



The Commonwealth

Discussion Note

Brexit: Its Implications and Potential for the Commonwealth

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Abstract

Given the uncertainty surrounding the global economic outlook following the UK's referendum on European Union membership, this brief paper attempts to explore the various channels through which countries in the Commonwealth could be affected. It also explores potential benefits, including the possibility of increased UK–Commonwealth trade. The paper asserts that there are varied implications for Commonwealth countries, which differ by region and by transmission mechanism. The main transmission channels, taking into account the heterogeneity of possible implications, are found to be trade (with specific risks to particular exporter countries, goods categories and trade in services), remittances, foreign direct investment and development assistance. Risks to the sustainability of small states' debt could arise if lower global growth materialises.

The paper estimates that the UK is currently the fourth largest importer of goods from the Commonwealth, behind the USA, China and Japan. Additionally, of the top ten goods the UK imports from Commonwealth countries, eight are among the top ten goods the UK imports globally.² However, the proportions of products in these categories imported from the Commonwealth are generally small, suggesting that, to achieve increases in trade above what has been observed hitherto, new and targeted arrangements would have to be created. The paper proposes that such may be broached politically if commonalities between the UK and the rest of the Commonwealth, including language and political systems, for example, are agreed to be a sound basis. Moreover, the Commonwealth's new Trade Ministers platform is suggested as a suitable forum in which to discuss concerns and possible post-Brexit Commonwealth initiatives.

1. Introduction

Assessments of the implications of the United Kingdom's decision to leave the European Union (EU) have focused mainly on the impact of Brexit on the UK economy, Europe and global trade flows (IMF 2016a,b; OECD 2016; Razaque et al. 2016). Additionally, several commentaries on Brexit have hinted at the potential for a more favourable UK–Commonwealth trading relationship (BBC 2016; The Telegraph 2016).

Caribbean countries have benefited from reciprocal access to the EU market via an economic partnership agreement (EPA),³ while least developed countries (LDCs) benefit from preferential access through the Everything but Arms agreement (EBA), which allows LDCs to export to the EU market at zero tariffs. However, the future UK and EU agreement with African, Caribbean and Pacific (ACP) countries and LDCs remains uncertain, as do trading arrangements between the UK and its other trading partners.

This paper does not discuss the trade negotiation process, the alternatives or possible arrangement outcomes.⁴ Instead it examines the wider economic implications of Brexit, specifically for Commonwealth countries: a constituency that comprises 53 member countries, five of which are G20 members, 31 of which are small states and 13 of which are LDCs.⁵ Commonwealth small states and LDCs are usually disproportionately affected by external shocks. Therefore, careful assessment of potential negative impacts of such shocks is critical for developing mechanisms to minimise the effect on vulnerable economies.

This note attempts to identify the primary transmission channels through which countries in the Commonwealth could be affected by Brexit. This represents one of the few known analyses of the potential and likely implications of Brexit on the Commonwealth (Stephens and Kennan 2016; Mendez-Parra et al. 2016). The paper also differs from other discussion notes on the issue of Brexit by specifically taking a cursory look at the potential for a more buoyant UK–Commonwealth trading relationship.

Brexit and international institutions' expectations for the global economy, and the UK, are discussed in the next section. The paper then explores the transmission channels, as well as whether or not changes in UK macro-economic aggregates are likely to have an impact on financial flows between the UK and the rest of the Commonwealth. The penultimate section provides a perspective on the ways in which the Commonwealth Secretariat could assist its members. The paper concludes with section five.

2. Britain, Brexit and the global economy

Prior to the UK referendum on EU membership, leading economic institutions presented assessments of the likely impact of Brexit,

both on the UK and on the world economy. The International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the Bank of England suggested that the United Kingdom's decision to leave the EU is likely to dampen the macro-economic outlook of the UK, the EU and the rest of the world economy (IMF 2016a,b; OECD 2016; BBC 2016).

In particular, the IMF predicted that a Brexit vote would lead to a fall in UK trade and investment; lower productivity, incomes and employment; and weaker fiscal revenues. These predictions were underpinned by economists' expectations of a prolonged and ambiguous UK–EU exit process, which would effectively translate into increased uncertainty and risk aversion, and culminate in more cautious personal and business investment decisions.

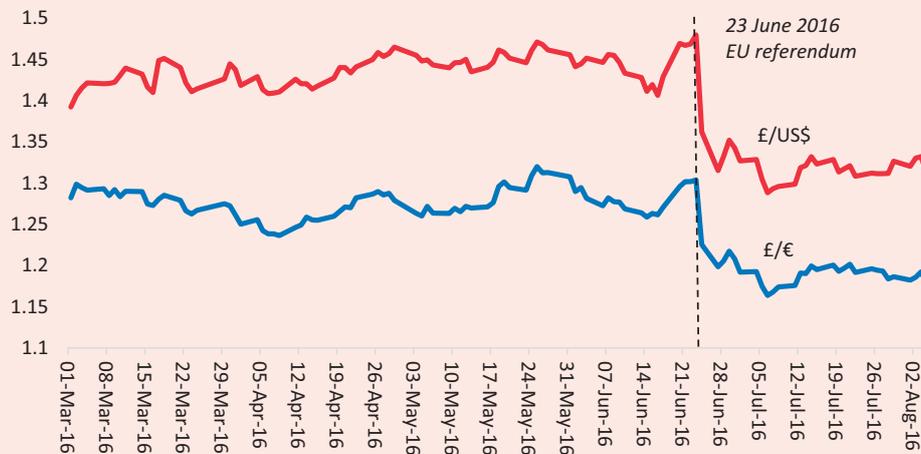
The trigger, according to the IMF, would be if Brexit restricted the UK's access to the European Single Market. This, the IMF forewarns, would initiate a permanent reduction in disposable incomes and consumption and, secondly, set up a weaker long-run position for the pound sterling and higher domestic inflation.

This notwithstanding, it is well noted that a weaker pound would also stimulate UK exports, but the IMF doubts that gains from the weaker pound would be sufficient to offset a combination of lower investment, consumption and government revenues.

Available data following the vote imply that the highlighted risks, including a depreciated pound sterling and a heightened level of risk aversion, are already emerging. On 24 June the pound plummeted to a 30-year low against the US dollar, and it has yet to resume its pre-referendum value. The pound fell further in August, owing largely to an increase in UK divestments (Figure 1). This was reflected in higher gold prices, a key indicator of investor risk aversion (Figure 2). The UK's stock market has rebounded, following a sharp fall after the vote. Nonetheless, bond yields as well as UK manufacturers' confidence remain low (Financial Times 2016).

If the UK faces restricted access to the single market, the IMF estimates that the UK could suffer a decline in growth by 2017, with growth returning to pre-referendum levels in 2021.⁶ The IMF revised its projections of the fallout from Brexit on the

Figure 1 Pound sterling to US dollar and euro daily spot exchange rates



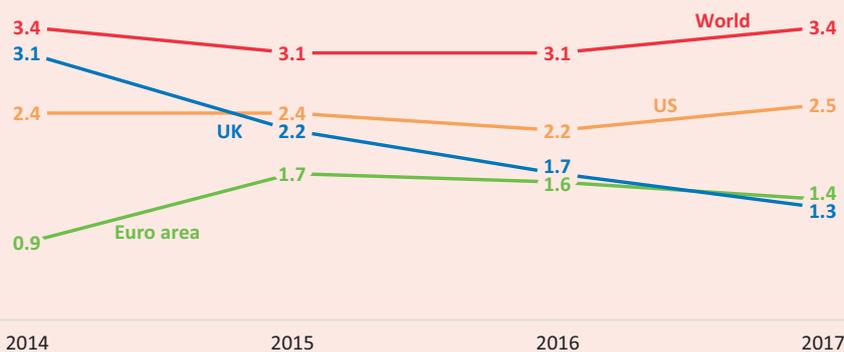
Source: Statistical Interactive Database, Bank of England, 2016

Figure 2 Gold prices (£), daily trend



Source: Statistical Interactive Database, Bank of England, 2016

Figure 3 Forecasts of gross domestic product, 2016–2017



Source: World Economic Outlook, IMF, June 2016 Update

global economy, from possible stagnation due to Brexit to a slightly less muted impact (IMF 2016b).

3. UK–Commonwealth transmission channels

The economic effects in the worst-case scenario, as detailed by the IMF and the OECD, are likely to be concentrated in the UK and in some EU member states where financial ties to the UK are particularly strong. In contrast, for states that are not members of the EU, including Commonwealth member countries, the IMF expects both the direct and indirect impacts from Brexit to be marginal. This is largely because of weaker economic linkages⁷ between non-EU Commonwealth countries and the UK.

This section explores the latter view and attempts to ascertain, from a transmission channel perspective, the avenues through which Commonwealth countries could be affected. The Commonwealth has a long shared history with the UK and is bound by common language, culture and political regimes. Economic ties were particularly strong during the British Empire, but, since the UK's integration into the EU, UK-Commonwealth economic ties have weakened, despite the EU–ACP EPAs.

The eventual impact of Brexit is partly dependent on the success of trade negotiations, and will affect countries differently, depending on their UK exposures. Specifically, the degree of impact will depend on countries' level of openness, their balance of payments and the volume/value of their transactions with the UK.

The Commonwealth's external transactions with the UK and the current volumes/values of these flows are presented below. These data provide insight into whether or not Commonwealth countries could potentially face negative effects in the event of a precarious Brexit scenario. In that case, the assumptions are lacklustre growth, lower disposable incomes and a weaker long-run exchange rate for the United Kingdom.

Trade

Trade in goods

Aggregate data seem to suggest that overall UK–Commonwealth trade flows have been declining (Figure 4). This is in spite of an observed overall increase in intra-Commonwealth trade.⁸

Total Commonwealth exports to the UK as a share of total Commonwealth exports fell to 4.9 per cent in 2015, approximately 1.2 percentage points below the average for 2006–2015. Food and live animals accounted for the largest proportion of total Commonwealth–UK goods exports, followed by commodities, manufactured articles and manufactured goods.

Based on the share of their goods exports that go to the UK, the most highly exposed Commonwealth countries appear to be Botswana, Belize, Seychelles, Mauritius and Bangladesh. These countries all send more than 10 per cent of their exports to the UK. Botswana in particular has a relatively high UK export proportion, at 54.5 per cent, indicating that more than half of its goods exports are sold to the UK. Driving Botswana's exports to the UK are exports of non-metallic minerals, of which 98.3 per cent is exported to the UK market. Seychelles' major exports to the UK in value terms are cork and wood, but its exports of fish and crustaceans are almost completely dependent (98 per cent) on sales to the UK market. Ultimately, what is important for the analysis at hand is the share of these products to Commonwealth countries' total exports. There are a number of Commonwealth products for which the UK is the main market and for which the share of that product's exports to the UK exceeds more than 60 per cent, but data shows that many of these products account for an insignificant share in Commonwealth countries' total export baskets (See Table A10).

But how important is the UK relative to other Commonwealth trading partners? The UK is a major market for 30 Commonwealth countries when looking at the top 10 export destinations per country, across the Commonwealth. More specifically, the UK is second only to the USA in this respect. However, on average across the Commonwealth, the UK is not in the top ten export markets. This is somewhat skewed by regional concentrations. For example, Australia accounts for a significantly greater proportion of average Commonwealth exports but this is almost solely because of its importance as an export market for Pacific countries.

A more accurate comparison would require weighting export shares by frequencies. In this regard, the UK is the fourth most important Commonwealth export market, behind the USA, China and Japan, in that order.

Figure 4 Key statistics on UK–Commonwealth trade in goods⁹

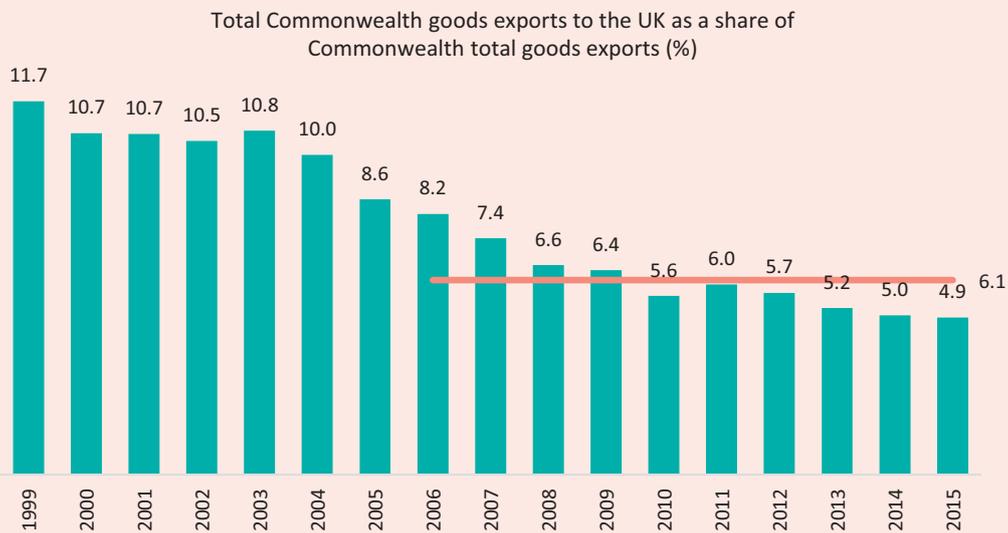
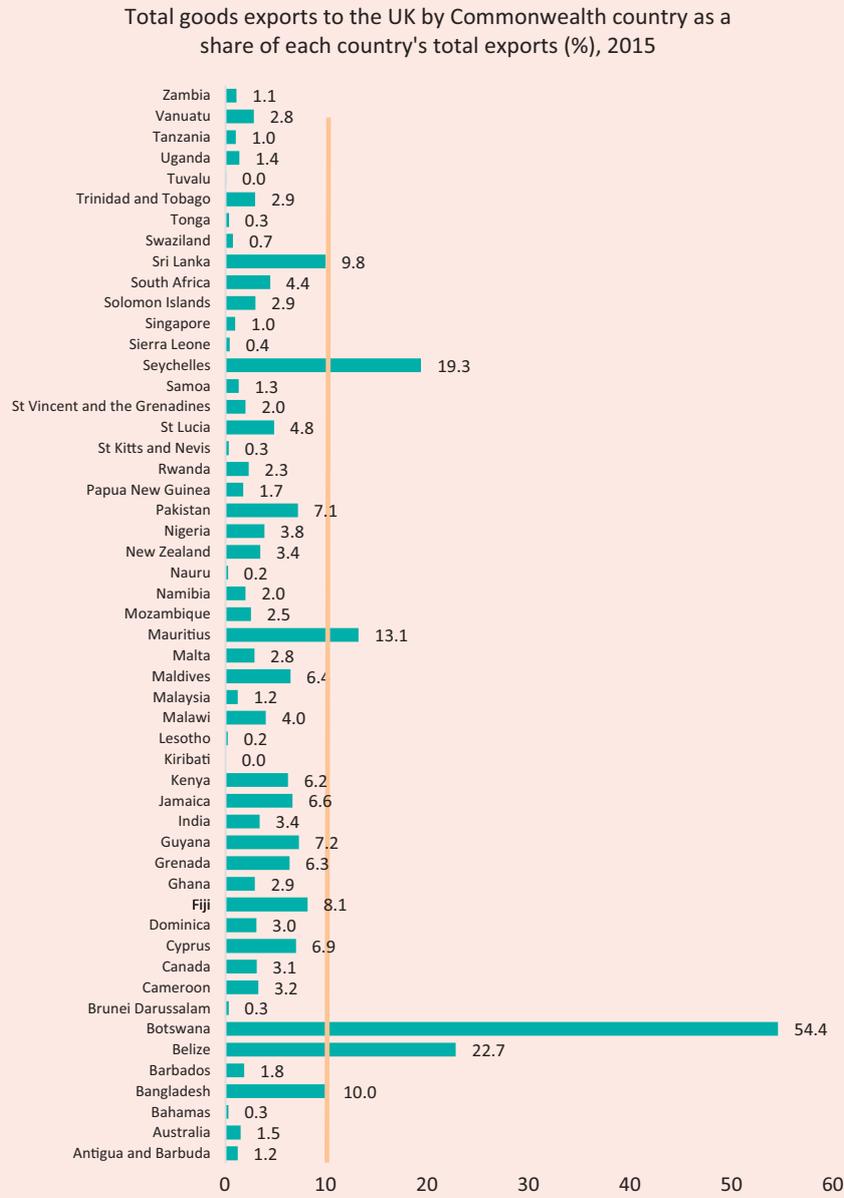
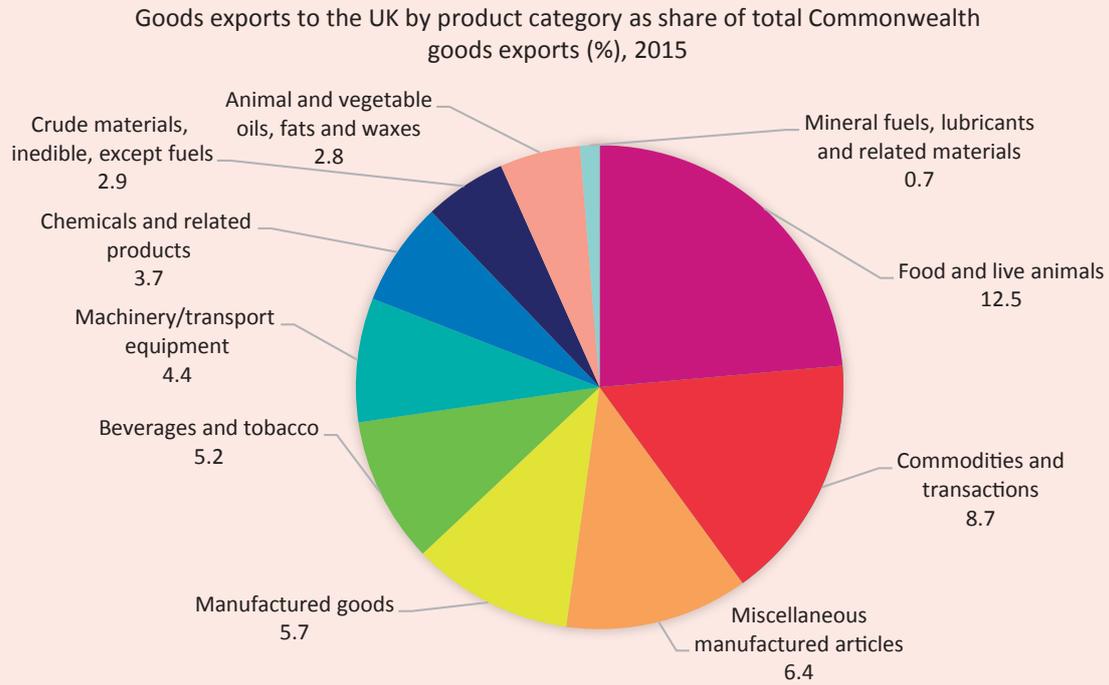


Figure 4 Key statistics on UK-Commonwealth trade in goods (continued)



Major export categories for Commonwealth countries with UK export shares above 10 per cent (%), 2015

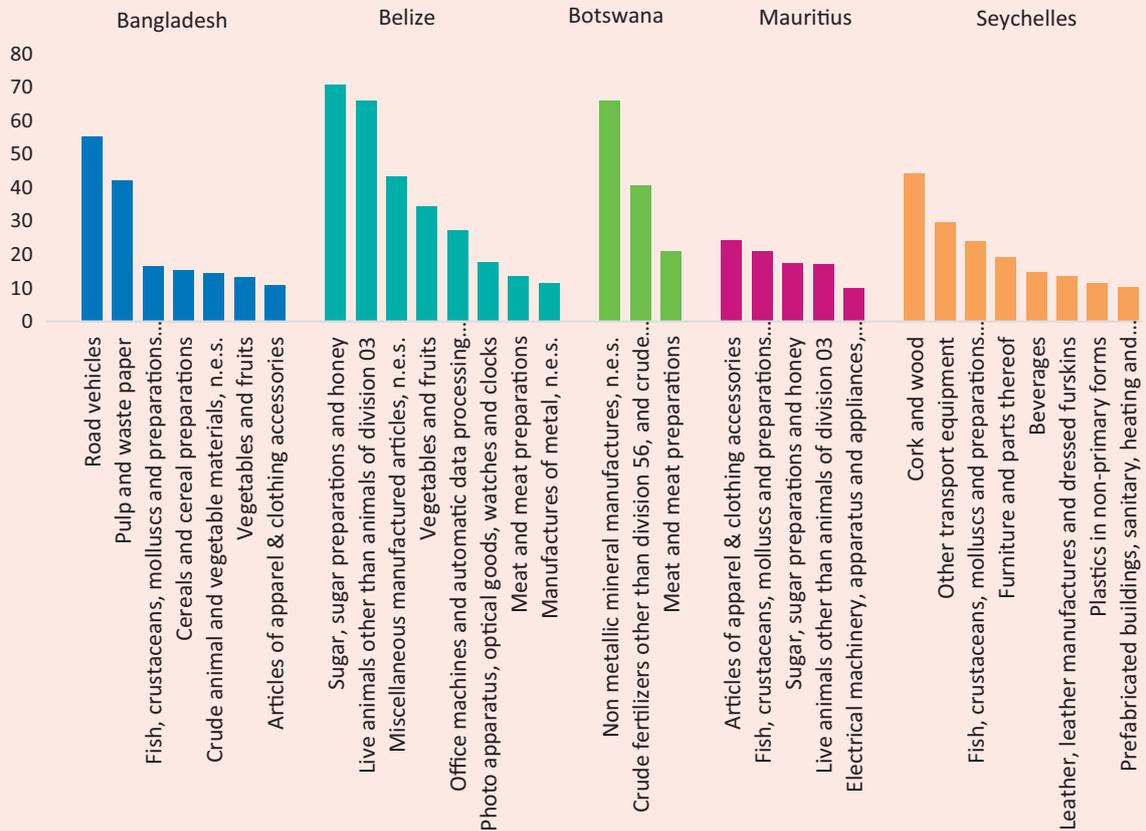
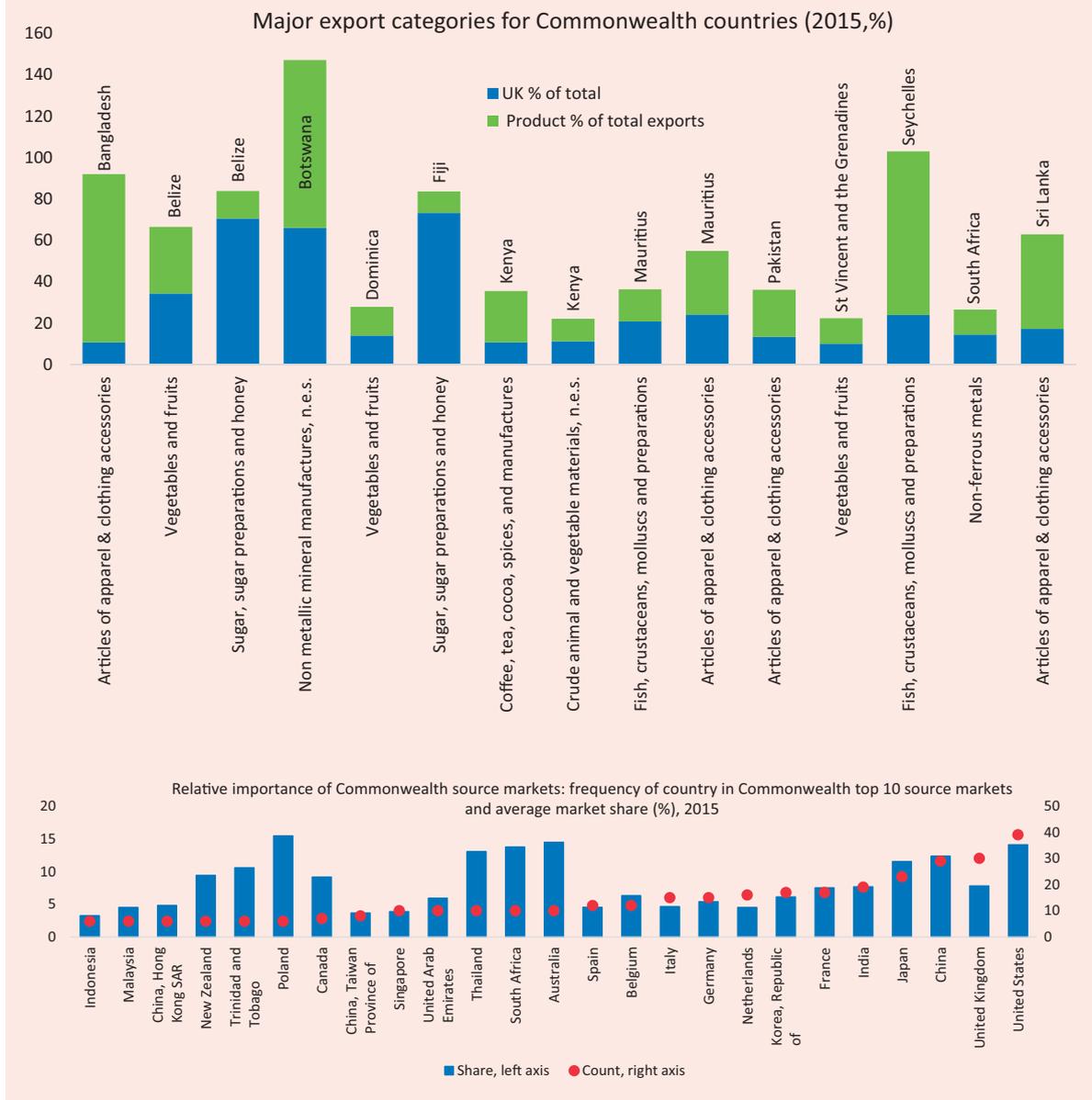


Figure 4 Key statistics on UK–Commonwealth trade in goods (continued)



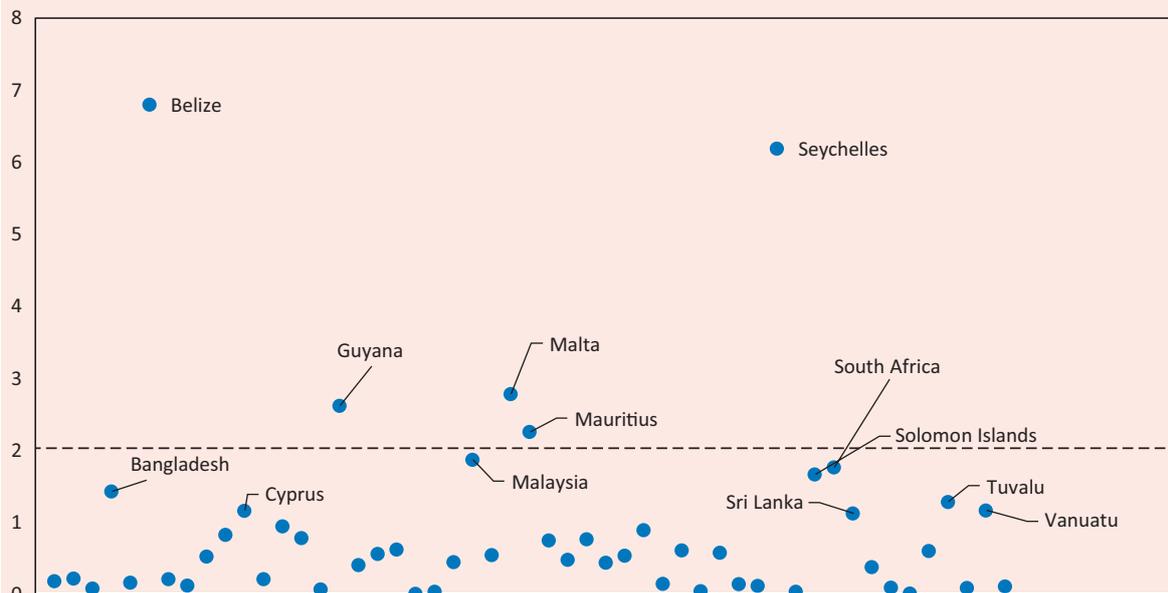
Another pertinent question is whether or not a reduction in exports to the UK market is likely to have a significant impact on Commonwealth countries' gross domestic product (GDP). In terms of its contribution to gross income, Commonwealth exports to the UK are most significant for those Commonwealth small states (Belize, Seychelles, Malta, Guyana, Mauritius, and Solomon Islands) where exports to the UK market account for at least 2 per cent of their GDP. In these terms, the UK market is also important for a few larger Commonwealth nations such as South Africa, Malaysia, Sri Lanka and Bangladesh (Figure 5).

On the issue of strengthening UK–Commonwealth trade ties, consideration has to

be given to whether or not the foundation exists for a natural and harmonious trading relationship. At the very basic level, for trade to exist, countries must be able to produce what others demand. Therefore, to examine the current potential for increased UK–Commonwealth trade, this paper looks at the top 10 UK goods imported against the top 10 Commonwealth goods exported, to ascertain whether or not Commonwealth exports can currently service UK demands.

Of the top ten goods the UK imports from Commonwealth countries, eight feature in the top ten goods the UK imports globally,¹⁰ but they do not form a substantial proportion of total UK imports. The only exceptions are imports of

Figure 5 Commonwealth countries' goods exports to the UK as percentage of GDP, 2015



Sources: International Trade Database, Eurostat, 2016, and World Development Indicators, World Bank, 2016

pearls, precious/semiprecious metals (43.5%) and unknitted apparel and accessories (23.5%). Canada and South Africa provide the lion's share of pearls and precious metals, while Bangladesh, India and Sri Lanka export the majority of unknitted apparel and accessories. Knitted apparel and accessories (25.6%) and edible fruit nuts (15.7%)¹¹ are also major Commonwealth imports to the UK, but are not in the UK's top 10 import categories (see Figure 6 and Tables A3 and A6).

Commonwealth small states supply four of the top ten UK imports,¹² while LDCs' exports feature in only two goods categories. Similarly, small states' generally provide small proportions of these imported items (Tables A4 and A5), apart from sugar and confectionery (14.8%).¹³ LDCs' shares of UK imports of apparel and accessories – both knitted (12.1%) and unknitted (11.1%) – are relatively significant.

Note here that, although export shares for some countries (e.g. Canada, South Africa and India) to the UK are insignificant, their share of UK top 10 imports are not small. Further, some countries are strongly linked solely through the dependence of certain industries and products (e.g. fish and crustaceans) on the UK market.

Trade in services

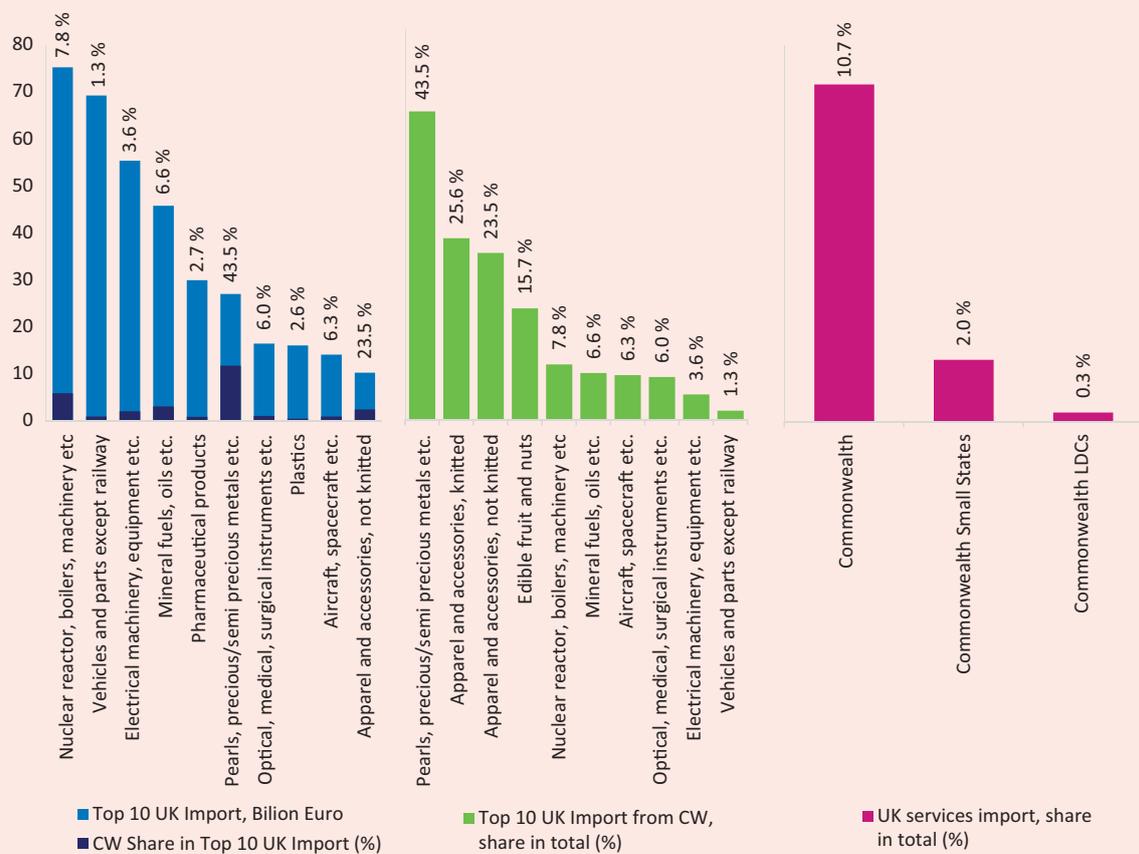
The Commonwealth provides just about 10.7 per cent of the UK's imports of services,

approximately 2.8 percentage points more than it supplies in goods. Commonwealth small states contribute around 2 per cent and LDCs a marginal 0.3 per cent of UK service imports from the Commonwealth (Figure 6).

Nevertheless, in the event of lower UK growth and a permanently weaker pound sterling, trade in services, particularly for small Commonwealth countries, is likely to generate slightly larger multiplier effects. Sixty per cent of the Commonwealth's 53 countries are small states and tourism is the main income earner for several of these economies (Table A1). For most Commonwealth small states, the UK is in the top three countries from which tourists come, indicating the huge significance of UK tourist spend, the importance of which is buttressed when factoring in the relative value of the pound sterling.

Table 1 provides information on the top five source markets for a selected set of tourism-dependent Commonwealth countries for which data are available. In these markets, UK arrivals are most important for Barbados and Malta; second most important for Maldives and St Lucia; and third most important for St Kitts and Nevis. When looking at the data for Malta and Mauritius on tourist spend in 2013 (Table A9), the point above on the importance of UK tourist expenditure is highlighted. Tourist arrivals and expenditure

Figure 6 Top 10 UK imports and proportions of UK imports of services



Source: International Trade Database, Eurostat, 2016

for Malta are dominated by the UK, but more interestingly, in Mauritius, where UK arrivals rank third against other major source markets, UK expenditure ranks second despite the number of arrivals being lower than from France and Réunion.

From this standpoint, one would expect that a persistently lower £/US\$ exchange rate, coupled with a lower UK GDP growth rate, would significantly affect Commonwealth small states. However, the impact could be minimal for some small states such as Fiji Islands, where the UK is not a significant source.

Remittances

The United Kingdom is a significant source of remittances globally, including for a number of Commonwealth countries. Besides UK official development assistance (ODA) and some specific traded goods, remittances represent one of the most significant economic linkages between the UK and the Commonwealth.

The UK was ranked the fourth most important corridor for remittance flows to the Commonwealth in 2015. Remittance flows from the UK are surpassed only by those from the USA, Saudi Arabia and the United Arab Emirates. Among the top ten Commonwealth remittance recipients are four small states and two LDCs. Cyprus ranked highest, while Kenya, South Africa, Australia and Nigeria are also in the top ten (Table 2).

A slowdown in UK remittances due to Brexit would have a negative impact on recipient countries. Historical data on global remittance flows imply that remittances flows are quite resilient. Studies conducted by the World Bank suggest that remittance flows have not been overly sensitive to the economic cycle.¹⁴ This suggests that remittances are driven by altruistic rather than economic or other motives, and that it would take extreme and prolonged economic underperformance for remittance flows to be affected. Therefore, only in the worst-case

Table 1 Main source markets for selected tourism-dependent Commonwealth countries

Main source market	Arrivals and market share as at 2015 (top five only)					
	Barbados	Maldives	Malta	Mauritius	St Kitts and Nevis	St Lucia
Canada	74,494 (5.7%)	363,626 (30.2%)	–	–	7,351 (6.3%)	38,677 (11.2%)
Caribbean	–	–	–	–	22,328 (19.1%)	62,745 (18.2%)
China	–	–	–	89,585 (7.8%)	–	–
France	–	–	128,014 (7.1%)	254,362 (22.1%)	–	–
Germany	–	98,328 (8.2%)	142,010 (7.9%)	–	–	–
Italy	–	57,862 (4.8%)	289,019 (16.1%)	–	–	–
Nordic countries	–	–	117,450 (6.6%)	–	–	–
Other CARICOM	58,321 (4.5%)	–	–	–	–	–
Other countries	–	–	–	–	6,273 (5.4%)	22,573 (6.5%)
Réunion	–	–	–	143,834 (12.5%)	–	–
Russia	–	66,308 (5.5%)	–	–	–	–
South Africa	–	–	–	101,954 (8.9%)	–	–
Trinidad and Tobago	26,659 (2.3%)	–	–	–	–	–
United Kingdom	214,175 (16.4%)	88,704 (7.4%)	526,089 (29.4%)	129,796 (11.3%)	10,058 (8.6%)	68,175 (19.8%)
USA	148,067 (11.4%)	–	–	–	70,693 (60.7%)	152,738 (44.3%)
Rank of UK source market	1	2	1	3	3	2

Sources: Statistical agency and or tourism board for each country

scenario that the UK's exit from the EU is followed by tighter immigration controls, a permanent reduction in UK incomes or a permanently lower £/US\$ exchange rate is this outcome likely.¹⁵

Development assistance

Another key economic link and transmission channel between the UK and the Commonwealth is UK ODA. It is an important mechanism through which the UK engages with Commonwealth developing countries. Although the volumes are smaller, aid to small states and LDCs is a significantly higher proportion of GDP

than that to larger countries (Mitchell 2015). This emphasises the possibility that reduced aid will lead to negative shocks.

UK ODA to the Commonwealth in 2014 was an estimated US\$3289.98 million, representing the second largest share of ODA to Commonwealth developing countries, approximately 4.2 percentage points less than that provided by Japan (Table 3).

The largest amount of ODA the UK contributes is US\$459.43 million to India. The other top 10

Table 2 Importance of UK remittance flows to Commonwealth countries

Rank	Country	% of remittances sent to Commonwealth countries	Country	Remittances received from the UK (% of total remittance receipts)
1	United States	15.79	Cyprus	44.92
2	Saudi Arabia	14.22	Kenya	33.31
3	United Arab Emirates	13.56	Mauritius	28.81
4	United Kingdom	8.12	Uganda	26.70
5	India	4.78	South Africa	26.69
6	Kuwait	4.29	Malta	26.20
7	Canada	3.83	Australia	22.96
8	Qatar	3.57	Barbados	19.42
9	Pakistan	3.22	Zambia	19.20
10	Australia	3.21	Nigeria	18.01

Source: *Migration and Remittances Database*, World Bank, 2016

Table 3 Commonwealth ODA receipts from the UK and other major donors (total net disbursements), 2014

Country	ODA to Commonwealth small states (US\$million)	ODA to Commonwealth LDCs (US\$million)	ODA to Commonwealth developing countries (US\$million)	Percentage of donor's ODA to developing countries that goes to Commonwealth countries
UK	23.74	1,339.30	3,289.98	29.3
USA	326.76	1,819.18	5,385.83	19.4
Germany	33.31	327.95	1,319.7	11.4
Japan	84.15	660.17	2,012.23	33.5

Source: *OECD.Stat*, OECD, 2016

Commonwealth recipients of aid from the UK include LDCs (Sierra Leone, Bangladesh, Zambia, Mozambique and Uganda) along with Pakistan, Nigeria, Tanzania and Kenya (Table 4).

Small states receive less ODA directly from the UK on a bilateral basis. However, ODA to these countries through the UK's contribution to the EU, and other multilateral institutions, is substantial (Figure A1; see also Mitchell 2015). The UK channels a significant portion of its aid budget (approximately £7.9 billion in 2015) to EU institutions for development cooperation and humanitarian aid, which is a sizeable amount of the EU's total aid budget (€162.3 billion).

Approximately £1.4 billion is allocated in large part to Commonwealth developing countries, primarily through the UK's pro-development policies and influence on the EU budget. This

Table 4 Top 10 Commonwealth recipients of UK ODA (US\$ million), 2014

Rank	Country	Receipts
1	India	459.43
2	Pakistan	438.47
3	Sierra Leone	391.42
4	Nigeria	389.75
5	Bangladesh	342.85
6	Tanzania	245.19
7	Kenya	222.31
8	Zambia	149.92
9	Mozambique	138.24
10	Uganda	136.27
Developing countries, total		11,233.19

Source: OECD database

raises important questions. After the UK's official departure, what will happen to the allocation of EU aid to Commonwealth small states and LDCs that depend heavily on the EU's development assistance? A model where the UK still makes voluntary contributions to the EU budget would help to protect aid flows to these vulnerable countries.

A broader and more substantive issue is if Brexit will have any impact on the UK's universal Sustainable Development Goal (SDG) commitments. The UK, along with the majority of advanced countries, has committed to contributing 0.7 per cent of its gross national income (GNI) as ODA, of which 0.15–0.2 per cent is to be delivered to LDCs. The UK is one of six countries to have met this commitment, which is enshrined in law. However, downside risks reflected in the IMF's UK GDP forecasts raise questions about the UK's ability to meet such commitments. These concerns are exacerbated by the future loss of UK contributions to the EU and uncertainty around the policy direction of a new UK government.

Statistically, UK ODA moves in line with changes in UK GDP. The close association between the trend in UK ODA and the trend in UK GDP reflects the UK's aid commitments, particularly its commitment to delivering on the UN SDGs (Figure A2). Should UK GDP fall, the UK's future policy on aid will therefore be the major determinant of whether or not the UK meets its ODA commitments following Brexit. The net impact on the Commonwealth's receipts of development assistance will also depend on the UK and EU aid

allocation decisions, along with the long-term value of the pound sterling.

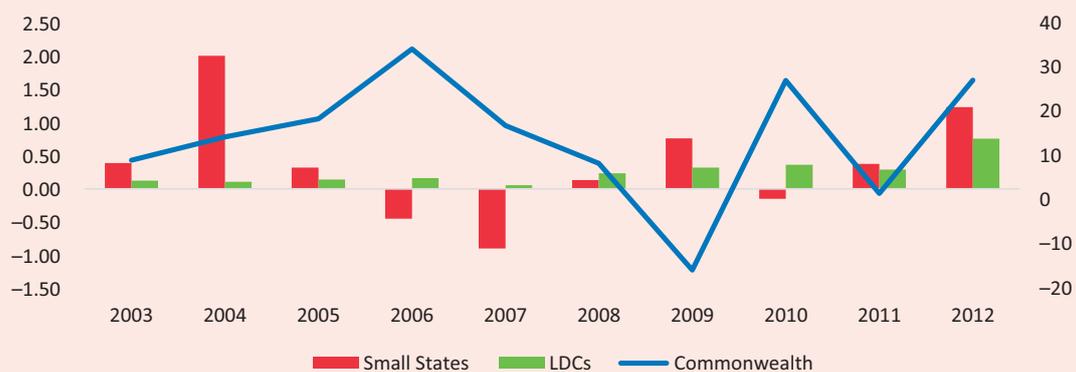
Investment

As witnessed in the aftermath of the 23 June referendum, increased uncertainty following the UK's decision to leave the EU provoked more cautious investor decisions (Figure 2). If this uncertainty is prolonged, UK investors will more than likely continue to delay or postpone longer-term investments. This would particularly affect major recipients of UK foreign direct investment (FDI) and Commonwealth countries with UK projects already in the pipeline.

Over 2003–2012, UK FDI flows to the Commonwealth were fairly substantial (Figure 7). They ranged between 10 per cent and 30 per cent of total UK FDI outflows in those 10 years, driven largely by UK FDI outflows to Canada, South Africa and Australia. UK investor commitments in Commonwealth small states and LDCs are far fewer. In these groupings, FDI receipts from the UK do not surpass 2 per cent of the UK's total FDI outflows. An interesting case in the Commonwealth is Pakistan, which ranks sixth in the Commonwealth in terms of UK FDI receipts by value, but first by a large margin in UK FDI as a proportion of GDP (Figure 8 and 9). This suggests that even small changes in UK FDI outflows could cause significant ramifications for Pakistan. Commonwealth countries would also have to factor in the possible implications for FDI of a permanently weaker UK exchange rate.

But are there any opportunities for Commonwealth investees? There might be if the

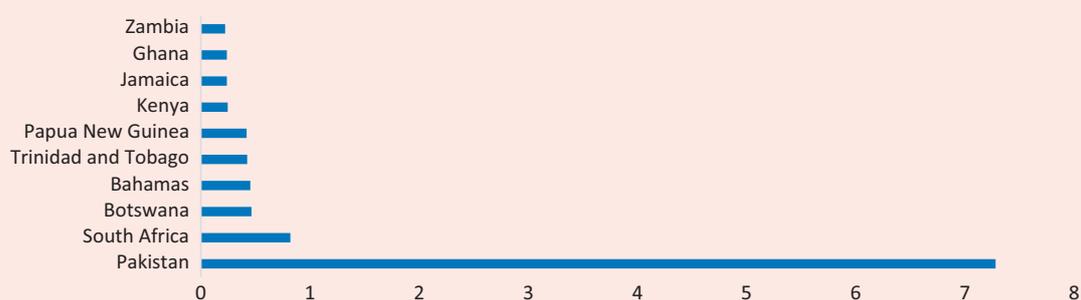
Figure 7 Percentages of FDI from the UK in Commonwealth countries



Source: OECD.Stat, OECD, 2016

Note: Commonwealth total on the right axis.

Figure 8 Top 10 UK FDI outflows to Commonwealth countries as percentage of GDP



Source: OECD.Stat, OECD, 2016

UK market becomes more unattractive, and if UK investors step up their outward-looking strategy. In that case, it is likely that UK FDI could increase to advanced Commonwealth countries, where there are stronger macro-economic fundamentals.

Debt

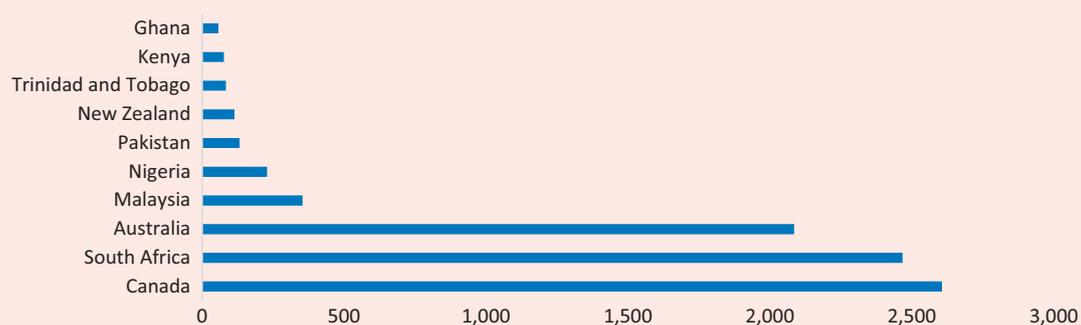
High levels of debt are one of the more persistent challenges in the Commonwealth. For years debt has plagued the membership's LDCs. In more recent times, it has been central to the vulnerability of small states, which are, by nature of their size, location and structure, inherently exposed to external shocks. Small states are the most highly indebted Commonwealth countries, led by Caribbean small states (Figure 10). The debt situation in the Caribbean is acute, as it coincides with a trajectory of relatively low growth. Therefore, these countries can hardly afford large and unexpected shocks. Any development that worsens the growth prospects for the Caribbean countries will accentuate their debt challenge.

The importance of growth to small states' debt sustainability is clearly illustrated in Figure 11.

Likewise, although their debt to GDP ratios are lower, LDCs have been increasing their issuance of government bonds since receiving heavily indebted poor countries (HIPC) debt relief. As also reflected in Figure 8, LDCs' levels of indebtedness have been rising. International financial institutions, particularly the IMF, have expressed concern about the pace at which LDCs are currently accumulating debt liabilities, which is increasing their susceptibility to shocks. The prospect of a slowdown in UK GDP growth and the knock-on effect on the global economy, although potentially marginal, represents another adverse event that could negatively affect small states as well as LDCs.

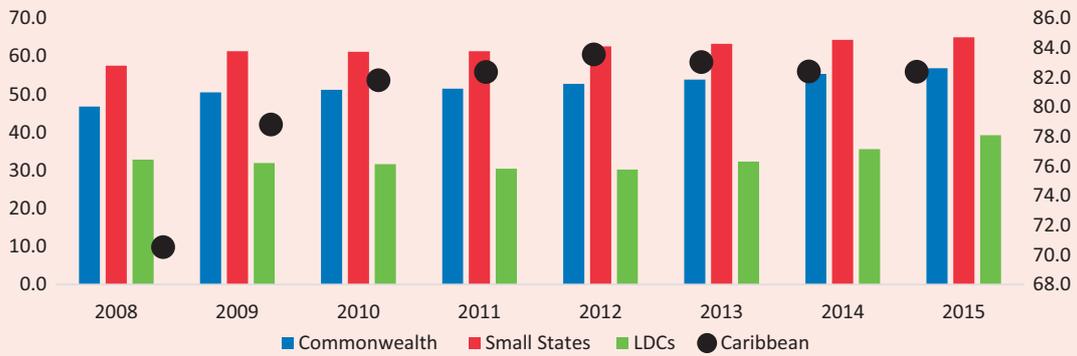
In this respect, the appreciation of indebted countries' currencies against the UK pound is welcome, but is not likely to bring material gains. The majority of Commonwealth Caribbean countries peg their currencies in some fashion, whether quasi or semi-quasi, to the US exchange rate. Therefore, countries with debts underwritten in pounds sterling could, in theory, benefit from lower debt-servicing costs. According to the World Bank Development Indicators, however, in

Figure 9 Top 10 average UK FDI outflows to Commonwealth countries, 2003–2012 (US\$ million)



Source: OECD.Stat, OECD, 2016

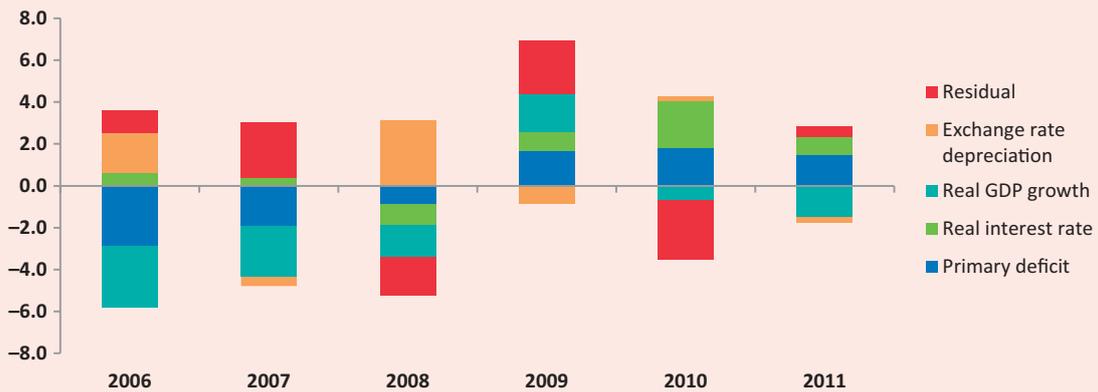
Figure 10 Debt to GDP ratios in Commonwealth countries (%)



Source: World Bank Development Indicators, World Bank, 2016

Note: Caribbean on right axis

Figure 11 Historical decomposition of Commonwealth small states debt accumulation (% contribution)



Source: 'A time to act: addressing Commonwealth small states financing and debt challenges', Commonwealth Secretariat, 2013

the Commonwealth only 0.15 per cent of external long-term public and publicly guaranteed debt is contracted in UK pound sterling. Hence, the prospects for exchange rate-induced relief are minimal.

4. Responding to Brexit: how can the Commonwealth assist?

How can the Commonwealth help its members to prepare for negative effects that could arise from Brexit, and to take advantage of potential opportunities? The first role that the Commonwealth could play is to assess the likely impact on its member countries, an objective that this paper attempts to meet. The paper also attempts to provoke proactive thinking and, while not overestimating the likelihood of a future shock, encourages members to think through all eventualities.

A number of ongoing Commonwealth work programmes already seek to help member countries mitigate the effects of negative shocks. In this regard, the Secretariat work on trade, development finance, resilience building, G20 dialogue and debt management can be tailored quite easily to helping members cushion their economies against any effects from Brexit. Further, the Commonwealth is one of the most trusted international development platforms in the world, if not the most trusted. This platform could be extremely useful for hosting very intricate discussions between the UK and its trading partners following Brexit.

Trade

There is a role for the Commonwealth in helping its members protect key existing Commonwealth trade exports to the UK market by creating a forum for discussing the importance of a

considered post-Brexit trade infrastructure; that is, one that recognises Commonwealth countries' specific linkages and challenges, as well as discussing the potential implications of Brexit. Under the current EU EPA arrangement and EBA, Commonwealth Caribbean countries and LDCs, respectively, have preferential access to the EU market, which includes the UK for the moment. Africa and Pacific countries are in the midst of EPA discussions. When the UK completes its exit from the EU, those Commonwealth countries that depend on key UK exports could lose preferential access, while export potential in other goods markets could be affected should the UK fail to establish equivalent EU provisions. The UK's future trade policy arrangement is therefore important for a number of Commonwealth countries, as has been highlighted.

The Commonwealth is a key player on trade policy work and on trade competitiveness, and can serve as a platform for the UK and relevant member countries to discuss challenges as well as possible new trading arrangements.

Development finance and building small states' resilience

De-risking and its impact on the flow of remittances is a key topic globally, and specifically for the Commonwealth, given the importance of these flows to member countries. Commonwealth work in the area is geared towards protecting available remittances and international financial services, more broadly. It entails working with institutions and counterparts to develop and propose mechanisms to reduce restrictions on remittance flows. The Commonwealth work programme is directly relevant to Brexit, since unabated reductions in correspondent banking relationships would worsen any slowdown in UK remittances. In addition, work is being progressed to help members improve the development impact of remittances. This is being done through research on incentivising remittances for investment.

The Commonwealth recognises that it is important for small states to develop the capacity to absorb and recover from unexpected shocks. In this regard, the Secretariat has also initiated a resilience-profiling exercise, geared towards assessing countries' governance structures and coming up with key recommendations to building their economic and environmental resilience. The Commonwealth is also documenting and

promoting financial instruments that can support fiscal resilience to climate shocks.

Commonwealth–G20–Francophonie dialogue

The Commonwealth is preparing for its dialogue with the new G20 chair, Germany, a key figure in the EU market. It could therefore discuss with Germany the feasibility of raising key Commonwealth concerns about Brexit, which Germany along with other relevant G20 members could consider. In this respect, advocacy for attention to the challenges that could be faced by small states and LDCs could be prioritised.

Debt management

Since the 1980s, when debt concerns in the Commonwealth were at their highest, the Commonwealth has been providing debt management assistance through its debt-recording management system (CS-DRMS), now used in over 60 countries. This programme is being strengthened to improve members' debt management capabilities and could be useful for examining debt scenarios that include effects from Brexit. In parallel, the Commonwealth, in collaboration with the World Bank and the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC), is pushing ahead with work on debt swaps, an initiative aimed at helping countries manage debt better while incentivising country action on climate resilience.

5. Conclusion

Unless there is a sustained and significantly weaker UK pound sterling, based on the Commonwealth–UK linkages, the aggregate direct impact from Brexit, should the IMF's worst-case growth projections materialise, is likely to be relatively contained. However, disproportionate effects on the Commonwealth could be felt in some areas, including trade (with varied risks for specific goods exports and countries) and particularly in tourism services in small states; UK remittances; Commonwealth development assistance receipts; FDI flows; and potentially debt.

In particular, an unfavourable post-Brexit UK trading regime and a sustained depreciation in the pound sterling could have the largest effect on exports of goods from Botswana, Belize, Seychelles, Mauritius and Bangladesh, while the current UK import shares that come from Canada,

South Africa, India and Sri Lanka could be affected. Additionally, as a result of specific Commonwealth exposures in some product categories (fish and crustaceans, sugar, and apparel and clothing accessories), there is also the likelihood of product-specific negative effects.

For those small states dependent on tourism services, and for which the UK is a major market, a depreciated pound sterling and the possibility of lower disposable incomes pose considerable risks to their GDP. The future of the UK's exchange rate could also be a major determinant of the flow of Commonwealth remittances, particularly to a number of African and Asian Commonwealth countries, which receive the largest proportions, and for small states and LDCs that are relatively dependent on remittances.

Although the Commonwealth provides eight of the UK's top ten imports, Commonwealth shares in the UK's top ten imported product categories are relatively small. This suggests that, while there is an existing platform for trade, specific efforts would have to be made to incentivise greater UK–Commonwealth trade flows. Expanding the existing platform would require a concerted effort by key and relevant members, the foundation of which could be based on current and future trade potential, as well as on the Commonwealth's commonalities. The recent surge in intra-Commonwealth trade as indicated in the Commonwealth's flagship publication suggests that the possibility for increased trade exists regardless of the consequences of Brexit (Commonwealth 2015a). The Commonwealth's new Trade Ministers platform is therefore a suitable forum in which to discuss such initiatives.

The net impact on aid in the worst-case scenario will depend on the policy commitment of the new UK government, and Pakistan will have to pay close attention to Brexit, primarily because of the importance of UK FDI to its GDP.

The debt challenge in Commonwealth small states is not likely to be aided by broad-based currency appreciation against the pound. However, Commonwealth programmes in debt management and debt swaps could be useful in mitigating further accumulation of debt, should Brexit worsen the global growth projection. Additionally, the Commonwealth is proceeding with work on development finance and resilience that could assist with mitigating risks from external shocks, including Brexit.

Notes

- 1 Main contributors: Travis Mitchell (t.mitchell@commonwealth.int), Sanjana Zaman (s.zaman@commonwealth.int) and Charumathi Raja (c.raja@commonwealth.int).
- 2 Using data from Eurostat at the HS2 level of aggregation.
- 3 African and Pacific countries are still in negotiations with the EU on EPAs.
- 4 These are dealt with elsewhere (e.g. Stevens and Kennan 2016).
- 5 A full list of Commonwealth countries and the breakdown of small states and LDCs are provided in the appendix, Table A1.
- 6 A projection slightly worse than the recently updated IMF World Economic Outlook (WEO) baseline forecasts presented in Figure 3.
- 7 Weaker economic linkages are defined here as insignificant financial exposures to the UK.
- 8 See the Commonwealth Secretariat Trade Review for details on the increase in intra-Commonwealth trade (Commonwealth Secretariat 2015a).
- 9 Source: *UNCTADstat*, UNCTAD, 2016
- 10 Nuclear reactor, boilers, machinery; Vehicles and Parts (except railway); electrical machinery, equipment etc.; Mineral, fuels, oils etc.; Pearls, precious/semi-precious metals etc.; Optical, medical, surgical, instruments etc.; Aircraft, spacecraft, etc.; Apparel and accessories, not knitted.
- 11 Provided primarily by Bangladesh and India and by South Africa and New Zealand, respectively.
- 12 Counted at the HS2 level from Eurostat: Pharmaceutical products, knitted apparel and accessories; vehicles and parts (except railway); and electrical machinery and equipment.
- 13 In the context of small states, sugar and confectionery imports to the UK are dominated by sugar from Guyana, Belize, Mauritius, Fiji and Jamaica (see Table A7). UK imports of clothing and apparel from LDCs are dominated by Bangladesh (see Table A8).
- 14 For example, research on remittances during the crisis of 2008 indicated that remittances remained broadly stable despite many economies suffering sharp falls in GDP during that period (Sirkeci et al. 2012).
- 15 On the exchange rate, remittances leaving the UK would have already declined in value by more than 10 per cent, exactly in line with the depreciation in pound sterling (*Financial Times* 2016).

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Appendix

Table A1 OECD DAC classification of Commonwealth countries

Country	Income classification	Small state	Least developed country
Antigua and Barbuda	Upper middle income	•	
Australia	High income		
The Bahamas	High income	•	
Bangladesh	Least developed		•
Barbados	High income	•	
Belize	Lower middle income	•	
Botswana	Upper middle income		
Brunei Darussalam	High income		
Cameroon	Lower middle income		
Canada	High income		
Cyprus	High income	•	
Dominica	Upper middle income	•	
Fiji	Lower middle income	•	
Ghana	Lower middle income		
Grenada	Upper middle income	•	
Guyana	Lower middle income	•	
India	Lower middle income		
Jamaica	Upper middle income	•	
Kenya	Low income		
Kiribati	Least developed	•	•
Lesotho	Least developed	•	•
Malaysia	Upper middle income		
Maldives	Upper middle income	•	
Malawi	Least developed	•	•
Malta	High income	•	
Mauritius	Upper middle income	•	
Mozambique	Least developed		•
Namibia	Upper middle income	•	
New Zealand	High income		
Nauru	Upper middle income	•	
Nigeria	Lower middle income		
Pakistan	Lower middle income		
Papua New Guinea	Lower middle income	•	
Rwanda	Least developed		•
Samoa	Lower middle income	•	
Singapore	High income		
St Kitts and Nevis	Upper middle income	•	

(continued)

Table A1 OECD DAC classification of Commonwealth countries (continued)

Country	Income classification	Small state	Least developed country
St Lucia	Upper middle income	•	
St Vincent and the Grenadines	Upper middle income	•	
Seychelles	Upper middle income	•	
Sierra Leone	Least developed	•	•
Solomon Islands	Least developed	•	•
South Africa	Upper middle income		•
Sri Lanka	Lower middle income		
Swaziland	Lower middle income	•	
Tanzania	Least developed		•
Tonga	Lower middle income	•	
Trinidad and Tobago	High income	•	
Tuvalu	Least developed	•	•
Uganda	Least developed		•
United Kingdom	High income		
Vanuatu	Least developed	•	•
Zambia	Least developed		•
		31	13

Table A2 Small states' degree of openness and main exports

Country	Degree of openness	Main exports	Share of top three export categories
Africa			
Botswana	0.9	Diamonds	86.43
Lesotho	1.53	Diamonds	31.81
Mauritius	1.2	Tourism	38.21
Namibia	0.97	Diamonds	36.4
Seychelles	1.45	Tourism and fishing	81.65
Swaziland	1.41	Sugar/agriculture	
Asia			
Brunei Darussalam	1.1	Oil and gas	
Maldives	2.14	Fisheries	89.2
Caribbean			
Antigua and Barbuda	1.05	Tourism	38.2
The Bahamas	1.01	Tourism	58.56
Barbados	1	Tourism	47.49
Belize	1.31	Agriculture and fisheries	64.92
Dominica	0.9	Bananas	59.73
Grenada	0.74	Nutmeg and tourism	41.64
Guyana	2.04	Agriculture	59.05

(continued)

Table A2 *Small states' degree of openness and main exports (continued)*

Country	Degree of openness	Main exports	Share of top three export categories
Caribbean			
Jamaica	0.85	Tourism	55.34
St Kitts and Nevis	0.73	Tourism	73.27
St Lucia	1.14	Tourism	40.49
St Vincent and the Grenadines	0.83	Agriculture	48.84
Trinidad and Tobago	0.92	Oil and gas	60.84
Pacific			
Fiji	1.06	Sugar and tourism	39.92
Kiribati	0.86	Fisheries	54.65
Papua New Guinea	1.03	Mining and oil	
Samoa	0.91	Fisheries	74.9
Solomon Islands	0.73	Timber and fisheries	87.66
Tonga	0.78	Agriculture	47.22
Tuvalu		Copra and handicrafts	
Vanuatu	0.95	Agriculture and ecotourism	76.84
Europe			
Cyprus	0.87	Maritime and tourism	31.71
Malta	1.86	Tourism	64.48

Source: *A Time to Act: Addressing Commonwealth Small States Financing and Debt Challenges*, Commonwealth Secretariat, 2013

Table A3 UK imports and share of Commonwealth exports in UK trade

UK's top 10 imports by value, 2015									
Rank	Goods	€billion	Item as % of total imports	Commonwealth's % of imports of this item	Commonwealth small states' % of imports of this item	Commonwealth LDCs' & of imports of this item			
1	Nuclear reactor, boilers, machinery etc.	75.3	13.33	7.8	0.05	0.01			
2	Vehicles and parts except railway	69.3	12.26	1.3	0.13	0.06			
3	Electrical machinery, equipment etc.	55.4	9.80	3.6	0.08	0.00			
4	Mineral fuels, oils etc.	45.8	8.11	6.6	0.11	0.02			
5	Pharmaceutical products	29.9	5.29	2.7	0.48	0.00			
6	Pearls, precious/semiprecious metals etc.	27.0	4.78	43.5	0.04	0.05			
7	Optical, medical, surgical instruments etc.	16.4	2.91	6.0	0.07	0.01			
8	Plastics	16.0	2.83	2.6	0.06	0.01			
9	Aircraft, spacecraft etc.	14.0	2.49	6.3	0.01	0.00			
10	Apparel and accessories, not knitted	10.2	1.80	23.5	0.25	11.13			
UK's top 10 imports from the Commonwealth by value, 2015									
Rank	Goods	€billion	Commonwealth's % of imports of this item						
1	Pearls, precious/semiprecious metals etc.	11.7	43.5						
2	Nuclear reactor, boilers, machinery etc.	5.8	7.8						
3	Mineral fuels, oils etc.	3.0	6.6						
4	Apparel and accessories, knitted	2.6	25.6						
5	Apparel and accessories, not knitted	2.4	23.5						
6	Electrical machinery, equipment etc.	2.0	3.6						
7	Optical, medical, surgical instruments etc.	1.0	6.0						
8	Vehicles and parts except railway	0.9	1.3						
9	Aircraft, spacecraft etc.	0.9	6.3						
10	Edible fruit and nuts	0.9	15.7						

Table A4 UK's top 10 imports from Commonwealth small states by value, 2015

Rank	Goods	€billion	Commonwealth small states' % of imports of this item
1	Sugar and confectionery	0.22	14.8
2	Preparations meat, fish etc.	0.17	4.1
3	Edible fats and oils	0.14	8.9
4	Pharmaceutical products	0.14	0.5
5	Apparel and accessories, knitted	0.09	0.9
6	Vehicles and parts except railway	0.09	0.1
7	Edible fruit and nuts	0.08	1.4
8	Meat	0.05	1.0
9	Mineral fuels, oils etc.	0.05	0.1
10	Electrical machinery, equipment etc.	0.05	0.1

Source: International Trade Database, Eurostat, 2016

Table A5 UK's top 10 imports from Commonwealth LDCs by value, 2015

Rank	Goods	€billion	Commonwealth LDC's % of imports of this item
1	Apparel and accessories, knitted	1.23	12.1
2	Apparel and accessories, not knitted	1.13	11.1
3	Fish and crustaceans etc.	0.09	3.8
4	Aluminium and articles thereof	0.07	1.5
5	Made-up and worn textile articles	0.05	2.6
6	Coffee, tea and spices	0.04	2.7
7	Vehicles and parts except railway	0.04	0.1
8	Tobacco and tobacco substitutes	0.03	5.6
9	Vegetables and edible roots and tubers	0.03	0.8
10	Edible fats and oils	0.02	1.1

Source: International Trade Database, Eurostat, 2016

Table A6 Commonwealth countries' shares in four of the UK's top ten imported goods

Rank	Pearls, precious/semiprecious metals etc.	% of Commonwealth total	Apparel and accessories, not knitted	% of Commonwealth total	Apparel and accessories, knitted	% of Commonwealth total	Edible fruit and nuts	% of Commonwealth total
1	Canada	63.3	Bangladesh	47.3	Bangladesh	47.1	South Africa	59.6
2	South Africa	27.3	India	26.1	India	24.0	New Zealand	7.9
3	Australia	4.9	Sri Lanka	14.7	Sri Lanka	12.8	India	6.0
4	India	4.0	Pakistan	9.9	Pakistan	11.6	Belize	5.5
5	Singapore	0.2	Mauritius	0.4	Mauritius	3.4	Ghana	5.2
6	Pakistan	0.1	Cyprus	0.3	Malaysia	0.6	Cameroon	3.0
7	Zambia	0.1	Malaysia	0.3	Canada	0.2	Pakistan	2.3
8	Cyprus	0.05	Malta	0.3	South Africa	0.1	Australia	1.7
9	Botswana	0.04	South Africa	0.2	Australia	0.1	Namibia	1.7
10	Kenya	0.01	Australia	0.1	Tanzania	0.04	Malaysia	1.5

Source: International Trade Database, Eurostat, 2016

Table A7 Commonwealth small states' share of sugar and confectionery imports to the UK

Rank	Sugar and confectionery	% of Commonwealth total
1	Guyana	25.8
2	Belize	23.8
3	Mauritius	19.4
4	Fiji	15.5
5	Jamaica	15.1
6	Barbados	0.1
7	Swaziland	0.1
8	Cyprus	0.1
9	Grenada	0.001

Source: International Trade Database, Eurostat, 2016

Table A8 UK's top 10 imports from the Commonwealth LDCs by value, 2015

Goods	€billion	Commonwealth LDCs' % of imports of this item
Apparel and accessories, knitted	1.23	12.1
Apparel and accessories, not knitted	1.13	11.1
Fish and crustaceans etc.	0.09	3.8
Aluminium and articles thereof	0.07	1.5
Made-up and worn textile articles	0.05	2.6
Coffee, tea and spices	0.04	2.7
Vehicles and parts except railway	0.04	0.1
Tobacco and tobacco substitutes	0.03	5.6
Vegetables and edible roots and tubers	0.03	0.8
Edible fats and oils	0.02	1.1

Source: International Trade Database, Eurostat, 2016

Table A9 Selected Commonwealth tourist spends

Source market	Malta, 2015			Mauritius, 2013		
	Arrivals	Spend per tourist (€)	Total spend (€million)	Arrivals	Spend per tourist (€)	Total expenditure (€million)
China				41,913	979	41
France	128,014	651	83	244,752	1,152	282
Germany	142,010	680	97			
Italy	289,019	446	129			
Nordic countries	117,450	670	79			
Réunion				143,114	452	65
South Africa				94,208	721	68
United Kingdom	526,089	667	351	98,017	1,072	105
Rank of UK	1	3	1	3	2	2

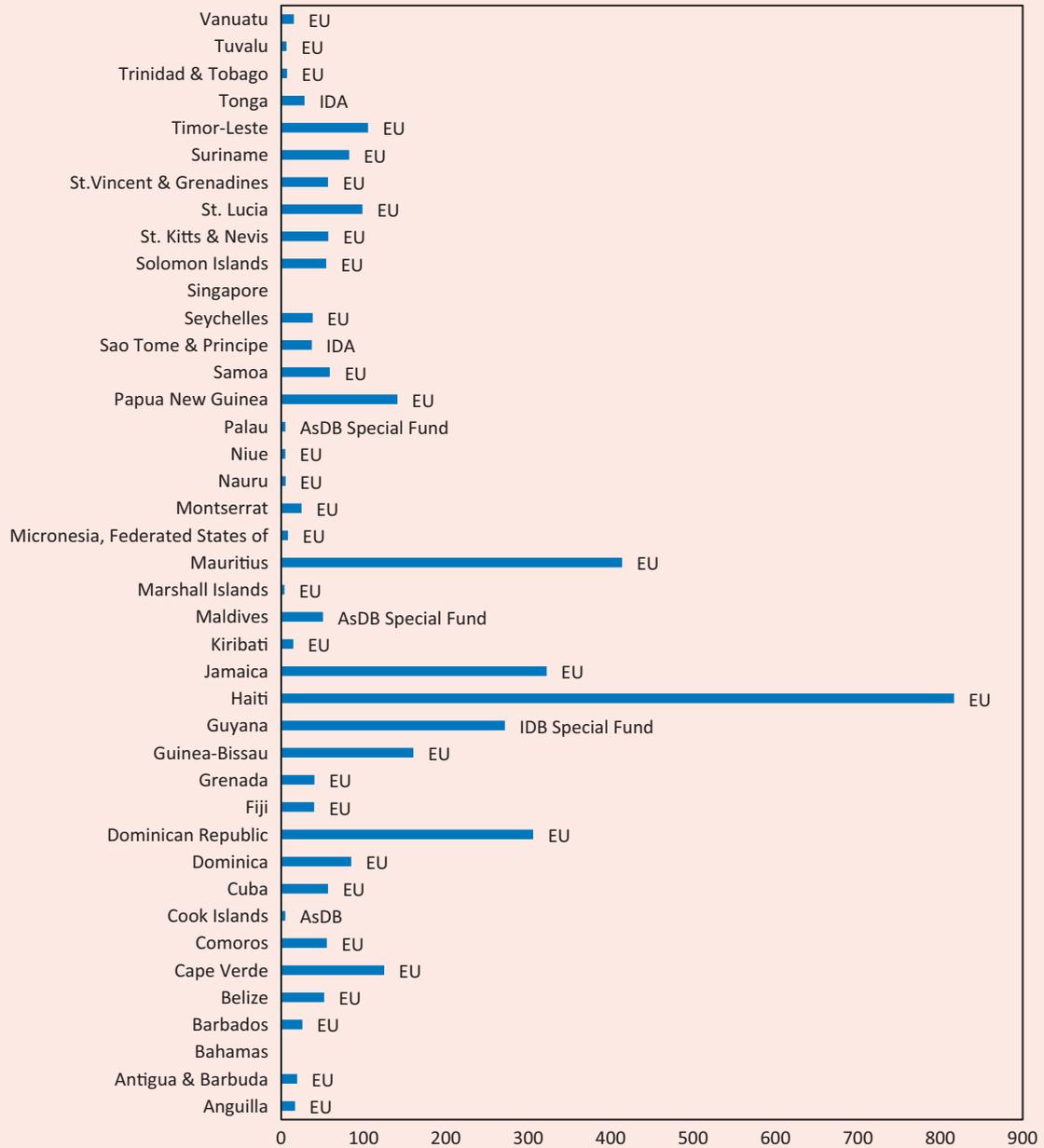
Source: Tourism in Malta 2015, Malta Tourism Authority, n.d., and International travel and tourism 2015, Statistics Mauritius, n.d.

Table A10 Export categories for Commonwealth countries with UK export shares above 60 per cent (2015, %)

Country	Product category	Share of UK export in total export to the World	Share of the product in country's total export
Antigua and Barbuda	Medicinal and pharmaceutical products	67.3	0.2
Belize	Live animals other than animals of division 03	66.0	0.1
Brunei Darussalam	Non-metallic mineral manufactures, n.e.s.	85.6	0.2
Cyprus	Leather, leather manufactures and dressed furskins	98.8	0.0
Cyprus	Gold, non-monetary (excluding gold ores and concentrates)	80.4	0.5
Cyprus	Sugar, sugar preparations and honey	61.6	0.0
Dominica	Meat and meat preparations	76.2	0.1
Dominica	Miscellaneous edible products and preparations	75.6	0.3
Dominica	Metalliferous ores and metal scrap	62.7	0.2
Grenada	Other transport equipment	63.1	8.9
Guyana	Animal oils and fats	99.9	0.0
Guyana	Organic chemicals	75.4	0.3
Guyana	Sugar, sugar preparations and honey	74.4	7.5
Guyana	Chemical materials and products, n.e.s.	64.5	0.0
Kiribati	Non-ferrous metals	99.2	0.0
Samoa	Cork and wood manufactures (excluding furniture)	80.4	0.4
Sri Lanka	Coal, coke and briquettes	60.0	0.0
St Lucia	Vegetables and fruits	89.5	4.8
St Vincent and the Grenadines	Organic chemicals	97.2	0.0
St Vincent and the Grenadines	Plastics in primary forms	96.1	0.1
The Bahamas	Feedstuff for animals (excluding unmilled cereals)	100.0	0.0
Vanuatu	Medicinal and pharmaceutical products	95.1	0.3
Vanuatu	Dairy products and birds' eggs	86.5	0.1
Vanuatu	Chemical materials and products, n.e.s.	84.0	0.0
Vanuatu	Petroleum, petroleum products and related materials	80.4	0.4
Vanuatu	Essential oils for perfume materials and cleaning preparations	61.8	0.1

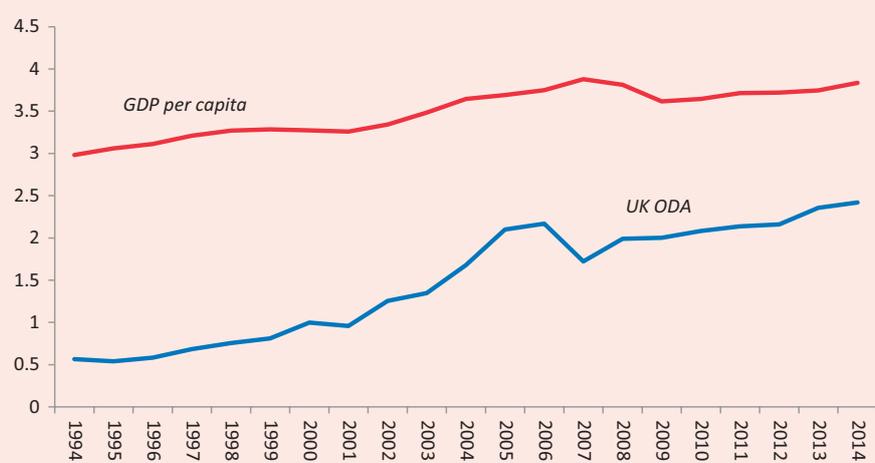
Source: UNCTADStat, UNCTAD, 2016

Figure A1 Major multilateral donors to small island developing states, 2008–2012



Source: 'The future of ODA and post-2015 financing for development in SIDS', Mitchell, 2015

Figure A2 ODA and GDP growth for the UK



Source: OECD.Stat, OECD, 2016

Note: Logarithmic scales have been used