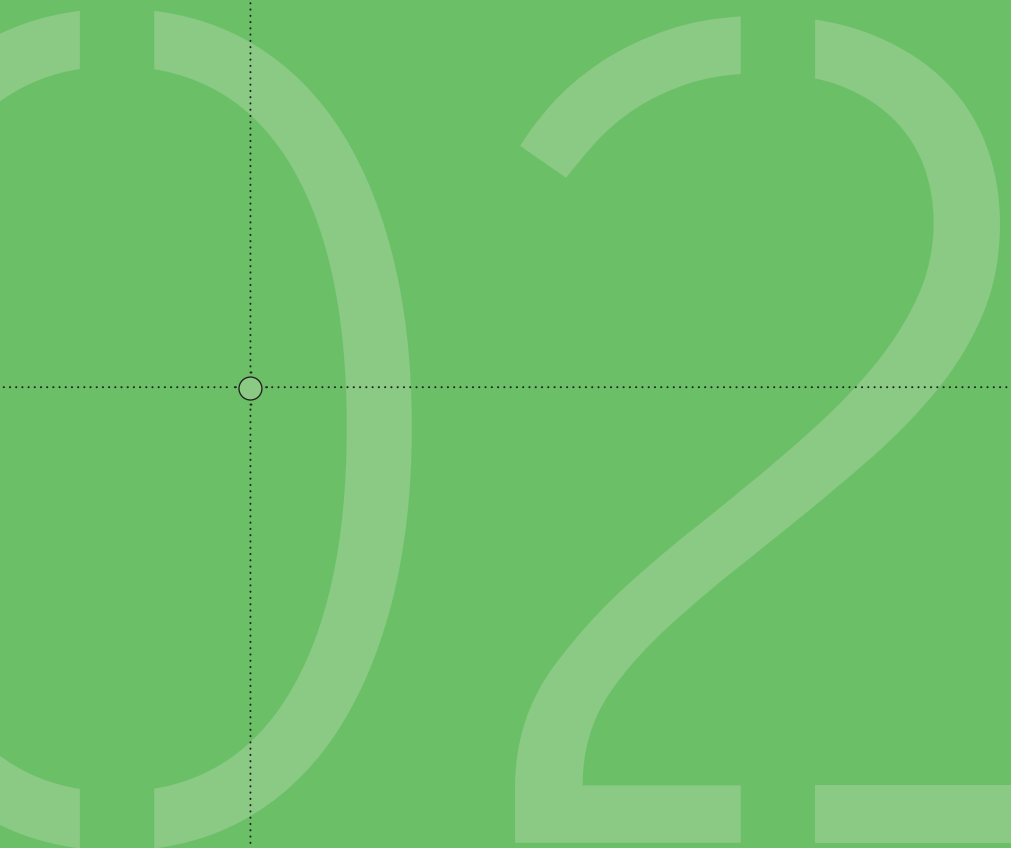# Intra-Commonwealth trade: emerging dynamics and opportunities

The Commonwealth is not a trading bloc. Yet trade between members is rising strongly, and is projected to surpass US$1 trillion by 2020. This trade is also of growing importance to Commonwealth members, as the share of intra-Commonwealth trade in their total trade continues to rise.

Among the drivers of increased intra-Commonwealth trade and investment flows is an observed 'Commonwealth effect', whereby trade between Commonwealth members is on average 20 per cent higher and trade costs are 19 per cent lower compared with in trading between other partners.

Along with already impressive intra-Commonwealth trade flows, there remains enormous potential to further increase intra-Commonwealth trade by hundreds of billions of dollars, particularly with regard to increased trading opportunities with developing country members.

HIGHLIGHTS

**TRADE BETWEEN COMMONWEALTH MEMBERS
COULD RISE TO $2.75 TRILLION BY 2030.**

$2.⁷⁵
TRILLION

$1
TRILLION

2030

2020

$592
BILLION

2013
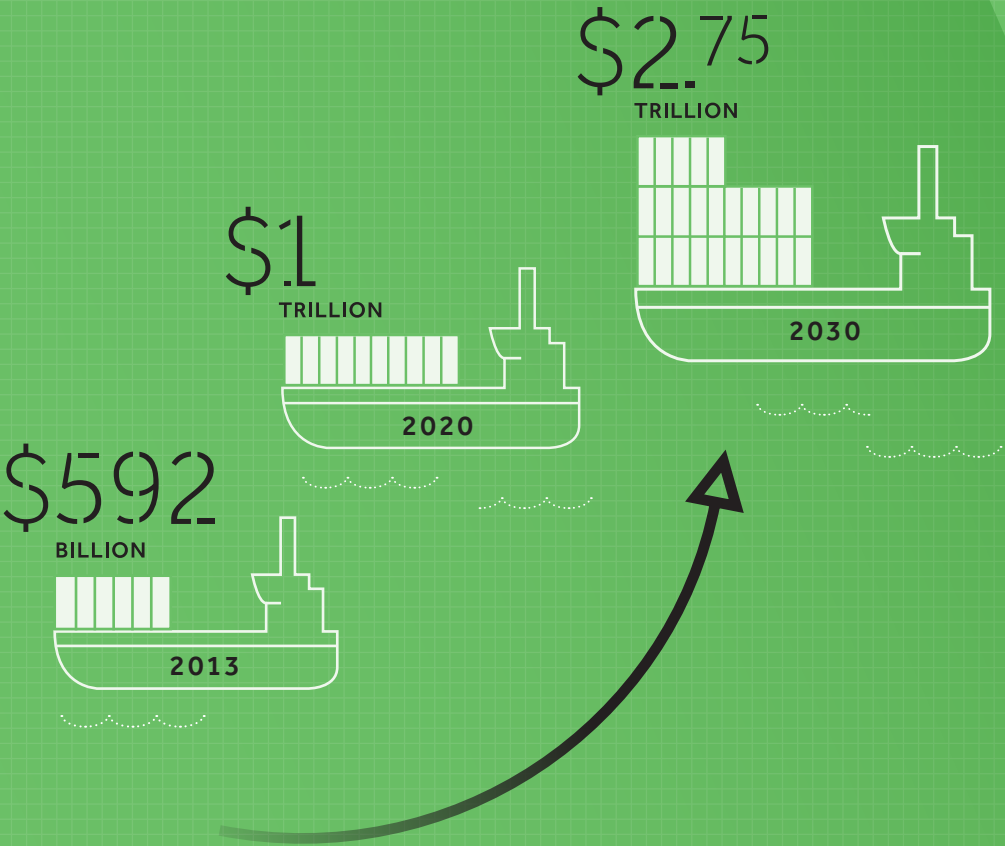
**TRADE COSTS ARE 19% LOWER BETWEEN
COMMONWEALTH MEMBERS.**

↓19%
LOWER
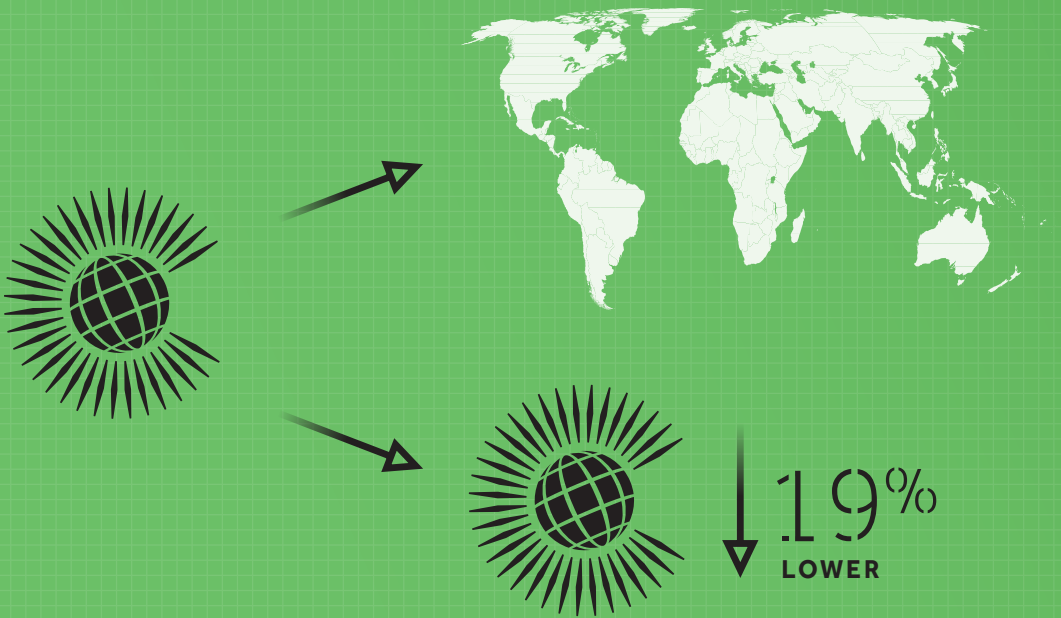
2.1 Introduction

"[W]e recognise the potential for growth in intra-Commonwealth trade and investment as well as the importance of promoting practical measures to overcome constraints to such growth."

Kotte Statement on International Trade and Investment, adopted by Commonwealth Heads of Government, CHOGM 2013, held in Colombo, Sri Lanka.

The Commonwealth is a voluntary association and is not a trading bloc. It does not possess association-wide policy-induced mechanisms to promote trade between members. As Commonwealth countries strive to achieve enhanced trade performance, evidence presented in this Part of the Review would suggest trade between members can be an important avenue to accomplish this objective.

Cooperation among countries in trade in the global economy has increasingly been manifested in regional trading arrangements (RTAs). As Part 1 of this Review noted, there are more than 600 RTAs, with most Commonwealth nations having signed up to several such arrangements.

The Commonwealth is widely dispersed across the globe, and its members have attained very different levels of economic development. As such, many observers do not consider the Commonwealth members 'natural' trading partners.[1] Most Commonwealth countries have also become active in their 'natural' regional trading clubs, which involve non-Commonwealth countries. Furthermore, irrespective of their association with regional arrangements, countries have looked for trading opportunities with dynamic and emerging economic and trading powers both within and outside the Commonwealth.

Yet members consider there are significant gains to be made from closer cooperation with and integration into the Commonwealth. Historical ties, long-established trading relations, familiar administrative and legal systems, the use of largely one language as the means of communicating with foreign partners and large and dynamic diasporic communities, etc. all tend to suggest the association can boost trade and investment flows and economic cooperation. This view is reflected in the Commonwealth

Heads of Governments' 2013 Kotte Statement on International Trade and Investment, as cited above.

Despite the drive towards regional or preferential arrangements in conjunction with lacklustre movement in the opening-up of multilateral trade, there is also recognition that trade between a group of countries can be promoted even in the absence of proactive policy-induced mechanisms. In fact, the 2011 World Trade Report suggests that, on average, only about 16 per cent of all trade that takes place within regional trading blocs is preferential in nature. That is, as much as 84 per cent of all trade actually takes place without the cover of any discriminatory policy support mechanism. The rise of global value chains (GVCs) in promoting trade-led fragmented production network across countries, as well as widespread recognition of improved trade logistics facilitating the cross-border movement of goods as determinants of increased trade flows, present the case for non-policy induced trade cooperation within the Commonwealth.

Part 2 of Commonwealth Trade Review sheds light on the trends, nature and potential of intra-Commonwealth trade. It provides an analysis of trade between Commonwealth members – both in goods and services and in terms of intra-Commonwealth foreign direct investment (FDI) and remittance flows. It also undertakes empirical assessments of determinants of trade and investment flows between global economies to find out whether there is any inherent 'Commonwealth effect' providing impetus to increased trade propensity between Commonwealth members. It also provides some quantitative assessment of further trade prospects between Commonwealth members.

2.2 Trends in goods and services trade between Commonwealth members

2.2.1 Total intra-Commonwealth trade

Intra-Commonwealth trade is already quite substantial and is growing rapidly. In 2013, the total value of goods and services traded between member countries stood at $592 billion. This represents average growth of almost 10 per cent each year since 1995. The volume of this trade is estimated to have grown to $687 billion in 2015 and is projected to exceed $1 trillion by 2020 (Figure 2.1). Such growth means intra-Commonwealth trade is increasingly important to its members. Between 1995 and 2013, the average share of intra-Commonwealth trade in Commonwealth countries' total world

trade increased from 13 per cent to 18 per cent (Figure 2.2). During the same period, the relative significance of Commonwealth countries in total global trade declined slightly, from 16.8 per cent to 14.6 per cent. This is mainly attributable to rapid growth in many non-Commonwealth developing countries, particularly China.

The rising share of intra-Commonwealth trade in Commonwealth countries' total trade is particularly impressive when considered against the fact that most Commonwealth members are also active in various other formal regional trading arrangements (RTAs) involving non-Commonwealth countries. Many developing members have also expanded their trade with non-Commonwealth advanced countries under the latter's unilateral preferential trade offers. For example, African and Caribbean countries have increased their trade under the USA's African Growth and Opportunity Act (AGOA) and the Caribbean Basin Initiative (CBI), respectively; least-developed countries (LDCs) have benefited through the European Union's Everything But Arms (EBA)

scheme, etc. Large developing countries like China and India have also been providing preferential market access opportunities to certain countries in Africa and within the LDC group. Many of the beneficiaries of this are Commonwealth members. In addition, all Commonwealth countries actively seek greater trading opportunities with the emerging countries. Part 1 of this Review demonstrated the rising significance of developing countries in global trade, with China becoming a major trading partner for most Commonwealth members. Considering all this, the rising share of trade between Commonwealth members as a proportion of Commonwealth countries' total global trade is remarkable.

Seventy-six per cent of intra-Commonwealth trade ($450 billion) is trade in goods (Figure 2.3). Yet it is the rapid expansion of services trade that has significantly contributed to growth (Figure 2.1): goods trade has grown by a solid 8 per cent per year since 1995 but services trade has increased by a much higher rate of 12.6 per cent per year, albeit from a low base. Intra-Commonwealth services

FIGURE 2.1.
INTRA-COMMONWEALTH TRADE IN GOODS AND SERVICES, 1995-2020f ($ BILLION)
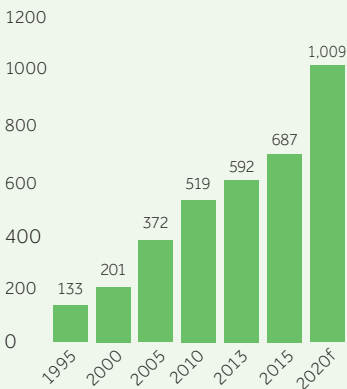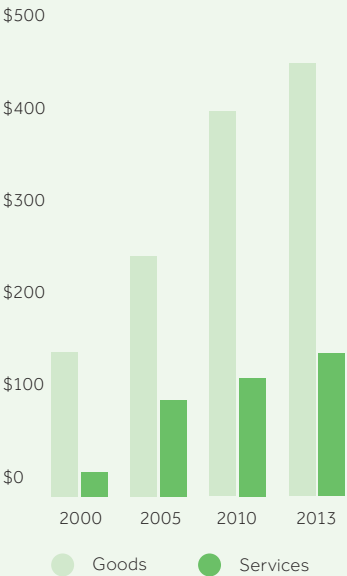
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.2.
RELATIVE SIGNIFICANCE OF INTRA-COMMONWEALTH TRADE IN COUNTRIES' TOTAL TRADE, 1995-2013 (%)

— Share of Commonwealth in global trade
— Share of intra-Commonwealth in Commonwealth total trade
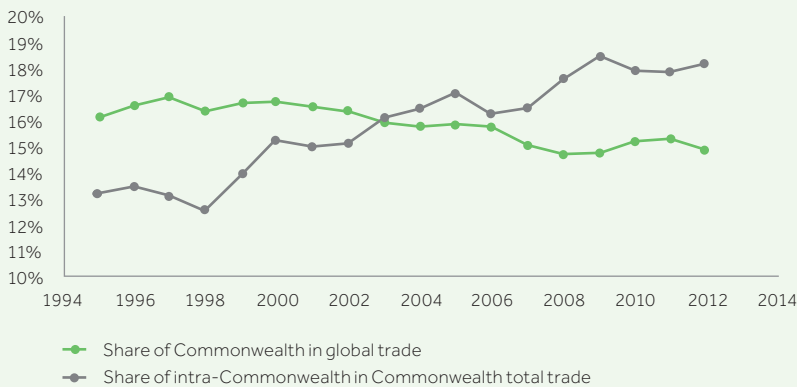
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.3.
INTRA-COMMONWEALTH TRADE IN
GOODS AND SERVICES, 2000-13
($ BILLION)

Note: Services export for 2013 are projections

*Source: Commonwealth Secretariat
(calculations using data from UNCTADStat)*

trade now represents 18 per cent, on average, of the total world services trade of Commonwealth countries.
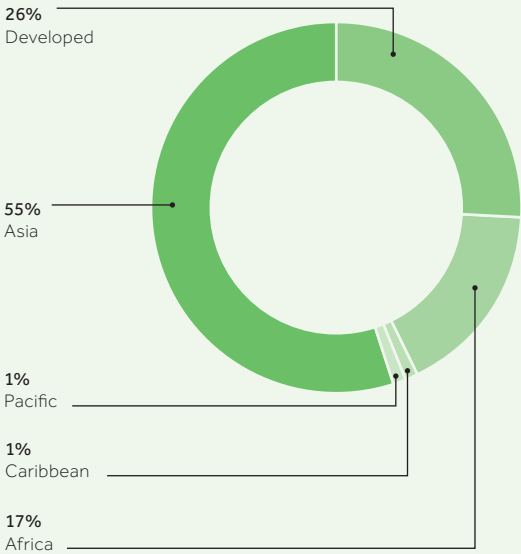
2.2.2 Intra-Commonwealth trade in goods

Intra-Commonwealth trade in goods in 2015 is estimated at $525 billion. This trade can be characterised as being led by a dominant Asia and a rising Africa. As Figure 2.4 shows, Asian countries accounted for 55 per cent ($249 billion) of this trade in 2013. Singapore, Malaysia and India are the largest exporters, contributing 22 per cent, 16 per cent and 14 per cent, respectively, to total intra-Commonwealth goods exports. Beyond the Asian countries, the UK remains an important contributor to the goods trade, although its share has declined in recent years. In both 1995 and 2000, it accounted for 16 per cent of intra-Commonwealth

trade in goods, but in 2013 this share had dropped to 10 per cent.

Asia's dominance of the goods trade holds in intra-Commonwealth imports, accounting for 46 per cent of total value in 2013 (Figure 2.5). The largest importer of Commonwealth goods is India, accounting for 15.2 per cent of intra-Commonwealth imports. India is followed by Singapore (14.8 per cent), the UK (14 per cent), Australia (10.5 per cent), Malaysia (9 per cent) and Canada (6 per cent).

Table 2.1 provides information on the direction of intra-Commonwealth trade (both exports and imports) for different country groups. It is worth noting that, while between 2000 and 2013 the intra-Commonwealth combined exports of developed members (Australia, Canada, Cyprus, Malta, New Zealand and the UK) rose from $50 billion to $118 billion, their share in the overall export trade

FIGURE 2.4.
SHARE OF MERCHANDISE EXPORTS OF COMMONWEALTH
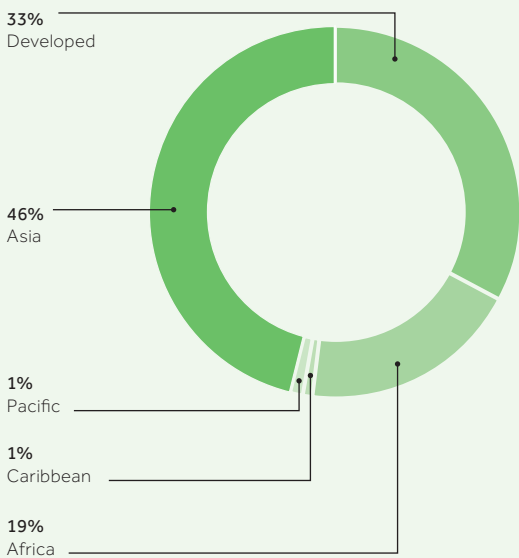COUNTRIES BY REGIONS, 2013 ($450 BILLION)

TOP 10 COUNTRIES, 2013
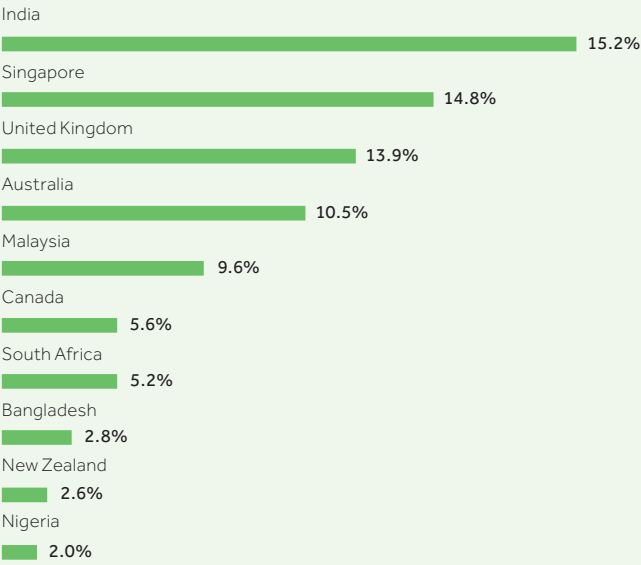(% SHARE OF INTRA-COMMONWEALTH TRADE OF
MERCHANDISE EXPORTS)
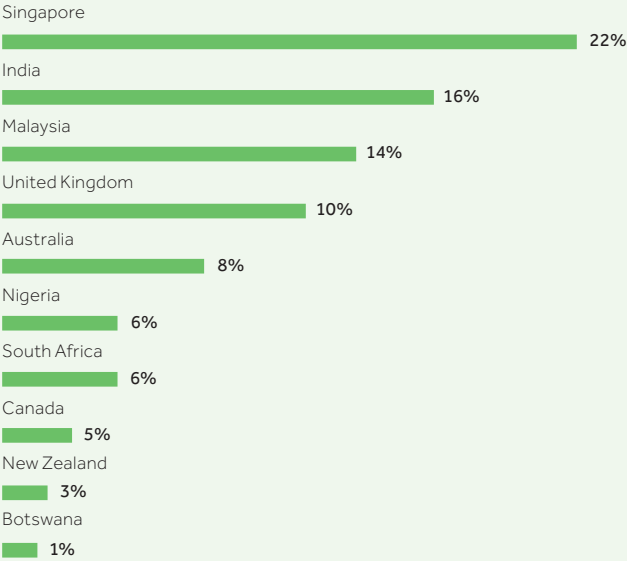
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.5.
SHARE OF MERCHANDISE IMPORTS OF COMMONWEALTH
COUNTRIES BY COUNTRY GROUPS, 2013

TOP 10 COUNTRIES, 2013
(% SHARE OF INTRA-COMMONWEALTH TRADE
OF MERCHANDISE IMPORTS)

33%
Developed

46%
Asia

1%
Pacific

1%
Caribbean

19%
Africa

India   15.2%
Singapore   14.8%
United Kingdom   13.9%
Australia   10.5%
Malaysia   9.6%
Canada   5.6%
South Africa   5.2%
Bangladesh   2.8%
New Zealand   2.6%
Nigeria   2.0%

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

declined from 33 per cent to 26 per cent. During the same period, developing members' intra-Commonwealth exports increased from just over $100 billion to $332 billion, resulting in their relative significance rising from 67 per cent to 74 per cent. Therefore, the rise of the South, as Part 1 highlighted, is also reflected in export trade between Commonwealth countries. A similar trend is noticed in intra-Commonwealth imports: developed countries' collective share has declined from 44 per cent to 32 per cent as against the rising share of developing countries from 56 per cent to 68 per cent.

It is also interesting to note that, within the Commonwealth, developed members are doing more trade with developing countries. In 2000, less than half of developed members' exports went to and imports were sourced from developing countries. In contrast, in 2013, 56 per cent of developed countries'

exports were destined to and 57 per cent of imports were sourced from developing countries. This rise of trading with developing countries owes mostly to increasing intra-Commonwealth trade with Asian countries, although in absolute terms developed countries' exports to and imports from Africa have also increased remarkably.

Analysing the growth of African goods trade also reveals interesting trends in the direction of intra-Commonwealth trade. In absolute terms, African exports between 2000 and 2013 increased to all other Commonwealth regions but particularly within Africa and to Asia: for instance, exports within Africa rose from $5.7 billion to $35 billion, those to Europe from $7 billion to $14 billion and those to Asia from $4 billion to $23 billion.

In 2000, Commonwealth European countries (Cyprus, Malta and the UK) were the largest destination of African goods,

accounting for 40 per cent of all their intra-Commonwealth exports. Africa itself accounted for 32 per cent and Asia for 21 per cent of these goods exports. In 2013, 45 per cent of African exports went to other African countries, about 30 per cent to Asia and just 18 per cent to Europe. Almost similar shifts have taken place in intra-Commonwealth imports.

Slightly above a quarter of exports originating in Asia is destined for Commonwealth developed countries. This changed only marginally during 2000-13. However, the share of Africa in Asian exports rose from less than 4 per cent to more than 11 per cent. This increase is matched by a similar decline in intra-Asian exports within the Commonwealth. A comparable picture emerges in imports by Asian countries.

In terms of direction of exports, Caribbean countries do not show any noticeable change. Intra-Caribbean

TABLE 2.1.
DIRECTION OF INTRA-COMMONWEALTH TRADE

A: Exports (US $ Billion)

Group		Developed		Africa		Asia		Caribbean		Pacific		All	
		2000	2013	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013
Developed	Value	26.01	52.10	5.60	14.00	17.00	47.00	0.80	1.50	1.30	3.70	50.70	118.20
	Share	51.3%	44.0%	11.0%	11.8%	33.5%	39.8%	1.6%	1.3%	2.6%	3.1%	32.9%	26.2%
Africa	Value	8.60	19.00	5.70	35.00	3.90	23.00	0.05	0.27	0.01	0.01	18.27	77.32
	Share	47.1%	24.6%	31.2%	45.3%	21.3%	29.7%	0.2%	0.3%	0.4%	0.2%	11.9%	17.1%
Asia	Value	21.0	64.0	2.9	28.0	55.0	150.0	0.3	2.6	0.4	2.6	79.6	247.2
	Share	26.4%	25.9%	3.6%	11.3%	69.1%	60.7%	0.3%	1.1%	0.5%	1.1%	51.7%	54.8%
Caribbean	Value	0.8	1.8	0.1	0.1	0.1	0.1	1.1	2.5	0.0	0.0	2.0	4.5
	Share	41.0%	39.7%	2.1%	2.0%	1.1%	3.3%	55.8%	55.1%	0.0%	0.0%	1.3%	1.0%
Pacific	Value	1.3	3.2	0.01	0.01	0.1	0.3	0.0	0.0	0.1	0.3	1.4	3.8
	Share	89.8%	83.2%	0.4%	0.2%	5.8%	8.1%	0.0%	0.0%	4.0%	8.5%	0.9%	0.9%

B: Imports (US$ Billion)

Group		Developed		Africa		Asia		Caribbean		Pacific		All	
		2000	2013	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013
Developed	Value	40.0	63.1	9.3	21.0	24.2	58.0	1.10	1.5	1.3	3.5	75.7	147
	Share	52.8%	42.9%	12.3%	14.3%	31.7%	39.5%	1.5%	1.0%	1.7%	2.4%	44.0%	32.4%
Africa	Value	6.0	15.00	8.80	40.00	2.50	27.00	0.07	0.29	0.01	0.01	17.38	82.30
	Share	34.5%	18.2%	50.6%	48.6%	14.4%	32.8%	0.4%	0.4%	0.0%	0.0%	10.1%	18.1%
Asia	Value	18.00	51.00	5.20	26.00	47.00	130.00	0.04	0.36	0.09	0.39	70.32	207.75
	Share	25.6%	24.5%	7.4%	12.5%	66.8%	62.6%	0.1%	0.2%	0.1%	0.2%	40.9%	45.8%
Caribbean	Value	0.85	1.40	0.01	0.23	0.15	1.10	1.10	2.80	0.00	0.01	2.12	5.54
	Share	40.1%	25.3%	0.6%	4.2%	7.3%	19.9%	51.9%	50.5%	0.0%	0.1%	1.2%	1.2%
Pacific	Value	1	3.80	0.01	0.04	0.31	2.40	0.00	0.00	0.05	0.26	1.38	6.50
	Share	72.7%	58.5%	1.0%	0.6%	22.7%	36.9%	0.1%	0.0%	3.6%	4.0%	0.8%	1.4%

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

exports account for 55 per cent of Carribean countries' intra-Commonwealth exports; another 40 per cent goes to developed countries, mainly Canada and the UK. On the import side, there has been a significant change: the share of developed countries in Caribbean intra-Commonwealth imports declined from 40 per cent in 2000 to 25 per cent in 2013. A significant part of this can be explained by increased imports from Asia. The African share in intra-Commonwealth Caribbean imports has also increased remarkably, from 0.6 per cent to 4.2 per cent.

Pacific Island countries continue to rely heavily on developed countries for their intra-Commonwealth trade, despite trading more with developing members, mainly Asian members. In 2013, their intra-Commonwealth exports to developed countries accounted for 83 per cent, down from almost 90 per cent in 2000. The single most important destination is Australia, where more than three-quarters of their intra-Commonwealth exports are marketed. For intra-Commonwealth imports, however, the relative significance of developed countries has declined considerably,

from close to 73 per cent in 2000 to about 54 per cent in 2013. This reduced share of developed countries can be explained by the rising relative significance of Asian suppliers. In particular, imports from Singapore have increased from $0.25 billion to $1.7 billion, raising Singapore's share in intra-Commonwealth Pacific imports from 18 per cent to 26 per cent. Of the total Pacific intra-Commonwealth imports of about $6.5 billion, just above $3 billion come from Australia. However, over time, Australia's share has declined, from 57 per cent in 2000 to 46.3 per cent in 2013.

The growth of intra-Commonwealth trade has been broad-based: 47 of 53 Commonwealth members have grown their intra-Commonwealth goods exports by over 5 per cent per year since 2000. As many as 33 Commonwealth members registered double-digit annual average export growth during 2000-13. Considering both exports and imports, members showing rapidly expanding intra-Commonwealth trade include Antigua and Barbados, the Bahamas, Bangladesh, Belize, Cameroon, Ghana, India, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nauru, Nigeria, Papua New Guinea, Rwanda, Sierra Leone, Solomon Islands, South Africa, Trinidad and Tobago, Uganda, Tanzania, Vanuatu and Zambia.

The analysis so far has considered the absolute level of trade, which inevitably overlooks the Commonwealth's small states to a large extent. It is notable that, when the proportional importance of intra-Commonwealth goods trade to each country's total trade is considered, this actually tends to be higher among the smaller states. There is an inverse relationship between country size (measured by population) and share of intra-Commonwealth exports in total exports (Razzaque et al., 2015). The countries for which this share is the largest are all small economies: Dominica (80 per cent), Grenada (73 per cent), Botswana (72 per cent), Swaziland (70 per cent) and Barbados (66 per cent). For as many as 40 members, at least 20 per cent of goods exports are intra-Commonwealth; for 10 countries, it is more than 50 per cent (Figure 2.6).

The relative importance of intra-Commonwealth trade to these smaller economies is explained largely by their geographical location and their proximity to other Commonwealth markets. As detailed further on, 'effective market access' is an important determinant of international trade,

FIGURE 2.6.
INTRA-COMMONWEALTH TRADE IN GOODS BY MEMBER COUNTRIES, 2013 (%)
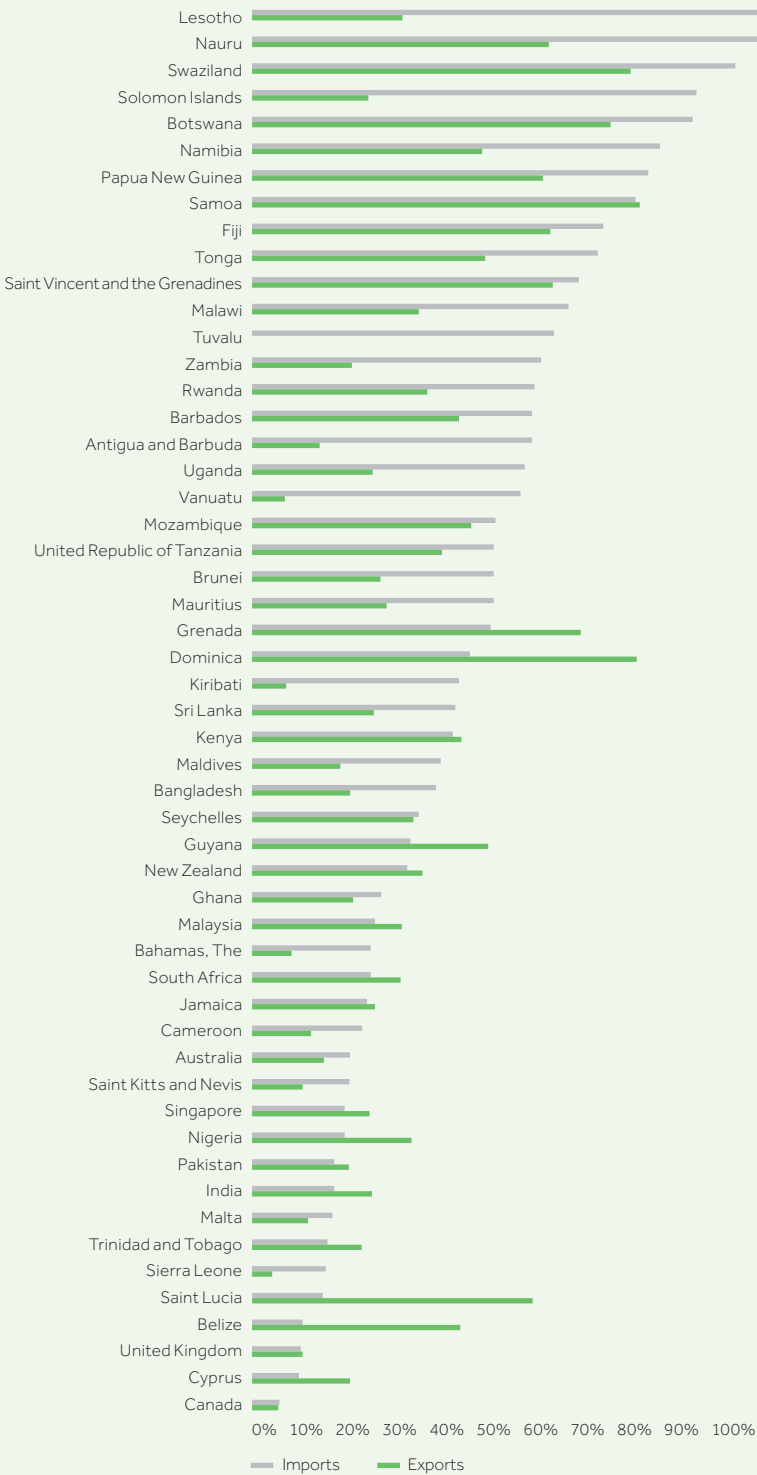
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

and intra-Commonwealth market access tends to be strong for such countries. Dominica and Grenada, for example, form part of a collection of Commonwealth islands in the Caribbean among which trade is proportionally high. Barbados, St Lucia and St Vincent and the Grenadines also have intra-Commonwealth export shares of over 50 per cent. Botswana and Swaziland both border a major Commonwealth importer, South Africa, which accounts for a substantial share of their total exports.

Table 2. 2 provides information on top three product categories as per 1-digit level Standard International Trade Classification (SITC) , within intra-Commonwealth export trade by various country groups. Machinery and transport equipment is the largest export category for developed countries, although its share in intra-Commonwealth exports from the same group of countries declined from 30 per cent in 2000 to 24.2 per cent in 2013. The export intensity index of manufactured goods for developed countries has a

value greater than 1, indicating that, compared with the rest of the world, proportionately more of their exports are destined for the Commonwealth.

For African countries, there has been significant rise in mineral fuels, lubricants and related materials (SITC 3). In 2000, this category took up a share of about 23 per cent of Africa's total intra-Commonwealth exports; in 2013 it had increased to about 44 per cent. For Asian countries as well, the same export category

TABLE 2.2.
INTRA-COMMONWEALTH COMPOSITION OF EXPORT TRADE, TOP THREE PRODUCTS, BY COUNTRY GROUP 2000 AND 2013

Region	Product Group (SITC Rev. 3, 1 digit level)	2000 exports ($ million)	2013 exports ($ million)	Export intensity 2000	Export intensity 2013	2000 share of group intra-Commonwealth exports (%)	2013 share of group intra-Commonwealth exports (%)
Developed	Manufactured goods (SITC 6)	6636.5	15,649.1	1.0	1.4	13.0	13.2
	Machinery and transport equipment (SITC 7)	15,486.1	28,789.1	0.8	1.1	30.2	24.2
	Commodities and transactions, n.e.s. (SITC 9)	8,137.0	17,467.2	2.1	1.1	15.9	14.7
Africa	Mineral fuels, lubricants and related materials (SITC 3)	4,137.9	34,057.8	0.6	1.0	22.6	43.6
	Manufactured goods (SITC 6)	5,167.9	12,599.3	1.3	1.0	28.3	16.1
	Machinery and transport equipment (SITC 7)	2,002.5	7,344.2	1.4	1.3	11.0	9.4
Asia	Mineral fuels, lubricants and related materials (SITC 3)	6,372.3	76,217.3	1.0	1.6	8.0	30.7
	Manufactured goods (SITC 6)	8,210.3	26,094.3	0.9	0.8	10.2	10.5
	Machinery and transport equipment (SITC 7)	44,398.4	67,472.0	1.1	0.9	55.4	27.2
Caribbean	Food and live animals (SITC 0)	516.6	707.0	2.0	2.0	26.2	15.7
	Mineral fuels, lubricants and related materials (SITC 3)	542.5	2,082.2	0.7	0.9	27.5	46.4
	Commodities and transactions, n.e.s. (SITC 9)	135.9	424.2	2.4	2.1	6.9	9.4
Pacific	Mineral fuels, lubricants and related materials (SITC 3)	534.7	723.1	1.6	1.2	36.2	18.6
	Manufactured goods (SITC 6)	41.1	475.3	1.4	1.8	2.8	12.2
	Commodities and transactions, n.e.s. (SITC 9)	324.7	1,589.9	1.5	1.8	22.0	40.9

Note: The export intensity index with a value higher than 1 suggests that the associated product group has a higher propensity to be exported within the Commonwealth compared to the rest of the world markets.

Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

has expanded rapidly, mainly due to re-exporting activities involving East Asian members. Largely because of this, the relative significance of machinery and transport equipment has fallen.

The share of mineral fuels exported by the Caribbean in its total intra-Commonwealth exports has also led to a large increase. However, for the Pacific countries an opposite trend is observed. It is clear from Table 2.2 that exports of food from the Caribbean and manufactured goods from the Pacific have much higher export intensity value associated with them within the Commonwealth. More detailed intra-Commonwealth product-level information for available countries can be found in the data appendix section of the Review.

2.2.3 Intra-Commonwealth trade in services

Intra-Commonwealth services exports are valued at $139 billion in 2013, the last year for which bilateral services trade data are available. This trade is projected to have risen to $162 billion in 2015. Services trade within the Commonwealth is powered by five countries that together account for over 80 per cent of such total trade: the UK (32 per cent), Singapore (17 per cent), India (12 per cent), Australia (11 per cent) and Canada (9 per cent) (Figure 2.7). The top 10 Commonwealth trading countries globally accounted for 95 per cent of the Commonwealth's services trade. A similar pattern of intra-Commonwealth services trade holds across both imports and exports.

The UK is the most dominant intra-Commonwealth services trader, accounting for nearly one-third of the total. Nine of the top 10 intra-Commonwealth services traders featured in the top 10 list in both 2000 and 2009. Between 2000 and 2009,

India and Singapore became more important services exporters.

The direction of intra-Commonwealth services trade by region witnessed significant changes over 2000-09 (Figures 2.8 and 2.9). The importance of Commonwealth Asia, as both a source (36 per cent in 2009 from 21 per cent in 2000) and a destination (35 per cent in 2009 from 20 per cent in 2000) region increased. This was accompanied by a declining share for Commonwealth developed countries: from 72 per cent in 2000 to 61 per cent in 2009 as a source of imports and from 70 per cent to 53 per cent as a source of intra-Commonwealth exports. The share of Commonwealth Africa in imports has remained steady over time at around 4 per cent, while the share of its exports increased from 6 per cent to 9 per cent during the same period.
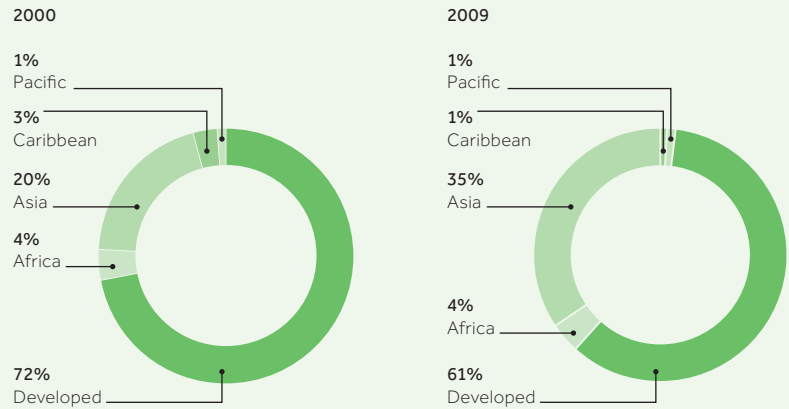
Table 2.3 gives a further breakdown of intra-Commonwealth services exports by member countries for 2000 and 2009. Dependence on the Commonwealth is very high for Kiribati (100 per cent), Barbados (81 per cent), Solomon Islands (87.2 per cent), Tonga (98.2 per cent) and Papua New Guinea (60.2 per cent). For 33 members, at least a quarter of their services exports are sent to the Commonwealth. Services imports data, as presented in Shingal and Razzaque (2015), show certain countries have also become significant importers of services. For example, India is not only a major services exporter but also a major importer; its imports during 2000-09 from the world and the Commonwealth increased close to six and five times, respectively. Other rapidly growing services importers include Brunei, Nigeria and Samoa. Analysis of the composition of intra-Commonwealth average services trade for 2009 – the last year for which the bilateral services data are available – reveals

FIGURE 2.7.
INTRA-COMMONWEALTH SERVICE TRADERS, 2000 VS 2009 (%)
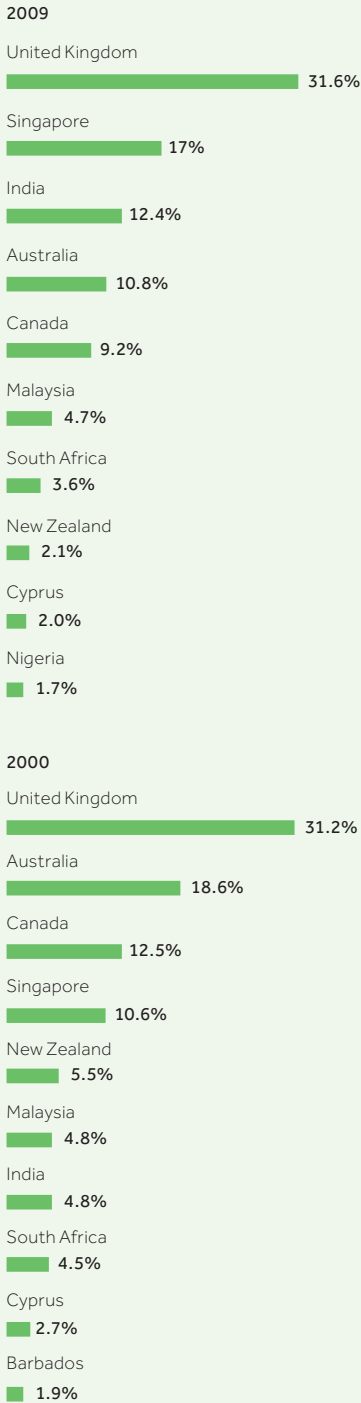
Source: Commonwealth Secretariat (calculations using data from UNCTADStat)

FIGURE 2.8.
SHARE OF INTRA-COMMONWEALTH SERVICES IMPORTS BY REGION, 2000 VS. 2009 (%)

2000

1%
Pacific

3%
Caribbean

20%
Asia

4%
Africa

72%
Developed

2009

1%
Pacific

1%
Caribbean

35%
Asia

4%
Africa

61%
Developed

Source: Commonwealth Secretariat (calculations using data from Francois & Pindyuk, 2013)

FIGURE 2.9.
SHARE OF INTRA-COMMONWEALTH SERVICES EXPORTS BY REGION, 2000 VS. 2009 (%)

2000

1%
Pacific

2%
Caribbean

21%
Asia

6%
Africa

70%
Developed

2009

1%
Pacific

2%
Caribbean

36%
Asia

9%
Africa

53%
Developed

Source: Commonwealth Secretariat (calculations using data from Francois & Pindyuk, 2013)

that unallocated services accounted for 34.6 per cent of intra-Commonwealth services trade. Of those allocated, other business services, transportation, travel and personal, cultural and recreation (PCR) services accounted for more than 90 per cent; all other services contributed the remaining 8 per cent (with government, financial, insurance and construction services the major sectors) (Figure 2.10).

Business services were dominated by merchanting and other trade-related services, which contributed more than 95 per cent of the total intra-Commonwealth trade in other business services. Other important other business services traded included business, management consulting and public relations services, and advertising and market research services. Trade transportation services owes mainly to

sea (primarily freight) and air (primarily passenger) transport services, which together contribute 62.8 per cent of intra-Commonwealth trade in transportation services. Personal travel services dominate travel services within the Commonwealth, accounting for more than 75 per cent of total travel services (Shingal and Razzaque, 2015).
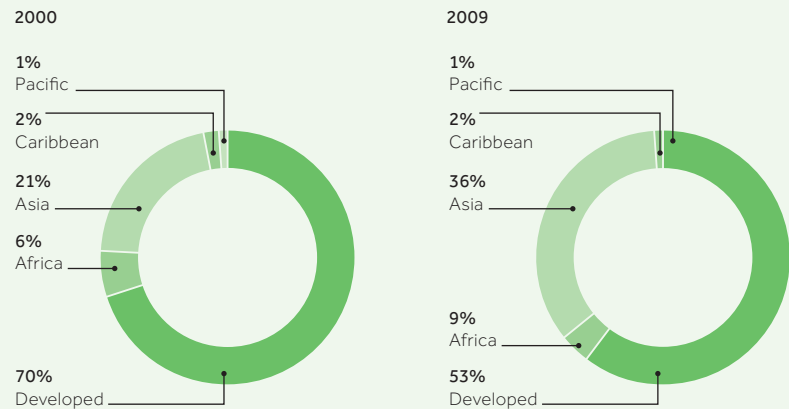
2.3 Investment and remittance flows

2.3.1 Foreign direct investment

Mirroring global trends, intra-Commonwealth FDI flows have also increased remarkably over the past decade. Using UNCTAD's bilateral FDI data, it is estimated that – as Figure 2. 11 shows – intra-Commonwealth FDI flows grew from $10 billion in 2002 to $65 billion in 2012. Such flows actually reached a peak of $80 billion in 2007 before being hit by the global financial crisis. On average, intra-Commonwealth FDI flows are estimated to make up more than a quarter of total FDI inflows into Commonwealth countries.

The FDI figures comprise mainly annual flows that represent equity capital, reinvested earnings and intra-company loans. As these flows have increased, the stock of FDI the Commonwealth countries hold in other members has also increased, as Figure 2.12 demonstrates. It is estimated that, between 2001 and 2012, the combined FDI stock of seven major economies (Australia, Canada, India, Malaysia, Singapore, South Africa and the UK) in 38 Commonwealth countries, for which information is available, increased from $160 billion to $716 billion.[2] The relative

TABLE 2.3.
SERVICES EXPORTS BY MEMBERS TO THE COMMONWEALTH AND
THE REST OF THE WORLD, 2000 VS. 2009 (MILLION US$)

Country	Exports to world ($ Million)		Exports to Commonwealth ($ Million)		Exports to Commonwealth as % of total	
	2000	2009	2000	2009	2000	2009
Antigua and Barbuda	170.3	98.9		6.3		6.3
Australia	19,493.7	47,152.4	6,015.6	13,615.5	30.9	28.9
Bahamas, The	1,026.5	925.0	22.9	336.8	2.2	36.4
Bangladesh	1,623.4	582.4	0.5	264.8	0.0	45.5
Barbados	718.2	1,202.1	475.8	973.9	66.3	81.0
Belize	123.0	184.0		23.4		12.7
Botswana	549.6	3.2		1.1		34.2
Brunei Darussalam	80.7	1,420.6	75.7	399.7	93.8	28.1
Cameroon	958.0	534.7		164.5		30.8
Canada	44,795.3	87,896.9	4,105.2	7,208.7	9.2	8.2
Cyprus	1,728.8	8,703.7	223.8	1,059.4	12.9	12.2
Dominica	59.6	38.2		1.5		4.0
Fiji	334.4	25.3	118.9	14.1	35.6	55.8
Ghana	584.1	976.1		504.2		51.7
Grenada	107.1	39.9		4.7		11.9
Guyana	194.4	124.3		56.4		45.3
India	19,287.9	92,670.0	1,767.6	14,392.6	9.2	15.5
Jamaica	1,423.2	377.3	35.7	148.1	2.5	39.3
Kenya	720.3	890.9		273.2		30.7
Kiribati	0.0	4.7		4.7		100.0
Lesotho	43.4	26.3		12.6		47.8
Malawi	167.3	97.2		45.7		47.0
Malaysia	16,748.7	21,604.1	2,211.0	6,737.9	13.2	31.2
Maldives	110.4	38.9		17.2		44.2
Malta	905.3	4,450.1	86.6	914.6	9.6	20.6
Mauritius	763.6	646.1		248.2		38.4
Mozambique	447.0	424.6		131.6		31.0
Namibia	334.0	130.9		40.7		31.1
Nauru	0.0	0.1				
New Zealand	4,555.9	7,337.0	2,031.3	2,053.3	44.6	28.0
Nigeria	3,302.0	5,810.9	13.5	2,101.2	0.4	36.2
Pakistan	2,252.0	1,467.6	73.4	656.0	3.3	44.7
Papua New Guinea	870.2	216.0	242.7	130.0	27.9	60.2
Rwanda	201.2	70.6		11.0		15.6
Samoa	3.2	9.2	3.2	0.0	100.0	0.0
Seychelles	190.6	181.8		50.4		27.7
Sierra Leone	113.0	1,416.7		73.7		5.2
Singapore	30,982.8	51,705.6	2,916.5	9,862.6	9.4	19.1
Solomon Islands	72.6	10.9		9.5		87.2
South Africa	6,433.1	13,944.3	1,882.4	3,753.6	29.3	26.9
Sri Lanka	1622.3	366.5		131.0		35.7
St Kitts and Nevis	80.7	104.9		4.7		4.5
St Lucia	139.5	28.3		4.7		16.7
St Vincent and the Grenadines	61.6	56.2		4.7		8.4
Swaziland	417.2	76.6	0.0	45.8	0.0	59.7
Tanzania	684.3	388.0		83.2		21.4
Tonga	0.0	8.0		7.8		98.2
Trinidad and Tobago	388.2	643.1	39.0	337.4	10.1	52.5
Tuvalu	0.0	2.1		0.2		9.2
Uganda	459.2	344.9		112.7		32.7
United Kingdom	115,411.0	278,563.0	10,597.6	22,643.8	9.2	8.1
Vanuatu	70.2	9.9		1.5		15.5
Zambia	355.0	149.7		72.4		48.3
Average	5,323.8	11,965.7	1,497.2	1,726.0	23.6	33.3

Source: Commonwealth Secretariat's calculations using data from Francois & Pindyuk (2013)

FIGURE 2.10.
COMPOSITION OF INTRA-COMMONWEALTH AVERAGE SERVICES TRADE (% SHARES, 2009)

- 1% Other
- 1% Insur.
- 2% Constr.
- 2% Fin.
- 2% Govt.
- 31% OBS
- 10% PCR
- 26% Transport
- 25% Travel
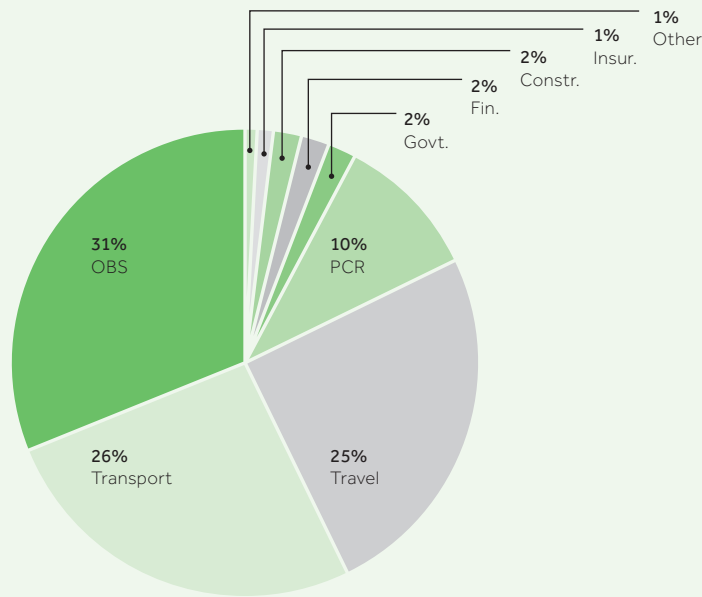
Source: Francois & Pindyuk (2013); Shingal and Razzaque (2015)

significance of intra-Commonwealth stock on average rose from 13 per cent in 2001 to 24 per cent in 2012. Based on the trend growth rate of FDI stock in the global economy and within the Commonwealth, it is estimated that intra-Commonwealth FDI stock could reach $920 billion in 2015, and it is projected to be $1.4 trillion by 2020.
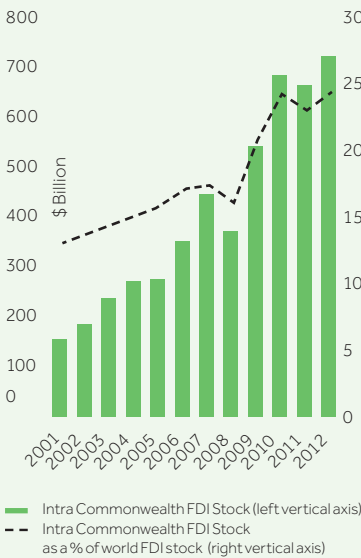
The majority of intra-Commonwealth FDI stock is held in developed countries with – as Figure 2.13 shows – Australia, Canada, Singapore and the UK together accounting for over 65 per cent of it. Barbados is the only Caribbean country in the top 10 of FDI in-stock, of which Canada owns a major share. Among Asian developing countries, India, Malaysia and Singapore account for 17 per cent of in-stock. Three Africa countries – Mauritius, Nigeria and South Africa – are now among those in the top 10, with a combined share of 10 per cent.

FIGURE 2.11.
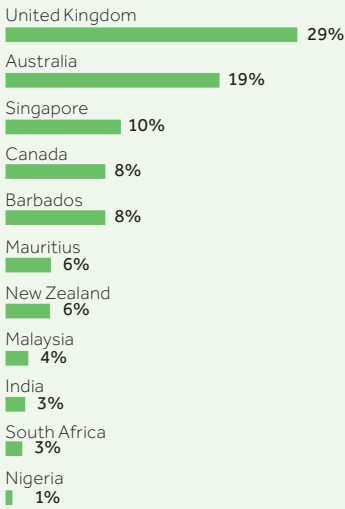INTRA-COMMONWEALTH FDI FLOWS
2001 - 2012 ($ BILLION)
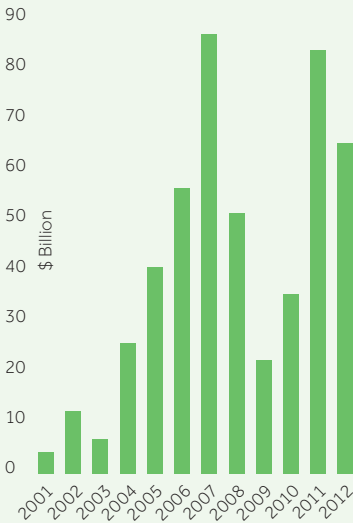
*Source: Commonwealth Secretariat
(calculations using data from UNCTADStat)*

FIGURE 2.12.
INTRA-COMMONWEALTH FDI STOCK
($ BILLION) AND ITS SHARE IN GLOBAL
FDI STOCK IN COMMONWEALTH
COUNTRIES (%)

—— Intra Commonwealth FDI Stock (left vertical axis)
- - - Intra Commonwealth FDI Stock
as a % of world FDI stock (right vertical axis)

*Source: Commonwealth Secretariat
(calculations using data from UNCTADStat)*

FIGURE 2.13.
MAJOR LOCATIONS OF INTRA-
COMMONWEALTH FDI STOCK, 2012
(% SHARE)

Location	Share
United Kingdom	29%
Australia	19%
Singapore	10%
Canada	8%
Barbados	8%
Mauritius	6%
New Zealand	6%
Malaysia	4%
India	3%
South Africa	3%
Nigeria	1%

*Source: Commonwealth Secretariat (calculations
using data from UNCTAD FDI database)*

The Commonwealth's FDI out-stock is also mostly held by investors from the developed countries. Canada and the UK own by far the largest stock of overseas investments, with each owning almost $180 billion in other Commonwealth countries in 2012. Australia and Singapore have stakes of almost $120 billion each; India, Malaysia and South Africa each provides in excess of $40 billion.

As the largest investor and largest recipient of intra-Commonwealth FDI, the UK provides an interesting case in analysing the direction of FDI movements. Table 2.4 details the locations of the UK's FDI out-stock and the origins of its FDI in-stock. First, it is notable that the majority of the UK's FDI stock is held in developed countries, although it also holds sizeable stock in emerging markets such as India, Kenya, Malaysia and Nigeria. Second, it is also developed economies, particularly Canada, that hold the vast majority of FDI stock in the UK. Finally, the UK's in-stock was around $30 billion

higher than its out-stock as of 2012. This means the other Commonwealth countries hold a larger stock of FDI in the UK than the UK does elsewhere.

The FDI stock of India and South Africa are notably more diverse with substantial shares held in developing countries (Figure 2.14). Mauritius and Nigeria are major beneficiaries of FDI from both India and South Africa. India holds over $12 billion in FDI stock in Mauritius and South Africa over $10 billion. South Africa in particular invests a large share of its FDI in the Africa region: 23 per cent in Mauritius, 5 per cent in each of Mozambique and Nigeria and 4 per cent in Ghana. Cumulatively, South Africa has over $21 billion in FDI stock in other African Commonwealth countries.

2.3.2 Remittance flows

The Commonwealth has strong diasporic connections, resulting in trade and investment linkages, of which one important element is remittance flows. Remittances

and personal money transfers have become one of the main sources of external financing for developing countries. Globally, remittance flows to developing countries reached $436 billion in 2014, approximately three times larger than official development assistance (ODA).[3] Remittances were also found to be more resilient during the global financial crisis than other forms of international capital.
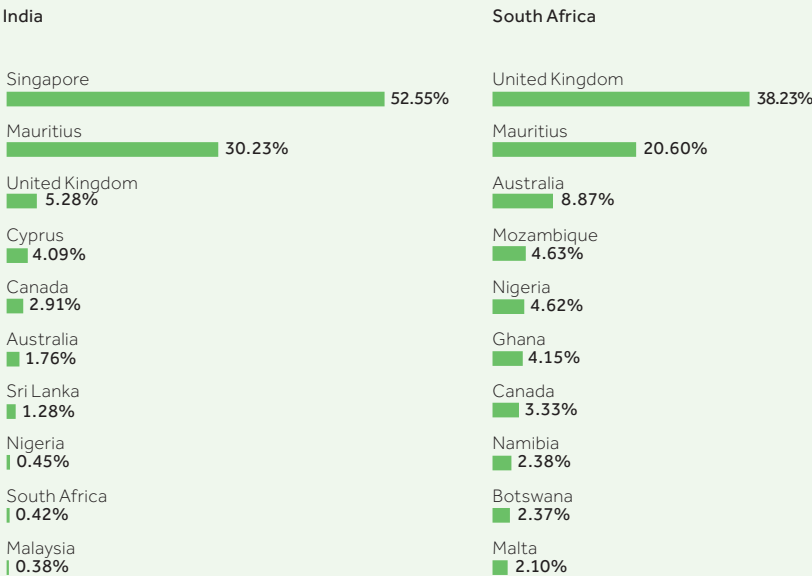
Using World Bank data, it is estimated that intra-Commonwealth remittances totalled $45 billion in 2014, representing 30 per cent of total remittance flows received by Commonwealth countries. Of these intra-Commonwealth flows, $42 billion went to developing countries, including $11 billion to Commonwealth Sub-Saharan Africa (SSA), $833 million to the Caribbean and $357 million to Pacific Island countries. The largest sending countries of intra-Commonwealth remittances are the UK (27 per cent of the total), India (15 per cent), Canada (12 per cent)and Australia (10 per cent) (Figure 2. 15). Collectively,

TABLE 2.4.
THE UK'S INTRA-COMMONWEALTH FDI POSITION, 2012 ($ BILLION)

Stock-holders in UK	FDI stock ($ billion)	UK's Commonwealth stock	FDI stock ($ billion)
Canada	87.22	Australia	67.20
Australia	58.51	Canada	52.53
Singapore	53.73	South Africa	21.19
South Africa	17.97	Singapore	14.50
Malaysia	4.56	India	9.53
India	2.16	Malaysia	3.34
		Nigeria	3.06
		Cyprus	2.75
		Malta	2.67
		Kenya	0.84
Total	206		177

Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

FIGURE 2.14.
LOCATION OF INDIAN AND SOUTH AFRICAN FDI OUT-STOCK (%)

India

Singapore	52.55%
Mauritius	30.23%
United Kingdom	5.28%
Cyprus	4.09%
Canada	2.91%
Australia	1.76%
Sri Lanka	1.28%
Nigeria	0.45%
South Africa	0.42%
Malaysia	0.38%

South Africa

United Kingdom	38.23%
Mauritius	20.60%
Australia	8.87%
Mozambique	4.63%
Nigeria	4.62%
Ghana	4.15%
Canada	3.33%
Namibia	2.38%
Botswana	2.37%
Malta	2.10%

Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

FIGURE 2.15.
LARGEST SENDERS AND RECIPIENTS OF INTRA-COMMONWEALTH REMITTANCES
($ MILLION)

Senders

United Kingdom	27%
India	15%
Canada	12%
Pakistan	11%
Australia	10%
Singapore	6%
Cameroon	5%
South Africa	3%
Sri Lanka	3%
New Zealand	2%

Recipients

|	
India	30%
Nigeria	17%
Bangladesh	12%
Pakistan	10%
Sri Lanka	5%
Malaysia	3%
Australia	2%
United Kingdom	2%
Kenya	2%
South Africa	2%

Source: Commonwealth Secretariat (calculations using data from UNCTAD FDI database)

these five countries accounted for 75 per cent of total intra-Commonwealth remittances in 2014.

Figure 2.15 also highlights the largest recipient countries of intra-Commonwealth remittance flows in 2014. As for the senders, the bulk of remittance flows involve a small number of relatively large countries. India alone receives over a third of intra-Commonwealth remittance flows, and Bangladesh, India, Nigeria and Pakistan together receive 75 per cent of the total. The largest recipients among the developed economies are Australia and the UK, but together they receive only 4 per cent of the total flows. Around half of their remittance flows are to each other.

Although a few large countries dominate overall intra-Commonwealth flows, for a number of Commonwealth small states the significance of remittances in the economy is substantial. In Lesotho and Tonga, the remittance to GDP ratio is almost 25 per cent. For each of Guyana, Jamaica and Samoa, this ratio is 15 per cent or higher. Remittance flows are therefore a vital source of income for these small economies. This is particularly true given that a number of these states are remote islands that face large costs in trading with major global markets and the rest of the Commonwealth. Remittance flows therefore help offset some of the physical and geographic challenges such countries face in interacting with the global economy.
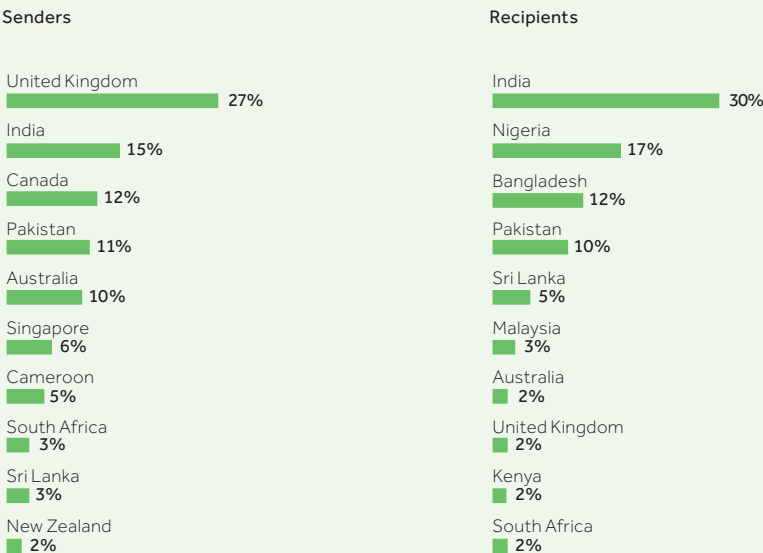
2.4 Drivers of trade and investment within the Commonwealth

2.4.1 Exploring the 'Commonwealth effect'

As mentioned above, Commonwealth members do not use policy instruments to promote trade flows between them. Trade policy relations within the Commonwealth are determined by individual members' multilateral, regional and bilateral commitments, which, in an overwhelming majority of cases, involve non-Commonwealth countries. In recent times – as Part 1 discussed - while there have been massive efforts to expand trade flows through RTAs, with most countries involved in more than one such initiative, a Commonwealth-wide policy-induced trade promotional mechanism has not been one of these. As various nations and country groups emerge as important economic and trading powers in the global economy, Commonwealth members have made attempts to trade more with them. Over many years, this has resulted in a significant rise in trade with Japan, the EU as a group, the USA and, most recently, China.

Furthermore, Commonwealth members are also widely dispersed geographically. Milner (2008) calculates the average distance between each Commonwealth country and the five major markets of Australia, Canada, India, South Africa and the UK. Figure 2.16 maps these distances, with two clear messages emerging from analysing them. First, distances between Commonwealth markets are consistently high: the

average is 9,500 km and even the country with the shortest distance to these five major markets – Pakistan – is 7,500 km away on average. Although reducing transport costs will help in promoting intra-Commonwealth trade, it should be borne in mind that distance will remain an important constraint.

Second, given these large distances, some of the 'natural' trading partners of many members are to be found outside the Commonwealth. This is particularly true for such members as the Bahamas, Belize, Canada, Cyprus and the UK, which are positioned close to large non-Commonwealth markets. For such countries, the Commonwealth accounts for a relatively small share of their market access, and consequently their international trade. At the other end of the spectrum are countries such as Lesotho, Malaysia, Namibia, Pakistan, Singapore and Swaziland, for which Commonwealth markets potentially represent a large share of the total international demand for their goods and, hence, of their total trade. There are also regions, for example, South Asia, where, despite the concentration of Commonwealth members, intra-regional trade is quite small (Razzaque and Basnett, 2014).

Yet there has been a suggestion of a 'Commonwealth effect' positively influencing trade between members. Anecdotal evidence from various business leaders' dealing with trade and investment issues across global economies has often suggested that doing business that involves Commonwealth countries is more convenient. Sharing a common language and familiarity with institutions and legal systems are considered the reasons for this. Not many studies have looked into this issue empirically. Lundan and Jones (2001) use data on 53 Commonwealth and 18 non-Commonwealth countries to suggest an overall tendency towards high levels of intra-Commonwealth trade.

Economists often use the so-called 'gravity model' to explain international trade flows (Box 2.1). This suggests larger and richer countries would trade more than the smaller and poorer countries, other factors remaining the same; and geographical proximity promotes bilateral trade flows as it reduces transport and information costs. Additional factors, such as common borders, language, past colonial linkages and regional trade agreements, are also typically considered in such analytical exercises. Bennett et al. (2010) use such a framework utilising merchandise trade data for 1990-2008 to provide evidence of Commonwealth countries trading more between themselves.

FIGURE 2.16.
AVERAGE DISTANCE TO MAJOR COMMONWEALTH MARKETS

Distance (Km)

○ Km 8,000
○ Km 8,000 - 9,000
● Km 9,000 - 10,000
● Km 10,000 - 11,000
● Km 10,000
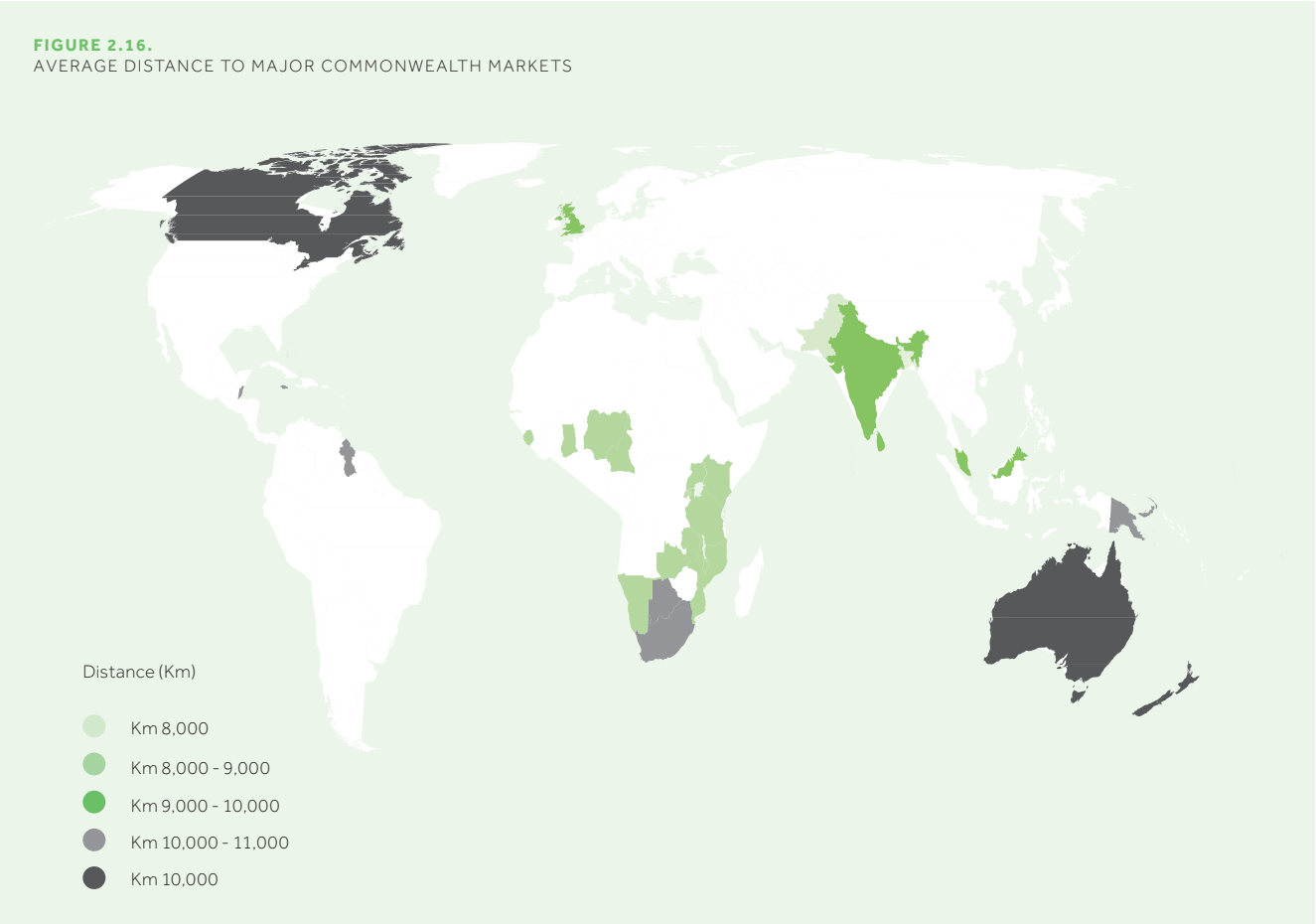
Recent advances in empirical methodologies and the availability of bilateral services and investment data have allowed for more in-depth and rigorous assessments of Commonwealth trade (e.g. Razzaque et al., 2015; Shingal and Razzaque, 2015). The key results of these econometric exercises, summarised in Table 2.5 suggest that, after controlling for all other factors, when two countries are both Commonwealth members, their bilateral trade in goods and services is about 10 per cent and 42 per cent higher, respectively, and bilateral FDI is 10 per cent higher. Combining the goods and services effects together using their relative weights, the results would indicate the Commonwealth is boosting trade between its members by 20 per cent. Detailed results from various

other econometric specifications as presented and discussed in Shingal and Razzaque (2015) also confirm the positive and statistically significant effect of the Commonwealth on members' bilateral trade.

There is therefore strong evidence of a Commonwealth effect: when two countries are both Commonwealth members, they trade and invest significantly more with each other than they would otherwise have done. It is worth noting here that results reported in Table 2.5 do provide evidence that factors such as the following positively influence bilateral trade: sharing a border and a common language (in the cases of services and FDI) and having been part of the same colonial system and/or the same preferential trading

system. But the Commonwealth effect is additional to this. As all the variables listed in Table 2.5 are already accounted for, the Commonwealth effect must be explained by factors not included.

One driving factor behind the Commonwealth effect could be the large Commonwealth diasporic community. Lundan and Jones (2001) argue that the 'psychic' costs of international trade are lower in the Commonwealth. Psychic costs stem from an unfamiliarity with the culture and institutions of the foreign market. This view is supported by the fact that firms expanding to international markets typically begin in countries that are culturally similar. Such similarity reduces the costs involved with learning about the new market – such as understanding business and legal institutions and local consumer tastes.[4]

BOX 2.1.
THE GRAVITY MODEL OF TRADE

The gravity model explains the level of trade between two countries. It is so successful in doing so, and has become so widely used in academic trade work that it is sometimes known as 'social physics' – social interactions that behave according to well-established laws (Head and Mayer, 2015). The analogy with physics goes further, as gravity models emerged from an analogy to Newton's Law of Universal Gravitation. Bilateral trade, even today, is reasonably well explained simply by the economic mass of the two countries, captured by their combined GDP, and the distance between them. Recent work has extended the gravity model to be consistent with mainstream economic theory. As Head and Mayer demonstrate, a range of different underlying assumptions and derivations all lead to the following gravity equation, typically credited to Anderson and van Wincoop (2003):

$$X_{ij} = \frac{Y_i\,Y_j}{P_i\,P_j}\tau_{ij}{}^{\theta} \qquad (1)$$

where X_{ij} is the value of exports from country i to country j, Y_i and Y_j are the GDPs of countries i and j, respectively, P_i and P_j are the 'multilateral resistance terms' of countries i and j and τ_{ij} are the trade costs between i and j (θ is the responsiveness of trade to trade costs). The multilateral resistance terms essentially account for the fact that country j has additional trading partners beyond country i (and vice versa). If country j is located near other large economies, fewer of its imports will be sourced from i. The easiest way to apply the gravity model in practice is to take logarithms of equation (1), and include exporter (i) and importer (j) fixed effects to account for the multilateral resistance terms:

$$ln\,(X_{ij}) = ln(Y_i\,) + ln(Y_j) + \theta ln(\tau_{ij}\,) + \delta_i + \delta_j + \varepsilon_{ij} \qquad (2)$$

where δ_i and δ_j are the fixed effects and ε_{ij} is an error term. A practical problem with equation (2) is that many bilateral trade observations are zero, which must be discarded when taking logarithms. Silva and Tenreyro (2006) have developed an alternative estimation approach (using a pseudo-poisson maximum likelihood (PPML) estimator to deal with this issue. This approach is now widely considered best practice, and is used below to estimate the Commonwealth effect on trade.

Estimating equation (2) shows how each of the trade costs in τ_{ij} affects trade. The exact list of factors that affect trade costs are unknown, however, so researchers have experimented with a host of different variables. A number of these have consistently been shown to be important, and are now included as standard. These include distance, capturing transport and information costs, plus a number of binary variables: whether countries share a common language, belong to the same trade bloc, have a past colonial linkage, etc.

2.4.2 Trade costs in the Commonwealth

Does the Commonwealth effect, along with such favourable factors as common language and similar institutions and legal systems, translate into lower trade costs between two Commonwealth countries? It is difficult to test this hypothesis directly because there are no standard measures of trade costs between countries. Data on bilateral transport costs are extremely limited, and transport costs are just one element of the overall costs of international trade.[4]

Given that measuring this overall cost is not straightforward because so many factors may be influential, one approach is to infer trade costs from the actual level of trade flows. Intuitively, countries that trade heavily with each other are likely to have low trade costs. Technically, the gravity model can be used to reverse-engineer the cost of trade from actual trade values. Arvis et al. (2013) take this approach: they created a joint UN Economic and Social Commission for Asia and the Pacific (UNESCAP)-World Bank global database on bilateral trade costs for 178 countries over 1995-2010 (Box 2.2). These bilateral trade costs are interpreted similar to *ad valorem* equivalent.

Given the availability, bilateral trade cost (Box 2.2) can replace the standard control variables in the gravity model, the results of which are reported for goods and services in columns 2 and 4 of Table 2.5, respectively. It is found that the coefficient on the cost variable is negative, as expected, while that of the Commonwealth effect remains positive and statistically significant.

When both countries are Commonwealth members, goods trade is 17 per cent and services trade is 28 per cent higher. An analysis of

TABLE 2.5.
GRAVITY MODEL RESULTS: THE COMMONWEALTH EFFECT IN TRADE IN GOODS, SERVICES AND FDI FLOWS

	Goods		Services		FDI
	1	2	3	4	5
Commonwealth membership (Yes=1; 0 otherwise)	0.093**	.173**	0.42***	0.28***	0.104**
Whether members of the same trading blocs (Yes=1; 0 otherwise)	0.45***		0.26***		-0.022
Countries share a border (Yes=1; 0 otherwise)	0.44***		0.24***		0.374***
Countries share an official language (Yes=1; 0 otherwise)	-0.021		0.13***		0.499***
Distance between countries (km)	-0.79***		-0.59***		-0.97***
Member of common colony post-1945 (Yes=1; 0 otherwise)	0.10***		0.15***		0.729***
Countries share common legal systems (Yes=1; 0 otherwise)	0.24***		0.17***		0.426***
Bilateral trade costs		-1.12***		-0.98***	
Sample size	82,428	82,428	57,339	57,339	43,204
Sample period	2000-10		2000-10		2001-12
R-squared	0.87		0.89		0.61

Notes: The dependent variables in the model are bilateral flows in goods, services and FDI flows. All bilateral pairs of countries have been considered including both Commonwealth and non-Commonwealth members. ***, **, and * denote the statistical significance of the estimated coefficients at 1%, 5% and 10% levels, respectively. These estimations include fixed effects for countries and time. Not all variables used in the regression are reported here. The detailed results including various models are available in the background papers as in the source below. The PPML method with fixed effects was employed for goods and services equations. Because of the negative values associated with FDI flows for certain country pairs, the FDI equation could not be estimated using PPML. It was estimated using the two-way fixed effect panel data model.

Source: Razzaque et al. (2015). Further results and analysis can be found in Shingal and Razzaque (2015)

BOX 2.2.
USING THE GRAVITY MODEL TO ESTIMATE TRADE COSTS

Estimating bilateral trade costs (τ_{ij}) is complicated for two reasons. First, it is not known exactly what factors influence the cost of trade between countries. Distance is the most obvious factor, but it is almost certainly not the only one, and there is no agreement as to which factors are important. Second, it is not known exactly how factors such as distance influence the cost of trade, whether linearly, exponentially or otherwise. In estimating equation (2), an assumption is required for this. Such assumptions are ultimately arbitrary (Anderson and van Wincoop, 2004).

An innovative approach is therefore to rearrange equation (1) to express the unmeasurable trade costs τ_{ij} as a function of (easily measured) trade values X_{ij}. This is the approach Arvis et al. (2013) take, deriving an expression for trade costs that depends only on the observed trade flows between and within countries. The resultant bilateral trade costs data have been made available in a joint UNESCAP-World Bank project.

bilateral trade costs for different sample partners reveals they are on average the lowest among intra-Commonwealth trading partners and have been so consistently over time (Figure 2.17).[5] For example, in 2010, average bilateral trade costs for intra-Commonwealth partners were 265 per cent as against 276 per cent between non-Commonwealth bilateral pairs. When Commonwealth members trade with non-Commonwealth members, the average costs are highest, at 300 per cent. These results seem to be consistent with the findings of declining overall Commonwealth trade as a share of global trade along with rising intra-Commonwealth trade as a share of the Commonwealth's global trade over time.

FIGURE 2.17.
BILATERAL TRADE COSTS BETWEEN COMMONWEALTH MEMBERS AND OTHER PARTNERS, 1995-2011

Commonwealth to Non-Commonwealth
Non-Commonwealth to Non-Commonwealth
Intra-Commonwealth
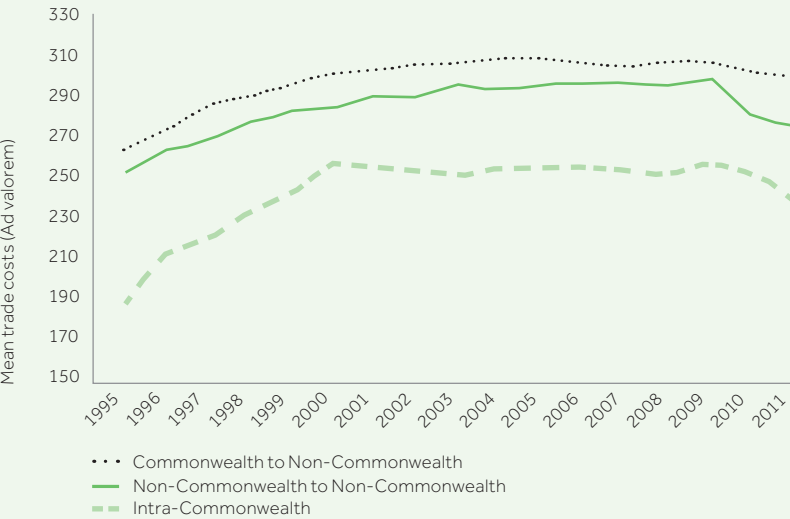
Note: OECD country pairs are excluded from the calculations.
Source: Commonwealth Secretariat (calculations using data from UNESCAP and World Bank)

TABLE 2.6.
THE COMMONWEALTH EFFECT ON TRADE COSTS

	(1)	(2)
Commonwealth membership (Yes = 1; 0 otherwise)	-0.190***	-0.190***
Distance (km)	0.428***	0.429***
Fixed effects	Time	Time Trend
Sample size	190,000	190,000
Period	1995-2010	1995-2010
R-squared	0.74	0.74

*Note: The dependent variable is bilateral trade costs. The estimated coefficients are statistically significant at 1 per cent level, as indicated by ***. Estimated using the Ordinary Least Squares (OLS) panel regression method).*

Source: Razzaque et al (2015)

The dataset of Arvis et al. (2013) has also been formally used to test whether the Commonwealth is indeed associated with reduced trade costs between its members. A regression of bilateral trade costs on a binary indicator for whether the two countries are Commonwealth members or not is estimated. The results, shown in columns 1 and 2 of Table 2.6, provide strong evidence that the Commonwealth is associated with lower trade costs. Even when distance in combination with time fixed effects is accounted for, bilateral trade costs are 19 per cent lower for Commonwealth partners than they are for other pairs of countries (i.e. Commonwealth and non-Commonwealth or both countries being non-Commonwealth).

2.4.3 Trade costs, market access and growth spillovers

The trade costs derived from the gravity model can in essence help assess any country's 'effective market access', or the extent to which it has easy or cheap access to international markets. Countries with low trade costs (cheap access) to large economies (markets) have strong market access. Given their favourable access, such countries can be expected to have higher levels of international trade than countries remote from large global markets. This concept of market access can therefore be used to analyse the distribution of intra-Commonwealth trade.

Figure 2.18 plots each country's, as estimated in Moore (2015), intra-Commonwealth effective market access – its access to other Commonwealth markets – against its level of intra-Commonwealth goods trade. For comparability, all the numbers are expressed relative to Singapore (as the market access numbers have no intuitive meaning and Singapore is the largest goods trader). Although the relationship is not perfect, there is a clear positive correlation between intra-Commonwealth EMA and intra-Commonwealth goods trade. The countries with better access to other Commonwealth markets tend to be the ones with the highest levels of intra-Commonwealth trade.

India, Malaysia and Singapore are highlighted as together they account for over half of intra-Commonwealth trade flows. Singapore and Malaysia benefit from easy access to each other's markets, with extremely low trade costs. The two countries are neighbours, share common languages and colonial history, are part of a regional trade agreement and are both members of the World Trade

BOX 2.3.
MEASURING A COUNTRY'S MARKET ACCESS

Based on the gravity theory and discussions in Boxes 1 and 2, an effective market access (EMA) expression for country i can be calculated as:

$$EMA_i = \sum_j \tau_{ij}^{\theta} Y_j \qquad (3)$$
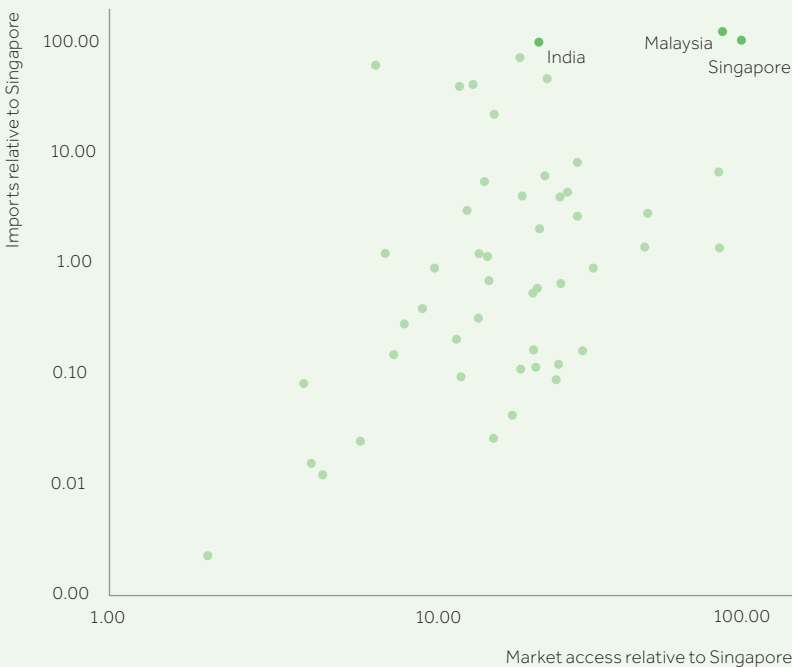
where, as before, τ_{ij} are the trade costs between countries i and j, θ is the responsiveness of trade to trade costs, and Y_j is the GDP of country j. To calculate the effective market access term in (3), a gravity model is first applied, as in equation (2), to get estimates for the θ terms.

Intuitively, the EMA in (3) is capturing the international demand for country i's products. If there are many large countries (Y_j) with which i has low trade costs (τ_{ij}), demand for country i's products will be high. Equivalently, i has good 'effective market access'. Based on similar expressions to (3), market access has been shown to be an important determinant of income levels across countries (e.g. Mayer, 2009; Redding and Venables, 2004).

FIGURE 2.18.
INTRA-COMMONWEALTH MARKET ACCESS AND TRADE, 2013

Source: Moore (2015)

Organization (WTO). The distance between the main areas of economic activity is less than 500 km. India is somewhat of an outlier in that its level of intra-Commonwealth trade is somewhat higher than that predicted by its relative market access.

The countries for which intra-Commonwealth market access is the lowest are all located in the Pacific region. The five countries with the lowest intra-Commonwealth market access are Kiribati, Samoa, Tonga, Tuvalu and Vanuatu. Four of these countries also have the lowest volumes of intra-Commonwealth goods trade, and the other – Samoa – has the seventh lowest volume. Market access therefore helps explain the distribution of intra-Commonwealth trade across countries and regions, and particularly the contrast in shares between the Asian and Pacific regions.

As well as directly promoting trade and development, market access increases the benefits countries gain from the growth of their neighbours. High trade costs dampen this effect. Countries with high trade costs therefore receive smaller 'growth spillovers' from their neighbours.[6]

The extent of such growth spillovers between Commonwealth countries can be represented as the increase in domestic growth resulting from 1 percentage point higher growth in the largest Commonwealth economies. Table 2.7 details the strongest spillover effects, as estimated in Moore (2015). The importance of South Africa to the African economy is immediately clear, in particular its importance to its small neighbours Lesotho and Swaziland. Each additional 1 percentage point of South African growth is estimated to add 0.56 percentage points of growth in Lesotho and 0.50 percentage points in Swaziland.

The other two countries with large estimated impacts on their Commonwealth neighbours are Australia and India. Australia is the largest importer of goods from both New Zealand and Papua New Guinea, and, given the large distances from the Pacific countries to other major markets, accounts for a major share of the market access of both countries. Similarly, India is the largest of the Commonwealth South Asian economies, and is estimated to have a substantial influence on the growth of its neighbours. The estimates of India's spillovers is quite striking given that intra-South Asian Commonwealth trade is generally thought to be substantially lower (Hashim and Razzaque, 2015).

The Commonwealth's remote economies, such as the small island states, typically have much smaller intra-Commonwealth growth spillovers. In the Pacific, Australia is the largest importer of goods from Samoa and among the largest importers of goods from Fiji and Solomon Islands. The spillovers from higher Australian growth for these three economies are just 0.09 percentage points, 0.13 percentage points and 0.15 percentage points, respectively, however. Similarly in the Caribbean, Canada is the largest importer of products from Guyana and among the largest importers for Jamaica and St Kitts and Nevis. Its spillover coefficients for the three economies are just 0.04 percentage points, 0.05 percentage points and 0.05 percentage points, respectively. Indeed, for the Commonwealth's Caribbean economies, spillovers from US growth are much higher. Canada itself is estimated to gain an additional 0.63 percentage points of growth for each additional 1 percentage point of US growth.

TABLE 2.7.
LARGEST INTRA-COMMONWEALTH GROWTH SPILLOVERS (% POINT INCREASE IN ANNUAL GROWTH)

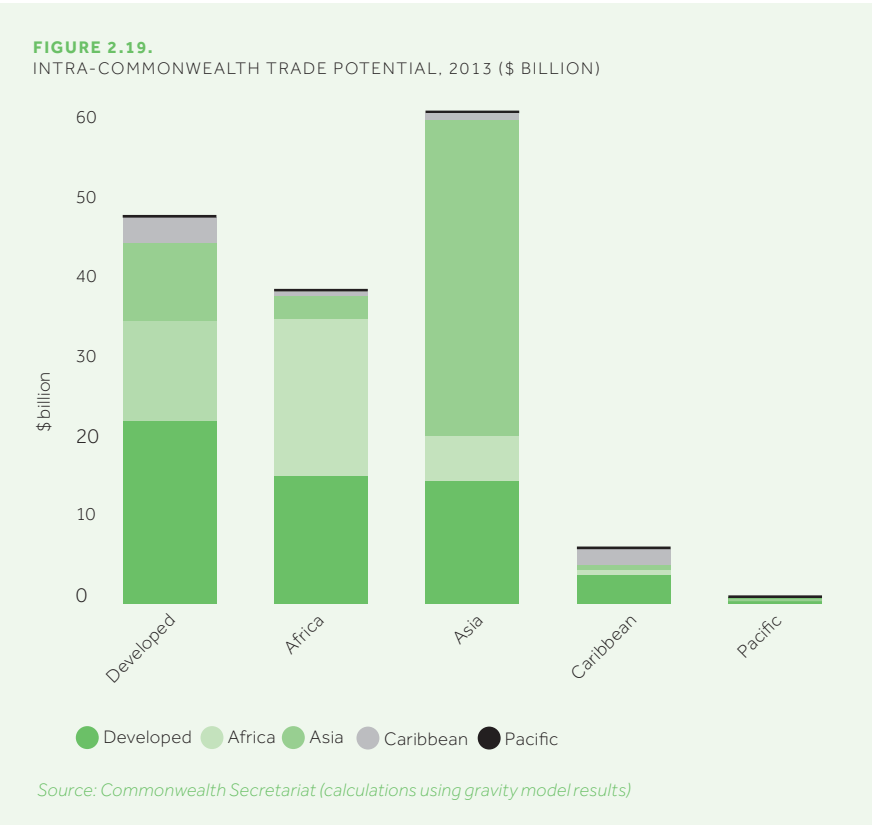| Country	Trade partner	Growth spillover
Lesotho	South Africa	0.56
Swaziland	South Africa	0.50
Namibia	South Africa	0.45
Malaysia	Singapore	0.40
Pakistan	India	0.38
New Zealand	Australia	0.30
Papua New Guinea	Australia	0.27
Bangladesh	India	0.25
Sri Lanka	India	0.24
Malta	UK	0.23

Source: Moore (2015)

2.5 Trade potential and future prospects

2.5.1 Existing trade potential

As the gravity model explains trade flows, it can be used to predict the level of trade between two countries based on the size of their economies and their bilateral trade costs. This prediction from the model can then be compared with the actual level of trade between two countries, to look for cases of 'over-trading' and 'under-trading'. Under-trading, whereby countries trade less than predicted by the model, indicates the potential for trade expansion.[7] Cases of under-trading across Commonwealth members are examined to identify countries and regions where the potential for increased intra-Commonwealth trade is the greatest. For data availability reasons, this analysis is limited to trade in goods.

The analysis suggests that, in 2013, potential export trade among Commonwealth countries amounted to $156 billion. This is around 34 per cent of the total intra-Commonwealth exports of goods trade that year. Figure 2.19 demonstrates the distribution of this immaterialised trade across the Commonwealth regions, together with the partner regions that each is under-trading with. Clearly, the scope of potential trade is largest between the Commonwealth Asian countries. Intra-Asian Commonwealth exports in 2013 were $39 billion below what is predicted from the gravity model. This is particularly striking given that Asia already dominates intra-Commonwealth trade flows in goods. South Asian countries accounted for the vast majority of this deficit – almost $38 billion in 2013. This is largely a result of the potential to increase exports from India to Bangladesh, Pakistan and Sri Lanka, as well as a large potential for Bangladesh and Pakistan to increase exports to India.

The next major area of trade potential is intra-African. Under-trading within the Commonwealth African countries

FIGURE 2.19.
INTRA-COMMONWEALTH TRADE POTENTIAL, 2013 ($ BILLION)

Legend: Developed, Africa, Asia, Caribbean, Pacific

Source: Commonwealth Secretariat (calculations using gravity model results)

2.5.2 Trade potential with policy interventions

Another way of assessing trade potential is to study the likely impact on trade flows of certain policy interventions. Milner (2008) and the International Trade Centre (ITC) (2013) discuss policy options for promoting intra-Commonwealth trade. One conclusion that emerges from these discussions is that legal, administrative and political economy considerations would severely constrain the establishment of a Commonwealth-wide RTA. However, certain measures, like improving trade logistics and unilateral actions to tackle tariff and non-tariff barriers, can help augment trade flows.[8]

The importance of trade logistics and streamlining procedures in the cross-border movement of goods cannot be overemphasised in promoting trade. This is particularly so as developing nations are increasingly trading more, and many of these countries suffer from serious bottlenecks, including inadequate and inefficient port management and lack of other supporting hard and soft infrastructure. The WTO-led Trade Facilitation Agreement (TFA) has recently catapulted this issue into prominence. In WTO parlance, trade facilitation is somewhat narrowly defined, and it contains provisions for expediting the movement, release and clearance of goods, including goods in transit. Measures are set out for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.[9] Even before the TFA, there was general consensus on improving trade logistics in developing countries in support of their trading capacity.

Any improvement in trade logistics is not about promoting trade between Commonwealth members only; rather,

is estimated at $19 billion in 2013. As discussed above Africa has rapidly grown in importance both as an exporter and importer of Commonwealth goods. This importance would increase even further if the African countries traded as much as expected based on their economic fundamentals captured by the gravity model.

Among others, major sources of potential intra-Commonwealth trade are developed country exports to Africa, which are about $12 billion lower than predicted. This is mainly because of the UK under-exporting by almost $8 billion to Africa.

Another major source of potential intra-Commonwealth trade lies in Africa's exports to the UK, which was estimated to have the potential to increase by $12 billion in 2013. Within the African group of countries, Cameroon, Nigeria and

South Africa have the most potential to increase their exports to the UK.

The Caribbean has relatively low potential to increase intra-Commonwealth trade compared with Africa and Asian regions. Nevertheless, Caribbean countries have the most potential to increase exports with traditional developed trading partners such as Canada and the UK – by almost $4 billion in 2013.

Again, Pacific Island countries have low potential when compared with other regions. However, when put in the context of the current volume of their exports, there are significant gains to be had: the region has the potential to increase its intra-exports by more than $1 billion, which is 14 per cent of its goods exports in 2013. This potential lies mostly in their trade involving the UK and Canada.

it will have an impact on trade involving all other partners. Nevertheless, it is of interest to understand the potential implications for intra-Commonwealth trade, for which Narayan et al. (2015) undertake a modelling exercise using the widely used Global Trade Analysis Project (GTAP) model. The GTAP is a multi-country, multi-sector general equilibrium-based analytical framework that 'simulates' the impact of various changes on a country's output, trade, employment, etc.[10] In the GTAP database, 140 countries are included as separate 'regions', including 30 Commonwealth members.

To examine the impact of improved trade logistics, hypothetical improvements in the Logistics Performance Index (LPI), prepared by World Bank, associated with Commonwealth members are considered. The LPI is based on a

worldwide survey of freight operators providing feedback on the logistics 'friendliness' of the countries with which they operate. The 2014 LPI exercise is used, which covers 160 countries. To analyse the effect of improvements in trade logistics, two scenarios are considered: [11]

Scenario I: Each Commonwealth country achieves the same level of LPI score as that of Singapore, which is the best performer among the Commonwealth countries.

Scenario II: Each Commonwealth country with a lower LPI score than South Africa achieves the same score as South Africa; this is chosen as it is seen as an achievable 'above-average' score.
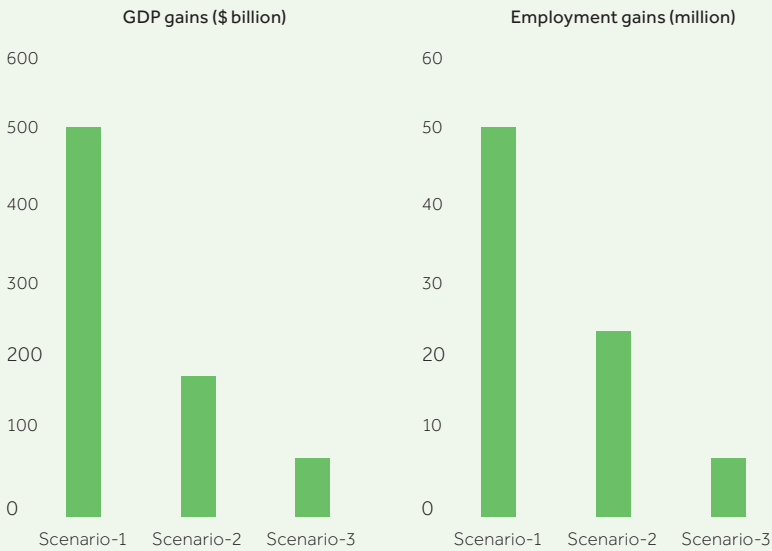
To better appreciate the impact of improved trade logistics, a further scenario is considered.

Commonwealth countries do not make any improvement in their LPI score but abolish all tariffs on their intra-Commonwealth trade (Scenario III).

While Scenario I might be regarded as unrealistic, it provides an important perspective on gains that can be obtained from achieving such a high level of efficiency. Scenario II, on the other hand, can be considered a rational target for most developing countries.

The simulation results, reported in Narayan et al. (2015), reveal that, under Scenario I, combined Commonwealth GDP will increase by $501 billion; under the more realistic Scenario II, it will increase by $177 billion (Figure 2.20). There will also be substantial employment gains. Without any improvement in trade logistics, abolition of all tariffs on intra-Commonwealth trade results in an increase in combined Commonwealth GDP of $80 billion.
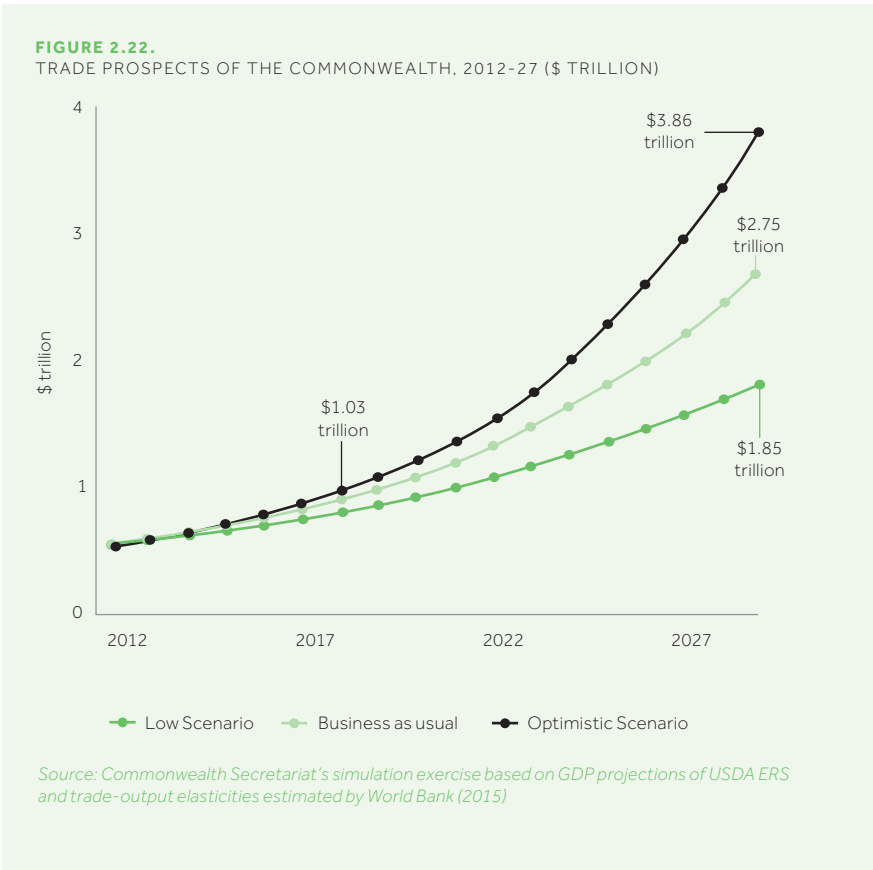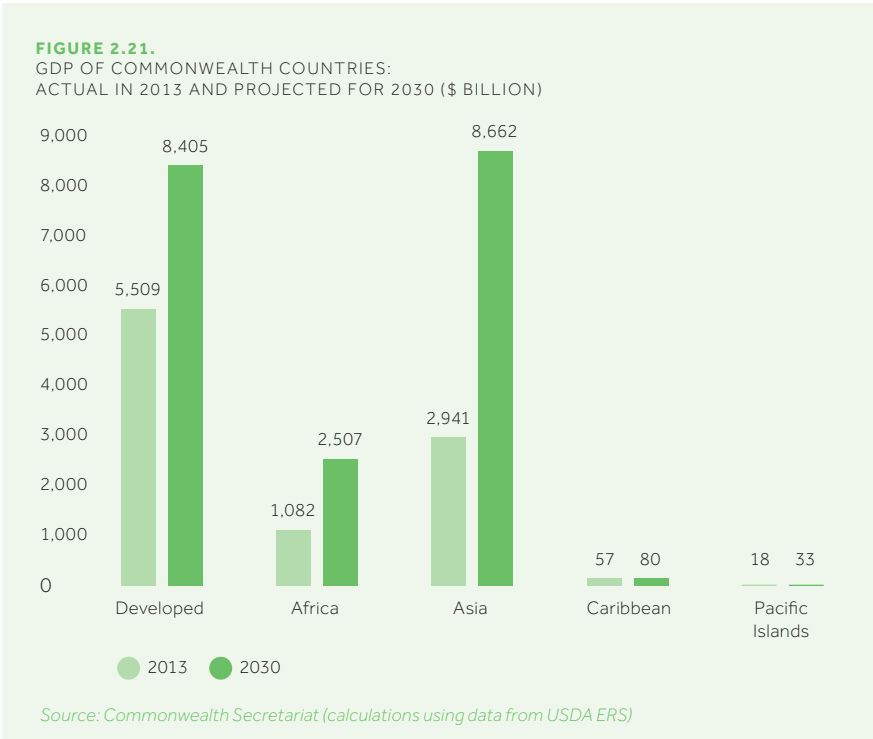
Economists most often report impact in terms of welfare changes. Measured in 'equivalent variations', they represent the amount of money consumers would have to pay if they did not obtain the changes in prices and trade quantities foreseen in the scenarios. Narayan et al. (2015) also consider welfare changes along with employment gains associated with the scenarios. The aggregate welfare changes are in line with the GDP gains mentioned above, and, in almost all cases, the gains are substantial for Commonwealth countries. Under the more plausible Scenario II, in which each country achieves at least South Africa's level of efficiency, the total welfare gains in the Commonwealth are $138 billion with employment effects of 24 million, and additional intra-Commonwealth exports of $124 billion.[12]

FIGURE 2.20.
WELFARE GAINS FROM TRADE FACILITATION

Source: Narayan et al, 2015

2.5.3 Future prospects

While the trade potential analysis above shows trade opportunities currently not being utilised, another avenue through which trade can expand is via improved future economic prospects in the Commonwealth. As Part 1 of this Review revealed, buoyant economic growth has been widespread in many developing countries over the past two decades or so. Commonwealth members are likely to achieve expanded economic output with traded goods and services over medium- to long-term horizons.

Using projections for global economies from the US Department of Agriculture's Economic Research Service (USDA ERS), it can be estimated that the combined GDP of the Commonwealth, measured in constant 2010 dollars, will double over the next 15 years to reach about $20 trillion in 2030. Figure 2. 21 demonstrates the projected increase in GDP in each of the Commonwealth regions. It is clear the largest expansion is anticipated in South Asia, driven primarily by India, which is set to be the largest Commonwealth economy by 2020. By 2030, India's economy will be at $6.6 trillion. South Asia less India will have about a $1 trillion market, from less than $400 billion in 2013. The seven largest Commonwealth developing countries (India, Nigeria, South Africa, Malaysia, Singapore, Pakistan and Bangladesh) will see their combined GDP rise from less than $4 trillion in 2013 to more than $10 trillion, which will be just above 50 per cent of Commonwealth GDP in 2030.

Given the growth in economic activities, the trade volume of Commonwealth countries will also expand significantly. If the relative significance of intra-Commonwealth trade is maintained at its current level, under the most plausible scenario trade between Commonwealth members, as Figure 2. 22 shows, could rise to $2.75 trillion by 2030.[13] If a 'low-export expansion' scenario is considered to

Source: Commonwealth Secretariat (calculations using data from USDA ERS)

Source: Commonwealth Secretariat's simulation exercise based on GDP projections of USDA ERS and trade-output elasticities estimated by World Bank (2015)

depict a weak export-output relationship across countries, intra-Commonwealth exports are projected to reach $1.85 trillion. Under an optimistic scenario, such trade could reach $3.86 trillion.

2.6 Way Forward: Promoting Intra-Commonwealth Trade

This Part of the Review has considered the state and dynamics of intra-Commonwealth trade and investment, analysing the drivers of the associated emerging trends. It has also provided some quantitative assessment of further trade prospects between members. Despite not being a trading bloc, and members not being considered natural trading partners - with substantial distances separating many of them - intra-Commonwealth trade has been growing in both absolute and relative terms and now accounts for 18 per cent of Commonwealth members' total (world) trade.

There is strong evidence for a 'Commonwealth effect' that seems to be contributing to increased trade and investment flows between members. The econometric estimates suggest that, when both countries are Commonwealth members, trade in goods and services, taken together, is 20 per cent higher, and bilateral FDI is 10 percent higher than they would otherwise have been. The Commonwealth effect is also captured in trade costs: bilateral trade costs between Commonwealth members are estimated to be 19 percent lower than those involving other trading partners.

Under current economic conditions, there exists substantial potential for increased trade between members. This is estimated to be $156 billion – that is, about 34 percent of the total intra-Commonwealth goods trade in 2013. A significant proportion of this potential is a result of under-trading between Asian members and between African members.

Improved trade logistics in the Commonwealth can have far-reaching positive implications. Simulation exercises show that, if the Commonwealth countries that currently have lower LPI scores can achieve the same level of efficiency of South Africa, the combined GDP gains in the Commonwealth will be $177 billion, exports will increase by 124 billion and employment will expand by 24 million. In comparison, if Commonwealth countries only abolish all their tariffs on intra-Commonwealth trade, GDP gains will be $80 billion.

As Commonwealth economies, particularly the large developing ones, are expected to achieve significant expansion in their output over the medium to long term, trade between members is also likely to see huge growth. Under a plausible scenario, intra-Commonwealth trade (including that of goods and services) is projected to rise from the current level of close to $600 billion in 2013 to $2.75 trillion in 2030.

As mentioned earlier, the Commonwealth is a voluntary association and not an RTA and thus does not exercise association-wide policy mechanisms to promote trade between members.[14] Nevertheless there are several practical options for materialising the huge trade potential.

Measures that boost Commonwealth countries' overall trade performance and capacity are also likely to contribute to

enhanced intra-Commonwealth trade. Increasing trade and investment flows between Commonwealth members has been possible without any association-wide coordinated policy actions. Therefore, focussing on broad areas for trade development is also about creating trading opportunities for members. In this respect, Part 3 of this Review discusses five priorities for Commonwealth countries in terms of unleashing their trade potential, namely, building productive capacities, managing trade policy and negotiation, addressing implementation gaps, promoting private sector development, and creating an enabling global trade architecture. Any trade response generated by addressing these priorities will likely get amplified through the observed Commonwealth effect (i.e. the lower trade costs between members). Similarly, the inherent advantages should also be leveraged for greater gains by members.

AS COMMONWEALTH ECONOMIES, PARTICULARLY THE LARGE DEVELOPING ONES, ARE EXPECTED TO ACHIEVE SIGNIFICANT EXPANSION IN THEIR OUTPUT OVER THE MEDIUM TO LONG TERM, TRADE BETWEEN MEMBERS IS ALSO LIKELY TO SEE HUGE GROWTH. UNDER A PLAUSIBLE SCENARIO, INTRA-COMMONWEALTH TRADE (INCLUDING THAT OF GOODS AND SERVICES) IS PROJECTED TO RISE FROM THE CURRENT LEVEL OF CLOSE TO $600 BILLION IN 2013 TO $2.75 TRILLION IN 2030.

Given the huge gains to be materialised, the Commonwealth should be an effective means of promoting trade logistics and facilitation in developing countries. The presence of world class performers in the area such as Singapore and the UK provides a forum to better appreciate the associated challenges, and share experiences of practical ways of dealing with them. The developed country members of the association, such as Australia, Canada and the UK, are also important sources of technical and financial assistance programmes supporting developing countries' efforts in improving their trade logistics, infrastructures and facilitation measures. Furthermore, emerging developing countries such as India and South Africa also have significant regional trade support assistance.

Both in Part 1 and earlier in this Part, the growing significance of trade between and with developing countries was highlighted. There is broad-based consensus that improved trade facilitation measures in developing countries can greatly boost trade flows. The Commonwealth can assist by promoting cooperation between members and disseminating best practices, thereby encouraging the learning process. It can also play an advocacy role (with member states, international agencies and national institutions) to support the development of proposals and implementation of infrastructure projects for improved trade logistics and facilitation.

Despite falling average tariffs, the substantial scope of tariff rationalisation and tackling non-tariff barriers (NTB) in promoting intra-Commonwealth trade should be considered. In many cases, especially in trade involving developing countries, tariffs are quite high. According to one estimate (ITC, 2013), between Commonwealth developing members, tariff rates are on average more than

7 per cent. And, intra-Commonwealth trade flows are also subject to 'tariff escalation', whereby tariffs increase as the level of processing of the product increases, which could be more than 20 per cent for agricultural products. Under such circumstances, unilateral tariff cuts by members can promote trade. Although much of the focus of trade liberalisation has been on tariffs, NTBs are likely to have a much larger impact on trade. For example, it has been estimated that removing NTBs in intra-African trade in leather and leather products could result in additional trade of over $2 billion (Banga et al. 2015) with a significant proportion of it being intra-Commonwealth in nature.

Given the above, a combination of such measures as unilateral tariff rationalisation, tackling NTBs and improved trade logistics and facilitation constitutes a more pragmatic approach to boosting intra-Commonwealth along with overall trade. Individual countries are already pursuing some of these measures and all available opportunities should be utilised to trigger trade response.

Since the Commonwealth is not a trading bloc, one way of promoting trade between members is through strengthening integration processes in various regions. Many of the existing arrangements have not helped stimulate regional trade flows. Therefore, further promotion of intra-Commonwealth trade, albeit for sub-sets of the membership, could be achieved through strengthened integration at the regional level. It needs to be pointed out here that deeper regional cooperation should go much beyond the traditional emphasis on expanding intra-regional trade through protected regional markets. As mentioned earlier, despite increasing trade of RTAs, more than fourth-fifths of such trade is without the support of discriminatory tariff preferences.

A COMBINATION OF SUCH MEASURES AS UNILATERAL TARIFF RATIONALISATION, TACKLING NTBs AND IMPROVED TRADE LOGISTICS AND FACILITATION CONSTITUTES A MORE PRAGMATIC APPROACH TO BOOST INTRA-COMMONWEALTH TRADE. MEASURES THAT BOOST COMMONWEALTH TRADE PERFORMANCE AND CAPACITY ARE ALSO LIKELY TO CONTRIBUTE TO ENHANCED INTRA-COMMONWEALTH TRADE.

Therefore, effective integration to unlock trade potential should include such measures as improved connectivity, a strengthened investment climate, harmonisation of standards and policies, etc to result in a bigger market with trade expansion benefiting from scale and agglomeration economies.

There is tremendous potential for developing cross-border production networks and regional value chains across the Commonwealth regions. Several member countries are located in regions with much recognised comparative advantage in particular sectors. The textiles and clothing sector in South Asia, for example, involves four Commonwealth members (Bangladesh, India, Pakistan and Sri Lanka), fetching more than $80 billion in exports collectively for the region, and providing employment to close to 60 million people directly and more than 90 million indirectly.[15] While each of the

four countries sources the majority of its inputs for exports from outside the region, the region is also exporting the same to global markets.[16] It has been estimated – in a study undertaken jointly by the Commonwealth Secretariat, UNCTAD, and the Centre for WTO Studies (2011) – that the untapped potential for intra-regional (and therefore intra-Commonwealth) trade in the sector could be more than five times the existing level of $650 million.[17] Given the current trends and state of the supply-side capacity, it is most likely that exports of textile and apparels from South Asia will continue to rise. Therefore, this is an attractive sector for investment both from within and beyond the Commonwealth. Similarly, according to a Commonwealth-UNCTAD study, for SSA Commonwealth members, leather and leather products is a sector that holds great promise for developing supply chains in the region, involving a number of Commonwealth countries (Banga et al. 2015).[18]

The Commonwealth has a strong diasporic community, which is already playing an important role in driving trade and investment between member countries, but much of the potential of this remains unutilised. Diasporas often demand what are known as ethnic, nostalgic and identity goods, thereby providing an important bridge into new markets. Mobilising diaspora savings can lead to new business and investment opportunities. There are already innovative examples regarding the money transfer business in Kenya, through M-Pesa - a mobile money transfer system, which was first launched in 2007 by the Kenyan mobile network operator, Safaricom, partly owned by Vodafone Group plc. Indeed, the potential benefits offered by Commonwealth diaspora are not well-understood (Nurse, 2015). They may present a hidden strategic resource to promote trade and development and to catalyse innovation, investment and the development of new markets.

Finally, the Commonwealth as a platform for establishing and strengthening contacts between traders and investors should be enhanced and effectively utilised. International trade is also about business-to-business networks. Under advanced regional integration schemes, for example, the EU, the Association of South-East Asian Nations (ASEAN), and the North American Free Trade Agreement (NAFTA), governments and various chambers of commerce and other bodies facilitate private sector corporation. Similar initiatives can also be promoted even in the absence of any formal preferential trading mechanism like the Commonwealth. Regular interactions and information-sharing between private sector enterprises can result in new trading and investment opportunities. This can also help in identifying trade complementarities between various Commonwealth regions.

Endnotes

1. However, in recent times the emergence of such mega-regionals as the Trans-Pacific Partnership (TPP) seems to suggest regional trading arrangements (RTAs) involving countries from different continents with different levels of development are quite plausible. Economic partnership agreements (EPAs) between the European Union (EU) and African, Caribbean and Pacific (ACP) countries are also examples of PTAs involving countries with different levels of economic development.

2. FDI refers specifically to investments made by foreign investors to acquire a long-term stake in domestic enterprises. According to UNCTAD, the investor must acquire at least a 10 per cent equity stake in the domestic firm for the transaction to be classifies as FDI. Since the defining feature is that it involves (partial) foreign ownership of a domestic enterprise, only capital that is provided directly by the investor, or through enterprises related to the investor, is considered. The forms of investment classified as FDI are equity capital, the reinvestment of earnings and the provision of long- and short-term intra-company loans (between parent and affiliate enterprises). As FDI flows transfer ownership of enterprises across countries, investors accumulate stocks of foreign enterprises. Specifically, FDI in-stock are all direct investments held by non-residents in the domestic economy. FDI out-stock are the investments of domestic residents held abroad.

3. Net ODA from the Development Assistance Committee (DAC) members totalled $135.2 billion in 2014.

4. According to Bennett et al. (2010), the Commonwealth effect may also be driven in part by behavioural factors. In addition to the factors outlined above, they suggest shared preferences regarding open democracy, human rights and the rule of law are also important factors.

5. In this figure trade costs for all the three bilateral pair groups appear to be rising between 1995 and 2000. There could be three potential reasons for this rise. First, as the explanatory note to the trade cost dataset contains, these costs are measured in relative terms as a ratio of cost of trading with another trading partner (bilaterally) to the costs of trading in the domestic market (intra-national costs). If the domestic trade costs fall, the ratio might go up. Second, there is evidence of transport costs actually increasing in this period, probably due to higher fuel prices (ESPAS, 2013; P-42). Finally, the third potential contributory factor is an increase in air transport of goods especially for high value items as a result of the surge in intermediates trade.

6. From the market access formula in Box (3), foreign growth increases Y_j and so increases the domestic country's market access. Based on estimations of the impact of market access on output, it is therefore possible to simulate how faster foreign growth impacts domestic output and growth. Although the 'demand channel' is emphasised here, there is an additional channel coming from lower consumer prices owing to easier access to imports. This also serves to boost domestic growth.

7. This should be treated with some caution, as the level of predicted trade can be affected by the particular specification of the empirical model. To some extent, over-trading and under-trading can also be considered a failure of the model to accurately fit the data. Nevertheless, it has been standard practice in the academic literature to use predicted values to assess trade potential.

8. For certain countries like the UK, which is part of the EU, undertaking unilateral tariff measures may be difficult. Average tariffs in the EU are, however, already low.

9. The TFA further contains provisions for technical assistance and capacity-building support for developing countries in all these areas.

10. The GTAP model is described in Hertel (1997), while the details of simulations undertaken to understand the impact of improved trade logistics on the Commonwealth can be found in Narayan et al. (2015).

11. For the first two scenarios, the percentage changes required in the LPI for a given country to reach the levels in Singapore and South Africa, respectively, are introduced as shocks in the model. In the GTAP model, changes in bilateral trade flows are determined by (1) changes in the prices of imports, (2) aggregate imports in the domestic market and (3) all other factors captured under 'import-augmented technological change'. The improvement in the LPI score for individual countries was introduced through the last route.

12. These results are consistent with others in the literature. Hufbauer and Schott (2013) show a $960 billion gain in global GDP owing to improved trade facilitation, whereas Wilson et al. (2003) suggest export gains of $254 billion within Asia-Pacific Economic Cooperation (APEC) members. The Organisation for Economic Co-operation and Development (OECD) (2014) estimates that every 1 per cent decline in trade costs is associated with $40 billion in income gains in the global economy. Similarly, Djankov et al. (2010) find an extra day of transit time reduces trade volumes by around 1 per cent.

13. The projected scenarios are based on USDA ERS projected GDP growth rates between 2015 and 2030 and the trade-out elasticities provided in World Bank (2015). An elasticity value of 1.3 per cent is considered for the low scenario, whereas 1.5 per cent is used for the business-as-usual scenario. For the high scenario, the elasticity value for India, Nigeria and developed countries is 1.5 per cent; for all other countries a value of 1.7 per cent is used.

14. Options for promoting intra-Commonwealth trade have also been reviewed in Milner (2008) and ITC (2013). One conclusion that emerges from these discussions is that setting-up of a Commonwealth-wide preferential trading arrangements would be severely constrained by legal, administrative and political economy considerations. Milner (2008) suggests that there would be fewer legal and administrative constraints on the development of specific bilateral and or regional FTAs within the Commonwealth. Also, it was argued that the association could promote certain regional integration schemes involving Commonwealth countries (e.g. South Asia). ITC (2013) advocated for unilateral measures to tackle tariff escalation and promote further trade liberalisation in the Commonwealth. The discussions below consider a number of options.

15. The region's share in global exports of the sector increased from just about 2 per cent in 2002 to more than 10 per cent in 2013. Export earnings from this sector in 2013 for individual countries stood at, $25 billion for Bangladesh; $36 billion for India; $14 billion for Pakistan, and $5 billion for Sri Lanka. The sector provides direct employment to 3.5 million people in Bangladesh, 38 million in India, 15 million in Pakistan and 0.3 million in Sri Lanka. Its critical importance

is also reflected in the contribution to individual countries' export earnings. Textiles and apparel products constitute 75 per cent of total merchandise exports in Bangladesh; around 12 per cent in India; 45 per cent in Sri Lanka; and 55 per cent in Pakistan.

16. The study finds regional suppliers already have lower export unit values than the preferred global suppliers in many of these identified products. Even without discriminatory tariff policies, promoting regional supply chains could boost the region's competitiveness.

17. Why the intra-regional trade is currently not taking place within the textiles and clothing sector is also analysed in the same study. Various policy and non-tariff barriers including poor trade logistics and lack of trade facilitation measures impeding cross-border movement of goods, particularly in relation to land-borders, have been found to be the main reasons. In some cases, buyers' preference in procuring inputs is also a constraint; this can be eased through the formation of an effective regional supply chain network.

18. The study utilises the bilateral trade data of individual countries involved in the regional trade in leather to estimate potential trade at $554 million against actual yearly average intra-regional trade of just $245 million.