

18. Creating Trade Opportunities for Sustainable Growth & Development

Prepared by Pacific Islands Forum Secretariat

SUMMARY

Every economic crisis highlights the importance of a diversified economy, and the need to explore other opportunities for sustainable growth and development that can assist in improving the international competitiveness of the Pacific Island Countries (PICs), strengthen intra-regional trade and south-south cooperation while also supporting environmental and social objectives.

It is widely acknowledged that PIC economies are very small with limited domestic and regional markets. PICs are also remote from large international markets, face high transport costs and are not able to benefit from economies of large scale production. PICs generally have narrow resource, production and export bases, and many are dependent on primary commodities for export, fisheries being one of those resources. Most PICs are also heavily dependent on imports, particularly of food and fuel. High import dependency, constrained export capacity, limited infrastructure, an inability to rapidly increase exports, and minimal export diversification make PICs particularly vulnerable to shocks that impact adversely on world trade. Even resource-rich PICs, as large commodity exporters, are vulnerable to global demand and international price shocks .

Over the decades, a number of initiatives with varied levels of success have been undertaken by PICs focussing on key productive areas such as fisheries, tourism, agriculture, manufacturing, services sector and labour mobility to create trade opportunities for sustainable development.

PICs are now focusing on the development of comprehensive Trade Policy Frameworks and ensuring that the principles of sustainable development are reflected in the various free trade and economic cooperation agreements that are being negotiated by the PICs. These initiatives have resulted in better coherence between trade and broader objectives such as food security and nutrition, poverty reduction, sustainable development, energy and green growth to maximise the contribution of trade to sustainable development.

Specific initiatives such as the adoption of the Pacific Aid for Trade (AfT) Strategy to develop regional and national solutions to trade and development needs of the PICs have helped in improving PICs' engagement in trade.

Despite these advancements, more needs to be done by PICs, regional organisations and their development partners to assist PICs to maximise the contribution of trade to sustainable development.

KEY ISSUES

- For the period 2009-2011 PICs grew at an average rate of 2% and for the period 2012-2017 are forecasted to continue growing at an average rate of 2%.
- The low growth forecasts in the PICs will make it difficult to achieve significant reductions in poverty and unemployment, particularly youth unemployment over the next few years unless initiatives are put in place to revitalise PIC economies.
- Low export levels, lack of export openness and low levels of intra-regional trade when compared to small island states from other regions such as the Caribbean has contributed to the weak economic performance of many PICs.
- Reasons for this include PICs economies vulnerability to economic shocks at the global level due to their distance from major markets, smallness and narrow resource and export bases that create challenges in PICs positioning themselves as competitive trade and investment destinations.
- The weak resilience of PIC economies to the global financial crisis saw the value of exports for selected PICs fall by around 23 per cent in 2009, recovering somewhat in 2010. For the Small Islands States (SIS), export receipts fell by around 25 per cent between 2007 and 2010 (Colmer and Wood 2012).
- Increasing and improving trade opportunities are part of the solution towards inclusive and sustainable growth of developing countries. There needs to be a strong focus in PICs to increase efforts in developing sustainable industries around their fisheries resources as well as tourism, agriculture, services sectors and labour mobility. These are areas where PICs can have significant comparative advantages, including in associated niche markets.
- Labour mobility is an important area that PICs would like to be considered in trade arrangements with important trading partners such as the EU, Australia and NZ, but also amongst the PICs.
- Financial and technical assistance should be provided to PICs to develop attractive investment incentive packages to induce further local and foreign direct investment into these important sectors as well as encouraging the export of labour services from PICs.
- AfT can complement the work undertaken at the national level by assisting PICs to put in place supportive measures such as having the appropriate trade and regulatory reforms, supply-side capacity and trade-related infrastructure, and the necessary adjustment measures to enable them to benefit from the opportunities that trade may bring.

- Developed countries, and technical and development partners need to assist the PICs in effectively accessing the AFT resources for the strategic development sustainable trade in the PICs.
- At the regional level, PICs are in the process of renewing and refreshing the Pacific AFT Strategy. This process involves assisting PICs to identify the gaps in AFT and improving coordination on AFT and Aid effectiveness and mobilising additional resources to address PIC trade and development needs. It is anticipated that the renewed strategy and identified trade-related needs of PICs can contribute more effectively to the discussions on AFT at the WTO multilateral level, but also at the regional and national levels.
- PICs are also on the verge of finalising the establishment of the Pacific Regional Trade and Development Facility (PRTDF). The PRTDF will be an instrument for channelling AFT resources to relevant PICs and ensure the trade and development issues confronting the region are addressed through a coherent and coordinated approach.
- Pacific ACP States in their negotiations with the European Union on the Economic Partnership Agreement (EPA) have also included measures in the EPA to: protect the environment, mitigate the effects of climate change and promote green technology, enhancing food security and food nutrition, encourage and support agricultural production.
- PICs in the context of the Pacific Islands Countries Trade Agreement (PICTA) and Melanesian Spearhead Group (MSG) are moving to liberalise their services sector in areas of interest to the PICs. The PICTA Trade in Services Protocol (TISPO) has been signed by nine PICs so far, and the PICs are continuing their engagement to progress ratification and implementation of the PICTA TISPO. Further engagement on temporary labour mobility under PICTA is expected to be initiated later in 2013.
- The MSG is currently working on implementing the Memorandum of Understanding (MOU) on the Skills Movement Scheme (SMS). The SMS enables MSG countries to export surplus skilled labour to each other and it is anticipated that this will lead to increased remittance flows and alleviation of critical labour shortages in selected fields such as the medical and education professions in the respective member countries.
- Development partners should assist to mitigate the effects of tariff preferences by providing financial support for adjustment and assist PICs to diversify into other sectors, including services. Trading partners should also provide more favourable rules of origin and lower non-tariff barriers in FTAs negotiated with PICs. For example, favourable rules of origin for fresh, chilled and frozen fisheries provided by the EU to the PACPS in the context of the comprehensive EPA will assist PACPS to

develop their processing sector and export to the EU market, thereby providing a number of economic and development benefits to PACPS¹.

- PICs should also consider negotiating trading arrangements with new partners in Asia, such as China and India where the margin of preference would be higher thus making these markets more attractive.
- Preferential schemes such as the EU's General System of Preferences (GSP) should consider other indicators other than Gross National Income (GNI) per capita for eligibility to benefit from this scheme as PICs are disproportionately affected due to their small sizes and populations which results in skewed GNI data.
- More needs to be done to assist PICs to find ways to integrate into green value chains to help meet their development goals by ensuring that the trade rules support development.

BACKGROUND

The inherent characteristics of SIDS such as their remoteness from major markets, small populations, vulnerability to natural disasters and narrow resource base constrain their economic growth and development. Securing the future of the Pacific people by ensuring their sustainable economic existence is a priority outlined in the Pacific Plan endorsed by Pacific Leaders in 2004.

PICs believe that trade can be an engine for growth and sustainable development. The Pacific region has, however, been directly and indirectly affected by the global financial crisis and has fallen further behind in terms of economic performance. A number of PIC economies have contracted and several others have endured low rates of growth for consecutive years.

According to the Asian Development Bank (ADB), for the period 2009-2011 PICs grew at an average rate of 2% and for the period 2012-2017 are forecasted to continue growing at an average rate of 2%. This will make it difficult to achieve significant reductions in poverty and unemployment, particularly youth unemployment over the next few years unless initiatives are put in place to revitalise PICs economies. The ADB has observed that one of the main reasons for the weak economic performance of many PICS is their low export levels and lack of export openness when compared to small island states from other regions such as the Caribbean. There is, therefore, an urgent need to stimulate growth and create employment opportunities in PICs. In addition to economic challenges, many PICs are also confronted with issues related to food security, environment and health. These are inextricably linked to the future of Pacific peoples and urgent steps are needed to mitigate these challenges.

¹ "Feasibility Assessment of Exporting Product of HS Heading 0304/0305 to the European Union", Gillett R. and Preston G. (2012).

Fisheries, tourism, agriculture and labour mobility are areas of comparative advantages for PICS and many PICS are focussing their efforts on the sustainable development of these sectors.

PICs own 60% of the world's tuna resources but only earn approximately 5% of the value of their resources mainly through licence fees. Increasingly, there is a concerted push by PICs to increase value addition activities on their fisheries resources through greater investments in onshore processing. A study commissioned by the Pacific Islands Forum Fisheries Agency (FFA) in 2006² estimated that for every 100 metric tonnes of tuna processed onshore, 6 new jobs are created. There are also further development and economic benefits projected in terms of increased foreign exchange earnings from exports, contribution to government revenue and balance of payments.

Exports from PICs have performed poorly over the last few years, except for a few exceptions. Tourist and business visitor arrivals on the other hand have generally increased across the region. The tourism industry provides formal employment and tourism receipts that are an important source of income and foreign exchange in a number of PICs. Tourism receipts have historically accounted for around 60 per cent of GDP in Palau and 50 per cent of GDP in Cook Islands. In Vanuatu, tourism accounts for almost 30 per cent of GDP. Samoa and Fiji are also heavily dependent on the tourism sector – tourism accounts for more than 20 per cent of GDP in these countries. Other small island states are relatively remote and lacking relevant infrastructure, and the tourism sector is relatively small (Colmer and Wood 2012). The South Pacific Tourism Organisation (SPTO) works closely with PICs to develop their tourism sectors and in particular building niche markets in the areas of cruise ships, yachting, backpacking and eco-based tourism etc and further emphasis should be placed on growing these budding segments.

Many PICs, particularly the SIDs are heavily dependent on food imports and rising food and fuel prices impact on PIC food security. Food security and the sustainable development of the agricultural sector therefore are key priorities for PICs. There is great potential for agricultural-tourism linkages and PICs are increasingly looking to strengthen these linkages to assist producers to benefit from the thriving tourism industry. Strengthening linkages and creating synergies between tourism and agriculture also helps to harness the tourist dollar to achieve the objectives of sustained and equitable growth³.

The Pacific Islands Trade and Invest network of offices in Auckland, Beijing, Geneva, Sydney and Tokyo are actively promoting PIC exports and encouraging investment and tourism flows in the PICs through tangible and direct activities.

² “An Assessment of Development Options in the Longline Fishery”, Philipson P, FFA, 2006

³ Study to Assess Constraints, Potentials Increase the Understanding of Policy and Institutional Arrangements Needed to Enhance Synergies, Tuifa'asisina S.T and Taufa L. (2012)

Measures to encourage and support agricultural production will not only encourage food security but provide healthy food choices over high-fatty foods that lead to high rates of non-communicable diseases (NCDs) in many PICs. Surplus production of agricultural outputs can also be exported to increase revenues for local producers. However, sanitary and phytosanitary issues pose significant hurdles of PIC exports and technical and financial assistance, in terms of building sufficient capacity in establishing the necessary regulatory frameworks, scientific testing, human resources training and accreditation of relevant equipment and personnel etc is essential for PICs to access export markets.

Labour mobility is an area where this is a potential for growth in PICs and this needs to be reflected in the ongoing negotiations in trade agreements such as PACER Plus and when the Trade in Services Chapter is negotiated in the EPA. The importance of labour mobility is highlighted in the role of remittances as an important source of income and foreign exchange for some of the PICs. The contribution of remittance flows to output growth in the Pacific has been more than double that of the remittance flows to small island developing states in the Caribbean.

Remittance flows are particularly important for Tonga (24 per cent of GDP in 2010) and Samoa (25 per cent of GDP in 2010). However, for a number of states, including some of the Melanesian states (PNG, Solomon Islands and Vanuatu), remittance flows are very small, reflecting limited migration or foreign work opportunities. The principal sources of remittances to the Pacific are Australia, New Zealand and the United States. For Samoa, 73 per cent of remittances are from the Oceania region, and 27 per cent from North America. For Tonga, 50 per cent of remittances are from Australia, and 48 per cent from the United States (Colmer and Wood 2012). Remittances have positive multiplier effects in PIC economies and there is an opportunity to increase supply of labour into these markets for skilled and unskilled positions, however, in order to achieve this objective developed countries will need to remove barriers and put in place enabling policies to allow PICs nationals to work temporarily in their markets.

It has also been widely recognised that developing countries, particularly SIDS face many challenges in participating effectively and benefiting from trade. For example, in order for PICs to benefit from agriculture and the potential synergies with the tourism sector, they will require technical and financial assistance to put in place policies targeted at raising productivity, lowering production costs, improving competitiveness and generating higher incomes from agricultural outputs. They also need assistance to improve transport and communications links, facilitate land reform and adopt new technologies to improve agricultural production. Major obstacles for PIC exporters are the stringent sanitary and phytosanitary requirements of export markets. Technical and financial assistance, in terms of building sufficient capacity in establishing the necessary regulatory frameworks, scientific testing, human resources training and accreditation of relevant equipment and personnel etc is essential for PICs to access export markets.

The importance of AfT resources is therefore critical in assisting SIDS to put in place supportive measures to benefit from the opportunities that trade may bring. Since the launch of the Global AfT Initiative in 2005, over US\$200 billion has been channelled by developed economies to AfT projects in developing economies. The Asia-Pacific region has been the largest recipient of AfT resources over this period, however, PICs have only received less than 0.2% of this funding.

The forthcoming 4th Global Review of AfT on 8-10 July 2013 is an opportunity for PICs to articulate their trade-related needs with the view to increasing their share of the global AfT resources. At the regional level, PICs are in the process of renewing and refreshing the Pacific AfT Strategy. The process involves assisting PICs to identify the gaps in AfT and improving coordination on AfT and Aid effectiveness and mobilising additional resources to address PIC trade and development needs. It is anticipated that the renewed strategy and identified trade-related needs of PICs can contribute more effectively to discussions on AfT at the multilateral, regional and national levels.

Work is in progress to establish the Pacific Regional Trade and Development Facility (PRTDF) anticipated to be a key instrument for mobilising AfT resources from development partners. The PRTDF will be an autonomous fund that will take into account the collective interests of all PICs in developing and facilitating trade opportunities in the region. Development partners are urged to support the PRTDF to enable PICs to increase their participation in trade and realise the ensuing development and economic opportunities.

There are also a number of trade policy options and strategies that can be pursued on a multilateral or regional level to achieve sustainable growth and developmental objectives.

These include:

- Protecting the environment and ensuring that development is sustainable by pursuing these objectives in multilateral and/or in regional trade agreements
- mitigating the effects of climate change by providing duty-free importation of environmental goods such as solar panels, desalination plants, wind turbines and other “green technologies” and through trade in environmental services.
- Development of the service sectors in PICs. Although some of the larger PICs have established service sectors in areas such as tourism, banking, insurance, shipping, aviation, telecommunications and retail and distribution, many PICs are still lagging behind in providing some of these essential services and increased investments are needed in these areas. In addition, labour mobility is an important area that PICs would like to be considered in trade arrangements with important trading partners such as the EU, Australia and NZ. There are ongoing discussions taking place that are at different stages and development partners are encouraged to consider PICs’ proposals positively that could lead to increased remittances, as well as address the acute issue of high unemployment in PICs.

- Mitigating the negative impact of preference erosion. Preference erosion is the inevitable consequence of the lowering of MFN tariffs by preference giving countries such as the EU and Australia. Preferences are further eroded by PICs developed trading partners FTAs. Preference erosion is particularly damaging for sugar and canned tuna exports to the EU from Fiji and PNG where these products make up a significant contribution to their GDP. Development partners should assist to mitigate the effects of tariff preferences by providing financial support for adjustment and assist PICs to diversify into other sectors, including services. There are also a number of trade policy options and strategies such as negotiating more favourable rules of origin and lowering of non-tariff barriers in FTAs. SIDS should also consider negotiating trading arrangements with new partners such as China and India.
- Strengthening PIC representation in Geneva. From the existing PICs WTO members only the Solomon Islands has a presence in Geneva. The lack of PICs representation at WTO meetings is a significant disadvantage to PICs who are unable to participate in discussions, take advantage of trade capacity building opportunities and take effective ownership of WTO decisions and resolutions. The PIFS Geneva Office needs to be strengthened and resources provided on a sustainable basis to ensure its continued operations.
- WTO accession process. The more recently acceded PIC members such as Samoa, Tonga and Vanuatu faced long and lengthy accession processes which did not cater sufficiently for the special and differential needs of SIDS. The recent reform of the WTO accession process for LDCs is a positive step in making the accession process easier. However, further efforts need to be made to ensure SIDS are accorded genuine special and differential treatment and are not pushed to liberalise their tariffs to unsustainable levels which would have an adverse impact on their economies.

Addressing these issues requires a coordinated approach to policy-making at the national, regional and international levels as well as greater international cooperation and commitment to assist SIDS to achieve sustainable growth and development.

At the international level, strategic partnerships among the United Nations, agencies and organisations of the UN system, international financial institutions and the WTO as well as the international community must do more to support the implementation of sustainable development.

At the regional level, the Pacific AfT Strategy is a tool to improve AfT coordination and aid effectiveness, and mobilise resources to address the trade and development needs of PICs. This requires coordination and input from not only PIC member governments but CROP agencies, donors/development partners, private sector and other stakeholders.

Mainstreaming trade into national development plans is underway in the Pacific. FSM, RMI and Vanuatu have Trade Policy Frameworks while TPFs are currently been developed for Niue, Solomon Islands and Tuvalu. For the LDC PICs, this has been a collaborative effort between UNDP and PIFS in building on integrated frameworks to develop their TPFs.

Despite these advancements, more needs to be done by PICs, regional organisations and their development partners. Trade mainstreaming should be an ongoing process which requires the political will of all stakeholders and is integral to development effectiveness and for ensuring coherence with the broader policy objectives with which trade intersects. It is also important to build capacity of PIC officials to better understand the linkages between trade and sustainable development to enable better policy coherence. Donors and development partners are also urged to deliver on their AfT commitments and support the Pacific AfT Strategy as well as consider the special and unique circumstances of PICs in their preferential/trade arrangements by ensuring that the trade rules support development.

REFERENCES

1. Moore, K. 1992: *National Westminster Bank plc*. In H. Eggins (ed.), *Arts Graduates, their Skills and their Employment*. London: The Falmer Press, pp. 24-26.
2. Kelsall, R.K., Poole, A. and Kuhn, A. 1970: *Six Years After*. Sheffield: Higher Education Research Unit, Sheffield University, p. 40.
3. Asian Development Bank, *Pacific Economic Monitor*, December 2012
<http://www.adb.org/sites/default/files/pub/2012/pacmonitor-201212.pdf>
4. Speech by the Director-General of the WTO, Mr Pascal Lamy on 13 January 2013 "Lamy lauds \$200 billion mobilized in Aid for Trade funding" http://www.wto.org/english/news_e/sppl_e/sppl262_e.htm
5. "An Assessment of Development Options in the Longline Fishery", Philipson P, FFA, 2006
6. "Major Economic Shocks and Pacific Island Countries" Colmer P. and Wood R., Australian Treasury, Presentation at High-Level Conference on Pacific Island Countries on Fostering Inclusive Growth and Enhancing Resilience to Shocks, Hosted by the IMF and the Government of Samoa in Apia, Samoa on 23 March, 2012
7. "Agricultural Value Chains in Developing Countries - A Framework for Analysis" Trienekens J. (2011)

KEY DOCUMENTS & HYPERLINKS

- Pacific Plan
- PICTA
- PICTA TISPO
- MSG SMS MoU
- PACER
- Pacific Regional Aid for Trade Strategy
- Link to the EGP section of PIFS website