



Reconnecting with the Commonwealth: the UK's free trade opportunities

By James Cleverly MP and Tim Hewish

Foreword by The Hon Tony Abbott MP,
28th Prime Minister of Australia

“Free trade is not based on utility but on justice”

Edmund Burke

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Foreword

Brexit means that Britain is back. The country that gave the world the English language, common law and the Mother of Parliaments is once more to seize its destiny as a global leader. This is an exciting time for Britain and an exhilarating one for the countless millions elsewhere who appreciate Britain's unique contribution to western civilisation.

It's good that Britain will no longer be constrained by the statism and bureaucracy of Brussels. It's also good that the remaining members of the European Union will now have to rethink how much of their sovereignty they wish to surrender.

Brexit was not a vote against free trade because the EU has acted as a protectionist bloc against trade with outsiders. Brexit gives Britain the chance to do its own trade deals where consumers benefit from global goods and services and workers benefit from being able to compete more fairly in the markets of the wider world.


In the long run, free trade is in everyone's interests. In the shorter run, of course, freer trade might mean that rich people in poor countries benefit more than poor people in rich ones. The best way to ensure that free trade has few losers, even in the short term, is to begin with much freer trade between likeminded countries with comparable standards of living. Free trade agreements with economically advanced Commonwealth countries are the obvious place for Britain to start.

Of course, no two countries are more like-minded than Britain and Australia. We have a language, a set of values and a large slab of history in common. Britons don't feel like strangers in Australia and vice versa. If Britain is determined to make the most of Brexit – and everything about Prime Minister May shows this steely determination – why not strive for a one page FTA with Australia?

The movement of goods between our two countries should be absolutely free of tariffs or quotas. And each country's product and service standards

should be recognised in the other. If a car is fit to be sold in Britain, it's fit to be sold in Australia. If a doctor is fit to practice in Australia, he or she is fit to practice in the UK. We don't need a uniform market; we need a common one. We need what the European Economic Community of the 70s promised but failed to deliver. Provided people are coming to work rather than to take advantage of social security or health services, Australians should also be free to live in the UK and vice versa.

In a world where too many people are frightened of the future, Brexit has shown that a great country and a great people are prepared to "have a go", as we Australians say. Britons can be sure that today's Australians will rally to our friends with the enthusiasm for which our forebears were rightly famous.

A handwritten signature in blue ink, appearing to read 'Tony Abbott', with a long horizontal line extending from the start of the signature.

The Honourable Tony Abbott MP
28th Prime Minister of Australia

Summary

- Brexit offers the UK an opportunity to pursue an independent and world-wide trade liberalisation and tariff elimination agenda and usher in a return to its free trading principles.
- Free trade agreements (FTAs) with Commonwealth nations present a strong mechanism for doing so. The UK's top ten Commonwealth export destinations account for 8% of its goods and services trade. Therefore, it should target the first five – India, Australia, Canada, Singapore, and South Africa.
- We acknowledge that the priorities will be deals with the EU and the United States as well as China who represent 44%, 17%, and 3.6% of the UK's total exports respectively. The sequencing of all these deals will be crucial.
- Our headline recommendation calls for an updated and comprehensive White Paper on Trade & Investment. The last edition was 2011 under Coalition Government. Therefore, it did not account for the UK's ability to strike trade deals. This will provide the Government with a strategic plan with which all Departments can work.
- Importantly, the UK is the largest EU goods export destination for numerous Commonwealth countries: such as Australia, Canada, India, New Zealand, South Africa, Pakistan, Sri Lanka, and Jamaica. It is also the second largest for Bangladesh, Kenya, and Papua New Guinea. And the UK is the third largest for Singapore, Malaysia, Malawi, and Zambia.
- This ensures that the UK will remain an important market post-Brexit and these nations will have a motive for completing a trade deal. FTAs which offer free market access into the UK would be attractive for Asian, African, and Caribbean economies. This access helps Commonwealth exporters without painful EU tariff barriers to the UK as well as British consumers able to purchase cheaper goods in the shops.
- We recommend that FTAs should endeavour to follow a trade-only approach with no non-trade bolt-ons to avoid protracted delays, while a negative list system will ensure tariff free access from the beginning unless exemptions are made which can then be negotiated.

- FTAs with more open economies should also adopt a 'mutual recognition' approach whereby products that can already be legally sold in one country can also be sold in another to avoid excessive red tape.
- The UK should adopt a practical and achievable approach to Commonwealth markets. We recommend a **five phase** proposal:
- Phase One: the UK should look to the Commonwealth's open economies of Australia, Canada, Singapore, and New Zealand to secure FTAs in time for Brexit.
- Phase Two: an FTA with India. The UK's largest Commonwealth export destination is a prize worth pursuing. Significant time should be invested by the UK into a trade-only deal. However, this will take time. Australia, Canada, and New Zealand are all in the process of FTAs with India which have already taken five to six years.
- Phase Three & Four: The UK will need a number of African, Caribbean, and Pacific (ACP) deals to mirror or better the existing EU options which it will undoubtedly lose post-Brexit unless it can secure grandfathering rights. Failure to do so will damage the UK's standing with developing markets especially when the UK represents a major European export destination. The UK should offer deals that are tariff free with no quota access with a view to more favourable asymmetric liberalisation on the ACP side. Special attention and priority should be given to South Africa given its strategic trading importance to the UK.
- Phase Five: The UK should join the under reported Trade in Service Agreement (TiSA). It is the first international agreement of its kind and presents the *second generation* of trade deals. Led by Australia, the US, and the EU it is in the UK's interest as the world's second largest service economy and one which is geared to 80% services. Petitioning those Commonwealth nations that are a part of TiSA will be critical.
- The inaugural Commonwealth Trade Ministers' Meeting in London in March 2017 is a prime opportunity for the International Trade Secretary and the Foreign Secretary to meet all Commonwealth trade ministers at one time, and possibly for the first time, using the new strategic White Paper.

- Further Departmental reform is required: The new Commonwealth Minister has a joint portfolio between the FCO & DfID. Having Ministerial access to the Department of International Trade (DIT) is needed as is a Commonwealth unit within DIT to ensure targeted Commonwealth deals are accurately and successfully started then finalised.
- DfID must also work actively in support of DIT. The new International Development Secretary's suggestion of using the strength of the Department to help facilitate trade deals is sensible for those who aim to foster free enterprise. A pilot scheme should be established with focus on selected developing Commonwealth nations. If successful this should be rolled out further.
- The UK needs a Brexit trading plan. Drift is not an option. This pamphlet marries up a commitment to free trade and support for the Commonwealth in British foreign policy that has been neglected in trading terms for decades. Our five-phase approach offers the most practical way to ensure that the UK utilises the Commonwealth for mutual benefit through free trading principles.

Introduction

The UK Government is under pressure to show its hand in the EU negotiations and stands accused of not sharing its plan to Parliament. We argue that the UK can provide increased optimism and certainty by articulating a global road map. The UK's prosperity post-Brexit is at stake. That is why we have set out our blueprint in order to practically promote the UK's engagement with Commonwealth countries in its new trading relationships.

Where we are now

It is often claimed that countries will not want trade deals with the UK. This is untrue and must be dispelled. The UK is the fifth largest economy in the world and a P5 UN member. A trade deal with the UK is a geo-strategic prize, which would appeal both to emerging and developed economies.¹ In the days and weeks after the referendum result a number of Commonwealth nations expressed interest in trade talks, these include India, Australia and New Zealand,² with both Australia and New Zealand offering trade negotiators to help the UK broker deals.³ The UK also benefits through English - the business lingua-franca, the common law legal system, and a favourable time zone, while London has unrivalled capital raising abilities in Europe and world leading financial services expertise.

1 Policy Exchange, 18 July 2016, How should Britain negotiate trade deals post-Brexit? http://www.policyexchange.org.uk/events/pastevents/item/how-should-britain-negotiate-trade-deals-post-brexit?category_id=37, accessed 19 August 2016

2 Guido Fawkes, 29 July 2016, 27 countries seeking UK trade deals, <http://order-order.com/2016/07/29/brexit-breaking-free-global-markets/>, accessed 19 August 2016

3 The Telegraph, 30 June 2016, New Zealand offers UK its top trade negotiators for post-Brexit deals, <http://www.telegraph.co.uk/business/2016/06/29/new-zealand-offers-uk-its-top-trade-negotiators-for-post-brexit/>, accessed 19 August 2016

EU trade deals

EU trade deals are notoriously slow, as shown by TTIP. The UK, as a single state, could complete FTAs far more quickly if it adopted a greater free trade approach. The US-EU deal is stumbling in the face of French⁴ grumbles and even the signed CETA with Canada had been held hostage to the point of collapse by a part of Belgium.⁵ This presents the UK with an opportunity to offer smarter deals.

The EU is making promising, but protracted trade liberalising steps with African, Caribbean, and Pacific nations (ACPs).⁶ The UK will need to replicate or improve upon these terms in order to avoid damaging these nations' economies and souring relations, many of whom are Commonwealth.

Currently a number of these EU deals are asymmetric. African nations wish to protect certain aspects of their economies from a flood of European goods. A percentage of goods remain protected by tariffs while others have tariffs drawn down sometimes over ten or 25 year periods. However, the UK represents a smaller market of 65m people not 500m and does not compete in many of the protected areas of the African economy, such as agriculture. Therefore, the goal of a more equal trade partnership could well be possible between the UK and Commonwealth African, Caribbean and Pacific nations.

In addition, the UK as an independent trading nation can move more swiftly as it will not require approval from 27 other EU nations. The flip side of approaching trade blocs is that this may slow down the process as all nations from that bloc needing to agree - much like the EU. That is why a dual approach offering simpler bilateral agreements with one nation in the region can be a bench mark and used to open up other countries later on.

4 Associated Press, 3 May 2016 France threatens 'no' to US-EU trade zone, amid new tensions, <http://bigstory.ap.org/urn:publicid:ap.org:9d313dd2bda64902a86148197e98484f>, accessed 19 Aug 2016

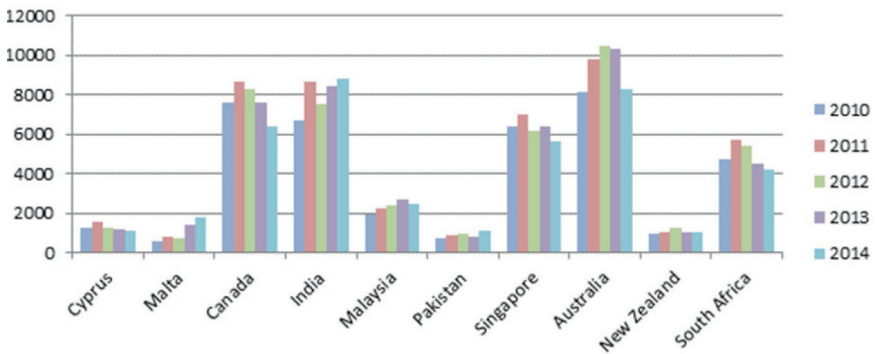
5 FT, 5 July 2016, EU trade deal bows to the power of parliaments , <https://www.ft.com/content/d97a5d06-42aa-11e6-b22f-79eb4891c97d>, accessed 19 August 2016

6 European Commission, June 2016, Overview of Economic Partnership Agreements, http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf, accessed 19 August 2016

Current UK-Commonwealth trade figures

In 2014, the UK exported £40.7bn worth of goods and services to the top ten Commonwealth markets.⁷ This accounted for 8% of its annual trade in exports.

Figure 1: UK exports (Goods & Services) to top 10 Commonwealth destinations (£m)



To put this into context UK exports to the EU are around 44%. UK to US exports account for 17%, 3.5% to China, and 4.4% to Switzerland. It should also be noted that in terms of the UK's raw export totals three-fifths (£295bn) are for goods and the remaining two-fifths are services (£219bn).⁸

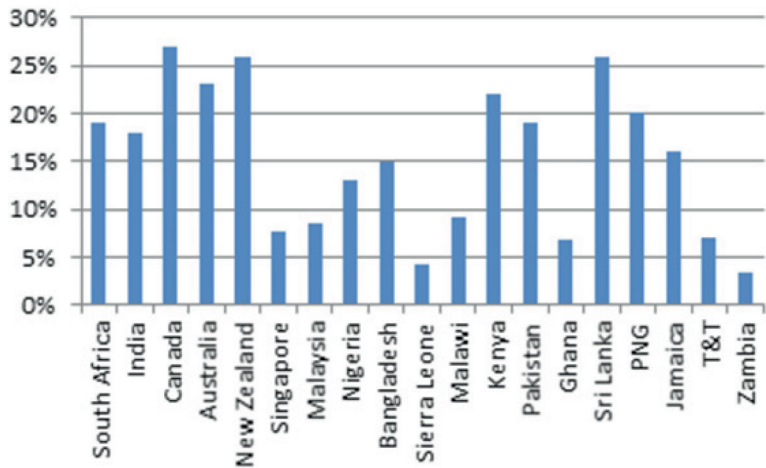
Meanwhile, as a general rule a significant proportion of Commonwealth nations' exports to the EU are to the UK and other major Western-European countries such as France or Germany. Thus, the loss of the UK will make the EU a less economically attractive destination for their goods, giving Commonwealth states a motive for completing a deal with the UK deal on equal or even more beneficial terms.

⁷ Ibid

⁸ Ibid

This is borne out through analysis of trade in goods which shows the UK to be the largest export destination of EU countries for Australia, Canada, India, New Zealand, South Africa, Pakistan, Sri Lanka, and Jamaica.⁹ It is the second largest EU export destination for Bangladesh, Kenya, and PNG. And the UK is the third largest EU export destination for Singapore, Malaysia, Malawi, and Zambia.¹⁰ Interestingly, further data shows that Botswana ships 54.4% of its **total** goods to the UK so any loss of free market access would be significant.¹¹

Figure 2: UK percentage of Commonwealth imports into the European market (including Russia and Switzerland)



9 The Observatory of Economic Complexity, Data visualisations by country profile, <http://atlas.media.mit.edu/en/rankings/country/>, accessed 19 August 2016

10 Ibid

11 Commonwealth Secretariat, Brexit: Its Implications and Potential for the Commonwealth, http://thecommonwealth.org/sites/default/files/inline/160920_CFMM_BREXIT_FINAL_GENERAL%20VERSION.pdf, accessed 7 Oct 2016, page 5

The UK also represents over a third (34%) of all Canada's exports to the EU. As soon as CETA is functional and the UK left the EU it will be in Canada's economic interest to secure the same or more favourable deal with the UK.¹² In fact, a different data set of overall EU-Canadian trade in goods shows that the UK represents 42% of this trade with Germany a distant second on 9.8%.¹³

A similar story is repeated for Australian, New Zealand, Kenyan, and Sri Lankan exports to the EU with the UK making up around a quarter (23%, 26%, 22%, and 26% respectively) of these exports. The UK also takes nearly one fifth of Indian, South African, and Pakistani exports to the EU (19%, 18%, and 19% respectively).¹⁴

Data on service exports from the Commonwealth is sparse; however, one assessment has estimated that the Commonwealth's level of service imports into the UK stands at 10.7% of the total.¹⁵ Also given that the UK's economy is projected to become 80% service-led¹⁶ and is the second largest service exporter in the world after the US¹⁷ then the UK's trade numbers are likely to rise further for Commonwealth markets.

12 Ibid

13 Statistics Canada, Imports, exports and trade balance of goods on a balance-of-payments basis, by country or country grouping, <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gblec02a-eng.htm>, accessed 4 Nov 2016

14 Ibid

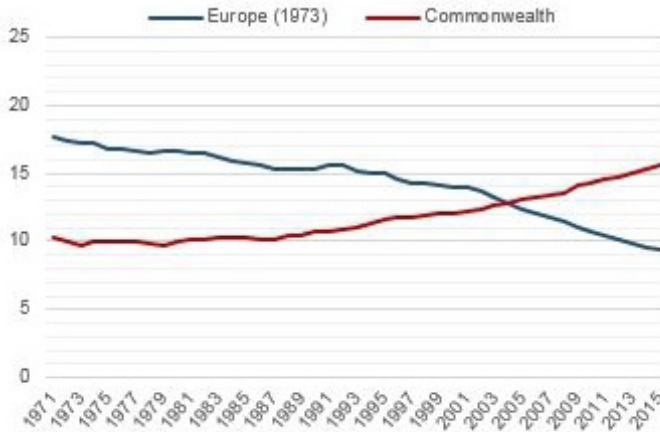
15 Op. cit., Brexit: Its Implications and Potential for the Commonwealth, p8

16 FT, 31 March 2016, Services close to 80% of UK economy, <https://www.ft.com/content/2ce78f36-ed2e-11e5-888e-2eadd5fbc4a4>, accessed 19 August 2016

17 PwC, 2013, How the services sector is rebalancing Britain's economy, <http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook/ukeo-nov13-how-the-services-sector-is-rebalancing-britains-economy.html>, accessed 19 August 2016

The Commonwealth Advantage and global trade

Figure 3: Percentage Share of Global GDP – EU (1973 definition) and the Commonwealth



Over time the Commonwealth as an international grouping has grown significantly and in 2004 overtook the EU in terms of its global share of GDP. This has been tracked by World Economics¹⁸:

The Commonwealth has been an underused resource for the UK in terms of trade as a result of its longstanding focus on the European Union. The referendum result now presents an opportunity to engage fully with the other 51 Commonwealth nations, a fast growing market of 2.3bn people across all habitable continents. These include emerging nations like India and Kenya to small states like Singapore and Jamaica as well as the developed markets of Australia and Canada.

¹⁸ World Economics, March 2016, Commonwealth Growth Tracker, http://www.worlddeconomics.com/papers/Commonwealth_Growth_Monitor_0e53b963-bce5-4ba1-9cab-333cedaab048.paper, accessed 19 August 2016

We recognise that nearly 10% of UK exports are to Commonwealth nations; however, it is the growing potential of these overseas markets in regions like Africa and Asia which should be encouraged and stimulated. The UK should not adopt an approach of “wait and see”, it should be bold, more ambitious and exploit our unique advantages.

Furthermore, English is either the official language or the lingua-franca across the Commonwealth and is typically underpinned by legal systems based on common law. This is attractive to businesses for numerous reasons. For example, in 2011 Professor Pankaj Ghemawat of NYU's Stern School of Business showed that two countries that share a common language can trade 42% more with each other than two identical nations that lack the same bond.¹⁹

Common law is also a huge asset with studies showing that “different legal origins do have a detrimental effect on trade, between 10% and 25%.”²⁰

Furthermore, the considerable Commonwealth diaspora in the UK can help facilitate closer trading ties. The last census found that 4.6 million people in the UK have a New Commonwealth background and many maintain historic and familial ties.²¹ As Ghemawat has explained “cultural ties matter in business because they lower transaction costs.”²²

The Commonwealth also acts as a network, not a bloc. Exporting to one nation in a region or group can act as bridge to connect to the wider area such as Singapore in ASEAN (Association of South East Asian Nations) or Trinidad & Tobago in Latin America.

19 The Economist, 28 Jan 2012, The Power of Tribes, <http://www.economist.com/node/21543487>, accessed 16 August 2016

20 Powell, Emilia Justyna and Rickard, Stephanie, 2010, *International trade and domestic legal systems: examining the impact of Islamic Law*. International interactions, 36 (4). pp. 335-362, <http://personal.lse.ac.uk/RICKARD/law.pdf>, accessed 17 August 2016

21 Hewish, T, Old Friends, New Deals: The Route to the UK's Global Prosperity through International Networks, 2014, http://www.iea.org.uk/sites/default/files/publications/files/Entry220_Hewish_am_web_0.pdf, accessed 17 August 2016

22 Op Cit., The Economist, The Power of Tribes

The rarely acknowledged 'Commonwealth Advantage' shows how trade between members has significant value.²³ This will become more acute to the UK as it moves away from a closed geographic trade based system to a more global push into new or emerging markets.

The Advantage is described as the practical economic value of shared language and systems between member countries. This has been calculated to be an average 19% higher than with non-Commonwealth nations. This lower trade cost of doing business is broken down as an average of 17% for goods, 28% for services, and 10% for Foreign Direct Investment.²⁴

23 Commonwealth Secretariat, January 2016, The Commonwealth in the Unfolding Global Trade Landscape, <http://thecommonwealth.org/commonwealth-unfolding-global-trade-landscape>, accessed 19 August 2016

24 *ibid*

How to make most of Commonwealth opportunities

An International Trade White Paper

FTAs are not the panacea for increased trade, with or without government involvement, exchange between people takes place. For example the US is the UK's largest trading partner despite the lack of an FTA.²⁵ However, steps to remove barriers to market entry such as tariffs or quotas should be welcomed and where the state can play a role to facilitate this it must be encouraged.

Notably, it has been five years since the UK Government last produced a White Paper on trade and investment through the then BIS department.²⁶ It was written at a time of great upheaval after the financial crisis and when the EU referendum result was not part of the strategic thinking. In light of the Brexit vote and the creation of new government departments we recommend that a new White Paper be drafted. The Government needs an explicit plan for cross departmental working to avoid drift or duplication of effort.

Helpfully, the 2011 paper favourably spoke of free trade in its introduction as “a major driver of growth...it is the free and open markets which are the surest route to global prosperity”.²⁷ Now the UK will have the opportunity to pursue this agenda independently.

25 World's Top Exports, 3 July 2016, United Kingdom's Top Import Partners, <http://www.worldstopexports.com/united-kingdoms-top-import-partners/>, accessed 19 August 2016

26 Gov.UK, Department for Business and Skills, 11 Feb 2011, Trade & Investment for Growth, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228941/8015.pdf, accessed 19 August 2016

27 Ibid, p13

Trade Liberalisation

Protectionist elements will slow down negotiations. We recommend that the UK adopt a focus on trade liberalisation only. A prudent method for doing so is to follow New Zealand's 'negative list' system during trade deals. This is where a nation's negotiation position starts with all goods and services tariff free unless an exemption is made.²⁸ Any exemptions are debated away until a workable consensus is achieved.

That is why non-trade bolt-ons will also make deals harder to complete. For instance, the EU has inserted human and environmental rights clauses into many of its deals. The UK should avoid such a distinction to ensure trade deals are kept exactly that – trade focused.

The UK should also adopt a 'mutual recognition' approach in many of its future trade deals with those identified as open economies. This means that nations agree that products that can already be legally sold in country X can also be sold in country Y. This will ensure that additional red tape is not prerequisite for free market access.

The UK offering free trade to nations like India, Pakistan or Bangladesh will mean zero tariffs on goods related to apparel. This could translate into cheaper products for UK consumers in areas such as fashion and retail, while also ensuring these nations sell more and increase wealth for their people. The same could be applied to Commonwealth nations whose agricultural products could enter the UK tariff free making the weekly shop cheaper in UK supermarkets.

Moreover, the UK cannot be seen to leave Commonwealth nations behind. Clearly nations such as India and Canada will be seen as flagship deals but small island states and other vulnerable economies are important to the Commonwealth family. To this end, we suggest the UK work towards certain blocs to achieve greater impact. For example CARICOM in the Caribbean which includes all Commonwealth nations in the region. Another grouping is ASEAN in the Asia-Pacific. This will be required urgently as the

28 European Commission, April 2016, Services and investment in EU trade deals Using 'positive' and 'negative' lists, http://trade.ec.europa.eu/doclib/docs/2016/april/tradoc_154427.pdf, accessed 19 August 2016

UK will undoubtedly lose access to the EU-APC deals currently in place or under ratification post-Brexit unless it can grandfather existing EU trade agreements which looks unlikely.

Departmental reform

There has been significant structural Departmental change with the creation of the Ministry of International Trade under Rt Hon Dr Liam Fox MP. His department will lead on all future Commonwealth trade deals so it is imperative that it has a firm strategy on selecting which agreements can be struck and in what order.

The current Foreign and Commonwealth Office (FCO) has responsibility for Commonwealth matters; however, until recently the team was small and had a focus on inter-governmental aspects; trade was not a priority. Lord Hague recently spoke of a reform of the FCO.²⁹ There are now four foreign facing government departments and an ability to work closely with an expanded Commonwealth unit in the FCO would be desirable.³⁰

We recommend that within DIT a small but significant Commonwealth markets team is created to ensure that any future trade deals with this set of nations can interlink. This nexus can be based on the recently announced Australia-UK trade-working group.³¹

Furthermore, the new Commonwealth Minister, Baroness Anelay, also has a Ministerial role within DFID.³² This presents an opportunity for work between Departments, particularly with Rt Hon Priti Patel MP, the new International

29 William Hague, Telegraph, 4 July 2016, We Conservatives are all Leavers now. We must unite to build a new and better Britain, <http://www.telegraph.co.uk/news/2016/07/04/we-conservatives-are-all-leavers-now-we-must-unite-to-build-a-ne/>, accessed 19 August 2016

30 Telegraph, 29 July 2016, A bright future awaits Britain post-Brexit in the Commonwealth markets, <http://www.telegraph.co.uk/news/2016/07/29/a-bright-future-awaits-britain-post-brex-it-in-the-commonwealth-m/>, accessed 19 August 2016

31 Gov.uk, Establishment of Australia-UK trade working group, <https://www.gov.uk/government/news/establishment-of-australia-uk-trade-working-group>, accessed 11 October 2016

32 Gov.uk, The Rt Hon Baroness Anelay of St Johns DBE, <https://www.gov.uk/government/people/anelay-of-st-johns>, accessed 19 August 2016

Development Secretary, suggesting that her office is re-engineered to help with the facilitation of trade deals with developing economies.³³

We recommend that Baroness Anelay is provided access to our proposed Commonwealth trade unit within DIT as a means of sharpening the focus and assistance with the forthcoming Commonwealth Trade Ministers' Meeting in March 2017.

The UK also spends 0.7% of its GDP on overseas aid. Ten of the top 20 recipients of these funds are Commonwealth.³⁴ A number of Commonwealth nations also receive EU Aid of which the UK currently contributes. There is concern that with the UK leaving and also being a net contributor to the EU budget that this loss will spill over to the EU Aid funding and will not be as targeted to Commonwealth states.³⁵

However, the New Secretary of State of International Development, Priti Patel, has publically floated the idea of using the weight of her Department to help facilitate trade deals in partnership with the new International Trade Department.³⁶ For those who believe in free enterprise and are sceptical of the International Development Department Mrs. Patel's idea is worth consideration. Therefore, it is recommended that this method is trialled in select Commonwealth markets for a fixed period to see if this strategy is indeed effective and leads to economic growth by making developing nations more attractive for UK exports as well as enabling goods from developing economies to enter the British market more cheaply and easily.

33 Telegraph, 30 July 2016, Britain to 'leverage' £11bn of foreign aid to build new trade deals after Brexit, <http://www.telegraph.co.uk/news/2016/07/30/britain-to-leverage-11bn-of-foreign-aid-to-build-new-trade-deals/>, accessed 19 August 2016

34 The Week, 27 May 2016, Where exactly does Britain's £12.2bn foreign aid go? <http://www.theweek.co.uk/63394/where-exactly-does-britains-122bn-foreign-aid-go>, accessed 19 August 2016

35 Overseas Development Institute, July 2016, Brexit and development: how will developing countries be affected?, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/10685.pdf>, accessed 19 August 2016, p2

36 Op cit., Telegraph, Britain to 'leverage' £11bn of foreign aid to build new trade deals after Brexit

Visa reform

Visas will be a subsidiary, but important issue as trade requires easier movement between nations. Tier 2 skilled visas currently have a fixed quota of 20,700 p.a. This will need to change if free movement is altered for EU nationals. We urge the UK to increase the ease of securing Tier 2 visas so it is based on supply and demand from businesses of all sizes to attract the best Commonwealth talent. It should be noted that Commonwealth nations account for over two thirds of all Tier 2 visas, with India making up over 50%.³⁷ Business visitor visas will also need reform for those nationals who require them (such as India) to make these visas more competitive against the UK's potential rivals. For example, a recent report has recommended that Indian nationals be offered the same deal the British currently gives to China.³⁸

The new Foreign Secretary, Boris Johnson, has also floated the idea of free labour mobility between developed Commonwealth nations such as Australia, Canada, and New Zealand.³⁹ Such an idea was recently polled across these countries and found strong support, particularly among young adults.⁴⁰ Exploring this with a feasibility study and working group between these nations should be an option.

Finally, one of the major rationales for leaving the EU was full border control. Now that this power will return the UK must project an image that this is not about raising the draw bridge or turning off the talent tap, but instead securing skilled and managed migration to work in the best interest of the UK and its citizens both at home and abroad.

37 City AM, 21 Jan 2016, Restricting skilled worker visas will hit the economy and harm UK-Commonwealth relations, <http://www.cityam.com/232814/restricting-skilled-worker-visas-will-hit-the-economy-and-harm-uk-commonwealth-relations>, accessed 19 August 2016

38 Hewish, T., July 2016, Royal Commonwealth Society, A Passage From India: Improving UK Visitor Visas from Indian Nationals, <https://www.thercs.org/assets/Research-/RCS-IndianVisaInfographic-2pp-web.pdf>, accessed 19 August 2016

39 Telegraph, 25 Aug 2013, The Aussies are just like us, so let's stop kicking them out, <http://www.telegraph.co.uk/news/politics/10265619/The-Aussies-are-just-like-us-so-lets-stop-kicking-them-out.html>, accessed 19 August 2016

40 Stuff NZ, 14 March 2016, Massive support for visa-free 'migration bloc' between UK, NZ, Canada and Aus, <http://www.stuff.co.nz/national/77856538/massive-support-for-visafree-migration-bloc-between-uk-nz-canada-and-aus>, accessed 19 August 2016

Five stage FTA plan

As our largest existing trade grouping, a deal with the EU is paramount and will be negotiated by the new Department for Exiting the European Union (DExEU). However, the UK must not lose sight of the wider economic prizes which will be the responsibility of the new Department for International Trade (DIT) and this department should make trade with Commonwealth nations a policy focus.

Critics of Commonwealth deals say that negotiations with the EU, US and China markets represent a better use of time.⁴¹ Clearly the UK should work towards these deals but not at the overall expense of Commonwealth markets. The critics ignore the importance of linguistic and cultural ties to trade and the fact that FTAs are often more political in nature than they are economic. For example, it would be politically damaging not to seek agreements with strategic partners such as Australia and Canada who have indicated support.⁴²

Importantly, the UK will need to prioritise deals with nations such as India, Australia, Canada, Singapore, and Malaysia given their economic profile. Although, there is a concern that smaller or less developed Commonwealth nations offering a smaller economic prize will be overlooked.⁴³ These concerns can be best mitigated through a free trade agenda offering goods into the UK tariff and quota free.

The UK cannot realistically draft 52 Commonwealth FTAs, especially with EU and US agreements the most crucial. Priorities will have to be made. However, the timing of any deals fully depend on when Article 50 of the Lisbon Treaty is triggered and the two-year process is complete. It is expected that the UK can start on a third party agreements but not sign any until that moment.

41 Euractiv, 22 August 2016, 'Forget Commonwealth, target US & China', economist warns Brexit trade team, <http://www.euractiv.com/section/uk-europe/news/forget-commonwealth-target-us-china-economist-warns-brexit-trade-team/>, accessed 25 Aug 2016

42 17 Dec 2016, Australia was wounded when Britain joined the EU. Now we can make things right – as partners, <http://www.telegraph.co.uk/news/2016/12/17/australia-wounded-britain-joined-eu-now-can-make-things-right/>, accessed 18 Dec 2016

43 Peg Murray-Evans, LSE Blogs, 29 July 2016, Return to the Commonwealth? UK-Africa trade after Brexit will not be straightforward <http://blogs.lse.ac.uk/politicsandpolicy/return-to-the-commonwealth-uk-africa-trade-after-brexit/>, accessed 19 August 2016

While bilateral deals should be quicker than past EU-led agreements the objective should not be *quick and dirty* deals for the sake of expediency. A race to have agreements in place for the two-year deadline could create unintended consequences.⁴⁴ The approach should be higher quality deals that avoid the delays that the “all-inclusive” proposals many EU negotiations contain. They should avoid non-trade bolt-ons, and the focus should remain on trade liberalisation and eventual tariff elimination.

Five work streams are suggested:

The **first** is with the open economies of **Australia, Canada, Singapore, and New Zealand**, as well as **Malaysia**. A number of these have already signalled intent to explore a trade agreement. Notably, the first three of those nations are the second, third, and fourth largest Commonwealth export destinations for the UK. The objective would be to have Stream One ready for signature to announce post-Article 50. We have selected these Commonwealth nations based on market openness. The Heritage Foundation Index of Economic Freedom scores Singapore (2), New Zealand (3), Australia (5), and Canada (6) as the ‘most free economies’ in the world with Malaysia ‘mostly free; at 29.⁴⁵ Furthermore, the World Bank’s Doing Business index ranks Singapore (1), New Zealand (2), Australia (13), Canada (14), and Malaysia (18).⁴⁶

The **second** stream is the more protectionist **Indian** market. This will be a challenge but one worth pursuing. India is the UK’s largest Commonwealth export destination, while India’s cultural imprint on the UK is significant, in part due to its 1.4m strong diaspora as well as being each other’s third largest FDI partner.⁴⁷

44 Op cit., Policy Exchange, How should Britain negotiate trade deals post-Brexit?

45 Heritage’s Index of Economic Freedom 2016, <http://www.heritage.org/index/ranking>, accessed 11 Oct 2016

46 World Bank, Doing Business Rankings, <http://www.doingbusiness.org/rankings>, accessed 11 Oct 2016

47 Hewish, T., 2016, Royal Commonwealth Society, Passage from India, <https://www.thercs.org/assets/Research-/India-Visa-Report-online-copy.pdf>, accessed 11 Oct 2016 p6

A recent Commonwealth study also estimates that a UK-India FTA would increase two-way trade 26% by slashing protectionist tariffs. Importantly, it predicated that UK exports to India would increase by half each year. The report concludes that:

“A proposed India–UK FTA may be easier to negotiate than the India-EU FTA, as some of the sticking points in an India-EU FTA may be easier to resolve.”⁴⁸

Further encouragement for a deal comes from the Confederation of Indian Industry which said that a UK-India agreement will be smoother than the current nine-year derailed EU talks:

“Many of these issues will instantly go away between India and the UK. It would be an agreement that would be almost made in heaven.”⁴⁹

However, any India trade deal is predicated to take longer based on its previous pacts with other nations. For example, it took six years (2003–2009) for the Indo-ASEAN agreement on goods. Services and investments were completed in 2014.⁵⁰ Moreover, bilateral talks an Indo-Australian FTA which started in 2011 has been pencilled in to be completed by the end of 2016 having missed a December 2015 deadline.⁵¹ Visas have held up the deal which is something the UK should take into account.⁵² Canada has

48 Commonwealth Secretariat, Brexit: Opportunities for India, Sept 2016, <http://thecommonwealth.org/sites/default/files/inline/brexit-opportunities-for-india.pdf>, accessed 29 November 2016

49 The Hindu, 7 July 2016, India-UK Free Trade Agreement may be easier post Brexit: CII, <http://www.thehindu.com/business/Economy/indiauk-free-trade-agreement-may-be-easier-post-brexit-cii/article8819882.ece>, accessed 19 August 2016

50 The Hindu, 9 Sept 2014, India inks free trade agreement with ASEAN, <http://www.thehindu.com/news/national/india-inks-free-trade-agreement-with-asean/article6391947.ece>, accessed 19 August 2016

51 Economic Times, 25 Feb 2016 India-Australia trade agreement to be finalised in 6 months, <http://economictimes.indiatimes.com/news/economy/foreign-trade/india-australia-trade-agreement-expected-to-be-finalised-in-6-months-official/articleshow/51141846.cms>, accessed 19 August 2016

52 The Hindu, 21 Jan 2016, India, Australia miss free trade pact deadline <http://www.thehindu.com/business/Economy/india-australia-miss-free-trade-pact-deadline/article8130747.ece>, accessed 19 August 2016

also been conducting an FTA with India in 2010.⁵³ Meanwhile, an Indo-New Zealand FTA has stalled since discussions began in 2010. As recently as May 2016, former PM Key was finding ways to kick-start talks.⁵⁴

A **third** and **fourth** stream is required to avoid valid concerns of leaving **Africa, the Caribbean, and Pacific States** behind. The UK needs a number of ACP deals with specific blocs to mirror or better the existing EU options. As discussed, these amount to tariff free and no quota access to the UK market. Practically, this will mean a focus on **South Africa**, a deal with **CARICOM** members in the Caribbean and then the **East and West African groupings**.

These streams will need an immediate focus as once the UK leaves the EU these nations would lose tariff and quota free entry to the UK market. Using a negative list system the UK would need to identify the specific sectors of the economy which were requiring protection and work to find solutions to bring the tariffs down at a more favourable rate than the EU has been able to broker as a 500 million person bloc.

Within these streams the UK should reiterate its support for South Africa. For example in 2011 the UK called this relationship one of its *Premier League of trade partners*.⁵⁵ However, despite the rhetoric to double UK-SA trade by 2015 this was not achieved and admitted as such in the latest UK-SA Ministerial communiqué.⁵⁶ Again, we note that South Africa is the UK's fifth largest Commonwealth export market for goods and services. However, much like India, South Africa's FTAs have moved slower than preferred, but the UK should use its leverage to show that nearly 20% of South Africa's European exports in goods head to the UK.

53 The Hindu, 13 Jan 2016, Canada-India free trade agreement talks delayed, <http://www.thehindu.com/business/canadaindia-free-trade-agreement-talks-delayed/article8102980.ece>, accessed 19 August 2016

54 NZ Herald, 1 May 2016, India FTA a priority for NZ: Key, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11631811, accessed 19 August 2016

55 UKTI – South Africa, Feb 2014, now accessed from <http://globalsouthafricans.tumblr.com/post/67768215680/uk-trade-and-investment-south-africa-trade-mission>

56 Joint Communiqué on the occasion of the 11th Meeting of the United Kingdom – South Africa Bilateral Ministerial Forum, 19 Oct 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469409/UK_-_South_Africa_Joint_Communicu__2015.pdf, accessed 19 August 2016, p2

An additional **fifth** stream will be required for the wide-ranging Trade in Service Agreement (**TiSA**) which has leading Commonwealth nations as partners. Free trade in services is the next step in global liberalisation and has been described by leading experts as the 'second generation trade deal'.⁵⁷ With the UK's economy made up of 80% of services a push in this direction would certainly be opportune. It matters because the UK leads the world in the exports of services as a percentage of GDP. For example, 13% of the UK's GDP accounts for the export of services. The nearest competitor is Germany at 8%.⁵⁸

When commentators and politicians talk about FTAs they usually mean trade in goods with a chapter on services. However, the recently proposed but little discussed Trade in Services Agreement (TiSA) is about to shift understanding. TiSA negotiations commenced in 2013 and are led by the US, the EU, and Australia.⁵⁹ It also includes Commonwealth Canada, New Zealand, and Pakistan as well as Hong Kong, Korea and Switzerland amongst others. Once it takes effect these countries would represent 70% of the world's service trade. It has been projected that such a deal would offer the equivalent of a 50% reduction in tariffs barriers. TiSA is pencilled in to be completed by the end of 2016 although appears highly unlikely.⁶⁰

So despite bilateral deals in goods with key markets it would be prudent for the UK to join TiSA once it is free to dictate its own trade policy. As the UK is the second largest service economy in the world it will have earned a seat at the table. One High Commissioner recently stated that UK was much missed by certain countries in World Trade Organisation (WTO) negotiations and that Brexit was a chance for greater trade liberalisation with the UK returning to the table presenting 'exciting opportunities'.

57 The Guardian, 8 Aug 2016, UK could clinch trade deal with EU within two years, says expert, <http://www.theguardian.com/politics/2016/aug/08/uk-could-clinch-trade-deal-with-eu-within-two-years-says-expert>, accessed 2016

58 Ed Conway, 24 April 2014, Just how imbalanced is the UK economy?, <http://www.edmundconway.com/2014/04/just-how-imbalanced-is-the-uk-economy/> accessed 19 August 2016

59 Politico, & July 2016 The most important free trade agreement you've never heard of, <http://www.politico.eu/article/the-most-important-free-trade-agreement-youve-never-heard-of/>, accessed 19 August 2016

60 US Aid, 24 August 2015, Overview of the TISA Negotiations, <http://unctad.org/meetings/en/Presentation/ditc-ted-Nairobi-24082015-USAID-stephenson-2.pdf>, accessed 19 August 2016

TiSA should be a high priority, as it would provide greater access to the US market as well as leading Commonwealth ones such as Australia, Canada, and New Zealand. The UK should advocate for the most liberalised deal possible to ensure it extends its comparative advantage. A dedicated team in the new International Trade Department should be established to scope out the UK's future involvement. With Australia taking a lead it is advisable that recruitment takes place from there.

Renewed Investment agreements

The options open to the UK are not just about trade in goods or services. Investment is key – both to and from the UK. The UK lost its competency to the EU to sign new bilateral investment deals (BITs) in 2009. It has 96 agreements in operation, although most with Commonwealth nations were struck in the 1980s or 90s.⁶¹ An opportunity to update these deals should be seized by the UK Government. The UK could also decide to build in an investment provision into an FTA much like Australia has done with China.⁶² However, given the political time scales required this could slow down the trade liberalisation aspects of any future deals. Therefore, the UK may wish to prioritise investment agreements over those in trade for select nations.

61 Investment Policy Hub, UK Bilateral Investment Treaties, <http://investmentpolicyhub.unctad.org/IIA/CountryBits/221#iialInnerMenu>, accessed 19 August 2016

62 Australia-China FTA, Chapter 9 – Services, <http://investmentpolicyhub.unctad.org/Download/TreatyFile/3453>, accessed 19 August 2016

Conclusion

We must bear in mind, then, that there is nothing more difficult and dangerous, or more doubtful of success, than an attempt to introduce a new order of things in any state. For the innovator has for enemies all those who derived advantages from the old order of things, whilst those who expect to be benefited by the new institutions will be but lukewarm defenders.

The Prince by Machiavelli, 1513

The UK needs a Brexit trading plan. Drift is not an option. A near total gaze on European affairs is not a sufficient answer. The UK must re-establish links in the world and craft deals which are in both its strategic **and** economic interests.

This pamphlet marries up a commitment to free trade and support for the Commonwealth in British foreign policy which has been neglected in trading terms for decades. We do not claim to have a monopoly on the solution, but we have set out a blueprint which can helpfully inform and instruct the UK Government and its Departments.

With this in mind, we call for an updated White Paper on International Trade and Investment. The political landscape has changed much since the last edition in 2011 – future control over trade deals being one. Furthermore, we call for Commonwealth oversight in the new Department of International Trade (DIT). Current Commonwealth Ministerial focus on the FCO and DfID alone is not satisfactory, while DfID should offer its own support to DIT to ensure a more joined up approach to deal making.

The UK is presented with numerous opportunities to push for trade liberalisation independently with Commonwealth nations through Brexit. The chance has come where the UK can offer them something of real substance when negotiating. However, it will also present challenges, such as the loss of EU agreements already in place with Commonwealth nations – particularly those developing nations.

Given the time requirements and the trade teams needed for FTAs the UK will have to prioritise, but this should not be done to the detriment of the Commonwealth which offers economic and political benefits. In the spirit of free enterprise we take the view that these potential trade deals should be exactly that - trade only. Getting dragged into non-trade bolt-ons will only hamper and delay.

Our five-phase approach offers the most practical way to ensure that the UK utilises the Commonwealth for mutual advantage through free trading principles. Deals with Australia, Canada, New Zealand, and Singapore which represent open economies can be brokered first, while an India FTA is a prize worth following despite the prospective time frame and experiences other Commonwealth nations have been through.

Agreements across a broad range of ACP regions and nations are also critical. For instance, any failure to act in replacing the EU-ACP deals will see a spike in tariffs for Commonwealth imports. We have also shown that the UK is one of the EU's largest importers of Commonwealth ACP products so it must ensure that these goods continue to have free access to its market, while at the same time trying to improve British exporters' access.

An agreement on services is paramount to a nation whose economy is geared heavily to this industry. The lesser known Trade in Services Agreement (TiSA) provides the greatest opportunity. Its Commonwealth representation in discussions can help in this regard, particularly Australia who takes a leading role.

Much needed reform of the UK's visa regime will also bring significant benefit to global Commonwealth businesses, British businesses wanting to hire the best talent, and for those skilled individuals who want to work in the UK. Having a level playing field for the UK to secure the strongest workforce must be encouraged. Those who support free enterprise must drive this.

Collectively, our pamphlet offers a political circuit board to allow the UK to rewire and reenergise its commitment to the modern Commonwealth network through trade and prosperity. Now is not the time to overlook - or even discount - the talents of 2.3bn people from 53 countries with ties of language, law, and family. It is a time to reconnect.

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James Cleverly is the Member of Parliament for Braintree in Essex having been elected in 2015, he is a member of the International Trade Select Committee.

Before entering Parliament he worked in magazine and web publishing, a business career in which he worked with clients in Asia, Africa, Europe and the Americas. He is passionate about the role that free trade can play in international development and its ability to lift nations out of poverty.

James' mother was from Sierra Leone and he has taken an interest on trade and Commonwealth matters throughout his time in Parliament. In the last line of his maiden speech he said: "I will fight for infrastructure investment in my constituency and for a good deal for my constituents, but I will also fight to keep this nation an internationally focused competitive trading nation."

Tim Hewish

Tim is the Director of Policy & Research for the Royal Commonwealth Society. He co-wrote this pamphlet in a personal capacity. He believes strongly that the Commonwealth should have a greater role to play in the UK's post-Brexit future and that this route can be enhanced through a commitment to free market principles and greater trade liberalisation.

He co-founded Commonwealth Exchange, a think tank established to promote the trading, educational, and strategic potential of the Commonwealth. Tim also has nearly a decade of political experience having worked for an MP, at numerous centre-right think-tanks, a charity, and Buckingham Palace.

He has published widely on issues of prosperity with notable reports supported by the current Foreign Secretary, Boris Johnson MP and the International Trade Secretary, Dr. Liam Fox MP.

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