

## **House of Commons Foreign Affairs Committee: The role and future of the Commonwealth**

Written evidence, Ruth Lea, Economic Adviser, Arbuthnot Banking Group, 15 January 2012

### **Summary**

- The Commonwealth should develop a new economic and trade focus. The establishment of a Commonwealth Free Trade Agreement (FTA) is recommended.
- Commonwealth countries together account for 15% of the world's GNI. They are economically important.
- They have favourable demographics and growth prospects. They are likely to be some of the most important growth markets of the future. The Commonwealth countries should not be regarded as the "past". They should be more of Britain's "future".
- There is evidence that Commonwealth countries trading with each other benefit from cost advantages.
- The UK's trade with other Commonwealth countries is already significant. But more could, should, be done. The establishment of a Commonwealth FTA would provide such a stimulus, but Britain would almost certainly need to withdraw from the EU's Customs Union in order to participate.

### **Submitter of evidence**

Ruth Lea has worked in the Civil Service (the Treasury, the Civil Service College, the CSO and DTI (1970-88) with a short break lecturing in economics); the City (Mitsubishi Bank (1988-93), Lehman Brothers (1993-94), Arbuthnot Banking Group (since 2007)); ITN (1994-95) and the Institute of Directors (1995-2003). She was Director of the Centre for Policy Studies (2003-07) and Director of Global Vision (2007-10). Global Vision is a campaign group that seeks a looser Swiss-style relationship with the EU and extensive free trade links with favoured nations including Commonwealth countries. Ruth Lea is a member of the Royal Commonwealth Society.

I would be [happy to] give oral evidence to the Committee.

### **Submission**

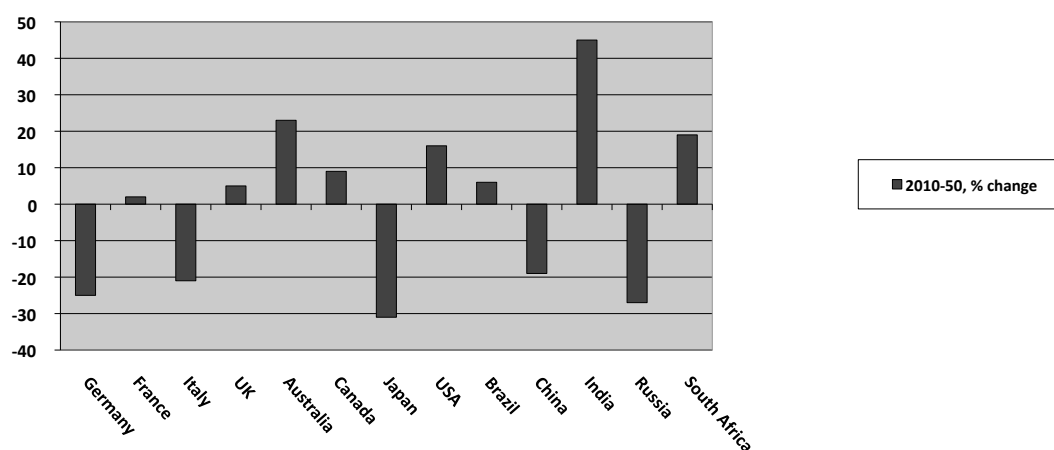
1 In the light of the disappointing outcome to the recent Perth CHOGM, the Commonwealth needs to develop a new economic and trade focus, with the UK as a fully-involved and committed member. The establishment of a Commonwealth Free Trade Agreement is recommended. However, this clearly presents Britain and the other EU Member States (Cyprus and Malta) with a major difficulty as they cannot freely negotiate or unilaterally belong to a Commonwealth FTA whilst they are members of the EU's Customs Union. The opportunity costs for Britain and, by extension, other Commonwealth members can only be significant given the economic importance of the Commonwealth.

2 Commonwealth countries considered together as an economic entity are rarely discussed in Britain. But they account for 15% of world GNI and contain over 2 billion of the world's 7 billion people. The modern Commonwealth spans five continents and contains developed, emerging and developing economies – including some of the largest economies and some of the smallest. In its diversity it captures the character of the 21<sup>st</sup> century globalised economy as no other economic grouping can. The Commonwealth's membership includes two of the world's largest ten economies (the UK and India), two members of the G7 (Canada and the UK) and five members of the G20 (the UK, India, Canada, Australia and South Africa). The Commonwealth has global significance and huge potential. The Commonwealth also has the advantage of being a group of friendly (non-threatening and non-adversarial) countries which includes many with deep reserves of key natural resources. Statistics for selected Commonwealth countries are shown in table 1 in the annex.

3 The latest IMF forecasts, up to 2016, show that the major Commonwealth countries have healthy growth prospects in the medium-term.<sup>1</sup> Moreover in the longer-term they have favourable demographics. Their working populations are projected to increase to 2050 and, insofar as economic growth is correlated with growth in the working population, they will be some of the most important growth markets of the future, along with the US and China. Specifically, the Commonwealth's demographics compare very favourably with the major European countries, where working populations will tend to age and shrink. It is mistaken and old-fashioned to regard the Commonwealth as the "past", an outmoded relic of Empire. Commonwealth countries are young and dynamic and should play a much bigger part in Britain's future.

4 The UN estimates that between 2010 and 2050, Australia's working population will increase by 23%, Canada's by 9% and India's by 45%. In contrast Germany's working population will fall by 25%, Italy's by 21% and Spain's by 14%; though the UK's is expected to rise by 5% and France's by 2%. Note too that other big fallers include Japan (31%), China (19%) and Russia (27%). The USA's working population will incidentally increase by 16%. The key data are shown in the chart below.

#### Working population (aged 15-64), selected countries, 2010-50, % change



Source: UN, *World Population Prospects*, medium variant, 2010 revision. The age group 15-64 is taken as the proxy for the working population.

5 It has been estimated that business costs are 10-15% lower for Commonwealth countries trading with one another compared with Commonwealth countries trading with non-Commonwealth countries of comparable size and GDP. This benefit, the "Commonwealth advantage", reflects shared history and commonalities of language, law and business practice.<sup>2</sup> The "Commonwealth advantage" should act, *ceteris paribus*, as an incentive to Commonwealth trade, not least of all between the UK and the other Commonwealth countries.

6 UK-Commonwealth trade is indeed already significant. In 2010, total exports of goods and services to the major Commonwealth countries were nearly £37bn, over 8% of the total UK trade (table 2). But these exports were dwarfed by exports to the US (£72bn) and in particular to the EU27 (£210bn). The equivalent figures for imports were £36bn from the Commonwealth, £46bn from the US and nearly £243bn from the EU27. When the balances for income and transfers are also accounted for, Britain ran a healthy Current Account surplus with the major Commonwealth countries and the USA in 2010, but a hefty deficit with the EU27. Arguably more can be achieved. The British imports penetration ratios in some of the

Commonwealth countries are relatively modest, disappointingly so given the above-mentioned “Commonwealth advantage”, compared with France and Germany (see table 3). This suggests there is some scope for “catching up”, especially so in the case of India and Canada.

7 Commendably, the coalition government has stepped up its efforts to encourage Britain in the world’s future growth markets, including Commonwealth countries. And Foreign Secretary William Hague has already acknowledged the Commonwealth’s growth potential. He said recently “...increasingly, Commonwealth countries are...proceeding with some of the fastest growth rates in the world”.<sup>3</sup>

8 But much more should be done. The establishment of a Commonwealth FTA, including the UK, would be a major step forward. But, as already stated, Britain’s participation would be restricted by membership of the EU’s Customs Union. Britain should withdraw from EU’s Customs Union, noting all the political implications for Britain’s EU membership, in order to be able to develop free trade links with the Commonwealth. Britain could then align more of its trade with the fast-growing Commonwealth countries rather than being over-dependent on slow-growing Europe, where the share of global output is in secular decline.

9 The key document concerning trade and economic cooperation (and development issues) was the “Edinburgh Communiqué”, following a Commonwealth Heads of Government Meeting (CHOGM), in 1997. 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. The Commonwealth does not legislate for its members, unlike the EU. This has all to commend it. Sovereign nations should legislate for themselves and the Commonwealth should resist all temptations to centralise legislation. The Commonwealth Business Council was established in 1997 following the Edinburgh meeting.

#### **References**

1. IMF, *World Economic Outlook database*, September 2011.
  2. Sarianna Lundan and Geoffrey Jones, “The ‘Commonwealth Effect’ and the process of internationalisation”, in the *World Economy*, January 2001.
- The Commonwealth Business Council & City of London, *Commonwealth Economic Partnerships Forum*, October 2010.