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COMMONWEALTH POLICY PRIORITIES FOR TRADE AND DEVELOPMENT

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ODI is the UK's leading independent think tank on international development and humanitarian issues.



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All-Party Parliamentary Group on Trade Out of Poverty (APPG-TOP) raises awareness of how trade can be a route out of poverty and researches ways of enabling poor countries to achieve inclusive growth through trade.



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FOREWORD

It is remarkable that 2017 should see the first ever formal meeting of Commonwealth trade ministers. Trade is the most potent driver for growth and development, and it also binds countries together. Happily, Commonwealth countries – no doubt because of their historic links – already tend to trade more with each other than do otherwise similar countries.

But that is not a reason for complacency so much as an indication of the potential to achieve more. We need to focus on how best to do so. That is why this 10-point plan is so valuable.

Moreover, it could not be more timely:

- The World Trade Organization Bali agreement on facilitation of trade, if implemented, could substantially increase the volume between member states and with other countries too. Cooperation and a joint commitment by Commonwealth countries to implement it would set an example to the world.
- Brexit provides an opportunity to rebuild old ties of trade and investment and to make trade policy as pro-development as possible – while taking care to avoid potential negative impacts on less developed countries.
- The slowdown in global trade makes renewed emphasis on promoting international trade imperative.

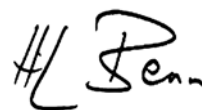
- The Commonwealth is uniquely well placed to provide a positive lead to promote trade and cooperation to counter the risk of populism leading to a return to protectionism and division.

With a population of 2.3 billion, a combined economy of more than \$10 trillion and annual GDP growth in excess of 4%, the Commonwealth has a huge opportunity to help member countries rise to these challenges.

The All-Party Parliamentary Group on Trade Out of Poverty and the Overseas Development Institute have come together to set out a positive agenda for Commonwealth countries which we commend to trade ministers as they gather in London for what we hope will be the start of a fruitful collaboration.



Rt Hon Peter Lilley MP



Rt Hon Hilary Benn MP



Lord Michael Hastings of
Scarisbrick, CBE

Co-Chairs, All-Party Parliamentary Group on Trade Out of Poverty

01

REDUCE TRADE COSTS BY IMPLEMENTING THE WORLD TRADE ORGANIZATION TRADE FACILITATION AGREEMENT

While implementation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) will be a major undertaking for most developing countries, it also presents an important opportunity to improve and expedite the movement, release and clearance of goods at customs borders. The ensuing efficiency gains will help reduce trade costs and enhance participation in global value chains.

When two trading partners are both Commonwealth member states, trade costs are 19% lower. Implementation of the TFA would reduce trade costs worldwide by, on average, almost 17.5%. 33 Commonwealth countries have already ratified the TFA. Ratification by the remaining Commonwealth countries would allow them to build on their already strong trading relationships and further reduce costs of doing business.

Actions for the Commonwealth:

- achieve full TFA ratification from all 48 Commonwealth WTO member states by the Commonwealth Heads of Government Meeting in 2018;
- achieve full implementation of TFA Category A and B provisions within five years from entry into force, and within 10 years for Category C provisions;
- conduct regular tracking and reporting on ratification, implementation and outcomes.



02

ENSURE THAT THE BENEFITS OF TARIFF PREFERENCES ARE MAXIMISED FOR DEVELOPING COUNTRIES

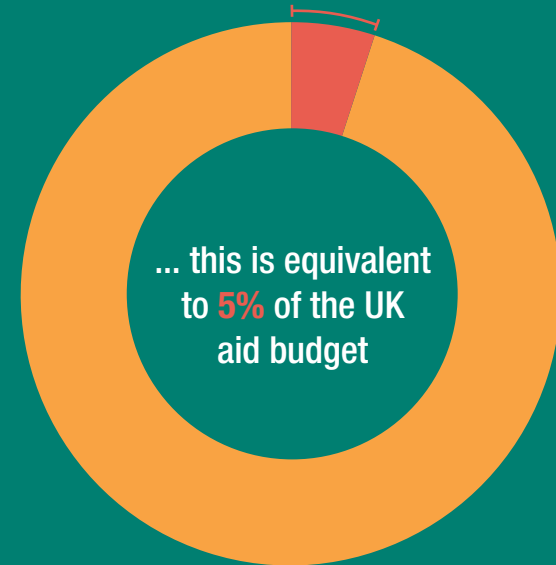
Developed and emerging Commonwealth countries in the position to do so should provide the maximum benefits possible to Commonwealth least developed countries (LDCs) and small vulnerable economies (SVEs) through preferential tariff systems. Enabling recipient countries to export their goods with the lowest possible barriers is key to promoting economic development through trade.

Knowledge should be shared about how recipient countries can access preferences and manage compliance requirements, including rules of origin. The value of preferential access to the UK for Commonwealth developing country goods is €715 million, equivalent to the value of 3.2% of their total exports. On average, tariffs applied by large and developed Commonwealth members to developing ones are just 1% lower than those applied to non-Commonwealth countries.

Actions for the Commonwealth:

- for those countries with the means to do so, commit to offering the maximum benefits possible to Commonwealth developing countries through preferential tariff systems;
- introduce liberal rules of origin and facilitate their certification;
- provide assistance, where necessary, to preference recipients to ensure benefits are fully realised.

UK's tariff preferences are worth
€715 million
to Commonwealth developing countries...



03

INCREASE CONNECTIVITY TO BETTER FACILITATE TRADE

Improving access to information and communication technology (ICT) infrastructure can play an important role in enhancing trade. As the world's economies become increasingly digitised, investment in infrastructure that supports e-commerce will be required to successfully connect and integrate Commonwealth countries through value chains, especially for small Commonwealth states. However, current rules and regulations governing data management in developed countries, such as the location of the information and data security laws, hamper the development of the digital economy in least developed countries and small vulnerable economies.

Actions for the Commonwealth:

- introduce national e-commerce working groups to develop policy responses and programmes to meet ICT for trade needs;
- set broadband subscription targets by widening cost-free access, and conduct regular reviews of ICT capabilities for each country;
- ensure that data location or security laws are defined in a way that enhance countries' ability to leverage the benefits of the digital economy.



04

EXPAND TRADE FINANCE FOR SMALL AND MEDIUM SIZED ENTERPRISES

With up to 80% of global trade being facilitated by trade financing or insurance, it is imperative to support and enhance trade-financing systems.¹ In low-income countries, small and medium sized enterprises (SMEs) contribute close to 50% of total employment, but often face significant challenges in securing trade finance. The trade finance gap (i.e. unmet financial demand) currently stands at \$120 billion for Africa and \$700 billion for developing Asia.

Expanding trade finance for SMEs and small Commonwealth states can act as a catalyst to boost exports and can accelerate growth and formal employment in developing countries. The Commonwealth Trade Finance Facility will act as a guarantor, backing approximately 20% of trade finance exposures faced by international banks that deal with small Commonwealth states lacking sufficient trade finance.²

Actions for the Commonwealth:

- increase the number of investors in the Commonwealth Trade Finance Facility, with a target of doubling the fund upon each biennial review.



05

EXPAND WOMEN'S PARTICIPATION IN TRADE

Empowering women economically – particularly through trade – helps advance welfare for all. Women are particularly active in informal sectors and small and medium sized enterprises (SMEs) where, according to the International Finance Corporation, they own close to 10 million businesses worldwide.³ In Kenya, 24% of SMEs are owned by women,⁴ while in Rwanda the figure is 26%.⁵ Implementing trade policies and Aid for Trade (AfT) initiatives that encourage greater participation of women in trade is key for inclusive development.

Actions for the Commonwealth:

- encourage Commonwealth countries to support initiatives assisting women in business, such as the International Trade Centre's SheTrades programme, which facilitates connections between women-owned enterprises;
- encourage corporations in Commonwealth countries to sign up to and adopt the United Nations' Women's Empowerment Principles.

38%

of SMEs in emerging markets are owned by women



Kenya, 24%



Rwanda, 26%

06

DEVELOP SKILLS FOR TRADE

Human capital is a key building block for prosperity. Individuals' skills and capabilities should be developed so that they can engage in trade and build capacity. Skill development is often hampered in least developed countries and small vulnerable economies by individuals' geographical and digital remoteness. The Commonwealth includes many world-class learning institutions and approaches that can be accessed and shared in innovative ways.

Actions for the Commonwealth:

- expand the Commonwealth of Learning's Executive MBA and MPA programmes to include more blended learning options (incorporating e-learning) from a greater range of academic institutions across the Commonwealth;
- promote international exchange programmes for young professionals through the Commonwealth Enterprise and Investment Council (CWEIC).



07

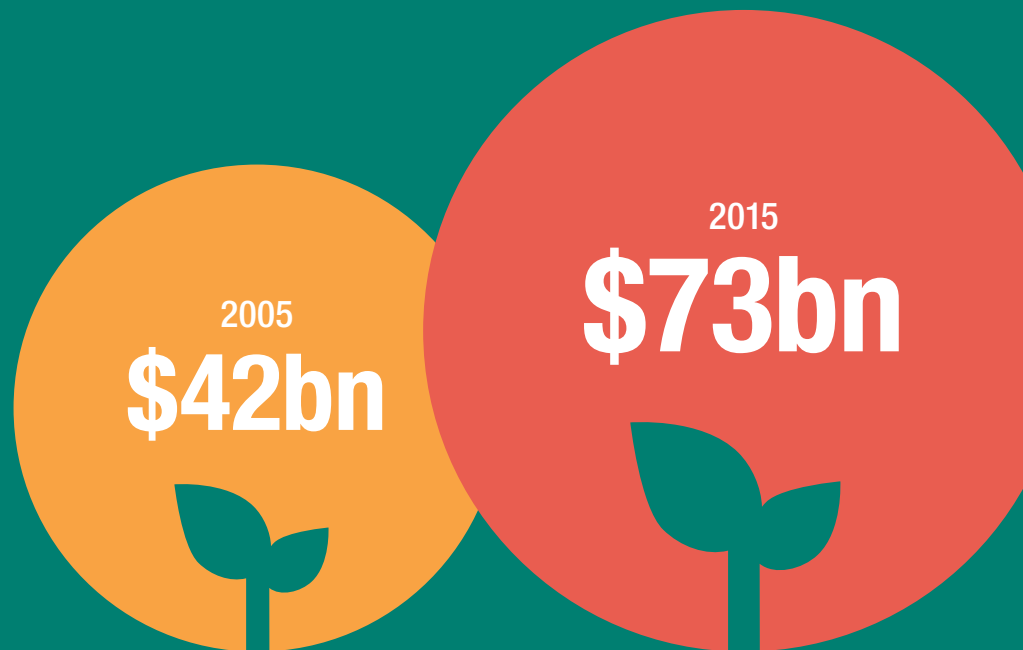
PROMOTE GREEN GROWTH THROUGH TRADE

Climate change is one of the most pressing challenges facing the world today, particularly Commonwealth island states, and poses significant risks to economic development. Trade and investment will continue to play a pivotal role in the acceleration of green growth and emissions reductions through the diffusion of green technologies (including through trade in environmental goods) and increased employment in green jobs sectors. Trade processes can also be made more environmentally friendly. The recently launched Climate Finance Access Hub (CFAH) and Green Finance Facility are examples of Commonwealth initiatives designed to improve access to funding for climate mitigation and adaptation; this funding is particularly important for small vulnerable economies.

Actions for the Commonwealth:

- remove trade distortions hampering trade in green technology;
- continue to adequately fund the CFAH;
- increase institutional investors' participation in establishing the Commonwealth Green Finance Facility;
- encourage CWEIC members to join business-to-business platforms that connect green technology providers and users, such as WIPO GREEN.

Commonwealth exports of environmental goods



08

MORE AND BETTER TARGETED AID FOR TRADE

Aid for Trade (AfT) is a particularly effective form of aid that supports countries to build capacities to trade and address adjustment costs when implementing trade agreements. It involves aid for economic infrastructure, regulatory reform, trade policy support or simply money transfers. AfT facilitation is effective in reducing trading costs, and increased aid to economic infrastructure has a positive impact on export performance. Doubling AfT facilitation can decrease import costs by 5%. These results are generally replicated both in African countries and small vulnerable economies. AfT is most effective when it addresses the most binding constraints, supports policies and institutions in recipient countries, and coordinates a range of actors. Doubling AfT can increase merchandise exports by on average 3.5%, for example.

Actions for the Commonwealth:

- increase AfT funding to developing countries, including for Trade Facilitation Agreement implementation;
- produce baseline and commitments reporting on the Sustainable Development Goal targets pertaining to AfT as part of the World Trade Organization Trade Policy Review process for Commonwealth countries.

A doubling of AfT can increase merchandise exports by **3.5%**

A doubling of AfT facilitation can decrease importing costs by **5%**

09

ESTABLISH A COMMONWEALTH-WIDE TRADEMARK SYSTEM

Branding and licensing are two key tools that businesses across the Commonwealth can use to add value to their goods and services. This is especially key for developing counties as they move away from intermediate to final goods. But obtaining trademark protection in overseas markets can be costly and difficult, especially for small businesses. A unified Commonwealth trademark approach, through Commonwealth-wide ratification of the World Intellectual Property Organization (WIPO) Madrid system, would be a low-cost, high-impact intellectual property solution that would allow any business, anywhere in the Commonwealth, to make a single application in its home country to obtain effective and efficient trademark protection across all 52 Commonwealth member economies. 19 Commonwealth countries are already members of the Madrid system.

Actions for the Commonwealth:

- achieve Commonwealth-wide ratification of the WIPO Madrid system by 2020.



10

IMPROVE TRADE GOVERNANCE

Trade and development policies require the coordination of multiple actors located in many countries. Historical, cultural and political ties among Commonwealth members facilitate this coordination. Coordination is also an opportunity to increase networks of cooperation and business among Commonwealth stakeholders and reject protectionism both amongst members and globally. In addition, this cooperation should follow up and review the mechanisms handled by Commonwealth countries to better deliver on the Sustainable Development Goals, in particular with regards to trade outcomes such as trade preferences and Aid for Trade.

Actions for the Commonwealth:

- launch the first Trade and Investment Expo, alongside the Commonwealth Heads of Government Meeting in 2018, to profile the goods and services Commonwealth businesses have to offer;
- hold annual Commonwealth trade ministers meetings to coordinate actions;
- maintain a clear Commonwealth trade and development agenda that encourages multilateralism and that can be promoted in multilateral settings.



NOTES AND REFERENCES

- 1 WTO Report (2016) 'Trade Finance and SMEs: Bridging the Gaps in Provision'. Available at: https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf
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- 4 Government of Kenya (1999) 'National baseline survey', Ministry of Planning and National Development, Republic of Kenya;
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