

This in-depth, 90-page report was specially commissioned by the Economic Affairs Division of the Commonwealth Secretariat for the prestigious biennial Commonwealth Heads of Government Meeting in Uganda in November 2007

Trading on Commonwealth ties: Review of the structure of Commonwealth trade and the scope for developing linkages and trade in the Commonwealth

Professor Chris Milner

Representing a quarter of the world's governments, almost a third of its population and a fifth of all global trade, the Commonwealth is a diverse community of 53 nations sharing an inheritance of common language and institutions. It brings together a unique range of countries – wealthy and developing, large and small, island, coastal and landlocked.

Central to its ethos is the 'Commonwealth culture', which has historically helped ensure an atmosphere of co-operation and a sense of community, reflecting the mutual traditions and shared values that have consistently inspired a high level of engagement among members.

Today, with its exceptional mix of characteristics and strengths, the Commonwealth continues to serve as a catalyst for genuine engagement, understanding and progress at an international level. It also remains well placed to support its members' goals of trade expansion and welfare enhancement.

With that in mind, this study was commissioned to explore the scale and nature of current intra-Commonwealth trade and the constraints on its growth; and to provide guidance on how the welfare of Commonwealth countries could be raised by expanding intra-Commonwealth trade and deepening regional and national linkages.

The Value of Commonwealth Trade

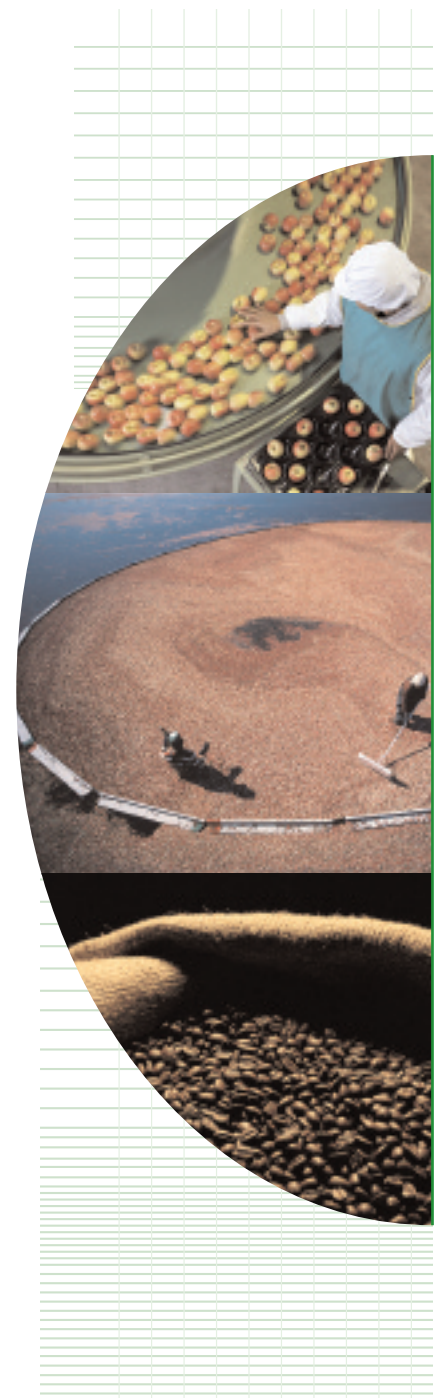
The absolute volume of trade in goods between Commonwealth states is substantial. Based on recent data, **we value annual intra-Commonwealth exports at over \$225 billion**. High-income members (like the UK, Canada and Australia) account for 60% of that figure, with much of their share arising from trade with each other.

Though their overall trade volumes are low, for a significant number of low-income and island economies, intra-Commonwealth trade is proportionately very high and of considerable economic importance domestically (for some countries, like Botswana, Namibia, Papua New Guinea and Samoa, it represents in excess of 70% of their international trade).

Between Commonwealth member nations there is a commendable track record of North-South and South-South collaboration.

But looking at the wider picture, intra-Commonwealth trade represents just 16% of Commonwealth countries' total exports. In other words, Commonwealth countries export 84% of their total export production to non-Commonwealth destinations.

This suggests that, irrespective of the merits and proud tradition of the 'Commonwealth



culture', many Commonwealth nations have essentially come to see their 'natural' trading partners as outside their own number.

Though in economic terms this is not necessarily negative, our research indicates that opportunity exists to recapture and capitalise on the culture of co-operation within the Commonwealth to build trade between many Commonwealth states that will benefit member state economies.

The Challenges

The majority of Commonwealth states are members of the World Trade Organisation (WTO). Demand from industrialised countries

within the WTO for greater trade liberalisation means it is likely that the opportunity for preferential trading between Commonwealth states will decline.

In addition, Regional Trading Agreements (RTAs) are now a prominent feature of the global system, and almost all Commonwealth nations are members of at least one RTA; many, indeed, have signed up to several such agreements. This complex pattern of regional and bilateral agreements may place administrative and political constraints on the comprehensive extension of preferential trading arrangements within the Commonwealth.

Non-tariff barriers, such as technical standards, appear to remain a significant obstacle to intra-Commonwealth trade, raising the costs of exporters and serving as protective measures on the part of importing countries.

Remoteness and large distances between Commonwealth countries are barriers to intra-Commonwealth trade. Policy-makers should recognise that these geographical barriers to trade, as well as the dissimilarity of economic structures within the Commonwealth, mean that promoting intra-Commonwealth trade per se is not necessarily wise for some countries and regions if it comes at the cost of more beneficial trade with non-Commonwealth countries. Introducing inducements such as preferential tariffs to encourage intra-Commonwealth business could lead to costly and unnecessary trade diversion in some countries.

In many Commonwealth countries poor infrastructure, higher transport costs and inefficient ports mean the costs of exporting are relatively high, making exports less competitive.

The Opportunities

Market access conditions for intra-Commonwealth trade have been generally improved by the lowering of tariffs by Commonwealth members as a result of multilateral liberalisation by the OECD members.

The general trend towards liberalisation in developing countries (resulting often from conditions for World Bank support) have opened up Commonwealth markets and provided an incentive for trading partners to reciprocate by lowering their import barriers. It also reduces the incentive to produce for the home market and encourages outward or export-orientation.

Other research by GEP – the Globalisation and Economic Policy Centre – has shown that firms that export improve their productivity. Indeed, even just preparing for the possibility of exporting helps a firm improve productivity –

and in the process encourages rival firms to become more productive to compete. So encouraging export activity has spin-off benefits.

There is scope to stimulate Commonwealth countries' international trade, including intra-Commonwealth trade, by improving the quality of the trade-related infrastructure in the least-developed member states. In practical terms, that means improving things like port handling and road and rail freight facilities. Our economic model shows that in a country like Uganda, a 10% improvement in trade-related infrastructure would raise the volume of exports to other Commonwealth countries by about 62%. These are large effects.

Comparison of actual and potential intra-Commonwealth trade volumes suggests that there is particular scope for promoting trade in specific regions, like South Asia, where there is substantial untapped trade potential, and between specific Commonwealth countries.

Recapturing the Culture of Co-operation

Policy Recommendations:

Much energy is exerted in negotiating trade agreements and reducing trade policy barriers. For some the idea of trying to build a Free Trade Agreement (FTA) that covers the whole Commonwealth may hold enormous appeal, but it is fraught with legal, administrative and probably political difficulties. There would be fewer constraints on (and more benefits to) the development of specific bilateral FTAs within the Commonwealth (between individual countries or groups of countries). This process is underway already and the Commonwealth could encourage it further by facilitating the development of a common template that will make the process of developing FTAs easier.

The Commonwealth could particularly support and encourage regional trade agreements in areas like South Asia.

Arguably the most significant thing the Commonwealth could do to encourage intra-Commonwealth trade is to focus on trade-related infrastructure and how it can be improved, particularly in developing Commonwealth countries.

The Commonwealth can also promote co-operation and initiatives to help Commonwealth members meet technical standards in specific sectors.

Finally, Commonwealth-level activities and interventions should concentrate on where market provision is inadequate and where the net benefits of collective action are greatest.



Intra-Commonwealth Trade (2005)

	Imports from Commonwealth		Exports to Commonwealth	
	\$ millions	% share of total imports	\$ millions	% share of total exports
Total†	210,205	13	225,291	16
Australia	26,223	22	26,483	25
Bangladesh*	3016	29.7	1123	17.5
Barbados	574	34	179	49
Belize	32	7	64	31
Botswana*	3548	89.5	3321	87.3
Brunei Darussalam*	598	48.1	877	21.2
Cameroon	790	29	271	11
Canada	17,371	6	11,801	3
Cyprus	705	11	296	19
Dominica	69	42	31	73
Fiji	1,239	77	484	69
Gambia	48	19	1	20
Ghana	2,762	31	1,992	36
Grenada*	85	33.6	12	32.7
Guyana	351	45	307	57
India	19,974	13	22,600	22
Jamaica	1,143	23	516	34
Kenya*	944	27.2	1200	47
Malawi	775	67	199	40
Malaysia	19,946	17	37,726	27
Maldives	427	57	46	30
Malta	665	18	607	27
Mauritius	941	30	734	37
Mozambique	955	40	281	16
Namibia	2,200	87	1,459	58
New Zealand	8,838	34	7,747	36
Nigeria*	2375	15.9	4660	19.4
Pakistan	3,739	15	2,669	17
Papua New Guinea*	953	73.2	523	23.1
Samoa*	110	73.1	69	79.3
Seychelles	185	27	105	31
Singapore	40,687	20	58,239	25
South Africa	8,594	16	13,257	28
Sri Lanka	3,286	40	1,684	27
St. Kitts and Nevis	61	29	2	5
St. Lucia	148	31	51	80
St. Vincent & Gren	111	46	35	88
Tanzania	1,028	37	679	48
Trinidad and Tobago	860	15	2,043	21
Uganda	1,065	52	165	20
United Kingdom	42,584	8	31,671	8
Zambia	1,826	71	866	47

† This total only includes those countries with 2005 data.

* Data from 2003 only, 2005 data not yet available.

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The Globalisation and Economic Policy Centre

GEP – the Globalisation and Economic Policy Centre – is the major centre in Europe studying the impacts of globalisation and economic policy. One of the biggest of its kind in the world, the centre has an impressive international reputation, with its academics advising the Treasury, the OECD, the World Bank and the WTO. GEP is based at the University of Nottingham, England, and is primarily funded by grants from the Leverhulme Trust. In January

2008 a branch of GEP opens at the University of Nottingham's Malaysia campus.

The University of Nottingham

The University of Nottingham has strong links with the Commonwealth. It has a campus in Malaysia (and another in China), and around 2,300 of its students in the UK come from other Commonwealth countries. The University is Britain's University of the Year (The Times Higher Awards 2006). Its academics have won two Nobel Prizes since 2003.

For a copy of the complete 90-page report, contact:

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Some facts about the Commonwealth

Today's Commonwealth is an association of 53 countries. Its nearly 2 billion citizens, about 30 per cent of the world's population, are drawn from the broadest range of faiths, races, cultures and traditions.

Every two years Commonwealth leaders meet for a few days to discuss global and Commonwealth issues and to agree collective policies and initiatives.

After a public opening ceremony and a formal Executive Session, the leaders – for the most part Presidents and Prime Ministers – meet privately in a retreat setting. The atmosphere is informal, encouraging a full and frank exchange of views, and decisions are normally reached by consensus.

Issues discussed include international peace and security, democracy, good governance, multilateral trade issues, sustainable development, debt management, education, environment, gender equality, health and human rights.

The first meetings of Commonwealth leaders, known as Colonial Conferences, began in 1887. In 1911, these were replaced by Imperial Conferences, held regularly until 1937. Between 1944 and the early 1960s, Commonwealth Prime Ministers Meetings were held almost annually in London. In Singapore, in 1971, the term Commonwealth Heads of Government Meeting (CHOGM) was adopted to encompass both Presidents and Prime Ministers. Since then, CHOGMs have taken place on a biennial basis.

The Commonwealth Economic Affairs Division

The EAD's work in trade encompasses national and international economic policy issues and focuses on consensus building, advocacy, advisory services and capacity-building. The Division has a track record of both anticipating and responding quickly and effectively to emerging issues that affect Commonwealth developing members, particularly the least developed countries and small states.

Commenting on the report, **Mr Ransford Smith**, the Commonwealth Deputy Secretary-General, who also oversees the trade policy work of the EAD, said: "It is a timely and significant study that examines trade within the Commonwealth, and provides possible directions for the future. While the Commonwealth comprises some of the major global trading partners from both developed and developing countries, a large number of countries from Africa, Caribbean and Pacific regions have been lagging behind in trade growth and haven't benefited as might have been expected from the robust trends of recent years."



The situation – he said – calls for measures to address this challenge. "This study provides important information and perceptive analyses as well as practical recommendations for consideration by the Commonwealth – individually and collectively. We will be consulting widely with a view to reaching an agreement on effective follow-up measures that need to be taken."



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