The Role of Trade Reform and Labour Mobility in Assisting Pacific Island Countries to Reduce Poverty and Achieve Sustainable Development

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ABSTRACT

This thesis argues that, under the right conditions, the expansion of international trade flows and increased labour mobility through circular migration have contributed both directly and indirectly to the goals of poverty reduction and sustainable development in the Pacific Forum Island Countries (FICs). An extensive range of both specific and general policy conditions to ensure those outcomes are specified. Based on these conditions, the study suggests a strategic approach to the implementation of trade liberalisation and circular migration, which offers a clear path for Pacific Island governments to embrace. It involves balancing the pace and staging of liberalisation to ensure that trade reform, migration policy and development goals are well aligned. Such ‘strategic liberalisation’ can embed the fundamentals of competitiveness in FICs, while ensuring that transition costs, regulatory disciplines, and other conditions are in place to allow Pacific communities to benefit from future trading arrangements. The thesis concludes that while FICs need to ambitiously lock in necessary political, economic and trade reforms, developed countries and larger developing countries with whom they trade also need to intensify their efforts to allow sufficient market access, an increase in the temporary migration of Pacific Islanders and adequate capacity-building support for FICs to adjust to and consolidate these trade and migration policy reforms.
DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree.

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SIGNED

DATE: 10 March, 2015
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<table>
<thead>
<tr>
<th>ACP</th>
<th>Africa, Pacific and Caribbean (countries who are parties to the Cotonou Agreement between the EU and the ACP states)</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFT</td>
<td>Aid for Trade</td>
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<tr>
<td>ANZ</td>
<td>Australia-and New Zealand</td>
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<td>ANZCER</td>
<td>Australia New Zealand Closer Economic Relations</td>
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<td>ANZCERTA</td>
<td>Australia New Zealand Closer Economic Relations Trade Agreement</td>
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<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>AUSAID</td>
<td>Australian Government Overseas Aid Program</td>
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<tr>
<td>AUSFTA</td>
<td>Australia United States Free Trade Agreement</td>
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<tr>
<td>CARICOM</td>
<td>Caribbean Common Market</td>
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<tr>
<td>CGE</td>
<td>Computer-generated equilibrium</td>
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<td>CIE</td>
<td>Centre for International Economics</td>
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<td>CNMI</td>
<td>Commonwealth of the Northern Mariana Islands</td>
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<td>UN COMTRADE</td>
<td>United Nations Commodity Trade Statistics Database</td>
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<tr>
<td>CTH</td>
<td>Change of Tariff Heading</td>
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<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade in Australia</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<td>EEZ</td>
<td>Exclusive Economic Zone</td>
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<td>EPA</td>
<td>Economic Partnership Agreement (between EU and PICs)</td>
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<td>EU</td>
<td>European Union</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>FEA</td>
<td>Fiji Electricity Authority</td>
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<td>FIC</td>
<td>Forum Island Country in the Pacific</td>
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<td>FSANZ</td>
<td>Food Standards Australia-New Zealand</td>
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<td>FSM</td>
<td>Federated States of Micronesia</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement of Tariffs and Trade</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>GSP</td>
<td>Generalized System of Preferences</td>
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<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
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<tr>
<td>HS</td>
<td>Harmonised System</td>
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<tr>
<td>IIT</td>
<td>Institute for International Trade</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IP</td>
<td>Intellectual Property</td>
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<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>MSG</td>
<td>Melanesian Spearhead Group Trade Agreement</td>
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<tr>
<td>NAMA</td>
<td>Non-Agricultural Market Access</td>
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<td>NFF</td>
<td>National Farmers Federation</td>
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<td>NGOs</td>
<td>Non-Government Organisations</td>
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<td>NZ</td>
<td>New Zealand</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PACER</td>
<td>Pacific Agreement on Closer Economic Relations [between the Forum Island Countries and Australia and NZ]</td>
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PACP  Pacific, African, Caribbean Partners (Cotonou Agreement)
PATCRA Agreement on Trade and Commercial Relations Between the Government of Australia and the Government of Papua New Guinea
PIC  Pacific Island Country
PICTA Pacific Island Countries Trade Agreement
PIFS Pacific Islands Forum Secretariat
PIPSO Pacific Island Private Sector Organisation
PMV  Passenger Motor Vehicle
PNG  Papua New Guinea
PPP  Purchasing Power Parity
RERF Revenue Equalisation Reserve Fund [specific to Kiribati]
RMI  Republic of the Marshall Islands
ROO  Rules of Origin
ROW  Rest of World
RTA  Regional Trade Agreement
SDT  Special and Differential Treatment
SIS  Smaller Island States
SPARTECA South Pacific Regional Trade and Economic Cooperation Agreement
SPS  Sanitary and Phytosanitary Measures
TAFTA Thailand Australia Free Trade Agreement
TBT  Technical Barriers to Trade
TCF  Textiles, Clothing and Footwear
TTF  Tuvalu Trust Fund
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>UK</td>
<td>United Kingdom [of Great Britain and Northern Ireland]</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added Tax</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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1 INTRODUCTION

1.1 Aims

Rapid growth in Asia is driving what some would see as a tectonic shift in economic and political power away from the USA and Europe to the Asia Pacific region. Post World War Two, China and India accounted for as little as 1.5 per cent of the global economy. However, based on current growth rates, by 2050 they will account for approximately 45 per cent - and combined with the rest of Asia and Australia, will account for well over 60 per cent of the global economy.1

It is therefore timely for Pacific Island Countries, despite the challenges of their size and vulnerability, to carefully consider the costs and benefits of closer integration with the rest of the Asia Pacific region. Indeed this is an opportunity for Pacific Island nations to integrate not just into regional but into global supply chains in pursuit of long-term economic development and greater self-reliance. Integral to those nations' development through economic integration is the role to be played by international trade in goods and services, including trade in labour services.

Most economists agree that barriers to trade and investment undermine economic growth and that, more specifically, barriers to the trade of agricultural and textile goods as well as services are harmful to the world’s poorest people.2 However, some opponents of increased trade and accompanying trade liberalisation measures3 believe that greater openness to international trade including an increase in labour market mobility will be detrimental to the economic and social welfare of small and vulnerable economies such as those in the Pacific Island region. They argue that the removal of trade barriers and protectionism in the Pacific will lead among other things to ‘brain drain’, loss of government policy autonomy, increased budget deficits through loss of tariff revenue and a negative impact on the environmental and social welfare of these island economies.

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2 Anderson, Kym, ‘Trade Barriers and Subsidies: Multilateral and Regional Reform Opportunities’, January 2012, p1

3 Some of the opponents to increased trade include: an umbrella NGO based in Fiji ‘PANG’ – the Pacific Network on Globalisation, Prof Jane Kelsey at the University of Auckland, Oxfam New Zealand, some academics at the University of the South Pacific (USP), Australians for Fair Trade and Investment Network (AFTINET) and Pacific Council of Churches. Their views will be discussed in more detail in the literature review.
Cognisant of these concerns, this study has two objectives:

1. To evaluate the proposition that an increase in international trade and labour mobility can assist Pacific Island Countries to achieve poverty reduction and long-term sustainable development.

2. If the above proposition is affirmed, then to investigate what policy conditions might be necessary for increased trade and labour mobility to successfully deliver sustained poverty reduction for the Pacific Island Countries under discussion.

If the proposition in objective one is not affirmed or if particular aspects of a more open, international trade regime are in question, then the study will seek to determine the legitimacy of the concerns and how best to deal with them.

In the context of the two key objectives above, the study examines the benefits and challenges of increased trade and labour mobility focussed on the 14 Pacific Forum Island Countries (FICs) which are currently members of the Pacific Island Forum. In so doing, it will seek to address some of the main concerns that have been raised by NGOs and some Pacific community groups about the impact of international trade.

Policy conditions to be examined include those aspects of economic, trade and migration policy that may be necessary to have in place either to facilitate trade related poverty reduction or ameliorate any negative externalities, such as short-term job losses or exploitation of cheap labour resulting from trade and labour market reforms.

The study also investigates how the domestic, regional and the global policy environment might influence the trade-poverty reduction equation in the Pacific and seeks to identify which factors might underpin effective trade and labour mobility strategies for sustainable poverty reduction.

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4 In general, the fourteen Pacific Forum Island Countries can be referred to as FICs (Forum Island Countries) or PICs (Pacific Island Countries). Given this study deals almost exclusively with the 14 Forum Island Countries in the Pacific region, I will use the FIC abbreviation throughout.

5 The Pacific Island Forum Secretariat is based in Suva – the fourteen FIC members are Fiji, Papua New Guinea, the Solomon Islands, Vanuatu, Kiribati, Tonga, Samoa, the Cook Islands, the Marshall Islands, Palau, the Federated States of Micronesia, Nauru, Niue and Tuvalu.
1.2 Definition of Terms

From the outset, I would like to clarify my use of the terms: ‘trade openness’ and ‘trade liberalisation’, ‘labour mobility’, ‘poverty’ and ‘sustainable development’.

Increasing trade openness refers to the degree to which an economy has reduced or abolished barriers to international trade and investment – that is, the abatement of tariffs and non-tariff barriers to facilitate an increase in both exports and imports.\(^6\) Similarly, trade liberalisation describes the removal of or reduction in the trade practices that thwart the free flow of goods and services from one nation to another.\(^7\) I use ‘trade reform’ in the context of this thesis to describe government policy actions necessary to facilitate trade openness and economic development, for example the removal of import quotas or protective tariffs or improved regulation to ensure transparency and fair competition in an economy.

Throughout this thesis, I refer to ‘temporary labour market access’ or what may be termed ‘circular migration’ as defined in the General Agreement on Trade in Services as a mode 4 supply of service\(^8\). The understanding and issues surrounding the interpretation of mode 4 supply of trade in services and circular migration will be discussed in some detail later in chapters five and six of the thesis.

Poverty is defined as the lack of income or lack of purchasing power to satisfy basic human needs.\(^9\) It does not imply any notion of ‘poverty of spirit’ or lack of culture, intelligence or dignity. The World Bank defines extreme poverty as those living on less than US $1.25 (PPP) per day and moderate poverty as those living on less than US $2.50 a day.\(^10\)

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\(^6\) J Redden, ‘The Principles of International Trade and Development’, lecture presentation and notes first developed and presented 17 March 2009

\(^7\) www.businessdirectory.com - 13 November, 2011

\(^8\) WTO, The General Agreement on Trade in Services, document MTN.GNS/W/124, January, 1995

\(^9\) worldbank.org/INTPOVERTY/Resources/ch2.pdf

In the Pacific, this monetary definition is of some use and is referred to occasionally in the study. However it does not necessarily capture a complex mix of living standards. There are those who are income poor but relatively abundant in those resources that allow them to live off the land or sea. Others remain heavily dependent on remittances or aid from overseas and are therefore highly vulnerable to a dependence on these sources of income for their livelihood. Of note, there is often a ‘poverty of opportunity’ and inability to access markets and technology that would allow people to become more self-reliant and less vulnerable to falling back into poverty.

I use the term ‘development’ to mean the process of economic and social transformation which leads to increased per capita income, the fulfilment of basic needs and the provision of basic human rights of dignity and freedom. ‘Sustainable development’ refers to the process of economic and social transformation undertaken in a way that does not compromise the ability of future generations to meet their own needs and basic human rights.

In section three of the thesis the concept of small and vulnerable economies (SVEs) and the relevance to FICs, as well as the measurement of the trade openness index, are explained in more detail.

1.3 Relevance of the study

There is a general consensus among most trade economists on the positive correlation between increased openness to international trade and economic growth so long as certain conditions are in place, such as political stability, reasonable access to trade finance, fair

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and efficient income distribution, the efficiency of factor markets and effectiveness of institutions to develop and implement reform.

Anderson and Winters\textsuperscript{14} provide a useful summary of recent literature which addresses the trade-growth relationship in their World Bank study on the challenges of reducing international trade and migration barriers. They conclude in that study that:

\textit{trade liberalisation can lead not just to higher rates of capital stock and a one-off increase in productivity but also to higher rates of capital accumulation and productivity growth in the reforming economy because of the way reform energizes entrepreneurs}\textsuperscript{15}

There is further discussion of this relationship in the literature review.

Causality between openness to trade and sustainable poverty reduction is more complex given the vast array of factors that can influence or determine the distribution of income and wealth such as distributional mechanisms, governance structures, external shocks and the capacity of the poor to capture the gains from trade.

Hence the relationship between the introduction of a specific trade liberalisation or trade reform measures and a sustainable poverty reduction outcome is more contested and difficult to prove, given the complexity of isolating the direct causality amidst a range of other factors in operation.

Nevertheless, I would argue there is a growing body of evidence from both anecdotal and quantitative studies to show that under certain conditions, well-timed trade liberalisation strategies can influence or lead directly to sustainable poverty reduction. In a recent volume of case studies, which includes both qualitative and quantitative analyses of the trade and poverty reduction equation, the editors conclude that:


\textsuperscript{15} There is further discussion on this relationship in the Literature Review.
the case-studies demonstrate positive correlations between more open, competitive trade policies and sustainable poverty reduction – so long as certain pre-conditions are in place.\textsuperscript{16}

One case study from Uganda shows how the opening up of its telecommunications sector to foreign investment and competition led clearly to increased employment and educational opportunities for some of the poorest of the poor in that country. The increase in jobs and incomes came about because of carefully thought through regulatory reform and capacity building policies that combined with trade liberalisation policies to ensure the benefits of access to cheaper telecommunications was spread to poorer communities.

A key challenge of this thesis is to examine whether such benefits as those captured by larger developing economies such as Uganda, can also be captured by small and vulnerable Pacific Island countries which at least on the surface would appear to lack the population, infrastructure and resources to fully capture the potential gains of international trade. Some NGOs and community groups in the Pacific think not.

As mentioned earlier, there has been quite robust opposition from some sections of the Pacific community to increased trade and foreign investment into FICs. Opponents of trade liberalisation and trade openness in the Pacific have focussed on the concerns about loss of tariff revenue and the potential bullying by larger trading partners such as Europe, Australia and New Zealand who might possibly deny them ‘development policy space’ that some argue is essential for national governments to correctly determine the most appropriate trade-related development strategies.

Academics such as Kelsey, NGOs such as the Pacific Network on Globalisation (PANG) and international development agencies such as Oxfam International\(^\text{17}\) have raised serious doubts as to whether the benefits of increased trade can be captured by small economies in the Pacific, given the dominance and self-interested behaviour of their larger trading partners. The various NGOs and church groups across the Pacific are antagonistic towards trade agreements involving the FICs, claiming that Pacific economies will face serious negative consequences if they accede to them.

Although some of the concerns of NGOs and other critics of trade liberalisation may be ill-informed from an economic viewpoint, there are some serious concerns shared by academics and by communities in the Pacific and therefore these require careful consideration. More analysis of these concerns and views will be summarised in the literature review and throughout the study.

However, I trust the relevance of the debate for this thesis has become clear based on the three interrelated factors under discussion:

- The highly complex nature of hypothesizing causality between trade liberalisation measures and poverty reduction
- The significant trade obstacles and disadvantages that small, remote islands face
- A significant body of public concern that trade liberalisation could undermine Pacific economic development.

---

The relevance of this thesis then is to examine the evidence both for and against an increase in trade and labour mobility for Pacific Island countries in terms of the impact on the long-term welfare of the poor.\(^{18}\)

The thesis will seek to examine the relationship between international trade, temporary labour mobility and sustainable development through the prism of Pacific Island realities. While the literature on the general relationship is abundant, there is a limited amount of contemporary analysis of the trade-development relationship for Pacific Island countries.

As far as possible I intend to approach the debate away from what I see as outmoded ideological views of free trade versus protectionism (some of which seem to linger from Cold War rhetoric of the 1970s), into the pragmatic policy realm of what will work well now and into the future for FICs. In so doing this study aims to make a small but succinct contribution to the literature on progressive trade and migration policy paths for FIC governments and their trading partners to follow in the future where their concern is with sustainable development and poverty reduction.

1.4 Methodology

This study employs a primarily qualitative approach supported by relevant quantitative data. The analysis and findings in this thesis are based on the following:

1. Documented research including journal articles and case-studies

2. Information gained from Pacific Island trade, customs and foreign affairs officials attending training courses run by the Institute for International Trade

3. Field research, interviews and site visits in Pacific Island countries and in Australia

4. A survey of Pacific trade officials on trade and development issues and on ‘aid for trade’ priorities

\(^{18}\) Hence the main objective of the study: ‘To evaluate the proposition that an increase in international trade and labour mobility can assist Pacific Island Countries to achieve poverty reduction and assist in long-term sustainable development’, (from section 1.1).
Origins of the research

The origins for this study go back approximately seven years to discussions with representatives from the Pacific Island Forum Secretariat and AusAID on appropriate trade policy and ‘aid for trade’ priorities for FICs if they were to capture the benefits of more open and integrated trading regimes.

Dr Roman Grynberg was the Director of Economic Policy at the Pacific Island Forum Secretariat and, while very supportive of labour market liberalisation between FICs and their major trading partners, was concerned about loss of tariff revenue and the limited supply-side capacity of FICs to develop and diversify exports. He was therefore fearful of FICs being swamped by foreign goods and services exports and the potential crowding out of local traders.

Professor Ron Duncan, Pacific trade expert and at the time based at the University of the South Pacific (USP), was concerned with the entrenched interest and rent-seeking behaviour of existing Pacific elites and established government/private sector monopolies who would strongly oppose moves to open up FIC economies to foreign competition. He argued that the core issue for those FICs concerned about trade led growth would have little to do with being swamped by foreign competitors. Rather, he believed the entrenched opposition would oppose, for self-interested reasons, what potentially would be in the best long-term interest of Pacific Island economic development.

These contrasting views fuelled personal concerns that a major potential threat for FICs was the opportunity cost of ‘doing nothing’ or ‘being left behind’ in what is the fastest growing region of the world. A potential outcome of ‘being left behind’ by the booming economies in Asia would be an increase in the relative cost of doing business in FICs. In 2006/07 some of their Asia-Pacific trading partners were experiencing unprecedented growth rates (8 to 9% per annum in China), while Australia, as a developed country, was delivering among the best growth rates in the OECD. If FICs with relatively low growth rates were able to integrate more closely into the growing demand for goods and services in the region by lowering their barriers to trade, investment and business, then an important opportunity existed to advance Pacific economic growth and lower its poverty levels.

While two of the FICs’ major trading partners, Australia and New Zealand, were in the process of negotiating the Australia-New Zealand-ASEAN agreement (AANZFTA) within
the Asia-Pacific region (which has now come into force), FICs were struggling to implement their own internal regional agreement (PICTA)\(^\text{19}\) and seemed apprehensive about a regional trade agreement with Australia and New Zealand known as (the Pacific Agreement for Closer Economic Relations (PACER)).

In other words while Australia has now granted preferential treatment for a range of LDCs and developing countries in the ASEAN region, FICs remain left behind and are still reliant on a rapidly outdated South Pacific Regional Trade and Economic Agreement (SPARTECA) agreement which, as I will discuss later, has seen little real take up over the years by Pacific exporters.

It is, I believe, not only important but quite urgent therefore to see if and how FICs might capture the benefits of international trade through both multilateral and regional economic integration and trade liberalisation and increased circular migration strategies.

**Variety of research methodologies**

Working at the Institute for International Trade\(^\text{20}\) at the University of Adelaide has afforded me the opportunity to travel extensively throughout the Pacific region, undertaking research and training programs mainly for government officials working in trade, customs, finance and foreign affairs as well as for private export and import industry representatives. This work has involved the development of various government reports, case-studies, interviews and consultations with FIC officials on the role of trade and significance of temporary labour migration. Most of these reports or training activities have been funded either by the Australian Government official aid agency, AusAID\(^\text{21}\), or by the Pacific Island Forum Secretariat.

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\(^{19}\) PICTA is the Pacific Island Countries Trade Agreement which will be explained in detail in the background section of this paper – suffice to say very little trading has to date occurred under PICTA and negotiations continue.

\(^{20}\) Since 2005, I have been based at the Institute for International Trade at the University of Adelaide as Senior Lecturer and the Director of International Programs responsible for the management of academic courses, applied research and trade related capacity building programs. I have been fortunate in that much of my more recent applied research and capacity building training programs has focussed on trade and development issues in the Pacific Islands including the training of Pacific Island trade officials to become more competent trade negotiators.

\(^{21}\) As of early 2014,AusAID has been integrated into the Department of Foreign Affairs and Trade (DFAT) in Australia.
**Documented research and case-studies**

In 2006-2007, I led a team of researchers to undertake two important studies for the Institute for International Trade. The first of these was a literature review of the potential consequences of tariff liberalisation on government revenue for small to medium sized FICs. The latter was a more comprehensive study on the potential challenges and benefits of the Pacific Agreement on Closer Economic Relations.\(^{22}\)

The latter study involved an intensive consultation process with public and private sector representatives from across the Pacific and in Australia and New Zealand. This process required discussion of a range of topics and debates about the impact of increased trade on FICs. It involved meetings with heads of business such as the President of the Pacific Island Private Sector Organisation, Kaliopate Tavola, who is also a former foreign minister from Fiji, representatives from the PNG, Fiji and Australia-Pacific Business Councils, as well as with numerous government officials. Some of the most helpful meetings were with the trade ministers from Samoa and Tonga given their serious interest in trade and development. The study also required public consultations in Fiji, Tonga and Niue, which served to inform this study very clearly about some of the legitimate concerns of the wider community about trade liberalisation impacts on the Pacific.\(^{23}\)

For both of these research reports, close collaboration was required with academic colleagues from ANU, the University of the South Pacific, the Pacific Policy Institute in Vanuatu and with the University of Samoa. The principle outcomes and recommendations from both of these reports were published by the Pacific Forum Secretariat and AusAID.

Following the publication of these reports, the Institute for International Trade was then commissioned, (along with five other regional institutes and universities) to undertake studies on the potential impact of a comprehensive WTO consistent PACER Plus trade and economic agreement for specific island countries.

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\(^{22}\) Pacific regional agreements such as FICTA and PACER will be discussed more fully both in the literature review and in the background section updating on current progress in these agreements.

\(^{23}\) For a full list of those consulted please refer to the actual report “The Potential Challenges and Benefits of PACER Plus for Pacific Island Countries” published by IIT and funded by AusAID, 2007.
Of the 14 Forum Island Countries, six of them chose the Institute for International Trade (IIT). The Institute has managed these studies, which included detailed research and a limited degree of econometric analysis on Tonga, Niue, Nauru, Palau, Tuvalu, Kiribati and the Marshall Islands.

In 2009, IIT developed two papers for AusAID’s annual economic review of current trends across Pacific Island Countries. One was on trends in trade, undertaken with input from former Australian trade negotiator, Peter Gallagher. The other featured trends in migration and labour mobility across the Pacific, which I undertook jointly with the late Graeme Hugo from the University of Adelaide. Both papers required field based case studies and revealed positive impacts as well as obstacles to trade and labour mobility faced by FICs.

2009 was also the year that saw the completion of a book of case studies on ‘Trade and Poverty Reduction in the Asia Pacific Region’, funded by the WTO and AusAID and edited by Andrew Stoler, Lee Ann Jackson and myself. In this book Ron Duncan and I explore the trade challenges facing small and vulnerable countries, and Graeme Hugo undertook a study on ‘Migration, Labour Mobility and Poverty’ using a number of examples from the Pacific region.

The combination of these research studies and reports have afforded the opportunity to develop an understanding that informs this thesis and to draw on a substantial amount of information gathered in these research reports, given their relevance to the aims of this thesis.

*Training programs and materials*

While being able to utilise interviews and case studies mentioned above for the purposes of developing this thesis, what was also of particular value was the constant exposure to Pacific trade officials as a result of the Institute managing three Pacific trade capacity building programs for the region over the past 5 years.
In brief, IIT’s Pacific training program has brought together one representative from each of the FICs for a series of ten, one-week intensive training modules, with each module based on a specific trade and development topic. For example, one module would focus on trade, agriculture and development while another on the role of services in the development of Pacific economies. These comprehensive capacity building programs have proven to be both timely and an invaluable source of constant information on the issues confronting trade policy decision makers across the FICs.

*Field research, interviews and site visits*

Apart from meetings and interviews with trade policy officers during these training programs there have been opportunities to visit fisheries, farms, customs and wharf facilities, farms and factories such as the Japanese Yazaki factory in Samoa, while also having the opportunity to meet with church leaders, community groups and NGOs concerned about the so-called free versus fair trade debate.

A total of 14 FIC trade officials, one from each country, completed a short survey for this thesis (see Appendix A) on the role of trade in their country’s future economic development and what, if any, they see as the main pre-requisites for an increase in trade to lead to sustainable development. The results of this survey have been useful and are discussed in chapter seven of the thesis, where I examine the type of enabling environment and ‘aid for trade’ priorities required if trade is to be an effective tool of poverty reduction.

*Summary of methodology*

In short, this thesis endeavours to integrate the lessons of documented research, training programs with FIC officials, field research and survey material with recent literature on the role of trade in poverty reduction in relation to the Pacific.

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24 While the majority of modules have been held in Adelaide, Australia, modules have also been held in the region including in Samoa, Fiji and Vanuatu. This has assisted in site visits to ports, customs authorities and with meetings with primary producers and small businesses operating in the Pacific region in these countries.
I have also sought to harness past experience working on trade and development issues with government, non-government and the private sector to assist in the exploration of objective outcomes throughout the study.25

Each Pacific Island Country has a very different social and economic make-up and the research methodologies undertaken have sought to avoid the dangers of either over-generalising or under-generalising on what might work in relation to the successful economic development of each island country as well as for the Pacific Island region as a whole. Access to up-to-date trade data remains a capacity problem for most FICs and has at times limited the degree of statistical analysis possible for this thesis. Nevertheless, the thesis endeavours to make a decisive contribution to the ongoing debate about the role of trade in the future economic growth and sustainable development objectives to which all FICs espouse.

1.5 Structure

Following this introduction, chapter two of the thesis gives a summary or relevant literature on trade and development issues of relevance to small and vulnerable economies in the Pacific. Chapter three establishes necessary background information on the current Pacific context and state of play in FICs with respect to their economic vulnerability, their trade openness, and their engagement in multilateral and regional trade agreements. Thus the first three chapters of the thesis lay the basis for the main discussion on the role of international trade and labour mobility in sustainable poverty reduction which follow in chapters four, five and six.

Chapter four analyses the challenges FICs face in developing successful avenues for increased trade in goods such as agricultural products, fishing products and fisheries generally, and through limited trade in manufactured goods. The main emphasis of chapter four is on fisheries, given the potential comparative advantage FICs have in this sector. Chapter five then examines the role of trade in services generally while chapter six focusses on the implications of greater flexibility in temporary labour market migration and

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25 This has included work on the Federal Government’s WTO Advisory Committee as an advisor on trade and development issues, assisting both AusAID and the Department of Foreign Affairs and Trade on trade and development policy, advising the Australian Labor Party on policy development with respect to trade, aid and the MDGs and the Australian Coalition Government on ‘aid for trade’ policy and the role of the private sector.
its attendant implications for poverty reduction. Throughout chapters four to six, I discuss both the trade and migration problems and challenges facing FICs as well as some of the key ways forward for FICs to deal with these challenges.

Informed by the findings of these earlier chapters, in chapter seven I utilise a number of recent reports, consultations and research to discuss the type of domestic, regional and global conditions that could best enable FICs to benefit from international trade. This will take the form of two sub-sections, the first focussing on the local and regional trade environment and the second on the global trade environment.

The conclusion, chapter eight, will integrate the implications of my research and seek to establish if trade and labour mobility do have the potential to reduce poverty and facilitate sustainable development and, if so, under what conditions. This will include the main trade and labour migration implications of my findings for FICs.
2 LITERATURE REVIEW

The literature review firstly deals with the relationship between trade and economic growth before reviewing recent analysis of the trade and poverty reduction relationship in general. It then focuses on relevant trade and development literature on the Pacific Islands summarising the various critical analyses, some of the trade responses to these criticisms and more recent literature on how FICs might move forward on the trade and development front.

2.1 Trade and economic growth

Most economists have championed the merits of international trade since the days of Adam Smith.\(^{26}\) In fact, advocacy of free trade permeates the field to such an extent that 97% of economists believe that tariffs and quotas diminish welfare.\(^{27}\) Anderson and Winters refer to surveys and studies undertaken by the United States International Trade Commission which strongly support the view the open economies grow faster, while studies by Winters (2004), Billmeier and Nannicini (2007) and Francois and Martin (2007) all reflect the same finding.\(^{28}\)

Anderson and Winters also point to the growing body of industry studies, some using firm-level survey data, which shows additional support for the theory that trade reform boosts the rate of productivity growth\(^{29}\) which in turn contributes to economic growth.

Notable cross-country studies have been conducted which find support for trade as a catalyst for economic growth, for example Dollar (1992), Sachs and Wamer (1995) and Edwards (1998). While some of these studies have been criticised by authors such as Rodriguez and Rodrik (2001) on the grounds that they rest upon weak empirical foundations, still the consensus is strongly in support of a positive relationship between


\(^{27}\) According to a survey reported in Ruffin and Gregory (1990), as documented by MacMillan E., in ‘Trade and Poverty Reduction in the Asia Pacific Region,’ 2009, p. 21.


\(^{29}\) K Anderson and A Winters, Ibid, p. 7.
openness to trade and economic growth. Srinivasan and Bhagwati (2001) argue that the best evidence in support of the notion that trade promotes growth comes from the nuanced, in-depth studies of the experiences of individual countries that were conducted by the OECD, NBER and IBRD during the 1960s and 1970s.

Constructive critics of trade liberalisation and its impact on growth and economic development, generally do not dispute the important role trade can play in assisting economic growth. Concerns range more from a ‘one size fits all’ policy approach adopted by some proponents of trade liberalisation to a range of concerns about the complexity of attributing causality. For example, do local domestic reforms contribute more significantly to economic growth than trade openness or vice-versa?

The focus of such critics tends to be more concentrated on issues around the timing of domestic reform and the sequencing of trade liberalisation based on a country's stage of development. For example, is China’s spectacular growth rate over the past decade more attributable to the hard domestic reforms developed behind trade barriers or are they more as a result of China’s decision to open up to foreign competition and investment while acceding to the WTO? There is considerable complexity in attributing causality and if as one would suspect, the answer lies in a mix of the two strategies then it is not easy to measure empirically which of the two may act as the primary catalyst for economic growth at a given point in time.

UNDP trade analyst, Kamal Malhotra30, puts forward these concerns in the article “Trade and Human Development”31 using the example of Vietnam. He posits that the experience of Vietnam, which has successfully pursued a gradualist approach to trade liberalisation while maintaining some import monopolies, some quotas and relatively high tariffs on some of its sensitive products, facilitated its achievement of above average GDP growth of more than 6% a year since its declaration of economic renovation strategies in the mid-1980s, thereby sharply reducing poverty. He adds, that despite some relatively high trade barriers, it has rapidly integrated with the global economy.

30 Kamal Malhotra is a Senior Adviser on Inclusive Globalisation for the UNDP Bureau for Development Policy.
He contrasts the success of Vietnam’s economic development with that of a number of Sub-Saharan Africa WTO members who undertook comprehensive trade liberalisation in the early to mid-1990s, slashed import tariffs to very low levels and removed all quantitative restrictions, concluding their economies have gone nowhere and made little progress in integrating with the global economy.

While I think there are very different starting points when comparing a dynamic, densely populated, disciplined workforce of a South-East Asian emerging economy in the fastest growing region in the world with the debt ridden, stagnating economies of drought-stricken Sub-Saharan Africa, I believe that the staging and sequencing of trade liberalisation measures are important factors for policy makers to consider in determining how best to open up to international trade. Later in this study, in chapter seven, I look more at the concept of a strategic approach to trade liberalisation pending a country’s stage of development, particularly in relation to FICs.

If trade is to be a catalyst not just for economic growth but for development and poverty reduction it makes sense for policy makers to conduct a country specific contextual analysis of how best a particular economy should open up to international trade and investment. Issues of the pace and staging of liberalisation in small and vulnerable FICs deserve close consideration.

However, none of the above discussion and associated literature should detract from the strong body of evidence which demonstrates a positive correlation between trade and economic growth. What I would argue the Vietnam case-study proves, is that a country needs to utilise an appropriate mix of trade liberalisation and domestic reform strategies, together with a carefully synchronised domestic capacity building program, to achieve economic growth and ultimately long term development.

Anderson and Winters conclude, in their study on barriers to growth, that more open economies are usually more innovative because of greater trade in intellectual capital.
where a greater quantity of information, ideas and technologies are traded and because greater openness spurs competition and innovation.\textsuperscript{32}

Determining direct causality is always complex but the consensus of most economic literature is clear – trade openness spurs economic growth in most circumstances. Certainly, conditions other than trade openness need to be in place, but as Anderson and Winters observe, there are no examples of an autarkic (or closed) economy successfully enjoying sustained economic growth.\textsuperscript{33} In South-East Asia, the trade related success stories of, for example, Singapore, South Korea and China are self-evident to the extent that at some stage they all embraced a more open and liberal trade and investment regime.

2.2 Trade and poverty reduction

As with the trade-growth equation discussed above, literature dealing with the relationship between trade and poverty reduction also underlines the particularly complex nature of attributing cause and effect between specific trade measures and the related poverty reduction outcome.

For example, whilst the lowering of tariffs of food imports consumed by the poor should lead to an increase in their disposable income, if the lower prices are not passed on to the consumer or if the timing of the tariff reduction is coupled with an external shock such as a sharp rise in inflation, then the income effects for the poor will likely be minimal.

Hence McMillan advises care be taken to temper enthusiasm for trade driven poverty reduction measures with due consideration of the transmission mechanisms between trade and the poorest members of society.\textsuperscript{34} He describes how the economic literature on the trade and poverty equation is replete with the various conditions and considerations that need taking into account if trade policy measures are to lead to poverty reduction. This reinforces the relevance and validity of the second key objective of this thesis - being to


\textsuperscript{33} Anderson and Winters, op. cit., p. 6.

\textsuperscript{34} E MacMillan, in “Trade and Poverty Reduction in the Asia Pacific Region,” 2009, p. 22.
elucidate the type of conditions that might apply to the Pacific Islands under discussion, if trade is to be a catalyst for poverty reduction.

MacMillan focuses on the trade-poverty reduction relationship in the compendium of research papers and case-studies in ‘Trade and Poverty Reduction in the Asia Pacific Region’. He argues that if the poor are to capture the benefits of trade, one of trade liberalisation’s most important objectives should be to cultivate an adaptable, efficient and stable market system capable of capturing the benefits of trade while withstanding the adjustments it necessarily involves and reacting appropriately to external factors. He believes that to achieve this objective, governments need to build:

- Strong institutions and efficient tax systems
- Eliminate corruption
- Increase competition
- Provide adequate trade related infrastructure
- Assist markets where they fail
- Act as a catalyst to facilitate FDI and technology transfer.

These conditions are as necessary for growth as they are for poverty reduction but other distributional issues also come into play if poverty reduction is to be sustainable and this thesis will look to explore further those issues.

Winters focuses more on the distributional channel as well as other institutional channels through which trade and poverty reduction outcomes interact. According to Winters, trade can be considered to interact with poverty through three main institutional channels: the households, distribution channels, factor markets and the government. It is important to

note that the interactions between trade and poverty through these channels are mediated by the institutions of the economy reinforcing the important role of strong institutions.\textsuperscript{37}

If institutions are weak, Winters argues, then factor markets may be inefficient and the economy as a whole may not be sufficiently flexible as to take advantage of the opportunities afforded by trade.\textsuperscript{38}

Winters focuses on a number of the conditions in each of the four institutional areas listed above, that need to be in place for trade to lead to poverty reduction. For example, he points out that trade reform in most cases is likely to affect factor prices – of which the wages of the unskilled is the most important for poverty reduction purposes. If reform boosts the demand for labour-intensive products, it will boost the demand for labour and wages and/or employment will increase, having a positive effect on poverty.\textsuperscript{39}

However, he notes that not all developing countries are relatively abundant in unskilled labour and trade can boost demand for semi-skilled rather than unskilled labour and in this case, he concludes that poverty alleviation is not guaranteed.

Winters argues that trade reform can also affect tariff revenue, but notes ‘much less frequently and adversely than is popularly imagined’.\textsuperscript{40} He suggests that even if it does, ‘it is a political decision, not a law of nature, that the poor should suffer the resulting new taxes or cuts in government expenditure.’\textsuperscript{41}

Consistent with the findings of Dollar, Sachs and Warner and Edwards mentioned earlier, Winters concludes that opening up the economy will reduce risk and variability because world markets are usually more stable than domestic ones and that the key to sustained

\begin{itemize}
\item \textsuperscript{37} Winters, op. cit., p. 1340.
\item \textsuperscript{40} Winters, op. cit., p. 1340.
\item \textsuperscript{41} Winters, op. cit., p. 1366.
\end{itemize}
poverty alleviation is economic growth. ‘There is little reason to fear that growth and trade will not boost the incomes of the poor’.42

Thus while there is a significant body of contemporary, economic literature which points to the positive role trade and economic growth can play in reducing poverty under the right conditions, there are those who, when it comes to the impact of trade on small and vulnerable countries such as those in the Pacific Islands, clearly disagree.

2.3 Critics of trade liberalisation in the Pacific

In the Introduction, I mentioned that some academics, NGOs and international development agencies have raised serious doubts as to whether the benefits of increase trade can be captured by small economies in the Pacific, given their size and vulnerability. As such, they are antagonistic to FICs involvement in most trade agreements.

There is not an abundance of published literature from these critics, concerns often raised through media releases, short articles or through web-site blogs. Their key concerns, however, include “a dramatic loss of government revenue”, “potential job losses and business closures”, and “higher taxes for the poor”.43

It is argued that because of the loss of government revenue due to to lower trade related tariff revenue, governments “will have to cut services (like health and education) to their peoples”.44 Further, governments will have no choice but

...to downsize their public sector – putting more people out of work. Any loss of jobs for nurses, teachers and public servants would place an added burden on women who work in these sectors and increase the push to migrate.45


McLellan expresses his concerns about greater labour mobility and increased migration for fears of exploitation of cheap labour, adverse social disruption to families and of brain drain whereby the Pacific lose their most talented and skilled labour to major developed country trading partners. 46

The Pacific branch of the World Conference of Churches has called on Pacific governments to sign, ratify and implement the provisions of the Convention on Protection of the Rights of All Migrant Workers and Members of Their Families. 47 The convention came into force in July 2003, but so far has not been signed or ratified by Australia, New Zealand or any other member of the Pacific Islands Forum. 48

Law Professor Jane Kelsey argues that free trade agreements are “a new form of colonization”. 49 Kelsey lists several protectionist measures that “would have to go” and argues for example that tariffs are a tax that make imports more expensive than locally produced goods and so therefore protect local producers “who can’t otherwise compete, while also providing governments with necessary revenue”. 50 Some locally protected business interest are less vocal but support this view and keep pressure on governments to resist greater openness and the removal of trade barriers through trade agreements.

2.4 Trade literature - sorting fact from fear

The concerns raised above are discussed in more detail at various stages throughout this study. At this point however, it is important to distinguish fact from fiction or perhaps, fact

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46 These concerns are expressed in the chapter by N McLellan, free-lance journalist and former Director of the NGO, Pacific Concerns Resource Centre, in ‘Labour Mobility in the Pacific: Creating Seasonal Work Programs in Australia,’ chapter 8.


48 N McLellan, ‘Labour Mobility in the Pacific: Creating seasonal work programs in Australia’, chapter 8, section on labour rights and working conditions


from the fear that arises in the absence of empirical as well as anecdotal evidence on the
effects of trade on smaller economies.

Much of the literature on trade and small economies would not support the concerns
expressed in section 2.3. Studies by Anderson (2008, 2012), Winters, McCulloch and
McKay (2004), and by the Institute for International Trade in their reports on the
implications of PICTA and PACER for FICs (2007, 2008) demonstrate the high cost of
trade tariffs and subsidies on the overall economic welfare of FICs. They show, for
example, that:

- The loss of tariff revenue can be, and usually is, offset by a range of taxation
  reform measures
- An increase in revenue will be generated from an increasing volume of trade
  resulting from a more open and competitive market
- Lower import tariffs are usually passed on meaning, for example, cheaper food
  imports for the poor
- Openness to services trade drives competition and investment and will result in the
  lower cost of telecommunications in those FICs that have undertaken reforms in
  this sector.
- ‘Brain drain’ and exploitation of foreign labour can be serious issues, but much has
  been done to deal with these issues including greater use of circular migration
  strategies and the involvement of governments and trade unions in circular
  migrations schemes to ensure appropriate conditions and wages for foreign
  workers.

On the last point Hugo has put forward a number of strategies to deal with the issues of
‘brain drain’ as a result of permanent migration. For example, the imposition of levies of
employers of professionals from developing countries, similar to a levy that Singapore has
been put in place with the funds raised used for training and education of other
Singaporeans so as to address skill shortage in the future. 51

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51 G Hugo, ‘Migration, Labour Mobility and Poverty’, in Trade and Poverty Reduction in the Asia Pacific Region, 2009,
p. 502.
Circular migration schemes or the temporary movement of labour as enshrined in the services chapters of trade agreements tend to obviate concerns about brain drain since workers return home after the mutually agreed period of time.

Most countries involved in such trade or immigration agreements are taking on board ‘non-trade’ measures to ensure labour unions and governments are sufficiently involved in order to monitor minimum wages and conditions of foreign labour. Certainly, there are legitimate concerns about social disruption at home and no doubt exploitation can and does still occur if an employer is less than scrupulous but as I shall discuss in chapter six, there are a range of non-trade measure that can be put in place to deal with these issues.

Compared to the gains from temporary employment, training, skill development and the income gained for both worker and remittances back to family and community, I believe the benefits far outweigh the concerns.

Anderson and Winters, for example, highlight the World Bank study (2006) which simulated an increase in migrants per year from developing to high-income countries to the equivalent of a 3% boost in the labour force (both skilled and unskilled) of the high income countries by 2025 – that is a total of 14.2 million workers and their families coming at the rate of 568,000 extra migrant workers per year over the 25 years beginning in 2001.52

The migration study found that the estimated global gains by 2025 would amount to $674 billion per year in 2001 US dollars and of that, $624 billion would be enjoyed by current citizens of developing countries,53 not an insignificant amount particularly if a proportion of those gains are directed to low and unskilled workers.

While some of the concerns of NGOs and other critics of trade liberalisation may be ill-informed from an economic view-point, there are legitimate concerns, for example the social implications of the absence of agricultural workers. These concerns, shared by some academics and by communities in the Pacific, receive careful consideration throughout this thesis. In this last section of this literature review however, I want to focus on literature


53 Ibid., p. 22.
dealing more specifically with trade and poverty issues in the Pacific Islands for this literature assists in addressing some of the concerns that have been raised.

2.5 Recent literature and reports on trade and poverty in FICs

Much of the literature on trade related poverty reduction to date has tended to concentrate on the potential and real development benefits of trade liberalisation to larger developing economies such as those in East Asia or South America. However recently, motivated in part by the emergence of an SVE block in WTO negotiations, closer attention has been paid to smaller economies and island states where there are a significant range of complex obstacles to overcome for them to realise the benefits of trade.

FICs and small island states generally face significant trade barriers including geographic isolation, acute vulnerability to climate change and natural disasters, dependence on a small number of agricultural exports and very limited scope to capitalise on economies of scale given the small populations, limited access to finance and often, their poor infrastructure.

As such, in their empirical study of business costs in small remote communities in 2004,54 Winters and Martins ascertain that there are significant penalties attached to small size based on their analysis of transport costs, labour costs, cost of utilities, water and land costs. Nevertheless, they still conclude that what is required for small remote countries to increase economic development and reduce the incidence of poverty is “not protection against the rest of the world (which effectively makes small economies smaller and more remote) but proactive policies from the international community”.55 They add that the relative cost to the international community will be correspondingly small given these economies are so small.56

The implications of these findings point to the importance of the international community advocating for and to some extent financially supporting domestic trade reform and


55 Ibid., p. VII.

56 Ibid., p. ix.
capacity building in Pacific Island Countries. Primary responsibility should be with their major trading partners including the USA, Australia, New Zealand, China and Japan but also with the wider WTO community including the EU.

Of relevance to the focus of this thesis on the Pacific Islands, Anderson and Winters also highlight that the gains from trade tend to be greater as a share of national output the smaller the economy, other things being equal.\(^{57}\) This is because access to the larger markets of trading partners creates the opportunity to exploit economies of scale and to benefit from the inflow of investment, technology and capital that usually accompanies the opening up of a smaller economy.

Earlier in this literature review, both Winters and McMillan drew attention to some of the important conditions that need to be in place if trade liberalisation is to lead to poverty reduction and they included: strong institutions; eliminating corruption, sound regulation including competition policy in place; adequate trade and economic infrastructure; trade related capacity building and the importance of an increase in FDI and technology transfer. These conditions, I would argue, apply just as much to small as to larger developing economies.

The relevance of these conditions for FICs is borne out by ‘confidential studies’\(^{58}\) undertaken by the Institute for International Trade at the University of Adelaide on the impact of trade liberalisation for Pacific Island economies.

IIT studies, even for the smaller states of the Pacific, such as Nauru with about 10,000 people and Tonga with 100,000 people, found that if these economies with the support of relevant trading partners and donors, were to introduce a number of measures to further

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\(^{57}\) Other things being equal is an important qualification here because it recognises the fact that the challenges for remote island countries to reduced trade costs are high. Concerted efforts are needed to tackle poor infrastructure and the high costs of shipping and air freight.

\(^{58}\) The studies undertaken by the Institute for International Trade on the potential of trade liberalisation and of a regional trade agreement with Australia and New Zealand were undertaken expressly for the governments of six Pacific Island countries and as such remain confidential for the use of these governments. However I have obtained permission to use some of the broad trade data from these reports that is freely available to the public in any case and to use implications and conclusions that are of a general nature. The studies were undertaken between 2008-2010.
open their economies and increase trade, then with the aforementioned conditions in place, the benefits of economic development and poverty reduction would be significant.

Both the Nauru and Tonga studies demonstrated that the removal of tariff barriers in favour of a broad based consumption tax, increased reciprocal labour market access with New Zealand and Australia and the use of ‘aid for trade’ (AFT) for essential infrastructure, should enable their economies to achieve a higher level of self-reliance that would strongly reduce their dependence on aid and budgetary support.59

The following figure shows the potential aggregate benefit of the reforms proposed by a comprehensive PACER Plus agreement in terms of GDP per capita. Scenario one is essentially the status quo using IMF growth forecasts with PACER Plus tariff reforms but no other policy reforms. Scenario 2 adds domestic reforms in the public sector, agriculture and services sectors, to complement the PACER Plus reforms. Projections are shown for the complete pass through of tariff cuts to domestic prices (continuous line) as well as for incomplete pass through of tariff cuts due (dotted line), for example, to imperfect competition or increases in indirect taxes to maintain government revenues following the cut in border duties.

**Figure 2.5  Tonga’s GDP per capita development, Scenario 1 and 2 (2008-2028) in real pa’anga**

In scenario 2, what can be seen is that, with or without the complete pass through of tariff cuts, there is an overall significant increase in the welfare of the Tongan community by 2028. Serious policy reform and a restructuring of the economy to take full advantage of PACER Plus, gives Tonga the best outcome in terms of GDP growth and income per capita. The studies for Nauru and Niue showed very similar GDP per capita results using the same scenarios and formulae as for Tonga.

These studies are useful in refuting concerns about the long-term impact of trade liberalisation and accompanying reforms for FICs. There is not an abundance of literature on the future impact of trade and temporary migration on FICs so the value of independent studies with at least some degree of econometric analysis assist in the careful analysis of best and most appropriate policy options for FICs to consider.

That said, Clive Thomas has put together a useful overall analysis of trade issues for small and vulnerable economies in general with a particular interest in the potential of trade to assist overall growth and development. His research focuses more on the Caribbean and small states in Africa but has important implications for the Pacific. He reaches some useful conclusions on how best to tailor trade policy and labour mobility policy measures to reduce poverty in SVEs and these findings are referred to in the chapters that follow.

Essentially, he reaches two overarching policy conclusions for SVEs. First, that in order for SVEs to realise the benefits of the global trading system there needs to be adequate time and support for them to integrate their national development objectives with the most effective trade policy strategies. Second, he is of the view that clear multilateral trade rules and strong institutions would play a vital role and needed to focus on sustainable human development goals, consistent with the Doha ‘Development’ Round.

His views are relatively consistent with the findings of the work of Duncan and Redden in their analysis of trade strategies for poverty reduction in SVEs. They conclude that SVEs

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61 Thomas, Ibid., p. 2.

should follow a clear path of strategically liberalising their economies, one that involves balancing the pace and staging of liberalisation to ensure trade and development goals are well aligned. They also emphasise the importance of closer cooperation between SVEs and trading partners on market access issues, on domestic reforms and on trade related capacity building goals.63

This thesis draws significantly on the work of the Institute for International Trade that has undertaken considerable contemporary analysis on the impact of trade on the Pacific Islands. In the compendium, “Trade and Poverty Reduction in the Asia Pacific Region”, there are various case-studies on the impact of trade and migration on individual island economies. These include for example, the challenges of WTO accession for Samoa, trade reform and poverty reduction in PNG and the potential role of labour mobility through mode 4 trade agreements for the islands of Tonga.64

In the same publication, Hugo65 undertakes a comprehensive analysis of the role of migration and labour mobility with particular reference to developments in the Pacific. This analysis is further elaborated in his contribution to the Australian Government’s annual Pacific Economic Survey, where a chapter is devoted to the role of migration and labour mobility to sustainable development in the Pacific.66

Finally, I will also draw on some of the more recent analysis and work that has been done by the Pacific Forum Island Secretariat and the Pacific Policy Institute in Vanuatu on the potential impact of a PACER Plus trade agreement between Australia, New Zealand and FICs. These studies and reports highlight some useful trade strategies and negotiating options for FICs to utilise trade agreements to assist in sustainable poverty reduction in the future.

63 Ibid., p. 645.

64 These case-studies can be found in chapters 4 and 5 of ‘Trade and Poverty Reduction in the Asia Pacific Region’, 2009.


In summary, there is I believe, a growing body of literature and evidence, both empirical and anecdotal, that points to the direct and indirect positive relationship between trade openness and poverty reduction for small and vulnerable economies including those in the Pacific. The literature points to the need for appropriate policy conditions to be in place and the need for a strategic and cooperative approach among FIC trading partners for the successful implementation of trade liberalisation and trade reform strategies. Applying these conclusions specifically to the various FICs requires a sound understanding of the current trade challenges and environment in which FICs operate as well as the significance of contemporary trade negotiations, the subject of the next chapter.
3 CURRENT TRADE ENVIRONMENT: BACKGROUND, NEGOTIATIONS AND AGREEMENTS

3.1 Background

Developed countries in the Pacific region such as Australia and New Zealand are urging FICs to open and grow their economies as a bulwark against political instability and civil unrest such as have been experienced in the Solomon Islands, Tonga and Fiji over recent years.

This means that some of the FICs main trading partners have signalled their willingness to support additional 'aid for trade' for example in support of infrastructure development if there is a stronger commitment from FICs to the opening up and reforming of their economies. FICs have been cautious. They have a history of traditional patronage in small, hierarchal societies, with communal land ownership and often with well-established politically connected business monopolies. As such, there exists considerable entrenched rent-seeking interests and fears about the risks associated with a possible exposure to foreign competition and investment.

On the other hand, rapid economic growth in the Asia Pacific region, is a coin with two sides: whilst small economies face significant domestic and economic challenges at home, the rapid growth in the region also creates opportunities for these nations to achieve increased levels of trade and development, away from their more traditional reliance on protected and entrenched interests. Navigating that path however is challenging for all economies let alone for the governments of the Pacific.

Given that all of the FICs consider themselves to be small and vulnerable economies, including PNG, it is useful to clarify our understanding of this classification. Consistent with WTO, World Bank and Commonwealth Secretariat definitions, small and vulnerable economies are defined throughout as those having populations of less than 1.5 million and a share of global merchandise trade less than 0.16%. This study while dealing primarily with the Pacific Forum Island Countries will at times also include examples or case-studies from other Small and Vulnerable Economies such as Timor Leste or from other regions such as the Caribbean and Africa.
Papua New Guinea is included among the FICs, for while it has a population of around 6 million its share of global merchandise trade is just 0.032%. The following table gives a statistical overview of the trade share for all FICs. Of note are the very small contributions to global merchandise trade and the Human Development Index measures, which, while low, put most Pacific FICs in the medium category of UN-HDI country rankings.

Table 3.1 Population, GNP per capita, Share of Global Merchandise Trade, and HDI of Pacific Island States

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Population Rank (1=smallest)</th>
<th>GDP per capita (US$)</th>
<th>% of Global Merchandise Trade****</th>
<th>Human Development Index*****</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>21,750</td>
<td>5</td>
<td>9,100</td>
<td>0.002</td>
<td>..</td>
</tr>
<tr>
<td>Fiji</td>
<td>918,675</td>
<td>13</td>
<td>4,100</td>
<td>0.014</td>
<td>0.762</td>
</tr>
<tr>
<td>Kiribati</td>
<td>107,817</td>
<td>7</td>
<td>745</td>
<td>0.002</td>
<td>..</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>61,815</td>
<td>6</td>
<td>2,696</td>
<td>0.003</td>
<td>..</td>
</tr>
<tr>
<td>MicronesiaFedStates (MFS)</td>
<td>107,862</td>
<td>8</td>
<td>2,254</td>
<td>0.001</td>
<td>..</td>
</tr>
<tr>
<td>Nauru</td>
<td>13,538</td>
<td>3</td>
<td>4,468</td>
<td>0.006</td>
<td>..</td>
</tr>
<tr>
<td>Niue</td>
<td>1,492</td>
<td>1</td>
<td>5,800</td>
<td>0.000</td>
<td>..</td>
</tr>
<tr>
<td>Palau</td>
<td>20,842</td>
<td>4</td>
<td>7,705</td>
<td>0.005</td>
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</tr>
<tr>
<td>Papua New Guinea</td>
<td>5,795,887</td>
<td>14</td>
<td>2,908</td>
<td>0.032</td>
<td>0.530</td>
</tr>
<tr>
<td>Samoa</td>
<td>214,265</td>
<td>11</td>
<td>3,072</td>
<td>0.003</td>
<td>0.785</td>
</tr>
<tr>
<td>Solomon Is</td>
<td>566,842</td>
<td>12</td>
<td>704</td>
<td>0.009</td>
<td>0.602</td>
</tr>
<tr>
<td>Tonga</td>
<td>116,921</td>
<td>9</td>
<td>2,138</td>
<td>0.001</td>
<td>0.819</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>11,992</td>
<td>2</td>
<td>1,600</td>
<td>0.000</td>
<td>..</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>211,971</td>
<td>10</td>
<td>1,842</td>
<td>0.004</td>
<td>0.674</td>
</tr>
</tbody>
</table>

Sources: IndexMundi, CIA, United Nation Development Programme, The CIA World Factbook, and the Australian Department of Foreign Affair and Trade.

**** From UNCTAD export/import statistics for 2005 rounded to nearest third decimal place

***** Human Development Index is the normalised measure of life expectancy, literacy, education, standard of living, and GDP per capita for countries worldwide – 1.0 being the optimum

The term ‘small and vulnerable economy’ is regularly used in trade related development literature and by the WTO. The term can be misinterpreted to imply a sense of weakness or dependence, which I believe is contrary to the cultural and social strengths and potential of these small economies. However, I will use the expression Small and Vulnerable Economies (SVEs) as it has become a familiar term in distinguishing small, low income per capita economies from small, high income economies such as Singapore. It also has acceptance in the WTO, notwithstanding much debate about whether small and vulnerable economies warrant a separate category deserving of additional special and differential treatment.68

While Table 3.1 indicates that the contributions of FICs to world trade may be insignificant, Figure 3.1 does in fact show that Pacific Island export and import flows are relatively large compared with their GDP.69


69 Graph reproduced from Centre for International Economics paper on ‘Pacific Island economies: The role of international trade and investment,’ 2007.
This is what one would expect given that the smaller the economy, the higher the degree of expected reliance on imports and exports as a proportion of GDP. Trade flows for the FICs, especially the import flows, lead some commentators to classify the FICs as highly “open” economies.

However, while most FICs certainly have high levels of imports relative to their GDP, this does not necessarily mean that they should be thought of as ‘open economies’, given the degree of tariffs and non-tariff barriers\(^7\) which still inhibit trade and the obstacles that exist to ‘doing business’ in the Pacific. Most FICs protect some areas of manufacturing and services activity at significant levels and rely on revenue from customs duties.

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\(^7\) Non-tariff barriers to trade are any measures other than tariffs that restrict or inhibit trade among countries, for example non-tariff taxes and charge, quantitative restrictions or quarantine measures.
FICs have tended to provide selective protection for a range of specialised industries and products. For example, prior to 2000, the average weighted MFN tariff for PNG was around 20% while actual tariffs ranged from zero to 125%.

The World Bank’s ‘Doing Business’ reports analyse and compare regulations and barriers to the ease of doing business across 178 countries. The reports compile procedural requirements for the trading of a standardised cargo of goods, recording every official procedure required, beginning from the contractual agreement between the two trading partners to the delivery of goods. This also includes the time taken for these requirements to be met and the costs for completion and final clearance of the cargo across the borders.

The following table compares the performance of a number of the FICs against each other and some of the world leaders.

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Table 3.2  Doing Business 2010 - Trading Across Borders

<table>
<thead>
<tr>
<th>Country</th>
<th>Import</th>
<th></th>
<th>Export</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost (US$)</td>
<td>Documents</td>
<td>Time</td>
<td>Cost (US$)</td>
</tr>
<tr>
<td>Fiji</td>
<td>630</td>
<td>13</td>
<td>24</td>
<td>654</td>
</tr>
<tr>
<td>FSM</td>
<td>1,295</td>
<td>3</td>
<td>30</td>
<td>1,295</td>
</tr>
<tr>
<td>Kiribati</td>
<td>1,070</td>
<td>7</td>
<td>21</td>
<td>1,070</td>
</tr>
<tr>
<td>Palau</td>
<td>1,132</td>
<td>10</td>
<td>33</td>
<td>1,190</td>
</tr>
<tr>
<td>PNG</td>
<td>722</td>
<td>9</td>
<td>29</td>
<td>664</td>
</tr>
<tr>
<td>RMI</td>
<td>945</td>
<td>5</td>
<td>33</td>
<td>945</td>
</tr>
<tr>
<td>Samoa</td>
<td>848</td>
<td>7</td>
<td>31</td>
<td>820</td>
</tr>
<tr>
<td>Solomon Isl.</td>
<td>1,237</td>
<td>4</td>
<td>21</td>
<td>1,023</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>1,015</td>
<td>7</td>
<td>26</td>
<td>1,010</td>
</tr>
<tr>
<td>Tonga</td>
<td>725</td>
<td>6</td>
<td>24</td>
<td>650</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>1,392</td>
<td>9</td>
<td>30</td>
<td>1,497</td>
</tr>
<tr>
<td>Australia</td>
<td>1,119</td>
<td>5</td>
<td>8</td>
<td>1,060</td>
</tr>
<tr>
<td>Mauritius</td>
<td>689</td>
<td>6</td>
<td>14</td>
<td>737</td>
</tr>
<tr>
<td>New Zealand</td>
<td>850</td>
<td>5</td>
<td>9</td>
<td>868</td>
</tr>
<tr>
<td>Singapore</td>
<td>439</td>
<td>4</td>
<td>3</td>
<td>456</td>
</tr>
</tbody>
</table>

Notes: Cost is measured as the fees levied on a 20-foot container in U.S. dollars including all fees associated with completing the exports / imports procedures (documents, handling charges, inland transfer). Tariffs or taxes on trade are not included. Documents comprise all required documents to export or import. This includes bank documents, customs clarification, licenses for import / export and others. Time is recorded in calendar days required for the procedure of imports and exports from the moment it initially runs until it is completed.

Source: World Bank Doing Business
So while FICs are highly dependent on international trade and especially imports, that does not mean they are open to trade and business given the various non-trade barriers that remain as key obstacles. Non-trade barriers such as delays for export or import licensing, lack of clear investment policy, land ownership complexity which leads to leasing issues and duplicative customs procedures, to name a few, all contribute to a relatively high cost of business transactions. 

If trade liberalisation can help lower these transaction costs for business, investors and trade while incentivising domestic reforms that lower the cost of imports both for consumers and exporters, then trade liberalisation should work in the long-term interest of increased investment, business and job creation for FIC communities.

I will discuss later in section six of this study in the ‘enabling environment’ section, what other conditions need to be in place for trade liberalisation to successfully realise poverty reduction and sustainable development in Pacific Island Countries. At this point, I would like to review the state of current trade agreements and what progress has occurred in terms of increased business, trade and investment.

FICs are affected by an interplay of multilateral and regional trade agreements. Because only six FICs are currently members of the WTO, I will first look at the state of regional trade agreements.

3.2 Regional Trade Agreements

Pacific Island Countries have been part of a special relationship with Australia and New Zealand in the form of the South Pacific Regional Trade and Cooperation Agreement (SPARTECA). SPARTECA, which came into force January 1981, is a non-reciprocal trade arrangement between Australia and New Zealand as developed countries and FICs as developing countries. SPARTECA rules of origin are quite straightforward and state that to be eligible for preferential access, goods produced in FICs must have 50% local content. As such, most exports since 1981 from the FICs to Australia and New Zealand enter under SPARTECA.

In practice, trade between FICs and Australia and New Zealand (ANZ) is dominated by exports from ANZ. For agricultural products, FIC exporters find it difficult to negotiate ANZ SPS (or quarantine related) standards and so most goods entering ANZ under SPARTECA consist of a relatively small volume of goods such as bottled water from Fiji or motor
vehicle spare parts from Samoa. The exception is PNG where the presence of both Australian and other foreign multinational mining companies sees exports from PNG of gold, silver and crude petroleum products into ANZ. They account for an overall export volume, which actually exceeds total imports from Australia.72

With this exception, SPARTECA has had relatively little impact on improving the trade performance of FICs – it is a non-reciprocal agreement which does little to encourage domestic reform in FICs or assist with supply-side challenges facing the private sector in the Pacific. This is why it is important to replace such an agreement with a more comprehensive and reciprocal trade agreement for the region which is one of the motivations behind the negotiation of a new Pacific economic and trade agreement, PACER Plus, which I will discuss in more detail shortly. However, first it is important to address other specific trade arrangements of relevance to the region.

Palau, the Republic of the Marshall Islands (RMI) and Federated States of Micronesia (FSM), have their own special relationship with the United States, in the form of the Compacts of Free Association. These are essentially about financial and technical assistance in exchange for defence and security cooperation. However, they also have important immigration implications that can make it easier for these Pacific states to pursue both temporary and permanent labour market access into the USA.

Most citizens of the associated Compact states may live and work in the United States, and U.S. citizens and their spouses may live and work in the Compact states. In 2003, the Compacts between RMI and FSM were renewed for 20 years. These new Compacts provided US$3.5 billion in funding for both nations, while US$30 million was also provided to American Samoa, Guam, Hawaii, and the Northern Mariana Islands in “Compact Impact” funding. For Palau, negotiations are currently underway to renew the Compact arrangements with the US including future funding arrangements.

All the Compact states are consulting with the US on the potential interplay between their signing onto preferential trade agreements with countries such as Australia/New Zealand

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72 However it is worth noting the Australia has AUD $16billion worth of investment in PNG compared to AUD $1.5billion of PNG investment in Australia and so there exists an important opportunity for PNG to build on this investment flow in the future making it easier and more attractive for FDI flows from ANZ.
or China and how this may affect the status of their relationship with the US. The relationship with the US is very important for them as it represents considerable economic aid and migration opportunities for their youthful populations.

They cannot afford to compromise this relationship and yet the risk remains that it does maintain an ethos of dependency rather than self-reliance, one that needs to be carefully navigated with the US and key trading partners in the future. For example, would Compact states be required to pass on to the USA, any preferential tariff concessions or market access to services sectors given to Australia and New Zealand as part of a PACER Plus regional trade agreement?

For the western Melanesian countries of the Pacific, a trade agreement known as the Melanesian Spearhead Group Trade Agreement (MSG) was negotiated in 1993. The MSG Preferential Trade Agreement is a trade treaty governing the four Melanesian states of Vanuatu, Papua New Guinea, the Solomon Islands and Fiji. It is a sub-regional trade treaty established to foster and accelerate economic development through trade relations with a view to ensuring that trade is undertaken on a Most Favoured Nation (MFN) basis among them.

The MSG agreement is General Agreement on Tariffs and Trade (GATT) consistent and has been approved and accorded recognition by the World Trade Organization’s Committee on Regional Arrangements.

Despite the concessions and reduced tariffs that were negotiated among its members, the MSG-FTA has generally failed to significantly increase trade flows between the Melanesian countries. Between 2003-05, total trade flows between MSG countries was approximately US$30 million, which equates to less than 6% of all trade into the sub-region. The scope

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73 To illustrate this point, the Compact of Free Association between the United States and the Republic of Palau, which entered into force in 1994, provided for several types of assistance aimed supposedly at promoting Palau’s self-sufficiency and economic advancement - with the US keen to shore up its strategic defence position in the Pacific. Included in the package were 15 years of direct assistance to the Palau government; contributions to a trust fund meant to provide Palau $15 million each year from 2010 through 2044; construction of a road system, known as the Compact Road; and federal services such as postal, weather, and aviation. For the Palau Government this is highly valued support and they will be reluctant to undermine this support in favour of a trade agreement with other trading partners. (source: US Government Accountability Office, 16 June 2011.)
for improvement has been limited in part by the protections built into the agreement, and the fact that trade liberalisation was occurring between similar, mainly commodity-exporting countries of relatively small size. Nevertheless, the MSG agreement has served to strengthen the political resolve of member countries to recognise the potential value of regional integration as a stepping-stone to global integration.

This political resolve had flow on effects in spawning support for a wider, more comprehensive Pacific Island Forum trade agreement consistent with the principles of a newly developed regional strategic plan for all FICs which highlighted the importance of closer regional integration and harmonisation of trade standards. The first objective of the Pacific Plan is to promote economic growth through:

- Increased sustainable trade (including services), and investment
- Improved efficiency and effectiveness of infrastructure
- Increased private sector participation in development.

Of note, there is full consensus on the need for ‘increased sustainable trade’ and for greater involvement of the private sector – a theme to which I will return in chapter seven. FICs also recognised the importance of trade in services that is a clear acknowledgment of the potential value of trade and investment in the ICT industry, tourism and labour mobility.

With this background in mind, by 2012, most FICs had signed and ratified the broad-based, inter-regional preferential trade agreement among themselves called the Pacific Island Countries Trade Agreement (PICTA). PICTA grew out of the broader Pacific regional plan developed in 2001. It aimed to encourage the expansion and diversification of trade within the region, eliminate trade-distorting tariffs and non-tariff barriers in a gradual and

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progressive manner and to assist in building a single regional market among Pacific Island economies.

Most FICs are still in the process of or have only recently ratified PICTA. A study on the potential impact of PICTA for FICs in the region reached similar conclusions to those on the role of the MSG. PICTA is seen as a gradual, stepping stone to a more open, integrated and transparent trading system where the potential benefits will outweigh the more immediate challenges of domestic reform.\(^76\)

To some extent it has served this purpose well by compelling FIC governments to commit resources to trade negotiations with each other and in so doing, begin to learn more about the various trade policy laws, obligations and implementation processes that are necessary to enforce a WTO compliant regional trade agreement, given that now six of the FICs are WTO members. FIC officials have been undergoing capacity building training programs and interacting more seriously with their private sectors in order to build competency in the negotiation of effective trade agreements. It is early days though for PICTA and there has been little discernible increase in traded goods and services to date.

As with the MSG, the similarity in commodity export profiles of FICs and limited demand from small populations has created insufficient incentives for any significant increase in trade. However, there are some encouraging signs such as an increase in exports of beef from Vanuatu around the region, especially to PNG.\(^77\) Discussions around trade in services and increased temporary migration flows for example to PNG for labour in their extractive industries sector are also proceeding. Arguably the real success of PICTA may be realised through the ‘stepping stone’ lessons it is providing for what are likely to be more compelling reciprocal trade agreements with Australia/New Zealand and the EU.

The Pacific Agreement for Closer Economic Cooperation (PACER) between Australia, New Zealand and FIC members was first signed by Pacific FICs in Nauru in 2001. PACER

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\(^{77}\) Based on my recent discussions (August 2013) with two of Vanuatu’s main beef producers and exporters they have virtually exhausted their supply side capacity with a combination of local consumption and exports to PNG and New Zealand.
seeks to facilitate the creation of a single Pacific market with the two major developed countries of the Pacific region. PACER was essentially about trade related capacity building support from ANZ to FICs in order to drive regional integration, regional security and economic development in the interests of all parties. Under the PACER Agreement, FICs would be required at some future date to enter into negotiations for free trade arrangements with Australia and New Zealand. If one or more of the FICs began a negotiation for a preferential trade arrangement with another developed country, this would trigger a requirement for consultations with Australia and New Zealand, leading to negotiation for a regional preferential trade agreement.

This happened sooner rather than later. For strategic and economic reasons the EU has maintained preferential agreements with many of its former colonies in the Pacific, Caribbean and Africa. Formerly known as the Lome Agreement, a new preferential trade agreement among these parties was renegotiated in Cotonou and signed in 2003. Under the Cotonou Agreement, FICs need to negotiate Economic Partnership Agreements (EPAs) with the EU. The EPAs are in part about political cooperation and development assistance, but they are negotiated as formal trade agreements and as such need to be WTO consistent with comprehensive and reciprocal trading arrangements.

As of January 2008, Fiji and PNG signed interim EPAs with the EU, because of the importance of preferences into the EU market for them, for example, Fiji strongly relies on preferential prices for its sugar exports into the EU and was fearful of losing these if it did not sign at least an interim EPA trade agreement. These interim agreements with the EU then triggered PACER trade negotiations as alluded to earlier in what is now termed the PACER ‘Plus’ trade negotiations. The completion of EPAs as well as PACER Plus are still under negotiation.

Table 3.3 summarises membership of the various RTAs and the WTO and includes those FICs that are LDCs and therefore eligible for preferential treatment. This is as a result of recent WTO negotiations which allow 97 per cent of LDC exports duty free into most developed country members of the WTO – commonly known as the EBA ‘Everything But Arms’ agreement given that trade in armaments is excluded from the arrangement.
Table 3.3 – FIC members of the WTO and selected RTAs

<table>
<thead>
<tr>
<th></th>
<th>SPARTECA</th>
<th>USA Compact</th>
<th>MSG</th>
<th>PICTA</th>
<th>Cotonou EPAs</th>
<th>PACER</th>
<th>WTO</th>
<th>LDC/EBA</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kiribati</td>
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<td></td>
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<td>X</td>
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<td></td>
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<tr>
<td>Marshall Isl</td>
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<td>X</td>
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<td></td>
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<td>X</td>
</tr>
<tr>
<td>Micronesia, Fed. Sts</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
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<tr>
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From SPARTECA to PACER Plus, I would argue that what we have seen is a series of commitments which demonstrate the intention and political will of FICs in general support of regional integration assisted by trade liberalisation. While doubts certainly remain among FIC governments around how to effectively do this, along with concerns to protect some industries and ensure jobs are not lost to foreign suppliers, there is a clear indication from
the Pacific Plan onwards, that many FIC governments have come to the belief that increased trade and investment through trade liberalisation is in their long-term interest.\textsuperscript{78} While some NGOs, such as PANG based in Fiji, try to accuse the EU or Australia of bullying and bribing FICS with an ‘aid for trade’ carrot, that would not explain why strongly independent countries such as Fiji, Samoa or Tonga would sign onto agreements they did not believe were in their long-term interest. Fiji wants its goods to enjoy lower tariffs in the EU or Australian markets but its future is tied far more to a mix of tourist investment and FDI from countries such as Australia, China and the USA as well as through increased labour market access for their growing, youthful populations.

In my interviews with FIC trade officials they dismiss NGO criticisms of the trade agreements they are currently negotiating as ‘patronising’ for the inference that FIC governments would allow themselves to be intimidated by their trading partners to such an extent as to negotiate poor outcomes for the Pacific Islands. This is also borne out from my interviews with Australian and New Zealand aid and trade officials who have constantly stated that their aid programs are not dependent on the signing of a trade agreement with FICs. Australia’s infrastructure program and agricultural assistance program for the Pacific region are already well under way and have been complimented as relatively successful by many of the recipient FIC governments – these are not the actions of a developed government seeking to make aid conditional on the signing of a trade agreement.

None of this is to say that in ‘real politics’ the stronger economies do not put pressure on smaller economies for particular trade concessions or domestic trade reform but it is difficult to believe that all fourteen FICs have collectively embraced closer economic and trade integration strategies as a result of outside force. The Australian Government’s key interest in the Pacific is driven by considerations of stability and economic development rather than forcing a trade agreement upon FICs. The MSG and PICTA were both regionally inspired initiatives and recently when Australia started to show a lack of interest

\textsuperscript{78} Of course politics can obstruct the clear economic intentions of FICs and there are examples of specific FIC governments or individual politicians within those governments, playing to local constituencies and obstructing trade negotiations in the guise of holding out for better deals or standing up to the developed nations in the region. However I would still argue that this represents more short-term political grandstanding than any thoughtful opposition or challenge to the importance of trade and economic reform.
in PACER Plus\textsuperscript{79}, the Institute for International Trade was contacted by six different trade officials including the Minister for Trade in Tonga, the Honourable Lisiate ‘Akolo, raising concerns about Australia’s future commitment to the trade agreement.

I therefore believe that the economic commitment of FICs to trade liberalisation is generally firm - what is lacking is the capacity and skills of how best to implement trade reform and good communication and educational discussions in FICs that create for a reasoned debate on the challenges and long-term benefits of trade agreements.

In sum, SPARTECA, the Compact Agreement, MSG and PICTA have all contributed, albeit some more than others, as small but important stepping-stones to increased market access including labour market mobility, and have therefore provided a useful basis for further FIC action towards a more comprehensive trade and economic partnership agreements.

What is needed for here on, are reciprocal, more comprehensive agreements with broader sectoral coverage and which therefore drive both domestic reform at home and greater market access into developed country trading partners’ markets and which include development chapters which can further assist FICs to address NTBs and supply side challenges. Apart from PACER Plus and the EPAs, the multilateral system itself can help drive these objectives not just for the six FICs who are WTO members but by implication and association, for all FICs.

### 3.3 Multilateral Trade Agreements

If FICs did not see any benefit in moving toward increased trade integration regionally as well as globally then you would not expect an increase FIC membership of the WTO. The opposite is the case. Despite no pressure that I am aware of to join, Tonga acceded in 2008, followed by Samoa and Vanuatu in 2012. I am also aware of two other FICs currently considering the costs and benefits of WTO accession.

\textsuperscript{79} This occurred mainly due to a change of Ministers in Australia - Simon Crean as Trade Minister for Australia had been a strong supporter of the Pacific Trade Agreement, PACER Plus while his replacement Craig Emerson was focussed more on local politics and FTAs in Asia. The Minister did not mention the Pacific in his annual report to the Parliament on being one of Australia’s trade priorities. DFAT later corrected this through diplomatic channels. I received phone calls or was contacted via email by six different officials from around the Pacific who expressed their concern that the trade agreement might not be proceeding.
This means there are now six FICs operating as members of the WTO with the potential for an increase to eight over the next few years meaning the majority of Forum Island members will be WTO members. Based on the obligations already required of the existing members it is therefore necessary for all FICs to be cognisant of the requirements of WTO agreements and rules.

A key question here concerns the relevance of WTO membership in assisting FICs to capture the benefits of trade. The detail of how trade may or may not facilitate economic benefits for FICs is analysed in the chapters that follow, but at this point, I want to briefly discuss some of the specific implications of WTO membership for FICs.

The WTO provides a forum for the agreement of multilateral rules on international trade guided by the principles of:

1. Non-discrimination
2. Lowering barriers to trade
3. Predictability and transparency
4. Special benefits for developing countries
5. Protection of the environment
6. Discouraging unfair trade practices.80

This last principle is backed by a dispute settlement process that can enable low-income countries such as those in the Pacific, to bring cases of unfair trade practices against more powerful, developed and larger developing nations as determined by an objective process of arbitration.

However, all six principles that flow throughout the various WTO agreements, are of potential benefit to all FICs seeking access to the markets of all trading partners or access the special treatment and trade related capacity building that are on offer in order to use WTO obligations to drive transparency and reform at home.

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For its various limitations, the WTO nevertheless serves as a bulwark of multilateral trade rules against an alternative ‘law of the jungle’ where more powerful interests will generally take advantage of unfair trade practices and ignore the special interests of poorer nations.

FICs that have the capacity, such as Palau or the Cook Islands, should either join the WTO or begin the process through acquiring observer status. This would increase their representation in the multilateral playing field of negotiations. FICs would also benefit from the experience in negotiation; they would be eligible for SDT and further trade related capacity building; and, most importantly, they would be assisted and motivated to embark on the required trade reform that accession involves. If FICs are too small and believe that joining would be of little value or too costly – Niue with a population of less than 2,000 may fit in this category – they should still ensure strong and accountable representation through regional alliances with other Pacific members and through the ACP bloc of nations.

Those FICs who are already members of the WTO along with other SVEs who have joined the WTO realise this potential and have placed a number of important issues on the agenda of the WTO Committee on Trade and Development, which established a Work Programme on Small Economies agreed to by the General Council of the WTO in March 2002.

The Work Programme on Small Economies has been an important platform for FICs globally to raise concerns and discuss some of their key issues with the broader membership. Some of the key issues have centred on definitional issues for what constitutes a ‘vulnerable’ SVE and consequent eligibility for forms of special and differential treatment, the degree of technology transfer and firm financial commitments to technical assistance. Other issues to be raised through this work program have included the issues surrounding fishing subsidies for SVEs, preference erosion, rules of origin and a range of specific concerns such as with rules, SPS and TBT standards.81

Progress has been slow on a number of these issues and it remains a major challenge for the international community to develop workable strategies that assist SVEs and FICs to more fully participate and benefit from the gains the multilateral trading system can offer.

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81 WTO, Committee on Trade and Development minutes, October 2011.
Nevertheless, as with the ‘stepping stone’ process described in relation to regional trade agreements in the Pacific, the WTO has not only contributed to the capacity of its six FIC members to improve market access options and supply side support but it has also contributed to a fairer set of trade rules and processes that are important for guiding non-WTO FICs in their future ability to capture the benefits of trade.

There is little doubt that the number of FIC WTO members will increase into the future and the importance of informed advocacy and regional cooperation in advancing specific trade issues for FICs at the multilateral level will be particularly important.

In chapter four, I want to analyse some of those specific challenges in more detail. I intend to discuss some prime examples of the actual trade challenges FICs face and then ways forward to deal with these challenges in relation to successful avenues for increased trade in goods; for agricultural products; fish and fishing products and manufactured goods generally.
4 INTERNATIONAL TRADE IN GOODS – KEY CHALLENGES AND WAYS FORWARD FOR FICS

4.1 Introduction

In previous sections, I have referred to the diseconomies of scale and the high trade transaction costs facing small and remote island economies such as those in the Pacific. I would now like to examine specific challenges facing FICS in relation to international trade in goods and then suggest how they might be able to deal with these challenges.

First it is informative to consider the historical impact of preferences on trade in goods for FIC economies and the value of these preferences for FIC economic development in the future.

4.2 Trade Preferences

While trade preferences, such as those given to Fiji for its sugar exports, can help boost economic production in FICs and contribute to short and medium term growth, in general preferences have had little positive impact on FICs for the following reasons:

- Preferences can lead to the development of activities that are not viable when the preferences are removed and the activities have to compete on level terms with other producers – in other words, they create short-term remedies that are often not sustainable.

- Many agricultural products produced by FICs are already at zero or negligible tariffs into developed countries.

- Many processed products with high tariffs are excluded from preferential agreements.

- Where preferences are substantial they are often accompanied by strict quantitative and quarantine restrictions.

- There are often restrictive rules of origin on agricultural and NAMA goods in many trade agreements.
• Preferences are usually of a temporary nature and are subject to the political whims of the day. Entrenched interests use various means to protect these economic rents.\textsuperscript{82}

Therefore, there is a limited role for trade preferences in assisting FICs to gain sustainable market access. This is not to say that some FICs have not benefited from preferences in the short to medium term. The main benefits of preferences in Fiji, for example, have been from preferential pricing for a fixed quantity of sugar exported to the EU and for the development of the garment industry under the preferences provided through SPARTECA with Australia and New Zealand and through the Multi-fibre Agreement (MFA) in the WTO.

But even in these cases the outcomes have been very mixed. In the case of sugar, the potential beneficial multiplier effects have been dissipated by the expansion of sugar cane farming into very marginal areas. Productivity in the sugar industry has been in long-term decline. While the productivity decline cannot be blamed totally on the provision of preferences, the preferences do not appear to have encouraged innovation and there has been no incentive for diversification, with the result that Fiji’s sugar industry has become one of the most inefficient in the world.

Similarly, the preferences provided to garment manufacturing and exports to Australia, New Zealand, and the US have not resulted in the development of economically efficient firms.\textsuperscript{83} When the MFA expired at the beginning of 2006, Fijian firms exporting to the US closed down and moved their activities to China and elsewhere.\textsuperscript{84} Garment exports to Australia have only remained viable with reductions in the rules of origin requirements and adjustment assistance provided by Australia. There is no indication that the garment industry in Fiji will be able to continue when the current SPARTECA preferences are removed unless a new deal is struck under a PACER Plus agreement being negotiated at present.


\textsuperscript{83} Ibid., p. 609.

\textsuperscript{84} Ibid., p. 609.
Whatever the relatively minor benefits of preferences have been, the future erosion of preference seems inevitable. The conclusion of the Uruguay Round in 1994, with its commitments to more liberalised trade and especially to lower tariff rates for agricultural products, has contributed to the erosion of preferences. The lowering of MFN tariffs, the removal of non-tariff barriers by the EU on a multilateral basis, and the extension of its preference beyond the ACP countries are the factors that have accounted for this erosion.85

Further, Australia and New Zealand have lowered their MFN tariffs and now products from Asia have replaced many Pacific imports that were previously provided preferential access through SPARTECA. In Samoa, two coconut processing plants were closed because they lost their export market to Australia and New Zealand.86

Bilateral and regional agreements that have extended lower duty and duty-free arrangements to groups of countries also erode the benefits of preferences to countries. With these arrangements increasing and successive rounds of MFN tariff reductions, the limited value of current preferences is bound to decline, making it important for FICs to carefully assess how much ‘negotiating capital’ should be invested to maintain levels of preferences that may not be helpful in the long run.87

Attachment 2 of the current WTO Agreement on Agriculture Revised Draft of Modalities shows that the tariff reductions proposed by some developing countries (the G-20 group) could lead to the preference margins into the EU for sugar, bananas, strawberries, rum and other products being reduced by 10 per cent or more. These reductions would adversely affect FICs such as Fiji and PNG.

As the FAO, UNCTAD, the World Bank and others have argued, FICs themselves need to strive to alleviate the domestic constraints that are proving to be obstacles to them achieving international competitiveness. For example, in-depth analysis often reveals that it is domestic constraints preventing the expansion of exports, not access to other markets.

85 Duncan and Redden, ibid., p. 609.
86 Ibid., p. 610.
87 Ibid., p. 610.
Constraints such as insecure access to land and the resulting difficulties in accessing credit, investment disincentives, bureaucracy and red tape, pest and disease problems in agriculture and livestock industries need to be addressed to enable FICs to build their supply side capacity and diversify exports.

Therefore, in many cases, what is needed is ‘market entry’ rather than ‘market access’ solutions. Trading partners, donors and international organisations need to share more responsibility in assisting FICs with relevant analytical inputs, the development of human resource capacity in trade and development, improved marketing of their products, research into supply chain analysis and other long-term solutions, which would assist FICs to be less dependent on trade preferences.

Critics from the business sector and some NGOs will point to business closures and job losses if there is reduced dependence on trade preferences. This I would argue is in the realm of short-term pain for long-term gain and to remain dependent on preferences goes against the grain of most FICs seeking greater economic self-reliance and political independence.

According to Duncan and Redden:

There will no doubt be short-run costs of adjustment to the loss of preferences. In particular, as soon as a reduction in preferences is announced, or even anticipated, the value of the capital invested in those businesses will be reduced. As well, there will be a threat of job loss for employees. There is little that should be done for the owners of capital in these businesses, as they have benefited from the years of economic rent provided through the preferences.

Adjustment measures will be needed to assist displaced labour, through re-training and skills development programs in sectors more conducive to future growth, whether that be in agricultural diversification, fisheries or services such as tourism. FIC governments need to

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88 Duncan and Redden, ibid., p. 610.
89 Duncan and Redden, ibid., p. 611.
pay particular attention to creating an investor and business friendly environment, in anticipation of the loss of preferences. FIC governments and donors might also consider how compensation and transition costs could be met during a transition phase.90

There is a vexed question about whether it is better for the preferences to be either immediately or gradually removed. Immediate removal means that the affected industries have to face the adjustment costs immediately. Gradual reduction of preferences would appear to make the adjustment costs easier to bear and fits more closely with what I believe is a more gradual and strategic approach to trade liberalisation. However, in some cases immediate withdrawal of preferences may be forced on firms due to multilateral or regional preference erosion over which FICs may have no control.

In summary, there will no doubt be pain associated with the loss of preferences in some FICs and there will be vocal critics of trade liberalisation as a result.

As Duncan and I concluded in the paper on trade strategies for poverty reduction in the Pacific, FICs need to be wary of the short-term, political nature of preferences and the potential misallocation of resources which can result, such as in the case of Fiji’s sugar industry.91

With a mix of adjustment assistance and technical assistance to establish a more investor-friendly environment and better trade facilitation, FICs can adjust to the inevitable as it is in their longer-term interests to do so. If FICs remain vulnerable to preference erosion and dependent on a few protected industries, then there will be more severe job losses in the longer-term and a downturn in economic growth exacerbating poverty.

Multilateral and regional trade agreements can contribute to long-term development where they provide effective technical assistance, support for adjustment, long-term market access opportunities and support for supply-side capacity building. These add to the list of effective conditions necessary to ensure that trade can work for sustainable development.

90 The principle of the Tariff Revenue Offset Fund for FICTA has been suggested by Redden as an offset to any initial shocks to FIC economies, and especially to the smaller economies, as a result of initial loss of tariff revenue from trade liberalisation commitments. From the Institute for International Trade and Pacific Trade Consult paper on ‘The Potential Implications of FICTA for Small Forum Island Countries,’ p. 58.

91 Duncan and Redden, ibid., p. 611.
A key issue associated with trade preferences is the resultant effects of trade diversion, which is important enough to warrant special attention in the next section because it will further add to the list of considerations that needs taking into account if trade is to result in sustainable poverty reduction.

4.3 Trade Diversion

Trade diversion arises because of preferential trade arrangements that lead to trade diversion from lower-cost producers to higher-cost producers.92 Because of the preferential arrangements for members, lower-cost producers from outside the preferential arrangement lose trade to higher-cost producers within the group. As a result, economically inefficient activities are encouraged within the trading block. The cost to the exporting country within the group is that the preferences allow resources to be bid away from other activities that would have been more economically efficient.93

The opposite effect to trade diversion is trade creation. This is the case when trade from lower-cost producers is encouraged through the lowering of trade barriers.94 If a preferential trade arrangement is agreed, the trade diversion effects can be minimised by keeping the trade barriers against third-party exporters as low as possible.

A major problem observed in preferential trade agreements among low-income countries is that the chances of trade diversion rather than trade creation are higher. This is the case with PICTA and the Melanesian Spearhead Group. In the absence of PICTA, trade between the Pacific Forum countries was very limited, as for the most part they produce the same exports. However, with the formation of PICTA, exporters within the trading bloc gain preferences over various rest-of-the-world exporters. Hence, higher-cost exporters within the bloc gain preferences over lower-cost exporters. Thus, PICTA is therefore likely to favour the more advanced economies within the bloc, Fiji and PNG.95

92 Duncan and Redden, ibid., p. 611.
93 ibid., p. 611.
94 ibid., p. 612.
95 ibid., p. 612.
However, as noted earlier, the implementation of PICTA and PACER Plus carry with them the potential benefits of regional integration and the implementation of trade liberalisation commitments. In order to address trade diversion then, FICs should seek to keep trade barriers against other third-party exporters as low as possible.

4.4 Rules of Origin

Trade agreements typically have different rules of origin so it is useful to briefly examine how such rules can obfuscate, divert or facilitate FIC trade.

The ability of FICs to succeed in the development and export of goods is affected by trade rules governing the source and composition of a product and these are known as rules of origin. Rules of Origin (ROO) are criteria used to define where a product was manufactured or otherwise produced. ROO are needed because, globally, trade is in reality not free and trade rules exist that discriminate between exporting countries through, for example, quotas, preferential tariffs, anti-dumping rules, safeguard measures, and countervailing duties.96

ROO may be preferential or non-preferential. Non-preferential ROO should apply when all exporters, whether from an individual country or through a bilateral or regional trade agreement, are treated the same. The WTO Agreement on Rules of Origin, an outcome of the Uruguay Round negotiations, was an attempt to establish harmonised ROO that are “predictable, objective, and understandable”.97 However, there has been debate over the Agreement and the WTO Committee on the Rules of Origin has been charged with looking to changes that will resolve the debate.98

Non-preferential ROOs are used within bilateral or regional trade agreements to establish whether a good or a defined percentage of the cost of manufacture of the good ‘originates’ within the exporting country(ies) and is eligible to receive the reduced rate of duty under the preferential arrangement. The current ROO for exports from FICs to Australia and New

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96 Duncan and Redden, ibid., p. 624.
97 Ibid., p. 624.
98 Ibid., p. 624.
Zealand (primarily with respect to garments from Fiji) have been the subject of considerable debate over the period that SPARTECA has been in operation. The original ROO was 50%; which meant that at least 50% of the substantial cost of manufacture of the good had to take place within Pacific countries or in Australia and New Zealand. Presently, there is pressure from Fiji to have the ROO lowered to 35%. Lowering the ROO percentage would allow Fijian garment manufacturers to source more inputs from cheaper overseas sources rather than domestically. The reason for this request is the pressure on their export viability from the erosion of the value of the SPARTECA preference through the lowering of tariff levels in Australia and New Zealand. However, this is a short-term measure to try to avoid the inevitable pressure to become internationally competitive. An undesirable effect of the ROO, which works in opposition to the need to become internationally competitive, is that it encourages firms to pad their manufacturing costs and avoid the need to become more productive or improve their quality and find new markets.

In the debate on improving preferential modalities, particular attention has been given to ROO. It is noted that in some export sectors, utilisation of trade preferences has been hampered by restrictive ROO. ROO are increasingly perceived as being founded on an obsolete vision of vertically integrated industries, while production has become internationally fragmented in the context of global interdependence and trade liberalisation, which has changed manufacturing processes dramatically. Finished goods are increasingly subject to multi-country and multi-industry interventions, with individual enterprises in different countries specializing in production stages, according to their comparative advantage. Accordingly, carrying out several processes to acquire originating status in a single country is no longer consistent with technological progress and global trends.

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99 Duncan and Redden, ibid., p. 624.
100 ibid., p. 624.
101 ibid., p. 624.
102 ibid., p. 625.
Moreover, with lower MFN tariffs in all large markets, concerns about circumvention often appear outdated.103

In the medium term, in the Cotonou EPA negotiations and the negotiation of PACER Plus, it would be advisable for negotiating parties to reach an agreement that enables reasonable flexibility with ROO to ensure they operate in the export interest of FICs.

Effective ROO, that are predictable and easily understood by business, can help to increase FIC exports through a comprehensive preferential trade agreement. In the longer term, FICs should remain aware of the fact they can also divert trade inefficiently, create barriers and deter trade.

Cognisant of the role of these factors, preferences, diversion and the impact of rules of origin, the next section now examines trade in agricultural goods and how FICs are dealing with the specific challenges they face in this sector. I then discuss possible solutions or ways forward to these challenges so that trade in agricultural goods can assist FICs with wealth creation and poverty reduction.

4.5 Agriculture Issues for FICs

Agriculture contributes to a significant part of the economic activity and employment in most of the FICs. In general, agriculture accounts for a greater share of employment than it does of GDP, which means labour productivity is lower than in the rest of the economy.

All the usual ‘high costs of trade’ for small and remote economies are applicable to their agriculture sectors, particularly because agriculture production tends to be in bulk commodities, for example sugar or copra. Small-scale production, inefficient practices, high transport costs associated with small quantities, long distances from export markets and poor infrastructure all mean that it is difficult for many FICs to be in a position to compete with lower-cost producers in other developing and developed countries.

In some FICs, particularly the larger and relatively more wealthy, like Fiji, commercial farming does take place on a larger scale. In these cases, the main markets are usually developed countries and production focuses on a narrow range of crops exported under

103 Duncan and Redden., ibid., p. 625.
preferential terms to the European Union, Australia or the United States. As noted in the previous section, the adverse impact of the erosion of preferences will affect the export of bulk commodities such as sugar, with a deleterious effect on their terms of trade.

These exports can be subject to sudden price changes that result from changes in European policies – such as the 36% cut in the domestic price for sugar in the EU, which resulted from the reform by the EU of its sugar regime. For other agricultural commodities, producers in FICs are subject to the price fluctuations that characterise agriculture trade and, as they produce a small range of commodities, they are particularly vulnerable to world commodity price shocks.

Thomas notes that because most FICs’ terms of trade are highly dependent on agricultural export prices, that this coupled with the prolonged regime of low commodity prices from which we have only recently begun to emerge, has made it extremely difficult for FICs to increase government revenue. This in turn strains their ability to better manage other macroeconomic fundamentals such as interest rates and availability of credit, or the financing of vital services, including agricultural research and services.\(^\text{104}\)

It is also difficult for small, geographically isolated producers to vertically integrate into global agribusiness supply chains, given that most FICs consist of small scale farmers often with one or two dominant exporting firms. At present, 80-90% of global trade in the ten most important commodities is controlled by three to six transnational corporations,\(^\text{105}\) and increasingly, supermarket chains are influencing both the price and quality of global food trade. Packaging and stringent SPS requirements, and changing patterns of demand, are making it increasingly difficult for FICs to compete.

Much has been written about agricultural protectionism in OECD countries and suffice to say here that the net effect of their overproduction is under-importing from foreign markets and then over-exporting at low prices because of subsidies and this undermines the ability of small farmers in FICs to compete globally.

\(^{104}\) Thomas, ‘The Concerns of Small States in the Global Trade’, Regime, p. 34.

\(^{105}\) Ibid., p. 35.
However, enough of the problems – these have been well documented. The main challenges are:

1. Can FICs create wealth from trade in agricultural products in a way that will reduce poverty or should they largely abandon their agricultural sectors for example in favour of expanding trade in services, such as tourism?

2. Is it therefore better as some would argue, for small island states to focus only on small-scale food production for local consumption in pursuit of food security objectives?

Firstly, let us further examine the issue of whether FICs can in fact be competitive as exporters of agricultural products. Because FICs are unlikely to be competitive on global markets in exporting standardised, high-volume agricultural commodities, one answer is to develop ‘niche’ markets through product differentiation. Consumers in other countries have to be convinced that it is in their interests to pay a higher price for a ‘non-standard’ product—a higher price that will cover the high international trade costs faced by FICs.

Positive examples of successful niche marketing of this kind in the Pacific are Fiji Water, beef from Vanuatu or Pure Fiji (cosmetics made from coconut oil). Other examples are found in the marketing of ‘organic’ products. The Dominican Republic for example, a small and vulnerable economy in the Caribbean, boasts that it is the world’s leading exporter of organic bananas and organic cocoa.

Developing niche markets however is not something that governments can do. This has to be left to investors willing to risk their capital to develop profitable markets. FIC governments can help by making it easier for entrepreneurs and primary producers to establish and operate their businesses efficiently.

Opening up to international trade and investment in agriculture, allows both foreign and local entrepreneurs to develop agricultural production in those product areas where there are profitable niche markets. If successful, the export of these products provides:

- Economies of scale because domestic production is expanded to meet foreign demand hence, ceteris paribus, this should lower the unit cost of production increasing the availability of cheaper products for local consumption.
• Assuming the expansion of local production then there will be an increase in jobs and skill development in that agricultural sector

• Government revenue both through export revenue, which flows back into the economy and the payment of local taxes such as GST or company tax.

• In some cases will likely involve the transfer of technology and support for meeting quarantine and labelling (SPS/TBT) requirements of foreign markets

• Usually provides easier access to foreign capital.

Therefore, the development of niche markets for agricultural goods not only fosters investment in the production of local goods for consumption and self-reliance at home, but also provides valuable export revenue for farmers and local communities enhancing, rather than undermining, food security.

If we combine investment and the development of niche agricultural markets with a low or zero tariff on food, and assuming at least some degree of competition or price regulation in the market, then this can lead to lower cost food imports for low income consumers – further reinforcing food security objectives.

What if a country is so small and perhaps no-one wishes to take the risk of investment in agricultural or believes there are no niche products or markets?

The evidence from small island countries like Mauritius, which has developed niche markets for its sugar products and textile and clothing designs or the growth of Vanuatu’s beef cattle exports to PNG and elsewhere would suggest otherwise, but perhaps the best example comes from the tiny island of Niue in the Pacific.

Niue produces an unusually flavoured fruit drink, noni juice, and has found a market for this fruit juice in New Zealand where both expatriates from Niue and New Zealanders have become regular consumers of the product. Meeting packaging and quarantine requirements has been an issue but with ‘aid for trade’ support, private producers are progressing well in the development of this market. Niue has less than 2,000 people and is the smallest island state in the Pacific. While this niche export alone will not solve all the problems of remoteness and aid dependence, it goes some way to developing entrepreneurial enterprises, connects the island with international markets and technology
transfer, reduces some of the dependence on aid and importantly, provides an income for a small number of low income farmers there.

The argument to protect local production with the aim of food security and self-reliance is generally self-defeating. In fact, protection of local production usually has the opposite effect. It provides a disconnect from global markets, denies access to foreign investment in agriculture, loses the potential of technology transfer and of a potential economies of scale that would not only drive the cost of local food downwards but would also provide a more reliable source of income to farmers and their communities to enhance food security objectives.

So while I would certainly argue in favour of FICs continuing to target investment in services (more on that subject in chapter five), I do not see this as exclusive to the development of a viable agricultural sector that combines domestic production with a capacity to export ‘niche products’ to the growing markets of Asia and Oceania.

To the contrary, trade in agriculture can and does assist in sustainable development goals as well as food security objectives for a number of FICs that are already pursuing this route. For FICs, it is a matter of encouraging investment, finance and technology into their agricultural sectors.

From the discussion above, a number of conditions are therefore important if trade in agriculture is to be successful for FICs.

1. Investment in agricultural human resource productivity, including training, up-skilling, research, and technical assistance to small-scale farmers to increase productivity both for subsistence and for meeting the quarantine and standards required to enter foreign markets

2. Government incentives for both local and foreign Investment in rural infrastructure, including for example in port facilities and telecommunications services, to lower trade transaction costs for domestic supply and international trade

3. The development or strengthening of competition and pricing policies domestically to ensure for example that a policy of low import tariffs on agricultural products results in lower priced food for consumers
4. Trade facilitation assistance to assist firms to integrate and market into segments of larger markets – whether in Asia, the US or Australia/New Zealand

5. Support for adjustment costs for some FICs where there has been a dependence of preferences that are now eroding and production had either faltered or collapsed

6. Assistance to local farmers to better understand and meet the requirements necessary to supply domestic and tourist consumption and so reduce dependence on imported agricultural products.

This final point refers to the lag between foreign tourist demand for quality food products and the capacity of local supply. Tourists pay high prices in Tongan restaurants for fish imported from New Zealand – on an island whose natural comparative advantage is the surrounding sea but one which lacks the processing facilities to furnish the local tourist market. In general the growth of tourism and the increasing populations of most FICs mean domestic agricultural demand is increasing and new opportunities will arise for local primary producers.

The conditions outlined above are not easily met. They require political will locally and technical support from abroad. However, the alternative is to ‘stand still’ while the opportunity costs of disconnect from global markets gradually increases the cost of food and cost of living for FICs. The conditions outlined above, if seriously embraced, can pave the way for viable agricultural exports and local food security, provide important revenue for farmers and government and provide for lower cost imported food. Taken together these measures can contribute significantly to food security and poverty reduction in FICs.

To achieve support for the above conditions, some critics of trade liberalisation are concerned that international trade rules might hinder the ability of Pacific governments to provide agricultural subsidies to their producers and for them to receive the capacity building support that is being sought whether for training, infrastructure development or research into niche markets. The next section evaluates those concerns by examining current WTO policy on trade in agricultural products.

4.5.1 The WTO and Agricultural Reform in FICs

The most recent draft of modalities for agriculture, which sets out the formulae WTO Members will use to calculate tariff and subsidy reductions, includes specific and more flexible treatment for the benefit of small and vulnerable economies. This category also
covers those WTO FIC members who are not LDCs and therefore are not required to make tariff and subsidy reductions in agriculture.106

Under the Agreement on Agriculture, all WTO Members are entitled to provide unlimited support through the Green Box, which covers infrastructure, education, training and other government service programmes as well as income support and insurance programmes for farmers. Developing countries may also give investment subsidies and input subsidies targeted at resource-poor farmers without any limit to the amount that is provided.

Developing countries are able to give support of the most trade-distorting kind, the Amber Box, up to 10% of the value of the product concerned or, for non produce-specific support, up to 10% of the total value of agriculture production. In addition, export subsidies for transport and marketing may also be provided by developing countries.

These provisions in the green box and amber box allow considerable flexibility for Pacific Island Governments to support agricultural programs in favour of their primary producers.

Pacific members of the WTO are also able to utilise lower tariff reductions if an agricultural good qualifies as a Special Product and in addition is e a Special Safeguard Mechanism that can be applied when import surges occur or import prices fall. Least-developed FIC countries would not have to reduce bound tariffs at all. Thus, it is fairly safe to conclude that FICs would be unlikely to have to reduce most applied tariffs even after the bound tariffs were reduced following a Doha Round agreement.

An important point here is not that WTO FIC members should delay tariff reduction on agricultural imports. In most cases, unless there is sound evidence in support of temporary

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107 In WTO terminology, subsidies in general are identified by “Boxes” which are given the colours of traffic lights: green (permitted), amber (slow down — i.e. be reduced), red (forbidden).

108 In the Doha Round agricultural products for which developing countries are to be given extra flexibility in market access for food and livelihood security and rural development are categorised as Special Products. In the WTO, a member may implement a Special Safeguard Mechanism, such as restricting imports of a product temporarily, to protect a domestic industry from an increase in imports causing, or threatening to cause, injury to domestic production.
infant industry support, it will be in the interest of low-income consumers as well as exporters to see lower applied import tariffs resulting in cheaper food imports.

The key point though is that both existing and future FIC members of the WTO can offer domestic support for reform and agricultural development without fear of being in breach of international trade law. This assumes of course that FIC governments have the resources to invest in their agricultural and rural sectors – for many, such resources are limited.

Governments and international organisations can play a critical role in providing education and training services to farmers to produce, market and sell their products. Such government or internationally provided services fall clearly into the Green Box, which also includes insurance programmes and programs that will be important for farming in areas exposed to cyclones or other natural disasters – a concern most applicable to the Pacific.

While issues of government revenue generation are addressed more substantially later in this study, it should be possible to find sufficient financial support for vital agricultural reforms. If FIC governments and their local communities commit to reform — and in many cases this will require sensitive land reform and land titling processes, the training of younger and middle-aged men and women in small to medium scale enterprise farm management—then both foreign and local investment should follow.

In summary, I have argued that the pursuit of niche agricultural markets and investment in agricultural productivity, combined with a policy of low to zero import tariffs on agricultural products, will with appropriate local and international support, assist FICs to achieve poverty reduction and greater food security. I have identified a number of key conditions for more sustainable agricultural production, conditions that are all allowable under WTO rules and therefore accessible to all FICs. However such reform will require domestic commitment, foreign investment and technical assistance through for example, AFT.

Local trade and economic reforms are necessary to ensure incentives and commitments to land reform, to rural education and training, disaster preparedness and to the accumulation of credit, savings, insurance and investment in rural reform. International action will be required in providing technology, training, and some of the funding for agricultural reform as well as a break-through in WTO negotiations to reduce global distortions to trade in agricultural goods.
There is progress on a number of these fronts. The EU, Australia and New Zealand as well as other donors are funding a range of aid investments in support of agricultural productivity and dealing with supply side challenges facing the Pacific. A number of FICs are rising to the challenge of lowering tariffs and implementing land reform and competition policy. There is therefore reasonable evidence and cautious optimism that trade in niche agricultural products can and will continue to contribute positively to poverty reduction especially where the various conditions I have outlined, are undertaken.

4.6 Manufactured Products and the Fishing Industry

4.6.1 Trade in Manufactured Products

Similar to the agricultural sectors of FICs, I will argue that small to medium manufacturing enterprises can survive and potentially flourish, through domestic trade reform, supply-side productivity gains and increased market access.

Manufactured or industrial products are distinguished from agricultural goods in WTO terminology as ‘Non Agricultural Market Access' products - or in abbreviated form, NAMA products. For various reasons fish and processed fish products are included in the NAMA category and not in the agricultural category. 109

I intend to use the fishing industry as the main focus of this section of the study given that the future of FIC fishers and their fishing industries are significantly affected by trade policy decisions at local, regional and multilateral levels, and also because the direct or indirect impact of those trade decisions has important ramifications for food security and sustainable development. In addition, a number of the smaller FICs have negligible or very small manufacturing sectors and therefore remain highly dependent on imported manufactures. So the potential development of fisheries, fish markets and licensing practices for foreign fleets rank importantly for most FICs.

109 NAMA refers to all products not covered by the Agreement on Agriculture. In practice, it includes manufacturing products, fuels and mining products, fish and fish products, and forestry products. They are also referred to as industrial products or manufactured goods (www.wto.org/english/tratop_e/markacc_e/nama_negotiations_e.htm).
Firstly however, I would like to examine two case-studies on how some FIC industries can survive and flourish in a competitive global environment using niche products with a Pacific brand to link into regional and global supply chains.

The success of Fiji water and Pure Fiji’s cosmetics has demonstrated that innovative firms in Fiji can tap larger markets like those in North America, Australasia and Europe. With Fiji’s abundant timber resources, the furniture and joinery industry also plans to emulate the success of the ‘natural products’ industries and is seeking to produce organic wood products for export to Australia, New Zealand and Asia. Small scale producers in the Pacific need only capture a tiny percentage of the multi-billion dollar furniture import market in ANZ, Asia or the United States to make substantial gains. A case in point is the success of a Cook Islands garment designer.

Elena Tavioni, a Cook Islands textile designer, has expanded her business over the past two decades from servicing the local tourist market to exporting to Australia, NZ, Hawaii, Tahiti, Samoa and other Pacific Islands. Her TAV label has also been exported to countries as far as England, the South of France and the United Arab Emirates. She recently supplied to about 35 stores in Japan and the export business continues to grow.110

Her secret for breaking into the highly competitive global garment market? TAV focuses on creativity, individuality, quality, and the fact that their product is more readily differentiated in export markets than at home. The brand is carefully managed to represent the romance and escapism of the Pacific by utilising traditional motifs, sea life, flora and fauna patterns in print designs - namely block printing, hand painting and dip dyeing all of which are done by hand using various fabric paint and techniques.111

Despite the difficulty of retaining trained staff in the Pacific the company, which maintains its own internal staff-training capacity, moves from strength to strength in the export market.

110 The Institute for International Trade interviewed Elena Tavioni as part of the study on the potential impact of PACER Plus for the Cook Islands and the Pacific, August 2009. The information here is from that interview.

However, for niche products and export industries such as these and for other new industries to spring up in the future, there will need to be significant trade reforms in the domestic market to reduce the cost of business and trade transactions as well as capacity building support to meet the growing requirements of quality and standards in their key export markets.

One of the most important supports that FIC governments can offer is to maintain open markets for manufactured goods (and indeed for all products and services) so as not to exacerbate the tendency of the Islands’ remoteness, small size and import dependency to distort relative prices for domestic and imported goods and services.

Although all of the FIC governments are committed to progressive tariff reductions through regional agreements (PICTA and EPA) and some (the WTO members) have also cut import barriers, FIC governments have not until recently undertaken unilateral commitments to trade liberalisation. On the whole, the political economies of the FICS - influenced by both protected state-owned enterprises and advocacy by community-based NGOs, and possibly by a level of ‘export pessimism’ in some of the business community - tend to resist opening the domestic market further.112

There are some encouraging signs that such trends are beginning to be reversed with many FICs committing to further tariff reduction schedules in current trade negotiations with the Europeans and as part of the PACER Plus negotiations with Australia and New Zealand. Access to cheaper inputs for the exporters of manufactured goods of the Pacific will be vital for future success.

The import of advanced, manufacturing technology for example will be essential. The use of flexible manufacturing systems and numerically controlled machinery means that large manufacturing firms can enter FIC markets for customised products. This has been the case with Japanese firm Yazaki and its investment in Samoa for the manufacture of motor vehicle spare parts to supply the Australian and Asian car manufacturing industries. Small

firms that acquire this technology can achieve economies of scale and compete effectively so long as imports remain affordable.

Another of the biggest challenges facing the expansion of FIC trade is the high cost of importing and exporting in these countries due to inefficient government regulation and regulatory procedures. These costs add substantially to the natural disadvantages of distance and small economic size that afflict firms doing business in the PICS. World Bank data points to an urgent and extensive agenda of trade facilitation that - combined with continuing reductions in formal border barriers - could lift trade performance in the PICs, on the import as well as export side, and could improve the profitability of almost every firm and the income of almost every household in the Island economies. In section six, I will discuss in more detail the cost of doing business in FICs and behind the border barriers to trade but suffice to say at this point, reform of government red tape and bureaucratic duplication of procedures would assist small manufacturing firms and multinational companies alike to establish competitive and profitable enterprises.

For the future development of private sector manufacturing, there are many factors that need to come together to create and expand linkages to global supply chains. These include good product design, meeting international standards and specifications, utilising creative marketing strategies and product development specialists, as well as logistics designers and suppliers, more efficient transport providers, wholesalers and specialised information providers.

There are a number of regulatory agencies and policy domains that affect trade and the capacity of an exporter or importer to integrate into a supply chain. Such agencies need to play an important role in assisting firms to reduce the cost of trade for example by improving trade facilitation measures affecting the speed and costs of acquiring information and transiting a border, by streamlining standards and conformance measures or by including rules of origin that permit the cumulation of origin within a preferential regional agreement.

Many challenges lie ahead but the success of Pacific organic products, Yazaki in Samoa and Cook Island textiles are just a few examples of the potential for FICs to develop niche products that can be integrated into regional and global supply chains. The success of these manufacturing enterprises at present and the potential for future growth of niche
manufacturing enterprises in the Pacific have significant flow on effects, both direct and indirect, for poverty reduction. These include:

- New investment and entrepreneurial skills into the economy
- The creation of jobs and associated training opportunities
- With medium to larger enterprises in particular, multiplier effects in the employment and provision of inputs and services from the domestic economy
- The import of innovative technology often with flow on effects for other sectors of the economy
- Increased company tax payments and contribution to overall government revenue.

While there are significant success stories in the Pacific, overall FICs need to do much more work on domestic trade reform and in negotiations with trading partners to gain market access and seek assistance in the development and export of ‘niche market’ manufactured goods in the future. The main conditions for NAMA trade to develop can be summarised as follows:

1. Low to zero tariffs on imports, especially in those sectors where which will benefit from cheaper inputs and technological products required to drive exports
2. Reforms to create an easier business climate for local and foreign investment – less red tape and more emphasis on trade facilitation and streamlining of regulations
3. Closer engagement of the private sector in long-term trade driven development strategies
4. Focus on niche markets, with astute marketing of the Pacific brand, with support for meeting international product standards.

In summary if progress can be made in each of these NAMA areas, there is significant potential for FIC processed manufactures to develop and flourish as niche products into regional and global markets. In so doing they will have a substantive effect on jobs, investment and training raising incomes and so contributing significantly to poverty reduction. That said, for micro-states such as Kiribati, Tuvalu or Niue, there is limited
potential due to lack of resources and labour. However, the same cannot be said of the potential for the development of another NAMA product for export – fish and fish products.

4.6.2 The Significance of Fishing and Fisheries

Perhaps no area better illustrates the challenges and potential of FIC to gain from trade than the fisheries sector. The natural comparative advantage of FICs in fishing and the potential processing of fish, could be unlimited. Fish and fish products are among the most traded food commodities and trade continues to grow in order to meet increasing global demand for fish and seafood.113

Opening up further to international trade could lead to greater investment in and development of fisheries and fishing activities in the Pacific enabling the region to take advantage of growing demand. On the other hand, poor fisheries management, distance to markets, subsidies to foreign fishing fleets, climate change, lack of local capacity and weak domestic regulations are just some of the threats facing FICs which could result in over-fishing along with depletion of local livelihood and food security.

The relationship between trade and support for food security in this instance is particularly important given fish is the staple diet for the majority of Pacific Islanders, accounting for 90% of their protein intake.114 It is salutary to contemplate then that on current trends serious shortages are predicted by as soon as 2030.115

The revenue potential of fish and processed fish product exports, along with the revenue from access license fees from foreign fishing countries, is substantial. Fishing also constitutes a basic way of life and subsistence income and nutrition for many artisan fishers and local communities in the Pacific region. The fisheries sector, especially small-scale subsistence and artisanal fishing, is therefore of particular economic importance for the small island states of the Pacific region and is a key factor in the drive to eradicate poverty.


115 Ibid., pp. 8-9.
Dugal, in his case-study on the future of the fishing sectors of the Central and Western Pacific Island region,\textsuperscript{116} points out that artisanal fishing comprises 90\% of all fishing jobs worldwide and nearly a quarter of the world catch. While per capita consumption of fish is the highest in the Pacific Region,\textsuperscript{117} artisanal fishers and their families in the Pacific region are amongst the poorest, resulting in relatively high infant mortality rates.\textsuperscript{118} Dugal therefore argues that fisheries development is one of the most important ways out of poverty and malnutrition for several economies in the Pacific region.

The International Centre for Trade and Sustainable Development argues for the development of the domestic fishing industry in the Pacific because this would mean a greater contribution to the regional economy; although they acknowledge that this will take time and considerable investment in terms of infrastructure, processing facilities, and investment in trawlers.\textsuperscript{119}

So to assess if trade can assist in the growth and development of fisheries in a sustainable fashion, it is important to examine if multilateral trade rules can assist in dealing with these developmental and food security issues or if in fact trade will exacerbate the problems.

At the risk of some simplification, I have narrowed the discussion down to five key development issues affecting the development of fishing and the fisheries sector in the Pacific:

1. The effect of WTO rules and disciplines on fishing subsidies

2. Revenue from foreign license fees for access to Pacific fishing zones

3. Building the capacity of FIC fishing industries

\textsuperscript{116} M Dugal, ‘\textit{Implications of WTO fisheries subsidies disciplines for the small island states of the Western and Central Pacific region,}’ in Stoler et al, \textit{Trade and Poverty Reduction in the Asia Pacific Region,} 2005.

\textsuperscript{117} World Fish Centre, ‘\textit{Improving livelihoods for coastal communities in the Pacific}’.

\textsuperscript{118} Ibid.

4. Market access for Pacific exports of fish and fish products

5. Special and Differential Treatment for FIC fisheries.

Given the treatment of subsidies for the fishing industry and for fishing fleets are of major concern to most Forum Island Countries, I will examine this issue first in more detail.

### 4.6.3 Fishing subsidy disciplines

For many years there has been concern that subsidies of various kinds paid directly or indirectly to fishers are leading to over-capitalisation of many developed country based fishing fleets, leading to over-fishing of fish stocks and distortion of trade in fish. Subsidies may be in the form of subsidies on inputs of fishing fleets or subsidies of fish processing facilities or payments for preferential access for foreign fleets.

Developed nations such as Norway and Japan who have sizeable fishing industries, provide various subsidies to their fleets to assist them gain market share and economic advantage over competitors. However, most of these nations are members of the WTO and are subject to WTO rules on subsidies. The Agreement on Subsidies and Countervailing Measures in the WTO defines subsidies as any financial contribution provided by government that confers a benefit to a specific domestic industry. The WTO seeks to limit or phase out trade distorting subsidies when the benefits they confer are trade distorting.

Over the past decade, fisheries subsidies are believed to have contributed significantly to the creation and perpetuation of excess fishing capacity. I would add that apart from encouraging over-fishing and distorting trade patterns, these subsidies often undermine the capacity of developing countries to enter this market, given that most developing countries and certainly LDCs have much less recourse to subsidies given the lower revenue base of their economies.

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120 WTO, ASCM, Article 1.

121 Research by Food and Agriculture Organisation (FAO) and Organisation of Economic Cooperation and Development (OECD) in the early 1990s (See R Hannesson, Economic Support of the Fishing Industry: Effects on Efficiency and Trade).
Dugal believes that the central economic arguments underlying the demand for improved disciplines on fisheries subsidies by proponents at the WTO are that:

- Fisheries subsidies have production distorting effects in that they cause overcapacity and overfishing resulting in overexploitation of fisheries resources and subsequent depletion of fish stocks as a consequence.

- Fisheries subsidies have unfair, trade distorting effects through production and export market distortions.122

The WTO, because of its dispute settlement process and ability to implement regulations which either encourage or enforce member countries to remove trade distorting measures, can potentially act as a powerful vehicle to promote enhanced synergies between those concerned for the environment and overfishing and those concerned with freer trade and sustainable development. It can do this by enhancing stronger and clearer disciplines on the use of those subsidies that lead to overfishing and unsustainable development.

There is now substantial interest in the role of the WTO to enact a series of fair and reasonable disciplines that determine those 'illegal' subsidies that distort trade and cause over-fishing as distinct from those that can assist in building capacity for more sustainable fisheries management.

The balancing act for FICs is to advocate for the removal of those subsidies which are harmful to their long-term development while ensuring some flexibility is retained so that they can still support the development of their domestic fishing sectors for example, subsidising surveillance boats to monitor and patrol their local waters.

In the draft text of 2007, as part of the current Doha Round of negotiations, there is a proposed list of allowable and prohibited subsidies that continue to be the subject of debate and of particular relevance to FICS.

Table 4.1  List of proposed permitted and prohibited subsidies in WTO Chair’s draft text in the Doha Round relating to fisheries\textsuperscript{123}

<table>
<thead>
<tr>
<th>Goods and Services benefits relating to:</th>
<th>Prohibited Subsidies</th>
<th>Permitted subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition, construction, repair, renewal, renovation, modernization and boat building</td>
<td>Transfer of fishing or service vessels to third countries</td>
<td>Improving crew safety without increase vessel capacity</td>
</tr>
<tr>
<td>Operating costs of fishing – license fees, fuel, ice, bait, personnel, insurance and gear support, at-sea support, handling in- or near-port processing, covering operating losses</td>
<td>Port infrastructure – landing facilities, fish storage facilities, in-or near-port processing facilities</td>
<td>Adoption of selective fishing techniques</td>
</tr>
<tr>
<td>Income support, price support</td>
<td>Vessels engaged in illegal, unreported or unregulated fishing</td>
<td>Adoption of techniques to reduce environmental impact of fishing</td>
</tr>
<tr>
<td>Transfer of access rights by government in another member’s jurisdiction</td>
<td>Vessels and fishing activity affecting fish stocks in “unequivocally overfished” condition</td>
<td>Compliance with fisheries management regime for sustainable use and conservation</td>
</tr>
<tr>
<td>Vessels engaged in illegal, unreported or unregulated fishing</td>
<td></td>
<td>Re-education, retraining or redeployment of fish workers into non-fishing occupations</td>
</tr>
<tr>
<td>Vessels and fishing activity affecting fish stocks in “unequivocally overfished” condition</td>
<td></td>
<td>Early retirement or permanent cessation of employment of fish workers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vessel decommissioning or capacity reduction provided vessels are scrapped or permanently prevented from being used for fishing; fish harvesting rights are permanently revoked; relinquish any claim with vessel or harvesting rights.</td>
</tr>
</tbody>
</table>

\textsuperscript{123} The draft list is summarised in this table by Vina Ram-Bidesi in ‘Fisheries Subsidies Negotiations under the WTO and Likely Policy Implications for Pacific Island Countries,’ from Navigating Pacific Fisheries: Legal and Policy Trends in the Implementation of International Fisheries Instruments in the Western and Central Pacific Region. Australian National Centre for Ocean Resources and Security, Wollongong, New South Wales, Australia. 2009, p. 56.
The development of these negotiations in the WTO has led the ICSTD to comment that trade measures are now seen as a more powerful mechanism for fisheries management because of the WTO’s rules based system.124 Pacific Forum Island Countries who are members of the WTO have been active in the WTO subsidy debate and are closely monitoring the negotiations through the Pacific Island Forum Fisheries Agency.

The current draft list would assist some of the FICs by disallowing those subsidies that give unfair advantage to their competitors and encourage over-fishing of Pacific waters. On the other hand, the draft list could exclude FICs from directly building their own capacity to export, for example, they exclude subsiding the development of local processing and storage facilities. Given the potential problem here that a freer market might create, FICs are considering the second best solution that ‘Special and Differential Treatment’ provisions offer, as used throughout a number of WTO agreements in recognition of the needs of lesser developed member countries. Using special and differential provisions to allow some reasonable flexibility for small and vulnerable economies and island states to use subsidies for basic capacity building in the fisheries sector would be consistent with the use of S&DT in other agreements. I will discuss S&DT in relation to FIC fisheries in more detail in section 4.6.7.

What the discussion on fisheries and subsidies to this point shows however, is that multilateral trade rules rather than running counter to the interests of FICs, have the potential to enhance the ability of FICs to influence trade rules and therefore fishery disciplines in their own interest using a mix of WTO subsidy disciplines and S&DT. Final decisions on subsidies require the completion of Doha Round negotiations but to date there is a growing consensus on the need to ban large trade distorting direct subsidies, particularly by developed country governments who can more easily afford such subsidies. This is good news for both artisanal fishers and the fisheries sector generally in the Pacific. Negotiations continue and the Pacific representative in Geneva has a vital role to play in monitoring these negotiations.

4.6.4 Licensing Fees for Access to Pacific Fishing Zones

A related issue for FICs is the revenue generated from giving foreign governments and their fleets access to FIC fishing zones though licenses.

Fisheries Access Agreements are contractual arrangements whereby governments or private fishing fleets pay coastal states for access to fisheries resources within the coastal states' exclusive economic zones (EEZs). According to a study commissioned by the ICTSD, more than 25% of total government revenue comes from access fees in a number of the Pacific Island Countries, while for Kiribati and Tuvalu it can be as high as 40-60% of GDP in a given year depending other economic activities.

Apart from direct impacts on revenue generation, any loss of access fees has a direct impact on employment generation, value-addition (growth of upstream and downstream activities) and on the development of fishing efforts in the island states of the region.

As such, the effect any new rules on subsidies may have on the total amount of fees FICs obtain from licenses given to foreign fleets or their governments for market access to Pacific fishing zones is of vital interest to many FIC governments. Note that in Table 4.6.3, the list now does not include government-to-government payments for access to marine fisheries and these are therefore non-actionable.

The main concern of FICs, given government to government subsidies for license fees are allowable, has been with a second-level of transactions relating to Fisheries Access Arrangements—which deal with a situation where the Distant Water Fishing Nation (DWFN) government transfers access rights to its private fishing fleets for less than the full cost of fishing, including the external costs associated with over-fishing.

The complex choice for FIC-WTO members is therefore whether to support stronger disciplines which will ban direct government subsidies to private fleets or whether to allow

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125 The EEZ is the area within 200 nautical miles from defined baselines. Article 57, 1982 United Nations Convention on the Law of the Sea ("UNCLOS").


greater flexibility in the use of subsidies from DWFN governments to private fishing companies so that access fees are not affected or reduced significantly.

I would argue that stronger disciplines on trade distorting subsidies that give unfair advantage to wealthier nations and that have other negative environmental externalities is the most effective contribution of trade policy to a long-term development solution for FICs. If introduced and applied effectively they should lead to:

- Improved fishing stocks for local islanders to harvest for local consumption or export into a global market where prices are less distorted allowing for fairer competition
- Assist in breaking dependency and corrupt activity in FICs who, in some cases, have used access payments to balance overall budget deficits or for more dubious activities rather than investing in their own local fishing industry, important infrastructure or in support of artisanal fishers.

Rents paid by DWFN are usually paid direct to FIC governments and the distributional effects for low-income communities including subsistence and artisan fishers, are not always apparent. So an end to trade distorting subsidies, I would argue, will discourage over-fishing, reduce dependency and encourage private sector investment in onshore processing.

A more transparent and market based approach, used in some Caribbean countries and elsewhere, is to auction off licenses for access to FIC fishing zones. This has the effect of providing market based competition for license fees usually maximising the price paid to the FIC government. It is far more transparent allowing for easier scrutiny in the use of the fees paid. It also has the effect of increasing the surveillance and monitoring role of the successful bidder – an issue that plagues most FICs who lack monitoring capacity.

So given that direct government-to-government payments are not prohibited in any case, it would seem logical for FICs to support stronger disciplines on trade distorting subsidies while moving to a more market based system of auctioning off access licenses. This approach limits trade distorting subsidies used predominantly by more developed nations against FIC interest while also maximising revenue through an open and competitive approach.
As with subsidies in general, this approach also shows how FICs can harness a blend of international trade law and market based solutions to assist develop their fisheries sectors and other sectors depending on how funds raised from the auctioning of licenses are distributed.

### 4.6.5 Building the Capacity of FIC Fishing Industries

From the previous two sections, it is surmised that FICs can exploit the flexibility of S&DT in the use of subsidies as well as the redistribution of revenue from access fees, to invest in building the capacity of their domestic fishing industries for both local consumption and export.

Each FIC has the potential to develop its local fisheries infrastructure and human resource development whether that be investment in processing facilities, port facilities generally, fisheries management or in assisting its fisheries sector including artisanal fishers to produce more efficiently for local or export markets.

Note that I am not arguing the all FICs should prioritise their fishing industry above all other potential priorities as the most important tool for long-term sustainable development – some may see tourism, others, mining or agricultural development as the highest priority. My point though is that all FICs should devote at least a modicum of investment in building the efficiency of their fishing industry either to meet local demand (given the high rate of fish consumption and nutritional value for Pacific Islanders), or as an important component of export earnings. The former could take the form of greater investment in artisanal fishers building their capabilities and ability to manage small or medium sized businesses. The latter would focus more on building export capacity.

Regional coordination will be an important factor for those countries seeking to further develop their export capacity, for example with fish processing facilities. Papua New Guinea believes it has a strategy to drive some of the big Asian fish canneries out of business and bring the jobs and revenue back to the Pacific. In the past 10 years fish processing has become a major employer in PNG. PNG now hopes other Pacific Island nations will send fish to its canneries. While the success of PNG’s strategy remains to be seen, the objective makes sense especially if backed by a regionally coordinated strategy.

The Maldives presents an interesting case-study of a small island economy that has determined to prioritise the development of its fish processing plants and export capacity.
The geographical composition of the Maldives - a 960,000km² archipelagos - renders marine resources incredibly important to the country's economic base. The country has embarked upon on a number of projects since 1993 which have aimed to modernise its fishing industry and increase its export revenues.128 These projects have sought to increase refrigeration and canning capacity so that the Maldivian fishing industry can shift production between frozen and canned products in response to rapid shifts in world demand and prices129 as well as increase the value-added of its fish products in order to attract a price premium.

The success to date of the Maldives investment in fish processing has been impressive but not without its challenges and difficulties. On the one hand, the state-owned Maldives Industrial Fisheries Company (MIFCO) controls an overwhelming majority of the areas of value-added activity in the fishing industry and there has only been small growth in fish processing – the challenge is to successfully privatise the SOE in a way that secures local employment and foreign investment. On the other hand, the latest IMF mission to the Maldives at the end of 2012, concluded that slow economic growth in the country had been significantly offset by strong performance in fisheries-related manufacturing.130

There a number of lessons that can be drawn from the Maldives' experience with fish processing of interest to FICS.

1. Europe-friendly strategy: The one cannery and three filleting plants established in the Maldives all have EC export authorisation numbers.131 This has helped to attract big European business, particularly UK-based Marks and Spencers,132


129 World Bank Operations Evaluation Department, ED Precis, No. 74, 1.

130 IMF, Statement at the Conclusion of the IMF Mission to Maldives, 14 November 2012.


which purchases almost 50% of the country’s catch of yellow-fin tuna catch every year.133

2. Sustainability/quality price premium: The Maldivian Government has consistently promoted fishing methods such as pole, line, long line, trolling and hand line which are more environmentally friendly and enhance fish product quality. This focus on sustainability and product quality has helped to attract a price premium not only for raw fish exports, but also for processed fish exports as part of the value-adding chain.134 The country has also been assisted in receiving a premium for its processed fish products by becoming an observer to the Indian Ocean Tuna Commission and a member of the Marine Stewardship Council, which provides for eco-labelling of fish.135

3. Greater product diversification: Although 72 fish-processing facilities have been established in the Maldives, 68 continue to produce traditional products (salted, smoked and dried fish).136 These traditional products are predominantly exported to Sri Lanka, but have little appeal in other export markets. These products also accrue little value to the Maldives.137 In fact, dried and salted fish that are turned into oils in Sri Lanka, could just as easily be processed in the Maldives and accrue more value.138 Therefore, Maldivian processing facilities need to examine how their products are being processed even further up the supply chain to assess whether they can perform that additional value-adding themselves.

133 The Telegraph, 'Tuna Fishing in the Maldives: The Fairest Catch'; Government of Maldives, Monthly Statistics – December 2012, Table 5. Note: If the Pacific Islands undertook to acquire such authorisation, fish processing could be very successful because LDCs such as the Solomon Islands and non-LDC ACP countries such as Fiji and Papua New Guinea would also be able to export processed fish products on a duty-free basis to the EU under the Cotonou Agreement. See, UNCTAD, Vulnerability Profile of Maldives, October 2003, p. 22.

134 Diagnostic Trade Integration Study – Maldives, 120.

135 World Trade Organization, op. cit.


137 Diagnostic Trade Integration Study - Maldives, 125.

138 Ibid., 125.
4. Location of value-adding facilities: The Maldivian fish cannery is situated in the north of the country and is owned by MIFCO. It has been reported that its location leads to inefficiency as most of the fish is caught in the south and must be transported north for canning. Therefore, canneries and other centres for value-adding activities need to be located close to where fish are caught to improve the potential for value-added fish exports.

FICs are well aware of the need for sustainable fishing methods and the need for product diversification and value add. It is the capacity and will to invest and attract investment in these areas that is vital.

While much work has been done at the regional Pacific level by the FFA and Forum Secretariat, there is need to further integrate regional fisheries management with long-term fishing industry investment using flexibility in the use of subsidies and attracting support from foreign investors and from donor governments in the form of ‘aid for trade’ for fisheries development.

Both FICs and developed countries with an interest in FIC development need to support investment in local fisheries capacity both for building local food security and export capacity. However, as shown by the Maldives story, the goal of building FIC export capacity needs to be complimented by a range of other factors including market access and a clear marketing and export strategy.

4.6.6 Market Access Issues

For the Maldives, market access to the EU was of prime importance and this is the case for FICs. FICs need to use current negotiations of Economic Partnership Agreements (EPAs) with the Europeans to shore up market access for their fish and fish products.

However equally important is access to the markets of their other major trading partners in Asia and Oceania. The following table shows the mixed range of tariffs which FIC fish exports are facing with five of their major trading partners.

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140 Ibid., 35.
Table 4.2  Tariffs on Fish Products for FICs Major Trading Partners*  

<table>
<thead>
<tr>
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<td>30.30%</td>
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<td>0% (DFQF access)</td>
</tr>
</tbody>
</table>

*Calculated from International Trade Centre statistics, “Market Access Map” Database, accessed 21 January 2013 using HS Code: (03) – Fish and crustaceans, molluscs and other aquatic invertebrates

Some of these tariff barriers are quite significant, particularly for FIC fish exports into China and Japan, but also EU tariffs are important given the close trading relationship and
potential export volumes to EC countries. The USA has not implemented the Duty Free Quota Free concessional arrangements for LDCs agreed to at the WTO Hong Kong Ministerial in 2003 due to its obligations and commitment to developing countries in Africa. As a result it can be seen that the majority of FIC-LDCs will continue to face high tariff barriers for fish product exports into the USA as well.

While building local capacity and productivity is a pre-requisite, this will not assist FICs to increase export capacity, growth and potentially wealth creation unless their products can compete in a freer market where tariffs on fish products are either low or zero.

Progress is needed at the multilateral in Non-Agricultural Market Access (NAMA) negotiations on the reduction of tariffs and expansion of quotas for fish and value added fish product exports from FICs and other small and vulnerable economies. Global reforms need to provide incentives and market share to encourage longer-term investment in FIC fisheries.

Apart from a successful conclusion of WTO Doha negotiations, more can also be done by way of regional trade negotiations with ASEAN countries and through PACER Plus with Australia and New Zealand, as well as through bilateral trade agreements with China and Japan so as to ensure market access and flexible rules of origin give the correct signals for increased investment in FIC fish and fish product exports.

As stated previously, better market access arrangements will only assist if there are competitive and productive Pacific fisheries with the capacity to export. The next section therefore returns to the importance of support for capacity building and S&DT for fisheries management and production processes as well as support for artisan fishers and small businesses.

4.6.7 Special and Differential Treatment

Pacific Island trade officials and negotiators have sought to assess the list of WTO proposed illegal subsidies and the text generally in terms of its overall impact on the region’s governments, domestic fishing, and processing operations, as well as the potential impact on the artisanal, small-scale sector. They have focussed on the extent and scope of coverage of special and differential treatment (S&DT) for developing countries and for LDCs in the Pacific.
FICs, along with a number of other developing countries, are worried that they will not be able to use subsidies (see list again in Table 4.6.1) for local capacity building, surveillance and technical assistance for the development of their fishing industries. Brazil, for example, has called for S&DT for subsistence and livelihood (for fishermen and families); fuel, bait, and/or ice (for fishing activities); construction, repair, modernisation of vessels and gear acquisition for fishing boats operating in their own EEZ/maritime zones. 141

Similar to Brazil’s proposal, FICs are seeking flexibility in the use of subsidies as part of a complex solution to long-term sustainability of their fisheries. Probably the most central issues for FICs in terms of S&DT are as follows:

- FICs want Government-to-Government Access payments to remain permitted. Government-to-Government fisheries access payments and their further transfer are allowable where the agreement is to access a developing country EEZ. This outcome is useful for some FICs as it provides legal security for subsidised access agreements. However I would argue that on a long term basis this is still a second best solution and would prefer to see FICs move to an auction based system for all ‘Access Fees’ both government to government and fees paid by private sector fleets. I believe S&DT needs to be of a transparent, temporary and transitional nature for example for a period of 5-10 years until all FICs who are affected can move to an auction or similar market based system.

- In terms of S&DT for non-LDC FIC fishing operations, subsidies to port infrastructure and other physical facilities, income support for fishers, and limited price support for fishers’ products in the case of significant price declines should I believe, generally be permitted.

- Technical assistance is particularly important for FICs to implement notification and improve surveillance requirements and can be categorised under S&DT to assist in the implementation for FICs of a wider NAMA agreement.

Other issues for FICs in the current Draft Ministerial text include concerns by non-LDC FIC fishing industries about prohibited subsidies for vessel construction, repairs, acquisition, and subsidies for operating costs (e.g. fuel, bait, insurance, etc).142 These types of subsidies are important for FIC small-scale vessels and their day-to-day operating costs, subsidies that are relatively cheap and affordable to FIC governments.

It is also important to note that subsidies, when provided by FICs, often seek to integrate in-shore and artisanal fisheries with other sectors of the domestic economy and to improve the benefits to be derived from offshore fishing for export. An inflexible disciplining of subsidies in this case is therefore contrary to the long-term strategic trade liberalisation goals of FICs.

Therefore, it is important that allowable subsidies for capacity building of FIC fishery sectors and support for artisanal fishers, such as the current WTO member proposals for green-box subsidies,143 gain support from both developed and developing country members of the WTO.

There are already agreed exclusions in the WTO Chair’s text for LDCs and for subsistence, artisanal fisheries. However all of the other S&DT measures as outlined above are contingent upon non-LDC Members meeting a complex set of fisheries management requirements to ensure the conservation of fish stocks and surveillance procedures to ensure non-poaching of stocks. This is a capacity building issue whereby donor nations and FICs need to work together to ensure adequate management and surveillance procedures are in place.

Pacific FICs that are Members of the WTO must be particularly diligent that horse-trading in other areas does not lead to negative outcomes for the Pacific in any future text on fisheries subsidies.144 Developments will no doubt continue to be closely monitored by FICs throughout the rest of the Doha Round negotiations. They reflect how trade policy,

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142 These subsidies are only allowed for decked vessels that are not greater than 10 metres in length.

143 For a list of the green box subsidies proposed, see the Dugal case-study on fisheries in the Central and Western Pacific.

144 From FFA Fisheries Trade Briefing, Vol 1, Issue 2, January 2008.
through aid for trade and through S&DT, can be of direct assistance to the capacity building and sustainable development of FIC fisheries and their fleets.

4.6.8 Summary of Conditions for the Development of FIC Fisheries and Fish Exports

The diverse nature of the Pacific Islands means that some rely more on access fees, others on the development of an export oriented fishing industry and for others, the welfare of small businesses and artisanal fishers is the priority. Trade policy impacts both directly and indirectly on all of these issues and has the potential to assist FICs in the sustainable development of their fishing sectors.

We noted earlier in this section, five major concerns of FICs with respect to fisheries, specifically:

1. The effect of WTO disciplines on fishing subsidies
2. Revenue from license fees for access to Pacific fishing zones
3. Building the capacity of FIC fishing industries
4. Market access for Pacific exports of fish and fish products
5. Special and Differential Treatment for FIC fisheries.

With each of these quite complex issues, I have argued that clear but flexible trade policy decisions at the multilateral, regional and national levels can make a significant contribution to the sustainable development of FIC fisheries.

Trade policy reforms will, I believe, contribute to sustainable development and poverty reduction in FIC fishing sectors under the following conditions:

- The WTO Doha Round needs to conclude with clear disciplines eliminating or significantly reducing the significant subsidies used by developed countries and some larger developing country for their fishing industries and fleets. These subsidies distort trade and prices making it more difficult for FICs to compete in the global market. These subsidies also contribute to overfishing and therefore undermine the sustainability of FIC fish stocks.
• That said, there needs to be a degree of flexibility for FIC governments (and other SVEs, LDCs) to use limited subsidies for such things as subsistence and artisanal livelihood; for fuel and bait for fishing activities; for investment in fishing related infrastructure and port construction, repair and modernisation of vessels. Trade policy can do this through the provision of Special and Differential Treatment for either small and vulnerable economies in the WTO or for a special category of Small Island States as well as through donor support for aid for trade to FICs.

• Subsidies for government to government payments for access to FIC fishing zones need to be phased out over a negotiated, transition period in favour of the development of a more transparent and lucrative auction based system, thereby increasing revenue to FIC governments while reducing corruption.

• Greater regional cooperation and an program of enhanced trade related capacity building support for the development of FIC fish processing activities and export strategies.

• There needs to be stronger private and public sector investment (from both FIC and donor governments) to build FIC fishing sectors either in support of artisanal and subsistence fishers for food security and/or in support of their processing and export potential.

• There needs to be sufficient progress in WTO NAMA negotiations on the reduction of tariffs and expansion of quotas for fish and value added fish product exports from FICs. There also needs to be progress on market access negotiations with Asian neighbours especially with Japan and China either through regional or bilateral trade negotiations.

In addition to these conditions, there is a need to further integrate trade, fisheries and sustainable development strategies at the national level to promote domestic fisheries and food security in FICs. Specifically I would highlight the importance of the following:

• incorporating small-scale fisheries into National Poverty Reduction Strategies

• domestic incentives for private investment in small-scale fisheries
• support for small-scale aquaculture technologies with the objective of improving the sustainability and profitability of the fishery resources of artisanal fishers and help lift the poor out of poverty

• capacity building support for transparency and notification procedures, given the importance of compliance and statistical analysis for future fisheries reform

• national and regional efforts to foster effective fisheries management regimes in order to preserve fish stocks.

These will require domestic, regional and international support and cooperation if FICs are to successfully build a more competitive fisheries industry, achieve increased productivity and wealth creation among poorer artisanal fishers, and maintain significant revenue from access fees. Regional cooperation will be particularly important in order to rationalise infrastructure and reduce collective transport and storage costs.

Taken together, the trade conditions summarised above represent a potentially powerful contribution to the development of FIC fishing sectors whether for domestic food security, for increased revenue from access fees, or to help build their ability to process, value add and export higher volumes of fish and fish products.

For these various conditions to be met is no mean feat and will take time and political will. However, there is sound progress on a number of these issues and I would argue that none of these conditions is in the ‘too hard basket’.

The fisheries sector therefore exemplifies, I believe, much of what this study is about. It demonstrates the significant potential of the Pacific to develop competitive exports for sustainable poverty reduction so long as the underlying conditions and strategies for reform are in place.

4.7 Summary of Trade in Goods

One can discern a similar pattern of challenges and ways forward across the Pacific if trade in goods is to be an effective driver of wealth creation in the future.

In general, FICs need to remain cognizant of the challenges of preference erosion and of trade diversion that often accompanies preferential trade agreements and within such agreements the important role that ROO play.
That said, I have argued that FICs need to pursue the branding, marketing and export of niche products through better understanding and integration with regional and global supply chains in the relevant sectors. Whether textiles for the Cook Islands, beef from Vanuatu or processed tuna from PNG, the strategic marketing of the Pacific brand can penetrate the growing demand of Asia and other markets for quality products from pristine environments.

For this strategy to succeed requires greater supply side capacity and efficiencies as well as increased market access. On the domestic supply side, both government and donors need to support the development of human resource capacity to, for example, implement quality standards and meet quarantine and international product standards. There needs to be extra support for the development of relevant rural, transport and port infrastructure through the attraction of both public and private investment opportunities.

FIC governments can assist the private sector and capacity building of local SMEs through supporting more efficient trade facilitation processes, by eliminating red tape and duplicative bureaucracy and by ensuring appropriate competition and investment friendly policies are in place.

Donors and more developed country trading partners need to work with FIC governments to deliver greater market access opportunities through the lowering of tariffs, expansion of quotas and elimination of subsidies across the trade in goods sector, at the multilateral and regional trade levels.

Further donor ‘aid for trade’ support for the above initiatives combined with regional cooperation and domestic commitment to trade reform at home, will go some way to developing the skills and talent of the Pacific community to reap the benefits of closer integration that trade in goods with the Asia Pacific region should bring.

The pursuit of niche markets and investment in agricultural, manufacturing and fish sector productivity, combined with a policy of low to zero import tariffs on inputs, should with appropriate local and international support, assist FICs to achieve greater poverty reduction as well as more sustainable food security into the future.
5 INTERNATIONAL TRADE IN SERVICES – CHALLENGES AND WAYS FORWARD

5.1 The Significance of Trade in Services for FICs

Notwithstanding the importance of developing niche markets for FIC goods as detailed in the previous section, the ability of FICs to capture the benefits of growth in trade in services will, in my view, be fundamental to their successful future economic development.

Findlay, Abrenica and Lim conclude from their analysis of the future of trade in services for developing countries in general that ‘there is significant potential for low income economies to gain from services trade and investment liberalisation, and in the process for low income households to increase their income and wealth’.145

Through the introduction of foreign investment, new technology and competition into the domestic services industry, poor households gain as consumers of these services and some research suggests that the income effects for poorer households are more significant than for the average household.146 Poor consumers can also gain indirectly as services reforms add to the productivity of other sectors reducing the costs of other goods and services and so raising their income levels.

Critics of services liberalisation tend to argue that while some of the above analysis may be true for larger developing economies with far more scope for competition between new and existing suppliers, the same cannot be said of small, isolated islands such as those in the Pacific.

Some groups147 argue that if a small economy opens up to foreign services, this will crowd out local investment leading to monopolies that will overrun domestic services and cause local job losses. They are particularly concerned that foreign monopolies may establish monopolistic price control in thinly populated small island economies eventually causing price rises that will decrease the income of the poor. However, I believe that in


146 Ibid., p. 357.

general, their concerns are based more on fear and misperception rather than the reality of developments in the Pacific. The recent entry of telecommunications providers into the Pacific is a case in point.

Bermuda based multinational Digicel led by a team of Irish telecommunications experts, has expanded its telecommunication services and invested in many FICs. Since it entered the Pacific Island region in November 2006, Digicel has become the fastest-growing mobile service provider in the Pacific with operations in Samoa, Papua New Guinea, Tonga, Fiji and Vanuatu. Far from crowding out scant local investment in telecommunications and small domestic monopolies, Digicel have brought competition and sorely needed investment into local markets partnering in some cases with local service providers and in others, by establishing new operations, creating employment and training opportunities for locals.

In other words, rather than contributing to monopolistic behaviour, the entrance of foreign suppliers has done much to contribute to increased competition in the Pacific.

According to Pacific academic Satish Chand,

> Pacific governments… have been held back, in many instances, by public sector monopolies loath to face competition… The one clear lesson from the Pacific experience is that the sooner we remove the shackles from competition in these sectors (and the economy more generally), the better for regional integration, consumer welfare and growth of these economies.148

Importantly, foreign investment induces a multiplier effect providing cheaper telecommunication costs for small and medium businesses and therefore spawning a whole new industry of internet cafes, mobile phone intermediaries while providing a vehicle for information transfer and lower financial transaction costs. All of these have direct and indirect benefits for low income consumers in terms of cost savings and access to income generating technology, communications and information.

Vanuatu is a case in point. Until 2007, Vanuatu’s telecommunications was managed essentially by a monopoly Telecom Vanuatu Limited and owned by the government. The focus of services was primarily aimed at the capital, Port Vila. Services were expensive and access levels were low due to the high prices and operational efficiencies.149

With support from the World Bank and other donors, from 2007 onwards, the government determined to bring a close to the monopoly and by mid 2008 it was announced that Digicel would be awarded a telecommunications license in Vanuatu. Digicel committed to invest US $35 million to build a state-of-art network that subsequently created 70 new jobs with a focus on providing services across Vanuatu and not just in Port Vila.

While the process of liberalisation took time, careful negotiation, expert legal advice and required a compensation package to the former monopoly, it has led to a major telecommunications overhaul in the country. Farmers can now readily access information regarding agricultural markets and prices and there has been a growth of employment for women in regional communities providing telecommunication services for example selling phone cards or by providing small internet cafes and related services.

Bowman concludes that Vanuatu provides a case-study of how trade reform and the successful liberalisation of services markets has the potential to bring new business opportunities and provide services to remote and rural areas previously left behind in the process of globalization.150

Telecommunications reform in the Pacific, if undertaken carefully and strategically to allow foreign suppliers to enter the market regulated by such provisions as, for example, the need to provide universal services, can as the case of Vanuatu shows, lead to the provision of accessible and more affordable services to low income consumers even in small and remote markets.

In those FICs where a company such as Digicel is the dominant provider or part of an oligopoly, a number of FIC governments have either put in place or are in the process of implementing a regulatory framework to ensure the provision of affordable services on a universal basis as well as provisions for monitoring anti-competitive behaviour and unfair pricing practices. These provisions and regulations are new and may not be perfect and there are examples of unfair practices that still occur. However, the case of Digicel, an innovative foreign supplier underpinned by appropriate competitive regulation, would seem to address many of the concerns held by critics.

Rather than international trade leading to an increase in foreign monopolies, the telecommunications story in the Pacific demonstrates that the opposite is the case. In all five countries that have liberalised their mobile phone services — Fiji, PNG, Samoa, Tonga, and Vanuatu — call charges have plummeted after the introduction of foreign competition. In PNG the first year of an open mobile phone market was estimated to have added almost one percentage point to GDP growth and has lent encouragement to other FICs concerned about the any negative effects of opening up their ICT sectors.

I would also argue that there are particular benefits for low income households in remote and rural areas as a result of the introduction of foreign investment into services in FIC economies. FICs geographic isolation can be rapidly offset with the rise of technologically friendly services that allow FICs to overcome the tyranny of distance by providing options for the development of financial services, communication services and tourist services. These can and are attracting new investment into FIC economies creating jobs for the skilled and unskilled.

While the reform process across the Pacific still has a long way to go and opposition to reform remains strident in some quarters, poor households are benefiting in the Pacific more and more both as providers and consumers of these new services, for example, through cheaper transport, infrastructure, agricultural and communications services. It is instructive to examine some further data on the subject to discern fact from fiction.

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The UNESCAP Economic and Social Survey from 2007 demonstrate the growing importance of services trade for small and vulnerable economies. It shows that the expansion of trade in services is assisting FICs to grow the ‘economic pie’ creating the growth needed to lift people out of poverty. The report states that Pacific SVEs showed positive economic growth in 2006, ranging from slightly less than 2% in Tonga to more than 6% in Vanuatu, and that this growth was led by the services sectors in most cases.

In 2002, the largely government driven services sector in Kiribati accounted for 75% of GDP, while in Tonga it accounted for 56%.\(^\text{152}\) In other countries, such as Cook Islands, Fiji, Samoa and Vanuatu, tourism has been growing vigorously in recent years and this growth is showing up in the growth in the services sector.

According to UNCTAD statistics,\(^\text{153}\) exports from small developing countries in the Pacific increased by 26.5% from 2000 to 2004. Over this period, Tonga increased its services exports by an estimated 33.3%. The following figure from the ADB (2006) exemplifies the importance of trade in services for six Pacific FICs.\(^\text{154}\)


\(^{154}\) From CIE Paper, 2007.
Table 5.1 shows the tourist services component of trade for selected FICs.

**Table 5.1 Tourism and Other Travel Receipts for Selected FICs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Tourism and other travel receipts (% of exports of goods, services and income)</th>
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<tbody>
<tr>
<td>FSM</td>
<td>24.3</td>
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<tr>
<td>Fiji</td>
<td>22.5</td>
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<tr>
<td>Samoa</td>
<td>50.2</td>
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<tr>
<td>Tonga</td>
<td>28.4</td>
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<tr>
<td>Vanuatu</td>
<td>33.1</td>
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</tbody>
</table>

Source: World Bank 2003

Many FICs have a comparative advantage in tourism given that most are surrounded by relatively pristine waters in tropical climates with lush, green vegetation and a healthy mix

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155 Ibid.
of unique and traditional cultural talents alongside a growing stock of reasonable to high quality accommodation.\textsuperscript{156}

Over the years 2003-2008, tourism growth has been supportive of economic growth in several FICs including the Cook Islands, Fiji, Samoa, the Solomon Islands, Tonga, and Vanuatu. The following table shows the growth in tourist arrivals for these destinations.

**Table 5.2  Total Arrivals 2003-08 (includes day visitors) (‘000)**\textsuperscript{157}

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>430.8</td>
<td>502.8</td>
<td>549.9</td>
<td>545.2</td>
<td>539.3</td>
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<td>PNG</td>
<td>56.2</td>
<td>58.0</td>
<td>68.0</td>
<td>77.7</td>
<td>104.1</td>
<td>125.6</td>
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<td>Samoa</td>
<td>92.3</td>
<td>98.2</td>
<td>101.8</td>
<td>115.8</td>
<td>122.3</td>
<td>164.6</td>
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<td>Solomon Isl.</td>
<td>6.6</td>
<td>5.6</td>
<td>9.4</td>
<td>11.5</td>
<td>13.7</td>
<td>14.8</td>
</tr>
<tr>
<td>Tonga</td>
<td>43.6</td>
<td>51.9</td>
<td>53.3</td>
<td>55.8</td>
<td>67.1</td>
<td>71.3</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>102.4</td>
<td>99.5</td>
<td>125.7</td>
<td>153.7</td>
<td>167.1</td>
<td>176.7</td>
</tr>
</tbody>
</table>

Source(s): Fiji Island Bureau of Statistics and Macroeconomic Technical Committee  
Papua New Guinea Tourism Promotion Authority  
Samoa Ministry of Finance, Quarterly Economic Review  
Solomon Islands National Statistics Office  
Tonga Department of Statistics  
Vanuatu Department of Immigration, Port Vila

In 2007, the destination for 40% of one billion tourists from developed countries was to developing countries around the world spending approximately spending US $300 billion – three times the level of expenditure annually of official development assistance

\textsuperscript{156} There are exceptions and I do not mean to paint too romantic a picture here. Kiribati is surrounded by relatively polluted waters with poor recycling facilities, Nauru is no paradise with a mix of quarries and until recently relatively poor accommodation options, but by in large the generalisation holds and most other PICs can legitimately boast excellent potential for increased tourism based on a natural comparative advantage.

\textsuperscript{157} UNESCAP Report, Economic and Social Survey of the Asia Pacific, 2009, p. 5.
globally.\textsuperscript{158} Such transfers have led the ‘other WTO’, the UN World Tourism Organization, to advocate tourism as a ‘key agent in the fight against poverty and a primary tool for sustainable development.’\textsuperscript{159}

While there is a substantial debate about the direct and indirect impacts of various forms of tourism on poverty reduction and Mitchell and Ashley rightly point to an overall lack of hard data and empirical evidence, their overall research still concludes that under the right conditions, tourism will demonstrably benefit low income communities.\textsuperscript{160}

In the Pacific, according to David Harrison from the School of Tourism and Hospitality Management at the University of the South Pacific, tourism is a key driver of economic growth and wealth creation in Palau, Fiji, Samoa, Cook Islands and Vanuatu and is becoming increasingly important to most other FICs.\textsuperscript{161}

It is also important that FICs deal firmly with health risks, personal security concerns, insecure property rights for developers and diversification of tourist venues. As Chand\textsuperscript{162} points out, FICs have a comparative advantage in providing security given their size and community networks and this needs to be strongly marketed to potential tourists.

Harrison argues that all forms of tourism, from high class to backpacker level can be ‘pro-poor’ if well directed, strategic and culturally sensitive. He argues for greater commitment for the opening up of tourism from Pacific governments and the private sector and I would add to this plea, with a focus on the following strategies:

- more support for investment in major public private sector partnerships that guarantee local training and employment

\textsuperscript{158} J Mitchell and C Ashley, Tourism and Poverty Reduction: Pathways to Prosperity, Earthscan, UK, March 2010, sourced from their data from chapter one.

\textsuperscript{159} UN WTO, New Year’s Message on the Millennium Development Goals, 2007.

\textsuperscript{160} J Mitchell and C Ashley, Tourism and Poverty Reduction: Pathways to Prosperity, Earthscan, UK, March 2010.

\textsuperscript{161} D Harrison, School of Tourism and Hospitality Management, USP, presentation to Pacific Hospitality Conference, Fiji, August 2012.

• more competent administration and service by freeing up of the labour market to allow foreign professionals temporary presence for establishment and training purposes

• increased training and up-skilling of local human resources

• increased donor support for local tourist enterprises and initiatives

• greater promotion and use of local agricultural products and artefacts.\textsuperscript{163}

To be realised, these strategies will clearly require FIC governments to open up to trade in services in their tourism sectors in order to encourage greater investment flows in tourism and to allow for greater labour market flexibility in allowing foreign service suppliers to work temporarily in FIC economies.

Some FICs have already opened up and developed a range of their services sectors including in tourism and telecommunications and are increasingly seeking to value add and diversify further, seeing trade in services as vital for the future of economic growth, employment generation and poverty reduction. That said, there is still a long way to go and local community concerns remain in a number of FICs about any potential negative impact the introduction of foreign competition may have.

I have therefore identified four main challenges that need to be overcome to encourage what I would see as necessary for the future expansion of trade in services in FICs. These four challenges are summarised in the next section.

\section*{5.2 Challenges of Trade in Services for FICs}

\textbf{Challenge 1: Market Access and GATS Commitments}

A brief examination of the mechanics of the WTO General Agreement on Trade in Services (GATS) is useful for our understanding of some of the services related market access challenges facing FICs. A unique feature of the GATS is that it allows WTO members to

\footnotesize{\textsuperscript{163} Harrison, Ibid, 2012.}
liberalise at their own pace according to their stage of development and capacity to implement trade reform.

While this gives plenty of flexibility for WTO members on the timing and degree to which they liberalise their services sectors, there is a double-edged sword here for FICs as it also means that other developed and developing countries with whom they trade, have no legal compulsion to open up significant parts of their economies to services trade that might be of significant benefit to FICs. So one key issue that confronts FICs is market access, particularly, as we shall see in chapter six, in the area of temporary labour mobility.

GATS commitments are based on four modes of services delivery:

- **Mode 1** being cross border supply (for example, e-commerce where neither the producer nor the consumer moves while providing a service from one member country to another)

- **Mode 2** being consumption abroad (for example tourism, where the consumer moves to the producer country)

- **Mode 3** being for commercial presence (for example where a company establishes a branch operation or joint venture in the territory of another WTO member)

- **Mode 4** being for the temporary movement of natural persons. (for example, a service supplier providing labour to another WTO member country employer on a short-term contract).

Of all service liberalisation commitments offered to date, few have been in the Mode 4 area - of particular importance for FICs which we will be analysing in some depth in the next chapter.
Percentage of services liberalisation offers in 2015 by mode of service delivery

<table>
<thead>
<tr>
<th>Mode</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>30%</td>
</tr>
<tr>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>55%</td>
</tr>
<tr>
<td>4</td>
<td>Less than 5%</td>
</tr>
</tbody>
</table>

So far most commitments to liberalising services sectors have been from developed countries and so it is critical in the future for FICs to make up ground in this area and in particular in seeking greater global commitment from their trading partners, whether developed or developing, to the liberalisation of mode 4 services. However if developed countries are to be persuaded to make further offers in mode 4, there will need to be reciprocal market access offers from FICs in other modes of service of interest to developed countries, such as in commercial presence or in cross-border supply.

Challenge 2: Safeguards, Waiver and Special & Differential Treatment

There have been calls from a number of developing countries, including some Pacific Island members of the WTO, for the introduction of disciplines around WTO safeguard measures, waivers and special and differential treatment for developing countries, small island states and LDCs.

Given the small size of FIC markets, some services sectors and community groups fear being swamped by a surge of foreign-owned services, in the provision of logistics and transport services for example. Hence there has been a call in the WTO for a special safeguard measure to be invoked by a developing country member in case of a dramatic surge of imported services, to operate along similar lines to the safeguard mechanism available under the GATT for trade in goods. However at this stage, there is no agreement on the specifics of how such a safeguard would be operationalised and negotiations continue.

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In addition to a safeguard mechanism, a number of LDCs in the WTO have also been arguing for a special ‘waiver’ modality to allow trading partners to offer them special and differential treatment in services agreements. The waiver allows WTO members to offer LDCs preferential market access on trade in services – waiving the GATS Article II MFN treatment obligation. What this could mean for example, is that Australia or New Zealand could offer special market access conditions for Pacific Island LDCs for temporary labour market access without being required by the MFN principle to offer these same conditions to other WTO members.

The issue of an LDC waiver could therefore be of importance to FICs such as the Solomon Islands, Samoa and Vanuatu in particular but also for Tuvalu and Kiribati. While the latter two are not WTO members, their LDC status may be important for those WTO members who are involved in negotiating regional trade agreements with them.

Some developing countries and FICs have sought to have the WTO undertake a comprehensive assessment of the early impact of services liberalisation for small and vulnerable economics, an assessment which was originally scheduled in Article XIX of the GATS. There has not been progress on this issue however many case-studies and anecdotal evidence has been produced by a range of trade and development organisations.

I return to these challenges and issues in the next section 5.3 with respect to ‘ways forward’.

Challenge 3: Recognition of Standards and Qualifications

The importance of mutual recognition of qualifications and industry standards is an important challenge for developing countries seeking to benefit from an increased flow of the benefits of services liberalisation.

In the Caribbean country of Grenada, for example, they have successfully established a new education services sector to attract a large inflow of foreign students and lecturers from the USA and Canada. University Schools of Medicine and Nursing have been established but this has required onerous work on harmonising standards and qualifications for professors, students, medical staff, para-medicals, nursing staff and community health workers.
For FICs in the Pacific, any steps that facilitate the mutual recognition of standards and qualifications across the services sector will assist in building their capacity to both attract and deliver a greater trade flow of services in the future. It will also obviate concerns that domestic qualifications or standards will be ignored. To achieve the harmonising of standards across relevant services sectors of interest to FICs will take time and capacity building. FICs will need to prioritise this as a key trade related development need, as did Grenada, which has now turned its economy around from an essential agricultural one, to a services based economy.

Challenge 4: Supply Side Issues, Capacity Building and Regulation

The fourth key challenge is arguably one of the most important – the need to build supply-side capacity and diversify FIC services sectors. Apart from tourism, FICs can also diversify into other service areas such as education, as just mentioned, health services, ICT services, off-shore financing and possibly call-centres. For these strategies to be successfully pursued requires a mix of domestic reform including regulatory reform, along with internationally and domestically sourced investment and capacity building.

Given that FICs import a wide range of services and that non-traded services are already a vital component of their economies, there is significant potential for the expansion of trade services to contribute to their future economic development.

However can the challenges and issues outlined above be effectively dealt with so that trade can play a vital role in this development? Can FICs increase market access, diversify supply, appropriately regulate small economies and use special and differential treatment wisely so as to ensure the benefits of trade related development are captured by lower-income groups in their economies and if so how?

5.3 Ways Forward for FICs

1: Market Access and GATS Commitments

It is critical for FICs – through the WTO for those who are Members and through regional agreements for others – to increase their demand for access to services markets of critical interest to the development of their economies. As stated earlier, this may be particularly useful in those sectors of the economy where domestic suppliers need to be encouraged to
engage in competition, such as in the utility services sector or in telecommunication services—areas essential to the efficient functioning of the rest of the economy.

In the Economic Partnership Agreement (EPA) negotiations with the Europeans or in PACER Plus negotiations with Australia and New Zealand, FICs should be seeking a mutual reduction in barriers to trade in services, in particular for labour mobility and foreign investment in commercial services. PACER Plus agreements should be a useful testing ground for Pacific countries to explore market access issues between smaller economies before negotiating agreements with the larger Asian, EU or US economies.

To date, FICs have been slow to place requests for services liberalisation (with the exception of requests for increased labour mobility in mode 4) and to respond to requests from other countries. FICs need to be demandeurs in negotiations with their key trading partners for the opening up of a range of services.

Adopting a ‘negative listing’ approach is more transparent and easier for prospective investors – private and government – to understand. While ultimately FICs must choose the most appropriate approach for their development needs, a ‘negative listing’ approach can still allow for a degree of exclusions, if necessary, while reaping the greater benefits of transparency and the inclusion of all four modes of services supply.

For Pacific LDCs, the WTO Ministerial in Bali reinforced the need for developed country members of the WTO to improve the existing Duty Free Quota Free (DFQF) coverage, and developing country members in a position to do so were also encouraged to extend DFQF market access to LDCs.

In sum, FICs need to be assertive demandeurs for increased market access during trade negotiations, take advantage of existing offers such as DFQF for FIC LDCs, while moving steadily and strategically to the greater liberalisation of their own domestic services markets.

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165 Negative listing approach to trade in service negotiations is when a party to an agreements agrees to liberalise all of it services except those listed as not open – a negative list. A positive approach lists those services a party to a trade agreement is willing to open with the implication that all else is closed or ‘unbound’. Business can more easily identify and understand the more comprehensive negative listing approach.
2: Safeguards, Waiver and Special & Differential Treatment

Clive Thomas¹⁶⁶ argues the need for progress on rules to govern safeguard measures for trade in services in order to protect FICs from sudden import surges. GATS Article X mandated negotiations on safeguards for services and stipulated that the negotiations should produce a result not later than 1998. Many years past that deadline, there is still no agreement on this issue because a large number of WTO Members believe safeguard measures for trade in services are inappropriate or unpractical, given the major differences in the way services are traded across borders as compared with trade in goods.

First, there is the serious problem of a lack of statistical data about the different modes of delivery to support an argument that there is a surge of ‘imports’. Second, it is difficult to determine the nature of the safeguard measure itself and how governments would implement sanctions or remedies. Third, most trade in services to date has been conducted through Mode 3, where the established commercial presence operations of foreign services suppliers are already within the domestic country and often employ far more local employees than they do expatriates. So some members argue as to why a country would want a safeguard action that would damage your own domestic economy’s welfare?

I would argue that FICs should focus more on attracting mode 3 foreign investment and commercial presence into their countries to drive competition and jobs rather than become bogged down with advocacy for safeguard actions. Carefully constructed prudential regulation and legislation along with choosing which services sectors to open and which to protect, should in most cases minimise any threat of a possible surge in foreign services that may be detrimental to the local economy. Given the implementation of safeguards into trade in services is unlikely to progress in the foreseeable future, it is even more compelling for FICs to focus on attracting foreign investment, mode 3 commercial presence, tourism and mode 4 labour market flexibility, to ensure jobs and wealth are being created. I believe this is more likely to ensure greater benefits for low income

¹⁶⁶ Thomas, op. cit., 2005.
communities who will either benefit directly from jobs created by new investment or indirectly through lower cost services or remittances.

Under WTO law, there is no compulsion for a FIC to open up, for example, its local transport sector, to foreign competition unless it sees some advantage in doing so. The GATS also allows member states to regulate the number of foreign suppliers permitted to enter their market at any given time. As we saw with telecommunications in Vanuatu, the government of the day can choose the number of foreign suppliers to enter their market and stipulate universal coverage as part of the conditions for entry. For these reasons I do not see a strong rationale for major advocacy for a safeguard mechanism and therefore do not believe it is a significant issue or barrier to the progressive liberalisation of FIC services.

On the other hand a services waiver for LDCs may be of some use, especially for regional trade agreements where exemption for developed country partners to MFN obligations may be useful. There has been some progress on the issue of a services waiver for LDCs. A 15 year services waiver was decided upon in principle at the 2011 WTO ministerial conference and the issue received further attention at the recent Bali WTO Ministerial in December 2013.

The ministerial decision in Bali aims to prioritise the use of this waiver which to date, has not been operationalised by any WTO member. The WTO’s Council on Trade in Services is to convene a high-level meeting in 2014/15 where members shall indicate sectors and modes of supply where preferential treatment is being sought. The recent WTO ministerial meeting in Bali encouraged members to use the waiver in areas where there is commercial value and economic benefits to LDCs.

These preferences may accord, inter alia, improved market access, including through the elimination of economic needs tests and other quantitative limitations. In doing so a Member may accord preferences

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similar to those arising from preferential trade agreements to which it is a party.168

FIC LDCs could therefore request trading partners such as Australia, New Zealand or the EU, to provide special treatment for them without those developed country members being obliged to pass on that treatment to other WTO members. As mentioned earlier the waiver could allow for Australia and New Zealand to liberalise mode 4 (the temporary movement of natural persons) specifically for FIC LDCs as part of a regional trade agreement without having to give the same concessions to other WTO members that it has formed bilateral or regional trade agreements with. This would open up temporary migration and labour market schemes for citizens of Pacific LDCs while not requiring that similar concessions be passed on to other WTO member developing countries such as China or India.

It would seem therefore that there could be important benefits to FIC LDCs pursuing the use of a services waiver in trade negotiations with major trading partners to allow them to further reap the benefits of services liberalisation.

The final wording on the WTO services waiver also emphasizes the need for technical assistance for LDCs. It encourages LDCs to include services needs in their national development planning and for development and trade partners to provide targeted and adequate assistance in this area, providing a useful path forward for LDCs.169

As for the long awaited, proposed review of the implications of GATS and services liberalisation for developing countries, the WTO has acknowledged170 the complexity of undertaking a comprehensive assessment of global trade in services envisaged and mandated in Article XIX, paragraph 3 of the GATS. While the Council for Trade in Services has met for this purpose, the key problems with undertaking a comprehensive review are the difficulty of measuring the impact given the serious gaps in relevant statistical data.

168 Ibid.

169 Ibid.

170 I learnt this informally from discussions with my colleague, Shishir Priyadarshi, Director of Trade and Development with the WTO.
It may be more valuable for FICs to request a specific assessment about how market access issues can best be addressed, given their specific needs; for example, with a particular focus on how barriers to mode 4 liberalisation might be reduced. FICs can also draw on the numerous case-studies and anecdotal material that is available as well as quantitative analyses that have been undertaken by specific developing country governments or by regional institutions, such as the ADB and UNESCAP on the benefits of services liberalisation for smaller developing economies.

3. Recognition of Standards and Qualifications

FICs should pursue reciprocity arrangements or Mutual Recognition Agreements (MRAs) with their key trading partners in relevant service sectors such as in education, health or legal services. These should be pursued whether bilaterally or through the various regional agreements including PICTA, PACER Plus or the Cotonou EPA. This will ensure local standards whether economic, social or cultural, are observed and provide both assurance and incentives for locals and foreigners alike, to be appropriately qualified.

The GATS, under Article VII, allows WTO members to achieve MRAs with regard to “education or experience obtained, requirements met, or licenses or certificates granted” Recognition may be achieved through harmonisation or otherwise; that is, it may be “based upon an agreement or arrangement with the country concerned or may be accorded autonomously”.171 This guideline is based on the assumption that MRAs can potentially facilitate the movement of service suppliers; are instrumental to policy reform; and represent a powerful tool for economic integration – all of which are very much in the future interest of FIC economies.172

As mentioned briefly in section 5.2, Grenada provides a useful case in point. It opened its economy to medical and educational services through trade agreements involving the USA and Canada. The Government of Grenada negotiated mutual recognition and the standardization of key qualifications for teachers, professors, medical personnel for a two – fold effect. Local university and medical school qualifications would be recognised in the

171 GATS Article VII. No. 1.
172 UNCTAD, 2005, p. 23.
USA and Canada allowing foreign students to come and study and work in Grenada for qualifications they could use back in their home countries.

But also, local teachers and health workers in Grenada who were not fully or appropriately qualified could undertake further studies and increase their employment potential both locally and internationally. The effects of the strategy were that Grenada attracted significant numbers of foreign students and foreign investment into their economy while also building capacity of their own skilled and semi-skilled labour force to compete both locally and internationally – the latter resulting in a slight increase in remittances.

Sacha Silva, a consultant with the Caribbean Regional Negotiating Machinery working in liaison with UNDP, noted that the success of Grenada was in part brought about by the drive of St George's University School of Medicine (USG), a wholly private enterprise, which was keen to expand its markets and review its internal offerings in medical and veterinary qualifications.

USG has exploited an unfulfilled demand in the market for American (and increasingly European) medical students. Because Caribbean medical schools, like St George's, eschew the more costly research activities undertaken by traditional ‘on-shore’ medical schools, they are able to offer accreditation at nearly half the price of their traditional competitors.173

USG is now the largest employer in Grenada and the largest single source of foreign currency. It employs over 300 faculty staff and over 1,000 support staff as well as cleaners and ground keeping staff. There is a 2,400 student body contributing $12,000 annually to GDP.174

USG and the government are working in cooperation to develop comprehensive health tourism services for foreigners and to promote increased food production at home to meet the increasing demands of the student and tourist population. Silva notes that there are still many challenges to face and that development is skewed towards semi and fully skilled


174 Ibid., pp. 671-672
local labour, meaning more needs to be done at a vocational level to assist low skilled labour to benefit from an expanding services economy.175

I have highlighted the Grenada case-study because it demonstrates the success of a small island economy benefitting from a well thought through strategy to the liberalisation of its services trade. By opening up of education and health services, coupled with mutual recognition of qualifications and the driving role of a private sector university in close cooperation with the government of the day, there is a clear recipe for small island states to increase GDP, jobs and wealth.

MRAs are often more easily concluded in a regional or sub-regional arrangement than in a multilateral setting. For instance, the movement of natural persons may be easier to negotiate among a smaller group of countries, because market opening in general may be perceived as being less of a threat. PICTA and PACER Plus are therefore appropriate modalities for FICs to pursue MRAs in the context of services liberalisation.

However, the requirements of MRAs are many and complex. According to UNCTAD (2005) a country that wishes to join the negotiation of an MRA must have in place a domestic system for regulating the profession at stake, an accreditation system, a national register of professionals, and the capability to evaluate standards, compare education and training systems, and formulate positions.

All these measures need considerable human and financial resources because the negotiations for MRAs may take several years. This raises the urgency of formulating harmonised standards, best practices and guidelines for specific professions. Therefore the importance of capacity building cannot be overstated.

4: Supply Side Issues, Capacity Building and Regulation

For FICs to confidently embrace services liberalisation and diversify their services sectors as discussed above, requires a trade strategy that covers the timing and sequencing of trade reforms not only for the development of human resources but also for the development of institutional capacity and legislative reform allowing FICs the time to

175 Ibid., pp. 687-688.
strategically liberalise while where necessary, prudentially regulating the obligations of services suppliers.

International donors should ideally commit to this capacity building support for reform of legislation, regulations, procedures, frameworks and institutions to ensure the development of competitive, prudentially regulated services. Donors and FICS need to embrace ‘Aid for Trade’ from this perspective – to help build their supply side capacity and skills to regulate, implement and benefit from increased exports and imports of services in all modes.

5.4 Summary of Trade in Services

At the end of section 5.2, the question was posed as to whether FICs can increase market access, wisely employ special and differential treatment processes such as a service waiver, diversify supply, appropriately regulate small economies, and ensure the benefits of trade related development are captured by lower-income groups in their economies and if so how can they do this?

I have endeavored throughout this section, using WTO law and the functioning of the GATS and through the evidence provided by practical case-studies on tourism, telecommunications and health services, to demonstrate that low income communities in small island countries can certainly capture the benefits of services liberalisation under the following conditions.

- FICs need to be active demandeurs for greater market access to the service markets of their major trading partners, with relevant FIC LDCs seeking new opportunities through the offer of DFQF from WTO members
- FICs should, at the same time, be seeking public support and capacity building support from donors to appropriately and sequentially open up their own services sectors using a negative listing approach – which maximises the benefits of foreign competition while retaining the right to protect those domestic sectors that may be vulnerable or sensitive. Vanuatu provided a case study of how reform can be quickly and successfully negotiated through careful analysis, a sound base of economic information and by enlisting the services of an expert legal team
• FICs should focus particularly on increased trade in services modes 3 and 4, encouraging FDI and increased temporary labour market access for their youthful populations. Safeguards are not a significant issue of concern at this early stage, while use of the LDC waiver may benefit some FIC LDCs in regional trade negotiations in particular.

• FICs need to pursue Mutual Recognition Agreements and capacity building support across a range of services sectors so that, as was the case with Grenada, they can take advantage of potential services markets into the future.

• Role of the private sector is crucial and again, capacity building support should be provided to build the entrepreneurial and practical skills of strategic services sector to import and export especially in areas of tourism, telecommunications, health and education and other relevant professional services.

• It would be valuable if international donors could work with local FIC governments to establish one-stop resource centre for training and supporting local entrepreneurs, with seed funding available for SMEs and innovative NGOs. Education and training for local communities in services should remain a high priority.

• Use of ‘Aid for Trade’ funds for technical advice on how best to stage reform and regulation in the services sectors so as to ensure that key economic backbone services such as utilities are provided universally and that consumer protection policies are in place.

• There needs to be a political commitment to a whole of government commitment to services liberalisation and reform.

This last point is important in that social attitudes and behavioural patterns need to be oriented towards appreciating the value of a strongly services-driven economy, an often hard to achieve reorientation for those communities who for many years have been wedded to an agricultural based economy for their livelihood.

NGO and community concerns with foreign ownership, crowding out of local investment, loss of domestic services jobs and enterprises are not well founded – as this chapter has endeavor to illustrate. These can be regulated against, certain sectors left protected and
areas of concern mutually negotiated – the benefits of services liberalisation far outweigh the risks.

Many challenges and opportunities exist for FICs to capitalise on the expansion of trade in services in the rapidly growing Asia Pacific region. Increased domestic along with international support for education and training, particularly for low-income groups, alongside greater market access in all modes of service delivery will be important steps forward.

Having put forward the overall potential of trade in services to increase wealth and reduce poverty in FICs under the conditions summarised above, I will now focus on the particularly important relationship between services trade, migration and poverty reduction including the significance of this relationship to future sustainable development for Pacific Island Countries.
6 LABOUR MOBILITY AND POVERTY REDUCTION

In this chapter I want to examine the role of a specific category of trade in services, being trade in labour services. I want to explore if and how the temporary movement of labour between trading partners can contribute to poverty reduction and sustainable development and if so, are trade agreements a useful modality for the expansion of appropriate temporary labour market schemes.

According to Hugo,

Circular migration refers to repeated migration experience between an origin and a destination involving more than one migration and return. Effectively, it involves migrants sharing work, family and other aspects of their lives between two or more locations.176

Hugo asserts that circular migration is increasingly recognised as one of the few means for scarce resources to flow from core areas to peripheral areas and that generally means a transfer of wealth to lower income communities, for example, from relatively wealthy regions of Australia or New Zealand to outer lying islands off Tonga or Samoa.

In the discussion which ensues, I will first review recent studies and commentary on the migration-development debate before examining trends regarding increased migration and labour market flows across the Pacific region. Section 6.3 discusses the current impact of remittances on poverty reduction using World Bank data in relation to Fiji and Tonga and then extrapolates on the positive significance of labour mobility and remittances for FICs generally.

Sections 6.4 then looks at some of the key issues and challenges of temporary labour mobility schemes such as guest worker programs regardless of whether they are mandated under migration agreements, as special MOUs between countries or as mode 4 commitments in a formal trade agreement.

176 Hugo, ‘What We Know About Circular Migration and Enhanced Mobility’, Migration Policy Institute, Policy Brief no. 7, September 2013.
Section 6.5 then focuses on just that issue – the mode of agreement governing the temporary movement of labour. How useful are trade agreements as a potential modality to pursue increased labour market access for FICs? What are the challenges to be dealt with if trade agreements are to seriously facilitate an increase in circular migration and remittance flows? Is increased circular migration more effectively achieved through non-trade agreements?

The chapter concludes with a summary on how circular migration and temporary labour mobility can best contribute to poverty reduction in the Pacific.

6.1 Migration and Development

Anderson and Winters (2008), in their study on the challenges of reducing international trade and migration barriers, refer to the lessons of history which show that in the 50 years leading to World War 1, the fastest way to bring about greater global wage equality and a convergence in living standards was through international migration. They refer to an updated study undertaken by Moses and Letnes (2004) which finds that a reduction in international migration controls sufficient to reduce the difference between developing country and global wage rates by 10%, would generate an economic welfare gain of approximately US $774 billion per annum. Remember that total global aid transfers at present totals just over US $125 billion.

The distribution of the welfare gain from more liberal migration policies is therefore important if such gains are to contribute significantly to poverty reduction. Notably, further studies undertaken by Winters et al (2003) and the World Bank (2006 chapter 2) show that while there are mutual gains for both developing and developed countries resulting from a reduction in migration controls, the larger proportion accrues to developing countries.


178 Ibid., p. 23.

179 In 2012 members of the Development Assistance Committee (DAC) of the OECD provided USD 125.6 billion in net official development assistance (ODA), representing 0.29% of their combined gross national income (GNI), a -4.0% drop in real terms compared to 2011. These figures do not include transfers from other developing countries such as China or South Korea as their ‘aid’ does not necessarily conform to OECD criteria for aid transfers.
The worker migrating permanently or temporarily from a developing to a developed country will, ceteris parabus, be motivated by the higher salary s/he will receive often with additional benefits such as superannuation provisions and leave entitlements accruing – benefits that often are not available in the home country. One can therefore generally assume that the migrating worker will be financially better off.

If s/he remits some part of the increased income back to family and friends, there is a vital dividend paid to the home economy both for consumption and savings purposes. Given the fact that many migrants do remit significant amounts of capital back to their home country, it is reasonable to assume a significant welfare impact in the sending economy – and poverty reduction is especially evident when the remittances are well directed and well managed by low income or subsistence communities who have few other reliable sources of income.

Hugo and Redden describe the growing importance generally of the ability of migrant workers from the Pacific to assist in poverty reduction in their home countries through the payment of remittances, particularly in the examples they provide from Tonga, Tuvalu and Fiji. For each one of these Pacific Islands, remittances act as an import source of income for low income communities and provide some of the benefits of a social safety net as we shall discuss in more detail later in this chapter.

Walmsley and Winters, focussing on the temporary movement of labour, estimate that an increase in developed countries’ quotas on the inward movements of both skilled and unskilled temporary workers equivalent to 3% of their workforces would generate an estimated increase in global welfare of about $US 156 billion. Further work by Walmsley, Winters, Parsons and Ahmed, confirm these results and show that permanent

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181 Terrie L Walmsley and L. Alan Winters (2005): Relaxing the Restrictions on the Temporary Movement of Natural Persons: A Simulation Analysis, Journal of Economic Integration, December 20(4). The model used by Walmsley and Winters uses a much wider definition of Mode 4 temporary movement of natural persons than the GATS as it uses data on workers’ remittances, which includes transfers by permanent migrants as well as by foreign workers in non-services sectors, as an input. Workers’ remittances are used because the Mode 4 definition in the GATS does not correspond to any data that is collected in trade statistics.
residents in developed countries would also be major beneficiaries with real incomes increasing by an average of US$200 per person.¹⁸²

More recently, the World Bank, building on these results, examined the potential gains of a one-off expansion of international migration over a 25 year period (from 2001-2025), again using the 3% increase in the developed country’s in-quota as a key assumption. The global gains for developing country migrants were estimated to be US $624 billion (in 2001 US dollars), with US $481 billion going to those who permanently migrate to the developed country and US $143 billion being sent back home to their families or communities as remittances. The study also showed a smaller but still significant positive welfare impact for the labour importing developed country as a result of labour shortage gaps being filled, stronger competition and productivity gains in their work force.

Using this World Bank model, Anderson and Winters posit further that if annual migration returned to normal after 2025 and that the total annual aggregate gain of $674 billion, which is just over 1% of projected global income for 2025, continued, then over the period of this century most of the gains in welfare would accrue to the citizens of developing countries and particularly the migrants themselves.¹⁸³

In our region of the world, a study by the Asian Development Bank (2004) also revealed that a 1% increase in quotas for skilled and unskilled labour migration from the Pacific Islands to Australia and New Zealand would create net welfare gains of US$1,066 million for the Pacific Island Countries and US$1,303 million for Australia, New Zealand and the rest of the world.¹⁸⁴

There may be some increased competition in the labour market of the higher income country meaning some local workers and earlier migrants may be disadvantaged - but this will depend on the degree of labour market shortage in the developed country. The


reduction of barriers to immigration and labour mobility from developing countries in those work areas where there are distinct shortages (for example in areas of the agriculture, aged care or certain mining sectors in Australia) should obviate some of the concerns of trade unions and of workers about job losses or a ‘wage-race to the bottom’.

If one can assume that in most developed countries, there is a significant body of appropriate legislation upholding labour rights and fair work conditions with established minimum wages and conditions, then potential negative impacts of increased competition should be able to be minimised. Rogue firms or individuals who exploit either the incoming migrant or local workforce should be prosecuted under the full force of the law.

Notwithstanding this point, the above evidence clearly demonstrates an overwhelming potential for mutually shared gains for both developed economies and developing country workers, as global wage disparity narrows. The wages of developing country workers increase as does the proportion of remittances with flow on welfare effects in the sending economy.

There is therefore a strong policy argument for the removal of trade and migration barriers which obstruct these wealth creation measures.

Particularly in the context of ageing populations and the consequent shortage of skilled and unskilled labour in many developed countries, higher levels of migration and labour mobility if carefully and strategically executed represent a logical ‘win-win’ scenario of supply and demand. The high number of young people in growing Pacific populations for example, represent a valuable source of labour for the ageing populations of Australia, Japan, China or New Zealand and the potential for a ‘win-win’ scenario if greater ease of labour mobility can be achieved.

Hugo and Redden\textsuperscript{185} point to the positive impact of returning temporary migrant workers in the Pacific with increased work experience, higher skills and savings that contribute to their home economy. I examine case-studies illustrating this exact phenomena later in the chapter.

\textsuperscript{185} Ibid, p. 6.
In summary so far, there is significant evidence to show the clear potential for mutual economic gains through the better matching of the supply and demand for labour within a region and indeed globally – but this requires the removal of key immigration and trade barriers that restrict labour market access.

How such gains are distributed between host and origin countries depends on a range of factors including migration policy, labour market regulation in host countries, specific cost sharing arrangements involved in labour market agreements and the cost of moving remittance payment across borders. However, all the studies referred to above point to the very significant potential gains for workers and communities from developing countries and as such, point to the significant and potentially very positive relationship between more liberal migration policies, development and poverty reduction.

So can these findings be translated into practical and profitable outcomes for FICs and if so, can trade policy complement more open migration policy to help realise the benefits of increased circular migration? To address these questions and issues, first it is useful to review migration and remittance sending trends across the Pacific.

6.2 Trends in labour mobility and migration in the Pacific

Hugo\textsuperscript{186} notes that migration from Pacific Island countries to developed countries has increased strongly over the past decade. Using Australia as an example of a destination country, this is clearly shown in Figure 6.1.

\begin{footnote}{186}Ibid, p. 6.\end{footnote}
Figure 6.1 Australia: Pacific-Born Populations, 1947 to 2006

Source: Australian Censuses

Note
- Tonga included with other prior to 1971.
- Samoa, Cook Islands and Solomon Islands included with other prior to 1981.
- Niue included with other prior to 1991.

Figure 6.2 shows that the main destinations for Pacific migrants are New Zealand, Australia and the USA with secondary destinations being Canada and Europe.
The size of the Pacific Diaspora is significant, particularly in comparison to their home population. Around 400,000 persons from the Pacific Islands are resident overseas with these numbers including almost 55% of Samoa’s population and 50% of Tonga’s. It is also noted that the populations of Melanesia, Micronesia and Polynesia are set to grow rapidly.

Bedford (2005) has shown that the populations of each of the three regions will increase significantly over the coming decades but … it is in Melanesia that there will especially be an explosion of growth. Moreover, several commentators have pointed to the particularly rapid growth of the youth cohorts in that population growth. In the three regions the 15-24 age
group made up around 19 percent of the population compared with 14 percent in Australia and New Zealand.  

This growth will, no doubt, increase the pressure from the Pacific Islands for increased levels of temporary and permanent migration given that in the immediate future it is unlikely that domestic labour market demand will keep pace with population growth in most Pacific Island countries. Therefore, the demand from the Pacific for permanent migration, temporary guest worker schemes and labour market access generally to developed countries, can be expected to increase over time with increasing implications for poverty reduction and economic development – and how developed countries in the region respond, is particularly important.

In Australia for example, the business community strongly supports an increase in skilled and unskilled labour for jobs across the mining, agricultural and services sectors. However there are also significant concerns. Trade unions point to the flouting of labour laws in the construction industry with contractors abuse of cheap foreign labour and more generally there exists broad community concerns about the level of migration. We return to these issues in section 6.4, but next I would like to examine the trends and relationships between migration and remittances in the Pacific.

6.3  The significance of remittances

While there is much debate on the long-term sustainability of remittances especially from second and third generation migrants, few economists would disagree on the potential

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188  See submissions from the National Farmers Federation and other industry bodies to the Government Enquiry into the feasibility of a Pacific Seasonal Worker Program in Australia – www.employment.gov.au/seasonal-worker-program

189  See the CMFEU newsletter of May 2008 which cites “Rudd Government to Review Rorted 457 Visa Program” referring to Hansen’s alleged practice of hiring cheap Filipino and Chinese labour on Perth construction sites.

190  This debate revolves around whether or not second and third generation migrants will continue to send remittances back to their home countries and if not, then how reliable are remittances as a long-term source of revenue for sustainable economic growth? However, circular migration is a different scenario.
of well-targeted remittances\textsuperscript{191} to contribute to poverty reduction at least in the short to medium term. The importance of labour mobility and remittances as a vital component of financial flows to many FICs is illustrated in the table below.

**Table 6.1  Trade, aid and remittances, 2011\textsuperscript{192}**

<table>
<thead>
<tr>
<th></th>
<th>Imports % of GDP</th>
<th>Net ODA received % of GNI</th>
<th>Remittances % of GDP</th>
<th>Exports % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Isl\textsuperscript{b}</td>
<td>46.0</td>
<td>14.3</td>
<td>0.7</td>
<td>2.1\textsuperscript{b}</td>
</tr>
<tr>
<td>Fiji</td>
<td>65</td>
<td>2.0</td>
<td>5.3</td>
<td>59</td>
</tr>
<tr>
<td>Kiribati\textsuperscript{c}</td>
<td>95</td>
<td>27.0</td>
<td>18.9</td>
<td>12</td>
</tr>
<tr>
<td>Marshall Isl\textsuperscript{a}</td>
<td>55.8</td>
<td>38.2</td>
<td>0.6</td>
<td>19.8</td>
</tr>
<tr>
<td>Micronesia, FSM</td>
<td>47.3</td>
<td>41.2</td>
<td>1.0</td>
<td>9</td>
</tr>
<tr>
<td>Nauru\textsuperscript{a}</td>
<td>71.0</td>
<td>35.5</td>
<td>N/A</td>
<td>140.1</td>
</tr>
<tr>
<td>Niue</td>
<td>68.7</td>
<td>15.1</td>
<td>N/A</td>
<td>17.9</td>
</tr>
<tr>
<td>Palau</td>
<td>75</td>
<td>14.5</td>
<td>N/A</td>
<td>73.7</td>
</tr>
<tr>
<td>PNG</td>
<td>31.4</td>
<td>5.1</td>
<td>0.3</td>
<td>62.3</td>
</tr>
<tr>
<td>Samoa</td>
<td>58</td>
<td>16.4</td>
<td>22.1</td>
<td>34</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>48</td>
<td>49.6</td>
<td>0.3</td>
<td>25</td>
</tr>
<tr>
<td>Tonga</td>
<td>62</td>
<td>21.3</td>
<td>19.5</td>
<td>18</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>75.6</td>
<td>76.7</td>
<td>35.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Vanuatu\textsuperscript{a}</td>
<td>52</td>
<td>11.9</td>
<td>2.8</td>
<td>45</td>
</tr>
</tbody>
</table>

\textsuperscript{191} Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. Personal transfers thus include all current transfers between resident and non-resident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by non-resident entities.

Table 6.1 shows a static representation of the significance of remittances based on a range of sources. It shows that for Fiji, Kiribati, Samoa, Tonga and Tuvalu in particular, remittances form an important component of GDP. For the more densely populated Melanesian countries of PNG and the Solomon Islands with more diverse sources of economic growth, remittances still make a small but important contribution to GDP and redistribution to lower income groups – in monetary terms being worth approximately $400 million in PNG and around US $70million in the Solomon Islands. The trend for remittances across the Pacific, allowing for the negative impact of the GFC in 2008, has been a steady increase in the flow of remittances.

The following figure shows clearly the increasing significance of remittance payment over time especially for Fiji, Samoa and Tonga.

**Figure 6.3 Remittance flows 2000-08 (USD millions)**

![Remittance flows 2000-08 (USD millions)](image)

*Source: World Bank (2009h)*

*Note: e refers to estimate*

A well-known report from the World Bank, ‘At Home and Away’, confirms the importance of remittances for poverty reduction. The study undertook analysis of data from remittance-recipient households in Fiji and Tonga that showed the poorest 40% of the population’s
The share of cash income increased while the share of the richest 20% decreased in both countries. Using a range of measures of deprivation, the study found remittances to have a direct and positive impact on poverty alleviation. Caution needs to be exercised, however, in extrapolating the trends associated with increased migration, the numbers of overseas workers and the impact on low income communities – the relationship between numbers of expatriate workers and the level of remittances is complex. The inflow of remittances varies considerably between countries due to:

- Varying trends in the actual number of migrants who have left
- Different mixes of types of migrants – skilled versus unskilled and respective wage differentiation at place of destination
- A varying mix of permanent and non-permanent (temporary labour) migrants
- Different staging of migration. For example, in some cases the overseas diaspora has large numbers of second and third generation who, in some cases, can be less inclined to remit than recent migrants, as has been suggested of second generation Tongans living abroad.

On this last point, Lee finds that only a minority of second generation Tongans living in Australia continue to send significant remittances to their home communities, this finding is contrary to those of Connell on remittance decay. In fact, other studies show the opposite, such as a case-study on remittances and second generation migrants from Somaliland living in London. Maarif Taheera shows that second generation Somaliland expatriates continue to send the same or even more based on the severity of need back home and various cultural and religious linkages.

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193 World Bank ‘At Home and Away’ Expanding Job Opportunities for Pacific Islanders through Labour Mobility, 2006, p. VII.


For purpose of this study, I am interested in circular migration and therefore am assuming the high relevance of immediate remittances from those working abroad as they will be returning home. However the issue is interesting - why Somaliland expatriates continue to remit significantly into second and third generations and Tongans do not so much I would suggest is for very complex reasons – both communities are deeply religious, have strong family values and move back and forward between countries when able to do so. The material needs of Somaliland communities would be greater than Tongans but I suspect there are other forces at operation as well.

In the Pacific, the important issue is that migration has consisted more of migrants who have permanently settled at the destination rather than circulated between origin and destination as has occurred in other regions. This is significant if it is indeed the case that circular and other non-permanent migrants from FICs tend to remit back to their home a greater proportion of their income at the destination than do those who permanently settle at their destination.

Notwithstanding these complexities, it is clear that for many FICs, remittances, due to a mix of temporary and permanent labour migration, are and will continue to grow in importance. Samoa, Tonga and Fiji are cases in point of this growing and significant relationship. As mentioned earlier, the World Bank study included specific research and analysis on remittances and poverty reduction in Tonga and Fiji.

Table 6.2 provides a summary of the results. Although total remittances are twice as large in the case of Fiji, in Tonga over 90% of the population benefits from some form of remittance payment and remittances make up over 41% of GDP.
Table 6.2  Fiji and Tonga: Estimates of Total Remittances, 2004 (US$)

<table>
<thead>
<tr>
<th></th>
<th>Fiji</th>
<th>Tonga</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittances Received Per Capita</td>
<td>$370.88</td>
<td>$753.02</td>
</tr>
<tr>
<td>Population</td>
<td>836,002</td>
<td>98,322</td>
</tr>
<tr>
<td>Percent Who Are Recipients</td>
<td>42</td>
<td>90.9</td>
</tr>
<tr>
<td>Total Remittances (US 000$)</td>
<td>$130,343</td>
<td>$67,330</td>
</tr>
<tr>
<td>As Percent of GDP</td>
<td>6.2</td>
<td>41.8</td>
</tr>
<tr>
<td>As Percent of Exports</td>
<td>8.3</td>
<td>154.2</td>
</tr>
</tbody>
</table>


It is likely that these figures understate the importance of remittances to these economies. The Reserve Bank of Fiji has estimated that earnings from remittances may be as high as US $300 million significantly more than the $130 million estimated above.

In 2008, Richard Brown undertook an important study that has reinforced the value of remittance flows to lower income groups in a given community. His findings are encapsulated in the case-study which follows.
Based on this study and other research on the impact of migration and remittances for Fiji and Tonga, Hugo and Redden have surmised that:

The studies of Fiji and Tonga produced strong evidence that remittances reduced both the incidence and depth of poverty meaning remittances...
have the potential to play a very important role in assisting many Pacific Island countries to meet the Millennium Development Goals, especially in countries such as PNG and Fiji with a large percentage of young people either unemployed or under-employed.\footnote{Ibid, p. 32.}

These findings indicate the importance of ensuring that appropriate migration and trade policy settings are in place to increase the flow of temporary labour between FICS and their key trading partners to facilitate the flow of remittance payments.

However, setting appropriate policy and implementation processes in place, is no mean feat. Having summarised the existing trends in Pacific migration and significant value of remittances for FICs, it is important to now look at the barriers and concerns about temporary migration and what conditions therefore need to be in place to ensure circular migration can and does lead to a ‘win-win’ wealth creation scenario ideally in both origin and destination countries.

The next section therefore focuses on the barriers and challenges of circular migration by examining temporary labour market schemes such as guest worker programs and seasonal employment programs that have been operating in the Pacific region and analyses the lessons that have emerged to date.

### 6.4 Temporary Labour Market Schemes: Issues and Ways Forward

A key issue for FICs in the future will be access to the labour markets of developed countries particularly with their key trading partners in Europe, the USA and Oceania. But, as previously suggested, there exist a number of challenges to the successful planning and implementation of effective, temporary labour market schemes so that they work well for both origin and destination countries.

Concerns exist on a number of fronts including:

- migration and security issues and the how these issues are handled in the destination country
- displacement of local labour in the destination country
• the exploitation of migrant labour when employers pay low wages or offer poor working conditions in the destination country

• the loss of talent and skills from Pacific Island origin countries

• social issues that arise for workers at destination and for their families at home when workers leave home for significant periods of time

• the high cost of sending remittances home and how these remittances are best used to reduce poverty.

I want to discuss each of these issues with particular reference to a labour mobility scheme that has been operating between Tonga and New Zealand.

6.4.1 Security and market access issues

Developed countries can facilitate increased migration through a mix of complementary trade, development and immigration policies. Unfortunately, the attacks of 9/11, ongoing terrorist threats, the increasing flow of asylum seekers and sustainable population concerns to name a few, all tend to play on the minds of politicians and policy makers in many developed countries alert to the views of their taxpayers.

Migration will remain a ‘hot issue’ in the foreseeable future for most OECD countries but it is beyond the scope of this paper to delve into all of the complexities here. The key observation for this paper as supported by the evidence in earlier sections, is that temporary migration, because of its circular nature, represents an important opportunity for a ‘win-win’ scenario of benefit to low income origin countries as well as to developed destination countries. Temporary schemes can allay fears such as population increase, foreigners taking permanent jobs from locals and can ease concerns about security threats. More importantly they can be seen as filling important labour market gaps in the destination country and as contributing to economic growth.

On the issue of security threats, FICs should be able to demonstrate that Pacific workers represent a very low security risk. First, it is possible, notwithstanding recent civil strife in Fiji and the Solomon Islands, to promote Pacific labour as relatively non-threatening with respect to broader terrorist issues. The civil strife in these two FICs is largely internally driven and is not associated with global terrorist movements and there are no militant
extremist movements in the Pacific Islands linked to ISIS, al Qaeda or other such movements in so far as I am aware.

Arguably, Pacific Islanders therefore have a comparative advantage as low risk-security immigrants. New Zealand has successfully developed a relatively harmonious multicultural community of indigenous Maori, whites and Pacific Island immigrants. It is also rare to hear of any significant concerns about Pacific Islanders in Australia with respect to security risks or terrorism where attention is wrongly or rightly focussed on immigrants and asylum seekers from other countries. In other words, FICs, Australia and New Zealand are well placed to promote the significant mutual advantage of labour market mobility between relatively safe neighbours with a history of cooperation and mutual interest in the security of the region.

So with this advantage in mind, what sort of temporary migration schemes can best serve the interests of FICs while also addressing not just security concerns but other concerns of the workers involved as well as both origin and destination governments. Many of the relevant issues are highlighted in a Tongan – New Zealand labour mobility scheme that continues until present day.

6.4.2 Temporary Labour Schemes: Lessons from the RSE Scheme

The following case-study on a labour mobility program describes a circular labour market scheme agreed between the governments of New Zealand and Tonga and highlights a number of issues and concerns about temporary labour market programs.

The New Zealand Recognized Seasonal Employment Scheme (RSE) for the Kingdom of Tonga was launched in 2007 with the first pilot group departing July 2007. The scheme is also open to workers from Samoa, Vanuatu, Tuvalu and Kiribati. Approximately 750-800

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197 I am not saying that there are not issues of racism, social conflict and criminal activity in and among Pacific Island communities in both NZ and Australia but I am delineating between these issues and involvement in fundamentalist terrorist activities and extremist violence.

198 The information from this case-study comes from field work undertaken by V Tauruko, J Redden and R Esau in Tonga and New Zealand with the full case-study published in ‘Labour Mobility and Poverty Reduction in Tonga’ in Trade and Poverty Reduction in the Asia Pacific Region, Cambridge Uni Press, 2009, pp. 572-591.
workers from these FICs provided temporary labour in New Zealand in the first year of the scheme's operation.

In Tonga, the Ministry of Labour, Commerce and Industries takes the lead role in organising and coordinating Tongan seasonal worker schemes. The RSE scheme enables Pacific workers to fill seasonal horticulture and viticulture jobs that cannot be filled by New Zealanders. Seasonal work usually last for 7 months and New Zealand employers must pay at least the minimum hourly wage of NZ $11.35 and guarantee at least 30 hours a week. Significantly, New Zealand trade unions have been involved with the development of the scheme from the outset allaying potential local fears about temporary low waged labour undermining jobs for New Zealanders.

The Tongan Government's Labour Division conducts meetings and discussions with town officers and labourers at the village level during the selection and recruitment phase of the scheme. This commitment from the Tongan Government is to try and ensure that the right people are selected with appropriate skills and motivation for the type of work and conditions in New Zealand. This selection process is arguably one of the most vital stages of the RSE program because it facilitates choosing appropriate labour which in turn, assists in the continuity of the scheme as trust builds between reliable Tongan workers and primary producers in New Zealand. The involvement of town officers, church leaders and community leaders in the selection phase in Tonga is paramount in ensuring that the selected individuals will perform well and not try to overstay their time.

In addition to this, there is an added element of competition among various FICs wanting to maximise their supply of workers to New Zealand and this also acts as an incentive for workers to honour the trust put in them by their government and fellow workers and not overstay or bring their nation into disrepute.

Before leaving home workers are told they are ambassadors for their country and must not act in a way that could jeopardise the opportunity for others to come to New Zealand. There are penalties for workers (and their communities) that are identified as ‘letting the side down’. Social
sanctions imposed by Pacific states put pressure on workers to conform.199

As part of the selection process, agreements are negotiated with each individual about the uses to which remittance payments will be put. In most cases remittances will be used for the benefit of the worker and his/her immediate family but in Tonga some proportion is also ear-marked for village projects agreed by the local community.

Pre-departure briefings therefore form a crucial part of the success or failure of the program. The RSE aims to build the work ethic and skills of Tongans and their understanding of how horticulture is managed in NZ and includes pre-departure briefings in Tonga and orientation on arrival. The RSE scheme also aims to provide each individual chosen for work in New Zealand with training and guidance on their future career objectives, how the temporary work scheme fits with those objectives, use of earnings and remittances while in New Zealand and on return as well as discussion about training needs for adding value to the community on return and in the longer-term. These are of course all very desirable but lofty aims and time will tell as to how successful the RSE will be in the long-term.

Concerns with the RSE have centred on the need for better training and preparation of Tongan workers, the risk of the RSE eventually increasing levels of permanent migration in the future as temporary workers who enjoy New Zealand apply for permanency and concerns about the ongoing transactions costs associated with the transfer of remittance payments. There have been some overstays and ‘disappearances’ but few and far between due to the quite rigorous selection process described above. The authors of the 2009 case-study concluded:

Initial anecdotal evidence suggests that the RSE scheme should lead to direct improvement in the standards of living not only for the Tongan workers but through remittances to their extended families back home. If Tongans can improve and build on their reputation as good workers and use such schemes to start investing in their skills back home it should be

given every opportunity to succeed --- the planning and consultation processes have been impressive.200

In fact, as one of the authors of that case-study, I would argue there is strong anecdotal evidence that the RSE scheme is directly assisting in poverty reduction on the condition that a number of the processes put in place, as described above, continue to actually work – for example the provision of incentives for workers to return home and use their savings and any newly learned skills being put to the advantage of the local village and community.201

A comprehensive evaluation of the RSE scheme was undertaken in 2010 three years after it was launched by ‘Evaluate Research’. The report assessed the RSE and came up with the results shown in table 6.3.


201 Based on recent interviews with the Minister for Labour in Tonga, senior trade officials including 'Alisi Holani and Alipate Tavo and input from RSE officials in the NZ Government. However I need to note again that this is based on interviews and anecdotal information not detailed econometric data.
Table 6.3  Overall Assessment of RSE Policy Dimensions

<table>
<thead>
<tr>
<th>Worker dimensions</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-departure orientation</td>
<td>Excellent</td>
</tr>
<tr>
<td>Orientation in New Zealand</td>
<td>Excellent</td>
</tr>
<tr>
<td>Worker earnings</td>
<td>Adequate</td>
</tr>
<tr>
<td>Deductions</td>
<td>Very good</td>
</tr>
<tr>
<td>Work experience</td>
<td>Very good</td>
</tr>
<tr>
<td>Relationship with employer</td>
<td>Very good</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Adequate</td>
</tr>
<tr>
<td>Access to services in the community</td>
<td>Adequate</td>
</tr>
<tr>
<td>Support with problems</td>
<td>Poor–adequate</td>
</tr>
<tr>
<td>Involvement with local community</td>
<td>Adequate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer dimensions</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour supply</td>
<td>Excellent</td>
</tr>
<tr>
<td>Dependability, enthusiasm, and productivity of workers</td>
<td>Excellent</td>
</tr>
<tr>
<td>Cost benefit</td>
<td>Excellent</td>
</tr>
</tbody>
</table>

The outcomes show that most aspects of the RSE were performed well and in accord with effective systems to support and encourage ongoing circular migration.
Overall, according to the Evaluate Research report, the RSE Policy has achieved what it set out to do. The RSE scheme provided employers in the horticulture and viticulture industries with access to a reliable and stable seasonal workforce. The labour supply crises of previous years in New Zealand were avoided and employers could now plan and manage their businesses with confidence. As the policy enters its fourth year, there are indications many employers are now also benefiting from semi to highly skilled labour as workers return for subsequent seasons. Significant productivity gains were reported in the second season, together with improvements in harvest quality.

Alongside the employer ‘wins’, Pacific workers and three Pacific states in particular have benefited financially from participating in the RSE program being Tonga, Vanuatu and Samoa. Skill development was clearly identified as a positive outcome for workers.203

The skill development referred to derives from the on the job training and experience gained in New Zealand. However, there is still much more that could be done in both origin and destination country to promote not only immediate skill development but longer-term work skills that would enable returned workers to contribute to economic activity and poverty reduction in their home country. The importance of education and training in support of circular migration programs is therefore a vital component if such programs are to lead to increased productivity and economic output in the origin country. The next section focuses on this issue.

6.4.3 Training and education

It is evident that workers from FICs need appropriate training and skills to equip them well for the jobs they will undertake in destination countries. These skills are not only those that are associated with target occupations but also include knowledge about destination country customs and work practices as well as an understanding of their societal ethics and cultural practices. As indicated in the RSE case study, the Tongan and New Zealand governments recognised the importance of this type of preparation for its migrant workers and therefore endeavoured to put in place some of the relevant training needed.

203 Evaluate Research, op. cit., Executive Summary p. 17.
Of note, pre-departure counselling in the RSE scheme tried to emphasise long-term career development of participants as well as the future needs of their local village communities. This is an important area to build on if temporary labour schemes are to facilitate economic activity and a skills base in the origin country. Training and up-skilling of low income labourers from FICs in line with their expressed longer-term employment objectives should facilitate a much more abundant pool of skilled and semi-skilled workers in the origin country in support of local economic development.

A focus on the long-term economic development objectives of the origin or home country is an important factor if labour mobility schemes, such as the RSE, are to realise long-term value-add. Bedford for example, notes the pressing need for young Melanesian workers in the Pacific to benefit from education and training programs both in the destination country and abroad. He suggests that long term development in Melanesia will depend heavily on opportunities for young people to travel overseas for training and employment.204

Pacific FICs have a pressing need to develop their human capital through focused training and education programs. There are potential win-win outcomes if the skill needs of origin and destination countries are well matched and even more so for the origin country if there can be ongoing education and training programs for their workers.

I note that in the Hugo and Young study undertaken for APEC, there are various recommendations for APEC countries to undertake further work on matching labour supply with labour demand and then to meet that demand through enhanced training and human skills development.205 That formula is relevant to the needs of the Pacific region and should ideally be a strong platform for enhanced regional integration measures among FICs, Australia and New Zealand, as envisaged by the Pacific Agreement on Closer Economic Relations.
In terms of circular migration specifically, it is possible to portray a virtuous circle of human skills development with longer term economic development and poverty reduction as shown in figure 6.4.

**Figure 6.4 Virtuous circle of migration, training and education and economic development**

FICs already benefit from professional and skilled labour working abroad and sending home remittances (for example, in health services). The challenge is to enable a substantial increase in opportunities for lower income and low-skilled workers to benefit from working abroad as well so that both they and their origin communities benefit in the way envisaged in the virtuous cycle above. How can this better be achieved?

Firstly, there is a need for FIC governments and relevant private sector employers who benefit from circular migration to commit to literacy training and vocational education targeted to lower-income groups. Because of the ageing of their populations, OECD countries are experiencing labour shortages in sectors such as agriculture, health services,

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206 S Molloy, developed for a report to AusAID for their ‘Pacific Economic Survey on Labour Mobility’ 2009.
security services, aged care services, mining, transport and construction services. Skills in these sectors should be targeted.

Secondly, the training and upskilling needs of Pacific workers could be jointly sponsored by the relevant FIC government and a developed country trading partner (or donor body) so that qualifications and standards are harmonised between origin and destination countries. (see section 5.2, challenge 3 on the importance of harmonisation of standards and qualifications to facilitate increased trade in labour services).

Training should also be a feature of the work undertaken in the destination country. Associated adult education relevant to the services sector where foreign labour is required, should be part of any negotiated labour mobility scheme. For example, fruit pickers might undertake accredited courses in farm management, machinery repair or in computer literacy to improve agricultural productivity and the creation of SMEs at home. Such training would provide further incentives for workers to return home to use newly-learned skills to the benefit of themselves and their communities.

In summary, training at both origin and destination targeting low income and semi-skilled workers is a crucial component to ensure that the benefits of circular migration schemes are captured for the long-term advantage of FICs in support of economic activity and poverty reduction. As the virtuous cycle of wealth creation suggests, increased training and up-skilling of labour from FICs leads directly to an increase in remittances, which if well spent, lead importantly to poverty alleviation.

6.4.4 Use of remittances for wealth creation at home: ‘circular migration’ and monitoring and evaluation

In section 6.3, I discussed how remittances in general can contribute to poverty reduction, wealth creation and economic development. There are, however, a number of risks and potential negative impacts that need to be considered in the design of policy to ensure the benefits of remittances are captured by low income FIC labour.

One obvious risk is that increased levels of temporary migrant work might lead to an eventual increase in permanent migration and then a possible decline in the volume of remittances sent home. As noted in section 6.3, some studies show that second and third generation migrants may remit less than first generation workers.
The objective of FIC government policy should therefore be in support of ‘circular migration’ where the incentives for migrants to return home are built into labour market programs. Some approaches to this issue include developing a clear long-term program for each worker that provides for return visits to the host country reducing the incentive for them to stay illegally as well as the provision of either job opportunities or relevant training for returning migrant workers, as discussed in the previous section.

In addition, up-front planning for the use of remittances needs to be part of the preparation process for migrant workers. Pre-departure and return briefings need to be comprehensive and deal with a range of issues, including personal career development, financial and social issues in the destination country and how best for workers to use their newly earned income to the benefit of themselves, family and broader community.

Remittances contribute directly to the purchase of consumer goods, including food and clothing, but also on children’s education and as such are of direct benefit to lower-income communities. The impact of such spending should not be underestimated. Taylor et al show that a dollar spent on consumption activities can have important multiplier effects that ripple through local and regional economies with significant poverty reduction and developmental impacts. However, in addition to this, if remittances for direct consumption can be complemented through remittances that contribute to a growing pool of savings available for local savings and investment funds then so much the better.

In the Tonga-New Zealand RSE scheme an agreed proportion of remittances is hypothecated for village-based projects, such as the purchase of farm machinery or a boat for artisanal fishing. The wise channelling of the remittances of permanent and temporary remittances could have a profound effect in some FICs for long-term economic growth and redistribution of wealth. FICs should take initiatives to encourage good use of these remittances, for example through tax concessions to those who invest in productive enterprises and investment funds.

Finally, FICs need to stay vigilant to efforts to reduce the high cost of sending remittances. A greater degree of competition is desirable at both ends of the remittance equation to
lower the transaction costs of sending remittances. Meetings have been held between FIC governments and various financial institutions such as the ANZ Bank and Western Union to examine ways of lowering transaction cost with some success. The use of internet and mobile phone banking is assisting and in some cases the actual cost of transactions has been lowered. Given the positive impact of remittances, any obstacles that can be removed or lowered to the advancement of a greater volume of remittances is in the interest of the poorest.

Recall Brown’s findings (in section 6.3) that households below the poverty line with migrants can be expected to receive more remittances the poorer they are. The importance therefore of facilitating circular migration and the ease of sending remittances is vital to the poverty reduction process.

In summary, it is increasingly recognised that remittances play a crucial role in the development process and if you add in unofficial remittances to those officially accounted for then as Hugo affirms, remittances are the largest source of external funding for several Asia Pacific countries and he therefore concludes that:

> _ _ remittances are effective in poverty reduction at a grass roots level because they are passed directly from the migrant and received by families and individuals in less developed countries so that they can be readily used to improve the situation of those people._

It is safe to conclude therefore that if FICs can further exploit their comparative advantage in youth and labour through circular migration, then the combination of training, jobs and experience of returning workers plus direct impact of remittances augur well for long-term impact on poverty. So what are the best channels or types of agreements for FICs to pursue for increased circular migration?

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6.5 The GATS and Mode 4 – Ways Forward for Circular Migration

Thus far, I have argued that an increase in circular migration through temporary labour market schemes can lead directly and indirectly to poverty reduction particularly if the following conditions are in place:

1. Well developed research clearly identifying and matching labour market demand in the destination country and labour market supply in the origin country

2. Integrated design and planning from the outset involving all stakeholders: the employers, unions, labour supplier and relevant government bodies

3. From the government side, there needs to be a whole of government approach whereby relevant planners, migration official, industry officials as well as foreign affairs and trade officials try to overcome the risks of silo mentality and work well together in the planning and implementation of the program

4. A thorough selection process with strong local community involvement and with selection criteria based on a worker’s desire to represent their country with pride and not overstay, their willingness to undertake training and to be committed to local community development objectives through remittances and use of their skills on return

5. A program targeted to low income and less experienced labour in Pacific Island countries so as to maximise impact on poverty reduction

6. An intensive briefing processes at origin and destination country dealing with both labour and industry issues but also social and cultural ones

7. Commitment at both origin and destination to skills education and training aligned to both the immediate tasks at hand but with a view to longer-term employment objectives

8. Clear agreements between selected labour and their families/communities on the role of remittances and how they will be spent or saved

9. Incentives and opportunities for workers to return home to work, training or community involvement that builds on their experience working abroad
10. Regular monitoring and evaluation throughout the circular migration scheme to ensure employers are not in any way exploiting workers and that workers are honouring their commitments.

Many of these conditions have been in place for the RSE scheme that continues to operate quite successfully across the Pacific, so it is not unrealistic to expect that governments can build on these successes into the future. Australia has recently initiated a new series of circular migration labour market programs called the ‘seasonal worker program’ for Pacific Islanders with strong support from FIC governments.

It is still relatively early days and I have not seen detailed evaluations of these programs other than anecdotal information from some FIC government officials that workers have generally been satisfied with the program so far. Of note though, both the RSE and the Australian Government labour market schemes are run through their respective departments of labour and industry as general agreements between the respective governments involved – and are not the result of trade agreements.

I now want to focus on this issue to assess whether it is best left this way or whether circular migration would benefit from facilitation under the architecture of a trade agreement. In other words, can successful circular migration schemes that are able to address many of the conditions and challenges described above, best be accommodated through trade agreements or through more general labour market agreements?

To understand how labour mobility is treated in trade agreements requires some further discussion of the General Agreement on Trade in Services and what is required by governments if they commit to opening up trade in labour market services through mode four.

In section two of chapter five, we noted that under the GATS, mode 4 supply of services is defined as the temporary movement of natural persons, for example, a service supplier from the origin country providing labour to a service supplier in another WTO member country on a short to medium-term contract. Note that the movement of labour must be through a services supplier. There is a tendency to equate mode 4 with migration, since the service is supplied through the presence of natural persons. However, while mode 4 involves the temporary movement of people, it is only to the extent that such movement is for the purpose of supplying a service.
The ‘service supplier’ can either be a juridical person, such as a company, or a natural person, for example a self-employed person. There are thus two ways in which a mode 4 supply of a service could occur: (i) the natural person is an employee of a service supplier; or (ii) the natural person is a service supplier in his/her own right.

These obligations under the GATS would both be met by the current temporary labour market schemes between Australia, New Zealand and the Pacific, because both RSE and the Seasonal Worker Program (SWP) rely on a service supplier from the origin country to select and take responsibility for the agreed labour market transactions.

GATS rules support the concept of circular migration. The GATS Annex on Movement of Natural Persons specifies that,

> the Agreement shall not apply to measures affecting natural persons seeking access to the employment market of a Member, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis.209

This qualification carves many immigration policy and controls out of the scope of the GATS.

These points demonstrate that trade agreements act to reinforce the role of temporary migration reassuring destination governments and their communities of any concerns about long-term displacement of local jobs by foreigners. Under the GATS, the destination country clearly delineates which labour market sectors it wishes to open up (horticulture, inter-corporate transferees, chefs, mining etc), the period of time the supplier can be present in the territory of the destination country (6month, 2 years etc) and the movement of labour is regulated through mutually agreed service suppliers.

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A typical schedule of labour mobility commitments is exemplified in the FTA between Australia and Thailand. The following clauses state Australia’s main commitments to permit the temporary entry of Thai citizens without labour market testing:210

i. business visitors are permitted to enter and stay for up to three months

ii. intra-corporate transferees are permitted to enter and stay initially for up to four years with a total of up to ten years

iii. spouses and dependants of intra-corporate transferees are permitted to enter stay and work for the period of the intra-corporate transferee’s visa

iv. independent executives are permitted to enter and stay initially for up to four years

v. contractual service suppliers are permitted to enter and stay for up to three years. Specialist Thai chefs entering as contractual service suppliers are permitted to enter and stay for up to four years

vi. Thai citizens entering Australia under the FTA will be required to meet the conditions applying to the relevant visa, including any conditions relating to level of qualification/specialisation.

Note that most of the clauses relate either to inter-corporate transferees or to skilled labour force specialisations requiring appropriate qualifications, such as for specialist Thai chefs. Thailand’s commitments under the FTA are similarly high level again targeting mainly inter-corporate transferee, such as skilled managers, or technical experts from large companies such as multinational banks, agribusiness or mining companies, for example:

Thailand will grant a visa and work permit for up to five years’ stay for all Australian citizens being transferred to work in Thailand within the same company (to be renewable annually).211


211 Ibid.,
These labour market openings are to be commended in that they progress the ease of labour market movement between the two parties to the FTA. The nature of such commitments can help dispel criticisms of ‘brain drain’ given the temporary nature of the provisions, as well as many concerns about employer exploitation of foreign labour given the tight monitoring of FTA provisions and regulation of approved service suppliers. The FTA can also help dispel the notion that people from Thailand might flood the Australian labour market and displace local labour – as seen by the clear specification of which sectors or occupations are opened up, such as the entry for up to four years for Thai chefs, in response to identified labour market shortages in Australia.

The ability of such trade provisions to support legality, enforcement, and responsiveness to market forces of labour supply and demand, make the use of trade agreements an attractive mode for furthering labour market mobility between Pacific Island countries and their trading partners.

Unfortunately, though the above Thai-Australia FTA example also demonstrates another global trend which is of concern. Most preferential trade agreements focus almost entirely on the movement of highly skilled labour to the neglect of low and unskilled labour where developing countries including FICs have clear comparative advantage.

We noted earlier that of all GATS offers to date, that mode 4 had only generated less than 5% of total offers and in Bali recently (2013), there was no progress made on the issue of mode 4 market access.

While difficult to measure, since no thorough statistical framework is in place at the national or international levels to collect and assess the value of mode 4 trade, this represents the smallest share of world trade in services, as compared to the other three modes of supply. So not only is trade in labour mobility the most under-utilised of the modes, but those who would most benefit, the low skilled, are almost entirely excluded from the provisions of the limited mode 4 trade agreements in operation.

In the GATS, specific commitments on access conditions are taken on a sectoral and modal basis. Simply put, each WTO member would specify in its schedule of specific
commitments, the market access and national treatment conditions that it wishes to take for each sector (for example, its health sector or financial sector) and mode of supply (modes 1,2,3 or 4).

Mode 4 has been the exception. Rather than taking sector specific commitments, most Members have usually opted for horizontal commitments, which apply to all sectors inscribed in the schedule. Overall, these commitments have tended to be limited and rather shallow. There is also a clear preference to schedule commitments for certain categories of persons, namely those linked to a service supplier with commercial presence in the territory, and those who possess high-level skills such as specialists, executives and managers.

The GATS does not however, define mode 4 in terms of skills. Commitments taken under mode 4, which have tended to be for the higher skilled, reflect policy choices made by WTO members. There is nothing in the definition of mode 4 that would prevent WTO members from taking commitments for lower skilled persons.

In schedules of specific commitments, four categories are common: independent professionals; contractual service suppliers; intra-corporate transferees; and business visitors.213 This is a mode of supply that developing countries do not have a significant share.

So why the lack of commitment from developed countries to opening up their labour markets to semi and lower skilled labour from developing economies?

Firstly, developed countries are more likely to have comparative advantage in the temporary movement of highly skilled labour and naturally seek to pursue their national interest outcomes in trade negotiations. Secondly, there is a fear that opening up to the

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212 National Treatment in the WTO context is the non-discrimination principle of giving foreign suppliers the same treatment as one’s own domestic suppliers.

213 These are categories commonly found in schedules as we saw with the Thai-Australia FTA. There is no agreed definition though practice suggests that “independent professionals” are self-employed persons who are present in another territory to supply a service; “contractual service suppliers” are employees of a service supplier without commercial presence in the territory in which the service is supplied; “intra-corporate transferees” are employees of a service supplier who has commercial presence in another territory, and are transferred to work in that establishment; and “business visitors” are employees of a service supplier.
importation of lower skilled labour from developing countries will open the floodgates for all WTO members to demand greater labour market access to developed economies. This in turn plays on the fears of trade unions or low-income communities within a developed country about a surge of low skilled foreign labour displacing local labour and in some cases, even security concerns.

These concerns are reflected in the reluctance of Australia and New Zealand and for that matter, most developed countries, to negotiate a labour mobility chapter with commitments to market access for low skilled labour within trade agreements, instead preferring to negotiate specific labour mobility schemes outside of a trade agreement.

In my view, such concerns are more based on fear of public perception and are usually politically motivated, rather than driven by views based on economic rationality and on the security afforded by trade law, in this case the GATS.

In the case of PACER Plus for example\(^\text{214}\), the main concern expressed by Australia and New Zealand is that making commitments to increased labour market access for FIC workers though mode 4 provisions, will open the flood gates to other WTO members wanting similar provisions by invoking the WTO’s Most Favoured Nation (MFN) principle.

In short, the MFN principle states that under the WTO agreements, countries cannot *normally* discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.\(^\text{215}\)

The key word here is *normally*. In other sections of the GATT and the GATS, provisions are made for regional and bilateral preferential arrangements that allow WTO members to derogate from this principle, for example for the purpose of a developed country offering special treatment to a developing country trading partner.

\(^{214}\) Much of the material on PACER Plus presented over the next few pages is taken from the research I have undertaken to deliver lectures to Pacific Island trade officials on the issue of labour mobility and mode 4. It is based on regular meetings with DFAT Pacific trade negotiators and my interpretation of GATS provisions in consult with WTO colleagues in Geneva who specialise in the interpretation of the GATS.

PACER Plus, for example, as a preferential agreement to be negotiated within the context of WTO law given a number of the parties to the potential agreement are WTO members, must satisfy the conditions in Article XXIV of the GATT and Article V of GATS which contain provisions covering preferential arrangements and regional integration.

These provisions, I would argue, allow ANZ governments the ability to offer preferential arrangements to FICs on labour market access without being required to offer the same or similar market access to other developing countries such as China or Indonesia.

GATS Article V (on regional integration) essentially authorises the discriminatory extension of access rights to bilateral or regional trading partners. So long as parties to a preferential agreement are engaged in substantial sector coverage with respect to trade liberalisation measures and substantial regional integration measures, then the following provision can apply:

...when developing countries are a party to the agreement additional flexibility is to be provided in meeting these (GATS) conditions “in accordance with the level or stage of development of the country concerned”.216

The highly qualified nature of the GATS provisions strongly suggests that ANZ governments may enact positive discrimination when opening up sectors of their labour markets to FIC labour and that the ways in which this occurs should take account of, and be designed in relation to the level of development of the FICs concerned. The level of development of FICs should be easily discernible from the level of development in say China or Indonesia. In other words, special consideration could be afforded to small island countries in the immediate region.

GATS affords a reasonable amount of flexibility in terms of such concessions and therefore neither would FICs be required to pass on the same concessions to other trading partners, for example were PNG to agree to opening its labour market to low skilled labour for other Pacific Island countries.

216 GATS, Article V.
Australia or New Zealand can also target specific sectors and define appropriate conditions which discriminate in favour of FICs to the exclusion of others. In the Thai-Australia FTA, the provision for import of Thai chefs does not include any MFN provision and similar provisions for service suppliers of chefs from other countries and therefore has not been demanded by other WTO members such as other developing countries in ASEAN.

Article V of GATS also provides that when developing countries are a party to an integration agreement additional flexibility shall be provided particularly in the need to eliminate discrimination in accordance with the level or stage of development of the countries concerned, “both overall and in individual sectors and sub sectors”.

This wording should further allow developed countries to define specific FICs or sectors within FICs deserving of additional flexibility and therefore preferential treatment. Relying on this provision ANZ governments in a PACER Plus agreement could craft a suitably differential framework for FIC labour schemes and quotas by:

- Structuring the quotas for schemes according to criteria that are tied to the differential stages of development
- Including relevant description of the criteria that will be used to justify preferential market access.

In summary, it is my view that Australia and New Zealand can discriminate in favour of FICs on mode 4 modalities in PACER Plus while remaining compliant with GATS. It should therefore be possible for Australia and New Zealand to commit to increased labour market access for low and unskilled FIC labour based on supply and demand, matching a significant pool of young and under-employed Pacific labour with demand in ANZ for horticultural labour or for aged and health care services for example.

Nevertheless at this stage of negotiations, both Australia and New Zealand have indicated their preference to negotiate labour mobility agreements outside of a trade agreement. There is some support for this caution.
Marion Panizzon for example provides a useful summary of some of the limitations in the GATS scheduling structures which have not assisted potential destination countries to further open their markets to mode 4 service suppliers including:

- The inadequate provision for managing the risks (such as those outlined in section 6.4) associated with more cross-border movement of persons, in particular unskilled labour
- The lack of clear definition for service provider categories has created a degree of incoherence with national immigration laws that are often difficult to overcome.

There are other arguments that support the view that the temporary movement of natural persons is better dealt with outside of a trade agreement such as:

- Increased flexibility and less legally binding through a general Memorandum of Understanding may give all parties and immigration authorities more room to accommodate changing conditions
- In theory at least, it removes any concerns of developed country member parties to pass on concessions due to MFN principles
- It may be easier for countries like Australia and New Zealand to tailor labour market openings to the specific needs of diversity of FIC demands, where the labour needs of the Solomon Islands for example, are very different from the needs of the Cook Islands.

On the other hand, the same arguments for flexibility outside of a trade agreement, could also make them less binding, less enforceable and more easily down-graded or rescinded based on political and other community factors at any given time. The debate continues and is driven by a mix of political as well as economic motivations.

Suffice to say at this stage, there is little disagreement among both trade and migration experts of the value of increased circular migration for low skilled labour. It is therefore essential that an increase in labour market access from developing to developed, from

FICs to ANZ in the case of PACER Plus, be progressed in all forms of agreements, whether trade, migration or more general. Chanda argues for further work on the integration and policy coherence between trade and migration policy agreements.

Liberal market access commitments for semi-skilled and low-skilled workers under the WTO and preferential trade agreements would help LDCs address many of the Millennium Development Goals. Accordingly future research needs to focus on the facilitation of ‘win-win’ scenarios for both origin and destination countries as a result of a greater and more coherent regulatory approach between the GATS, preferential trade agreements and migration agreements.218

What is needed therefore is continued progress at all levels and with all types of agreements whether trade or general and whether bilateral, regional or multilateral so as to enhance labour mobility for low skilled workers. Progress through mode 4 of trade agreements would appear to be slow and incremental at this stage and so while it is important to maintain advocacy for the broadening of mode 4 agreements to encompass low skilled labour, there is a need to equally maintain support for other forms of agreements that continue to facilitate increased labour mobility for low income workers from developing countries generally and FICs in particular.

6.6 Summary

Virtually all studies on the economic benefits of the temporary movement of natural persons show that the greatest absolute and poverty-related gains for developing countries come from liberalisation commitments that facilitate the movement of low income and unskilled workers.219 Greater liberalisation of mode 4 would allow developing countries to exploit their relative abundance of low and unskilled labour with significant implications for


poverty reduction. Mode 4 service providers would benefit directly from higher real wages, some of which would flow back to the sending country in the form of remittances.220

Circular migration schemes have the potential to employ a significant pool of FIC labour but also the unique dual ability to satisfy labour skill shortages in developed countries while in turn providing vital remittances to contribute directly to poverty reduction in FICs. In the short-term, this may occur through expenditure on consumption goods and services and in the longer term, through savings and investment.

That said, I have noted throughout this chapter that there were important concerns about the design and implementation of temporary labour mobility schemes. Concerns exist over the ‘brain drain’ issue, employer exploitation of wages and conditions, appropriate selection processes, ongoing training and education issues, guest workers over-staying in the destination country, displacement of local labour and security concerns.

To take account of these fears and concerns, ten conditions were put forward at the beginning of section 6.5 and in summary included provisions around integrated planning and design of appropriate circular migration programs, highlighted the quintessential importance of adequate briefings, training and ongoing skill development, recommended monitoring and evaluation of employer and employee performance, encouraged the strategic use of remittances for savings and consumption and put forward the overall value of circular migration programs contributing to longer-term economic development goals of the origin country.

With these provisions in place, it was argued that schemes such as the RSE, are already quite successful and that many of the major concerns of both origin and destination countries have been addressed, suggesting the value of developing similar schemes into the future for the advantage of low and medium skilled labour across the Pacific Islands.

I have argued that PACER Plus presents a clear opportunity for the promulgation of circular migration schemes and that concerns about the inclusion of mode 4 commitments for low skilled labour within such a trade agreement are largely unfounded. Whether in the

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final analysis, circular migration schemes are included as part of the PACER Plus agreement or as part of a more general agreement remains to be seen, but the important thing is that one way or another, FICs are able to realise an increase in the movement of lower skilled labour to Australia and New Zealand.

Mode 4 market access commitments for the low skilled as well as the more highly skilled could provide one of the best contemporary examples of how trade liberalisation can directly contribute to poverty reduction, if well managed. For Pacific FICs, market access should therefore be pursued vigorously and yet carefully to ensure mutually beneficial outcomes through EPAs, PICTA, PACER Plus and ultimately through the WTO.

As noted earlier, the value of such commitments through formal trade agreements are their ability to support the legality and enforcement of labour market access arrangements, the legitimacy of increased labour mobility in response to market forces of labour supply and demand and that they can be designed so as to be compliant with GATS and therefore supportive of a developed country’s decision to offer preferential labour market access to a country or group of countries at differing levels or stages of development.

This makes the use of trade agreements an attractive mode for furthering labour market mobility between Pacific Island countries and their main trading partners.

Finally it was noted that despite the ideal of further progress through the expansion of mode 4 in trade agreements to include low skilled labour, that progress is relatively slow and incremental at this stage and so there is a need to maintain support for other forms of agreements that continue to facilitate increased labour mobility options for FICs whether through migration agreements of more general government to government industry agreements.

That said, future preferential trade agreements can and should work in favour of increased commitments to mode 4 for low skilled labour from FICs. Throughout this chapter, I have presented strong evidence that the targeting of low skilled labour from developing countries and from FICs has been able to drive both short term and long term poverty reduction.

Importantly then, to progress this area of trade related poverty reduction will require strong cooperation between developed and developing country governments in the design and implementation of labour mobility chapters in trade agreements. This necessarily requires
a whole of government approach at both origin and destination. It is this sphere of political will, cooperation and an enabling environment that is the key concern of the final chapter.
7  AN ENABLING ENVIRONMENT FOR TRADE AND DEVELOPMENT IN FICS

To this point, the focus has been on how goods and services trade liberalisation, including labour market liberalisation, and accompanying reform processes contribute to poverty reduction under certain conditions for Pacific Island Countries. The reduction of tariffs and expansion of quotas for FIC agricultural and fish exports will assist in the economic development of FICs as will the liberalisation of telecommunications and tourism and the facilitation of increased circular migration through use of mode 4 in trade agreements.

However for an overall program of trade liberalisation and accompanying trade reform to work effectively, there needs to be a range of other political, economic and trade related factors in place to facilitate the ability of international trade to seriously impact on poverty reduction. The following attempts to outline what I see as some of the most important factors of what I will call the ‘enabling environment’ for FICs to trade their way out of poverty.

7.1  Domestic and Regional Reform

7.1.1  Dealing with Entrenched interests

To set the fundamental signals in place for attracting productive investments and trade into their economies, Pacific FICs will need to continue to strongly pursue a path of domestic economic and trade reform. By joining the WTO or a regional trade agreement, whether it be PICTA, ASEAN or the PACER Plus agreement currently under negotiation, FICs set in train a series of obligations that require transparent and accountable domestic reform – reform which usually works against the entrenched interests of some established elites or protected firms. Resistance to such reform will be inevitable but needs to be dealt with firmly if there is to be serious progress in allowing trade liberalisation to lead to growth and poverty reduction.

State Owned Enterprises (SOEs) often resist trade liberalisation - of which there are still many across the FICs. SOEs, the branches of international companies that have been set up under import protection mechanisms and locally subsidised or protected firms will all rail against trade reforms that remove their protection and encourage greater open competition.

There are also a number of non-government organisations in the FICs strongly opposed to trade reform. In resisting trade liberalisation, this opposition, either wittingly or unwittingly,
tends to reinforce the use of regressive taxes that punish low income consumers as well as jeopardising the development of future export industries (through raising the cost of their inputs) denying sustainable jobs and wealth creation into the future.

The resistance to trade liberalisation is illustrated by the opposition to any inroads into protected markets made under the umbrella of the Melanesian Spearhead Agreement (MSG) trade agreement. This agreement began with three commodities granted free entry (one for each country). Through the years, the number of commodities included in the agreement has grown to over 160 products. However, it appears that whenever a domestic industry believes that its market-share is being overtaken by imports, there is an appeal for protection against the imports—an appeal that is usually granted.

Hence, we have seen the ‘tinned beef war’ between the Fiji Islands and Papua New Guinea as well as the ‘biscuit war’ and the ‘kava war’ between the Fiji Islands and Vanuatu. Some NGOs and trade unions will swing in behind the local business, arguing against the liberalisation of trade. The unwillingness of some Pacific governments to abide by the trade agreement illustrates not only the social tensions they face but also at times the lack of will at the political level to progress and realise the benefits of trade.

Without the political will from FIC governments to increase awareness and ultimately legislate in favour of the domestic reforms required to drive the longer-term benefits of increased competition, investment and trade, then the current status quo will prevail and FICs will fall further and further behind the rapidly globalising Asia-Pacific region, increasing poverty and dependence on foreign aid.

7.1.2 Engaging the Private Sector

A major challenge for FICs is to attract and engage the private sector, both domestic and foreign, in order to encourage entrepreneurialism, management expertise and the necessary investment capital for infrastructure development and economic growth. Given the concerns just expressed about entrenched interests, this engagement needs to be targeted to those domestic firms and individuals who are willing to embrace the opportunities provided through openness and comparative advantage.

Close consultation with existing and potential domestic and foreign investors is necessary to encourage sound economic development. This can include the establishment of formal private sector consultative advisory bodies to government, regular consultations with
industry bodies and the use of more informal business networks. Regular consultations perform the dual function of informing and educating the private sector about the value and potential opportunities created through more open markets, while allowing the private sector to thoroughly brief government on their issues, whether about trade and business barriers or trade opportunities. Trade promotion authorities, consisting of private and public sector partnerships, can go some way to identifying key markets and promoting the export potential of their country.

A key challenge therefore is to improve the ability of the private sector to compete both domestically and abroad, by reducing the cost of business and trade transactions. The following issues are highlighted as priorities for FIC governments to consider pending their particular stage of development.

1. **Prioritising the ‘economic backbone’ issues of transport, energy and communication infrastructure development**

This includes dealing with poorly maintained infrastructure, whether that is roads and ports or cables for access to telecommunications. For some FICs these are huge challenges and will require much time and money. Integrating strategies for the development of key infrastructure in national plans is therefore essential. Attracting private sector FDI into infrastructure development is crucial.

2. **Lack of property rights and land titling**

Communal rights do afford some degree of security and have performed this function well in the past, but through land titling and property rights for families there is greater scope for raising collateral for future investment and borrowings. A mixed system of tenure may be appropriate in some FICs but land reform, undertaken with consultation and sensitivity to local concerns, remains a priority to free up capital for investment. At present, insecure land tenure is often inhibiting production efficiency in agriculture and affecting the ability of FICs to increase agricultural exports.221

3. **Lack of an experienced and skilled workforce**

221 Y Ram, P Biman and R Duncan, Explaining the Supply-side Constraints to Export-led Growth in Selected Pacific Island Countries, ARTNet, Nov 2005, p. 17.
This issue received attention in chapter 6 where I argued that upskilling the workforce should be a part of temporary circular migration programs. The upskilling of the workforce in general is a major issue confronting all FICs and needs addressing through a range of measures. First, there needs to be a strong national emphasis on literacy, vocational and technical skills. Second, relevant practical training should be provided to those working overseas, before, during or at the end of a temporary work program. Ideally, a significant part of this training would be funded by the origin country either by the employer, the government or from ‘aid for trade’ funds. Third, private sector businesses should be consulted on their longer-term investment plans and future training needs and play a direct role in the provision of on-the-job training in FICs. If FICs are committed to opening up to trade in mode 3 services, (encouraging commercial presence of foreign companies) then there is increased opportunity for foreign expertise, managers and training providers to assist in the in-country up-skilling of the workforce.

4. Prudential regulation for a fair and efficient private sector

Promoting the private sector will also require FIC governments to reform and invest in sound regulatory institutions and legislation that can ensure not only fair competition but also clarify legal and dispute settlement mechanisms, insist on financial and investment transparency, and assist companies in meeting important regulatory obligations, for example, in meeting health and safety standards for agricultural exports. Transparent financial institutions are particularly important as part of this environment.

Ram et al.,222, stress that a stable macroeconomic and legal environment and effective and trusted monetary and financial sector regulatory authorities are prerequisites for the development of a comprehensive private sector banking system and the emergence of non-bank financial institutions vital to most successful economies. Without a sound banking system, it is very difficult to attract foreign investment and trade finance. FICs that have not already done so need to establish appropriate regulatory bodies and processes to ensure legal and financial contracts are well enforced. With this will come greater security and trust, which facilitates the flow of necessary financing for imports and exports.

222 Ram et al, op. cit., p. 21.
In summary, the foundation of an effective private sector engagement and supply-side strategy for FICs lies in establishing an enabling policy and regulatory framework, efficient institutions and good governance; all of which needs to be reinforced by adequate energy, transport and information and communication technology (ICT) infrastructure as well as a good level of workforce skills and education. These form the main pillars for achieving two mutually reinforcing objectives of (a) enhancing private productive capacity and (b) reducing the cost of conducting trade. The following diagram helps to illustrate the key challenges and needs of the private sector exporters in the Pacific.

**Figure 7.1   Constraints facing Pacific Exporters**

7.1.3  Taxation Reform

A key concern for FICs, especially with regards to the impact of a PACER Plus trade agreement, is the current dominance of FIC imports by Australia and New Zealand and therefore the implications of a comprehensive and reciprocal trade agreement on lost tariff revenue as FICs reduce or eliminate existing tariffs.
There have been impact studies on this issue\textsuperscript{223} suggesting that FICs will need to ensure that alternative revenue raising measures are in place along with industry restructuring in some cases. Similarly, the developed nations might need to consider transitional compensatory mechanisms and flexibility in the timelines for tariff reductions, particularly for some of the Pacific FICs who will be most vulnerable to significant loss of tariff revenue.

Where tariff reductions will cause significant revenue loss to FICs, for example in the case of Kiribati, governments will have to find alternative revenue sources if they wish to maintain expenditure and service levels. For this reason, a number of FICs have already introduced or are preparing to introduce a broad-based consumption tax.

A broad-based or value-added tax (VAT) compared to border taxes such as tariffs, tend to be minimally distorting because they tax the fundamental economic activity of adding value. Ideally, they do so at all stages of production and across all commodities and thus create no incentives for resources to flow inefficiently to less competitive sectors or activities.

Christophe Grandcolas\textsuperscript{224} argues that VATs are to be preferred to tariffs because they are non-distorting with respect to international trade and because they have positive effects on the administration of tax in the public sector and on accounting practices in the private sector. These are important factors in removing barriers to strengthening private sector engagement.

The table below provides information about the impact of VAT taxation systems in a diverse range of relatively small and vulnerable economies around the world over the past twenty years. Of particular interest is that, even in countries where the introduction of a VAT is relatively recent, VAT revenues already make up a relatively large component of total tax revenue.

\textsuperscript{223} See studies undertaken by Robert Scollay, Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands’ Free Trade Agreement’ UNCTAD, 2001; Filmer and Lawson, Fiscal Implications for FICs of Regional Trade Areas, 1999; and The Institute for International Trade, The Potential Impact of PICTA on Smaller Forum Island Nations, 2007.

Table 7.1  International Experience of VAT

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (thousands)</th>
<th>Year introduced</th>
<th>Rates</th>
<th>Threshold (thousands of US$)</th>
<th>% of VAT in total tax revenue</th>
<th>% of VAT in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>4,400</td>
<td>1999</td>
<td>10</td>
<td>30</td>
<td>19.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>2,550</td>
<td>1991</td>
<td>15/12.5</td>
<td>-</td>
<td>35.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Trinidad</td>
<td>1,310</td>
<td>1990</td>
<td>15</td>
<td>25</td>
<td>23.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1,160</td>
<td>1998</td>
<td>15 (10)</td>
<td>100</td>
<td>26.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Fiji</td>
<td>810</td>
<td>1992</td>
<td>12.5</td>
<td>15/8</td>
<td>27.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Cyprus</td>
<td>770</td>
<td>1992</td>
<td>8</td>
<td></td>
<td>18.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Malta</td>
<td>380</td>
<td>1999</td>
<td>15</td>
<td>38</td>
<td>23.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Iceland</td>
<td>270</td>
<td>1990</td>
<td>25/14</td>
<td></td>
<td>30.5</td>
<td>9.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>260</td>
<td>1997</td>
<td>15/7.5</td>
<td>30</td>
<td>32.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>180</td>
<td>1998</td>
<td>12.5</td>
<td>65/30</td>
<td>23.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Samoa</td>
<td>170</td>
<td>1994</td>
<td>12.5</td>
<td>20</td>
<td>40</td>
<td>10.7</td>
</tr>
<tr>
<td>Tonga</td>
<td>100</td>
<td>2003</td>
<td>15</td>
<td>50</td>
<td>-</td>
<td>13.6*</td>
</tr>
<tr>
<td>Cook Is.</td>
<td>12</td>
<td>1997</td>
<td>12.5</td>
<td>15</td>
<td>49</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Sources: Ebrill et al. (International Monetary Fund) Countries, and PFTAC with some updates by the author

-- *Tonga percentage of VAT approximated from 2006 figures.

In many of the countries above, a VAT of between 12.5% and 20% has resulted in approximately one quarter of total revenue and for the Cook Islands and Samoa, even higher.

Tonga exemplifies the change in attitude from dependence on trade taxes to revenue from consumption taxes. In 2006, the Tongan Minister for Finance highlighted that:

There is a pressing need to provide an environment for commercial investment that is recognisable and compatible with the tax systems of the main capital-providing countries, Fiji, New Zealand and Australia, and increasingly the United States. Years of ad hoc discretionary interventions
had created a non-transparent, confusing and widely criticised set of tax policies in Tonga. The era is at an end when heavy reliance could be placed on trade taxes to finance the burden of government spending. Such taxes distort the pattern of trade and domestic commerce.225

The Government of Tonga here displays the type of political will referred to in section 7.2.1 required to drive domestic reform. Tonga replaced all existing sales and indirect taxes with a 15% consumption tax and introduced a new excise tax to apply to alcohol, tobacco, petroleum fuel and motor vehicles. The consumption tax has equity provisions and exemptions to assist low-income earners. In 2007, Tonga introduced a new Personal Income Tax and Business Income Tax, and a new system of Road User Charges to fund road maintenance. Tonga has also sought to completely overhaul the administration and management of customs in complying with new tariff schedules and taxation reform.

As with Tonga, other FICs could consider raising import duties on luxury and non-essential items in the short-term, at least until other revenue raising measures have been fully realised. Taxes could focus on luxury items such as imported, high-priced spirits and wine. Mauritius has successfully reduced reliance on high trade tariffs through an overall increase in imports and prudent introduction of VAT and taxes on luxury items, as illustrated by the following case-study.

The Mauritius case study shows that it is possible for the reduction of import tariffs to cause an increase in overall trade so that there is no loss of tariff revenue. For some of the smaller FICs though, this may be difficult, at least in the short term, then the combination of VAT and taxation of luxury items has shown how Mauritius has been able to successfully reform its economy from a trade distorting one to a more robust and efficient developing economy.

Since 2005, Mauritius has enjoyed impressive growth rates of 5% or more and in 2013 has a GDP per capita income\(^{226}\) of nearly US $15,000 per annum, which is higher than that for Brazil (US $11,800) and about the same as Malaysia’s (US $16,000). In contrast, PNG and the Solomon Islands remain at around US $3,000 GDP per capita and would do well to consider the main domestic and taxation reforms put in place in Mauritius.

\(^{226}\) GDP per capita based on purchasing power parity (PPP). All per capita figures referred to in this section referenced from the World Bank database, cited March 2014.
7.1.4 Trade Facilitation

I have discussed trade facilitation earlier in this study in relation to trade in goods but would now like to highlight the importance of efficient and harmonised trade facilitation as a vital condition for FICs to capture the benefits of trade. First it is useful to clearly define this term as it is understood by WTO and OECD members.

Trade facilitation is the simplification and harmonization of international trade procedures, including the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade.227

Examples of trade facilitation measures undertaken to reduce international transactional costs to traders are:

- Reducing the time required for goods to reach and clear customs
- Simplifying the clearance procedures through customs and making them more transparent and predictable
- Assisting exporters in complying with import requirements.

Improving trade facilitation measures is an important issue for all developing countries to allow them to increase their competitiveness and trade more efficiently. Given the geographic disadvantage faced by FICs, it is even more important that reforms are made in this area to assist FIC importers and exporters reduce the cost and time it takes to trade.

Singapore is the trade facilitation world champion. Four documents only are required and goods usually cleared in less than one day, or at most, 5 days at an average cost of around $400 per container. Some African countries are at the other end of the scale, with delays of 6 to 8 weeks at borders for clearance and average costs above $2,000 per container.

However in Mauritius, again due to an ambitious agenda of domestic reforms as seen in the previous section, customs clearance time has been significantly reduced by adopting best practices. A major Customs Reform and Modernisation Programme (CRMP) was undertaken in 1998 with the assistance of the World Customs Organisation (WCO), other customs administrations and international donor institutions. Consequently they have achieved a sizable reduction in the processing time of customs declarations, from 22 to 5 steps, and average clearance times of less than two days.²²⁸

It is possible for FICs to achieve similar outcomes with political will and support from donors, through ‘aid for trade’ measures and through the development of reliable infrastructure funded by a mix of private investment and public finance. Larger FICs like PNG need to have ports and customs operating 7 days a week, 24 hours a day, as occurs in Mauritius and China.

In his analysis of trade reform needs in PNG, Kilwa²²⁹ argues there is huge potential for PNG to gain much out of international trade. This will require, among other factors he argues, a number of domestic reforms to trade facilitation to allow them to take advantage of mineral and gas exports as well as the potential for increased agricultural exports. He lists the key issues as standards and conformance, quarantine and customs clearance. His study recommends increasing human resource capacity to adopt and comply with international standards with strong attention to quality control and the implementation of more efficient customs systems.²³⁰

With respect to quarantine, Kilwa highlights the stringent quarantine measures imposed by export destinations such as New Zealand, Australia, Japan and EU markets and the effect


²³⁰ Kilwa, op. cit., p. 735.
these have, not just on PNG exports but on all FICs who are trying to export such products as taro, cassava, banana, vegetables and fruits.231

While a priority remains training and up-skilling the workforce to improve trade facilitation measures generally, it is also essential for FICs to undertake research and seek external assistance where necessary to assist them in meeting the quarantine and SPS standards of their major trading partners.

With respect to trade in services, FICs can focus on more efficient procedures for visa issuance, granting work permits and making business registration procedures more transparent, simpler, speedier and customer friendly so that the whole process of doing business in FICs is that much easier.

The cost of training, infrastructure and improved logistics and quarantine measures is significant and as stated earlier, finance for trade facilitation reforms will need to be shared between private and public sectors, FIC governments and donors. Reform of trade facilitation and customs procedures should therefore form a key part of FICs ‘aid for trade’ and trade related development programs to attract funding from both regional and international sources.

Recent decisions during the WTO Doha Ministerial in Bali augur well in this regard where, as part of the final package, there was agreement to provide greater assistance for DCs and LDCs to update infrastructure, train customs officials or to address other trade facilitation implementation costs.232 However, the full implementation of this agreement will not come into fruition until the current WTO Doha Round is concluded.

7.1.5 Regional Reform and Cooperation

Across the Pacific, there is a noticeable lack of horizontal integration and trade cooperation. Enhanced cooperation and coordination in the following areas could assist FICs to realise economies of scale, reduce duplication, increase transparency, and greatly facilitate the practical implementation of regional trade agreements:

231 Ibid., p. 735.
• Regionally harmonised customs tariffs and tax collection systems will help to deal with avoidance and corruption issues

• The development of regional templates that can be adapted easily by FICs will be useful in a number of regulatory reforms; for example, in prudential regulation of the financial services sector. Regional templates can also assist in the drafting of legislation for trade law reform

• Regionally coordinated customs training and reform, with a focus on training officials regionally in the development of efficient systems to deal with tariff classification, rules of origin, quarantine and SPS issues, single window and fast-track clearance systems

• A commitment to increased sharing and financing of regional infrastructure in some of the key areas for future exports is vital; for example, regional investment in fisheries and canneries, port facilities, maritime transport and air freight transport.

The 2005 report to the Pacific Islands Forum Secretariat entitled ‘Towards a New Pacific Regionalism’ supported a broader approach to regional integration. The report stated that,

A Pacific regionalism that speaks to Pacific needs must focus on easing capacity constraints for governments through increased regional provision of services, and on creating opportunities for Pacific citizens through increased regional market integration.

The ADB report also recommends that to improve the future of service provision to Pacific people and for effective market integration that creates greater economies of scale and competitive advantage, “Australia and New Zealand must become meaningful partners”. The adoption of the report and its recommendations by FICs brought them a step closer to realisation and acceptance of the need to negotiate closer economic relations with Australia and New Zealand and as we now know, in August 2009, formal negotiations commenced on the PACER Plus trade and economic cooperation agreement.

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234 Ibid.
This is an important step in the right direction towards a closer more ‘meaningful’ integration that will encourage greater cooperation, harmonisation and cost sharing among parties to the agreement. It reinforces the value of regional reform and market integration as an enabling component for successful trade led development.

7.2 Global Integration and Donor Support

Given that significant parts of this study have focussed on the reforms and actions required by FICs, this final section deals more with some of the main trade policy reforms or actions needed from FIC’s major trading partners.

I have distilled four key areas requiring attention and these are discussed in the rest of this chapter:

- Recognition of FIC needs
- Market Access Issues for FICs
- The Provision of Special and Differential Treatment (S&DT)
- Serious Commitment from Donors to Aid for Trade for FICs.

7.2.1 Recognition of FIC Needs

In trade debates at the multilateral level of the WTO, it is easy for the interests of small and vulnerable FICs to be sidelined. The recognition at the WTO level of the special interests of small and vulnerable economies and the subsequent establishment of a related work program has been a useful development.

However, progress on many of the trade issues raised by FIC WTO members and other smaller island developing countries are still a long way from being resolved, as we saw in the section on fisheries and subsidies. Representation of FIC interests has been difficult due to lack of funds to support their participation in negotiation and for their lack of experience in trade negotiations in the multiple meetings that occur daily in Geneva. While this situation is slowly improving and FICs now have a small, resourced office in Geneva, they still lack much of the sophisticated knowledge and person power to advocate across a wide range of meetings and trade negotiations.

In chapter three, I noted the potential value of FICs actively committing to and participating in both multilateral and regional trade negotiations and encouraged those FICs who are in
a position to do so, to join the WTO for the advantages membership has to offer, whether as a result of market access, special and differential treatment or in ‘aid for trade’. However the benefits in these areas can only be realised for FICs if the major developed nations with whom they trade, not only take account of FIC’s geographic isolation and vulnerability, but also seriously commit to their participation and grant the capacity building or ‘aid for trade’ needed in the future.

From the outset of this study, I have emphasised the importance of strategic and security interests in the Pacific. We now have a situation where the US, EU, China, Taiwan and Japan as well as neighbouring New Zealand and Australia have a range of diverse investments, aid programs, refugee facilities and military bases throughout the Pacific. These strategic interests need to integrate with the long-term sustainability of Pacific FICs and the commitment of major trading partners to work in closely with FIC governments on sustainable environmental and poverty reduction strategies.

7.2.2 Market Access Issues

Arguably, one of the greatest sins in world trade is that developed markets do not provide developing countries with genuine access in products of export importance to them such as in textiles and clothing exports, agricultural exports and the export of labour services.

FIC’s major trading partners in the EU, USA, Japan, Australia and New Zealand need to consider further steps to increase market access for specific FIC goods. This is particularly important in those areas where FICs have comparative advantage, for example in agricultural root products, tropical products, in fish products and through stronger commitments in mode 4 for low as well as high skilled labour.

Developing country trading partners of FICs can also address trade and non-trade barriers to exports from FICs. PNG, for example, faces some of its highest export barriers in its trade with India (an average weighted tariff of 5.9%) and with the Philippines, (an average weighted tariff of 3.2%). Both developed and larger developing nations alike can assist trade related poverty reduction if they can assist FICs to export not only primary commodities but also, through capacity building support, through more value added and processed goods for export.

The Bali WTO Ministerial reinforced developed country commitment to ‘Duty Free Quota Free’ (DFQF) market access for 97% of LDC exports. The value of this measure though
will vary based on the supply side capacity of FIC LDCs to produce and diversify exports while meeting the various SPS and TBT standards required in developed countries.

7.2.3 Special and Differential Treatment & Strategic Liberalisation

FIC economies are highly dependent on international trade and especially on imports. The size of a small island economy means that in reality that while there may be room for a degree of home-grown, diversification of production, they are highly dependent on traded imports and on a relatively small volume of exports in both goods and services to help pay for those imports.

As such, if trade liberalisation can help lower the transaction costs of trade and incentivise domestic reforms that lower the cost of imports for both consumers and local exporters, then ceteris paribus, this should work in the long-term interest of economic growth and wealth creation for FICs.

I argue throughout this study that if openness to trade liberalisation and trade reform policies is to successfully lead to inclusive economic growth and poverty reduction, then there needs to be a range of other conditions and a conducive policy environment in place both domestically and globally. Some of trade reforms and capacity building support needed by FICs, I would argue, require a degree of time bound special and differential treatment.

While some trade experts are legitimately concerned that SDT can be used to delay necessary reform in FICs, one could also pose the following question:

\[
\text{Is it likely that, without donor support for trade reform and supply side} \\
\text{capacity building, that FICs' growth rates will increase sufficiently to} \\
\text{establish a trajectory toward a sustainable reduction of poverty?}
\]

On balance, it is reasonable to answer this question with an assured ‘probably not’. The disadvantages of size, lack of resources and geographic isolation alone are arguably sufficient to prevent FICs from achieving the high rates of growth necessary for sustainable poverty reduction.
Winters and Martins, in their analysis of the cost disadvantages of small, remote states in the global trade regime, argue persuasively that FICs face significant disadvantages that limit their capacity to trade their way out of poverty even in the medium to long term. They used empirical data and regression modelling to measure the degree of cost disadvantage facing small and remote countries around the world as measured by the percent deviation of costs for micro, very small and small nations. The following table summarises some of their key findings.

**Table 7.2  Cost disadvantages for small and remote countries**

<table>
<thead>
<tr>
<th>Area of Cost</th>
<th>Micro</th>
<th>Very small</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airfreight average</td>
<td>31.8</td>
<td>4.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Sea freight average</td>
<td>221.6</td>
<td>71.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Unskilled wages average</td>
<td>60.1</td>
<td>31.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Skilled wages average</td>
<td>38.0</td>
<td>20.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Telephone average</td>
<td>98.5</td>
<td>47.2</td>
<td>9.0</td>
</tr>
<tr>
<td>Electricity costs</td>
<td>93.1</td>
<td>47.0</td>
<td>9.4</td>
</tr>
<tr>
<td>Fuel Average</td>
<td>53.8</td>
<td>28.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Personal air travel average</td>
<td>115.7</td>
<td>56.8</td>
<td>11.0</td>
</tr>
</tbody>
</table>


The data is highly suggestive of significant cost disadvantages with size. Although the cost disadvantages of ‘Small Countries’ are surmountable, the disadvantages for the ‘Very Small’ and ‘Micro States’, such as in freight costs and basic fuel and energy costs to business, are very difficult for FIC exporters to overcome. Note, that 11 of the 14 FICs fall

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into the category of remote ‘Very Small’ or ‘Micro’ and accentuate the high cost barriers facing FIC states such as Tuvalu, Kiribati or Niue.

FICs are also highly vulnerable to various exogenous shocks, such as natural disasters and the encroaching effects of climate change. Climate change effects include rising sea levels, stronger and more frequent tropical cyclones and sea surges, the increasing temperature of surface waters and increasing acidification of surface waters. According to economist Robert Read, some of the likely consequences will be the inundation of low lying coastal areas, higher rates of coastal erosion, the contamination of fresh water aquifers, irreversible damage to coral reefs, mangroves and local fisheries.236 Read argues for increased investment and trade in climate change related adaption and mitigation technologies and capacity building support for local communities and fishers to adapt to these climate change shocks.237

In addition to these disadvantages, FICs face challenges that derive from their unique cultural heritages and diverse histories. It is only recently that FICs have attempted to seriously integrate with the global economy. The necessary physical infrastructure and human capital, and the quality of institutions and political processes, impose significant limitations on their ability to move rapidly forward.

These factors strongly suggest that FICs require a degree of special treatment and capacity building support from developed and larger developing countries for them to make sustained progress along the path of necessary trade reform — so long as this is a two-way process where special treatment matches progressive trade-related domestic reform.

So what form should SDT for Pacific Forum Island Countries take? Free market economists and various Keynesian economists differ on the degree of SDT required to assist FICs and other similar small and vulnerable economies. However, I believe there is general consensus on the need for a sustained program of capacity building and technical assistance in support of domestic reform and export diversification on the need for greater


237 Ibid., p. 11.
market access to the markets of their main trading partners and therefore support to meet the high quarantine, SPS and TBT requirements which in turn means support for FIC private sector supply-side initiatives.

FICs need policy space and technical support to implement the following trade and economic policy measures:

- an appropriate rate of trade liberalisation reform, taking into account adjustment costs and measures required to deal with those costs
- support to relax any constraints on economically efficient activities responding to the change in relative prices due to the lowering of trade barriers
- support to build fundamental economic capacity, trade related infrastructure, competitiveness and labour force skills
- support to embed dynamic efficiency and diversity into the foundations of FIC economies.

These are major challenges and FICs therefore need to adopt a policy approach that I would categorise as ‘strategic liberalisation’. Strategic liberalisation, in my view, is a policy approach that:

1. acknowledges the benefits of liberalisation but seeks to ease transition costs, builds supply side capacity and establishes institutional capacity in support of pro-poor reform
2. seeks to build the fundamental drivers of economic competitiveness in domestic economies – including the development of appropriate regulatory institutions, vocational and tertiary education and research, trade related hard and soft infrastructure and ideally the political will that can synchronise growth opportunities with domestic trade reform
3. recognises that liberalisation is incomplete on a global basis and therefore takes a pragmatic view of the need to align domestic trade reform with domestic development priorities
4. eschews trade-based, industry-specific policies that encourage long-term, special preferences that only result in propping up inefficient industries and in supporting rent seeking behaviour.
A strategic approach to trade liberalisation will, in addition to aid for trade and trade capacity building support, requires a degree of SDT support from the WTO and key FIC trading partners particularly in the agricultural and fisheries sections.

While SDT needs to be of a temporary, transitional nature, there are clear examples of where exemptions for subsidies, technical assistance or longer implementation periods for trade reform should be allowed for FICs to build their capacity to compete and ensure low income communities benefit from trade.

In terms of SDT for FIC fishing operations for example, I argued in chapter four, section 4.6.7, that subsidies for port infrastructure and other physical facilities should be in the ‘green box’, as should income support payments for artisanal fishers and a degree of limited price support for FIC fish products in the case of price declines.

Developed country trading partners to FICs need therefore to work in partnership with FIC governments in determining the appropriate degree of SDT and capacity building support required to build the necessary trade and regulatory institutions to develop appropriate trade related hard and soft infrastructure; and the necessary trade policy reform processes required to implement a sound trade policy environment that is both wealth creating and pro-poor.

Technical assistance and capacity building is a vital component of SDT and most of such assistance is now encompassed in what is termed ‘Aid for Trade’. The importance and growth of AFT in the Pacific is therefore worthy of specific attention.

7.2.4 Commitment to Aid for Trade (AFT)

The 2001 WTO Ministerial meeting in Qatar launched the Doha Development Round and in the first draft text that was negotiated there are numerous references throughout of the importance to developing countries and LDCs receiving trade related technical assistance or trade related capacity building support. In 2005, at the Hong Kong WTO Ministerial meeting, these two concepts were combined under the heading of ‘Aid for Trade’ (AFT).

AFT is a part of official development assistance (ODA) to developing countries. AFT aims to increase investment in economic and trade infrastructure as well as to improve the capacity of the private and public sectors in developing countries to capture the benefits of existing and future market access opportunities. It seeks to address internal barriers and
supply side constraints in developing and least developed countries, as I have illustrated below.

**Figure 7.2  The Objectives of Aid for Trade**

AFT, when well targeted, drives self-reliance through building community and private sector capacity to trade. It aims to make it easier for low-income communities in developing countries to do business and trade their way out of poverty.

There are, however, two key AFT issues that often arise of particular relevance to FICs. One is a concern by developed country donors of AFT that FICs have not undertaken sufficient analysis or consultation to develop precise plans and priorities for the most effective use and implementation of AFT. The second issue is that developed countries, or at least some of them, have at times been unwilling to honour commitments to the volume and timing of AFT. In the final draft of the WTO's Ministerial Cancun text, for example,
there were over 13 references to the importance of AFT, yet there were no binding commitments.238

To address the first issue, FICs need to clearly identify human resource needs and their training requirements. This will enable the building of a critical mass of trade officials able to negotiate, justify and implement trade reforms and indeed, work with other government ministries and the private sector in order to undertake the analysis and planning necessary to articulate their AFT priorities.

FICs also need to improve their ability to sequence priorities in policy reform for example by attending to investment in energy and telecommunications infrastructure in order to drive increased foreign investment and competition in the tourism sector.

FICs can focus in on their infrastructure priorities, such as port facilities, fisheries, airports and telecommunication requirements, that will play to their comparative advantage in trade and develop those facilities and sectors best suited to benefit from further trade liberalisation.

Samoa has been able to negotiate this path quite successfully. The volume of AFT flows to Samoa have increased from US $10 million in 2005 to US $33 million in 2010 with 75% of the latter amount spent on energy and transport related hard and soft infrastructure with another US $5 million spent on tourist and communication sectors.239

While it is incumbent for recipients such as Samoa to plan and commit to the effective utilisation of AFT, donors need to reciprocate with clear and reliable commitments. Since the Uruguay Round outcomes in 1995 when the WTO was formed, developing countries have felt that in many cases, SDT and AFT provisions have been non-binding, best endeavour clauses, apparently mandatory, yet still de-facto non-binding.

238 The Cancun Ministerial meeting of WTO members failed to reach overall consensus and so the commitments became redundant anyway.

For example Article 9 of the WTO Agreement on Sanitary and Phytosanitary Measures (SPS) states that:

WTO Members agree to facilitate the provisions of technical assistance to other Members, especially developing country Members.

Many WTO agreement clauses use such expressions as ‘agree to facilitate’, ‘take account of’, ‘give due consideration’, or ‘give special regard’ to the capacity building needs of developing countries without ever stipulating firm commitments. While in part this reflects the cautious language of formal trade agreements, the clear intention of both Uruguay and Doha rounds has supposedly been to ensure greater participation of developing country members in the global trading system. For FICs facing the significant cost barriers of size, vulnerability and isolation, agreed flows of AFT are vital if they are to build the capacity to benefit from increased trade and participation in the global trading system.

Developed countries, other than in exceptional circumstances, need to honour commitments made to AFT in trade negotiations and given all WTO developed country members are also members of the UN, then also to honour their commitments to assist developing countries realise the Millennium Development Goals (MDGs), which aim to halve global poverty by 2015. Goal 8 of the MDGs refers specifically to the need for policy coherence between aid commitments, debt relief and trade liberalisation in support of the needs of developing countries by declaring that by 2015 the global community will:

- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, and this includes a commitment to good governance, development and poverty reduction—both nationally and internationally

- Address the special needs of the Least Developed Countries. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

- Address the special needs of landlocked and small island developing states.

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240 As noted earlier, this has been achieved to the extent that 97% of LDC exports can now enter Duty Free Quota Free into the markets of developed country members of the WTO with the exception of the USA.
A number of developed country members have responded to these commitments and notwithstanding some decline in ODA because of the GFC of 2008 and economic downturn in parts of Europe, most have increased their commitments to aid and AFT.

The following table shows the growing commitment of donors to AFT from 1994 to 2010.

**Figure 7.3 Aid for Trade Increasing**

![Aid for Trade Increasing](image)

The fourth global review of AFT released in 2013 shows that despite cuts in donor aid budgets following the 2008 global financial crisis, that AFT at US $41.5 billion in 2011, was still 57% over the 2000-2005 baseline. Direct support to build the capacity of the private sector in agriculture, industry and services to integrate with supply chains and participate in trade, rose by over 10% above 2009 expenditure and the largest volume of AFT, based on 2013 figures, is now directed to the Asia Pacific region.

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241 This slide is taken from a series of power-point presentations I give on the role and growing significance of AFT as part of the post-graduate degree lectures on Trade and Development. This slides original source is the OECD/WTO Report on AFT, 2005.
This should augur well for FICs if they can take advantage not only of increased donor AFT for the region from the more traditional OECD donors but also an increase in AFT from South Korea, China and Taiwan keen to secure their own strategic interests in the region.

The potential for a ‘happy marriage’ between FICs to use detailed diagnostic studies and prioritise their AFT needs, along with a steady flow of donor funds for AFT to the region, could go some way to assisting FICs overcome their vulnerability and lack of capacity.

The OECD has developed four main categories for the classification and measurement of AFT and these are broadly consistent with the needs of FICs that I outlined earlier in this section.

1. Trade policy development directed at human resource development for trade negotiators and policy makers as well as trade-related institutional capacity building, particularly in areas of regulatory capacity for financial, legal and economic reform

2. Economic and trade related infrastructure development

3. Technical assistance to specific sectors to build the productive capacity particularly of the private sector to trade

4. Compensatory aid for adjustment costs such as for loss of preference revenue, short-term loss of jobs or balance of payment considerations.

These categories should facilitate FICs ability to address their key concerns regarding negotiating capacity and policy implementation, infrastructure needs, private sector capacity building and adjustment cost as necessary.

A survey of 14 Pacific Island trade officials, one representative from each of the FICs, was undertaken in 2012 as part of this study.242 One part of the survey requested the officials to prioritise what they saw as the most effective use of AFT.243

242 See Appendix A.

243 I undertook this survey on Aid for Trade priorities and Conditions for Sustainable Development during an Australian Government funded Pacific trade training program throughout 2012 where I was course director for 14 FIC trade officials who were regularly in Adelaide for one week training modules being facilitated by the Institute for International Trade.
FIC trade officials ranked infrastructure development and support to key industries, trade policy and regulations assistance and capacity building for public and private sectors as the top three priorities for AFT intervention as their top three priorities, closely followed by training and education to upskill the workforce. These findings are consistent with those I have put forward as part of a strategic approach to trade liberalisation for FICs complimenting trade reform with vital regulation and training needs.

Development aid remains vital for a whole range of poverty reduction and sustainable development projects however, effective AFT, has been singled out for its specific potential to build self-reliance away from dependence on foreign aid. The OECD has estimated that $1 of effective and well directed AFT is associated with the growing of developing country exports by $8, particularly by growing and strengthening the ability of the domestic private sector to connect to regional and global value chains.244 For the poorest countries, the

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return is estimated to be closer to $20. The impact is higher still for exports of parts and components, underscoring the benefits that value chains can offer to developing countries.

The OECD analysis is backed up in concrete terms by a number of aid-for-trade case studies, including those undertaken by the Institute for International Trade at the University of Adelaide, that have demonstrated that AFT works best when it is focused on improving infrastructure, on trade facilitation, on skill development and on supporting the private sector.

Lam makes the point in a study on Tanzania that increasingly AFT needs focussing on supply-side, private sector solutions, in his case in support of food security and agricultural development.

What the donor community should be aiming for is combined approaches, one which on the one hand ensures immediate aid for primary production and food security and on the other hand enables sufficient Aid for Trade to build stronger trade related infrastructure and support to integrate with the business supply chain.

Lam argues the need for LDCs in particular to rethink their AFT strategies to redirect significant AFT to trade related infrastructure and services needs coupled with new and innovative forms of private-public partnership schemes.

In the Pacific, Vanuatu has benefited from such a public-private sector AFT initiative aimed at improving its capacity to deliver trade in tourist services.

245 Ibid.
246 Ibid.
A private company, ‘Carnival Australia’, has been operating cruise ships to Pacific locations for over 75 years. In 2009, over 170 calls were made to various sites in the region. Their ships call at several locations in Vanuatu including the capital, Port Vila.

Between January 2009 to December 2011, AUD$805,000 of Australian Government AFT funds through what is called the Enterprise Challenge Fund (ECF) supported Carnival Australia to improve the infrastructure and work with SMEs and local communities to increase incomes from visiting cruise ships at three remote sites in Vanuatu – Mystery Island, Champagne Bay and Wala.249

To date, infrastructure at three sites has been upgraded and the feedback from passengers has been very positive.250 Over 300 landowners and tourism providers are benefiting from higher and more diversified incomes selling locally made products at sites to the increased number of tourists. Improved tourism skills from training in hospitality and management and the operation of transit boats has improved access to services from the increased visits and recently a local telecommunications company has installed a mobile phone tower in Mystery Island, giving it the first reliable communications service for this remote area.251

While this project is small scale, the benefits of increased connectivity in this case, in support of trade in tourism, provide useful lessons to other parts of the Pacific in how AFT can be well utilised to assist in developing appropriate infrastructure and the capacity of SMEs and local communities.

A final, important point needs making here about the importance of AFT and technology transfer. While private investment is the main vehicle for technology transfer to developing countries, this transfer of technology can also be facilitated by donor funded AFT.

Of interest, the World Bank’s 2008 ‘Global Economic Report’, which measures technological progress in its broadest sense – the spread of ideas, techniques and new

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250 Ibid.

251 Ibid.
forms of business organisation – found that the use of modern technology is coming on in leaps and bounds in emerging developing countries.252

Using a broad ranging index of indicators, the Bank discovered that between the early 1990s and the early 2000s the index rose by 160% in the lower-income developing countries as compared with 100% in middle-income countries and 77% in the industrialised nations.253

The World Bank concluded that technology was fundamental to economic advance in lower-income, emerging and vulnerable developing countries. The main channels through which technology was diffused can be directly attributed to foreign trade (buying equipment and new ideas directly), foreign investment (having foreign firms bring them to you) and emigrants or labour working abroad and bringing or sending ideas and technology back.254

In the Pacific, public private partnerships that are utilising funds from AFT sources, have also become important in the diffusion of technology. Two years ago, an Australian based company, Powercom Systems, installed an FM radio network on the Republic of Kiribati. The remote archipelago includes 32 atolls dispersed over 3,500,000 square kilometres. Powercom is trialling a Wi-Max wireless internet system that will give Kiribati cutting-edge technology not yet commercially available in Australia. Unfortunately, most of the nation's 90,000 residents do not have computers and some are without power and so over recent years, the Australian Government's aid agency AusAID (now DFAT), has been working with Kiribati and telecommunication companies like Powercom Systems to develop the required infrastructure and local supply of computer hardware and software, to improve overall connectivity.

The advent of this technology is allowing Kiribati to gain the benefits of high-speed internet access that is particularly helping the government, schools and hospitals connect to the


253 Ibid.

254 Ibid.
world in ways not possible before. People from Kiribati are beginning to experience for example, the value of the new technology though internet video medical advice and internet vocational training options.

In summary, it is highly unlikely that FICs can achieve the trade reforms and essential capacity building necessary for sustainable economic growth without the support and commitment of donors of AFT. FICs need to continue to develop and refine their articulation of their AFT priorities and donors need to honour commitments made both in multilateral and regional trade negotiations and agreements.

Evidence suggests that the focus of mutually agreed AFT programs should be on trade related infrastructure, services trade, skills development both public and private, the transfer of technology and most importantly, building the capacity of the private sector to integrate into regional and global value chains.

In practice, this means much hard work and mutual commitment to agreed AFT programs so that FICs can gain from the WTO post-Bali outcomes concerning trade facilitation and capacity building; from the EU’s Economic Partnership Agreement on AFT as well as from PACER Plus where a development chapter and the volume of AFT from Australia and New Zealand is currently under negotiation.

7.3 Summary

Chapter seven has aimed to demonstrate that for overall trade liberalisation strategies to work effectively for sustainable development and poverty reduction in the Pacific, there needs to be a conducive ‘enabling environment’ both domestically and globally.

That ‘enabling environment’ should ideally include the following elements:

- FIC governments need to deal with entrenched, protectionist interest for example of some SOEs, so as to drive the domestic reform agenda in favour of capturing the benefits of their comparative advantage and future trade interests

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255 In fact the next PACER Plus meeting of negotiators (at the time of writing) will in Adelaide, Australia, where the focus will be on establishing the key tenets of a development chapter including the priorities for AFT.
FICs need to ambitiously engage the private sector, both domestic and foreign, in order to encourage entrepreneurialism, management expertise and the necessary investment capital for infrastructure development and economic growth

FICs need to develop a sound approach to taxation reform combining tariff reduction and the move away from reliance on trade distorting taxes to greater reliance on, for example, consumption taxes and taxation of luxury items. The Mauritius case-study also demonstrated that it is often possible for the reduction of import tariffs to cause an increase in overall trade so that there is no loss of tariff revenue

Reform of trade facilitation and customs procedures should be a major development objective for FICs to improve trade efficiency and connectivity while lowering the costs of trade transactions for the private sector

Enhanced regional cooperation to attract increased trade and investment, for example regional investment in fisheries and canneries, port facilities, maritime transport and air freight transport

The recognition at the WTO and donor level generally of the special interests of small and vulnerable FIC economies so that genuine donor-FIC partnerships can work effectively in making in-roads into the market access and capacity building needs of FICs

Developed and larger developing nations alike can assist trade related poverty reduction if they can open their markets more fully to FICs, for example by assisting FICs to export not only primary commodities but also more value added and processed goods for export and by opening up further to trade in services including trade in labour services.

Increased investment and trade in climate change related adaptation and mitigation technologies and capacity building support for local communities and fishers to adapt to these climate change shocks

Trading partners to FICs need to work in partnership with FIC governments in determining the appropriate degree of time bound Special and Differential
Treatment that allows FICs to strategically liberalise according to their stage of development and the prevailing global trade and investment conditions

- AFT needs to be a vital component of the FIC trade reform agenda requiring close cooperation in the identification and implementation of AFT priorities which ideally focus on infrastructure, services trade, skills development both public and private, the transfer of technology and most building the capacity of the private sector.

As part of the survey of FIC trade officials referred to earlier in the section on AFT256, the officials were asked to rank from a list of 18 conditions plus an option to add their own, what conditions they considered necessary to create an enabling environment in their country for sustainable development and poverty reduction. The findings are illustrated below.

**Figure 7.5 Conditions for Sustainable Development**

I undertook this survey on ‘Aid for Trade priorities and Conditions for Sustainable Development’ during an Australian Government funded Pacific trade training program throughout 2012 where I was course director for 14 FIC trade officials who were regularly in Adelaide for one week training modules being facilitated by the Institute for International Trade. In this figure each trade official was asked to rank each condition out of 100% in terms of its importance allowing a calculation of the average across the 14 participants.
Of interest is that 2 of the top 3 priorities in support of political will and leadership, are consistent with the earlier proposition that entrenched interests, corruption and protectionism need to be addressed. Not surprisingly, the importance of infrastructure is highlighted followed by more technical support for their private sectors. Land and tax reform are noted, the upskilling of the workforce, help to meet SPS standards and the need to combat climate change. These are all consistent with the list of conditions put forward at the beginning of this section.

While the timing and implementation of such conditions will no doubt vary according the diverse nature of each FIC economy, the conditions for an enabling environment that I have put forward, consistent with those identified by FIC trade officials, should enable most FICs to overcome the tyranny of distance and small island vulnerability. This in turn should enable FICs to strategically sequence trade reform and access market opportunities that increase economic growth while reducing poverty, as depicted in the following figure.

**Figure 7.6 Enabling Environment for Strategic Liberalisation in Pacific Forum Island Countries**

*Global Economic Integration - Internal and External Pressure for Reduction of Tariffs*

- **Address Supply-Side Constraints**
  - Investor Friendly Environment
  - Impartial Contract Enforcement
  - Strengthen Judiciary
  - Secure Property Rights
  - Reduce Business Transaction Costs

- **Sector Priorities**
  - Fishing + Agriculture
  - Labour Mobility
  - Tourism
  - Education

- **Competitiveness**
- **Economic Growth**
- **Poverty**

- **Short-Term Adjustment Measures**
  - Tax Reform
  - Improve Trade Facilitation & Customs Reform
  - Transitional Funds if Necessary

- **Aid for Trade Priorities**
  - Human Resources
  - Infrastructure
  - Institutions
  - Export Diversification

- **Sequence Reform**
  - Balance External & Internal Reform priorities
  - Balance Liberalisation with Regulation
When both domestic and global political will align to address FIC barriers to trade and investment so as to support domestic reform and participation in the regional and global trading systems, the impact on wealth creation and therefore poverty reduction is evident as has been seen in the success story of Mauritius and through the various case-studies where donor-FIC cooperation has led to an increase in wealth for local communities such as in Vanuatu or Samoa.

Stoler et al conclude in their analysis of the necessary conditions for international trade to reduce poverty:

A deficit of political will needs to be addressed at the multilateral and regional trade levels as well as the local level. This deficit may be due to developed country disengagement, or the disengagement of elites in developing countries or it may be due to the resistance of private sector protectionist interests fearful of losing preferential treatment. To fully embrace and finance the support and reform needed to include the 'poor' in trade and arrest the widening global gap between rich and poor, requires reform and cooperation across the board. 257

257 Stoler, Redden and Jackson, op. cit., p. 7.
8 CONCLUSION

This thesis began with two main objectives:

1. To evaluate the proposition that an increase in international trade and labour mobility can assist Pacific Island Countries to reduce poverty and boost long-term sustainable development.

2. If the above proposition is affirmed, to investigate what policy conditions might be necessary for increased trade and labour mobility to successfully deliver sustained poverty reduction for the Pacific Island Countries under discussion.

8.1 Thesis Objective One – The Evidence

To the first objective, I believe I have presented significant evidence in support of this proposition as follows:

- **Economies open to international trade grow more rapidly and economic growth is an essential component of poverty reduction.** Indeed, as noted in the literature review, there are no examples of an autarkic economy successfully enjoying sustained economic growth. Conditions other than trade openness certainly need to be in place, but no country has succeeded in reducing poverty without opening up to international competition and trade.

- **The gains from trade tend to be greater as a share of national output the smaller the economy.** What usually accompanies the opening up of a smaller economy is access to the larger markets of trading partners. This creates the opportunity for smaller economies to exploit economies of scale and to benefit from the inflow of investment, technology and capital. Thus, the smaller the economy, ceteris paribus, the greater the gains from trade.

- **Opening up to trade in services for FICs has led to increased foreign investment, new technology and competition into the domestic services industry.** As research in Chapter 5 shows, poor households gain as consumers of services and the income effects for poorer households are more significant than for the average household, so long as effective competition policy is in place. Vanuatu provided a clear example of how the liberalisation of the telecommunications services markets brought new business opportunities, and provided services to communities in
remote and rural areas previously left behind in the process of globalization. Poor households increase their disposable income as consumers of lower cost services.

- Trade in tourism, health and education services has contributed directly and indirectly to economic growth and poverty reduction. In many FIC economies, tourist services now contribute between 25% and 50% of export income and by focussing on their comparative advantage in this sector have been able to increase jobs and incomes for local communities. Grenada provided a concrete example in Chapter 5 of a poorly developed economy benefitting from a strategic approach to the trade liberalisation of its education and health services. By opening up services in these areas, by engaging a private sector university to work closely with government, and by establishing mutual recognition of qualifications with major trading partners, Grenada provided a clear example of how to increase GDP, jobs and wealth, using a model that could be replicated by small island states in the Pacific.

- An increase in labour mobility through the liberalisation of trade in services can have a direct impact on poverty reduction. In chapters 5 and 6, trade in services’ experts such as Abrenica, Findlay and Lim, Francois and Hoekman as well as trade and migration experts including Walmsley and Winters demonstrate the direct and indirect linkages between increased labour mobility for low income workers and poverty reduction. A study by the Asian Development Bank (2004) revealed that a 1% increase in quotas to Australia and New Zealand for skilled and unskilled labour migration from the Pacific Islands would create net welfare gains of US$1,066 million for the Pacific Island Countries and US$1,303 million for Australia, New Zealand and the rest of the world.

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• Circular migration is increasingly recognized as one of the few means for scarce resources to flow from core areas to peripheral areas. In chapter 6, Hugo\textsuperscript{261} shows that circular migration generally means a transfer of wealth to lower income communities – and an increase in trade in service mode 4, the temporary movement of natural persons facilitates this transfer of wealth.

• Temporary migrant workers returning to the Pacific Island Countries contribute to their home economy through the positive impact of increased work experience, higher skills and savings. Savings as remittances form a significant component of the GDP of Fiji, Kiribati, Samoa, Tonga and Tuvalu but are also an important means for consumption and household savings in many other FICs. A World Bank study, ‘At Home and Away’, involving Fiji and Tonga, confirmed the direct and positive impact of remittances for poverty reduction in both countries, importantly showing that the share of cash income increased for the poorest 40 per cent of the population.

• The greatest absolute and poverty-related gains for developing countries come from liberalization commitments that facilitate the movement of low income and unskilled workers. In Chapter 6, virtually all studies on the economic benefits of the temporary movement of natural persons confirmed this key point. The challenge now is to increase market access abroad for this sector of workers.

• Using a strategic, well-thought through approach to trade liberalisation will usually contribute significantly to poverty reduction. Anderson and Winters demonstrated how welfare gains from the removal of barriers to migration and trade have a significant, positive impact for low income communities. “The theory and available evidence surveyed [in their study] show that subsidies and trade barriers are wasteful. Preannounced, gradual reductions in them, especially if done multilaterally, would yield huge economic benefits and relatively little economic

Moreover such reforms would contribute enormously to reducing global inequality and poverty.”

An emphasis is given in this thesis to preannounced and gradual reductions to ensure trade liberalisation is planned, considered and not undertaken in isolation. Other examples, evidence and summarised in case-studies throughout this study, allow one to fairly conclude that increased trade and labour mobility is able to positively assist in the pursuit of sustainable development and poverty reduction for Pacific FICs.

8.2 Thesis Objective Two – The Specific Conditions

Given affirmation of the positive relationship between trade and poverty reduction, it was necessary to investigate the second objective about what policy conditions, both specific and general, need to be in place to enhance the ability of increased trade and labour mobility to successfully deliver sustained poverty reduction for FICS. In so doing, the thesis addresses most of the concerns of critics to trade liberalisation.

While the list of conditions for different sectors detailed in this thesis is extensive, the key conditions germane for successful trade-related poverty reduction in FICs are prioritised firstly as they apply to specific sectors and then as general enabling conditions.

Specific Conditions

Trade in Agriculture

1. A significant reduction in OECD agricultural protection, given that their overproduction undermines the ability of small farmers in FICs to compete.

2. The further development of niche agricultural markets, fostering investment in local goods for self-reliance and export revenue.

3. Trade facilitation assistance, to allow FIC firms to integrate into market segments of larger agricultural markets.

4. Investment in rural workers and agricultural producers, to increase their productivity.

5. Government incentives for both local and foreign investment in rural infrastructure combined with a policy of low or zero tariffs on agricultural imports, to increase farmer competitiveness.

6. FIC commitment to land reform, to improve rural education and support the accumulation of credit and savings for primary producers.

7. Ongoing flexibility within the WTO Agreement on Agriculture, to continue to allow assistance to general education, training and research support to their farm and other sectors.

Fisheries and Trade

A range of underlying conditions and future requirements were outlined in chapter 4 on FIC fishing sectors, but the main conditions can be summarised as follows:

1. The significant reduction and elimination of subsidies used by developed countries and some larger developing nations, to reduce funding of their fishing industries and fleets.

2. A degree of flexibility for FICs (and other SVEs) to use limited subsidies for support to, for example, subsistence and artisanal livelihood, investment in port infrastructure, repair and modernisation of their domestic fishing vessels.

3. The phasing out of government-to-government subsidies for access fees to FIC fishing zones, in favour of a more transparent and lucrative auction-based system for allocating licenses.

4. Greater regional cooperation and a program of enhanced trade-related capacity building support for the development of FIC fish processing activities and export strategies.

5. Progress in WTO NAMA negotiations on the reduction of tariffs and expansion of quotas for fish and value added fish product exports from FICs, and progress on market access negotiations for fish products with Japan and China through bilateral or regional trade agreements.
6. Government and donor support for small-scale aquaculture technologies, to improve the sustainability and profitability of the fishery resources of artisanal fishers and thus lift those poor out of poverty.

Trade in Manufactured Goods

1. Lower tariffs on imports, especially on those inputs and technology products required to drive NAMA exports.

2. Introduce reforms and streamline regulations to create an easier business climate for local and foreign investment, with less red tape and more emphasis on trade facilitation.

3. Encourage the private sector and build capacity of SMEs to participate in and benefit from long-term, trade-driven development strategies.

4. Strengthen the focus on niche markets, with astute marketing of the Pacific brand, and help producers meet international product standards.

5. Encourage donors and developed country trading partners at multilateral and regional trade levels to work with FIC governments to deliver greater market access opportunities for FIC goods, through the lowering of tariffs, expansion of quotas and elimination of subsidies across the goods sector.

Trade in Services

1. FICs need to ensure prudential regulation is in place before the liberalisation of their services sector, ensuring that appropriate competition policy is in place and that there is universal coverage of services.

2. Similarly, FICs need to ensure sound domestic policies are in place to encourage further foreign direct investment, and that appropriate legislation is in place to accompany stronger commitments to the liberalisation of mode 3 trade in services in trade agreements.

3. Increasing trade in tourist services is of particular benefit to most FICs particularly if they put in place ‘pro-poor’ provisions as detailed in chapter 5, for example through the freeing up of the labour market to allow foreign professionals temporary presence for establishment and training purposes.
4. FICs need to be active demandeurs for greater market access to the service markets of their major trading partners, with relevant FIC LDCs seeking new opportunities through the offer of Duty Free Quota Free access from WTO members.

5. FICs should also be seeking capacity building support from donors to appropriately and sequentially open up their own services sectors using a negative listing approach – which maximizes the benefits of foreign competition while retaining the right to protect those domestic sectors that may be vulnerable or sensitive.

6. FICs should consider the pursuit of Mutual Recognition Agreements and capacity building support across a range of services sectors so that, as was the case with Grenada, they can take advantage of new services markets.

7. The role of the private sector, as with the goods sector, is crucial and trade capacity building support should be sought for those service sectors of particular significance to FICS including tourism, telecommunications, health and education and relevant professional services.

8. Education and training for local communities to take advantage of trade in services opportunities should remain a high priority.

_Labour mobility_

For the freer movement of FIC labour through circular migration to work well for long-term poverty reduction, the following conditions are highlighted in the study:

1. The need for well-developed research aimed at clearly identifying and matching labour market demand in the destination country to labour market supply in the origin country.

2. An integrated design and planning approach from the outset involving all stakeholders: employers, unions, labour suppliers and relevant government bodies.

3. A thorough participant selection process with strong local community involvement.

4. Circular migration programs targeted at low-income and less experienced labour in Pacific Island countries, so as to maximise impact on poverty reduction.
5. An intensive briefing process at origin and destination, to deal with both labour and industry issues but also social and cultural ones.

6. A commitment at both origin and destination to skills education and training aligned to the immediate tasks at hand but with a view to longer-term employment objectives.

7. Clear agreements between selected labour and their families/communities on the role of remittances and how they will be spent or saved.

8. Incentives and opportunities for workers to return home to work, training or community involvement that builds on their experience working abroad.

9. Regular monitoring and evaluation throughout the circular migration scheme, to ensure employers are not exploiting workers and that workers are honouring their commitments.

10. Progress with all types of agreements, whether trade or general and whether bilateral, regional or multilateral, to enhance labour mobility for low skilled workers.

8.3 Thesis Objective Two – The General Conditions

Throughout the study and in particular in chapter seven, I examined how the domestic, regional and the global policy environment might influence the political and economic landscape of FICs in relation to the trade-poverty reduction equation. Based on this work, I have prioritised the following broad factors that I believe are necessary to underpin the specific conditions described above in support of effective trade and labour mobility strategies for sustainable poverty reduction.

1. If the poor are to capture the benefits of trade, one of trade liberalisation’s most important enabling components should be to cultivate an adaptable, efficient and stable market system capable of capturing the benefits of trade while withstanding the adjustments it necessarily involves.

2. FIC governments therefore need to deal with entrenched corruption and protectionist interests, including for example the reform or privatisation of a number of SOEs.
3. There needs to be strong engagement of the private business sector, both domestic and foreign in all sectors, in order to attract entrepreneurialism, management expertise, technology transfer and the necessary investment capital for infrastructure development and economic growth.

4. The private sector’s engagement needs to be accompanied by the development of infrastructure, land-titling, upskilling of the workforce and fair, prudential regulation that promotes competition. Adequate trade-related infrastructure needs to underpin productivity and a competitive economy.

5. FICs need to develop a sound approach to taxation reform combining tariff reduction and the move away from reliance on trade-distorting taxes to greater reliance on, for example, consumption taxes. Mauritius has demonstrated that it is possible for the reduction of import tariffs to cause an overall increase in trade which ensures tax revenues grow rather than shrink.

6. Reform of trade facilitation and customs procedures should be a major development objective for FICs to improve trade efficiency and connectivity while lowering the costs of trade transactions for the private sector.

7. FICs will require increased market access for their goods and services to the markets of their major trading partners. Developed and larger developing nations alike can assist trade-related poverty reduction if they reduce their own trade and migration barriers and assist FICs to export not only primary commodities but more value-added processed goods.

8. Market access alone is insufficient. As we saw in chapter 4, preferences have been of little long-term value to FICS creating dependency rather than innovation, growth and poverty reduction. Therefore, along with market access, I have argued that another condition is support for supply-side solutions such as the development of human resource capacity in trade, improved marketing of their products, increased technical assistance to meet product and SPS standards and support to integrate into regional and global supply chains.

9. The realisation of conditions 7 and 8 above requires support from the international community advocating for and financially supporting domestic trade reform and capacity building in Pacific Island Countries. There needs to be recognition at the
WTO and bilateral donor level of the special interests of small and vulnerable FIC economies so that genuine donor-FIC partnerships can work effectively to increase market access and address the capacity building needs of FICs.

10. The FICs themselves need to strengthen regional cooperation to attract increased trade. For example, regional investment in fisheries and canneries, port facilities, maritime transport and air freight transport will all help to reinforce the value of regional reform and market integration as an enabling component for successful trade led development.

11. Where a preferential trade arrangement is agreed, such as in the case of EPA, PICTA or PACER Plus, negative trade diversion effects can be minimized by FICs if they keep trade barriers against third-party exporters, outside of the trade agreement, negligible or as low as possible.

12. Trading partners need to work in partnership with FIC governments in determining the appropriate degree of time-bound Special and Differential Treatment which allows FICs to strategically liberalise according to their stage of development and the prevailing global trade and investment conditions.

13. Increased investment and trade in climate change-related adaption and mitigation technologies and capacity building support for local communities and fishers is needed to help them adapt to these climate change shocks.

14. Aid for Trade (AFT) needs to become a key component of the FIC trade reform agenda, thus requiring closer cooperation in the identification and implementation of AFT priorities. Ideally, AFT should focus on infrastructure development; transfer of technology; trade in services; skills development in both the public and private sectors; and building the capacity of the private sector. FICs need then to articulate their AFT priorities, and donors need, in turn, to honour commitments made in trade negotiations and agreements.

By highlighting the above conditions required for trade liberalisation and poverty reduction in the Pacific, I have sought to highlight those specific and general measures that will address most political and community concerns about the impact of increased trade. While the list is extensive, many of these measures are either already being implemented or are under negotiation.
Aid for trade to FICs is increasing, the private sector is now more engaged, trading partners are moving forward in key negotiations and the WTO is reviewing, for example, fishing subsidies and SDT for small and vulnerable countries. Progress varies depending on the specific countries involved, and some FICs are more progressed on the list of favourable conditions than others. In terms of donor commitment, there is still a range of trade and migration barriers which need to be addressed.

That said, I believe that sufficient evidence, practical examples and appropriate provisions have been established to address most of the fears and concerns raised by critics of international trade and trade liberalisation in the Pacific.

8.4 Refuting the criticisms of international trade

In the introduction, this thesis posited that if particular aspects of a more open, trade regime were in question, then the study would seek to determine the legitimacy of those concerns. A number of the principle concerns have been addressed, as follows.

1. Loss of tariff revenue and cuts to public services concern.

What the paper shows is that the loss of tariff revenue can be, and usually is, offset by a range of taxation reform measures such as the introduction of consumption taxes even in small island countries. An increase in revenue can also be generated from the increasing volume of trade resulting from a more open and competitive market, as was demonstrated in the case of Mauritius. Where there is a short-term loss of tariff revenue causing balance of payments problems, there are adjustment funds or offset measures available through aid for trade and other donor programs.

2. Higher taxes for the poor and food security problems

The argument to protect local production, food security and self-reliance by higher food import taxes is generally self-defeating. As long as competition policy is in place, trade liberalisation results in lower import tariffs that are passed on to the community. For example, cheaper food imports for low income consumers enhance food security rather than undermine it. In fact, protection of local production usually has the opposite effect: it provides a disconnect from global markets, denies access to foreign investment in agriculture, and reduces the potential of technology transfer and of economies
of scale to not only drive down the cost of local food but also provide a more reliable source of income to farmers and their communities to enhance food security objectives.

3. **Potential job losses and business closures**

As argued in chapter 4, little should be done for uncompetitive owners of capital who have benefited from protection and many years of economic rent provided through trade preferences. Adjustment measures are needed to assist displaced labour, through re-training and skills development programs in sectors more conducive to future growth, whether that be in agricultural diversification, fisheries or services such as tourism – and this is why education and training for low-income workers is one of the key conditions put forward to underpin successful trade liberalisation.

4. **Local services will be overrun by foreigner suppliers**

Reinforced throughout the thesis is the fact that liberalisation does not equal deregulation. All countries party to trade agreements can use either a positive or negative listing approach to decide which sectors or which parts of a particular sector they wish to open up to foreign competition. In trade in services agreements, one can limit the number of foreign suppliers able to access the domestic market, and provisions can be put in place to govern the behaviour of foreign suppliers such as the need to provide universal provision of their service.

5. **Loss of political autonomy**

Further to the previous argument plus the fact that it is governments who discern which goods, services or sectors are to be opened up and when, there are also numerous SDT provisions in the WTO to allow FICs the policy space and time to determine the pace of reform, tariff reduction or opening up of specific service sectors. Certainly sound competition policy and prudential regulation need to be in place to ensure that multinational companies, for example, do not avoid taxation and observe minimum wages. Overall, opening up to global market forces in strategic fashion encourages greater competition, technology transfer, increased productivity and lower prices for consumers of
goods and services while retaining the right of FIC governments to intervene and regulate as necessary.

6. **Brain drain and exploitation of migrant workers**

‘Brain drain’ and the poor treatment of foreign labour can be serious issues, but managing these is within the purview of governments and trade unions. Much has already been done, including greater use of circular migration strategies to ensure, for example, the return of migrant labour and appropriate conditions and wages for foreign workers. Where unscrupulous employers exploit migrant labour, the full force of local domestic law can and should be brought to bear.

7. **Environmental, social and cultural damage**

Trade liberalisation under the conditions proposed in this thesis will be able to minimise or deal with some of the concerns raised above. In relation to climate change issues, for example, increased investment and trade in adaptation and mitigation technologies can be undertaken. For local communities dependent on fish or fisheries for a living, the reduction of trade subsidies and capacity building support will help FICs to adapt. On the social front, the absence of workers and resultant relationship problems confronting Kiribati seafarers remain a problem. This is why the conditions put forward in chapter 4 emphasised the importance of careful selection processes, briefings, training and education programs before and after-work programs abroad to minimise these effects. However, some social and cultural issues need to be tackled by non-trade solutions such as through social welfare programs or, in the case of loss of cultural identity, through targeted programs which preserve and respect cultural heritage and cultural values.

An increase in trade and labour mobility will not of course overcome all the social, environmental and political issues confronting FIC governments and people. Exploitation, greed, corruption and abuse of human rights permeate throughout many societies of various political persuasions. For FICs, however, to remain closed societies shrouded in protectionism, entrenched cronyism and disconnected from global growth and advances in technology prevents stepping forward and consigns many to unemployment and poverty.
Overall, therefore I believe it has been established that if FICs are allowed the time and policy space to strategically embrace trade liberalisation and associated reforms, most of those concerns listed above will be addressed - enabling FIC governments to shore up political and community support for reform, circular migration and trade liberalisation.

8.5 Final Remarks

The contention of this thesis is not that increased international trade and labour market mobility will provide some magic panacea for alleviating poverty in FICs. Rather, I have aimed to provide sufficient evidence to demonstrate how the expansion of trade and circular labour mobility can, under the right conditions, contribute to long-term poverty reduction and sustainable growth in FICs.

The thesis has reinforced that trade openness alone is not sufficient and there needs to be a set of conditions and strategies in operation at any given time to deal with the complex causes of under-development and poverty. Both trade-related development strategies and non-trade strategies such as those intended to address good governance are equally important.

This study has endeavoured to argue for the enlightened, mutual self-interest path to follow for FICs and their trading partners. Strategic liberalisation, as described in chapter seven, offers a clear path for FICs that involves balancing the pace and staging of liberalisation to ensure the trade and development goals are well aligned. Strategic liberalisation seeks to embed the fundamentals of future competitiveness in FICs, while ensuring transition costs and regulatory disciplines are in place to allow Pacific communities to adjust and to benefit from future trading arrangements.

FIC governments are, however, confronted with a multitude of demands, yet often have limited resources and capacity to deal with them. This study therefore has tried to emphasise two key messages.

First, while the challenges must at times seem daunting, there are many significant and practical opportunities for FICs to benefit from increased trade. By ambitiously locking in the necessary economic and trade reform, the building blocks will be established for future investment in fishers and fisheries, in niche manufacturing, in agricultural diversification, and in a range of services exports including tourism, ICT industries, education and health services and through the increased temporary movement of labour.
To turn their backs on increased trade and the expansion of labour mobility schemes could come at great cost to the future self-reliance and economic development objectives of FICs. FICs risk being left behind by emerging mega-regional trade agreements such as the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership and need to be actively involved in regional discussions and negotiations on the broader trade front. It is hoped that the evidence from this thesis demonstrates convincingly that a major threat to FICs is the opportunity cost of ‘doing nothing’ and being left behind in the fastest-growing region of the world, resulting in a significant increase in the relative cost of doing business in FICs compared to most other countries in the Asia Pacific region.

It is useful to recall that in their empirical study of business costs in small remote communities in 2004, Winters and Martins ascertain that there are significant penalties attached to small size based on their analysis of transport costs, labour costs, utilities, water and land costs. However they still conclude that what is required is “not protection against the rest of the world (which effectively makes small economies smaller and more remote) but proactive policies from the international community”.

The second message, developed throughout, is that OECD and larger developing countries need to clearly recognise the challenges facing FICs and intensify their political and economic efforts to ensure them sufficient market access, adequate time and policy space, as well as capacity-building support for FICs to adjust to and consolidate trade reforms. These challenges need to be taken account of in future trade agreements, whether with Australia and New Zealand in PACER Plus, with the EU in the Cotonou Agreement or for the Compact States with the USA. China, Taiwan, South Korea and Japan as well are important trading partners and need to play a key role in the development of beneficial trade and development relations with the FIC community.

We noted for example that the opening of labour markets by developed countries ideally needs to be aligned with mutual commitments to training, in both host and sending countries. Developed nations, such as Japan, Australia and New Zealand in the


\[264\] Ibid, p. VII.
immediate region, can benefit from Pacific labour filling labour shortages in developed country markets while FICs can benefit from skill development, higher incomes and the use of remittances for savings and investment in capacity building back home. These are ‘win-win’ situations – but they will only come about if there exists the political will in both developed and FIC nations to bring about the necessary trade rules and political reforms.

The politics of reform implies that the process will require time and patience. Donor nations will need to allow time for trade reforms to take place, based on realistic and practical commitments by FICs to implement these reforms. Trade negotiations, whether with respect to the Cotonou Agreement, PACER Plus or within the WTO itself, must build on trust and the instilling of confidence in mutual partnership arrangements in support of domestic reform.

There is no doubt that a number of FICs have already undertaken some of the serious reforms necessary for greater diversification and competitiveness — just as a number of developed country trading partners have already shown a significant degree of commitment to assisting with capacity building and improving market access conditions. However there is still much to be done. The benefits of trade liberalisation can only come about if reform and support for FICs are locked in both internally and externally with major trading partners.

This thesis has argued consistently that under the right conditions, the expansion of international trade flows and increased labour mobility can and do contribute both directly and indirectly to poverty reduction and sustainable development.

A focus of the paper has been to identify the ‘right conditions’ and appropriate underlying fundamentals that need to be harnessed by small Pacific Island states for trade to contribute to sustainable development, and these have been summarised above.

Renowned economists, Jeffrey Sachs and Andrew Warner, while asserting the need for developing countries to be open to trade, reinforce the importance of identifying the ‘right conditions’:

Openness (to trade) is not sufficient in itself (for poverty reduction) – much depends on the way a country opens up, the sequence that is followed, the speed and the internal capacity to manage the process. Improvements in productivity and competitiveness through trade
liberalisation require a comprehensive policy for human resource and infrastructure development, education and technology, a policy that includes small and medium enterprises, a strategy to raise the productivity of subsistence farmers, and other measures.265

There is the need for ongoing research that continues to investigate the detail of specific policy conditions that enables trade and migration policy to effectively tackle poverty reduction and induce sustainable development for FICs.

This study has asserted that increased trade and greater labour market mobility can and will be poverty reducing for FICs in the long run under the right conditions. It has provided a comprehensive list of those ‘right conditions’ that are necessary for this to occur and has pointed to a number of the political and economic imperatives that must be in place to drive trade reform and poverty reduction. In so doing, the study has attempted to contribute to the ongoing debate about the importance of international trade and circular migration to the process of sustainable development and poverty reduction for Forum Island Countries in the Pacific region.

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9 APPENDIX A

PACIFIC ISLANDS TRADE TRAINING PROGRAM

SURVEY

1. Do you believe that your country is open to increased trade? What is your average applied tariff?
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2. If increased trade (through trade liberalisation) is to be lead to less poverty, more jobs and sustainable development, what conditions do you think need to be in place? Please add to the list if you want and then rank from 1 to 18 (with 1 being the highest condition and 18 the lowest)

☐ stop your citizens migrating permanently
☐ infrastructure development
☐ land reform
☐ market access to your trading partners
☐ help to meet SPS standards
☐ tax reform
☐ good governance, less corruption
☐ increase understanding/support from the business sector
☐ more skilled/trained government officials
☐ increased community understanding/support
☐ increase in labour market access for your workers
☐ increase in F.D.I.
☐ measures to combat climate change
☐ political will, support from your leaders
☐ more technical/support to private sector exporters
☐ appropriate legislation and regulations in place
☐ other: .................................................................................................................................................................................................................................

3. Please state the percentage of G.D.P. divided into these key sectors for your country.

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<thead>
<tr>
<th>AGRICULTURE</th>
<th>NAMA</th>
<th>SERVICES</th>
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Explanation: .................................................................................................................................................................................................................................
4. In terms of ‘Aid for Trade’ right now, what do you see as your country’s current top three priorities and why?

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THANK YOU 😊
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