01
Commonwealth Outlook

1.1 Introduction

The Commonwealth is far more than the sum of its parts. Made up of 53 countries, and spanning nearly every continent, this organisation brings together a population of 2.4 billion people – just under a third of the global population. It is also no lightweight from an economic perspective, with the total gross domestic product (GDP) of its members estimated at US$10.4 trillion in 2017 and predicted to top US$13 trillion in 2020. Despite the many differences that define them, the countries' longstanding association through their Commonwealth membership has provided a framework for dialogue and cooperation, one that has the potential to develop further as we approach a new decade.

This report provides an economic assessment of the Commonwealth, discussing member countries on a regional basis and identifying the main risks and challenges that will shape their future development. This is detailed further from Chapter 2 of this report. This opening chapter, however, looks at the organisation as a bloc, reviewing the most recent macroeconomic developments across it as well as the direction that such developments may be taking into the medium term. Membership of the Commonwealth includes countries from different regions and at various stages of economic development, from the most advanced to small states classified as 'under-developed' by the UN. Nevertheless, as integration in the global economy increases across the Commonwealth, it is possible to identify common trends and challenges that are shaping the macroeconomic landscape in the various regional groups.

The following sections set out a high-level overview of recent macroeconomic developments in the Commonwealth's member countries. For clarity's sake, these are organised by region, except for the advanced economies, which are dealt with separately.

1.2 Recent macroeconomic development and outlook

Throughout the first half of this decade, the global economy dealt with a series of crises and shocks as it recovered from the global recession of 2009. Cautious optimism that recovery had truly set in began to emerge in 2016, and by the end of that year economic growth had surged in virtually every region of the world. This was evident in the increase in manufacturing activity and the rebound in global trade. This growth was projected to remain steady in 2018 and 2019, with the International Monetary Fund (IMF) projecting in its October 2018 outlook that global growth would rise to 3.9 per cent into 2019 (IMF, 2018a). However, this rate of growth has not materialised, with the latest IMF outlook referring to global growth as 'subdued' and 'sluggish' (IMF, 2019a). This general loss of momentum is linked to ongoing uncertainty caused by the escalating trade dispute between the USA and China, the many questions still surrounding a post-Brexit global economy and rising geopolitical tensions in many parts of the world.

All this has led the IMF to downgrade its global growth forecast for 2019 and 2020, bringing both down by 0.1 percentage point to 3.2 and 3.5 per cent, respectively. Even then, the agency stresses that this projected upturn in 2020 is precarious and may not materialise if investment and trade do not stabilise.

The following sections review how the Commonwealth countries in the different regions have performed against this global economic backdrop. The loss of momentum the IMF has highlighted, slight so far but that may persist and intensify, has affected advanced and developing economies alike. The emerging economies that were the engine of global growth earlier in the decade continue to grow fast compared with their developed counterparts but may in some instances be faltering. On the other hand, while growth continues slowly but surely in the advanced economies, uncertainty is growing in a number of key areas of economic activity, trade in particular.

Advanced economies

The Commonwealth includes a cluster of seven countries that the IMF classifies as advanced economies. Spanning four continents, and highly diverse in their size, population and geopolitical context, these countries are Australia, Canada, Cyprus, Malta, New Zealand, Singapore and the UK. Beyond their evident diversity, however, all seven economies present the basic characteristics that commonly define mature economies. These include a high level of GDP per capita, as well as a significant degree of industrialisation that is progressing in tandem with robust public and private sector commitment to maintaining technological readiness and innovation. To varying degrees, they have all, for better and for worse, become intrinsically tied to the global economy, largely because of their reliance on trade at regional or global levels as well as their integration with the international financial system.

These shared characteristics indicate that the Commonwealth's advanced economies are facing many of the challenges that are confronting the world's most developed countries. In certain cases, however, we can identify emerging issues and trends that are particular to individual countries within this group, emanating mainly from their regional environment as well as fluctuating relations with new or longstanding trade partners.

Macroeconomic indicators

Growth

Recovery across the Commonwealth advanced countries has continued at a modest yet steady pace, characterised largely by healthy domestic demand and positive export figures. This 'modest yet steady' performance is highlighted by average GDP growth for all seven countries, levelling at 3.2 per cent in 2018. Some exceptions to this trend can be identified, however.

Malta emerges as the strongest economic performer within the group, with an expansion of 6.6 per cent in real GDP in 2018. Cyprus exhibits similarly elevated rates of growth, at 5.5 per cent. In both cases, this success owes to some extent to the impact of the islands' respective schemes of citizenship by investment.

The UK lies at the opposite end of the spectrum, registering the lowest rate of GDP growth within the group in 2018, at 1.4 per cent. Given the UK's generally favourable economic conditions, not least a buoyant labour market with unemployment at historically low levels, this sluggish performance is somewhat anomalous. Leading observers agree that it owes mainly to the persistent uncertainties surrounding Brexit, which continue to limit economic activity.

Employment

In general terms, all seven countries exhibit positive labour market conditions, with Malta and the UK registering significantly low levels of unemployment. The poorest performer in this regard continues to be Cyprus, which is still contending with youth and long-term unemployment issues rooted in the 2012 crisis. In a number of countries, particularly Malta and New Zealand, this buoyancy is driving increased migration to support economic activity. However, other interesting trends are emerging, with Singapore recently announcing cuts to long-established foreign worker quotas and reversing an established policy of fuelling economic growth with expatriate workers. This development is likely to have some impact on the services sector over the coming months.

Prices

A generally consistent picture emerges across all seven economies in terms of inflationary pressures. These have been relatively low and broadly within the established parameters of 2 per cent. Canada and the UK have registered the highest inflation rate, at 2.3 per cent.

This overall inflationary stability can be viewed as a further indicator of the 'modest yet steady' economic growth trend referred to above.

Trade developments

All seven economies under review in this section are highly export-oriented, making trade a particularly important indicator in gauging their economic outlook. The current situation appears to be generally positive, with all having benefited from favourable cyclical conditions in the global economy that have sustained steady growth in world trade in recent years.

All three European countries under review have registered a healthy increase in exports. In all three cases, tourism is a common denominator: Cyprus, Malta and the UK saw a record number of tourist arrivals in 2017 and 2018; further increases are forecast for Cyprus and Malta in 2019.

The situation for Canada and the Commonwealth countries in the Asian region is similarly positive; however, these countries are characterised by the dependency of their export activity on the trade heavyweights in their respective regions. Canada's exports have been boosted by improvements in the US economy, whereas the Asian countries under review have generally been affected positively by China's aggressive trade expansion.

Beyond this current positive assessment, however, the outlook remains uncertain, given rising trade tensions at a global level. Any further deterioration could conceivably affect the advanced Commonwealth countries by slowing global economic growth and having negative impacts on trade. Canada and the Asian countries will be particularly affected by any escalation in the current standoff between the USA and China. However, among the seven, it is the UK that currently has the most unpredictable trading outlook: the effects of Brexit on the UK's main trading partners remain unclear, with the persistent uncertainty posing increasing risks and limitations to further growth.

Fiscal developments

Most of the advanced Commonwealth economies present a generally positive fiscal scenario, indicating that the respective governments have made some progress in implementing sounder fiscal policies. However, the level of success varies from case to case.

Singapore continues to exert a steady hand in its public finances, strengthening its position in recent years to close 2018 with a fiscal balance of 5 per cent of GDP. Australia and New Zealand exhibit a similarly positive outlook, with Australia forecast to swing from a fiscal deficit of 1 per cent of GDP in 2018 to a surplus in 2019 while New Zealand retained a fiscal surplus in 2018, having successfully maintained this position since 2015.

Over in Europe, significant progress has been registered in Cyprus and Malta, which have delivered the first substantial results of the policy commitments both governments have made to address longstanding fiscal issues. The UK also appears to be reaping the benefits of its own sustained fiscal consolidation efforts, returning a deficit below 2 per cent of GDP in 2018. Although the UK remains committed to fiscal consolidation, it is unclear at this time how Brexit, and particularly a hard Brexit, will affect fiscal policy, forcing a deviation from the consolidation initiatives undertaken to date.

Outlook

The outlook for the advanced Commonwealth countries reflects the realities that are currently facing developed economies across the globe. If all this could be summed up in one word, it would be 'uncertain.' With the latest IMF World Economic Outlook referring to global growth as generally 'sluggish' (IMF, 2019a), most advanced economies, including those within the Commonwealth, are facing a series of challenges that could halt or reverse the modest recovery pattern seen in recent years.

Among the risks are the developing trade tensions referred to above: global trade uncertainty persists and appears to be escalating, largely as a consequence of unilateral US tariff decisions and the retaliatory measures taken by trading partners, particularly China. Should this stand-off persist, or the situation deteriorate, the resulting disruption in global supply chains together with a widespread loss of business confidence could trigger a global slowdown. A further cause of uncertainty remains the UK and its post-Brexit trading relations.

From a Commonwealth perspective, the global trading landscape poses particular challenges. Australia, New Zealand and Singapore, currently all enjoying a general positive economic outlook, are heavily exposed to developments in China's trade policy; any negative actions in this area could seriously compromise their current performance. Across the globe, the recent economic recovery Canada has registered could be at serious risk as a result of its close association with the US economy. This recovery, which to some extent has been propelled by economic growth in the USA and the resulting increase in demand for Canadian exports, could therefore be adversely affected by unfolding global trade tensions; US tax reforms could also have serious consequences for the Canadian economy.

On the European front, the key trading challenge lies in the UK and the post-Brexit scenario. Apart from the uncertainty that this watershed poses for the UK itself, Cyprus and Malta will also be affected by the changes it will bring to longstanding trade relations with the UK. Significant shifts are likely to have impacts on the tourism and financial services sectors in both islands. This affects Cyprus and Malta in particular because of their longstanding trade relations with the UK.

Asia

The six Commonwealth countries situated in Asia are Bangladesh, Brunei Darussalam, India, Malaysia, Pakistan and Sri Lanka. All are classified as developing or emerging economies and they vary in size, demographics and socioeconomic characteristics. However, they all exhibit to different degrees the vitality that has spurred Asia's significant economic growth in recent years. As a region that includes China and India, two of the world's fastest-growing countries in both economic and demographic terms, Asia has been at the forefront of the rapid and radical progress emerging countries have made, at a pace that has at times left the established advanced economies lagging behind. In regional terms, in recent years Asia has in fact been the 'growth engine' of the global economy.

The six Commonwealth Asia countries under review are no exception to this rapid-onset growth. Indeed, despite the real differences noted above, they are all bound by the fact that, to a greater or lesser extent, they are transitioning from rural and agricultural economies to models that are more diversified, often associated with rapid urbanisation and social development. This transition, however, brings with it deeper integration in the global economy and a growing reliance on trade – and this opens all six countries up to wider risks and challenges. In addition, growing social and demographic pressures, often exacerbated by sudden growth, represent significant policy challenges for these countries.

Macroeconomic indicators

Growth

Emerging economies in Asia grew by 6.2 per cent in 2018, maintaining the level of the previous year. Growth among the six Commonwealth countries ranged from the above-average rates achieved by Bangladesh and India, which both recorded growth over 7 per cent, to the –0.2 per cent registered by Brunei Darussalam. The region was undoubtedly affected by the economic slowdown in China, although direct effects of this on the Commonwealth countries in the region have not to date been notable. In fact, India has surged ahead without any major issues, and Bangladesh is also performing strongly, with robust and stable growth exceeding the regional average. Both countries are expected to maintain this momentum in 2019 and into 2020.

Malaysia has also registered steady growth, at over 4 per cent, this despite tense political elections in May 2018, as these were followed by a peaceful political transition that shielded the economy from any shocks. Growth in Pakistan and Sri Lanka was more subdued, with GDP growth at 2.9 and 3 per cent, respectively, in 2018.

Employment

Rapid economic growth in the Asian region has generated jobs at a fast rate, resulting in a generally low unemployment rate across the region relative to global standards. This was estimated to average 4.2 per cent in 2018 (ILO, 2018a). These trends also apply to the Commonwealth Asia countries under review, which have all experienced a reduction in unemployment over recent years. A common trend across these economies, in terms of the sectoral composition of employment, is a sustained decline in employment in manufacturing and agriculture and an increase in services sector jobs.

Prices

Average annual inflation across Asia averaged 3 per cent in 2018. Within the Commonwealth countries in the region, this has been significantly affected by environmental factors in recent months, notably drought and excessive rainfall, which have disrupted agricultural production and affected food and other prices. Current forecasts indicate negligible rises in inflation across the region, and within the six countries under review, in 2019 and into 2020. This likely owes to the stabilisation of oil prices as well as stronger currencies across the region.

Trade developments

Given the ever-increasing integration of Asia's emerging economies in the global economy, economic activity in Asia remains highly dependent on external trade performance. Trade as a share of the GDP of the six Commonwealth countries in the region has risen steadily over recent years. Although some decline was registered earlier in the decade following the global recession, over the past year trade has approached pre-recession levels. The average GDP share of trade across the six countries stood at 64 per cent in 2017, compared with 71 per cent in 2013. Within the group, Brunei Darussalam and Malaysia are the most dependent on international trade; they are also the most export-oriented of the Commonwealth Asian economies.

The contribution of trade to the economies of all six countries is forecast to remain stable, and could potentially intensify as a number of countries, India and Malaysia in particular, focus on carving out a competitive edge in high-tech manufacturing and digital innovation.

Fiscal developments

The fiscal situation across the Asian region is not a particularly rosy one. In fact, the fiscal position of most governments deteriorated in 2018, with significant increases noted in government debt. Among the Commonwealth countries, India, Pakistan and Sri Lanka have the highest rates of debt as a share of GDP, rising to 82 per cent in the case of the latter. One major cause of this position is the fact that tax revenues have not expanded in line with economic growth: in Bangladesh, Brunei Darussalam and Malaysia, tax revenues as a percentage of GDP have declined in recent years. This has led to some restrictions in infrastructure spending, which may ultimately have an impact on economic growth and job creation in the long term.

Outlook

Asia is expected to grow by around 5.5 per cent this year, accounting for nearly two thirds of global growth, and the region remains the world's most dynamic by a considerable margin. In this context, positive economic performance is expected from the economies of the Commonwealth countries under review. Bangladesh and India in particular should maintain their current rates of expansion, supported by focused investment in infrastructure and digital innovation. Malaysia may also emerge as a stronger economy into the medium term, as the relatively new government addresses governance weaknesses and corruption, while boosting productivity, particularly in the expanding digital industry. On a more negative note, Sri Lanka is facing particular challenges as a result of the unexpected impact of the recent terrorist attacks on its tourism industry, a major contributor to its GDP. Growth is also forecast to be slower in Pakistan as fiscal consolidation falters.

Despite the risks posed by China–US tensions, trade within the region is also set to receive a boost through the Asia-Pacific Trade Agreement (APTA), which includes Bangladesh, China, India, Mongolia, the Republic of Korea, Lao People's Democratic Republic and Sri Lanka. If this agreement takes hold, it will increase intra-regional trade and, to some extent, dilute the negative impacts of further deterioration in trade relations outside the region.

As is discussed further below, this relatively favourable outlook for these six countries may also be affected by the risks and challenges that are facing advanced and emerging economies alike, including climate change and social pressures triggered by a lack of focus on inclusive economic growth. The Asian countries also face a further challenge that does not affect the advanced Commonwealth economies to the same degree: population growth and an ageing population. These demographic pressures are already having an impact on public expenditure as healthcare and other social costs are rising in line with these realities. In addition, these trends may also affect productivity levels in the medium to long term.

Africa

There are 19 African Commonwealth countries, all of which are in the Sub-Saharan region. For ease of reference, these are assessed in this report in line with the regional economic community (REC) of which they form part. Table 1.1 identifies the Commonwealth countries within each community.

Sub-Saharan African economies differ widely, shaped by the availability or otherwise of natural resources and the relative stability of governments and institutions. In many cases, economic growth is being triggered in those countries that are diversifying their economies beyond reliance on natural resources and towards a more knowledge- or technology-based economic platform. These differences result in a relative unevenness in the economic performance of the different states

Table 1.1 Commonwealth countries as members of African RECs

Southern African Development Community (SADC)	East African Community (EAC)	Economic Community of Central African States (ECCAS)	Economic Community of West African States (ECOWAS)
Botswana	Kenya	Cameroon	The Gambia
Lesotho	Rwanda		Ghana
Malawi	Tanzania[1]		Nigeria
Mauritius	Uganda		Sierra Leone
Mozambique			
Namibia			
Seychelles			
South Africa			
eSwatini			
Zambia			

that make up the region. This also applies to the Commonwealth countries under review, all of which are emerging economies.

In terms of the overall macroeconomic outlook, following the economic slowdown of 2015 and 2016, Sub-Saharan Africa is maintaining a gradual but sustained recovery. This continues to be supported by higher commodity prices, improving agricultural systems and increasing domestic demand and consumer spending. While these positive trends are projected to prevail over the forecast period, what is significant in the case of these Commonwealth countries is the disconnect that can sometimes be detected between human development and economic growth: like other emerging markets in different regions (including the Asian countries discussed above), many of these countries are showing undeniable signs of economic success; however, in many cases, this has yet to make a real dent in combatting poverty and income inequality at a domestic level.

Macroeconomic indicators

Growth

The slight improvement in the global economy over the past two years has also been registered in Sub-Saharan Africa, with most economies in the region experiencing an expansion in real output growth. This is indicated by GDP growth figures for 2018, which averaged 4.4 per cent compared with 4 per cent and 3.8 per cent in 2017 and 2016, respectively. This trend is reflected in the Commonwealth African states, which generally experienced broad-based GDP growth in 2018. The most successful of these economies currently fall within the EAC and ECOWAS communities, which are currently the key drivers of economic growth across the region. GDP growth across the EAC averaged 6.8 per cent in 2018, whereas average growth in ECOWAS stood at 4.5 per cent. The southern states within the SADC group lag far behind, with average GDP growth of 2.4 per cent. This is an interesting emerging trend, which sees former leading economies such as Nigeria and South Africa experiencing a slowdown while formerly fragile economies are performing well. It is also notable that non-resource-rich economies – supported by higher agricultural production, increasing consumer demand and rising public investment – are growing at the fastest rates in the region.

Two Commonwealth countries within the ECOWAS and EAC communities that are pursuing particularly successful macroeconomic strategies are Ghana (ECOWAS) and Rwanda (EAC). Within ECOWAS, the IMF has singled out Ghana as one the world's fastest-growing economies in 2019, following a successful diversification from an overreliance on oil production and a move towards non-oil economic activities such as agriculture, manufacturing and services. The latest country report issued by the IMF on Rwanda points to the 'considerable progress' made in sustaining growth (GDP growth levelled out at over 7 per cent in 2018, significantly above the regional average) and emphasising the inclusivity of this growth and the resulting reduction in poverty (IMF, 2019b).

Employment

In 2018, the average unemployment rate for the Sub-Saharan African region stood at 7.1 per cent, a position that has remained largely unchanged from that of 2010. However, there are some sub-regional differences to be noted. Unemployment is far lower than the regional average in the EAC (3.5 per cent) and ECCAS (3.4 per cent) and just beneath the average in ECOWAS (6.4 per cent). However, the unemployment rate in the SADC region is far higher than the regional average, climbing to 15.2 per cent in 2018. This reflects the more sluggish economic performance across the community. The figure for South Africa is also significantly higher, reaching 27 per cent, a development that is undoubtedly tied to the economic slowdown the country is currently experiencing.

However, this employment position should be viewed with some caution. Figures that point to relatively low levels of unemployment in so many countries in the region, including most of the Commonwealth countries under review, mask to some degree high levels of youth unemployment (the median age is below 25 in each Sub-Saharan African country with the sole exception of South Africa). This trend is set to intensify given the rapid population growth across the region. Africa's working-age population is projected to increase from 705 million in 2018 to almost 1 billion by 2030.[2] As millions of young people join the labour market, the pressure to provide decent jobs will intensify.

Prices

In Sub-Saharan Africa, as in advanced economies, inflation has fallen over the long term. In the 1980s, many countries in the region endured average annual inflation of at least 20 per cent; however, in this decade runaway prices are now the exception, not the rule. Downward inflation has in fact been an established trend since 2010. Over 2018, the average inflation rate for the Commonwealth African countries fell from 6.7 per cent in 2017 to 5.1 per cent in 2018, with most of these presenting rates under 10 per cent. The lowest inflation rates were recorded in Cameroon (0.9 per cent) and Rwanda (1.4 per cent).

Trade developments

Despite a tendency to fall behind other developing regions, Asia in particular, Sub-Saharan Africa has seen its trade grow rapidly in recent decades. During 1990–2018, the region's trade openness (imports and exports of goods and services) increased from about 53 per cent of GDP to 67 per cent, after peaking around 2011 as commodity prices surged (IMF, 2019c). This prolonged period of growth radically changed the region's trading landscape, creating new partnerships with emerging market economies such as China. In parallel, Sub-Saharan Africa's intraregional trade also increased substantially, rising from approximately 5 per cent in 1990 to about 12 per cent in 2017. In fact, the share of trade with African countries by 2017 was surpassed only by trade with the EU and with China.

The latest IMF regional outlook for Sub-Saharan Africa highlights recent regional trade developments that could constitute a 'game changer' for the region: the African Union's creation in 2018 of the African Continental Free Trade Area (AfCFTA). This is a major step towards boosting regional trade and economic integration and will eventually create a single continental market through the elimination of tariffs on most goods, the liberalisation of trade in key services and the free movement of labour and capital. Once operational, AfCFTA will establish a market of 1.2 billion people with a combined GDP of US$2.5 trillion. This development is a major advantage for the 19 Commonwealth African countries, since, besides opening new opportunities for trade with non-Commonwealth countries, it will enhance trade between the member countries using the advantages that this membership provides (the 'Commonwealth Advantage'). Finally, this intra-regional boost could increase the region's resilience in dealing with any negative impact from the escalating trade tensions between the US and China, as well as any fallout from the UK's post-Brexit trade policies.

Fiscal developments

In the past decade, public debt levels have risen significantly in Sub-Saharan Africa, as a result of heightened fiscal deficits leading to an accumulation of domestic and external debts. The regional ratio of general government debt to GDP has in fact risen, from 32.2 per cent at the end of 2014 to an approximately 45 per cent by the end of 2017. This is a serious concern within the region given issues with revenue collection capacity in a number of countries.

This situation is also affecting a number of Commonwealth African countries, some of which are the largest recipients in the region of official development assistance. This applies particularly to Kenya, Mozambique, Nigeria, Tanzania and Uganda. Another facet of the issue is a shift to non-concessional debt to finance infrastructural capital projects, further contributing to rising public debt levels. The average level of general government debt for Commonwealth members in the region stood at 29.3 per cent of GDP in 2018, up from 47.2 per cent in 2017.

Outlook

Economic growth in Sub-Saharan Africa is forecast to increase marginally to average at 3.4 per cent in 2019, rising to 3.6 per cent in 2020 (IMF, 2019a). This growth will continue to be driven mainly by the EAC and ECOWAS sub-regions. This moderate economic growth for a second successive year is positive, indicating some entrenched resilience that could buffer the region's economies from the modest slowdown in global economic growth that the IMF has forecast for 2019–2020 (IMF, 2019b). As indicated above, differences within the region in terms of economic performance at a national level will prevail. About half of the region's countries – mostly non-resource-intensive countries – are expected to grow at 5 per cent or more, which would see per capita incomes rise faster than the rest of the world on average over the medium term. For all other countries, mostly resource-intensive countries, improvements in living standards will be slower. Notwithstanding these different economic prospects and policy priorities, countries share the challenge of strengthening resilience and creating higher, more inclusive and durable, growth. Addressing these challenges requires building fiscal space and enhancing resilience to shocks by stepping up actions to mobilise revenues, alongside policies to boost productivity and private investment.

The Caribbean

The 12 Caribbean countries that are members of the Commonwealth extend across the Caribbean basin, from The Bahamas in the north to Guyana in the south. With a combined population exceeding 6 million, the Commonwealth Caribbean is developing into a vibrant region with considerable economic potential. Many countries within the group are looking beyond dependence on tourism or, in many cases, export of a few specific products, and are actively diversifying their economic activities. This is driving the growth of new sectors, including services, agriculture, digital technology and logistics. The fact that small states predominate in this group provides an interesting facet to this economic review. This factor carries both advantages and disadvantages for economic growth. Limited size and the insularity associated with an island status can create some logistical challenges; however, it can also support flexibility and focus in responding to innovation. Opportunities also abound in the blue economy.

The key challenge for these countries is their extreme exposure to the effects of climate change, as well as the natural disasters that may be increasingly prevalent as a direct or indirect result of this. This is evident in the economic and environmental damage caused by the unprecedented hurricane season in 2017.

Macroeconomic indicators

Growth

Supported by the slight recovery of the global economy, economic trends in the Caribbean are encouraging and slow growth has been consistent over the past three years. This optimism extends to the majority of Commonwealth members, which have generally participated in this growth. It is estimated that average GDP growth across the member countries will reach 2.9 per cent in 2019. However, this rate of growth varies across the different countries, particularly between tourism-dependent countries (The Bahamas, Barbados and Jamaica) and commodity-producing countries (Guyana as well as Trinidad and Tobago). The former, particularly The Bahamas, are now recovering from the effects of the 2017 hurricanes that led to higher public spending and interrupted flows of revenue. The latter are benefiting from increases in the prices of raw materials.

Employment

After rising year on year since 2016, unemployment in the Caribbean dipped slightly in 2018 (ILO, 2018b). The forecast unemployment rate in the region averaged at 7.8 per cent in 2018, compared with 8.1 per cent in 2017. This improvement reflects the modest economic growth registered by several countries. Despite this more positive picture, there is no room for complacency, given the many structural problems that continue to limit labour market growth – this may over time impede job creation even as economic growth gathers speed. One growing issue in the region is youth unemployment, with recent International Labour Organization (ILO) estimates gauging that a fifth of those aged 14–25 were looking for but failing to find work (ILO, 2018c).

Prices

All member countries with the sole exception of St Kitts and Nevis experienced inflationary conditions in 2018, and these are forecast to increase in 2019.

Trade developments

Trade developments across the region in 2018 have tended to the downside. This extends to most Commonwealth Caribbean countries, which continue to experience a negative trade balance. The only member countries in the Caribbean that have seen an improved trade position for the same period are Antigua and Barbuda, Saint Lucia and Trinidad and Tobago.

Countries in the Caribbean region experience unique trade challenges. Despite their proximity to the large markets of Canada and the USA, and access to numerous products in North America and the EU, Caribbean exporters face significant hurdles as a result of their small size and high production and transport costs. These persistent difficulties may be continuing to hinder significant improvements.

Fiscal developments

Fiscal adjustment remains a priority in the Caribbean. The average primary balance has improved only slightly, from a deficit of 5.7 per cent of GDP in 2017 to 4 per cent in 2018, and public debt remains high compared with levels prior to the global financial crisis.

Despite the economic growth registered in many countries, the indications are that most Commonwealth governments continue to deal with a persistent fiscal deficit.

Gross general government debt is expected to decline steadily in the medium term and, according to the most recent IMF estimates, the Commonwealth Caribbean's general government gross debt is 74.9 per cent of GDP in 2019, the lowest in the past decade.

Outlook

Economic activity in the Caribbean is projected to improve slightly in 2019–2020, mainly driven by tourism, reconstruction from the devastating hurricanes of 2017 in some tourism-dependent countries and higher commodity production in some commodity exporters. However, the latest IMF projections point to this growth being 'sluggish' and slower than earlier forecasts indicated ('a stalling recovery'). Real GDP is expected to grow by 0.6 per cent in 2019 – the slowest rate since 2016 – before rising to 2.3 per cent in 2020 (IMF, 2019d).

The weak momentum reflects negative surprises in the first half of 2019, elevated domestic policy uncertainty in some large economies, heightened China–USA trade tensions and somewhat lower global growth.

Growth is expected to be strongest in tourism-dependent economies into 2020, supported by still strong US growth – the main market for tourism in the region – and continued reconstruction from the 2017 hurricanes.

With improved energy production and higher commodity prices, commodity-exporting countries are also expected to see some modest recovery in growth, except Guyana, where the start of oil production in 2020 will provide a substantial boost to growth.

More generally, regional growth continues to be impeded by lingering structural problems, including high public debt, poor access to finance, high unemployment and vulnerability to commodity and climate-related shocks.

The Pacific

The Commonwealth Pacific as a regional group consists of 11 member countries. These include the two advanced economies of Australia and New Zealand; the remaining nine states are developing economies differing in size, population and availability of natural resources.

Each of these countries shares similar challenges and opportunities as small and remote island economies. They are vulnerable to external shocks and must deal with the vast distances that separate the economies from each other, as well as from the rest of the world. They are also particularly exposed to the effects of climate change and natural disasters.

However, there is significant potential for growth, not least in the burgeoning blue economy. This potential would be greatly enhanced through better long-term cooperation between governments in the region.

Macroeconomic indicators

Growth

GDP growth in the developing economies of the Commonwealth Pacific in 2018 averaged 2.4 per cent, indicating a slight downturn from the average of 2.6 per cent recorded in 2017. This downward trend owes primarily to the economic struggles of Papua New Guinea in the aftermath of the devastating earthquake that struck in February. The situation in the other economies is more positive, and steady growth has been maintained in the past year, mainly supported by healthy tourism figures and a strong fishing sector.

Fiji, Samoa and Vanuatu had the strongest growth in 2018, with tourism as a key driver. The economies of the northern states of Kiribati, Solomon Islands, Tonga and Tuvalu also performed well, maintaining steady growth over the previous year. The only contraction occurred in Nauru, as a result of the exhaustion of primary phosphate mining.

Employment

Employment statistics for the small Pacific island states are scarce and often unreliable. The countries with the longest series of original data are Fiji and Vanuatu, which point to a fairly consistent labour force participation rate of approximately 55 per cent and 71 per cent, respectively (ILO, 2017). A recent analysis conducted by the ILO concludes that Papua New Guinea and Vanuatu hover around a 70 per cent labour force participation rate, while that for Fiji, Samoa, Solomon Islands and Tuvalu stands at around 50 per cent.

The same analysis points to a downward trend in labour participation in most of the island states. This may owe to the rate of total population growth exceeding that of labour force growth. Unemployment is particularly prevalent among the youth and female population.

In sectoral terms, there has been a marked shift towards employment in the services sector (mainly tourism) over the past decade, followed by agriculture. The industrial sector across most of the region is still undeveloped and is therefore not a major employer.

Prices

Based on the latest confirmed statistics released by the IMF (2017), inflation has remained moderate in most Pacific small states, mainly as a result of low commodity prices. The average inflation rate for 2017 for the economies under review amounted to 3.5 per cent, with Tonga registering the highest rate, at 7.1 per cent (IMF, 2018b).

Trade developments

Exports across the Pacific small island states are relatively underdeveloped, primarily because of limited productive capacity. Exports consist mainly of primary commodities, such as oil, wood and metals, and agricultural commodities like palm oil and fish. This renders the trade landscape quite volatile and susceptible to external price fluctuations.

Among the Commonwealth Pacific states, Papua New Guinea is the largest trading economy, accounting for 41.9 per cent of the total trade by the small island states in the region based on the latest confirmed data (2016). Fiji is in second place at 11.5 per cent.

The latest statistics issued by the UN Economic and Social Commission for Asia and the Pacific indicate that external trade contracted sharply in 2016, by 12.5 per cent. This decline is far higher than the average for the wider Asia-Pacific region in the same year (4.4 per cent) (UN, 2017). The major export markets in 2016 were Australia, China and Singapore.

Fiscal developments

Although many Commonwealth Pacific states made revenue gains in 2018, these were partly offset by rising expenditure requirements. In some countries, mainly Papua New Guinea and Tonga, these rising costs were associated with the reconstruction that kicked in after the 2017 natural disasters; in others, it owes to higher capital spending on goods and services.

In this context, fiscal balances have deteriorated and are generally projected to decline further into 2020 despite steady or higher economic growth, implying that a number of governments are taking a more expansionary stance in their monetary policy. These developments must be assessed within the framework of the rising debt in the majority of the Pacific small states, where the average public debt to GDP ratio rose from 20 per cent in 2010 to 35 per cent in 2017 (IMF, 2018c). Among the Commonwealth Pacific states, Papua New Guinea, Samoa, Tonga and Vanuatu have the highest debt levels.

Outlook

According to the most recent IMF assessment, average GDP growth in the Pacific small states is expected to pick up in 2019, doubling from 2.2 per cent in 2018 to reach an estimated 4 per cent (IMF, 2018d). The key driver will be the resumption of oil production in Papua New Guinea following the disruption throughout 2017 and 2018 caused by the earthquake – this was one of the main causes of the slight downturn in the region registered in 2018. A similar effect will be experienced in Tonga, where post-cyclone reconstruction efforts will boost wider economic growth. Elsewhere, tourism will continue to boost this improvement, particularly in Fiji, Samoa and Vanuatu, as will the fishing sector, which is set to maintain its positive performance.

However, risks remain. In the short term, these are tilted to the downside because of the ever-present risk of natural disasters. Beyond that, any further slowing of the global economy may affect tourism revenues, which may dampen the current optimistic forecast. This will apply particularly if the large economies in Asia are affected, with any spill-over effects into Australia and New Zealand.

In the long term, these small states may be negatively affected by rising costs associated with climate change and healthcare. The latter risk is directly linked to the sub-region's growing and ageing populations and is increasingly an issue across the emerging economies of the Asia-Pacific region.

Conclusions

The above regional assessments point to a situation of general economic growth across the Commonwealth countries, irrespective of region or stage of economic development. This is aligned with the current state of play in the global economy, which continues to register slight growth. However, the rate of this growth is not reaching the levels forecast in 2018, when it was expected that the recovery that set in during 2016 and into 2017 would pick up speed. This did not materialise for the various reasons outlined above, and the latest projections issued by the IMF are couched in far more cautionary terms, indicating that recovery slowed in the second half of 2018 and remains 'subdued' (IMF, 2019a).

In this context, the overall picture of the Commonwealth that emerges is a mixed one. With Asia's GDP forecast to grow at

6.2 per cent in 2019, the Asian member countries that have so far spearheaded the organisation's GDP expansion will probably continue to do so. However, this region is also being affected by the rising uncertainty triggered by China–USA tensions as well as the regional aftereffects of the 2018 slowdown in the Chinese economy. The rising demands of a growing and ageing population are also taking their toll. On this basis, although in the period under review it is likely that the Asian member countries will continue to be the fastest-growing developing economies within the Commonwealth, there are issues that must be monitored closely. The boundless enthusiasm of previous years is now somewhat qualified.

A second powerful regional group of member countries within the Commonwealth is Sub-Saharan Africa, although here too current growth is more subdued than previously estimated. Although larger, more developed, economies such as Kenya and South Africa are stalling to some degree, some emerging economies are performing strongly and have significant potential if they continue to pursue diversification strategies. Advanced negotiations to conclude AfCFTA also represent a major opportunity for the African members of the Commonwealth to boost trading partnerships within the region.

The Pacific and Caribbean member countries share a number of common issues and challenges, particularly related to climate change and exposure to natural disasters. A significant majority are also islands and small states. Although many economies in both regions continue to grow, in many cases their economic potential is not fully realised: in both cases, the blue economy presents significant opportunities, while the manufacturing and services sectors can be developed further. However, a more consistent and focused approach is required to ensure results. In this context, it may be concluded that these two regional groups within the Commonwealth present immense opportunities for growth if focused economic diversification strategies are applied.

Finally, the advanced economies within the Commonwealth continue to evolve, currently affected by global uncertainty and with their own set of challenges to address. During the period under review, it is interesting to note that it is the smallest Commonwealth advanced economies that registered the strongest growth. One key area of focus is the UK's economic direction post-Brexit, and any changes that may result in its trade policy. There may be implications for the Commonwealth if the UK considers deepening its trading relations with other states within the organisation.

1.3 Key development challenges

Given the different socioeconomic and political realities within the Commonwealth's membership, many development challenges are particular to a country or group of countries. This can depend on the region in which it is located or on the stage of development it has reached. These region- or country-specific challenges are discussed in the following chapter. This initial overview sets out to capture those wider challenges that are global in scale and, as such, affect all the Commonwealth countries to some degree.

1.3.1 Disruptions to global trade

The recent escalation of trade disputes between China and the US is having a significant effect on the global economic climate. The ongoing tension is dampening the appetite for investment, reining in productivity and disrupting global supply chains. These issues apply particularly to the advanced economies within the Commonwealth but are also having a trickle-down effect on the developing member countries (a downward trend in trade volume growth was in fact most evident in emerging Asia as at July 2019). Developing member countries, particularly in the Asian region, are already pressed by the Chinese slowdown given that their exports are highly dependent on the Chinese economy. Finally, the unfolding

Brexit situation is also a global challenge for many economies within the Commonwealth. Beyond the UK itself, which must forge a new economic rationale, those Commonwealth members within the EU – namely, Cyprus and Malta – may also have to rethink their external trade policies in advance of the UK's exit from the EU.

1.3.2 Global economic developments

The fact that the global economic recovery experienced in 2016–2017 appears to be faltering is also a significant challenge, since its effects will undoubtedly have impacts on both the advanced and the developing countries within the Commonwealth. The fact that this recovery was rather fleeting and there was limited time for many countries to consolidate economic growth is also a concern.

1.3.3 Economic sustainability

The far-reaching impact of climate change on every aspect of social and economic activity should not be underestimated and is possibly the most significant challenge to sustainable development across the globe. Efforts to mobilise multilateral mitigation measures have been negligible, thwarted mainly by the inconsistent participation of key players. This is further undermined by lack of commitment on the part of many governments to driving adequate domestic policy programmes. This also applies to high-income countries; in fact, none of the seven Commonwealth advanced economies can be said to have registered sufficient progress in attaining its environmental goals.

If this situation persists, the effects of climate change on these countries' economic development pose a real risk, not least because of the heightened geopolitical and social tensions that could arise. The developing countries within the Commonwealth, particularly the islands in the Pacific, are particularly exposed to the impact of climate change, and this is already restricting their economic development as they divert resources to deal with the issue, and to reconstruct their infrastructure after the recent spate of natural disasters.

1.3.4 Inclusive development

A significant risk facing the Commonwealth's economies is that of inclusive development. A concept that is fast gaining traction, the notion of inclusive development looks beyond standard metrics to assess if and how society is benefiting from the effects of economic growth and prosperity. On this basis, a failure to ensure this inclusion can lead to economies that prioritise short-term revenue and prosperity over sustainable and socially inclusive growth. Indicators of this approach are income inequalities and increased polarisation between different social sectors. The developed and developing economies under review are all, to a greater or lesser extent, facing this increasing risk. A facet of this challenge that applies particularly to developing countries is the rate of population growth, which far exceeds that of the advanced economies: this is increasingly outstripping the rate of economic growth, leading to increased poverty and exclusion.

1.3.5 Technological divide

Advanced economies are sustaining their competitiveness by investing in digital innovation and technological development. This now applies to virtually every economic activity, from manufacturing, where Manufacturing 4.0 is fast becoming a reality, to financial services, which is now driven by increasingly sophisticated and integrated fintech systems. Any economy seeking to thrive in the global economy must innovate in line with these developments. Although several emerging economies are successfully tapping into digital innovation – here Asia leads the way, although Sub-Saharan Africa is making progress – there is still vast room for improvement. In terms of the Commonwealth, small states in the Pacific and Caribbean regions in particular could benefit from increased capacity in this regard.

1.3.6 Ageing populations

The global phenomenon of an ageing population is a growing challenge for the Commonwealth's advanced and developing economies; in the latter case, it is exacerbated by high rates of total population growth. In all cases, this trend will trigger increased public spending on healthcare systems, which in developing countries are already inadequate. In advanced economies, an ageing workforce also affects productivity and increases fiscal pressures.

1.4 Policy priorities

1.4.1 Multilateral cooperation

Two of the key challenges referred to above – trade tensions and climate change – are exacerbated by a persistent lack of effective multilateral cooperation. This is stalling any meaningful progress and escalating disputes. In terms of global trade, policy-makers should work together to address this gap and to strengthen the rules-based multilateral trading system. More effective international collaboration in combatting climate change is also an absolute priority, involving both advanced and developing economies. The Commonwealth can serve as a valid platform for pursuing both aims.

1.4.2 Ensuring adequate fiscal space

In a climate where global economic growth is plateauing, the need for sufficient fiscal space is a priority. The ability of governments to service their obligations in the event of a downturn is key and applies to both advanced and developing economies. This fiscal space narrowed considerably earlier in the decade, as governments sought to contain the effects of the global financial crisis. In many cases, the need to rebuild this buffer has not been prioritised, and the premature slowdown at a global level has not helped the situation. In developing Commonwealth countries, particularly in Sub-Saharan Africa and the Pacific, rising public debt highlights the issue. A policy priority across the Commonwealth should therefore be to rebuild fiscal buffers through structural reforms that increase business and labour market dynamism. These measures will increase resilience.

1.4.3 Increase inclusivity

A further priority is to address the lack of inclusive development within a number of advanced and developing economies, characterised by the slow growth of workers' incomes, a perceived lack of social mobility and inadequate policy responses to structural economic change. Regardless of their stage of development, governments should work to translate economic growth into improved living standards for all. This priority is emphasised in the Organisation for Economic Co-operation and Development (OECD)'s recent Inclusive Growth Initiative, which promotes policies to address the bottom 40 per cent of the income distribution. These include investing in child and workforce education (particularly in digital skills), providing effective access to quality healthcare and housing and enhancing business competitiveness to boost the creation of new and better jobs (OECD, 2018). Such programmes should also be aligned with efforts to achieve the Sustainable Development Goals.

Notes

1 Tanzania is a member of both the EAC and SADC; however, for the purposes of this report, it is reviewed as an EAC state.

2 https://www.busiweek.com/africas-working-age-population-to-reach-1-bln-by-2030-amid-rising-jobless-rate-report/

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