The Commonwealth

Small States Matters

Number 1, 2021

Impact and Recovery from COVID-19 for Commonwealth Small States

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ISSN: 2664-0961 (print)

ISSN: 2664-097X (online)

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1. Introduction

Commonwealth Small States (CWSS)[1] have been successful at keeping COVID-19 at bay, with low infection rates. Combined, the 32 small states have less than 0.2 per cent of the 58 million cases globally and 0.8 per cent of the 13 million Commonwealth cases.[2] Five CWSS – namely, Kiribati, Nauru, Samoa, Tonga and Tuvalu – have managed to keep the virus out completely. However, the measures used to achieve these health successes – that is, lockdown restrictions and border closures – have had a significant economic impact and led to great losses in gross domestic product (GDP), employment and trade. There have been disruptions to trade in services, particularly tourism, and in the movement of goods, resulting in price slumps for commodities. Overall, the global pandemic has resulted in an economic and social cost for all, reflected in a global GDP contraction of 4.9 per cent and projected elevated rates of poverty (WEO 2020).

In 2019, the combined GDP of CWSS was estimated at US$220 billion, projected to increase by an average of 2.8 per cent across all countries.[3] Since the pandemic hit, GDP growth has been revised to decrease by an average of 7.6 per cent, with variations across regions and countries. Regionally, Asian and Caribbean small states are projected to experience the highest GDP contraction, at an average of 9.2 per cent, followed by African small states, with an average of 7.65 per cent, and Pacific small states, with 5.1 per cent (Figure 1). For countries highly dependent on tourism, such as Antigua and Barbuda, Fiji and Maldives, economic growth is projected to decline by over 15 per cent in 2020. Projections for 2021 are positive for all regions, with the Asian region expected to record an 8 per cent expansion in GDP

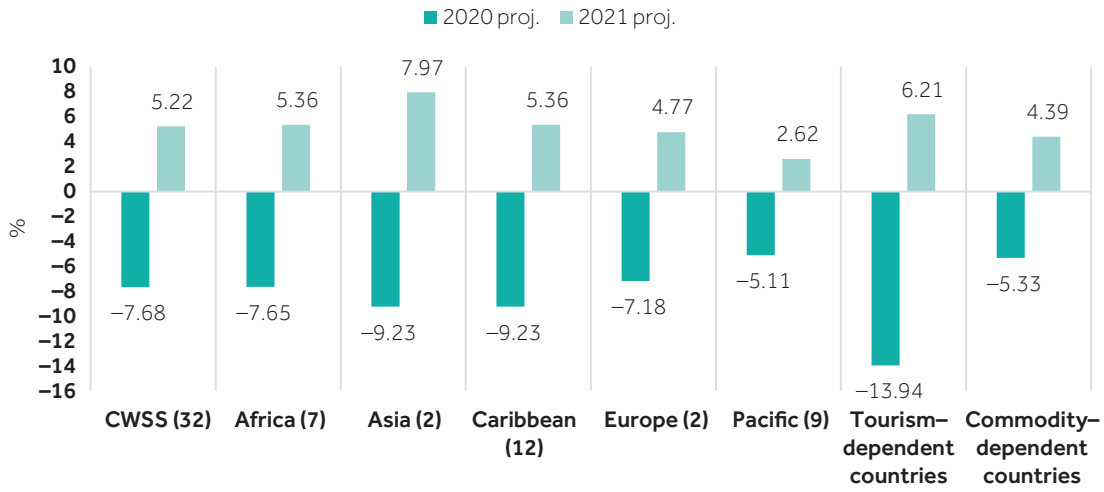
* This briefing paper was prepared by the International Trade Policy Section under the guidance of Brendan Vickers, Adviser and Head of Section, with data analysis by Hilary Enos-Edu, Assistant Research Officer.

1 CWSS are defined as (i) countries with a population of 1.5 million people or fewer and (ii) countries with over 1.5 million people but that share similar characteristics; these include countries such as Botswana, Jamaica, Lesotho, Namibia and Papua New Guinea. Of the 54 Commonwealth member countries, 32 are considered small states.

2 Cases as of 23 November 2020.

3 Average excludes Guyana. Guyana's economic growth was projected to increase by 85 per cent in 2019 in anticipation of the county's development of oil production (International Monetary Fund, 2019). Following the impact of the pandemic, Guyana's GDP is now projected to increase by 26 per cent.

Figure 1. Economic outlook for CWSS, 2020 and 2021 (simple average %)



Source: Authors using IMF World Economic Outlook data, October 2020.

and Maldives' GDP anticipated to increase by 13 per cent. However, Samoa and Tonga are expected to continue to contract economically.

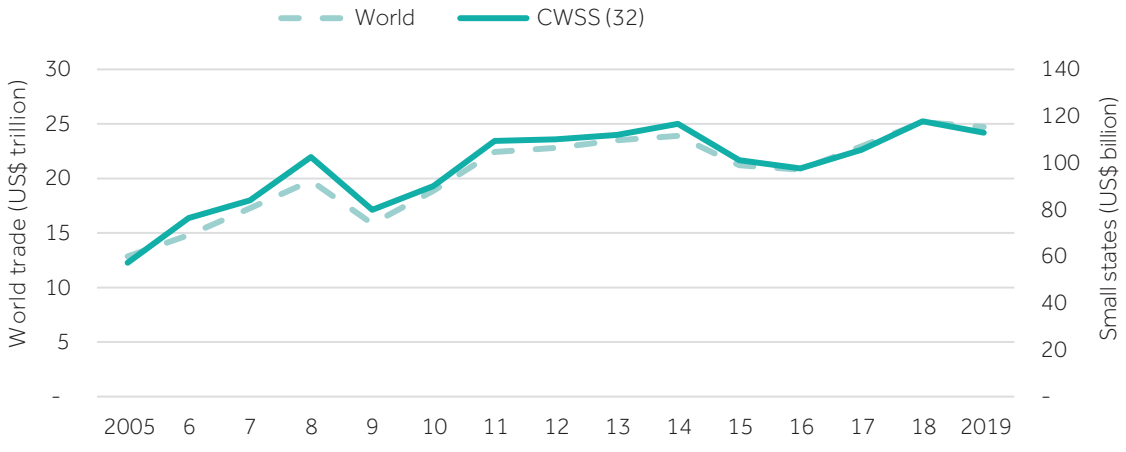
Trade challenges facing CWSS precede COVID-19 and relate not only to their small size and remote geography but also to disproportionately high trade costs, diseconomies of scale, inadequate infrastructure, concentrated production and export sectors, and vulnerability to recurrent natural disasters. These challenges will now have to be tackled in tandem through devising post-COVID-19 recovery and resilience strategies. This paper assesses the impact of COVID-19 on the trade and investment prospects of CWSS, focusing especially on commodities and tourism. Having provided this overview, it then proposes several policy options for consideration to support a more sustainable economic recovery in CWSS and to build resilience to future shocks.

2. The COVID-19 shock and trade and investment flows

Trade in goods and services

In 2019, CWSS exported US$112 billion in goods and services to the world, approximately 0.5 per cent of global exports and 3 per cent of

Figure 2. Pattern of trade in goods and services, 2005–2019



Source: Authors using UNCTADStat data.

Figure 3. Significance of intra-Commonwealth merchandise exports for small states, 2010–2019

Source: Authors using UNCTADStat data.

overall Commonwealth exports. The two EU member countries that are also small states, Cyprus and Malta, contributed approximately one-third ($38 billion) of the overall trade. They were followed by the Caribbean small island developing states (SIDS) with $27.5 billion, sub-Saharan African (SSA) small states with US$20.8 billion, Pacific SIDS with $15 billion and two Asian countries with $12 billion.

In absolute terms, the pattern of trade for all the CWSS mirrors that of world trade, which reflects their high dependence on international trade and relative economic openness. As can be seen in Figure 2, trade and economic downturns projected at the global level will most likely also be experienced by small states.

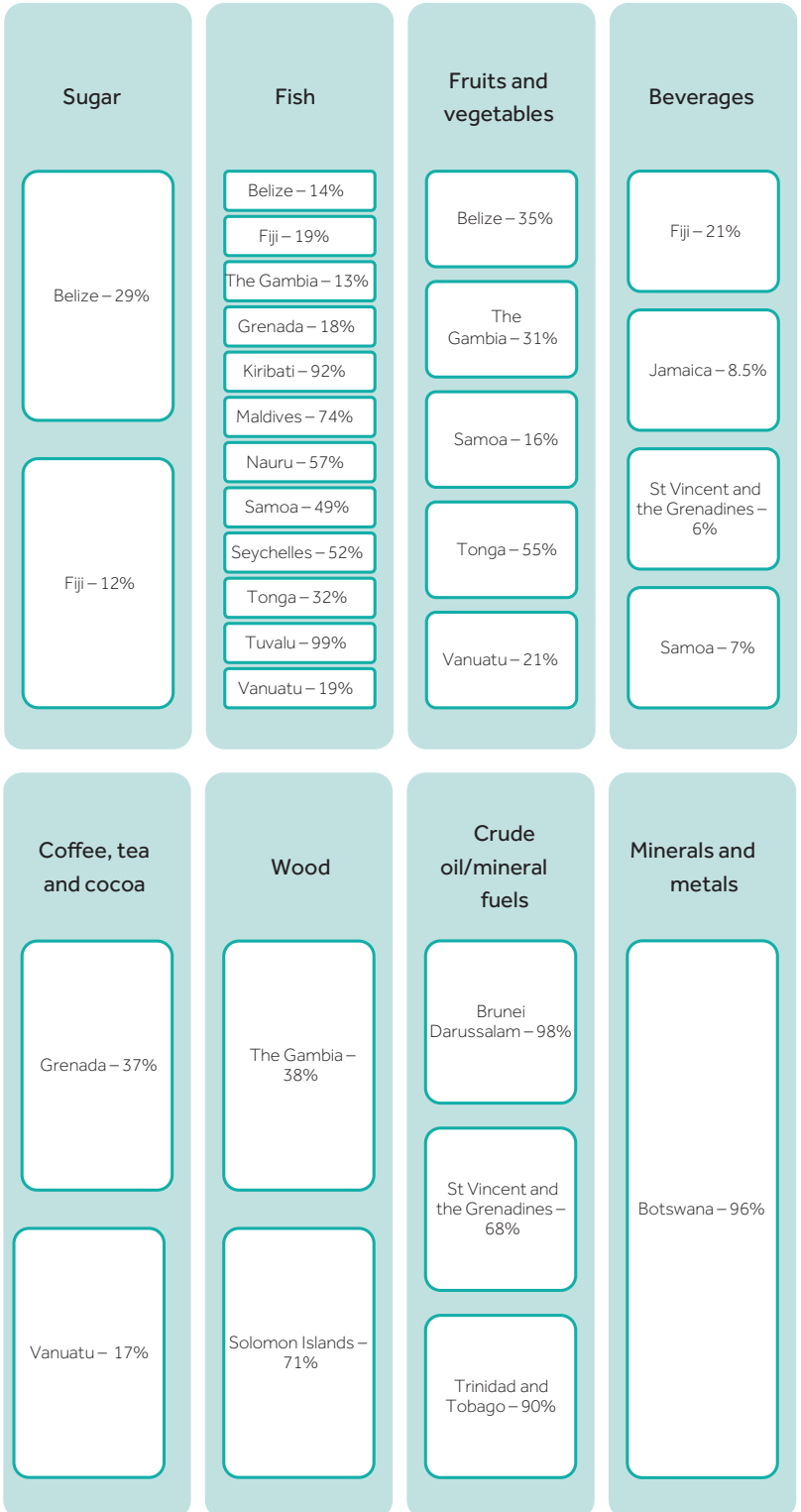
As of 6 October 2020, the World Trade Organization (WTO) forecast world merchandise trade volumes to fall by 9.2 per cent and trade in services, exacerbated by restrictions on international travel, by 23 per cent in 2020 (WTO 2020a). While, on average, the composition of goods to services for CWSS is 50:50, the share of trade in services in total trade for the European and Caribbean regions is higher than that of goods (see below on trade in services). For both Cyprus and Malta, the share of trade in services is over 80 per cent, whereas for most of the Caribbean SIDS, with the exception of Belize and Guyana, it is over 70 per cent. In other regions, services also play a significant role in trade. Services account for 90 per cent of overall trade in the Maldives, more than 80 per cent in Samoa and Tonga, and around 70 per cent in Seychelles.

Intra-Commonwealth trade

CWSS depend significantly on intra-Commonwealth trade with other member countries. Specifically for merchandise trade,[4] the share of intra-Commonwealth trade is higher than that of overall intra-Commonwealth trade (Figure 3). In 2019, the share of intra-Commonwealth trade was 1.8 times (31.7 per cent) higher for CWSS than was the average intra-Commonwealth trade (17.4 per cent). This has been consistent over time, underscoring the economic value of Commonwealth membership for small states.

4 Merchandise trade refers to trade in goods.

Figure 4. Commodity-dependent small states by commodity type and share



Source: Authors using UNCTADStat data.

"CWSS depend on intra-Commonwealth trade with other member countries."

Most of this intra-Commonwealth trade takes place on a regional basis. Almost 80 per cent of intra-Commonwealth trade for Pacific SIDS is with Australia, New Zealand and other Commonwealth Pacific countries, with Fiji, Samoa and Tonga trading over 80 per cent with Commonwealth regional partners. For Caribbean SIDS, intra-regional Commonwealth trade averages 52 per cent, with Dominica, Grenada and St Vincent and the Grenadines trading over 90 per cent with other Caribbean Commonwealth members, owing to, among others, preferential trading arrangements under the Caribbean Community (CARICOM). The trend is similar for Africa, with 70 per cent intra-regional trade, mainly bilateral trade with South Africa.

Trade in commodities

Trade in commodities is an essential element of the goods trade of developing countries. The United Nations Conference on Trade and Development (UNCTAD) (2019) defines commodities as products stemming from agricultural to mining production that have not yet been transformed. This includes agricultural products,[5] tropical beverages, energy, minerals, ores and metals. Countries that trade more than 60 per cent of their total merchandise exports in commodities are considered commodity-dependent, with more than half (i.e. 18) of CWSS falling into this category. Figure 4 illustrates the main commodity exports by country.

5 Commodities include food and live animals (meat and meat preparations; dairy products and birds' eggs; fish, crustaceans, molluscs and preparations thereof; cereals and cereal preparations; vegetables and fruits; sugar, sugar preparations and honey; coffee, tea, cocoa, spices, and manufactures thereof; feedstuff for animals (excluding unmilled cereals); miscellaneous edible products and preparations; beverages and tobacco).

Box 1. Goods in focus: fisheries

More than one-third of the world's coastal ocean lies within Commonwealth jurisdictions. For many CWSS that also identify as SIDS, the average maritime to land area ratio is 20:1. Variations exist between countries, with four SIDS – Kiribati, Maldives, Seychelles and Tuvalu – having ratios in the thousands while Antigua and Barbuda, Barbados, Malta, Mauritius and Tonga have ratios in the hundreds. For these countries, given their expansive Exclusive Economic Zones (EEZs), fisheries are a large part of their exports. An exceptional case is that of The Gambia. With an EEZ of 10,500 km_2, the country is rich is terms of fish species abundance and diversity, making up approximately 11 per cent of the country's exports (UNCTAD 2014).

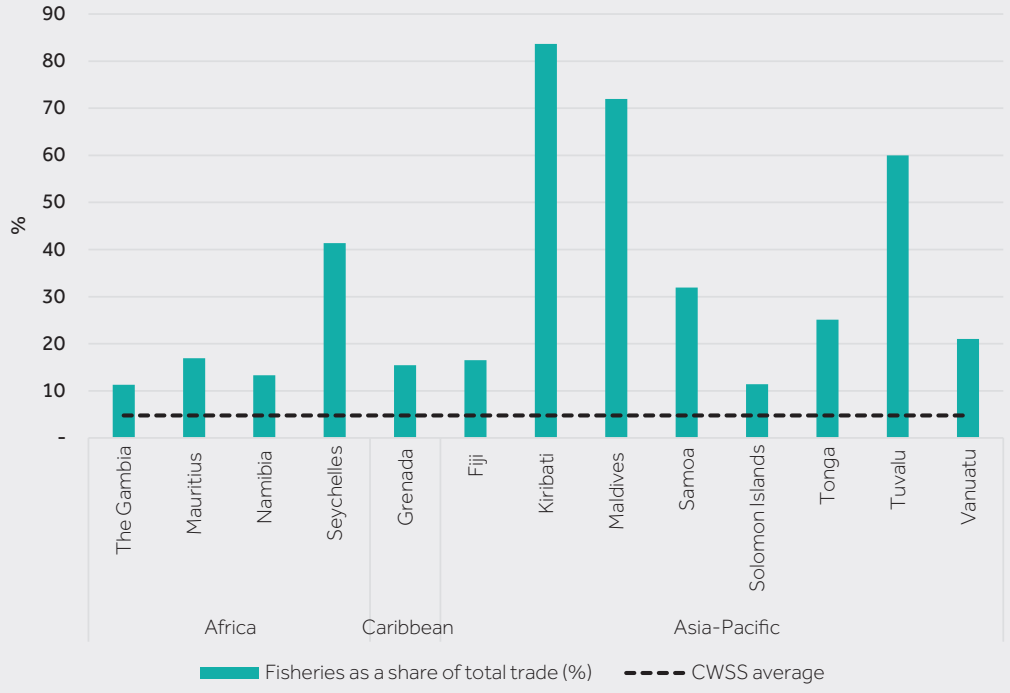
Figure 5 illustrates that, for Kiribati, fisheries make up 83 per cent of trade in goods; this is followed by Maldives (72 per cent), Tuvalu (60 per cent) and Seychelles (41 per cent). Fisheries make up more than 10 per cent of merchandise trade for 13 of the 31 CWSS.

Linked to commodity prices and commodity dependence for countries such as Kiribati, Maldives and Tuvalu, there is a need to prioritise sustainable fishing practices and investment in fisheries processing and value addition as well as market and product diversification.

Despite the reliance on fisheries, some of these small states continue to face challenges that have both international and national implications for their economic growth and sustainability. One challenge is that of illegal fishing subsidies, particularly for large-scale industrial fishers. Another challenge,

despite countries' large maritime to land ratio, is capacity shortages. Many small states lack the capacity to fully exploit fish resources in their vast EEZs. One way to mitigate this is through issuing fishing licences to foreign vessels for access to their EEZs.

Figure 5. Significance of fisheries for Pacific and African small states, 2019 (%)



Source: Authors using UNCTADStat data.

Impact of COVID-19 on commodities trade

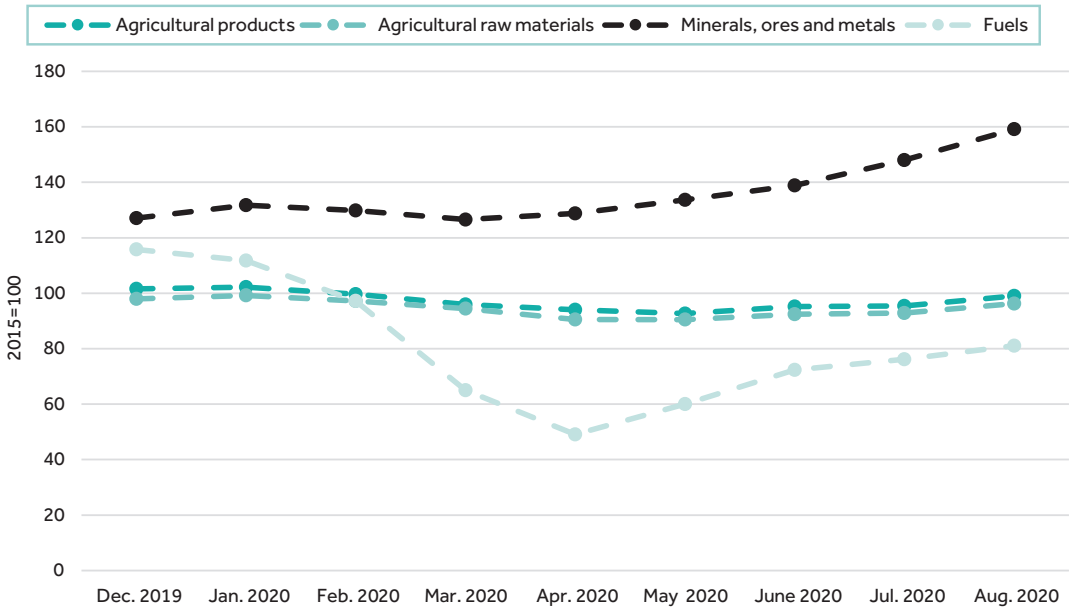
The outbreak of COVID-19 and the implementation of measures to contain the spread of the virus have contributed to a dramatic collapse in commodity prices (Figure 6). Of the commodity groups, agricultural products and agricultural raw materials saw prices steadily decline between February and May 2020 before they recovered slightly. However, prices have yet to return to pre-COVID-19 levels. For commodity-dependent CWSS, the effect extends further than trade. Large shares of workers in CWSS are employed in the agriculture sector – 18 per cent on average across CWSS and more than 50 per cent in some Commonwealth Pacific countries, such as Papua New Guinea and Vanuatu. Declining prices for agricultural commodities have direct impacts on their incomes, with likely knock-on effects on levels of poverty and inequality.

Fuels saw the sharpest decline from January to April 2020. Unlike other commodities, crude oil prices fell by two-thirds as a result of an unprecedented combination of negative demand and positive supply shocks, including the virtual halt to international travel as a result of COVD-19-related restrictions.

One commodity group less affected by price disruptions has been minerals, ores and metals (including copper). Demand for materials for use as intermediary inputs for manufactured products has continued unabated despite global lockdowns and reduced labour supply across the world. This has culminated in higher prices as a result of the decreased supply and increased demand.[6]

6 For further explanation see Ali et al. (2020).

Figure 6. Commodity price indices, December 2019–August 2020



Source: UNCTADStat.

Trade in services

Trade in services is essential for many CWSS, with more than half (i.e. 18) of them trading more services than goods. Figure 7 presents the countries that depend heavily on services. For Malta, trade in services stands at almost 200 per cent of GDP; this is followed by Seychelles (106 per cent), Antigua and Barbuda (101 per cent) and Cyprus (91 per cent).

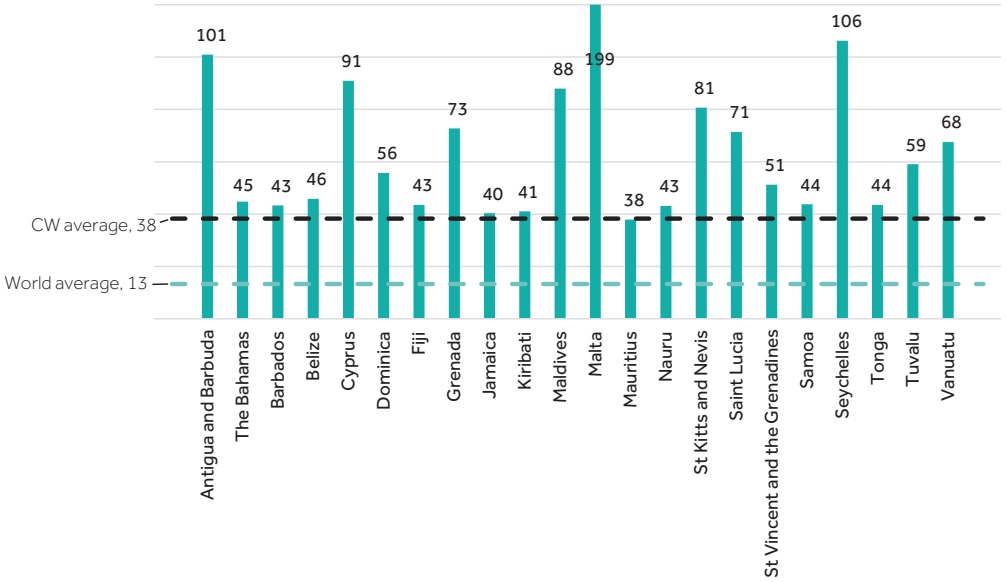
Many CWSS are well placed to benefit from the growth in services trade, since many sectors, like information and communication technology (ICT), business processing, and some business and financial services, are not necessarily impeded by geographical distance. Many small states have already developed and can further benefit from their comparative advantages in these sectors. CWSS have developed a niche in the market with travel and transport services as well as banking and financial services. The importance of trade in services in these countries is greater than the world average. Globally, trade in services as a percentage of GDP was 13 per cent compared with 52 per cent for CWSS, on average, in 2019.

Impact of COVID-19 on trade in services

There are four different ways in which services are traded across borders and three of these modes of supply require proximity between buyer and seller and, as a result, have been affected by COVID-19. These are mode 2 (consumption abroad, e.g. tourism services), mode 3 (commercial presence or foreign direct investment [FDI] in services, e.g. international banking services) and mode 4 (movement of natural persons, e.g. information technology professionals working onsite abroad and intra-corporate transferees). Mode 1 (cross-border supply) has been less affected by the pandemic as there is now a greater focus on online supply in sectors such as retail, health, education, telecommunications and audio-visual services.

"Trade in services is essential for many CWSS, with more than half of them trading more services than goods."

Figure 7. Significance of trade in services for small states, 2019 or latest year available (% of GDP)

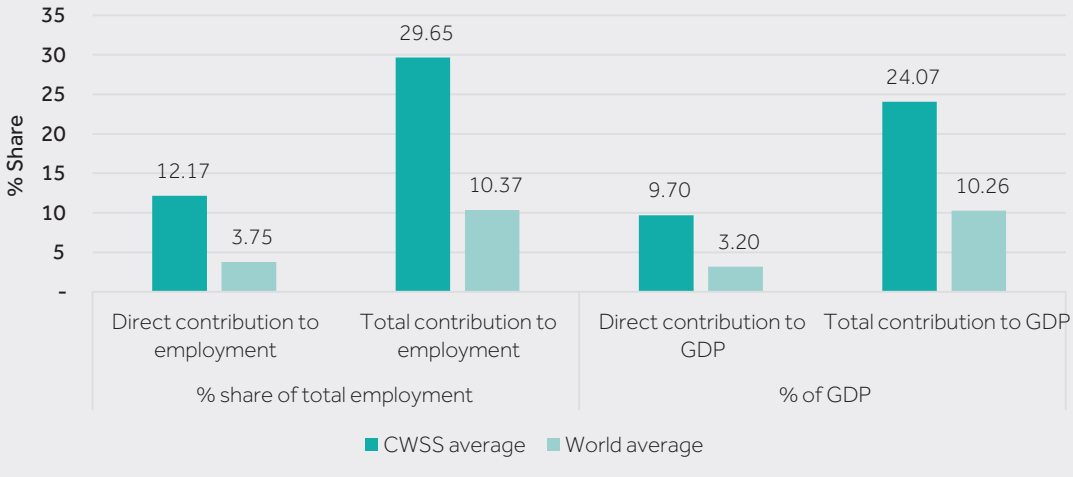


Source: Authors using World Bank WDI data.

Box 2. Services in focus: tourism

Containment measures to combat the threat posed by COVID-19, including suspension of private and public gatherings; school closures; suspension of non-essential travel within cities for all citizens; closure of borders to all but goods, cargo, and returning citizens and legal residents; and mandatory self-isolation for residents/citizens coming from abroad have halted tourism. For small states, tourism is particularly important, as it contributes 30 per cent to total employment,

Figure 8. Significance of tourism for CWSS (% share)



Source: Authors using WTTC data.

compared with the world average of 10.4 per cent, and 25 per cent to GDP, compared with the world average of 10.3 per cent (Figure 8).

For 14 of the 32 CWSS, tourism contributes over 30 per cent of GDP. This varies from as high as 56 per cent in Maldives and 43 per cent in Antigua and Barbuda and The Bahamas to 30 per cent in Barbados and Vanuatu (see Annex 2 for the full list).

Suppliers are accelerating efforts to expand their online operations and consumers are adopting new habits that may contribute to a long-term shift towards online services. Trade in services, via mode 1, is therefore likely to increase trade through the use of digital networks (WTO 2020b).

The adverse effects of social distancing are going to be the largest for services transacted via modes 2, 3 and 4[7] because they require some form of physical proximity between suppliers and consumers. It has been estimated that at least 40 per cent of Commonwealth services exports and more than 45 per cent of its imports could easily be compromised by COVID-19. These include exports and imports of business and financial services as well as educational services. On average, 45 per cent of Commonwealth services exports are delivered by mode 2; Caribbean and Pacific Commonwealth countries dominant in this mode are therefore likely to be even more severely impacted (Shingal 2020).

Greenfield investment in CWSS

Productive investment – also known as greenfield investment – can have a positive impact on development because it represents new capital investment and leads to an increased number of jobs in the host economy. Between 2010 and 2019, global investors announced 865 greenfield projects in CWSS, with a combined value of US$58 billion, while creating 169,132 jobs.[8] Table 1 highlights the top 10 destinations for investment in CWSS.

The sectors of investment vary across regions. In Africa, out of 279 projects, investment in **financial services** made up approximately 30 per cent of new projects, followed by **business services and communication**. In Asia (Maldives only), the **hotels and tourism** sector dominated with 60 per cent of projects; this was followed by **real estate**. In the Caribbean, the **business services and hotels and tourism** sectors made up 43 per cent of projects, followed by **communications and financial services**. For Cyprus and Malta in Europe, investment was mainly directed into **financial services, business services** and **software and IT services**, accounting for 60 per cent of projects. In the Pacific, financial and business services held 37 per cent of projects, followed by **coal, oil and gas** only in Papua New Guinea.

CWSS depend heavily on the Commonwealth as a source of greenfield investment valued at US$24 billion. Regionally, investment in African small states is the highest at US$10 billion; this followed by the Asian-Pacific region at $8.4 billion, the Caribbean at $4.9 billion and Europe at $867 million.

The intra-Commonwealth share in their total investment is close to 50 per cent; moreover, in some cases, like Lesotho, Solomon Islands and St Vincent and the Grenadines, the Commonwealth accounts for all inward greenfield investment. Over time, Barbados, Namibia, St Vincent and the Grenadines and Trinidad and Tobago have become more reliant on the Commonwealth as a source of their greenfield investment, while other

7 WTO provides the definitions of services by mode. Mode 1 = cross-border trade in services (i.e. professional services supplied by the professional in one country by post or electronic mail to consumers in another country); mode 2 = consumption abroad (i.e. travelling abroad to receive medical treatment or to enroll in an education program); mode 3 = commercial presence (i.e. the establishment of a branch of a foreign bank or of a franchising outlet in a foreign location); and mode 4 = temporary movement of natural persons (i.e. consultants, teachers or managers of a multinational enterprise).

8 These are announced investment projects but not necessarily implemented.

Table 1. Top 10 destinations for announced greenfield investments in Commonwealth states, 2010–2019 cumulative

Destination country	Capital investment (US$ billion)	Share (%) of CWSS capital investment	Jobs created
Papua New Guinea	9.14	15.75	7,143
Namibia	6.71	11.57	12,112
Jamaica	6.01	10.35	39,646
Brunei	5.88	10.13	6,382
Maldives	3.73	6.5	14,043
Mauritius	2.96	5.09	7,806
Cyprus	2.89	5	12,714
Trinidad and Tobago	2.68	4.61	6,133
Malta	2.65	4.56	6,876
Antigua and Barbuda	2.61	4.5	5,275
Other	12.79	22	51,002

Source: Authors using FDIMarkets data.

CWSS, such as The Bahamas, Botswana, Fiji, Grenada, Lesotho, Papua New Guinea, Saint Lucia and Seychelles, have become relatively less dependent on the Commonwealth. For example, the USA has become the main investor in hotels, tourism and business services in The Bahamas, Grenada and Saint Lucia. Similarly, the USA has announced greenfield investments in coal, oil and gas in Papua New Guinea, and investment in hotels, tourism and financial services has become increasingly significant. For all CWSS, China accounts for 15 per cent of overall announced capital investment (Figure 9).

Impact of COVID-19 on greenfield investment

Following the pandemic outbreak, the value of greenfield investment projects in CWSS sharply declined, from an annual average of US$5 billion (2010-2019) to $832 million between January and August 2020, with 28 projects spread across regions and in different sectors (Figure 10).

FDI prospects will depend on policy developments. In the case of tourism, for example, recovery in investment flows, and the industry more generally, is contingent on the lifting of travel restrictions imposed to combat COVID-19. This is of critical importance to many Commonwealth SIDS, which are heavily reliant on tourism for revenue generation and job creation. Investment in other services sectors is likely to be more resilient going forward, and the accelerated reliance on digitisation and ICT owing to COVID-19 may help sustain longer-run growth in knowledge-seeking FDI into these sectors in Commonwealth countries.

3. Way forward and recovery from COVID-19

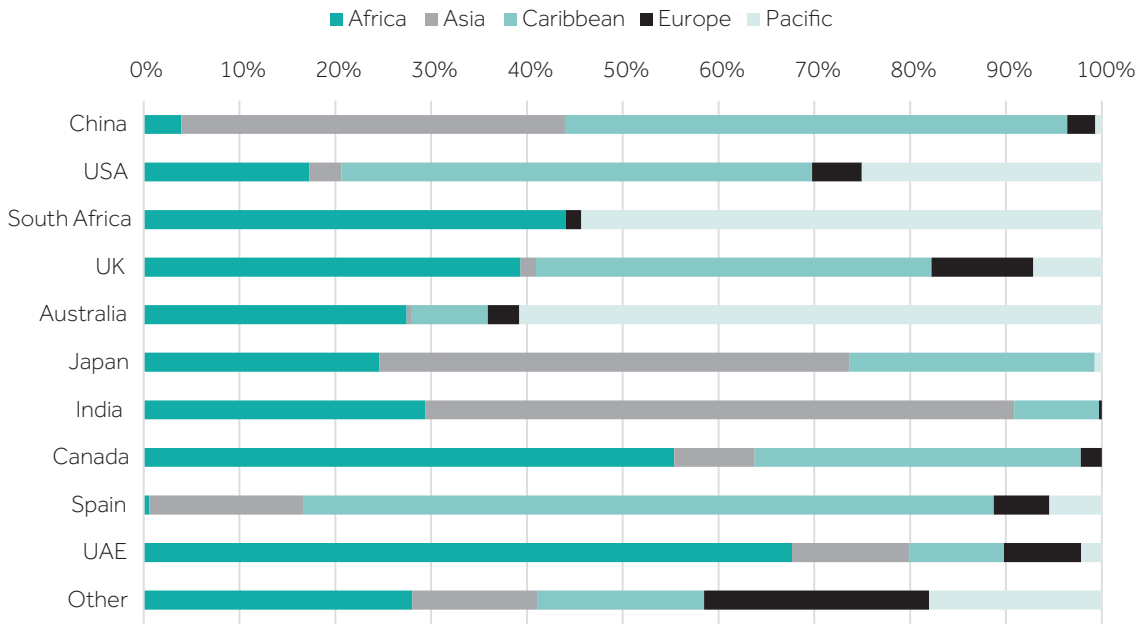
As the preceding discussion demonstrates, COVID-19 is affecting each CWSS differently depending on their economic structure, including their relative dependence on goods or services trade, their inherent characteristics as small states and their unique vulnerabilities. This section proposes seven policy options to assist CWSS when devising their post-COVID-19 recovery and resilience strategies:

1. Strengthening health care systems

CWSS are all net importers of COVID-19-related medical supplies and equipment.[9] In the short term, they require these goods for two

9 COVID-19-related products include the following categories: COVID-19 test kits and instruments; personal protective equipment (PPE); disinfectant and sterilisation products; oxygen therapy equipment and pulse oximeters; other medical devices and equipment; medical consumables; and soap.

Figure 9. Top 10 global investors in CWSS greenfield FDI, 2010–2019, cumulative (%)

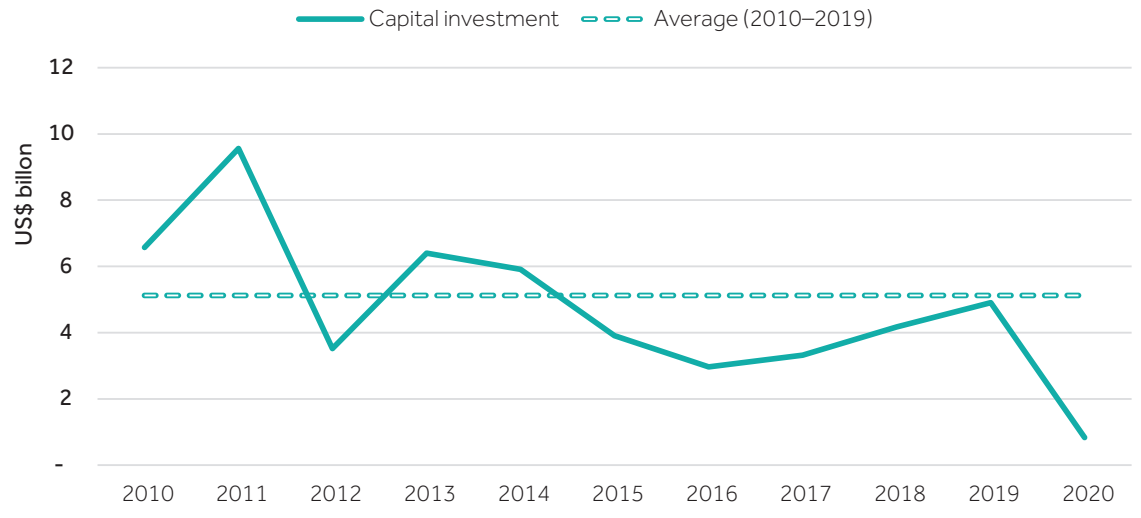


Note: No data for Brunei Darussalam, Kiribati, Nauru, Tonga and Tuvalu.
Source: Authors using FDIMarkets data.

purposes – (i) to identify, track and treat persons infected with the coronavirus until immunity is achieved through access to vaccines and (ii) to support the safe reopening of their economies, which means testing kits and personal protective equipment (PPE) are most needed. This is particularly the case for those small states that depend significantly on tourism.

However, the global trade in COVID-19-related medical supplies is very concentrated.

Figure 10. Impact of COVID-19 on announced greenfield investment in CWSS, 2010–2020 (US$ billion)



Source: Authors using FDIMarkets data.

The leading global suppliers to CWSS are the USA, China, Australia, the EU, India and South Africa. Most small states source COVID-19-related goods largely from regional suppliers:

- African small states from South Africa: South Africa provides more than 60 per cent of COVID-19-related imports by the Southern African Customs Union countries – namely, Botswana, Eswatini, Lesotho and Namibia.
- Caribbean small states from the USA: The USA provides more than 50 per cent of the COVID-19-related imports by Barbados, Belize, Grenada, St Kitts and Nevis and Saint Lucia.
- Asian small states from China and India: Combined, China and India provide approximately 60 per cent of COVID-19-related imports to Brunei and Malaysia.
- Pacific from Australia and China.
- Europe from the EU: A majority of COVID-19-related imports are from the EU.

In the medium to long term, CWSS should strengthen their health care systems. On average, CWSS spend relatively less on health care (6.4 per cent of GDP) than the world average (9.9 per cent). However, this expenditure is higher than the Commonwealth developing countries as a group (5.7 per cent). Health care expenditure is the highest for Europe, at around 8 per cent, and the lowest for the Caribbean (5.4 per cent). African and Pacific small states spend around the same, at 7 per cent (Figure 11). Importantly, over 70 per cent of expenditure is directed towards current expenditure and 30 per cent towards capital budgets. Improving health systems requires a huge investment in both soft and hard infrastructure.

2. Investing in digitisation and bridging the digital divide

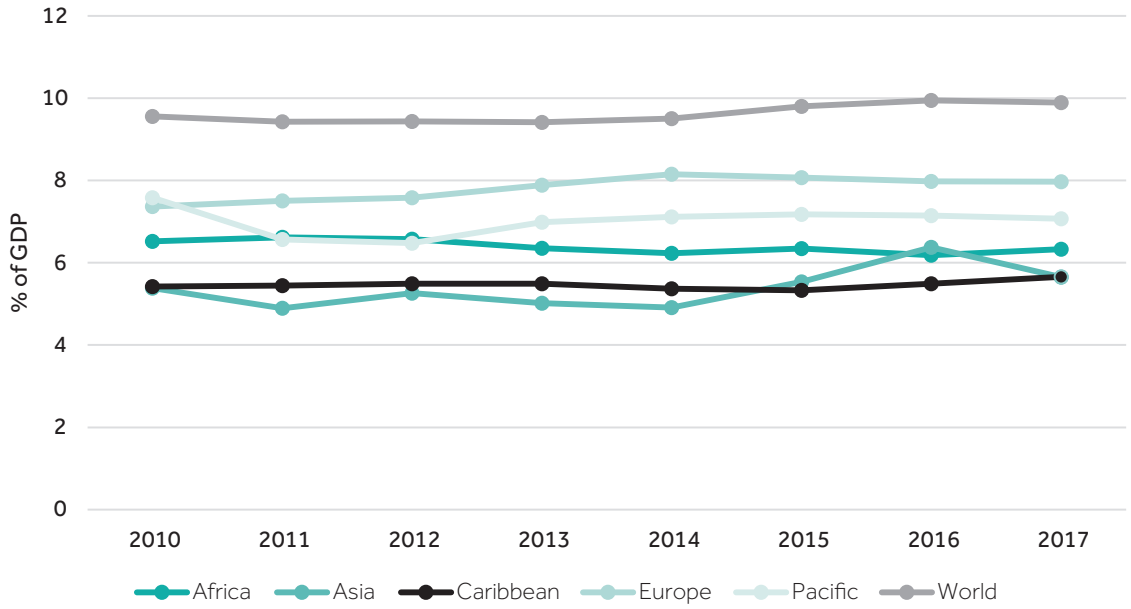
The COVID-19 pandemic has accelerated existing trends for the digitisation of economic activity. In some sectors, it has allowed digitally enabled firms to continue trading while others are shuttered. These trends are likely to continue, albeit at different intensities depending on the sector. This should be especially true in services, which represents a vital part of many CWSS economies. These shifts will create challenges for all Commonwealth countries, but especially for those where the fundamentals underpinning digital economic activities are not affordable – in the case of connectivity or necessary ICT infrastructure – or where legal and other regulatory functions that support digitisation are lacking.

"Most small states source COVID-19-related goods largely from regional suppliers."

An essential prerequisite for participation in the increasingly digital global economy is affordable telecommunications services. This is necessary to get a critical mass of the population online and acquiring digital skills, which in turn creates the potential for increasing adoption of digitisation in the economy as well as technology-enabled innovation. Around 52 per cent of the CWSS population has access to the internet, which is above the Commonwealth average of around 48 per cent. The average monthly cost of 1 GB mobile broadband in CWSS is 3.5 per cent of gross national income (per person), which is lower than both the Commonwealth and the world average but almost three times more than the Commonwealth's high-income economies. Moreover, only 35 per cent of CWSS have data protection laws in force, compared with the Commonwealth average of 40 per cent and around 80 per cent for high-income economies (Ashton-Hart, 2020).

Digitally deliverable services are exports of services that can be provided online (e.g.

Figure 11. Health expenditure of CWSS, 2010–2017 (% of GDP)



Source: Authors using World Bank data.

insurance, business processes or financial services). Figure 12 highlights that a majority of the CWSS still lack the capacity to participate in this type of services trade, especially the commodity-dependent CWSS that are seeking to structurally transform and diversify. Even those CWSS with a high dependence on services trade for their development face e-readiness challenges, and their ability to provide these services digitally is lower than the global average. For example, in Antigua and Barbuda, where services contribute 96 per cent of overall trade, digitally enabled trade is only 8.3 per cent. Although many of the services provided are tourism-related, there is a need to diversify the type and delivery mode of these services, especially in light of the impact of COVID-19.

"An essential prerequisite for participation in the digital global economy is affordable telecommunications services."

CWSS should aim to deliver 40-50 per cent of trade in services digitally to be on par with the global average. New and practical e-commerce solutions are key elements to enable digitally deliverable services. Investment in ICT and general communication infrastructure is needed to enable fast and secure cross-border movement of goods and services, and to kick-start economic activity and create jobs.

The huge investment gap across member countries — both within and between Commonwealth regions — is driven by both demand- and supply-side factors as well as regulatory issues. Factors curtailing demand for digital infrastructure investment include revenue pressures on operators that reduce

Figure 12. E-trade readiness for trade in services (%)

Source: Authors using UNCTADStat data.

the capacity to invest, lack of awareness among digital companies and a paucity of skilled technical personnel for constructing and operating new digital technologies and infrastructures. In the short to medium term, solutions should focus on acquiring aid for digital trade (infrastructure and policy), address supply challenges and create an investment-friendly environment.

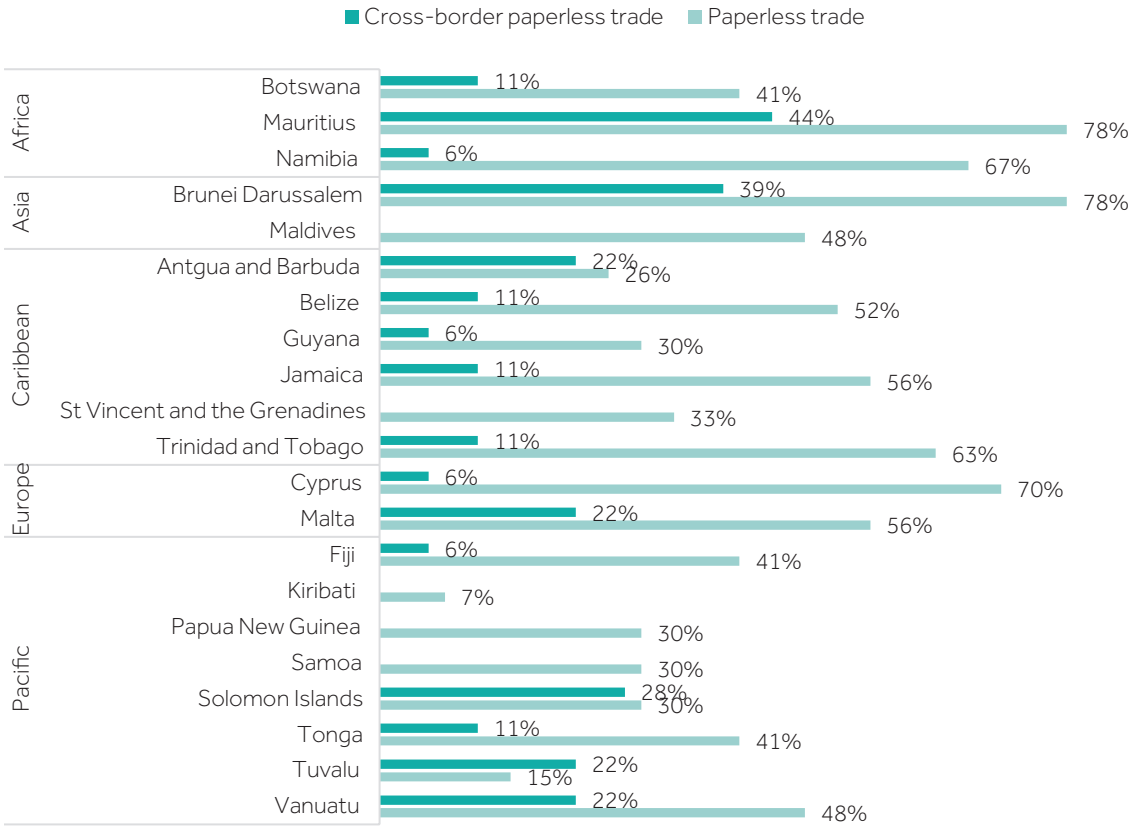
3. Reducing trade costs and facilitating trade

Several small states confront excessive trade costs owing to their geographic location and remoteness. Their trade costs are estimated to be, on average, at least 50 per cent higher than those for developing countries as a whole (Razzaque and Keane 2015). There are at least two ways CWSS can reduce trade costs to assist their post-COVID-19 economic recovery.

"Several small states confront excessive trade costs owing to their geographic location and remoteness."

First, small states should identify and implement best practices and measures to facilitate goods trade, including any outstanding commitments under the WTO Trade Facilitation Agreement (TFA), such as single windows, drawing on international support where necessary. Moreover, a TFA-Plus (TFA+) agenda means that trade facilitation implementation and the adoption of digital technologies should no longer be considered distinct silos. Digital technologies enable "paperless trade," including through

Figure 13. CWSS Progress on cross-border and overall paperless trade facilitation, 2019 (%)



Note: No data for The Bahamas, Barbados, Dominica, The Gambia, Grenada, Saint Lucia and Seychelles. No 2019 survey data for Eswatini, Lesotho and St Kitts and Nevis.
Source: 2019 UN Trade Facilitation Survey, available at https://untfsurvey.org

electronic systems for customs automation, payments of duties/fees and the establishment of a national single window.[10] These reforms are important because digitising trade facilitation helps reduce the physical proximity, contact and interaction between customs officials and traders, as well as the exchange of paper.

According to a 2019 UN survey, measures for paperless trade have progressed to an average global implementation rate of 63 per cent. By region, the Pacific Islands, including Commonwealth member countries, have the most potential to transform their trade facilitation measures with digital technology. Figure 13 illustrates the progress of small states with paperless trade. Mauritius and Brunei have made the most progress; many others continue to prioritise implementation.

Digital technologies can also enable efficient customs administration, especially where improved revenue collection is a priority for governments. For instance, after implementing an automated system for customs data

10 This is an obligation under Article 10.4 of the TFA. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2018) generally defines a single window system as "an electronic facility that allows parties involved in international trade and transport to submit all information needed to fulfil trade-related regulatory requirements at once and at a single-entry. This digital trade facilitation measure aims at reducing the regulatory burden for traders when completing import, export and transit-related procedures."

(ASYCUDA), the Solomon Islands Customs Authority was able to collect a country-record SI$1 billion in revenue.

There is potential for countries to go even further with "cross-border paperless trade" measures that cut red tape and help traders overcome costly non-tariff barriers. These advanced measures include specific legal frameworks for electronic transactions (e.g. e-commerce law) and the use of electronic sanitary and phytosanitary (SPS) certificates (e-phyto) to support agricultural trade between countries.

Pacific and Caribbean CWSS have the potential to up-scale the impact of assistance by formulating approaches adapted to their geographic context. Co-operation on reforms related to specific provisions of the TFA or the development of TFA+ mechanisms (e.g. Electronic Certificate of Origin) can ease integration into global value chains and mitigate the shock associated with disruption caused by COVID-19.

Second, small states should improve the functioning of their ports and logistics infrastructure. Shipping is essential for trade: around 80 per cent of global trade volumes are seaborne, including raw materials, consumer goods, essential foodstuffs and energy. Besides being transhipment hubs, many ports include cruise terminals to facilitate tourism, a vital sector for many SIDS, which the pandemic has decimated.

Of the 32 CWSS, 27 may be considered port-states, with Malta (ranked 52nd) and Jamaica (ranked 91st) included in the Lloyds List 2019 of Top 100 Container Ports worldwide. However, there is a large disparity when it comes to port readiness among CWSS. Cyprus and Malta dominate, along with the Caribbean countries. In 2018, these two regions collectively accounted for 84 per cent of the total container traffic of CWSS and 5 per cent of overall Commonwealth container traffic. Cyprus and Malta alone accounted for 43 per cent of total estimated traffic. Two specific small states, Jamaica and Malta, have been performing relatively well in handling notable amounts of cargo on a global scale; Pacific countries have been left behind owing to the absence of a transhipment hub. Table 2 illustrates the performance of small states relative to the other Commonwealth country groupings.

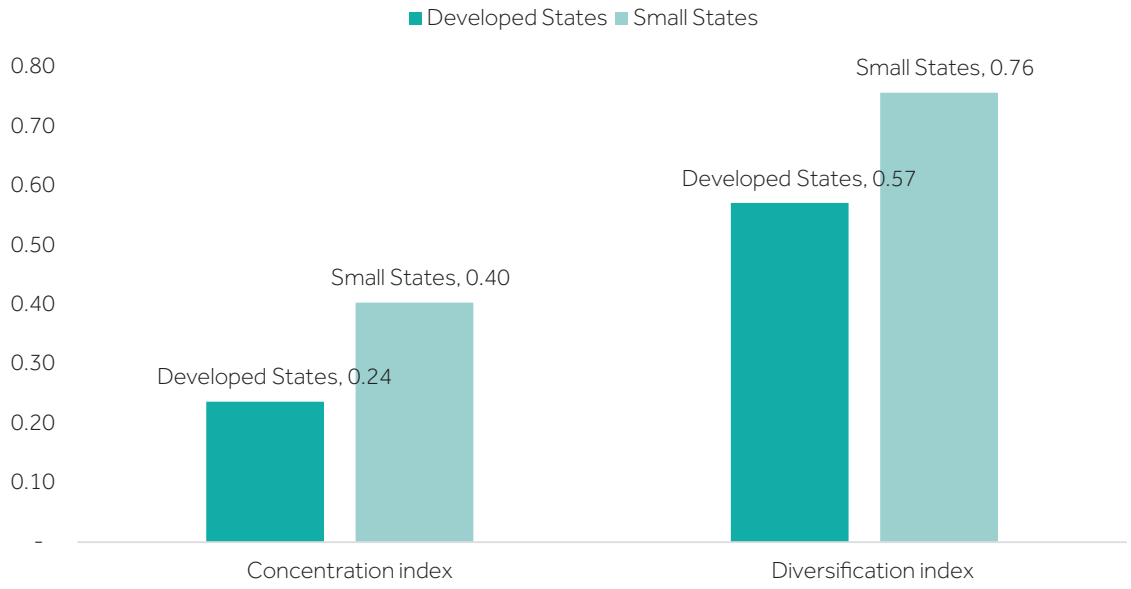
The maritime transport systems of SIDS are vulnerable to a range of factors that undermine their sustainable growth and development. These include a lack of capacity and infrastructure to support the growth of international shipping (e.g. maintaining national hydrographic charting capacity), lack of on-shore facilities and resources to deal with the broad range of ship-sourced waste, high reliance on imported fossil fuels, low transport connectivity and relatively high transport costs (Commonwealth Secretariat, 2014).

Table 2. Indicators of ports and logistics in the Commonwealth

	No. of highly active seaports	Liner shipping connectivity Index (2019)	Efficiency of seaport services (2019)	Logistics quality and competence (2018)	Time to import, border compliance (hours) (2019)
Commonwealth	**184**	**27**	**4.2**	**2.7**	**69.9**
of which					
Developed	63	43.2	4.9	3.5	14.3
Developing	121	23.5	3.9	2.5	83.8
SIDS	**50**	**15.5**	**4.6**	**2.6**	**66**

Sources: Virginia Economic Development Partnership, Seaports of the World, by Country; UNCTAD Maritime Transport Database; World Bank Logistics Performance Index Database; WEF (2019) Global Competitiveness Report 2019; World Bank (2019).

Figure 14. Export concentration and diversification index, 2019



Note: The concentration index (0–1) measures the degree of concentration of goods exported where closer to 0 indicates greater diversified exports whereas closer to 1 signifies less diversified exports. Thus a country with a value of 1 is exporting a single commodity whereas a country with a value of 0 is exporting an infinite number of commodities. The diversification index (0–1) measures the share of the commodity in the total exports of a country as compared with the share of the commodity in world exports. The higher the index, the greater the deviation of the country's exports from the global export pattern.
Source: Authors using UNCTADStat data.

Creating sustainable and resilient regional maritime or multimodal hubs[11] and enabling the provision of adequate infrastructure and incidental services (such as port-related storage, insurance and financial services), as well as reliable transport services, can help address the challenges[12] facing SIDS in the area of maritime transport and, in so doing, improve connectivity.

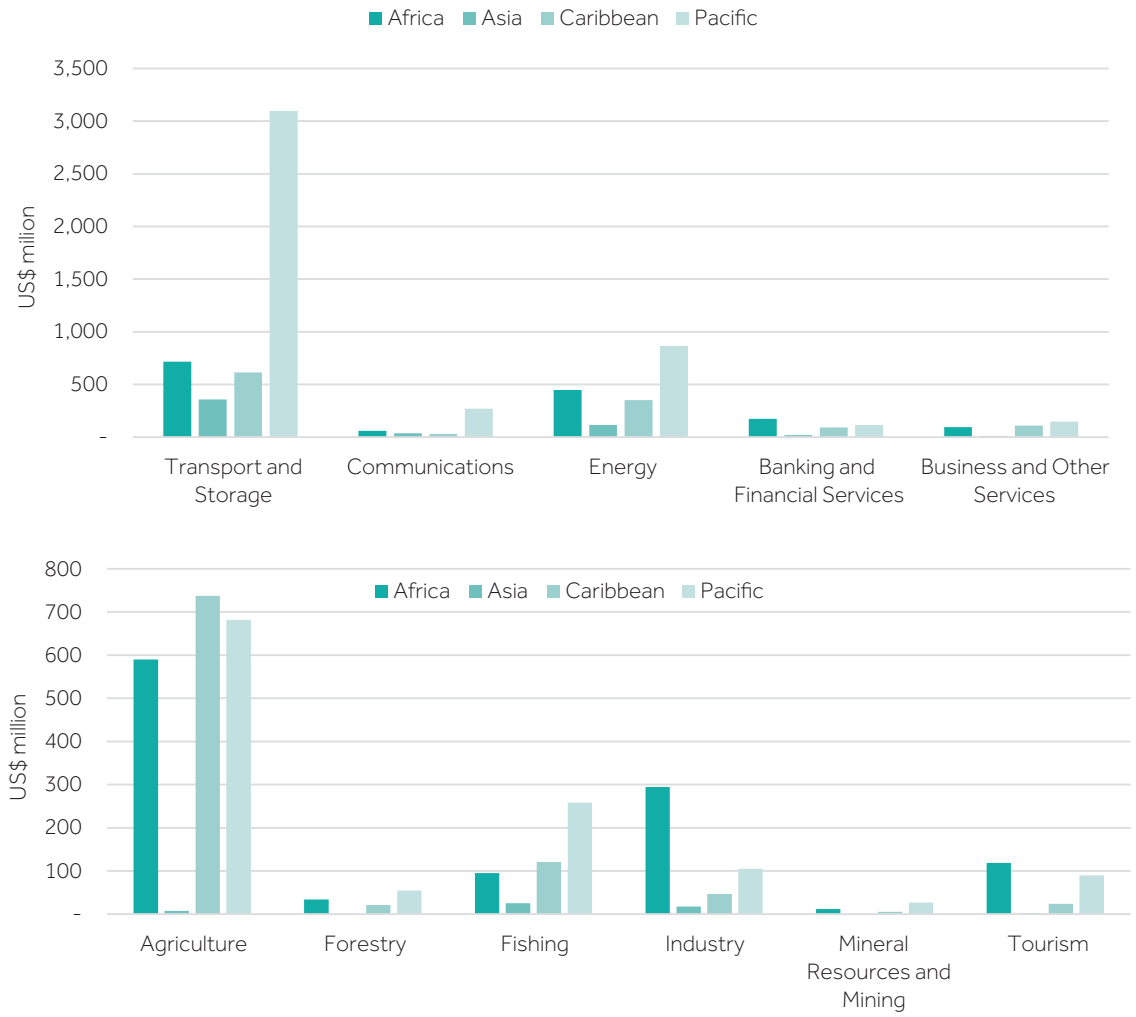
4. Strengthening and transforming productive capacity

The continued dependence of many CWSS on a narrow range of primary sectors implies not much progress is being made in relation to achieving structural transformation, while the beneficial impact of trade is also being limited. Only transformed productive capacity offers a long-term solution in cases where a country's current trade position does not support the desired development goals. Figure 14 illustrates the differences between developed and developing countries. The diversification index indicates whether the structure of exports by product of a given country or country group differs from the world pattern. The product concentration index shows how exports and imports of individual countries or country groupings are concentrated in a few products or otherwise distributed in a more homogeneous manner among a series of products. CWSS export a more concentrated and less diverse basket of goods. While each country varies in its concentration and diversification (see Annex 3), the respective levels in CWSS are generally lower than those in developed economies.

11 A "shipping hub," a "maritime cluster" or a "maritime centre" essentially describes a location that has the facilities, expertise and legislative and fiscal frameworks in place to enable a range of maritime activities to be established and prosper.

12 A key challenge for SIDS hindering the development of maritime infrastructure relates to the volume of goods traded by small states. As the volume of trade increases over time, the sustainability of maritime infrastructure becomes more essential.

Figure 15. Aid for Trade to CWSS for building productive capabilities, 2005–2018, cumulative (US$ million)



Source: Authors using OECD Aid for Trade database.

To build and transform their productive capacity, CWSS should consider a set of targeted policies and investments. They should seek to leverage international assistance and trade support measures, such as Aid for Trade or preference schemes of developed and larger developing countries, to help trigger this transformation process. They should also explore new opportunities for preferential trade in sectors such as services. This needs to be done in conjunction with active trade promotion policies to attract investment into the relevant sectors and generate supply responses. Regional integration can also support greater value addition and diversification, especially through participation in regional value chains; examples are the African Continental Free Trade Area for African small states and the Pacific Agreement on Closer Economic Relations (PACER-Plus) for Pacific SIDS. Small states should also take advantage of the growth in South-South trade to boost and diversify their trade.

"There is a need for more strategically directed Aid for Trade to assist small states to address their unique trade challenges."

There is a need for more strategically directed Aid for Trade to assist small states to improve their trade performance and address their unique trade challenges. Both CARICOM and the Pacific Island states are implementing regional Aid for Trade 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 Aid for Trade 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.

5. Reviving domestic and international tourism[13]

Tourism-dependent small states should adjust their business models to undertake a staged, sequential and gradual reopening of this sector. It is generally predicted that domestic demand will recover faster, leading to some regional tourism, while international, long-haul travel will be the last segment of the market to resume normal patterns. Although local or domestic tourism is unlikely to replace international tourism numbers, this could serve as a precursor and contingency strategy to a more comprehensive opening-up of the entire tourism sector. Though not a long-term sustainable solution for SIDS with low levels of domestic tourism, this would at least provide them with a launch pad from which to prepare and showcase their state of preparedness to the rest of the world. Intra-regional tourism can also hold promise for the Caribbean and Pacific, where cases are extremely low. This requires addressing several challenges, including the high cost of air transport, poor connectivity and an inflexible visa regime (where it exists).

Since the pandemic is likely to reshape the tourism industry for the foreseeable future, small states will have to consider, in the medium to long term, how to adapt their tourism strategies to align with the new normal the pandemic has engendered. Marketing strategies and business models will have to adapt to changing trends and source markets and envisage innovative new business models and product offerings. A digital transformation is one way of doing so. Digital connectivity and virtual promotional campaigns can help boost the recovery of the tourism sectors in CWSS. Although most small states lack digital connectivity, skills and mature digital ecosystems, some countries are deploying successful digital marketing strategies to lure back customers.

A few examples include The Bahamas' Ministry of Tourism, which has launched and participated in a series of online events such as webinars, virtual travel shows, virtual trip simulations and live social media sessions in a strategic effort to revive the sector during and post-COVID-19. The Seychelles Tourism Board has signed a Memorandum of Understanding with Visa, the world leader in digital payments, to strengthen the country's global marketing strategy through the promotion of electronic payments technology and services, an area in which many developing countries lag.

13 See Kampel (2020).

Embracing digital and technological options, such as virtual strategies and online offerings, to showcase and market destinations and experiences to stimulate demand and address a wider target audience, will be a crucial component of a future tourism recovery strategy.

Domestic tourism represents another important element in the recovery process. Figure 16 illustrates high dependence on international tourism compared with domestic tourism in almost all CWSS.

6. Building resilience to climate change and natural disasters

CWSS confront recurrent natural disasters. Like COVID-19, natural disasters generate economic destruction. However, unlike biological hazards, ecological disasters have an aggregate supply shock. For example, floods and droughts adversely affect agricultural trade, causing damage and loss to crops and livestock, while also destroying critical infrastructure, like transport and storage. While natural disasters have impacts on trade in services also, these are usually felt only in the short term, as there is a clear solution to rebuild.

Between January 2015 and June 2020, CWSS experienced a total of 83 natural disasters (ranging from droughts to earthquakes and floods), which have come at a cumulative cost of US$11 billion (Figure 17). Notably, The Bahamas has incurred the highest cost within the past five years, especially after the devastation wrought by Hurricane Dorian in 2019. The Pacific SIDS also experienced a wave of natural disasters in early 2020, costing approximately US$124 million. This puts pressure on public funds.

The path towards becoming disaster-resilient is vitally important for CWSS, given that the losses are so tremendous. Multilateral initiatives and international support mechanisms that provide assistance and support to disaster-stricken small and vulnerable economies, while helpful, are still insufficient. Development partners need to provide further instruments to mitigate disaster risk and enhance resilience. In tandem, there should be initiatives and systems in place for preparedness, including budgetary provision to tackle disasters. CWSS should also invest in "building back better," starting with regulating building codes. They can also look to pursue domestic climate-resilient measures to help their economies rebound from the devastating impact of natural disasters (Cover-Kus and Selvakumar 2019).

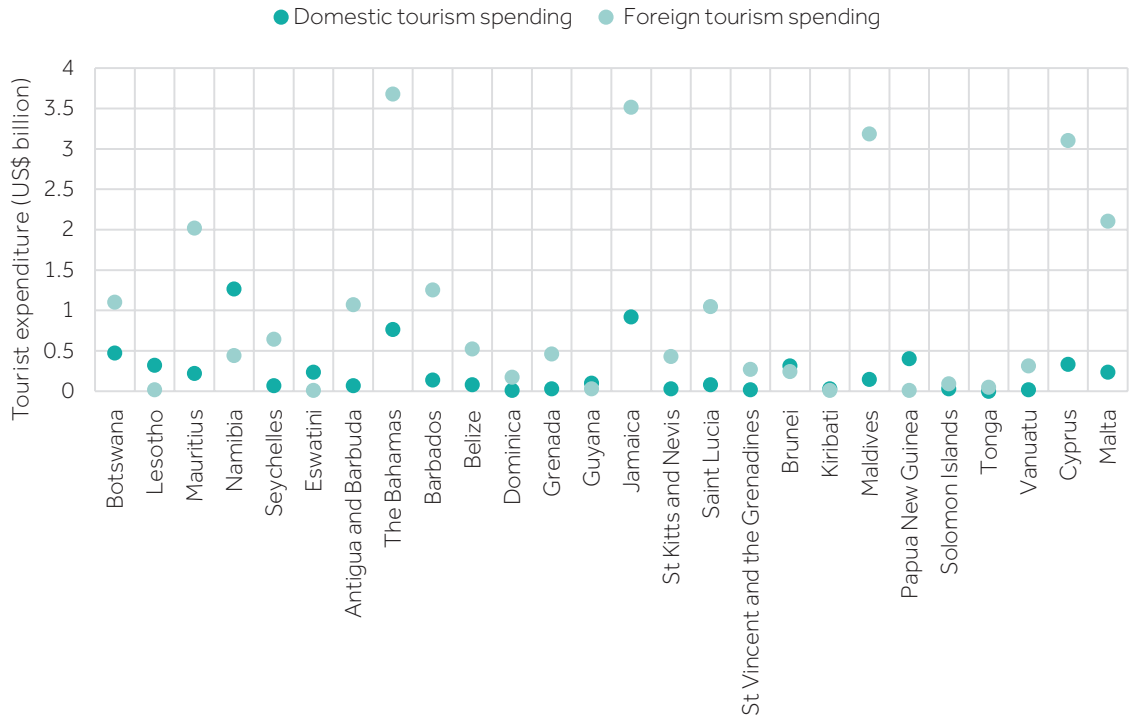
7. Harnessing the 'Commonwealth Advantage'

The Commonwealth is not a formal trading bloc. However, member countries share historical ties, familiar legal and administrative systems, a common language of operation (English) and large dynamic diasporas, which help make trade and investment more convenient and efficient. This "Commonwealth Advantage" enables them to trade up to 20 per cent more with each other, while bilateral trade costs are 21 per cent lower, on average (Escaith et al, 2020). As noted earlier, CWSS depend relatively more on intra-Commonwealth trade, especially at a regional level. Prioritising the effective implementation of regional trading arrangements involving Commonwealth members will provide a further boost to the trade prospects of CWSS.

"Commonwealth countries should look to opportunities to boost intra-Commonwealth FDI."

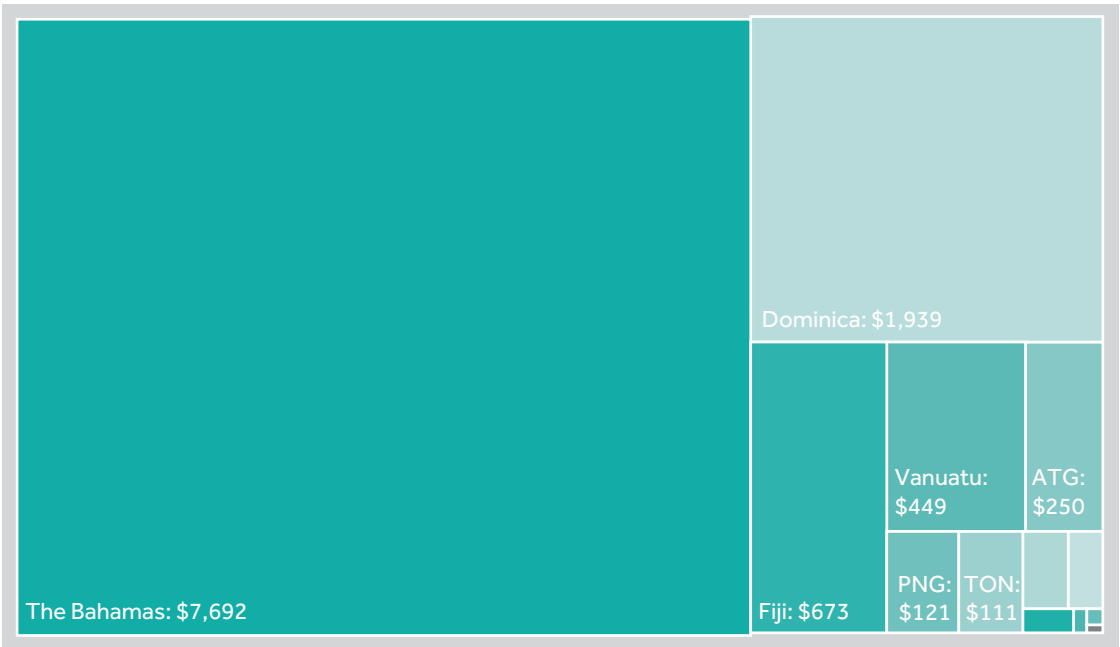
As global FDI flows recover in most sectors and competition for international capital intensifies, Commonwealth countries should look to opportunities to boost intra-Commonwealth FDI. Empirical evidence points to a significant Commonwealth advantage in investment: FDI flows between Commonwealth countries are approximately 27 per cent higher than between Commonwealth and

Figure 16. Gap between domestic and foreign tourist expenditure in CWSS, 2019 (US$ billion)



Source: WTTC database.

Figure 17. Total cost of damages from natural disasters, 2015–2020 (US$ million)



Source: Commonwealth Secretariat (calculated from EM-DAT Database).

non-Commonwealth members, a near tripling from 10 per cent as previously reported (Commonwealth Secretariat 2015), and Commonwealth membership is associated with 19 per cent more greenfield investment (Shingal and Aggarwal 2020). The investment effect is particularly strong in Africa, partly because of high levels of intra-African FDI by Commonwealth African members. These potential benefits can assist CWSS to prepare for the post-COVID-19 economic recovery and building future resilience.

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Annex 1. Trade in goods and services by individual country, 2019

Region/economy	Goods and services (US$ million)	Share of exports			
		Goods	Commodities	Fisheries	Services
CWSS	**114,762.06**	48.78	72.51	4.79	51.02
of which					
Africa	**20,459.18**	72.00	69.95	7.87	28.00
Botswana	6,317.35	85.98	93.51	0.02	14.02
Eswatini	2,070.73	95.71	35.35	0.00	4.29
The Gambia	375.84	39.01	87.86	11.30	60.9
Lesotho	1,045.00	97.07	42.62	0.36	2.93
Mauritius	5,180.93	43.07	37.73	16.92	56.93
Namibia	4,211.03	84.56	77.77	13.31	15.44
Seychelles	1,634.13	31.26	80.56	41.38	68.74
Asia	**11,612.57**	**65.22**	**92.35**	**3.78**	**34.78**
Brunei Darussalam	7,827.77	92.11	92.11	0.10	7.89
Maldives	3,784.80	9.62	96.74	71.99	90.38
Caribbean	**29,271.18**	**47.03**	**66.27**	**1.90**	**52.34**
Antigua and Barbuda	1,197.09	3.36	15.93	0.19	96.64
The Bahamas	4,801.55	14.74	38.29	5.55	85.26
Barbados	1,952.00	23.26	37.73	0.31	76.74
Belize	1,143.37	40.02	62.70	8.27	59.98
Dominica	171.80	13.60	24.80	0.02	86.40
Grenada	686.93	5.39	56.50	15.41	94.61
Guyana	1,710.57	89.27	86.00	6.80	–
Jamaica	6,055.30	28.40	94.05	0.69	71.60
St Kitts and Nevis	623.06	5.82	13.13	0.37	94.18
Saint Lucia	1,228.93	10.25	39.16	0.01	89.75
St Vincent and the Grenadines	334.27	12.80	60.37	2.99	87.20
Trinidad and Tobago	9,366.31	91.76	62.01	0.28	8.24
Europe	**38,013.70**	**18.74**	**37.62**	**2.72**	**81.26**
Cyprus	17,203.70	19.74	38.99	1.09	80.26
Malta	20,809.99	17.92	36.02	4.63	82.08
Pacific	**15,029.61**	**84.11**	**94.28**	**5.33**	**15.89**
Fiji	2,589.97	37.73	73.58	16.49	62.27
Kiribati	6.42	100.00	91.41	83.66	–
Nauru	36.00	100.00	58.71	0.13	–
Papua New Guinea	11,333.93	97.65	96.37	3.76	2.35
Samoa	348.35	15.59	60.61	31.94	84.41
Solomon Islands	567.92	77.53	98.20	11.41	22.47
Tonga	103.45	15.17	85.84	25.14	84.83
Tuvalu	0.11	100.00	60.52	59.97	–
Vanuatu	43.46	100.00	82.10	21.03	–

Note: Figures in red are for goods only. Values for services trade unavailable.
Source: UNCTADStat.

Annex 2. The significance and opportunities for tourism in CWSS, 2019

Region/economy	Share (%) of GDP	Nominal prices (US$ billion)	
	Total contribution to GDP	Domestic tourism spending	Foreign tourism spending
CWSS	22.61	6.33	25.80
of which			
Africa	17.45	2.58	4.23
Botswana	12.58	0.47	1.10
Eswatini	5.88	0.23	0.01
The Gambia	17.70	–	–
Lesotho	12.34	0.32	0.02
Mauritius	18.77	0.22	2.02
Namibia	14.66	1.27	0.44
Seychelles	40.45	0.07	0.64
Asia	**31.26**	**0.46**	**3.43**
Brunei Darussalam	5.93	0.31	0.24
Maldives	56.58	0.15	3.19
Caribbean	**31.01**	**2.24**	**12.46**
Antigua and Barbuda	42.70	0.07	1.07
Bahamas	43.28	0.76	3.68
Barbados	30.93	0.14	1.25
Belize	37.15	0.08	0.52
Dominica	36.92	0.01	0.17
Grenada	40.49	0.03	0.46
Guyana	4.38	0.10	0.03
Jamaica	31.06	0.92	3.52
St Kitts and Nevis	28.19	0.03	0.43
Saint Lucia	40.71	0.08	1.05
St Vincent and the Grenadines	28.56	0.02	0.27
Trinidad and Tobago	7.75	–	–
Europe	**14.77**	**0.57**	**5.21**
Cyprus	13.77	0.33	3.10
Malta	15.77	0.24	2.10
Pacific	**18.57**	**0.48**	**0.47**
Fiji	33.99	–	–
Kiribati	17.95	0.03	0.01
Papua New Guinea	2.16	0.40	0.01
Solomon Islands	10.48	0.03	0.09
Tonga	12.14	–	0.05
Vanuatu	34.69	0.02	0.31

Source: WTTC; World Bank WDI.

Annex 3. Intra-Commonwealth merchandise trade by individual country, 2019

Region/economy	Exports		Imports	
	Value (US$ million)	Share (%)	Value (US$ million)	Share (%)
CWSS	**17,558**	**31.36**	**31,097**	**37.58**
of which				
Africa	**6,724**	**42.15**	**16,474**	**65.22**
Botswana	1,914	36.54	5,392	82.21
Eswatini	1,723	86.09	1,430	78.02
The Gambia	38	29.09	101	16.29
Lesotho	386	38.09	1,630	80.86
Mauritius	624	27.99	1,888	33.71
Namibia	1,922	38.83	5,888	72.82
Seychelles	155	29.86	246	21.10
Asia	**2,375**	**32.10**	**3,175**	**39.73**
Brunei Darussalam	2,239	31.81	1,944	38.09
Maldives	136	37.72	1,231	42.61
Caribbean	**2,737**	**20.94**	**3,897**	**15.58**
Antigua and Barbuda	14	38.36	145	21.14
The Bahamas	97	14.81	85	2.69
Barbados	209	46.16	497	31.02
Belize	154	33.41	96	9.77
Dominica	16	80.62	86	28.82
Grenada	15	47.15	217	46.26
Guyana	674	39.82	961	31.81
Jamaica	315	19.84	700	11.04
St Kitts and Nevis	26	40.56	56	16.65
Saint Lucia	20	35.53	154	25.37
St Vincent and the Grenadines	8	21.59	132	39.50
Trinidad and Tobago	1,189	14.90	766	10.72
Europe	**793**	**12.14**	**2,533**	**15.55**
Cyprus	446	12.63	992	10.76
Malta	348	11.56	1,541	21.79
Pacific	**4,927**	**37.84**	**5,018**	**61.29**
Fiji	427	41.37	1,658	59.65
Kiribati	1	6.46	73	55.12
Nauru	7	20.48	72	79.23
Papua New Guinea	4,397	38.67	2,352	64.05
Samoa	16	33.18	219	56.39
Solomon Islands	50	10.87	307	52.06
Tonga	8	38.84	151	63.59
Tuvalu	0.01	7.30	15	52.29
Vanuatu	22	50.42	171	63.97

Source: UNCTADStat.

Annex 4. Economic outlook by individual country, 2019–2021

Country	2019	2020 projection	2021 projection	2022 projection
Antigua and Barbuda*	3.35	(17.27)	4.70	11.04
Barbados*	(0.10)	(11.60)	7.40	3.92
Belize*~	(1.99)	(16.00)	8.00	5.00
Botswana~	2.97	(9.63)	8.71	4.34
Brunei Darussalam~	3.87	0.10	3.25	3.68
Cyprus	3.23	(6.44)	4.74	3.63
Dominica*	8.39	(8.78)	3.27	3.22
Eswatini	1.15	(3.47)	1.44	0.80
Fiji*~	(1.30)	(21.00)	11.50	8.50
The Gambia	6.06	(1.8)	6.0	6.8
Grenada*	2.99	(11.78)	3.05	5.13
Guyana~	5.35	26.21	8.12	29.49
Jamaica*~	0.90	(8.56)	3.64	3.77
Kiribati~	2.30	(1.10)	2.95	1.90
Lesotho	0.96	(4.80)	3.86	4.30
Maldives*~	5.66	(18.56)	12.70	10.99
Malta	4.92	(7.92)	4.80	5.55
Mauritius	3.02	(14.20)	9.90	6.50
Namibia~	(0.95)	(5.86)	3.44	3.60
Nauru~	0.96	0.71	1.25	0.90
Papua New Guinea~	4.93	(3.28)	1.19	2.87
Samoa~	3.55	(5.00)	(1.52)	2.66
Seychelles*~	3.90	(13.78)	4.17	5.55
Solomon Islands~	1.19	(4.99)	4.47	3.93
St Kitts and Nevis	2.84	(18.65)	8.00	6.20
Saint Lucia*	1.73	(16.90)	7.21	5.91
St Vincent and the Grenadines~	0.40	(6.99)	3.68	3.57
The Bahamas*	1.22	(14.78)	4.59	5.54
Tonga~	0.73	(2.54)	(3.55)	4.02
Trinidad and Tobago~	(0.00)	(5.65)	2.63	4.18
Tuvalu~	6.00	(0.52)	2.99	3.61
Vanuatu*~	3.27	(8.29)	4.28	3.91
CWSS	**2.43**	**(7.78)**	**4.67**	**5.43**
of which				
***Tourism-dependent countries**	**2.66**	**(13.30)**	**5.73**	**5.82**
~ Commodity-dependent countries	**2.20**	**(5.51)**	**4.31**	**5.60**

Source: Authors using IMF International Monetary Fund, World Economic Outlook Database, October 2020.