



Source: CIA World Factbook.

# The Pacific

## Situation Analysis

The Pacific Islands comprise numerous small states with limited resources and small economies that are remotely situated from major markets. GDP in 2005 ranged from US\$ 62 million in Kiribati to US\$ 3.9 billion in Papua New Guinea (PNG). Subsistence farming remains significant, but agricultural exports continue to be concentrated on a narrow range of primary products, with these contributing to a high percentage of GDP. Fisheries and tourism also generate substantial revenue for the region. Recent diversification into non-agricultural commodities has led to exports of gold, pearls, crude petroleum and also textiles and clothing. There is also growing interest in promoting environmentally friendly and sustainable trade and tourism in the region.

Seismic disasters and climate change make countries of the region particularly vulnerable to floods, droughts, cyclones, earthquakes, windstorms, tidal waves and land slides. These external shocks have exacerbated poverty, which is reported to affect approximately 25% of the population. Intensive efforts aimed at poverty-reduction and the achievement of the Millennium Development Goals (MDGs) are currently under way to accelerate social and economic development.

Pacific Island states face numerous difficulties in improving productivity at the enterprise level. SMEs are small and their export capacity is hampered by supply constraints that impede movement up the value chain. Other constraints faced by SMEs are an insufficiency of skilled personnel (migration remains a major regional issue) and the limited availability of finance. Relative to countries like Australia and New Zealand, the Pacific Island countries rank high with respect to critical business indicators, which demonstrates that private sector reforms are moving in the direction of improving the overall climate for doing business. Trade ministers and policymakers from the region continue working to identify further priority reform needs of the private sector.

The Pacific Plan for Strengthening Regional Cooperation and Integration, that was adopted in 2005, and which is globally endorsed by development partners, has contributed to increasing awareness, understanding, and public debate on private sector-led economic growth and poverty reduction. The Pacific Plan targets measures such as the diversification of exports to boost trade in the region. The trade-promoting initiatives in the Pacific Plan are supported by preferential market access that has been accorded to Pacific Island countries by Australia, New Zealand, Japan, the US and the EU under preference schemes, bilateral and regional trade agreements. At the multilateral level, only four of the 14 Pacific Island states are WTO members. These include Fiji, Papua New Guinea, Solomon Islands, and Tonga. Samoa and Vanuatu maintain observer status.

LDC countries of the region are also eligible for the Everything But Arms Initiative (EBA) that provides duty-free and quota-free access to the EU for all their products and that is more favourable than the Cotonou Agreement. Despite its impending expiration on 31 December 2007, negotiations on an Economic Partnership Agreement (EPA) with the EU to succeed the Cotonou Agreement are moving slowly. Efforts are also under way to increase intra-Pacific trade through initiatives such as the creation of the Pacific Islands Private Sector Organization (PIPSO) in April 2007. Australia and New Zealand are members of the Pacific Agreement on Closer Economic Relations (PACER) that promotes enhanced economic relations and lays the foundations for a single regional market. The Melanesian Spearhead Group (MSG) also provides duty-free and preferential treatment for products exported between member countries.

There is growing interest in environmentally friendly and sustainable trade, with a particular focus on sustainable agriculture, forestry and fisheries. The region is endowed with unique plant species found nowhere else, and important forest plantations with rapid-growing hardwoods and pine trees that have considerable potential economic value for the woodchip, construction and paper industries. There is also potential in the bio-fuel industry. As global stocks of non-renewable energy sources are depleted, new technologies are sought for alternatives such as ethanol and biodiesel. Fiji already produces limited quantities of ethanol from sugar cane. Tonga and Vanuatu produce coconut biodiesel.

### The Pacific region's export performance: very uneven

Country	Exports (US\$ million)	Exports to GDP (%)	Exports per capita (US\$)	Growth of export value (% p.a.)	Share of exports to the region (%)	HDI ranking (out of 177)
Papua New Guinea	3,432	88	583	19	0.1	139
Marshall Islands	778	720	12,302	49	0.0	
Fiji	693	26	818	4	9.0	90
Vanuatu	258	82	1,221	65	1.9	119
Solomon Islands	210	87	439	27	0.5	128
Micronesia	53	23	483	-15		
Palau	32	25	1,608	2		
Samoa	30	8	161	8	1.5	75
Tonga	19	9	186	-7	0.9	55
Nauru	4			-27	0.0	
Kiribati	4	6	35	-17	16.7	
Tuvalu	1			-2	2.9	
Total for the region	5,514		804	-19	1.5	

Source: ITC TradeMap, WB, UNDP Human Development Indicators. Data refer to 2005 and growth rates to 2001-2005. Export figures only include trade in goods.

# Trade Challenges

## ITC's Strategic Objectives

### Trade Policy and Regulations

#### Putting the Pacific Plan into action for trade and development

Regional integration and cooperation are important for Pacific Island countries given their remoteness, small size, and narrow resource base. A major policy instrument to promote trade and development in the region is the Pacific Plan that aims to improve regional cooperation under the pillars of economic growth, sustainable development, good governance and security. Key elements of the Plan are being executed to improve fisheries management; cooperation on civil aviation; environmental and waste management cooperation; and the harmonization of health policies. A major challenge for the region is to take advantage of the opportunities presented under the Pacific Island Countries Trade Agreement (PICTA) and PACER, and to effectively negotiate an EPA with the European Union. As the EPA will require reciprocity, another major challenge for the region is to take full advantage of the broad market access provided by the EBA Initiative through duty-free and quota-free access to the EU for all products from Pacific Island countries.

Support policy-makers in integrating the business sector into the global economy

### Trade Development

#### Preservation and branding: bringing together the market and the environment

One way to take advantage of trade opportunities is to secure international recognition for products from the region. Certification by international institutions such as the Forestry Stewardship Council (FSC) and through the establishment of UNESCO Biosphere Reserve Communities provides such recognition. Enterprises that operate in such communities can promote goods having a special "pro-environment brand", which increases their export value in growing niche markets. Major donors, notably the European Union, broadly support such initiatives. Environmental certification and the international recognition that it confers will help the private sector to develop creative new business opportunities that can contribute to trade expansion. Business practices that are compatible with the preservation of the environment and the international recognition thereof can generate the necessary goodwill to facilitate market access into niche segments of the growing global "bio" and "eco-business".

Develop the capacity of trade service providers to support businesses

### Building Production Capacity

#### Harnessing the region's potential for "bio" and "eco-business"

Tourism, especially eco-tourism, is a fast growing industry in the region. The Pacific Islands are wealthy when it comes to natural beauty. The provision of food, furniture, and handicrafts for the tourist industry is therefore promising. Subsistence farming also represents potential for "bio-food" production, which is in strong demand in international markets in the EU and North America. Pacific Island countries can also explore ways to enter into strategic business alliances with foreign enterprises to attract foreign direct investment, and to facilitate the transfer of technology and skills. This will contribute to the further development of the private capacity, notably by improving small-scale manufacturing capacity, thus giving a boost to economic activity within the region.

Strengthen the international competitiveness of enterprises

# ITC Responses

## Trade Policy and Regulations

### **Public-private partnership for a new regional landscape for trade**

With the impending expiration of the Cotonou Agreement Waiver in December 2007, which raises concerns over the loss of preferences, ITC can work with Pacific Island business associations to help promote greater public-private dialogue to ensure that the interests of the business community are taken into account in these negotiations. ITC's extensive expertise in this area can assist Pacific Island countries to work with the private sector to establish mechanisms to facilitate ongoing dialogue on trade policy and trade negotiations. Through dialogue and cooperation, Pacific Island countries, working with the private sector will be able to better identify viable regional business opportunities available under PICTA, PACER and other bilateral and regional trade agreements and economic cooperation agreements (SPARTECA). Given their remoteness from major markets and related logistical constraints, ITC's assistance in the area of trade facilitation to help support broader efforts to expand trade and business in the region could also be of great value. ITC is also in a position to provide ongoing assistance to the Government of Fiji to fully implement the National Export Strategy (NES) that was elaborated in 2007 with assistance from ITC. ITC can continue to collaborate with the Government of Papua New Guinea to develop its own NES. Trade representatives of the Pacific Island governments will be invited to participate in the World Export Forum of 2007 to continue the dialogue on the identification of priorities to help in the development of strategies to increase export capacity and how ITC can provide assistance in this regard.

## Trade Development

### **Equipping trade support institutions (TSIs) as regional agents to facilitate trade and export development**

There is an urgent need to build capacity within national and regional institutions dealing with trade, many of which are inadequately equipped to respond to the information and technical support needs of the private sector. ITC can work with TSIs to strengthening their capacity by providing management training for their staff, assistance in the development and management of trade information services and by equipping TSIs with tools for market analysis. ITC can also provide assistance in the establishment of WTO Reference Centres to house and disseminate critical trade information and services to government agencies, business users, and the general public.

Another important area of intervention could be to assist the Pacific Island countries to take advantage of important new markets through environmental certification. A first step can be to enhance awareness of business opportunities to be had through FSC certification and the creation of biosphere reserves (BRs) (examples include the European BR and the Palau BR that generate revenue for enterprises operating in these communities). Further assistance can be provided to help countries to promote the bio-fuel industry, notably in the production of bio-diesel and ethanol from locally-produced fruits, vegetables and other natural sources.

## Building Productive Capacity

### **Boosting entrepreneurs' potential through strategic planning and strategic alliances**

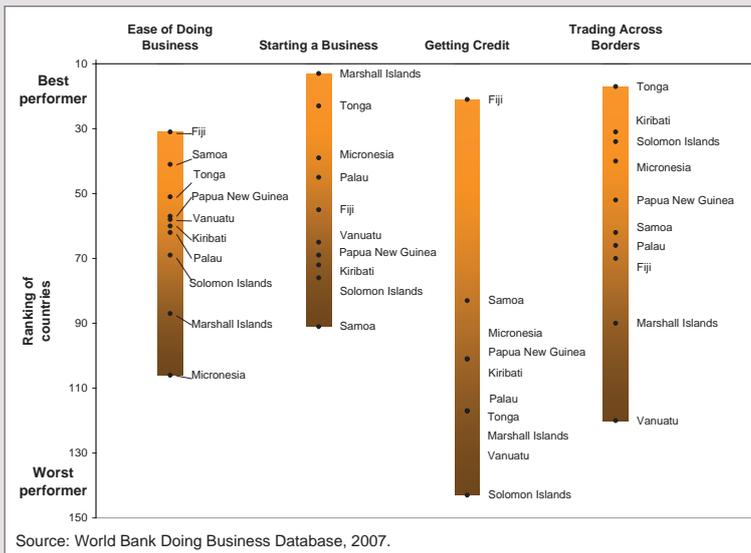
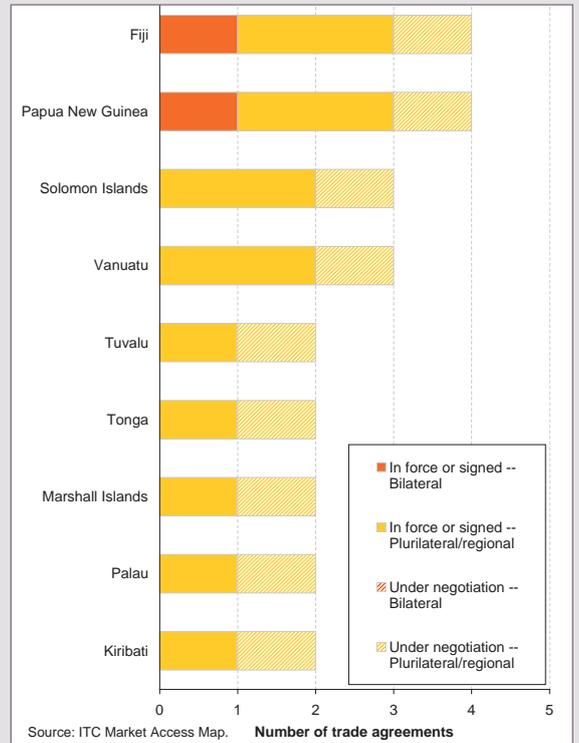
ITC can assist in improving the productive capacity of enterprises through value chain analyses to help improve production processes and to eliminate inefficiencies where they exist. ITC's assistance can also focus on assisting enterprises to improve business planning and decision making; providing capacity building assistance at the sector/product level on quality and standardization issues, packaging and SME finance; and helping enterprises to understand competitiveness issues in the context of international purchasing and supply chain management. Further assistance can be provided to enterprises in the areas of product development, sourcing and marketing.

ITC can also assist in organizing meetings between prospective international buyers and Pacific Island producers to establish strategic alliances to facilitate the transfer of resources, know-how and technology for their further development and enhanced competitiveness.

# Strengthening Links ■

## Trade Agreements in Force or under Negotiation

Regional and plurilateral agreements far outnumber bilateral agreements in the Pacific region. Fiji and Papua New Guinea lead in the region with bilateral trade arrangements with Australia, New Zealand, Malaysia, the Republic of Korea, the United Kingdom and Vanuatu, and with Australia, NZ, US, China, Fiji, Indonesia, Thailand, respectively.



# Doing Business

## Representative Indicators

The Pacific Island countries rank from 34 to 64 in terms of ease of doing business. The Pacific Plan has accelerated private sector reforms, which have improved the business climate in the region.

# Concentrated or Diversified?

## Product and Market Concentration

Export concentration remains a major problem in the Pacific Islands. The region exports a narrow range of primary agricultural products such as coconut oil, copra, and fruits. Fish products are another important source of exports. However, Fiji has achieved some success in export diversification. Today, Fiji exports gold, pearls, crude petroleum, garments and textile products. The economies of the Pacific Islands are diverse in terms of economic performance. Where Papua New Guinea, the Marshall Islands and Fiji have enjoyed strong growth in exports, Nauru and Kiribati have had a decline.

