Conclusion

The COVID-19 pandemic has caused an unprecedented global crisis, sparking the most severe economic contraction since the Great Depression. As a result of the deep recession in several Commonwealth countries and in their major export markets, Commonwealth members are estimated to have lost as much as US$345 billion worth of trade in 2020, including $60 billion in trade among the 54 member countries. The impact has been particularly severe and disproportionate on women, youth, the poor and the informally employed. However, the rapid development of coronavirus vaccines and their roll-out globally, albeit with uneven distribution among countries, suggests 2021 could be a year of transition for global trade and broader economic growth. As discussed in this Review, trade will be an essential tool for economic recovery and can be harnessed to build back better from the pandemic.

Each Commonwealth member country has its own unique pathway and policy options for trade recovery in a more digital world, although access to vaccines plays an indispensable part for all of them. The broader outlook for Commonwealth countries' trade recovery is inextricably linked to global economic prospects as well as the structure of their economy, the composition of their exports and their inherent characteristics and vulnerabilities. For example, some least developed countries (LDCs) earn more than 80 per cent of their export earnings from commodities,[1] while a few are graduating from this category and require additional support measures for a smooth transition.

Other members, like small states, face inherent structural challenges related to small size and geography. They depend greatly on imports – from food to fuels – and are extremely vulnerable to climate change and natural disasters, including extreme weather events like cyclones and hurricanes, prolonged drought and even volcanic eruptions. Among the small states, most small island developing states (SIDS) have a large share of tourism in their gross domestic product (GDP) – around 50 per cent - but recovery in this sector depends on resumption of travel, which in turn depends upon addressing the health and safety concerns of tourists. Many Commonwealth members have high levels of debt, exacerbated by the crisis, and have limited means to finance a sustainable recovery or do not qualify for international support measures despite their high levels of vulnerability.

International co-operation and engagement in finding ways to ensure the production and distribution of affordable medical products, including vaccines and medicines, remains essential if the entire world is to be vaccinated in a timely manner to combat the pandemic. As Commonwealth policy-makers and businesses look towards recovery from the pandemic and building resilience to future shocks, they should carefully consider the following issues.

The role of trade in economic recovery

Trade can also offer positive solutions to manage the crisis and act again as an engine of growth. Maintaining open trade and supply chains is essential to meet the increasing demand for health supplies and vaccines, given the concentration of manufacturing in a few countries. COVID-19 has shown just how vulnerable medical supply chains are when they rely on a small number of manufacturers for raw materials and final products.[2] Any sort of protectionism and barriers to trade could undermine and delay the global recovery.

Commonwealth countries should also leverage trade to boost economic growth. While the trade-growth nexus has weakened during the past decade, recent studies show that 1 per cent growth in trade leads to an increase of 1-1.5 per cent in GDP growth, raising income by 10-20 percentage points over a decade. Trade is forecast to grow by 8.5 per cent in 2021 and 6.5 per cent in 2022 (IMF, 2021b). This growth will help Commonwealth countries' global exports to rebound and reach US$3.76 trillion in 2021 and $3.94 trillion by 2022. Similarly, intra-Commonwealth exports are expected to surpass $700 billion by 2022. To support their trade recovery, Commonwealth countries can harness the "Commonwealth advantage", which enables member countries to trade up to 20 per cent more with each other, while bilateral trade costs are 21 per cent lower, on average.

Given the dynamic nature of global value chain (GVC) networks, it is possible that a transformation of GVC activities in goods and services will lead to both greater opportunities and increased resilience for many Commonwealth countries. Discussions are ongoing on the possibility of re-shoring and diversifying supply chains as well as re-industrialising to reduce the risk of "supply chain contagion". While this is likely to be a key post-COVID strategy, it may also lead countries to diversify the sources of supplies closer to home. On the one hand, this may offer new opportunities to Commonwealth developing countries as multinational enterprises reduce their dependence on "Factory Asia"; on the other, there is a risk that the pandemic could lead to policies that restrict the international flow of goods, services and people.

Digitalisation, digital trade and recovery

Various estimates suggest that more than 50 per cent of global GDP will be digitised by 2022/23, although there is a risk that this will leave behind many Commonwealth developing countries and LDCs with limited digital infrastructure and connectivity (Ashton-Hart, 2020). As discussed in Chapter 2, digitalisation is driving growth and value creation across all industries, and reshaping markets, business models and value drivers for business. Growing digital trade and expanding the digital economy can help support economic recovery post-COVID and, at the same time, build resilience in Commonwealth countries, ensuring they are better positioned to address future economic shocks and crises. Digital trade can open up new avenues for many businesses, large and small, in Commonwealth developing countries, especially small states, LDCs and countries in sub-Saharan Africa, to provide services through Mode 1 while also supporting export diversification. With the pandemic likely to accelerate trends in Industry 4.0, leveraging digital and other frontier technologies in sectors such as manufacturing will help in transitioning to higher-productivity and more advanced production processes, thereby supporting the structural transformation of Commonwealth economies.

The increase in the uptake of e-commerce and the online delivery of certain services is likely to continue throughout the recovery period and beyond. Countries that are less digitally enabled need to identify their challenges and lessons learnt and take steps to overcome some of the hurdles to shifting to a more digital world. International co-operation is critical to address issues of connectivity, to close digital divides and to tackle barriers to digital trade, particularly e-commerce. Individual countries can work on building capacities and removing the barriers to digital opportunities at the domestic and regional levels. In this regard, it is necessary for governments to strengthen the enabling environment, including updating legal and regulatory frameworks and putting in place digital systems required for digital trade to thrive.

With the ever-increasing adoption of digital technologies in global production and trade, the focus of multilateral, regional and bilateral Aid for Trade initiatives inevitably needs to shift to addressing impediments to their uptake in developing countries in order to provide a level playing field. Failure to do so is only likely to exacerbate inequalities across countries, adversely affecting the process of economic convergence between developing and developed countries.

Building a more sustainable green and blue economy

As many countries start easing their lockdowns, it is imperative that they strengthen their frameworks for sustainable economic development during the recovery phase and not simply revert to business-as-usual "brown" practices to grow the economy out of recession. The pause in economic activity could be used to re-engineer, strategise and plan towards objectives that are truly sustainable, and determine what role trade policy can play (Escaith et al., 2020). For example, many governments and firms in the Commonwealth and worldwide are accelerating their efforts to achieve a global economy with net zero carbon emissions by 2050. Moreover, countries need to risk-proof their future prosperity by focusing on resilience to build back better, including by drawing on and harnessing sustainable approaches and circular economy principles. The post-COVID recovery is indeed an opportunity to make progress on many of the Sustainable Development Goals (SDGs), but especially SDG 12 to ensure sustainable production and consumption. There is considerable evidence that investments in sustainable industries improve economies and businesses. So-called greener industries provide over three times more jobs than do traditional fossil fuel-based industries (Vetter, 2020).

However, this requires a whole new set of partnerships to address the challenges and harness new collaborative solutions and innovative approaches and financial products.[3]

Investors will increasingly contemplate a range of new determinants when making investment decisions beyond the pandemic, especially sustainability, with environmental, social and governance issues increasingly informing business choices. Other factors include the possibilities for reconfiguring or regionalising supply chains and diversifying investment destinations to minimise exposure to location-specific shocks and future crises. Moreover, levels of digitalisation and connectivity in host countries will become increasingly important as modes of manufacturing shift towards Industry 4.0. Re-shoring, regionalisation and replication mean that factors such as geographic proximity, quality of infrastructure and participation in bilateral and regional trade agreements are likely to exert even greater influence on locational decisions for manufacturing foreign direct investment. To compete in this emerging investment landscape, Commonwealth countries need to realistically identify their comparative strengths over the medium to long term and pursue domestic reforms, where appropriate, to take advantage of these new investment opportunities.

The international community can help tackle some of the challenges to ensure a more sustainable and resilient economic recovery. Development assistance will almost certainly be needed from the major international financial institutions to assist Commonwealth developing countries to recalibrate their economies. There may also be a case for conditioning support for recovery on some sustainability. Building local value chains in agriculture, forestry and fisheries should be targeted as priority sectors for lending. African, Caribbean and Pacific SIDS should use this opportunity to identify and implement actions to derive greater benefits from the sustainable use of their ocean economies, including through enhanced regional co-operation and co-ordination around the blue economy.

Several Commonwealth countries will need assistance to recover and revive their economies and trade in the post-pandemic period. These economic support and stimulus packages should aim to align with the SDGs, boost climate action and social equity, and make global and local economies more resilient in the long run. As the world begins to tide over the COVID-19 headwinds, Commonwealth countries can look to use their global and intra-Commonwealth trade as essential tools for building back better and promoting a more inclusive, resilient and sustainable future, including by harnessing the "Commonwealth advantage".

Endnotes

1 For example, all the Commonwealth African LDCs, except Lesotho, are commodity-dependent. The Gambia, Malawi and Uganda rely on agricultural exports, while Mozambique, Rwanda, Sierra Leone, Tanzania and Zambia are heavily dependent on mineral, ore and metal exports.

2 The global value chains (GVCs) for manufacturing and distributing vaccines involve around 1,800 suppliers across 19 countries providing 280 ingredients used in the manufacturing process.

3 For example, blue bonds, climate bonds and impact bonds, as well as debt swaps for nature. Such debt instruments can be tied to sustainability targets, helping countries build back better.