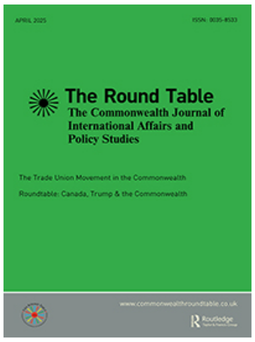

The Round Table

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OPINION

Trade and investment in the Commonwealth: at an inflection point?

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Even before President Donald Trump's return to the White House and his announcement of universal tariffs, trade relationships were increasingly reconfiguring along geopolitical lines, with major economies shifting their trade patterns based on geopolitical considerations. For example, the United States had shifted trade away from China and towards other economies such as Mexico and Vietnam, while European economies moved away from trade with Russia and increased trade with the United States. Contemporary global politics is both reflecting and reinforcing these commercial and financial realignments.

The McKinsey Global Institute has developed a measure of 'geopolitical distance' based on UN General Assembly voting records which helps analyse how aligned trade partners are on global issues (McKinsey Global Institute, 2025). (Geopolitical distance influences trade by affecting the choice of trade partners, the stability of trade relationships, and the complexity of global supply chains.) According to the MGI, the average geopolitical distance of trade declined by about 7% between 2017 and 2024. Yet, despite reductions in direct trade connections between geopolitically distant economies, strong indirect connections persist.

These shifts highlight the evolving dynamics of global trade influenced by geopolitical factors, with economies adapting their trade strategies to navigate risks and opportunities.

Economic nationalism and associated global economic fragmentation affect Commonwealth trade in several ways:

Firstly, through disrupted trade flows: fragmentation can lead to disruptions in established trade routes and partnerships, making it harder for Commonwealth countries to maintain consistent trade flows in an environment of political uncertainty.

Secondly, through increased uncertainty: economic fragmentation creates uncertainty in global markets, which can deter investment and trade activities. Businesses may be hesitant to engage in international trade and foreign investment due to unpredictable economic conditions, and political instability.

Thirdly, because of higher transaction costs: fragmentation often results in increased transaction and transport costs, including higher tariffs, more complex regulatory requirements, and additional administrative burdens. These costs can reduce the competitiveness of Commonwealth exports.

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Fourthly, through reduced market access: fragmentation can limit access to key markets, as countries may adopt reciprocal protectionist measures to shield their economies. This can restrict the ability of Commonwealth countries to export their goods and services.

Fifthly, because of supply chain disruptions: fragmentation can disrupt global supply chains, affecting the availability and cost of inputs for Commonwealth businesses. This can lead to increased production costs and delays in manufacturing and delivery.

Sixth, around issues of economic isolation: countries affected by fragmentation may become economically isolated, reducing opportunities for trade and investment. This isolation can hinder economic growth and development in Commonwealth countries.

Finally, because of a shift in trade dynamics: fragmentation can shift trade dynamics, with countries forming new alliances and trade blocs. Commonwealth countries may need to adapt to these changes and seek new trade partners and markets to maintain their trade volumes.

Overall, global economic fragmentation poses significant challenges to Commonwealth trade, requiring strategic approaches to enhance trade integration, reduce barriers, and promote stable and resilient trade practices.

History indicates that deeper trade integration within the Commonwealth has the potential to yield significant economic benefits. Historical evidence, such as David L. Glickman's work on the British imperial preference system shows that tariff reductions within the British Empire were used to stimulate intra-bloc trade (Glickman, 1947). Empirical studies have examined the impact of the Commonwealth Preference System on exports, and have established the trade creation effect of Regional Trade Agreements (RTAs), which increase trade flows between member countries by an average of 12%-24%. The literature suggests that deeper integration can lead to efficiency and economies of scale gains including trade flows, investment, GDP growth, employment and consumer welfare. These historical insights suggest that deeper trade integration within the Commonwealth can enhance trade and investment, leading to broader economic benefits for member countries. It needs to be acknowledged that in the post war period this was underpinned by several factors including the sterling area, the very different time in the international trading system, and that African and Caribbean primary producers did not have access to sufficient development funds to diversify and were relegated to the periphery of the international trading system.

The challenges today require strategic approaches to enhance trade integration, reduce barriers, and promote sustainable and resilient trade practices within the Commonwealth. Three potential pathways to expand trade among Commonwealth members are:

Firstly, through enhanced trade facilitation:

- Building on existing frameworks for trade and investment, such as the Trade Facilitation Agreement (TFA) and TFA+.
- Implementing general WTO TFA-related measures, digital trade facilitation (e.g., paperless trade and cross-border paperless trade), sustainable trade facilitation for SMEs, agriculture, and women, and other measures such as trade finance and facilitation during crises.

Secondly, implementing trade digitalisation:

- Promoting cross-border paperless trade, artificial intelligence (AI), and blockchain technologies.
- Supporting frameworks such as the UN Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific (CPTA), which provides a dedicated intergovernmental framework to develop legal and technical solutions for data exchange.

Thirdly, focussing on long-term deeper integration:

- Pursuing deeper integration in areas such as merchandise, services, foreign direct investment (FDI), and digital trade which is also inclusive for women entrepreneurs.
- This involves reducing tariffs, harmonising non-tariff measures, and creating a more integrated economic environment to facilitate trade and investment.

These pathways aim to reduce trade costs, enhance market access, and create a more conducive environment for trade and investment within the Commonwealth.

As World Trade Organization Director-General Dr Ngozi Okonjo-Iweala has acknowledged, one of the most encouraging trends in the Commonwealth's 2024 Trade Review is the remarkable post-COVID recovery of intra-Commonwealth trade, which reached a record US$854 billion in 2022, accounting for slightly under 3% of global trade. This demonstrates the existing and growing importance of intra-Commonwealth trade.[1]

Whatever the geopolitical tea leaves reveal, 2025 brings a new Secretary General with a priority focus which includes trade and investment. Within her first 100 days Shirley Botchwey will preside over the first Trade Ministers meeting outside the UK (in Namibia in June) and the implementation of the Plan of Action for Investment by the Commonwealth Investment Network which aims to support increased private investment into small and vulnerable states. Although it attracted little attention in the post CHOGM media coverage and was scarcely mentioned at the closing Press Conference, the Commonwealth's investment action plan launched at CHOGM in Samoa to drive resilient economic growth is a key development.[2]

Econometric estimations using an improved empirical methodology and the latest data confirm the positive impact of Commonwealth membership, with the value of announced greenfield FDI between Commonwealth countries found to be 3.5 times greater, on average, compared to flows between other country pairs over the period from 2003 to 2022. Yet, the resilience of the Commonwealth advantage in investment has been tested recently by a series of global economic shocks – including the US – China trade war, the COVID-19 pandemic and the ongoing conflict in Ukraine – which have severely impacted investment flows worldwide (Commonwealth Trade Review, 2024).

Despite the substantial and growing levels of investment in the Commonwealth, inward stocks and flows tend to be highly concentrated geographically and across development levels. The bulk of the investment – both from global sources and intra-Commonwealth partners – originates from a small pool of countries and is directed to a few beneficiaries, chiefly the six developed economies and some mostly larger or more advanced developing members. Diaspora funding is an emerging asset pool[3] attracting the interests of governments especially given the development of second and third generation diaspora business communities in the UK and North America; within the last 12 months the British High Commission in Pakistan has worked with the OPEN network of Pakistan-origin entrepreneurs in London to attract investment in green technology in Pakistan,[4] and the Jamaican High Commission in London have also worked with OPEN to attract investment/collaboration into Business Process Outsourcing (BPO) and related services into the Caribbean.

Many vulnerable countries in the Commonwealth face acute challenges in attracting and retaining investment. Access to multilateral funds by small and vulnerable states is restricted by management resource constraints in those states and their ability to provide the required data and information. Additionally, programmes have tended to lack commercial rigour, with little or no input from the private investment community. There is a lack of project/programme evaluation reports making impact assessment difficult to measure and where these exist, they report a shortfall in meeting original objectives for investment outcomes, particularly in terms of private investment contributions (DKMR Associates, 2025). Thus, growing and diversifying intra-Commonwealth investment, leveraging and strengthening the Commonwealth advantage, can help to address these challenges and imbalances.

To consider how best to tackle this challenge, Commonwealth Trade Ministers established a Sub-Action Group on Investment when they met in 2023; this is now co-chaired by British Foreign Secretary David Lammy and Foreign Minister Denzil Douglas of St Kitts and Nevis (Prime Minister 1995–2015, and whose institutional memory could prove significant). This Sub-Action Group developed a Plan of Action and Commonwealth Investment Network which was endorsed by Heads at CHOGM in October 2024. In its assessment of investment needs and challenges of small and vulnerable states, the core problem identified was not necessarily the availability of capital, but access to this capital and investable projects to support (DKMR Associates, 2025). This has led to a strategic priority to increase investment into and between Commonwealth members with three core objectives for the next two years. These are i) enhancing technical support to build investment capacity and capabilities, and attractive enabling environments; ii) improving knowledge exchange and joint working, including sharing best practice; and iii) using Commonwealth convening power to bring in private sector stakeholders by building a network.

Such an emerging consensus on a Commonwealth trade policy agenda is itself highly significant and should not be underestimated, especially at a time when multilateralism is under renewed attack against a backdrop of accelerating geopolitical risks. Since at least 1997, member states have not encouraged the Commonwealth to take up such an agenda, preferring this to be led by the World Trade Organisation (WTO). While the expanded WTO struggled to convene meetings of Trade Ministers, the Commonwealth convened three meetings between 2016 and 2023 with growing participation; the 2023 meeting brought together 54 countries including some 40 ministers all in person, amongst the highest of any Ministerial meeting in recent years. In the same period, the Commonwealth Telecommunications Organisation (CTO) convened the first meeting of Commonwealth IT Ministers who saw such value that they met again within 18 months. This engagement was strengthened by fresh analysis and evidence captured in Commonwealth Trade Reviews produced for and endorsed at three CHOGMs.

As the World Chambers Congress will be held in two Commonwealth countries in succession (in Australia in 2025 and Canada in 2027) – with talk of a 'Commonwealth Chambers Coalition' gathering momentum – this could prove a transformational year for the Commonwealth's economic future. If Trump and the late Queen Elizabeth II – each in their own distinctive and very different ways – have strengthened the appetite for collaboration and unity amongst the Commonwealth, it now remains to be seen if the Commonwealth and its economic ecosystem can seize the prize in front of it: fostering resilience through deeper trade integration and delivering on A Commonwealth Plan of Action for Finance and Investment.

Notes

1. https://thecommonwealth.org/news/record-highs-commonwealth-trade-and-investment-2024-commonwealth-trade-review
2. https://thecommonwealth.org/news/chogm2024/commonwealth-launches-investment-action-plan-drive-resilient-economic-growth
3. https://unctad.org/news/diaspora-holds-huge-potential-facilitate-trade-and-investment
4. https://openlondoncic.com/

Disclosure statement

No potential conflict of interest was reported by the author(s).

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