



Perspectives by Ruth Lea

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Commonwealth countries are the growth markets of the future

Introduction

The Commonwealth as an economic bloc is rarely discussed in Britain. But, as the global economic and political focus shifts to partnerships with non-western economies in the wake of the global financial crisis, this is arguably an opportune moment to readdress and re-evaluate the economic potential of the Commonwealth.¹ Added to which, as the forces of 21st century globalisation gather pace, the Commonwealth countries can expect to grow in relative importance as Continental Europe continues its relative decline.² There are, moreover, sound business reasons to consider Commonwealth countries as trading partners.

In 1997, the Commonwealth Heads of Government commissioned research into the nature of trade between its members, hypothesising that Commonwealth countries would have a natural advantage in trade with each other that did not exist elsewhere. The result of this inquiry was a paper by Sarianna Lundan and Geoffrey Jones that identified a 'Commonwealth Effect' in trade.^{3,4} By their estimates, Commonwealth countries trading with one another experienced business costs that were 10-15% lower than similar dealings with non-Commonwealth countries of comparable size and GDP.

According to the study's authors, trade between Commonwealth nations was enhanced by certain commonalities of language, law, accounting systems and business regulations. These shared attributes reduced impediments to trade and, therefore, the overheads in conducting business.

The Commonwealth of Nations

Before going on to discuss the economics of the Commonwealth further, it is worth stating some basic facts. The modern Commonwealth was established in 1949 as a voluntary association of independent countries united as "free and equal members". It marked the end of the colonial, imperial "British Commonwealth". The 8 original signatories were Australia, Canada, Ceylon (now Sri Lanka), India, New Zealand, Pakistan, South Africa and the UK. All members have equal votes, irrespective of size, and decisions are taken by consensus by the Heads of Government.

The Commonwealth's 54 members support each other and work together towards shared goals in democracy and development. Most are former British colonies but some, namely Mozambique, Rwanda and Cameroon, are not. (See annex 1 for the 54 members.) The Commonwealth is characterised not by its formal institutions but rather the informal networks and associations that have evolved as part of the historical legacy of the Commonwealth and its modern impetus. Leveraging these networks is the key to enhancing intra-Commonwealth trade and investment, for example.

The key document concerning trade and economic cooperation (as well as development issues) was the “Edinburgh Communiqué”, following a Commonwealth Heads of Government Meeting (CHOGM), in 1997.⁵ This Communiqué covered the members’ agreed objectives but, crucially, left the individual members to decide the policies they should implement in order to achieve the objectives. Unlike the EU, the Commonwealth does not legislate for its members, they legislate for themselves. The Commonwealth Business Council was established in 1997 following the Edinburgh meeting.⁶

The modern Commonwealth spans five continents and contains developed, emerging and developing economies. Crucially, the Commonwealth captures the character of the newly globalised world economy. In its richness and diversity it mirrors today’s global economy.

The members vary vastly in size from India with a population of over 1 billion to small island states. The total population is over 2 billion, out of a world total of nearly 7 billion. Nearly every major economic grouping is represented. The Commonwealth’s membership includes two of the world’s largest seven economies (the UK and India, on a Purchasing Power Parity basis), two members of the G8 (Canada and the UK) and six members of the G20 (the UK, India, Canada, Australia and South Africa). 18 African countries are part of the Commonwealth and there are other major clusters in South East Asia and the Caribbean.

Current trading links

Britain’s trade with the Commonwealth is already significant. In 2009, total exports of goods and services to the major Commonwealth countries were over £32bn – over 8% of the total. But these exports were dwarfed by exports to the US (£67bn) and in particular to the other EU (£188bn). The equivalent figures for imports were £31bn from the Commonwealth (indicating a modest surplus), £43bn from the US (a substantial surplus) and the £216bn from the EU (a major deficit).⁷

Chart 1A shows Britain’s relatively modest trading links with three major Commonwealth countries, compared with the Eurozone “big 3” and the US. Chart 1B also shows the sizeable deficit with China and the modest deficits with Japan and Russia.

Chart 1A: UK trade in goods and services, £bn, selected countries, 2009

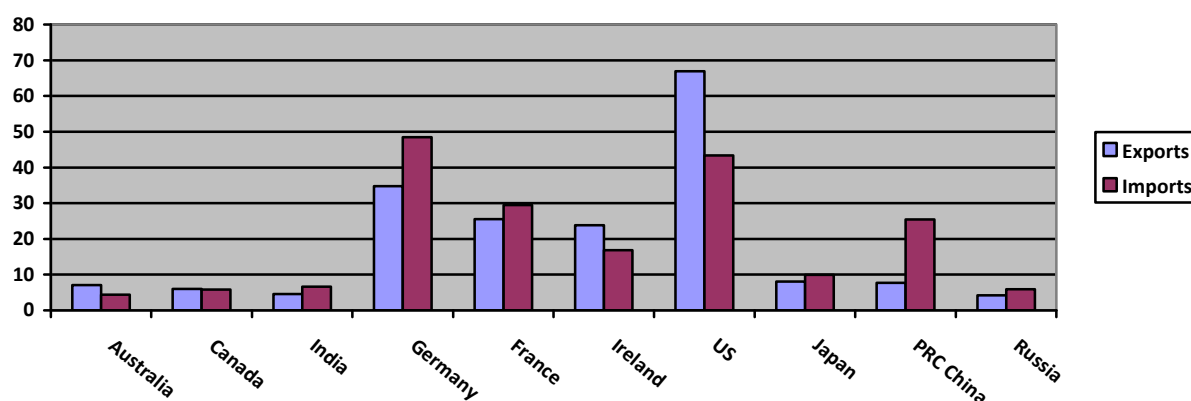
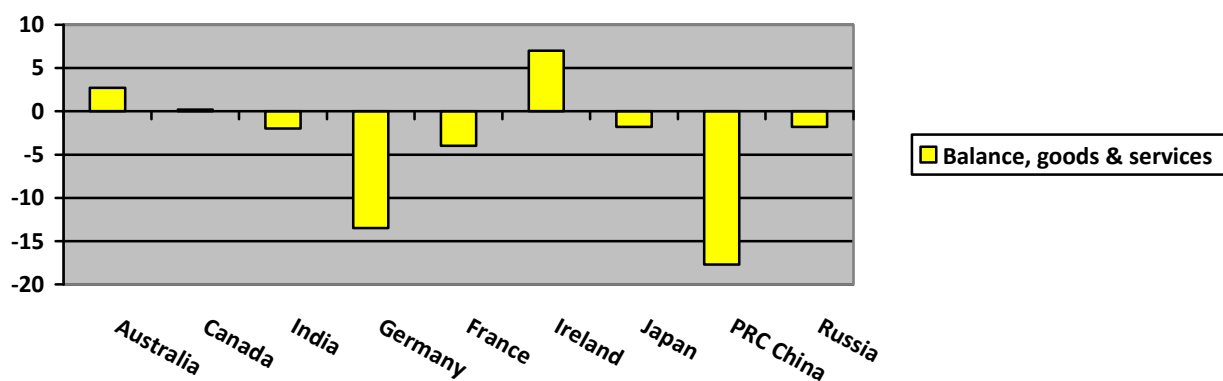


Chart 1B: Balance of trade in goods and services, £bn, selected countries, 2009



Source: ONS, *UK Balance of Payments, the Pink Book*, 2010 edition

Given the sizes of the major Commonwealth countries, especially the rich ones (principally Australia and Canada), it can be argued that Britain's export performance to Commonwealth countries (and indeed the US) is disappointing compared with that of the EU. This is all the more the case when the above-mentioned "Commonwealth advantage" is considered. Table 1 shows that British exports to Germany and France are about 1.5% of those countries' respective GDP. The equivalent figures for exports to the US and the Commonwealth's "big 3" (excluding the UK) are about half that. (Tables 2A and 2B and charts 1A and 1B in the annex provide the detailed figures for GDP and GDP per capita.)

Table 1: UK exports of goods & services/GDP, 2009

	UK exports (£bn)	UK exports (US\$bn)+	Nominal GDP (US\$bn), importing country	UK exports as % of GDP
Germany	34.8	54.5	3,339	1.6%
France	25.5	40.0	2,656	1.5%
US	66.9	104.8	14,119	0.7%
"Big 3":				
Australia	7.1	8.0	994	0.8%
Canada	6.0	9.4	1,336	0.7%
India	4.6	7.2	1,236	0.6%

+ taking the 2009 average spot rate \$/£1.5665, source Bank of England.
Export data from ONS, *UK Balance of Payments, the Pink Book*, 2010 edition.
GDP data from the IMF, www.imf.org

Whilst it can be argued that the UK has focussed on the EU, at the "expense" of trade with the other Commonwealth countries (and indeed the US, though it should be pointed out that the US is a relatively closed economy), other Commonwealth countries have been more positive about the Commonwealth. For example, Commonwealth Advantage" is a Canadian organisation with the objectives of creating new trade opportunities and strengthening ties with other Commonwealth nations.^{8,9}

And Kamal Nath, India's Road Transport Minister and former Industry Minister, was quoted recently as saying:¹⁰

"The Commonwealth is the ideal platform for business and trade ... I hope that India's ties with the Commonwealth will move from strength to strength, and that the new paradigm will only mean greater warmth, greater cooperation."

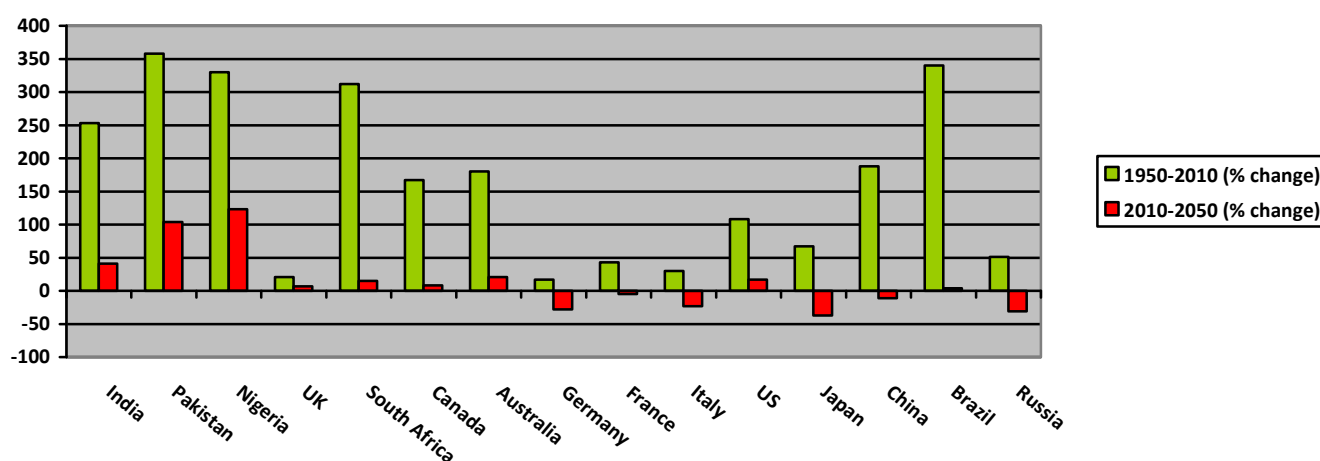
The “new paradigm” are Mr Nath’s words, not ours. The framework for Britain to raise its game in the Commonwealth is already in place. The institutions exist and our Commonwealth partners are very willing partners.

Future potential for Commonwealth trade: demographic factors

Not merely is there more scope to trade with the other Commonwealth countries. But there is another very big factor which will become increasingly significant as the 21st century progresses. And this is the demographic factor.¹¹ There have been truly dramatic population changes since 1950. The populations of many Asian and African countries have expanded remarkably rapidly, whilst growth in the developed countries has been more modest. Moreover, populations in some Asian and African countries are expected to grow rapidly to 2050. (Annex table 3 and annex chart 2 show the data for the Commonwealth’s 10 most populous countries.)

But of more direct relevance to the potential economic growth of a country than the overall population data are the projections for working age populations. Chart 2 (below, details in annex table 4) shows how, for example, India’s working age population increased by over 250% between 1950 and 2010 and will grow by a further 40% between 2010 and 2050.

Chart 2: Working age population (15-64), selected Commonwealth countries, the Eurozone’s “big 3”, US, Japan, China, Brazil and Russia, % changes



Source: UN, *World Population Prospects*, medium variant, 2008 revision. The closest data to “working age” available from the UN website is for the 15-64 aged cohort.

Analysing the projected data for 2010 to 2050, the following conclusions can provisionally be drawn:

- Whilst there will still be growth in the working populations of the Commonwealth countries listed (even including the UK), the populations of the Eurozone’s “big 3” (especially Germany and Italy) are expected to fall. Germany’s is projected to fall by 28% and Italy’s by 23%.
- Whilst population growth cannot be simply translated into GDP growth, it can nevertheless be assumed there will be a fairly close positive correlation.
- Under these circumstances the Commonwealth should remain a powerful growth market for British business to export to and invest in. Continental Europe, by contrast, will experience a shrinking and ageing population, where demand for state-provided healthcare and pensions will almost inevitably increase, with fewer economically active people to fund them. The demographics of the Commonwealth and the EU are sharply-diverging.
- The US’s working population is expected to rise (by 17%), but the falls in Japan (37%) and Russia (31%) are dramatic. China’s population is projected to fall by 11%, reflecting the “one child” policy.

- The US is set to remain by far the most important single economy for the foreseeable future. And China, for all its spectacular growth rates and huge population, risks ageing (“getting old”) before getting “averagely” rich by western standards. Nevertheless growth in China, along with India, will continue to add “tens of millions of people to a global middle class keen to consume the financial advice, high-quality education and slick retailing that Britain does well” for some years yet.¹²

What should be done?

Britain needs to shift its focus from a relatively stagnant Europe to the world’s future growth markets. The Government’s recent trade trip to China to encourage Anglo-Chinese trade was a useful development.¹³

Another development could be for Britain to negotiate separate trade deals with favoured countries, within the overall rules of the WTO. But this is not an option whilst Britain is a member of the EU. When Britain joined the EEC (now EU) in 1973 part of the deal was to join the EEC’s Customs Union (a free trade area with a common external tariff).^{14,15} A downside of this was that Britain could no longer negotiate its own free trade deals with favoured nations, relying instead on the EU’s Trade Commissioner (currently Karel De Gucht). To its credit the EU has negotiated many deals with third countries and they are listed in table 5 of the annex. Note that deals are being negotiated with the ASEAN countries (including Malaysia), Canada and India. But no deals are being negotiated with the US, China, Australia or New Zealand, even though they arguably could bring Britain benefits.

References

1. Commonwealth Business Council & City of London, Commonwealth Economic Partnerships Forum, October 2010.
2. See also Ruth Lea, “The changing global landscape: G20 comes of age”, Arbuthnot Banking Group, 4 October 2009.
3. Sarianna Lundan and Geoffrey Jones, “The ‘Commonwealth Effect’ and the process of internationalisation”, in the *World Economy*, January 2001.
4. Brent Cameron, “Building the Transatlantic Bridge: the potential for Canada-UK trade”, *Global Vision*, March 2008.
5. Commonwealth Secretariat, www.thecommonwealth.org
6. The Commonwealth Business Council (CBC) has the mandate to involve the private sector in the promotion of trade & investment within the Commonwealth, its website is www.cbglobal.org.
7. ONS, *UK Balance of Payments, the Pink Book*, 2010 edition
8. Commonwealth Advantage’s website is www.cata.ca.
9. See (a) Ruth Lea, “Canada and India understand the importance of the Commonwealth – why don’t we?”, *Daily Telegraph*, 6 May 2006; (b) Ruth Lea, “The Commonwealth is coming into its own”, *Daily Telegraph*, 13 March 2006.
10. Commonwealth Business Council & City of London, Commonwealth Economic Partnerships Forum, October 2010.
11. Ruth Lea, “Globalisation and demography are changing the world”, Arbuthnot Banking Group, 31 March 2008.
12. *Economist*, “Go east, young man”, 14 November 2010.
13. *Economist*, “Go east, young man”, 14 November 2010.
14. See Ruth Lea, “A new trading relationship for Britain with the EU”, *Global Vision*, March 2008, www.globalvision.net
15. In 1973 being a member of the EEC’s Customs Union was probably advantageous because tariffs on industrial products were still relatively high. This is no longer the case.

Annex

Table 1 Members of the Commonwealth

Country (date joined Commonwealth)	Population (2008)	GDP p.c. growth (%), 1990-2008, average	Continent
Over 1 billion:			
India (1947)	1,181,412,000 (1)	4.7%	South Asia
Over 100 million:			
Pakistan (1947)	166,961,000 (2)	1.5%	South Asia
Bangladesh (1972)	160,000,000 (3)	3.3%	South Asia
Nigeria (1960)	151,478,000 (4)	1.0%	Africa
Over 10 million:			
United Kingdom (n/a)	61,019,000 (5)	2.5%	Europe
South Africa (1931)+	48,832,000 (6)	0.8%	Africa
Tanzania (United Republic) (1961)	41,464,000 (7)	1.8%	Africa
Kenya (1963)	38,550,000 (8)	0.1%	Africa
Canada (1931)+	33,259,000 (9)	2.1%	North America
Uganda (1962)	31,903,000 (10)	3.1%	Africa
Malaysia (1957)	27,027,000 (11)	3.3%	SE Asia
Ghana (1957)	23,351,000 (12)	2.1%	Africa
Mozambique (1995)	21,813,000 (13)	4.4%	Africa
Australia (1931)+	21,074,000 (14)	2.3%	Oceania
Sri Lanka (1948)	19,394,000 (15)	3.9%	South Asia
Cameroon (1995)	19,088,000 (16)	0.7%	Africa
Malawi (1964)	14,288,000 (17)	1.2%	Africa
Zambia (1964)	12,154,000 (18)	0%	Africa
Over 1 million:			
Rwanda (2009)	9,721,000 (19)	1.5%	Africa
Papua New Guinea (1975)	6,458,000 (20)	0.2%	Oceania
Sierra Leone (1961)	5,969,000 (21)	-1.1%	Africa
Singapore (1965)	4,490,000 (22)	3.7%	SE Asia
New Zealand (1931)+	4,215,000 (23)	2.0%	Africa
Jamaica (1962)	2,728,000 (24)	0.8%	Caribbean
Namibia (1990)	2,102,000 (25)	1.4%	Africa
Lesotho (1966)	2,010,000 (26)	2.3%	Africa
Botswana (1966)	1,921,000 (27)	4.0%	Africa
The Gambia (1965)	1,660,000 (28)	0.4%	Africa
Trinidad & Tobago (1962)	1,338,000 (29)	4.7%	Caribbean
Mauritius (1968)	1,272,000 (30)	3.7%	Indian Ocean
Swaziland (1968)	1,148,000 (31)	0.3%	Africa
Over 100,000:			
Cyprus (all country, 1961)	862,000 (32)	2.5%	Europe, EU (Greek part only)
Fiji (1970, currently suspended)	844,000 (33)	1.4%	Oceania
Guyana (1966)	763,000 (34)	2.4%	South America
Solomon Islands (1978)	507,000 (35)	-2.1%	Oceania
Malta (1964)	408,000 (36)	2.7%	Europe, EU
Brunei Darussalam (2008)	392,000 (37)	-0.3%	SE Asia
The Bahamas (1973)	338,000 (38)	1.1%	Caribbean
Maldives (1982)	311,000 (39)	4.8%	Indian Ocean

Belize (1981)	301,000 (40)	2.3%	Central America
Barbados (1966)	255,000 (41)	2.2%	Caribbean
Vanuatu (1980)	232,000 (42)	1.9%	Oceania
Samoa (1970)	189,000 (43)	2.4%	Oceania
St Lucia (1979)	167,000 (44)	1.1%	Caribbean
St Vincent & the Grenadines (1979)	121,000 (45)	1.9%	Caribbean
Grenada (1974)	104,000 (46)	2.7%	Caribbean
Tonga (1970)	101,000 (47)	1.8%	Oceania
Kiribati (1979)	100,000 (48)	2.5%	Oceania
Under 100,000:			
Antigua & Barbuda (1981)	87,000 (49)	2.2%	Caribbean
Seychelles (1976)	84,000 (50)	1.6%	Indian Ocean
Dominica (1978)	67,000 (51)	1.6%	Caribbean
St Kitts & Nevis (1983)	48,400 (52)	2.9%	Caribbean
Nauru (1968)	10,000 (53=)	N/a	Oceania
Tuvalu (1978)	10,000 (53=)	N/a	Oceania
54 (including Fiji)++	2,172,752,000		

+ By the Statute of Westminster (1931) which gave legal status to Australia, Canada, New Zealand and South Africa (the Dominions) within the British Commonwealth. ++ Zimbabwe withdrew in 2003.
Source: Commonwealth Secretariat, www.thecommonwealth.org

Table 2A: GDP (2009), US\$ billion, selected countries

	Nominal (order in 181)	PPP (order in 180)
World total	57, 843	70,041
Commonwealth:		
UK	2,179 (6)	2,139 (6)
Canada	1,336 (10)	1,281 (14)
India	1,236 (11)	3,526 (4)
Australia	994 (13)	851 (17)
South Africa	287 (32)	493 (25)
Malaysia	193 (40)	384 (30)
Singapore	182 (43)	239 (45)
Nigeria	169 (44)	315 (37)
Pakistan	162 (45)	440 (27)
New Zealand	118 (52)	116 (60)
Bangladesh	95 (57)	225 (48)
Other Commonwealth	325	599
Total Commonwealth	7,276 (12.5% of total)	10,608 (15% of total)
Commonwealth, excluding UK	5,097 (9% of total)	8,469 (12% of total)
Eurozone "big 3":		
Germany	3,339 (4)	2,806 (5)
France	2,656 (5)	2,108 (8)
Italy	2,118 (7)	1,740 (10)
Other major economies:		
US	14,119 (1) (24% of total)	14,256 (1) (20% of total)
Japan	5,069 (2)	4,159 (3)
PRC China	4,985 (3)	9,047 (2)
Brazil	1,574 (8)	2,013 (9)
Russia	1,232 (12)	2,109 (7)

Table 2B: GDP per capita, US\$ thousands, selected countries

	Nominal (order of 182), 2010	PPP (order of 182), 2009
Commonwealth:		
Australia	54.9 (6)	39.7 (9)
Canada	45.9 (11)	39.0 (11)
Singapore	42.7 (15)	57.2 (3)
UK	36.3 (21)	35.1 (20)
New Zealand	31.6 (24)	27.5 (32)
Malaysia	7.8 (65)	14.6 (58)
South Africa	7.1 (70)	10.5 (76)
Nigeria	1.3 (133)	2.4 (140)
India	1.2 (137)	3.3 (127)
Pakistan	1.0 (143)	2.8 (133)
Bangladesh	0.6 (158)	1.6 (155)
Eurozone "big 3":		
Germany	40.5 (19)	35.9 (19)
France	40.6 (18)	34.1 (23)
Italy	33.8 (22)	29.4 (27)
Other major economies:		
US	47.1 (9)	47.1 (6)
Japan	42.3 (17)	33.8 (24)
PRC China	4.3 (95)	7.5 (93)
Brazil	10.5 (55)	11.3 (71)
Russia	10.5 (54)	15.8 (51)

Source: IMF, www.imf.org. PPP stands for Purchasing Power Parity.

Chart 1A: GDP (2009), US\$ billion, selected countries

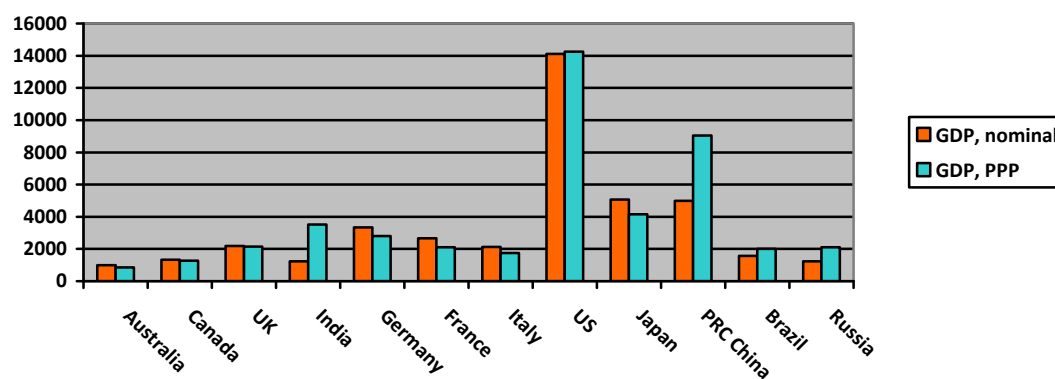
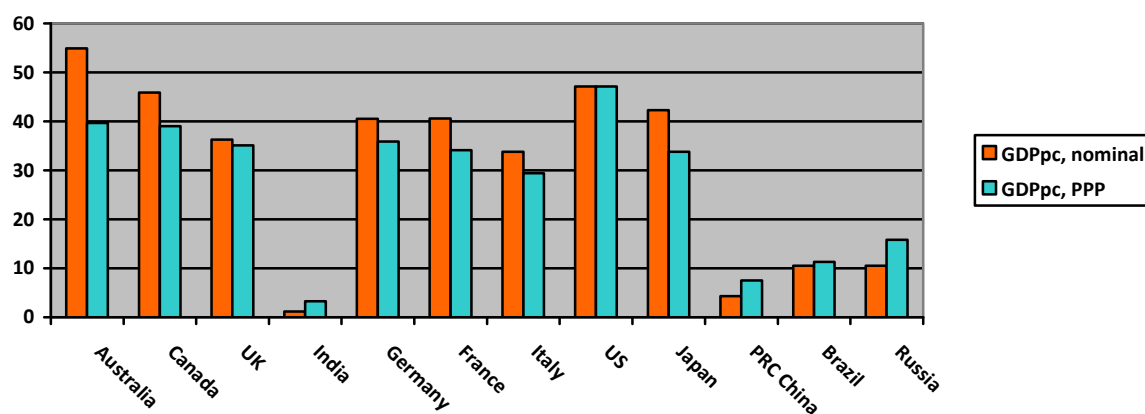


Chart 1B: GDP per capita (2010/2009), US\$ thousands, selected countries



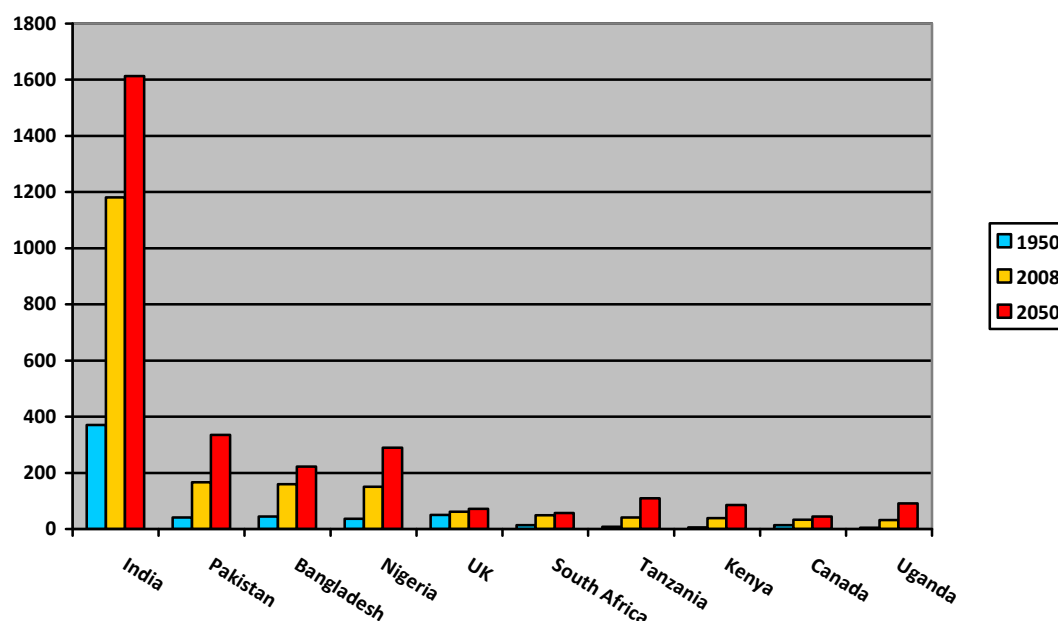
Source: IMF, www.imf.org

Table 3: Population, 10 most populous Commonwealth countries, millions

	1950	2008 (% of Commonwealth total in brackets)	2050	Ratio: 2050/1950
India	372	1,181 (54%)	1,614	4.3
Pakistan	41	167 (8%)	335	8.2
Bangladesh	44	160 (7%)	222	5.0
Nigeria	37	151 (7%)	289	7.8
United Kingdom	50	61 (3%)	72	1.4
South Africa	14	49 (2%)	57	4.1
Tanzania	8	41 (2%)	109	13.6
Kenya	6	39 (2%)	85	14.2
Canada	14	33 (1.5%)	44	3.1
Uganda	5	32 (1.5%)	91	18.2

Sources: UN, Department of Economic and Social Affairs, *World Population Prospects*, medium variant, 2008 revision, www.un.org/esa/.
2008 data are from the Commonwealth Secretariat.

Chart 2: Population, 10 most populous Commonwealth countries, millions



Sources: UN, *World Population Prospects*, medium variant, 2008 revision.
2008 data are from the Commonwealth Secretariat.

Table 4: Working population (15-64), selected Commonwealth countries, the Eurozone's "big 3", US, Japan, China, Brazil and Russia

	Millions			1950-2010		2010-2050	
	1950	2010	2050	Ratio: 2010/1950	% change	Ratio: 2050/2010	% change
Commonwealth:							
India	221	781	1098	3.53	253%	1.41	41%
Pakistan	24	110	224	4.58	358%	2.04	104%
Nigeria	20	86	192	4.30	330%	2.23	123%
UK	34	41	44	1.21	21%	1.07	7%
South Africa	8	33	38	4.12	312%	1.15	15%
Canada	9	24	26	2.67	167%	1.08	8%
Australia	5	14	17	2.80	180%	1.21	21%
"Big 3":							
Germany	46	54	39	1.17	17%	0.72	-28%
France	28	40	38	1.43	43%	0.95	-5%
Italy	30	39	30	1.30	30%	0.77	-23%
Other major economies:							
US	102	212	248	2.08	108%	1.17	17%
Japan	49	82	52	1.67	67%	0.63	-37%
China	338	973	870	2.88	188%	0.89	-11%
Brazil	30	132	137	4.40	340%	1.04	4%
Russia	67	101	70	1.51	51%	0.69	-31%

Source: UN, *World Population Prospects*, medium variant, 2008 revision.

Table 5: European Union free trade agreements

The EU has concluded free trade agreement with many countries world-wide and is negotiating many others.

Agreements in force		
Customs unions	Andorra (1991)	
	Turkey (1996)	
	San Marino (2002)	
Free trade agreements	Faroe Islands, autonomous entity of Denmark (1997)	
	EFTA countries:	Switzerland FTA (1973)
		Liechtenstein
		Norway
		Iceland
	Stabilisation & Association Agreement (SAA) countries:	Macedonia (2004)
		Croatia (2005)
		Albania (2009)
		Bosnia & Herzegovina (signed 2008, enforcement pending)
		Serbia (signed 2008, enforcement pending)
		Montenegro (2010)
	Association Agreement (AA) countries:	
	Euro-mediterranean Partnership countries:	Tunisia (1998)
		Palestinian Authority (2007, interim)
		Israel (2000)
		Morocco (2000)
		Jordan (2002)
		Egypt (2004)
		Algeria (2005)
	Lebanon (2006)	
Other:	Mexico (2000)	
	South Africa (2000)	
	Chile (2003)	
Pending	Economic Partnership Agreement (EPA)+ for ACP countries++:	CARIFORUM (Caribbean Forum) states
		Ivory Coast
		Cameroon
		South Korea (July 2011)
Negotiating	India	
	ASEAN (Association of Southeast Asian Nations) states	
	Ukraine	
	Singapore	
	Canada	
	GCC (Gulf Cooperation Council)	

+ See European Commission, "EU-ACP Economic Partnership Agreements: state of play at June 2010", 15 June 2010. Economic Partnership Agreements (EPAs) are being negotiated to help ACP countries integrate into the global economy and are important tools for EU-ACP cooperation. More than just traditional free-trade agreements, EPA are intended to improve the

business environment, build up regional markets and promote good economic governance through reinforced regional cooperation in trade related issues.

++ The African, Caribbean and Pacific Group of States (ACP) is a group of countries (currently 79: 48 African, 16 Caribbean and 15 Pacific), created by the Georgetown Agreement in 1975.

In addition the EU has the Generalised System of Preferences (GSP), which is a trade arrangement through which the EU provides preferential access to the EU market to 176 developing countries and territories, in the form of reduced tariffs for their goods when entering the EU market.