

The potential impact of COVID-19 on Commonwealth trade, recovery and resilience

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1. Introduction

The COVID-19 pandemic is having an unprecedented impact on global economies, businesses, governments and society. While it is too early to comprehend the full economic implications, especially given the uncertainties surrounding the duration of the outbreak, the risk of a second wave of infection as well as progress on the development of a vaccine, few question the scale of the challenge ahead. Global gross domestic product (GDP) is predicted to decline by 3 per cent this year, with developed economies estimated to lose by as much as 6 per cent (IMF, 2020). Indeed, the IMF predicts that only 9 countries out of 190 will have positive per capita gross domestic product (GDP) growth in 2020 (and none of them will record a growth rate above 2 per cent). To put this into perspective, at the peak of the global financial crisis more than 75 countries registered positive GDP per capita growth.

Global trade is taking a significant hit. The World Trade Organization (WTO) projects a 12-32 per cent fall in merchandise trade alone, depending on whether the recovery takes a V-shape or an L-shape. Political tensions are escalating trade disputes among the USA and China (and now the USA and EU). Furthermore, the pandemic is perpetuating an ongoing economic slowdown in China and India, while the proliferation of trade-restrictive measures - including food and medical supplies - is further depressing the outlook for world trade growth. This widespread downturn means 2011-2020 will be a 'lost decade' for global trade at a time when trade is an important means of implementation for achieving the Sustainable Development Goals (SDGs), especially for the world's poorest countries.

COVID-19 has impacted trade through both supply and demand shocks. Quarantines, lockdowns, social distancing and high levels of uncertainty have caused a significant drop in demand for goods and services, with global value chains (GVCs) transmitting the economic shock to upstream supplier countries. In one estimate, disruptions to the three major GVC hubs - China, the EU and the USA - could result in a US\$228 billion decrease in exports across GVCs (Solleder, 2020). Moreover, the policy discourse is shifting from offshoring to localisation of GVCs for some vital sectors.

As the peak of the pandemic appears likely to pass soon in most of Europe, East Asia and North America, attention is now turning to the post-COVID economic recovery. As countries around the world start relaxing their lockdown measures, many industries and supply chains may seek a quick return to 'business-as-usual'. This could involve swiftly trading environmental and social improvements in return for the promise of a strong economic rebound. Yet for many countries, business-as-usual was socially and environmentally harmful, inefficient and inequitable even before the pandemic. There is therefore a persuasive

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argument that recovery from the COVID-19 pandemic must be based on long-term planning for an inclusive and prosperous strategy that take all aspects of economic, social and environmental sustainability into account.

This policy brief provides a brief overview of how the COVID-19 pandemic may impact economic activity in the Commonwealth. Bearing these impacts in mind, including the contagion effect on Commonwealth supply chains, we propose a unique framework to understand how a sustainable recovery could unfold over three stages. We conclude with some measures that can be considered to support growth, recovery and resilience.

2. The impact of COVID-19 across countries and industries

Using Commonwealth countries' input-output (IO) data, we develop a model to analyse the impact of COVID-19 on economic activity in Commonwealth member countries. The model draws on economic forecasts by multilateral and regional organisations, such as the Asian Development Bank, IMF, UN-DESA, UN-ECLAC, World Bank and WTO, as to how COVID-19 could impact the global economy.

Table 1 presents the intensity of impact of COVID-19 across sectors for all Commonwealth countries. The intensity of the impact is driven by a combination of supply and demand shocks that transmitted across different sectors of the economy. For instance, while sectors such as Education and Administration were not hit as hard - mainly due to the fact that workers could work from home - Retail, Hotels and Restaurants were severely impacted due to their reliance on interactive mode of delivery.

Table 1: Intensity of COVID-19 impact on economic activity, by industry

Industry	Intensity of impact	Industry	Intensity of impact
Public Administration	Low	Electrical and Machinery	High
Education, Health and Other Services	Low	Hotels and Restaurants	High
Electricity, Gas and Water	Low	Maintenance and Repair	High
Private Households	Low	Metal Products	High
Agriculture	Low-Medium	Other Manufacturing	High
Fishing	Low-Medium	Petroleum, Chemical and Non-Metallic	
Construction	Medium	Mineral Products	High
Financial Intermediation and Business Activities	Medium	Recycling	High
Food & Beverages	Medium	Re-export & Re-import	High
Mining and Quarrying	Medium	Retail Trade	High
Others services	Medium-High	Textiles and Wearing Apparel	High
Post and Telecommunications	Medium-High	Transport Equipment	High
Transport	Medium-High	Wholesale Trade	High
		Wood and Paper	High

Source: Authors calculations with data adapted from ILO (2020)

Note: Adapted and mapped to the 22 sectors used in Khorana and Ecsaith (2020) based on UNCTAD Eora data

The results show that all Commonwealth members are likely to exhibit negative or marginal real growth in 2020, but the impact will vary (Figure 1). GDP is expected to contract in all countries except Bangladesh. Some of the reasons for this include structural factors (i.e. differences in the sectoral composition of domestic activity and the varying degree of linkage between countries through GVCs), population, composition of export and so forth.

Figure 1: COVID-19 and expected economic growth in 2020 (% , y-o-y variation)

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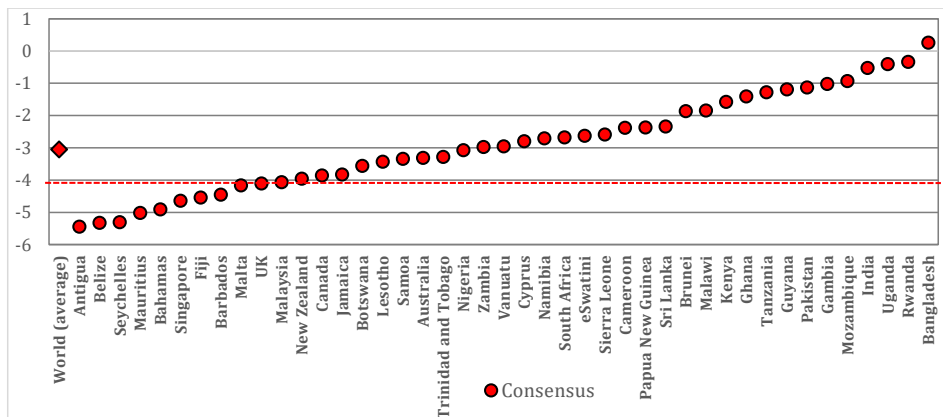
Could we combine Tables 1 and 2 by including the "Intensity of impact" column next to "mean growth" in Table 2 as evidence for the ranking of impact?

Commented [SK2]: No, Tables 1 and 2 cannot be combined. The impact on economic activity (domestic) by sectors is based on ILO (2002) estimates. I suggest we change Table 1 title to: Likely impact of COVID-19 on domestic activity, by industry. This will avoid any confusion.

Table 2 disaggregates the ILO study's 14 sectors to match the 26 sectors in EORA and we used numeric scores instead of Low or High. Then we used the scores to weigh the impact of external demand on CW sectors. Table 2 is the result of this process ILO -> Table 1 -> Model -> Table 2.

So Table 2 presents the expected drop in sectoral value-added for the Commonwealth community in 2020.

Reference: ILO (2020) 'ILO Monitor 2nd edition: COVID-19 and the world of work', 7 April, Geneva.



Note: Consensus real growth estimate based on an average of multilateral and regional organisations forecasts, and input-output model simulations. The estimate for Guyana excludes the oil sector.
Source: Authors' elaboration.

Within the context of Commonwealth countries the negative impact of COVID-19 is attributed to demand shocks, both direct and indirect. The direct demand shocks are attributed to declining domestic and foreign demand that are likely to impact domestic activity adversely. The indirect demand shocks come from decline in production as a result of adverse impact on GVCs due to decline in trade with other partner countries.¹

Some countries are much more affected than others. The varying impact of the pandemic in some countries suggests that the differences observed between countries are due to structural causes. The first is the sectoral composition of domestic activity; the second is the exposure to trade in general and GVCs trade in particular.¹

Table 2 presents the expected change in sectoral value-added for Commonwealth countries. The most impacted sectors are Textiles and Apparel (-5.9 per cent) and Re-import-export of services (-5.9 per cent). Hotels and Restaurants also show losses (-4.4 per cent), which is especially important for Commonwealth small island developing states (SIDS) that rely on tourism. The results are in line with the WTO (2020) report, which suggests that the shutdown of the transport sector will impact merchandise trade while travel restrictions will severely impact tourism.

Table 2: Potential [estimated](#) impact of COVID-19 on growth in Commonwealth (by industry, 2020)

Industry	Mean growth	Industry	Mean growth
Textiles and Wearing Apparel	-5.9	Food & Beverages	-3.4
Re-export & Re-import	-5.9	Wood and Paper	-3.4
Other Manufacturing	-4.6	Other Services	-3.3
Recycling	-4.5	Mining and Quarrying	-3.3
Hotels and Restaurants	-4.4	Fishing	-3.3

¹ The resulting estimates do not take into consideration additional financial shocks that may result in the balance of payments constraints that may result from declines in a main source of hard currency, such as oil and tourism exports or workers' remittances.

Electrical and Machinery	-4.4	Agriculture	-3.2
Transport Equipment	-4.3	Post and Telecommunications	-3.1
Maintenance and Repair	-4.2	Financial Intermediation and Business Activities	-2.8
Retail Trade	-4.1	Construction	-2.6
Metal Products	-3.8	Electricity, Gas and Water	-2.2
Wholesale Trade	-3.7	Private Households	-1.3
Transport	-3.6	Education, Health and Other Services	-0.7
Petroleum, Chemical and Mineral Products	-3.6	Public Administration	-0.6

Note: Based on the consensus forecast.

Source: Authors' elaboration.

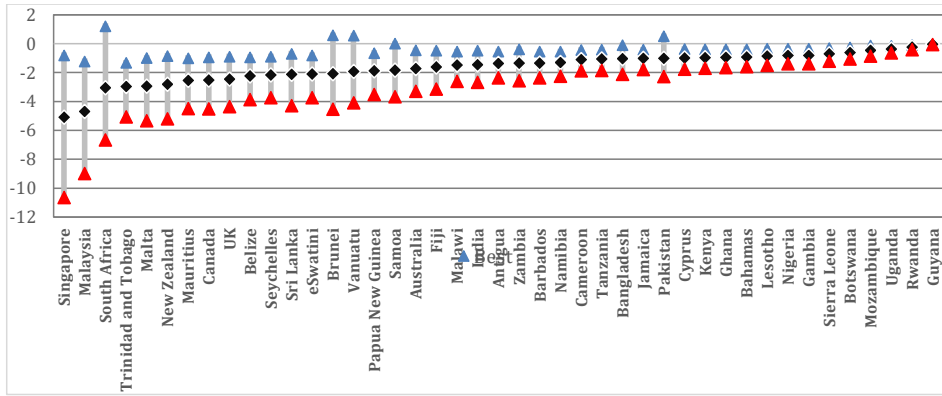
3. Trade and the economic crisis facing the Commonwealth

Here we examine the effects of GVCs in intermediate products and simulate the impact for Commonwealth countries where the foreign demand (exports of final products) is affected (Box 1). The results show that the COVID-19 supply-chain contagion impacts on Commonwealth countries' national incomes. The export shocks impact industrial value-added (i.e. workers and owners' remuneration) and this in turn affects domestic demand. We simulate three scenarios: 'consensus', 'best' and 'worst' based on real growth estimates, which draw on economic forecasts by multilateral and regional organisations in mid-April 2020.

Box 1: Methodology

To examine the exposure of the Commonwealth countries to trade, we simulate a situation where only foreign demand (exports of final products) is affected while domestic demand remains constant. The final demand by the non-Commonwealth countries are modelled as in the previous simulation, which include the impact on both domestic and external demand. The results show, for each Commonwealth economy, the direct impact of lower external demand and the indirect impact of the lower economic activity, which reduces the demand for intermediate inputs required by firms. In this manner, the simulation allows to factor-in the effects of the recession on international supply chains. Finally, the lower economic activity impacts household income (i.e. workers and owners' remuneration) and this in turn affects domestic demand.

Figure 2: Contribution of global trade to Commonwealth countries' growth in 2020 (annual variations in per cent)



Source: Authors' elaboration.

Note: Scenarios based on a survey of multilateral and regional organisations forecasts in mid-April 2020, and input-output model simulations. Guyana's estimates exclude its oil sector.

The main results are as follows:

The consensus scenario (based on average of economic forecasts) estimates show a negative impact on all Commonwealth economies. This is in line with the WTO (2020) predictions that estimate a decline in trade in the range of 13-32 per cent in 2020.

Under the best case scenario, Guyana, Rwanda, Bangladesh, Mozambique and Uganda present evidence of limited negative impact on GDP, while the growth for South Africa, Brunei, Vanuatu and Pakistan is expected to remain positive.

Commented [VB3]: Our reading of the data has a different result in terms of the countries with limited negative impact of GDP.

Also, Guyana's oil sector is excluded from the model. Can we attribute limited impact to oil then?

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In the worst case scenario, simulations show that overall trade will reduce GDP growth by 5 percentage points in 2020, and in some cases by 10 per cent. Countries that are well integrated in the GVCs, such as Singapore and Malaysia, will be hit the hardest. South Africa is deeply imbedded in African regional supply chains and this may lead to its high exposure. Both developed and developing Commonwealth countries will bear the brunt - Canada and the UK, where domestic demand is the main driver of growth, will be adversely affected. Similarly, Bangladesh is likely to be affected by the external demand and supply shocks given it is as an exporter of ready-made garments.²

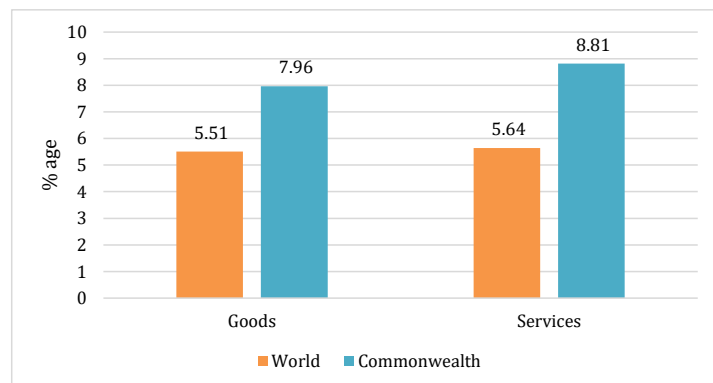
² Because the simulations exclude financial flows, the impact of a reduction in workers' remittances is not taken into consideration. A collapse in these transfers will have dramatic impacts on domestic demand and poverty in most of the poorest Asian and African countries.

4. Trade resilience and the Commonwealth Advantage

While the overall outlook for world trade growth including for Commonwealth countries is subdued, there is some room for optimism in the case of rising Commonwealth and investment flows. In the post-financial crisis period (2010-18), Commonwealth exports of goods and services have grown at a faster rate than the world average. During this period, the Commonwealth's exports in goods, which make up 70 per cent of its trade, grew by around 8 per cent, compared to only 5.5 per cent for the world. The IMF forecasts 13 Commonwealth developing countries to have positive growth rate in 2020, despite the disruption in economic activity due to the "great lockdown" (IMF, 2020).³

Besides merchandise trade, the growth of services exports from the Commonwealth has been particularly robust. Services exports increased at the rate of 8.8 per cent compared to 5.6 per cent for the rest of the world. In fact, during the global trade slowdown of 2012 to 2016, the Commonwealth's services exports were especially resilient, expanding by 7 per cent year-on-year, on average - more than twice the growth rate for the rest of the world. One reason for this stellar performance is the large share of trade by developing countries - mainly Asian economies like Bangladesh, India and Singapore, whose exports have increased exponentially during the last decade. Moreover, when it comes to intra-Commonwealth trade, services are relatively more important than merchandise trade (Shingal, 2020).

Figure 3: Growth of goods and services in the post-financial crisis period (2010-18, average)



Source: Commonwealth Secretariat (calculated from UNCTADstat (BMP 6) data)

The Commonwealth is not a formal trading bloc. However, member countries share historical ties, familiar legal and administrative systems, a common language of operation (English) and large dynamic diasporas, which help make trade and investment more convenient and efficient. This 'Commonwealth Advantage' enables member countries to trade up to 20 per cent more with each other, while bilateral trade costs are 21 per cent lower, on average.

³ These countries are Bangladesh, Brunei Darussalam, The Gambia, Ghana, Guyana, India, Kenya, Kiribati, Malawi, Mozambique, Rwanda, Tanzania and Uganda.

Member countries also invest up to 27 per cent more within the Commonwealth than outside of it - almost a tripling of the Commonwealth advantage in investment flows, from the earlier estimates five years ago, when it stood at 10 per cent (Commonwealth Secretariat, 2015). The investment effect is particularly strong in Africa, partly due to high levels of intra-African foreign direct investment (FDI) by Commonwealth African members. These potential benefits can assist countries prepare for the post-COVID economic recovery and building future resilience.

4. Building recovery and resilience

As countries around the world start easing lockdown measures, there is an opportunity to instil greater resilience into industries and supply chains to bounce back better. Without such measures, the recovery period could be longer, more polluting and less beneficial to economies, society and the natural environment. There is the risk of locking the future into unsustainable models that are less resilient and more exposed to future shocks, whether economic, epidemiologic or environmental.

There is considerable evidence that investments in sustainable industries improve economies and businesses. Recent campaigns by hundreds of multi-national and national companies have advocated for improved sustainability criteria in any government bailouts and in domestic policies to incentivise recovery. Plus, so-called greener industries provide over 3 times more jobs than traditional fossil fuel-based industries (Vetter, 2020).

A sustainable recovery could have three stages, some already set in motion around the world in response to the pandemic (Figure 4). The relaxation of lockdown restrictions are anticipated to generate two distinct yet simultaneous stages, namely a return to some form of 'business-as-usual' (Stage 2a) and a new set of businesses, products, services and innovations that both build on business-as-usual and disrupt it (Stage 2b). However, the global recovery will be uneven and progress on the three stages will depend on how other countries are tackling the pandemic. Given the dynamic nature of global trade, investment and supply chains, the prospects for recovery in some countries will be affected by the spread of the pandemic to others, while a second wave of infection may also hamper recovery.

Stage 2a:

Traditional recovery: Government focus is on rapid but stable financial and economic growth, supporting job security and creation while supporting key sectors. With a focus on commercial recovery, businesses are seeking to reduce overheads, increase efficiency and re-secure supply chains, alongside both the ongoing ramifications of the pandemic and the new health and safety guidelines for workers and customers. Societal and environmental considerations are not prioritised.

Stage 2b:

Recalibrated recovery: Governments will accelerate convergence on a sustainable future, embedding equality, long-term sustainability and attendant targets, while supporting growth and innovation in key 'bleeding edge' sectors, such as technology, finance and health. New businesses and business units of existing companies will learn from Stages 1 and 2a, but with a focus on long-term goals. They will actively plan for Stages 3 and beyond, embedding youth, sustainability and digital innovations in fresh services, products, supply chains, and priorities. Social and environmental sustainability considerations will be at the forefront, with upskilling of current workforces, automation, and ambitious industrial, transport and liveable city strategies strongly integrated.

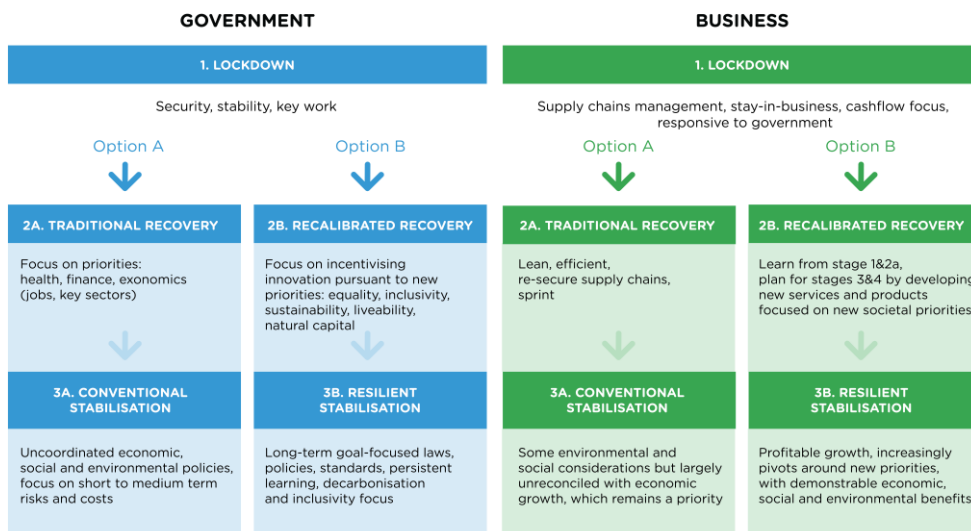
Stage 3a:

Conventional stabilisation: Environmental, social and economic policies remain uncoordinated, with a Government focus on short to medium term risks and costs. Economic growth remains a priority, with environmental and social considerations getting more visibility due to growing stakeholder demand but subject to competing pressures and market incentives. Lack of coherent, comprehensive and coordinated goals and glacial change leave the economy and society largely exposed to environmental, economic and epidemiological shocks.

Stage 3b:

Resilient stabilisation: Demonstrable economic, social and environmental benefits coexist, decoupling economic development from environmental damage and growing inequality. In order to achieve this, the enabling environment necessarily requires policies, laws, standards and market mechanisms that truly support the poor and vulnerable and account for environmental benefits and disbenefits. Results are monitored and assessed for continuous improvement in a virtuous cycle of environmental, economic and societal gains, innovation, diversification and production as part of an iterative process. Economic growth will be based around these new sustainable development priorities.

Figure 4: Three stages of sustainable recovery



Source: MacGregor and Pedersen (2020)

6. Way forward

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 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. 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 start effectively tackling SDG12 (Sustainable production and consumption).

However, many Commonwealth developing countries confront unique challenges that may hamper a sustainable recovery. These include a large number of informal, high-density housing areas; poorly resourced healthcare systems; inadequate access to water and sanitation, which makes standard advice about social distancing and washing hands impractical; lack of reliable data; low savings rates among low-income citizens; and existing poverty levels. In this regard, public health interventions in developing countries must be balanced with social and economic interventions, especially in relation to the informal economy upon which many poor urban residents depend. Historically, informal settlements and their residents have been subjected to rules and regulations that are unaffordable or unfeasible to adhere to. And given the often already-low income levels of these residents (coupled with low savings rates), the opportunity cost of not working is even greater.

The international community can help tackle some of the challenges for a more sustainable and resilient economic recovery. Development assistance will almost certainly be needed from the major international financial institutions to assist developing countries recalibrate their economies. A simple financial support measure may be to offer debt relief (debt standstills, restructurings and cancellation). This debt relief can be directed towards pandemic funding (i.e. payments that otherwise would have gone to creditors can be used for emergency funding related to the pandemic). In April, G20 leaders agreed to suspend debt repayments for 76 of the world’s poorest countries until the end of the year, while the IMF cancelled debt repayments for a smaller group of 25 countries for up to two years (Griffiths, 2020). The money freed up - US\$20 billion in the case of the G20 and \$213 million for the IMF - will provide some of the necessary finance for those countries to boost healthcare systems and shoulder the economic fallout. To finance a more sustainable recovery, countries could also consider innovative approaches and financial products, including 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 to build back better. Seychelles, for example, is a global pioneer in innovative blue financing (Box 2). There may also be a case to condition support for recovery with some sustainability strings. Governments and financial institutions are under growing pressure to make economic bailouts designed to counter the pandemic dependent on climate action and social equality in the longer term. In this way, financial stimulus can help governments and companies move away from increasingly risky fossil fuel investments and harmful working conditions in a controlled manner. While immediate economic stabilisation is the priority, such financing measures should be consistent with sustainability goals. One study estimates that only 4 per cent of G20 recovery measures can be classified as ‘green’, with potential to reduce long-run greenhouse gas (GHG) emissions (Heburn, Callaghan, Stern, Stiglitz, Zenghelisiv 2020).⁴

Given the dynamic nature of GVC networks, it is possible that a transformation of GVC activities in goods and services could lead to both greater opportunities and resilience. Discussions are ongoing on the possibility of re-shoring and diversification of supply chains as well as re-industrialisation to reduce the risk of ‘supply-chain contagion’. While this is likely to be a key post COVID-19 strategy it may also lead countries to diversify the sources of supply closer to home. On the one hand, this may offer new opportunities to Commonwealth developing countries as multinational enterprises reduce their dependence on ‘Factory China’, but on the other, the risk is that the pandemic may lead to policies that restrict the international flow of goods, services and people.

Box 2: Seychelles and innovative financing for the blue economy

The Seychelles’ current and future prosperity is intrinsically linked to its marine and coastal assets. However, the 2008 financial crisis left the Seychelles with substantial debts and made it difficult to invest in the blue economy. An innovative approach to financing was required to gain the most value from the Seychelles’ marine and coastal assets as part of a sustainable blue economy.

The Seychelles pursued an ambitious plan to finance blue economy development through converting US\$21.6 million of national debt via the world’s first blue economy debt for nature swap, and through launching the world’s first sovereign blue bond. The Seychelles’ Conservation and Climate Adaptation

⁴ Another 4 per cent are classified as ‘brown’ and likely to increase net GHG emissions beyond the base case, and 92 per cent are ‘colourless’, meaning that they maintain the status quo

Trust (SeyCCAT) was established to competitively distribute funds from these initiatives to support the management and expansion of the Seychelles Marine Protected Areas (MPAs), sustainable fisheries, and other activities that contribute to the conservation, protection and maintenance of biodiversity and adaptation to climate change.

These ongoing initiatives have been very successful amid the impact of COVID-19. With the support of The Nature Conservancy (TNC), the debt conversion has enabled the Government of Seychelles to achieve - and even exceed - its commitment to safeguard 30 per cent of its EEZ through MPAs (an area the size of Germany). At the end of March, 13 new protection areas were confirmed.

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