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A Commonwealth Free Trade Area is neither likely nor desirable

Sir Ronald Sanders KCMG

The idea of a Commonwealth Free Trade Area (FTA) which resurfaces from time to time is, argues Sir Ronald Sanders, 'an idea whose time has long passed'. Born of a nostalgia for a time when Commonwealth countries enjoyed trade preferences with Britain (before it joined the EU in 1973), he explains that an FTA is neither politically possible nor desirable: it is not possible for the UK, Cyprus and Malta to join a formal Commonwealth trade arrangement unless they leave the EU, and the benefits of improved preferential access would be exploited by the major emerging economies. The Commonwealth's 36 small states 'would not get much of a look-in'. In this *Opinion*, Sir Ronald Sanders explains why the existence of a 'Commonwealth factor' – supposedly residing in English as a common language, similar laws and shared history – is doubtful. Instead, physical proximity, competitive prices and ease of transport explain higher levels of trade between (often neighbouring) Commonwealth countries. Instead, Sanders calls on Commonwealth Foreign Ministers to reconsider their recent decision not to convene a meeting of Commonwealth Trade Ministers, supported by an Expert Group, to consider the future of the post-Doha trading system (as proposed recently by the Commonwealth Eminent Persons Group). In this way, Sanders argues, the Commonwealth could be a catalyst for expanding world trade through rules that are fairer and more equitable.

On 28 September 2012, shortly after his appointment as Minister of State responsible for Commonwealth Affairs in the British Foreign and Commonwealth Office (FCO), Hugo Swire MP declared in a letter to the Financial Times: 'The FCO is committed to working more closely with Commonwealth partners to boost trade and support business links. The FCO's Charter for Business sets out how we aim to support UK business. But the key is to encourage more UK businesses to take a closer look at trade with the Commonwealth. The benefits are easy to see and the opportunities are huge'.[1]

It was a theme that his predecessor, Lord David Howell, had repeatedly voiced from the time that the Conservative-Liberal Democrat coalition came into government in May 2010 showing a renewed interest in the 54-nation Commonwealth after a 15-year period of benign apathy by the former Labour Party government.

In recent years several Commonwealth-related organisations, including the Commonwealth Secretariat, have produced documents that reviewed the scope for expanding trade among Commonwealth countries and while many of them have reflected a desire to see such trade expansion, all have acknowledged the considerable difficulties in doing so.[2] Commonwealth Heads of Government at their meeting in Malta in 2005 had also called 'on the Secretary-General to explore innovative approaches to strengthen intra-Commonwealth dialogue, networking, and collaboration on trade and economic issues'.[3] Beyond Secretariat in-house studies on Commonwealth trade, nothing further came of this call.

In this *Opinion*, I show that the scope for expanding trade between Commonwealth countries, in a world characterised by Regional Trade Agreements (RTAs) and a World Trade Organisation (WTO) intent on liberalising global trade is limited, and argue that the Commonwealth should focus its efforts on being a catalyst for expanding world trade through rules that are fairer and more equitable.

The background to Commonwealth trade or the lack of it

Such Commonwealth trade preferences as did exist came to an end in 1973 when the British Conservative government under Prime Minister Edward Heath joined Britain to the European Union (EU), then the European Economic Community. Having joined the EU, Britain cannot independently negotiate or settle a free trade agreement with Commonwealth countries or any other country or groups of countries unless it severs its legally binding arrangements with the EU. Two other Commonwealth countries, Cyprus and Malta – both of which joined the EU in 2004 – would also have to leave the EU if they wished to participate in a formal Commonwealth trade arrangement.

The likelihood of any of three Commonwealth countries leaving the EU is extremely remote. Despite the hype of Eurosceptics in the Conservative Party in Britain, the

Prime Minister David Cameron, while hinting that he would hold a referendum on the EU if his party won an outright majority at the next general election, makes it clear that, for him, it is not a simply a matter of 'in or out'. What he wants is a 'better settlement with Europe'.[4] In any event, Britain's earnings from exports to the Commonwealth, while significant (it was US$46,087.1 million in 2011), is not huge, representing only 9.76 per cent of its total exports in that year of US$472,095.63 million, while its merchandise exports to the EU represents a hefty 43.6 per cent of its total exports.[5]

Britain joining the EU was one of the reasons that many developing Commonwealth countries developed stronger trade relations elsewhere. For instance, vulnerable Commonwealth countries in Africa, the Caribbean and the Pacific (ACP), which traditionally had exported most of their products to Britain under tariff preferences and other special arrangements, were forced to negotiate new terms of trade with the EU. In looking to Brussels, their eyes scanned past Britain which they felt had abandoned them.

With regard to Canada and Australia, the other two large developed nations in the Commonwealth, much of their trade is now with non-Commonwealth countries. Canada joined the North American Free Trade Area (NAFTA) with the US and Mexico in 1994, and almost 75 per cent of its merchandise exports went to the US in 2011 with Britain second at 4.1 per cent. No other Commonwealth country is among Canada's top 10 trading partners.[6] In the case of Australia, in 2010, of its top ten two-way trading partners China (19.1 per cent), Japan (12 per cent), the United States (9 per cent) and the Republic of Korea (5.4 per cent) dominate. Of the Commonwealth countries only five feature among Australia's top ten trading partners and then on a much smaller scale. They are: Britain (4.1 per cent), India (4.0 per cent), Singapore (3.9 per cent), New Zealand (3.9 per cent) and Malaysia (2.8 per cent).[7]

Significance of intra-Commonwealth trade in goods declining

Total Commonwealth trade in goods in 2011 is estimated at almost 18 per cent per cent of World trade, a decline from its high of 22 per cent in 1960. Even this share is owed to the trading capacity of only six of the Commonwealth's 54 member states – Singapore, India, Malaysia, Australia, Britain and Canada. With their Commonwealth exports valued at US$364,381 million, the six countries account for 84 per cent of all Commonwealth exports of US$406,187.8 million in 2011. The other 48 countries combined, including South Africa and Nigeria, with Commonwealth exports of US$59,706.8 million made up only 16 per cent. It is less than the value of Singapore and India's individual Commonwealth exports, and marginally higher than Malaysia's. See table below:

Top six countries in exports to Commonwealth in 2011 (US$ millions)

Country	Exports to Commonwealth	% of total exports
Singapore	106,085.76	25.91
India	61,421.14	20.37
Malaysia	59,324.87	26.14
Australia	46,299.90	18.85
Britain	46,087.10	9.76
Canada	28,242.23	6.70
Total	**364,481.00**	

Not surprisingly, the 36 small states that comprise the majority of Commonwealth members enjoy only a tiny share of Commonwealth exports, even though for some of them exports to Commonwealth countries constitute a high percentage of their total trade. But many of their exports are not 'Commonwealth' per se. In the case of the Caribbean countries of St Vincent and Dominica, their principal export is bananas to Britain under a treaty arrangement between the EU and the ACP Group[8], but these exports are declining now and will decline further because of an erosion of the preferential treatment they enjoyed. Many of these preferences for sugar, bananas and rum, applicable to Commonwealth countries in the ACP group, have already been whittled away and are under constant erosion by the EU, in part because of challenges to the preferences brought by other countries at the World Trade Organisation (WTO). For these small states, therefore, Commonwealth trade is becoming less important. For instance, more than 50 per cent of all Commonwealth Caribbean exports go to the US. Much of this is due to proximity which itself is an important determining factor in trade.

The significant point arising from all this is that more than 80 per cent of the exports of all Commonwealth countries are directed to countries outside the Commonwealth and where trade between Commonwealth countries has been high this is due to proximity as in the case of Singapore and Malaysia, the Caribbean, the Pacific and land-locked countries in sub-Saharan Africa.

Trade in services

According to the International Trade Centre, service exports of Commonwealth States increased from approximately US$550 billion in 2006 to US$720 billion in 2010. These service exports represent approximately 20 per cent of the world's service exports[9]. However, again only a handful of the 54 Commonwealth countries dominate trade in services in value terms. In 2010, Britain was the largest service exporter (36 per cent) of total Commonwealth service exports; India was second (17 per cent) and Singapore third (16 per cent). Between them, they account for 69 per cent of all Commonwealth trade in services, with the other 51 countries collectively representing a mere 31 per cent.

For some Commonwealth small island states, services do represent a high proportion of their total exports, but this is due to the fact that they depend on one industry such as tourism. In the cases of Antigua and Barbuda, Vanuatu, and Grenada, for instance, service exports represent approximately 91 per cent, 85 per cent and 82 per cent respectively of their total exports, but in absolute terms the value of their export services is tiny. Neither a Commonwealth FTA nor a preferential scheme would improve their overall performance which would be more reliant on more hotels and resorts, expanded airport facilities and less costly air transport.

Commonwealth Free Trade Area: a near impossibility

The argument has been advanced by the Royal Commonwealth Society that the 'Commonwealth effect' could contribute to an increase in trade between Commonwealth countries.[10] This 'Commonwealth effect', it is claimed, resides in English as a common language, similar laws and shared history (although this is not now true for the Commonwealth's more recent members – Mozambique, Cameroon and Rwanda). But this is a very doubtful argument. Trade is based on demand and supply and often on the most competitive prices and ease of transport. Except between neighbouring Commonwealth countries, these factors which are more crucial than common language, laws and history do not apply. For example, there are no direct transportation links between Commonwealth countries in Africa and the Caribbean or between the Caribbean and the Pacific, and increasingly companies in Britain and Canada can source commodities more cost-effectively from non-Commonwealth countries.

Further, in many developing Commonwealth countries, the lack of infrastructural facilities including inadequate ports for small islands and poor roads in land-locked countries in Africa, the opportunities for competitive trade are limited[11]. In any event distance between Commonwealth countries, and its consequential costs, is a significant barrier to trade and it cannot be wished away.

As for the notion that Commonwealth countries could fashion a Commonwealth Free Trade Agreement (FTA) under which they could give preferences to each other to expand intra-Commonwealth trade, while this is technically possible to make it compliant with WTO rules, it is enormously difficult from a legal, administrative and even political standpoint. Certainly Britain, Cyprus and Malta would have to leave the EU customs union. This is most unlikely to happen and without it any idea of a Commonwealth FTA would be dead in the water. Other Commonwealth countries would also have to review their commitments to other countries with which they have joined in FTAs to ensure that the effect of Commonwealth preferences does not violate their existing agreements, which, in many cases, it must do to make the Commonwealth FTA beneficial to many of its participants.

Further, given the commitments of the majority of Commonwealth countries in many existing RTAs that generally include Most Favoured Nation (MFN) clauses which state that concessions cannot be offered to another trading partner that is better than that offered in the RTA, a Commonwealth-FTA would probably not be far from a multilateral agreement. Developing countries with scarce financial and human resources would therefore be better off focussing on getting concessions in the context of global trade negotiations at the WTO.

Finally, the benefits of improved preferential access to all Commonwealth States within an FTA would be exploited by the major emerging economies such as India, Malaysia and then by the developed Commonwealth countries, Britain, Australia and Canada. The Commonwealth's 36 small states would not get much of a look-in.

Some Commonwealth countries do have the potential for penetrating the markets of other Commonwealth countries. For instance, Canada could penetrate markets in Africa and Oceania, and South Africa, Malaysia, Indian and Singapore could look beyond their neighbours to source their import requirements[12]. But such greater trade expansion by a few countries can occur outside of a Commonwealth FTA or preference scheme. It is not a Commonwealth FTA that would make it possible: it is overcoming the more fundamental issue of competitive costs.

A role for the Commonwealth in trade

Against this background what can the Commonwealth effectively do in trade? It is significant that throughout its existence the Commonwealth has never held a formal meeting of Ministers of Trade, and, as was pointed out earlier, even though Heads of Government have in recent years made declarations on trade and required the Secretariat to undertake studies, nothing significant emerged.

Yet, there is enormous potential for the Commonwealth to act as a catalyst for meaningful change and progress on global trade issues that would benefit its members and the global community. In the past, the Commonwealth – and especially its Economic Affairs Division – has played a meaningful and influential role in international economic issues. Properly resourced, it can continue to do so for all its member states, not only the developing ones. For example, in 1982, a Commonwealth Expert Group produced a report, *Protectionism: Threat to International Order*, that heavily influenced thinking at the GATT ministerial meeting of 1982. Chaired by Sir Alec Cairncross of Britain, the group included Manmohan Singh, now the Prime Minister of India.

In its Report to the Commonwealth Heads of Government Meeting in Perth in November 2011, the Eminent Persons Group (EPG) recommended the establishment of an Expert Group to consider the possible future of the post-Doha trading system and how the WTO might be reformed to identify how the adverse features of the Doha Round could be avoided and how the needs of the capacity-constrained economies can be better advanced.[13] The EPG had envisaged that the work of the Expert Group would be considered by a specially-convened meeting of Commonwealth Trade Ministers. Representing as they do a cross-section of the world's nations – including 5 members of the G20, least developed countries, large developing nations and small states – Commonwealth trade ministers would be uniquely placed to at least explore how the present log-jam could be overcome and how the framework for global trade could be enhanced.

This recommendation was not pursued because, in reviewing the EPG recommendations at a meeting in New York in September, Foreign Ministers decided that it has 'been overtaken by events'. Exactly what events have overtaken it has not been explained and they remain a mystery since the Doha-round is still stalled and the prospect for any movement is extremely bleak. Meanwhile, the international trading system remains hugely problematic, and, in some aspects, unfair as developed countries aggressively push new rules in trade facilitation that as the Indian Ambassador to the WTO puts it, 'would result mainly in facilitating more imports into rather than exports for developing countries.'[14]

What is missing in the Commonwealth trade dialogue is direct interface between Trade Ministers of small and vulnerable economies and Trade Ministers of influential WTO Members such as Canada, Australia, Singapore, Malaysia and India.

Conclusion

In summary, seeking to expand Commonwealth trade by establishing a Free Trade Area or a Preference Scheme is a notion whose time has long passed, and little further effort should be spent on promoting the idea. However, expanded trade between a few Commonwealth countries under existing WTO rules is still achievable; such increased trade could be made possible by increased investment, and it is in investment that there is a 'Commonwealth advantage' of common language, common laws and shared traditions in the majority of Commonwealth countries.

Where the Commonwealth can best play a role in trade is by reaching a political consensus among Trade Ministers, based on expert study, on how trade rules and trade facilitation could be better set, in a practical and pragmatic manner, to be fairer and more beneficial for all including by establishing compensatory and support mechanisms for countries that lack the capacity to participate meaningfully in world trade.

About the author

Sir Ronald Sanders KCMG was a member and Rapporteur of the Commonwealth Eminent Persons Group (EPG) 2010-11, Ambassador to the World Trade Organisation for Antigua and Barbuda (1999–2004), and High Commissioner to London (1984–87 and 1996–2004). He is an international consultant and writer who has served on Commonwealth advisory committees and been a trade negotiator. He has held senior positions in the private and public sectors including as a member of the Executive Board of UNESCO. He has written extensively on small states and the Commonwealth, and is currently a Fellow at the Institute of Commonwealth Studies, University of London.

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