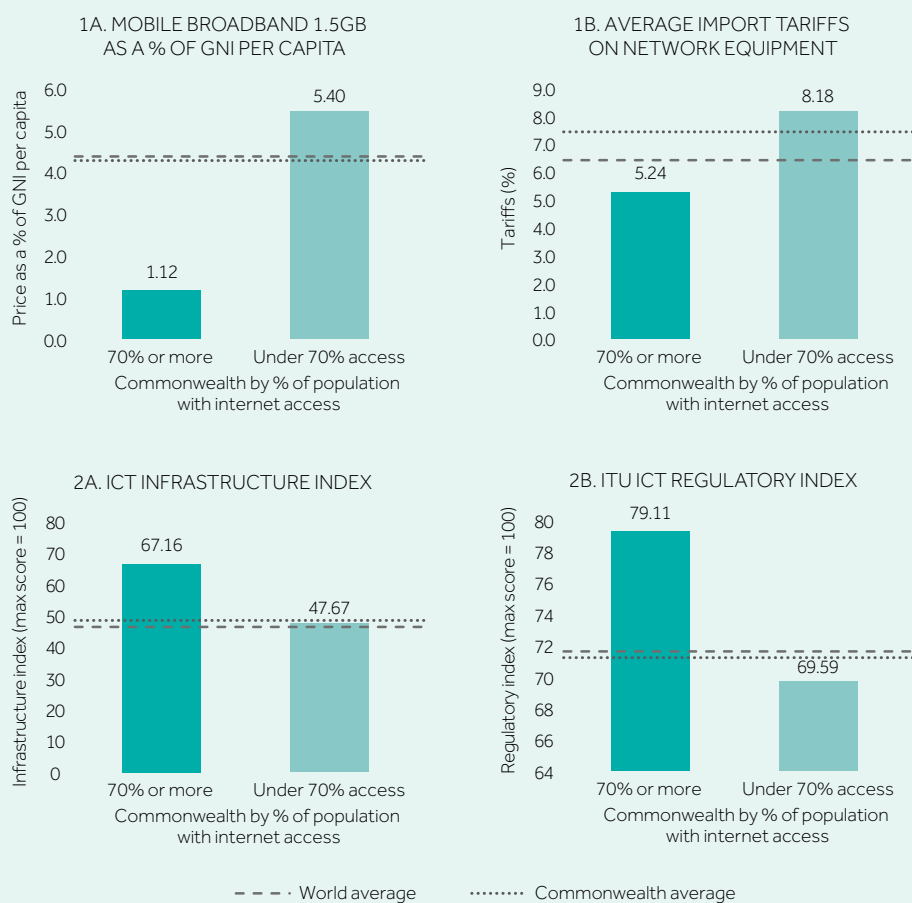
BOX 2.5**PROVIDING INTERNET ACCESS IN THE COMMONWEALTH: WHAT CAN WE LEARN FROM THE TOP PERFORMERS?**

There are 14 Commonwealth countries where more than 70 per cent of the population are using the internet. Affordability and regulation have played an important role to ensure this level of access (Figure 2.15).

Affordability and access to the digital economy. One measure of affordability is the monthly cost for 1.5GB of mobile bandwidth in terms of per-person GNI. In 2018, the Broadband Commission for Sustainable Development set the affordability target for entry-level fixed and mobile broadband at 2 per cent of GNI per capita. Seventeen Commonwealth countries met this affordability threshold in 2019. On average, the cost per capita is five times cheaper for Commonwealth members where more than 70 per cent of the population use the internet. This is much higher for LDCs (9.3 per cent), which is 2.2 times higher than the Commonwealth average. The most expensive countries are Malawi, Sierra Leone and Solomon Islands, at over 16 per cent.

The second dimension affecting costs is the import tariffs on ICT hardware and networking equipment. The Commonwealth average for tariffs on networking equipment is 7.5 per cent, ranging from as high as 35 per cent in The Bahamas to zero in seven countries, four of which are SIDS. For Commonwealth countries with less than 70 per cent internet access, the average tariff rate is around 8.2 per cent.

FIGURE 2.15
AFFORDABILITY AND REGULATION FACTORS AFFECTING ACCESS TO THE INTERNET IN THE COMMONWEALTH



Source: Commonwealth Secretariat (calculated using data from A4AI, ITU and WDI)

Regulation and access to the digital economy. Adopting best regulatory practices to develop ICTs feeds into greater affordability and access for individuals and businesses. The ITU's ICT Regulatory Tracker is based on four pillars: regulatory authority, regulatory mandates, regulatory regime and competition framework for the ICT sector. Commonwealth countries average 72.06 out of 100, while those with over 70 per cent internet access score 80. For Commonwealth LDCs, this number is much lower than the average, at 68. This varies across the LDC group, with countries such as Rwanda, Uganda and Tanzania scoring above 80, while there is scope for large regulatory improvements in Sierra Leone, which scores 56.

Similarly, the ICT Infrastructure Index calculated by the Alliance for Affordable Internet (A4AI) measures the extent to which internet infrastructure has been deployed, as well as the policy framework in place to encourage future infrastructure expansion. As of September 2020, 51 Commonwealth countries, excluding Dominica, St Kitts and Nevis and Tuvalu, report having a national broadband plan (ITU, 2020). For Commonwealth countries with higher internet access, the communications index is 67, approximately 1.5 times higher than the Commonwealth average and the countries with less access. Most LDCs, with some exceptions like Rwanda, rank lower than the average, indicating a need for greater investment, policies and prioritisation of ICT infrastructure (A4AI, 2020).

2.6 Conclusion and way forward

In keeping with the increasing prominence of the digital economy globally, the Commonwealth's ICT goods trade expanded steadily in the decade preceding the emergence of COVID-19, as did Commonwealth trade in digitisable products, ICT services and DDS. Intra-Commonwealth flows accounted for sizeable, and in some instances growing, shares of this trade.

Commonwealth developing countries were collectively major contributors to digital trade. However, in almost all digital categories, a few developed and developing members dominated the Commonwealth's global and intra-Commonwealth trade. Many Commonwealth SIDS and LDCs remained marginal players.

COVID-19 has accelerated digital engagement, fuelling growth in e-commerce and digital trade in developed and developing Commonwealth countries, while

also placing greater focus on the importance of digitalisation and digital transformation. The digital economy and digital trade have been central to mitigating some of the economic losses generated by COVID-19, in many instances playing a critical role in sustaining economic activity in the face of lockdowns and restrictions on the movement of people and goods. Consequently, a raft of new opportunities has arisen in e-commerce and digital trade.

At the same time, the rapid acceleration in the adoption of digital technologies precipitated by COVID-19 has the potential to exacerbate existing digital divides in the Commonwealth and widen inequalities between individuals, firms and countries. In this sense, the pandemic has only reinforced the urgent need to address existing obstacles faced by Commonwealth countries looking to engage in e-commerce and participate effectively in digital trade. As outlined in Chapter 5, this hinges on improving a range of aspects of the enabling environment for digital trade and e-commerce

readiness, including in relation to the governance of the digital economy, the adoption or adaptation of frontier technologies for industry and trade, aid for digital trade to support the development of digital infrastructure, digital skills, e-government services and financial inclusion, and efforts to digitalise trade facilitation through, for example, paperless trade.

Moreover, a digital gender divide between women and men in mobile phone access and usage, digital connectivity and participation in the digital economy continues to present a significant challenge. Although solutions to bridge this gap are being pursued, further actions are urgently required to ensure no one is left behind, particularly because women may become correspondingly more disadvantaged as the pace of digitalisation intensifies beyond COVID-19.

Continued investment in digital infrastructure supporting digital connectivity will also be critically important, particularly in Commonwealth LDCs, as will investment

in key sectors underpinning the digital economy. This is especially important for building more resilient economies and societies post-COVID-19. The next chapter examines the impacts COVID-19 has had on FDI in the Commonwealth and shows the pandemic has had a deleterious effect on investment inflows to most sectors, even if some digital sectors have been relatively shielded from the worst effects. Investment in digitalisation will be important for economic recovery and building resilience in many Commonwealth countries, particularly given growth in e-commerce and digital trade is likely to be sustained in the wake of the pandemic.

Endnotes

- 1 This increase took place during the period 1 January 2020 to 1 January 2021. At: <https://datareportal.com/reports/digital-2021-global-overview-report>
- 2 This chapter examines trends in the Commonwealth's digital trade flows that are, unless otherwise specified, measured as the sum of exports plus imports.
- 3 This draws on analysis by Banga and Raga (2021) undertaken specifically for the Commonwealth Secretariat.
- 4 Based on bilateral ICT goods trade data for 26 Commonwealth countries from the World Integrated Trade Solution (WITS) database. The intra-Commonwealth share in overall ICT goods trade flows is lower than the intra-Commonwealth share in total Commonwealth goods trade flows, which stands at 15.6 per cent.
- 5 The United Nations Conference on Trade and Development (UNCTAD) disaggregates the products into four categories: films (HS 37), printed matter (HS 49), sounds, media and software (HS 8524) and videogames (HS 9504).
- 6 These DDS/ICT-enabled services are similar to General Agreement on Trade in Services (GATS) Mode 1 – namely, cross-border supply, as discussed in Chapter 1 (Fredriksson, 2020).
- 7 These figures are based on data on exports and imports of DDS for 37 Commonwealth countries. Data from 2011-2019 is used to maintain a consistent sample of countries across the period.
- 8 Bangladesh, The Gambia, Lesotho, Malawi, Mozambique, Solomon Islands, Uganda and Zambia.
- 9 Readiness to engage in business-to-consumer e-commerce transactions does not capture all aspects of e-commerce activity. Some businesses, particularly smaller enterprises, may be better equipped to engage in business-to-business e-commerce.
- 10 A country's level of preparedness to engage in e-commerce is established on the index using the average across four equally weighted indicators: (1) Account ownership at a financial institution or with a mobile money service provider (per cent of population aged 15+); (2) Individuals using the internet (per cent of population); (3) Postal Reliability Index; and (4) Secure internet servers (per 1 million people).
- 11 The authors consider four segments of the digital economy in their analysis: digital infrastructure, ICT and ICT-enabled services, e-commerce and online work.
- 12 This included 10 Commonwealth countries: Samoa and nine LDCs in Africa (Rwanda, Tanzania, Uganda and Zambia), Asia (Bangladesh) and the Pacific (Kiribati and Tuvalu).
- 13 Importantly, however, not all e-commerce businesses benefited, and much of the growth in e-commerce was skewed in favour of third-party marketplaces. More than half (58 per cent) of the e-commerce businesses surveyed experienced lower sales between March and July 2020.
- 14 Network equipment is defined using a list of 12 HS 6 digit codes from chapters 85 and 90 of the harmonised system of classification. It includes telecommunications equipment as well as some electronic apparatus.
- 15 The first phase of Google's new submarine cable, Equiano, is expected to be completed by 2022 and will connect Portugal and South Africa, bringing unprecedented bandwidth to the region. The first branch is planned to land in Nigeria, with other countries to follow (IFC and Google, 2020).

Chapter 3: The Impact of COVID-19 on Commonwealth FDI

Most Commonwealth countries experienced a significant decline in FDI inflows in 2020, leading to fewer productive investments and jobs. Revitalising FDI inflows will be key to supporting economic recovery.



FDI inflows to the Commonwealth

**\$153
BILLION**
LOWER
in 2020

Intra-Commonwealth greenfield FDI flows

**\$8.3
BILLION**
LOWER
in 2020

(versus 2017-2019 average)



~~87959~~
45252
JOBS

Almost

50%

the number of jobs created through
intra-Commonwealth greenfield FDI
in 2020

(versus 2017-2019 average)

3.1 Introduction

Having examined the implications of COVID-19 for the Commonwealth's trade, as well as increased digitalisation and digital trade by many countries in response to the pandemic, this chapter considers how foreign direct investment (FDI) has been affected. As discussed in Chapter 1, the pandemic has created simultaneous supply, demand and policy shocks affecting all aspects of trade and FDI. FDI flows have been disrupted primarily through delays to the implementation of existing investment projects, the deferral of decisions on new investments, reductions in reinvested earnings and declining equity capital flows. These disruptions exacerbated a pre-pandemic trend of sluggish growth in international investment.¹

Global FDI flows fell by 42 per cent in 2020, reaching a level of US\$859 billion by the end of the year (UNCTAD, 2021a). All forms of FDI were affected, from cross-border mergers and acquisitions (M&As) to greenfield investments² and international project finance deals. United Nations Conference on Trade and Development (UNCTAD) data shows that developed countries have felt the impact of the pandemic most severely, where FDI flows had declined by 69 per cent to \$229 billion

in 2020. FDI flows into developing economies have been comparatively more resilient, declining by 12 per cent to \$616 billion. This has seen developing countries grow their share of global FDI to 72 per cent, the highest on record. Even so, the impacts across developing economies have been uneven, with overall FDI inflows to Latin America and the Caribbean (down by 37 per cent) affected to a greater degree than inflows to Africa (down by 18 per cent) and developing Asian countries (down by 4 per cent).

Moreover, while overall FDI flows to developing economies have been fairly resilient, greenfield investments have declined sharply. Greenfield FDI project announcements fell by 46 per cent in developing countries in 2020, compared with an overall decline of 35 per cent globally and 19 per cent in developed economies (UNCTAD, 2021a). African countries were especially affected, where the number of greenfield announcements fell by 63 per cent, compared with 51 per cent in Latin America and the Caribbean, and 38 per cent in developing Asia. Similarly, while international project finance has been more resilient in general, with flows down by just 2 per cent in

2020, these deals declined by 40 per cent in Africa. The adverse impact of COVID-19 in constraining greenfield FDI and international project finance is concerning given their importance for developing productive capacity and infrastructure, both of which will be crucial in driving sustainable post-pandemic economic recovery. A prolonged decline in greenfield investments, and FDI inflows more generally, threatens to undermine economic growth and transformation in Commonwealth countries.

The chapter is divided into five sections. Section 3.2, which follows, provides an overview of Commonwealth investment trends in the decade preceding the pandemic, focusing on the aggregate picture of inward FDI into the Commonwealth, developments in intra-Commonwealth FDI and trends in greenfield investment. Section 3.3 analyses the impact of COVID-19 on overall FDI inflows and productive greenfield investment into Commonwealth countries. Section 3.4 looks ahead to 2025, setting out the prospects for post-COVID recovery in Commonwealth FDI inflows. Section 3.5 concludes with the way forward.

3.2 Commonwealth investment trends pre-COVID-19

Trade and investment are closely integrated. This is especially true in the case of FDI, which is a key driver of international trade and production, particularly in the context of the structure and operation of global value chains (GVCs) (Box 3.1). This section

focuses on broad trends in inward investment into the Commonwealth in the decade preceding COVID-19. It does so by examining the global stock held by Commonwealth countries (3.2.1) before looking at intra-Commonwealth FDI (3.2.2) and the specific contribution of productive greenfield investment (3.2.3).

3.2.1 FDI into the Commonwealth in global perspective

FDI inward stock held by Commonwealth countries reached nearly US\$7.5 trillion in 2019, up from \$4.4 trillion in 2010 (Figure 3.1). Despite absolute growth during this period, the Commonwealth's share in global FDI

stock declined by 1.5 percentage points to 20.4 per cent in 2019.

Commonwealth developed countries hosted more than 60 per cent of this stock (top panel in Figure 3.2). Regionally, based on the Commonwealth regions defined in Chapter 1, Europe (namely, Cyprus, Malta and the UK) accounted for more than one-third of inward stock, with a slightly smaller share held by Commonwealth Asian countries. The Caribbean and Americas, Pacific and Africa regions were less significant in terms of the overall stock (bottom panel in Figure 3.2). Commonwealth small states collectively hosted 10.3 per cent of the total inward stock in 2019, while just 1.7 per cent was located in least developed countries (LDCs).

Annual FDI inflows to the Commonwealth (Figure 3.3) grew faster – on average – than global inflows (6.1 per cent versus 2.4 per cent). The Commonwealth's share of global FDI inflows also expanded, from 20.5 per cent in 2010 to 23.3 per cent in 2019. Annual inflows averaged US\$356 billion over the decade and totalled \$359.1 billion in 2019.

In the three years immediately preceding the onset of COVID-19 (2017–2019), more than 80 per cent of cumulative FDI inflows to the Commonwealth were directed to just five countries: Singapore (23.9 per cent), the UK (21.1 per cent), Australia (14 per cent), India (12.4 per cent) and Canada (11.2 per cent) (Figure 3.4). Malaysia (2.3 per cent), Nigeria (1.3 per cent) and South Africa (1.1 per cent) were other important developing country destinations for FDI inflows.

BOX 3.1

TRADE AND INVESTMENT LINKAGES, AND BROADER FDI BENEFITS

FDI can help domestic firms participate in international production networks and access foreign markets, in part by aiding their integration into cross-border supply chains (Alfaro, 2016; Gonzalez, 2017). FDI may also support export sophistication and upgrading, potentially enabling greater export diversification on both the intensive and the extensive margins (Echandi et al., 2015). Trends and factors influencing Commonwealth FDI stocks and flows thus have an important bearing on both intra- and extra-Commonwealth trade.

The potential benefits of FDI extend beyond these trade dimensions. FDI can make a significant contribution to growth, development and prosperity in Commonwealth countries by transferring technology and skills, creating jobs and building productive capacity, especially where stocks of domestic capital and savings are insufficient to finance productive investments. The transfer of technology, skills and modern management techniques from foreign to domestic firms can support upgrading to higher-value-added production and potentially enhance firm-level productivity (Farole and Winkler, 2014; Alfaro and Chen, 2015; Godart et al., 2020). FDI often also creates higher-skilled and better-paid jobs (Hijzen et al., 2013; Echandi et al., 2015), sometimes accompanied by improved working environments and standards relative to local firms. While such benefits are not guaranteed and may be spread unevenly across and within countries, in the presence of appropriate policies in host countries FDI can serve as an important driver of structural economic transformation (OECD, 2002).

FIGURE 3.1
FDI INWARD STOCK IN THE COMMONWEALTH, 2010–2019

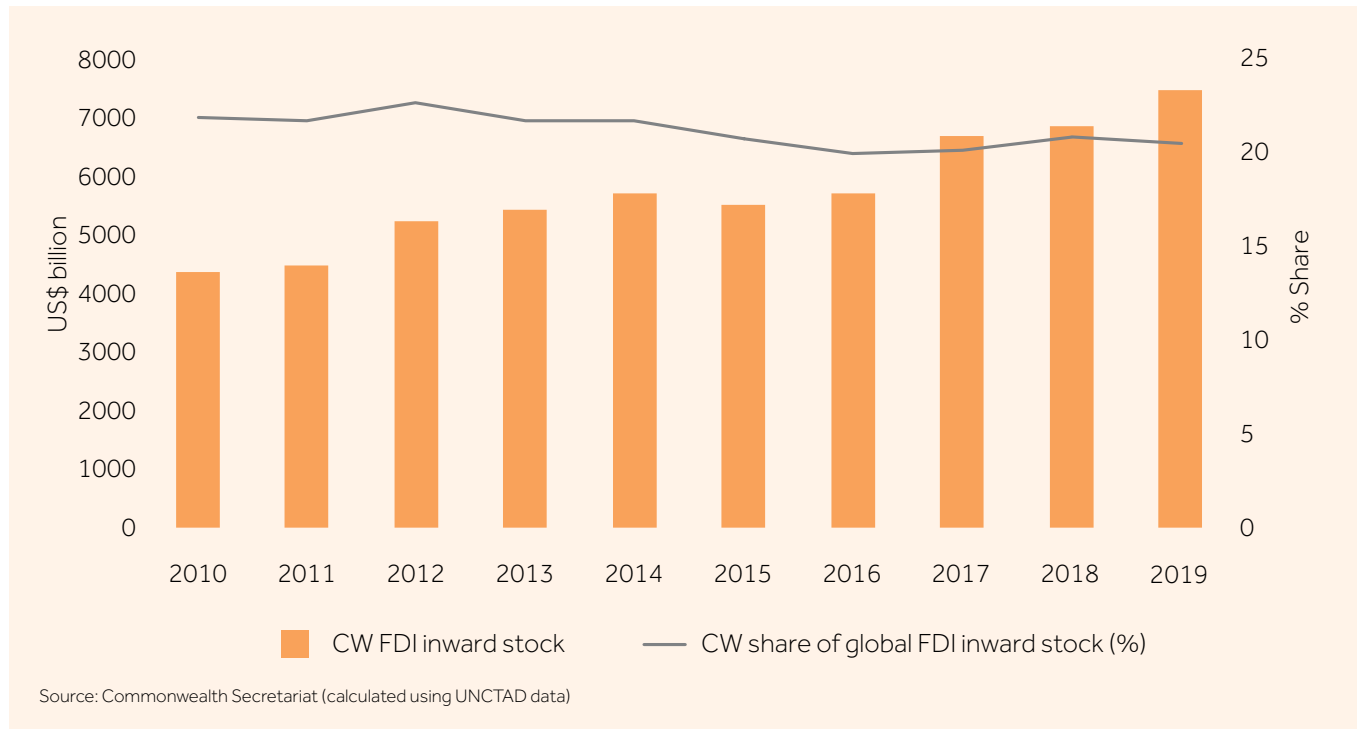


FIGURE 3.2
DISTRIBUTION OF FDI INWARD STOCK IN THE COMMONWEALTH, 2019

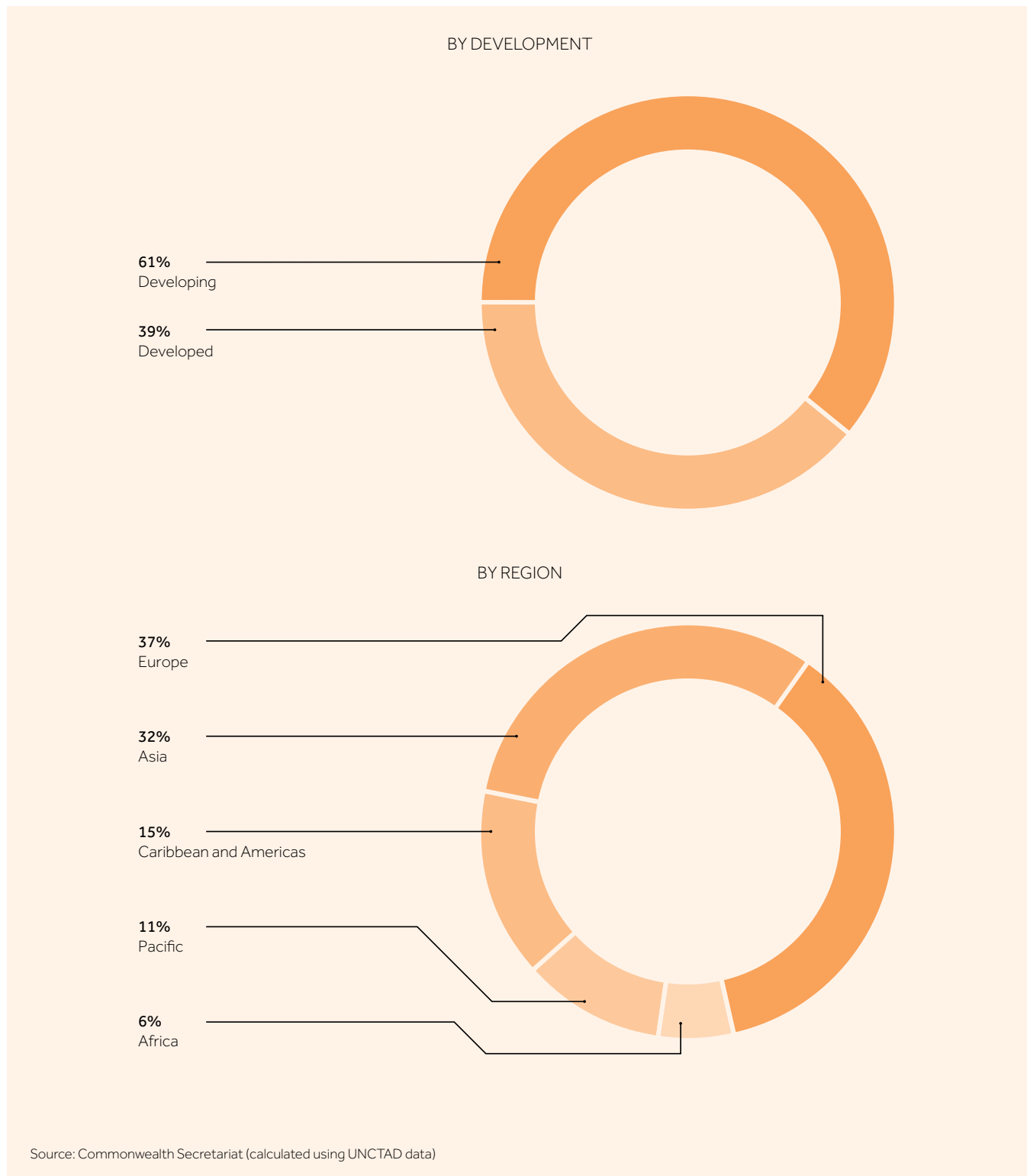


FIGURE 3.3
TOTAL VALUE OF FDI INFLOWS INTO THE COMMONWEALTH, 2010–2019

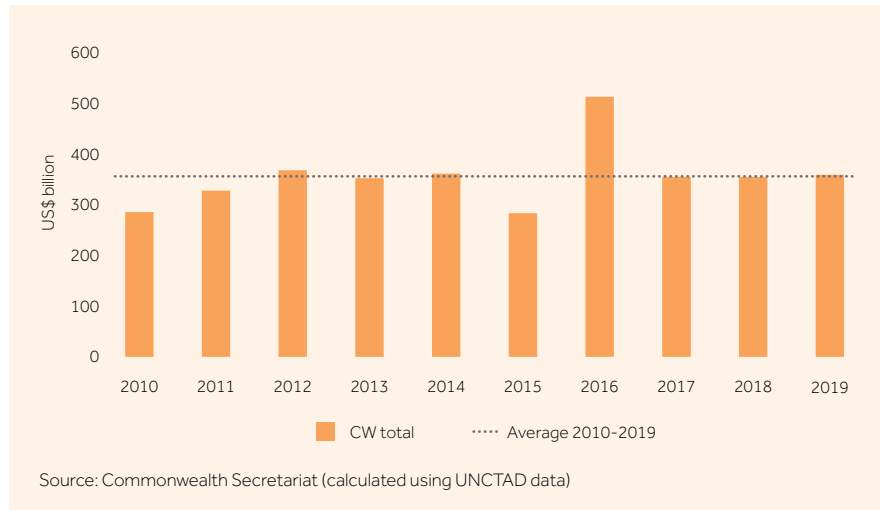
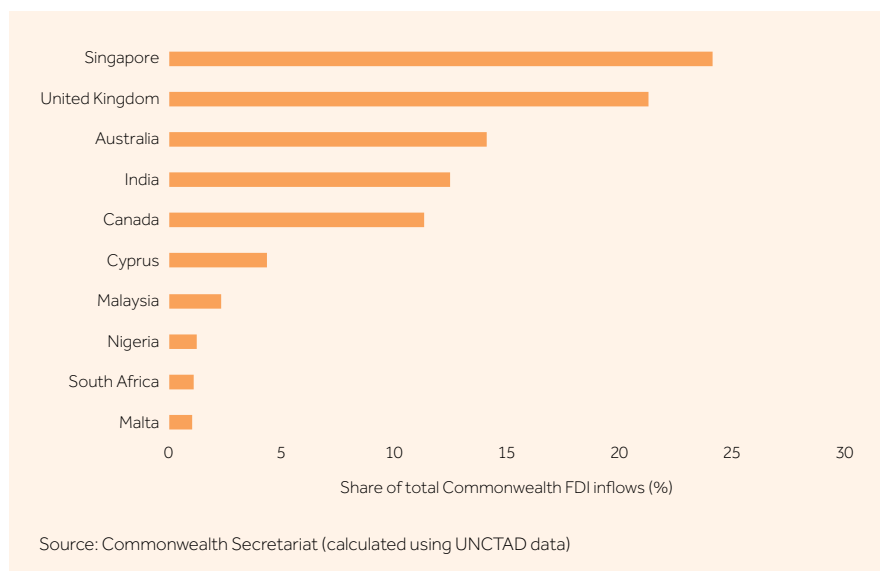


FIGURE 3.4
TOP 10 HOSTS OF BILATERAL FDI INFLOWS INTO THE COMMONWEALTH, 2017–2019
(CUMULATIVE)



3.2.2 Intra-Commonwealth FDI trends

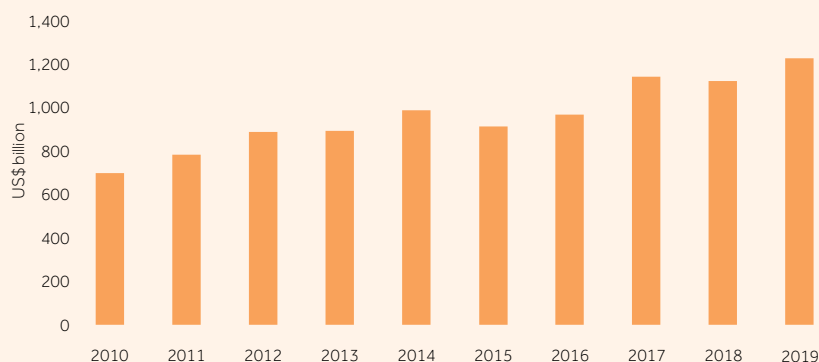
The cumulative value of intra-Commonwealth FDI stock reached US\$1.2 trillion in 2019, up from \$693.7 billion in 2010 (Figure 3.5). Despite this absolute growth, the relative share of the Commonwealth in member countries' overall FDI stock declined marginally from 19.6 per cent in 2010 to 18.2 per cent in 2019.

Intra-Commonwealth FDI inward stock is highly concentrated. In 2019, just three countries held half of the overall stock – Singapore (20.3 per cent), India (16.6 per cent) and Australia (13.3 per cent). Four other developing members ranked among top ten FDI hosts – Mauritius (9.4 per cent), South Africa (4.5 per cent), Barbados (3.8 per cent) and Malaysia (3.5 per cent), along with three developed economies – the UK (6.5 per cent), Canada (5.1 per cent) and New Zealand (4.1 per cent).

Intra-Commonwealth investments represent an important component of overall FDI inflows to Commonwealth countries. A significant "Commonwealth advantage" is at play, with bilateral investment flows generally larger between Commonwealth countries compared with flows in which at least one of the parties is not a Commonwealth member (Box 3.2).

Intra-Commonwealth FDI inflows have grown over the past decade, buoyed by the Commonwealth advantage. The aggregate value of these inflows reached US\$75.2 billion in 2019, up from \$42.6 billion in 2010 (Figure 3.6).³ The total value of bilateral intra-Commonwealth

FIGURE 3.5
INTRA-COMMONWEALTH FDI INSTOCK (US\$ BILLION), 2010–2019



Notes: Based on data on bilateral FDI instocks in 42 Commonwealth countries from 50 source countries between 2010 and 2019. Mirror data is used in instances where no data is available for the host country in a particular year or across all years. The mirror data is based on information reported by the source country from which the investment originates.
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FDI inflows rose consecutively in each year between 2015 and 2019.

In the three years preceding the onset of COVID-19, investors from the UK, Singapore, Canada and Mauritius contributed almost 90 per cent of overall FDI flows within the Commonwealth (Figure 3.7). Over the same period, just five countries attracted 86 per cent of intra-Commonwealth FDI inflows – namely, India, Australia, Singapore, Canada and the UK. Four other Commonwealth developing countries – Barbados, Malaysia, South Africa and Bangladesh (a LDC) – ranked among the top ten recipients of inflows.

BOX 3.2

THE INTRA-COMMONWEALTH ADVANTAGE IN INVESTMENT

The 2015 Commonwealth Trade Review found that, on average, Commonwealth country pairs attract 10 per cent more FDI compared with Commonwealth and non-Commonwealth country pairs as well as country pairs in which neither partner is a Commonwealth member.

Revised gravity estimates based on more recent data spanning the period from 2000 to 2018 indicate the persistence of a large and statistically significant “Commonwealth effect” on FDI flows (Table 3.1). This means, on average, the investment flows between Commonwealth country pairs (when both host and investor are members of the Commonwealth) are about 27 per cent⁵ higher than those between the other country pairs (column 1). As expected, common language, membership of the same free trade agreement (FTA) (in some cases), geographical contiguity in various regions and similar legal systems strengthen these flows. Among all these FDI facilitating factors, existence of a common language has a leading role: having English as one of the official languages in both investor and host countries is associated with 9 per cent more FDI flows.

TABLE 3.1
THE COMMONWEALTH EFFECT IN FDI FLOWS – GRAVITY MODEL RESULTS

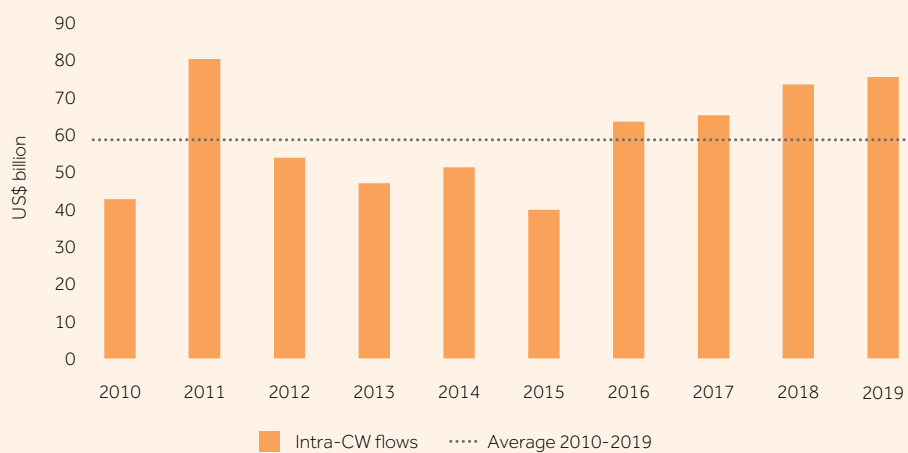
	Aggregate FDI	Greenfield FDI
	(1)	(2)
Commonwealth membership	0.244***	0.183***
FTA	0.364***	0.112***
Contiguity	0.448***	0.081***
Common language	0.876***	0.418***
Distance (km)	-1.132***	-0.446***
Colony	0.879***	0.321***
Legal	0.107***	0.095***
Origin-year FE	Yes	Yes
Dest-year FE	Yes	Yes
Sample size	42,158	27,436
Period	2000–18	2003–18
R-squared	0.610	0.657

Notes: The dependent variables in the model are bilateral FDI flows. All bilateral pairs of countries have been considered, including both Commonwealth and non-Commonwealth members. ***, **, and * denote the statistical significance of the estimated coefficients respectively at 1 per cent, 5 per cent and 10 per cent levels. These estimations include time-varying fixed effects for countries to account for omitted variables. The Pseudo Poisson Maximum Likelihood (PPML) method with fixed effects was employed for estimation of the Commonwealth effect in greenfield FDI, while Ordinary Least Squares (OLS) was used for overall FDI because of negative values for some country pairs.

Source: Commonwealth Secretariat (estimated using data from UNCTADstat (column 1) and fDi Markets (column 2))

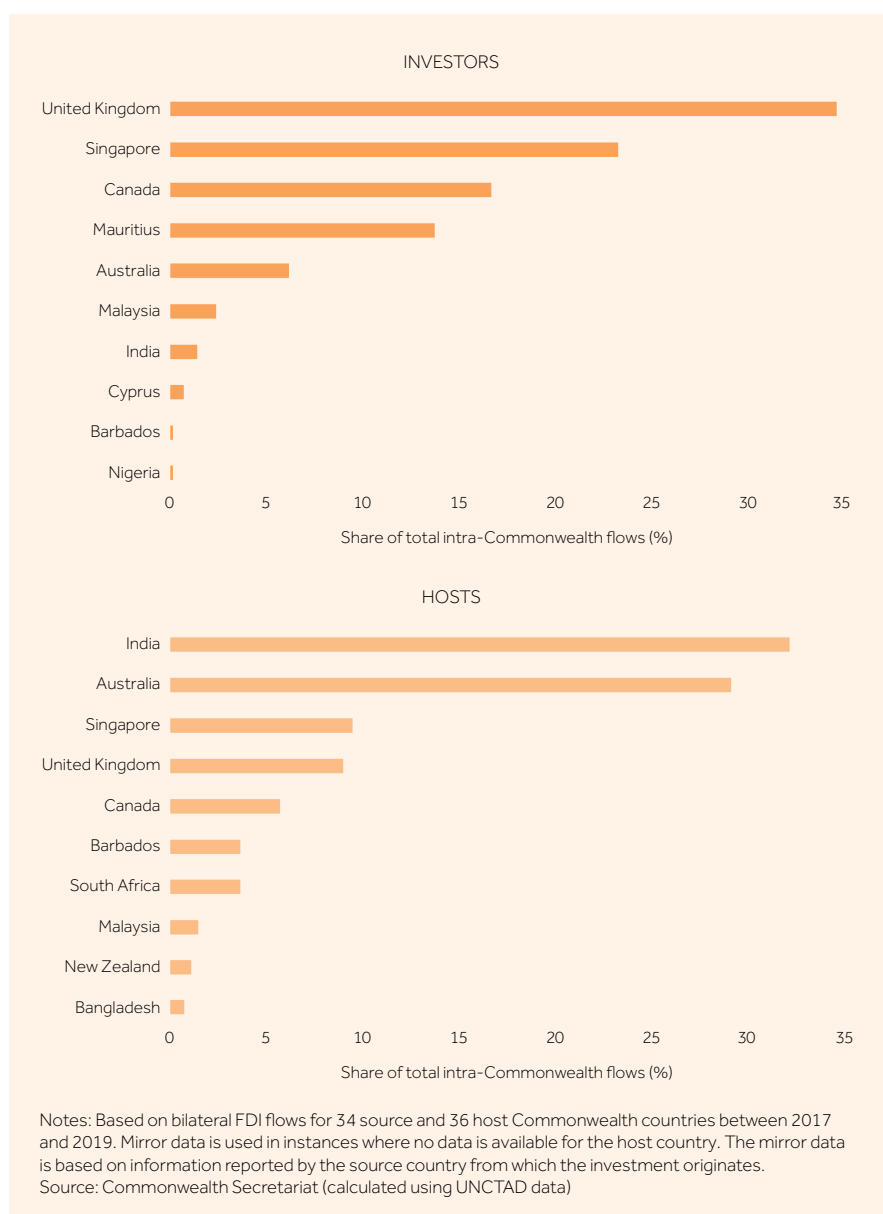
This aggregate data masks the combined effects of brownfield as well as greenfield investments.⁶ Since greenfield investments are relatively more important for job creation and technological upgrading, the estimations are replicated in column 2 specifically for greenfield investment using data from the fDi Markets database. The results indicate that, on average, greenfield investment flows between Commonwealth country pairs are around 19 per cent higher than those between other pairs. The Commonwealth effect is relatively stronger for African members: they are found to attract 37 per cent more in intra-Commonwealth greenfield investments than other Commonwealth countries (18 percentage points above the Commonwealth average).

FIGURE 3.6
TOTAL VALUE OF INTRA-COMMONWEALTH FDI FLOWS, 2010-2019



Notes: Based on bilateral FDI flows for 42 Commonwealth countries between 2010 and 2019. Mirror data is used in instances where no data is available for the host country. The mirror data is based on information reported by the source country from which the investment originates.
Source: Commonwealth Secretariat (calculated using UNCTAD data)

FIGURE 3.7
TOP 10 INVESTORS AND HOSTS OF INTRA-COMMONWEALTH FDI INFLOWS BY VALUE, 2017–2019
(CUMULATIVE)



3.2.3 Trends in productive greenfield investment in the Commonwealth

Annual greenfield FDI inflows to the Commonwealth averaged US\$145.3 billion between 2010 and 2019. These mostly involved investments from outside the Commonwealth. The

intra-Commonwealth share generally declined over the decade, reaching 15 per cent in 2019 (Figure 3.8). Greenfield FDI inflows to the Commonwealth amounted to \$150.3 billion in 2019, with intra-Commonwealth flows accounting for \$26.6 billion of this total.

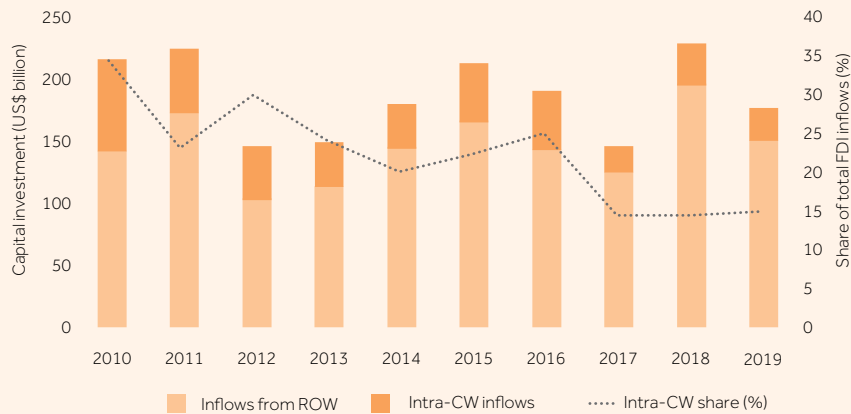
These figures should not be equated directly with the magnitude of the Commonwealth FDI advantage (Box 3.2) because there are greater numbers of global investors compared with Commonwealth investors, capital and savings; and they have more diversified interests, leading to greater FDI in the Commonwealth.⁴ Nevertheless, this illustrates the relative importance of Commonwealth partners as sources of greenfield investment.

Commonwealth Asian countries hosted around one-third of cumulative intra-Commonwealth greenfield investment between 2010 and 2019. African (28 per cent) and Pacific (20 per cent) Commonwealth countries were also key destinations for these investments, with smaller shares directed to Europe (13 per cent) and the Caribbean and Americas region (5 per cent).

Greenfield investments have been a major source of new jobs in the past decade, with 4,839,341 created across the Commonwealth. Around one-fifth of these jobs were created through intra-Commonwealth investments, predominantly in Asian countries (Table 3.2). On average, 2.3 jobs were created for every US\$1 million in intra-Commonwealth greenfield FDI between 2010 and 2019.

In the three years preceding COVID-19, investors in Commonwealth developed countries were responsible for 57 per cent of announced greenfield projects in other Commonwealth members (Table 3.3). The UK led the way, with US\$24.1 billion in outward investment creating 79,414 jobs (nearly one-third of the total generated through intra-Commonwealth investment). Among developing members, Singapore, India and South Africa were key

FIGURE 3.8
AGGREGATE VALUE AND SHARE OF ANNOUNCED GREENFIELD FDI INFLOWS TO THE COMMONWEALTH, 2010–2019



Notes: Greenfield FDI value represented as the total value of capital investment. No data for inflows into Kiribati, Nauru, Tonga and Tuvalu. The data covers 145 source countries (including 37 Commonwealth members) investing in 50 destination Commonwealth countries.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

TABLE 3.2
JOBS CREATED THROUGH ANNOUNCED GREENFIELD FDI IN THE COMMONWEALTH, 2010–2019

	Source of investment			Employment intensity by source of investment	
	Rest of world	Intra-Commonwealth	Intra-Commonwealth share (%)	Rest of world	Intra-Commonwealth
Commonwealth total	3,870,316	969,025	20.0	2.7	2.3
<i>Of which</i>					
Developed	968,412	241,151	19.9	1.7	1.6
Developing	2,901,904	727,874	20.1	3.3	2.7
<i>Of which</i>					
Africa	408,551	207,557	33.7	1.9	1.8
Asia	2,418,772	500,061	17.1	3.8	3.5
Caribbean and Americas	257,969	45,218	14.9	1.5	2.1
<i>Of which</i>					
Caribbean SIDS	69,777	13,822	16.5	6.0	2.8
Europe	562,692	98,044	14.8	1.9	1.8
Pacific	222,332	118,145	34.7	1.6	1.4
<i>Of which</i>					
Pacific SIDS	4,804	6,434	57.3	1.0	1.0
<i>Vulnerable groups</i>					
LDCs	144,505	86,915	37.6	1.9	1.5
Small states	113,457	52,957	31.8	3.4	2.2
SIDS	271,888	92,172	25.3	2.3	2.3

Notes: The data covers 145 source countries (including 37 Commonwealth members) investing in 50 destination Commonwealth countries (no data for investments in Kiribati, Nauru, Tonga and Tuvalu). Employment intensity is measured as the number of jobs created per US\$1 million in greenfield investment.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

sources of intra-Commonwealth investment and jobs, as were Malaysia and Bangladesh to a lesser extent.

Bangladesh is an interesting example of intra-Commonwealth greenfield investment originating from a LDC. Between 2017 and 2019, the bulk of outward greenfield FDI from Bangladesh went to India (totalling US\$1.1 billion), around 90 per cent of which was in coal, oil and gas projects, with much smaller capital investments in financial services, plastics, and transportation and warehousing. Over this period, Kenya benefited from \$140 million in announced greenfield FDI from Bangladesh into projects in the metals and pharmaceuticals sectors; there was also outward investment from Bangladesh into the pharmaceuticals sector in Malaysia (\$56.1 million) and financial services in South Africa (\$9.5 million).

The UK was the largest recipient of announced intra-Commonwealth greenfield FDI between 2017 and 2019, accounting for nearly one-fifth of total inflows. Several developing country members – India, Singapore, Nigeria, Malaysia, South Africa, Namibia and Bangladesh – featured among the top 10 destinations (Table 3.3). Of these, India welcomed the largest share (nearly US\$13.8 billion), creating a total of 91,698 new jobs.

Over the same period, 70 per cent of intra-Commonwealth greenfield FDI was directed into services (Figure 3.9). More than one-third of this went into real estate, while communications, software and IT services, financial services and renewable energy (Box 3.3) were also significant destinations. The manufacturing sector attracted nearly a quarter (23 per cent) of intra-Commonwealth inflows, with

the metals, food and beverages, and chemicals industries receiving the greatest shares. Inflows to the primary sector were notably smaller, accounting for just 7 per cent of total intra-Commonwealth greenfield FDI in 2017–2019, with 96 per cent of this investment in coal, oil and gas.

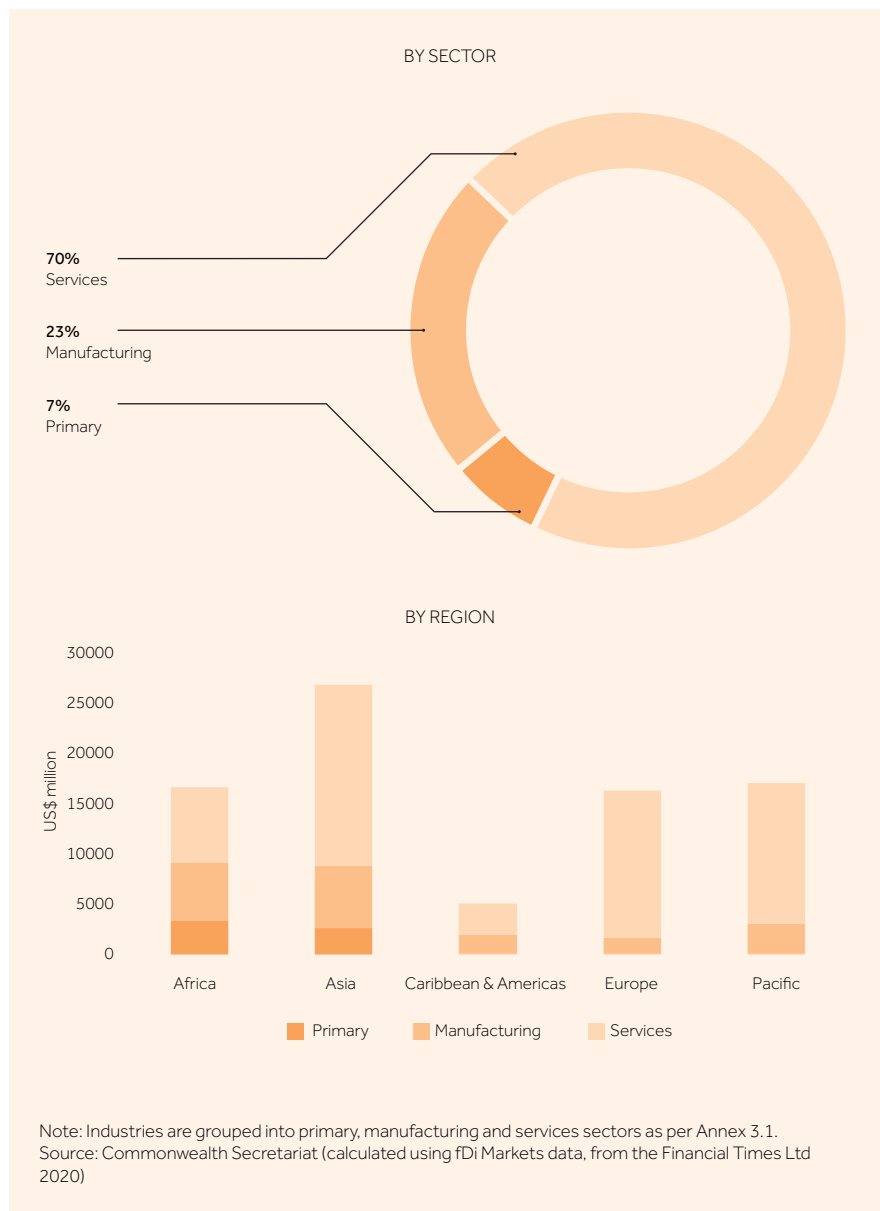
Services also dominated intra-Commonwealth greenfield inflows at the regional level, although to varying degrees. They accounted for 90 per cent of inflows to Commonwealth Europe and 82 per cent in Pacific member countries between 2017 and 2019, compared with 67 per cent in Asia, 63 per cent in the Caribbean and Americas region, and 45 per cent in Africa. Real estate was the top sector for intra-Commonwealth inflows to European and Asian member countries; whereas this was renewable energy (Pacific), software and IT

TABLE 3.3
TOP 10 SOURCES AND HOSTS OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI INFLOWS TO COMMONWEALTH MEMBERS, BY CUMULATIVE VALUE, 2017-2019

Sources			Hosts		
	Value of outward investment (US\$ million)	Share of intra-Commonwealth total (%)		Value of inflows (US\$ million)	Share of intra-Commonwealth total (%)
United Kingdom	24,121	29.6	United Kingdom	15,810.8	19.4
Singapore	18,964	23.3	Australia	15,064.7	18.5
Australia	10,930	13.4	India	13,765.5	16.9
Canada	7,080	8.7	Singapore	4,646.4	5.7
India	6,261	7.7	Nigeria	4,590.4	5.6
South Africa	3,601	4.4	Malaysia	4,392.5	5.4
New Zealand	2,530	3.1	Canada	4,049.7	5.0
Malaysia	2,026	2.5	South Africa	3,029.0	3.7
Cyprus	1,691	2.1	Namibia	2,267.0	2.8
Bangladesh	1,305	1.6	Bangladesh	1,904.5	2.3

Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

FIGURE 3.9
SECTORAL COMPOSITION OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI INFLOWS, 2017–2019 (CUMULATIVE)



services (Caribbean and Americas) and communications (Africa) in other Commonwealth regions.

Manufacturing was a relatively more important sector for intra-Commonwealth greenfield FDI in the Caribbean and Americas region (36.7 per cent of total inflows, mostly to Canada, with very limited inflows to Antigua and Barbuda, and Barbados), Africa (35 per cent) and Asia (23.4 per cent). In the Caribbean and Americas, the largest manufacturing inflows went to electronic components and metals; compared with metals, chemicals and food and beverages in Africa; and metals, aerospace, and paper, printing and packaging in Asia. Primary sectors attracted 20 per cent and 9.4 per cent of inflows in Africa and Asia, respectively.

BOX 3.3

INVESTORS SET THEIR SIGHTS ON RENEWABLES IN THE COMMONWEALTH

The profile of global investment is shifting amid increasing emphasis on reorienting the world towards a more sustainable development path. In the energy sector, investors are rapidly adapting their portfolios to focus on clean energy. This is evident in the increasing share of international project finance earmarked for the renewable energy sector, aided by improved availability of multinational financing for solar and wind projects (EIU, 2020; UNCTAD, 2020a).

Globally, investment flows to the renewable energy sector have reached record highs. In 2019, renewable energy companies initiated 516 projects in foreign countries (38 per cent more than in 2018), with a combined value of US\$92.1 billion (Shehadi, 2020).

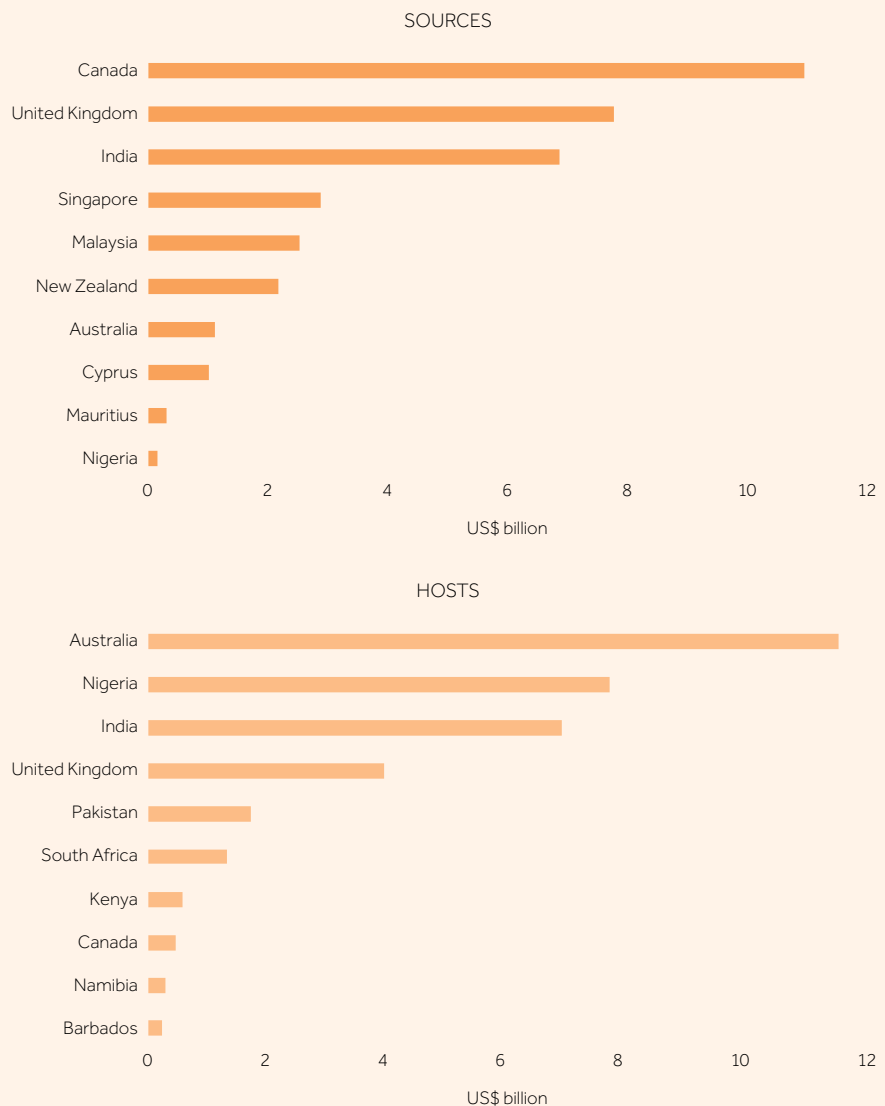
In the Commonwealth, these trends are reflected in expanding productive greenfield investments in renewables. The renewable energy sector was the second largest recipient of greenfield FDI across the Commonwealth in 2019, with announced inflows growing by 179 per cent since 2010 to reach US\$26 billion. The sector’s share in the Commonwealth’s total greenfield inflows has also expanded in relative terms – from 4.4 per cent in 2010 to 14.8 per cent in 2019.

Intra-Commonwealth greenfield investments in renewables are also on the rise. The renewable energy sector was the fourth-largest recipient of intra-Commonwealth flows in 2019, with US\$2.9 billion in capital investment through announced projects. This represented a 152 per cent increase over the figure in 2010. As a result, the share of renewable energy projects in total intra-Commonwealth greenfield FDI increased from just 1.6 per cent in 2010 to 11 per cent in 2019.

These intra-Commonwealth investments remain highly concentrated, in terms of both major investors and hosts (Figure 3.10). More than 70 per cent of the investments in renewables over the past decade have originated from three Commonwealth countries: Canada, the UK and India. In turn, just four Commonwealth members - Australia (32 per cent), Nigeria (21.4 per cent), India (19.2 per cent) and the UK (11 per cent) – absorbed more than 80 per cent of the inflows. Aside from these countries, a few developing members, including Pakistan, South Africa and Kenya, are increasingly popular destinations for intra-Commonwealth greenfield FDI in renewables. Some Commonwealth LDCs have also received sizeable inflows into the sector over the past decade, including Zambia (US\$231.7 million), Bangladesh (\$215.4 million) and Tanzania (\$194.9 million).

Continued growth in investments in renewable energy will likely generate considerable economic and environmental benefits for Commonwealth countries. Productive greenfield investments

FIGURE 3.10
TOP 10 SOURCES AND DESTINATIONS FOR INTRA-COMMONWEALTH GREENFIELD FDI IN THE RENEWABLE ENERGY SECTOR, BY VALUE OF CUMULATIVE CAPITAL INVESTMENT 2010–2019



Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

in this area can help lessen reliance on fossil fuels, thereby lowering greenhouse gas emissions and reducing some types of air pollution. This is important for strengthening the health and well-being of Commonwealth citizens. Similarly, investments in renewables help diversify the energy supply and lower dependence on imported fuels. They can also generate new jobs and create opportunities for micro, small and medium enterprises (MSMEs), particularly when activities related to the transition to green energy are factored in. While investment in renewable energy has inevitably slowed on the back of the wide-ranging economic impacts of COVID-19 (see Section 3.3.2), it should form an important part of efforts to build more sustainable and resilient economies in the post-COVID-19 era.

Source: Data reported here is extracted from the fDi Markets database, from the Financial Times Ltd 2020

3.3 The Impact of COVID-19 on Commonwealth FDI

COVID-19 affected all types of FDI in 2020, and its multi-faceted impacts on investment flows are likely to persist for some time amid the on-going uncertainty surrounding the

pandemic's endpoint. The effects of COVID-19 in constraining investment have important implications for Commonwealth trade (through the channels outlined in Box 3.1) and threaten to exacerbate existing challenges to inclusive growth (as explained in Box 3.4). This section examines the available evidence on the performance of Commonwealth FDI inflows since the onset of COVID-19, illustrating where, and how, the pandemic has up-ended the key trends outlined above.

3.3.1 Impacts of COVID-19 on overall FDI inflows into Commonwealth countries

Most Commonwealth countries experienced a significant decline in overall FDI inflows in 2020 as the crippling social and economic effects of COVID-19 took hold. This is evident from Table 3.4, which reports UNCTAD's full-year estimates of FDI inflows in 2020 based on available partial-year data for 36 Commonwealth members and compares them against average annual

BOX 3.4

COVID-19 HAS EXACERBATED GENDER IMBALANCES IN INVESTMENT

Women are more vulnerable to the economic shocks generated by COVID-19. Female-dominated sectors such as textiles and garments, food, hospitality and tourism rank among those most affected, and a larger share of the job losses resulting from the pandemic have been among women (Durant and Coke-Hamilton, 2020; Madgavkar et al., 2020). Some estimates suggest women are almost twice as likely as men to lose their job during the pandemic (Madgavkar et al., 2020). COVID-19 is also exacerbating gender-differentiated challenges in accessing finance for productive investment. This threatens to widen the existing financing gap for women-owned MSMEs, which was already estimated at US\$1.5 trillion prior to the onset of the pandemic.⁷ Mindful of these multiple and interrelated challenges, the International Monetary Fund has warned that COVID-19 threatens to unravel the past three decades of economic progress made by women (Georgieva et al., 2020).

Addressing these gender imbalances should be a priority in policy responses supporting post-COVID economic recovery. New financing channels and innovative financial instruments are required to streamline access to investment for women entrepreneurs. This could be achieved, for example, through the provision of tax incentives to encourage investment in women-led enterprises (UN Women, 2020). Promoting greater competition in digital financial products and services, while supporting the digital empowerment of women, can also help boost availability and access. In addition, efforts to promote diversity among investors and support women angel and venture capital investors can unlock new sources of private capital (ibid.).

TABLE 3.4
 COVID-19 SHOCK AND FDI INFLOWS TO COMMONWEALTH COUNTRIES, AVERAGE FOR 2017–2019 VS. 2020

Commonwealth region	Country	Average 2017–2019 (US\$ million)	2020* (US\$ million)	% change 2017–2019 vs. 2020
<i>Developed</i>	United Kingdom	75,225.8	–1,257.5	–101.7
	Cyprus	15,359.2	1,285.7	–91.6
	Australia	49,835.8	21,626.8	–56.6
	Canada	40,104.2	31,718.7	–20.9
	New Zealand	3,267.1	3,019.9	–7.6
	Malta	3,667.9	3,697.3	0.8
<i>Africa</i>	Eswatini	36.9	–156.1	–523.1
	Namibia	171.0	–120.7	–170.6
	Zambia	756.4	332.9	–56.0
	Rwanda	386.2	174.1	–54.9
	Nigeria	4,504.3	2,595.4	–42.4
	Seychelles	145.7	85.2	–41.5
	South Africa	4,027.5	2,506.3	–37.8
	Mauritius	441.3	279.6	–36.6
	Uganda	1,041.3	807.8	–22.4
	Botswana	269.2	206.0	–23.5
	Lesotho	123.1	102.0	–17.2
	Mozambique	2,402.6	2,044.5	–14.9
	Malawi	96.7	98.7	2.1
	Sierra Leone	238.1	348.7	46.4
	Gambia	27.7	45.7	65.3
<i>Asia</i>	Malaysia	8,222.5	2,451.8	–70.2
	Sri Lanka	1,248.3	466.0	–62.7
	Singapore	85,141.0	57,816.1	–32.1
	Bangladesh	2,453.9	2,148.2	–12.5
	Pakistan	2,150.3	2,158.7	0.4
	India	44,204.3	57,235.3	29.5
<i>Caribbean SIDS</i>	Trinidad and Tobago	–309.6	67.0	–121.6
	Jamaica	776.1	384.8	–50.4
	The Bahamas	828.5	552.6	–33.3
	Belize	83.1	98.8	18.8
	Guyana	1,073.7	1,926.3	79.4
<i>Pacific SIDS</i>	Samoa	8.9	–17.6	–296.9
	Solomon Islands	32.6	12.1	–62.9
	Fiji	392.8	273.5	–30.4
	Papua New Guinea	163.9	641.5	291.4

Notes: * Annual figures are full-year estimates based on available partial-year data, in most cases up to the third quarter of 2020. Countries with no available data for 2020 are excluded.

Source: UNCTAD (2020a) (2017–2019 data) and UNCTAD estimates (2020 data)

inflows over the period from 2017 to 2019. The adverse effects on inflows are clear across Commonwealth regions.

Commonwealth developed countries, which collectively account for a large share of all FDI inflows to the Commonwealth, have been hit particularly hard. This mirrors the global pattern wherein much of the decline in global FDI inflows in 2020 was registered in developed economies. The UK was hit by divestments by foreign investors totalling nearly US\$1.3 billion, primarily because of negative intra-company loans and some equity divestments (UNCTAD, 2021a). Inflows to Cyprus were \$14 billion lower than the 2017–2019 average, falling to \$1.3 billion; and inflows to Australia were less than half the average for the preceding three years. Canada's FDI inflows were more than \$8 billion lower in 2020, owing in part to a 50 per cent reduction in new investments from multinational enterprises (MNEs) headquartered in the USA (*ibid.*). Malta was the only developed Commonwealth economy to register positive growth – albeit marginal – with FDI inflows \$29 million higher in 2020 compared with the 2017–2019 average.

In Africa, the impacts of COVID-19 on FDI inflows were exacerbated by a slump in prices and demand for commodities in the first half of 2020. Project finance deals in Africa also took a significant hit in the second half of the year. Certain African LDCs were among the worst affected. Inflows to Rwanda were less than half the pre-pandemic (2017–2019) average, while those to Uganda and Zambia were US\$423 million and \$234 million lower, respectively. FDI inflows to the two largest African economies also saw significant impacts. Inflows to South Africa were more than \$1.5 billion lower. In Nigeria, on the back of low crude oil

prices and pandemic-induced closures of oil development sites, FDI inflows were \$1.9 billion shy of the 2017–2019 average. Two African SIDS were also among the worst affected, with inflows to Mauritius and Seychelles markedly lower in 2020. The relative impact of COVID-19 on FDI inflows to Botswana, Lesotho and Mozambique was more muted, with the latter benefiting from the on-going implementation of a \$2 billion LNG project (UNCTAD, 2021a). Among Commonwealth African members, only The Gambia, Malawi and Sierra Leone – all LDCs – registered growth in FDI inflows in 2020 compared with 2017–2019 averages, albeit off small bases.

In Commonwealth Asia, India bucked the trend, with FDI inflows expanding by more than US\$13 billion in 2020. This growth was spurred by investments in consulting and digital sectors (including significant greenfield investment) and M&A deals in energy and infrastructure (UNCTAD, 2021a). However, other Asian members did not fare so well. Singapore, a key conduit for FDI inflows in Southeast Asia, and the largest Commonwealth Asian recipient of FDI in 2019, saw inflows decline by \$27.3 billion in 2020 against the average for the preceding three years, in part because of a sharp fall in cross-border M&As (*ibid.*). Sri Lanka and Bangladesh saw inflows reduced by \$782 million and \$306 million, respectively. This owed in a large part to collapsing demand in the apparel sector: both economies have significant linkages to export-oriented apparel manufacturing GVCs (*ibid.*). A prolonged shock to trade and investment in GVC-dominated manufacturing sectors may severely constrain exports from Sri Lanka, Bangladesh and other Asian economies reliant on labour-intensive manufacturing. This

is especially significant given that it is occurring against the backdrop of broader structural shifts – including greater emphasis on re-shoring, regionalisation and replication and a pivot in focus to regional market-seeking FDI and shorter value chains – that were already occurring in global manufacturing GVCs even prior to the emergence of the pandemic (discussed further in Section 3.4).

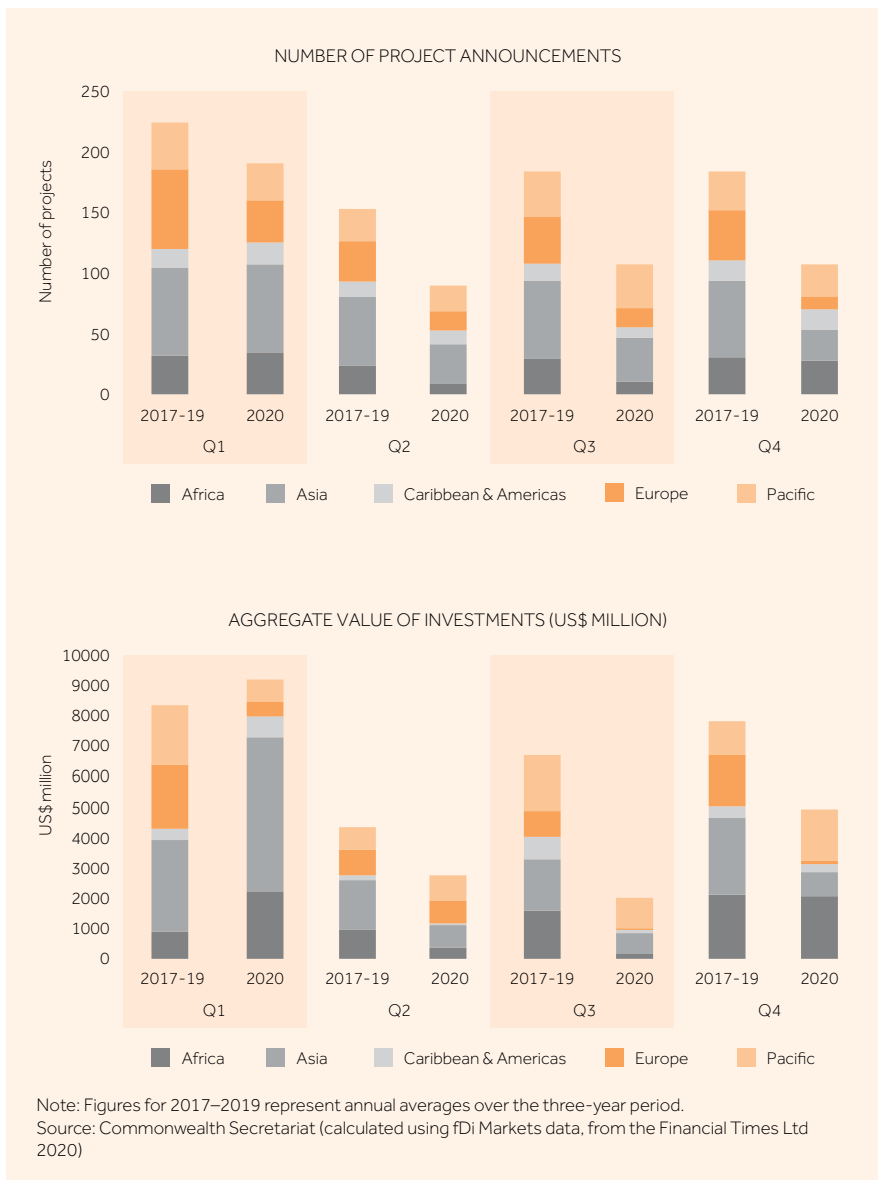
Among the Caribbean SIDS for which full-year estimates are available for 2020, FDI inflows to Jamaica (US\$391 million lower) and The Bahamas (\$276 million lower) were most affected relative to pre-pandemic averages. In contrast, Belize, Guyana, and Trinidad and Tobago fared much better, registering positive growth in FDI inflows in 2020.

In the Pacific, FDI inflows into Papua New Guinea expanded from a relatively low pre-pandemic level to reach US\$641.5 million in 2020. Pacific SIDS elsewhere in the region fared less favourably, despite being relatively shielded from the spread of COVID-19. FDI inflows to Fiji, Solomon Islands and Samoa were lower in 2020 compared with pre-pandemic averages.

3.3.2 Impacts on productive greenfield investment in the Commonwealth

Greenfield projects are a key component of FDI, particularly in Commonwealth developing countries. They can be instrumental in enhancing productive capacity, transferring skills and technology, and creating jobs. Greenfield investments thus have the potential to play an important role in driving the long-term structural transformation of Commonwealth economies and in supporting post-COVID economic recovery. It is therefore concerning, as this section shows,

FIGURE 3.11
 NUMBER AND AGGREGATE VALUE OF ANNOUNCED INTRA-COMMONWEALTH GREENFIELD FDI PROJECTS BY COMMONWEALTH REGION AND QUARTER, AVERAGE 2017–2019 VS. 2020



that the COVID-19 pandemic has hit greenfield project announcements hard across the Commonwealth.

The analysis assesses the impact of COVID-19 on intra-Commonwealth greenfield FDI⁸ by comparing trends in greenfield project announcements between 2017 and 2019 (hereafter

“the pre-pandemic period”) and 2020. This covers much of the first wave of the pandemic, which hit most Commonwealth countries at the end of the first quarter (Q1) or early in the second quarter (Q2) of 2020, and, in the case of some members, the emergence of second waves of COVID-19 infections in the latter half of 2020.

Aggregate numbers of announced intra-Commonwealth greenfield FDI projects were notably lower in all four quarters of 2020 compared with the averages over the pre-pandemic period (top panel in Figure 3.11). The effects were most pronounced in Q2 and Q3. All Commonwealth regions registered fewer intra-Commonwealth greenfield announcements in these two quarters, with the largest relative declines in Africa and Europe. Across all four quarters, 251 fewer intra-Commonwealth greenfield FDI project announcements were made in Commonwealth countries in 2020 compared with the pre-pandemic average (745 in 2017–2019 versus 494 in 2020).

This translated into significantly lower levels of announced intra-Commonwealth greenfield investments in the second, third and fourth quarters of 2020 compared to pre-pandemic averages (bottom panel in Figure 3.11). In 2020, overall intra-Commonwealth inflows were US\$1.6 billion lower in Q2, \$4.7 billion lower in Q3 and \$2.9 billion lower in Q4. The pattern of COVID-19 impacts on greenfield investment values varied across Commonwealth regions. Intra-Commonwealth inflows to member countries in Africa (down by 60 per cent and 91 per cent) and the Caribbean and Americas region (down by 35 per cent and 80 per cent) were most severely affected in Q2 and Q3 of 2020. European member countries registered sharp reversals in greenfield FDI inflows in Q3 2020 (falling by 93 per cent), alongside steep declines in Commonwealth Asia (60 per cent) and the Pacific (47 per cent). Greenfield investment inflows began to recover in Q4 of 2020 compared with pre-pandemic averages in Commonwealth African (just 3 per

cent lower) and Pacific countries (up by 55 per cent) but were still severely constrained in member countries in Asia (69 per cent lower), Europe (96 per cent lower) and Caribbean and Americas (24 per cent lower).

Impacts on jobs created through greenfield investments

The estimated number of jobs created through announced

greenfield investment in the Commonwealth declined steeply in 2020 compared with pre-pandemic levels.⁹ Overall, an estimated 297,098 jobs were created through these announced investments across the Commonwealth, 212,682 fewer than the annual average between 2017 and 2019, representing a decline of 42 per cent. The estimated number of jobs created

through intra-Commonwealth greenfield FDI declined even more steeply, halving from an annual average of 87,959 in the pre-pandemic period to 45,252 in 2020 (Table 3.5). This saw the intra-Commonwealth share in total estimated jobs created through announced greenfield investments fall by more than 2 percentage points to 15.2 per cent in 2020.

TABLE 3.5
JOB CREATION AND EMPLOYMENT INTENSITY OF INTRA-COMMONWEALTH GREENFIELD FDI, BY COUNTRY GROUP, 2017–2019 AVERAGE VS. 2020

	Average 2017–2019	2020	% change 2017–2019 vs. 2020	Intra-Commonwealth share of total jobs created in region (%)		Employment intensity	
				Average 2017–2019	2020	Average 2017–2019	2020
Commonwealth total	87,959	45,252	–48.6	17.3	15.2	3.2	2.4
<i>Of which</i>							
Developed	25,957	14,859	–42.8	20.2	13.5	2.1	2.2
Developing	62,002	30,393	–51.0	16.3	16.3	4.2	2.5
<i>Of which</i>							
Africa	15,273	6,698	–56.1	22.7	24.4	3.0	1.4
Asia	44,917	23,648	–47.4	14.8	15.1	5.0	3.3
Caribbean and Americas	4,522	2,478	–45.2	11.9	7.9	2.7	2.0
<i>Of which</i>							
Caribbean SIDS	1,761	47	–97.3	16.9	1.6	11.2	3.7
Europe	11,027	3,069	–72.2	16.4	5.7	2.1	2.3
Pacific	12,219	9,359	–23.4	35.6	33.6	2.2	2.2
<i>Of which</i>							
Pacific SIDS	76	–	–100.0	14.4	–	1.9	–
<i>Vulnerable groups</i>							
LDCs	5,843	841	–85.6	23.9	14.4	3.1	1.2
Small states	3,975	857	–78.4	23.1	10.5	2.9	3.0
SIDS	6,454	1,856	–71.2	17.3	9.8	3.1	2.1

Note: Employment intensity is measured as the number of jobs created per US\$1 million in greenfield investment. Figures for 2017–2019 represent annual averages over the three-year period.

Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

The pandemic's adverse impact on the job-creating potential of intra-Commonwealth greenfield FDI was felt across all Commonwealth regions in 2020. In aggregate, the relative impact on jobs was greater in developing members compared with their developed counterparts, and Commonwealth LDCs and small states, including SIDS (especially Caribbean SIDS), registered large declines off relatively small bases.

Sectoral impacts

Global greenfield FDI inflows to the primary, manufacturing and services sectors in the Commonwealth declined in 2020. Inflows to the primary sector were US\$7.1 billion lower in 2020, a drop of 19 per cent compared with the pre-pandemic average. Inflows into manufacturing were less than half their pre-pandemic level (\$53.3 billion versus \$22.5 billion). Greenfield inflows to services were the least affected in relative terms at 11.5 per cent lower than the pre-pandemic average (\$93.7 billion compared with \$82.2 billion).

Intra-Commonwealth greenfield FDI inflows to the primary and services sectors were affected significantly in 2020, declining by 56 per cent (US\$2 billion compared with \$861.1 million) and 34 per cent (\$19 billion versus \$12.5 billion) relative to the pre-pandemic averages. Contrary to the steep drop in global FDI to manufacturing, this sector fared relatively better overall, with intra-Commonwealth greenfield investment in 2020 just 11 per cent (or \$666 million) lower than the pre-

pandemic average. The more muted impact was mainly driven by a very large investment of \$3.4 billion in the chemicals industry in Malaysia in 2020 as well as substantial investments in the metals and non-automotive transport original equipment manufacturing (OEM) industries in Malaysia, and the pharmaceutical industry in the UK.

Overall, across the Commonwealth, only one primary industry (minerals), three services sectors (transportation and warehousing, renewable energy and communications) and five manufacturing industries (business machines and equipment, chemicals, medical devices, non-automotive transport OEM and wood products) registered higher greenfield inflows in 2020 compared with pre-pandemic averages. Many of these sectors were less exposed to the demand, supply and policy shocks affecting other investment sectors. In some of the primary and manufacturing industries, production methods tend to use highly automated assembly lines and employ more industrial robots (compared with the garments industry, for example, as discussed in Chapter 1). They also tend to be more capital-intensive, and some are linked to GVCs originating in the Asian region, which was quick to rebound from the pandemic.

The relatively less severe impact on greenfield investment in manufacturing resulted in changes to the sectoral composition of intra-Commonwealth greenfield FDI compared with pre-pandemic levels (Figure 3.12), with

the share of manufacturing in total inflows increasing by 6 percentage points amid declining shares for the primary and services sectors. Services remained the dominant sector by value, accounting for two-thirds of announced intra-Commonwealth greenfield FDI flows in 2020.

The broad picture in relation to the pandemic's sectoral impacts is largely replicated across Commonwealth regions. Aside from one additional greenfield project in the primary sector in Asia, and three more manufacturing projects in the Caribbean and Americas region, numbers of greenfield announcements were lower in 2020 compared with pre-pandemic averages in the primary, manufacturing and services sectors in all other regions (top panel in Figure 3.13). This translated into generally lower levels of intra-Commonwealth capital investment, with the notable exceptions of investments in services in Africa, manufacturing in Asia and the primary sector in Caribbean and Americas (bottom panel in Figure 3.13).

Table 3.6 shows the primary, manufacturing and services industries most affected by falling greenfield investment inflows since the start of the pandemic, highlighting some variation across Commonwealth regions. For manufacturing in the Commonwealth as a whole, metals, food and beverages, and electronic components were most affected. Real estate, financial services, and hotels and tourism experienced the largest declines in greenfield FDI relative to pre-pandemic averages among services across the Commonwealth.

FIGURE 3.12
CHANGES IN SECTORAL COMPOSITION OF ANNOUNCED GREENFIELD INVESTMENT IN THE COMMONWEALTH, 2017–2019 AVERAGE VS. 2020

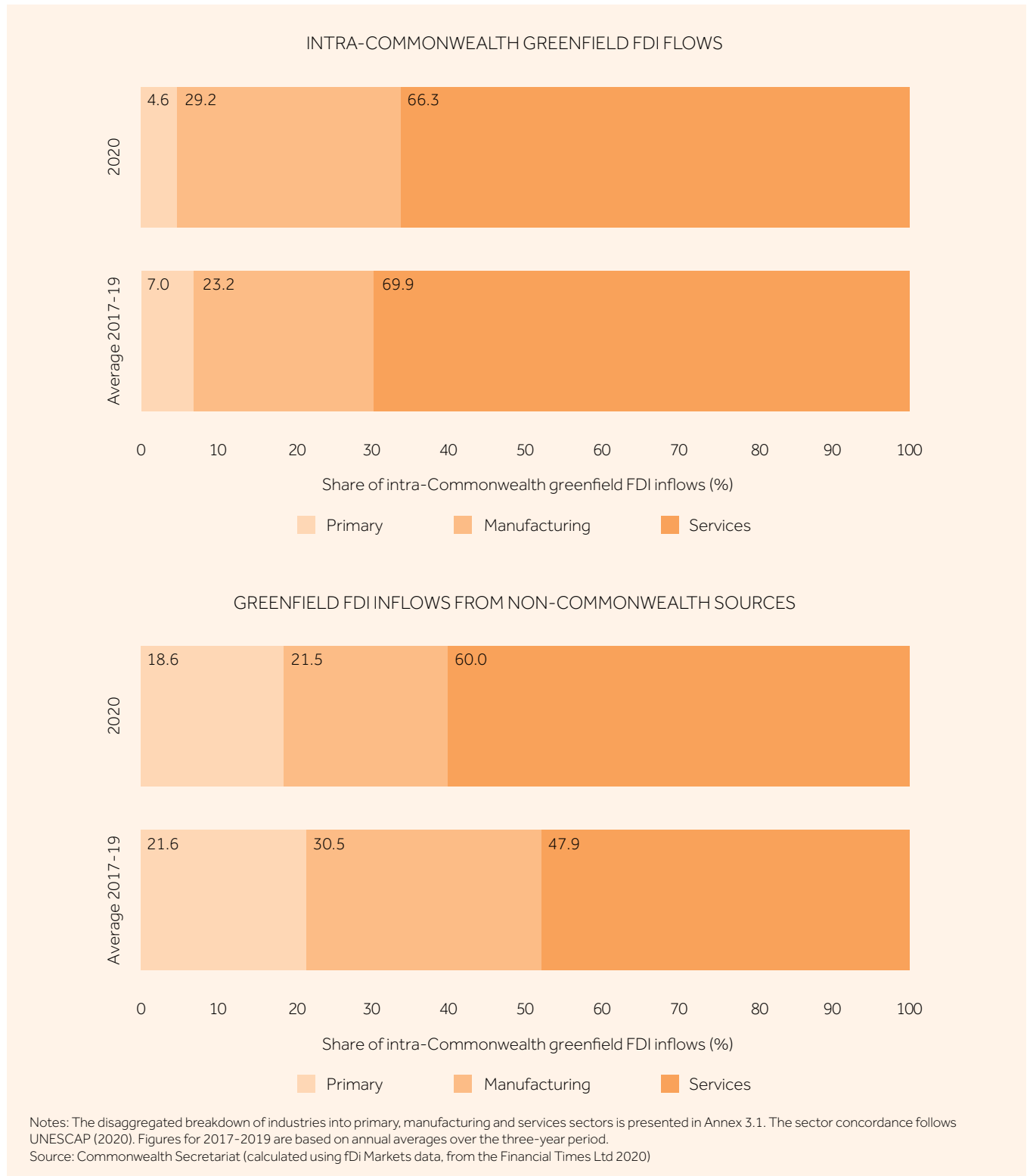


FIGURE 3.13
 CHANGES IN SECTORAL COMPOSITION OF INTRA-COMMONWEALTH GREENFIELD FDI, BY COMMONWEALTH REGION, 2017–2019 AVERAGE VS. 2020

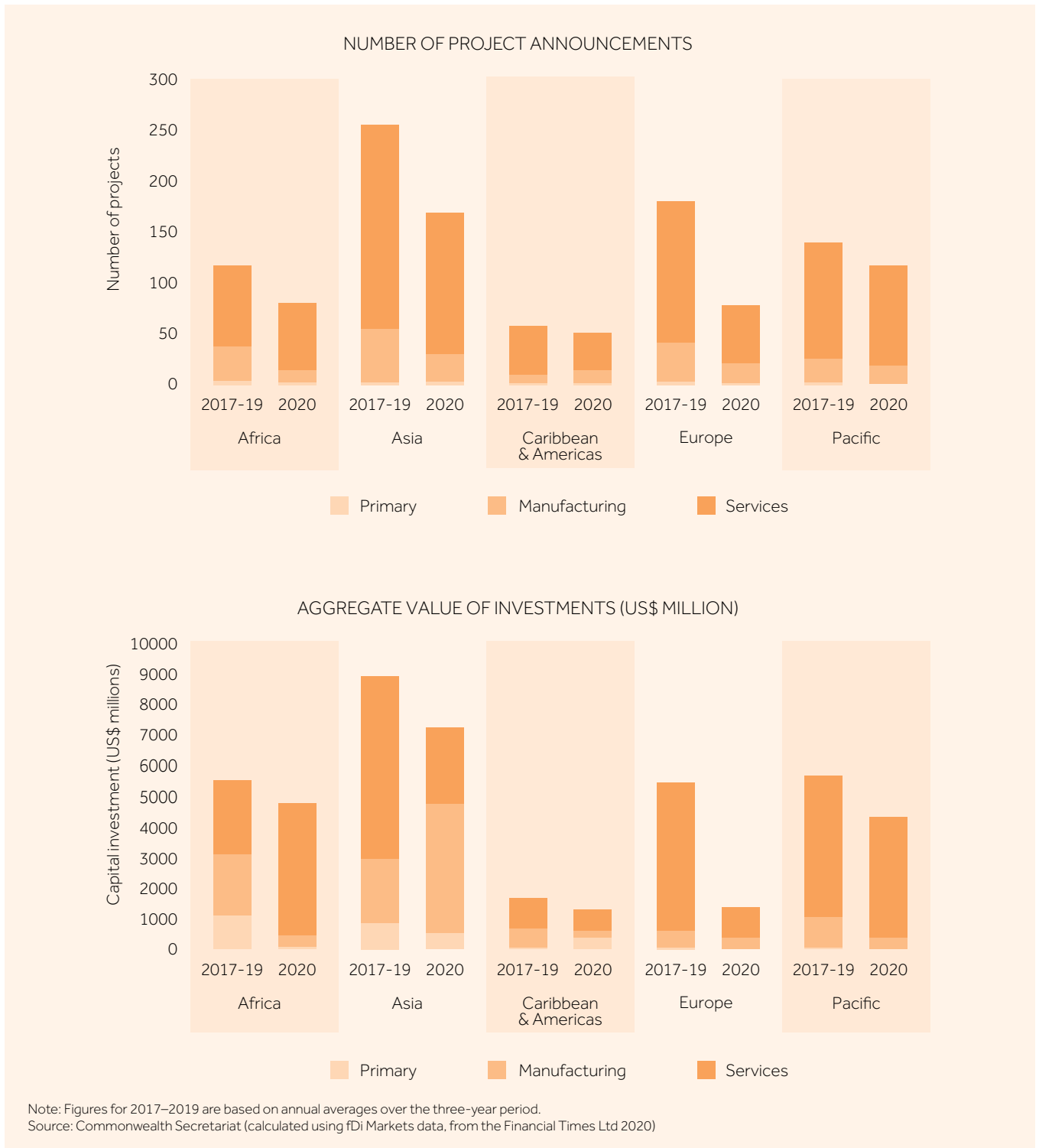


TABLE 3.6
SECTORAL IMPLICATIONS OF COVID-19 FOR INTRA-COMMONWEALTH GREENFIELD FDI, 2017–2019 AVERAGE VS. 2020

	Primary		Manufacturing		Services	
	Industry	Decline in investment (US\$ million)	Industry	Decline in investment (US\$ million)	Industry	Decline in investment (US\$ million)
<i>Commonwealth total</i>						
	Coal, oil and gas	–1,442.0	Metals	–1,457.0	Real estate	–5,992.5
			Food and beverages	–355.8	Financial services	–1,367.0
			Electronic components	–311.3	Hotels and tourism	–734.1
<i>Commonwealth region</i>						
Africa	Coal, oil and gas	–1,030.5	Chemicals	–752.0	Transportation and warehousing	–357.9
	Minerals	–34.6	Metals	–743.4	Financial services	–191.1
			Building materials	–276.6	Hotels and tourism	–183.6
Asia	Coal, oil and gas	–384.8	Paper, printing and packaging	–648.9	Real estate	–2,276.5
			Metals	–285.1	Financial services	–817.7
			Automotive OEM	–227.8	Communications	–227.8
Caribbean and Americas	-	-	Electronic components	–381.4	Renewable energy	–320.4
			Metals	–177.3	Software and IT services	–128.4
			Medical devices	–100.0	Hotels and tourism	–84.7
Europe	Coal, oil and gas	–21.9	Food and beverages	–73.9	Real estate	–3,431.0
	Minerals	–0.7	Automotive OEM	–72.3	Hotels and tourism	–221.9
			Wood products	–31.4	Financial services	–206.0
Pacific	Coal, oil and gas	–7.4	Metals	–386.9	Real estate	–230.1
			Automotive OEM	–121.1	Hotels and tourism	–189.6
			Food and beverages	–91.7	Communications	–189.4

Note: Figures for 2017–2019 are based on annual averages over the three-year period.

Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Ltd 2020)

3.4 Commonwealth FDI prospects to 2025

In the short to medium term, FDI prospects will continue to be determined largely by the trajectory of the COVID-19

pandemic and its eventual endpoint, with which the prospects for economic and trade recovery globally and in the Commonwealth are closely inter-twined. The outlook for global FDI flows remains challenging, with significant uncertainty. This may lead to further delays in the implementation of existing investment projects and cause investors to continue to defer investment decisions as they

exercise caution before committing capital to new investment projects. This will continue to act as a break on global FDI flows in the short to medium term.

Against this backdrop, the decline in FDI inflows to the Commonwealth is set to persist, at least up to 2022. That said, after the steep decline observed in 2020 (see Section 3.2.1), FDI inflows into Commonwealth countries are expected

to fall more moderately in 2021 and 2022. UNCTAD projections indicate that these inflows will decline by 18 per cent across the whole of 2021, followed by a further drop of 7 per cent in 2022. This would see the total value of FDI inflows to the Commonwealth decline to US\$136 billion in 2022, or a loss of around \$220 billion compared with 2019. Thereafter,

a U-shaped recovery is expected as global FDI flows begin to pick up.

The pace of recovery and future investment prospects for Commonwealth members is likely to vary significantly by their economic size and geography, the structure of their economies and the composition of their exports (see Chapter 1). Table 3.7

summarises the implications for investment in specific industries and sectors. Overall, greenfield investment in industrial sectors may be constrained for some time if investors remain hesitant to commit capital to new productive investments in an environment of significant uncertainty (UNCTAD, 2021a). This has major implications

TABLE 3.7
COVID-19 IMPACTS AND FUTURE INVESTMENT PROSPECTS FOR SELECTED SECTORS

Sector	COVID-19 impacts	Post-COVID-19 prospects to 2025	Commonwealth countries most affected/advantaged
Oil and gas	<ul style="list-style-type: none"> – Suppressed demand – Sharp fall in oil prices – FDI inflows constrained 	Demand boost expected as global economy rebounds	Canada, Trinidad and Tobago, Nigeria, Ghana
Other commodities	<ul style="list-style-type: none"> – Low commodity prices in 2020:H1 – Rebound in prices for some commodities in 2020:H2 	<ul style="list-style-type: none"> – Possible commodity supercycle on the way with rising commodity prices – Potentially improved prospects for resource-seeking FDI 	Commodity-dependent African members
Manufacturing	<ul style="list-style-type: none"> – Acceleration of pre-COVID headwinds: re-shoring constraining efficiency-seeking FDI, shift to regional market-seeking FDI and shortening of value chains – Investors hesitant to commit capital to new investments in industrial sectors owing to COVID-related uncertainty 	<ul style="list-style-type: none"> – Further structural shifts likely in manufacturing value chains, focusing on de-risking – Shortening of supply chains may benefit Commonwealth manufacturers located close to international production centres 	Commonwealth Asia and Africa members engaged in GVC-intensive manufacturing and exporting (e.g. Bangladesh, Sri Lanka)
Tourism	Restrictions on travel and social distancing measures severely affecting tourism activity	<ul style="list-style-type: none"> – Recovery contingent on policy developments (e.g. travel corridors, testing and quarantine) – Rollout of vaccines offers hope for wider reopening of international travel – Possibility of rapid growth and new investment owing to pent-up demand if COVID-19 induced restrictions on travel subside 	Commonwealth SIDS
Information and communication technology (ICT)/ digital sectors (see Chapter 2)	<ul style="list-style-type: none"> – Significantly less affected – Accelerated reliance on digital technologies, leading to rising demand for ICT equipment, internet and broadband solutions, digitally deliverable services, etc. 	<ul style="list-style-type: none"> – Demand for digital technologies and services likely to continue to grow – Growth in knowledge-seeking FDI into digital sectors should be sustained in the longer term 	Commonwealth countries with strong digital capabilities (e.g. India, Singapore, UK)
Health	<ul style="list-style-type: none"> – Massive pressure on health care resources – Amplified demand for medical solutions to combat COVID-19 	Growth in investment likely to be sustained	All

for the Commonwealth's developing members that rely heavily on greenfield FDI to provide the capital investment necessary to develop productive capacity for industrialisation, trade, economic transformation and new jobs.

In the aftermath of COVID-19 there are also likely to be further structural shifts in production and value chains, centring on the restructuring of GVCs to de-risk and build resilience to future crises. This may lead to shorter supply chains, resulting in some re-shoring that could benefit Commonwealth members located close

to international production centres (East and Kaspar, 2020; UNCTAD, 2020a). This will have implications for producers in Commonwealth Asia and Africa engaged in GVC-intensive manufacturing and export industries.

When the COVID-19 pandemic eventually ends and the world begins a transition towards normalcy, FDI can serve as an integral component of wider economic recovery in the Commonwealth and help build greater resilience to future crises, particularly in Commonwealth developing countries.

There remains hope for a recovery in long-term investment flows by 2022 (UNCTAD, 2020a). This, in tandem with the other developments discussed in the concluding section, may create opportunities for Commonwealth member countries to attract higher levels of FDI. For example, the rapid recovery in economic growth in China is likely to create early opportunities to further leverage Chinese infrastructure investment in the Commonwealth (Box 3.5) as part of broader efforts to build back better after the pandemic.

BOX 3.5

CHINA'S GROWING INFRASTRUCTURE INVESTMENT IN THE COMMONWEALTH

Chinese investment in the Commonwealth, especially in developing African and Asian members, has accelerated over the past two decades. Overall, Chinese FDI flows into Commonwealth countries averaged US\$13.7 billion annually between 2017 and 2019.¹⁰

In African member countries, China is a major source of investment through commercial loans and FDI in transport, power and telecommunications infrastructure projects. Chinese investments have also been directed into infrastructure supporting productive capacity, including through export-oriented industrial parks and/or special economic zones in Kenya, Malawi, Mauritius, Mozambique, Nigeria, South Africa and Tanzania.

Much of China's recent investment has been channelled through the Belt and Road Initiative (BRI). Announced in 2013, the BRI aims to promote regional integration and economic growth through enhanced connectivity generated by means of investments in infrastructure and other areas. There is widespread involvement in the BRI among Commonwealth countries in Africa, Asia, the Caribbean and the Pacific.

In Africa, several on-going or recently completed port development projects have targeted improvements in port performance and connecting infrastructure. These include BRI-linked finance and construction projects in Cameroon, Ghana, Kenya and Nigeria (EIU, 2021). In South Asia, the corridor economies of Bangladesh and Pakistan have benefited from the bulk of BRI-related investments. In the Pacific, significant BRI projects to strengthen both hard and soft infrastructure are underway in Tonga.

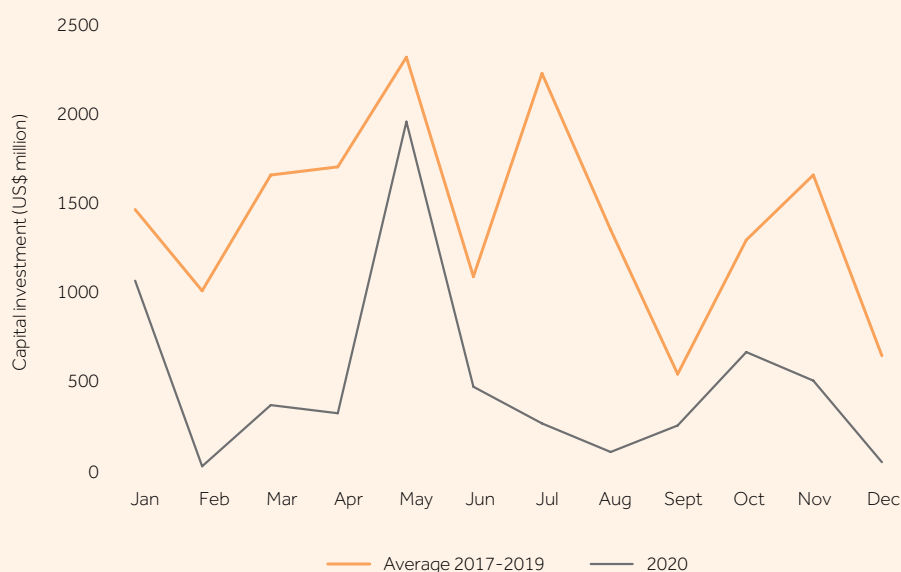
The Digital Silk Road (DSR), a component of the BRI launched in 2015, is a growing conduit for Chinese investment in telecommunications in Commonwealth countries. The DSR is helping develop China's own technological independence while also positioning the country at the centre of global technology networks (Hillman, 2021). This has contributed to the intensification of USA-China competition in technology-related sectors, spurred by China's growing digital investments globally and its expanding influence in the realm of telecommunications infrastructure and digital technologies.

China also plays a lead role in the New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB), which have a core focus on infrastructure development. While these development banks still account for a relatively small share – estimated at 5 per cent in 2020 – of new lending disbursed by international financial institutions (Bird, 2020), they are well

capitalised and appear to possess the capacity to scale up their infrastructure investment operations.¹¹ The AIIB has also managed to rapidly switch focus to support countries' responses to the pandemic, including through a dedicated COVID-19 Crisis Recovery Facility.

In line with the general picture globally (see Section 3.3), the pandemic has adversely affected Chinese FDI in Commonwealth countries. The Chinese economy contracted for the first time in four decades during the first quarter of 2020. This had a knock-on effect on Chinese greenfield FDI for much of 2020, with the monthly values of announced capital investments in Commonwealth countries lower than the averages for 2017–2019 (Figure 3.14). With Chinese economic growth registering a rapid recovery in the final quarter of 2020 (during which the economy expanded at a faster rate than before the COVID-19 crisis), a return to pre-pandemic levels of Chinese investment in the Commonwealth is unlikely to be far away.

FIGURE 3.14
ANNOUNCED CHINESE GREENFIELD FDI IN THE COMMONWEALTH, 2017–2019 AVERAGE VS. 2020 (US\$ MILLION)



Note: The total value of investment for September 2020 excludes an outlier in the form of a very large announced capital investment of US\$13.6 billion in the coal, oil and gas sector in Brunei Darussalam.
Source: Commonwealth Secretariat (calculated using fDi Markets data, from the Financial Times Limited 2021)

3.5 Conclusion and way forward

This chapter has examined investment trends in the Commonwealth and explored the impact of COVID-19 on these flows. It has shown that most Commonwealth countries experienced

a significant decline in FDI inflows in 2020. Greenfield FDI was hit especially hard, with notably fewer project announcements in all four quarters of 2020 compared with pre-pandemic averages. This has generally translated into significantly lower levels of capital investment and steep declines in the estimated number of jobs created through these investments. As countries look beyond the pandemic

and start developing policy frameworks to support a more inclusive and sustainable recovery, they should carefully consider the following issues.

First, Commonwealth countries could face more competition to attract FDI inflows as a result of increased divestment, investment diversion and changes in the key locational determinants of investment, as well as

a generally shrinking pool of efficiency-seeking investment (UNCTAD, 2020a). However, they could also benefit from opportunities to attract investors looking to diversify supply bases and increasingly prioritising market-seeking FDI (East and Kaspar, 2020; UNCTAD, 2020a). For example, MNEs are reportedly considering diversifying out of China because of rising operating costs, supply chain restructuring and the effects of the USA-China trade and technology conflict (see Chapter 4). Although some Commonwealth Asian economies could possibly benefit from this shift of light manufacturing investment, Africa's low costs and attractive market also make it a logical geographic choice, although this is not without many challenges (Xu et al., 2017; Altenburg, 2019).

Second, Commonwealth developing countries and LDCs must create incentives to mobilise domestic savings and FDI inflows into investments in productive capital, including new technologies to upgrade existing sectors or in pursuit of future diversified opportunities, including ICT-enabled digitally deliverable services (see Chapter 2). FDI can be targeted to develop exporting capacities, but this will require trade promotion policies to attract investment into these sectors and generate a supply response. For example, LDCs could take advantage of favourable tariff preferences and rules of origin in developed economies and some developing countries, like China, to attract investment in new facilities and, where possible, export tariff-free to these markets. It is not uncommon for China to impose tariffs of 25–30 per cent on imports, so this is a huge advantage.

Third, regional trade and integration developments will continue to shape FDI

prospects for Commonwealth countries, especially the African Continental Free Trade Area (AfCFTA) and the Regional Comprehensive Economic Partnership (RCEP) in Asia-Pacific (see Chapter 4). The AfCFTA will enable greater intra-African investment, especially by Commonwealth African countries, which contributed over 70 per cent of announced intra-African greenfield FDI from 2010 to 2020, on average, and 85 per cent in 2020.¹² These countries may also benefit from greater investment inflows as a result of this new continental trade deal, particularly if agreement is reached on an AfCFTA Investment Protocol. Negotiations on investment provisions in the AfCFTA are seeking to establish a framework and commitments around investment governance to boost intra-African investment, while also creating a platform for African countries to undertake investment negotiations with third parties.¹³ This will support efforts to attract market- and efficiency-seeking FDI into African countries (Chidede, 2020). Similarly, RCEP, which represents one of the world's largest trade and investment agreements and includes five Commonwealth countries (Australia, Brunei Darussalam, Malaysia, New Zealand and Singapore), is likely to boost investment flows to the Commonwealth's Asia-Pacific members. The signing of the RCEP is a positive signal to investors of the region's commitment to investment integration and liberalisation around a rules-based regional investment regime.

Fourth, the Commonwealth advantage in investment (outlined in Box 3.2) means investments from Commonwealth partners should remain a key source of FDI inflows into Commonwealth economies up to 2025 and beyond. Intra-Commonwealth

FDI can play a key role in supporting economic recovery and building greater resilience in Commonwealth countries post-COVID-19. Moreover, the Commonwealth has a strong diasporic community with considerable potential for diaspora investment, although this has yet to be realised (Commonwealth Secretariat, 2018b).¹⁴ Mobilising diaspora savings, including through bonds or crowdfunding investment platforms, can lead to new business opportunities, connect investors and innovators and build a strong foundation of investment that can potentially jumpstart FDI in these countries (Manlan and Ojomo, 2020). In some countries, diaspora investment has had greater developmental benefits than other FDI by being more stable, creating local employment and having more significant spill-over effects (Riddle and Nielsen, 2011).

Finally, at the multilateral level, the discussions in the Joint Statement Initiative on investment facilitation by some World Trade Organization (WTO) members may result in outcomes that boost FDI inflows to Commonwealth countries. These discussions have focused on ways to streamline investment procedures, the role of the WTO in investment facilitation and possible multilateral rules in this area.¹⁵ They are expected to serve as a basis for formal negotiations towards a multilateral agreement on investment facilitation. However, trade multilateralism remains at a crossroads and there is widespread recognition that the WTO needs strengthening and reform to remain credible and relevant for tackling new and emerging trade and trade-related issues beyond the pandemic, as discussed in the next chapter.

Annex 3.1 Concordance for fDi Markets industries to broad sectors

fDi Markets industry	Broad sector
Coal, oil and gas	Primary
Minerals	Primary
Aerospace	Manufacturing
Automotive components	Manufacturing
Automotive OEM	Manufacturing
Biotechnology	Manufacturing
Building materials	Manufacturing
Business machines and equipment	Manufacturing
Food and beverages	Manufacturing
Ceramics and glass	Manufacturing
Chemicals	Manufacturing
Consumer electronics	Manufacturing
Consumer products	Manufacturing
Electronic components	Manufacturing
Engines and turbines	Manufacturing
Industrial equipment	Manufacturing
Medical devices	Manufacturing
Metals	Manufacturing
Non-automotive transport OEM	Manufacturing
Paper, printing and packaging	Manufacturing
Pharmaceuticals	Manufacturing
Plastics	Manufacturing
Rubber	Manufacturing
Semiconductors	Manufacturing
Space and defence	Manufacturing
Textiles	Manufacturing
Wood products	Manufacturing
Business services	Services
Communications	Services
Financial services	Services
Health care	Services
Hotels and tourism	Services
Leisure and entertainment	Services
Real estate	Services
Renewable energy	Services
Software and IT services	Services
Transportation and warehousing	Services

Note: The sector concordance follows UNESCAP (2020).

Endnotes

- 1 Global FDI inflows were US\$1.5 trillion in 2019, only marginally above their level (\$1.2 trillion) immediately after the global financial crisis in 2009, and down from \$2 trillion in 2015 (UNCTAD, 2020a).
- 2 A greenfield investment involves the initiation of a new venture in which a parent company builds its operations in a foreign country from the ground up (Commonwealth Secretariat, 2018a). This may involve constructing production and processing facilities, building new distribution hubs and offices, or developing project sites. Such investments can have significant economic impacts in Commonwealth countries – often greater than those of other forms of FDI – because they involve injections of new capital supporting the development of productive capacity and creating new jobs in the host economy. Greenfield investments typically play a more important role in FDI in emerging and developing economies (OECD, 2020c).
- 3 Based on the latest available UNCTAD data capturing bilateral FDI inflows between 42 Commonwealth countries.
- 4 The dominant global investors in the Commonwealth include several of the world's largest and most powerful economies. Between 2010 and 2019, 61 per cent of greenfield FDI inflows to the Commonwealth from non-Commonwealth partners originated in five countries: the USA (27 per cent of inflows from the rest of the world), China (12 per cent), Japan (8 per cent), Germany (8 per cent) and The Netherlands (6 per cent). Greenfield investments from these countries were mostly concentrated in a small number of Commonwealth members, with India, Malaysia, the UK, Australia and Canada featuring prominently.
- 5 Computed as $(EXP(0.244) - 1) * 100 = 27.4\%$
- 6 A greenfield investment involves a company building its operations in a foreign country from the ground up. In contrast, a brownfield investment involves a company purchasing or leasing an existing facility.
- 7 <https://www.smefinanceforum.org/data-sites/msme-finance-gap>
- 8 See Balchin (2020) for a broader analysis of COVID-19 impacts on overall greenfield FDI in the Commonwealth.
- 9 These estimates are drawn from fDi Markets data tracking the number of jobs planned to be created through greenfield investment projects.
- 10 Calculations based on UNCTAD's bilateral investment data.
- 11 The AIIB's estimated US\$100 billion capitalisation represents around two-thirds of the capitalisation of the Asian Development Bank and half of that of the World Bank (Campbell, 2021).
- 12 Calculated using fDi Markets data, from the Financial Times Limited 2021.
- 13 A rules-based continental framework covering issues such as investment facilitation, investment protection and investor obligations can help promote, facilitate and protect investors while also lowering investment transaction costs in Africa.
- 14 A survey of diaspora communities in the UK from six Commonwealth countries – Bangladesh, Fiji, Ghana, Jamaica, Kenya, and Nigeria – found that over 80 per cent of business owners and over 60 per cent of professionals expressed an interest in saving or investing in the Commonwealth country with which they had a connection. Moreover, potential diaspora investors are frequently entrepreneurial, with more interested in setting up a business than any other form of investment (Commonwealth Secretariat, 2018b).
- 15 Discussions have focused on issues such as streamlining and speeding up administrative procedures, domestic co-ordination, cross-border co-operation, provisions for temporary entry for investment persons and the facilitation of movement of businesspersons for investment purposes.

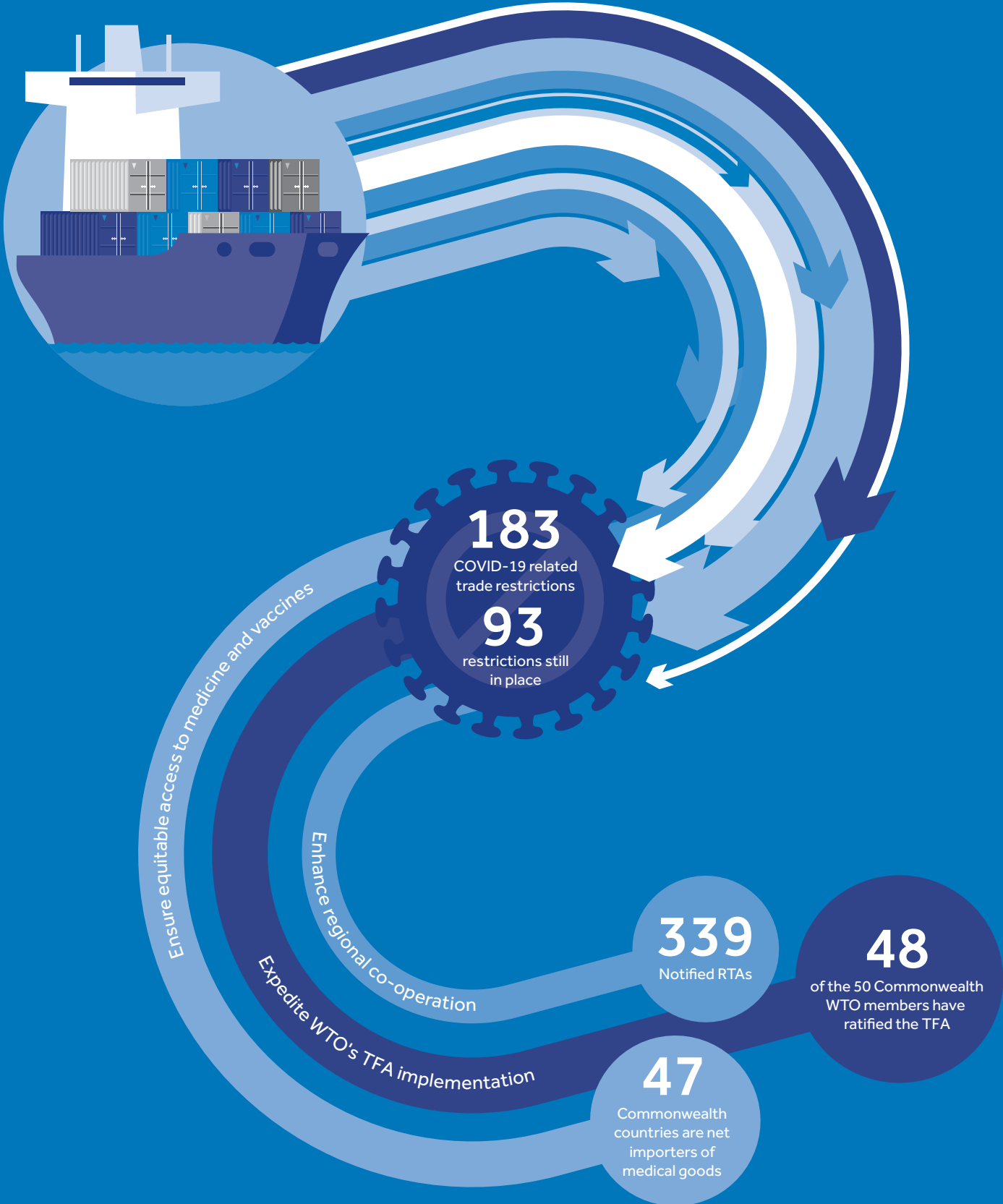
Chapter 4: Multilateral and Regional Trade Responses to the Pandemic

The Commonwealth and its members are committed to free trade in a transparent, inclusive, fair and open rules-based multilateral trading system, which takes into account the special requirements of least developed countries and small and vulnerable economies. However, COVID-19 has affected trade multilateralism in several ways. Some World Trade Organization (WTO) members have adopted unilateral measures to restrict exports, from food to medicines and vaccines, while global logistics and supply chains have been disrupted. At the same time, global trade rules can help with ensuring access to vaccines. Regional co-operation has also enabled Commonwealth countries to sustain markets, pool resources and pursue regional responses to combat the pandemic.

This chapter examines some of the trade aspects of the global response to the pandemic, focusing specifically on multilateral developments and regional initiatives. Some of the key takeaways are:

- Several Commonwealth countries have been at the forefront of global advocacy to maintain open trade and supply chains. Countries that have implemented temporary measures to facilitate trade, like digitising paper processes, should permanently adopt these ad hoc measures.
- The pandemic has highlighted the need to strengthen the multilateral trading system to support recovery and preparedness for future crises and enhance global resilience. WTO reform initiatives should consider all members' views and voices.
- The WTO membership should strive to reconcile intellectual property rules and public health to help ensure affordable and equitable access to vaccines to help combat the pandemic and revitalise global trade.
- Regional co-operation has been critical for tackling the pandemic. Commonwealth countries can leverage regional trade agreements to build back better from the pandemic, including by developing regional value chains or developing model provisions for immediate co-operation in future crises.
- Commonwealth countries should urgently address implementation gaps in existing or new bilateral and regional trade agreements, including by adopting a whole-of-government approach and improving awareness of domestic stakeholders to benefit from the favourable preferences.

Recovery from the pandemic requires enhanced multilateral and regional co-operation to maintain supply chains, especially for vaccine production and distribution.



4.1 Introduction

The COVID-19 pandemic has significantly affected trade, investment and development prospects for most Commonwealth countries, as the previous chapters have demonstrated. A sustainable recovery hinges on successfully opening up economies, ending lockdowns and loosening restrictions on the movement of goods and people. This requires enhanced global and regional co-operation to contain the pandemic, mitigate its impact on trade, livelihoods and health, and ensure open trade and uninterrupted supply chains, especially for medical equipment and for the equitable access to essential vaccines for all. Indeed, the global economic cost of an unco-ordinated approach to vaccine distribution, including not vaccinating developing countries from the pandemic, has been placed at US\$9 trillion (ICC, 2020). This is greater than the combined gross domestic product (GDP) of Germany and Japan.

This chapter examines some of the trade aspects of the global response to the pandemic, focusing specifically on

multilateral developments at the World Trade Organization (WTO) and regional initiatives involving Commonwealth countries. This provides the overarching global and regional contexts and frameworks to situate the proposed policy actions for trade recovery in the next chapter.

The chapter is divided into five sections. Section 4.2, which follows, highlights some of the accomplishments of the multilateral trading system amid emerging challenges, including greater multipolarity and the changing composition of trade and supply chains, and the role of the Commonwealth in supporting trade multilateralism. Section 4.3 provides an overview of some ways COVID-19 has affected the multilateral trading system, including the importance of vaccine multilateralism to ensure affordable and equitable access to these lifesaving tools. Section 4.4 discusses recent regional trade and integration initiatives amid the pandemic and the scope for regional co-operation to support recovery. Section 4.5 concludes the chapter.

4.2 The Commonwealth and trade multilateralism

Trade is widely recognised as an indispensable tool for economic growth and sustainable development. Creating better trade opportunities has helped lift millions of people from poverty to prosperity in many regions and countries around the world (World Bank, 2018). The importance of trade-driven development is demonstrated by the growth in the WTO's membership over the past 25 years to 164 member states today, representing over 96 per cent of world trade and GDP.¹ This near-universality signifies the importance ascribed to stable and predictable rules-based trade by countries around the world, including the 50 Commonwealth members of the WTO, with The Bahamas in the process of acceding to the global body.

Global co-operation in the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have helped reduce global tariffs to historically low levels. Moreover, the WTO's binding rules on trade have largely prevailed in times of crisis and contributed to increased global trade and greater prosperity: the real volume of world trade has grown 2.7 times over since its formation in 1995 (WTO, 2020c). The amendment of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provides developing countries with legal policy space to access affordable medicine under WTO rules, and this has gained

greater attention in response to the COVID-19 pandemic. The entry into force in 2017 of the Trade Facilitation Agreement (TFA), together with its innovative approach to capacity-building and implementation support, have helped many developing countries streamline border procedures to expedite the flow of goods, which could increase global trade by up to US\$1 trillion per year (WTO, 2015). The broader WTO-led Aid for Trade initiative has assisted developing countries to address their trade-related capacity constraints. Notably, the WTO has handled 600 trade disputes since its formation, underscoring the cardinal importance of the dispute settlement function for the rules-based multilateral trading system. In another historic milestone for the organisation, in 2021, the first woman and representative of the African continent was appointed as the WTO's seventh Director-General.²

Despite these accomplishments, trade multilateralism is today at a crossroads at a time when certainty and stability in world trade are most needed, to tackle the COVID-19 pandemic and support recovery. The growth in WTO membership has been accompanied by greater diversity of interests and expectations for the role of the body in governing world trade. This has resulted in many challenges for the organisation and its membership, notably an incomplete Doha Round of negotiations³ and the paralysis of the Dispute Settlement Understanding once the Appellate Body ceased functioning in December 2019 (Remy, 2020). The lack of progress in multilateral rule-making has contributed to an impetus for deeper economic integration through bilateral or regional trade deals. Many of the new and emerging

issues and challenges for this century's global trading system were not on the horizon when the previous Uruguay Round was completed in 1994, be they health pandemics, climate change or the rapid digitalisation of trade, economies and work. In recent times, some WTO members have therefore launched initiatives from e-commerce to trade and health to address these shortcomings (see Chapter 5).

The changing nature and composition of trade and supply chains may also affect the prospects for trade multilateralism and have implications for Commonwealth countries. The reorganisation of global trade towards complex supply chains that began in earnest in the 1990s has already slowed or stopped over the past decade (UNCTAD, 2020a). Combined with the effects of near-shoring initiatives by governments and multinational enterprises, in future cross-border trade of intermediate parts and components of finished goods, especially over long distances, will become somewhat less important than today (Pigman, 2020). The overall mix of global trade will continue to shift towards digital goods and services, although there is the risk of a widening digital divide between and within countries, with many developing countries and least developed countries (LDCs) still largely offline, as was discussed in Chapter 2. Modes of manufacturing in many countries will accelerate their transition towards 3D printing and other frontier technologies (UNCTAD, 2021b), which can take place close to the point of goods' consumption or their assembly into higher value-added goods. On balance, increased use of 3D printing is likely to reduce the need to import intermediate and final goods from low-wage countries (ING, 2017). In

such an evolving environment, traditional sources of significant comparative advantage, such as low labour costs and concentrations of skills, are likely to decline in significance, at least in relative terms. Costs of transport will rise, particularly for heavy and bulky goods, as many governments and firms worldwide accelerate their efforts to achieve a global economy with net zero carbon emissions by 2050 (Pigman, 2020).

These transformations could leave some governments potentially less dependent on open trade rules, at least for physical goods, and more inclined to adopt unilateral re-shoring policies. In this context, and following the disruptions caused by the COVID-19 pandemic, the WTO will need to adapt to become more effective at promoting and facilitating trade in data, knowledge and information, so that WTO membership, with all its obligations, remains indispensable to every country (see Chapter 5).

A loss of confidence in multilateralism more broadly has led many WTO members to pursue unilateral measures, including in response to the pandemic, as discussed in the next section. However, the primary challenge for the multilateral trading system going forward is managing the WTO's rulebook for global trade in the face of the increasing geopolitical and geo-economic rivalry between the USA and China. The unresolved USA-China trade and technology conflict caused a significant contraction in global trade in 2019, including substantial effects on Commonwealth countries' trade flows (Box 4.1), and could hamper economic recovery post-COVID-19.

Against this backdrop, Commonwealth Heads of Government have regularly

declared their collective commitment to free trade in a transparent, inclusive, fair and open rules-based multilateral trading system, which takes into account the special requirements of LDCs and small and vulnerable economies.⁴ They have also raised concerns about the risks of protectionism to the global economy and underlined the importance of resisting all forms of this. Prior to the pandemic, in October 2019, Commonwealth Trade Ministers met and adopted a Commonwealth Statement on the Multilateral Trading System. For the first time, a caucus of all Commonwealth members of the WTO was convened in Geneva, chaired by New Zealand, to provide a forum for Geneva-

based representatives to undertake an informal exchange of views.⁵

For most Commonwealth members, especially small states, LDCs and sub-Saharan African (SSA) countries, the multilateral trading system offers the best hope for creating a more level playing field in world trade and providing a global platform to articulate and advance their trade and development interests, especially in times of global crisis like under COVID-19 as they battle the pathogen and protectionism. The next section examines how COVID-19 has affected trade multilateralism and the implications for these capacity-constrained countries.

BOX 4.1

IMPLICATIONS OF THE USA-CHINA TRADE CONFLICT FOR COMMONWEALTH COUNTRIES

In a study for the Commonwealth Secretariat, Ambaw and Draper (2020) use empirical and regression analysis techniques to assess the impact of the USA-China trade conflict on Commonwealth members' exports and examine the implications for their supply chain trade.

It is found that the USA-China conflict led to trade diversion in several Commonwealth countries. In normal times, US imports from China and Commonwealth members are positively correlated. Following the tariff hikes imposed by the US government, the growth of Commonwealth countries' exports to the USA declined sharply, reversing the upward trajectory witnessed before the onset of the tariff increases. The various rounds of tariff increases affected both tariffed and non-tariffed products alike (Figure 4.1). However, some Commonwealth Asian countries did marginally expand their exports to the USA. Alongside the drop in the Commonwealth's exports to the USA, the imports of Chinese products by Commonwealth countries increased, reflecting diversion of Chinese trade from the USA towards Commonwealth members.

The trade conflict also disrupted Commonwealth countries' supply chain trade. There was modest growth in exports of parts and components from the Asian region, reflecting the deeper integration of these economies in global value chains (GVCs). While the direct trade effect on supply chain trade was negligible for the other Commonwealth regions, the indirect spill-over effects on economic growth and investment flows could be substantial.

FIGURE 4.1
AVERAGE COMMONWEALTH EXPORT GROWTH TO THE USA FOR TARIFFED AND NON-TARIFFED PRODUCTS



Note: The charts indicate export growth relative to the average over the three-year period from Q2 2015 to Q2 2018.
Source: Ambaw and Draper (2020)

4.3 COVID-19 and trade multilateralism

The outbreak of the COVID-19 pandemic has affected trade multilateralism in multiple ways. Four areas are

highlighted and discussed below: the disruptions to in-person meetings and negotiations at the WTO (4.3.1); the unilateral use of trade measures to manage the health and economic consequences of the pandemic (4.3.2); the disruptions to global logistics and supply chains, including the transit of medicines, food and other essential goods (4.3.3); and the use of trade

rules to support affordable and equitable access to vaccines (4.3.4).

4.3.1 The shift to virtual and hybrid negotiations

The worsening of the pandemic in March 2020 triggered a sudden shift from in-person to virtual and hybrid forms of diplomatic communication and negotiation, including at the WTO (Pigman, 2021). The WTO’s 12th Ministerial Conference (MC12) was postponed on two occasions, while lockdown measures upended the WTO’s regular committee work and negotiations. This shift to online has created both technical challenges and innovative opportunities for developing countries’ participation in the WTO (Box 4.2).

The gains already reaped by beneficiaries of virtual and hybrid meetings suggest that new digital modes of operation are not likely to disappear after the pandemic. Greater virtual participation by officials in capitals will stay popular in developed and developing countries alike. Enhancing transparency around the WTO in capitals has increased its perceived legitimacy in an age of public diplomacy. Notwithstanding issues relating to digital connectivity, virtual meetings and negotiations also permit more participation by small states, LDCs and SSA countries on an on-going basis without increasing Geneva capacity and costs. Whether major WTO objectives are achieved going forward depends, in part, on how well current provisional arrangements for virtual and hybrid meetings and negotiations continue to operate ahead of WTO MC12.

4.3.2 Trade measures in response to COVID-19

Since the start of the pandemic, many WTO members, including the G20, have unilaterally used a range of trade policy

BOX 4.2**THE WTO GOES VIRTUAL: OPPORTUNITIES AND CHALLENGES FOR DEVELOPING COUNTRIES**

In a study for the Commonwealth Secretariat, Pigman (2021) conducted online interviews with several ambassadors and officials of Commonwealth countries in Geneva to better understand their experience with the shift to virtual and hybrid meetings and negotiating sessions at the WTO. Some of the issues and challenges that have arisen are:

- Technical barriers to online negotiating, including lack of digital connectivity in developing country capitals, online privacy and security concerns, communication logistics problems (e.g. time zones) and gaps in digital knowledge and skills;
- Negotiating format and design issues, including loss of the ability to communicate in person, increased participation in meetings by capital-based officials, the practicalities of organising virtual and hybrid meetings and training for virtual and hybrid meeting and negotiating; and
- Geopolitical and power issues.

Pigman provides four clusters of recommendations to maximise the opportunities and minimise the disadvantages that the shift has created, particularly for small states, LDCs and SSA countries:

1. Optimise the balance between in-person and virtual communication and negotiation after the pandemic;
2. Improve virtual and hybrid meeting practicalities (e.g. through technical upgrades to meeting rooms and software, or greater use of an asynchronous, online process for drafting and editing texts);
3. Survey and prepare to adopt new technologies to facilitate online/hybrid negotiating (e.g. gesture recognition software that may help decode body language cues, more sophisticated integrated chat apps or telepresence technology); and
4. Upgrade and expand training and capacity-building.

BOX 4.3**TRADE RESPONSES TO THE PANDEMIC**

From the outbreak of the pandemic to the most recent period of reporting at mid-October 2020, G20 economies introduced 133 COVID-19 trade and trade-related measures, 37 per cent of which were trade-restrictive – mainly export controls covering trade worth US\$111 billion. Although these measures restricted trade in the early stages of the pandemic, about 27 per cent had been rescinded by mid-October 2020. These trade-restrictive measures were on top of the existing stock of import-restrictive measures introduced since 2009 and still in force, affecting an estimated 10.4 per cent of G20 imports (WTO, 2020d).

Overall, many WTO members, including some Commonwealth countries, introduced 183 COVID-related trade-restricting measures. These measures span different time durations. By 19 March 2021, 93 trade-restricting measures with no specified end date were still in place, raising questions about their compatibility with WTO rules.⁶ The product coverage of these measures varies considerably, and mainly involves medical supplies and some foodstuff. Some of these measures were not immediately notified to the WTO as required by WTO rules to ensure transparency, making it difficult for other countries to make purchasing adjustments. In addition, export restrictions, although applied temporarily, have a long-lasting price effect on importing countries until former trade relations are restored (Deuss, 2017). Furthermore, governments may find it challenging to withdraw support previously given to sectors (OECD, 2020d).

tools to manage the economic, health and social consequences of COVID-19 (Box 4.3). Some of these measures aimed to ease imports by reducing or

exempting tariffs temporarily; others controlled or restricted exports in the face of global shortages. In both cases, the affected goods included

medical equipment (e.g. ventilators), personal protective equipment (e.g. surgical masks and gloves) and some food products (Vickers et al., 2020).

Besides affecting trade, these measures also had an indirect impact on some of the Sustainable Development Goals (SDGs), and this could hinder the achievement of these by the most vulnerable countries (Lee and Prabhakar, 2021). For example, non-tariff measures imposed in response to the pandemic, such as export licence requirements on food, had a direct and indirect bearing on SDG 2 related to hunger and food security by adversely affecting net food-importing countries, which include 34 Commonwealth countries. Similarly, the certification requirements for medicines for technical barrier to trade (TBT) reasons affected SDG 8, which concerns economic growth. Businesses involved in the export of medicines have had to absorb this increased compliance cost, which has reduced their earnings. However, this has positively affected the health and well-being of citizens (SDG 3) by ensuring medicines are safe and of the highest quality (ibid.).

By July 2020, all temporary trade restricting measures used by

Commonwealth countries had lapsed. However, there is another risk – that the limited production of vaccines and complex supply chains may lead some countries to impose export restrictions or stockpile to ensure they retain adequate supplies for reasons of public policy. This could have major implications for the ability of all Commonwealth countries – developed, developing and least-developed – to secure doses in sufficient quantity. Responding to COVID-19 and building back better necessitates lifting trade-restricting measures and enabling supply chains, which can help revamp production and the movement of goods across borders. This requires international co-operation to ensure the maintenance of open trade, as discussed next.

4.3.3 Facilitating trade and enabling supply chains

The COVID-19 pandemic has underscored the importance of well-functioning trade facilitation systems. Disruptions to transport and logistics

services, as well as additional checks and requirements owing to quarantine and sanitary measures, have affected cross-border trade, including the transit of medicines, food and other essential goods. In response to the pandemic, many Commonwealth countries temporarily implemented a range of digital trade-facilitating measures to streamline processes for clearing goods through borders (Box 4.4). Significant gains can be made, and sustained, if these temporary measures are made permanent post-COVID (see Chapter 5).

Several Commonwealth countries have also been strong advocates for maintaining open trade and functioning supply chains. In April 2020, New Zealand and Singapore issued a Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic. They committed to maintain open trade and supply chains by removing tariffs and export restrictions on several medical and agricultural and food products and to refrain

BOX 4.4

EXAMPLES OF COMMONWEALTH TRADE FACILITATION MEASURES IN RESPONSE TO COVID-19

- The Commonwealth Secretariat joined other multilateral organisations to develop an online COVID-19 Trade Facilitation Repository.⁷ This platform consolidates information on trade facilitation measures and provides institutional guidance material on responses to the pandemic.
- The UK government introduced temporary changes to its customs border processes, including transit and export procedures, which allowed traders, agents and Border Force staff to exchange documents electronically by email, fax and digital photographs (HM Revenues & Customs, 2020).
- The South African government adopted measures to permit the submission of electronic veterinary health certificates for importers of live animals and animal products in lieu of hard copies, subject to further verification of the documents directly with the veterinarian authorities of the exporting countries (WTO, 2020i).
- In the Asia-Pacific region, several trade facilitation measures were introduced in areas such as transparency and institutional co-ordination, simplification of customs procedures and import easing, digital trade, and transport and transit (UNESCAP, 2021).
- Grenada, St Vincent and the Grenadines, and Trinidad and Tobago expedited the introduction of ePhyto certificates to avoid delays and disruptions in the movement of fresh produce between them (Government of Trinidad and Tobago, 2020).

from imposing export restrictions. Other countries were invited to join this initiative (WTO, 2020e). At the WTO, a joint Ministerial Statement was issued by 47 countries, including 15 Commonwealth members,⁸ which, among other things, stressed the need for the international community to maintain supply chain connectivity and avoid adopting unjustified trade restrictions on products in response to the pandemic (WTO, 2020f).

In May 2020, Australia, Canada, Malawi, Malaysia, New Zealand, Singapore and the UK jointly issued a statement with other WTO members stating the importance of adopting trade measures that did not adversely affect trade in agriculture and agri-food products (WTO, 2020g). They furthermore encouraged WTO members to implement temporary trade facilitation measures, including digital trade-facilitating interventions such as allowing scanned or electronic copies of certificates of origin, to facilitate trade in agriculture and food products (see Chapter 5). The Ottawa Group, which includes five Commonwealth countries – Australia, Canada, Kenya, New Zealand and Singapore – took the lead to rescind any emergency measures, including trade restrictions, introduced in response to the pandemic (WTO, 2020h).

Commonwealth developing countries and LDCs could consider using these pandemic responses – namely, temporary trade-facilitating measures and global advocacy for enabling trade – as the basis for a proactive policy agenda to permanently adopt these *ad hoc* measures. This could include fast-tracking any relevant provisions of the WTO's TFA and using the TFA Facility and capacity support to do so. So far, 48 of the 50

Commonwealth WTO members have ratified the TFA, demonstrating their commitment to domestic reforms to facilitate trade. However, the degree and speed of implementing the TFA by developing countries is uneven, with Singapore being the only member to fully implement commitments (Figure 4.2). As highlighted in Chapter 5, Singapore has consistently been the world-class performer among Commonwealth members when it comes to logistics performance and offers valuable experiences and best practices in trade facilitation, especially paperless and digitalised trade, for fellow Commonwealth members. Seventeen Commonwealth countries are implementing more than 50 per cent of the Category A commitments, while only two countries are implementing more than 50 percent of the Category B commitments (i.e. those that require a transition period).⁹ The low rate of implementation of Category C commitments is partly explained by a transition period and conditioned upon receipt of technical assistance, as stipulated in TFA Article 14. Only two Commonwealth LDCs, Bangladesh and Rwanda, had on-going projects under Category C by the end of March 2021.

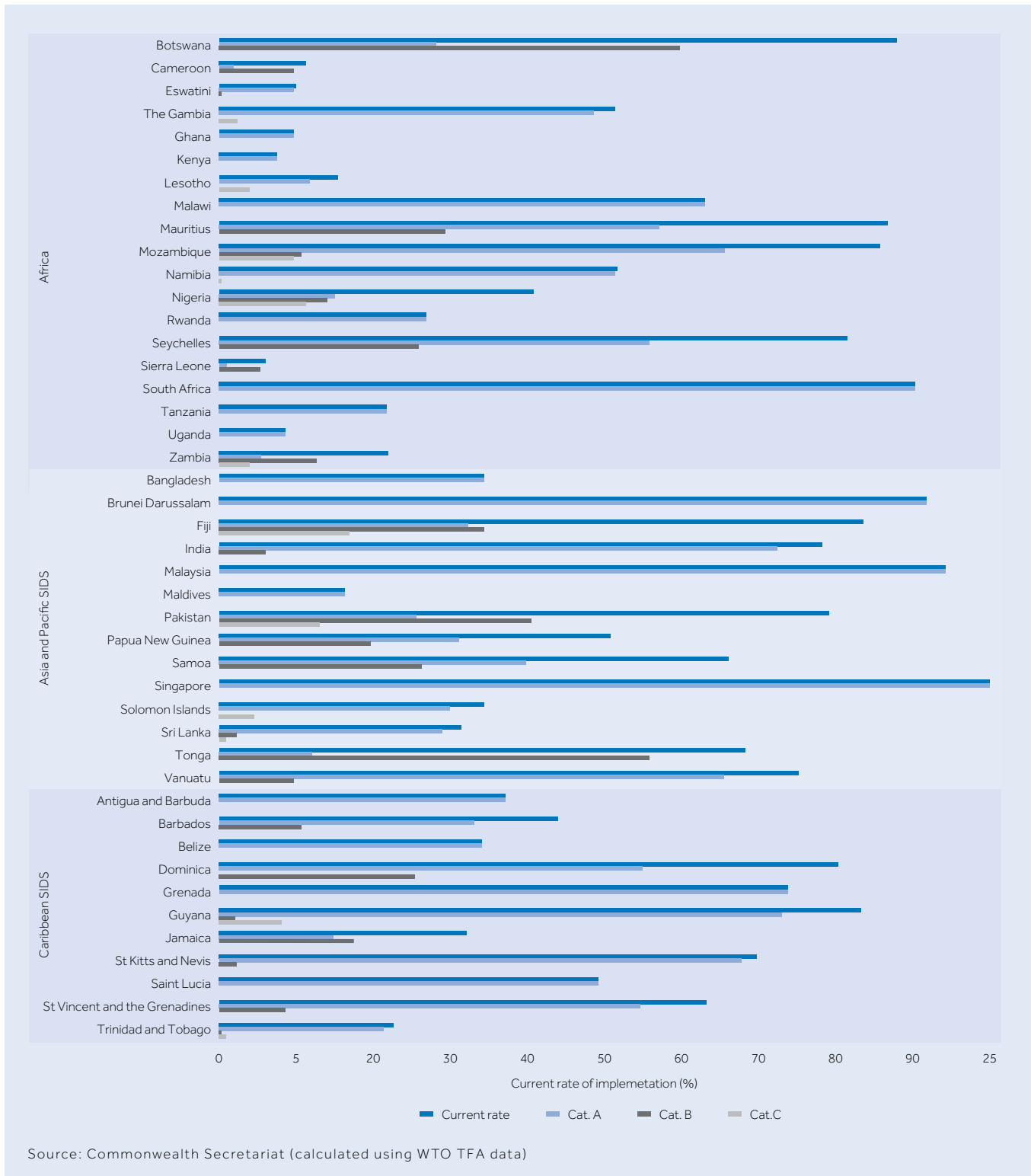
Through the TFA Facility, developing countries and LDCs can access the technical assistance and capacity-building needed to implement the Agreement, although several countries have raised concerns about increasing difficulties securing the required support (WTO, 2019). Since many Commonwealth African, Caribbean and Pacific countries are already engaged in trade facilitation initiatives at the bilateral and regional levels, in many cases the implementation of these regional deals will help anchor and achieve the WTO's TFA.

4.3.4 Ensuring affordable and equitable access to vaccines

Only a few Commonwealth countries have the capacity to manufacture vaccines, while 47 of the 54 Commonwealth members are net importers of COVID-related medical goods¹⁰ (Vickers et al., 2020). The WTO TRIPS Agreement, and specifically the Doha Declaration on TRIPS and Public Health (Box 4.5), which was noted earlier in the chapter as one of the WTO's achievements, provides a possible multilateral route for international co-operation in the development and distribution of affordable COVID-19 vaccines. Within academic and policy debates, there are innovative proposals, such as for a COVID-19 vaccine trade and investment agreement and fund, although this would require the leadership of vaccine-manufacturing countries, notably the USA (Bown and Bollyky, 2021).

To draw on the WTO rules, several Commonwealth countries, led by India and South Africa, with growing support from other WTO members, have requested at the WTO a general waiver to TRIPS for drugs, vaccines, diagnostics and other technologies related to COVID-19 (WTO, 2020j). The submission proposed a suspension of rights related to copyrights, industrial designs, patents and undisclosed information (trade secrets) for the duration of the pandemic (i.e. "until the majority of the world's population has developed immunity"). 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.¹¹

FIGURE 4.2
TFA IMPLEMENTATION BY COMMONWEALTH DEVELOPING COUNTRIES AS OF 19 MARCH 2021



Source: Commonwealth Secretariat (calculated using WTO TFA data)

BOX 4.5**DOHA DECLARATION ON TRIPS AND PUBLIC HEALTH**

The 2001 Doha Declaration on TRIPS and Public Health clarified specific flexibilities in the TRIPS Agreement for practical policy reasons aimed at protecting public health. It confirms the right of WTO members to use the flexibilities in the TRIPS Agreement for this purpose, including to grant compulsory licences and to determine the grounds on which such licences may be granted (WTO, 2001). Article 31*bis* of TRIPS, which came into force in January 2017, provides a mechanism to allow low-cost generic medicines, as well as drugs (and their active ingredients), vaccines, diagnostic tests and other supporting devices, to be produced and exported under a compulsory licence exclusively to serve the needs of those countries that cannot manufacture those products themselves.

However, most developing countries continue to face constraints and are unable to take full advantage of flexibilities such as compulsory licensing. The constraints include political and economic pressure from some industrialised countries, the complexity of implementing the licences in practice, inadequate institutional capacity and a lack of co-ordination between patent offices, government ministries and regulatory authorities (WTO et al., 2020). For example, there has been only a single example of the use of the special compulsory licensing system so far (under the waiver) and the slow pace of achieving a satisfactory result has been strongly criticised. Furthermore, finding countries with the required scale of approved facilities and capacity to manufacture and export medicines on a global scale, let alone for their own population, poses a huge challenge.

If granted, the waiver would enable capable WTO members to produce, develop and export generic vaccines to meet national and global demand. This will contribute to reducing disparities in vaccine rollouts and help in eliminating the virus before the mutating variants – some of which are more transmittable, deadly and even vaccine-resistant – become widespread. The granting of a waiver could also set a healthy precedent to combat such future global emergencies and human biosecurity challenges, and thus increase confidence in the multilateral trading system.

4.4 The Commonwealth and regional co-operation in times of crisis

Regional trade agreements (RTAs) continue to flourish, both in response to limited progress at the multilateral

level and based on aspirations to deepen trade and investment relations – and, in some cases, expand digital economies (see Chapter 2) – between regional neighbours or significant global partners. By February 2021, there were 339 RTAs notified to the WTO and there are on-going negotiations for new agreements.¹² This section examines the participation of Commonwealth countries in RTAs and the continuing importance of regional co-operation in times of crisis like COVID-19. It first highlights some of the recent positive RTA developments since 2018 (4.4.1). It then demonstrates how regional co-operation has been helpful in addressing COVID-19 (4.4.2) but argues that post-COVID recovery offers an even more valuable role for RTAs (4.4.3).

4.4.1 Regional developments in trade

In recent years, several RTAs involving Commonwealth countries have been completed or have entered into force (see Annex 4.1). They include the African Continental Free Trade Area (AfCFTA), the Pacific Agreement on Closer Economic Relations (PACER)-Plus, the Regional Comprehensive Economic Partnership

(RCEP) covering the Asia-Pacific region and the UK's raft of trade agreements with Commonwealth countries to ensure trade continuity and enhance trading opportunities post-Brexit, which are discussed in greater detail in Chapter 5.

Since RTAs seek to deepen economic relations, most are designed to go beyond the WTO in depth and coverage of policy areas, such as e-commerce, investment, competition and digital trade policies, while others span policy areas such as labour standards and the environment (WTO, 2011). New agreements are also taking shape, such as the Digital Economy Partnership Agreement involving New Zealand and Singapore, which some regard as a model for next generation agreements in this area (Box 5.6 in Chapter 5). Commonwealth African members are also leading the way in developing reciprocal trade with the world's two largest economies: China signed its first free trade agreement (FTA) with an African country, Mauritius, in 2019, while Kenya could be the first SSA country to successfully negotiate an FTA with the USA after negotiations

with the Southern African Customs Union (SACU) ended indefinitely.¹³ In addition, there are notable inter-regional developments. In December 2020, Commonwealth countries belonging to the Organisation of African, Caribbean and Pacific States (OACPS)¹⁴ and the EU, including Cyprus and Malta as the two Commonwealth EU member states, announced a successor deal to the Cotonou Partnership Agreement, which expired the same year.

Most intra-Commonwealth trade takes place regionally, as discussed in Chapter 1, and this is enabled by multiple RTAs that are found to have a more significant impact on countries' exports than WTO membership, although the latter is also important (Commonwealth Secretariat, 2018a). Indeed, trade between Commonwealth countries is more than three times higher when they belong to an existing trade agreement.¹⁵ Even with many new agreements being

notified to the WTO, Commonwealth countries have no shortage of RTAs to grow their trade beyond the pandemic. For example, Africa has the most RTAs in the world, with some countries simultaneously belonging to two or three such arrangements (Vickers, 2017), while the growth of RTAs in Asia-Pacific has also created a complex situation with numerous overlapping agreements. Membership of multiple RTAs create a "spaghetti bowl" effect of

BOX 4.6

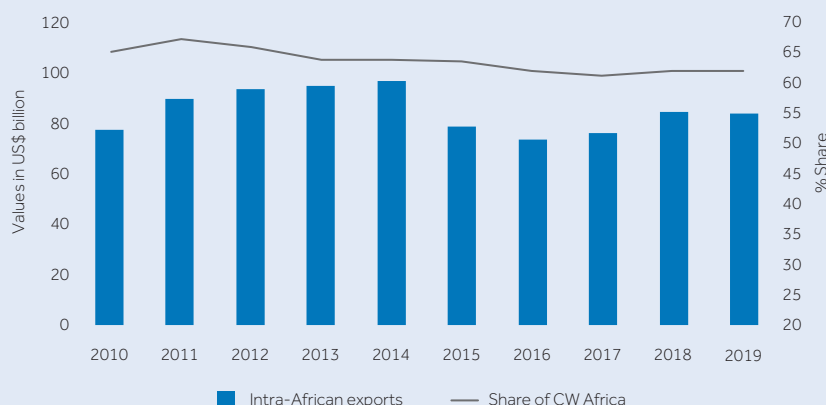
THE AFCFTA: A GAME CHANGER FOR AFRICA'S CONTINENTAL AND GLOBAL TRADE

The AfCFTA brings together 54 of the 55 African Union (AU) member states to create a single market for goods and services, with free movement of businesspersons and investments. Following a delay caused by COVID-19, trading started on 1 January 2021, and Commonwealth countries, including Ghana, Kenya and South Africa, are among the first to trade on the basis of the new preferences. The AfCFTA creates considerable opportunities for greater trade expansion in Africa, especially in food products, basic manufactures and services. Most importantly, the AfCFTA is expected to benefit small and medium enterprises (SMEs), which are responsible for more than 80 per cent of Africa's employment and 50 per cent of its GDP.

However, many African countries have historically found it easier to export outside the continent. In 2018, intra-Africa trade averaged 15 per cent, which is much lower than intra-regional trade in Asia (60 per cent) and Europe (80 per cent). The 19 Commonwealth SSA countries are significant traders, contributing almost two-thirds of intra-African trade (Figure 4.3). They are set to benefit significantly from the agreement, while LDCs have longer implementation periods and greater carveouts for sensitive products.¹⁶

Trade liberalisation under the AfCFTA has the potential to boost intra-Africa trade to over 25 per cent in the next decade. However, tariffs are not the biggest hindrance to intra-African trade and improvements in trade facilitation and logistics, and the elimination of other non-tariff barriers is likely to be of even greater importance in boosting trade further. It is also necessary to focus on building productive capacity, including regional value chains, and investing in infrastructure to connect, power and digitalise the world's second-largest continent. Yet, according to the AU Commission, the continent has an estimated annual infrastructure financing gap of US\$60–90 billion. This creates a major hurdle for building the single market.

FIGURE 4.3
SHARE OF COMMONWEALTH AFRICAN MEMBERS IN INTRA-AFRICA TRADE, 2010-2019



Note: The left vertical axis contains values of exports while the right vertical axis contains the share of 19 Commonwealth countries in intra-Africa trade of goods and services.
Source: Commonwealth Secretariat (calculated using UNCTADstat and OECD-WTO BaTIS datasets)

BOX 4.7**RCEP AND TRADE AND INVESTMENT IMPLICATIONS FOR THE COMMONWEALTH**

RCEP creates the world's largest trading bloc, representing one-third of the global population and around 30 per cent of global GDP. Fifteen Pacific countries have signed the agreement, including Commonwealth members Australia, Brunei Darussalam, Malaysia, New Zealand and Singapore. India participated in the negotiations until 2019 but did not pursue this further.¹⁷ The agreement was signed on 15 November 2020 and is anticipated to take effect by 1 January 2022.¹⁸

RCEP is expected to provide a modest boost for trade because around 83 per cent of existing trade between the members (US\$2.3 trillion) is already preferential in nature under existing trade deals. The remaining tariff reductions have a long transition period, up to 20 years in some cases. Moreover, three key features of new generation FTAs – namely, environmental regulations, labour standards and intellectual property rights (IPRs) – are absent from RCEP.

The main strength of RCEP is the harmonisation of RoO in the existing FTAs between these economies, which effectively creates a single market for intermediary goods. This harmonised set of RoO and simple regional content rules are likely to boost trade in intermediate products, leading to further integration and diversification of regional supply chains. Two Commonwealth GVC hubs in this region, Malaysia and Singapore, could possibly benefit. In addition, RCEP members with relatively lower wages and production costs could attract new investment from multinational enterprises seeking to establish supply chains within the bloc and/or shift production out of higher-cost locations in the region.

Combined, RCEP members absorb around 30 per cent of Commonwealth countries' global merchandise exports. South Asian Commonwealth members - India, Bangladesh, Maldives, Pakistan and Sri Lanka – have notably strong trade relations with RCEP signatories. The limited proposed tariff reductions and the long transition period will alleviate concerns about preference erosion for many of these countries. Similarly, the trade flows of Commonwealth small states and LDCs in the Pacific region are less likely to be affected because of their pre-existing trade agreements with Australia and New Zealand and the relatively lesser focus of RCEP on tariff reductions.

There is also scope for investment diversion away from Commonwealth countries that are not members of the agreement, especially India, particularly if China pivots more investment towards RCEP signatories. Similarly, RCEP may result in even greater flows of intra-regional investment to China, to the detriment of countries outside the bloc.

Notwithstanding RCEP's potential to support growth in trade and investment, geopolitical issues and the future security relationships between the members could constrain the outlook. China's recent trade tension with Australia is a case in point. Beijing has restricted or banned various Australian imports, from beef and wines to timber and coal, for reasons that appear to be largely political. It is possible – but unlikely – that RCEP will be able to ease this mounting tension, especially since its dispute settlement mechanism is untested and limited in scope (Chuah, 2020).

overlapping trade rules and regulations, which may be confusing and costly for business (Baldwin, 2006). This is notably the case when businesses, especially micro, small and medium enterprises (MSMEs), must comply with different rules of origin (RoO) to benefit from a tariff preference. The implementation of mega-regionals like AfCFTA and RCEP could potentially rationalise some of these RTAs, harmonise some rules and standards and enable countries to better participate in regional or global

production networks, especially once trade recovers from the pandemic.

AfCFTA and RCEP are the world's largest trade agreements when measured, respectively, by number of members or economic size (Box 4.6 and 4.7). Once fully implemented, these agreements, together with other mega-regionals like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), will significantly reshape the global trading

landscape. Their implementation could provide an impetus for global growth and spur trade expansion elsewhere, also benefiting non-members. 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 present opportunities, there may be new challenges as well, ranging from

trade and investment diversion to more elaborate and encompassing standards and regulations, especially in the case of CPTPP. Commonwealth developing countries and LDCs, drawing on multilateral and bilateral development assistance, including Aid for Trade, should proactively strengthen their capacity to comply with such new requirements and standards in world trade (Commonwealth Secretariat, 2015).

To tide over during the COVID-19 pandemic, Commonwealth policy-makers should give the highest consideration to boosting regional trade and implementing existing RTAs, including with global partners. This could provide an important stimulus for economic recovery, especially for developing countries and LDCs with limited fiscal space. It can also help facilitate cross-border trade in medical, pharmaceutical, food and other essential goods. Rather than focusing only on tariff preferences to build regional markets, deeper integration involving behind-the-border measures is likely to result in more trade and investment. Effective regional co-operation and integration allow free movement of goods, services, investment and people – and, in some cases, data flows across borders – to enable competitive production of exports, and participation and upgrading in regional and GVCs. This requires enhanced co-operation on non-tariff measures (e.g. technical regulations and standards), improving connectivity (e.g. transport and logistics infrastructure), reducing trade costs (e.g. digitalised trade facilitation, one-stop borders in Africa and sectoral initiatives such as the Bangladesh-Bhutan-India-Nepal Motor Vehicles Agreement) and developing regional value chains

to trigger structural transformation. Strengthening regional integration is especially important for small states to address the constraints of small domestic markets and to enable them to benefit from economies of scale to augment their competitiveness (Commonwealth Secretariat, 2015).

While new trade deals have recently been signed, there are also many existing bilateral and regional trade agreements that are not being effectively implemented or utilised. Implementation of trade agreements generally takes a very long time, often decades, which implies that the negotiated outcomes often do not materialise immediately. For example, the Caribbean Forum (CARIFORUM) Economic Partnership Agreement (EPA) with the EU is its only EPA that includes services, and these provisions are generally more attractive than anything available at the multilateral level.¹⁹ However, Caribbean service suppliers, especially cultural services, artists and performers, have not been able to take full advantage of the agreement because they face barriers related to the mutual recognition of standards and difficulties in obtaining visas (European Commission, 2021). Post-Brexit UK trade relations with CARIFORUM could work to deliver real and meaningful market access in this area, especially given the large Caribbean diaspora in the UK, as discussed in the next chapter.

There are also costs associated with implementing trade deals, whether to generate supply responses or adjust domestically. Investments in “hard” infrastructure should be accompanied by improvements in “soft” infrastructure, including building key stakeholder awareness

and capacity, especially targeting women-led businesses and MSMEs. For such purposes, Commonwealth developing countries can draw on the WTO’s Aid for Trade initiative, while LDCs can develop productive partnerships with its Enhanced Integrated Framework for LDCs and the United Nations Technology Bank for LDCs. In addition, governments should consider adopting a multi-faceted work programme, backed by dedicated institutions with adequate financial resources and technical capacities, to guide the implementation of trade agreements and strategies (Commonwealth Secretariat, 2015). In times of crisis, like COVID-19, broader regional co-operation has also been effective in supporting emergency responses, from pooling resources to acquiring vaccines to ensuring undisrupted supply chains, as discussed next.

4.4.2 Regional co-operation during COVID-19

The pandemic has underscored the importance of greater regional co-operation and co-ordination to contain the virus and eliminate the pandemic. The following examples illustrate how regional co-operation, which is broader than trade-focused RTAs, has been helpful for this pandemic.

Africa

African countries, supported by the AU Commission and the Africa Centres for Disease Control and Prevention, have mounted a commendable collective effort to combat the COVID-19 pandemic, address the acute shortage of medical supplies on the continent and, more recently, enable the procurement of vaccines.

The African Medical Supplies Platform (AMSP)²⁰ was established in June 2020 to pool Africa's demand for medical supplies and maximise the continent's purchasing power (Crone, 2020).

In mid-January 2021, the ASMP commenced the COVID-19 Vaccine Pre-Order Programme and launched a new product category, "vaccine accessories", to enable members to procure ultra-low temperature freezers, syringes, needles and other equipment needed to store and administer vaccines. Additionally, to ensure the procurement of sufficient vaccines to achieve a target of immunisation of 60 per cent on the continent, the AU also set up the Africa Vaccine Acquisition Task Team to help acquire vaccines (Afreximbank, 2021). Several Commonwealth African countries also introduced measures to repurpose manufacturing capacity to support national and continental health care responses, as discussed in the next section about the potential for developing regional production and supply chains.

The African Export-Import Bank (Afreximbank) has a history of providing support to African economies in times of economic crisis. It has played a broader developmental role in the continent than simply providing concessionary export financing. In response to the pandemic, the Bank extended its facilities to finance the import of medical goods and vaccines. For example, it initially provided US\$100 million in financing to the ASMP. Later, it guaranteed combined loans of up to \$2 billion for AU member states to procure vaccines through the ASMP single-source platform (APO Group, 2021). Other Commonwealth regions could consider this innovative use of trade financing in times of crisis.

Asia

The South Asian countries have cooperated in unprecedented ways to tackle COVID-19. In March 2020, leaders of the South Asian Association for Regional Co-operation (SAARC) hosted their first high-level meeting since 2014 to determine a regional response to the pandemic. This meeting resulted in the creation of an emergency fund of over US\$18 million, to which three Commonwealth members – Bangladesh, India and Sri Lanka – pledged a combined \$16.5 million. India contributed \$10 million of that total. India also committed to providing online training for emergency responders, setting up a surveillance platform to manage the outbreak and providing masks and other medical equipment to the worst-affected countries. SAARC also set up a website to track the development of COVID-19 cases across the region.

Importantly, India is one of the few Commonwealth developing countries with the capacity to develop, or even manufacture, their own vaccines.

The Serum Institute of India is the world's largest vaccine manufacturer by volume. The company is scheduled to reach production of 100 million doses of COVID-19 vaccine a month by March 2021. Bangladesh also has a significant pharmaceutical industry (Vickers et al., 2021).

Caribbean

The Caribbean Public Health Agency (CARPHA) activated its Incident Management Team-Emergency Response in January 2020 to prepare for and respond to the threat of the pandemic. The organisation has since provided guidelines to governments in managing and controlling the spread of the virus, trained health care workers

and procured test kits and masks. It has also partnered with the Pan-American Health Organization and other international public health bodies to deliver maximum impact. Additionally, CARPHA has prepared guidelines for the safe reopening of borders to assist with resumption of economic activities, especially tourism (CARPHA, 2020).

In April 2020, the Caribbean Community (CARICOM) Heads of Government established a regional pandemic response. They agreed to collectively approach international financial institutions to seek financial resources to meet the fiscal challenges brought about by the pandemic. CARICOM has also continued its campaign for donors to consider additional criteria in determining eligibility for aid, such as the vulnerability of each country (CARICOM, 2020). The Caribbean Economic Recovery and Transformation Plan has been set up to address these and other concerns (Comissiong, 2021).

Pacific

The Pacific Humanitarian Pathway for COVID-19 (PHP-C) was established in April 2020 to bolster the regional response to the pandemic. It addresses five areas affected by border restrictions: the deployment of technical personnel to and between Forum Island Countries (FICs); immigration, customs and biosecurity; repatriation of FIC nationals to their homes; and clearance of planes and ships transporting medical and humanitarian aid, technical personnel and FIC nationals. Its aim is to expedite assistance and co-operation between FICs by enabling the provision of medical and humanitarian assistance from regional and international development partners (Pacific Co-operation Foundation, 2020).

Australia has funded the operationalisation of the PHP-C, providing US\$5.5 million to the World Food Programme to support efforts to manage COVID-19 in the region. Of this amount, \$4 million was dedicated to air transport and logistic services for the PHP-C, the delivery of humanitarian and critical medical supplies and the assessment of the impact of COVID-19 on food security in the Pacific (Payne et al., 2020). Australia has also pledged to procure COVID-19 vaccines for the Pacific through its Partnership for Recovery strategy, committing \$80 million to the COVAX Facility Advance Market Commitment to improve vaccine access for the Pacific and Southeast Asia countries. In addition, Australia intends to establish a \$304.7 million COVID-19 Recovery Fund over two years as part of a Pacific-Step-up to assist in addressing the social and economic costs of the pandemic in the region.

These developments signify the importance of continued regional co-operation to support health care responses and recovery from the pandemic in Commonwealth countries in Africa, Asia, the Caribbean and the Pacific. However, RTAs can also be used to build back better, as discussed in the next section.

4.4.3 Leveraging RTAs for recovery and resilience

Commonwealth countries can leverage RTAs to build back better from the pandemic by strengthening existing agreements and their provisions or when negotiating future ones. Policy-makers could focus on three issues, among others.

Strengthen provisions in RTAs to enable co-operation in times of crisis

Trade agreements can facilitate regional trade in times of emergency, especially

the flow of essential products such as food and medicine, by reducing tariffs, internal taxes and administrative fees, and digitising trade facilitation systems to reduce paper-based trade (see Chapter 5). Governments should also adhere to their WTO transparency obligations, publishing details about their response measures (Tan and Zhang, 2020). There may be an opportunity to improve certain norms and rules in RTAs to ensure that trade is disrupted to the least extent possible in case of emergencies, and to facilitate recovery from crises. This could involve developing model provisions for RTAs and other trade agreements to promote better trade co-operation and co-ordination in times of economic crisis and health pandemics (Bajit and Duval, 2020). For example, appropriate treaty provisions could be developed for medical goods, health care, sanitary and phytosanitary standards, TBT, conformity assessment in emergencies and food security (Muchopa, 2020).

Harness trade agreements as a tool for inclusive recovery

An inclusive recovery from the pandemic means that consideration of the impact of trade on women as workers, traders and consumers needs to be mainstreamed. COVID-19 has severely affected sectors that employ primarily women, including garments, tourism and hospitality, especially in small states, LDCs and SIDS (Kampel, 2020a). Women also constitute the largest share of informal cross-border traders, but in most cases RTAs do not cover these activities. RTAs could include provisions to better support women entrepreneurs who have been disadvantaged by the consequences of the pandemic and connect more women to the global economy (Bahri, 2020). This could involve

crafting gender-specific provisions in RTAs and creating mechanisms for countries to cooperate to address the challenges faced by women.

For example, in the case of the AfCFTA, the on-going negotiations of schedules for goods and services – and e-commerce in the future – provide an opportunity to address issues of interest to women. Flexibilities in scheduling countries' commitments creates some policy space to support emerging or infant sectors that are gender-sensitive by implementing longer liberalisation periods, while opening others to enhance competitiveness or attract investment. Lessons to improve women's economic empowerment through appropriate domestic regulation can also be gleaned from ongoing plurilateral discussions at the WTO (Kampel and Anuradha, 2021).

Build regional production and supply chains

COVID-19 has elevated existing policy debates about building greater resilience and self-sufficiency to tackle future crises and pandemics. This comes in the wake of scarcity of medical goods, export controls, over-dependence on single suppliers for specific goods and vaccine nationalism. There are proposals and initiatives related to re-shoring supply chains, reducing the length of supply chains and producing key medical devices and medicine at home, at least in some advanced economies with the technological capabilities (Baldwin and Evenett, 2020).

Since autarky is neither economically optimal, practical nor feasible for most Commonwealth countries, regional approaches could play a pivotal role, especially in Africa, Asia and the Caribbean, as already highlighted earlier in this section. This could take the form

BOX 4.8**TOWARDS “FACTORY SOUTHERN AFRICA”**

In Southern African countries, developing regional value chains offers an opportunity to broaden the manufacturing base and expand productive capacity. South Africa holds a unique position among countries in the region in terms of its scale of participation in GVCs, which cuts across a range of sectors, from agriculture and mining to automobiles and finance. This means South Africa is well placed to drive the formation of cross-country value chains within Southern Africa. In turn, South Africa’s regional neighbours have complementary capabilities that can support the development of these value chains built around South Africa’s existing linkages into GVCs (Farole, 2016).

Banga and Balchin (2019) identify “lead products” exported by South Africa in GVCs and the intermediate products that can enable other Southern African countries to link into South Africa’s GVCs by supplying inputs more competitively than existing sources. Botswana, Namibia, Zambia and, to a lesser extent, Mozambique repeatedly emerge as potentially competitive suppliers of intermediate inputs in the production of the top lead products exported by South Africa, including capital goods, machinery, pharmaceuticals, consumer goods and agro-processing products. Attention will need to be directed to enhancing productivity and competitiveness in the countries that are not currently capable of serving as competitive suppliers of intermediates into value chains for South African lead products, to ensure they are not excluded entirely from the development of regional value chains in Southern Africa. There is scope to leverage digital technologies to boost productivity and enhance the scale and sophistication of production in these countries. Supplier development or linkage programmes facilitated by South African lead firms mentoring regional suppliers can also help develop the latter’s productive capacity and enable them to meet quality and technical requirements.

More generally, the promotion of deeper regional integration in Southern Africa will aid the development of regional value chains. This should focus on eliminating remaining non-tariff barriers hindering trade flows in the region (which include customs inefficiencies, restrictive RoO, import bans, quotas and levies, and a range of TBT) as well as harmonisation of standards and licensing requirements.

of regional stockpiling of essential medical goods for global shortages or ramping up regional production by adding value to available inputs and cooperating with regional and global partners. Developing regional value chains can help reduce vulnerability, increase resilience and foster industrial development (Cordon, 2020). The experience of Africa has demonstrated the potential for Commonwealth countries to fast-track the development of regional value chains in health and possibly other areas. Developing regional value chains can also help Commonwealth African countries recommit to industrial development (Box 4.8), reduce trade dependence on non-African partners and further position themselves to combat future global shocks (Banga et al., 2020).

4.5 Conclusion and way forward

This chapter has examined some of the trade aspects of the global response to the pandemic, focusing specifically on the WTO and RTAs involving Commonwealth countries. With trade multilateralism under greater scrutiny and pressure, strengthening the rules-based multilateral trading system remains an important priority for the Commonwealth and for tackling the COVID-19 pandemic, in supporting recovery and pursuing the SDGs. Following the consensus appointment of a new Director-General and MC12 scheduled for November 2021, there will be an opportunity for the WTO membership to consider

the measures needed to restore confidence in the rules-based trading system and help revitalise world trade, as discussed in the next chapter.

The proliferation of RTAs in recent years is partly ascribed to, among others, the very slow progress in the multilateral trade negotiations, as manifested in the incomplete Doha Round and the rise of plurilateral initiatives, especially on digital trade (see Chapter 2). However, there is also a view that multilateralism and regionalism can co-exist and complement each other, especially if they create new trading opportunities and deepen liberalisation (WTO, 2011). 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, as well as designing RTAs that better prepare members for future crises.

Whether to multilateralise these rules is a matter for the WTO membership while taking into consideration the capacity constraints of small states, LDCs and SSA countries.

Multilateral and regional responses to the COVID-19 pandemic have been complementary and have reinforced each other, especially by facilitating supply chains, ensuring access to food supplies and pooling resources to acquire medical products and vaccines. In pursuit of the speedy delivery of vaccines, governments should consider fast-tracking relevant provisions of the WTO's TFA, as appropriate, while drawing on the TFA Facility and available technical assistance and capacity support for developing countries and LDCs. Furthermore, government procurement rules at the international

level that promote efficient trade and best practices in public procurement can help improve the accessibility and availability of affordable vaccines (WTO, 2020k; WTO et al., 2020).

Many Commonwealth countries are increasingly exploring trading opportunities through bilateral and regional trade deals, although the biggest challenge is implementation of these agreements to realise the intended benefits, especially for women-led businesses and MSMEs. Deeper integration rather than tariff preferences is more likely to result in increased trade within the regions of Commonwealth members. Developing regional value chains can also open opportunities for putting in place new manufacturing capacities to aid recovery from the pandemic and in preparation for future crises.

The significance of the RTA effect for intra-Commonwealth trade deserves further policy attention. It would suggest

that intra-Commonwealth initiatives to rationalise tariffs, strengthen trade facilitation and further reduce the costs of intra-Commonwealth trade, particularly among Commonwealth members that are members of RTAs, are likely to yield significant gains to Commonwealth trade. Moreover, it would also suggest that growth in intra-Commonwealth trade could possibly take place at a much faster pace now that the UK has established bilateral trade deals with many Commonwealth members, while there is the possibility of future agreements with Australia, Canada and New Zealand, as discussed in the next chapter. There is considerable scope to increase the UK's trade engagement with Commonwealth countries given its current low share of intra-Commonwealth trade (see Chapter 1). Having provided this overarching global and regional context, the next chapter examines 10 inter-related policy areas to support trade recovery in the Commonwealth and globally.

Annex 4.1 Major trade agreements involving Commonwealth countries, 2018-present

Agreement	Commonwealth members	Other parties	Entry into force	Policy areas
African Continental FTA (AfCFTA)	Botswana, Cameroon, Eswatini, The Gambia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sierra Leone, South Africa, Uganda, Tanzania, Zambia	35 African countries; Eritrea has not signed the AfCFTA	30 May 2019	Goods, services, investment, competition policy, e-commerce
Canada–USA–Mexico Agreement (CUSMA)	Canada	USA, Mexico	1 July 2020	Goods, services, government procurement, investment, IPRs, labour, environment
EU-Japan EPA	Cyprus, Malta	EU25, Japan	1 February 2019	Goods, services, environment, labour, public procurement
EU-Singapore Trade and Investment Agreement	Cyprus, Malta, Singapore	EU25	21 November 2019	Goods, services, investment, environment
Pacific Agreement on Closer Economic Relations (PACER)-Plus	Australia, New Zealand, Kiribati, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu	Cook Islands, Niue	13 December 2020	Goods, services, investment
Regional Comprehensive Economic Partnership Agreement (RCEP)	Australia, Brunei Darussalam, Malaysia, New Zealand, Singapore	Cambodia, China, Indonesia, Japan, Laos, Myanmar, Philippines, South Korea, Thailand, Viet Nam	15 November 2020	Goods, services, investment, IPRs, e-commerce, competition, SMEs and technical co-operation, government procurement
UK-EU Trade and Co-operation Agreement	Cyprus, Malta, UK	EU25	1 January 2021	Goods, services, investment, competition, data protection, digital trade
UK-CARIFORUM EPA	Antigua and Barbuda, Barbados, Belize, The Bahamas, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, Saint Lucia, UK (provisional application)* Bridging mechanism for St Vincent and the Grenadines and Trinidad and Tobago**	Dominican Republic, Suriname	1 January 2021	Goods, services, IPRs, government procurement and competition
UK-Pacific EPA	Fiji, Papua New Guinea, UK (provisional application)* Bridging mechanism for Samoa, Solomon Islands**	-	1 January 2021	Goods, services, IPRs, government procurement, competition

(Continued)

Agreement	Commonwealth members	Other parties	Entry into force	Policy areas
Southern African Customs Union and Mozambique (SACUM)-UK EPA	Botswana, Eswatini, Lesotho, Namibia, South Africa, UK	–	1 January 2021	Goods, services, IPRs, government procurement, competition
Eastern and Southern Africa (ESA)-UK EPA	Mauritius, Seychelles, Zimbabwe, UK	–	1 January 2021	Goods, services, IPRs, government procurement, competition
UK-Kenya EPA	Kenya, UK	–	Not yet ratified (bridging mechanism)	Goods, services, IPRs, government procurement, competition
UK-Singapore Free Trade Agreement (UKSFTA)	Singapore, UK	–	1 January 2021	Goods, services, IPRs, non-trade barriers in key sectors, such as electronics and pharmaceuticals
Comprehensive Economic Co-operation and Partnership Agreement (CECPA)	India, Mauritius	–	Awaiting signature	Goods, services, movement of natural persons, telecommunication, financial services
Digital Economy Partnership Agreement (DEPA)	New Zealand, Singapore; Canada has announced it will seek to join	Chile		Digital identities, e-invoicing, paperless trade, FinTech and E-Payments, personal data protection, cross-border data flows, open government data, data innovation and regulatory sandboxes, artificial intelligence, SMEs co-operation, digital inclusivity, online consumer protection

Notes: * Provisional application: a practice in international treaties to bring agreements into effect ahead of entry into force. ** Bridging mechanism: alternative means to ensure continuity of trade, where the UK or treaty partners are unable to fully ratify or provisionally apply an agreement. These non-binding mechanisms include memoranda of understanding or the exchange of diplomatic notes. As reported by the UK on 9 March 2021.

Source: Commonwealth Secretariat

Endnotes

- 1 There were 123 signatories to the 1994 Marrakesh Agreement, which established the WTO.
- 2 The new WTO Director-General is Ngozi Okonjo-Iweala of Nigeria. Furthermore, it is remarkable and celebratory that, for the first time in history, all three global trade bodies - the WTO, the United Nations Conference on Trade and Development (UNCTAD) and the International Trade Centre (ITC) - are led by women, two of whom are Commonwealth citizens. Pamela Coke-Hamilton is Executive Director of the ITC and Isabelle Durant is Acting Secretary-General of UNCTAD.
- 3 Paragraph 30 of the 2015 Nairobi Ministerial Declaration (WT/MIN(15)/DEC) notes that many members reaffirmed the Doha Development Agenda and their commitment to conclude this and that other members did not reaffirm the Doha mandate as they believed new approaches were required in order to achieve meaningful outcomes in the multilateral trade negotiations. This contributed to the stalling of Doha Round trade talks.
- 4 Paragraph 16 of the 2018 Commonwealth Heads of Government Meeting Communiqué "Towards a Common Future".
- 5 As of January 2021, the caucus has met twice to discuss topical multilateral trade issues, notably on WTO reform; this has included consultation and outreach by the Canada-led Ottawa Group.
- 6 Article XI of the GATT 1994 broadly prohibits export bans and restrictions but also provides a broad range of carve-outs, which allow members to impose such prohibitions and restrictions temporarily (2a, b and c). Article XI (2a), for example, allows members to impose export restrictions to prevent or relieve critical shortages temporarily. Article XX also allows countries to impose export restrictions under certain conditions that must be met. Such measures should also not constitute a means of imposing arbitrary or unjustified discrimination between countries, or disguised restrictions on international trade. If members impose restrictions on foodstuff temporarily, Article 12 of the WTO Agreement on Agriculture requires them to give due consideration to the food security of others.
- 7 <https://www.tfafacility.org/covid19-trade-facilitation>
- 8 Australia, Barbados, Canada, Guyana, Jamaica, Kenya, Mauritius, New Zealand, Nigeria, Papua New Guinea, Saint Lucia, Seychelles, Singapore, Solomon Islands and the UK.
- 9 The TFA sets a timeframe for developing countries and LDCs to implement measures designated into Categories A, B and C. Category A commitments were required to be implemented by 22 February 2017 for developing countries and 22 February 2018 in the case of LDCs. Category B recognises that developing countries and LDCs need more time to implement these measures. For Category C, developing countries and LDCs need additional time and capacity-building to implement the measures.
- 10 With the exception of Malta, the six net exporters are all located in Asia: Bangladesh, India, Malaysia, Pakistan, Singapore and Sri Lanka.
- 11 Some developing countries have countered that implementing such flexibilities under the TRIPS Agreement (Doha Declaration) is complex because the actions involved in obtaining a compulsory licence are cumbersome and time-consuming at a time-critical point in the effort to halt the pandemic. Lengthy negotiations with the IPR holder(s), including over remuneration, can also deter from the pursuit of more expeditious solutions.
- 12 https://www.wto.org/english/tratop_e/region_e/region_e.htm
- 13 In April 2008, SACU and the USA signed a trade, investment and development co-operation agreement (TIDCA) in lieu of an FTA.
- 14 The OACPS was formerly known as the African, Caribbean and Pacific (ACP) Group of States.
- 15 There is a strong positive effect on trade creation for all countries that belong to RTAs. A country's exports are found to be 115 per cent higher when trading with another RTA partner compared with a partner outside such an arrangement. However, Commonwealth exporters trade more than twice as much (230 per cent) because 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) (Commonwealth Secretariat, 2018a).
- 16 Under the AfCFTA, LDCs have 10 years to achieve 90 per cent liberalisation compared with five years for non-LDCs. Likewise, for the remaining 10 per cent of tariff lines, 7 per cent can be designated to sensitive products and 3 per cent can be excluded from liberalisation

entirely to safeguard domestic industries. LDCs also have 13 years to eliminate tariffs on sensitive products compared with 10 years for non-LDCs (Hartzenberg, n.d).

- 17 Reportedly because the negotiations failed to address its core concerns including demands for greater service access and mechanisms to address the potential adverse effects of lower tariffs on local producers.

18 RCEP will enter into force once six of 10 ASEAN members and three of five Dialogue Partners ratify it.

- 19 The CARIFORUM EPA secured major gains relative to General Agreement on Trade in Services (GATS) commitments, including in relation to Mode 4 and the temporary movement of people (among them graduate trainees). The Protocol on Cultural

Co-operation is innovative, and commitments undertaken in the entertainment services sector are viewed positively in relation to the emergence of the animation industry (Keane, 2016).

- 20 The ASMP comprises all AU member states and the 15 Caribbean Community (CARICOM) countries that are also Commonwealth member states.

Chapter 5: Pathways to Post-COVID Trade Recovery and Resilience Building

Trade can offer positive solutions to manage the COVID-19 pandemic, support economic recovery and spur the transition towards more inclusive and sustainable economies. The Commonwealth's diverse members will face varied opportunities and challenges and follow multiple recovery tracks based on the structure of their economies, the composition of their exports and their inherent features and vulnerabilities. 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.

Chapter 5 identifies and examines 10 inter-related policy areas for revitalising trade. Some of the key takeaways are:

- Global economic prospects over the next few years will determine trade recovery, although strengthened multilateral and regional co-operation will enable and enhance developing countries' participation in world trade, especially least developed countries and graduates.
- The UK's new trade agreements with Commonwealth countries offer untapped opportunities to expand trade and investment and deepen economic co-operation, including in services, digital trade and FinTech.
- Tourism-dependent countries need to implement recovery plans that address demand and supply factors, support domestic and regional travel, and make the industry more resilient, including by adopting digital technologies.
- Commonwealth countries can harness digital technologies to boost their trade recovery and improve competitiveness, adopt paperless trade, and promote more sustainable and circular trade, especially for agriculture and fisheries.
- Recovery efforts should be framed overall by the importance of ensuring inclusive trade for women and youth and especially promoting women's economic empowerment.

Commonwealth countries can follow multiple tracks to trade recovery and building resilience.



5.1 Introduction

Trade can offer positive solutions to manage the COVID-19 pandemic and will be an essential tool for economic recovery. With vaccines being distributed globally, many countries are starting to lift national restrictions, open economies and resume trade and travel. Each Commonwealth member country has its own unique pathway and policy options for recovery, although access to vaccines plays an indispensable part for all of them. Digital technologies can enable this economic recovery process, while vaccination programmes are likely to fare better in countries where supply chains and public health services are digitised. Overall, the outlook for Commonwealth countries' trade recovery is inextricably linked to global economic prospects (IMF, 2021b) as well as

the structure of their economy, the composition of their exports and their inherent characteristics and vulnerabilities, especially for least developed countries (LDCs) and small states. Commonwealth countries can also leverage regional trade agreements and regional co-operation mechanisms, discussed in the previous chapter, to grow their exports and build back better from the pandemic.

This chapter sets out some of the possible pathways for trade recovery from the pandemic. It identifies and examines 10 inter-related policy areas for revitalising trade, while ensuring inclusiveness, especially for women and youth, and promoting more sustainable trade and circular economy principles.

5.2 Strengthen and reform the multilateral trading system

An effective rules-based global trading system offers the best framework to enable an inclusive and sustainable recovery in world trade. This requires members of the World Trade Organization (WTO) to work collectively to strengthen and reform trade multilateralism to tackle this century's new and emerging trade issues and challenges (Soobramanien et al., 2019). However, the certainty and stability of the rules-based multilateral trading system is increasingly at risk from the geopolitical and geo-economic rivalry between the USA and China, the growing backlash against globalisation in many countries and the use of unilateral trade measures by some WTO members. More recently, complaints by the USA of "overreach" by the WTO's Appellate Body (AB), leading to its refusal to agree to new appointments as the terms of appointees expired, thereby rendering the AB dysfunctional (Remy, 2020), and China's attempts to advantage state-owned enterprises have aggravated existing tensions. There are also concerns that some parts of the WTO rulebook for managing world trade may be out-dated. These rules need to take into consideration the growth of trade in digital goods and services, changing modes of manufacturing and the challenges of climate change, natural disasters, environmental sustainability and biodiversity loss.

With a new WTO Director-General at the helm, the need to undertake some reform and strengthen the WTO system is widely recognised. For this

purpose, there are various proposals by WTO members and groups, for example the Canada-led Ottawa Group and the Africa Group. In October 2019, Commonwealth Trade Ministers reaffirmed their commitment to work constructively together and with other WTO members on the necessary reform of the organisation and urged that any reform in the WTO take into account the views of all members.

It could be useful to situate these discussions on reforming the WTO in the context of its founding purpose. The Preamble to the Marrakesh Agreement highlights the WTO's objectives as increasing incomes, helping create employment, supporting sustainable development and raising living standards (WTO, 1995). Moreover, the 2030 Agenda for Sustainable Development recognises the role of international trade – both directly and through its indirect influences in other areas – in achieving many specific Sustainable Development Goals (SDGs) and targets. For example, trade directly appears under seven goals concerning hunger, health and well-being, employment, infrastructure, inequality, conservative use of oceans and strengthening partnerships (UN, 2015). Bearing this in mind, the WTO should strive to respond to the needs of its more disadvantaged members by ensuring a level playing field in world trade and providing a platform for them to articulate and advance their trade and development-related interests. WTO members could consider several immediate and prospective actions to build a more robust rules-based trading system.

5.2.1 Immediate actions

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.

One of the WTO's key functions is promoting transparency and predictability in world trade by requiring members to notify their domestic measures affecting trade and submitting their trade policies for regular review. To enhance certainty in times of crisis, WTO members should work to strengthen disciplines on export restrictions. They can also improve the functioning of the regular working bodies to monitor trade policy responses to the pandemic, especially vaccine distribution, and ensure any measures are "temporary, targeted, proportional and transparent" (WTO, 2020). The WTO membership should also strive to reconcile intellectual property rules and public health to help ensure affordable and equitable access to vaccines to help revitalise global trade, the movement of goods and people and the opening of economies. Easing domestic regulations to ensure a ready supply of service providers in essential sectors like health care could also facilitate post-pandemic preparation (Kampel and Anuradha, 2021).

COVID-19 has underscored the importance of digital trade, especially e-commerce and the online delivery of certain services, for mitigating some of the consequences of the pandemic, as discussed in Chapter 2. With this in mind, WTO members should consider ways to accelerate e-commerce discussions in an inclusive manner to support the development of this digital trade sector. They could start by identifying any areas where convergence is possible. As these discussions progress, and

given the digital divide between WTO members, it is imperative to prioritise the development dimension to build digital trade capacity in developing countries and LDCs. It is also important to explore practical solutions to address many legitimate concerns of these countries, for example through a new and invigorated Aid for Digital Trade initiative (see Section 5.8) or drawing on the Trade Facilitation Agreement's innovative approach to implementation linked to capacity support.

A negotiated agreement on fisheries is long overdue and should be adopted at the 12th Ministerial Conference of the WTO (MC12).¹ Fish stocks are being depleted at unsustainable rates, affecting economic growth, food security and livelihoods in many coastal countries and communities, especially small states and small island developing states (SIDS). WTO members are seeking comprehensive and practical disciplines to prohibit specific forms of fisheries subsidies that contribute to overcapacity and overfishing, while also eliminating subsidies that contribute to illegal, unreported and unregulated (IUU) fishing, and considering effective and appropriate special and differential treatment for developing countries and LDCs. Since all major economies have an interest in the fisheries negotiations – and delivering the SDGs – there is a strong possibility of reaching an outcome.

The pandemic has also fuelled discussions on the need to maintain and enhance food security. In response to COVID-19, several producing countries adopted measures that restricted trade in food (see Chapter 4), while others resorted to stockholding to ensure sufficient domestic supplies.

This jeopardised the security of food supplies for many developing countries and LDCs, which rely on global markets to meet their food and nutritional needs. Some WTO members have stressed the need to reach an outcome on a permanent solution to public stockholding (PSH) to help ensure food availability, especially for the poor and the most vulnerable, during times of crisis. However, other developed and developing country members are cautious that some of these programmes may cause trade distortions and that products benefiting from PSH should not be exported.

5.2.2 Prospective actions

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.

An urgent priority is to ensure a functional Dispute Settlement Understanding (DSU) and AB, which is critical to preserve the rules-based multilateral trading system. As alluded earlier, on 10 December 2019, the AB was rendered dysfunctional, leaving the WTO without a credible enforcement mechanism and allowing losing parties to lodge appeals "into the void". Although WTO members have recourse to other dispute settlement alternatives, they are regarded as second best and some WTO members may not accept them. A sub-group of WTO members, including several Commonwealth countries, has proposed the Multiparty Interim Appeal Arbitration Agreement to imitate the defunct two-tier appeal

process, although this does not enjoy widespread legitimacy (Remy, 2020).

A green recovery from the pandemic will require WTO members to consider urgent actions to address the increased risks and challenges of climate change, natural disasters, environmental sustainability and biodiversity loss. This requires the global community to pursue greater coherence and "mutual supportiveness" between the multilateral trade and environment regimes, especially regarding climate change, where the WTO has no specific provisions. This has manifested itself in a growing number of WTO disputes that involve energy, especially renewable energy (Rutherford, 2020). More recently, several countries, including Canada, EU members and the USA, have shown an interest in using border carbon adjustment mechanisms to tackle climate change (OECD, 2020e), which could be subject to WTO rules and procedures. These measures could also have significant implications for international trade and present smaller developing countries with a new set of challenges. They may also affect the investment landscape and require developing countries to design more integrated climate change investment plans.

There is an opportunity for the UK, which in 2021 chairs the G7 of industrialised nations and the 26th Conference of the Parties (COP26) of the United Nations Framework Convention on Climate Change (UNFCCC), to provide leadership and advocate globally for a greener trade-led recovery as well as additional support for the smallest and most vulnerable countries. Furthermore, it is salutary that 53 WTO members, including several Commonwealth

countries, have indicated their willingness to start structured discussions on trade and environmental sustainability. These discussions seek to work on "deliverables" at MC12 and beyond on environmental sustainability in various areas of the WTO (WTO, 2020m). WTO members are considering advancing multilateral co-operation on trade in environmental goods and services as well as investment in green infrastructure, removing fossil fuel subsidies and investment in environmentally sustainable technologies. Plastics pollution and plastics trade that is environmentally sustainable are now also receiving much-needed attention. An informal dialogue, which involves several Commonwealth members, aims to start multilateral discussions on trade as a solution to the detrimental effects of plastic pollution on the environment, health and economy.

Efforts to strengthen and reform the multilateral trading system can underpin a broader framework for recovery. In particular, an enabling global trading environment will support and enhance the participation of developing countries, especially LDCs, in world trade, as discussed next.

5.3 Enhance support measures for LDCs and graduates

COVID-19 has significantly affected the trade prospects of the Commonwealth's LDC members and those graduating from this category. After Vanuatu's graduation in December 2020,

Solomon Islands is set to follow in 2024. Bangladesh was also due to graduate in that year but its transition period has been extended by two years on the back of the pandemic (Centre for Policy Dialogue, 2021). For these and other Commonwealth LDCs, a protracted pandemic poses significant risks to sustainable graduation pathways.

LDC governments and their development partners will need to redouble efforts to tackle existing vulnerabilities and bridge the "resilience gap" if they are to effectively confront the heightened challenges emanating from COVID-19. Such factors should focus on developing productive capabilities in higher-productivity sectors and higher value-added activities to structurally transform their economies and make them more resilient to future shocks. Chapter 2 highlighted the digital divide that Commonwealth LDCs face. It is imperative to bridge this gap by enhancing digital literacy, promoting digital connectivity, investing in digital infrastructure and ensuring access to digital technologies.

Multilateral support can play a key role. The multilateral trading system must take into consideration the special requirements of LDCs (see Chapter 4). In turn, much can be done to enhance debt sustainability and to de-risk, incentivise and improve access to finance for LDCs to help provide the resources necessary to build back better in the wake of the pandemic. Progress in the next decade will be critical to ensure LDCs are not left behind. The end of the 10-year Istanbul Programme of Action (IPoA) in 2020 provides pause for critical reflection as well as an opportunity to develop a newly invigorated agenda of support for LDCs considering the heightened challenges resulting from COVID-19. 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 (Gay, 2020). At the WTO, the LDC group of countries has also requested a comprehensive "smooth transition" process for graduating LDCs under the WTO system, enabling them to continue benefiting from some WTO flexibilities for a period of 12 years after graduating (WTO, 2020n).

Another area for support in terms of trade recovery for LDCs relates to building their capacity to take advantage of duty-free market access for a range of their exports in developed economies, including Australia, Canada, the EU, the UK and the USA, as well as some developing countries like China and India; the latter two countries will be key drivers of global recovery in 2021 (IMF, 2021b). Furthermore, developed countries can offer commercially meaningful preferences to LDCs to help them take advantage of the WTO services waiver to increase and diversify services exports. However, preference utilisation by many LDCs is low owing to their lack of productive capacity and trade-enabling infrastructure (Commonwealth Secretariat, 2015). LDCs can draw on the WTO's Enhanced Integrated Framework for LDCs, the United Nations Technology Bank for LDCs and other bilateral and regional Aid for Trade (AfT) programmes to strengthen their trading capacities, including for digital trade. This will be important to take advantage of existing and new trading opportunities in other countries, like the UK post-Brexit as well as to deepen the trade relationships with emerging economies, particularly China (Box 5.1).

BOX 5.1**COMMONWEALTH TRADE LINKAGES WITH CHINA BEYOND THE PANDEMIC**

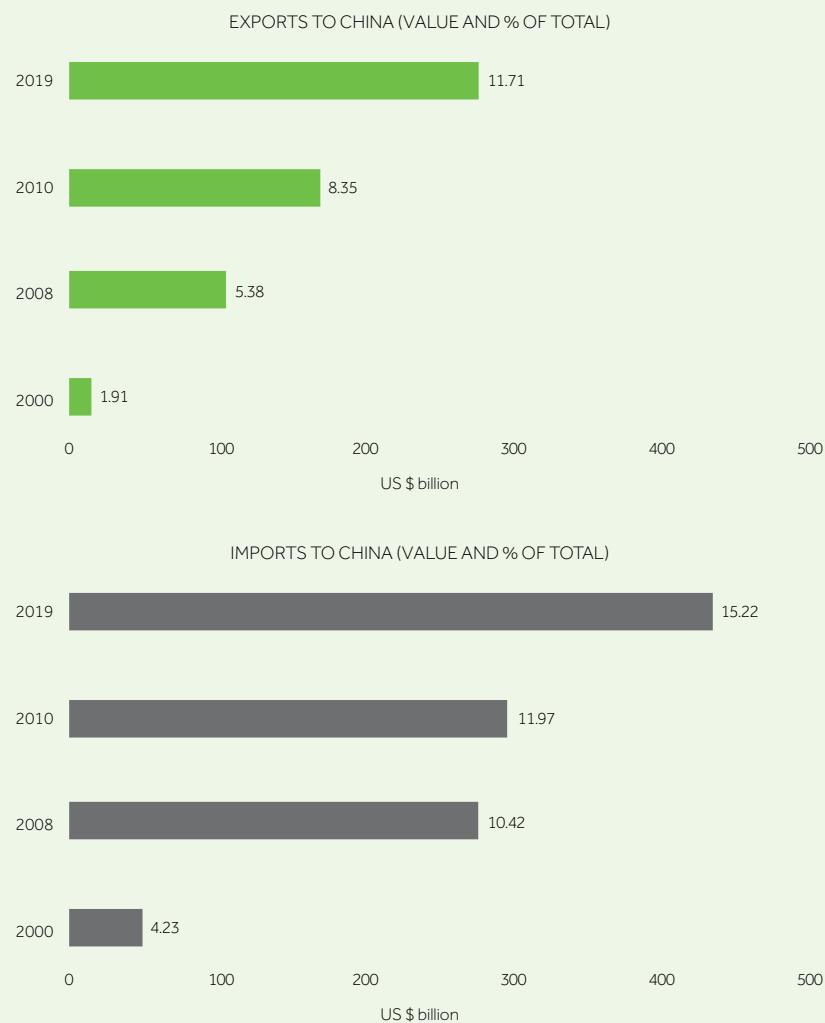
Commonwealth countries' trade linkages with China are strong and growing and have been resilient to the impacts of the COVID-19 crisis. Overall, China was the third-largest trading partner for Commonwealth countries (after the USA and the EU-28) in 2019, accounting for 12 per cent of the Commonwealth's exports and 15 per cent of imports. During the past two decades, the share of the Commonwealth's exports to China has risen six-fold, to 12 per cent in 2019, while the share of imports sourced from China has expanded four-fold, to 15 per cent (Figure 5.1). Given their geographical proximity, Asia-Pacific and South Asian Commonwealth countries are much more reliant on China for trade.

China is the only major economy to have registered positive growth in 2020, and its economy is projected to grow by 8.4 per cent in 2021. The spill-over effects of this growth offer numerous opportunities for Commonwealth countries to revive their trade flows. First, Commonwealth LDCs can benefit from duty-free access for a range of their exports.

Second, China has ratified the Regional Comprehensive Economic Partnership three months ahead of schedule, indicating the significance it attaches to this trade agreement, which includes five Commonwealth countries. Third, China already has free trade agreements with several Commonwealth countries, and their focus should be on fully implementing these.² Recently, the UK also expressed an interest in strengthening economic and trade links with China. For Africa, the year 2020 marked the 20th anniversary of the founding of the Forum on China-Africa Co-operation (FOCAC). The Beijing Action Plan 2019-2021 provides for considerable economic, industry, trade and investment co-operation, including establishing the China-Africa Private Sector Forum and a US\$5 billion special fund to finance imports from Africa, as well as support to develop the continent's infrastructure, including through the Belt and Road Initiative (see Box 3.5 in Chapter 3).³ Finally, Commonwealth countries from Africa to the Caribbean could also benefit from pent-up demand for tourism once international travel resumes, especially since many Chinese travellers are affluent, with considerable spending potential. Spending by Chinese travellers makes up 21 per cent of all tourism spending worldwide. In addition, Chinese travellers spend on average more per trip than tourists from any other country (UNWTO, 2017).

FIGURE 5.1

THE COMMONWEALTH'S RISING TRADE WITH CHINA, 2000–2019



Note: The data illustrates the pattern of trade in goods. It covers exports to and imports from mainland China only and excludes Hong Kong. The numbers on the bar indicate trade share.

Source: Commonwealth Secretariat (calculated using data from UNCTADstat dataset)

5.4 Utilise new trading opportunities post-Brexit

The UK is a key destination for intra-Commonwealth exports, with considerable potential for further expansion beyond the pandemic. On 31 January 2020, the UK formally ceased to be a member of the EU and entered a transition period until December of that year. During this period, the existing rules on trade, travel and business between the UK and the EU continued to apply. Trade between the UK and the 27 members of the EU is now governed by the UK-EU Trade and Co-operation Agreement (TCA).⁴ The TCA, implemented on 1 January 2021, is a free trade agreement (FTA) covering all goods and limited services that leaves scope for regulatory regimes to diverge over time.⁵

5.4.1 UK-Commonwealth trading relations

In 2019, Commonwealth countries' exports to the UK were worth US\$116 billion. The UK market absorbed around 13 per cent of intra-Commonwealth goods exports and 25 per cent of services exports. Dependence on the UK differs significantly among Commonwealth regions and member countries and by sectors (Figure 5.2). For example, many African, Caribbean and Pacific (ACP) countries rely heavily on the UK market for specific exports, including beef, bananas, fresh vegetables, fish, sugar, rum, textile and apparel products.

Collectively, the 19 sub-Saharan African (SSA) countries rely the most on the UK for both goods and services exports. Belize sends one-fifth of its total goods

exports to the UK, while another eight countries send more than 5 per cent. More striking is the significance of the UK market for intra-Commonwealth services exports. Six countries trade more than 15 per cent of their total services with the UK. Another 12 send around 10–15 per cent. Overall, small states have the highest share for services (at around 16 per cent), which comes for the main part through the travel and tourism sector.

Although the UK accounts for only a small share of most Commonwealth LDCs' exports, its share is as high as 9 per cent for Bangladesh (mostly apparel products), almost 4 per cent for Malawi and over 2 per cent for Rwanda and Tanzania. On average, 6 per cent of LDC services exports are destined for the UK.

The UK's trade regimes and Commonwealth imports

The UK-EU TCA provides greater clarity for Commonwealth governments and business on how their trade might be affected both immediately and in the future. There may also be opportunities to deepen and enhance their broader economic relationship with the UK.

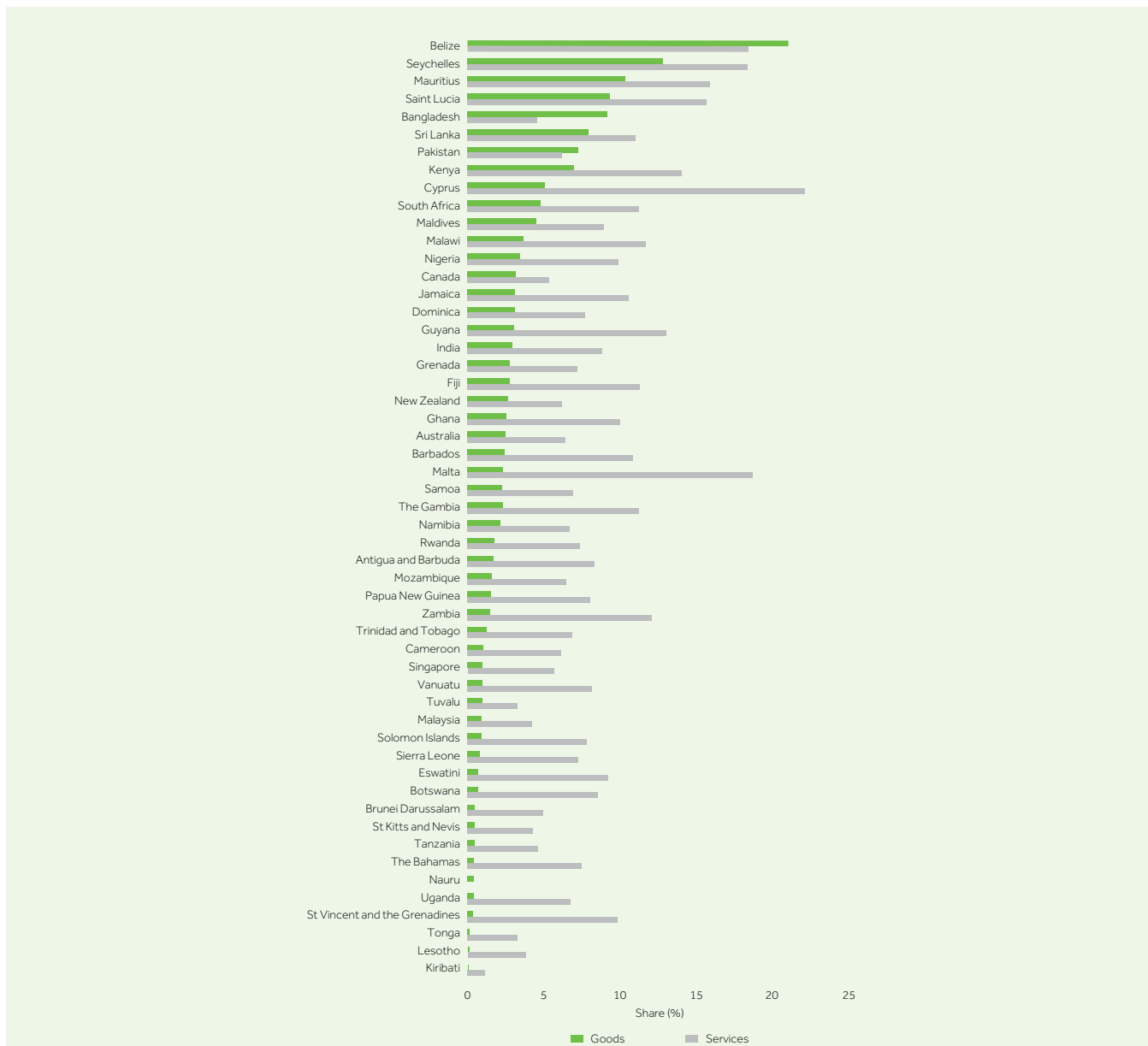
The UK's trade regimes are directly modelled on those of the EU (Table 5.2). Most countries with which the EU has an economic partnership agreement (EPA) or a FTA are covered by a UK FTA or Bridging Mechanism. For the rest, the UK has established a Generalised Scheme of Preferences (GSP), which, like its EU counterpart, has three segments that offer better market access terms than the WTO. These are the LDC Framework GSP, which offers market access equivalent to the EU's Everything But Arms (EBA), the Enhanced GSP regime, modelled on the EU's GSP+ and the General Framework GSP for other low- and lower-middle-income countries. Like its EU model, the UK GSP (except

the LDC Framework) excludes many goods, especially agricultural products.⁶ Countries deemed to be too competitive for certain products are also "graduated out" of the GSP for those products. For example, India is graduated out of the GSP for 2,652 tariff lines (Stevens, 2021).

The UK's new trade agreements with ACP countries continue to provide duty-free and quota-free (DFQF) market access for their exports. However, the UK's pursuit of future trade deals globally could create greater competition for ACP suppliers. Moreover, some ACP exporters that depend heavily on the UK market for certain sensitive products, including bananas and sugar (Box 5.2), have raised concerns about the implications of the UK's tariff regime for their trade.

Importantly, the UK has made some improvements to the EU regime and there may be scope for further reforms, including reviewing certain standards or adopting simple and less restrictive rules of origin. For example, a longstanding concern of many ACP exporters relates to the high standards and regulations required for access to the EU market. Many argue that some of these regulations are unnecessarily onerous, even protectionist (Vickers, 2018). For instance, citrus exports from South Africa have faced more stringent sanitary and phyto-sanitary (SPS) conditions as a result of citrus black spot, a harmless fungal disease. However, from 1 April 2021, imported citrus into Britain (not Northern Ireland) will no longer require a SPS certificate, while other fruits, such as guavas, kiwis and passion fruit, are also exempt. More broadly, the UK's narrower range of climatic conditions and production than the whole of the EU provides scope to relax onerous health checks on a wider set of Commonwealth exports without

FIGURE 5.2
SHARE OF COMMONWEALTH MERCHANDISE AND SERVICES EXPORTS TO THE UK, 2017–2019 AVERAGE



Note: The shares represent the proportion of merchandise and services exports destined for the UK market during 2017–2019
Source: Commonwealth Secretariat (calculated using UNCTADstat and WTO-OECD BaTIS datasets)

BOX 5.2
THE UK SUGAR MARKET: A SWEET OR STICKY DEAL FOR THE ACP?

Sugar is a major export for several Commonwealth developing countries. For example, sugar makes up just over 30 per cent of Belize’s total merchandise exports, about 20 per cent for Eswatini, 10 per cent for Mauritius and 9 percent for Fiji (Table 5.1). The UK is a traditional market for these sugar-producing countries, especially for raw sugar, which is then refined by Tate

and Lyle. Barbados sends all its raw sugar to the UK, Belize around 83 per cent and Fiji approximately 48 per cent. This is an extremely sensitive sector for these countries. It earns foreign exchange, creates jobs and sustains many livelihoods. In 2017, the EU, including the UK as a member, reformed its restricted, high-priced sugar market in line with world prices. This reduced the value of ACP sugar exports.⁷

The UK's trade agreements with ACP countries continue to provide duty-free and quota-free (DFQF) market access for sugar. From 1 January 2021, the UK also implemented an annual autonomous tariff rate quota (ATQ) of 260,000 metric tonnes of raw sugar at zero tariffs (ACP-LDC Sugar Industry Group, 2020; also DIT, 2020). This raises the competitive stakes in the UK market for ACP producers because of their higher production costs compared with other producers, such as Brazil, while some global producers are also subsidised (DIT, 2020).

The UK and the EU both grant DFQF access to the ACP. However, their bilateral TCA does not provide "diagonal cumulation" provisions for ACP countries, which could affect demand for raw sugar imports from the ACP. More than 70 per cent of sugar consumption in the UK and the EU is in the form of processed food and drink, with considerable trade in these products between the UK and the EU (EPA Monitoring, 2021). Without diagonal cumulation, raw sugar imported from the ACP and refined locally will not be considered as UK-originating when contained in processed products traded between the UK and the EU. Since these products would not benefit from the preferential rules of origin, UK companies might consider using UK or EU beet sugar instead.

These developments will continue to present a challenging outlook for ACP sugar-exporting countries in maintaining sustainable sugar agriculture and agro-industry as part of their economic mix for recovery and building back better.⁸ It will significantly affect smallholder producers, mainly in rural areas, and create unemployment as well as having impacts on export earnings, retarding progress towards achievement of the SDGs.

Consideration should be given to finding ways of preserving the value of preferential market access to the UK sugar market for ACP sugar-producing countries. Simultaneously, these countries need to devise ways to reduce their costs and improve their efficiency, including through multilateral and bilateral AfT initiatives.

TABLE 5.1
THE SIGNIFICANCE OF THE UK SUGAR MARKET TO COMMONWEALTH ACP COUNTRIES, 2017–2019 AVERAGE

ACP sugar exports to the UK*						
Top ACP exporters to the UK, by value	Share of sugar in total merchandise exports (%)	Value of sugar exports to the UK (US\$ million)	Share of total sugar exports to the UK (%)	Value of raw sugar exports to the UK (US\$ million)	Share of raw sugar exports to the UK (%)	
All ACP countries	0.75	164.3	8.86	128.6	11.43	
Of which						
1	Belize	30.91	51.8	83.21	51.8	83.21
2	South Africa	0.43	29.0	7.60	18.2	8.35
3	Fiji	8.17	28.7	48.26	28.7	48.28
4	Mauritius	9.91	20.5	10.40	14.1	17.38
5	Mozambique	3.41	20.1	11.35	9.5	20.63
6	Jamaica	0.79	5.1	37.81	1.9	30.27
7	Guyana	0.36	4.7	33.89	0.0	0.00
8	Eswatini	18.28	4.2	1.21	4.2	1.36
9	Barbados	0.07	0.2	78.28	0.1	100.00
10	Zambia	1.42	0.0	0.02	0.0	0.02

Note: * Sugar is classified as HS code 1701; raw sugar is calculated as HS 170113 and 170114.

Source: Commonwealth Secretariat (calculated using WITS data)

endangering either UK producers or consumers (Stevens, 2021).

It was also noted in the previous chapter that Caribbean service suppliers have not, so far, been able to take advantage of their EPA with the EU – the only EPA with ACP countries covering services – as they face barriers related to the mutual recognition of standards and difficulties in obtaining visas. The UK could seek to ease these constraints, especially given the large Caribbean diaspora in the UK.

While trade continuity has been assured for most Commonwealth countries, there are some challenges. An immediate hurdle relates to border disruptions affecting supply chains moving Commonwealth-originating goods and services across the UK-EU border (such as cut flowers or audio-

visual products) (Stevens, 2021). In addition, agri-food exports from Commonwealth developing countries that undergo some form of repackaging and/or processing within the triangular supply chain prior to onward shipment will also be affected by rules of origin and face most-favoured nation tariffs (e.g. Fairtrade sugar, fully traceable sustainably certified palm oil, cocoa products, tuna and other fisheries products) (EPA Monitoring, 2021a).⁹

Border controls on transhipped goods will become increasingly onerous as the EU and the UK's standards diverge, as has already begun.

Agricultural products, including plant and animal exports, will have to be certified under both UK and EU standards because the UK is diverging from EU practice. Similarly,

there are no provisions for the cross-recognition of manufactured goods standards, so any goods sold in both the UK and the EU market will have to be certified separately in each jurisdiction (Stevens, 2021).

Prospects for UK-Commonwealth trade

There are numerous opportunities to deepen economic relations between the UK and the Commonwealth beyond the pandemic. The UK government's commitment to this goal as part of its "Global Britain" strategy is evident, for example in hosting the 2020 UK-Africa Investment Summit in London and appointing trade envoys for countries or regions like the Commonwealth Caribbean. The UK is also a strong advocate and leading donor of AfT to help developing countries and LDCs boost their regional and world trade.

TABLE 5.2
NATURE OF THE UK'S IMPORT REGIME FOR COMMONWEALTH COUNTRIES, MARCH 2021

Regime	Commonwealth countries	Reliance on the UK market	
		Value (\$, million)	Share (%)
Full FTA (9)	Botswana, Eswatini, Lesotho, Mauritius, Mozambique, Namibia, Seychelles, Singapore, South Africa	9,204	1.8
Partial FTA (1)	Canada	14,924	3.3
Provisional FTA (13)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Fiji, Ghana, Grenada, Guyana, Jamaica, Papua		
	New Guinea, Saint Lucia, St Kitts and Nevis	769	2.2
Bridging Mechanism (6)	Cameroon, Kenya, St Vincent and the Grenadines,		
	Trinidad and Tobago, Samoa, Solomon Islands	580	3.1
GSP: LDC Framework (11)	The Gambia, Malawi, Rwanda, Sierra Leone, Uganda, Tanzania, Zambia, Bangladesh, Kiribati, Tuvalu, Vanuatu	3,663	6.5
GSP: Enhanced Framework (2)	Pakistan, Sri Lanka	2,511	7.0
GSP: General Framework (2)	Nigeria, India	10,665	2.8
TCA (UK-EU) (2)	Malta and Cyprus	267	4.1
Most-favoured nation (7)	Australia, Brunei Darussalam, Malaysia, Maldives, Nauru, New Zealand, Tonga	13,810	2.5

Note: Data is for exports in 2019. The share indicates the proportion of members' global exports destined for the UK.
Source: Commonwealth Secretariat based on Stevens (2021)

Meanwhile, the creation of the Foreign, Commonwealth & Development Office provides a springboard to integrate all of the UK's diplomacy and development efforts (HM Government, 2021). There are further initiatives or opportunities to boost intra-Commonwealth trade with the UK, as introduced below.

First, the UK government aims to complete bilateral FTAs covering 80 per cent of UK trade by 2022, which would probably include tariff-free trade with three Commonwealth members – Australia, Canada and New Zealand – as well as the EU, Japan and the USA. Furthermore, the UK plans to accede to the mega-regional Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), discussed in Chapter 4, which includes six Commonwealth members: Australia, Brunei Darussalam, Canada, Malaysia, New Zealand and Singapore. These new trade deals have implications for Commonwealth countries and may require adjustment support (Box 5.3). Other FTAs with Commonwealth member countries are also possible. Modelling a UK–India FTA, for example, suggests that trade could increase substantially (Banga, 2017).¹⁰

Second, and related to the above, the UK can diversify some of its food trade

towards the Commonwealth. Annually, the UK imports food worth US\$65 billion and around 70 per cent of this is sourced from the EU. FTAs with major agricultural producers such as Australia, Canada and New Zealand could offer substantial scope for an increase in Commonwealth trade (Stevens, 2021).

Third, there is an opportunity to develop new and deeper forms of economic co-operation across the Commonwealth. There are already examples like the Commonwealth Standards Network. The UK Government has also identified digital trade as one of the main sources of economic growth to recover from the pandemic. The digital sector accounted for around 7.6 per cent of the UK economy in 2019 and UK trade flows are increasingly digital: an estimated two-thirds of UK services exports and a half of UK services imports were digitally delivered in 2018 (Sands et al., 2021; see Chapter 2). There is the possibility for UK agreements with other Commonwealth countries around digital trade, such as the planned negotiations for a separate UK–Singapore Digital Economy Agreement (Ciofu, 2020).

Fourth, there is considerable scope for further co-operation in services, where the UK is already relatively open in trade terms but where regulatory

requirements are complex. A renewed partnership in areas like financial services technology could help further develop mutually beneficial trade. The increasing servicification of several Commonwealth economies, coupled with greater digitalisation, also provides opportunities for increasing bilateral services trade. The UK could consider offering commercially meaningful preferences to LDCs in line with the WTO LDC services waiver (Primack, 2017).

Finally, the UK is an important driver of services exports for many tourism-dependent ACP countries. For example, UK arrivals are most important for Barbados; second most important for Saint Lucia; and third most important for St Kitts and Nevis (Commonwealth Secretariat, 2016). These countries should already engage in branding and marketing to benefit from pent-up demand and excess savings once international travel resumes. This is especially important given that UK travellers are reported to spend seven times more than the average tourist in the Caribbean (Global News Matters Caribbean Research, 2016). However, this requires setting in place demand and supply measures to benefit, as discussed next.

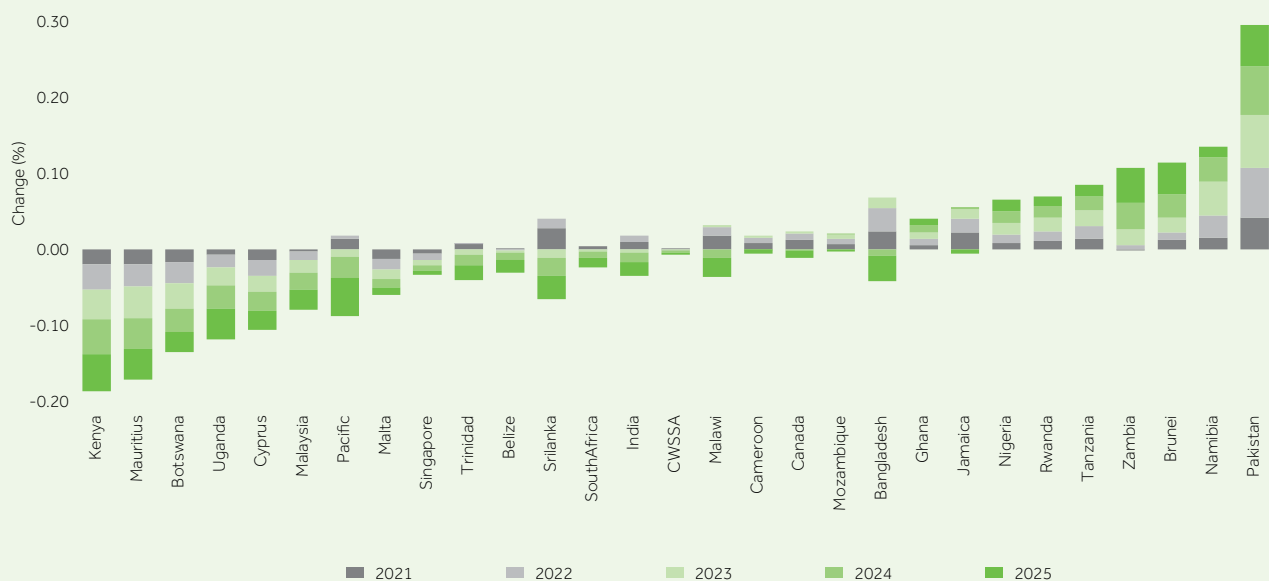
BOX 5.3**POTENTIAL IMPLICATIONS OF FUTURE UK FTAs FOR COMMONWEALTH COUNTRIES**

Dynamic Global Trade Analysis Project (GTAP) modelling of tariff-free trade between the UK and Australia, Canada, the EU-27, Japan, New Zealand and the USA suggests these FTAs could affect many Commonwealth countries, although the effect is more pronounced for LDCs like Bangladesh, Lesotho, Malawi, Rwanda, Tanzania and Uganda (Annex 5.1).

The standard theory on the effects of any form of preferential trading agreement suggests they increase trade between members and reduce flows with third countries, leading to welfare effects for non-member countries (WTO, 2011). The UK's FTAs, like any other trading arrangements discussed in Chapter 4, could result in a loss of preferences for non-members and expose them to competition from more efficient suppliers. Overall, countries with high export dependence on the UK – for example Bangladesh (apparel), Botswana (beef), Belize (sugar) and Kenya (tea and vegetables) – could experience a modest decline in exports and overall trade. This is because competitors among the UK's FTA partners may displace their clothing, textiles and agricultural products and shrink their market share. There are some potential beneficiaries, like Brunei Darussalam, Malta, Nigeria, Pakistan and Zambia, which could gain marginally because their input costs are reduced as a result of the trade deals between the UK and its partners mentioned above. These trade adjustments would be gradual and could span around five years (Figure 5.3).

Looking at overall sectors, the exports of meat, textiles, leather, processed food, rubber, plastics and vehicles from the USA, Japan, New Zealand and Australia would increase significantly, with a commensurate decline in the export of commodities under heavy manufacturing, textiles, processed food, meat, chemicals, and grains and crops from Commonwealth countries into the UK. Aside from the direct effects on exports, the modelling forecasts that countries reliant on the UK market for exports, such as Belize, Botswana, Kenya, Malaysia, Namibia, Sri Lanka and Trinidad and Tobago, may be affected through reductions to their gross domestic product (GDP), output, employment and investment, although the effects are relatively small and will diminish over time.

FIGURE 5.3
POTENTIAL SHORT- AND MEDIUM-TERM IMPACTS ON COMMONWEALTH COUNTRIES' EXPORTS, 2021–2025

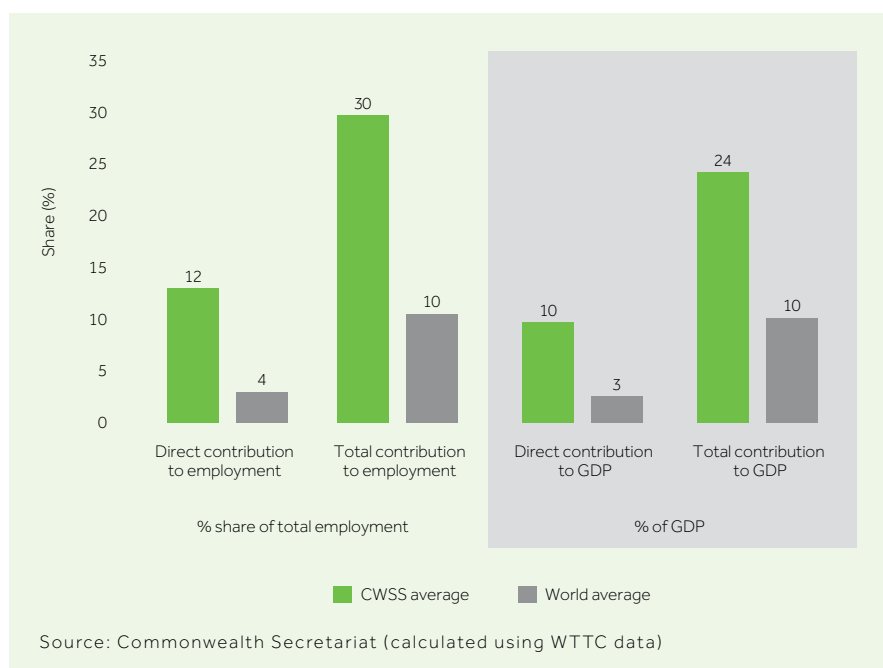


Source: Gopalakrishnan (2021) for Commonwealth Secretariat

5.5 Revive the tourism and travel sector, especially for small states

The global tourism and travel sector has been the hardest hit by COVID-19, as Chapter 1 highlighted. Small states, particularly SIDS, have been the worst affected because they depend almost entirely on the tourism sector for revenue and employment opportunities, especially for women, youth, the informal sector and returning migrants. For 14 of the 32 Commonwealth small states, tourism contributes over 30 per cent of GDP. This share varies from as high as 56 per cent in Maldives and 43 per cent in Antigua and Barbuda and The Bahamas to 30 per cent in Barbados and Vanuatu (Figure 5.4).

FIGURE 5.4
CONTRIBUTION OF TOURISM TO GDP AND EMPLOYMENT IN COMMONWEALTH SMALL STATES, 2019



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 and adopting innovative technologies to facilitate operations. Though policy responses are highly specific to national contexts, and the duration of disruption to the tourism and travel industry is unknown, some useful lessons can be drawn from Commonwealth experiences, such as efforts to reopen the tourism industry in Maldives (see Box 5.4).

On the supply side, some countries have focused on maintaining existing supply capacity along the tourism value

chain, which includes investing in and refurbishing critical infrastructure and capacity and skills development, in preparation for the reopening of tourism markets. Enhanced inter-sectoral national and regional collaboration has also improved supply-side readiness across regions and with the private sector. The pandemic has also created opportunities to integrate conservation, ecology, creative industries and cultural heritage offerings, with examples including chimpanzee rehabilitation in The Gambia, Liwonde National Park in Malawi, gorillas in Rwanda and Mount Yasur volcano in Vanuatu. Developing countries, especially LDCs, can in future also target AfT to promote and attract sustainable investment in their tourism sectors (Kampel, 2020b).

Governments have also implemented a variety of strategies to revitalise a variety of demand. These include nurturing the development of domestic staycations and intra-regional tourism; establishing cross-border travel corridors or “bubbles” between countries exhibiting low infection rates; offering flexible long-stay telework options to attract “digital nomads”; and conducting digital marketing and promotion strategies. Furthermore, the roll-out of comprehensive travel health and safety protocols as markets reopen and border restrictions ease has also garnered tourists’ renewed trust and confidence in tourism destination markets (Kampel, 2020a).

The rapid acceleration of digitalisation and digital trade, as discussed in preceding chapters, has implications for the tourism sector too. Embracing digital and technological options will be a crucial component of a future tourism recovery strategy. For example, technology can be used to promote virtual tourism expos to scale

BOX 5.4**MALDIVES LEADS THE WAY IN DRIVING TOURISM RECOVERY AND A RETURN TO THE “OLD NORMAL”**

When Maldives shut its borders in late March 2020, the impact was immediate and severe. The abrupt halt to international tourist arrivals struck to the heart of the economy, blighting the country’s largest sector. To mitigate the damage and revive the economy, the Maldivian government adopted a sequenced approach to reopening the tourism sector. This capitalised on the advantage afforded by the country’s geographically scattered islands, some of which are inhabited only by resort staff and tourists, allowing natural segregation from major towns and cities.

The reopening of the country’s borders to international travellers in July 2020 was initially confined to those visiting resorts, hotels or liveaboard boats located on otherwise uninhabited islands. Thereafter, local tourism providers and guesthouses meeting stipulated health standards were permitted to reopen on 15 October 2020. To facilitate movement between islands, special permits were provided for guesthouses and hotels situated on locally inhabited islands to accommodate transiting passengers awaiting domestic transfers.

International tourists are obliged to present a negative PCR test for COVID-19 on arrival, which must have been taken within 96 hours of departure for Maldives. Incoming travellers are also required to complete an online health declaration form within 24 hours of departure. All travellers undergo thermal screening on arrival and those not exhibiting any symptoms are exempt from quarantine restrictions and free to begin their holiday.

Some resorts on private islands are offering PCR tests to guests upon arrival, who are then required to remain in their rooms or villas until the test results are received. Tourists testing positive for COVID-19 must go into isolation and receive compensation from the resort via a refund voucher (O’Ceallaigh, 2021). Those found to be free of COVID-19 can enjoy a normal, “mask-less”, stay and move around the island as they wish.

These additional safety interventions have helped attract tourists by building confidence in the public health measures in place to prevent the spread of COVID-19. The Maldivian government introduced an app – TraceEkee – to facilitate detailed, community-driven contact tracing (Mohamed, 2020). To provide an additional layer of protection, the Ministry of Tourism has also launched a vaccination initiative to vaccinate tourism workers.

up marketing, while e-commerce can create opportunities for local tourism suppliers accessing global customers. More advanced robotics and Artificial Intelligence (AI) can help streamline travel and accommodation booking and security processes at airports and at other border crossings. This will enable travel to be safer and more secure in the event of future epidemics and pandemics. Investing in augmented realities can also transport individuals to far-away escapes from their own homes, while paying for the experience at a fraction of the cost. Technology enabling digital versions of vaccine passports are already available or being developed, although not without controversy.¹¹ Beyond tourism, there is considerable scope for Commonwealth

countries to use information and communication technologies (ICTs) and more advanced frontier technologies to support recovery from the pandemic, as discussed next.

5.6 Leverage digital technologies for trade, development and competitiveness

Digitalisation and digital trade have helped some Commonwealth countries mitigate certain consequences of the

pandemic, as observed in the previous chapters. While these technologies have accelerated globally, the reality is that many Commonwealth countries, especially LDCs, lag behind in digital engagement. Factors such as the quality of digital infrastructure and access to ICTs are increasingly driving international competitiveness and investment decisions, thus exerting a growing influence on economic performance and providing a means to support recovery from the pandemic. For these reasons, the highest consideration should be given to ensuring greater access, affordability and usage of ICTs.

For example, the internet economy has the potential to contribute close

to US\$180 billion to Africa's GDP by 2025, while improving productivity and efficiencies in various sectors, including agriculture, education, financial services, health care and supply chains (IFC and Google, 2020). Nine Commonwealth SSA countries could add around \$100 billion to their combined GDP by 2025 if they intensively harness the internet.¹² However, this requires extending mobile internet and integrating digital

innovations beyond large urban cities, helping informal workers become more productive and empowering micro, small and medium enterprises (MSMEs), especially women and youth entrepreneurs, for digital competition (AUC and OECD, 2021). Rwanda's digitally led development agenda offers much promise and provides an inspiring example of how digitalisation can connect and transform a country

and overcome the constraints of being landlocked (Box 5.5).

Countries can harness digital technology to support their economic recovery, depending on their levels of ICT adoption and digital engagement. In the short to medium term, digital trade, especially e-commerce and delivering some services online, can provide a pathway for mitigating several economic

BOX 5.5

RWANDA EMBARKS ON DIGITALLY LED DEVELOPMENT

Rwanda, a landlocked LDC, is spearheading an ambitious digital agenda and, in the process, emerging as a champion for digitally led development in Africa. Since 2000, four consecutive five-year strategies have targeted different elements of digital development, beginning with the establishment of enabling institutional, legal and regulatory frameworks, along with liberalisation of the telecommunications market, to lay the groundwork for an effective ICT sector. Subsequent strategies have looked to build ICT infrastructure, improve digital service delivery and accessibility, and develop digital skills, e-government services and cyber-security capabilities. Infrastructure development is key, with considerable progress in establishing a country-wide fibre optic network, and cross-border terrestrial links to undersea cables via Kenya and Tanzania have been crucial in improving internet capacity. This has helped achieve a 10-fold increase in access to international bandwidth since 2015 (World Bank, 2020c). Significant government investments in the 4G network, coupled with rapid adoption of mobile technologies, have further improved internet access. Estimates indicate that 4G services cover at least 95 per cent of the country.¹³ This is significantly higher than the regional average.

Developing digital skills are being prioritised through a series of innovative partnerships and initiatives. These provide training in coding, software development and programming skills aimed at both youth and working-age Rwandan women. More broadly, the government has embedded basic digital skills into national curricula at the primary and secondary levels (World Bank, 2020c).

There are many examples of innovative uses of digital technologies to advance economic and social development priorities in Rwanda. The government is at the forefront, embracing digitalisation to provide e-government services, including through IremboGov, a one-stop online portal for digital government services, while allowing payment using mobile money.¹⁴

Digital technologies are helping facilitate trade in Rwanda. Since its introduction in 2012, the Rwanda Electronic Single Window (RESW) has reduced customs clearance times and lowered both direct and indirect trade costs.¹⁵ These are crucial improvements, given the trade-related challenges Rwanda faces as a landlocked country. Most recently, the RESW has played a vital role in keeping trade flowing during the COVID-19 pandemic, helping avoid physical contact and enabling more officials and traders to work from home (Uwamariya et al., 2020). Another digital trade-facilitating measure, the Rwanda Trade Portal, provides an online platform to access step-by-step information on transit and import and export procedures.¹⁶

Aside from trade, some of the clearest examples of the power of digitalisation can be found in Rwanda's health care sector. Rwanda is on track to become the first country in the world with a digital-first universal primary care service, through a 10-year government collaboration with Babalyon Healthcare, a remote health care provider (Suarez, 2021).

Some initiatives in Rwanda's health care sector employ cutting-edge digital technologies. For example, a private company, Zipline, uses drones to deliver blood and other vital medical supplies to remote areas of Rwanda. This means local hospitals do not need expensive machinery to maintain supplies of refrigerated blood and other related products.

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. This section sets out three areas – e-commerce, financial technology (FinTech) and frontier technologies – as potential tools to support trade recovery.

5.6.1 E-commerce

E-commerce, simply put, refers to digitally ordered, digitally delivered or digital platform-enabled transactions. The pandemic has accelerated growth of local and cross-border e-commerce, especially in developed countries. E-commerce in the USA is approaching a major milestone: in 2022, it will record its first trillion-dollar year (Adobe Analytics, 2020). However, as discussed in Chapter 2, readiness to engage in e-commerce is uneven within and between Commonwealth countries.

The experience of the pandemic provides a strong incentive for Commonwealth countries to invest in developing this digital trade sector for the domestic market as well as international trade. E-commerce marketplaces can potentially lower barriers to entry, reduce transaction costs, link informal and formal actors across sectors and geographies, and create new opportunities to access markets for MSMEs and women-owned businesses. Indeed, it is found that most of the benefits from digitalisation flow to traditional businesses, reinforcing

the importance for “brick and mortar” companies of embracing digitalisation to improve competitiveness and build recovery and resilience (Ashton-Hart, 2020). Prior to the pandemic, the International Trade Centre (ITC) (in Al-Saleh, 2020) reported that four out of five small businesses involved in e-commerce were owned by women compared with just one of five businesses engaged in offline trade, suggesting e-commerce can serve as a key vehicle for women’s economic empowerment.

E-commerce is also important for regional and international trade. It is especially beneficial for businesses and entrepreneurs in landlocked small states and SIDS in the Commonwealth because it can make it easier for them to reach customers in distant markets without incurring sunk costs to establish a presence in other markets or use intermediaries (Broome, 2016). There is also evidence to suggest e-commerce may support export diversification,¹⁷ thus potentially playing an important role in driving productivity growth through strengthened business-to-business and business-to-consumer connections, providing greater opportunities for buyers and sellers and supporting export diversification and economic transformation in developing countries, particularly LDCs. E-commerce will increase the demand for logistic supply chain services, thus creating jobs for information technology, postal and delivery services.

Leveraging e-commerce activity is thus likely to be important for post-COVID economic recovery. Doing so hinges on overcoming a range of existing barriers to e-commerce in some countries, including lack of appropriate regulatory frameworks and policies, cultural barriers to e-commerce

adoption, low levels of digital skills, poor digital connectivity, the absence of suitable payment platforms and online dispute resolution, inefficient customs procedures, and costly and unreliable last-mile postage, transportation and logistics services (see Chapter 2).

5.6.2 Financial technology and innovation

Technology-enabled financial services (FinTech) evolved rapidly following the global financial crisis more than a decade ago (MacGregor, 2019). On the advanced side of FinTech there are virtual currencies, blockchains, digital wallets and tech start-ups providing a range of innovative financial services and solutions beyond traditional banking. However, mobile money and related lending and insurance services have arguably had the greatest transformational effect on lives and livelihoods in developing countries and LDCs by fostering financial inclusion, especially for women, and extending financial services to unbanked – especially rural – communities. This is especially important because the most frequently mentioned services sector in the SDGs is financial services (Nordås, 2021). The pandemic has underscored the importance of FinTech solutions for economies in lockdown. In many countries, mobile money solutions have made it possible to complete cashless transactions and have facilitated cross-border supply of services while maintaining social distancing.

Several Commonwealth member countries, both developed and developing, are global leaders, pioneers and innovators in the FinTech sector. Four members – the UK (2nd), Singapore (3rd), Australia (8th) and Canada (9th) – are ranked in the top

10 countries for FinTech on the 2020 Global Fintech Index City Rankings (Findexable, 2019). Two SSA countries, South Africa (37th) and Kenya (42nd), where M-Pesa has led the mobile money revolution, are ranked in the top 50, with Nigeria (52nd) a major player too.

Faced with the prospect of an increasingly digital future, Commonwealth countries need to develop and strengthen partnerships with the private sector, including young entrepreneurs and tech start-ups, to accelerate the provision of financial services in new and inclusive ways, including agritech and trade finance to help economic recovery. Commonwealth countries can consider “regulatory sandbox” approaches to experiment with innovative financial products or services, while pan-Commonwealth collaboration through “innovation hubs” could deliver great gains (Rutherford and Zaman, 2017). The Commonwealth Secretariat’s FinTech Toolkit also provides a useful resource for countries to draw on as they look to build FinTech capabilities.

5.6.3 Frontier technologies

The rapid development and deployment of new “frontier technologies”, sometimes called Industry 4.0, hold considerable promise and potential to help drive economic recovery and pursue the SDGs (UNCTAD, 2021b). However, there is also a risk that these technologies could leave most developing countries and LDCs behind, further widening the digital divide discussed in Chapter 2. UNCTAD (2021b) identifies 11 frontier technologies – namely, AI, the Internet of Things, big data, blockchain, 5G, 3D

printing, robotics, drones, gene editing, nanotechnology and solar photovoltaic – which represent an estimated US\$350 billion market, potentially growing to over \$3.2 trillion by 2025.

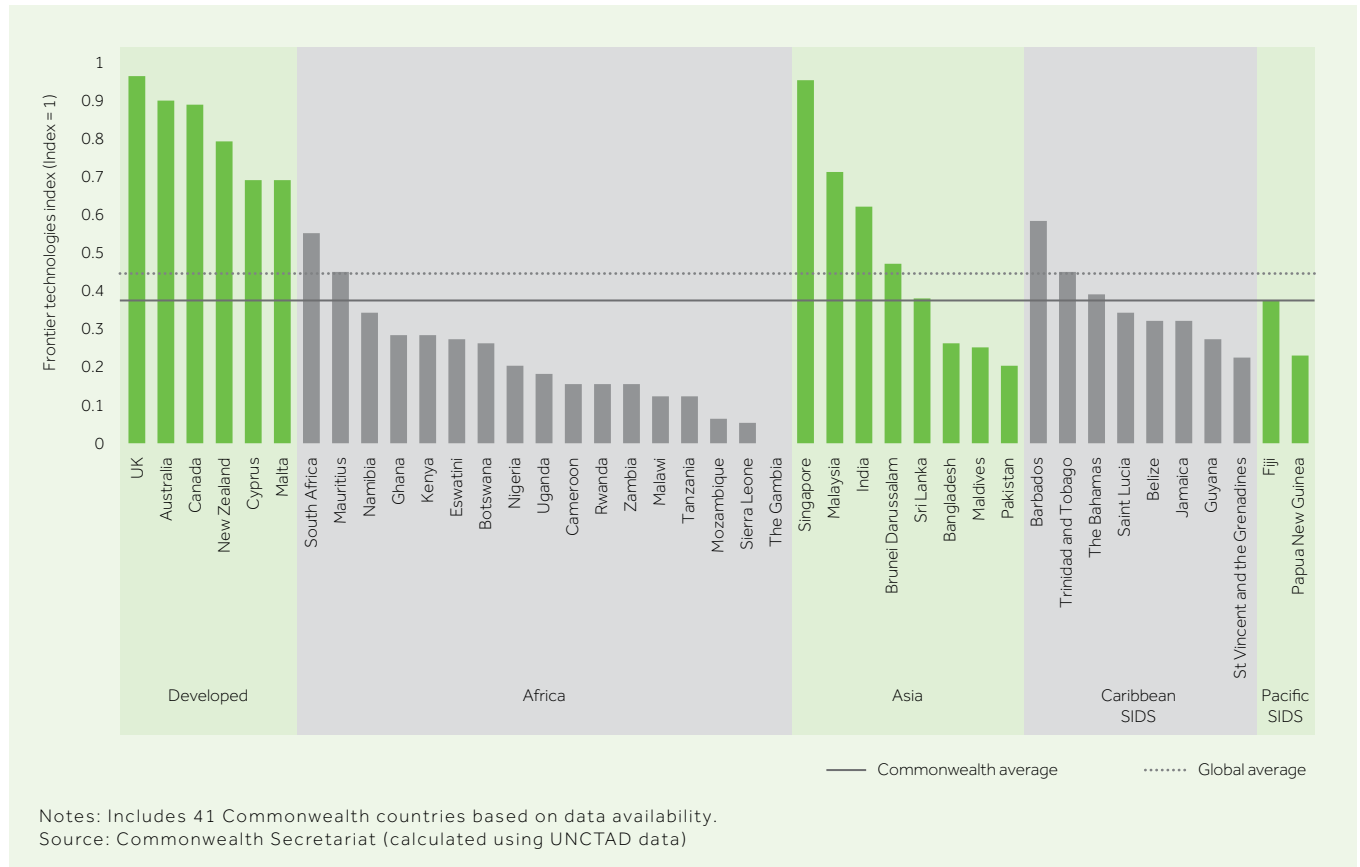
The changing nature and composition of global trade and supply chains, and the implications for countries’ comparative advantage, were highlighted in the previous chapter. For example, intensification and massification of 3D printing could by some estimates reduce world trade as much as 40 per cent by 2040 (ING, 2017). Many developing countries and LDCs have therefore raised legitimate concerns about the implications of automation, robotics and 3D printing for manufacturing capacity, labour markets and livelihoods.

Generally, technological progress could affect jobs in the Commonwealth and globally in at least three ways. First, it induces both increased and decreased demand for labour. There are small – and possibly positive – effects of enabling technologies on aggregate labour demand and employment, but also evidence of negative effects of replacing technologies, with costs often disproportionately borne by certain groups or communities in the forms of declining incomes or job losses, especially for low-skilled occupations that can be “automated” away (WTO, 2017). Second, it is positively correlated with labour productivity, meaning jobs that leverage digitisation generate more productivity, and these same jobs can readily be performed remotely, which has been essential as a result of the pandemic (Ashton-Hart, 2020). Third, its gains for developing countries – from jobs to trade – will be more pronounced the faster they catch up technologically.

Bekkers et al. (2021) present evidence that technological change could boost developing countries’ trade growth by 2.5 percentage points per annum by 2030, owing to falling trade costs and more intensive use of ICT services. The implications are unclear for more technologically constrained countries, especially LDCs, many of which still aspire to the traditional path to development of low-cost manufacturing exports to global markets.

Many Commonwealth members have made good progress harnessing some of these frontier technologies to develop their agriculture, energy, ocean and tourism sectors, among others (Commonwealth Secretariat, 2018a). However, most lack the digital infrastructure, capabilities and workforce skills to use, adopt and adapt frontier technologies, suggesting the need for significant investment in digitalisation. Overall, Commonwealth countries score lower than the global average on the new United Nations Conference on Trade and Development (UNCTAD) Readiness for Frontier Technologies Index for 2019 (see Figure 5.5).¹⁸ Only two members, the UK (0.96) and Singapore (0.95), are ranked in the top five places on the Index, together with the USA (1.00), Switzerland (0.97) and Sweden (0.96). Asian Commonwealth members score the highest, on average, with Singapore, Malaysia, India and Brunei Darussalam above both the Commonwealth and the global averages. India over-performs relative to its GDP, largely because of its research and development (R&D) capabilities and abundance of skilled human resources (UNCTAD, 2021b).

FIGURE 5.5
COMMONWEALTH COUNTRIES' PERFORMANCE ON THE READINESS FOR FRONTIER TECHNOLOGIES INDEX, BY COUNTRY AND REGION



Two SSA members, South Africa and Mauritius, score higher than both the global and Commonwealth averages, and this corresponds with their relatively more developed ICT services sectors. Overall, the Caribbean SIDS score higher than Africa, with Barbados, Trinidad and Tobago and The Bahamas above the global and Commonwealth averages. The Index starkly highlights that this new technology revolution risks leaving behind LDCs. These countries need urgent investment to bridge their digital infrastructural gaps and support to develop forward-looking science, technology and innovation policy frameworks

(UNCTAD, 2020d; see Chapter 2). For developing countries more broadly, the highest consideration should be given to the continued pursuit of structural economic transformation and better alignment of science, technology and innovation policies with industrial policies (UNCTAD, 2021b).

These frontier technologies and other ICTs are fuelled by the flow and transfer of data, both within and across national borders, and would require open digital markets to thrive (Elms, 2020). The next section examines some of the regulatory frameworks for digital trade at the national, regional and multilateral levels.

5.7 Develop effective frameworks for governing digital trade

While the digital economy, including digital trade, presents many opportunities for Commonwealth countries, as discussed above and in earlier chapters, this requires an appropriate and enabling regulatory

system to operate, evolve and flourish. At the heart of the digital economy are the internet and data, which is stored and processed and flows across national borders. This requires a clear set of policies and regulations governing areas like data protection and privacy, data processing and localisation, cyber-security, e-transactions and digital signatures, and consumer protection (Banga and Raga, 2021). While Commonwealth developed countries have implemented most of these, many developing countries, especially SSA countries and small states, still lag in terms of legislative or regulatory progress in this area (Ashton-Hart, 2020).

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. Around 60 per cent of all regional trade agreements (RTAs) concluded between 2010 and 2018 now contain digital trade provisions (Willemyns, 2020). The USA and China, together with the EU, have also developed different regulatory models in this area, given their large digital firms and interests (Gao, 2020). Of the recent mega-RTAs discussed in Chapter 4, the CPTPP and the Regional Comprehensive Economic Partnership include digital trade chapters, albeit with different levels of ambition, while the African Continental Free Trade Area is scheduled to include a protocol on e-commerce in subsequent negotiations. This presents a unique

opportunity for the Commonwealth's 19 SSA members and other African countries to develop common rules on e-commerce and harmonise digital economy regulations. The Digital Economy Partnership Agreement involving Commonwealth members New Zealand and Singapore is regarded by some as a model for next generation agreements in this area (Box 5.6).

There has been less progress on rule-making at the multilateral level, as noted earlier in this chapter. The WTO Work Programme on E-Commerce, established in 1998, allows for structured discussions on all trade-related issues linked to e-commerce and aspects concerning the moratorium on imposing customs duties on electronic transmissions.¹⁹ In December 2017, 71 WTO members announced a Joint Statement Initiative on trade-related aspects of e-commerce and subsequently launched plurilateral negotiations, which have been open to all WTO members. In December 2020, the now-86 participants agreed on a consolidated negotiating text addressing five broad issues: enabling e-commerce, openness, trust, telecommunications and market access, as well as cross-cutting issues (Nordås, 2021). They aspire to achieve a multilateral outcome around these issues at MC12. Many other WTO members are focusing their efforts on the existing WTO Work Programme and developing their domestic capacity for digital trade and tackling the digital divide.

The broader digital economy is anticipated to accelerate beyond the

pandemic, bringing together a range of issues in cross-border settings, including digital trade, services, competition and taxation (customs duties on e-commerce and digital services taxes) (Elms, 2020; Sands et al., 2021). This will require greater regional and global coherence in rules and regulations for goods and services. 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 (Anuradha, 2019; Nordås, 2021). For example, Chapter 1 examined switching of modes for delivering services during the pandemic owing to social distancing rules. However, digitalisation also enables services like road transport, construction and engineering, distribution and retail and possibly even tourism to be supplied abroad through Mode 1, which involves cross-border supply enabled through online or digital means. With these developments in mind, governments may consider ways of improving co-operation and co-ordination to reduce regulatory fragmentation, initially as part of deeper regional integration processes, discussed in the previous chapter. For example, regional online payments systems and harmonised rules for data and privacy can facilitate cross-border trade through e-commerce platforms. To strengthen developing countries' capacity for digital trade, the international community could consider allocating additional AfT specifically to the digital sector, as discussed next.

BOX 5.6**THE DIGITAL ECONOMY PARTNERSHIP AGREEMENT – A MODEL FOR THE FUTURE?**

The Digital Economy Partnership Agreement (DEPA) between Chile, New Zealand and Singapore entered into force for New Zealand and Singapore on 7 January 2021 (see Chapter 4). It seeks to address barriers to digital trade between these countries and, potentially, other like-minded partners. It recognises the importance of the digital economy in promoting inclusive economic growth and focuses on the potential for digital technologies to enhance productivity, support innovation and new product creation, and improve market access (Kumar et al., 2020). As the most ambitious agreement of its kind, it provides a possible template to facilitate the growth of digital trade among like-minded Commonwealth developed and developing countries.

TABLE 5.3
DEPA KEY POLICY AREAS

Issue	Highlights and key areas of mutual consideration or collaboration
Business and consumer trust	<ul style="list-style-type: none"> • Laws and regulations relating to unsolicited commercial electronic messages • Online consumer protection laws or regulations • Principles on access to and use of the internet
Business and trade facilitation	<ul style="list-style-type: none"> • Paperless trading, e-invoicing across borders and e-payments • Mutual recognition of electronic documents • Consistency between legal frameworks governing electronic transactions and internationally developed model frameworks • Streamlined customs procedures for parcels and express shipments • Secure interconnection of single windows in line with WTO trade facilitation agreements • Open standards in the governance and exchange of data
Co-operation and small and medium enterprises (SMEs)	<ul style="list-style-type: none"> • Enhancing trade and investment opportunities for SMEs in the digital economy • Country websites with DEPA information for SMEs • Annual digital SME dialogue
Data issues	<ul style="list-style-type: none"> • Legal frameworks to protect personal information • Compatible and interoperable systems for cross-border transfer of information by electronic means
Digital identities	<ul style="list-style-type: none"> • Aligning approaches and standards for digital identities to foster technical interoperability and increase connectivity • Sharing best practices on digital identity policies and regulations, technical implementation, security standards and user adoption
Digital inclusion	<ul style="list-style-type: none"> • Sharing experiences and best practices to promote inclusive and sustainable development and address barriers to accessing opportunities in the digital economy • Methods and procedures for the collection of disaggregated data on inclusion
Emerging trends and technologies	<ul style="list-style-type: none"> • Promoting FinTech • Developing governance frameworks to support ethical, safe and responsible use of AI technologies • Digitisation of government procurement processes • Competition policy in digital markets
Infrastructure	<ul style="list-style-type: none"> • Internet access • Ensuring content is freely available through different devices
Innovation and the digital economy	<ul style="list-style-type: none"> • Framework for future work on data-sharing projects • Promotion of open government data
Intellectual property	<ul style="list-style-type: none"> • Protection and enforcement of intellectual property to promote technological innovation
Treatment of digital products and related issues	<ul style="list-style-type: none"> • Customs duties on digital products and ICT products that use cryptography • Equal regulatory treatment for digital products created domestically and offshore
Wider trust environment	<ul style="list-style-type: none"> • Considerations relating to cyber-security • Building capabilities of national entities responsible for computer security incident response

The Agreement provides a platform for the parties to discuss emerging digital trade-related issues and seek ways to support interoperability between digital systems within the broader digital economy. While emphasising mutual collaboration, it also recognises the importance of domestic policies and regulations and retains flexibility for the parties to adapt the rules to their local conditions (Elms, 2020). The DEPA covers several policy areas spanning an array of issues related to digital trade and the digital economy (summarised in Table 5.3).

The DEPA is expected to evolve over time as new technologies emerge and new challenges arise in the digital economy. This creates scope to emulate and refine the agreement when considering the expansion of the digital economy in other Commonwealth countries. Canada has expressed an interest in potentially joining the agreement and recently launched public consultations on the matter (Global Affairs Canada, 2021). It is anticipated that membership in the DEPA will grow as countries look to collaborate to help their citizens and businesses benefit from digital trade and adapt to emerging technologies.

5.8 Develop a newly invigorated Aid for Digital Trade initiative

Commonwealth developed countries such as Australia, Canada, New Zealand and the UK have been strong advocates and leading donors of AfT to help developing countries with production and supply-side capacity-building. Over the past decade and a half, AfT has made an important contribution to addressing some of the constraints in these areas that have prevented developing countries from participating in and benefiting from international trade. Within the realm of the digital economy, early attention in AfT initiatives was confined mostly to developing network communications infrastructure or digitising import and export procedures as part of efforts to modernise customs (Lacey, 2021). By 2017, however, issues of digital connectivity, e-commerce and readiness to engage in the digital economy were more firmly on the agenda of the AfT community, as evident in an increasing array of AfT interventions promoting

online connectivity and aspects of digital inclusiveness. This coincided with efforts by some countries to launch negotiations on e-commerce ahead of WTO MC11, as well as greater attention to e-commerce and digital trade in bilateral, regional and mega-regional FTAs (ibid.).

Data in the Organisation for Economic Co-operation and Development (OECD) Credit Reporting System reveals significant AfT disbursements benefiting ICT. In 2018, African Commonwealth countries received more than US\$36 million in AfT resources for ICT, and seven Asian members accrued about \$40 million, mostly through contributions from International Development Association donors and Development Assistance Committee (DAC) members (Lacey, 2021). Beyond this, however, it is difficult to disentangle disbursements specifically supporting digitalisation and digital trade from those benefiting other unrelated aspects in available data on AfT flows. More disaggregated data is needed to better understand the extent to which AfT currently supports firms and countries to engage in e-commerce and participate in digital trade (ibid.).

There is a compelling case for directing more donor support to

enhance developing countries' participation in digital trade. AfT mechanisms are well suited to a digital focus and likely to produce large impacts in a short period of time and through an efficient allocation of development resources. In a study for the Commonwealth Secretariat, Lacey (2021) suggests that a newly invigorated Aid for Digital Trade agenda could initially focus on four areas:

1. *Infrastructure.* As with broader infrastructure development projects under AfT, interventions to develop digital infrastructure are well suited to Aid for Digital Trade programmes targeting capacity-building and technical assistance.
2. *Digital skills and adoption.* Empowering individuals, consumers, entrepreneurs and businesses with digital skills is key to ensuring inclusive digital transformation, as is facilitating access to and uptake of digital technologies. Aid for Digital Trade can help Commonwealth governments develop supportive policy and regulatory environments that empower citizens and firms to benefit from the digital economy and digital trade.
3. *E-government.* Aid for Digital Trade can help fund the costs incurred

when developing and rolling out digital government services that improve the ease of doing business in Commonwealth countries, while also supporting the adoption of digital and online systems.

4. *Financial inclusion.* Digital technologies and platforms play an increasingly important role in enabling access to financial services and broadening financial inclusion. FinTech and digital financial services (e.g. mobile money) are well suited to supporting cross-border e-commerce and digital trade transactions, and assistance for the development and adoption of such innovations could be mainstreamed into Aid for Digital Trade activities.

A dedicated 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 can play a central role in helping developing Commonwealth countries harness the manifold development gains from digital trade. However, to maximise the impact of this support, donors must ensure that any Aid for Digital Trade is provided on top of existing official development assistance and AfT flows. Such additionality will ensure any new Aid for Digital Trade agenda does not simply invoke a reallocation of existing aid resources from non-digital to digital sectors, which would only serve to weaken much-needed existing support for developing countries' trade. This new initiative could also be used to assist developing countries and LDCs with digitalising their customs and border processes and building capacity in adopting more paperless trade solutions, as discussed next.

5.9 Digitise trade facilitation and strive for paperless trade

International trade still relies on heavily paper-based processes, with an estimated four billion documents circulating in the trade system. This imposes time, cost and handling inefficiencies for all exporters, but especially MSMEs in Commonwealth developing regions. For example, it is reported that each shipment of roses from Kenya to Rotterdam involves a stack of paper 25 cm high (MacGregor, 2019). Even with some automation, outdated laws and absence of standards create challenges for business.²⁰

As countries strive to build back better and support trade recovery, an important lesson lies in the advantages afforded by digitising customs and border procedures and moving significantly towards paperless trade. This would result in minimal physical proximity and interaction between customs officials and traders, fewer paper document exchanges and savings of time and cost. For example, it was previously estimated that a 10 per cent reduction in the costs incurred for a good to exit a Commonwealth member country was associated with 7.4 per cent increase in their world exports, which is higher than the global gain of 6.8 per cent, on average. The same reduction in red tape corresponds with a 5 per cent increase in intra-Commonwealth exports, on average (Commonwealth Secretariat, 2018a).

It was highlighted in Chapter 4 that 48 of the Commonwealth's 50 WTO members have ratified the WTO's Trade Facilitation Agreement (TFA). The agreement obliges members to deploy a national single window and to use ICT to the "extent practicable" to realise this, drawing on the TFA Facility and other capacity support to develop this infrastructure.²¹ Many Commonwealth developing countries, including some LDCs, are already implementing such facilities. However, countries can strive to go further by exploring or adopting paperless trade solutions that leverage digitalisation, including blockchains and AI, and ultimately "Rules as Code", which translates regulations to simple, business-friendly language that is readable by both humans and machines (Atkinson, 2020).

In response to COVID-19, many governments temporarily implemented a range of digital trade facilitating measures to streamline processes for clearing goods through borders (see Chapter 4). These included accepting digital trade-related documents over physical copies, provisions for electronically lodging documents in advance, enabling electronic payment of taxes and duties, allowing the use of digital certificates and signatures, introducing automated processing of trade declarations, and deploying electronic pre-arrival processing (OECD, 2020f). Significant gains can be made, and sustained, if these temporary digital trade facilitating measures are made permanent post-COVID.

Based on a 2019 United Nations survey,²² most Commonwealth countries are making good progress with implementing paperless trade, with developed country members (77 per cent) and Asian members (68.5

per cent) well above the world average implementation rate of 61 per cent, while the nine African members (57.2 per cent)²³ included in the survey are not far off. Their progress is likely to have accelerated in 2020 with the measures introduced in response to the pandemic. By region, the Pacific islands, including Commonwealth member countries, have the most potential to transform their trade facilitation measures using digital technology. For example, Australia recently partnered with Vanuatu to automate SPS certificates, reducing the application process average time to as little as 10 minutes.

A so-called TFA-Plus approach involves more advanced cross-border paperless trade measures such as specific legal frameworks for electronic transactions (e.g. e-commerce law) and the use of electronic SPS certificates (e-phyto) to support agricultural trade between countries (Atkinson and Stevens, 2020). While implementing cross-border paperless trade is extremely challenging – the average global implementation rate is 36 per cent – there is scope to start building capacity, investing in modern ICT systems and digitalising supply chains. Improvements to digital infrastructure, connectivity and skills, alongside greater international co-operation and more integrated legal and institutional frameworks, are required in many Commonwealth countries in order to realise the gains from successfully expanding cross-border paperless trade.

For example, the Framework Agreement on Facilitation of Cross-Border Paperless

Trade in Asia and the Pacific entered into force in February 2021. It is estimated that Bangladesh, having ratified this agreement, could reduce trade costs by 33 per cent, amounting to a potential annual saving of more than US\$700 million, if it implements the WTO TFA together with cross-border paperless trade (Hyun Kim, 2019). In the same region, Singapore (72 per cent), Malaysia (56 per cent) and India (55.6 per cent) score high for cross-border paperless trade, far above the global average. Singapore stands out for digitising trade, including adopting the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records and spearheading implementation of the blockchain-based maritime trade platform TradeTrust.

5.10 Promote sustainable trade and enable a more circular economy

The post-COVID recovery is an opportunity for Commonwealth countries to make progress on the SDGs, but especially SDG 12 – namely, ensuring sustainable consumption and production – including through trade policy and trade agreements and promoting circular economy principles, where economies are less resource-intensive, lower-carbon and less wasteful (Yamaguchi, 2021).

Linked to this, there is an opportunity to instil greater resilience in industries and supply chains to enable them to bounce back better. Without such measures, the recovery period could be longer, more polluting and less beneficial to economies, society and the natural environment. There is a risk of locking the future into unsustainable models that are less resilient and more exposed to future shocks, whether economic, epidemiologic or environmental (Escaith et al., 2020). This requires partnerships between governments, businesses and civil society to develop policy frameworks and strategies nationally, regionally and pan-Commonwealth to promote a more inclusive, resilient and sustainable recovery, including by harnessing digitalisation (Box 5.7).

The adoption of digital technologies can support this transition to sustainable growth and development, the creation of green jobs, the generation of renewable energy and strengthened regional and local supply chains. For example, blockchains can be used to seamlessly integrate sustainability attributes of products, such as CO₂ footprints and plastic content, leading to lower waste, better value realisation and higher investment in compliance (MacGregor, 2019). Amid the COVID-19 accelerated push towards digitalisation, countries should also look to harness digital technologies to enhance agricultural and fisheries productivity and boost yields during and after the COVID-19 recovery phase.²⁴ This can help improve the long-term sustainability of agriculture and fisheries sectors

BOX 5.7**COMMONWEALTH CONNECTIVITY AGENDA INITIATIVES 2021**

Commonwealth Leaders adopted the Commonwealth Connectivity Agenda (CCA) at the Commonwealth Heads of Government Meeting (CHOGM) in April 2018, with a view to boosting trade and investment links across the Commonwealth and raising intra-Commonwealth trade to US\$2 trillion by 2030. The CCA is structured around five clusters/working groups, each of which is chaired by a member country and based on voluntary, opt-in participation by members.

The Digital Connectivity Cluster focuses on digital transformation and the digital economy. Forthcoming specialised deep dive sessions will focus on digitising trade facilitation as well as ICT infrastructure development policy, which aims to support data innovation and digital trade. These sessions will analyse critical issues and promote dialogue on creating an enabling environment for digital trade facilitation.

The CCA is also developing several tools to facilitate national policy-making and economic development. Recognising the need to foster digital industrial development, the CCA is developing a policy-maker's guide to Manufacturing 4.0. This practical tool will assist policy-makers to better understand the implications of Manufacturing 4.0 for their economies, and how to develop appropriate digital industrial policy to capitalise on new opportunities. To address digital skills gaps, the CCA is also producing a series of Youth Digital Skills Strategies to assist Commonwealth governments and policy-makers in implementing or upgrading their institutional capacity to deliver youth digital skills training.

The affordability, access and provision of infrastructure (hard and soft) are critical for economic development. The Physical Connectivity Cluster has been working with members to address these issues. Since the pilot phase of the CCA programme, members have shared knowledge and experience on critical infrastructure needs. The members of the cluster have also developed the Agreed Principles on Sustainable Investment in digital infrastructure, which identifies six critical areas for action. With the acceleration of digitalisation as a result of the pandemic, issues in relation to digital infrastructure and the digital divide, as discussed in this chapter, remain priorities for the cluster. Elements of sustainable and inclusive development are further mainstreamed into the work of the cluster and knowledge products have been developed. During 2020, members of the cluster, in collaboration with the World Bank and the Commonwealth Secretariat, provided training on the Infrastructure Prioritisation Framework. As the CCA moves into the implementation phase post-2021 CHOGM, these initiatives will be extended through online modes of training along with other technical areas of training in relation to digital infrastructure.

The Supply Side Cluster provides critical foundational support for connectivity within sectors. While digitalisation is seen as a game changer for transforming smallholder agriculture and fisheries, in many cases a common understanding of digital agriculture/fisheries is lacking. The Supply Side Cluster is facilitating the framing of digital agriculture and fisheries in the Commonwealth and has launched a Business Development Service Capacity Building activity for Agricultural, Fisheries, and Digital MSMEs with the goal of supporting the uptake of digitalisation within the sectors.

All the above initiatives serve to advance knowledge-sharing and capacity-building among the Commonwealth's member countries. They also aim to foster greater resilience in the wake of the COVID-19 pandemic, which, as this chapter has demonstrated, underscores the urgency for members to develop their digital economies.

in Commonwealth countries but will require targeted interventions to ensure farmers and other participants along the value chain are adequately prepared to deal with the pace of change and harness technological and digital farming solutions effectively.

There are already some excellent examples of Commonwealth countries successfully using digital technologies to move towards more sustainable use of ocean resources (Commonwealth Secretariat, 2020). Many fisheries have turned to technology to ensure sustainability. Increased reporting and sharing of information, data-driven subsidies and tariff policies, more accurate tracking and regulation of all fishing (especially IUU fishing) through satellites and drones, and increased national and international collaboration have all contributed

to the optimisation of the current global fleet (Christiani et al., 2019).

5.11 Conclusion and way forward

This chapter has proposed 10 inter-related policy areas as possible pathways towards recovery in Commonwealth trade. The Commonwealth’s diverse members will face varied opportunities and challenges and follow multiple tracks based on the structure of their economies, the composition of their exports and their inherent features and vulnerabilities, from small states to LDCs, and determined by global economic prospects over the next few years (see Chapter 1).

Trade is the economic lifeblood of the Commonwealth, and revitalising and expanding these flows of goods, services and people is indispensable for economic recovery and achieving the SDGs. Table 5.4 summarises the main policy actions, which are framed overall by the importance of ensuring inclusive trade for women and youth and especially promoting women’s economic empowerment.

Taken together, these inter-related measures provide a set of pathways towards recovery in Commonwealth trade in a more digital world. 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.

TABLE 5.4
POLICY AREAS FOR REVITALISING COMMONWEALTH TRADE

Policy area	Actions
Strengthen and reform the multilateral trading system	<ul style="list-style-type: none"> • Improve monitoring of trade responses to COVID-19, especially vaccine distribution, and strengthen disciplines on export restrictions • Achieve a multilateral outcome at WTO MC12 on fisheries subsidies and advance multilateral co-operation on PSH and e-commerce • Resolve the WTO AB impasse to ensure a functional DSU • Pursue multilateral initiatives and adopt concrete measures for mutual supportiveness between trade and environment, especially for plastics
Boost regional trade and co-operation	<ul style="list-style-type: none"> • Implement existing and new trade agreements, including by adopting a whole-of-government approach and improving awareness of domestic stakeholders, especially MSMEs • Examine scope for rationalising tariffs and rules of origin and facilitating trade, especially for medical equipment, food products and other essential goods • Enhance co-operation on non-tariff measures • Improve trade-enabling cross-border transport infrastructure • Develop regional value chains in goods and services • Strengthen regional mechanisms and provisions in RTAs to enable co-operation in future crises

(Continued)

TABLE 5.4 (Continued)
POLICY AREAS FOR REVITALISING COMMONWEALTH TRADE

Policy area	Actions
Utilise new trading opportunities post-Brexit	<ul style="list-style-type: none"> • Implement new trade agreements with the UK and advance practical supply chain management solutions, especially for ACP triangular supply chains used to serve markets in both the UK and EU • Use UK initiatives (e.g. investment summits, trade fairs, envoys, AfT) and Commonwealth business platforms to enhance trade and investment • Develop new and deeper forms of economic co-operation across the Commonwealth (e.g. new bilateral FTAs, digital trade agreements) • Diversify UK food trade towards the Commonwealth • Develop further co-operation in services trade, including FinTech
Revive the tourism and travel sector	<ul style="list-style-type: none"> • Invest in critical infrastructure along the tourism value chain, and upgrade capacity and skills to embrace digital technologies • Revitalise demand through domestic staycations and intra-regional tourism, travel corridors and "digital nomad" offerings • Target AfT to promote and attract sustainable investment in tourism and integrate conservation, ecology, creative industries and cultural heritage offerings
Enhance support measures for LDCs and graduates	<ul style="list-style-type: none"> • Leverage AfT and other partnerships to develop productive and trading capacity, and address supply-side constraints • Use favourable tariff preferences and rules of origin for exports to developed economies and some developing country markets • Use the WTO services waiver to participate in global value chains and diversify services exports • Enhance debt sustainability and improve access to finance • Use the Fifth United Nations Conference on LDCs to mobilise additional international support measures and foster a renewed partnership between LDCs and development partners • Advocate for a smooth transition for graduating LDCs
Leverage digital technologies for trade, development and competitiveness	<p><i>A: Capacity-building</i></p> <ul style="list-style-type: none"> • Improve digital infrastructure to broaden access and usage of ICTs and the internet • Invest in digital capabilities and workforce training in digital skills • Develop capabilities to harness Industry 4.0, including aligning science, technology, innovation and industrial policies <p><i>B: Regulatory framework</i></p> <ul style="list-style-type: none"> • Develop national and regional regulatory frameworks and policies for e-commerce, payment platforms, privacy, data, consumer protection, online dispute resolution and cyber-security <p><i>C: Aid for Digital Trade</i></p> <ul style="list-style-type: none"> • Develop a new and additionally funded Aid for Digital Trade initiative, focused initially on supporting infrastructure, digital skills, e-government, financial inclusion in developing countries and LDCs • Digitise trade facilitation by adopting paperless trade solutions and make permanent any temporary digital trade facilitating measures introduced during the pandemic <p><i>D: Partnerships</i></p> <ul style="list-style-type: none"> • Build partnerships with the private sector and start-ups to accelerate FinTech, including using innovation hubs and regulatory sandboxes • Implement the Commonwealth Connectivity Agenda Action Plan
Promote sustainable trade and circular economy principles to build back better	<ul style="list-style-type: none"> • Develop multi-stakeholder partnerships and advocate for sustainability and circular economy principles to underpin the recovery • Harness digital technologies to create green jobs, generate renewable energy, enable sustainable production/consumption (e.g. agriculture, forestry and fisheries) and build resilient supply chains
Harness Commonwealth advantage in trade and investment	<ul style="list-style-type: none"> • Develop trade strategies to benefit from lower bilateral trade costs, on average, with Commonwealth partners • Implement RTAs involving Commonwealth partners given their export-enhancing effect • Use Commonwealth advantage to boost FDI inflows, especially greenfield projects

ANNEX 5.1.

GTAP MODELLING RESULTS: POTENTIAL SHORT- AND MEDIUM-TERM IMPACTS ON COMMONWEALTH COUNTRIES' EXPORTS

	Change in exports (US\$ millions)					Change in exports (%)				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Developed										
Australia	33.51	193.43	197.76	227.62	249.73	0.01	0.056	0.057	0.066	0.073
Canada	72.45	49.11	21.77	-13.2	-52.57	0.012	0.008	0.004	-0.002	-0.009
Cyprus	-1.37	-1.87	-2.01	-2.2	-2.4	-0.014	-0.02	-0.022	-0.024	-0.026
Malta	-1.84	-2.21	-2.04	-2.03	-1.98	-0.013	-0.014	-0.012	-0.011	-0.01
New Zealand	6.4	2.75	-40.98	-74.7	-85.42	0.013	0.005	-0.08	-0.144	-0.162
Developing										
<i>Of which</i>										
Africa										
Botswana	-1.68	-2.81	-3.41	-3.35	-2.91	-0.017	-0.028	-0.033	-0.032	-0.027
Cameroon	0.66	0.59	0.21	-0.09	-0.45	0.008	0.007	0.002	-0.001	-0.005
Eswatini	0.039	-0.019	-0.032	-0.051	-0.083	0.002	-0.001	-0.001	-0.002	-0.004
The Gambia	0.063	0.091	0.135	0.155	0.156	0.015	0.021	0.032	0.036	0.036
Ghana	1.49	2	2.68	2.75	2.5	0.006	0.007	0.009	0.009	0.008
Kenya	-3.44	-6.98	-8.91	-11.56	-14.3	-0.019	-0.035	-0.039	-0.045	-0.05
Lesotho	0.021	-0.011	-0.018	-0.029	-0.047	0.002	-0.001	-0.001	-0.002	-0.004
Malawi	0.4	0.24	0.06	-0.25	-0.56	0.018	0.011	0.003	-0.011	-0.025
Mauritius	-1.14	-1.65	-2.5	-2.54	-2.65	-0.021	-0.028	-0.042	-0.041	-0.041
Mozambique	0.52	0.58	0.45	0.14	-0.35	0.007	0.007	0.005	0.001	-0.003
Namibia	0.87	1.73	2.79	2	0.97	0.016	0.029	0.045	0.031	0.015
Nigeria	6.8	9.57	12.1	13.24	13.65	0.008	0.011	0.014	0.015	0.016
Rwanda	0.22	0.27	0.38	0.36	0.27	0.011	0.013	0.018	0.016	0.012
Seychelles	0.061	0.087	0.13	0.149	0.15	0.015	0.021	0.032	0.036	0.036
Sierra Leone	0.141	0.203	0.301	0.345	0.348	0.015	0.021	0.032	0.036	0.036
South Africa	3.79	-0.26	-3.59	-9.02	-15.64	0.003	0	-0.003	-0.008	-0.013
Tanzania	1.77	2.38	3.12	3.13	2.71	0.014	0.017	0.02	0.019	0.016
Uganda	-0.58	-1.41	-1.97	-2.64	-3.58	-0.007	-0.017	-0.024	-0.031	-0.04
Zambia	-0.17	0.48	1.91	3.37	4.72	-0.002	0.006	0.021	0.035	0.046
Asia										
Bangladesh	8.38	10.41	5.05	-3.43	-13.89	0.024	0.03	0.014	-0.009	-0.033
Brunei Darussalam	0.91	0.84	1.54	2.47	3.3	0.012	0.011	0.019	0.031	0.041
India	63.05	59.17	-30.48	-117.91	-167.73	0.009	0.008	-0.004	-0.014	-0.018
Malaysia	-10.54	-30.71	-52.71	-70.47	-88.04	-0.004	-0.01	-0.017	-0.022	-0.027
Maldives	0.137	0.263	0.279	0.12	-0.093	0.012	0.02	0.018	0.007	-0.005
Pakistan	12	21.52	27.66	30.66	31.64	0.042	0.066	0.07	0.064	0.054
Singapore	-24.93	-35.27	-31.79	-30.03	-26.84	-0.006	-0.008	-0.007	-0.007	-0.006
Sri Lanka	4.79	2.47	-2.83	-6.25	-10.11	0.028	0.012	-0.012	-0.023	-0.032

(Continued)

ANNEX 5.1 (Continued)

GTAP MODELLING RESULTS: POTENTIAL SHORT- AND MEDIUM-TERM IMPACTS ON COMMONWEALTH COUNTRIES' EXPORTS

	Change in exports (US\$ millions)					Change in exports (%)				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Caribbean SIDS										
Antigua and Barbuda	0.032	-0.029	-0.111	-0.2	-0.226	0.007	-0.007	-0.025	-0.041	-0.043
The Bahamas	0.238	-0.217	-0.825	-1.483	-1.675	0.007	-0.007	-0.025	-0.041	-0.043
Barbados	0.097	-0.088	-0.335	-0.602	-0.68	0.007	-0.007	-0.025	-0.041	-0.043
Belize	0.01	-0.01	-0.03	-0.1	-0.18	0.001	-0.001	-0.003	-0.01	-0.017
Dominica	0.011	-0.01	-0.038	-0.069	-0.078	0.007	-0.007	-0.025	-0.041	-0.043
Grenada	0.023	-0.021	-0.079	-0.142	-0.16	0.007	-0.007	-0.025	-0.041	-0.043
Guyana	-0.103	1.392	1.805	2.494	3.305	-0.002	0.024	0.026	0.035	0.046
Jamaica	1.3	1.18	0.83	0.23	-0.47	0.022	0.018	0.012	0.003	-0.006
St Kitts and Nevis	0.02	-0.018	-0.068	-0.122	-0.137	0.007	-0.007	-0.025	-0.041	-0.043
Saint Lucia	0.039	-0.036	-0.137	-0.245	-0.277	0.007	-0.007	-0.025	-0.041	-0.043
St Vincent and the Grenadines	0.015	-0.014	-0.053	-0.095	-0.108	0.007	-0.007	-0.025	-0.041	-0.043
Trinidad and Tobago	0.88	0.1	-0.88	-1.58	-2.13	0.007	0.001	-0.008	-0.014	-0.019
Pacific SIDS										
Fiji	0.227	0.082	-0.165	-0.516	-0.91	0.013	0.005	-0.01	-0.029	-0.05
Kiribati	0.008	0.003	-0.006	-0.018	-0.032	0.013	0.005	-0.01	-0.029	-0.05
Nauru	0.005	0.002	-0.004	-0.011	-0.019	0.013	0.005	-0.01	-0.029	-0.05
Papua New Guinea	1.026	0.369	-0.746	-2.325	-4.105	0.013	0.005	-0.01	-0.029	-0.05
Samoa	0.035	0.013	-0.025	-0.079	-0.14	0.013	0.005	-0.01	-0.029	-0.05
Solomon Islands	0.059	0.021	-0.043	-0.133	-0.234	0.013	0.005	-0.01	-0.029	-0.05
Tonga	0.02	0.007	-0.015	-0.045	-0.08	0.013	0.005	-0.01	-0.029	-0.05
Tuvalu	0.002	0.001	-0.001	-0.004	-0.008	0.013	0.005	-0.01	-0.029	-0.05
Vanuatu	0.038	0.014	-0.027	-0.085	-0.151	0.013	0.005	-0.01	-0.029	-0.05

Source: Gopalakrishnan (2021) for Commonwealth Secretariat

Endnotes

- 1 Launched in 2001 at the WTO's Doha Ministerial Conference, the negotiations on fisheries have already missed two deadlines: WTO MC11 in 2017 sought an outcome by the end of 2019, while SDG target 14.6 aimed to end these subsidies by 2020.
- 2 China has FTAs with Australia and New Zealand in the Pacific, Maldives, Pakistan and Singapore in Asia and Mauritius in Africa and with two Association of Southeast Asian Nations members, Malaysia and Brunei. http://fta.mofcom.gov.cn/english/fta_qianshu.shtml
- 3 http://focacsummit.mfa.gov.cn/eng/hyqk_1/t1594297.htm
- 4 In 2019, merchandise accounted for 58 per cent of the UK's trade with the EU while services accounted for the remaining 42 per cent.
- 5 In Northern Ireland, market conditions may differ in some cases from those described, as a result of implementation of the Northern Ireland Protocol to the Withdrawal Agreement under which the UK left the EU.
- 6 One-fifth of the UK's 10,000 or so tariff lines are excluded from the Main Framework and also, mostly, from the Enhanced GSP (Stevens, 2021).
- 7 The alignment of EU sugar prices with world market prices reduced the value of ACP sugar exports as they could no longer benefit from guaranteed preferential sugar prices that were higher than world market prices.
- 8 For example, sugar cane accounts for more than 50 per cent of the total agriculture value-added in Eswatini and Mauritius.
- 9 ACP goods shipped along triangular supply chains via the UK to the EU or via the EU to the UK now lose their duty-free access and face most-favoured nation tariffs if this trade takes place outside of customs supervision. Such customs supervision under Common Transit Convention procedures is extremely difficult to activate along ACP supply chains given the infrastructure, information technology and staffing challenges currently faced (EPA Monitoring, 2021b).
- 10 Changes in merchandise exports would be greater for the UK (forecast to increase annually by 33 per cent) than for India (up by 12 per cent annually), probably because Indian tariffs are higher, but this ignores services, which would be the priority for India.
- 11 There are concerns that vaccine passports may be politically divisive and discriminatory. Those unwilling or unable to access COVID-19 vaccines and hence without vaccine passports may face additional conditions or restrictions on their movement or their ability to obtain secure employment (The Economist, 2021d). Existing digital divides within and between Commonwealth countries could exacerbate these issues. Moreover, the policy of prioritising the vaccination of older people in most countries may create a generational divide, with older individuals enjoying more freedoms than younger people not yet vaccinated.
- 12 These nine SSA countries are Nigeria (US\$36.53 billion), South Africa (\$31.45 billion), Kenya (\$12.84 billion), Ghana (\$5.01 billion), Tanzania (\$4.28 billion), Cameroon (\$3.27 billion), Uganda (\$2.26 billion), Rwanda (\$0.97 billion) and Mozambique (\$0.67 billion) (IFC and Google, 2020).
- 13 See, for instance, GIZ (2019) and Fichers and Naji (2020).
- 14 Mobile money is increasingly the payment method of choice for e-government services. The number of payments for service applications using mobile money increased from 1 million in 2017 to 8 million in 2020 (Fichers and Naji, 2020).
- 15 In the first two years following the introduction of the RESW, average customs clearance times for imports fell by 40 per cent and those for exports by 55 per cent (Nizeyimana and de Wulf, 2015).
- 16 The portal currently hosts information on 128 procedures and 203 laws and regulations (Taarifa, 2021).
- 17 See, for example, the International Trade Centre (ITC) (2018) on the impacts of e-commerce in Bangladesh.
- 18 The index ranks 158 countries and is composed of 9 indicators to illustrate the following five "building blocks" for a country's readiness to innovate and adopt frontier technologies: ICT deployment; skills; research and development (R&D) activity; industry activity; and access to finance. The index scores countries from 0 (low) to 1 (high) for each building block and overall.
- 19 The second WTO MC, in 1998, established the Work Programme on E-Commerce to examine all trade-related issues concerning global electronic commerce, and mandated members to continue examining the current practice of not imposing customs duties on electronic transmissions. This Moratorium on E-Transmissions has been renewed since 1998. In December 2019, WTO

members again agreed to extend the E-Commerce Moratorium until MC12, which has been postponed twice as a result of COVID-19 (see Chapter 4).

20 <https://iccwbo.org/content/uploads/sites/3/2020/05/2020-icc-digital-roadmap.pdf>

21 Establishing a national single window is an obligation under Article 10.4 of the WTO TFA.

22 2019 UN Trade Facilitation Survey, available at <https://untfsurvey.org/>

23 Botswana, Cameroon, Malawi, Mauritius, Mozambique, Namibia, Sierra Leone, Tanzania and Zambia.

24 For example, this can include digitally enabled climate smart advisory services on drought resistance and short season seed varieties; precision farming to reduce the negative impact of agro-chemicals on soils/land; index-based insurance services to cushion farmers and fisherfolks against flood, drought,

pest and diseases; alternative credit scoring solutions based on big data and analytics that are facilitating access to financial services; and smart tools to enable fisherfolks to respond to SOS alerts at sea when traditional storm models fail.

Conclusion

The COVID-19 pandemic has caused an unprecedented global crisis, sparking the most severe economic contraction since the Great Depression. As a result of the deep recession in several Commonwealth countries and in their major export markets, Commonwealth members are estimated to have lost as much as US\$345 billion worth of trade in 2020, including \$60 billion in trade among the 54 member countries. The impact has been particularly severe and disproportionate on women, youth, the poor and the informally employed. However, the rapid development of coronavirus vaccines and their roll-out globally, albeit with uneven distribution among countries, suggests 2021 could be a year of transition for global trade and broader economic growth. As discussed in this Review, trade will be an essential tool for economic recovery and can be harnessed to build back better from the pandemic.

Each Commonwealth member country has its own unique pathway and policy options for trade recovery in a more digital world, 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. For example, some least developed countries (LDCs) earn more than 80 per cent of their export earnings from commodities,¹ while a few are graduating from this category and require additional support measures for a smooth transition.

Other members, like small states, face inherent structural challenges related to small size and geography. They depend greatly on imports – from food to fuels – and are extremely vulnerable to climate change and natural disasters, including extreme weather events like cyclones and hurricanes, prolonged drought and even volcanic eruptions. Among the small states, most small island developing states (SIDS) have a large share of tourism in their gross domestic product (GDP) – around 50 per cent – but recovery in this sector depends on resumption of travel, which in turn depends upon addressing the health and safety concerns of tourists. Many Commonwealth members have high levels of debt, exacerbated by the crisis, and have limited means to finance

a sustainable recovery or do not qualify for international support measures despite their high levels of vulnerability.

International co-operation and engagement in finding ways to ensure the production and distribution of affordable medical products, including vaccines and medicines, remains essential if the entire world is to be vaccinated in a timely manner to combat the pandemic. As Commonwealth policy-makers and businesses look towards recovery from the pandemic and building resilience to future shocks, they should carefully consider the following issues.

The role of trade in economic recovery

Trade can also offer positive solutions to manage the crisis and act again as an engine of growth. Maintaining open trade and supply chains is essential to meet the increasing demand for health supplies and vaccines, given the concentration of manufacturing in a few countries. COVID-19 has shown just how vulnerable medical supply chains are when they rely on a small number of manufacturers for raw materials and final products.² Any sort of protectionism and barriers to trade could undermine and delay the global recovery.

Commonwealth countries should also leverage trade to boost economic growth. While the trade-growth nexus has weakened during the past decade, recent studies show that 1 per cent growth in trade leads to an increase of 1-1.5 per cent in GDP growth, raising income by 10-20 percentage points over a decade. Trade is forecast to grow by 8.5 per cent in 2021 and 6.5 per cent in 2022 (IMF, 2021b). This growth will help Commonwealth countries' global exports to rebound and reach US\$3.76 trillion in 2021 and \$3.94 trillion by 2022. Similarly, intra-Commonwealth exports are expected to surpass \$700 billion by 2022. To support their trade recovery, Commonwealth countries can harness the "Commonwealth advantage", which enables member countries to trade up to 20 per cent more with each other, while bilateral trade costs are 21 per cent lower, on average.

Given the dynamic nature of global value chain (GVC) networks, it is possible that a transformation of GVC activities in goods and services will lead to both greater opportunities and increased resilience for many Commonwealth countries. Discussions are ongoing on the possibility of re-shoring and diversifying supply chains as well as re-industrialising to reduce the risk of "supply chain contagion". While this is likely to be a key post-COVID strategy, it may also lead countries to diversify the sources of supplies closer to home. On the one hand, this may offer new opportunities to Commonwealth developing countries as multinational enterprises reduce their dependence on "Factory Asia"; on the other, there is a risk that the pandemic could lead to policies that restrict the international flow of goods, services and people.

Digitalisation, digital trade and recovery

Various estimates suggest that more than 50 per cent of global GDP will be digitised by 2022/23, although there is a risk that this will leave behind many Commonwealth developing countries and LDCs with limited digital infrastructure and connectivity (Ashton-Hart, 2020). As discussed in Chapter 2, digitalisation is driving growth and value creation across all industries, and reshaping markets, business models and value drivers for business. Growing digital trade and expanding the digital economy can help support economic recovery post-COVID and, at the same time, build resilience in Commonwealth countries, ensuring they are better positioned to address future economic shocks and crises. Digital trade can open up new avenues for many businesses, large and small, in Commonwealth developing countries, especially small states, LDCs and countries in sub-Saharan Africa, to provide services through Mode 1 while also supporting export diversification. With the pandemic likely to accelerate trends in Industry 4.0, leveraging digital and other frontier technologies in sectors such as manufacturing will help in transitioning to higher-productivity and more advanced production processes, thereby supporting the structural transformation of Commonwealth economies.

The increase in the uptake of e-commerce and the online delivery of certain services is likely to continue throughout the recovery period and beyond. Countries that are less digitally enabled need to identify their challenges and lessons

learnt and take steps to overcome some of the hurdles to shifting to a more digital world. International co-operation is critical to address issues of connectivity, to close digital divides and to tackle barriers to digital trade, particularly e-commerce. Individual countries can work on building capacities and removing the barriers to digital opportunities at the domestic and regional levels. In this regard, it is necessary for governments to strengthen the enabling environment, including updating legal and regulatory frameworks and putting in place digital systems required for digital trade to thrive.

With the ever-increasing adoption of digital technologies in global production and trade, the focus of multilateral, regional and bilateral Aid for Trade initiatives inevitably needs to shift to addressing impediments to their uptake in developing countries in order to provide a level playing field. Failure to do so is only likely to exacerbate inequalities across countries, adversely affecting the process of economic convergence between developing and developed countries.

Building a more sustainable green and blue economy

As many countries start easing their lockdowns, it is imperative that they strengthen their frameworks for sustainable economic development during the recovery phase and not simply revert to business-as-usual "brown" practices to grow the economy out of recession. The pause in economic activity could be used to re-engineer, strategise and plan towards objectives that are truly sustainable, and determine what role trade policy can play (Escaith et al., 2020). For example, many governments and firms in the Commonwealth and worldwide are accelerating their efforts to achieve a global economy with net zero carbon emissions by 2050. Moreover, countries need to risk-proof their future prosperity by focusing on resilience to build back better, including by drawing on and harnessing sustainable approaches and circular economy principles. The post-COVID recovery is indeed an opportunity to make progress on many of the Sustainable Development Goals (SDGs), but especially SDG 12 to ensure sustainable production and consumption. There is considerable evidence that investments in sustainable industries improve economies and businesses. So-called greener industries provide over three times more jobs than do traditional fossil fuel-based industries (Vetter, 2020).

However, this requires a whole new set of partnerships to address the challenges and harness new collaborative solutions and innovative approaches and financial products.³

Investors will increasingly contemplate a range of new determinants when making investment decisions beyond the pandemic, especially sustainability, with environmental, social and governance issues increasingly informing business choices. Other factors include the possibilities for reconfiguring or regionalising supply chains and diversifying investment destinations to minimise exposure to location-specific shocks and future crises. Moreover, levels of digitalisation and connectivity in host countries will become increasingly important as modes of manufacturing shift towards Industry 4.0. Re-shoring, regionalisation and replication mean that factors such as geographic proximity, quality of infrastructure and participation in bilateral and regional trade agreements are likely to exert even greater influence on locational decisions for manufacturing foreign direct investment. To compete in this emerging investment landscape, Commonwealth countries need to realistically identify their comparative strengths over the medium to long term and pursue domestic reforms, where appropriate, to take advantage of these new investment opportunities.

The international community can help tackle some of the challenges to ensure a more sustainable and resilient economic recovery. Development assistance will almost certainly be needed from the major international financial institutions to assist Commonwealth developing countries to recalibrate their economies. There may also be a case for conditioning support for recovery on some sustainability. Building local value chains in agriculture, forestry and fisheries should be targeted as priority sectors for lending. African, Caribbean and Pacific SIDS should use this opportunity to identify and implement actions to derive greater benefits from the sustainable use of their ocean economies, including through enhanced regional co-operation and co-ordination around the blue economy.

Several Commonwealth countries will need assistance to recover and revive their economies and trade in the post-pandemic period. These economic support and stimulus packages should aim to align with the SDGs, boost climate action and social equity, and make global and local economies more resilient in the long run. As the world begins to tide over the COVID-19 headwinds, 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, including by harnessing the "Commonwealth advantage".

Endnotes

- 1 For example, all the Commonwealth African LDCs, except Lesotho, are commodity-dependent. The Gambia, Malawi and Uganda rely on agricultural exports, while Mozambique, Rwanda, Sierra Leone, Tanzania and Zambia are heavily dependent on mineral, ore and metal exports.
- 2 The global value chains (GVCs) for manufacturing and distributing vaccines involve around 1,800 suppliers across 19 countries providing 280 ingredients used in the manufacturing process.
- 3 For example, blue bonds, climate bonds and impact bonds, as well as debt swaps for nature. Such debt instruments can be tied to sustainability targets, helping countries build back better.

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About this Review

Commonwealth countries' trade and investment have been affected significantly by COVID-19. The theme of Commonwealth Trade Review 2021 is 'Energising Commonwealth Trade in a Digital World: Paths to Recovery Post-COVID'. This edition presents new empirical findings about the impact of the pandemic and practical recommendations to boost trade recovery and build resilience, especially by harnessing digital trade and digital technologies, utilising post-Brexit trading opportunities and promoting more sustainable green and blue economies.



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