



Wilton Park



Report

**Creating a consensus-based Commonwealth vision
for trade negotiation, facilitation and finance**

Friday 10 – Sunday 12 March 2017 | WP1541

In association with:

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Introduction

The World Trade Organisation (WTO) finds itself at a pivotal moment. Despite significant progress at the last two WTO Ministerial Conferences (MC), there remain persistent and fundamental divisions between members on the negotiating agenda of the WTO. For the first time, Ministers at MC10 in Nairobi in December 2015 acknowledged that the organisation's membership is divided on how to progress future negotiations. Recent (protectionist) messages from the Trump Administration on trade policy in general and the WTO in particular, and resounding silence on trade from G20 group, have underlined this absence of clear direction and leadership in the global trading system.

As a community that spans five regions, encompassing some of the wealthiest and least developed countries in the world, the Commonwealth represents a real opportunity to help build consensus and create a broad-based, clear and optimistic vision for expanding global trade and investment through the WTO's rules-based system. In doing so, the Commonwealth could help to ensure that the WTO re-establish itself as the driving force for global trade liberalisation and the pre-eminent forum for progressing trade negotiations and resolving disputes. Importantly, stronger leadership from the Commonwealth in the WTO could also support the achievement of more balanced and progressive negotiations and outcomes amongst industrialized and developing economies.

How can Commonwealth members work together to reaffirm the WTO's mission of progressive liberalisation of trade in goods and services? How can developing countries in the Commonwealth and outside be empowered to play a more active role in the WTO? Where can the UK and other developed member states add most value or become champions for Commonwealth groupings?

The UK is currently in a unique position: as the progenitor of the Commonwealth, a member of the WTO and still a member of the EU Trade Bloc – but not for much longer. The UK therefore needs to seek other trading partners and work hard to establish or re-establish these relationships over the next two years in time for the day when Brexit becomes a reality.

Two Key meetings for this agenda are scheduled over the coming year later: in mid-December 2017, the WTO will hold its 11th Ministerial Conference in Buenos Aires, and in April 2018 the UK will host the Commonwealth Heads of Government Meeting (CHOGM), in London. This Wilton Park conference, and the discussions

contained within, formed part of the process that will inform these two potentially pivotal meetings for the global trade and development agenda.

Historical context

The UK's entry into the EU in the 1970s came at some cost to many of its Commonwealth colleagues, shortly after many of its members gained independence from the UK during the 1950s and 60s. Trade barriers were erected that increased the cost of exporting to the UK at a time when its former colonies needed to strengthen their trading advantages in order to build independent economies equipped to perform on a larger international platform.

The era of a single dominating superpower has come to an end. The US no longer has the global dominance it thinks it has, China has increased its role as a global trading giant and Russia is flexing its muscles, however, none of these countries can claim to be the dominant superpower. Additionally, the Commonwealth is not the Anglo-centric based network it once was: members are trading with each other and the UK had turned its focus towards Europe and the EU in the decades since 1973 when it became part of the Common Market.

The multilateral agencies, formed in a post WWII were very much a product of their time when the West did dominate. Many have not adapted to the shifts in balance and if they wish to remain relevant and effective will need to do so.

The United Kingdom finds itself on the eve of a two-year process for withdrawing from the European Union, and at the same time looking to re-establish itself as a more globally focused trading partner. This presents a potential opportunity for re-engaging within the Commonwealth, although there is considerable work to do in developing a substantive trade agenda in this forum, and the limitations on the Commonwealth's membership mean that the multilateral trading system will continue to occupy primary importance for all member countries.

Role of the Commonwealth

1. The Commonwealth comprises 52 countries with a population of 2.3 billion, a combined economy of more than \$10 trillion and annual GDP growth in excess of 4 per cent. 94% of its 2.3 billion people live in Africa and Asia and 48 commonwealth countries are members of the World Trade Organisation. March 2017 saw the first formal meeting of Commonwealth trade ministers in London to prepare the way for discussions on a trade and investment agenda and mandate at the Commonwealth Heads of Government Meeting in April 2018. The aims of the meeting were to reaffirm the commitment of Commonwealth member countries to a "transparent free and fair multilateral trading system" and to define an agenda to promote trade, investment and job creation for its members.
2. In advance of the Commonwealth Trade Ministers Meeting, a set of 10 policy priorities on trade and development for the Commonwealth had been published jointly by the Overseas Development Institute and the UK All Party Parliamentary Group on Trade out of Poverty. This document was shared with the Conference participants and covered the following suggested priorities:
 - Reduce trade costs by implementing the World Trade Organisation Trade Facilitation Agreement, which would reduce trade costs worldwide by almost 17.5 per cent.
 - Ensure that the benefits of tariff preferences are maximised for developing countries, worth 715million Euros to Commonwealth developing countries.
 - Increase connectivity to better facilitate trade such as investments in ICT infrastructure to support e-commerce and the development of a more coherent regulatory framework.

- Expand trade finance for small and medium sized enterprises (SMEs). SMEs account for some 50 per cent of total employment and yet face the greatest challenges in accessing trade finance.
 - Expand women's participation in trade. According to the International Finance Corporation (IFC) women own close to 10 million businesses worldwide and accounting for 38 per cent of SMEs in emerging markets.
 - Develop skills for trade. Capacity development is critical to enhancing access to trade finance, marketing, management and logistics required for successful trading outcomes.
 - Promote green growth through trade. Many Commonwealth island states are at risk from adverse climate change impact and the recently launched Climate Finance Access Hub (CFAH) and Green Finance Facility are examples of such Commonwealth initiatives particularly important for small, vulnerable economies.
 - More and better targeted Aid for Trade (AfT) to reduce trading costs and enhancing export performance. A doubling of AfT can increase merchandise exports by 3.5 per cent and decrease import costs by 5 per cent.
 - Establish a Commonwealth-wide trademark system to add value to Commonwealth goods and services. This would represent a low cost, high impact intellectual property solution for all members to make a single application with protection across all 52 Commonwealth members.
 - Improve trade governance to maintain a clear Commonwealth trade and development agenda that promotes multilateralism in the current environment of increased protectionism.
3. The twin objectives on trade and development which these priorities cover are important as the benefits of trade and globalization are being increasingly questioned in some quarters, however, an increase in trade has been a major factor behind economic growth in developing countries and the Commonwealth represents an excellent forum for cooperation where voices of developing countries are being heard. As a forum that comprises many small and increasingly vulnerable island states it is an important vehicle for these lesser-heard voices.

Intra-Commonwealth agreements: feasibility and regional potential

4. In a post Brexit UK, and increasingly isolationist/protectionist stance from the US where economies such as China threaten to overwhelm smaller economies in the developing world, there is an opportunity for the Commonwealth to leverage its established network that includes 48 of its members in the WTO. The potential of the WTO is still very important, as demonstrated by its recent adoption of the Trade Facilitation Agreement. In the 2001 Doha Round, trade facilitation was considered the lowest priority but this has all changed with the Trade Facilitation Agreement being ratified in February 2017 and Time Magazine describing it as "the biggest global trade deal in two decades".
5. It is now widely recognised in today's globalised system of production that the speed and ease with which goods, services and finance can cross borders, therefore freeing up customs procedures, paperwork and streamlining an internationally recognised administrative process is as important as doing away with tariffs of trade.
6. In East African ports delays severely hamper export and import delivery times. With fresh produce this region exports such as fruit, vegetables and cut flowers, the potential for wastage is increased substantially by delays when crossing borders. Mombasa and Dar es Salaam have cut their import times by 41 per cent and 35 per cent and export times by 39 per cent and 62 per cent respectively between 2010 and 2015, partly as a result of investments from development partners to upgrade facilities at these ports and

enhancing their connectivity to neighbouring countries along transport corridors.

7. There are some other basic practical steps that can be taken to speed up trading. For example, goods being imported or exported from land-locked and land-linked countries are subject to controls at each border they reach. An internationally recognised system whereby controls for only the first point of entry are in place would hasten these goods to their destination or port of exit. Such a 'One Stop Border' system would need to be simple, harmonised across a region and, most importantly, transparent. Another step to reduce costs would be to introduce pre-arrival processing and electronic payments, as well as an Approved Operator Scheme, along the lines of the trusted-trader scheme established by Australia for example.
8. For these schemes to come to fruition and be effective will require less siloed attitudes across border agencies and government ministries – something that the Commonwealth Secretariat is working on and seeing progress. In a climate of increased protectionism amongst Northern and Western countries, countries in Africa, Asia, the Pacific and Caribbean within the Commonwealth could demonstrate the tangible benefits of regional cooperation with efficient, transparent and cheaper trade systems in place, building on their common language, legal and administrative traditions.
9. The rise in new technologies for payments, data storage and document registration, such as "blockchain" have enormous potential to speed up terms of trade, point of entry processing, pre-arrival processing and financial transactions. The enormity of its impact has yet to be explored, but increasingly companies and individuals are using "blockchain" as a secure and transparent platform for financial and contractual exchanges. This is an area where the Commonwealth could secure funding to pilot in a region, for example. Several countries are already using it to streamline their land registry system to good effect, storing the financial transactions, conveyancing paperwork and ownership of a parcel of land. With documentation sometimes running to over 600 pages for shipments, the impact of streamlining these procedures on speeding up shipment times is potentially enormous.
10. Within the Commonwealth, the countries that are more sophisticated within the services sector rather than merchandised trade, such as New Zealand, Australia, Canada and the UK, can help advance policy priorities and work in partnership with developing nations to devise regulatory frameworks in key backbone sectors (like finance, transport, and communications) that ease terms of trade, market entry and facilitate cross-border investment in these sectors. This may be more difficult to achieve when the delivery of services involves the movement of people across borders.

Increasing recognition of the importance and potential of the Commonwealth

11. The Commonwealth has generally been sidelined for the last 40 years in the areas of trade and investment and the perception has been that it has not been an important body specifically for the UK in comparison to the EU and USA. However, with the rise in South / South trade and China becoming increasingly dominant on the world trade stage, the Commonwealth stands to reposition itself as a coherent and recognisable force which can help to provide clearer leadership in the multilateral trading system, facilitate greater trade between its members and provide a platform for countries such as the UK to engage more proactively with other members on a substantive trade and development agenda and work programme than previously.
12. For this to happen, there needs to be increased recognition of the importance and potential of the Commonwealth in regards to boosting trade and investment which could be done at three levels:
 - **Higher level** to win over the hearts and minds: explain what the Commonwealth is about and its relevance in the evolving global trading environment

emphasising its capability to promote trade that will generate jobs and increase prosperity amongst its members. Whilst the successes of the Commonwealth need to be celebrated, its failures and shortcomings also need to be examined in order to learn what the best ways forward might be.

- **Regulatory level** where a network of institutions can help with operationalisation, freeing up barriers, working towards reciprocal arrangements within regions and working on more seamless, efficient cross-border transactions in terms of finance, legal processes and actual movement of goods and services.
- **National and local levels** by bringing in the private sector, talking to consumers and creating domestic champions for the Commonwealth that people will listen to, such as SMEs, taking into account that the mind-set of entrepreneurs.

13. According to a 2016 report by the Commonwealth Secretariat, Commonwealth countries benefit from a 19 per cent lower cost of trade between members which demonstrates its tangible value and this 'killer fact' is little known. More publicity, evidenced by these types of facts and figures is needed both at national and international levels to increase the visibility of the Commonwealth and its 'brand'. Bertrand de Jouvenal said that 'we create our world by the way we talk about it'. We need to start talking more about the Commonwealth in order to create an effective environment where trade and investment can flourish amongst its members.
14. The Global Goals were set at a time before the now highly challenging environment of Brexit and the new US administration. SDG 17 to 'strengthen the means of implementation and revitalize the global partnership for sustainable development' is under much greater threat than ever. Whilst partnerships are being talked about by many, it would appear that the reality is much more Darwinian at the global level.
15. If the Commonwealth is to buck this trend, there need to be the instruments and capacities to achieve these concrete partnerships and encourage the completion of new trading agreements within the multilateral system. Finance and technology are key instruments and capacity to access, engage and operationalise these assets across – and within - the Commonwealth developed and developing country members more evenly needs to be enhanced. Whilst the Goals have been negotiated, the actual operationalisation has not been thought through with some considering the goals as too ambitious to be realistic. Greater co-ordinated action by Commonwealth members in implementing initiatives to achieve the Global Goals related to trade and development - and reporting baselines and progress against milestones regularly and transparently – would set an excellent example which other countries could follow.

Issues of capacity and ability to access

16. The issues of capacity and finance to implement trade facilitation schemes and systems, as well as put more streamlined services sector regulatory frameworks in place, were seen as major obstacles to implementation and the costs involved are substantial for smaller countries with low GDP.
17. Policy and organisational change will need to take place to modernise cumbersome, opaque customs business models that currently prevail in many Commonwealth countries and this will take time. But with the bigger picture in mind, these are worth pursuing both in terms of their ability to facilitate trade, attract investment, and to increase net revenues from customs for national exchequers through greater efficiency.
18. It will require government and the private sector to work together and connect up with logistics, quality control, certification, ethical sourcing and delivered to the points of entry and exit expediently. This will require training of customs officials at all levels and significant investment in new technology and infrastructure, as well as a clear statement on the benefits for each country.

19. There are funds available to support these initiatives, but there is a problem with capacity to develop bankable programmes and access funding in many countries. Many of the stipulations are too onerous for small island states and there is a lack of capacity to articulate in the manner that development partners may require.
20. One of the issues is how to engage with Small and Medium-sized Enterprises in boosting their participation in international trade. Despite an increase in jobs and growth within the Commonwealth, there is still a trade finance shortfall of \$120bn in Africa and \$700million in Asia. SMEs applying for trade finance are rejected at a rate 31 per cent in Asia, followed by Africa at 18 per cent. Banks lack information on SME finance and the quality of applications is generally poor. This is in addition to a lack of capacity on the part of the banks to effect the required due diligence procedures on smaller, unknown (to them) organisations. SMEs lack practical information and support on how to meet Bank's trade finance lending requirements so to close this gap would be of tangible immediate benefit. The establishment of business services advisers in Commonwealth countries that provide information on what trade finance funding is available, and 'brokers' between the lenders and SMEs seeking finance would be a useful initiative that the Commonwealth Enterprise and Investment Council could help to catalyse.
21. The Commonwealth's new Trade Finance Facility is investing \$20million for start up capital to underwrite risks of lenders; the CDC, IFC, Asian Development Bank and African Bank also have facilities and how the Commonwealth can support the expansion of these facilities would be a useful step, as for every \$1 invested, \$20 are generated, which is an enormous rate of return. India, Sri Lanka and Mauritius have another model – a Credit Enhancement Fund – where \$5million has been pledged thus far. In the Commonwealth's Trade Finance Facility, contributing governments offer a facility whereby the participating banks (currently Standard Chartered and Bank of Baroda) will only have to underwrite 90 per cent of the risk should there be a defaulting, leaving the Facility with a 10 per cent risk exposure. Around \$50-60 million is targeted as capital for the Facility; it has a supervisory board comprising Commonwealth Members, donors and the private sector. By starting out with less risky subjects such as Mauritius, it will then roll out to riskier areas as it proves itself an effective instrument to build capacity to negotiate terms of trade finance.
22. A facility that builds the capacity of women-owned business organisations to be able to put together bankable proposals would also be of great use. In Kenya, Barclays Bank offered a \$100million facility to lend to women-owned business but was unable to disburse any of it by the year end. However, thanks to a partnership with ITC's SheTrades initiative, Barclays has now been able to disburse all the funds in the facility to bankable projects. ITC SheTrades is a women-owned business initiative that helps women-owned business develop bankable projects and takes account of the fact that women in many countries do not have traditional collateral such as land or property as they are denied ownership of these types of assets.
23. There was also a call for more 'expeditionary' banks that are prepared to take more risk in emerging markets. Nigerian banks are very strong here and have the right mindset to invest in the Caribbean and Commonwealth. Could there be an 'expeditionary' Commonwealth Bank that was listed in London and could act as a catalyst?
24. In a region such as the Caribbean that consists mainly of small island states and experiences high levels of unemployment, a high cost of doing business as well as suffering high impacts of climate change and where loss from natural disasters costs the region \$835 million annually, much more needs to be done for SMEs. SMEs contribute 60-70 percent to GDP and employ of 50 per cent of the region's workforce. However, they are severely constrained by low levels of technology, a low skills base, a small and risk-averse banking sector charging unaffordable rates of interest, combined with a lack of access to finance and a lack of impetus from the international community to invest in the region. A similar situation can be expected in the small islands of the

Pacific.

25. It was suggested that Regional Investor Networks could be supported by the Commonwealth Secretariat and the CWIEC that would stimulate private investment into early stage enterprises by providing funding products that help entrepreneurs raise capital. The Regional Angel Investor Network (RAIN) is part of the World Bank's Entrepreneurship Programme for Innovation in the Caribbean (EPIC) – a seven year, 20 million Canadian dollar programme, funded by the Government of Canada that seeks to build a supportive ecosystem for high-growth and sustainable enterprises throughout the Caribbean.

Developing a plan of action

26. A number of concrete suggestions were made by Conference participants as to how the Commonwealth could integrate with trade initiatives, facilitate access to trade investment funds and build capacity to enable smaller countries to take advantage of these initiatives.
- **A Commonwealth network for trade** – enhance and invest in the existing connections, structures and frameworks between Commonwealth members that will build on the current activities, be more proactive in encouraging members to arrive at mutually beneficial trade arrangements and enhance/streamline regulatory frameworks in order to deliver more value-producing activities.
 - **Centre of best practice/excellence** – built up by the Commonwealth that will generate evidence on successes and failures, share learning and provide technical assistance to Commonwealth member states on trade negotiation, trade finance and facilitation. This Centre of Excellence could host a dashboard on its website providing statistics on costs of trade, times involved and how these are changing over time – a kind of 'ComparetheCommonwealth.com' that will provide an "at a glance" of how each country is progressing in its terms of trade.
 - **Trusted trader scheme** – in conjunction with national customs agencies, establish an internationally recognised Commonwealth Trusted Trader Scheme that will also work with port authority regulatory bodies to speed up trading times towards some headline targets. This will take time to establish and will need to be run in a highly transparent manner. Its success will also depend on a critical mass of countries buying into the system and supporting its development and roll-out.
 - **Commonwealth trade finance brokering service** – linking trade finance lenders with potential borrowers, working with the Regional Investor Networks, and acting as a 'critical friend' for smaller countries and SMEs to prepare successful applications for support within the trade arena. The Commonwealth could also have a role to play in helping lenders reduce their risk by building up an accreditation system for trade finance brokers that would cut down the time required on due diligence so that SMEs are not excluded by virtue of the fact that lenders do not have the capacity to do this for smaller borrowers.

Conclusion

The world is currently experiencing a period of great uncertainty with both sides of the Atlantic in turmoil and relationships being built between countries such as China and India that are likely to change previous balances of economic power in the global economy. America's hold on global trade has halved in the last 20 years; its threatened isolationist policy is therefore not such an issue as it might once have been, but it will leave a leadership vacuum in the global trading system. China's dominance in the trading arena, particularly with developing countries in Africa and Asia, has encouraged those nations to increase their trade negotiation capacity.

The Commonwealth member countries can have a key role to play in helping to provide

clearer leadership and forward momentum within the WTO as the US withdraws and provide a framework within which to place new trading arrangements and partnerships which can make concrete progress in implementing the Global Goals. With the apparent political will to do more through the Commonwealth forum and its institutions like the Secretariat and CWIEC, its members can benefit from better terms of trade such as lower costs and faster clearance times; fewer barriers to import, export and invest; an enhanced and more efficient trade infrastructure; as well as a more coherent regulatory environment for services sector development within which all businesses and consumers can operate and benefit.

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