PART 03

# Unleashing the trade potential: priorities for the Commonwealth

03

There exists tremendous potential for the expansion of trade of Commonwealth states – both between members and their overall trade.

The opportunities are substantial but for many Commonwealth countries, so are the obstacles to fulfilling the potential.

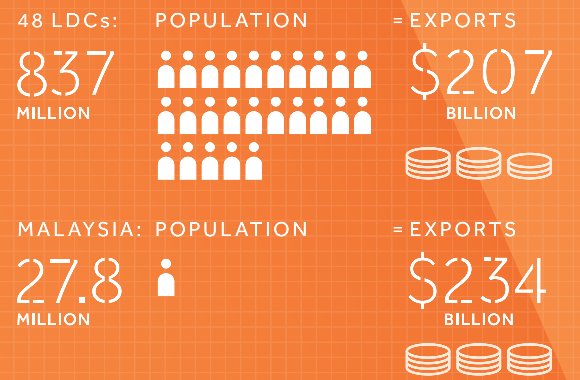
Harnessing the Commonwealth's trade potential will require focusing on five broad priorities: building productive capacity, managing trade policy and negotiations, tackling implementation deficit, promoting private sector development, and securing a trade-supporting global architecture.

These are mammoth tasks. But the Commonwealth experience demonstrates that some countries have been able to 'punch above their weight' while dealing with these challenges. Reflecting on the experiences of Commonwealth countries give valuable insight into trade-related policy and practice in action.

HIGHLIGHTS

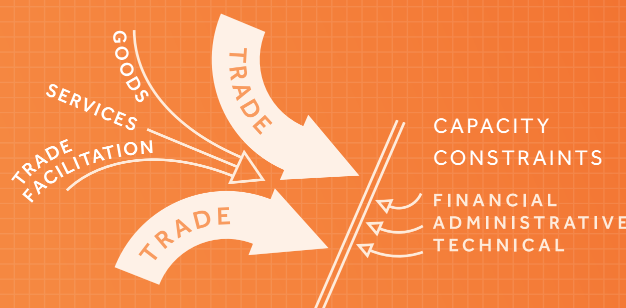
## 1 BUILDING PRODUCTIVE CAPACITY

BUILDING AND DIVERSIFYING PRODUCTIVE CAPACITY IS FUNDAMENTAL FOR TRADE SUCCESS.



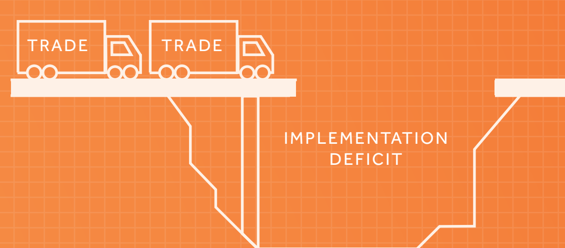

## 2 MANAGING TRADE POLICY AND NEGOTIATIONS

THE SCOPE OF TRADE POLICY MEASURES AND NEGOTIATIONS IS INCREASING BUT CAPACITY CONSTRAINTS REMAIN.



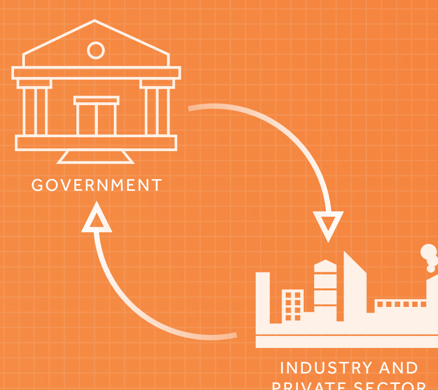

## 3 TACKLING IMPLEMENTATION DEFICIT

THERE ARE HUGE GAPS IN THE IMPLEMENTATION OF TRADE STRATEGIES AND AGREEMENTS.




## 4 PROMOTING PRIVATE SECTOR DEVELOPMENT

A DYNAMIC AND VIBRANT PRIVATE SECTOR REQUIRES AN ENABLING ENVIRONMENT.




## 5 SECURING A TRADE-SUPPORTING GLOBAL ARCHITECTURE

1. ENSURING ADEQUATE AND EFFECTIVE TRADE CAPACITY BUILDING.
2. FULFILLING INTERNATIONAL COMMITMENTS IN ALL AREAS.
3. IMPROVING MARKET ACCESS.

# 3.1 Introduction

Parts 1 and 2 of this Review identified substantial trade potential for Commonwealth states. However, the obstacles to fulfilling this potential are also significant. Therefore, one key question relates to what the key priorities should be for promoting Commonwealth countries' trade while at the same time tackling the challenges. Answering this question requires consideration of all major developments as well as identifying the constraints inhibiting trade capacity. Parts 1 and 2 did this by briefly discussing some of the specific issues emerging for the Commonwealth. Of course, countries are heterogeneous and the strategies for their trade development vary. Nevertheless, it is possible to obtain a broader picture.

One characteristic of the majority of Commonwealth developing countries is a limited and undiversified productive capacity constraining their ability to trade. A fundamental challenge for many relates to making their production structure more flexible so it can better adapt to changes in the world economy. Many small and Sub-Saharan African (SSA) states have made insufficient progress in terms of reducing the heavy concentration of their exports on a small number of goods, many of them unprocessed raw materials. Trade preferences and, more recently, booming demand for raw materials as a result of growth mainly in large emerging economies, particularly in China, have masked this overconcentration for some. Achieving structural transformation of their economies and export diversification has proven a steep hill to climb.

As the scope of trade policy has broadened, so the task of establishing policy priorities and implementing the obligations has become more demanding. Key trade policy choices with major development implications are buried in technical detail, yet mastering the latter is essential to achieving a desired outcome on the former. Coordination within the public sector and with the private sector stretches resources to the limit. A substantial 'implementation gap' has emerged between what countries have committed to do, as stipulated in their national trade development strategies and regional and multilateral trade agreements, and what is happening on the ground.

Even when market access opportunities exist and domestic policies are no barriers, countries' trade performance is generally determined by the response from business enterprises. In many developing countries with a poor investment climate, developing a dynamic private sector has been a major challenge. While increasingly fragmented production processes are opening up new trading prospects, profiting from this will depend on the private sector's taking advantage of the changing circumstances.

Much of the required action lies with developing countries themselves, but there is much the international community can do to help. The Sustainable Development Goals (SDGs) offer pegs for a wider range of actions in this respect, in terms of supporting sustainable, equitable and development-oriented production and trade. However, traditional measures such as development assistance, Aid for Trade (AfT) and improved market access all need to be broadened to support the full range of actions required in small, least-developed and SSA states to unlock the potential for development through trade identified in Parts 1 and 2.

Indeed, building productive capacity, managing trade policy and negotiations, tackling the implementation deficit, promoting private sector development and securing a trade-supporting global architecture are the broad determinants of trade success across the Commonwealth developing world. As these factors are interlinked, ensuring complementarities is important. This Part briefly discusses these factors while reflecting on the experiences of Commonwealth countries.

## 3.2 Building productive and trade capacities

Productive capacity represents the foundation of each country's strategy to benefit from trading opportunities. Such capacity essentially determines what a country is able to produce efficiently and competitively (UNCTAD, 2011) and trade internationally. Much of what determines or could enhance a country's productive capacity falls well outside the boundaries of trade or trade-related policy. These include health (Box 3.1), education, and training of its population, social and gender development and physical infrastructure (including transport networks and power generation), as well as the framework of laws, institutions and regulations within which commerce and investment take place.

Clearly, members of a group as large and diverse as the Commonwealth start from very different positions in terms of the range of goods and services produced and capacity to shift resources between activities. This variety goes part of the way to explaining the differences in trade and GDP performance. Large countries can produce domestically a wider range of goods and services than can small states. And states with flexible economies, able to shift resources from sunset to sunrise sectors, are better placed than others to take advantage of changes in global supply and demand. The Commonwealth includes states in all of these categories.

Lack of productive capacity is the most important constraint facing least-developed countries (LDCs), small states and SSA. To put things in perspective, 48 LDCs (including non-Commonwealth ones), with a total population of 837 million, had combined merchandise exports of about $207 billion in 2014, which is lower than what Malaysia, a country of 27.8 million people, exported in the same year ($234 billion). Similarly, annual production in LDCs, as measured by GDP, is estimated at $833 billion dollars, approximately 1.15 per cent of global GDP ($74 trillion) and the same size as the 249 million person-strong Indonesian economy.

Poor economic infrastructure in many Commonwealth developing countries raises transport and logistics costs and impairs productive and trade capacities and competitiveness. Efficient transport networks, especially roads, rails and ports, are essential to connect people, goods and markets and to deepen regional integration. Power shortages are seen as one of the most critical impediments to developing capacities further. According to World Bank estimates, of Africa's overall infrastructure funding gap of about $93 billion annually, more than one-third relates to the power sector (Foster and Briceño-Garmendia, 2010).

Many developing countries, including those in SSA, have experienced sustained growth over the past two decades or so, leading to their expanded productive capacity. International trade and the development of productive capacities are mutually reinforcing. Trade can result in efficiency gains, technological upgrading and capital accumulation, contributing to competitive productive capacity development. However, the continued dependence of these developing countries on a narrow range of primary sectors implies not much progress is being made in relation to achieving structural transformation, while the beneficial impact of trade is also being limited. Only transformed productive capacity offers a long-term solution in cases where a country's current trade position does not support the desired development goals.

BOX 3.1.

### THE EBOLA CRISIS, HEALTH AND PRODUCTIVE CAPACITY

The primary cost of the Ebola outbreak is the loss of human lives. Sierra Leone bears the highest burden in terms of numbers of infection, with 13,250 people infected and 3,949 deaths as of end-July 2015, according to the situation report by the World Health Organization (WHO). The World Bank estimates the virus has cost Sierra Leone an estimated $920 million in 2015.

The economy of Sierra Leone was booming prior to the Ebola crisis, mainly because of increases in iron ore and other mining activities, increased agricultural production, continued construction activities, expansion in the services sector and recovery of the tourism sector. However, the impact of closed borders on transport and connectivity as well as the ailing workforce has affected cross-border trade and overall consumption of all commodities and services including health care. In the aftermath of the crisis, slow economic growth is projected, as stigmatisation of the affected countries continues to limit the prospects of trade in the affected region. Guinea, Liberia and Sierra Leone are expected to lose more than 12 per cent of their combined gross domestic products (GDPs) in 2015.

*Source: Games and Vickers (2015); WHO (2015)*

### 3.2.1 Trade preferences and productive capacity

As an earlier era comes to an end, many Commonwealth developing countries are facing the challenges of productive capacity transformation. The post-war economic order was marked by certain stabilising mechanisms, including preferential schemes for newly independent countries' exports, which were mainly agricultural commodities and unprocessed raw materials. Trade preferences associated with many primary activities created economic rents that could, with adequate supply and transportation, provide a guaranteed hard currency income stream for developing countries while assuring supplies for importers in developed countries. This ensured a degree of recognition for the needs of developing countries, as they embarked on nation-building in the face of constraints arising from smallness, isolation, low incomes and vulnerability. Although this economic and political framework – anchored in a vision of trade-led growth – sought to promote industrialisation, diversification of economic activities has been very difficult to achieve. Nearly five decades after the original UN Conference on Trade and Development (UNCTAD) resolution calling for the granting of preferences to developing countries, trade negotiation, autonomous liberalisation in preference-granting markets and the entry into traditional Commonwealth markets of new and more competitive suppliers have gradually eroded these stabilising mechanisms.

The apparent impact of the decline in preference margins on trade has varied among Commonwealth developing countries, for different reasons. Because of commodity price hikes, partly fuelled by growth in large developing countries, SSA countries have managed to post significant export growth by expanding exports to the emerging Southern economies. Small states, on the other hand, have been hit hard.[1]

An undiversified export basket carries with it latent problems, even for those states that have experienced buoyant export growth on the back of the commodity booms to which rapid growth in emerging economies (notably China) has contributed. Part 1 flagged the potential effect the slowdown in China and other emerging economies can have on commodity and natural resource-supplying countries. But the problems go wider than this: as the substantial literature on the 'resource curse' attests, the dominance of one export good can distort the rest of the economy, especially when it is derived from an extractive industry with weak linkages to other sectors. As such, dominant commodity exports may be a double-edged sword. On the one hand, they generate needed foreign exchange and employment; on the other, they may hinder the process of diversification.

### 3.2.2 Moving on from traditional preferences

One main priority for many Commonwealth countries is to make use of international trade to transform productive capacity. Utilisation of existing preferences, commodity price hikes, trade policy options, etc. can help. Despite declining margins, preferences have not yet come to an end, and beneficiaries should seek to make as much use of traditional trade preferences in goods as is possible before they disappear. A major reason for non-utilisation of preferences is recipient countries do not export the goods on which the preference confers a competitive margin over other suppliers. The World Trade Organization (WTO) (2011a) notes only 16 per cent of imports into the 20 largest

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importing states qualify as preferential. One explanation is some preferential agreements exclude important high-tariff goods; another is some rules of origin (RoO) are unrealistically restrictive. But the greatest single explanation is half of world goods trade now takes place over zero most-favoured nation (MFN) tariffs. Consequently, effective preference utilisation is integrally linked to the transformation of trading capacities.

As Part 1 mentioned, some large developing countries now provide improved market access for exports from many poor countries. Since tariffs are generally higher in emerging economies compared with in developed countries, the preferential margins in the former are likely to be higher. Taking advantage of these preferences, however, requires the same sorts of supply-side adaptation as is required for the better utilisation of traditional preferences. Trade promotion policies to attract investment in the relevant sectors to generate supply response can also be a way of using the trade route to contribute towards structural transformation. Climate financing and AfT support also offer opportunities for countries to access financing to adapt and diversify their economies.

Part 1 noted trade between SSA countries is more diversified than their trade with the rest of the world. This is also therefore an opportunity to break into manufacturing activities, with potential scope to build regional value chains. Strengthened regional integration, among other things, can help in this process.

The second area for formal preferences is services trade. Liberalisation of services trade now features quite prominently under various regional trading arrangements (RTAs). This can be an important route to expanding trade and building capacity in the relevant areas. While trade preferences in services remain largely limited to free trade areas (FTAs), the WTO's LDC services waiver has opened up the possibility of making them more widely available on a non-reciprocal basis.

However, implementation of this waiver remains a challenge. 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.[2] Although the decision on whether to offer preferences lies with the country that grants it, there is much LDCs can do to help advance the process, which would also help them identify the preferences most valuable to their service providers.

In addition to these traditional and new trade preferences, it is clear from Part 2 there has been a 'helping hand' at work, in the form of intra-Commonwealth trade. The costs of trading, on average, between two Commonwealth states are found to be lower, which in essence is tantamount to the effects of trade preferences. The relative significance of intra-Commonwealth trade is on the rise, and huge potential for further trade expansion remains.

## 3.3 Effectively managing trade policy and negotiation

Trade policy can be an effective means of building productive capacity. Most Commonwealth developing countries attach special significance to trade policy and negotiation. However, experience shows it also presents a very substantial challenge.

### 3.3.1 Managing the expanding boundaries of trade policy and negotiations

The scope of trade policy measures and negotiations is expanding over time, further challenging already capacity-constrained countries. Just in the area of goods trade, policy and negotiation are expanding from traditional discussions on tariff reductions, RoO, customs cooperation and dispute settlement to more behind-the border measures (e.g. standards). Increasingly, FTAs now tend to cover negotiations on newer-generation areas – from services to intellectual property to investment. This brings a new set of objectives, regulations and stakeholder interests to the fore.

While the ministry in charge of the trade portfolio generally coordinates trade policymaking and negotiations, other ministries and government agencies – particularly those responsible for finance, customs, agriculture, industry/commerce, foreign affairs, standards and investment – are all involved in the actual determination and execution of trade policy. Quite often, these institutions will ultimately determine the positions taken in a negotiating setting.

When framing trade-related policy and negotiating positions, effective stakeholder consultations are imperative. Given the large number of potential stakeholders, broad consultation and consensus are very difficult to manage. Despite their relatively small and thinly stretched institutional capacity, some small states have developed sophisticated models for trade-related consultation, albeit not without some challenges. In Botswana, for example, the Ministry of Trade and Industry and the Botswana Export Development and Investment Authority jointly coordinate a national Trade Support Network, which acts as a coordinating forum for a large number of different institutions from the private, public and civil society sectors. Botswana also belongs to the Southern African Customs Union (SACU), which means there is a second tier of inter-governmental negotiations to arrive at a common negotiating position for all five member states (Government of Botswana, 2010).

Mauritius has developed a successful model of public-private consultation and collaboration on trade policy. This is achieved in part through the Joint Economic Council, which acts as the private sector voice on critical economic decisions, including proposals for the national budget, and a standing committee on multilateral and regional trade negotiations that combines sectoral organisations (e.g. the Mauritius Sugar Producers' Association and representatives of the Export Processing Zones) with umbrella organisations such as the Chamber of Industry and Commerce (Makoond, 2011).

In the Pacific region, countries such as Fiji, Kiribati and Papua New Guinea have consultative mechanisms that include private sector representatives, notably women in business, ministries and non-governmental organisations. Varying degrees of recognition and power are granted to these bodies.

Larger Commonwealth developing countries such as India, Malaysia and South Africa have also put in place consultation mechanisms that allow a degree of public scrutiny of trade policy and proposals for negotiating positions. Their experience shows the obligation to undertake deep and broad consultation acts as a double-edged sword. On the one hand, outside stakeholders relieve some of the capacity constraints within government by providing technical inputs and, on the other hand, they act as important filters for policy before it is sent for political approval (Silva, 2015).

On the negotiating side, the same institutions involved in trade policy may reconfigure themselves for each negotiation, depending on the subjects to be treated within each forum or the interests of each negotiating partner. Traditional trade policy bodies are often closely involved in crafting national positions, yet the actual interlocutor with negotiating partners may be a completely different institution. In the case of many small and least-developed Commonwealth countries that negotiate as regional groupings, that institution may not even be based in their country, raising serious problems related to coordination and securing national interests.

### 3.3.2 Informed policy-making and negotiation

Many Commonwealth countries face significant difficulties in understanding even basic trends at the national level, in large part because of severe data constraints. Key economic data either are missing or exhibit serious gaps in terms of timeliness and reliability. These shortcomings complicate any effort to understand where trade-related strengths and weaknesses

THE SCOPE OF TRADE POLICY MEASURES AND NEGOTIATIONS IS EXPANDING OVER TIME, FURTHER CHALLENGING ALREADY CAPACITY-CONSTRAINED COUNTRIES.

might be found and also make it hard to assess the potential impact of likely negotiation outcomes (e.g. on revenue collection or production) to form national positions.

Information gaps in services trade are an example in this respect (Box 3.2). Yet services trade negotiations are increasingly commonplace. In Africa, where RTAs have focused largely on trade in goods, services negotiations are covered under Phase II of the Common Market for Eastern and Southern Africa (COMESA)-East African Community (EAC)-Southern African Development Community (SADC) Tripartite FTA and will be pursued as part of the Continental FTA. They are also mandated by rendezvous clauses in the economic partnership agreements (EPAs). Mauritius has joined the plurilateral Trade in Services Agreement (TiSA). Pacific Island Countries (PICs) have been in discussions (albeit not negotiations) on services with the European Union (EU) under their EPA negotiations. These countries are negotiating trade in services and investment as an integral part of the Pacific Agreement on Closer Economic Relations (PACER)-Plus Agreement, while some of the Pacific economies have signed and ratified a services agreement under the Pacific Island Countries Trade Agreement (PICTA).

Despite the challenges, Commonwealth experience demonstrates some countries have been able to 'punch above their weight' in both trade and trade-related policy and practice and to increase economic flexibility in ways that allow firms to take better advantage of world market trends. It also suggests these two favourable features are interlinked: countries that 'negotiate well' over a period of time also tend to have a domestic environment that supports economic flexibility.

This is partly because the benefits from any negotiation, however successful, tend to erode over time as the world economy changes. Effective negotiation is not a specific event but a process. The recent past has underlined this graphically in the Commonwealth as trade preferences have run their course: countries that have been able over the years to use the 'economic rent' conferred by the preference to help diversify the economy have been less adversely affected than others. In Mauritius, for example, part of the economic rent arising from sugar preferences contributed to the investment that utilised clothing preferences. And there has now been a transition into services, some of which, such as IT-aided design, were initially developed in the garments sector. In others (such as tourism), part of the investment was derived from the sugar industry.

For some Commonwealth LDCs that have been beneficiaries of the Enhanced Integrated Framework (EIF), the Diagnostic Trade Integration Study (DTIS) represented the first time a comprehensive trade-related needs assessment and strategy had been formulated. Coming at the end of an intensive period of stakeholder outreach and technical study, the DTIS identifies constraints to competitiveness,

BOX 3.2.

### THE CHALLENGES OF USING SERVICES DATA

Informed policy analysis is often an extremely difficult task using services trade data. There are several reasons for this. First, unlike for trade in goods, there is usually no physical product that crosses a border that can be observed, counted and measured. Balance of payments (BOP) statistics provide some information, but the collection of traditional BOP statistics relies primarily on measuring cross-border transfers of money, and does not 'see' the actual service transaction that is being paid for. Even if the service provider can be identified as the recipient of the payment, it is often not clear which service was provided or in which mode of supply.

Second, sectoral classifications traditionally used in BOPs are largely out of synch with the categories usually used in trade policy, making it difficult for policymakers to use BOP data for many sectors. Third, services provided by a supplier of one country in the territory of any other country, known as Mode 3 in services negotiation parlance, is almost entirely under the BOP radar screen as it triggers local, not international payments (from a local services consumer to a foreign-invested but locally established provider). Mode 3 services provision can go largely unmeasured, except to the extent that it appears as part of foreign direct investment (FDI) statistics.

All these (and some more) issues have long been recognised, and a group of international agencies, including, among others, the International Monetary Fund (IMF), Eurostat, the WTO and UNCTAD, have made significant efforts to make recommendations and identify international best practices. However, for most LDCs and small states, good-quality disaggregated services represent a severe challenge.

*Source: Hadil Hijazi, in Silva (2015)*

supply chain weaknesses and sectors of greatest growth and/or export potential. The result is an action matrix of priority reforms. Evidence from DTIS reports in Commonwealth states reveals both successful approaches and continuing challenges (Silva, 2015).

**3.3.3 Managing multiple trading arrangements**

As Part 1 highlighted, most Commonwealth members participate in multiple regional trading schemes. While managing these negotiations is a daunting task, the resultant outcomes also require countries to maintain and implement different policy regimes for different trading partners, especially RoO and other standards. Using the 2008 Caribbean Forum (CARIFORUM)-EU EPA as one example, Article 238 of the final text provides for a so-called 'regional preference clause', whereby the CARIFORUM countries commit to providing no less favourable treatment to each other than what they have granted to the EU.

On the one hand, the regional preference obligation created a positive 'lock-in' effect for both the signatories to the CARICOM Single Market and Economy (CSME) and those countries committed to tariff liberalisation under the FTA between CARICOM and the Dominican Republic. On the other hand, the EPA created a de facto liberalisation commitment for CARIFORUM countries that were not signatories to the CSME (i.e. The Bahamas), and also reversed a long-standing practice (enshrined under the Revised Treaty of Chaguaramas) whereby the so-called CARICOM Less Developed Countries were exempt from tariff liberalisation. This led to the concern that the CARIFORUM-EU EPA undermined internally agreed regional integration dynamics within the Caribbean (Girvan, 2009).

In the Pacific region there are similar concerns, given the proliferation of different regional trade agreements. Some economies have signed onto PICTA Trade in Goods and have abandoned PICTA Trade in Services; others have opted for the opposite. On the other hand, PACER-Plus is being negotiated as a fully fledged agreement covering goods, services, investment, development cooperation, standards and labour mobility, among other issues. Along with the longstanding EPA with the EU, negotiations of the Melanesian Spearhead Group Agreement are currently underway involving the major Pacific Island economies – namely, Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

Among others, Eastern and Southern Africa is marked by the existence of several overlapping regional integration arrangements. The three main integration groupings (SADC, COMESA and EAC) – each with overlapping membership and independent integration agendas – contain or are straddled by other smaller or single purpose groupings – namely, SACU, the Indian Ocean Commission (IOC) and the Intergovernmental Authority on Development (IGAD). In addition, some SSA countries have now also signed EPAs with the EU, while the 54 African Union member states have the aim of putting in place a Continental FTA in the near future. Managing all of these regional integration mechanisms is likely to be a major challenge (see Part 4 of this Review for a discussion on African integration).

MOST COMMONWEALTH MEMBERS PARTICIPATE IN MULTIPLE REGIONAL TRADING SCHEMES. MANAGING ALL OF THESE TRADING ARRANGEMENTS IS A MAJOR CHALLENGE.

# 3.4 Addressing implementation gaps

### 3.4.1 Implementation is domestically challenging

Implementation of trade strategies and agreements has proved exceedingly challenging for many Commonwealth developing countries. Without full and effective implementation, the expected economic benefits from a country's trade policy and negotiated trade deals will not materialise. Non-implementation can lead to an erosion of a government's standing in front of key stakeholders and, in the case of treaty commitments, to legal challenges. Failure to implement may also result in areas of weakness within a policy or treaty that will require rethinking, or in adjustment going unnoticed.

The implementation gap mirrors the less visible problems faced in easing supply constraints and helping a country's economy become more flexible and adapt to changing world market conditions. Commonwealth experience seems to suggest the implementation gap can be particularly large for small and least-developed economies. These states are often confronted by a combination of weak institutional and regulatory mechanisms, an underdeveloped private sector and severe resource constraints (Chauffour and Kleimann, 2012).

While lack of financial resources is a major factor in non-implementation, weak administrative capacities exacerbate the challenge. For example, Part 2 suggested improvements in trade logistics could reap gains much larger than those accruing simply from tariff liberalisation. However, implementation of trade facilitation measures may make even greater demands on administrations than does tariff liberalisation. Measures as seemingly straightforward as improving border crossings have to be designed and implemented with care. While investments in 'hard' infrastructure are essential, they must be matched by 'soft' infrastructure to increase competitiveness and create pro-development outcomes. These soft interventions need to focus on building key stakeholder awareness and capacity, among other things.

The Chirundu One-Stop Border Post (OSBP) project between Zambia and Zimbabwe illustrates this (Box 3.3). Previous projects had focused merely on new infrastructure investment and had largely failed to create tangible improvements in trading costs and clearance times. Only under the OSBP project – which also focused on such factors as regulatory changes and capacity-building of key officials – did the necessary changes occur, thus improving revenue collections and increasing regional competitiveness.

Another example is infrastructure related to ensuring product quality and standards. The value of quality infrastructure is increasingly recognised in a world where traditional border measures such as tariffs are of declining importance relative to standardisation, metrology, accreditation, testing, control and certification, technical regulation and market surveillance systems. It ensures products meet increasingly stringent consumer expectations and also enhances producer opportunities to expand into new markets, such as those emerging in the South.

Case studies from the Commonwealth suggest that, as with other forms of infrastructure, simply building physical resources is not sufficient. Of equal importance to actual investment is awareness of the economic benefits of quality infrastructure, which has

BOX 3.3.

**THE CHIRUNDU ONE-STOP BORDER CROSSING**

Before implementation of the Chirundu OSBP project, truck drivers crossing the border experienced delays that were often long: 30 per cent of truck drivers spent up to three days at Chirundu. The delays were also unpredictable, which badly hampered the ability of Zambian businesses to participate in modern supply chains, with their emphasis on just-in-time inventory management. Many of the challenges encountered during the project were institutional in nature. The construction of the new bridge and terminals did little to expedite cross border trade, as massive queues of vehicles waiting to cross still accumulated on both sides. But tackling soft aspects of the project – such as building the capacity of customs officials – has progressively yielded results. There has been increased efficiency and capacity to handle larger volumes of traffic within a shorter period of time.

*Source: OECD and WTO (2011), in Silva (2015)*

BOX 3.4.

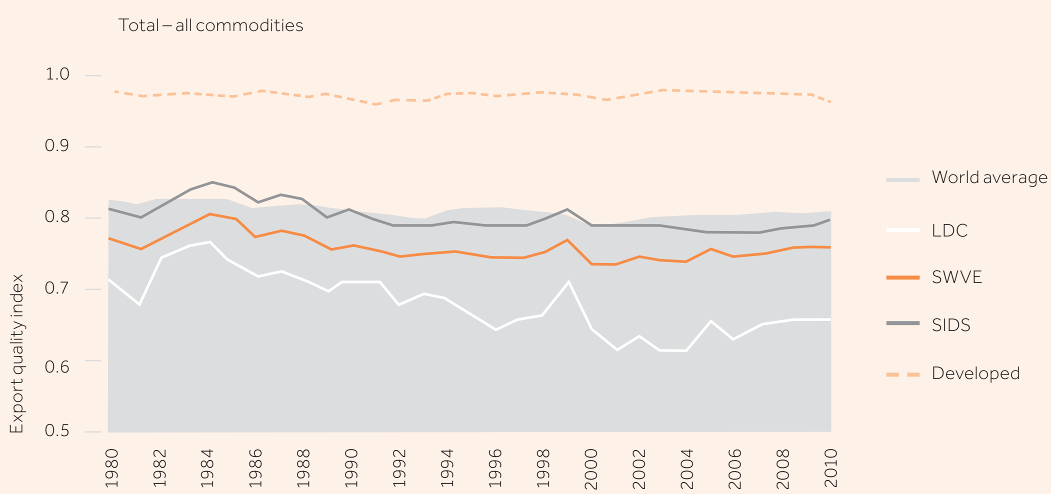
## EXPORT QUALITY AS A MAJOR CHALLENGE FOR COMMONWEALTH DEVELOPING COUNTRIES

Increasingly, participation in world trade in a variety of sectors requires suppliers to comply with standards determined by importers and lead buyers in global and regional value chains. Producers face growing pressure to meet quality requirements through certification, which in turn requires countries maintain the proper institutional infrastructure, from laboratories to coordinating institutions, across sectors, countries and stakeholders.

The export quality index scores of Commonwealth LDCs are much lower than the world average (see figure). To a lesser extent, the scores of Commonwealth structurally weak and vulnerable economies (SWVEs) and small island developing states (SIDS) are also lower than the average, and much lower than those of Commonwealth developed countries. Perhaps the most worrying feature of the figure is that the index of especially LDCs has been falling relative to the world average over the past three decades.

**FIGURE 3.1.**

AVERAGE EXPORT QUALITY INDEX: WORLD AND VARIOUS COMMONWEALTH COUNTRY GROUPS




Among several such incidents, in 2008 Fiji was de-listed from exporting fish and fishery products to the EU. This was a result of a Food and Veterinary Office visit that found deficiencies in Fiji's food safety inspection and control system. As a result, the Fiji government established a Food Unit within the Ministry of Health with the responsibility of the Competent Authority. The Competent Authority inspectors received practical hands-on training in auditing the fish supply chain and activity and participated in the development of pilot-testing of inspection checklists and reporting protocols. Subsequently, Fiji earned its place on the EU approved list of fish exporters.

*Note: Higher index values indicate higher quality levels.*

*Source: Data on quality indices are from the IMF-Department for International Development (DFID) Export Quality Database. The case study on Fiji comes from Government of Fiji (2011)* implications for training and human resource development. Two contrasting cases of quality infrastructure development from Sri Lanka reflect the importance of domestic ownership, awareness of the project objectives and acceptance by key stakeholders of the relevance and importance of those objectives (Box 3.5).

BOX 3.5.

TWO EXAMPLES OF QUALITY INFRASTRUCTURE FROM SRI LANKA

In one case, involving investment in sanitary and phytosanitary (SPS) testing centres' facilities and staff, difficulties were encountered initially (but eventually overcome) because of a low level of domestic buy-in and a lack of awareness regarding the importance of quality infrastructure for domestic producers. Testing facility officials were often not aware of the challenges facing the private sector actors who relied on them to provide efficient and accurate testing services. Staff motivation at the sites was low and recruitment and retention of qualified staff were difficult. Accreditation through a foreign accreditation body was difficult to obtain owing to the high costs involved.

In the other case, strengthening an independent accreditation body to avoid technical barriers to trade (TBTs), there was strong domestic commitment and a heightened awareness of the importance of the objectives to be achieved. The project over-achieved, and this was attributed to strong local ownership (from ministerial level to that of the laboratories), having the right legislation already in place, continuity of support and active mentoring and knowledge transfer with an external counterpart organisation.

*Source: UNIDO (2011); Sida (2011)*

### 3.4.2 Challenges of implementing trade agreements

Implementation of trade agreements can be delayed for years, or even decades. For example, despite the existence of the PICTA Trade in Goods for more than a decade, less than half of the Pacific Islands Forum countries that are members of the agreement have announced their readiness to trade under its provisions. The CARIFORUM-EU EPA illustrates further how the new trade agenda involves much broader commitments – which, without additional support, implies a much larger implementation gap (Box 3.6). Five years after signature, the EPA has not yet formally entered into force, as it has not achieved the necessary ratifications by member states on both the Caribbean and the EU sides. Many critical development cooperation programmes have only recently come on-stream or to be effectively leveraged by Caribbean countries. As a result, the ability of economic operators to harness opportunities from the negotiated arrangements remains limited.

To compound the Caribbean Commonwealth's difficulties, provisional implementation[7] of the EPA began at the very moment when a global economic recession hit economic lifelines: tourist arrivals, demand for exports and development cooperation all declined. Signatories still struggle to fully implement their EPA obligations, in part because of the sheer size of the task as against national and regional institutions' thinly stretched capacity and existing legislative bottlenecks. Some countries are still unaware as to which areas are already in compliance and which require new legislation or new institutional procedures. Implementation (whether of a specific trade agreement or more generally of measures designed to facilitate trade) requires governments to adopt a multifaceted work programme, backed by dedicated institutions. These days, implementation is built into key trade policies and strategies. Most Commonwealth developing states that have recently developed their national export/trade strategies have also emphasised institutional arrangements to oversee their implementation.

For example, among many others, Botswana has established a National Investment and Export Strategy Implementation Council; the Sierra Leone Export Strategy entails a National Steering Committee; Jamaica has established a secretariat to act as a central point for all matters relating to the preparation, implementation and execution of the National Export Strategy (Box 3.7); and Fiji has instituted a Trade Policy Framework to identify trade priorities and ensure coordination among all Commonwealth stakeholders. Some of the more advanced Commonwealth developing countries have developed relatively sophisticated and well-resourced mechanisms to ensure effective implementations of their trade obligations. In Malaysia, for example, the lead Ministry of International Trade and Industry is tasked with both negotiating and coordinating the implementation of FTAs, and enjoys competence over other critical areas of trade policy, including rules (and certificates) of origin and economic cooperation. However, for many of the Commonwealth developing countries, weak administrative capacity means the task of ensuring coordination among all the public bodies with related portfolio responsibilities remains a challenge.

IMPLEMENTATION (WHETHER OF A SPECIFIC TRADE AGREEMENT OR MORE GENERALLY OF MEASURES DESIGNED TO FACILITATE TRADE) REQUIRES GOVERNMENTS TO ADOPT A MULTIFACETED WORK PROGRAMME, BACKED BY DEDICATED INSTITUTIONS.

BOX 3.6.

### THE CARIFORUM-EU EPA, FIVE YEARS ON

Signed in 2008, the CARIFORUM region (15 Caribbean countries that are part of the African, Caribbean and Pacific (ACP) group of countries) is still the only ACP regional grouping to have signed a 'full' EPA – that is, one with all members of the original regional configuration. CARIFORUM also remains the only region to have comprehensively treated the entire suite of negotiating issues in the final text, including commitments on trade in services and trade-related issues ranging from competition policy to public procurement.

Around half of EU and CARIFORUM member states have ratified the EPA, and 10 out of 15 CARIFORUM countries have given effect to the agreed tariff reductions. Institutions tasked with guiding implementation efforts have been established at the national and regional level within CARIFORUM, supported by EU cooperation funds that have generally covered the key priority areas envisioned under the EPA. Yet serious and important deficits remain on both sides in some basic areas of implementation. Delays in ratification and tariff reduction mean the EPA has yet to enter into force and some CARIFORUM countries have had to resort to implementing the tariff reductions administratively. Many key development cooperation projects have only very recently come on-stream.

A recent study on the impact and implementation of the EPA from 2008 to 2013 found legislative capacity was a key bottleneck. Between the normal work of government, unforeseen demands and the programme requirements of donors and multilateral financial agencies, there is little spare capacity to draft new and/or amend existing legislation to comply with CARIFORUM-EU EPA obligations.

The lessons that can be learnt include the following: (1) implementation is just as challenging as negotiation; (2) early mobilisation of resources is critical; and (3) an 'early harvest' of key pillars of implementation, including ratification of the agreement and the launching of flanking aid-funded projects would generate momentum in taking forward the implementation agenda.

*Source: Silva (2015)*

BOX 3.7.

### JAMAICA'S NATIONAL EXPORT STRATEGY 2015

Jamaica launched its second National Export Strategy (NES) in August 2015. The Commonwealth Secretariat supported the Government of Jamaica to design the second NES using a methodology that enabled key stakeholders to define a market driven approach to export competitiveness.

In the design phase, the NES Secretariat, comprising the Jamaica Promotion Corporation, the Jamaica Exporters Association and the Trade Board Limited, with advisory support from the Commonwealth Secretariat, held consultations with the export community and all relevant institutions forming part of the Trade Support Network. This wide stakeholder consultative process resulted in the validation of five prioritised sectors: agroprocessing, film and animation, IT-enabled services, mining and light manufacturing. Stakeholders also agreed on high-level targets for each prioritised sector, which are stated in the monitoring and evaluation framework. These targets are further distilled into initiatives that will then be tracked to measure progress over the implementation period. Moreover, in order to ensure policy coherence and accountability at the highest level of government, the National Export Strategy 2015-2019 is aligned with the national development plan, Vision 2030 Jamaica.

*Source: Commonwealth Secretariat, London*

## 3.5 Promoting private sector development

### 3.5.1 The private sector as a driver of development

The critical importance of the private sector in trade-development linkages cannot be overemphasised. Without a dynamic and vibrant private sector, Commonwealth developing countries cannot make use of existing or future trading opportunities. While in a way entrepreneurial human resources may be considered part of productive capacity, when it comes to production and trade the private sector duly deserves dedicated attention, especially in the context of capacity-constrained developing countries.

According to one estimate, the private sector provides 90 per cent of employment in the developing world, taking together both formal and informal sector jobs (OECD, 2015). An important mechanism for trade-led economic growth is higher productivity and knowledge transfer, and the private sector is known to be critical facilitator of this process (IFC, 2011). There is strong evidence that private investment and private sector-led productivity increases in conjunction with appropriate policy support can result in transformational productive capacity (Box 3.8).

The private sector's ability to innovate and increase productivity helps countries achieve more with the resources at their disposal (DFID, 2011). Under supporting environment, it also ensures efficient allocation of resources and distribution of goods and services within the country. The sector's contribution to infrastructural development is already quite high. According to the 2014 World Investment Report (UNCTAD, 2014), the private share of investment in infrastructure in developing countries ranges from 30 per cent to 80 per cent depending on the sector. On critical public issues with important international trade dimensions, such as food security, climate change and environmental sustainability, the private sector has a key role to play.

BOX 3.8.

**APPAREL EXPORTS-LED TRANSFORMATIONAL PRODUCTIVE CAPACITY IN BANGLADESH**

Even as recent as the mid-1980s, raw jute, jute goods and tea comprised almost three-quarters of the total merchandise export earnings ($800 million) of Bangladesh, making it a predominantly primary commodities-based exporter. However, the rapid expansion of apparel exports transformed the country's export structure in a remarkable way; within the next 15 years, the sector's share would rise 75 per cent, pushing the relative significance of traditional primary exports to less than 10 per cent. In 2015, the $25 billion export industry provides employment to 4.2 million, 80 per cent of whom are women.

The sector had a very humble beginning, in which a small private sector enterprise, Desh Garments, under a joint venture project with Daewoo Corporation, sent 130 workers to South Korea for technical training and marketing knowhow in apparel manufacturing and exporting. After their return, many of the workers started their own enterprises. The Multi-Fibre Arrangement (MFA) regime that maintained quantitative restrictions on imports of textiles and clothing from many different countries helped Bangladeshi exporters develop and mature. Various export incentives provided by the government of Bangladesh also helped the sector grow. While Bangladesh has challenges associated with the sector, it nevertheless shows how export success can contribute transformation productive capacity led by the private sector.

*Source: The Daily Star (2015)*

### 3.5.2 Creating an enabling environment for the private sector

In many Commonwealth developing countries, ensuring an enabling environment by the public sector to help support the private sector and promote investment-trade linkages is a monumental task. A sound investment environment is a precondition for attracting private savings into productive uses. The investment climate includes all factors that affect the opportunities and incentives for a firm to invest and expand (ADB and WTO, 2013): from policy measures such as investment promotion schemes to governance-related issues (e.g. corruption and political stability). The government and private sector generate an essential complementarity in which the public sector provides the appropriate regulatory framework, institutions and public investment and the private sector innovation, goods and services and wealth and taxes (IFC, 2011).

To support their private sector, many Commonwealth countries have undertaken reforms that have included implementation of structural adjustment policies and export and investment promotional measures. In some cases, this has generated tangible results. For example, policy reforms in Rwanda significantly accelerated trade-related procedures and reduced trade costs: the country now ranks 46 out of 189 in the World Bank 2015 Doing Business Report. However, in a majority of developing country members, there remain important bottlenecks in unlocking private sector dynamism while boosting trade and investment response. Limited access to finance, poor infrastructure and political instability are among the major constraints facing firms in developing countries, as found in the World Bank Enterprise Surveys 2006-10 (IFC, 2011).

If the private sector cannot make use of them, policies to promote exports and investment will not be meaningful. Similarly, although it is the government that signs trade agreements, their implications eventually rest with the private sector, as it deals with the resultant consequences and/or takes advantage of the emerging opportunities (UNCTAD, 2015). Although many Commonwealth countries make efforts to undertake wider consultations involving private sector stakeholders in preparing trade policies and export strategies, there exists ample scope to effectively integrate the private sector further in policy and negotiation processes.

Participatory processes enhance the perceived legitimacy of policies and foster commitments to policy implementation (Krampe, 2013). The trading environment and business practices are best known to firms, and they are best placed to articulate their potential constraints and opportunities. Also, the modern trading environment is becoming increasingly complex, as reflected in, among other things, global value chain (GVC) processes. On such evolving issues, first-hand information on comparative advantage and prospective trade gains can be sourced from the private sector.[9] Therefore, active and open consultations can equip governments with negotiating capacity as well as insights into the constraints to trade and investment that exist in the domestic economy (ADB and WTO, 2013).

A number of factors discourage participation of the private sector in Commonwealth developing countries, such as the high cost of such participation, lengthy negotiation processes and difficulties in finding a common position owing to conflicting interests. Facilitating and sustaining regular dialogue with relevant stakeholders is a challenge for any developing country government. While faced with heterogeneous interests, only effective consultations will help policymakers consider informed positions. It is also important to ensure collaboration with the private sector does not result in promoting rent-seeking activities. It has been suggested that the inclusion of civil society groups in public-private dialogues may reduce the scope of such unproductive activities (UNCTAD, 2015).

Ensuring inclusive cooperation with the private sector is not easy for policymakers in developing countries. A large majority of private sector enterprises are in the informal sector, often headed by women entrepreneurs (Box 3.9). These are most likely to remain outside of any formal consultation mechanism.

Because of a lack of information, the role of micro and small enterprises in the economy can be underappreciated. However, these enterprises can play an important role in promoting trade between countries (especially between neighbouring ones) and developing cross-border production networks. It follows from the discussions in Parts 1 and 2 of this Review that strengthening regional cooperation is important for promoting Commonwealth

### BOX 3.9.
### WOMEN CROSS-BORDER TRADERS

Intra-regional African trade is characterised by the prevalence of informal cross-border trading and by the strong role of women in this. Women are responsible for more than 70 per cent of cross-border trade (Ghils, 2013; TMEA, 2015). According to one estimate, among SADC countries, such trade accounts for 30-40 per cent of all trade (Makombe, 2011) and generates $20 billion per year (SARDC, 2008, in Brenton et al. 2013).

Cross-border trade is hugely important, both in sustaining livelihoods and household incomes and in contributing to wider economic growth, regional integration and development. Often, women traders are the sole breadwinners of their household, and they rely on the income from cross-border trade to support themselves and their families (Brenton et al., 2013). Most of the items they trade are food products, so this trade is also significantly contributing to regional food security. However, its value and potential is going largely unrecognised and undocumented. Taking a closer look at it highlights new opportunities for further gains, including for poverty reduction, trade-led regional development and women's empowerment.

countries' trade – both overall as well as intra-Commonwealth. Streamlining and simplifying the processes involved can boost cross-border trade related to small and micro enterprises. It can also generate an inclusive process of trade-led growth.

### 3.5.3 Making use of the support available

Promoting private sector development by improving the investment climate and providing adequate infrastructure is hugely resource-intensive, and most Commonwealth developing countries require financial and technical support to do this. Development partners have increasingly recognised the pivotal role of the private sector, and more support is now available in this regard. Among others, Canada is helping developing countries pursue private sector-led growth through its sustainable economic growth strategy (OECD, 2015). DFID has elaborated its vision of putting the private sector centre-stage in generating opportunities and prosperity for poor people in developing countries (DFID, 2011). Australia has made private sector development one pillar of its aid programme, indicating that the design of all new AfT initiatives should seek to involve relevant private sector stakeholders (DFAT, 2015). Multilateral donor agencies also have dedicated private sector development programmes. Along with support from traditional donors, assistance provided by emerging economies in building infrastructure, among other things, should also ease the difficulties facing the private sector.

There are different ways of considering development partners' support for private sector development. Almost 60 per cent of official development assistance (ODA) is allocated to building productive capacity in such sectors as agriculture, fisheries and forestry, banking and financial services with strong linkages to the private sector. Effective utilisation of such assistance will have positive impacts on enterprise development. It may be possible to leverage ODA to facilitate public-private partnerships (PPPs) that can encourage private investment. Channelling remittances to productive investment can also boost private sector development. It needs to be pointed out, however, that, compared with the overall need of developing countries, ODA remains insufficient.

### 3.5.4 Taking advantage of the Commonwealth

International trade happens when importers and exporters in different countries connect with each other and enter into commercial contracts. In many cases, governments facilitate such business matchmaking, including through trade promotion activities (e.g. trade shows and exhibitions) and exporter development programmes. While not a trading bloc, the Commonwealth offers an important and unique platform to facilitate and develop greater private sector cooperation. Currently, there exist a number of avenues for promoting business-to-business linkages and Commonwealth countries can take advantage of the networks available and the activities taking place (Box 3.10). Rising trade and the lower costs of trading within the Commonwealth are an advantage of promoting business-to-business linkages. Currently, there exist a number of avenues, and Commonwealth countries can take advantage of the networks available and the activities taking place (Box 3.10). Rising trade and the lower costs of trading within the Commonwealth are an advantage for promoting business-to-business linkages.

BOX 3.10.

**THE COMMONWEALTH NETWORK FOR PROMOTING TRADE AND INVESTMENT LINKAGES**

The Commonwealth has a strong network of institutions, private sector bodies and trade experts. There are more than 80 accredited organisations working to deliver dedicated work programmes and facilitate people-to-people contacts. Among others, the Commonwealth Enterprise and Investment Council (CWEIC) and Commonwealth Businesswomen's Network (CBW) work towards strengthening business and investment linkages.

The CWEIC represents private sector businesses. It promotes trade and investment flows by facilitating engagement between governments and the private sector. It also helps member companies expand their businesses and make new investments in other Commonwealth countries, and provides a platform for sharing information and developing business-to-business networks. Some of the CWEIC's activities include sharing good business practices, capacity-building, facilitating infrastructure investment, improving sustainability and supporting small and medium enterprises in accessing new markets. The CWEIC also organises the Commonwealth Business Forum alongside the biennial Commonwealth Heads of Government Meeting.

The CBW focuses on women's economic empowerment. It works through regional partners and national leadership groups to connect a community of about 60,000 women at various stages of their business journey. It imparts training and skills and provides other necessary support to women entrepreneurs to increase their global reach. The CBW also supports businesswomen in connecting with other entrepreneurs across the Commonwealth and organises multilateral trade missions to develop trade and investment networks and learn first-hand about potential export markets. The annual Commonwealth Women in Business Awards celebrates achievement in entrepreneurship and other areas.

*Source: Commonwealth Secretariat, London*

## 3.6 The global trade-supporting architecture

Creating a flexible economy able to adapt to changes in the global trade landscape is a huge task, and one that needs support at all levels to achieve. Some aspects of this task lie in the realm of the countries concerned. Also necessary, though, are a supportive framework to help developing countries with their productive and trading capacity needs, favourable trade policies in richer countries and, of course, aid and investment facilitation.

### 3.6.1 Support for productive capacity

Following the 15-year implementation period of the MDGs, the international community has adopted a new set of goals, the SDGs. For many Commonwealth developing countries, an important consideration when moving from the MDGs to the SDGs related to reorienting the focus of the international community from only development goals towards the means of achieving them. As several of the perspectives in Part 4 detail, the SDGs offer the opportunity to achieve this shift.

A major limitation of the MDGs was they addressed long-term social development without any explicit link to economic transformation and development. Yet, for Commonwealth countries with low levels of production and diversification, poor infrastructure and weak institutions, it is the transformation of these capacities that is the sine qua non for any wider socioeconomic change. While the value of the MDGs is universally recognised, some have argued that, by focusing on the social sectors (with trade and investment only sub-goals of MDG 8), they reduced the priority donors previously attached to infrastructure, agriculture and industrial development, with a possibly detrimental effect on growth, job creation and poverty reduction (ODI et al., 2013). The SDGs have addressed this issue by including the promotion of sustained, inclusive and sustainable economic growth (Goal 8) and building resilient infrastructure (Goal 9) as specific goals.[10] International trade is considered to play a cross-cutting role in achieving the goals.

Another major shortcoming of the MDGs was the lack of resource-provisioning for implementation. The SDGs initiative has attempted to address this issue more explicitly. It has been estimated that, at current levels of investment in SDG-relevant sectors, developing countries face an annual gap of $2.5 trillion per year (UNCTAD, 2014) for basic infrastructure (roads, rail and ports, electricity, etc.), food security, climate change mitigation and adaptation, health and education. Most of these investment areas have direct and indirect impacts on trading capacity.

ODA provides an important source of financing, particularly for LDCs and many other low-income developing countries. Although every high-income country is committed to contributing the agreed international target of 0.7 per cent of its GDP as ODA, so far only a few countries, including the UK, have met this. Given the prolonged nature of the recovery from the recent global economic crisis, there has been some concern about high-income countries not being in a position to increase their ODA contribution (Bhattacharya and Ali, 2014). While alternative sources of funding, including increased efforts towards domestic resource mobilisation, innovative financing and private sector involvement, are actively being sought, the role of ODA in promoting trade-related infrastructure and capacity-building will continue to be critical for many Commonwealth developing countries.

With the rise of the South, several emerging economies are now becoming important sources of development cooperation and technical assistance. New institutional and policy initiatives, including the Brazil, Russia, India, China, South Africa (BRICS)-led New Development Bank and the Asian Infrastructure Investment Bank, could, for instance, play an instrumental role in financing major infrastructure and development projects in developing countries.

### 3.6.2 Aid for Trade

One particular component of ODA, AfT, has become increasingly important in addressing trade-related supply-side capacities in developing countries. For a long time, indeed, since ODA was first used to support growth and development in poor countries, financial and technical assistance from bilateral and multilateral donors has been used to promote trade. WTO members during the Hong Kong Ministerial in 2005 called for the operationalisation of AfT against a backdrop of lack of effective participation in global trade by many developing countries because of weak supply-side capacity. The main components of AfT support include trade policy and regulation; trade-related infrastructure; productive capacity; and trade-related adjustment (TRA). The WTO conducts the biennial Global Review of Aid for Trade with the purpose of strengthening the monitoring and evaluation of the support provided.

One important impact of such assistance being discussed at the WTO-led multilateral forum has been development partners' greater response to and engagement with relevant stakeholders to make the trade components of their programmes more prominent. Regular

A GROWING BODY OF EVIDENCE SHOWS AID FOR TRADE IS EFFECTIVE IN REDUCING THE COST OF TRADING AND INCREASING TRADE CAPACITY, INCOME AND GROWTH IN RECIPIENT COUNTRIES.

reviews of AfT have also ensured a continued focus on AfT. As a result, there has been conspicuous sharing of information and discussion of issues with regard to donors' commitments vis-à-vis disbursements, the effectiveness of the support available and issues of interest to developing countries (Razzaque and te Velde, 2013).

A growing body of evidence shows Aid for Trade is effective in reducing the cost of trading and increasing trade capacity, income and growth in recipient countries but that factors such as the type of AfT flow, recipient country-specific factors, the sectors receiving AfT flows and geographic region tend to determine its impact. Of all the results, the effect on reducing trade costs is particularly prominent and is maintained in many different studies. For example, in a Commonwealth Secretariat-sponsored study, Calì and te Velde (2013) find each doubling of AfT is associated with a decrease in the costs of importing by 5 per cent. The effect of aid to economic infrastructure has also been demonstrated to be positive (Vijal and Wagener, 2010).

Considering the samples of countries from SSA and small states, it has been found AfT that goes into trade facilitation is likely to have significant cost-reducing effects in handling imports and exports (Calì et al., 2011). For both groups of countries, the positive effect of economic infrastructure on export performance is also found (Razzaque and te Velde, 2013). However, the evidence on aid to productive capacity contributing to increased exports is found to be weak or non-existent.

One priority issue for small states and SSA is to achieve export diversification and structural transformation of their economies, as discussed above and also in Part 1. For these countries, generating supply response from non-traditional sectors will be helpful. It is in this sense that trade capacity-building should be linked to AfT support. In a Commonwealth Secretariat study, Cirera and Winters (2015) empirically assess whether AfT programmes helped the process of structural transformation in SSA. Using a dataset on trade and aid flows for 1995–2010, they fail to find any statistically significant impact on structural transformation.

### 3.6.3 Support for trade negotiation

Support for trade negotiation is provided under the AfT component of trade policy and regulation. As discussed above, for many Commonwealth developing countries, managing trade policy and negotiation is a severe challenge. Donor support for regional integration and regional trade negotiations has increased considerably within the past decade, notably from the European Union (EU) (via the European Commission, EC), the UK (DFID), Germany (German Development Cooperation, GIZ), Canada (Department of Foreign Affairs, Trade and Development, DFATD) and Australia (DFAT). But still more emphasis is needed on building trade negotiation skills. In most cases, support is focused on implementation, and only a minor share is allocated to trade negotiations. Some organisations that are closely linked to negotiating forums are limited by their mandate in terms of the depth and scope of their technical assistance activities. The WTO Secretariat, for example, provides training throughout the year for its member countries on the substance of trade negotiations and on basic trade negotiating skills. But it does not have a mandate to place long-term experts within any of the many small and least-developed members. The Hub and Spokes Project jointly delivered by the Commonwealth Secretariat, the EU, Organisation Internationale de la Francophonie (OIF) and the ACP Secretariat is an example of long-term capacity-building support regarded to be vital for capacity-constrained ACP countries (Box 3.11).

Another drawback of many technical assistance programmes with a negotiating component is their time-limited nature. Both the ACP-EU TradeCom Facility and the ACP Multilateral Trading System Programme Management Unit ended in 2012, although the negotiations they were supporting (EPAs and the WTO Doha Round) continued; in the case of the EPAs, activity increased substantially after the conclusion of TradeCom's activities.

It is often more challenging to provide support to trade negotiation capacity than it is to assist in the area of trade policy in general.[12] First of all, there is an all-important element of trust between the donor, the beneficiary and the contracted team of technical experts. Trade negotiations involve sensitive issues of national interest and require consensus-building on difficult issues. Only a handful of organisations and initiatives are likely to be perceived as, on the one hand, objective and sufficiently removed from national circumstances to balance competing domestic interests and, on the other, close enough to have a clear understanding of the national context.

In addition, trade negotiations are linked to a process that is inherently unpredictable. Both the EPA negotiations and the WTO Doha Round, for example, have seen periods of intense activity and periods of lull. Even within periods of activity, the area of focus can suddenly shift so timelines change and positions need to be reviewed and agendas amended, often at a very short notice. This unpredictable dynamic is difficult to accommodate within normal multi-year aid programming cycles, where guidelines generally require a strict delineation of outputs and a firm timeline. These two aspects of trade negotiating issues clearly demonstrate the need for sustained and long-term support in the form of independent advice, as Box 3.11 illustrates.

BOX 3.11.

**LONG-TERM TRADE CAPACITY-BUILDING: THE HUB AND SPOKES PROJECT**

Launched in 2004 jointly by the Commonwealth Secretariat, the EU, OIF and the ACP Secretariat, the Hub and Spokes Project aims to promote the effective participation of ACP countries in international trade negotiations and to strengthen their capacity to formulate, negotiate and implement trade policies enabling them to take advantage of expanded or new market opportunities. This is intended to enhance the ACP countries' integration into the world economy and to contribute to sustainable development and poverty reduction in these countries. Among other things, the beneficiaries of the project have benefited from high-quality and trusted advice on trade policy matters provided through the services of long-term experts placed in regional organisations ('hubs') and government ministries ('spokes').

During the first phase of the project (2004-12), the Commonwealth Secretariat deployed and managed 60 experts across the ACP regions. In the ongoing second phase, 29 experts are working to help countries deal with their trade policy matters. Along with regular trade advisory services, the project has trained more than 34,000 stakeholders from parliaments, businesses, academic institutions and civil society organisations on national, regional and international trade policy issues.

*Source: Commonwealth Secretariat, London*

### 3.6.4 Trade facilitation

Improved trade logistics and trade facilitation measures are critical for promoting trade between countries. Support for trade facilitation has so far been a relatively small component within the overall AfT support mechanism. Given the adoption by WTO members of the Trade Facilitation Agreement (TFA), its implementation will demand far more resources. Trade facilitation is generally understood as the simplification and harmonisation of trade-related procedures and a balancing act between economic efficiency gains and regulatory objectives. Key economic actors seek to reduce the risks and transaction costs (time and money) associated with moving goods across international borders. But national authorities also have to protect legitimate regulatory objectives, such as by safeguarding trade tax collection, ensuring prohibited or restricted goods such as drugs or weapons do not enter into the domestic market and protecting both consumer welfare and environmental wellbeing. While trade facilitation can be perceived in a broader sense as covering all aspects of trade (including productive capacity), there is a narrowly defined general core set of activities in line with the WTO's TFA.

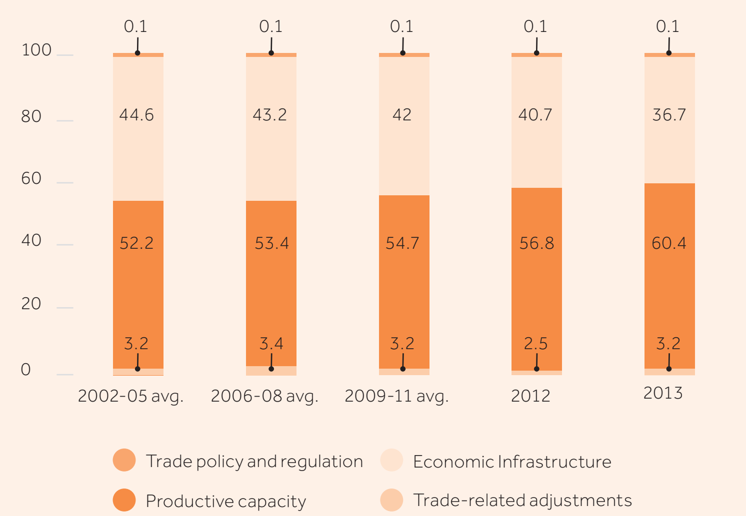
The TFA contains approximately 35 technical measures. These provisions have been included to expedite movement, release and clearance of goods; to improve governance through disciplines, rules and decision-making processes; to implement streamlined border procedures; and to enhance the movement of goods in transit. The agreement contains the Special and Differential Treatment (S&DT) provision based on the understanding that, without external financial and technical assistance, developing and least-developed countries may not be able to implement some or all of the technical measures. Also, members themselves should determine what support they require and when they will be able to implement the measures.

Apart from the TFA, Commonwealth ACP countries have been engaged in negotiations on trade facilitation at the bilateral and regional level. In most cases, the implementation of regional trade facilitation deals will help achieve the WTO's TFA. Although AfT for trade facilitation has risen over the past decade or so, the amount of assistance provided in 2013, approximately $650 million, indicates that much more resources will be required for any meaningful implementation of the relevant agreements. Indeed, there are concerns that effective implementation of the WTO's TFA deal in many LDCs, small states and SSA countries may not be possible because of inadequate resource support.

### 3.6.5 Making AfT even more effective

While AfT has been generally useful, there is scope for making it even more effective. Given the positive impact of aid to trade-related economic infrastructure and to trade facilitation measures, increased allocations in these areas can result in significant gains. Support mechanisms targeting certain sectors to promote diversification and enhance export competitiveness are required. One encouraging development has been that development partners are increasingly supporting these specific interventions to promote export supplies.

**FIGURE 3.2.**
AfT BY DIFFERENT CATEGORIES, 2002-05 TO 2013 (%)




*Source: Commonwealth Secretariat (calculations using data from OECD – CRS)*

Although AfT resources have increased, it is important to recognise availability is still very low as against need. Capacity development triggering export response requires sustained efforts in terms of both resource and policy attention. One important omission in this respect has been the very limited use of one component of AfT, known as support to trade-related adjustment (Figure 3.2). Various adjustment requirements may emerge, ranging from tackling export shortfalls to the development of capacity to deal with new trade measures and provisions. Nevertheless, adjustment support remains negligible. It has been argued that one main reason for the low utilisation of such assistance could relate to the problem of defining 'adjustment' (Silva, 2013). Another potential reason could be the AfT reporting system's bias away from emphasising TRA needs. For many of the top recipients, AfT priorities are dominated by non-TRA categories, such as the need to improve infrastructure or address gaps in trade facilitation. Whatever the reason for not making use of it, any potential adjustment support can also be utilised to develop specific sectors in the beneficiary countries.

Predictability of AfT has been another issue. Despite the expansion of trade support measures, their volatility is an important concern. This can result in loss of momentum in trade-capacity building, hamper the implementation of associated economic policies and reform measures and discourage private sector investment (UNECA, 2014). Again, in spite of a generally increasing trend, resources disbursed fall short of commitments on a regular basis. For example, AfT commitments by donors for small states have been significantly higher than the amounts actually disbursed ( Figure 3.3) Indeed, for Commonwealth small states accumulated annual shortfalls between 2002 and 2012 are estimated to be close to $3 billion in constant 2013 prices. This is more than three times the AfT resources small states received in 2013.

The reasons for this phenomenon should be better understood. It can indicate the problem of absorptive capacities of recipient countries. However, as the UN Economic Commission for Africa (UNECA) (2014) points out, such a tendency adds to unpredictability concerns and should be linked to the mutual accountability pillar of the Paris Declaration on Aid Effectiveness. The regular gap between commitments and disbursements suggests lessons are not being learnt in designing and implementing projects.

As follows from the above, for many Commonwealth developing countries, building productive capacity, particularly to diversify the export structure, should be considered a priority, and this is an area where a strategic approach to AfT can be most useful. Supporting specific sectors is often considered not an ideal approach, but within a relatively open trade regime such a policy option is worth considering, especially when there are inherent structural disadvantages and supply responses are generally weak. It is, however, encouraging to find some of the sectoral initiatives in small states are currently already underway. The Caribbean Rum Sector Programme is one example. The purpose of this scheme was to assist the sector to enhance competitiveness and move towards higher-value products. According to the Organisation for Economic Co-operation and Development (OECD) (2013), the intervention was extremely successful, as it resulted in the introduction of new brands in the EU market. A 20 per cent rise in female employment in the sector has also been reported. The programme was implemented with the direct involvement of the private sector in each CARICOM country. Another example is the Caribbean Trade and Private Sector Development Programme, under which about 200 companies and business support organisations were awarded grants.

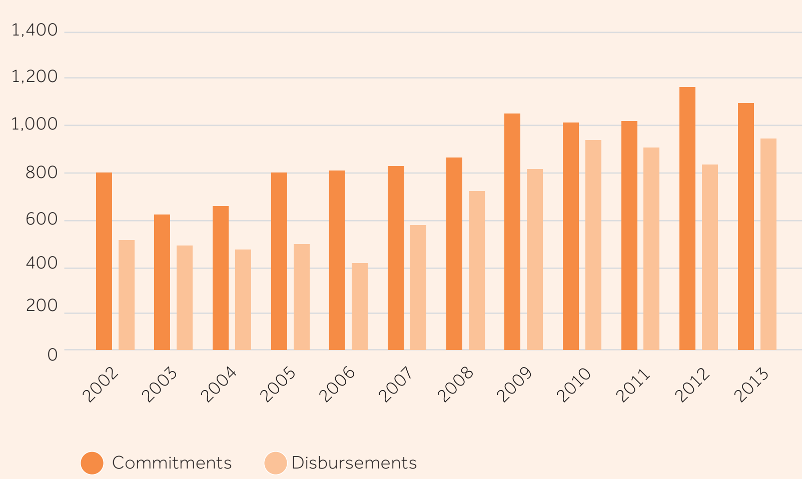
### 3.6.6 Market access

Ensuring effective market access should also be considered part of the enabling global trade support architecture. Part 1 mentioned protectionist measures following the global financial crisis have had adverse consequences for trade flows, particularly those from the world's poorest countries.

While global average tariffs on industrial goods have fallen significantly, there are exceptions in certain sectors. Despite improvements, as mentioned in Part 1, the duty-free, quota free (DFQF) market access for LDCs has not materialised. The preferences some emerging developing countries have offered to LDCs and SSA also have gaps. Tariff structures often exhibit strong tariff escalation, with higher tariffs on processed goods (ITC, 2013), which could prevent countries participating in GVCs. Requirements for strict RoO, standards and SPS measures also make it difficult for SSA, LDCs and small states to access developed country markets. Going beyond industrial goods, subsidies and domestic support measures – an area of intense negotiations in the Doha Round – severely constrain market access in agriculture. Furthermore, market opening in services has been very limited for capacity-constrained countries.

Given the rise of the South in global trade, a significant part of market access is also to be accrued in developing countries. Developing countries, including LDCs, face much higher tariffs in developing country markets. For example, as mentioned in Part 2, within the Commonwealth, developing countries face average tariffs for processed goods of around 20 per cent when exporting to other countries. These high tariffs inhibit trade expansion between them. NTBs are also serious barriers in many developing countries. As trade between developing countries has risen remarkably, as highlighted in Parts 1 and 2, further expansion of this will depend on addressing NTBs.

**FIGURE 3.3.**
AfT FLOWS IN SMALL STATES: COMMITMENTS VS. DISBURSEMENTS, 2002-13 (CONSTANT 2013 $ MILLION)




*Source: Commonwealth Secretariat (calculations using data from OECD – CRS)*

## 3.7 Conclusion and way forward

This Part of the Review has considered several broad priorities for Commonwealth members in order to unleash the substantial trade potential that exists.

First, developing productive capacity is one of the most critical factors in determining trade success. International trade can help build and transform productive capacity to achieve economic diversification. In this regard, Commonwealth developing countries should take advantage of and make effective use of existing trade preference schemes, from both developed and emerging economies. They should also explore new opportunities for preferential trade in sectors such as services. This needs to be done in conjunction with active trade promotion policies to attract investment into the relevant sectors and generate supply response.

In addition, there is an opportunity to make use of lower trading costs within the Commonwealth. Part 2 highlighted bilateral trade costs for Commonwealth partners are significantly lower. This provides an implicit trade preference for Commonwealth members that should be harnessed.

Second, Commonwealth developing countries need to strengthen their technical and administrative capacities to develop and manage trade policy and effectively negotiate and implement trade agreements. This is particularly so as the realm of policy issues and negotiating areas have expanded immensely and requires the involvement of many different stakeholders. There is an urgent need to improve the collection and collation of reliable economic data. This will better inform trade policymaking and equip trade negotiators to better assess the likely implications of trade agreements.

Third, governments should identify and address the implementation gaps in trade strategies and agreements to ensure their intended benefits materialise. Investments in 'hard' infrastructure should be accompanied by improvements in 'soft' infrastructure (e.g. building key stakeholder awareness and capacity). In addition, governments should adopt a multi-faceted work programme, backed by dedicated institutions with adequate financial resources and technical capacities, to guide the implementation of trade agreements and/or strategies.

Fourth, a productive and dynamic private sector should be promoted in order to make trade happen and take advantage of the new economic opportunities arising from trade agreements. There is considerable scope to mobilise support from traditional donors and emerging countries to develop and strengthen the private sector and provide, among other things, an enabling environment. Active and open consultations with the private sector can also equip governments with negotiating capacity, as well as insights into trade and investment constraints.

Finally, enhancing the participation of capacity-constrained Commonwealth developing countries in world trade will also depend on securing a coherent global trade support architecture. Adequate and effective trade capacity building, fulfilling international commitments in all trade-related development areas and improved market access are all an integral part of this. The recently adopted SDGs provide a useful framework to effectively address these issues. While mobilising additional resources is critical for meeting SDG targets, the role of ODA will continue to be important in building trade capacity, among other things. Governments and international development partners should work together to ensure AfT support is made more effective by improving the predictability of resource disbursements and better targeting to promote export diversification and competitiveness.

ENHANCING THE PARTICIPATION OF CAPACITY-CONSTRAINED COMMONWEALTH DEVELOPING COUNTRIES IN WORLD TRADE WILL ALSO DEPEND ON SECURING A COHERENT GLOBAL TRADE SUPPORT ARCHITECTURE.

# Endnotes

1. Many small states have failed to expand exports because of their inherent characteristics, as Part 1 of this Review discussed. The average of every Commonwealth member's growth in goods export value between the two years 2000 and 2010 was 9.34 per cent. Of the 16 states with export growth two-thirds or less of this average, all but one (Sri Lanka) are small states. Most of these countries have particularly concentrated exports, and preference erosion appears likely to have played a part in this poor trade growth. Among others, Dominica and St Vincent and the Grenadines have seen a decline in exports of bananas; for Jamaica and Mauritius, the decline has been in sugar and clothing.

2. By 2015, offers were beginning to be made, following a High Level Meeting on the operationalisation of the LDC services waiver on 5 February 2015. This meeting agreed members would endeavour to submit notifications no later than 31 July 2015. By that date, 11 WTO members (four of them from the Commonwealth) had notified the Council for Trade in Services of preferential measures to enhance LDCs' participation in world services trade; two more (including the European Union, EU) had communicated to the Council for Trade in Services their intention to notify preferences as soon as their domestic procedures had been completed.

3. There are three approaches to compiling such a list of requests, which are not mutually exclusive. One is to rely on the developed countries to identify restrictions they are willing to remove – but there is no automatic reason why their choice of preferences should necessarily accord with LDCs' perceptions of their needs. Another is for LDCs to work from the bottom up to compile a detailed list of demands (based on submissions by services producers) of the barriers they face in foreign markets. This is in many ways the ideal approach and should be the objective - but it may take time to achieve. The third option is for an LDC to combine this approach with an analysis of the non-MFN services liberalisation some members have already promised in the context of FTAs under the General Agreement on Trade in Services (GATS) Article V to see which could be of interest.

4. Despite the Trade Support Network being divided into six thematic areas (ranging from market promotion and access to entrepreneurial development), Botswana's National Export Strategy notes that the sheer number of stakeholders and the diversity of interests often leads to duplication of roles, with lack of clarity on the activities each institution provides being provided at any given time, and little time to effectively coordinate the network on salient issues.

5. The CSME member states are Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

6. Antigua and Barbuda, Belize, Dominica, Grenada, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines.

7. The CARIFORUM-EU EPA provisionally came into force two months after its signature in October 2008.

8. CARIFORUM consists of Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Haiti, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

9. For example, RoO need to be framed very carefully to avoid the twin dangers of preventing legitimate local firms benefiting from integration and allowing the emergence of a very low value-added sector with minimal domestic processing, which can take advantage of GVC-led trade. If a broad measure of private sector knowledge is not brought to the discussion, there is the danger the RoO will be framed to serve the interest of the best-established firms in the strongest regional economy. Recent trends in GVCs noted in Part 1 are making the task increasingly hard.

10. It also has a goal of ensuring access to affordable, reliable, sustainable and modern energy for all (Goal 7).

11. The detailed results are reported in Razzaque and te Velde (2013).

12. This is drawn on Silva (2015) as the background paper prepared for this report.

13. The phenomenon of disbursements being smaller than commitments is not typical to small states alone. Globally, the shortfalls between disbursements and commitments have been quite significant.