The Commonwealth

Commonwealth Trade Policy Briefing

March 2017

The Commonwealth in the Great Global Trade Slowdown

An unprecedented trade slowdown is gripping the world economy. Global trade expanded by just 1.9 per cent in 2016, after seeing an already weak 2.4 per cent growth in the previous year. Indeed, five years in a row since 2012 the growth of trade volume has been much lower than the comparable annual average growth of about 6 per cent during 1980–2007. This trade slowdown has also affected Commonwealth trade.

If available projections turn out to be correct, 2012–21 could be the slowest period of trade expansion since the second world war. This lost decade of trade gains looms large as the global community aims to achieve the Sustainable Development Goals, for which international trade is intended to play a critical enabling role.

Growing prevalence of protectionist measures and discontent about globalisation and trade liberalisation are also causing heightened policy uncertainty and posing fresh challenges to efforts to harness trade for development, particularly for small, poor and vulnerable countries.

As moderate trade growth is projected for 2017 and 2018, one key priority for the Commonwealth is to act as a force for global good in contributing to efforts to revitalise world trade. Some significant opportunities lie ahead. Effectively implementing the World Trade Organization's Trade Facilitation Agreement, which has now entered into force, can cut costs and bolster trade flows. And, perhaps most importantly, the WTO's 11th Ministerial Conference in December 2017 presents an important platform to reaffirm and restore the centrality of trade multilateralism and promote a free, fair and inclusive global trading system.

Articles in this briefing:

The Commonwealth Secretariat's work on international trade includes:

- Policy and global advocacy, including on multilateral and regional trade negotiations, trade challenges of small states, LDCs and sub-Saharan Africa, emerging trade issues, and trade and development implications of Brexit.
- Technical assistance to member countries for improving their trade competitiveness in global markets, especially through market access, export development strategies, enhancing the development and exports of services, and trade facilitation.
- Long-term capacity-building support to African, Caribbean and Pacific (ACP) countries through the Hubs and Spokes project, which is a joint initiative of the Commonwealth Secretariat, the European Union, the Organisation Internationale de la Francophonie and the ACP Secretariat.

The Commonwealth

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I. Trade prospects in challenging times

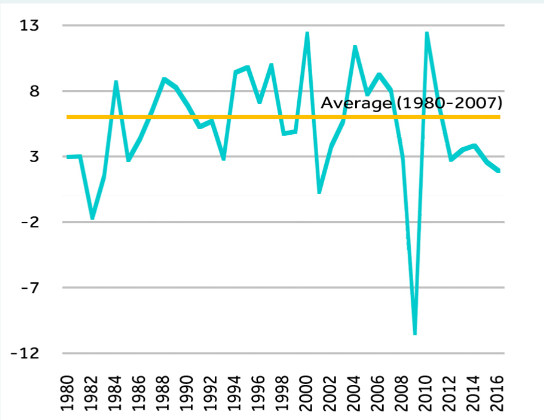
The ongoing global trade slowdown has been a major concern for the Commonwealth. After very modest growth in 2016, of less than 2 per cent, prospects for global trade expansion remain subdued. While the revival of trade flows will largely be linked to reinvigorated economic activities mainly in developed and many emerging developing countries, the Commonwealth can play an effective role in advocating for a strengthened rules-based trading system focused on realising Sustainable Development Goals (SDGs), and ensuring that developing countries, particularly small, poor and vulnerable ones, are able to benefit.

The great trade slowdown

In 2016, world trade in real terms is estimated to have expanded by 1.9 per cent—less than the corresponding growth of the previous year, 2.4 per cent, and the slowest pace of yearly growth since the global financial crisis of 2008. Indeed, since 2012, as Figure 1 shows, for every individual year world trade has grown at a much slower pace than that of the average growth of about 6 per cent achieved over the almost three decades (1980–2007) immediately prior to the crisis. Average annual trade growth, measured in real terms, for 2012–16 has been less than 3 per cent, which is much slower than that achieved during the 1990s and 2000–08 (Figure 2). Such a prolonged period of weaker world trading activities is unprecedented. If projections by the International Monetary Fund (IMF) turn out to be correct, 2012–21 could be the slowest decade of trade expansion since the second world war. This lost decade of gains from trade has important development implications, as we discussed in our last issue of *Commonwealth Trade Policy Briefing* (November 2016).

Trade growth in real terms, as Figures 1 and 2 show, somewhat masks the depth of the crisis when trade in goods and services are measured in value terms using current US dollars. At the time of writing this briefing, detailed trade data on individual global economies are available only until 2015. It is estimated from data reported by the UN Conference on Trade and Development (UNCTAD) that world exports of goods and services in 2015 contracted by US$2.8 trillion (from US$23.7 trillion in 2014), as evident in Figure 3. That is, in absolute value terms, global exports of goods and services in 2015 declined by almost 12 per cent. Just for comparison, the global financial crisis of 2008 led to a trade decline of US$3.9 trillion in 2009 (Figure 3).

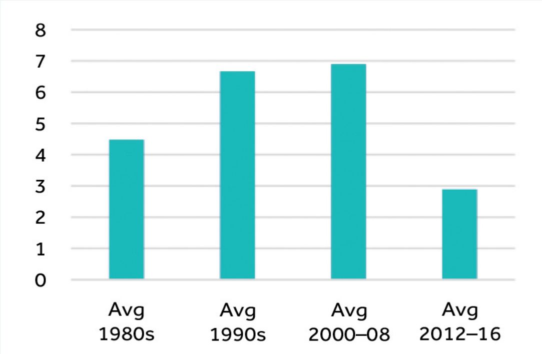
Figure 1: Growth of world trade volume of goods and services (%)



Note: The above growth figures are in real terms that can be interpreted as the volume of trade

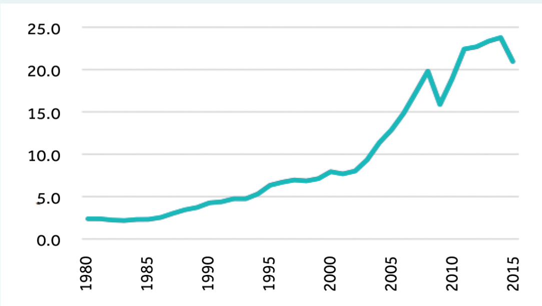
Source: Calculations using data from IMF World Economic Outlook database, October 2016

Figure 2: Average growth of world trade volume of goods and services over different periods (%)



Source: Calculations using data from IMF World Economic Outlook database, October 2016

Figure 3: World exports of goods and services (US$ trillion)



Source: UNCTADstat

Table 1: Change in volume and value of goods and services exports of Commonwealth countries (%)

	Growth of volume of goods and services exports (i.e. export growth in real terms) (%)			Growth of value of goods and services exports (% change in US dollars in current prices)
Country	2015	2016 (estimated)	2017 (projected)	2015
Antigua and Barbuda	6.8	1.9	1.6	2.0
Australia	6.0	6.0	4.6	-19.3
Bangladesh	8.8	9.6	7.7	5.8
Barbados	5.5	5.6	1.8	1.6
Belize	-4.6	-14.5	-3.9	-4.6
Botswana	5.5	-14.0	2.7	-24.1
Brunei Darussalam	-10.8	1.7	1.4	-43.9
Cameroon	9.6	9.7	2.8	-
Canada	3.4	0.2	2.0	-13.8
Cyprus	1.9	2.1	-1.4	-16.3
Dominica	8.8	4.1	-0.9	8.0
Fiji	-	-	-	-12.9
Ghana	-8.4	0.3	18.6	5.8
Grenada	6.0	9.2	6.2	4.7
Guyana	7.4	23.8	1.3	-
India	-4.0	5.9	6.9	-12.1
Jamaica	23.7	19.0	0.3	-2.4
Kenya	-4.0	11.7	6.0	-4.4
Kiribati	3.9	-3.5	4.0	-
Lesotho	15.1	4.5	6.1	-
Malawi	-4.3	-2.4	18.6	-7.1
Malaysia	4.4	-1.9	3.5	-15.6
Malta	2.1	2.0	2.0	-13.3
Mauritius	-6.1	7.2	5.7	-13.7
Mozambique	2.1	2.6	21.5	-11.9
Namibia	0.4	9.5	21.6	-9.2
Nauru	-	-	-	-
New Zealand	6.6	1.1	2.6	-13.6
Nigeria	8.8	-5.0	1.3	-39.3
Pakistan	3.8	-5.0	4.6	-6.9
Papua New Guinea	-13.5	-9.8	2.3	2.5
Rwanda	-3.7	-1.1	4.1	0.3
Saint Lucia	12.4	5.2	4.6	-0.1
Samoa	-	-	-	-
Seychelles	17.0	16.8	-0.6	-5.5
Sierra Leone	-25.0	24.1	25.4	-
Singapore	2.5	-2.2	3.4	-12.2
Solomon Islands	2.8	-10.4	0.3	-8.1
South Africa	4.1	0.7	2.7	-11.6
Sri Lanka	3.4	8.9	4.5	1.0
St Kitts and Nevis	11.8	-10.5	-3.8	9.6
St Vincent and the Grenadines	3.1	4.2	6.7	4.5
Swaziland	9.3	-12.0	6.9	-4.4
Tanzania	5.9	7.2	6.2	10.9
The Bahamas	-9.4	6.4	4.7	-8.9
Tonga	n/a	n/a	n/a	10.8
Trinidad and Tobago	-1.4	-10.7	4.7	-
Tuvalu	-	-	-	-
Uganda	4.7	6.0	5.6	4.5
United Kingdom	4.8	2.5	1.4	-7.5
Vanuatu	-	-	-	-9.1
Zambia	-11.1	-1.5	3.4	-
World	2.7	2.2	3.5	-11.9

Source: IMF World Economic Outlook database, October 2016 and UNCTADstat

Trade and growth prospects in the Commonwealth

The magnitude of trade collapse in 2015 is quite a rare phenomenon particularly, in the absence of any sudden major shock to the global economy. As many as 121 countries (for which data are available) experienced an absolute decline in their export earnings measured in US dollars in current prices. Commonwealth countries' combined export decline is estimated at US$450 billion. Nearly 54 per cent of this decline is attributed to the advanced economies of Australia, Canada and the UK. Among developing Commonwealth countries, India and Nigeria have contributed about 21 per cent of this decline.

As Table 1 shows, in 2015, 27 Commonwealth countries registered a fall in export earnings valued in US dollars in current prices. Nineteen Commonwealth members show an increase in volume of goods and services exports but a decline in absolute value. This growth of volume accompanied by a decline in the dollar value of trade is attributable to changes in export prices of goods and services, and changes in exchange rates between the US dollar and individual countries .[1]

Looking ahead, while projections of the world volume of goods and services exports show growth of 3.8 per cent in 2017 (IMF WEO 2017), those for individual countries indicate there are 23 countries in the Commonwealth that will have export growth higher than this global average. These are Australia, Bangladesh, Ghana, Grenada, India, Kenya, Kiribati, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Pakistan, Rwanda, Sierra Leone, Sri Lanka, Saint Lucia, St Vincent and the Grenadines, Swaziland, Tanzania, The Bahamas, Trinidad and Tobago and Uganda. Of these, Ghana, Malawi, Mozambique, Namibia and Sierra Leone are projected to experience growth in volume exceeding 10 per cent.

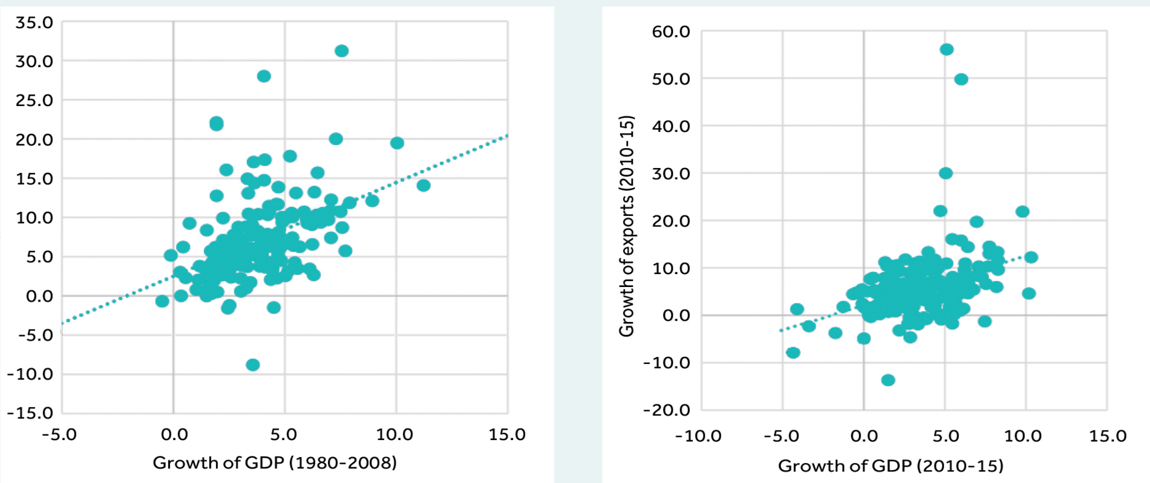
In terms of overall growth prospects, the outlook for the global economy is comparable to recent past record. Although the world economy grew at 3.1 per cent in 2016, marginally down from 3.2 per cent in 2015, it is estimated to recover to 3.4 per cent in 2017[2]. In the Commonwealth, a simple average of gross domestic product (GDP) growth rates for Commonwealth members shows the Commonwealth grew at an average of 3 per cent in 2016 and is projected to grow at 3.5 per cent in 2017.

Many have regarded international trade as a driver of economic growth, especially given the close association of growth of trade and GDP. However, even prior to the global financial crisis, the relationship had started to weaken. The World Bank has estimated that, during the mid-1980s–2000, a 1 per cent increase in global GDP was associated with a more than 2 per cent increase in the volume of trade. However, since the 2000s this relationship has fallen to just 1.3 per cent[3]. A simple scatter plot of growth in exports and GDP for global economies seems to suggest the trade–growth relationship has weakened in the post-global financial crisis period (Figures 4.i and 4.ii).

A number of factors could explain this changing relationship. For example, as emerging economies and many developing countries grow and increase their weight in the global economy, the association between trade and GDP weakens, because these

Figure 4: The positive association between trade and GDP growth has weakened in recent times

i. 1980–2008 *ii. 2010–15*



Source: Calculations using data from IMF World Economic Outlook database, October 2016 countries typically have lower trade openness than advanced economies. There may also be changes in the composition of aggregate demand because the import-intensive components of GDP are not growing faster than overall GDP. Structural developments have also contributed to this slowdown, as global value chain expansion has moderated in recent years[4]. Recent analyses also suggest, however, that the slowing pace of international vertical specialisation through cross-border supply chains owing to rising trade protectionist measures started well before the 2008 crisis[5].

Tackling trade slowdown

The trade slowdown and the weakening of the relationship between trade and GDP comes at a time when international trade is intended to play a crucial role in helping countries achieve the SDGs. Rising protectionism, lack of progress in World Trade Organization (WTO)-led multilateral trade liberalisation, unsettling trade relations following Brexit and growing discontent about globalisation in many countries with unfolding trade policy shifts in the USA make the advancement of trade-induced development more challenging than ever.

In the short term, economic recovery in the Eurozone and fiscal stimulus-led stronger economic growth could be major boosts to the global economy. It is also expected that growth in emerging economies and many other developing countries will pick up, generating demand for exports, particularly those from commodity-dependent economies. However, it is the heightened policy uncertainty in major economies that could have adverse impacts on global trade and investment flows.

In an environment of uncertainty, there is a unique opportunity to promote a rules-based, fair and transparent multilateral trading system that can open up new avenues for trade, reaffirming the global community's commitment to make use of international trade as a means to achieve the SDGs. The members of the WTO, for the first time in many years, have achieved a major tangible outcome, the Trade Facilitation Agreement (TFA). The TFA entered into force on 22 February 2017 following its ratification by two-thirds of the WTO membership. By cutting trade costs and time, implementation of the TFA has the potential to increase global merchandise exports by up to US$1 trillion per annum[6]. It is therefore an opportune moment for the Commonwealth to engage with the global community in ensuring effective implementation of the TFA to deliver trade gains and benefits to small, poor and vulnerable countries.

Among other things, in the short term, global trade flows can be greatly assisted by the removal of all trade-restrictive measures that were imposed in the wake of the global financial crisis but that have since then persisted and proliferated. Many of these measures have been put in place by G20 countries and affect the exports of least developed countries. With five G20 members (Australia, Canada, India, South Africa and the UK), the Commonwealth may collectively advocate for greater trade openness and the tackling of trade protectionism, which hinders achievement of the SDGs.

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1 WTO. (2015). Trade growth to remain subdued in 2016 as uncertainties weigh on global demand. Available at: https://www.wto.org/english/news_e/pres16_e/pr768_e.htm [Accessed 7 Feb. 2017]

2 World Bank Group. (2017). Weak investment in uncertain times. Global Economic Prospects, January. Washington, DC: World Bank.

3 World Bank Group. (2015). Have fiscal space and using it. Global Economic Prospects, January. Washington, DC: World Bank

4 Razzaque, M., Vickers, B. and Goel, P. (2016). Global trade slowdown, Brexit and SDGs: Issues and way forward. Commonwealth Trade Hot Topics Issue 132. London: Commonwealth Secretariat.

5 Gangnes, B., Ma, A. and Assche, A. (2015). Global Value chains and the trade-income relationship: Implications for the recent trade slowdown. London: Centre for Economic Policy Research.

6 WTO. (2015). Speeding up trade: Benefits and challenges of implementing the WTO Trade Facilitation Agreement. World Trade Report 2015. Geneva: WTO.

II. Intra-Commonwealth trade and investment amid global slowdown

The Commonwealth is not a trading bloc, yet trade between members is substantial. The unprecedentedly prolonged recent slowdown in global trade has affected Commonwealth countries along with other global economies. As moderate growth in world trade is expected and there are some encouraging signs of intra-Commonwealth greenfield investments creating jobs and promoting economic development, it is important to consider and take measures to realise the immense potential of trading opportunities within the Commonwealth.

The ongoing global trade slowdown has affected many Commonwealth countries. Detailed country-specific information on exports of goods and services is not currently available for 2016, although estimates by the World Trade Organization, International Monetary Fund and World Bank suggest world trade growth in real terms in 2016 grew by less than 2 per cent. World exports of merchandise goods—in absolute terms measured in US dollars—contracted by US$2.4 trillion in 2015. The combined exports of goods from Commonwealth countries fell by US$393 billion. Global exports of services in absolute terms also declined in 2015—by US$313 billion, with Commonwealth services exports contracting US$48 billion.

Between 2000 and 2014, intra-Commonwealth goods exports more than tripled, from US$150 billion to US$463 billion. However, mirroring the slowdown, trade between Commonwealth countries—that is, intra-Commonwealth trade—has also suffered. Intra-Commonwealth merchandise exports fell by US$83 billion in 2015 from a level of US$463 billion in 2014. Data on bilateral services trade are not available and, as such, total intra-Commonwealth trade in goods and services cannot be provided at this stage.

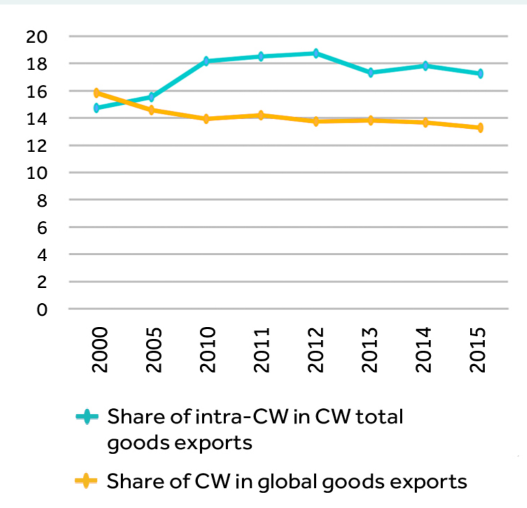
However, even after accounting for this recent fall owing to the global trade slowdown, the significance of intra-Commonwealth exports of goods in Commonwealth countries' combined exports of goods remains more or less unchanged. Over the past 15 years, the share of intra-Commonwealth goods exports has increased, from 14.7 per cent in 2000 to 17.3 per cent in 2015, although the share of Commonwealth goods in total world exports during the same period declined from 15.8 per cent to 13.3 per cent.

Asian members dominated intra-Commonwealth trade in goods, with a share of 53 per cent in 2015, followed by African countries at 18 per cent. It is interesting to note that, in 2000, when intra-Commonwealth goods trade amounted to US$ 150 billion, Europe (the UK, Cyprus and Malta) was the second largest contributor to such trade (Figure 6). This rise in prominence of Africa as a trading partner reflects the global dynamics of developing and emerging economies gaining prominence in the world economic order.

A look at the top 10 countries contributing to intra-Commonwealth trade also reveals the rising importance of developing countries. While Singapore is the largest exporter in both 2000 and 2015, India has emerged as the second most important exporter, increasing its share threefold from 5 to 15 per cent over this period. Malaysia's share has declined from 19 per cent in 2000 but it still remains the third largest intra-Commonwealth exporter, contributing 14 per cent of such trade (Figure 7).

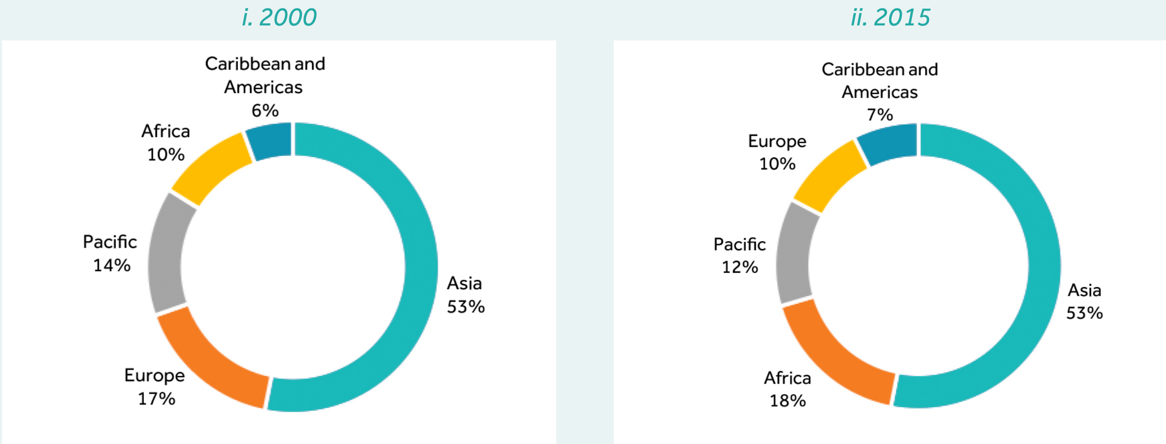
On the import side, we see similar trends as on the export side. Asia is the largest importer of intra-Commonwealth goods, both in 2000 and 2015.

Figure 5: Relative importance of intra-Commonwealth goods trade (%)



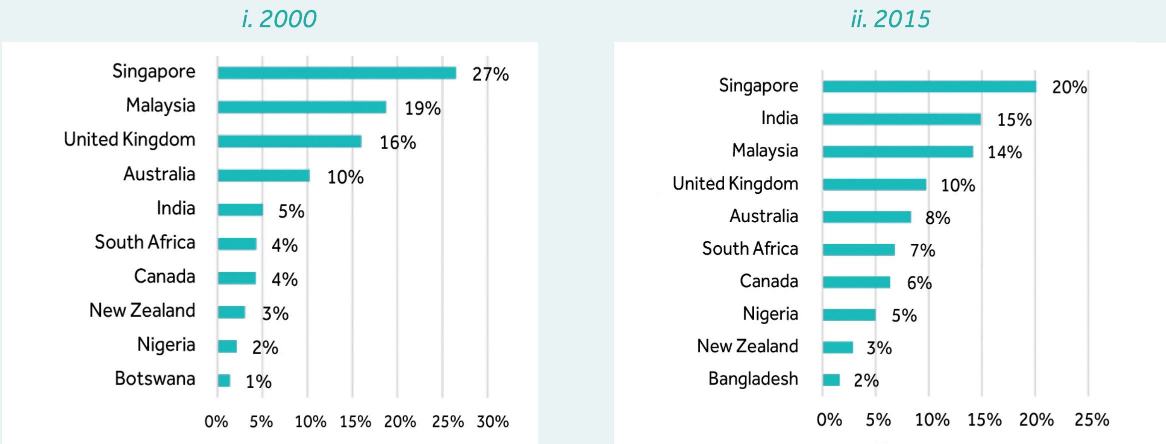
Source: Calculations using data from UNCTADstat

Figure 6: Share of regions in intra-Commonwealth goods exports



Source: Calculations using data from UNCTADstat

Figure 7: Top 10 countries exporting intra-Commonwealth goods



Source: Calculations using data from UNCTADstat

However, the second largest importer in 2000, Europe, has been overtaken by Africa in 2015, as in the case of exports. Africa now imports 18 per cent of intra-Commonwealth goods, increasing its share from 10 per cent in 2000 (Figure 8).

In 2000, the UK was the largest importer for intra-Commonwealth goods, with a share of 23 per cent, and India was fifth largest at 9 per cent. It is remarkable that, in 2015, India has quadrupled its share of Commonwealth goods imports and overtaken the UK as the largest importer. However, developed countries like Australia, Canada and Singapore remain important markets for intra-Commonwealth imports (Figure 9).

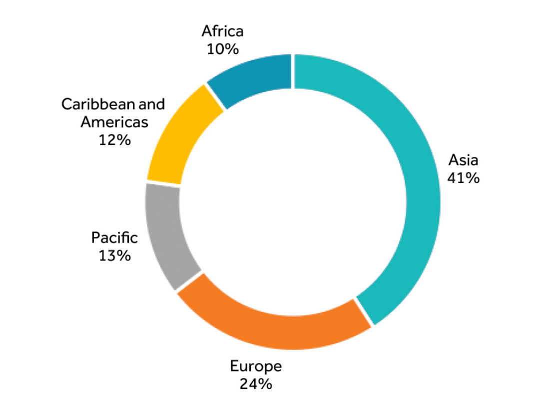
Intra-Commonwealth investment

Global foreign direct investment (FDI) inflows increased 38 per cent in 2015, after three consecutive years of declining flows. In fact, global FDI flows are now nearly 2.5 times as large as they were in 2001, although the 2007 pre-crisis peak of US$1.9 trillion is yet to be achieved. The gap between this 2007 peak figure and the current levels of inflows is at its closest in the post-crisis period, at US$1.7 trillion in 2015. The total FDI inflows received by all Commonwealth countries combined, as estimated from data provided by UNCTAD, decreased from 2014 levels by 14.5 per cent to US$273 billion in 2015.

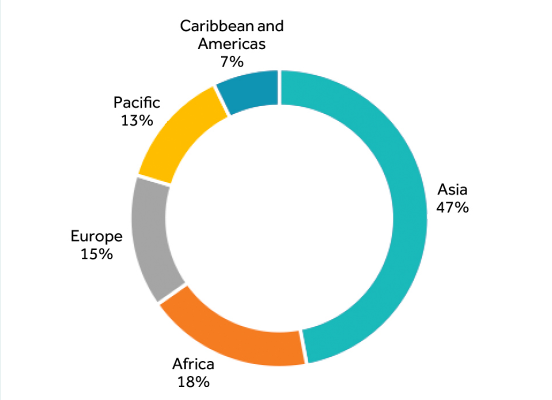
Although data on bilateral inflows involving Commonwealth members (intra-Commonwealth investment) are not readily available for recent years, it has been possible to obtain such data on one major component of FDI, known as greenfield investment. There are indications that this type of investment is becoming increasingly important in intra-Commonwealth flows and contributing to increased number of jobs.

Figure 8: Share of regions in intra-Commonwealth goods imports

i. 2000



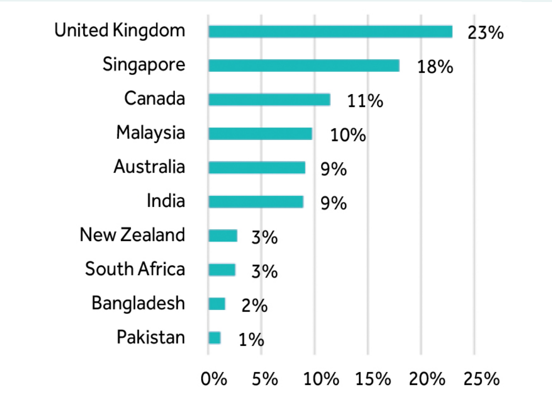
ii. 2015



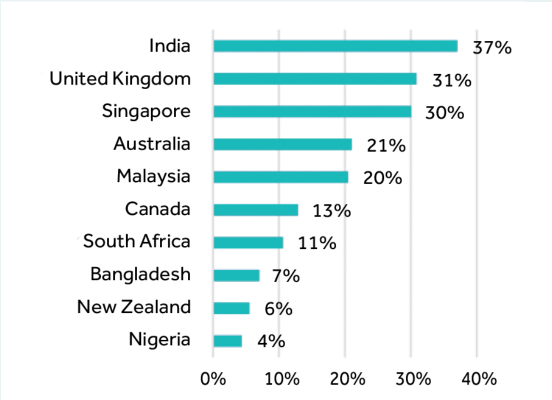
Source: Calculations using data from UNCTADstat

Figure 9: Top 10 countries importing intra-Commonwealth goods

i. 2000



ii. 2015



Source: Calculations using data from UNCTADstat

A greenfield investment initiates a new venture under which a parent company builds its operations in a foreign country from the ground up. It includes construction of production and processing facilities, building of new distribution hubs and offices and developing new project sites. The economic impact of greenfield FDI is considered more positive than other types of FDI, for example flows emanating from mergers and acquisitions. This is because it represents new capital investment and leads to an increased number of jobs in the destination economy. In the Commonwealth alone, greenfield investments from the world created 8.2 million jobs in nearly 55,000 projects between 2003 and 2016. Greenfield FDI can be significant for economic development because of its direct impact on employment, therefore it is critical to examine the flows of such investment and where it is showing results in the Commonwealth.

We use the latest data from fDi Markets (*Financial Times*) to analyse intra-Commonwealth greenfield FDI. This is currently the most comprehensive online database of cross-border greenfield investments, giving information on investment projects, capital investment and job creation. In 2016, total intra-Commonwealth greenfield FDI stood at US$51 billion in 660 projects, creating 88,617 jobs (Figure 10). India was the highest ranked recipient by amount of investment, receiving nearly US$17.5 billion from the rest of the Commonwealth. The UK was the biggest source of greenfield FDI, sending out US$13.2 billion in 232 projects to other Commonwealth countries.

Greenfield FDI inflows to the Commonwealth increased between 2012 and 2015, while the share of intra-Commonwealth greenfield FDI in such flows fluctuated over 2003–16, with a peak of 34 per cent in 2010 (Figure 11). Over this period, intra-

Figure 10: Snapshot of Intra-Commonwealth greenfield investment, 2016

Source: Data from fDi Markets, Financial Times

Commonwealth greenfield FDI flows created about 1.4 million jobs in 9,500 projects.

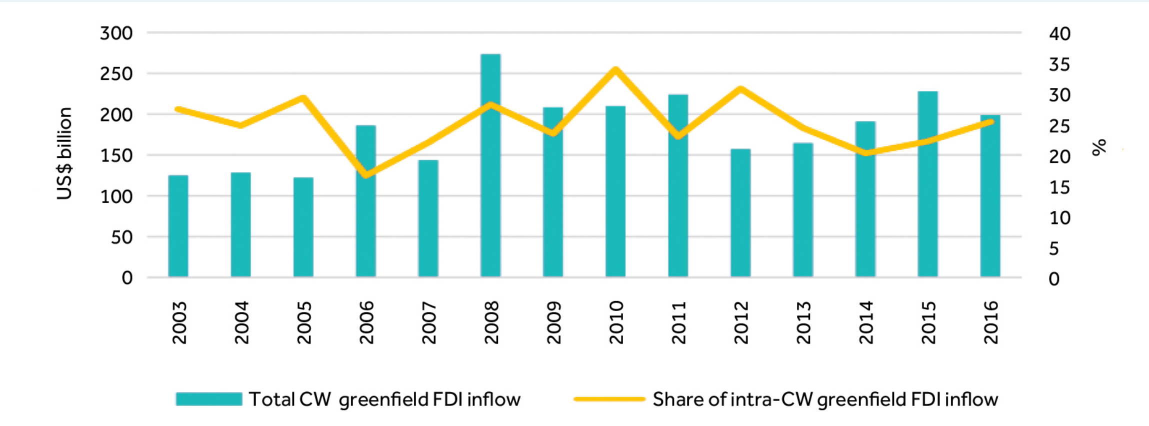
Between 2005 and 2016, India remained the top recipient of greenfield FDI from the Commonwealth, more than doubling the amount it receives over 10 years. In 2016, Bangladesh, Singapore, Nigeria and Sri Lanka emerged as the other major destinations attracting such FDI from the Commonwealth, whereas Canada, Malaysia, Pakistan and Tanzania lost ground in relative terms (Figure 12). India is the leading country for attracting greenfield FDI, not only from the Commonwealth but also from the world. In 2015, it overtook China for the first time as the biggest destination for greenfield FDI[7]. While greenfield FDI contributes to economic development and growth, high-growth economies attract more investments, creating a virtuous cycle of growth and investment.

Even though the UK is the biggest source of greenfield FDI for the Commonwealth, the share of UK in outgoing greenfield FDI fell between 2005 and 2016 from 38 to 26 per cent. In contrast, India more than tripled its share in outgoing intra-Commonwealth greenfield FDI in the same period, from 6 to 20 percent. Greenfield FDI from India to the rest of the Commonwealth amounted to nearly US$10 billion in 2016. In terms of intra-Commonwealth greenfield FDI shares, Malaysia became the third largest investor in 2016, up from fourth largest in 2005; and Singapore became the fourth largest investor, up from sixth largest (Figure 13). These trends mirror the changing trade dynamics and reflect the increasing economic weight of fast-growing developing countries in the Commonwealth.

Promoting intra-Commonwealth trade and investment

While Commonwealth members enjoy an inherent trade advantage, as highlighted in Commonwealth Trade Review 2015 and also in the earlier issue of *Commonwealth Trade Policy Briefing* (November 2016), which promotes their intra-Commonwealth trade, this unique factor has not been driven by any coordinated policy interventions like the ones under regional or bilateral trading blocs. Productive capacity-building and improved trade performance in individual member countries will reinforce intra-Commonwealth trade and investment flows. Post-Brexit developments, along with the associated concerns discussed in the November 2016 issue of *Commonwealth Trade Policy Briefing*, can have

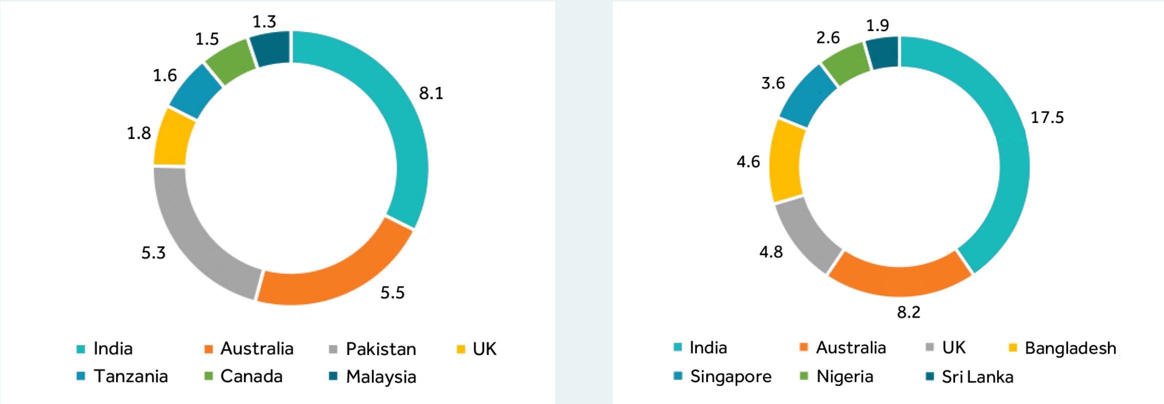
Figure 11: Commonwealth greenfield FDI inflows



Source: Calculations using data from fDi Markets, Financial Times

Figure 12: Top 7 recipients of intra-Commonwealth greenfield FDI (US$ billion)

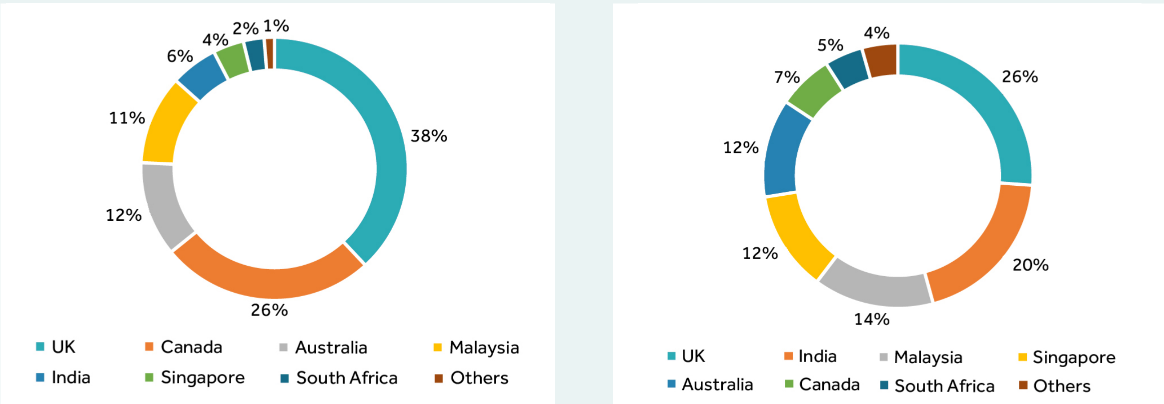
i. 2005 *ii. 2016*



Source: Data from fDi Markets, Financial Times

Figure 13: Sources of intra-Commonwealth greenfield FDI (% shares)

i. 2005 *ii. 2016*



Source: Data from fDi Markets, Financial Times

interesting implications for leveraging the Commonwealth linkages for greater trade gains. New bilateral deals between the UK and other interested Commonwealth members are possible, promising trade gains for involved parties.

Even without any formal arrangements, proactive initiatives by Commonwealth members can generate new trade and investment opportunities. In this regard, careful consideration should be given to the recommendations made in *Commonwealth Trade Review 2015*. These include, among others, members achieving improved trade logistics and facilitation measures; making use of the scope of tariff rationalisation and tackling non-tariff barriers; utilising the opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors.

7 *Financial Times*. (2016). Global greenfield investment trends. The fDi Report 2016. London: *Financial Times*.

III. Trade slowdown and global value chains: Implications for future fragmentation processes

Given the interconnected nature of global trade, the economic interests of exporters and importers are often not considered as separate and distinct. These relationships have been transformed through the fragmentation of production structures in which lead firms coordinate the supply chains, operating across borders. One of the reasons cited for the current global trade slowdown has been the consolidation of value chain activities in production and trade. Going forward, it is clear that new shifts are underway and they will have implications for developing countries' participation in global value chains (GVCs).

Changes in the GVC fragmentation mechanism

The intensification of GVC mechanisms means products are increasingly being produced through complex cross-border production networks, which has redefined countries' comparative advantage in terms of trade in tasks rather than in entire products. This has also resulted in a significant rise in the overall trade–gross domestic product (GDP) ratio: during the mid-1980s–2000s, world trade grew on average nearly twice as fast as world production. Since the 2008 global financial crisis, this positive relationship has weakened to just about or even less than a one-to-one relationship. Trade in intermediate goods is thought to have declined more rapidly than that in final goods—the so-called—'bullwhip effect', with a persistent dampening impact on trade[8].

As part of efforts to counteract growth slowdown, measures to bolster domestic value added may affect trade in GVCs. Many of the current actions that resemble protectionism are really intended to bolster productive capacity. Although high frequency data regarding trade in GVCs are lacking, the trade slowdown is more pronounced for products where participation in GVCs is more prevalent. Hence, regional production networks that specialise in particular products may experience a compositional effect of reduced demand. These effects transmitted across heterogeneous firms may be permanent, as market shares change. In the future, a shift is posited away from highly fragmented, globe-spanning supply chains towards greater reliance on regional product networks[9].

Sector-specific developments

Some of the archetypal vertically fragmented GVCs include light manufacturing (apparel and electronics) and automotive industries[10]. Within these sectors, the final goods of electronics and automotive industries include hundreds or thousands of discrete component parts that can be produced separately and easily transported for final assembly. The role of these industries within regional production networks is underscored by the fact that over 96 per cent of trade involves one of the three regional hubs of GVC activity—the USA, the EU or Asia, including China—as an importer or exporter. This fact highlights two points. First, how many developing Commonwealth members remain excluded from the most dynamic vertically fragmented GVCs. Second, why we expect a compositional effect of the global trade slowdown transmitted through the GVC mechanism across member states.

Regional dynamics

Profound shifts are underway in the organisation of 'Factory Asia', which include a consistent (and dramatic, in the case of China) increase in the share of global production networks: from 29 per cent in the early 2000s to almost 42 per cent in most recent years, with China doubling its share over the same period. This rise in Asia's share of global production networks has been accompanied less by an increase in imported foreign value added (i.e. through imports of intermediate inputs) and more by an increase in domestic value added—with an almost halving of imported intermediate goods as a proportion of manufacturing exports over the same period[11].

It is difficult to fully ascertain the nature of UK integration within Factory EU, and addressing knowledge gaps is becoming more urgent. Because the EU's relative position within global production networks has changed since the global financial crisis of 2008, this should be reflected in UK-specific data. However, distinguishing between effects on actors is challenging. This is because of the nature of integration within globally operating production networks driven by UK and EU firms, as well as those with overlapping ownership structures.

Developments in the Commonwealth

While many Commonwealth developing member states account for relatively low shares of global trade, the economically and socially damaging effects of any trade slowdown are amplified within the context of highly concentrated export baskets. Specialisation within GVC trade for most developing Commonwealth members is polarised between commodities and services trade. At the aggregate level, this means it is challenging to identify any slowdown in trade in value added. It is only at a more disaggregated level that differentiated growth in direct and total value added trade becomes apparent.

While data for more recent periods are not available, for some —for example Australia, Ghana, Kenya, South Africa, Tanzania and Uganda—the direct value added in exports grew more than total value added between 2007 and 2011 (Table 2). In comparison, there is a clear decline in both direct (domestic) value added and total value added (including foreign) embodied within the UK's exports between 2007 and 2011 (Figure 14)[12]. Some Commonwealth members experienced a slowdown in the direct (domestic) value added contribution of their exports (e.g. Malaysia, Malawi, Singapore) and others an increase (e.g. Bangladesh, Zambia). Only the UK bucked this trend. This decline may be the result of the knock-on effects and changing dynamics between Factory EU and other dominant hubs of GVC activity, particularly Factory Asia.

There are Commonwealth members that are remote to the dominant hubs of GVCs, most notably some of the Pacific island states. This affects participation in value chains-led trade. However, geographical remoteness is not just a structural issue: it can be partly overcome by policy reforms and investments in infrastructure, as well as logistics capabilities[13]. Only recently has the GVC literature begun to more closely interrogate the institutional variables influencing GVC participation, as well as gains. For example, contractual frictions invariably play a major role in influencing the integration choices of firms around the world. Our analysis for Commonwealth states suggests a positive association between FDI flows and foreign value added, which increased slightly over the period 2000 (0.29) to 2012 (0.36), in line with a general increase in intra-Commonwealth sourcing of value added in exports since 2000.

Generally, investment in the services sector has grown rapidly over the past two decades, accounting for a much larger share of global FDI stock compared with manufacturing. This structural shift has been driven by the opening-up of services sectors to foreign investment, as well as the communications technology boom, and has occurred in both developed and developing countries[14]. Enhanced connectivity transforms not only conventional business models but also how buyers and sellers interact. Because geographical distance exerts a strong influence on GVC participation through increased costs of co-ordination and reduction in the exchange of tacit knowledge, it reinforces the need for interventions that foster exposure to high-value activity hubs. Consideration of the appropriate

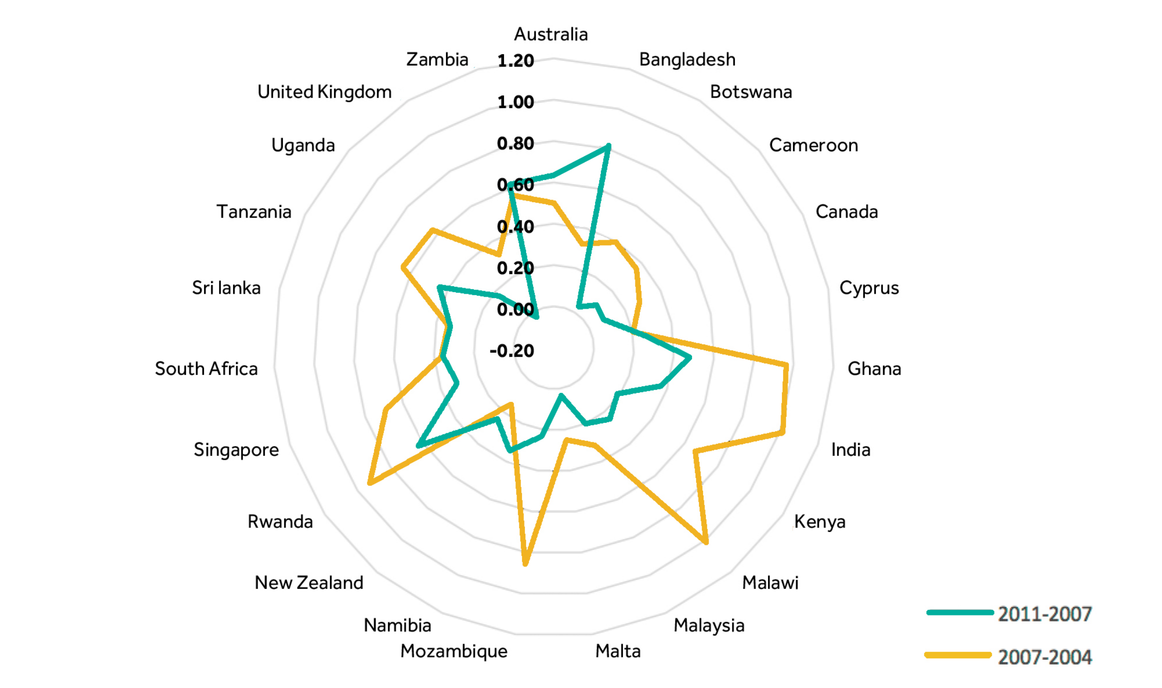
Table 2: Growth in export value added

Country	Direct export value added	Total export value added
Australia	0.63	0.49
Bangladesh	0.82	0.91
Botswana	0.04	0.07
Cameroon	0.10	0.11
Canada	0.09	0.09
Cyprus	0.21	0.22
Ghana	0.49	0.47
India	0.36	0.41
Kenya	0.19	0.17
Malawi	0.25	0.26
Malaysia	0.20	0.24
Malta	0.03	0.02
Mozambique	0.24	0.25
Namibia	0.34	0.43
New Zealand	0.24	0.33
Rwanda	0.63	0.63
Singapore	0.31	0.33
South Africa	0.35	0.31
Sri Lanka	0.32	0.33
Tanzania	0.45	0.41
Uganda	0.17	0.15
United Kingdom	-0.03	-0.04
Zambia	0.62	1.38

Note: Year-on-year growth trend between 2007 and 2011.
Direct value added is the sector's domestic value added embodied in its exports, measured as gross exports less domestic and foreign inputs (measured in US$ millions).
Total value added is equal to total domestic value added of a sector embodied in economy-wide exports, including the direct value added and the indirect value added contained as inputs (forward linkages) (measured in US$ millions).

Source: Calculations using data from World Bank Export Value Added Database

Figure 14: Growth in direct value added in exports



Source: Calculations using data from World Bank Export Value Added Database

regulatory framework, particularly within the realm of services trade, is a necessary prerequisite to effective GVC participation. This is because restrictive measures applied to trade via one channel may mean less development-friendly alternatives arise.

Adapting to the new normal

It is clear the GVC fragmentation mechanism has entered a new phase. As a consequence, trade-led growth models require adaptation to new business strategies arising within the context of a global trade slowdown. Given the very limited participation in GVC-led trade of many Commonwealth developing countries, the new developments that are taking place could have more profound implications.

Participation in GVCs and securing effective gains from this participation are often two different things, as actual value added in the process could be marginal. Many different factors determine the distribution of gains from GVC participation, and the costs of attracting investment in the first place could be extremely demanding. Ensuring more inclusive GVC participation requires greater consideration of the heterogeneity of capacity-constrained countries. Within the context of a rapidly changing global trade landscape, there is also a need to develop a more appropriate global trade support architecture.

8 Constantinescu, C., Mattoo, A. and Ruta, M. (2015). The global trade slowdown: Cyclical or structural. Working Paper WP/15/6. Washington, DC: IMF.

9 Srinivasan, M., Stank, T., Dornier, P. and Petersen, K. (2014). Global supply chains: Evaluating regions on an EPIC framework – economy, politics, infrastructure, and competence. New York: McGraw-Hill.

10 These sectors are also estimated to comprise as much as 20 per cent of global trade, through distinguishing between intermediate and final goods and linking to Broad Economic Categories.

11 Wignaraja, G. (2016). Slowdown in Asia's global value chains and industrial latecomers. Forthcoming publication. London: Commonwealth Secretariat.

12 Trade data are usually measured at transaction values, which are gross values, or value added plus domestic and foreign intermediate inputs. The measure of gross exports may undervalue (overvalue) the real contribution of a sector to trade if value added from this sector is embedded as inputs in other sectors' exports (or overvalue if exports embed other sector's value added inputs).

13 Shepherd, B., Keane, J. and Goel, P. (2016). Connectivity and global value chain participation: Cost and capability considerations. Commonwealth Trade Hot Topics Issue 136. London: Commonwealth Secretariat.

14 Broadband access exerts a much stronger influence on Commonwealth GVC exports, particularly in the electronics and automotive sectors.

IV. The multilateral trading system: Using it effectively to address trade and development challenges

The stalled Doha Round negotiations, together with rising trade protectionism and the global trade slowdown, have weakened confidence in the rules-based multilateral trading system. However, the 2030 Agenda for Sustainable Development assigns a crucial role to trade multilateralism in advancing development. The upcoming 11th WTO Ministerial Conference provides a timely opportunity to reaffirm and restore the centrality of trade multilateralism; this needs to be seized through expanded and inclusive trading opportunities.

The 11th WTO Ministerial Conference (MC11) will take place on 11–14 December 2017 in Buenos Aires, Argentina; members will be preparing for it in their respective capitals and other international fora. The 10th WTO Nairobi Ministerial Conference, held in 2015, delivered an outcome that was important in many respects, not least for member states themselves, given the issues at stake. It was probably even more important in reinforcing confidence in the system's capacity to deliver. More remains to be done. MC11 represents an important milestone in terms of pursuing and advancing work on negotiating issues of interests to Commonwealth members and the global community, and especially to promote greater trade-led development.

The *2030 Agenda for Sustainable Development* recognises that international trade is an important means by which many of the SDGs that have been agreed can be achieved[15]. Several goals and related targets reference trade and trade-related measures. Developing countries, particularly small, poor and vulnerable ones, if they are to achieve the SDGs, also need an enabling global trading environment that supports their participation in world trade. However, the world economy confronts profound challenges, as output, trade and investment growth are sluggish. In September 2016, the WTO revised its forecast for trade growth for the year from 2.8 per cent to 1.7 per cent. This comes against a backdrop of growing discontent about globalisation, trade liberalisation and the flow of capital. In this regard, it is vital that MC11 delivers an outcome that will continue to reinforce confidence in the multilateral trading system and put trade growth back on track.

Implementation issues

Apart from making rules, the WTO also has a core function of administering trade agreements and ministerial decisions, resolving trade disputes and making sure members' trade policies are consistent with their commitments and the rules of the organisation. One key issue that will receive huge attention in the run-up to the forthcoming WTO ministerial relates to implementation of the TFA, which was a major outcome of the 9th WTO Ministerial Conference (held in Bali, Indonesia, in 2013). The TFA presents opportunities for many countries, especially small and remote islands, land-locked countries, least developed countries (LDCs) and many of those located in sub-Saharan Africa. By cutting transaction costs and processing time for clearance of goods across borders, the TFA promises to unleash increased trade flows, estimated at up to US$1 trillion per annum, as mentioned in the first article in this briefing.

Under the current global economic uncertainty, effective implementation of the TFA would be a huge boost for multilateral co-operation for promoting trade. The delivery of technical assistance as per the provisions of the TFA will be of upmost importance to ensure the implementation process will be inclusive in nature, with poor and vulnerable states benefiting. Prior to MC11, the WTO will have organised the Sixth Global Review of Aid for Trade, which represents an opportunity to discuss implementation of the TFA and the technical and financial assistance needs of developing countries.

Implementation of a number of other important decisions agreed in the WTO's Nairobi Ministerial Conference (in 2015) will also be important to consider. These include, among others, special safeguard mechanism for developing countries; public stockholding for food security purposes; export competition; preferential rules of origin for LDCs; and implementation of preferential treatment in favour of services and service suppliers of LDCs. Implementation of these decisions along with the TFA will be critical in helping many developing countries achieve the SDGs. MC11 will also be an opportunity to take stock of progress in the implementation of these relatively recent decisions, as well as longstanding ones such as duty-free quota-free access for LDCs.

Other issues of special interest to many Commonwealth developing countries are the monitoring mechanism for special and differential (S&D) treatment and the work programme for small vulnerable economies. Developing countries and small states have always projected implementation issues and the strengthening of S&D as critical and central to the WTO-led multilateral trading system, as they give developing countries the necessary policy space, allowing them to ring-fence domestic policies that will help in addressing their development challenges. As many as 30 Commonwealth members are small states, and 13 are LDCs. For these countries in particular, the WTO-led system is the most essential in order to ensure their effective participation in the global trading system. In this respect, progress on the implementation of the decisions reached in previous WTO Ministerial Conferences is very important.

Doha Round of multilateral trade negotiations

Even almost 16 years since its launch in 2001, the Doha Round is yet to deliver on its promises. A number of issues as per the initial mandate of the Round are still under negotiation. These include three pillars of agriculture—namely, domestic support, market access and export competition—as well as issues related to non-agriculture market access, services, development, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and rules. Although members have expressed different views on how to address these, many of them are of major economic significance for various Commonwealth members. Members need to find innovative solutions in terms of both the process leading to the Ministerial Conferences and the substance of the issues if they are to make meaningful progress in this regard.

The unfolding Geneva process is such that members are still identifying areas in which outcomes can be achieved in Buenos Aires. Momentum is gathering in a number of negotiating areas of interest to Commonwealth countries, including domestic support and market access in agriculture, fisheries subsidies and LDC issues. WTO members have also stepped up negotiations on a proposed special safeguard mechanism for developing countries that would allow them to take temporary policy measures in agricultural products in the case of import surges or price declines. Any Commonwealth perspectives on these issues that would help in reaching consensus would be extremely timely, and as such there is need for consultation among Commonwealth members in the coming months.

Emerging issues

Along with traditional issues, new areas of work are emerging and influencing the way international trade is conducted. As was agreed in the Nairobi Ministerial Conference, any decision to launch multilateral negotiations on these emerging issues would need to be agreed by all members. Nevertheless, some of these issues are already having a profound impact on trade and related developments. These include e-commerce; integrated global production networks or global value chains; and environmental goods and services. If addressed in the right way and if accompanying support is provided, multilateral agreements in these areas can present enormous development benefits. E-commerce, for example, can facilitate and broaden participation in trade flows, including of smaller firms, by cutting trade costs related to physical distance. This is certainly of huge interest to many Commonwealth small island states and other low-income developing countries.

In addition, as many countries, including some Commonwealth members, aim to cut their carbon emissions and move towards the extended use of renewable energy, the conflict between trade rules and climate goals is likely to escalate[16]. This can put countries in an unfamiliar situation with respect to the potential trade implications of climate change-related actions. That is why there will be a need for greater alignment, coherence and 'mutual supportiveness' between the multilateral trade and environmental regimes, especially following adoption of the *2030 Agenda for Sustainable Development* and the Paris Agreement on Climate Change.

Systemic issues

Many Commonwealth member states have limited capacity in terms of effective participation in the multilateral trading system. Ways and means to enhance this in the future are vital if there is to be an inclusive multilateral trading system. Furthermore, the proliferation of regional trade agreements and plurilateral initiatives involving trade in selected sectors may pose a threat to the multilateral trading system, which is the first best option for trade liberalisation for many of the member states, especially the small and least developed ones. Making regional trade agreements and plurilateral initiatives complementary to the multilateral process will remain a major task for WTO members. It is important to recognise that participation in trade is also preconditioned by enhanced supply-side and productive capacities in many developing countries that need technical and financial assistance.

Way forward

The multilateral trading system is eminently important for Commonwealth members, and particularly so given the envisaged role of trade in realising the SDGs. The Commonwealth has always been a strong supporter of a rules-based, transparent, free and fair and development-friendly multilateral trading system, with Commonwealth Heads of Governments issuing declarations and statements to this effect in the past[17].

MC11 needs to deliver concrete outcomes that support the development imperatives of the poorest, weakest and most vulnerable members. To make progress, member states must build on the negotiating successes of Bali and Nairobi. While proceeding incrementally, they should keep development at the centre of their effort so as to support SDG implementation. It is also imperative to make trade more inclusive, with benefits spreading more widely. Many developing countries need support to integrate and participate more effectively in the global trading system. Effective implementation of agreements and decisions is key to building confidence in this system. Aid for Trade remains critical to help developing countries build their trade capacity, although there is a need for enhanced allocation and improved utilisation of such assistance. The WTO's Sixth Global Review of Aid for Trade, which will take place in July 2017, should address some of these issues.

The Commonwealth has been an invaluable source of support for its member states, particularly in the areas of technical analysis and advocacy around multilateral trade issues, technical assistance relating to the implementation of trade agreements and support in preparations for trade negotiations, including Ministerial Conferences. It can play an extended role in working with others to generate innovative solutions to the issues facing the multilateral trading system and to ensure that trade represents an effective means of achieving the SDGs.

15 Goal 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development. References to trade are also included in the other goals.

16 The COP22 UN Climate Change Conference in Marrakech, Morocco, saw 48 countries promising to drastically cut their carbon emission and move towards the use of 100 per cent renewable energy.

17 See, for example, CHOGM 2015 Communiqué Para. 25 'Heads reiterated their strong commitment to rules-based, transparent, free and fair multilateral trade and investment as a foundation for economic development and growth, as reinforced by the 2030 Agenda for Sustainable Development. Heads noted the lack of progress in the conclusion of the Doha Development Agenda and encouraged all possible efforts to advance the Agenda and other global trade negotiations, including during the 10th World Trade Organisation Ministerial Conference in December 2015, in Kenya. Heads encouraged more member states to ratify the WTO Trade Facilitation Agreement. Heads recognised the importance of creating a fair and equitable trading system. They also recognised the need for capacity-building that promotes inclusive and effective participation in the international trading system, recognising the special requirements of least developed countries and small and vulnerable economies.'

International Trade Policy Section at the Commonwealth Secretariat

This Trade Policy Briefing is brought out by the International Trade Policy (ITP) Section of the Trade Division of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth – an association of 52 independent states, comprising large and small, developed and developing, landlocked and island economies – facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITP is entrusted with the responsibilities of undertaking policy-oriented research and advocacy on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITP approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on highly vulnerable Commonwealth constituencies – least developed countries (LDCs), small states and sub-Saharan Africa.

Scope of ITP Work

ITP undertakes activities principally in three broad areas:

- It conducts policy research, consultations and advocacy to increase understanding of the changing international trading environment and of policy options for successful adaptation.
- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance more beneficial participation of Commonwealth developing country members, particularly, small states and LDCs and sub-Saharan Africa.

Selected Ongoing Policy Research Projects

- Trade and Sustainable Development Goals
- Multilateral trade negotiations
- Brexit and related trade policy issues
- Aid for trade in small states and Sub-Saharan Africa
- Topical issues in regional trading arrangements and regional integration
- Implementation of the Istanbul Programme of Action for LDCs
- Global value chains and the effective participation of LDCs, SVEs and SSA

Selected Recent Meetings/Workshops Supported by ITP

10 - 12 November 2016: Workshop on Productive Capacity and LDC Graduation, held in Beijing, China in partnership with UN DESA and Peking University.

1 - 2 November 2016: Update of Post-Nairobi and Preparation for MC 11, held in Port Vila, Vanuatu in partnership with WTO, EIF and PIFS Secretariat

27 - 28 September 2016: Implementing the Sustainable Development Goals and Achieving Inclusive Trade, WTO Public Forum, held in Geneva, Switzerland

20-21 July 2016: Fostering Green Economies through Trade, Investment and Innovation, UNCTAD 14, held in Nairobi, Kenya

Selected ITP Publications

Vickers B. (2017). Towards Agenda 2063: A Handbook on Regional Integration in Africa. London: Commonwealth Secretariat

LDC IV Monitor (2016). Tracking Progress, Accelerating Transformations: Achieving the IPoA by 2020. London: Commonwealth Secretariat

Commonwealth Secretariat (2015). The Commonwealth in the Unfolding Global Trade Landscape: Prospects | Priorities | Perspectives. London: Commonwealth Secretariat

Soobramanien, T. and Gosset, L. (eds) (2015). Small States in the Multilateral Trading System. London: Commonwealth Secretariat

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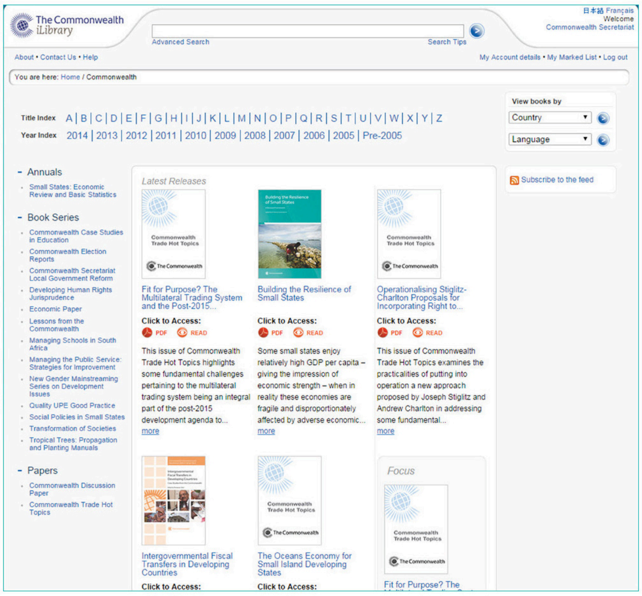

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