PART 01

The Commonwealth in a changing global trade landscape

01

The global trade landscape is changing rapidly. Deeply scarred by the financial crisis of 2008, the world has seen the economic recovery marked by a weakening trade–growth nexus.

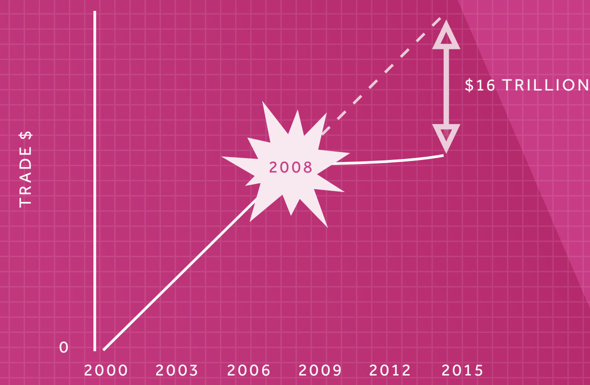
Along with this, the phenomenal rise of developing countries, the intensification of global value chains, the proliferation and deepening of regional trading arrangements, the stalled Doha Round of multilateral trade negotiations and climate change concerns are all having profound implications for global trade.

The global community, with the Millennium Development Goals having expired, has now entered into a new paradigm with the adoption of the Sustainable Development Goals, in which international trade has a crosscutting role to play.

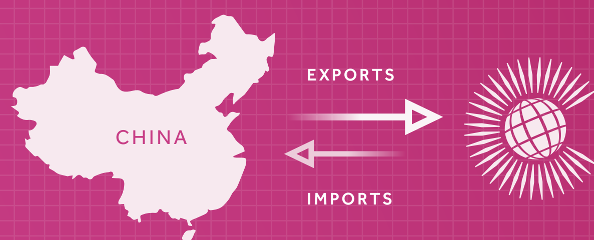
The Commonwealth is coming to terms with this changing landscape. With its diverse membership of advanced economies and developing countries, including least-developed countries, Sub-Saharan African countries and small states, it offers valuable insights into the emerging implications of the underlying changes that are taking place and their impact on trade and development objectives.

HIGHLIGHTS

WORLD TRADE WOULD HAVE BEEN $16 TRILLION HIGHER IF THE 2008 GLOBAL FINANCIAL CRISIS HAD NOT OCCURRED.

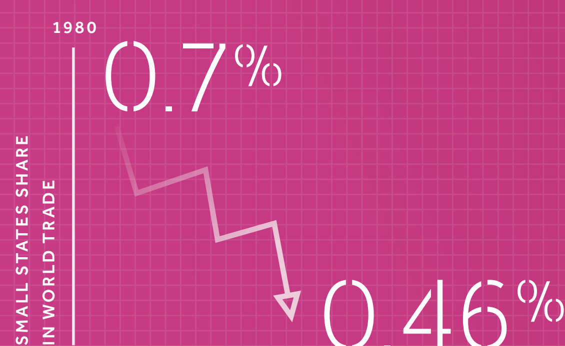


IN THE PAST DECADE COMMONWEALTH EXPORTS TO CHINA HAVE INCREASED FROM $19 BILLION TO $268 BILLION, AND IMPORTS FROM $46 BILLION TO $359 BILLION.



IN THE PAST DECADE, SOUTH-SOUTH MERCHANDISE TRADE EXPANDED FROM $1 TRILLION TO $5.5 TRILLION.

SINCE 1980 COMMONWEALTH SMALL STATES' SHARE OF WORLD TRADE HAS DECLINED FROM MORE THAN 0.7 PER CENT TO 0.46 PER CENT.



1.1 Introduction

Profound changes are taking place in the global trade landscape. More than seven years after the financial crisis in 2008, the world economy is still struggling to gain momentum in terms of returning to its pre-crisis growth trajectory. A slower pace of trade expansion has marked the post-crisis period, causing concern for countries that consider trade an important vehicle to promote growth and achieve other development goals. Meanwhile, issues related to the global financial crisis-led economic slowdown aside, several other major developments over the past two decades or so have become prominent in determining trade flows and patterns.

First and foremost, the world economy has seen a phenomenal rise in developing economies as new growth poles, which has for many countries rapidly changed their bilateral trade relations. Second, the intensification of global value chain (GVC) mechanisms has meant 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. Third, along with their proliferation, regional trading arrangements (RTAs) are considering far more ambitious and encompassing trade liberalisation measures for their members. Fourth, progress on multilateral trade openings has stalled: World Trade Organization (WTO)-led trade negotiations have been at an impasse for several years now, with the Doha Development Round completing its 14th anniversary this year. This may also have contributed to a rise in regional trading arrangements. All these factors are fundamentally reshaping global trade.

Apart from the above factors, climate change challenges urgently require the generation of appropriate adaptation and mitigation strategies, which are likely to have important implications for individual countries' participation in global trade. With the adoption by UN members of the Sustainable Development Goals (SDGs), the global community has already entered into a new paradigm to tackle development challenges for the next 15 years. Furthermore, the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) is expected to achieve a legally binding and universal agreement on climate, which will come into force from 2020. The contribution of trade to these new architectures and to development cannot be overemphasised.

The Commonwealth, with its diverse membership of advanced economies, developing countries, least-developed countries (LDCs), Sub-Saharan African (SSA) countries and small states, is coming to terms with this changing context[1]. For much of the Commonwealth's developing country membership, enhanced supply response and effective participation in world trade continue to represent the overarching means to promote economic growth, structurally transform their economies and achieve social progress. A variety of factors represent the preconditions for improving the trade prospects of these countries, ranging from ensuring unrestricted market access for exports to confronting domestic productive capacity bottlenecks. For all Commonwealth members, the unfolding trade landscape has important implications. The Commonwealth offers valuable insights into the emerging implications of the underlying changes taking place and their impact on trade and development objectives.

The main objective of Part 1 of *Commonwealth Trade Review* is to provide a brief overview of the context of the shifting global trade landscape and to highlight how Commonwealth countries are coming to terms with this, so as to ascertain the implications for their trade prospects. Section 1.2 gives a brief account of the state of trade in Commonwealth countries, including its trends and composition by different country groups; the impact of the global financial crisis on the Commonwealth; and the trade-growth nexus, while highlighting the trade-related development challenges for certain Commonwealth country groups. Section 1.3 provides brief assessments of the major developments in global trade that have implications for the Commonwealth. Section 1.4 concludes, while placing an emphasis on harnessing opportunities in the changing trade landscape.

1.2 The state of Commonwealth countries' trade

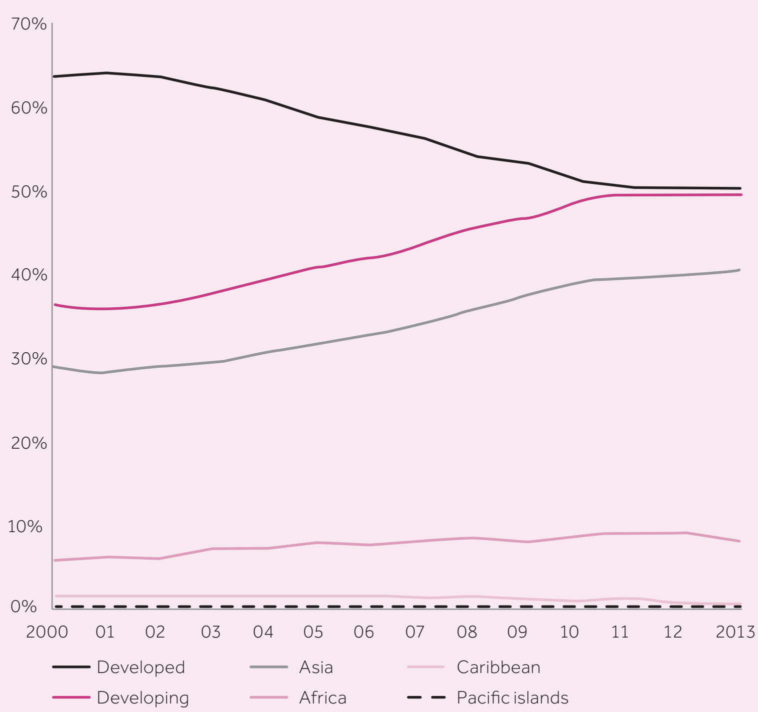
1.2.1 Volume, trends and structure

Since the turn of this century, the combined total of exports of goods and services of Commonwealth countries has increased about three-fold, from $1.3 trillion to $3.4 trillion, accounting for 14.6 per cent of global exports in 2013. Although the annual average growth of Commonwealth trade during 2009–13 was somewhat lower, at 4.3 per cent, in absolute terms it has expanded by more than $1 trillion, from $2.3 trillion in 2009 to about $3.4 trillion in 2013 (Table 1.1).

The relative significance of different country groups in total Commonwealth trade has changed remarkably. In 2000, developing members accounted for only 36 per cent of this trade; by 2013, the corresponding share had increased to reach just above 50 per cent (Figure 1.1). A rapid expansion in exports from Asian developing countries has been the main contributing factor to this development. Of the combined total of developing country exports, close to four-fifths originate from Asia (Figure 1.2).

While Singapore, Malaysia and India are among the world's largest exporters, three other South Asian countries – Bangladesh, Pakistan and Sri Lanka – have also seen their combined trade volume grow, from $23 billion to almost $80 billion during the same period. Singapore has the largest share, of around 41 per cent, in the Asian export basket, followed by India (34 per cent) and Malaysia 19 per cent (Figure 1.3). On the whole, the total of combined exports of eight Asian developing countries (including Brunei and Maldives) increased from less than $380 billion in 2000 to about $1.4 trillion in 2013, reflecting an impressive average growth rate of 9.7 per cent per annum.

FIGURE 1.1.
CONTRIBUTION OF VARIOUS COUNTRY GROUPS TO OVERALL COMMONWEALTH TRADE, 2000-13 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

The 18 members of Commonwealth Africa on the whole also demonstrated strong trade performance, with their combined exports increasing from $79 billion to more than $300 billion. Their share in total Commonwealth export trade has also increased, from less than 6 per cent to about 9 per cent (Figure 1.1). Although just two countries, Nigeria and South Africa, account for about 70 per cent of Commonwealth African trade, Botswana, Cameroon, Ghana, Kenya, Mauritius, Mozambique, Namibia, Uganda, Tanzania and Zambia have also emerged as sizeable exporters (Figure 1.4). The latter countries' combined exports of goods and services during 2000-13 rose from $20 billion to about $95 billion. Commodity price booms and an increase in the demand for primary commodities have been major driving factors behind this export expansion.

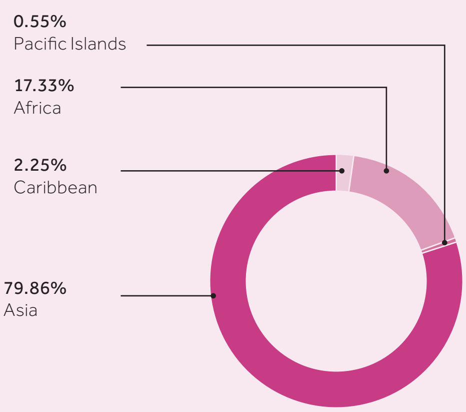
The Caribbean and Pacific regions constitute an overwhelming majority of the Commonwealth's small state membership. Given their size, their contribution to overall global and Commonwealth exports is small. Like elsewhere, within these regional groups the distribution of exports also reflects their relative size along with, in some cases, their endowment of natural resources. The total of the exports of all Caribbean members is just about 1.14 per cent of total Commonwealth exports and 2.25 per cent of Commonwealth developing countries' combined exports.

TABLE 1.1.
EXPORTS AND IMPORTS OF GOODS AND SERVICES, 2000–15 ($ BILLION)

	Exports						Imports					
	2000	2008	2009	2010	2013	2015f	2000	2008	2009	2010	2013	2015f
World	7,940.6	19,845.1	15,924.0	18,968.7	23,316.3	25,049.6	7,948.9	19,505.7	15,538.6	18,499.0	22,606.2	24,170.7
Developed economies of which	5,328.3	11,637.2	9,422.1	10,718.2	12,492.5	13,313.9	5,540.9	12,151.1	9,520.6	10,878.8	12,507.4	13,531.8
Japan	528.8	897.0	671.8	869.5	834.3	964.8	459.9	878.7	649.1	794.7	959.5	1,071.5
EU	3,053.0	7,503.2	6,061.2	6,689.0	7,818.8	8,504.6	3,036.6	7,488.0	5,887.4	6,519.9	7,325.7	7,969.8
USA	1,073.9	1,843.0	1,581.1	1,846.4	2,275.8	2,407.3	1,451.3	2,545.3	1,964.8	2,345.8	2,750.3	2,991.0
Developing Economies	2,612.3	8,207.9	6,502.0	8,250.5	10,823.8	11,781.6	2,408.0	7,354.7	6,018.0	7,620.2	10,098.7	11,183.8
Brazil	64.6	228.4	180.7	233.6	281.1	297.8	72.4	220.2	175.0	244.4	326.3	306.0
China	279.6	1,581.8	1,329.5	1,742.2	2,428.2	2,744.8	250.7	1,233.0	1,112.9	1,523.3	2,194.7	2,486.2
Russian Federation	114.8	522.8	347.5	447.6	596.8	576.5	61.7	367.3	249.6	323.7	473.3	312.0
Commonwealth	**1,323.6**	**2,909.4**	**2,343.2**	**2,874.0**	**3,433.0**	**3,772.6**	**1,296.8**	**3,004.8**	**2,428.9**	**2,966.1**	**3,572.4**	**3,960.1**
Developed	**844.7**	**1,574.5**	**1,248.9**	**1,466.3**	**1,699.0**	**1,810.7**	**836.1**	**1,651.8**	**1,319.0**	**1,545.7**	**1,787.8**	**1,934.3**
Australia	83.9	234.3	195.1	260.2	307.7	344.0	87.8	242.3	205.1	254.1	314.4	294.2
Canada	329.3	530.0	389.7	467.3	546.5	602.7	288.1	506.6	411.0	499.0	579.4	598.6
UK	404.5	748.6	612.7	678.2	773.1	805.3	433.7	837.8	653.1	734.4	825.4	873.5
Developing	***478.8***	***1,335.0***	***1,094.3***	***1,407.7***	***1,734.0***	***1,961.9***	***460.7***	***1,353.0***	***1,109.9***	***1,420.4***	***1,784.6***	***2,025.8***
Africa	**79.1**	**246.8**	**190.5**	**250.4**	**300.6**	**333.3**	**71.9**	**254.2**	**205.5**	**258.2**	**324.8**	**353.4**
Nigeria	21.0	88.0	58.4	81.0	97.1	113.0	12.0	64.2	49.5	67.8	73.4	95.3
South Africa	37.0	98.9	78.6	104.0	109.1	115.7	33.1	107.5	80.8	101.5	119.4	121.7
Asia	381.2	1,044.7	874.6	1,123.2	1,384.8	1,576.5	369.5	1,056.8	872.2	1,127.5	1,406.2	1,617.0
India	59.9	305.7	260.8	348.0	464.2	528.2	73.1	380.1	328.3	439.1	559.8	681.5
Malaysia	112.4	230.1	186.4	231.3	255.7	309.8	94.3	178.7	144.9	189.5	226.7	271.9
Singapore	181.4	443.2	369.2	471.1	567.6	609.9	169.2	403.3	323.9	408.6	499.1	552.7
Caribbean	**14.9**	**34.7**	**22.4**	**25.2**	**39.1**	**41.2**	**15.9**	**32.8**	**24.5**	**24.7**	**39.7**	**39.5**
The Bahamas	2.4	3.5	3.1	3.2	3.4	3.5	3.0	4.6	3.7	3.8	4.8	5.0
Jamaica	3.6	5.5	4.0	4.0	4.4	6.1	4.4	9.9	6.4	6.5	7.7	11.3
Trinidad and Tobago	4.8	19.6	10.0	12.1	24.7	25.5	3.7	9.9	7.4	6.9	18.9	21.8
Pacific	**3.7**	**8.8**	**6.8**	**8.8**	**9.6**	**10.9**	**3.5**	**9.2**	**7.7**	**10.0**	**13.9**	**15.9**
Fiji	1.0	1.8	1.4	1.8	2.3	2.5	1.1	2.7	1.7	2.0	3.0	3.3
Papua New Guinea	2.3	6.2	4.6	6.1	6.0	9.6	1.8	5.0	4.7	6.3	8.9	7.9

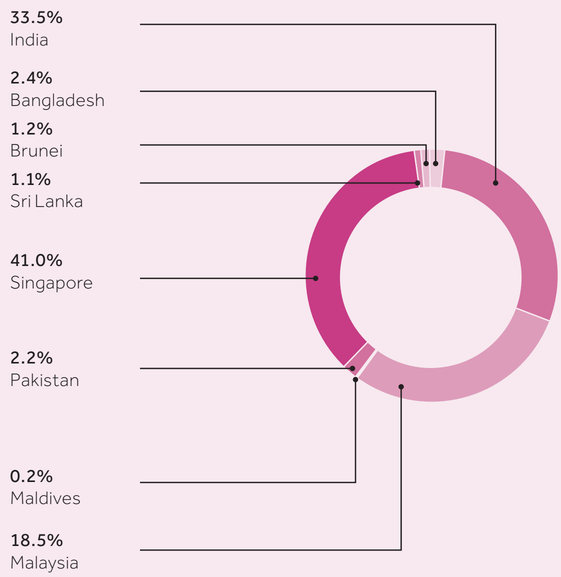
Note: Developed Commonwealth countries comprise Australia, Canada, Cyprus, Malta, New Zealand and the UK.
Source: Commonwealth Secretariat (calculations using data from UNCTADStat) and IMF projections

FIGURE 1.2.
SHARE OF DIFFERENT REGIONS IN TOTAL COMMONWEALTH DEVELOPING COUNTRIES' TRADE



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

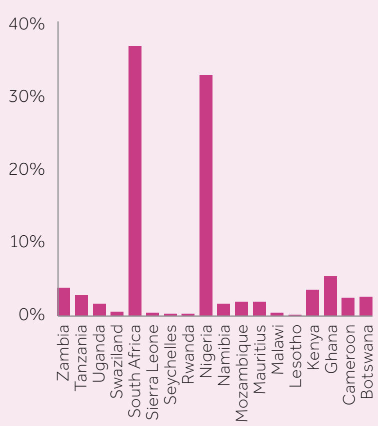
FIGURE 1.3.
EXPORT SHARE BY SOURCE IN ASIAN COMMONWEALTH REGION



Note: This figure shows the relative contribution of each country in the total exports of Asian Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.4.
EXPORT SHARE BY SOURCE IN AFRICAN COMMONWEALTH REGION



Note: This figure shows the relative contribution of each country in the total exports of African Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.5.
EXPORT SHARE BY SOURCE IN CARIBBEAN COMMONWEALTH REGION

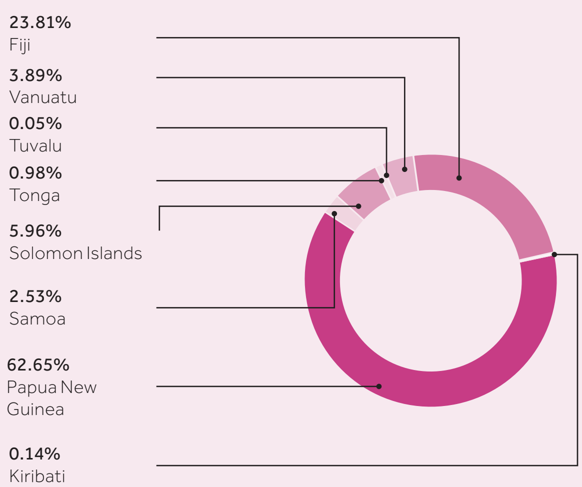
Note: This figure shows the relative contribution of each country in the total exports of Caribbean Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Oil-rich Trinidad and Tobago is the largest exporter, accounting for more than 60 per cent all Commonwealth Caribbean exports (Figure 1.5). Between 2000 and 2013, total exports from the Caribbean increased from $14.8 billion to about $39 billion. Of this $24 billion expansion, more than $20 billion came from Trinidad and Tobago alone. Jamaica, The Bahamas and Barbados are the three other top Caribbean exporters.

The Pacific region, meanwhile, contributes 0.3 per cent of all Commonwealth exports (and 0.6 per cent of the exports of developing Commonwealth countries). Almost two-thirds of all Pacific exports come from Papua New Guinea alone; Fiji accounts for a quarter (Figure 1.6). Vanuatu, Solomon Islands and Samoa are the other major Pacific small state exporters.

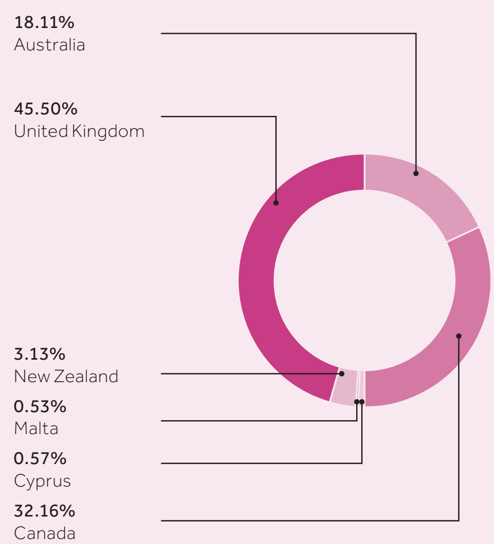
FIGURE 1.6.
EXPORT SHARE BY SOURCE IN PACIFIC ISLAND COMMONWEALTH COUNTRIES' TOTAL EXPORTS



Note: This figure shows the relative contribution of each country in the total exports of Pacific Island Commonwealth countries.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.7.
SHARE OF DEVELOPED COMMONWEALTH COUNTRIES IN THEIR TOTAL EXPORTS OF GOODS AND SERVICES, 2013 (%)



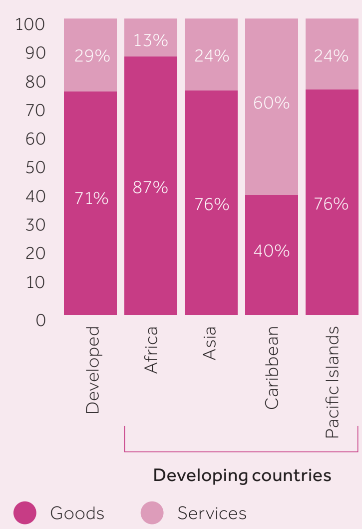
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

The total exports of the Commonwealth developed countries, comprising Australia, Canada, New Zealand and three European Union (EU) members (Cyprus, Malta and the UK) increased from $844 billion in 2000 to almost $1.7 trillion in 2013. The UK has the largest export trade ($773 billion), followed by Canada ($547 billion) and Australia ($308 billion). Given their size, the contribution of the other three economies – namely, New Zealand, Malta and Cyprus – is relatively small (Figure 1.7). The combined share of developed countries in total Commonwealth exports has, as Figure 1.1 showed, fallen over time, from more than 64 per cent in 2000 to just less than 50 per cent in 2013.

Merchandise exports dominate Commonwealth export baskets, capturing 76 per cent of all exports, whereas the share of services exports is 24 per cent. Given that services exports constitute just 20 per cent of world exports, the Commonwealth has higher services trade orientation. This owes largely to major exporting countries like the UK and India, and some small state members' greater reliance on services exports. Within the Commonwealth, the Caribbean region is the most dependent on services exports: 60 per cent of its export receipts are services-related (Figure 1.8).[2] Apart from Guyana (10 per cent) and Belize (42 per cent), for all other individual Commonwealth members, services exports comprise more than half of their total exports; Antigua and Barbuda, Dominica, Grenada and St Kitts and Nevis depend on the sector for more than three-quarters of their exports.

For the developed country group, the share of services exports is 29 per cent. Small states like Cyprus and Malta have

FIGURE 1.8.
SHARE OF GOODS AND SERVICES IN EXPORTS, BY COMMONWEALTH COUNTRY GROUPS, 2013 (%)



Note: Estimates for Caribbean exclude Trinidad and Tobago due to unavailability of data.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

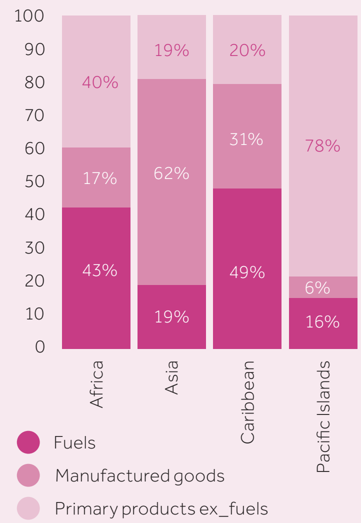
very high dependence on services (more than 70 per cent in each case), but the comparable significance for Australia and Canada is just 16-17 per cent. For the UK, 40 per cent of its exports come from services. For New Zealand, the corresponding figure is 25 per cent.

For the Asian developing country group, the average share of services exports is 24 per cent. Among the large economies, India is the most prominent exporter, with 32 per cent of its exports attributable to services. Maldives is the most services-dependent economy, with almost 90 per cent of its export receipts coming from services.

Commonwealth African countries on the whole have the least dependence on services exports: only 13 per cent of their total export earnings. Although countries such as Mauritius (54 per cent), Seychelles (44 per cent), Uganda (45 per cent) and Tanzania (38 per cent) have proportionately large services exports, it is the relatively low proportion of services exports of bigger economies like Nigeria (2 per cent) and South Africa (13 per cent) that make the overall share of services exports quite low. Zambia, Botswana, Lesotho and Sierra Leone are other countries that have less than 10 per cent of their exports in services.

Within merchandise exports, Commonwealth Asian countries are predominantly manufacturing exporters, whereas African, Caribbean and Pacific (ACP) countries are overwhelmingly dependent on primary commodities and/or natural resource-based exports (Figure 1.9). Fuels and primary commodities together account for 94 per cent of

FIGURE 1.9.
COMPOSITION OF MERCHANDISE EXPORTS BY COMMONWEALTH DEVELOPING REGIONS (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

TABLE 1.2.
EXPORT PERFORMANCE OF TOP THREE PRODUCTS, BY COMMONWEALTH COUNTRY GROUPS, 2000 AND 2013

Region	Product group (SITC Rev. 3, 1 digit level)	2000 exports ($ million)	2013 exports ($ million)	2000 share of group exports (%)	2013 share of group exports (%)
Developed	Mineral fuels, lubricants and related materials (SITC 3)	748.93	2,504.81	11.5	19.2
	Machinery and transport equipment (SITC 7)	2,470.50	2,866.04	37.9	22.0
	Commodities and transactions, n.e.s. (SITC 9)	498.93	1,668.30	7.6	12.8
Africa	Crude materials, inedible, except fuels (SITC 2)	50.05	240.87	7.6	9.1
	Mineral fuels, lubricants and related materials (SITC 3)	249.50	1,135.77	38.0	43.0
	Manufactured goods (SITC 6)	143.61	418.70	21.9	15.9
Asia	Mineral fuels, lubricants and related materials (SITC 3)	246.64	2,037.81	8.1	19.4
	Manufactured goods (SITC 6)	351.59	1,354.90	11.6	12.9
	Machinery and transport equipment (SITC 7)	1,580.21	3,245.16	52.1	30.9
Caribbean	Food and live animals (SITC 0)	9.95	13.98	13.4	7.7
	Mineral fuels, lubricants and related materials (SITC 3)	28.15	88.78	38.0	48.9
	Chemicals and related products, n.e.s. (SITC 5)	10.70	37.20	14.4	20.5
Pacific	Crude materials, inedible, except fuels (SITC 2)	7.35	21.51	25.8	27.8
	Mineral fuels, lubricants and related materials (SITC 3)	6.43	12.38	22.6	16.0
	Commodities and transactions, n.e.s. (SITC 9)	4.09	17.28	14.4	22.3

Note: SITC stands for Standard International Trade Classification.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Commonwealth Pacific Island exports, 83 per cent for Africa and 69 per cent for the Caribbean. In contrast, the comparable figure for Asian countries is just 38 per cent.

Table 1.2 provides information on Commonwealth countries' exports of the top three product categories, defined as Standard International Trade Classification (SITC) 1 digit level, for the years 2000 and 2013. Mineral fuels, lubricants and related materials (SITC 3) are the top export category for Caribbean and African countries and the relative significance of this export item increased during the time period considered.

However, although it is included within the top three product categories for Pacific countries, its share has declined. Machinery and transport equipment (SITC 7) are important exports for developed and Asian countries, although for both groups the share of this item in their respective total exports has fallen quite significantly. The identified top three broad categories collectively accounted for 77 per cent (the highest share) of Caribbean exports in 2013 and 54 per cent (the lowest share) for developed Commonwealth members.

Table 1.3 summarises Commonwealth members' top three services exports.

TABLE 1.3.
EXPORT PERFORMANCE OF MAJOR SERVICES CATEGORIES BY COMMONWEALTH COUNTRY GROUPS, 2000 AND 2013

Region	Service category (UNCTAD)	2000 exports ($ million)	2013 exports ($ million)	2000 share of group exports (%)	2013 share of group exports (%)
Developed	Financial services	21.87	70.41	11.5	15.5
	Other business services	47.49	127.68	25.0	28.0
	Travel	47.33	101.25	24.9	22.2
Africa	Other business services	3.17	2.75	25.1	10.4
	Transport	2.77	4.5	22.0	17.0
	Travel	5.25	15.10	41.6	57.1
Asia	Other business services	13.74	88.27	23.8	27.7
	Transport	17.86	68.69	30.9	21.5
	Travel	14.31	63.18	24.8	19.8
Caribbean	Other business services	0.45	0.52	6.3	6.2
	Transport	0.75	0.56	10.5	6.7
	Travel	5.04	6.67	71.0	79.8
Pacific	Other business services	0.33	0.31	35.5	17.8
	Transport	0.17	0.40	18.6	23.5
	Travel	0.31	0.79	33.1	46.3

Note: 'Other business services' category includes merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services (legal, advertising, consulting, accounting, research and development etc.). 'Travel' includes goods and services acquired from an economy by non-resident travellers during visits shorter than one year. 'Transport' includes all transportation services that involve carriage of passengers, movement of goods (freight), rentals with crew and related supporting services but excludes freight insurance, which is included with insurance services.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Travel-related services, capturing tourism activities, is clearly the most important export of Caribbean countries (accounting for almost 80 per cent of all services exports). For African and Pacific members as well, travel accounts for the largest export category. In all these cases, the share of this category of services exports increased between 2000 and 2013. For Commonwealth developed and Asian countries, exports are more diversified, with other business services the single largest category for both groups.

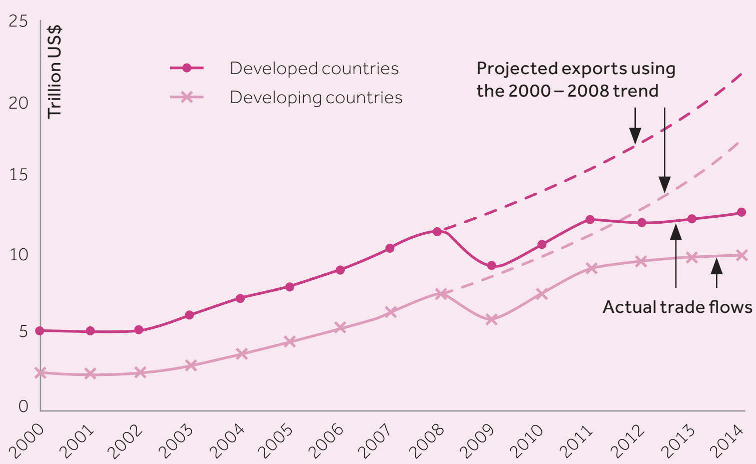
1.2.2 Global economic recovery and trade prospects

Recent global economic growth and trade performance

The world economic slowdown in the aftermath of the 2008 global financial crisis has had serious impacts on trade flows between countries. A simple trend projection suggests that, had post-crisis world trade matched the growth rate during the period 2000-08, exports of goods and services in 2014 could have been as much as $16 trillion higher (Figure 1.10). After a massive 12 per cent fall in 2009, the trade volume in 2010 experienced a substantial growth of about 13 per cent in 2010 (Figure 1.11).[3] However, expectations of a rapid and sustained recovery have met with setbacks as reflected in subsequent very modest trade expansion. For 2012-14, average trade growth in the world economy was less than 3 per cent, while major global growth projection exercises, undertaken by the World Bank, the International Monetary Fund (IMF) and WTO, have put the corresponding figure for 2015 at around 3 per cent.

Two recent trends in global trade are particularly worth noting. First, the return of global trade to its long-term average growth has been sluggish. Despite a

FIGURE 1.10.
EXPORTS OF GOODS AND SERVICES BEFORE AND AFTER THE FINANCIAL CRISIS: ACTUAL VIS-À-VIS PROJECTED TRENDS FOR DEVELOPED AND DEVELOPING COUNTRIES, 2000-14



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

robust bounce-back immediately after the 2009 collapse and growth in 2011 that was above the long-term average, trade flows since 2012 have been much lower than long-term average trends. The IMF forecast (April 2015) for 2016, if proved accurate, would imply global trade not reaching its long-term average export growth rate – as Figure 1.11 shows – even after a period of five long years (since 2011). This would be unprecedented since the early 1980s. On the other hand, the global gross domestic product (GDP) growth rate after the 2009 trough was relatively quick to return to the long-term average rate, mainly because of resilient economic activities in the developing world on the whole.[4]

The second trend, which can also be inferred from Figure 1.11, is the weakening of the relationship between trade and GDP. It has been estimated that, during 1986-2000, a 1 per cent increase in global GDP was associated with a 2.2 per cent increase in the volume of trade. This elasticity for the period since 2001 has fallen to just 1.3 per cent (World Bank, 2015a). While weak demand can certainly explain part of the trade slowdown, structural aspects have also been identified as contributing factors. It has been suggested the consolidation of production processes in two major economies, the USA and China, has resulted in more local sourcing of intermediate inputs. Composition of demand is another factor where investment spending with high import content is found to remain subdued, resulting in a lower impact on trade. Among others, increased trade

FIGURE 1.11.
WORLD GROSS DOMESTIC PRODUCT AND TRADE GROWTH RATES: ANNUAL AND LONG TERM, 1980-2016 (%)

Note: Long-term growth rates are based on the annual average growth of 1980 - 2008.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015) protection and a generally slower pace of trade liberalisation have also been identified as factors affecting the trade–GDP relationship (ibid.).

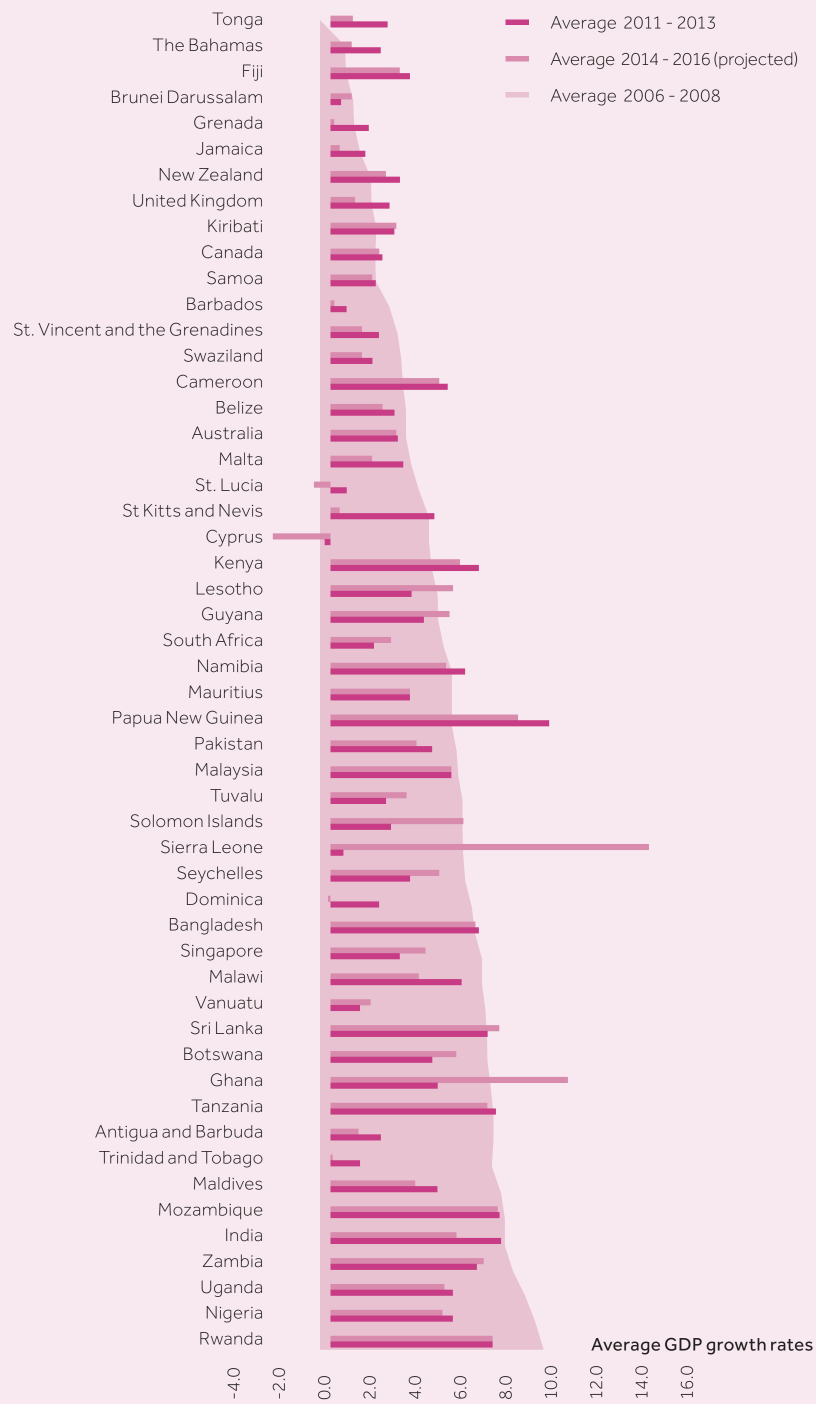
Indeed, a range of old and new trade protectionist measures have proliferated and persisted since the onset of the global financial crisis. This has had a detrimental impact on trade flows, particularly those from the world's poorest and most vulnerable economies. According to one estimate, the loss of exports LDCs have incurred as a result of these protectionist measures has been $264 billion (Evenett and Fritz, 2015). In other words, the value of LDC exports could have been 31 per cent higher if post-crisis protectionism had been avoided.

Impact of the crisis on the growth and trade performance of the Commonwealth

Commonwealth members have not been immune to the global financial crisis. Although individual country experiences differ widely, Figure 1.12 shows that, for at least 36 member countries (almost 70 per cent), average GDP growth for 2011-13 was lower than pre-crisis average growth. This figure summarises the growth performance of individual Commonwealth countries during the immediate pre-crisis (i.e. average growth during 2006-08) and post-crisis (average growth during 2011-13) periods.

Figure 1.12 also contains the projected average rate of output expansion during 2014-16 as provided by the IMF. The projected average growth rates for 2014-16 seem to suggest 36 Commonwealth countries will not have matched their pre-crisis growth performance. Only 17 countries are expected to have higher

FIGURE 1.12.
AVERAGE GDP GROWTH RATES OF INDIVIDUAL COMMONWEALTH COUNTRIES, 2006-08, 2011-13 AND 2014-16 (PROJECTED) (%)



Note: Maldives had unusually high GDP growth rate during reference period, therefore a longer term average over 2000-2008 was used instead of 2006 - 2008 average. The countries are sorted in the ascending order of 2006 - 2008 average growth rates.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015)

FIGURE 1.13.
GROWTH IN EXPORTS OF GOODS AND SERVICES OF INDIVIDUAL COMMONWEALTH COUNTRIES, 2006-08, 2011-13 AND 2014-16 (PROJECTED) (%)

Note: Per cent change of volume of exports of goods and services refers to the aggregate change in the quantities of total exports whose characteristics are unchanged. The goods and services and their prices are held constant, therefore changes are due to changes in quantities only. For Maldives, the 2000-2008 average growth is used. Sierra Leone is not included due to extremely high variations in growth rates. Information is not available for Nauru, Fiji, Samoa, Tuvalu and Vanuatu. The countries are sorted in the ascending order of 2006-2008 average growth rates.

Source: Commonwealth Secretariat (calculations using data from IMF – WEO Database, April 2015)

growth during 2014-16 in comparison with 2006-08. Within this group, countries such as The Bahamas, Brunei, Fiji, Jamaica and Tonga had very low average growth rates (less than 2 per cent) during the pre-crisis period. Among the developed countries, Canada and the UK are projected to have higher average growth in 2014-16 compared with the pre-crisis period. Some of the large Commonwealth developing countries, such as India, Nigeria, Pakistan and South Africa, will also continue to grow at a rate slower than in the pre-crisis period.

The global economic slowdown has similarly affected the picture of Commonwealth trade. In the immediate aftermath of the global financial crisis, Commonwealth countries' total exports fell by a massive $600 billion – from $2.9 trillion in 2008 to $2.3 trillion (Table 1.1). The developed countries within the Commonwealth suffered an on average 21 per cent decline ($325 billion in absolute terms). The corresponding figure for Commonwealth developing countries was 18 per cent ($241 billion). Between 2010 and 2013, developed countries in the Commonwealth managed to expand their exports at just above 5 per cent per annum, whereas developing countries recorded a comparable growth rate of 7.2 per cent. In terms of impact on exports, Caribbean small states were hardest hit, wiping off 37 per cent of their exports in 2009 (from $35 billion in the previous year to just $22 billion). However, the region also saw the highest rate of expansion, of 15.7 per cent, during 2010-13, as its exports increased from $25 billion to $39 billion. Given the massive fall earlier, this growth mostly helped regain the lost exports. Pacific Island states also managed to recoup much of their lost exports in 2010 and since then have, on average, achieved an annual export growth rate of 2.94 per cent.

The average growth rates of exports for individual Commonwealth countries in the pre- and post-global economic crisis periods also differ significantly. For as many as 25 Commonwealth members, export performance during 2011-13 was weaker compared with their

FIGURE 1.14.
GROWTH OF EXPORTS AND GDP IN THE COMMONWEALTH, 2000-12 (%)

Note: The estimates have been done using data from UNCTADStat. Export data includes exports of goods and services and are measured in constant 2005 prices and exchange rates. GDP data represent output measured in real terms. Although average growth rates over a reasonably long period have been used, certain countries, particularly many small states, have high export instability over the sample period.

Source: Razzaque (2015)

average 2006-08 export expansion rates (Figure 1.13). The same number of countries are also projected to have lower export growth during 2014-16. These export growth figures from IMF (2015a) consider 'real' growth, discounting for changes in export prices.

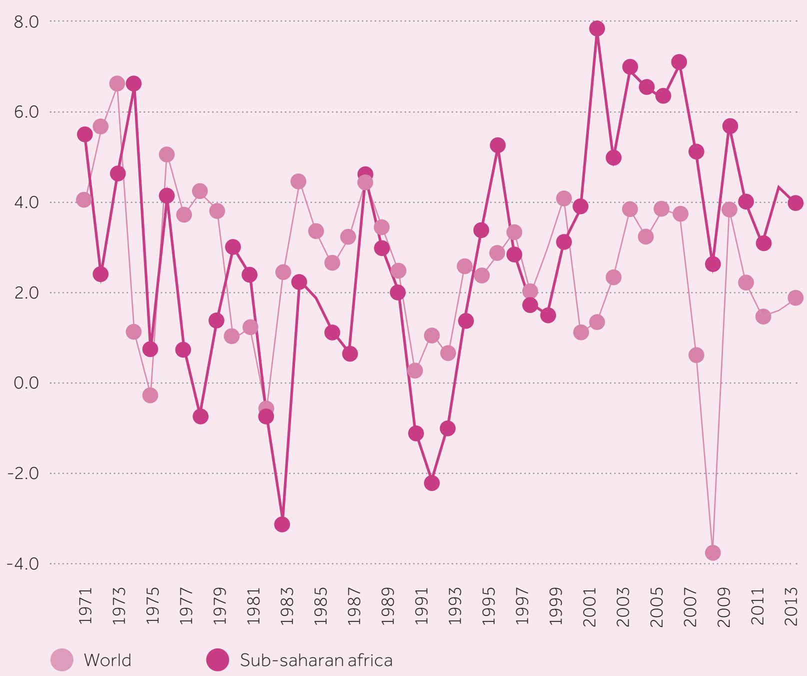
This subdued growth in overall exports is attributable to weaker demand in the global economy. However, a closer look at Figure 1.13 also reveals that, for a large number of Commonwealth countries, particularly small states, export performance was already disappointing during 2006-08 and the prospects remain so. Guyana, Papua New Guinea, St Kitts and Nevis, St Lucia, St Vincent and Grenadines, Swaziland and Tonga had negative real growth of exports during 2006-08. Their positive projected expansion during 2014-16 merely implies export growth bouncing back because of a low base created as a result of an absolute decline in exports.

Trade-growth nexus and trade orientation

As for any other country group, the trade-growth nexus is extremely important for the Commonwealth. Without inferring the direction of causality, Figure 1.14 depicts a strong cross-country positive relationship between growth of exports of goods and services and GDP growth of Commonwealth members.

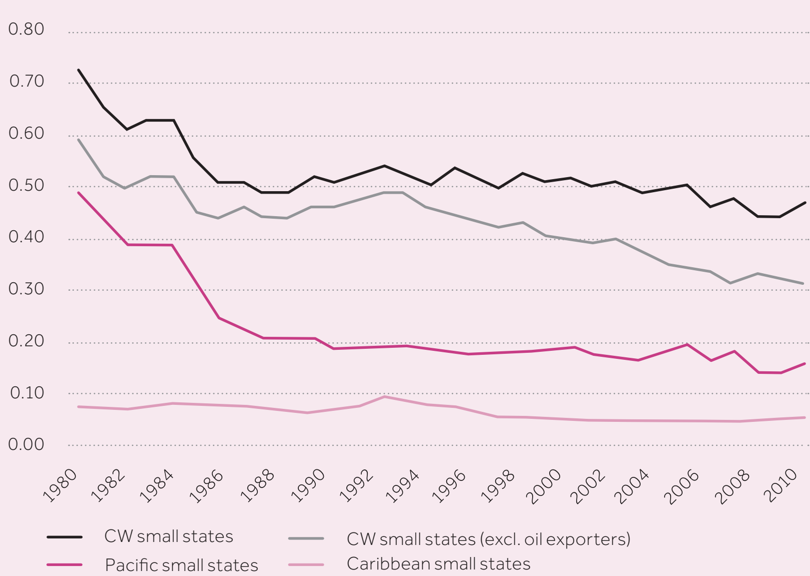
Commonwealth developing countries such as Bangladesh, Ghana, India, Mozambique, Nigeria, Rwanda, Sierra Leone, Tanzania, Uganda and Zambia have recorded high exports and GDP growth. On the other hand, low exports and output growth feature prominently for a number of countries, many of which are small states. Among others,

FIGURE 1.15.
GDP GROWTH RATES: WORLD AND SUB-SAHARAN AFRICA, 1971-2013 (%)



Source: Razzaque and Gosset (2014)

FIGURE 1.16.
SHARE OF COMMONWEALTH SMALL STATES IN WORLD TRADE, 1980-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Antigua and Barbuda, The Bahamas, Fiji, Grenada, Jamaica, St Kitts and Nevis, St Vincent and Grenadines, Tonga and Tuvalu concentrate in the lower left corner of Figure 1.14, because of their disappointing export and GDP growth. Commonwealth advanced members such as Australia, Canada and the UK, with their high per capita income and large export volumes, depict performances as generally expected for large developed countries.

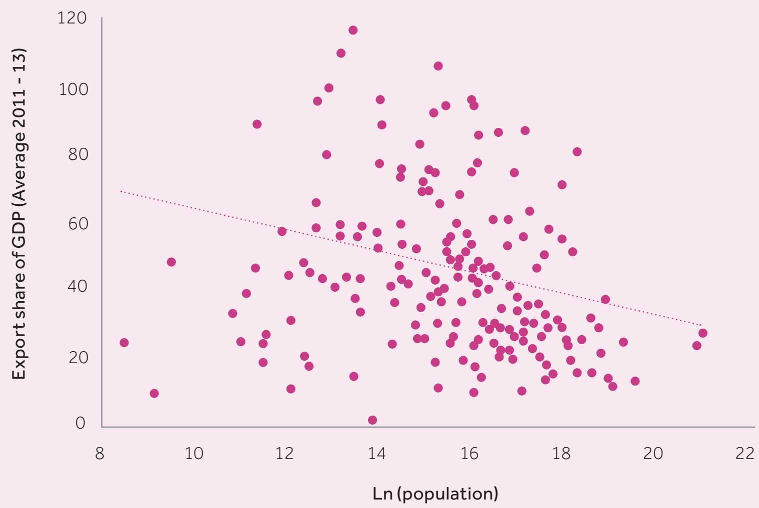
One very encouraging development since the 1990s is SSA's impressive economic growth, which, despite the global economic slowdown, remains steady. During the 2000s, SSA's combined GDP grew at an annual average rate of more than 5 per cent. As Figure 1.14 shows, eight Commonwealth SSA countries (out of total of 18) registered average GDP growth of more than 5 per cent. Indeed, for the first time in many decades, SSA has outpaced overall global economic performance during a period when the world economy has experienced a downturn (Figure 1.15). Both World Bank and IMF projections show growth in SSA economies over the medium term at a significantly higher rate than that of world output growth.

One particular concern regarding the weak trade-growth nexus comes from small states. The inherent disadvantages of these states are well known. Their small domestic markets mean scale economies in production, public sector projects and investment in research and development (R&D) cannot be exploited. For most of these countries, remoteness and isolation result in excessive trading costs, owing to both small consignment sizes and the costs of shipping, which contribute to a lack of competition and efficiency in their domestic economies. All of this leads to a relatively high cost of doing business. In addition, many small states suffer from general developmental challenges, such as poor investment climates, weak institutions and inadequate human capital resources. The interactions of these challenges are manifested in higher unit production costs, making their exports uncompetitive in global markets. Erosion of trade preferences has also contributed to small states' loss of competitiveness.[5] Since the early 1980s, Commonwealth small states' share in world trade has declined, from more than 0.7 per cent in 1980 to 0.46 per cent in 2011 (Figure 1.16). Various subgroups within small states have also seen their relative significance diminish.

However, small states have historically been more dependent on international trade for their growth and development. Indeed, an inverse relationship is borne out between the export-GDP ratio (as a measure of trade dependence) and country size (as measured by population) in the sample of global economies, indicating that countries with smaller populations tend to have bigger trade orientation (Figure 1.17). However, over time, the relative export orientation of Commonwealth small states is on the decline (Figure 1.18).[6]

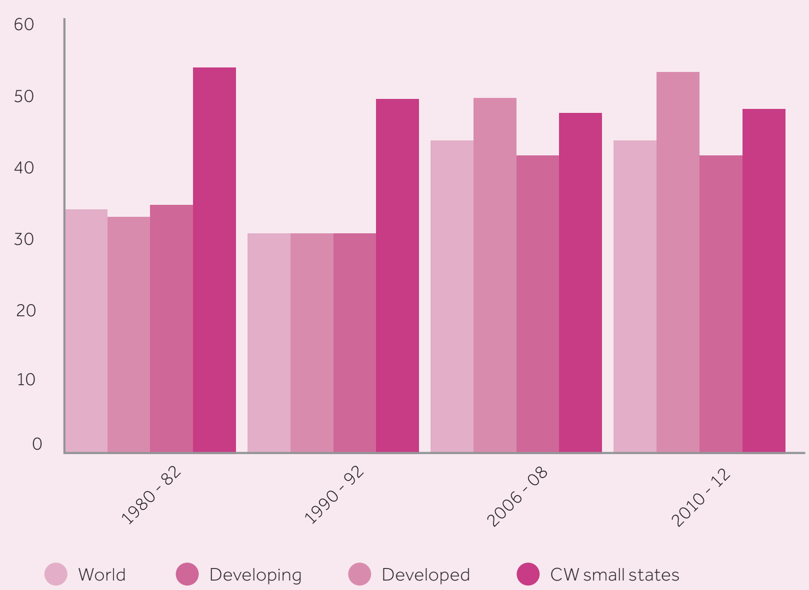
In the early 1980s, the (unweighted) average export-GDP ratio for small states was about 20 percentage points higher than the world average (53 per cent as against 34 per cent). Since then, export orientation in small states has fallen by, on average, 6 percentage points, whereas that of other groups of countries has risen. The average export-GDP ratio for developed countries is now about 8 percentage points higher, and the group of developing countries has also almost caught up with small states. This tends to suggest there has been

FIGURE 1.17.
COUNTRY SIZE AND THE EXPORT ORIENTATION OF GLOBAL ECONOMIES



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.18.
AVERAGE EXPORT-GDP RATIOS BY COUNTRY GROUPS, BETWEEN 1980-82 AND 2010-12 (%)



Note: Exports include both goods and services. The growth rates represent unweighted average for country groups.

Source: Commonwealth Secretariat (calculations using data from UNCTADstat)

FIGURE 1.19.
EXPORT-TO-GDP RATIOS: WORLD ECONOMIES AND SMALL STATES

Note: Exports include both goods and services.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

a 'de-globalisation' of Commonwealth small states. Their inherent characteristics, along with other countries' more active participation in global trade, have been a part of this development.[7] It is not just the performance of a few small states that has contributed to the declining average export-GDP ratio. Figure 1.19 scatterplots average export-GDP ratios for 1995-97 and 2010-12 for individual global economies. It becomes quite clear that, while an overwhelming majority of global economies lie on the left side of the 45 degree line, indicating increased export orientation of their economies during 2010-12, a large number of Commonwealth small states fall on the other side or are located very close to the line, depicting either falling or unchanged export ratios.[8]

The trade challenges of small states may have had some significant impact on their growth performance in recent years. It is estimated that, over a longer period of 1970-2014, while the GDP per capita of the group of developing countries grew at an average annual compound rate of 2.82 per cent, the comparable figure for Commonwealth small states was 1.38 per cent. For the more recent period of 2000-14, Commonwealth small states excluding the five oil-exporting countries managed to grow (in GDP per capita terms) at a rate of just 1.13 per cent (annual compound rate), compared with 4.08 per cent achieved by developing countries, 2.43 per cent by SSA and 1.34 per cent by the overall word economy (Razzaque and Gosset, 2015).

One salient feature of trade orientation of both small states and SSA (including Commonwealth members) relating to one of their trade-led development challenges is lack of export diversification. While economic development would imply countries progressing from primary and traditional activities to more productive manufacturing and modern services sectors, such a transformation mechanism has largely been absent for these two groups of countries. For instance, the rather remarkable performance of all SSA (including non-Commonwealth) merchandise exports, swelling from $97 billion in 2000 to $429 billion in 2013, is greatly overshadowed by the fact that commodities and natural resource-based products have been the single most important driver of this growth, accounting for about 86 per cent of exports – up from 80 per cent in 2000.[9] Commonwealth SSA countries alone were responsible for a combined export increase of $65 billion in 2000 to $255 billion in 2013, again with primary commodities accounting for 81 per cent of exports – up from 75 per cent in 2000. In the case of Commonwealth small states, the picture is more or less the same: their $62 billion merchandise export basket included only $14 billion worth of manufactured goods in 2013.

On an index of export diversification, which compares individual countries' export structure to the world average, ranging from a value of 0 (for highly diversified, reflecting the world average) to 1 (highly concentrated and thus far away from the world average), the average value of SSA and small states turns out to be 0.70 as against 0.22 for developing countries as a group.[10] For almost three-quarters of individual countries in Commonwealth small states and SSA, the estimated index value is either 0.70 or above. There is now strong evidence to show high export concentration adversely affects income growth.[11] Therefore, both domestic production and export structures vividly portray the challenge of achieving structural transformation in small states and SSA. International trade seems to have not helped much in terms of ameliorating the situation.[12]

Commodity price hikes and increased demand from many Southern partners, while contributing to impressive export earnings, particularly for SSA countries, have also aggravated the deepening of concentration on primary exports. However, severe price volatility characterises commodity markets, and growth prospects in major emerging markets can cause excessively high-risk exposure. For example, economic growth in China is faltering and, over the medium term, is likely to settle around a considerably low rate of 7.5 per cent in comparison with its historical average of around 10 per cent (Yao, 2015). It has been estimated that a 1 percentage point decrease in China's investment growth is associated with a 0.6 percentage point decline in SSA exports (Drummond and Liu, 2013). Given this, the World Bank (2015a) suggests that, under a scenario of persistent slowdown in emerging countries, growth during 2015-25 could result in a 13 percentage point decline in SSA exports. The weakness in global growth has already resulted in a spectacular oil price crash, affecting Commonwealth exporters like Nigeria.

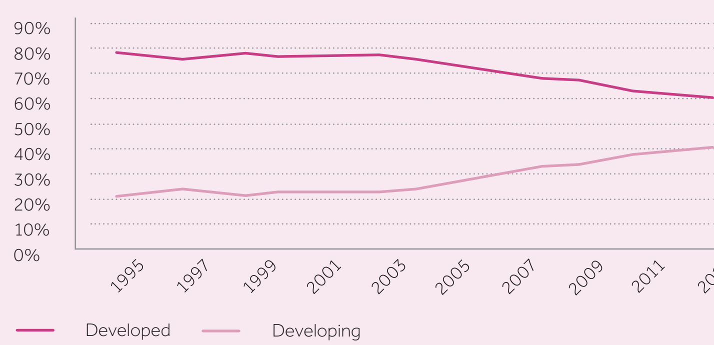
1.3 The Commonwealth embracing major developments in the global trade landscape

1.3.1 Growing prominence of developing countries

The rise of developing countries as significant drivers of global trade and growth has been one of the defining features of globalisation in recent times. This has resulted in spectacular changes in the direction of exports and imports for many countries. While traditional developed country markets remain important for Commonwealth exporters, developing countries have also provided significant trading opportunities.

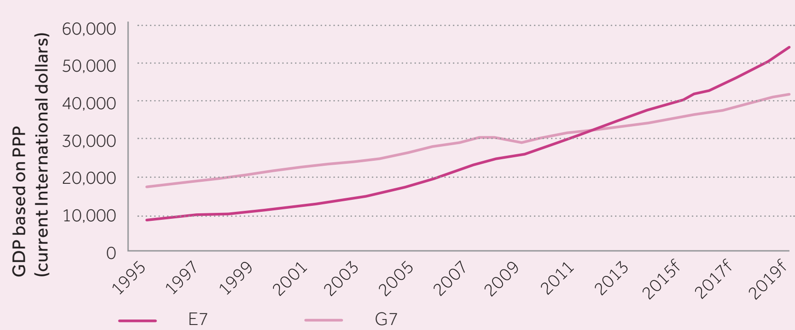
The rising prominence of developing countries in global trade and output

FIGURE 1.20.
SHARE IN GLOBAL GDP, 1995-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

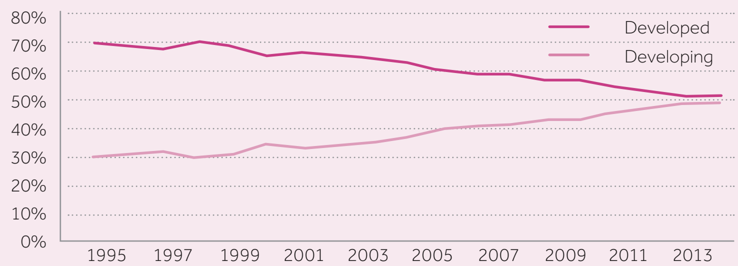
FIGURE 1.21.
GDP BASED ON PURCHASING-POWER-PARITY EXCHANGE RATES FOR E-7 VS. G-7, 1995-2019f ($ BILLION)



Note: E7 countries comprise Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
G7 countries comprise Canada, France, Germany, Italy, Japan, United Kingdom and United States.

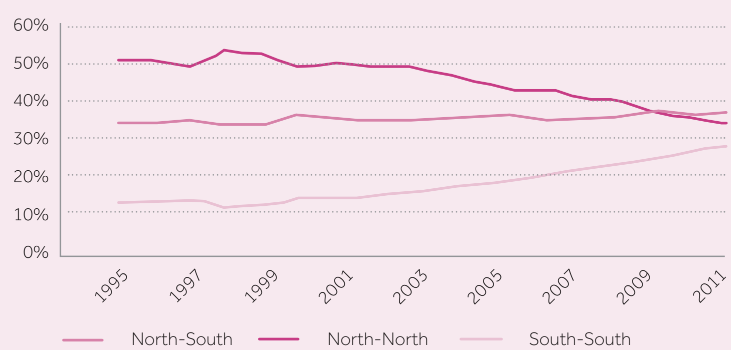
Source: Commonwealth Secretariat (calculations using data from IME-WEO Database 2015)

FIGURE 1.22.
SHARE IN GLOBAL MERCHANDISE TRADE, 1995-2013 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 1.23.
RELATIVE SIGNIFICANCE OF TRADE BY DIFFERENT COUNTRY GROUPS, 1995-2011 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

Over the past 20 years, the developing country share in global GDP has doubled from 20 per cent to 40 per cent (Figure 1.20). When measured in purchasing power parity (PPP) exchange rates, as Figure 1.21 shows, the combined gross domestic outputs of the group of the largest seven developing economies (China, India, Brazil, Russia, Indonesia, Mexico and Turkey), dubbed the emerging seven (E-7), in 2012 surpassed the same for the group of G-7 economies (France, Germany, Italy, Japan, United Kingdom, USA and Canada).[13]

Since the mid-1990s, buoyant economic growth has been widespread in much of the larger developing countries, resulting in their remarkable export expansion.

Indeed, during the 20 years between 1995 and 2015, developing countries' share in global merchandise trade has increased from less than 30 per cent to about 50 per cent (Figure 1.22). An important feature of the rise of the South is trade between developing countries has expanded much faster: the average annual growth of South-South trade since 2000 has been 17 per cent as against a world trade growth rate of 10 per cent. This led to a decline in the relative significance of the trade between developed countries (i.e. North-North trade) from about 53 per cent in the late 1990s to just 34 per cent in 2012 (Figure 1.23). In absolute terms, South-South merchandise trade has expanded quite dramatically – from less than $1 trillion in 2002 to about $5.5 trillion in 2013. The most striking feature in the growing prominence of the South has been the rise of China. Over three decades of close to 10 per cent annual growth has made it as one of the world's largest economies and trading nations. China's share of world exports has risen spectacularly, from just over 1 per cent in 1985 to 12 per cent by 2013.

Commonwealth members' trade with the South

The rising prominence of developing countries in the global economy is also reflected in Commonwealth countries' rapidly growing trade with them. In 2013, half of total Commonwealth imports of merchandise goods were sourced from, and 46 per cent of exports were destined to go to, developing countries (including non-Commonwealth developing countries). Both the shares are just about 20 percentage points higher than those of 2000 (Table 1.4). In 2000, the number of individual Commonwealth members procuring at least half of their merchandise imports from developing countries was 20, with none of them from Commonwealth developed and Caribbean country groups. This rose to a staggering 41 in 2013, as reflected in Figure 1.24 (panel A), which includes two Commonwealth developed countries – Australia and New Zealand – and seven Caribbean countries. Thirteen Commonwealth African countries in 2000 already had 50 per cent or more of their imports coming from developing countries. This had increased to 17 in 2013, with the only exception being South Africa, which procured 47 per cent of its imports in 2013, up from 32 per cent. Looking at all Commonwealth regions, the Asian countries have the highest imports from developing countries (70 per cent), followed by 58 per cent for Africa, 49 per cent for the Caribbean,

TABLE 1.4.
COMMONWEALTH COUNTRIES' TRADE WITH DEVELOPING COUNTRIES AND CHINA, 2000 AND 2013 (%)

	Merchandise imports				Merchandise exports			
	From developing countries		From China		To developing countries		To China	
	2000	2013	2000	2013	2000	2013	2000	2013
Total Commonwealth of which	31	50	4.3	12	26	46	1.9	10
Developed	21	32	4	11	14	29	1.3	10
Developing	49	67	4.5	13.4	46	64	2.9	10
Africa	44	58	3.8	15.0	32	55	1.6	13
Asia	50	70	4.8	13	49	66	3.2	9
Caribbean	34	49	1.1	5	27	35	0.1	1
Pacific	39	46	1.8	9	22	33	7.1	13

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

46 per cent for the Pacific and 32 per cent for the developed country group.

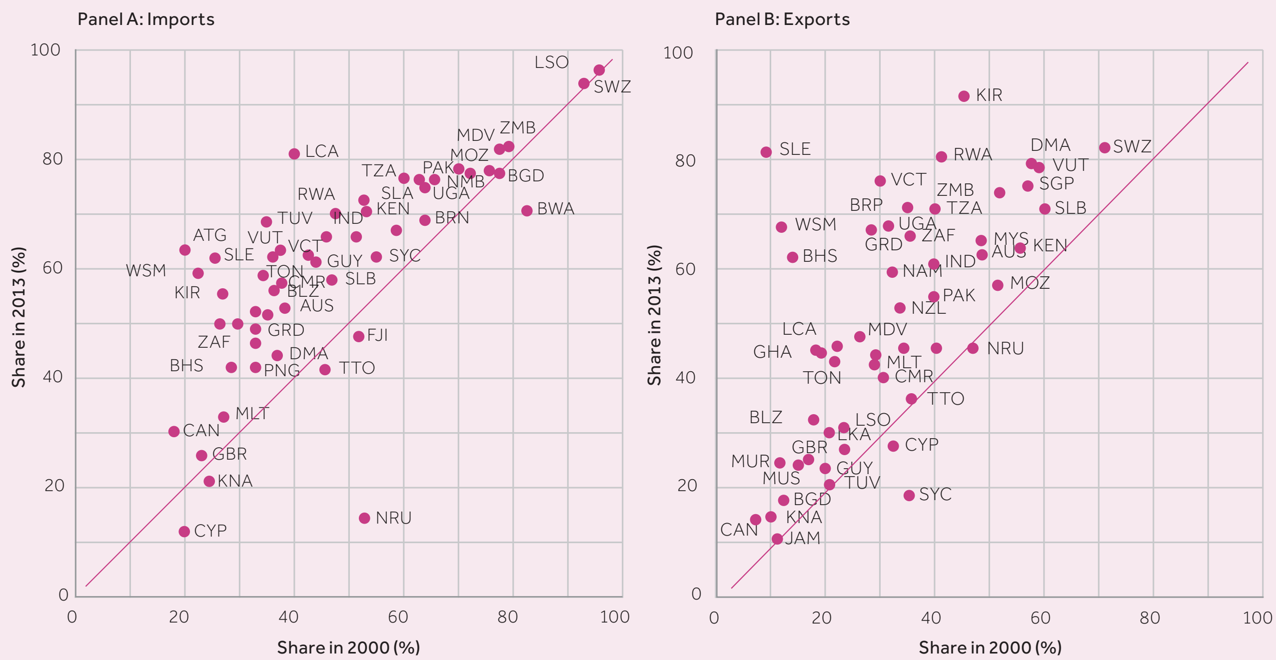
At the individual country level, for 33 Commonwealth members, import dependence on developing countries rose by at least 10 percentage points (Figure 1.24, panel A). Of these, the rises for St Lucia (from 39 per cent to 83 per cent), Antigua and Barbuda (from 18 per cent to 64 per cent), Sierra Leone (from 24 per cent to 63 per cent), Samoa (from 21 per cent to 60 per cent), St Vincent and the Grenadines (from 37 per cent to 64 per cent), Barbados (from 25 per cent to 50 per cent), India (from 47 per cent to 71 per cent), Rwanda (from 53 per cent to 74 per cent), Australia (from 37 per cent to 53 per cent) and Canada (from 16 per cent to 30 per cent) are worth pointing out. Certain countries maintained a very high dependence on imports from developing countries, such as Lesotho (98 per cent), Swaziland (96 per cent) and Namibia (79 per cent), which are all members of the Southern African Customs Union (SACU) and have strong economic ties to South Africa.

An almost similar picture emerges for merchandise exports to developing countries. As Table 1.4 shows, the relative significance of developing countries in the Commonwealth's total exports increased from 26 per cent in 2000 to 46 per cent in 2013. During the same time, for the Commonwealth developed country group, the share of export receipts from developing country markets more than doubled, going from 14 per cent to 29 per cent. On the whole, Southern partners contributed 64 per cent to the total exports of Commonwealth developing countries. At the individual country level, 25 members exported at least half of their exports to developing country markets in 2013 as against 11 in 2000 (Figure 1.24, panel B). Compared with imports, export dependence on the South is lower, which is more evident for Caribbean and Pacific island states.

In terms of expanding exports to developing countries, the case of Sierra Leone has been most spectacular. The country saw its share of exports to developing countries rise from 7 per cent in 2000 to 83 per cent in 2013. Among others, Australia (from 49 per cent to 64 per cent), New Zealand (from 33 per cent to 53 per cent), Ghana (from 17 per cent to 45 per cent), Namibia (from 31 per cent to 60 per cent), Nigeria (from 28 per cent to 44 per cent), Rwanda (from 41 per cent to 82 per cent), South Africa (from 35 per cent to 67 per cent), Uganda (from 30 per cent to 69 per cent), Tanzania (from 39 per cent to 72 per cent), Zambia (from 52 per cent to 75 per cent), India (from 39 per cent to 62 per cent), Maldives (from 25 per cent to 48 per cent), The Bahamas (from 12 per cent to 63 per cent), Barbados (from 34 per cent to 72 per cent), Dominica (from 59 per cent to 81 per cent), Grenada (from 27 per cent to 68 per cent), St Lucia (from 20 per cent to 46 per cent), St Vincent and the Grenadines (from 29 per cent to 78 per cent), Fiji (from 17 per cent to 45 per cent), Kiribati (from 45 per cent to 94 per cent), Samoa (from 10 per cent to 69 per cent) and Tonga (from 20 per cent to 43 per cent) have seen remarkable growth in the significance of developing countries in their exports.

It needs to be pointed out here that, despite their diminishing significance,

FIGURE 1.24.
TRADE WITH DEVELOPING WORLD, 2000 VS. 2013 (%)



Note: Country codes can be found in Data Appendix (Table A1).

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

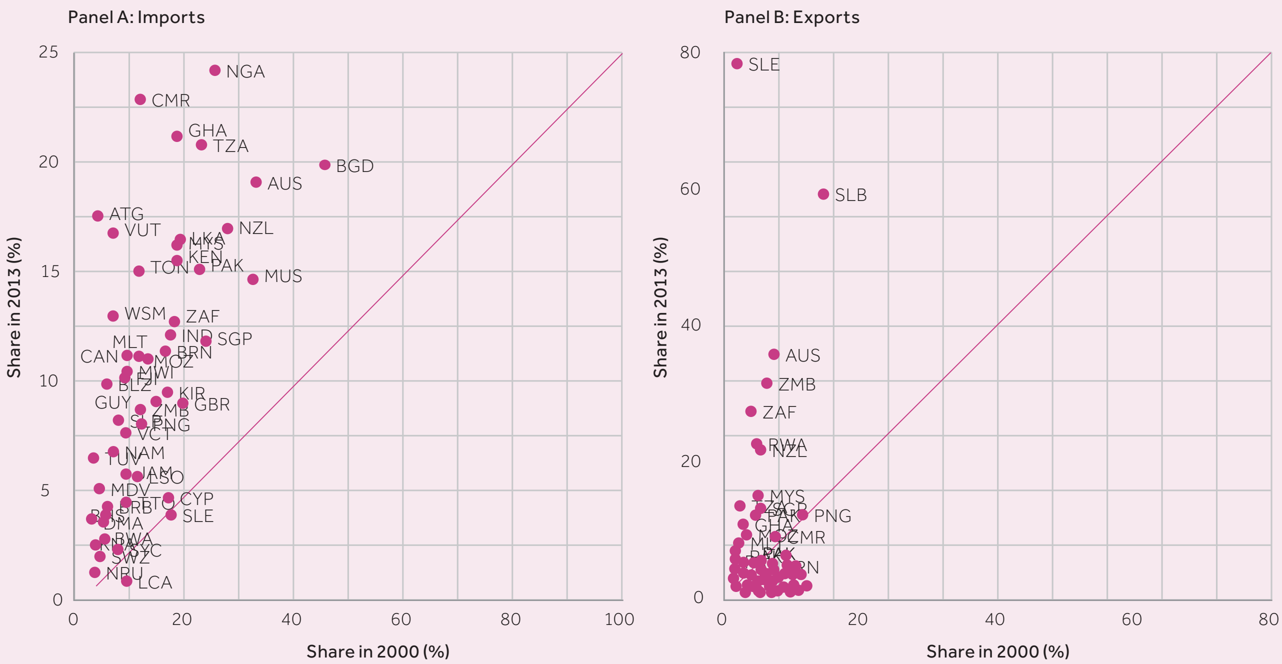
developed countries remain important export markets for many Commonwealth developing country members. Along with being traditional export markets, almost all advanced developed countries have maintained various preferential trading schemes for different groups of developing countries. These include the EU's Everything But Arms (EBA), providing duty-free, quota-free (DFQF) access to all LDCs; the EU Generalised System of Preferences (GSP) schemes for other developing countries; Australia, Canada and New Zealand's DFQF schemes for LDCs; the USA's preferences to African countries through the African Growth and Opportunity Act (AGOA) and to the Caribbean through the Caribbean Basin Initiative (CBI); etc. Over time, however, the value of tariff preference has fallen because of unilateral trade opening and liberalisation carried out under RTAs.

Commonwealth countries' trade with China

For many countries, trading with China has been one of the defining features of global trade since the late 1990s. Between 2000 and 2013, total Commonwealth exports to China increased more than 14-fold, from $19 billion to $268 trillion, and imports from China rose almost eight-fold, from $46 billion to $359 billion. When considered against the fact that, during the same period, Commonwealth trade with the world rose by only 2.5 times, the rapid expansion of trade with China becomes obvious. In 2013, on average, 12 per cent of Commonwealth countries' imports originated from and 10 per cent of their exports were destined to China.

Figure 1.25 captures the changes in bilateral trade with China. In 2000, China accounted for 10 per cent or more imports for just one Commonwealth member (Bangladesh); in 2013, the corresponding number had increased to 28. Turning to exports of goods from Commonwealth countries, there is a general rise to the Chinese market but this is much less spectacular (Figure 1.25, panel B). Australia, New Zealand, Rwanda, Sierra Leone, Solomon Islands, Tanzania and Zambia have been able to expand their exports to China significantly. However, for 35 Commonwealth members, less than 5 per cent of their exports in 2013 were destined for China. Therefore, the Chinese market remains a potentially important but as of yet untapped export destination for most Commonwealth countries. It is mainly the exporters of primary commodities and nature resources that have experienced an export rise to China.

FIGURE 1.25.
TRADE WITH CHINA, 2000 VS. 2013 (%)



Note: Country codes can be found in Data Appendix (Table A1).

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

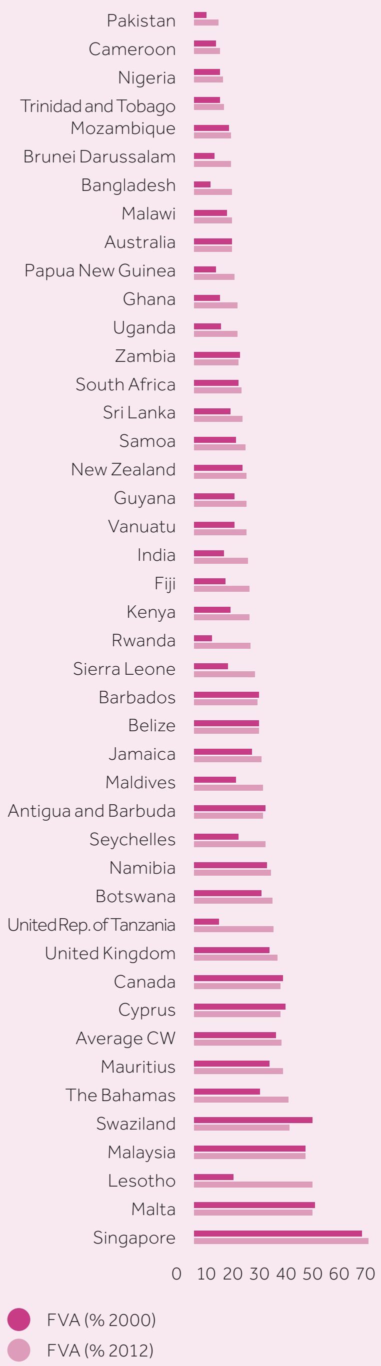
South-South trade prospects for Commonwealth members

For Commonwealth developing countries in particular, trade with fast-growing developing countries offers opportunities for specialisation, efficiency gains, export market diversification and investment flows. Many large developing countries now provide improved market access to LDCs, 11 of which are in the Commonwealth. China offers non-reciprocal duty-free access for imports from 28 countries in Africa and India tariff-free access for most exports from LDCs in SSA. Over time, many emerging developing countries have also become important sources of technical and financial assistance to many LDCs and SSA. In the wake of the post-financial crisis economic slowdown in developed countries, it became very clear Southern countries were positioning themselves as important trade partners and sources of growth for SSA.

Notwithstanding this success, there are concerns. The nature of participation in South–South trade has been such that SSA countries (including Commonwealth members) and small states predominantly export primary commodities to the global South. Increased demand for fuels and industrial raw materials in rapidly growing large developing countries has resulted in export growth of a select few primary sectors and only resource-rich countries being the major beneficiaries. As few as 10 countries account for more than 80 per cent of SSA's exports to the South. Indeed, commodity concentration in exports to large developing countries is excessively high. For example, only 3 per cent of all SSA exports to Brazil, Russia, India and China (the BRICs) are manufactured goods. The comparable figure for exports to developed countries is 11 per cent (Razzaque and Gosset, 2014). By comparison, intra-SSA export composition is much more diversified, with manufacturing accounting for 40 per cent of exports.[14]

While SSA is a major source of raw materials, relatively advanced developing countries predominantly supply manufactured goods. As much as 81 per cent of all imports from the BRICs to SSA are manufactured. This includes items ranging from low-skilled labour-intensive products to capital-intensive goods such as machinery, vehicles and pharmaceutical products. There has been some concern that competition from cheap manufactured imports sourced from the South has resulted in slower or hindered development

FIGURE 1.26.
SHARE OF FVA IN EXPORTS,2000 AND 2012 (%): DEPTH OF GVC INTEGRATION FOR THE COMMONWEALTH



Source: Commonwealth Secretariat (calculations using data from UNCTAD Eora database)

of SSA's own manufacturing sector. It is in this context that the current structure of South–South trade appears to have important bearing on economic and export diversification in small states and SSA.

1.3.2 Global value chains

GVCs, although not new, have intensified over the past two decades or so. This has important implications for understanding countries' comparative advantage and the role of trade policy in securing participation in cross-border production networks.

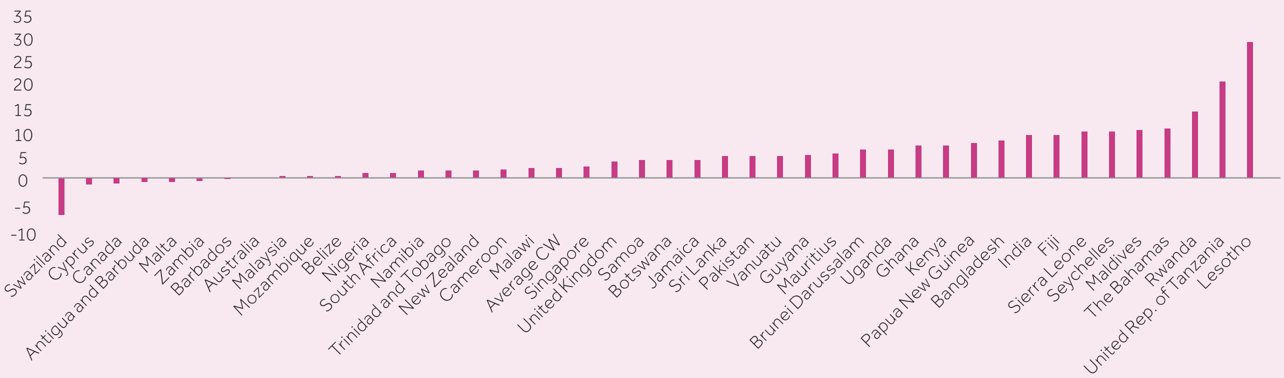
Increasingly inter-connected cross-border production networks

Fostered by trade liberalisation, along with the revolution in information and communication technology (ICT) and services trade, the GVC trade has fundamentally changed the traditional concept of one firm located in one country undertaking an entire production process. For example, at least nine countries are involved in the manufacture of Apple's iconic iPhone, from the mining of rare earths, to the design and assembly of the various parts and components, to branding and marketing the final products. As many as 10 countries produce parts and components for Boeing's 787 Dreamliner aircraft, which is then assembled in the USA. Similarly, the production process of a typical T-shirt could comprise cotton being grown in one country, yarn and fabric manufactured in another and cut, make and trim (CMT) undertaken in a third country, with required accessories procured further from different countries before the final products are shipped to retailers.

Because of the increasingly interconnected nature of production processes, more trade is taking place in intermediate inputs. The Organisation for Economic Co-operation and Development (OECD) (2013) estimates such trade to comprise at least two-thirds of all global trade in goods and 70 per cent in the case of services trade. Fast growth in the world export-GDP ratio, rising from 20 per cent to 30 per cent over the short span of 1995-2008, is also an indication of the intensification of GVCs (IMF, 2013). A large proportion of East Asian countries' growing exports, especially China's, owe to this kind of processing trade: low-cost assembly of intermediate and semi-processed components, which are produced internationally, into final products for the consumer market. North America, Europe and East Asia have been recognised as the three major global hubs of GVCs.

The geographic separation of production processes can represent an opportunity for countries. This requires specialisation in relatively limited number of tasks, and allows firms to enter into the export market without developing the full range of vertical capabilities along the value chain (WTO, 2014). It opens up the possibilities of associating with a global production process even by adding relatively smaller amounts of value-added to any particular product. By becoming part of an international production network, a country may be able to access foreign direct investment (FDI) and technology, which is likely to have other favourable spillover effects. However, participating in a global production network does not automatically guarantee positive development gains (UNCTAD, 2013). Value-added contribution can be low: countries could be trapped into the lower end of value chains, and competition for simplified tasks is likely to be fierce, with countries offering very generous financial

FIGURE 1.27.
CHANGE IN THE SHARE OF FVA BETWEEN 2000 AND 2012 (PERCENTAGE POINTS)



Source: Commonwealth Secretariat (calculations using data from UNCTAD Eora database)

and fiscal incentives to attract investment. In the process, costs could outweigh benefits accrued.

Commonwealth countries' participation in global value chains

Experiences related to Commonwealth countries' participation in GVCs vary. While the measurement issues associated with assessing the depth of participation, including various data sources and their caveats, are discussed widely elsewhere (AfDB, 2014; IMF, 2015b; UNCTAD, 2013), the extent of foreign value-added (FVA) in a country's exports is generally used as the most prominent indicator of GVC participation.[15] Essentially, exports of a country can be decomposed into (1) FVA, which comprises imported inputs to be used in export production; and (2) domestic value-added (DVA), which can be consumed directly in the export destination and/or will be used as the FVA of other countries' exports. Given limited productive capacity, which constrains the production of an entire export good in a competitive way, linking to GVCs and making use of FVA (e.g. imported intermediate goods and technology) in order to stimulate exports and, over time, DVA, has become very attractive. However, it must be emphasised that use of FVA in exports will not automatically augment DVA content to maximise gains from exports.

To understand how the Commonwealth is positioned globally with respect to GVC development, the UNCTAD Eora trade in value-added database is used.[16] Based on the information available for only 43 member countries, it is estimated that, between 2000 and 2012, the Commonwealth's share of global trade in value-added remained almost unchanged, at close to 16 per cent. In 2012, the last year for which the information is available in the database, the average share of DVA in Commonwealth member countries' total exports is estimated to be 67.7 per cent as against the global average of 70 per cent. On the other hand, the share of FVA within the Commonwealth export basket (32.3 per cent) is found to be higher than the global average (29.9 per cent).

Among Commonwealth countries, the share of FVA in exports in 2012 is found to be highest in Singapore. This is expected, given Singapore is positioned within one of the most dynamic GVC hubs of the world, deeply integrated within regional and global production networks involving the East Asian countries and China. Malaysia is another Commonwealth East Asian member to have strong FVA presence. Within the set of Commonwealth developed countries, EU member states (Cyprus, Malta, the UK) and Canada show relatively high FVA shares. Although in many cases the emergence of FVA is only at a nascent stage, 33 countries saw some increase in the ratio of FVA in total exports between 2000 and 2012 (Figure 1.26).

Many Commonwealth ACP countries, being predominantly natural resource-based primary product and processed commodity exporters, are at the start of the GVC integration stage. Between 2000 and 2012, countries such as The Bahamas, Fiji, Ghana, Kenya, Lesotho, Papua New Guinea, Rwanda, Seychelles, Sierra Leone, Tanzania and Uganda saw their FVA share in total exports rising by at least 5 percentage points (Figure 1.27). According to the IMF (2015b), the better performance of countries in East Africa and the SACU could reflect the benefits of regional economic integration.

For small states in particular, participation in GVCs is constrained by their inherent characteristics and associated trade challenges, for example their small market size and remoteness from global commercial centres related to GVC hubs. Despite their trade challenges and their falling share in global trade, as Figure 1.26 shows, such Caribbean countries as Antigua and Barbuda, Belize, Guyana and Jamaica have managed to maintain at least close to a 20 per cent FVA share. This could be attributable to their being involved in more intra-regional trade (World Bank, 2015b). Disaggregated analysis undertaken in WTO (2015) suggests agri-food products and seafood are two major areas of integration into GVCs for a number of small states, particularly in the Caribbean.

On the other hand, despite being successful apparel exporters, South Asian countries Bangladesh, Pakistan and Sri Lanka have relatively low GVC integration. It is possible these countries are now adding more DVA to their traditional exports (e.g. textiles and apparels) while new breakthroughs in other sectors have not yet become prominent. Four oil-exporting countries, Brunei, Cameroon, Nigeria and Trinidad and Tobago, appear to be among the Commonwealth members least integrated into GVCs.

Going beyond the information in Figures 1.26 and 1.27, which makes use of both goods and services inputs, two services value chains are worth mentioning for Commonwealth small states. Tourism and IT and business process outsourcing have become important GVC networks (WTO, 2015). Tourism is especially important for a number of Commonwealth small states, with the sector contributing at least 10 per cent of GDP in Antigua and Barbuda (16 per cent), Barbados (11 per cent), Belize (13 per cent), Dominica (10 per cent), Fiji (14 per cent), Maldives (48 per cent), Mauritius (11 per cent), Seychelles (21 per cent), St Lucia (13 per cent) and Vanuatu (23 per cent). Travel organisation and booking, transportation, accommodation, food and beverage provision, guided tours and cultural and natural assets all are part of tourism value chains (UNWTO, 2013). Given their importance, many Commonwealth small states are making efforts to expand tourism products. For example, Mauritius has focused on becoming a destination for medical tourism (WTO, 2015). Seychelles has been diversifying away from its traditional developed country markets towards visitors from Asia. Pacific Island states have seen rising numbers of tourists from Asian countries, providing opportunities for two-way linkages between tourism and agricultural development (Chen et al., 2014). Given the remoteness of their economies and their high trading costs, small states would find IT and business process offshoring-related services value chains of interest. However, according to the analysis conducted in WTO (2015), among the Commonwealth small states, only Jamaica and Mauritius have been relatively successful in developing IT and offshore business services.

As mentioned above, a high share of FVA in total exports may not reflect export success, because of the small size of the export volume at present, the low level of the DVA of total exports or a combination of both. That is, it is possible for countries to be linked to GVCs but not participate in a gainful way (Banga, 2013).[17] Measurement of gainful participation is also not straightforward. Notwithstanding, for a majority of Commonwealth developing countries, enhanced participation in GVCs to break into new export sectors will likely remain a challenge (See Section 4.7 for further discussions).

1.3.3 Proliferation of RTAs and stalled multilateral trade negotiations

The proliferation of RTAs, transcending regional boundaries through widened coverage of policy areas, is another factor reshaping the global trade landscape.[18] When the WTO was established in 1995, the number of active RTAs was 150; by 2010, it was close to 300. The number has increased rapidly in the past five years: by April 2015, the WTO had been notified of 612 RTAs, 406 of them in force. WTO (2011a) details various economic and political factors underlying their formation. As RTAs continue to flourish despite falling and already quite low levels of Most-Favoured Nation (MFN) tariffs, deeper policy integration is increasingly becoming apparent as one clear motive for this.

Commonwealth countries' participation in regional trading arrangements

Many developing countries, including Commonwealth members, have small domestic markets, which undermines their competitiveness. This presents a strong case for regional integration.[19] The premise for the relatively recent broad-based consensus on the importance of regional integration for low-income developing countries is quite different from the traditional approach of promoting regional markets through preferential arrangements. Regional integration is now considered a process whereby deeper and effective cooperation allows free movement of goods and services to enable competitive production of exports for the regional and world markets. This may involve services trade, investment agreements, technical regulations, infrastructure (including energy) development, transhipment, etc.[20]

Figure 1.28, prepared by the International Trade Centre (ITC), provides an illustration o/f Commonwealth countries' participation in various regional/preferential trading schemes. These arrangements differ widely in terms of number of countries involved, coverage of goods and services, depth of liberalisation measures undertaken and ambit of policy issues considered. A large number of RTAs involve developing countries only. There are also prominent North-South arrangements such as the economic partnership agreements (EPAs) involving the EU and ACP countries. The RTAs in Figure 1.28 show that, in almost all cases, these arrangements include non-Commonwealth members.

Through their membership in the EU, Cyprus, Malta and the UK are active in all 35 EU agreements in force with its external trading partners.[21] Apart from the EPAs, Commonwealth SSA countries participate in various regional deals. SACU is the oldest functioning customs union in the world, and all five members – Botswana, Lesotho, Namibia, South Africa and Swaziland – happen to be Commonwealth countries. Other prominent arrangements are the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD) and the Economic Community of West African States (ECOWAS).

Among prominent Asian RTAs, Singapore, Malaysia and Brunei are part of the Association of South-East Asian Nations (ASEAN), which is the third-largest trading bloc in the world after the EU and the North American Free Trade Agreement (NAFTA). In South Asia, five Commonwealth members – Bangladesh, India, Maldives, Pakistan and Sri Lanka – implement the South Asian Free Trade Area (SAFTA) along with three other non-Commonwealth countries (Afghanistan, Bhutan and Nepal). Bangladesh and India are also members of the Bay of Bengal Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC), and there are several bilateral trade deals involving India and Sri Lanka and Pakistan and Sri Lanka, among others.

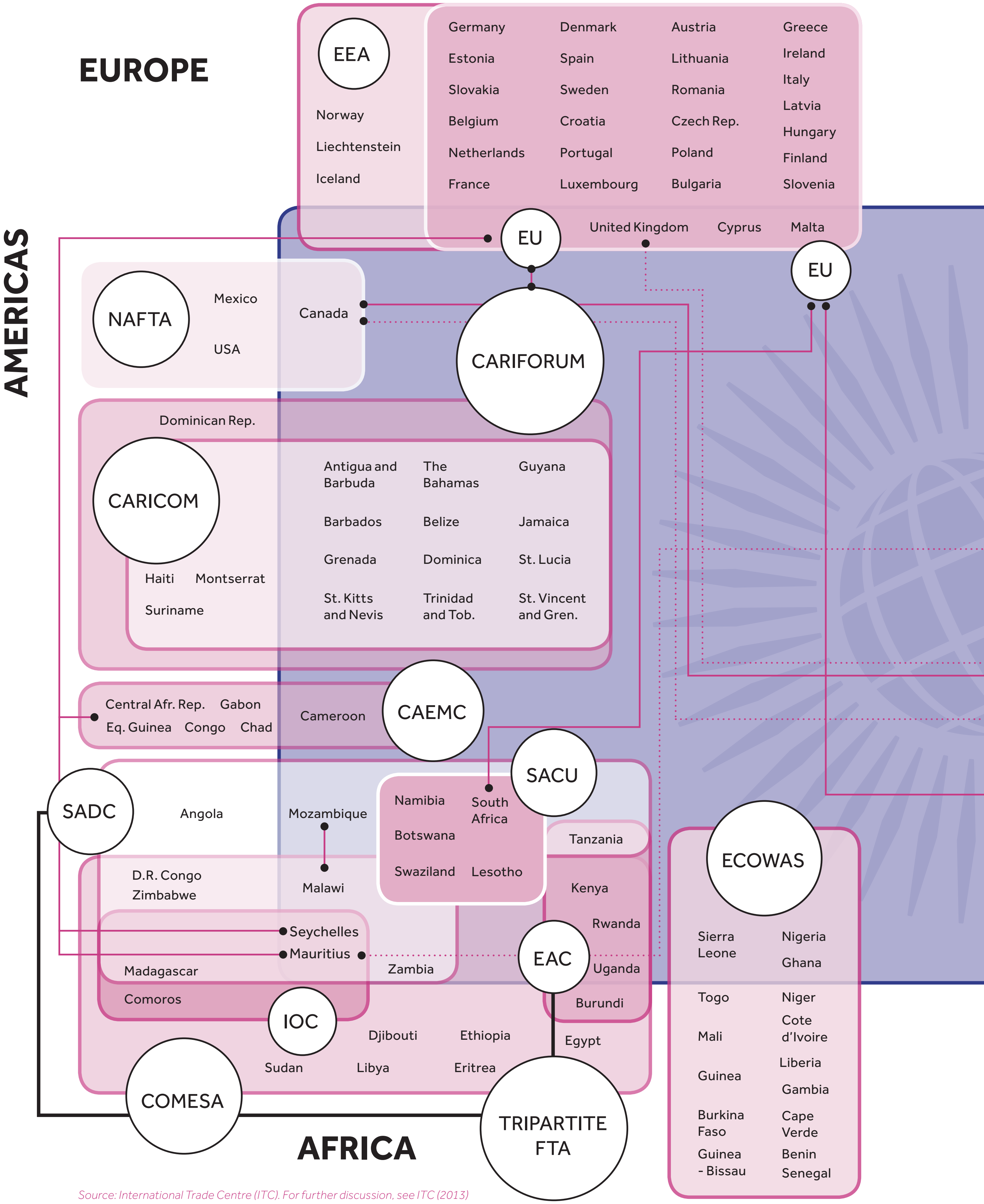
Twelve of the 15 Caribbean Community (CARICOM) members are Commonwealth countries. The CARICOM Single Market and Economy (CSME) formally provides for the free movement of goods, services, capital and labour among its members. The Caribbean Forum (CARIFORUM) EPA, which includes all Commonwealth Caribbean countries, remains the only comprehensive trade deal concluded between the EU and the ACP, covering trade in goods and services, investment and other trade-related issues. CARICOM has also signed trade agreements with its hemispheric partners, such as Colombia, Costa Rica, Cuba, the Dominican Republic and Venezuela, and is negotiating a free trade area (FTA) with Canada.

Eleven of the 16 Pacific Islands Forum (PIF) countries are Commonwealth members. The Pacific Island Countries Trade Agreement (PICTA) aims to establish an FTA among 14 PIF countries, while the Pacific Agreement on Closer Economic Relations (PACER)-Plus is being negotiated between Australia, New Zealand and the PIF countries. The four largest Pacific Island countries provide duty free treatment on virtually all goods under the Melanesian Spearhead Group Trade Agreement. Fiji and Papua New Guinea are implementing the Interim EPA signed with the EU, while negotiations continue to reach a comprehensive EPA with the Pacific region.

It is, however, worth noting one major problem in most RTAs involving developing countries is they have not been very successful in energising regional trade. As Figure 1.29 shows, the share of intra-regional trade in the total trade of the South Asian Association for Regional Cooperation (SAARC) has been 5-6 per cent and for ECOWAS and COMESA it has been just around 10 per cent. Even the relatively higher shares of SADC (17 per cent) and CARICOM (14.6 per cent) are substantially lower than that of ASEAN (25 per cent). And the clear picture Figure 1.29 paints is there is no substantial secular increase in intra-regional trade in any of the regions.

While negotiating and implementing these arrangements is already an enormous undertaking, as Part 3 of this Review discusses further, participation in multiple trading blocs can make achieving certain policy objectives even more challenging. This is particularly true for Commonwealth ACP countries that are concluding or implementing North-South trading arrangements such as EPAs; taking part in various South-South RTAs, with African countries aiming to establish a continent-wide FTA; and at the same time striving to develop productive trade and investment engagements with important emerging market economies such as the BRICs (see Part 4). Welfare consequences of moving from a non-reciprocal arrangement to one based on reciprocity have long been discussed and therefore remain a concern for EPAs (Raihan et al., 2008). On the other hand, under South-South RTAs, one key challenge is to ensure a balanced distribution of gains among the members, as weaker economies in such arrangements tend to lose out (Panagariya, 1998; Venables, 2003). In addition, RTAs such as EPAs and a likely African-wide FTA could also result in trade

FIGURE 1.28.
NETWORK OF TRADE AGREEMENTS INVOLVING COMMONWEALTH MEMBERS, 2015



Source: International Trade Centre (ITC). For further discussion, see ITC (2013)

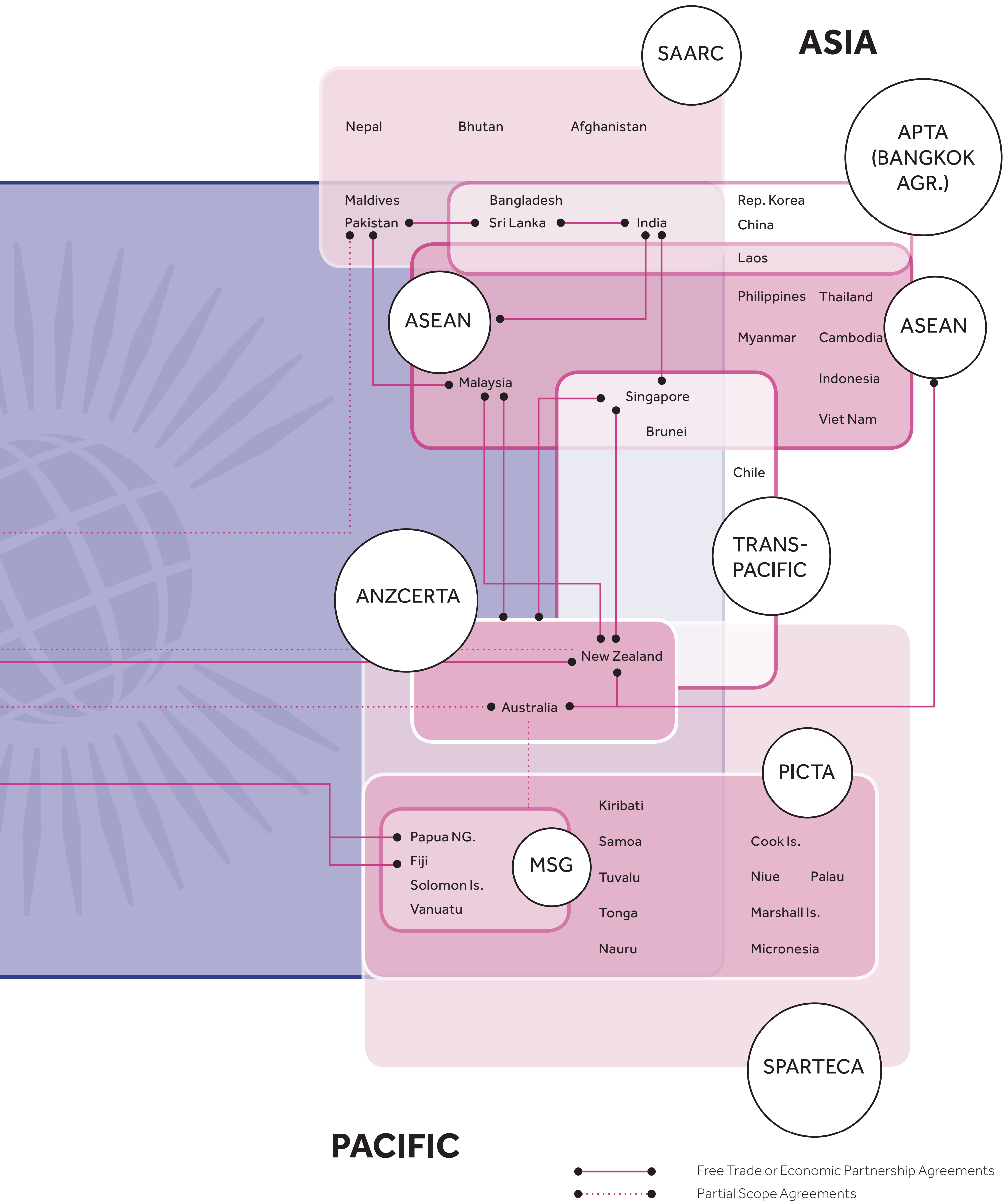
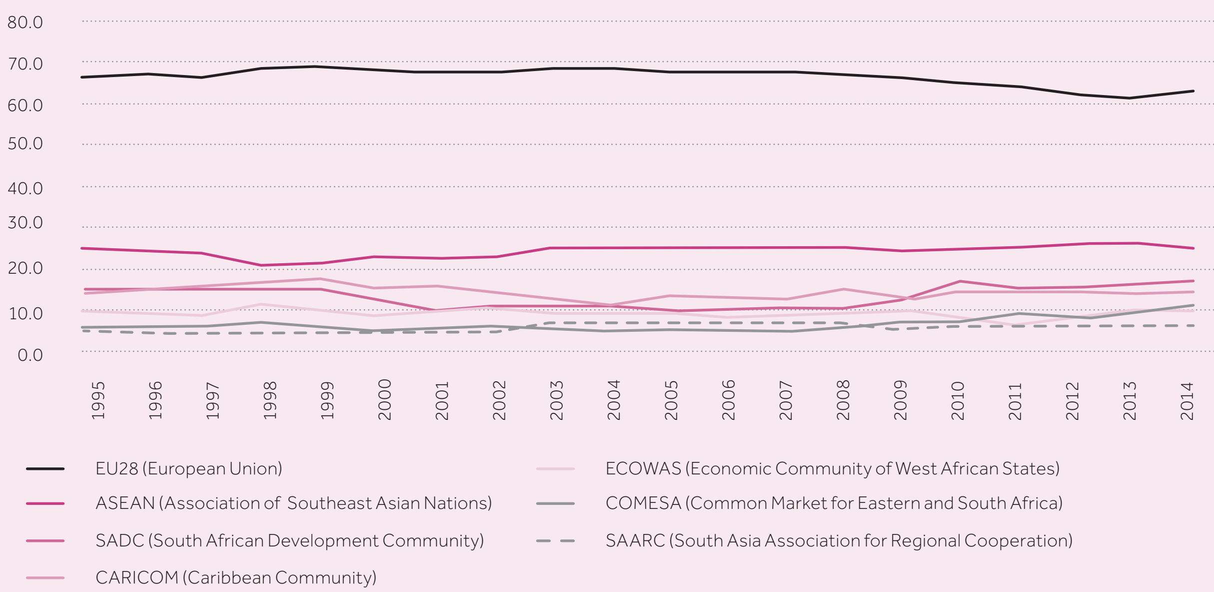

ASIA
SAARC
APTA (BANGKOK AGR.)
Nepal
Bhutan
Afghanistan
Maldives
Pakistan
Bangladesh
Sri Lanka
India
Rep. Korea
China
Laos
ASEAN
Philippines
Thailand
Myanmar
Cambodia
Indonesia
Viet Nam
ASEAN
Malaysia
Singapore
Brunei
Chile
TRANS-PACIFIC
ANZCERTA
New Zealand
Australia
PICTA
Kiribati
Samoa
Tuvalu
Tonga
Nauru
Cook Is.
Niue
Palau
Marshall Is.
Micronesia
Papua NG.
Fiji
Solomon Is.
Vanuatu
MSG
SPARTECA
PACIFIC
Free Trade or Economic Partnership Agreements
Partial Scope Agreements

FIGURE 1.29.
SHARE OF INTRA-REGIONAL TRADE IN TOTAL TRADE BY SELECTED REGIONS, 1995-2014 (%)



Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

diversions and ensuing adverse welfare consequences if globally competitive suppliers are discriminated against. Given that developing countries have now become dominant trading partners for many Commonwealth members, the scope of such adverse implications is even greater.

The emergence of mega-regional trade agreements (MRTAs)

The world economy is witnessing the formation of new, large free trading arrangements that are unprecedented in terms of the number of partner countries from different continents, their varying levels of development, the volume of trade and the spread and depth of policy areas covered (Rollo et al., 2013). The most prominent examples of these proposed MRTAs are the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP)[22]. Of these three, only the TPP has been concluded so far in terms of the negotiation process[23]. All of them are major regional hubs driving global production networks (value chains) and collectively the three MRTAs account for the majority of global FDI outflows.

These proposed regional arrangements could result in new trade opportunities and gains. For example, if MRTA members can enhance their trade, this may subsequently provide an impetus for global growth and spur trade expansion elsewhere, also benefiting non-members. As MRTAs aim for the harmonisation or mutual recognition of trade rules, such as non-tariff measures and standards, they can stimulate trade flows by reducing the time and costs firms usually incur when adhering to many different product certifications and procedures across multiple markets.

There will, however, be implementation costs. For members, these include any adjustment costs related to the removal of tariffs and the introduction of new trade rules and standards. For non-participating countries, although the changing circumstances may present opportunities, there may be new challenges as well, unless they adopt proactive measures to address these. The standard theory on the effects of any form of preferential/regional trading arrangements suggests that they increase trade between members and reduce flows with third countries, leading to welfare effects for non-member countries (WTO, 2011a). MRTAs, like any other trading arrangements, could result in a loss of preferences for non-members (Chang and Winters, 2002; UNECA, 2015). Rules and provisions, technical regulations, standards and conformity assessments are likely to be more elaborate and encompassing under the new arrangements. Therefore, commensurate support and capacity-building will be required for many Commonwealth developing country members, which may face constraints in complying with such new requirements and standards.

In order to adapt to these new realities of the global trade landscape, Commonwealth developing countries should seek to better integrate with the individual MRTA members through existing regional arrangements. For example, more effective utilisation of existing preferential schemes such as AGOA, CBI and EU-EBA, among other things, should be a priority. Deepened integration as envisaged under EPAs (for ACP regions) and the PACER-Plus Framework (for the Pacific) could also be an important avenue to better access markets in MRTA members. Since the full implementation of trade agreements usually takes several years, there is likely to be scope for gradual adjustments as well as considering measures related to the required trade capacity-building support.

Regionalism and the multilateral trading system

The proliferation of RTAs in recent years is partly ascribed to very slow progress in the multilateral trade negotiations, as manifested in the failure to conclude the WTO's Doha Round (further discussed in Part 4). This has also triggered some plurilateral trading arrangements on specific issues, such as services. It is in this context that the future role and relevance of trade multilateralism has attracted a great deal of discussion. There are also those who feel the multilateral trading system and RTAs can coexist side-by-side.

Strengthening the rules-based multilateral trading system remains an important priority for the Commonwealth.[24] It is unfortunate that the Doha Round, which placed a priority on development, has been at an impasse for several years now. Important issues relating to generating new trading opportunities have not been settled. Market openings in agriculture, along with tackling domestic support measures and export subsidies detrimental to many low-income country suppliers, remain a major challenge. The long-standing issue of DFQF market access for LDCs has still not been resolved.[25] There has been some progress in considering preferential access to services exports by LDCs, but realising its benefits might not occur in the near future.[26]

Despite all its challenges, the WTO's Doha Round has generated some important results. These include the WTO-led Aid for Trade (AfT) initiative and the adoption of the Trade Facilitation Agreement in 2013 (considered further in Part 3 of this Review). These show trade multilateralism can be an effective means for supporting development in capacity-constrained countries.

There is little disagreement that, in the absence of a dynamic multilateral trading system and framework, the poorest and most vulnerable countries would be most disadvantaged and become further marginalised. Transparent rules and their enforcement under the WTO-led multilateral trading system and negotiation processes generally provide better opportunities for developing countries compared with bilateral or regional deals. As WTO members consider a work programme with a view to concluding the Doha Round, it is extremely important that development dimensions be given due priority (discussed further in Part 4).

1.3.4 Climate change concerns

Climate change poses a serious challenge to prospects of sustainable growth and development. In many Commonwealth countries, climate change is already affecting their trade prospects, and future mitigation and adoption measures are likely to have further implications for their comparative and competitive advantages in many sectors and, as such, their trade-led development prospects.

The latest report of the UN Intergovernmental Panel on Climate Change (IPCC, 2014) confirms climate change is unequivocal and human influence, especially global economic and population growth, has been a major driver. Recent manmade emissions of greenhouse gases (including carbon dioxide, methane, nitrous oxide and industrial gases) are now the highest in recorded history. Over the past century, global average temperatures are reported to have increased by about 0.85°C and sea levels have risen by about 20 cm. It is projected that sea levels will continue to rise, threatening, among others, many Commonwealth small island developing states (SIDS). In this regard, it is not insignificant that 46 of the 53 Commonwealth countries have coastlines, and the vast majority of these have large cities and populations dependent on land and marine resources along the coastline. Among the non-SIDS Commonwealth members, Bangladesh, with a population of more than 160 million, is highly vulnerable to climate change effects, with 30-70 per cent of the country affected frequently by freshwater flooding and coastal inundation and sea level rises likely (Worrall, 2015). In Tanzania, more than 70 per cent of all natural disasters are linked to extreme droughts and floods resulting from climatic variability and change (Commonwealth Secretariat, 2013).

Without an urgent and significant effort by all countries to curb greenhouse gas emissions, including the expected adoption of a new legally binding and universal agreement at the UNFCCC COP21 in Paris, global temperatures by the end of this century could be more than 4°C above what they were before the Industrial Revolution (IPCC, 2014).[27] The EU, the USA, China and Japan, which together account for more than half of global CO2 emissions, have already unveiled some of their national mitigation plans and targets.[28] In addition, the G-7 countries at their 2015 summit in Germany reaffirmed their commitment to the official 'two-degree target' – that is, to keep global warming down to a rise of no more than 2°C as compared with the pre-industrial era. Other UNFCCC parties, including the Alliance of Small Island States (AOSIS) and the African Group, are calling for stronger climate action and a more ambitious temperature cap of 1.5°C above pre-industrial levels.

There is no doubt climate change will have an impact on all countries, developed and developing. Recent extreme storms, flooding, heat waves and droughts highlight the world is already vulnerable to climate and weather events. However, the economic, social and environmental impacts of climate change will be most severe for the world's poorest and most vulnerable economies, especially SSA, LDCs and SIDS. While these countries have contributed the least to the causes of climate change, they are the most vulnerable to its consequences. These countries also have the least capacity to manage and adapt to the risks and impacts of climate change. Measures to deal with climate challenges as set out in Part 4 (e.g. capacity-building, technological up-gradation, 'climate-proof' infrastructure and export diversification or other 'green growth' strategies) would also involve significant costs and pose a development challenge to weaker developing countries.

As a result, and from the perspectives of the poorest and smallest Commonwealth countries, climate change is not only an environmental problem but also a major development challenge (Gueye et al., 2009). At the same time, as Part 4 of this Review highlights further, the global transition to a lower carbon or 'green economy' may trigger new trade and investment opportunities, and these possibilities should be pursued (UNEP, 2013)

1.3.5 An enabling global trading environment

One important issue for many Commonwealth developing members is to achieve an enabling global trading environment supportive of their participation in global trade. This will require, among other things, greater coherence and accountability among international support mechanisms and regimes.

In the past, there have been many international programmes and expressions of commitment to support development challenges. These include commitments in terms of the Millennium Declaration of 2000, most notably Millennium Development Goal (MDG) 8, which called for a global partnership for development with the objective of addressing the special needs of LDCs, landlocked developing countries and SIDS; the WTO Doha Round in 2001, with the promise of placing development at the heart of international trade; the Monterrey Consensus on financing for development; and the Fourth UN Conference on LDCs (UNLDC IV), which adopted the Istanbul Programme of Action (IPOA) for LDCs for 2011-20.

The Sustainable Development Goals (SDGs), having been adopted by the UN General Assembly in September 2015 (UNGA, 2015), now stand at the apex of these international commitments, providing an overarching framework. There are 17 SDGs with 169 associated targets covering a broad range of sustainable development issues (many of which Part 4 of this Review discusses). It is worth noting trade and economic development are much more deeply integrated into the SDGs. Featured as a cross-cutting issue in the realisation of the goals by 2030, international trade is also specifically included in SDG 17, which aims to revitalise the global partnership for sustainable development and strengthen the means of implementation – namely, finance, technology, capacity-building and trade. It particularly calls for the promotion of a universal, rules-based multilateral trading system and enabling developing countries, especially LDCs, to significantly increase their share of world exports, among other things.[29]

Two other international processes during 2015 are closely linked to the SDGs: the Addis Ababa Financing for Development Conference and the UNFCCC COP21. Implementation of the SDGs will have significant resource implications, and the Addis Ababa Action Agenda, which was adopted at the Third UN International Conference on Financing for Development in July 2015, provides important directions in this regard. It contains over 100 measures covering a range of topics such as taxes, international finance, trade and data-gathering to support SDG implementation. Despite all of these intentions, including reaffirming rich countries' commitment to allocating 0.7 per cent of their GDP to development assistance, raising the quantum of finance to achieve the SDGs by 2030 will be an enormous challenge.

Enabling sustainable development also requires ambitious and concerted actions to combat climate change. Following years of negotiations, the UNFCCC COP21 in Paris is expected to achieve a legally binding and universal agreement on climate change that would come into force from 2020. Directly or indirectly, trade will feature prominently in this new global climate regime.

The 2030 Agenda for Sustainable Development builds on the foundation of past international programmes and commitments to assist the poorest and most vulnerable countries in overcoming their development challenges. However, many of these past commitments were not effectively linked to the decision-making processes in various fora. For example, WTO negotiations rarely, if at all, took cognisance of the stipulations in MDG 8 or UNLDCs. Furthermore, they were often non-binding in nature. As a consequence, several key development issues for such countries, most often intimately linked to trade matters, tended to be marginalised. The 2030 Agenda provides an opportunity to achieve greater coherence and accountability among all relevant international support mechanisms available for capacity-constrained developing countries, so commitments made under different frameworks (e.g. global trade, development financing, aid effectiveness, etc.) can be fully operational and effective and help improve poor and vulnerable countries' participation in global trade.

1.4 Way forward: tackling challenges and harnessing opportunities in the changing trade landscape

Global trade is at a crossroads, with several emerging developments exerting important implications for the Commonwealth. For Commonwealth developing countries, especially LDCs, small states and SSA, these trends are already having a profound impact and will likely continue to influence their trade and development prospects and strategies.

The period of recovery since the 2008 global financial crisis has been much longer than anticipated. Most countries are experiencing lower-than-long-run average trade growth in the medium term. In the period immediately after the global financial crisis, the growth momentum in fast-growing large developing countries helped many other developing countries maintain a decent pace of trade expansion. Subsequently, subdued economic activities in the emerging market economies, particularly in China, has weakened the demand for primary commodities and natural resources, with oil prices plummeting, affecting many SSA and small state exporters.

The medium-to long-term growth prospects for the global economy remain positive, however: according to one projection exercise, global GDP, measured in real 2010 prices, will rise from $73 trillion in 2015 to more than $122 trillion in 2030 (USDA ERS, 2014). This will certainly lead to huge trading opportunities for the countries that will be able to generate supply response, tackling the associated challenges.

The growing significance of trade with developing countries presents important opportunities for Commonwealth members. For LDCs, small states and SSA, one key challenge is making this trade beneficial. Many of these countries have not been able to take advantage of it by increasing their exports to emerging markets. For example, as shown above, the Chinese market remains an untapped export destination for a majority of Commonwealth countries. Therefore, building capacities to export more to emerging and large developing countries markets should be an important consideration. In other cases where Commonwealth developing countries have succeeded in increasing exports to larger Southern partners, they have failed to diversify their export baskets. Given the unfolding international specialisation that continues to make these exporters merely suppliers of primary commodities, the measures to promote structural transformation in SSA and small states should be carefully assessed and supported.

Many LDCs and SSA countries now have access to preferential market access to some emerging countries, and this should be utilised for expanding diversified exports. As compared with developed countries, tariffs are generally higher in developing countries, and preference margins in the latter countries are also likely to be higher, providing considerable incentives. Constraints to effective utilisation of these preferences should be addressed, including through implementation of crafted export strategies.

Developed countries remain important markets, and they also offer various trade preferences for many Commonwealth developing countries. Although in some cases the value of preferences has declined because of multilateral and/or regional trade liberalisation, the existing preferential margins should be better utilised. Attracting investment to better exploit market access opportunities in both developed and emerging developing countries should be an important option for LDCs, small states and SSA. The use of domestic policy space and other incentives can also help mobilise local and foreign investments to take advantage of exporting opportunities.

Many Commonwealth countries are also increasingly exploring trading opportunities through various regional/trading arrangements in which they participate. Rather than tariff preference-based trade opening, deeper integration involving behind-the-border measures is likely to result in more trade. Dealing with non-tariff measures, enhancing trade facilitation, improving border trade infrastructure and facilities and facilitating regional production networks and supply chains all are important for promoting regional trade.

There are some promising trends in South-South engagement, for example intra-SSA trade being more diversified and more manufacturing-intensive. This trade can also be enhanced through strengthened regional integration mechanisms. Along with this, it needs to be emphasised that trading with developed countries should be enhanced further.

Attaching priority to trade multilateralism is also critical. A strong, rules-based multilateral system can best protect small and poor countries. As WTO members negotiate a post-Bali Work Programme with a view to concluding the long-running Doha Round, an important objective for Commonwealth developing countries will be to consider and support a deal that will deliver on development dimensions (see Section 4.1 for further discussion).

While GVCs offer potential opportunities for integrating into the world economy and effectively participating in global trade, most LDCs, SSA and small states continue to rely on commodities and raw materials for their production and export activities, constraining their ability to gainfully link to global supply networks. It does not help these countries break into diversified production activities. This is an area where Commonwealth developing countries have to pay particular attention with regard to a number of issues, as Part 4 highlights.

Enhanced participation of capacity-constrained Commonwealth developing countries will critically rely on securing a coherent, accountable and effective global enabling environment. Improved market access in major importing countries, adequate and effective trade capacity-building support and fulfilment of international commitments in all trade-related development areas are all integral parts of this. The transition to the SDG framework marks a paradigmatic shift in terms of strengthening the role of trade in development and in supporting the developing countries benefiting from it.

Endnotes

1. The Commonwealth is a voluntary association of 53 members. Members classified under such groups as LDCs, SSA countries and small states are not mutually exclusive. LDC is a UN category comprising 48 countries, of which 11 are from the Commonwealth. There are 18 SSA countries that are Commonwealth members. Eight of these countries are LDCs. The Commonwealth Secretariat defines small states as independent states with populations of up to 1.5 million, with a few exceptions. Thirty-one Commonwealth members are considered small states. In the Commonwealth, six countries are considered advanced or developed countries: Australia, Canada, Cyprus, Malta, New Zealand and the UK.
2. Shares of services and merchandise exports are calculated as the combined exports by all members in the region of each category as a proportion of the total exports of all members.
3. If measured in current prices, the absolute decline in trade flows in 2009 is estimated to be 19.8 per cent. Growth rates used in Figure 1.11 are in real terms.
4. Yet global GDP in absolute terms, as estimated by the World Bank (2015a) in its World Economic Prospects, is 4.5 per cent below what it would have been had post-crisis growth rates been equivalent to the pre-crisis long-term average.
5. Many Commonwealth ACP countries have been the beneficiaries of preferential trade schemes operated by developed countries (more recently, some emerging developing countries have introduced similar schemes). Although these have not been utilised effectively, some small states have benefited from the trade preferences associated with certain commodities, such as sugar and banana. However, over time, unilateral and regional liberalisation undertaken by donor countries has resulted in the erosion of some of these preferences. As a result, between the early 1990s and 2005, banana exports from Windward Islands (Dominica, Grenada, St Lucia and St Vincent and the Grenadines) to the EU declined from 20 per cent of these countries' GDP to 5 per cent. Similarly, under a major sugar regime reform, the EU introduced a 36 per cent price reduction for raw sugar, affecting several Commonwealth ACP countries, including Belize and Guyana. While Mauritius has been successful in diversifying away from preference-dependent commodity production, other small states have found it difficult to make a similar transition. Part 3 offers more discussion on this.
6. The countries defined as small states are independent states with populations of up to 1.5 million, with a few exceptions. This definition follows the World Bank small states classification, with some exclusions of countries that the UN Conference on Trade and Development (UNCTAD) classifies as 'developed'. This sample includes 49 countries, 31 of which are Commonwealth members.
7. It needs to be mentioned here, as discussed later in Part I, that cross-border fragmentation of production processes leading to global value chains-led trade has resulted in more trade in intermediate goods. This is one important factor in driving up worldwide export-GDP ratios. Exports include both value-added and intermediate inputs; GDP contains value-added only. Therefore, it is possible for the ratio to rise substantially without adding much domestic value-added. Nonetheless, the figure demonstrates small states' relatively lower participation in global trade.
8. Using a panel fixed-effects regression framework, it is estimated that small states' export orientation over the sample period has increased at a rate of 0.2 percentage points only; the corresponding figure for other countries is estimated to be 1.8 percentage points.
9. Data from UNCTADStat product group 'primary commodities, precious stones and non-monetary gold' (SITC 0 + 1 + 2 + 3 + 4 + 68 + 667+ 971).
10. This is based on the widely used UNCTAD export diversification index. For the countries included in LDCs, SSA and small, vulnerable economies (SVEs), the average index values are, respectively, 0.74, 0.76 and 0.70.
11. Among others, Hesse (2008) provides recent empirical evidence.
12. The African Development Report 2010 (by the UN Economic Commission for Africa, UNECA) observes that the most important source of economic growth in Africa has been the capital-intensive natural resource extraction sector, with limited linkages to the rest of the economy. Value-added in the mining sector, which employs less than 10 per cent of the labour force, has grown at more than 10 per cent per year in the past two decades, whereas agriculture, manufacturing and services, with combined employment of more than 80 per cent of the labour force, has grown at less than 2.5 per cent annually.
13. PricewaterhouseCoopers originally coined the term 'E-7'. See also Hamilton (2011).
14. Similarly, close to 80 per cent of small states' exports of goods to the South comprise fuels and primary commodities.
15. Several approaches have been used to measure participation in GVCs, including the use of statistics on trade in parts and components, customs statistics on processing trade and estimation of trade in value-added embodied in gross exports.
16. This database has some key advantages over other sources of value-added trade data. Computation of value-added trade requires inter-country input-output tables, and the Eora database provides the maximum coverage of such information for 189 countries, including 43 Commonwealth countries. The use of this database allows estimation of value-added trade over time. Furthermore, it includes both goods and services trade, disaggregated into 26 ISIC-comparable sectors. For further information, including caveats, see IMF (2015b).
17. Where countries are located within the value chain matters, as we move past the traditional competitiveness benchmark that has underpinned most models of national welfare (Baldwin and Evenett, 2015).
18. A distinction is often made between regional trading arrangements (RTAs) and preferential trading arrangements (PTAs), with RTAs considered trading arrangements and PTAs, non-reciprocal trade preferential schemes. This report uses the two terms interchangeably to denote regional integration processes.
19. An excellent presentation of this argument can be found in a Commonwealth Secretariat-sponsored study (Collier, 2011).

20. A number of Commonwealth SSA members are landlocked. For these, improved and efficient infrastructures in neighbouring countries are as important as those in their domestic economies. It is in this context that renewed regional integration initiatives are underway in SSA. Caribbean and Pacific Island states have pursued regional integration to ease the constraints their small size imposes on their economic development.

21. The EU has notified the WTO of 37 RTAs, including the EC Treaty and European Economic Area.

22. 1. TTIP is being negotiated between the United States (US) and the 28-members of the EU, including Commonwealth members the UK, Malta and Cyprus. Collectively, these two economies have a combined GDP of $34.6 trillion (46 per cent of global GDP), and a total population of over 827 million. They collectively account for nearly one-third of world trade in goods.
2. TPP is being negotiated between 12 countries (including six Commonwealth members) – namely, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam. They have a combined GDP of $28 trillion (37 per cent of the global total) and a combined population of about 811 million.
3. RCEP is being negotiated between the 10 ASEAN members and six other major economies – namely, Australia, China, India, Japan, New Zealand and South Korea. These 16 economies have a combined GDP of $23.1 trillion (31 per cent of the global total) and a total population of 3.4 billion (48 per cent of the global total) in 2015.

23. The TPP Agreement will now have to be ratified by all member countries involved.

24. This is reflected in the Kotte Statement of International Trade and Investment, adopted by Commonwealth Heads of Governments in their 2013 meeting in Colombo, Sri Lanka.

25. Since 2000, there has been a significant improvement in LDCs' market access, with Australia, Canada and the EU offering generous unilateral preferential schemes to all LDCs and the USA providing preferential market access offers to SSA countries under AGOA. However, these offers remain donor countries' unilateral schemes and have not been bound by multilateral arrangements. Under the Doha Round, WTO members in their Hong Kong Ministerial could agree on providing DFQF access for 97 per cent of tariff lines in developed countries. As the current unilateral preference schemes by some high-income countries cover more than this agreed threshold, the Doha Round offers are actually redundant. Crucially, however, as LDC export baskets are heavily concentrated in a few products, it is possible to eliminate nearly all of their exports from DFQF provisions and still be consistent with the Hong Kong Declaration. A significant development during the Doha Round was the Hong Kong Ministerial Declaration urging, in a non-mandatory manner, developing countries 'in a position to do so' to extend DFQF access to LDC products. In response, a number of emerging economies such as China and India have offered preferential market access packages. Compared with developed countries, average tariffs in the relatively advanced developing countries are considerably higher. Consequently, the preferential market access offers by these countries could be significant incentives for recipient countries. However, thus far these initiatives have been marked by various omissions and exceptions and subject to stringent rules of origin. Given the highly undiversified export structures in the poorest and most vulnerable countries, and their limited supply-side capacity, such partial preferential offers have the effect of limiting their benefit to these countries.

26. The WTO's Hong Kong Ministerial Declaration of 2005 asked its members to develop appropriate mechanisms for according special priority to services sectors and modes of supply of interest to LDCs. The 2011 Ministerial Conference adopted a decision to operationalise a waiver mechanism to grant LDCs preferential market access in services. Although the decision falls short of a firm commitment, it provides an opportunity to look for mechanisms through which such preferences can be provided, and WTO members may start using them. The Bali WTO Ministerial of December 2013 took a decision on the operationalisation of the waiver while not altering the non-mandatory nature of the provision. By 2015, following a High Level Meeting in February, offers were beginning to be made. This meeting agreed Members would endeavour to submit notifications no later than 31 July 2015. By that date, 11 members had notified their preferential measures and two more had communicated their intention to notify preferences as soon as their domestic procedures had been completed. However, lack of technical clarity and meaningful offers means concrete benefits may not result in the near future.

27. Baseline climate change scenario modelling projections by the IPCC, based on current economic and population growth patterns, forecast an increased atmospheric concentration of carbon dioxide equivalent (CO_2e) of between 750 and 1,300 parts per million over pre-industrial levels or an average increase in temperature rise of between 3.7º C and 4.5º C by 2100. There will also be regional differences in the temperature increases and the impacts of climate change (Worrall, 2015).

28. In August 2015, for instance, US President Barack Obama unveiled a revised Clean Power Plan. This will aim to reduce CO_2 emissions from the power sector by 32 per cent by 2030, compared with 2005 levels.

29. SDG 17.11 aims to significantly increase the exports of developing countries, in particular with a view to doubling the LDCs' share of global exports by 2020; SDG 17.12 calls for the timely implementation of DFQF market access on a lasting basis for all LDCs, consistent with WTO decisions, including by ensuring preferential rules of origin applicable to imports from LDCs are transparent and simple and contribute to facilitating market access.