

# Commonwealth Trade Policy Briefing

November 2016

## Brexit and Commonwealth Trade

The UK's leaving the European Union (EU), termed 'Brexit', is likely to have far-reaching implications. Individual Commonwealth members' trade with the UK has long been governed through EU policies. Brexit means Commonwealth members' trade relations with the EU and the UK are at a crossroads. Many developing country exporters are concerned that their market access into the UK and Europe could be disrupted by post-Brexit trade policy shifts. At the same time, there may be substantial new trade and investment opportunities for Commonwealth members and these should be pursued. Brexit may also have implications for broader co-operation to better harness the so-called unique Commonwealth trade advantage, augmenting trade and investment flows between members. Enhanced co-operation will also enable the Commonwealth to be an effective force for global good by promoting the role of an inclusive international trade regime as a means for realising the Sustainable Development Goals (SDGs).

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- Policy and global advocacy, including on multilateral and regional trade negotiations, trade challenges of small states, LDCs and sub-Saharan Africa, emerging trade issues, and trade and development implications of Brexit.
- Technical assistance to member countries for improving their trade competitiveness in global markets, especially through market access, export development strategies, enhancing the development and exports of services, and trade facilitation.
- Long-term capacity-building support to African, Caribbean and Pacific (ACP) countries through the Hubs and Spokes project, which is a joint initiative of the Commonwealth Secretariat, the European Union, the Organisation Internationale de la Francophonie and the ACP Secretariat.



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# 1. UK-Commonwealth Trade: Building It Further

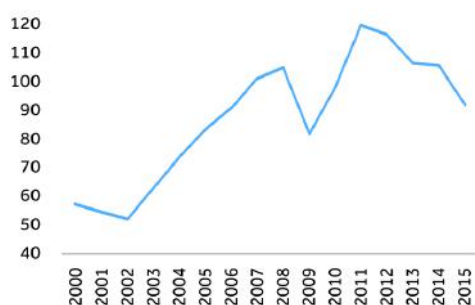
Trade linkages between the UK and Commonwealth countries are strong. Several Commonwealth developing countries depend heavily on the UK market for their exports, from beef and bananas to sugar and fresh vegetables to textile and apparel products. Opportunities exist to reinvigorate and further expand these trade linkages. How to achieve this will be an important consideration in post-Brexit policy discourse within the Commonwealth.

The UK is a major player in world trade. In 2015, it was the fourth largest global trading economy after the USA, China and Germany, generating combined goods and services trade flows of US\$1.6 trillion (almost 4 per cent of world trade). While the UK has diversified its trade with developing countries, the EU remains an important trading partner, contributing about half of the UK's overall trade. At the same time, as the world's largest single market, the EU is an important export destination for many other Commonwealth countries. In 2015, the EU accounted for 16 per cent of all Commonwealth developing countries' merchandise exports.

## 1.1 The UK's trade with the Commonwealth

UK-Commonwealth trade linkages are strong. Total merchandise trade flows of Commonwealth members involving the UK (i.e. Commonwealth countries exports to the UK plus the UK's exports to other Commonwealth members) expanded from US\$57 billion in 2000 to over US\$91 billion in 2015 (Figure 1). Such trade actually reached a peak of US\$120 billion in 2012, before the on-going global trade slowdown, as discussed in the article *SDGs and a Lost Decade of Trade Gains* in this policy brief, which has caused some decline in more recent years.

**Figure 1: Commonwealth countries' total trade with the UK (US\$ billions), 2000–15**



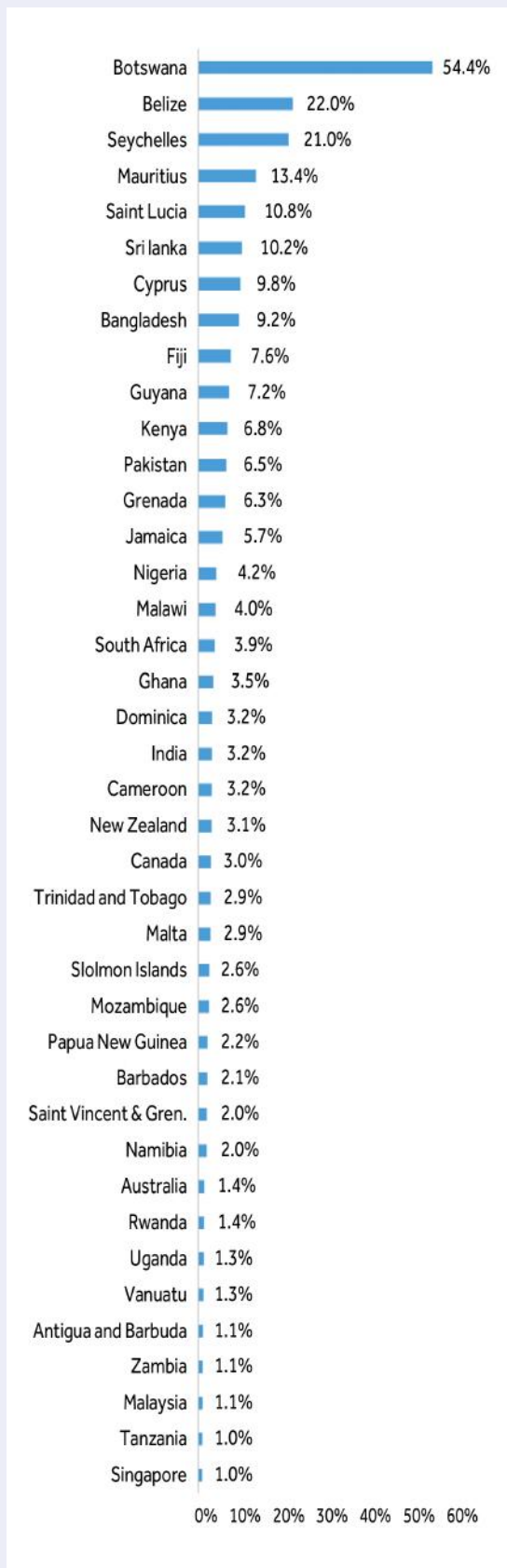
Source: Authors' calculation using UNCTADstat data.

The UK absorbs about 18 per cent of Commonwealth developing countries' exports to the EU. When one considers the diversified nature of export products from different Commonwealth countries, the UK turns out to be the fourth most important export market, behind only the USA, China and Japan.<sup>1</sup>

Certain Commonwealth members have much higher reliance on the UK market. There are also instances of members whose overall market share is not big but that have some sectoral exports that are critically dependent on the UK. The eight Commonwealth developing countries that send over around 10 per cent of their total world exports to the UK are Botswana (54.4 per cent), Belize (22.7 per cent), Seychelles (19.3 per cent), Mauritius (13.1 per cent), Saint Lucia (10.8 per cent), Cyprus (10.2 per cent), Sri Lanka (9.8 per cent) and Bangladesh (9.5 per cent). As discussed in the article *Brexit Concerns for Commonwealth Developing Countries* in this policy brief, these countries are the most exposed to Brexit-related shocks arising from the effects of a weaker pound and possible trade disruptions if the UK's post-Brexit trade regime for developing countries is not as generous as the EU's. For another nine Commonwealth developing countries, the UK absorbs between 5 and 10 per cent of their total world exports (Figure 2).

Twenty-four Commonwealth countries send more than 30 per cent of their total EU exports to the UK (Table 1). For two small island states, Saint Lucia and Tuvalu, the UK absorbs more than 70 per cent of their EU exports. This includes almost all of Saint Lucia's banana exports. Belize and Fiji source about two-thirds of their European export receipts from the UK alone. The UK is the largest importer of sugar into the EU. It buys more than 80 per cent of sugar imports from Belize and 70 per cent from Fiji, the latter accounting significantly for 95 per cent of Fiji's UK export earnings. Furthermore, 80 per cent of Kenya's vegetable exports to the EU are destined for the UK. The UK also accounts for almost all of Canada's biggest export to the EU—namely, gold and precious materials.

Figure 2: UK share of Commonwealth goods exports to the world (%), 2013–15 average



Note: The figure does not show countries with shares of less than 1 per cent.

Source: Authors' calculations using data from UNCTADStat.

## 1.2 5,000 products destined only for the UK

Considering all the products Commonwealth countries export to the EU, a total of 5,088 items, currently worth US\$9 billion, are destined for the UK market only.<sup>2</sup> About 450 of these products individually generate export revenues of at least US\$100,000. Canada, South Africa and Singapore each have a maximum number of 37 such products. In terms of value, items from Canada generate almost US\$8 billion. India, New Zealand and Australia all have more than 30 products. Four countries—all small island developing states except for Rwanda—have only one product worth more than US\$100,000 that only the UK imports into Europe (Table 2).

At the highly disaggregated individual product level, numerous items exported by various Commonwealth developing states, including least developed countries (LDCs), small states and Sub-Saharan African countries, are not yet major revenue generators but show tremendous potential for future growth. These are the products that would include many others beyond the 5,088 items highlighted above that are destined for the UK alone. Post-Brexit, close attention should be provided in assessing the trade potential of these items as well as any policy support measures needed for their development.

Although LDCs and African, Caribbean and Pacific (ACP) country exporters enjoy generous market access in the EU (and also the UK), certain exports from Commonwealth LDC and ACP states do not rely on any trade preferences. These are the products where EU Most Favoured Nation (MFN) tariffs are already at zero. Seven LDCs export at least 10 products each to the UK in the absence of any tariff preferences. Tanzania has the most, at 33. However, proportional to countries' total exports to the UK, Zambia leads, with 12 products valued at nearly US\$32 million and representing almost 60 per cent of its UK export earnings. Vanuatu, which has 16 products that earn just over half its UK export earnings; it is followed by Samoa, which generates 28 per cent of its total exports from five products (Table 3).

## 1.3 Strengthening trade linkages

While trade linkages between the Commonwealth and the UK are strong, there are opportunities to invigorate them further. Commonwealth members, for which the UK is already a significant trading partner, mobilising pro-active policy support could be relatively easy to expand trade

**Table 1: Importance of the UK market for Commonwealth countries goods exports, 2013–15 average**

% of EU imports going to the UK	Country
More than 70%	Saint Lucia, Tuvalu*
Between 60% and 70%	Belize, Fiji
Between 50% and 60%	Brunei Darussalam*
Between 40% and 50%	Botswana, Canada, Samoa*, Seychelles, Vanuatu
Between 30% and 40%	Guyana, Nauru*, New Zealand, Sri Lanka
Between 20% and 30%	Australia, Dominica, Jamaica, Kenya, Malaysia, Mauritius, Pakistan, Solomon Islands, South Africa
Between 10% and 20%	Bangladesh, Barbados, Ghana, India, Malawi, Malta, Nigeria, Papua New Guinea, Rwanda, Singapore, Zambia
Up to 10%	Antigua and Barbuda, Bahamas, Cameroon, Cyprus, Grenada, Kiribati, Lesotho, Mozambique, Namibia, Sierra Leone, St Kitts and Nevis, St Vincent and the Grenadines, Swaziland, Tanzania, Tonga, Trinidad and Tobago, Uganda

Note: \* Share of the EU market may be influenced by exports of just a few high-value products over this period.

Source: Eurostat COMEXT.

further. There is a “Commonwealth advantage” in trading between members as explained in the article *The Commonwealth Trade Advantage* in this policy brief, which the UK and partners should harness to promote greater bilateral trade and investment flows.

Further analysis should be undertaken on the products for which the UK is already an important market. Certain established products are already generating substantial export revenues, while there exist a large number of other items that hold great promise for new trade growth. Channelling of investments into these sectors and helping develop productive capacity in Commonwealth developing members can trigger and sustain trade response. The analysis here has been limited to goods trade as the data on bilateral services trade at a disaggregated level is currently not available for most Commonwealth developing countries. Nevertheless, given the prominence of services sectors in the national economies and exports of many countries, including small states, the trade potential here

**Table 2: 447 Commonwealth products exported to the UK market alone and generating export revenues of at least US\$100,000**

Country	No of products with export values at least US\$100,000 and the UK constitutes 100% of EU imports	Total value (US\$ million) of these products (2013–15 average)
Canada	37	7,838.5
South Africa	37	53.95
Singapore	37	50.93
India	33	141.9
New Zealand	31	32.26
Australia	30	628.8
Malaysia	23	27.25
Pakistan	23	21.43
Jamaica	19	23.45
Sri Lanka	13	8.5
Kenya	13	6.09
Nigeria	11	22.46
Bangladesh	11	8.47
Ghana	9	20.53
Malta	9	9.81
Vanuatu	9	3.83
Tanzania	8	2.44
Papua New Guinea	7	1.96
Zambia	6	33.32
Brunei	6	13.87
Cameroon	6	1.74
Seychelles	6	1.7
Bahamas	5	6.34
Belize	5	1.13
Saint Lucia	4	8.77
Guyana	4	6.35
Barbados	3	1.52
Malawi	3	1.50
Swaziland	3	1.36
Trinidad & Tobago	3	1.27
Cyprus	3	0.73
Botswana	3	0.66
Samoa	3	0.47
Lesotho	3	0.35
Uganda	2	1.55
Mozambique	2	1.35
Namibia	2	0.9
Dominica	2	0.8
Mauritius	2	0.62
Solomon Islands	2	0.58
Tuvalu	2	0.5
Grenada	2	0.28
St Vint. & the Gren.	1	0.74
Fiji	1	0.7
Rwanda	1	0.16
St Kitts and Nevis	1	0.14

Source: Authors' summary using Eurostat COMEXT and UNCTAD TRAINS database.

should also be high.

Bilateral trading arrangements involving the UK and interested Commonwealth members could feature in the future trade landscape. These can lead to further trade expansion and other economic gains for the involved parties. Of course, trade negotiations are lengthy exercises, and eventual gains depend on the overall scope of trade liberalisation and their timely implementation. The global economy has seen both very ambitious

trade deals and trading arrangements that have had limited success. Both types can provide useful lessons for Commonwealth members.

To strengthen future trade linkages, it is important to examine any potential impact of a post-Brexit UK trade regime that will be different from the impacts of trading with the EU. Various trade policy options exist to ensure ACP states and LDCs continue to enjoy the same level of market access granted by the EU, as discussed elsewhere in this policy brief.

**Table 3: LDC exports to Europe sold only in the UK market**

Country	No. of products with zero MFN tariffs and UK 100% of EU imports	Total value (US\$ million) of these products (2013–15 average)	Share of total exports to UK
Tanzania	33	1.18	2.5%
Bangladesh	29	1.35	0.1%
Sierra Leone	19	0.18	2.0%
Uganda	19	0.18	0.7%
Vanuatu	16	2.4	52.4%
Mozambique	14	0.7	0.5%
Zambia	12	31.9	59.4%
Rwanda	9	0.19	2.5%
Solomon Islands	7	0.81	0.5%
Samoa	5	0.21	27.7%
Malawi	5	0.91	0.2%
Lesotho	4	0.015	2.1%
Tuvalu	2	0.002	0.4%

Source: Authors' summary using Eurostat COMEXT and UNCTAD TRAINS database.

1 The UK is a major market for 30 Commonwealth countries when looking at the top 10 export destinations per country. However, on the basis of combined Commonwealth exports going to different countries, the UK is not within the top 10 export markets. Using a weighted-average ranking in which the export shares are weighted by the number of times a country imports individual Commonwealth members' different types of product categories defined under the Standard International Trade Classification (SITC) 1-digit level, the UK is the fourth most important export market for the Commonwealth. For more discussion on this, see Commonwealth Secretariat (2016). *Brexit: Its Implications and Potential for the Commonwealth*, Discussion Note, London: Commonwealth Secretariat.

2 These products are defined at the Combined Nomenclature (CN) 8-digit code. CN is the EU's classification of goods, which meets requirements in terms of external trade statistics (both intra- and extra-Community) and customs tariffs.

## 2. Brexit Concerns for Commonwealth Developing Countries

Brexit may affect Commonwealth developing countries in various ways, including through a weaker pound, the potential faltering economic performance of the UK and Europe and possible trade disruptions arising as a result of post-Brexit policy shifts. Certain actions to address some of these concerns should receive policy attention.

The EU and the UK are important trade, investment and development cooperation partners for many Commonwealth developing countries. The economic implications of Brexit will differ among countries depending on their individual trade relations and development partnerships with the EU and the UK. The UK's post-Brexit trade deal with the EU and its future trading arrangements for African, Caribbean and Pacific (ACP) countries and least developed countries (LDCs) may also have further trade and development consequences for Commonwealth developing countries.

### 2.1 Lower purchasing power from a weaker pound

Since the 23 June 2016 UK referendum, the pound has depreciated by between 10 and 20 per cent. The lower value of the pound translates into reduced earnings from exports to the UK, decreased remittances sent by people working in the UK to their countries of origin and a lower value of UK aid received by beneficiary countries. A 10 per cent sustained reduction in the pound means Commonwealth developing countries will have US\$5 billion less in purchasing power out of their foreign exchange earnings to import goods and services,

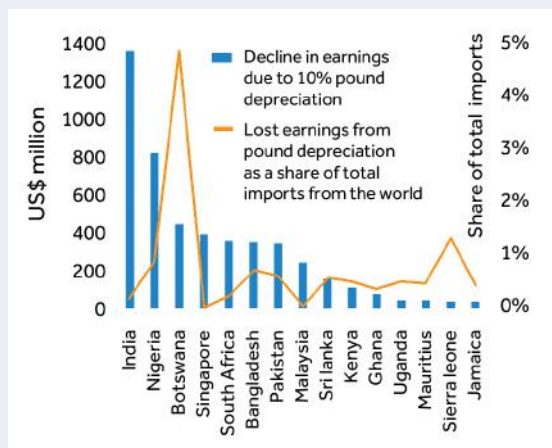
which are vital for their growth and development. In terms of absolute value, India is the most affected Commonwealth member (Figure 3), potentially foregoing close to US\$1.4 billion out of its exports to and remittances received from the UK. The second worst affected country is Nigeria with potential loss of purchasing power to the tune of just over US\$800 million. Three LDCs—namely, Bangladesh, Uganda and Sierra Leone—are also among the 15 worst affected Commonwealth countries. When the potential loss of purchasing power due to pound depreciation is taken as a proportion of developing countries' total value of imports of goods and services, Botswana turns out to be worst affected country. A 10 per cent lower value of the pound could cost imports into the country by about 5 per cent. This is because Botswana is heavily dependent on the UK market, which is attributable to the fact that more than half of Botswana's total goods export earnings (54.4 per cent) are generated from the UK alone.

### 2.2 Impact of UK and EU economic performance

The UK is the world's fifth largest economy, generating trade flows of US\$1.6 trillion (almost 4 per cent of world trade in goods and services in 2015). Any fallout from Brexit could have impacts on the UK economy and Europe, as well as on world trade, since the Eurozone is still recovering from the 2008 global financial crisis. If Brexit translates into lower economic growth in Europe, it may have a dampening effect on demand for imports from developing countries, among others. Commonwealth developing countries exported US\$173 billion of goods to the EU in 2015, of which US\$30.9 billion (or about 18 per cent) was destined for the UK.

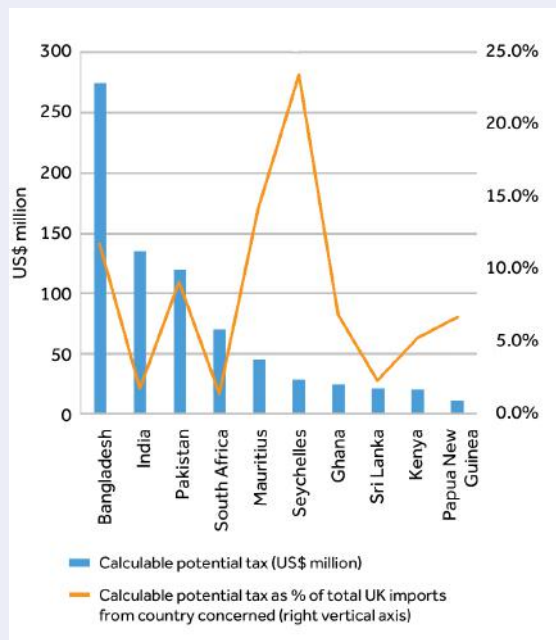
Weaker growth in Europe will also hamper trade flows from other country groups. This is especially so since global trade growth has slowed alarmingly in recent years, a situation that has persisted for an unprecedentedly long time. Overall, the uncertainties caused by Brexit may further weaken the prospects for world economic recovery, with implications for developing countries.

Figure 3: Falling value of the pound—15 worst affected Commonwealth countries



Source: Authors' calculations.

**Figure 4: Commonwealth countries most affected by higher UK MFN tariffs**



Source: Chart prepared by authors based on the information provided in Stevens, C and Kennan, J (2016). *Trade Implications of Brexit for Commonwealth Developing Countries, Commonwealth Trade Hot Topics*, Issue 133, London: Commonwealth Secretariat.

### 2.3 Maintaining UK market access

Another concern for Commonwealth developing countries, particularly those included in such groups as the LDCs and the ACP countries, is their future market access into the UK. Most ACP countries receive duty-free and quota-free (DFQF) access into the EU for all goods (except arms and ammunition) under reciprocal trading arrangements known as the Economic Partnership Agreements (EPAs);<sup>1</sup> the EU offers the same treatment to LDCs unilaterally through the Everything But Arms (EBA) scheme. In the absence of equivalent market access, these countries may face higher Most Favoured Nation (MFN) tariffs in the UK market.

According to analyses presented in a Commonwealth Secretariat study, Commonwealth developing countries could end up paying as much as US\$800 million in additional duties if comparable EU preferences are not available in the EU market post-Brexit. This potential import tax hike could be as high as 1 per cent of their total exports to the UK for as many as 36 Commonwealth developing countries. As Figure 4 shows, in absolute terms Bangladesh may have to pay the largest import duties to access the UK market. This is because the country's exports

are heavily concentrated in apparels, with the UK being a major market. The apparels sector has much higher MFN applied duties compared with other sectors on average. While the average applied MFN duties on all products are 3.5 per cent, for textiles and apparels the comparable figure is 12 per cent. That is, with duty-free access, Bangladesh enjoys considerably large tariff preferences, and discontinuation of this benefit means large duties to be paid at UK customs. Considering potential import duties as proportional to current exports, the most affected state would be Seychelles; this is followed by Mauritius.

The article on UK-Commonwealth trade linkages highlighted that some Commonwealth ACP countries and LDCs depend heavily on the UK market for their key exports. These include Saint Lucia and Dominica (bananas), Bangladesh (clothing), Belize and Fiji (sugar), Botswana (beef) and Kenya (tea and vegetables).

### 2.4 Trade preferences to support LDCs

Brexit would require the UK to devise appropriate instruments to minimise any trade disruptions from higher tariffs for these countries. In this regard, perhaps the most practical option to support LDCs would be for the UK to consider devising its own Generalised System of Preferences (GSP) that builds on and improves the EU's EBA scheme for the world's poorest nations. This would maintain LDCs' current level of market access into the UK. It is possible to make further improvements on the existing EU-EBA provision in at least two areas.

First, the rules of origin requirements for meeting the eligibility criteria for EU trade preferences are in many cases quite stringent and complex. Comparable requirements offered by Australia and Canada, for example, whereby recipient countries need to add 25 per cent local value before being able to access preferential tariff margins, are widely considered more development-friendly and much better practices. It may be possible to allow for further relaxation of value addition requirements by considering regional cumulation of origin (that is, for example, allowing LDCs to source raw materials from other LDCs and ACP countries).

Second, offers of trade preferences under the GSP mechanism can be extended to services trade, in line with the agreed LDC Services Waiver under the World Trade Organization (WTO). Of course,



defining such a preference regime in services is challenging. But this is an area where gains for LDCs could be quite substantial.

## 2.5 Trade policy options for ACP countries

Turning to the ACP countries, future arrangements might be quite complex. Whereas EBA-type unilateral trade preferences for LDCs are likely to be relatively straightforward, given exceptions related to the WTO's provisions for applying the MFN principle, similar provisions for other ACP countries will require non-reciprocal trade agreements.

One key issue relates to whether the UK will be able to accede separately to existing EPAs or should install EPA replicas for ACP countries. While existing EPAs could provide readily available frameworks, this could re-open negotiations on many contentious issues, possibly dragging the process for years.

To avoid any immediate adverse outcomes, one way forward could be to ask for WTO waivers for offering unilateral trade preferences. There are precedents for such arrangements: the USA has WTO waivers for its trade preference initiatives with the Caribbean (i.e. the Caribbean Basin Initiative) and Africa (i.e. the African Growth and

Opportunity Act). This option would avoid the need for difficult negotiations with ACP countries at this stage, while ensuring the continuity of their preferential treatment.

In the medium to longer term, the UK could consider negotiating WTO-compatible trade agreements with the ACP regions. In Africa, for example, there are formal plans to launch a continental customs union by 2019 as part of the process to establish the African Economic Community under the Abuja Treaty. While this is an extremely ambitious target with many challenges, such an arrangement could provide an opportunity for post-Brexit UK and Africa to negotiate a single free trade agreement.

It is extremely important to reassure LDCs and ACP countries that their market access to the UK following its withdrawal from the EU will be just as favourable as the existing arrangements. Given all of the uncertainties around Brexit, such reassurances of trade continuity are vital for investment decisions and future planning. There is no question about the UK's commitment to promoting trade-led development. But there will be many competing demands on its post-Brexit negotiating capacity and it is important to ensure the trade interests of the world's poorest countries are secured and advanced.

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1 The EU and its ACP partners have negotiated seven regional EPAs that are at different stages of finalisation or implementation. EPAs provide DFQF market access for all developing country signatories under reciprocal arrangements that also require ACP countries to open up their markets to the EU, albeit with longer transitional periods. The exception is South Africa, which does not obtain full DFQF access into the EU market under the Southern African Development Community EPA.

## 3. The Commonwealth Trade Advantage

Although not a trading bloc, certain inherent features of the Commonwealth have contributed to strong trade relationships among its members. Notwithstanding this, the EU is a vital trade partner, and individual Commonwealth members' trade relationship with the UK has for decades now been governed through EU policies. Brexit means Commonwealth members' trade relations with the EU and the UK are at a crossroads. While there are concerns, Commonwealth trade advantage can be better harnessed post-Brexit, ensuring greater trade gains.

### 3.1 Commonwealth trade advantage

Increasing trade cooperation among countries is apparent from the number of regional or bilateral trade deals currently in force. The World Trade Organization (WTO) lists more than 600. By contrast, the Commonwealth is a voluntary association and is not a trading bloc. Yet intra-Commonwealth trade in goods and services has almost tripled since 2000—from just over US\$200 billion to more than US\$600 billion (Figure 5).<sup>1</sup> The share of intra-Commonwealth trade in Commonwealth countries' total global trade has increased from about 15.2 to 17.6 per cent during the same period (Figure 6).

This significance of intra-Commonwealth trade is impressive for several reasons. First, most Commonwealth nations are members of several trading blocs involving non-Commonwealth countries. Second, all members look for greater trading opportunities with traditional economic powers (such as the USA, Japan and the EU) as well as emerging countries even outside the Commonwealth.<sup>2</sup> Finally, Commonwealth countries are also so widely dispersed geographically that many analysts would not consider them "natural" trading partners.

Economists often use the so-called "gravity model" in explaining trade flows between countries. This analytical workhorse suggests bigger and larger economies trade more between them and distance between countries has depressing effects on trade. It is usual practice to consider other known factors influencing trade flows—for example if countries belong to the same trading blocs, if they have common land borders, if they have the same official language, etc.

Results from a recent Commonwealth study applying this modelling framework show that, controlling for all factors mentioned above, when both bilateral partners are Commonwealth members, they tend to trade, on average, 20 per cent more and generate 10 per cent more foreign direct investment flows than otherwise. This "Commonwealth effect" or "advantage" would imply bilateral trading costs between Commonwealth partners are on average 19 percentage points lower compared with those in other country pairs.

Therefore, historical ties, long-established trading relations, familiar administrative and legal system, the use of largely one language, English, as the means of communicating with foreign partners and large and dynamic diasporas all seem to be contributing to an inherent Commonwealth factor that drives trade between members.

Figure 5: Intra-Commonwealth exports of goods and services

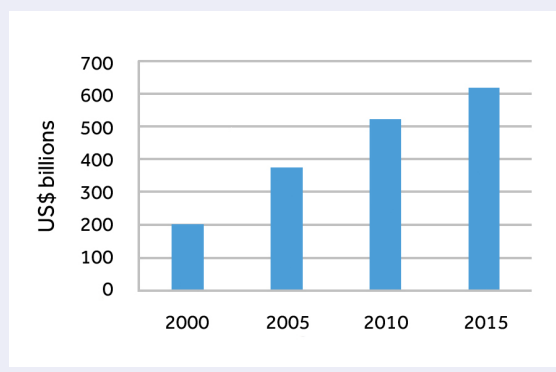
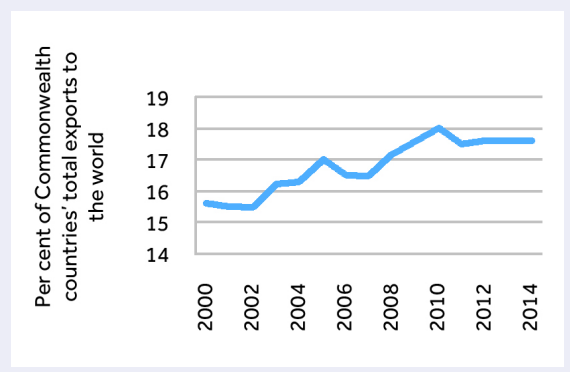


Figure 6: Share of intra-Commonwealth in Commonwealth countries' total trade



## 3.2 Commonwealth trade with the EU

As a unique association that promotes trade between members without recourse to discriminatory policy measures for non-members, Commonwealth states have, as noted above, always striven to expand trade globally. In 2015, almost 16 per cent of Commonwealth developing countries' overall exports were destined for the EU (including the UK).<sup>3</sup> One important feature of this trade, as discussed in the article *Brexit Concerns for Developing Countries* in this policy briefing, has been that many Commonwealth developing countries have received preferential market access in the EU.<sup>4</sup> For Commonwealth developed countries (that is, Australia, Cyprus, Canada, Malta, New Zealand and the UK), the EU accounted for almost 23 per cent of their merchandise exports in 2015.<sup>5</sup>

Commonwealth members are also currently enjoying the benefits of the EU "single market". This allows a bulk importer based in one EU country to source imports from any country and then distribute to other EU member states without being subject to any barriers. Given all this, Commonwealth members aim to expand trade with the EU while at the same time exploiting the unique trade advantage the Commonwealth offers. Stability in the post-Brexit world and strong economic performance of the UK as well as Europe—which determine demand for imports from other Commonwealth countries—will be important in boosting Commonwealth members' trade performance and economic prosperity.

## 3.3 Trading opportunities within the Commonwealth

Irrespective of Brexit implications, huge untapped trading opportunities do exist within the Commonwealth. The unique Commonwealth advantage, which translates into lower trading costs, implies trade between Commonwealth members can increase by many times. Analysis presented in *Commonwealth Trade Review 2015* shows that, even in the absence of any coordinated policy measures (i.e. not considering the option of establishing new trading blocs), there was the potential of additional exports of \$156 billion, or 34 per cent of current intra-Commonwealth exports. Of this, more than US\$35 billion comprised potential exports from the UK.<sup>6</sup>

While the trade potential is about trading opportunities currently not being utilised, medium-

to longer-term trade expansion should also take place through improved economic prospects. According to one projection exercise, over the next 15 years or so Commonwealth gross domestic product (GDP) will double to \$20 trillion.<sup>7</sup> As a result, even under a low world trade growth scenario, intra-Commonwealth trade could expand to reach between US\$1.3 and US\$1.9 trillion by 2030.<sup>8</sup>

Post-Brexit, bilateral trade deals involving the UK and interested Commonwealth members are also possible, boosting intra-Commonwealth trade. A Commonwealth-wide preferential trade deal could, however, be difficult to achieve, as Malta and Cyprus remain EU members. Additionally, the Commonwealth is an association of very diverse members, in terms of their size, location and levels of development. The experience of WTO-led multilateral trade negotiations suggests trading arrangements involving a large number of diverse countries can be very time-consuming and often yield marginal gains.

It is worth pointing out that, currently, close to three-quarters of intra-Commonwealth goods exports come from developing country members. As these countries expand their overall trading and productive capacity, they will be able to exploit the Commonwealth effect further. Indeed, the nature of the Commonwealth advantage is such that, for example, even when the source of investment in a Commonwealth member is a non-Commonwealth state the recipient Commonwealth member can utilise the inherent advantage in generating additional intra-Commonwealth trade, given to its expanded economic activities resulting from the new investment. Similarly, improved trade facilitation measures to deal with cumbersome and costly administrative and cross-border movement of goods and services can also be helpful.<sup>9</sup>

## 3.4 Way forward

While Commonwealth members enjoy an inherent trade advantage, promoting their intra-Commonwealth trade, this unique factor has not been driven by any coordinated policy interventions like the ones under regional or bilateral trading blocs. Productive capacity-building and improved trade performance in individual member countries will reinforce intra-Commonwealth trade and investment flows. Given this, post-Brexit developments will have interesting implications for leveraging the Commonwealth advantage for greater trade gains.

New bilateral deals between the UK and other interested Commonwealth members are possible, promising trade gains for involved parties. Even without such formal arrangements, given the tremendous potential that exists, as also highlighted in the article *UK-Commonwealth Trade* of this policy brief, pro-active initiatives by the UK and other Commonwealth members can generate new trade and investment opportunities. In this regard, careful consideration should be given to the recommendations made in *Commonwealth Trade Review 2015*. These include, among others, members achieving improved trade logistics and facilitation measures; making use of the scope of tariff rationalisation and tackling non-tariff barriers; utilising the opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as a platform for establishing and strengthening contacts between traders and investors.

Brexit is a journey that will result in unknown trading arrangements, both for the UK dealing with the EU but also between the UK and a large number of developing countries. As the EU is, and will continue to be, a very important trading partner for most Commonwealth countries, undisrupted and expanded trade and economic cooperation with the world's largest single trading bloc will be critical. Generous market access and development assistance offered by the EU contribute to economic development and enhanced trading capacity in a large number of Commonwealth developing countries. For the UK as well, the EU will remain the single largest trading partner. Expansion of economic activities in the two European partners and a post-Brexit settlement that ensures undisrupted trade flows between them will also benefit Commonwealth members.

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- 1 It needs to be pointed out that Commonwealth trade has also been affected by global trade slowdown, as discussed in a separate article in this policy brief.
  - 2 A glaring example of this is rising trade with China. In 2000, for only six Commonwealth countries did China account for 5 per cent or more trade; in 2013 the number of such members had increased to a staggering 39.
  - 3 Of this, the UK's share was less than 3 per cent. However, two major suppliers—India and Singapore—dominate Commonwealth developing countries' exports to the EU. These two countries together exported about US\$100 billion-worth of exports to the EU in 2015.
  - 4 Currently, 13 Commonwealth least developed countries are eligible for the EU's Everything But Arms scheme of unilateral duty-free, quota-free market access. The EU and African, Caribbean and Pacific (ACP) countries have also negotiated several regional economic partnership agreements—which are at different stages of finalisation or implementation—with the objective of similar preferences for participating ACP countries, though under reciprocal arrangements.
  - 5 However, among bigger developed countries, the UK's dependence on the EU market is much higher: 44 per cent.
  - 6 These estimates are for goods' exports alone: data on potential exports in the services sector is not available.
  - 7 It needs to be noted here that the prolonged recovery of the global economy from the recession following the 2008 financial crisis could affect this projected growth of Commonwealth GDP. Nonetheless, the seven largest Commonwealth developing countries—India, Nigeria, South Africa, Malaysia, Singapore, Pakistan and Bangladesh—may see their combined GDP rise from currently less than \$4 trillion to more than \$10 trillion in 2030.
  - 8 Authors' calculations based on revised projection exercises as presented in *Commonwealth Trade Review 2015*.
  - 9 Many such measures that do not require adopting discriminatory trade policy stances to favour Commonwealth members are elaborated in *Commonwealth Trade Review 2015*.

## 4. SDGs and a Lost Decade of Trade Gains: What Commonwealth Role Post-Brexit?

An unprecedented global slowdown is threatening efforts to build on the many impressive achievements of the Millennium Development Goals. The Commonwealth has always been a force for global good in promoting a free, fair and inclusive global trading system, and the post-Brexit UK envisions being a global economy and a leader in free trade. It is time for the Commonwealth to gear up to play a catalytic role for making international trade an effective means of realising the Sustainable Development Goals.

### 4.1 The great trade slowdown

In 2016, world trade is expected to expand by 1.7 per cent—lower than the corresponding growth of the previous year, 2.4 per cent, and representing the slowest pace of yearly growth since the global financial crisis.<sup>1</sup> Indeed, since 2012, as Figure 7 shows, for every individual year, global trade has grown at a much slower pace than that of the average growth of about 6.5 per cent achieved over the almost three decades (1980–2007) immediately prior to the financial crisis of 2008. Such a prolonged period of weaker world commercial activities is unprecedented. If International Monetary Fund (IMF) projections are correct, 2012–21 could be the slowest decade of trade expansion since the World War II. This lost decade of gains from trade has important development implications.

Recent IMF analysis suggests that overall weakness in economic activity (in both developed and

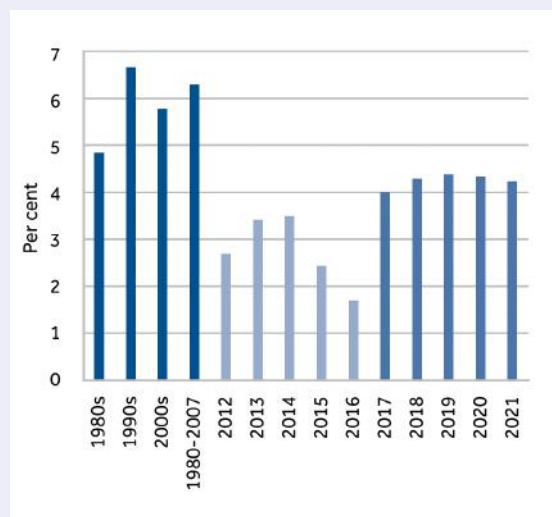
emerging countries such as China), including investments, accounts for nearly three-fourths of the trade slowdown. The rest can be attributed to structural factors, which include, among others, China's rebalancing of economic activity away from investment towards consumption and services, with a depressing impact on trade; consolidation of value chain activities in production and trade, leading to domestic inputs being substituted for imported inputs; etc. Trade expansion in the 1990s was also supported by trade liberalisation, which has not achieved any further breakthroughs in recent times, largely because of stalled multilateral trade negotiations.

### 4.2 International trade as a means for achieving the Sustainable Development Goals

Last year, 2015, the international community adopted the Sustainable Development Goals (SDGs), outlined in the 2030 *Agenda for Sustainable Development*, as a global framework of actions over the next 15 years to tackle critical socio-economic challenges facing developing countries. Their predecessors, the Millennium Development Goals (MDGs) (2000–15), capitalising on progress made since the early 1990s, witnessed perhaps the most successful socio-economic development efforts in history, lifting more than 1 billion people out of extreme poverty. While in 1990 nearly half of the population living in developing world lived on less than \$1.25 a day, by the end of the MDG period the proportion of such people had declined to 14 per cent. The SDGs aim to reduce this number to zero by 2030.

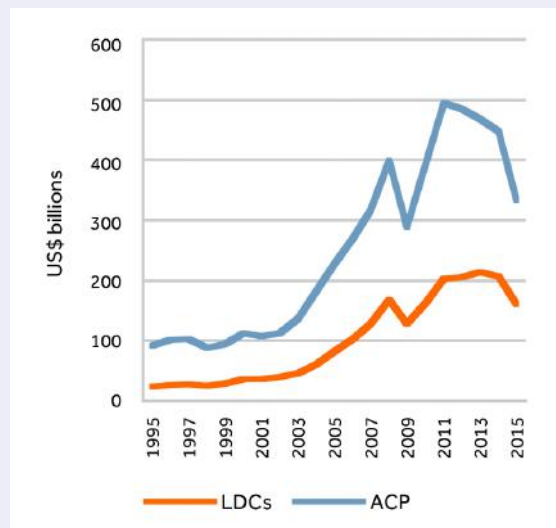
The 17 SDGs, linked to 169 targets, progress on which is to be measured against hundreds of indicators, provide a much more ambitious framework than that of MDGs. The SDGs have extended scope to include challenges of

*Figure 7: World trade growth is historically low for an unprecedentedly prolonged period of time*



Note: growth rates for 2017–2021 are IMF projections  
Source: Data are from IMF and WTO.

**Figure 8: Trade collapse—merchandise exports of ACP and LDCs**



Source: Data are from UNCTADstat

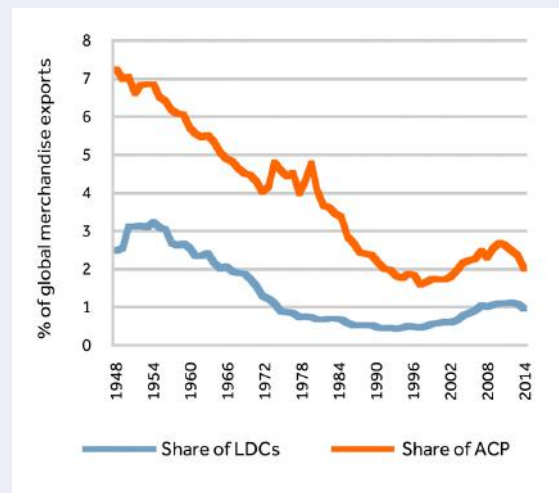
environmental sustainability, inclusiveness, equity, urbanisation and strengthening global partnerships. One defining feature of the new initiative has been to identify the “means of implementation”, and in this respect international trade has been given a prominent role, with direct and cross-cutting references across the goals to deliver on the global agenda. The MDGs explicitly mentioned trade only under MDG 8 relating to global partnerships; in the SDGs trade appears directly under seven goals, relating to hunger, health and wellbeing, employment, infrastructure, inequality, conservative use of oceans and strengthening partnerships.

This heartening effort of mainstreaming trade into global development strategy has, however, come at a rather inauspicious time: more than eight years after the global financial crisis of 2008, the world economy is still struggling to return to its pre-crisis growth trajectory, with a trade slowdown that is unprecedented in nature. Furthermore, Brexit-related uncertainties are exacerbating concerns for world economic recovery as well as trade challenges for many developing countries.

### 4.3 Participation of the poorest and most vulnerable countries in global trade under stress

Securing enhanced participation of least developed countries (LDCs), small states and Sub-Saharan Africa in world trade has been a longstanding

**Figure 9: Hopes for reversing the declining shares of ACP countries and LDCs in world trade have met with setbacks**



Source: Authors' calculations based on UNCTADstat

international development objective.<sup>2</sup> While some encouraging progress was noticed during the 2000s, consequences in the aftermath of the 2008 financial crisis seem to have reversed the trend. During 2000–8, LDC exports grew nearly five-fold, from US\$43 billion to about US\$200 billion, the exports from African, Caribbean and Pacific (ACP) countries rose more than three times, from US\$146 billion to US\$478.5 billion. However, in 2015, LDC exports stood at only US\$201 billion – just about the same as in 2008 (Figure 8). On the other hand, ACP exports in 2015, US\$434 billion, were actually more than \$50 billion smaller than they were in 2008. An overwhelming majority of these countries have failed to diversify their export structure, continuing to rely on primary commodities including fuels and other minerals, prices of which collapsed in the aftermath of the financial crisis, causing their export revenues to suffer. As a result, the secular decline in the share of these countries since the 1950s was arrested only for short period, between 2006 and 2010, when their shares started declining again (Figure 9).

Indeed, it seems that faltering LDC participation in global trade is to deal an early blow to one SDG target as stated under SDG 17.11. Having adapted from the other UN-led initiative—the Istanbul Programme of Action (IPOA) for LDCs for the Decade 2011–20—this target stipulates a doubling of the LDC share of global exports by 2020. At the start of IPOA implementation, the corresponding LDC share was 1.05 per cent; this declined to 0.96 per cent in 2015. Estimates presented in a

Commonwealth Secretariat analysis shows that achieving the target of raising this share to 2.1 per cent will require LDCs to post an average annual export growth rate of more than 25 per cent during 2016–20. This appears to be an almost impossible task given current trends in global trade.

The global financial crisis has also fuelled a rise in protectionism, with different countries implementing various trade-restrictive measures. The WTO estimates that a total of 1,583 trade-restrictive measures have been imposed by G20 countries since 2009, and only a quarter of these measures have been removed. These restrictions have had a detrimental impact on trade flows, particularly for the world's poorest countries. According to an estimate by Evenett and Fritz (2015), LDCs have incurred a loss of US\$264 billion in exports as a result of these protectionist measures.<sup>3</sup> In other words, the value of LDC exports could have been 31 per cent higher if post-crisis protectionism had been avoided.

#### 4.4 Delivering on SDGs: The global role of the Commonwealth post-Brexit

It follows from the above that, as countries start implementing SDG-related actions, they confront a challenging external environment. The sluggishness in trade points to a situation where its traditional role to generate growth and development—for which there is broad-based consensus—is not being utilised. There are well-documented benefits of trade, including efficiency gains that help lower the costs of production and the prices of goods, productivity gains through the spread of knowledge and technology and realising the benefits of economies of scale and scope by allowing specialisation in the goods and services in which countries have a comparative advantage. All Commonwealth countries aim to materialise these gains. Reviving global trade flows while mitigating any consequences of Brexit for developing countries is an important issue to keep SDG implementation process on track.

In the above context, the UK and EU should work together constructively to mitigate post-Brexit risks and manage the related economic uncertainties. This should include continuity of the trade preferences that developing countries currently enjoy in Europe (including the UK), as highlighted in the article *Brexit Concerns for Developing Countries* in this policy brief. They should

ensure a stable and secure transition process for the UK's withdrawal as a precursor to establishing a new productive relationship with the EU. Global economies as well as international financial institutions should undertake necessary measures to minimise the short-term uncertainties caused by Brexit. Among others, exchange rate volatilities can have a detrimental impact on trade flows and investment decisions.

At the same time, the need to revitalise global trade flows and the multilateral trading system cannot be overemphasised. Following the WTO's Nairobi Ministerial Conference and not least because of the Doha Round running for more than 15 years, identifying concrete solutions to the current stalemate is one of the most pressing challenges for multilateral cooperation. As a first step, effective implementation of the WTO's Trade Facilitation Agreement (TFA) can contribute to enhanced trade flows by reducing costs and renewing commitment to trade multilateralism. Given that tariffs have come down quite significantly, most trade and welfare gains are to be associated with tackling non-tariff barriers and improving trade facilitation measures. According to the World Trade Report 2015, implementation of the TFA has the potential to increase global merchandise exports by up to US\$1 trillion per annum, which can certainly help bolster the role of trade as an effective means of achieving the SDGs.

It cannot be overstressed that, without a vibrant multilateral trading system, it will be very difficult to promote and protect the trade and development interests of vulnerable countries. This is particularly so when a number of trade-related development goals in the SDGs are linked to Doha Round-related issues. In this connection, it is imperative to immediately remove all the trade restrictions against poor and vulnerable countries that were imposed following the global financial crisis. Along with this, there should be enhanced trade capacity-building support to ensure the participation of vulnerable countries in the multilateral trading system.

Post-Brexit, the UK envisions being a global economy and a leader in free trade. Indeed, the UK's commitment to trade-led economic development has been laudable, and globally influential. It has always recognised and championed the special needs and challenges facing particularly LDCs, Sub-Saharan African countries and small states. It is one of the few high-income countries that fulfil the UN target of providing 0.7 per cent of gross national income as official development assistance.

In a post-Brexit world, the UK's strong commitment to and role in development can be leveraged through enhanced cooperation within the Commonwealth. The Commonwealth has consistently been a global advocate for realising the benefits of trade, as evidenced by the Commonwealth Head of Governments' *Kotte Statement on International Trade and Investment* in

2013, the *Valetta Statement on Multilateral Trade* in 2005 and its continued support for promoting trade capacity-building in developing member states. Given this impressive record, it is high time for the Commonwealth as a global force for good to gear up its catalytic role in making international trade an effective means of realising the SDGs.

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1 Defined here as global trade volume of goods and services (IMF).

2 It is to be noted that LDCs, small states and Sub-Saharan Africa are not mutually exclusive groups. African, Caribbean and Pacific (ACP) countries comprise 40 LDCs out of a total of 48. Thirty-one Commonwealth small states are also included within the ACP countries and LDCs.

3 Evenett, S.J. and Fritz, J. (2015). *Throwing Sand in the Wheels: How Protectionism Slowed Export-Led Growth for the World's Poorest Countries*, Report prepared for the Government of Sweden (revised version).