

Summary and conclusions

The changing landscape of global trade and the Commonwealth

Fundamental changes are taking place in the global trade landscape. In the process, significant transformations are underway in relation to the sources of growth of world trade, its direction of flows and patterns and, in turn, individual countries' comparative and competitive advantages. These changes are being driven mainly by such factors as the rapidly growing trade of developing countries; growing trade interconnectedness through global value chain (GVC)-led fragmentation of production processes; proliferation of regional trading arrangements (RTAs); lack of dynamism in multilateral trade negotiations; and the impending need for actions to combat climate change.

Along with the above factors, recovery from prolonged recession in the aftermath of the 2008 global financial crisis has been accompanied by a weak trade-growth relationship, giving rise to concern about the role of trade in promoting development. Notwithstanding, the global community's adoption of the 2030 Agenda for Global Action and its set of Sustainable Development Goals (SDGs) provides a renewed emphasis on the importance of international trade as a key means of achieving sustainable development and social progress.

The Commonwealth, with its diverse membership, is coming to terms with this shifting trade landscape. This Review explores the trade prospects of the association – both overall and intra-Commonwealth trade. It considers the challenges and opportunities emerging from the changing circumstances, highlights some of the broad priorities in unleashing the trade potential for Commonwealth members and offers some perspectives on emerging trade and development issues.

Adapting to the changing landscape

The growing prominence of developing countries has been one of the salient features of the shifting global trade landscape. Over the past two decades, the share of these countries in global merchandise exports has increased from around 30 per cent to 50 per cent. An almost identical change has taken place in the relative significance of Commonwealth developing countries in the Commonwealth's total exports. This implies that, while traditional developed countries remain important markets, developing countries also provide enhanced trading opportunities.

However, one challenge of South-South trade lies in making it broader-based and more diversified, as primary commodities supplied by a handful of African, Caribbean and Pacific (ACP) countries currently dominate exports to emerging

economies. This has important implications for the economic and export diversification prospects of these countries. For commodity-dependent exporters, one further concern relates to how the growth slowdown in China is going to unfold.

Opportunities to break into emerging developing country markets remain to be materialised for a majority of other Commonwealth developing countries. For example, while on average 12 per cent of all Commonwealth merchandise imports are now sourced from China, there are 35 Commonwealth countries that export less than 5 per cent of their exports to the Chinese market.

While GVCs present export opportunities through specialisation in only a relatively limited number of tasks, which is more manageable for many Commonwealth members given their limited capacity, most Commonwealth ACP countries, being predominantly natural resource-based primary product and processed commodity exporters, are at a disadvantageous position in terms of linking into these chains. They lie at the bottom of the integration stage in GVCs, with limited capacity to upgrade. For small states in particular, participation in GVCs is constrained by their inherent characteristics and associated trade challenges, for example their small market size, their remoteness from global commercial centres related to GVC hubs, their lack of competitiveness, etc.

Trading through regional arrangements is also shaping the global trade landscape in an unprecedented way. An overwhelming majority of Commonwealth developing countries are members of several RTAs. However, for many of them, realising the benefits of increased trade is yet to happen. They also have limited capacity to negotiate and manage the overlapping arrangements.

The proliferation of RTAs, including their coverage of much broader ambits to generate trade rules and provisions in new areas, could weaken the multilateral trading system, especially in the absence of lack of dynamism in World Trade Organization (WTO)-led trade negotiations. A strong rules-based multilateral system is extremely important to protect and promote the interests of small and poor countries. Promoting trade multilateralism while keeping up the momentum of RTA constitutes a key area of global policy discourse.

Climate change is one of the greatest challenges facing the international community. Most Commonwealth developing countries have limited capacity to manage and adapt to the risks and impacts of climate change. Measures to deal with the associated challenges, including capacity-building, climate-proof infrastructure, export diversification and promoting

competitiveness in new sectors, among other strategies, will incur significant costs and pose a development challenge.

Taking advantage of the Commonwealth

Commonwealth countries are striving to improve their overall trade performance, and in this regard the evidence seems to suggest there are vast opportunities to promote trade between members. The Commonwealth is not a trading bloc, and therefore does not possess policy-induced mechanisms to increase trade within the association. Nevertheless, intra-Commonwealth trade is already quite substantial, valued at \$592 billion in 2013, and is growing strongly (projected to surpass \$1 trillion by 2020). This trade is also broad-based: shares of Asian and African developing countries have increased and many small states are more dependent on it. Although member countries have increased their trade with non-Commonwealth economic powers, including, recently, China, the share of intra-Commonwealth exports as a proportion of the Commonwealth's total global exports has seen a significant rise over the past two decades or so.

Historical ties, long-established trade relations, familiar administrative and legal systems, the use of one language as the means of communicating with foreign partners and large and dynamic diasporas have all long been recognised as important factors in promoting trade. This Review provides econometric estimates suggesting, controlling for various factors that determine trade flows, Commonwealth members on average tend to trade more between themselves (about 20 per cent more considering goods and services together) and generate more foreign direct investment (FDI) flows (10 per cent more). These results also imply bilateral trade costs between members are, on average, 19 per cent lower than those for trade with other trading partners.

This Review provides quantitative estimates of current untapped trade potential (\$156 billion) and likely trade prospects over the next 15 years. Ongoing trends, huge current potential and massive future prospects suggest that some supporting measures, in the absence of RTA-type trade policy interventions, would be able to boost trade between members greatly.

Leveraging the Commonwealth effects for greater trade gains

The already substantial trade between Commonwealth members and its rising relative significance will call for leveraging the 'Commonwealth effect' for greater trade gains. There are several ways this can be achieved without any explicit policy interventions.

First of all, this Review emphasises strengthened regional cooperation, rather than just forming RTAs to exchange trade concessions. Deeper integration is more likely to result in increased trade within the regions of Commonwealth members. The Commonwealth effect, including lower trade costs, can then be exploited further in the trade between Commonwealth members within existing RTAs. Members' enhanced trading capacity is also likely to have a positive effect on intra-Commonwealth trade involving members in other regions.

Second, while average tariffs have fallen across the global regions, there exists substantial scope for further tariff rationalisation. The resultant impact of such unilateral measures can potentially be amplified for member countries through the Commonwealth effect.

Third, improved trade logistics, including trade facilitation measures, can be an effective means of promoting trade including, intra-Commonwealth flows, as Part II of this Review shows. Given the presence of world-class performers in the area (e.g. Singapore), and the elaborate technical and financial assistance programmes of Commonwealth developed countries such as Australia, Canada and the UK to support developing countries' efforts, the Commonwealth provides a forum for understanding the challenges associated with specific trade support measures and sharing experiences of practical ways of dealing with them.

Fourth, the strong and diverse Commonwealth diasporic community is a potential source of increased trade. The diaspora can help by bridging markets and circulating knowledge and information on technology and business practices. Finally, as many countries aim for integration into GVCs, the Commonwealth effect could boost the development of value chains involving Commonwealth members. Several members are located in regions that have the potential for value chain development, but any such mechanism could be spread out within the Commonwealth, even involving non-Commonwealth countries, to take advantage of the existing trade advantages.

Broad priorities for unleashing the trade potential of Commonwealth countries

The shifting nature of the trade landscape implies a need to provide more intensive attention to broad priorities for improved trade performance. This Review highlights five of these priorities: building productive capacity; effectively managing trade policy and negotiations; addressing implementation gaps; promoting private sector development; and securing a trade-supporting global architecture. These determinants

of trade success are interlinked, and concerted efforts need to be undertaken to generate the desired impact.

Limited and undiversified productive capacity is one of the most important constraints facing many Commonwealth developing countries. While international trade and trade policy can help in terms of diversification, this has not been achieved in most Commonwealth ACP member countries. Managing ever-expanding boundaries of trade policy and negotiations and membership in different RTAs, partly driven by the changing global trade landscape, has become an important priority for Commonwealth countries. For many Commonwealth developing countries, limited capacity makes this particularly challenging. Similarly, putting in place trade strategies and agreements has proved exceedingly challenging, resulting in a huge implementation deficit. Implementation of trade agreements generally takes a very long time, often decades, which implies the intended results of negotiated outcomes often do not materialise.

Good trade strategies and improved market access are meaningful only if business enterprises, including women-led and small and medium-sized ones, can make use of them. Many Commonwealth developing countries have undertaken important reforms, yet creating an enabling environment for the private sector remains a major priority. Poor infrastructure – including insufficient and unreliable power supplies and weak road and port infrastructure, all part of weak productive capacity – continues to inhibit private sector development.

Finally, securing a coherent global trade support architecture cannot be overemphasised with regard to the aim to unleash trade potential. According to an estimate provided in the World Investment Report 2014, at current levels of investment in SDG-relevant sectors, developing countries face an annual investment gap of \$2.5 trillion per year. This has direct and indirect impacts on their trading capacity. While alternative sources of funding will be increasingly sought for implementing the SDGs, the role of official development assistance (ODA) in promoting trade-related infrastructure and capacity-building will continue to be important.

One particular component of ODA, Aid for Trade (AFT), has been generally helpful in addressing the supply-side capacity limitations of developing countries. However, there remains much scope to make this even more effective. Resource availability as against needs is extremely limited. One particular objective of AFT – that is, helping countries with their trade-related adjustment needs – has hardly been utilised, even though it could be used to help develop productive capacity. Predictability of AFT has also been a major issue, with resources disbursed falling short of commitments on a regular basis. Finally, more targeted AFT support is needed to promote export sector development in developing countries.

Putting Commonwealth perspectives into action

Given its diverse membership and its active participation in global policy discourse, the Commonwealth offers insightful perspectives on emerging trade issues that are of particular interest in promoting development. The Review concludes by addressing some of these issues and providing some concrete ways forward for the global community to consider. These include, among others:

- To promote trade multilateralism so as to achieve trade-led development objectives that are consistent with the SDG framework, which offers a new opportunity to catalyse momentum to finally conclude the Doha Round.
- To achieve and strengthen institutional coherence, coordination and communication among the relevant multilateral trade bodies in creating a more effectively integrated trade-related global governance framework to drive forward the 2030 agenda.
- To institute regular reviews, led by the WTO, of progress made on trade-related aspects of the SDG framework.
- To achieve greater alignment, coherence and mutual supportiveness between the multilateral trade and environmental regimes while providing technical, financial and other assistance to capacity-constrained developing countries to effectively address climate change concerns affecting their trade competitiveness.
- To consider the adoption of the SDGs as an opportunity for focused, country-led, internationally supported measures to advance gender-sensitive policy and negotiation mechanisms in order to secure more gender-equitable distribution of trade gains.
- To use the SDG framework in catalysing support with a view to effectively implementing the Istanbul Programme of Action for least-developed countries; and to rejuvenate a global partnership to address the peculiar challenges and resultant development consequences facing small states.
- To support the effective integration of African countries and ensure greater inclusion of small, poor and vulnerable countries in GVC.



PUTTING THESE PERSPECTIVES INTO PRACTICE IS AS CHALLENGING AS ENSURING THE EFFECTIVE PARTICIPATION OF LEAST-DEVELOPED COUNTRIES, SMALL STATES AND SUB-SAHARAN AFRICA IN GLOBAL TRADE. IT IS IN THIS CONTEXT THAT THE SHIFTING TRADE LANDSCAPE HAS IMPORTANT IMPLICATIONS FOR THE ROLE OF TRADE IN DEVELOPMENT.