

# Discussions on Topical Trade Issues

**B**elow, several recent developments affecting the PDMC economies and topical trade issues are discussed in an examination of what they might mean for trade policy and economic development in the PDMCs. These topics include the recent growth of tourism in the Pacific, the growth in overseas employment by Pacific islanders, health and food safety issues with respect to agricultural exports, and the concept of “aid for trade.”

## Tourism in the Pacific

Tourism has become a sector of increasing importance in the Fiji Islands, especially as the sugar industry has withered as the result of the nonrenewal of land leases to Indo–Fijian farmers by the indigenous landowners, and with the sharp decline in the garment industry because of the loss of preferential entry to the US because of the expiry of the Multi-fiber Arrangement and the decline in tariff assistance given to the garment industry in Australia and New Zealand. The tourism sector of the Fiji Islands was set back sharply by the 1987, 2000, and 2006 coups. However, it quickly recovered from the 1987 and 2000 coups, and will recover again once political stability is restored. The tourism industry in the Fiji Islands has no doubt been assisted by the impact of the Bali bombings, especially affecting Australian tourists, and by the SARS<sup>11</sup> scare. However, the industry has also benefited from increased competition in international air services to the Fiji Islands and by the reasonably secure, long-term leases provided to resort hotels.

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<sup>11</sup> Severe Acute Respiratory Syndrome.

More recently, the tourism industry has become a key driver of economic growth in other Pacific states, particularly the Cook Islands, Samoa, and Vanuatu. The surge in tourist numbers in these countries has been most noticeable since 2004, coinciding with the period when international air services to these countries became more competitive. But again, the existence of secure, long-term leases of custom land for resorts, openness to foreign investment, and privatization of hotels in the case of the Cook Islands, has been very helpful. Interestingly, the Cook Islands, Samoa, and Vanuatu were the PDMCs that undertook comprehensive economic reform programs in the mid-1990s with assistance from ADB. A general point that can be made from the growth in tourism is that it illustrates the importance of niche markets for these economies that have such high international trade costs. After all, tourism is the ultimate niche market. All countries have some unique characteristics that they can highlight to differentiate their tourist “product.”

What does the growing importance of tourism for PDMCs mean for their trade policies? For those PDMCs that have not yet taken advantage of this opportunity, there is a clear message:

- Open up international air services (and most likely internal transport services);
- Provide effective airport infrastructure;
- Provide resorts with secure long-term land tenure and develop equitable contracts with landowners; and
- Be open to foreign investment.

Most PDMCs do not have a high absorption capacity for waste and, therefore, environmental considerations will always limit manufacturing. Hence, besides agriculture and fishing, service activities will be high priority areas for exports. For example, provision of education and medical services is a likely development. A critical element in developing some service exports is to have an efficient telecommunications sector. The PDMCs have been hamstrung for many years in developing telecommunications-related activities because of the monopolistic arrangements most of them put in place. Fortunately, these monopolies are being dismantled in several countries with spectacular results. For example, Samoa now has several Internet service providers and has opened its mobile phone sector. As a result, Internet and mobile phone use has expanded rapidly. The Fiji Islands is in the process of opening up its mobile phone and Internet sectors.

## Exporting Labor

In the past, when populations outstripped the capacity of the land to feed the people, Pacific islanders set out in search of new islands to settle—which they obviously did very successfully. They are no longer able to do this as sovereignty has been declared over all the land on the planet. Moreover, population growth was much slower in those days than over the past 50 years or so, when the world’s population has experienced very rapid growth as the result of a unique set of events: safer water and sanitation, and immunization against infectious diseases, leading to lower infant and maternal mortality and longer life expectancy. Today, Pacific populations are increasing at annual rates of growth as high as 2.5–3.0%. In the absence of substantial investment in the communally owned land, there is no possibility of agricultural productivity increasing at a similar rate to maintain per capita food consumption. But unless special arrangements are made, in a communalistic society, there is an absence of secure individual title to land, an absence of savings, and little or no capacity to borrow, and therefore little incentive for entrepreneurship, investment, and individual effort.

The increased food demand from the increasing populations must be satisfied by increasing the farmed area. Otherwise, people would have to leave the village to try to find work in the towns or work overseas. In a sense, therefore, Pacific peoples are still “on the move.” In Tonga, for instance, remittances comprise over 50% of gross national income. The share is about 20% in Samoa and it is growing rapidly in the Fiji Islands. About 90% of Cook Islanders live overseas, and much the same holds for the micro-island states of Niue, Nauru, Tokelau, and Tuvalu. Thus, most people from these small, remote communities live and work elsewhere and are educated with this objective in mind. They regularly send remittances to their families and church. Moreover, they return on holidays frequently, and some eventually return permanently when they retire. People from the US Compact countries can freely move to the US.

But the same is not true for the larger Melanesian countries—Papua New Guinea, Solomon Islands, and Vanuatu—that do not have easy migration access to Australia, New Zealand, and the US. In these countries, literacy rates are significantly below those with relatively easy access to metropolitan countries. Parents do not have the incentive to educate their children as they cannot migrate and job opportunities in the country are few.

However, pressures are building to allow temporary immigration for employment for even these countries. Two effects are at work. First, there is the aging of populations in the higher-income countries. Moreover, with their incomes increasing, people in these countries are less inclined to do the “3D” (i.e., dirty, difficult, and dangerous) work. Second, there is a “youth bulge” in Pacific countries, especially Kiribati, Papua New Guinea, Solomon Islands, and Vanuatu—countries where formal employment is low and growth of formal jobs is very slow. Because of these two effects, there should be a happy coincidence of interests between the high-income countries of the Pacific region and the developing Pacific countries. New Zealand, which has long allowed free entry of people from the Cook Islands and Niue, and relatively liberal entry of migrants from Samoa and Tonga, is testing a temporary, seasonal, unskilled worker scheme for labor from Vanuatu, as well as from Samoa and Tonga. Australia is said to be observing how this scheme progresses.

Where migration is possible, Pacific islanders educate their children to migrate to market-based societies. In most cases, they perform just as well economically as the rest of the host country population. They send remittances to their families for village celebrations and other obligations; that is, they retain strong links to their village community and are thus able to return when they wish. Most smaller Pacific countries are unlikely to ever be so economically viable to be able to support growing populations. Therefore, they will continue to need outward migration and financial support from their relatives working overseas or from foreign aid that provides for essential infrastructure. Outward migration seems to be a necessary dimension of their future. But this does not mean that the migrants lose their identity or the cultural values of their communities. In fact, they will have the rich opportunity to enjoy the best of both worlds returning for holidays or when they retire.

For the larger Pacific states such as the Melanesian countries, labor mobility can still be important, as it is presently in the Fiji Islands.<sup>12</sup> However, it is unlikely to play as important a role as in Samoa and Tonga, or in the ministates. For the larger Melanesian countries, ensuring private investment of sufficient scale to create employment opportunities that match the numbers of secondary and tertiary education graduates will remain their biggest challenge.

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<sup>12</sup> In the Fiji Islands, remittances from nurses, teachers, caregivers, and army and security personnel working overseas have recently become the second largest foreign exchange earner next to tourism.

With respect to the interaction between labor mobility and trade policy, the Pacific Islands Forum Secretariat is trying to generate enthusiasm for including trade in services, particularly labor services, into the PICTA, PACER, and EPA with the EU. As far as PICTA is concerned, most Pacific countries have little to offer each other with respect to making a deal on merchandise trade or services trade. If labor is free to move in PICTA countries, the same effect as mentioned earlier is likely to be observed; that is, skilled people will move to the more advanced countries, contributing to the present “brain drain.” The EU has so far expressed no interest in including provisions for temporary employment of semiskilled migrants in the Pacific EPA. The best opportunities for Pacific labor mobility appear to lie with Australia and New Zealand within the PACER framework.

## Aid for Trade

In the 6<sup>th</sup> WTO ministerial meeting held in Hong Kong, China in December 2005, an Aid for Trade Initiative was proposed. The main objective of the initiative is to provide A4T assistance to countries as a parallel measure to support the WTO Doha Round. The rationale for A4T is that some developing countries need assistance to take advantage of market access opportunities offered to them as the result of the Doha and previous WTO Rounds. In recent years, there has been a realization by the development assistance agencies that the supply response of many developing countries to the opening of markets in the higher-income countries has been poor and that this is often because of supply constraints (“binding constraints”) in the country. Unless these obstacles are overcome, the countries will not be able to take advantage of the market openings in other countries.

Assistance of this form appears eminently sensible. For example, Pacific countries have not been able to participate in the virtual revolution in exports of high-value agricultural products that has occurred in recent years (McGregor 2007). McGregor (2007) highlights a very important issue in developing Pacific agriculture: overcoming the sanitary, phytosanitary, and quality barriers facing agricultural exports into developed country markets. He points to the unrealized market opportunities for Pacific agricultural products in the substantial Pacific islander populations residing in countries such as Australia, New Zealand, and the US. In addition, he notes that there are also unrealized market opportunities for unique Pacific island products elsewhere, such as in the EU and Japan.

Overcoming the sanitary and phytosanitary barriers requires scientific data to demonstrate that the importation of Pacific agricultural products does not pose a threat to the agricultural sector of importing countries or to demonstrate the kind of quarantine treatment that will be most effective in rendering the imported products harmless, without reducing their quality. Besides the needed scientific input, Pacific countries have to attract potential importing countries to carry on effective negotiations over market entry. Because of the Pacific islands' relatively small size, gaining the attention of importing countries is difficult. Trade facilitation of this form appears necessary if agricultural exporting is to have a place in the economic development of the PDMCs.

What does this concern for A4T mean for ADB's activities? While it is very important to recognize that binding constraints to supply responses to changes in the terms of trade should be overcome, care should be taken in translating this into ADB programs. Identifying the binding constraints to economic growth should be essential to setting priorities for all ADB activities. If A4T is key to overcoming binding constraints to a country's economic growth, then obviously A4T should receive priority. The question for ADB management should be whether addressing these constraints is a priority for ADB, or whether another development agency is in a better position to provide assistance.

Thus, ADB management should not be considering whether to establish a special mechanism to address A4T issues. If A4T is considered a priority issue for the PDMCs or other member countries, then it should take priority in ADB's overall assistance program.