PART 04

Perspectives on topical issues in trade

04

Commonwealth countries proactively engage with the global community on trade and related development issues. They participate in various regional and multilateral negotiations with a view to securing their enhanced participation in regional and global trade.

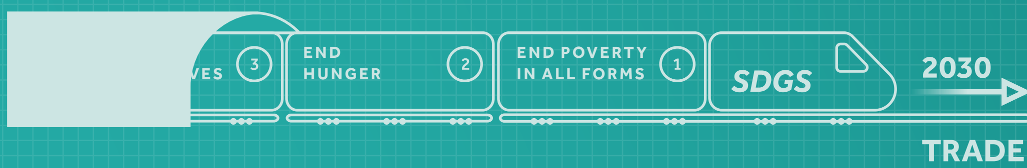
Beyond these negotiations, they offer insightful perspectives that can contribute to promoting the role of trade in development. With the changing global trade landscape, such perspectives are becoming even more important for the global community to consider.

The seven issues considered are trade multilateralism and development; the new global development framework, including the Sustainable Development Goals; the challenges and opportunities of climate change; gender and trade; the trade challenges of small states; regional integration in Africa; and effective and gainful participation in global value chains.[1]

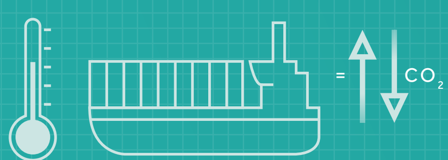
HIGHLIGHTS

THE MULTILATERAL TRADING SYSTEM IS AT A CROSSROADS.

TRADE IS INDISPENSABLE TO THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS.

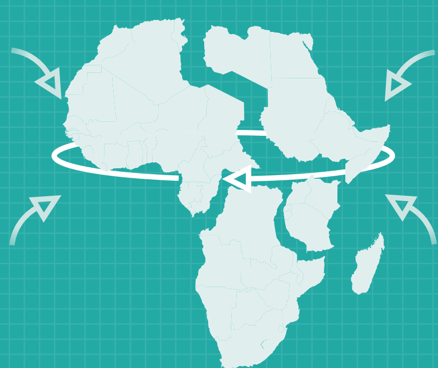


CLIMATE CHANGE IS ONE OF THE GREATEST CHALLENGES FACING THE INTERNATIONAL COMMUNITY.

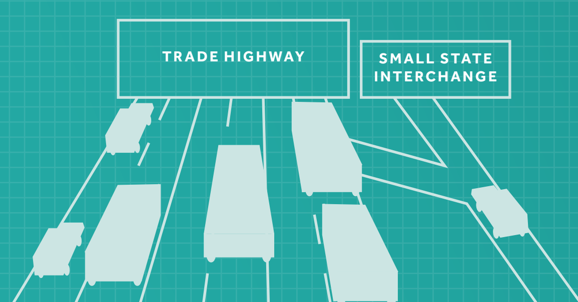


A GENDER-EQUITABLE APPROACH TO TRADE POLICY AND NEGOTIATIONS IS A PRIORITY.

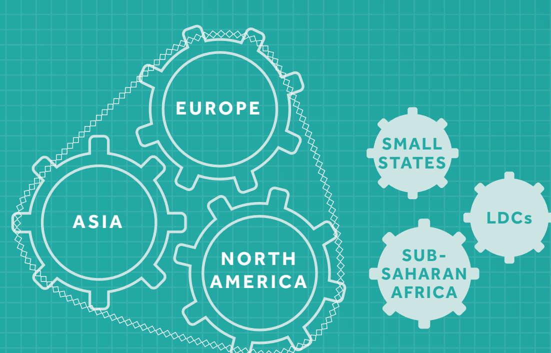
EFFECTIVE INTEGRATION IN AFRICA IS CRITICAL FOR TACKLING ITS DEVELOPMENT CHALLENGES.



SMALL STATES' TRADE CHALLENGES REQUIRE INNOVATIVE AND HETERODOX SOLUTIONS.



ADVANCEMENT OF GAINFUL AND INCLUSIVE PARTICIPATION IN GVCs REQUIRES CAREFUL CONSIDERATION AND STRATEGIC CHOICES.



4.1 Trade multilateralism and development

Twenty years after the World Trade Organization's (WTO's) establishment, trade multilateralism is at a crossroads. Its role and relevance in further opening up world trade and in providing governance are under increased scrutiny, with the proliferation and deepening of regional trading arrangements (RTAs) covering new and broader areas and trade rules. The centre-piece of the WTO – the Doha Development Agenda (DDA) negotiations, launched in November 2001 – is now the longest running trade round in the history of the multilateral trading system. A large number of issues were originally included in the negotiating mandate, from the traditional subjects of agriculture and industrial products to the newer-generation trade issues such as services, investment, competition and the environment. WTO members initially envisaged concluding the Round within three years. However, more than 14 years down the road, it is still on. Under these circumstances, it has become increasingly clear that the Round should be brought to a positive conclusion to revive trade multilateralism.

The recent adoption of the 2030 Agenda for Global Action and the associated Sustainable Development Goals (SDGs) offers a new opportunity to catalyse momentum to finally conclude the Round. SDG 17.10 specifically provides for the promotion of a universal, rules-based, open, non-discriminatory and equitable multilateral trading system, including through the conclusion of negotiations under its DDA. The WTO is mentioned at several points, and trade has a cross-cutting role in the broader SDG framework (see Section 4.2 of this Part). Despite the challenges, rules-based multilateralism is an indispensable global public good. Through its trade rules and binding dispute settlement system, the WTO-led multilateral trading system formally provides a level playing field to all its members (Box 4.1).

4.1.1 Defining 'development' in the 'development round'

When initiated, the Doha Round negotiating agenda included almost all the trade issues of interest to both developed and developing countries. However, it also established a clear hierarchy among them. The so-called Development Issues[2] were to be dealt with first, to be followed by the WTO Built-In Agenda (BIA)[3] and thereafter other issues (e.g. trade and environment, fisheries subsidies and rules for RTAs).

The Doha Ministerial Declaration was replete with references to 'development' and undertook to place developing countries' needs and interests at the heart of the Work Programme adopted in the Declaration. This is what prompted it to be dubbed the 'Doha Development Agenda'. Debates on the DDA's development dimension have been broadly polarised between those who champion greater flexibility for developing countries and LDCs when undertaking obligations and those who equate development with market opening. It has also been asserted, with acceptance by many, although not all, that development issues are those that are presented as such by developing countries. While applying this rule of thumb to the requests and concerns of LDCs, small, vulnerable economies (SVEs) and other smaller developing countries is relatively easy, there has been opposition to extending this right to emerging economies. This has become even more apparent given the rapid growth of several emerging economies, and the South globally, as Part 1 of this Review highlighted, since the launch of the DDA.

BOX 4.1.

AN EVEN-HANDED DISPUTE SETTLEMENT SYSTEM

The WTO dispute settlement system formally provides opportunities for any member to seek redress of its grievances against other members. This was vividly demonstrated when the WTO's Appellate Body ruled in favour of Antigua and Barbuda in its dispute with the USA over measures applied by central, regional and local authorities in the USA that affected the cross-border supply of gambling and betting services. In 2013, the WTO Dispute Settlement Body authorised Antigua and Barbuda to retaliate against the USA by suspending its obligations under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement at a level not exceeding $21 million annually. Antigua and Barbuda is yet to recourse to the favourable ruling. Many observers however caution that accessing the WTO dispute settlement system is challenging for capacity-constrained countries such as least-developed countries (LDCs), small states and Sub-Saharan Africa (SSA), given their human and financial resource limitations. Nevertheless, it should be recognised that the multilateral trading system led by the WTO allows for such a fair system of settling trade disputes.

Source: Kaukab (2015)

4.1.2 Recognising and expanding Doha Round harvests

Despite the protracted negotiations and numerous missed deadlines, the Doha Round has not been futile. Valuable achievements, experiences and lessons have emerged whereby trade multilateralism has promoted development, and these should be acknowledged and capitalised on. There are also areas where the negotiations have already yielded some concrete results. A non-exhaustive list of these would include:

- Adoption of the Trade Facilitation Agreement (TFA) at the Bali Ministerial in 2013;
- Flexibilities in Trade-Related Aspects of Intellectual Property Rights (TRIPS) in dealing with public health issues following the General Council Decision of 30 August 2003 and subsequent amendment to the TRIPS Agreement;
- Agreement in principle to establish a Monitoring Mechanism for Special and Differential Treatment (S&DT) provisions in favour of developing countries and LDCs;
- A Transparency Mechanism for RTAs established through a General Council Decision of December 2006 that has been operationalised on a provisional basis;
- Provision of preferences in services for LDCs and its operationalisation.

Even more importantly, the DDA negotiations have dealt with a number of new concepts, built an impressive inventory of technical and analytical work and already secured many political compromises. The knowledge and shared understandings thus created are valuable assets that can be built upon to conclude the Round meaningfully. There are examples of such achievements in all areas of the negotiations. These include Special Products and the Special Safeguard Mechanism in agriculture, the hybrid approach to identify environmental goods and services in trade and environment, mandatory technical and financial assistance in trade facilitation, measures to deal with preference erosion in agriculture and non-agricultural market access (NAMA) and special provisions for SVEs in agriculture and NAMA (Box 4.2). The Doha Round may have also played an instrumental role in the decision of several larger emerging economies to offer their duty-free, quota-free (DFQF) market access schemes to LDCs.

The Doha Round has also contributed to the strengthened capacity of developing countries to deal with trade policy and negotiation issues. These improvements in capacity have resulted from greater investment in trade-related capacity-building by both the developing countries and their development partners. The WTO-led Aid for Trade (AfT) initiative, discussed in Part 3 of this Review, demonstrates trade multilateralism can indeed consider and address the development concerns of its most capacity-constrained members.

In addition, a successful conclusion of the Doha Round will provide a boost

BOX 4.2.

SIZE AND VULNERABILITY MATTER

While the Commonwealth has always recognised and actively strived to assist its small state members, there was no similar recognition or support in the WTO prior to the Doha Round. Paragraph 35 of the Doha Ministerial Declaration established a Work Programme for small states that has led to greater recognition of the special challenges confronting this group of countries. Called 'small, vulnerable economies' (SVEs), these WTO Members individually account for only a very small fraction of world trade and are particularly vulnerable to economic uncertainties and environmental shocks.

While several WTO members were initially reluctant, the persistence and hard work of SVE negotiators, supported by substantial technical work by organisations such as the Commonwealth Secretariat, ensured SVE concerns were taken on board. As a result, current draft texts, on, among other things, modalities for agriculture and NAMA, include provisions allowing for additional flexibilities for SVEs going beyond those stipulated for other developing countries. This can be considered a valuable achievement of the Doha Round negotiations.

Source: Kaukab (2015)

to the world economy. According to most influential analytical exercises, plausible Doha proposals (based on 2008 modalities) can add \$360 billion in new trade each year (The Economist, 2011) and overall annual global welfare gains of \$160 billion (Martin et al., 2011). Despite sceptics' scrutiny about the relative magnitude of these potential benefits, the latter should be regarded as quite significant, particularly since they exclude the gains from new policy disciplines, additional bindings by countries, trade facilitation measures and AfT support.

Notwithstanding the potential for quite considerable global welfare and trade gains, benefits from the Doha liberalisation scenarios for the world's poorest countries – the LDCs – appear to be very small or non-existent (Bouët and Laborde, 2011). True, LDCs (many of them are from SSA) are not required to undertake any tariff cuts, yielding no significant gains from allocative efficiencies in their domestic economies. However, it is also quite clear the Round has not generated any additional market access for them.[4] A successful conclusion of the Doha Round would require addressing these issues.

4.1.3 Concluding the Doha Round for development

As WTO members negotiate a post-Bali Work Programme with a view to concluding the Doha Round, it is extremely important that development dimensions be given due priority. There are several opportunities to catalyse momentum.

First, it is imperative to address the specific needs and concerns of LDCs and SVEs. Given their size and productive capacity, these countries hardly pose any real commercial threat to other WTO members. Moreover, many of their interests are already reflected in the existing draft modalities on agriculture and NAMA, as well as in discussions and understandings in the services negotiations. Along with this, of particular interest to these countries is the expansion of and improved targeting of AfT in helping with their trade capacity-building. It is clear more can and should be done to help them.

Second, S&DT provisions should be tailored to assist developing countries to derive benefits from them, including from their own trade reforms. Market access opportunities in NAMA, agriculture and services should be accompanied by assistance to developing countries, especially the most capacity-constrained ones, to help them take advantage of these opportunities. Greater attention should be given to simplifying rules of origin, providing market information and promoting measures that will facilitate the transfer of technology and strengthen the ability of these countries to participate more gainfully in global value chains (GVCs) (see Section 4.7 of this Part).

Third, the S&DT model in the TFA provides a useful approach that could be replicated or adapted in other areas under the Doha Round. Under the TFA, implementation of members' obligations is linked directly to their capacities and to the extent of availability of the assistance they require to meet their obligations.

Finally, the progress made on trade multilateralism must be consistent with the SDG framework the global community has adopted and should contribute to enhancing the role of development as envisaged therein.

TABLE 4.1.
A STRONGER ROLE FOR TRADE IN THE SDGS

Para. 30	States are strongly urged to refrain from promulgating and applying any unilateral economic, financial or trade measures not in accordance with international law and the Charter of the United Nations that impede the full achievement of economic and social development, particularly in developing countries.
Target 2.b	Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round.
Target 3.b	... provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Trade-Related Aspects of Intellectual Property Rights Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights ...
Target 8.a	Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries.
Target 10.a	Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements.
Target 14.6	By 2020, prohibit certain forms of fisheries subsidies ... recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation.
Target 17.10	Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda
Target 17.11	Significantly increase the exports of developing countries, in particular with a view to doubling the Least Developing Countries' share of global exports by 2020 .
Target 17.12	Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access.
Para. 62	This Agenda, including the SDGs, can be met within the framework of a revitalized global partnership for sustainable development, supported by the concrete policies and actions outlined in the Addis Ababa Action Agenda ... These relate to domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability ...
Para. 63	... national development efforts need to be supported by an enabling international economic environment, including coherent and mutually supporting world trade, monetary and financial systems, and strengthened and enhanced global economic governance.
Para. 68	International trade is an engine for inclusive economic growth and poverty reduction, and contributes to the promotion of sustainable developwment. We will continue to promote a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system under the World Trade Organization (WTO), as well as meaningful trade liberalization. We call on all WTO members to redouble their efforts to promptly conclude the negotiations on the Doha Development Agenda. We attach great importance to providing trade-related capacity-building for developing countries, in particular African countries, least-developed countries, landlocked developing countries, small island developing states and middle-income countries, including for the promotion of regional economic integration and interconnectivity.

4.2 The multilateral trading system and the SDGs

A new global development framework – the 2030 Agenda for Global Action, which includes a set of SDGs – has now replaced the 2000 Millennium Development Goals (MDGs). MDG 8, which was concerned with a 'global partnership for development', included several international trade-related targets. The new framework similarly includes various targets and other references to the role of international trade in supporting achievement of the SDGs. Indeed, international trade is expected to play a frontline role in the realisation of the new goals.

4.2.1 Trade in the SDGs

Key trade-related references in the new framework are highlighted in Table 4.1. Collectively, they point to six salient features.

- A substantial part of the earlier agenda is transferred to the new one, signalling a significant lack of progress under the MDGs. This includes the most important trade-related provision contained in the MDG framework – the promotion of a rules-based, open, non-discriminatory and equitable multilateral trading system and DFQF market access targets for LDCs.
- The SDG framework conveys a stronger sense of urgency and determination to achieve selected targets, notably the inclusion of a more decisive target to double LDCs' share of global exports by 2020 in line with the target specified in the Istanbul Programme of Action (IPOA) for LDCs 2011-20.
- It also makes more explicit references to the WTO's Doha Round and its completion.
- In contrast with the MDGs, the WTO is mentioned at several points in the SDG framework, perhaps signalling an underlying expectation of a stronger and more direct role for the multilateral trading system in helping facilitate the achievement of some SDGs.
- The new framework emphasises the cross-cutting role of trade more directly, for example with clearer linkages between trade-related goals and those related to agriculture, food security and fisheries, among others.
- The role of AfT is emphasised and a target to increase its volume is included.

THE 2030 AGENDA SHOULD ALSO BE LEVERAGED TO FACILITATE THE IMPLEMENTATION OF THE ISTANBUL PROGRAMME OF ACTION (IPOA) FOR LDCS, ESPECIALLY TO HALVE THE NUMBER OF LDCS BY 2020.

Beyond the specific references to trade-related goals and targets, there is also a stronger emphasis in the new framework on achieving growth, developing infrastructure and promoting prospects for productive employment. Trade has a central role to play in contributing to these objectives. While achieving them will be a challenging task in itself, the situation is likely to prove all the more complex given the recent relatively poor track record of accomplishments of the trade-led components of the MDG framework. There is an acute burden on the multilateral trading system to deliver trade-related gains for the world's poorest, smallest and most vulnerable countries. The 2030 Agenda should also be leveraged to facilitate the implementation of the IPOA for LDCs, especially to halve the number of LDCs by 2020.

4.2.2 Operationalising trade in the 2030 Agenda for Global Action

As both the direct and the cross-cutting roles of trade are heavily emphasised in the new 2030 Agenda, a great deal will depend on the effective functioning of the multilateral trading system in materialising them. In this respect, five proposals of ways to better integrate the multilateral trading system with the SDG framework are outlined below.[5]

First, it is important to render the SDG trade-related targets relevant to the contemporary global trading landscape and its increased complexity. The landscape in 2015 is markedly different from the context for the 2000 goals (as a result of several important shifts that Part 1 outlined). Under these circumstances, it is clear the multilateral trading system and the institutions at its core, notably the WTO, will need to assume a more direct role in supporting the world's poorest and most vulnerable countries in achieving the SDGs.

Second, and as Section 4.1 of this Part reaffirmed, a successful conclusion to the WTO's Doha Round is imperative. This is now explicitly recognised as a target in the new SDG framework. The conclusion of an agreement binding all members together in a development-focused trade agenda is clearly the optimal outcome and will strengthen the multilateral trading system. Achieving this will require dealing with the progressive erosion over time of consensus among countries on the original Doha mandate; the escalating challenge of concluding the Round as a single undertaking, as was the case with the predecessor Uruguay Round; and the absence of an in-built toolkit within the multilateral trading system itself to galvanise momentum towards conclusion of a single undertaking Round.

Third, practical ways to strengthen and 'promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the WTO' (SDG 17.10) should be explored and encouraged. Continuing the status quo and assuming this goal will be achieved indirectly is not an option in light of experience with MDG 8a. A more pragmatic approach would require, among other things (Wilkinson, 2015):

- Considering and evaluating alternatives to the 'round'-based approaches, which in future could include a progressive and managed shift away from highly pressured big-expectation rounds towards realistic piecemeal negotiations that operate on a continuing and continual basis and that could help strengthen the adeptness, responsiveness and ability to act of the multilateral trading system;

- Reviewing the manner in which trade deals are negotiated, to discern how best to introduce rules-based procedural mechanisms – and, through this process, progressively developing a set of rules governing the

THERE IS A VALUABLE OPPORTUNITY FOR THE WTO TO CONDUCT REGULAR REVIEWS OF PROGRESS ON TRADE-RELATED ASPECTS OF THE SDG FRAMEWORK.

conduct of negotiations that enable all interests to be represented;

- Developing greater clarity on the substantive agenda of negotiations and specifying how these will unfold;
- Developing measures that allow for a process of arbitration for instances where differences of interpretation and/or blockages exist, and that allow for redress;
- Offering adequate and more targeted technical assistance on the practice, substance and organisation of negotiations to poorer and smaller countries.

Fourth, there is a need to deepen and extend the utility for developing countries of several elements of the WTO's current institutional architecture. These include the dispute settlement system, the technical and support services the WTO Secretariat offers and the trade policy review mechanism. There may be scope to better calibrate each of these, to help contribute more directly to the attainment of specific 2030 Agenda for Global Action goals and trade-related targets. As Section 4.1 of this Part proposed, it may also be useful to identify and extend relevant innovations that have emerged from the multilateral trading system under the Doha Round, notably AfT and S&DT measures associated with the TFA.

Fifth, an important priority should be to strengthen institutional coherence, coordination and communication among the relevant multilateral bodies to create a more effectively integrated trade-related global governance framework to drive forward the 2030 Agenda.

In this regard, the WTO and other trade-related institutions responsible for SDG implementation should develop a clearer institutional programme of action in support of the SDGs, including a short- and medium-term implementation plan. They should also establish closer working relationships with other, particularly UN, intergovernmental bodies, accompanied by an objectively verifiable monitoring and results framework. In pursuing this approach, there is a valuable opportunity for the WTO to conduct regular reviews of progress on trade-related aspects of the SDG framework. Such reviews could be carried out on a triennial basis and would be akin to the approach the institution has already adopted for the AfT initiative through regular biennial reviews, known as the Global Review of Aid for Trade.

4.3 Trade and climate change

Climate change is one of the greatest challenges facing the international community, as Part 1 of this Review outlined. The 2030 Agenda for Global Action, specifically SDG 13, calls for urgent action to combat climate change and its impacts. The UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21) in Paris in December 2015 is expected to adopt a new global climate accord with effect from 2020. This will be an essential stepping-stone in mitigating and reducing the global implications. Promoting climate adaptation also remains essential to increase developing countries' resilience to the consequences they are confronted with.

Commonwealth members, especially small states, LDCs and SSA countries, are highly vulnerable to the physical impacts of climate change. These countries also have the least capacity to diversify their production and exports in response to these impacts. In addition, there is a risk that international mitigation policies and other measures could impair their trade competitiveness. Overall, these physical and regulatory impacts of climate change can affect their development prospects through trade. However, there may also be enhanced trade and investment opportunities in economic sectors associated with the transition to a lower carbon or 'green economy', and these should be pursued.

4.3.1 Physical impacts on trade activities

Climate change may have a direct impact on what countries produce, with consequences for their trade in goods and services. Increases in temperature or reductions in rainfall may, for instance, impose a direct constraint on commodity exporters. Over the longer term, this will likely alter the comparative advantage of some countries and regions, especially where it is based on environmental factors (IPCC, 2014). Extreme weather hazards, including tropical storms and flooding, may also damage or destroy critical trade infrastructure, such as ports, roads and rails, and incur tremendous reconstruction costs. Countries vulnerable to these impacts thus confront three possibilities: 'climate change-proofing' existing products and production processes; diversifying into new products and methods of production; and diversifying into new tradable services.

Many Commonwealth countries have high export concentrations in climate-sensitive sectors such as agriculture, mining, fisheries, forestry and tourism.

In Barbados, for instance, a decrease in rainfall, rising sea levels, shifts in coastal swells and beach erosion are projected to have significant impact on the tourism industry and incur huge costs of rebuilding damaged facilities in the future (Worrall, 2015).[6] For others, like Maldives, Namibia, Tonga and Tuvalu, fisheries are important sectors of the economy and climate change may affect stocks and sustainability. In Fiji, the consequences may cause a drastic reduction in the production of sugarcane, which is a key export after fish products and bottled water.[7]

Commonwealth countries with concentrated exports in oil and gas, such as Brunei, Nigeria and Trinidad and Tobago, may find their export revenues affected by lower world demand for fossil fuels. These countries will need to diversify their economies and seek alternative sources of foreign revenues.

Agriculture is of critical importance to many SSA countries, especially LDCs, where the sector employs up to 80 per cent of the workforce. In Africa, the majority of crops are generally rain-fed and/or cultivated in marginal lands, and the capacity and institutions to assist in adapting are underdeveloped. The likely impacts on African agriculture may be unpredictable and uneven: some parts of the continent may experience more frequent droughts that severely impair farming conditions, rural livelihoods and food security; other regions may see increased rainfall and longer growing seasons that potentially increase agricultural outputs (Cosbey, 2010; IPCC, 2014).

4.3.2 Regulatory impacts on trade

Apart from these physical impacts, changing rules and regulations related to the mitigation initiatives could adversely affect the trade interests of many Commonwealth members. As these countries seek to achieve economic diversification to reduce their exposure to risks, international mitigation and other measures could make their entry into new sectors difficult.

In the absence of agreed multilateral rules on trade and climate change,[8] there is considerable scope for countries to adopt unilateral policies that may potentially distort international trade and investment. These policy measures could take the form of border carbon taxes, emissions trading schemes, subsidies, local content requirements or a range of non-tariff barriers (NTBs), such as carbon footprints, eco-labelling schemes or standards, among others.

International agreements on aviation airfares (through carbon taxation), as well as behavioural shifts owing to consumers' increased awareness, may also affect the tourism attractiveness of many countries. The Caribbean, for instance, is the most tourism- and travel-intensive region of the world, with almost 60 per cent of arrivals coming from long-haul destinations (Greene and Nurse, 2013). In sum, climate mitigation policies could potentially reduce market opportunities for some types of producers and constrain efforts to diversify exports across products and markets.

4.3.3 Harnessing the green economy

Climate change also presents economic opportunities. The transition to a lower-carbon or 'green' economy has the potential to enhance trade and investment in key economic sectors, including agriculture, fisheries, forestry, manufacturing, renewable energy and tourism (UNEP, 2013). Opening up new markets for green goods and services,[9] building capacity to implement climate-related voluntary sustainability standards and the greening by lead firms of their global supply chains are some opportunities for developing countries to benefit from such a transition.

CLIMATE CHANGE ALSO PRESENTS ECONOMIC OPPORTUNITIES. THE TRANSITION TO A LOWER-CARBON OR 'GREEN' ECONOMY HAS THE POTENTIAL TO ENHANCE TRADE AND INVESTMENT IN KEY ECONOMIC SECTORS.

The benefits for countries that do start to adapt their productive structure to climate change are increasing, as are the opportunity costs of not doing so. Acquiring environmentally friendly technologies and adopting cleaner production methods will be vital for countries to increase their competitiveness through greater efficiency. There could even be advantages in being less developed: a country can adopt the most recent technologies and leapfrog to low-carbon resilient development, such as through distributed renewable energy generation, which does not need grid infrastructure.

International measures such as carbon trading mechanisms, climate financing and AfT also offer opportunities for capacity-constrained countries to access financing to adapt and diversify their economies, including in low-carbon mitigation technologies (Box 4.3). Under the UNFCCC, developed countries have committed to mobilising jointly with the private sector $100 billion per year by 2020 to support climate action in developing countries. Thus far, however, the money raised is nowhere near that target, despite an early $30 billion commitment during the 'fast start finance' period.[10] The UNFCCC parties have also established a Green Climate Fund based in South Korea to support projects, policies, programmes and other activities in developing countries. While the Green Climate Fund is considered a major vehicle to bankroll global climate finance, it remains severely under-capitalised.

Carbon trading schemes such as the Kyoto Protocol's Clean Development Mechanism (CDM) offer developing countries a potential avenue to support the transition to a low-carbon development phase. The CDM allows emission reduction projects in developing countries to earn certified emission reduction (CER) credits, each

BOX 4.3.

PROPOSED COMMONWEALTH CLIMATE FINANCE SKILLS HUB

Commonwealth member countries face significant challenges when it comes to climate change, with small island developing states (SIDS) and LDCs topping the list of the most vulnerable. Within these countries, there is a lack of capacity and resources to adapt to the impacts of climate change. Although financial resources are slowly being made available to support climate change-related actions, SIDS, LDCs and other countries in Africa find it difficult to access international climate finance. This was the finding of a Commonwealth Expert Group on Climate Finance in 2013.

Against this background, the Expert Group proposed the establishment of a Commonwealth Climate Finance Skills Hub, which Mauritius offered to host. In 2013, Commonwealth Heads of Government mandated the Commonwealth Secretariat to work with member countries to develop a full proposal for a Commonwealth Climate Finance Skills Hub for consideration at their next meeting, scheduled for November 2015 in Malta.

The aim of the Hub is to facilitate improved access by small and vulnerable countries to climate finance to meet their priority needs in pursuing sustainable development. To do this, it will undertake on-job long-term capacity development at national and regional levels within these countries. The ultimate aim is to support national efforts to access and effectively use international climate finance for climate-resilient development.

Specifically, the Hub will deliver much-needed counterpart absorptive capacity within SIDS, LDCs and other countries in Africa to enable improved engagement with the wide range of climate readiness services that are currently on offer by the international community. The project places emphasis on strengthening existing regional climate finance platforms and linking these to national systems, recognising that countries with small administrations can draw significant benefits from pooled expert services in this area.

The project's design is based on the successful Hub and Spoke model delivered jointly by the Commonwealth Secretariat, the EU, the OIF and the ACP Secretariat in the area of trade policy (see Part 3 of this Review). The Hub will consist of a centre in Mauritius with nodes in the Asia, Africa, Caribbean, India and Pacific regions.

Source: Commonwealth Secretariat, London equivalent to 1 tonne of carbon dioxide. These CERs can be traded and sold, and used by industrialised countries to meet a part of their emission reduction targets under the Kyoto Protocol. Kenya, for example, has greatly benefited from the CDM and is considered one of the success stories for renewable energy in Africa. Compared with most other SSA countries, Kenya has attracted a relatively high proportion of CDM projects and climate financing for several projects in energy efficiency, renewable energy and reforestation (Worrall, 2015). While a number of weaknesses of the CDM have been identified, there are continuing discussions on how a reformed CDM could be used under the Paris climate agreement.

4.3.4 Translating challenges into opportunities

Several issues are important to turn the challenge of climate change into trade opportunities. First, trade and climate issues lie at the intersection of two of the world's major multilateral regimes: the WTO and the UNFCCC. However, the WTO does not have specific provisions to deal with climate change and the ongoing Doha Round negotiations do not directly address it. While the UNFCCC COP21 is expected to adopt a new global climate treaty, the interaction between these two multilateral regimes with respect to combating climate change remains unclear. This has manifested itself in a growing number of WTO disputes that involve energy, especially renewable energy.[11] This points to the need for greater alignment, coherence and 'mutual supportiveness'[12] between the multilateral trade and environmental regimes, especially following adoption of the 2030 Agenda for Global Action.

Second, over the medium to long term, climate change will affect the productive and trading capacity, as well as the competitiveness, of the poorest and most vulnerable countries. Development partners should provide technical, financial and other assistance, including transferring relevant technologies, to assist these countries to 'climate change-proof' their economies and diversify into new products and methods of production. The transition to a 'green economy' also generates new trade and investment opportunities for Commonwealth countries, and these should be pursued.

Third, and related to the above, more country-specific analysis should be undertaken so appropriate support mechanisms, including for adaptation and access to climate finance, can be devised. Since countries are heterogonous and differ by geographic location, size, levels of development and trade structure, the likely implications of climate change will vary. To be effective, support mechanisms need to be targeted and tailored to specific country circumstances and challenges.

THERE IS NEED FOR GREATER ALIGNMENT, COHERENCE AND 'MUTUAL SUPPORTIVENESS' BETWEEN THE MULTILATERAL TRADE AND ENVIRONMENTAL REGIMES, ESPECIALLY FOLLOWING ADOPTION OF THE 2030 AGENDA FOR GLOBAL ACTION.

4.4 Gender and trade: the need for more gender-equitable distribution of gains

International trade and trade agreements affect women and men differently, and can have significant implications for household wellbeing and for gender equality.[13] These differential gender impacts are influenced and determined by social norms and values, as well as factors such as access to resources, endowments, skills levels, rights and entitlements (sometimes enshrined in law) and regulatory processes. Differential gender impacts can also depend on the goods and services produced within tradable sectors, whether production occurs in the formal or informal sector and whether or not discriminatory practices are being applied within labour markets. In turn, all these factors have implications for how women and men are employed.

4.4.1 Why gender matters for trade and trade policy

Understanding and measuring the impact of trade on women is important not only because they are typically half of any population but also because the constraints women face in developing businesses or entering the labour market make them less able to benefit from the opportunities trade creates. This differential impact may also have implications for women's social mobility and their participation in public life. An underlying factor in this process is the socio-culturally derived differing roles and responsibilities of women and men within the household, coupled with differences in access to resources and entitlements. The differentiated impacts of both trade policy and trade agreements substantiate the need to recognise women not only as consumers but also as producers and socio-political agents in efforts to achieve gender equality.

Yet, despite manifest linkages between the content of international trade agreements and their differential gender impacts, there have been limited attempts over several decades of global trade negotiations to mainstream[14] or integrate gender concerns into trade policy and negotiations. With the adoption of the SDGs, there is a valuable opportunity to agree to a focused set of practical country-led and internationally supported measures to advance gender-sensitive trade-related policies. Several of the goals and targets in the 2030 Agenda for Global Action have a direct bearing on the nexus between trade policy and gender equality (Table 4.2).

4.4.2 Building gender-sensitive trade policies

Outlined below are five proposals to bring about transformative shifts towards a more gender-sensitive and gender-equitable approach to the formulation of trade policy and the negotiation of international trade agreements.

First, there is an urgent need to systemically collect and collate

TABLE 4.2.
SUMMARY OF GENDER AND TRADE LINKAGES IN THE SDGS

SDGs	Relevant target	
1. Ending poverty in all its forms everywhere.	**1.4**	Providing for equal rights to economic resources among men and women.
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	**2.3**	Providing for, among other things, equal access to markets as well as to value addition.
5. Achieve gender equality and empower all women and girls.	**5.1**	End all forms of discrimination against all women and girls.
	5.5	Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
	5.a	Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources in accordance with national laws.
	5.c	Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	**8.5**	By 2030 achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
	8.8	Protect labour rights and promote safe and secure working environments of all workers, including migrant workers, particularly women migrants, and those in precarious employment.
10. Reduce inequality within and among countries.	**10.2**	By 2030 empower and promote the social, economic and political inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
	10.3	Ensure equal opportunity and reduce inequalities of outcome, including through eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and actions in this regard.
17. Strengthen the means of implementation and revitalise the global partnership for sustainable development.	**17.18**	By 2020, enhance capacity-building support to developing countries, including for LDCs and SIDS, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts.

accessible, comparable and measurable gender-disaggregated trade data. These data can then be used to inform, develop and monitor government policies and the support development partners provide in promoting gender equality in trade-related issues. For example, data on women employment in different sectors, wages and salaries earned, education and skills levels and kind of employment are crucial before negotiating trade agreements and evaluating their impact. The absence of such data seriously undermines governments' capacity to formulate effective trade policy and, more broadly, constrains global efforts to eradicate poverty and deliver sustainable development. Addressing this challenge will require strengthening the national architecture for collecting and collating data on gender and trade.

Second, there should be more systematic and widespread use of gender impact assessments, which are comprehensive tools to aid gender mainstreaming and explain how changes to trade policy and the pattern of trade can have wide-ranging gender-differentiated impacts. These impacts are typically experienced at a sector or industry level. Measuring the extent of positive or negative consequences at these levels is important when planning adjustment policies or mitigation interventions. These social and gender dimensions should be better integrated into current sustainability impact assessments. It has also been suggested that the WTO develop the technical capacity to undertake gender analysis of trade rules (Viilup, 2015).

Third, successful gender-sensitive trade policies and practices should be identified and a cohesive nationally led and multilaterally supported programme developed to upscale these initiatives. Opportunities to promote gender-sensitive trade policies are often untapped or poorly understood.

A case in point relates to improving women's participation in tradable sectors that have benefited from trade liberalisation. Actions could include supporting women-owned export enterprises, providing fiscal and training-related incentives and targeting AfT support. Other interventions could include accelerating the integration of women in dynamic and technologically advanced economic sectors and enabling better access to finance to develop products and services in these sectors.

Fourth, it is imperative to strengthen women's voice and agency in trade policy formulation and in regional and multilateral trade negotiations. Women are underrepresented in forums that typically help shape and define the global trade regime. However, their inputs have the potential to fundamentally transform the way communities experience globalisation and, in so doing, better balance the distributional impact of international trade and improve inclusive access to resources. A crucial step towards achieving this goal will be to significantly augment opportunities for both the promotion and the training of women in senior trade negotiating roles[15]. An analysis undertaken specifically for this Review on the composition of Geneva-based trade negotiators and Heads of Delegation to the WTO found a male to female ratio of just under 2:1 among trade negotiators and approximately 3:1 at Head of Delegation level. In addition, as at March 2015, only one of the 15 councils and bodies reporting to the WTO's General Council is chaired by a female Ambassador.

Finally, a coherent medium-term action programme (national, regional and multilateral) should be developed to promote a more gender-sensitive institutional and policy architecture. This is a longer-term objective that is only likely to be achieved through early and thereafter consistent action at all levels. Implementation of the 2030 Agenda for Global Action offers an important vehicle to hasten this process, with its emphasis on policy interconnectedness, cohesiveness and coherence, plus cross-cutting policy approaches to achieving sustainable development. While many required interventions will be directly derived from trade-related actions, solutions must also be found through initiatives in specific economic sectors and policies on finance, the environment, education, training and the labour market.

IT IS IMPERATIVE TO STRENGTHEN WOMEN'S VOICE AND AGENCY IN TRADE POLICY FORMULATION AND IN REGIONAL AND MULTILATERAL TRADE NEGOTIATIONS. WOMEN ARE UNDERREPRESENTED IN FORUMS THAT TYPICALLY HELP SHAPE AND DEFINE THE GLOBAL TRADE REGIME.

4.5 Tackling the trade challenges of small states

More than half the Commonwealth's members are small states. These countries confront specific developmental challenges that have been characterised by such tags as 'Small States, Small Problems?', 'Big Problems for Little Countries', 'Beautiful but Costly', 'Small States Face Big Challenges', 'Small Is Dangerous', etc.[16] Recognition of the distinct characteristics of small states, as Part 1 of this Review discussed, and the impact of these on their prospects for achieving growth and participating effectively in the global trading system has emerged gradually. Global advocacy and analytical work led by, among others, the Commonwealth Secretariat,[17] has developed into an extensive treatment of small states' vulnerability and how to build their resilience (Box 4.4).[18]

Early studies of the impacts of size and remoteness on macroeconomic performance and trade competitiveness tended to see little need for differentiated policy approaches on account of the special characteristics of small states (e.g. Easterly and Kraay, 1999). Subsequently, and with the emergence of a stronger body of empirical evidence, including by the International Monetary Fund (IMF) and the World Bank, there now appears to be a consensus on the unique characteristics of small states affecting their economic performance (e.g. Chen et al., 2014; World Bank, 2015b).

4.5.1 Trade competitiveness challenges

Small states are among the most open economies in the world and are crucially dependent on international trade for growth, poverty reduction and employment.[19] Their relative openness makes them highly vulnerable to trade and other shocks and to fluctuations in the availability of trade and other sources of development finance. Several small states confront excessive trade costs owing to their geographic location and remoteness. Their trade costs are, on average, estimated to be at least 50 per cent higher than those for developing countries as a whole (Razzaque and Keane, 2015). Disproportionately large preference erosion owing to multilateral and regional trade liberalisation initiatives has also affected their competitiveness (Calì et al., 2013). Since their exports are often highly concentrated, the loss of trade preferences for these products (especially rice, sugar and bananas in the EU market, for instance) has had serious implications for their overall export performance. Part 1 of this Review showed small states' share of global trade continues to decline and export-orientation in their economies has suffered both absolutely and relative to other groups of global economies.

4.5.2 Tackling challenges and transformative opportunities

Several decades of collective national and international policy analysis have shifted the diagnosis of small states' challenges from requiring traditional solutions to needing heterodox measures. The shifting global trade landscape presents a range of alternatives and possibilities to shift gear for small states. To help advance this agenda, several proposals are outlined below.

First, with the adoption of the 2030 Agenda for Global Action and growing recognition of the specific challenges and vulnerabilities small states confront, there is a unique opportunity to rejuvenate a global partnership for small states' development. This partnership should prioritise innovative approaches to targeting international support to assist small states. Access to trade finance is one of the challenges impairing their export supply response. The proposed Commonwealth initiative to establish a trade financing facility for small states is a concrete example of the innovative approaches required to support small states and help improve their trade performance (Box 4.5).

Second, strengthening regional integration can address the constraints of small domestic markets and enable small states to benefit from economies of scale to augment their competitiveness. However, given the geographic remoteness and insularity of many small island states, increasing regional trade flows is often a difficult option. Nevertheless, several policy actions can be employed: at the national level to strengthen customs efficiency and trade logistics capacity; at the regional level to harmonise trade policies and promote regional value chains; and beyond this to deepen trade integration with other larger trading arrangements – for example, the Caribbean small island states with the North American Free Trade Agreement (NAFTA) and the Common Market of the South (MERCOSUR) and the

BOX 4.4.

RESILIENCE PROFILING FOR SMALL STATES

In 2004, recognising the need for a strategic approach to addressing the impact of persistent shocks on the sustainable development of small states, the Commonwealth Secretariat collaborated with the University of Malta to produce a Vulnerability/Resilience Framework. This includes a practical assessment tool aimed at helping national, regional and international stakeholders agree priority areas for policy intervention and development assistance. The tool was initially used to profile the vulnerability and resilience of three small island states –Seychelles, St Lucia and Vanuatu – yielding a set of policy recommendations and technical assistance for these countries. The initial 2004 framework prompted the development of several other indices and frameworks, contributed by a range of development partners, to study and appropriately assist small states.

The Commonwealth Framework has been periodically refreshed and strengthened, most recently in 2014. Spearheaded by an international panel of experts and founded on a series of consultative workshops, the preparation of several policy studies and the conduct of a pilot resilience profiling exercise in four countries, the framework has been adjusted and improved, incorporating additional components in resilience-building, among others the critical role of governance, in particular regulatory regimes, including the social, economic, environmental and political factors relevant to these. A practical Resilience Toolkit is also being developed to facilitate exchange of information and best practices and to enable countries to conduct self-assessments on the status of their overall vulnerability/resilience in the context of governance. These tools and methodologies are all widely disseminated, to help ensure international regulatory processes, policies and development assistance are all rendered more responsive to the development needs of small states.

Source: Commonwealth Secretariat, London

BOX 4.5.

COMMONWEALTH SMALL STATES TRADE FINANCING FACILITY

An important fallout from the 2008 global financial crisis was the contraction in trade finance, especially for many developing countries. In November 2013, Commonwealth Heads of Government through the Kotte Statement on International Trade and Investment requested the Secretariat to assess the need for and viability of a Commonwealth finance facility for those small and developing member countries without access to such resources. In addition, Heads welcomed an offer by the government of Malta to initiate a pilot mechanism among interested members to help augment trade and investment finance, particularly for small and vulnerable developing countries.

The resultant feasibility study found significant demand for such a finance facility that could trigger over $1 billion in trade.

Source: Commonwealth Secretariat, London

Pacific small island states under wider Pacific regional cooperation such as PACER-Plus and with the Association of South-East Asian Nations (ASEAN).

Third, small states should take advantage of the growth in South-South trade to boost and diversify their trade. Many of the major emerging markets are geographically closer to small states and some also offer DFQF market access to LDCs. Pacific small states, for example, have several opportunities to expand trade with Asia, including through tourism (Chen et al., 2014); to expand natural resource-based exports in minerals, hydrocarbons, fisheries and forestry products; and to invest in agriculture where there are relatively high levels of arable land. The rise of the emerging economies also enables small states to tap into new institutional and policy initiatives, including the Brazil, Russia, India, China, South Africa (BRICS)-led New Development Bank and the Asian Infrastructure Investment Bank. In addition, small states could take advantage of favourable trade preferences in major economies (such as the economic partnership agreements, EPAs) to attract export-oriented foreign direct investment (FDI) focused on those markets.

Fourth, many small states are well placed to benefit from the growth in services trade, since many sectors, like information and communication technology (ICT), business processing and some business and financial services (including business registrations and the incorporation or registration of international cargo ships), are not necessarily impeded by geographical distance. Many small states have already developed and can further benefit from their comparative advantages in these sectors (e.g. Mistry and Treebhoohun, 2009). In other services sectors, particularly tourism, there is significant scope to diversify and expand trade, including through identifying and developing niche tourism services. There may also be opportunities to link the agriculture and services sectors, such as by increasing agricultural production to supply domestic and regional tourist industries.[20]

Finally, as Part 3 elaborated, there is need for more strategically directed AfT to assist small states to improve their trade performance and address their unique trade challenges. Both the Caribbean Community (CARICOM) and the Pacific Island states are implementing regional AfT strategies. These can be useful regional approaches for identifying trade-related needs, mobilising resources and facilitating implementation. It is also important to draw lessons from AfT implementation so future interventions can be better targeted and more effective. For instance, while many small states have experienced disproportionate preference erosion, there has been insufficient support to their trade-related adjustment needs. Under these circumstances, adjustment support is needed to diversify their economies and to develop and expand new sectors of export interest.

THERE IS NEED FOR MORE STRATEGICALLY DIRECTED AID FOR TRADE TO ASSIST SMALL STATES TO IMPROVE THEIR TRADE PERFORMANCE, ACHIEVE EXPORT DIVERSIFICATION AND ADDRESS THEIR UNIQUE TRADE CHALLENGES.

4.6 Managing regional integration in Africa

SSA constitutes the largest geographical grouping in the Commonwealth and includes an overwhelming majority of the world's LDCs. Notwithstanding the development challenges, today many regard Africa as the 'rising continent', with ambitious plans for continental integration, industrialisation and infrastructure development being put in place. Unlike many small island states, where distance and economic geography can compromise regional integration efforts, Africa's contiguous borders and numerous landlocked countries [21] make deepening regional integration more practical and indispensable for reducing trade costs and improving trade performance.

4.6.1 Regional integration progress and challenges

Within a period of two weeks during June 2015, African countries launched two grand initiatives: the Tripartite Free Trade Area (FTA) (T-FTA), stretching from Cape Town to Cairo, [22] and negotiations to establish a continent-wide FTA by the indicative date of 2017. The envisaged Continental FTA (C-FTA) is one of the key pillars of the African Union's (AU's) recently adopted Agenda 2063 (AU, 2015), which sets the developmental vision and pathway for Africa over the next five decades. By one estimate, the implementation of the C-FTA among the 54 AU member states could lead to a 52 per cent ($35 billion) increase in intra-African trade by 2022 (UNECA, 2012).[23]

This larger market could also trigger a trade-investment nexus that supports Africa's structural transformation objectives. In addition to traditional mining and extractive industries, attracting greater domestic and international investment into SSA's industrial and services sectors, as well as economic infrastructure, would contribute to building more diversified productive capacity.

Currently, the SSA market is highly fragmented, with producers, traders and investors confronting a range of non-tariff and regulatory barriers in the movement of goods, services, people and capital across borders. However, in most Regional Economic Communities (RECs) there has already been substantial tariff liberalisation, and there are initiatives to consolidate this process and address the 'spaghetti bowl' of overlapping REC memberships. This has resulted in some important achievements, such as the launch of the Economic Community of West African States (ECOWAS) common external tariff in January 2015, to be implemented in a phased process. Some RECs, such as the Southern African Development Community (SADC), are more focused on consolidating their existing FTAs before embarking on deeper forms of integration. Rationalising the number of RECs and the eventual establishment of an African Economic Community as envisaged by the Abuja

Treaty may be important ways to manage well the challenges associated with overlapping memberships in different regional groupings.

To date, most regional integration initiatives have focused largely on trade in goods and border barriers to such flows. The importance of services is increasingly recognised, with both the T-FTA (Phase II) and the C-FTA including services negotiations. It is important the RECs start addressing services trade and other 'behind-the-border' issues such as investment, competition, standards and regulations and the movement of businesspersons. Establishing regional rules in these trade-related areas will help boost intra-African trade and investment and improve SSA's ability to competitively produce tradeables for regional and world markets.

More transparent and efficient implementation of regulations on standards, as well as the simplification, standardisation and harmonisation of customs and border management procedures would also facilitate greater intra-African trade. It is noteworthy that the Tripartite RECs (SADC, the East African Community, EAC, and the Common Market for Eastern and Southern Africa, COMESA), have already established an online notification mechanism that increases transparency with respect to NTBs. However, this is not an effective NTB elimination mechanism. A dispute resolution process, with access for private parties, may be important. As Part 3 noted, it is the private sector that produces and trades in goods and services; and when they encounter NTBs, for example, goods stuck at a border post, expeditious resolution of such problems is essential (Hartzenberg, 2015).

4.6.2 Diversifying trade and investment partners

Besides advancing this continental integration agenda, African countries are also deepening trade and investment relations with their established partners, such as the EU and the USA, and emerging global players, especially China and India. Distinct shifts in trade flows are taking place in which the relative significance of trading with developing country partners has increased remarkably, as Part 1 showed. Managing these multiple trading arrangements and external partnerships will be a key challenge for the coming decades.

Traditional partners such as the EU and USA remain important to SSA for trade, investment and development cooperation. After more than a decade of negotiations, the conclusion of EPAs between the EU and some countries in the SADC, West Africa and EAC EPA Groups is a major achievement,[24] notwithstanding some concerns about the developmental impact of these new trade treaties. The EPAs could also present a puzzle for Africa's continental integration agenda. Most of the EPA groupings do not match the AU's official RECs, which may further complicate the institutional 'spaghetti bowl' in Africa.[25] The various SSA EPA Groups have also negotiated different tariff and legal provisions with the EU, with implications for the process of establishing customs unions. The next step is to ratify and implement the EPAs, for which SSA countries require considerable AfT and other support, especially for trade-related adjustment.

The African Growth and Opportunity Act (AGOA), recently renewed until 2025, is the centrepiece of US-Africa trade and investment relations. However, trade between Africa and the USA remains very limited and highly concentrated in certain sectors, especially clothing and textiles and hydrocarbons. Overall, exports from AGOA countries to the USA fell from $72.4 billion in 2011 to $25.6 billion in 2014.

BESIDES ADVANCING AN AMBITIOUS CONTINENTAL INTEGRATION AGENDA, AFRICAN COUNTRIES ARE ALSO DEEPENING TRADE AND INVESTMENT RELATIONS WITH THEIR ESTABLISHED PARTNERS, SUCH AS THE EU AND THE USA, AND EMERGING GLOBAL PLAYERS, ESPECIALLY CHINA AND INDIA.

Several countries have benefited significantly from AGOA. Lesotho, a small landlocked LDC, has developed a thriving garment industry, attracting investment into this sector as a result of favourable tariff preferences and rules of origin, which permits Less Developed Countries (as defined in AGOA) to import fabric from a third country. South Africa has the most diversified profile of exports benefiting from US trade preferences, and AGOA has helped integrate its motor vehicles and components industry into the global automotive value chain. The other main beneficiaries of AGOA are oil-exporting countries such as Angola, Chad and Nigeria.

A MAJOR PRIORITY FOR SSA COUNTRIES IN THEIR RELATIONS WITH THE EMERGING ECONOMIES IS TO SHIFT THE STRUCTURE OF TRADE, REDUCING THEIR DEPENDENCE ON PRIMARY COMMODITIES AND NATURAL RESOURCES FOR EXPORTS.

While AGOA trade preferences have supported a few SSA countries to develop much-needed industrial capacity, specifically in the garments sector, most countries have not directly benefited (Condon and Stern, 2010; Naumann, 2015). Many SSA countries are unable to take advantage of the available preferences owing to their lack of productive capacity and trade-enabling infrastructure, as outlined in Part 3. The same challenge afflicts many LDCs when seeking to export to the EU under the Everything But Arms (EBA) scheme. Many SSA countries have also called for broader product coverage under AGOA and more flexible rules of origin, which would have a greater developmental impact in the continent.

Many SSA countries are also strengthening South-South economic ties with the major emerging economies. Trade with Brazil, China and India, among others, is growing rapidly, as is economic cooperation activities across a wide range of sectors. If not managed judiciously, the potential benefits of these engagements could be undermined by Africa's own trade integration arrangements or trade agreements. Where these and other arrangements divert trade away from more competitive and dynamic trading partners, including developed countries, SSA could be confronted with adverse welfare consequences.

A major priority for SSA in their relations with the emerging economies is to shift the structure of trade, reducing their dependence on primary commodities and natural resources for exports. SSA countries should consider practical measures to promote diversification under their regional integration initiatives. As Part 1 highlighted, intra-African trade is more manufacturing-oriented than Africa's overall trade. Investment and technology transfer from emerging economies and elsewhere can boost the related capacity further. SSA countries should also seek to attract investment that refines and processes minerals and commodities at source and develops value chains in the continent. Many African governments have already signed trade, investment and development cooperation agreements or entered into deals that transact infrastructure for minerals, although these are not without controversy. Some emerging economies, mainly China, are investing in infrastructure and this should be promoted further, since efficient infrastructure facilitates trade, reduces trade costs and helps promote greater economic integration within the region.

4.6.3 Towards more effective trade integration

There is an extensive literature on the obstacles and challenges for Africa's integration agenda. These reports and studies, by the World Bank, the UN Conference on Trade and Development (UNCTAD), the UN Economic Commission for Africa (UNECA), the RECs and donors,[26] among others, propose a range of concrete measures and action plans to ensure more effective integration in Africa. That said, there are at least four short- to medium-term key considerations for SSA countries.

First, AU member states should prioritise and fast-track the negotiations to establish an Africa-wide FTA by the indicative date of 2017. They will need to carefully consider how to progress from the T-FTA to the C-FTA, and what measures may be necessary to ensure a balanced distribution of the gains from trade integration, especially for the poorest SSA countries. In order to materialise the benefits, the implementation challenges associated with trade agreements, as highlighted in Part 3 of this Review, should be given the utmost consideration.

AFRICAN COUNTRIES NEED TO DELICATELY MANAGE THEIR MULTIPLE TRADING RELATIONSHIPS WITH COUNTRIES IN BOTH THE NORTH AND THE SOUTH TO ENSURE THESE PARTNERSHIPS SUPPORT THE CONTINENT'S INTEGRATION AND INDUSTRIALISATION OBJECTIVES AS OUTLINED IN THE AU'S AGENDA 2063.

Second, the policy focus should be to achieve deeper regional integration rather than trade agreements that reduce tariffs only. A deeper integration agenda that addresses 'behind-the-border' issues will be most effective in promoting trade and investment linkages.

Third, market integration needs to be accompanied by coordinated investments in cross-border infrastructure (such as the North-South Corridor) and measures to build more diversified productive capacity, including through regional value chains.[27] This will require mobilising domestic and international investment, as well as leveraging development finance. The BRICS-led New Development Bank, which includes an Africa Regional Centre to be based in South Africa, as well as other regional and multilateral development banks and bilateral donors could play an important role in financing cross-border infrastructure and industrial projects in the continent.

Finally, African countries need to delicately manage their multiple trading relationships with countries in both the North and the South to ensure these partnerships support the continent's integration and industrialisation objectives as outlined in the AU's Agenda 2063.

4.7 Effective and gainful participation in global value chains

The intensification of GVC-driven trade continues to attract considerable policy attention. The idea of fragmented production processes involving firms located in different places is not new. Rather, the implications for conventional trade and industrialisation strategies and the distributional consequences of participation in the process are now being acknowledged, especially for countries with limited trading capacities and primary commodity exporters. A burgeoning literature explores various issues, including statistical measures of the current level of participation in GVCs and policy options for promoting them. However, securing effective and gainful participation of such countries as SSA, LDCs and small states will require greater consideration of and appropriate policy response to their certain special development challenges and characteristic features of the ongoing GVC mechanism.

4.7.1 Measuring 'gainful' participation

The increasing internationalisation of production processes has resulted in a dramatic rise in trade in intermediate goods. The measurement of value-added trade and GVC participation has thus assumed particular importance. A range of methods to assess the extent of participation in GVCs exist. However, it is simply not possible to get an accurate picture of 'gainful' participation through the use of a single method. How countries participate and where they are located within the value chains matters. Countries specialising in pre-manufacturing (e.g. research and development, standardisation and design) and post-manufacturing (e.g. logistics, marketing and brand development) activities are able to capture more value in GVCs compared with countries that specialise in the manufacturing of the products.

Participation at the lower end in GVCs by merely exporting raw materials and basic commodities is generally considered not very helpful. A large majority of LDCs, small states and SSA countries have failed to add more value by processing their primary exports and moving up the value chains. Therefore, commodity exporters tend to become trapped in captive value chains (Keane, 2012; Nissanke, 2010), exporting low value-added items with lower gains accruing over time (Banga, 2013). This disadvantageous process is also known as 'immiserising growth' (Kaplinsky, 2005) – a phenomenon recognised in the literature of the 1980s and 1990s but not given due attention in the current policy discourse.

4.7.2 Asymmetric distribution of value and inherent country characteristics

There is concern that the breaking down of complex products into a large set of small tasks could relegate some states to a peripheral role – a location for the lowest-value addition tasks within a GVC without any offsetting growth in the number (and breadth) of tasks being performed. So far, the greatest gains are concentrated on a small number of countries. There have been longstanding concerns regarding the distribution of value-added within established GVCs. For example:

- It has been estimated that the farm-gate price of coffee, which is subsequently divided up domestically among traders, producers and labourers, represents only around 10 per cent of the final retail price of coffee sold on supermarket shelves, as against at least 22 per cent accruing to retailers (Fitter and Kaplinsky, 2001).

- Lead firms in developed countries retain an estimated 70 per cent of the retail price for garments; manufacturing activities, including sourcing of raw materials from third countries and the involved shipping costs, account for the remaining 30 per cent (Moongate Associates, 2013).

- In horticulture, it has been estimated that Kenyan growers receive 15 per cent of the final retail value as against the 64 per cent retailers retain (Hortiwise, 2012).

The highly asymmetric distribution of values, along with implied power relations between lead firms and local suppliers, is not conducive in terms of advancing desired social and developmental objectives. Often, women's employment is concentrated in the sectors with low value-added gains. Buyers and lead firms are becoming more demanding but they do not always provide support, transfer knowledge and capabilities or offer higher price margins to incentivise economic and social upgrading.[28] Therefore, there could be risks in advancing GVC integration without addressing the governance structures of value chains.

Along with the share of very low valued-added, high trade costs for many developing countries, often because of their inherent characteristics, make value chain participation extremely difficult. A large number of LDCs, small states and SSA countries are disadvantaged by the small size of their domestic markets in conjunction with their unfavourable geographical location (e.g. remote island states and landlocked countries), as reflected in very long distances from global centres of commercial activity. This inflicts serious disadvantages in terms of trade costs.[29] While geographical distance between bilateral trading partners exerts the largest impact on trade costs, other factors, such as poor liner shipping connectivity and the small size of the consignments of goods traded, again beyond the control of these countries, are also shown to have adverse effects (Arvis et al., 2013). The resultant excessive costs seriously affect trade competitiveness and GVC participation.[30] The implication is that, because of geographical location alone, foreign firms may be reluctant to move or relocate their production to these countries even when the wages are low (Redding and Venables, 2004).

Hence, the typical policy prescriptions of trade openness and improved trade facilitation measures, along with good domestic policies automatically attracting FDI and enhancing GVC participation, may not be very effective under these circumstances. It has been argued that distance matters more in supply chains, and, even with today's ICT revolution, global

THERE COULD BE RISKS IN ADVANCING GVC INTEGRATION WITHOUT ADDRESSING THE GOVERNANCE STRUCTURES OF VALUE CHAINS.

A NARROW FOCUS ON TRADE FACILITATION MEASURES, ALTHOUGH NECESSARY, WILL NOT BE SUFFICIENT TO INDUCE MORE INCLUSIVE GVC DEVELOPMENT. THERE IS A NEED FOR MORE TARGETED AID FOR TRADE SUPPORT.

production networks are likely to remain concentrated in low-wage nations that are near, or even contiguous with, high-technology nations (Baldwin, 2011).

4.7.3 Strategic choices in promoting GVC participation

In light of the foregoing discussions, advancing gainful GVC participation would require judicious strategic choices for capacity-constrained countries. A few options are outlined below.

First, there is increasing interest in the expansion of value chains involving regional Southern partners. For instance, as much as 40 per cent of trade that takes place between SSA countries is in manufacturing, indicating significant scope for developing diversified regional production networks. Intraregional value chains may be less tightly controlled by lead firms and thereby offer greater upgrading opportunities for local firms (Navas-Aleman, 2011). Another important aspect of the rise of developing countries is that new markets and growth centres may now be more closely related to growth in neighbouring countries. This can also help overcome some of the trade cost disadvantages mentioned above. For small economies and firms, regional value chains linking neighbouring countries can offer more sustainable growth opportunities and manageable scales than do global markets (Gereffi and Luo, 2014). They may also offer greater learning, as capability and absorptive gaps may be lower.[31]

Second, since high trading costs impair the ability of many Commonwealth countries and firms to compete on price in international markets, their position as distributors of goods and services could provide an important foothold within marketing and distribution networks (Rainer and Hans-Peter, 2015). Not only are nodes such as marketing, retail and distribution where the most value-added resides within GVCs, but also recent data suggest services account for 30 per cent of the share of value-added in manufactures trade (OECD, 2013). Support services such as infrastructure, human resources, technology development, procurement and marketing are just as important as core business activities. Along with these, developing traditional services sectors of interest to many Commonwealth countries, such as tourism, can help with better integration into services-related GVCs.

Third, trade policy options remain important. Where there exist un-/ or under-utilised trade preferences, policy incentives can be used to attract investment in linking the sector to GVCs. Some policy instruments may require finer tuning in view of trade in tasks (i.e. fragmentation of production processes) rather than final goods.[32] Exploring dynamic comparative advantage can also comprise a policy option in which capacities can be developed to gainfully link to GVCs in the future. In this regard, the need for productive sector (comprising manufacturing, services and agriculture) policy has been emphasised (Kaplinsky and Morris, 2014).

Fourth, capacity-constrained developing countries will require technical and financial assistance in linking to GVCs. AfT support has been in use for enhanced regional integration and improved trade facilitation measures. However, a narrow focus on trade facilitation measures, although necessary, will not be sufficient to induce more inclusive GVC development. There is a need for more targeted support, as Part 3 argued. Key donors have begun to adapt their strategies towards more focused interventions. For example, Australia, under its new AfT Strategy (DFAT, 2015), has included the regional approach to value chain developments as a policy priority. Small states in particular should also actively seek support in developing and linking to services trade-led value chains.

Finally, governance of GVCs, including the distribution of value-added across supply chains and relationships between lead firms and local suppliers, is an area that needs to be better understood and perhaps globally addressed to make it possible to secure effective and gainful participation of weaker and vulnerable developing countries. The current pattern of highly unequal distribution of value-added is not conducive to inclusive approaches to development. Simply reducing trade costs at the border is unlikely to alter existing distributional patterns. It has been suggested that whether or not to actively promote GVCs is a strategic choice for policymakers (OECD et al., 2013). However, consideration of the viability of existing global governance in promoting effective and gainful participation has not been given due consideration.

GOVERNANCE OF GVCS, INCLUDING THE DISTRIBUTION OF VALUE-ADDED ACROSS SUPPLY CHAINS AND RELATIONSHIPS BETWEEN LEAD FIRMS AND LOCAL SUPPLIERS, IS AN AREA THAT NEEDS TO BE BETTER UNDERSTOOD AND PERHAPS GLOBALLY ADDRESSED TO MAKE IT POSSIBLE TO SECURE EFFECTIVE AND GAINFUL PARTICIPATION OF WEAKER AND VULNERABLE DEVELOPING COUNTRIES.

Endnotes

1. The topical issues outlined in Part 4 were discussed in various meetings organised by the Commonwealth Secretariat, including a Commonwealth Expert Group on Trade, the Commonwealth Trade Symposium and the G20 - Commonwealth dialogue. The seven perspectives reflect the discussions and outcomes of those meetings.
2. At the outset of the Round, a set of three issues – namely TRIPS and Public Health, Implementation-Related Issues and Concerns and Special and Differential Treatment (S&DT) – were considered priority development issues in the DDA.
3. The BIA refers to planned negotiations on agriculture and services, as well as various reviews of several Uruguay Round Agreements that were already mandated at the start of the WTO.
4. Part 3 of this Review discusses the developments with respect to preferences in services trade for LDCs. They are yet to be materialised.
5. This draws on Wilkinson (2015).
6. The tourism sector in Barbados is projected to incur annual losses of $283 million by 2050, rising to over $850 million by 2080, with the cost of rebuilding damaged facilities over $400 million by 2050 and up to $946 million by 2081 (Mandle, 2013). Barbados will need to adapt and diversify its tourism services and promote more productive sectors of the economy.
7. The Asian Development Bank (ADB) forecasts a general decline in sugarcane of 5-9 per cent by 2050 and 7-21 per cent in 2070.
8. To avoid the proliferation of climate measures adversely impacting international production and trade, UNFCCC Article 3.5 requires that 'Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.'
9. A number of WTO members are negotiating a plurilateral Environmental Goods Agreement, and this initiative is open to all WTO members to join. Asia-Pacific Economic Cooperation (APEC) countries have also agreed to reduce applied tariffs on a list of 54 environmental goods by the end of 2015.
10. At the UNFCCC COP15 in Copenhagen in 2009, developed countries promised to provide $30 billion for the period 2010-12 (known as 'fast-start finance') and to mobilise long-term finance of a further $100 billion a year by 2020 from a variety of sources.
11. In addition, from 2010 to 2014, 45 WTO members notified countervailing duties actions to the WTO on energy products or inputs, relating to both fossil fuels and renewable energy. From 2012 to 2014, 87 members notified anti-dumping measures on energy products or inputs. See Espa and Rolland (2015).
12. Article 31 of the WTO's Doha Ministerial Declaration calls for enhancing the mutual supportiveness of trade and environment through negotiations on (1) the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs); (2) procedures for regular information exchange between MEA secretariats and the relevant WTO committees, and the criteria for the granting of observer status; and (3) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.
13. Carr and Williams (2010); Commonwealth Secretariat (2010); Randriamaro (2006); UNCTAD (2013); World Bank (2012a).
14. 'Gender mainstreaming is the process of assessing the implications for women and men of any planned action including legislation, policies or programmes, in any area and at all levels. It is a strategy for making the concerns and strategies of women and men an integral part of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and societal spheres, so that women and men can benefit equally, and inequality is not perpetuated'. The ultimate goal of gender mainstreaming is to achieve gender equality (ECOSOC, 1997, in Commonwealth Secretariat, 2012).
15. See Atthil et al., 2007; Carr and Williams (2010); Commonwealth Secretariat (2010).
16. These tags are respectively from Easterly and Kraay (1999), The Economist (2014), Winters and Martins (2004) and Harden (1985).
17. See, for example, Briguglio et al. (2006); Commonwealth Consultative Group (1985, 1997; Commonwealth Heads of Government (1989); and, more recently, Lewis-Bynoe (2014).
18. Sustained global advocacy also led to internationally-agreed calls for platforms of action to address the wide-ranging challenges of small states, including the Barbados Plan of Action for the Sustainable Development of Small Island Developing States (BPOA) a cohesive programme of policy action for small island developing states, including recommendations for the trade-led contributions to sustainable development, adopted by the United Nations in 1994

and subsequently refreshed every decade. The Barbados Plan of Action for the Sustainable Development of Small Island Developing States was reviewed and updated in 2005, yielding the Mauritius Strategy for the Further Implementation of the BPOA; and more recently in Samoa (2014), producing the SAMOA Pathway.

19. World Bank (2015) highlights that, for many Caribbean small states, the poorest 40 per cent of households have a higher share of workers employed in exporting than in non-exporting sectors.

20. It is estimated that some 70 per cent of food required by the Pacific tourist industry is imported, which, if substituted with locally produced foodstuffs, can reduce foreign exchange outflows, increase domestic agricultural output and employment, improve fiscal revenue and overcome barriers to Pacific agricultural exports, including stringent sanitary and phytosanitary restrictions (Chen et al., 2014).

21. The 54 African Union (AU) member states include three island states: Madagascar, Mauritius and Seychelles. There are 15 landlocked countries in Africa, of which seven are Commonwealth members. Lesotho is entirely landlocked by South Africa.

22. The T-FTA links up three Regional Economic Communities (RECs) – namely, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). It was launched with the signatures of 16 of the 26 member states that are participating in the negotiations.

23. This estimate is based on tariff liberalisation accompanied with efforts to improve trade-related infrastructure and customs procedures and reduce transit and other trade costs.

24. Some countries in the Central Africa and Eastern and Southern Africa (ESA) EPA Groups are provisionally applying their interim agreements while negotiations continue.

25. The EAC EPA is the most notable exception. However, Tanzania was originally a member of the SADC EPA Group.

26. See, for example, World Bank (2012); UNCTAD's Economic Development in Africa series; UNECA's flagship reports; and AU (2012).

27. In one estimate, removing tariffs on leather and leather products could almost quadruple average annual intra-regional trade in these products from $245 million to $997 million, whereas removing all NTBs could boost this figure tenfold (Banga et al., 2015).

28. Buyers and private firms often ask for compliance with private standards. For discussions on social upgrading and the role of lead firms, see Pietrobelli (2008), among others.

29. According to one estimate, average trade costs for small island states and landlocked SSA economies are, respectively, more than 50 and 100 per cent higher than those of developing countries as a group (Razzaque and Keane, 2015). This is based on an analysis of trade costs data, measured in ad valorem equivalent terms, from a pioneering World Bank-UN Economic and Social Commission for Asia and the Pacific (UNESCAP) project (Arvis et al., 2013). Discussions on the approach of measurement issues can be found in Part 2 of this Review.

30. Ad valorem transport costs of 20 per cent on both final output and intermediate goods have been shown to reduce domestic value-added (including wages and profits) by 60 per cent when intermediate goods account for 50 per cent of costs (Limao and Venables, 2001; Redding and Venables, 2001).

31. Goger et al. (2014) suggest growth in South-South trade changes the mix of requirements and standards such that the emerging value chains are likely to have different upgrading or downgrading trajectories depending on the geographic end market or firm ownership dynamics.

32. See Keane and Basnett (2015), who argue governance capabilities are heightened within the realm of trade in tasks and the current ascendency of GVCs.