Activating greater trade and investment between Australia and Pacific island countries

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Introduction

This policy brief focuses on how Australia can support Pacific island countries to increase the amount of outward trade, both in terms of goods and services. Many countries in the Pacific are already significant markets for Australian businesses. However, the reverse is far from true and this is where the future focus of Australian investment needs to be. The disparity of trade flows between Australia and the Pacific has become entrenched and serious efforts need to be applied in order to effect meaningful change in this space. In particular, we are concerned with how Australia can work with Pacific countries to increase the volume and/or value of goods that are exported to Australia. That is not to say that trade in services is not significant; we specifically address some pertinent points in relation to labour mobility in this regard. We recognise that it certainly is. However, we feel it is important not to disregard the vital role that trade in goods can and should contribute to sustainable economic growth in countries in the Pacific islands region.

It remains imperative that policy makers, financiers, private sector operatives, and others are fully cognisant of the underlying factors that should inform engagement in the Pacific islands region, including in relation to activating greater trade and investment. These include:

1. A nuanced understanding of the diversity of the Pacific island region with reference to history, politics, economic structures, culture, and social norms. This includes a full appreciation of the impacts and legacies of countries’ experience of colonialism (where applicable);

2. An appreciation of where there are competitive advantages available to Pacific countries, businesses and economic sectors. This includes those that have been present historically as well as those that have emerged more recently, e.g. as a result of greater ICT capacities;

3. An evidence-based assessment of the structural challenges that face producers in Pacific island countries and those to whom they sell (or wish to sell) their goods. This points to the need for greater investment into research in this space, with a particular recognition of the fact that a significant number of Pacific producers operate within the informal and/or semi-formal sectors of the economy. This can make data harder to capture in surveys that are focused on formal sector operations.
Context

The sheer diversity among Pacific island countries makes it difficult to speak of universal economic characteristics. Nonetheless, there is little doubt that prospects for economic activity in all Pacific island states are heavily determined by factors outside the immediate control of policymakers. These include factors of economic geography such as small and dispersed populations, a limited resource base, distance from external markets and an acute vulnerability to natural disasters. Taken together these factors limit options available for an effective development of domestic resources and constrain the ability of Pacific island countries to export goods and services at competitive prices.

As they have trade policy implications, it is worth exploring the unique features of Pacific island economies in some detail. Taking first the small size of Pacific island states; all but one of the independent Pacific island states have a population of less than one million people, and seven island states have a population of less than 100,000 people. Thus, most Pacific countries have smaller populations than medium-sized cities in Australia and New Zealand (NZ) (or even island cities like Suva and Port Moresby). Nor is it just small populations either, for while most Pacific island countries have territorial claim to large expanses of ocean, many of them lack economically significant land area. This is particularly true of the region’s ‘micro-states’, such as Nauru (with a land mass of just 21km²), Tuvalu (26km²) and Niue (260km²); and states comprised of small atolls spread across huge tracts of ocean, such as Federated States of Micronesia, Kiribati and Marshall Islands.

For any small state, the primary economic costs associated with small size stem from limited domestic resources and a limited domestic market for all goods and services. This increases the likelihood that a country will be dependent on imports, and on a small suite of exports to earn foreign currency to pay for those imports. A reliance on imports exacerbates economic vulnerability due to a reliance on external determinants of price and security of supply.¹

Alongside problems associated with small size, Pacific island countries also face constraints arising from their distance from major centres of commerce. Indeed, Pacific states rank as some of the most isolated on earth.² In many cases the geographic realities of distance are exacerbated by expensive, unreliable or non-existent transport links. In addition to distance from external markets, Pacific islanders frequently face isolation within their nation state, as populations are often spread across widely dispersed islands, or in rural highlands that are poorly serviced by transport infrastructure.

A final consideration regarding the economic geography of Pacific island states is the fact that the island countries are remarkably vulnerable to natural disasters. Strung out as they are across a warm tropical ocean, and with many islands dotting tectonic plate fault-lines, the Pacific island states “rank among the most vulnerable in the world to natural disasters”.³ In any given year the Island countries face cyclones, tsunamis, earthquakes, volcanic eruptions, flooding, landslides and droughts. Climate-related disasters, particularly high intensity cyclones and coastal inundation associated with sea-level rise, are furthermore on the increase due to anthropogenic climate change. Taken together, the constraints of small size, distance from external markets and a susceptibility to natural disasters, tend to “render a small Island developing state relatively weaker than other countries in the face of factors outside of its control”.⁴

Most importantly with regard to trade, the unique features of Pacific island economies mean that the cost of production is higher than it is in most other parts of the world. As recent analysis from the World Bank explains: “there is likely to be a permanent wedge between the cost of production in the Pacific and the world price in all but a few niche markets”.⁵ Because Pacific island countries face unique challenges developing competitive exports, many argue that the island states should receive unique support from the international community, including and especially from developed neighbouring countries like Australia and NZ. The structural characteristics of Pacific island states explored above also mean that traditional goods exports are a relatively small feature of island economies. Only in larger independent Melanesian states which have greater arable land and natural resources—namely Papua New Guinea, Fiji, Solomon Islands and Vanuatu—do goods exports constitute more than 20 per cent of national GDP.⁶ Much of the region’s goods exports can be properly characterised as primary resource extraction by multinational companies which possess the means and technical know-how to access those resources. The larger share of economic benefits arising from resource exports—such as minerals, timber and fish—have tended to accrue to those firms. With little local processing, and tax regimes of limited effectiveness, the “employment and financial benefits to the host country are minimal”.⁷

Fish exports highlight some of the difficulties in gaining economic benefit from the exploitation of natural resources. Despite the fact that by some estimates
70 per cent of the world’s tuna is sourced from the south-west Pacific, relatively little of the value of the catch is retained in the region. Most tuna is caught by vessels from distant nations and Pacific states earn income by selling fishing licences. There are however tuna canneries located in Fiji and Solomon Islands, and tuna processing has recently expanded in northern Papua New Guinea. It is also worth noting that more so than for mining and logging, tuna fisheries are a significant source of formal employment, both for those employed on fishing vessels and in processing plants. Indeed, the fisheries sector is the largest private-sector employer in several island economies and fishing license fees are an important source of government revenue for a number of Pacific countries—especially Kiribati and Tuvalu, who derive more than half their revenue from licence fees.9

Few of the goods exported from Pacific island states are processed goods. Notable exceptions are clothing and textile exports, bottled water, and biscuits from Fiji. Elsewhere primary agricultural commodities predominate including sugar, oil palm, coffee, copra and coconut products, cocoa, vanilla, beef, sandalwood, and other high value timbers. Tropical crops established during the colonial era remain a key source of livelihoods. In Papua New Guinea for example, more than half of all rural households earn cash incomes from selling coffee beans destined for export.10 In Fiji, raw sugar exports to Britain dominated the country’s export profile for most of 20th century and remain an important source of employment. Despite the distances involved, many of the Pacific’s agricultural exports remain destined for European markets. There have been recent attempts to diversify into higher-value ‘niche’ agricultural exports; including virgin coconut oil, single-source coffee and cocoa, bottled water, high value plantation timbers, indigenous nuts and processed fruit.11 In this regard Fiji leads the region, exporting as it does more than 200 different agricultural products to 20 export destinations.

It appears likely that most Pacific island states will face permanent competitive disadvantages in the export of goods. Many island states are likely to eschew the export of goods and provide services instead; particularly by attracting people from abroad or by sending workers abroad to deliver those services. For many Pacific states, especially those well serviced by international flights or cruise ships, tourism is already a key source of income. Cook Islands, with a resident population of around 17,000 people, receives around ten times that number in tourists each year, and tourism makes up around 70 per cent of the country’s GDP.12 For a number of Island states, tourism receipts are more than 20 per cent of GDP, namely: Fiji (20.1 per cent), Palau (57.5 per cent), Samoa (20.5 per cent) and Vanuatu (31.5 per cent).13

With limited economic opportunities at home, many Pacific islanders seek employment abroad. For those island states that have special access to developed country labour markets, money sent home by workers living abroad has become very important for the domestic economy. Remittances form a substantial proportion of the GDP of Cook Islands, Kiribati, Samoa, Tonga and Tuvalu. Indeed, Samoa and Tonga are recognised as some of the most remittance-dependent economies on earth.14 Increasingly, participation in temporary labour programmes (the Seasonal Workers’ Program and the Pacific Labour Scheme in the Australia context) has seen other countries such as Vanuatu build remittances into their economic and development ecosystems as well.

Finally, in addition to trade and remittances, Pacific island states derive income from aid and concessional loans from the international community. While countries with a more successful economy receive very low levels of development assistance (Fiji for example), other Pacific states are uniquely dependent on aid.15 More than 40 per cent of the government budget is provided through aid in Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau and Tuvalu.16

Increasingly there is a view among policymakers that aid is likely to be a long-term feature of a number of Pacific economies.17 This reliance on aid nonetheless means that donor states should directly support the development of those trading opportunities that are available to island states.

The most significant trading relationship for Pacific island states is with Australia and NZ, comprising as it does (on average) one third of Pacific island countries’ trade.18 While variation exists among the island states, in aggregate terms Australia and NZ are the most important source of imports, remittances, tourist arrivals, foreign direct investment, and aid. The bulk of trade with Australia and NZ consists of imports from the two developed countries.19 Indeed Australia and NZ account for “almost exactly half of all Pacific Island country imports”.20

Pacific exports have, at least until very recently, tended to be oriented away from Australia and NZ to other markets in Europe, the United States (US) and Asia.21 Nonetheless, significant exports from the island states to Australia and NZ include: gold and crude petroleum from Papua New Guinea; gold, clothing, biscuits, and bottled water from Fiji; and gold and timber from Solomon Islands. There are also significant exports of fruit and vegetables to a Pacific diaspora living in Australia and NZ. The countries of the Pacific islands region represent a minor export market for Australia and NZ. Exports account respectively for “just under 1.5 per cent and just under 2 per cent of the two countries’ total exports”.22
Pacific island countries trade very little among themselves (with the exception of exports of confectionery and biscuits from Fiji to other island states). This low level of intra-island trade is in large part because the island states produce a similar suite of commodities, which they therefore do not need to buy from each other. With regard to trade with the rest of the world, Europe remains a key destination for Pacific exports, particularly for processed tuna and agricultural exports from Melanesian states. Other key trading partners include the US, Japan, Singapore, and some states in South East Asia. China is an increasingly important trading partner, primarily as a source of imports and investment. Closer engagement with emerging markets in Asia—and particularly with China—is likely to be an ongoing trend for the island states.

Pacific island economies face unique challenges that mean they cannot take the orthodox road to development. Over recent decades, numerous studies, particularly from the World Bank, have detailed structural features that render Pacific island economies unique, including: small size, distance from markets, expensive transport costs, a heavy reliance on imports, a remarkable vulnerability to natural disasters and, increasingly, exposure to the effects of climate change. Taken together, these characteristics of island economies—most of which arise from intractable features of economic geography—mean that the cost of production in the Pacific is higher than it is in most other parts of the world. In this context, orthodox prescriptions for trade policy, for economic growth, and for export-led development generally do not hold, and policymakers must look for unique solutions.

Pacific island states face unique constraints to participating effectively in international trade. In a global marketplace, countries maximise economic benefits from trade by specialising in their areas of comparative advantage and trading with other countries doing likewise. For Pacific island countries however, costs of traded goods and services are necessarily high, largely due to factors of economic geography, and areas of comparative advantage are extremely limited. Professor Stephen Howes (former chief economist at AusAID and director of the Development Policy Centre at the Australian National University) explains that Pacific island countries are uniquely expensive, and in this regard are “fundamentally different” to other developing countries. A seminal study from Allan Winters provides strong empirical evidence that small island states face absolute disadvantages which inhibit their ability to trade competitively in global markets. Australia is to improve trading relations with Pacific island countries, these unique features of Pacific island economies must be taken as the starting point for the design of new initiatives.

**Possible ways forward:**

1. **The starting point for activating greater trade and investment with Pacific island countries must be an acknowledgement of the unique features of Pacific economies, as these features limit effective policy options for growing Pacific trade.**

**Orthodox free trade arrangements are unlikely to deliver economic growth for Pacific island countries**

The PACER-Plus agreement—by and large a standard free trade agreement—does little to promote new trade opportunities for Pacific island countries. Negotiations for the PACER-Plus regional free trade agreement between Australia, NZ and Pacific island countries were completed in 2017. At present, it is expected that PACER-Plus will come into force in late 2020. Unfortunately, most analysis suggests that the agreement does little to ameliorate the competitive disadvantages Pacific island countries face participating in international trade. As World Bank senior economist Matthew Dornan argues, “the impact of a PACER Plus agreement on Pacific island states is likely to be limited ... There is not much to celebrate, beyond a deal being struck”. PACER-Plus does little to enhance market access for Pacific exports to Australia and NZ, and does not address key barriers to trade—such as burdensome quarantine requirements for agricultural exports from Pacific island countries.

To be sure, it does reduce border tariffs and provide market access benefits to Australian and NZ exporters. However, neither of the two largest island economies—Papua New Guinea and Fiji—have signed on to PACER-Plus and this limits potential benefits to Australian businesses as well. As a report from the Australian Parliament’s Joint Standing Committee on Treaties (JSCT) explains: “the absence of Papua New Guinea and Fiji from PACER-Plus significantly diminishes the utility of the agreement for Australian business”.

PACER-Plus is unlikely to generate significant economic growth in Pacific island countries. Optimistic observers have suggested tariff reductions for Australian exports to the Pacific will see reduced prices for Pacific island consumers. In many cases however, projected gains
are likely to be offset—at least somewhat—by the introduction or increase of consumption taxes. Close analysis suggests that lowering domestic tariffs will entail difficulties for island states reliant on import taxes for government revenue.\(^29\) For smaller island countries, replacing trade taxes with less distorting, but harder-to-administer, consumption taxes would also do little to generate economic growth.\(^30\) In the few Pacific island states that have a significant manufacturing sector—most notably Fiji, but also Papua New Guinea—there also remains concern that removing import tariffs will undercut local manufacturing (with resultant business closures and job losses).\(^31\)

Building trade relations should go beyond a narrow focus on PACER-Plus. The Australian government has allocated $AUD4 million for a ‘Readiness Package’ to help Pacific island states sign and ratify the PACER-Plus agreement and will provide $AUD19 million over five years for an ‘Implementation Package’ to help Island states implement aspects of the agreement. However, a focus on meeting the terms of the PACER-Plus agreement (i.e. implementing tariff commitments and meeting obligations on Sanitary and Phytosanitary Measures) will, in itself, do little to expand trade.\(^32\) Funds allocated as part of Australia’s recent Pacific ‘step-up’—particularly those intended to build critical infrastructure in the Pacific—should be used to develop supply-side capacity and to address market access barriers in a more direct way. Aid allocated to improve trading opportunities should aim to resolve quarantine issues, improve trade related infrastructure, provide information regarding international market opportunities, improve production techniques, maintain quality of supply, and develop new marketing and branding initiatives. Many existing aid-for-trade projects are subject to short-term funding cycles, and much could be done to coordinate support for developing Pacific trade on an ongoing basis.

### Possible ways forward:

2. Activating greater trade and investment with Pacific island countries requires more than the continuing pursuit of PACER-Plus. Simply implementing WTO-compliant rules for regional trade will not substantially boost trade and investment. Australia should, through its aid program, build supply-side capacity and address market access barriers in a direct way.

### Building on existing relationships to develop trading opportunities

#### Infrastructure

As part of the Pacific ‘step-up’ we have seen a much greater focus on financing of infrastructure via the Australian aid budget than has been the case previously. There is no doubt that the need for infrastructure is enormous in the Pacific islands region, particularly in rural and remote areas. Whilst other donors may be characterised as supporting so called ‘vanity’ projects, there are opportunities for Australia to work with Pacific policy makers to develop and deliver infrastructure projects that provide sustainable and targeted support to the productive sectors in Pacific island countries. Where possible, this should include use of low carbon technologies to promote sustainability and align with national development plans and objectives. For example, solar powered refrigeration facilities at wharves, ports, and airports.

While the strategic and political imperatives remain focused on infrastructure investments, there are opportunities to leverage this spending to develop trade opportunities and productive capacity. This is particularly the case when it comes to large scale (i.e. large scale in the Pacific context) capital expenditure, which may be beyond the reach of a sector in a small country.\(^33\) In addition, it is important to maintain adequate (which may likely mean increased) focus on soft infrastructure including health and education services as well as access to ICT.\(^34\)

#### Education and training

In order to enhance the overall economic and development ecosystem of Pacific island countries there needs to be recognition of and investment in appropriate education and training. There are important opportunities to develop linkages between Aid for Trade (AFT) programming and other established investments, particularly via the Australia Pacific Training Coalition (APTC). In parallel, there is scope to explore how the ‘circular economy’ of Pacific labour mobility—via the Seasonal Worker Program (SWP) and Pacific Labour Scheme (PLS)—can be part of enriching this ecosystem and where APTC offerings can be developed and/or tailored to meet demand as it emerges. There is anecdotal evidence to indicate that SWP participants are transferring skills and knowledge to their home communities by way of diversifying crop production and/or using new techniques. As the work of APTC becomes more closely aligned with labour mobility modalities (particularly the PLS), there is scope for their offerings to be further developed to support trade-focused activities.
Synergies of this type are part of how Australia can differentiate its offering as a development partner. APTC is a well-established and well recognised aspect of the Australian aid programme. There are likely to be some significant gains to be achieved in leveraging from its accumulated political capital as well as its positioning as a provider of high-quality training.

**Diaspora linkages**

Australia is home to a large number of Pacific islanders. However, the significance of the Pacific diaspora communities in Australia has been neglected for a long time (although there have been some steps taken to remedy this recently). There are significant resources within diaspora communities, which lend themselves to enhancing the overall trade ecosystem between Australia and countries in the Pacific islands region. Work has already been undertaken by Pacific Trade and Invest (PTI) as to how impact investing may provide an appropriate vehicle for Australian Pacific islanders to provide ongoing livelihood support to families and communities in Pacific island countries. This appears to reflect an appetite among members of the diaspora to move beyond basic remittances as the primary or sole modality for supporting consumption and development needs in their countries of origin.

Furthermore, diaspora communities in Australia represent potential markets for Pacific products, including foodstuffs, handicrafts, and niche products such as cocoa and kava. We are aware of retailers in Auckland who are effectively creating demand (and providing a ‘pull factor’ that helps develop new value chains) by virtue of servicing diaspora communities, and thus driving increased production of food crops in Fiji. There are certainly geographical areas of Australia (e.g. Western Sydney, Logan, and Cairns) where it is reasonable to expect that similar mechanisms could work and be supported.

A particular aspect of the diaspora linkages discussion pertains to grant funding for small businesses in Australia. There is scope to look at how this funding is managed to remove any barriers to businesses that are sourcing products and services from the Pacific islands region as part of their current or projected business models. In many cases this is likely to be state level funding, although there are federal grants available as well. For example, Trade and Investment Queensland (TIQ) has collated information about state level funding that is available to businesses, including SMEs, looking to expand their export profiles. We would like to see the scope of attention broadened to look at how Queensland/Australian businesses can expand their import profiles in order to integrate products and services from the Pacific into their supply chains.

**Value chains**

During a recent panel event hosted by the Australian Institute for International Affairs (QLD) the concept of ‘shared value’ was raised and discussed as part of how Queensland, by way of public and private sectors, can further develop existing ties with the countries of the Pacific islands region. Participants in the discussion suggested that niche, high value products could be sourced from Pacific island countries and incorporated into value chains already established here in Australia. Indeed, the nature of long-standing economic, cultural and people-to-people relationships can provide part of the story that supports ‘Brand Queensland’ or ‘Brand Australia’ in some targeted and potentially lucrative areas.

Given the lack of visibility of Pacific products in Australia it needs to be recognised that the government will need to invest in appropriate incentivisation of Australian retailers (potentially including large retail chains such as Coles and Woolworths) to look to these countries for products to include in their offerings. Whilst it is unlikely to be economically viable for there to be a ‘Pacific products’ display in every Australian supermarket, there are some key locations where this would be viable. This approach is part of how the wider Australian public will come to learn more about what Pacific island countries do produce. By ‘educating the market’ in this way, there is real potential for value chains of this type to sustain and grow production in Pacific island countries.

**Linkages with state governments and agencies**

Whilst the Pacific ‘step-up’ is a creature of the Federal Government with leadership being provided by DFAT, there is scope for existing relationships between state governments and Pacific island countries to be established and/or enhanced. Increasing two-way trade has a significant role to play within a framework of this type, including by contributing to points raised previously in relation to building on diaspora links and increased inclusion of Pacific products in Australian value chains. As a first step we would look to TIQ to provide leadership in this space. Queensland has a number of direct transport links to capitals and trade hubs in the region, particularly in Melanesia where the major producing countries are located. There is scope for TIQ to be supported by the Office of the Pacific and the DFAT state office to build its capacity to take on this role. This should include funding for appropriate research and knowledge building within the agency, including building on lessons learned from other agencies that have been engaged in work of this type to date (such as Pacific Trade and Invest).
Promote Pacific products in Australia and build business-to-business links

There is insufficient awareness in Australia of what Pacific producers have to offer, whether as raw products or processed goods. And yet, we can point to some success having been achieved by using very tailored methodologies that promote business to business (B2B) relationships, which can be mutually beneficial. An example is Maketi Ples which has previously showcased creative producers from the region by providing a platform for art, textiles, handicrafts, and other creative products—through an annual gallery of high-end Pacific art.

Given that the creative industries in the Pacific draw on cultural histories and traditions that are rich and diverse, they are the epitome of production that has a niche competitive advantage. It has long been argued that the place of artistic expression has been neglected in development strategies in the region, including those supported by development partners such as Australia. And within that, the role of creative industries to provide livelihood opportunities has yet to be fully explored.

Within the scope of tourism, there are opportunities in some countries to sell domestically produced souvenirs and supply artwork, textiles and other creative products to hotels and resorts. However, the real opportunity lies in brokering B2B relationships with Australian enterprises so that they become high-value markets for what Pacific artisans, artists and creators can supply. This builds on the lessons learned from the Maketi Ples experience which has now been discontinued.

Pacific Pavilion

Australia does not provide any sort of regular expo at which Pacific products can be showcased and socialised within Australian markets. This contrasts with opportunities that are provided in other countries for Pacific producers—notably NZ, Indonesia, and China. In NZ, expo-type events have been held alongside a regular Pasifika festival which takes place in Auckland.

The Pasifika Festival was cancelled in 2019 and PTI staged a ‘Path to Market’ event that showcased products from 16 Pacific Island countries. A large “Pacific Exposition”, hosted by the government of Indonesia, was held in Auckland in 2019. A number of Pacific island countries have also participated in the two ‘China International Import Expo’ (CIIE) events that have been held in Shanghai. They participate via a South Pacific Islands Union Pavilion. After the second CIIE in 2019, agreements were signed to establish subsidiary pavilions in Guangzhou, Shenzhen, Qingdao, and Hangzhou.

Whilst we accept that a Pacific Pavilion is not a feasible option for every Australian city, a semi-regular ‘Pacific Expo’ is an option that should be explored in relation to some key locations in Australia, particularly those on the eastern seaboard such as Brisbane, Sydney and possibly Cairns.

ICT

The growing availability of ICT solutions and services in Pacific island countries brings with it the potential for increased opportunities for Pacific producers. This is particularly the case when it comes to accessing key information (e.g. global prices for key agricultural products) as well as to exploit new promotion and marketing options, including via social media platforms.

However, it is important to recognise that in order for these opportunities to be optimised there is a need for further and continuing investment in parallel infrastructure, both hard and soft. It is also the case that even where enhanced ICT capacity is available (e.g. via submarine optic fibre cables), the utility to Pacific producers may be limited in the short to medium terms. This arises from issues such as location (having sufficient bandwidth outside of urban centres may not be guaranteed) and cost. Although prices for bandwidth and data bundles are reducing over time, they are still largely out of reach of many in the informal and semi-formal sectors in Pacific island countries.
Possible ways forward:

3. There are already significant everyday linkages between Australia and Pacific island countries. These links should be seen as the starting point for increased trade and investment. Specific recommendations include:

   a. Future infrastructure investments be targeted to support for the productive sectors of Pacific island countries with a focus on low carbon technologies and sustainable development initiatives that align with national development plans.

   b. Future programming for the Australia Pacific Technical College should be linked to the Seasonal Worker Program and the Pacific Labour Scheme, particularly in support of (re)investment in sending countries by returning Pacific labour mobility participants, to promote growth in the productive sectors.

   c. Greater focus should be placed on linkages that feature Pacific diaspora communities of Australia, including how they can participate in impact investments, act as markets for Pacific products, and receive state or federal funding for businesses that incorporate Pacific products into their value chains.

   d. Research should be undertaken into how Pacific products can be most effectively built into value chains in which Australian businesses already participate, including by developing ‘shared value’ models with a particular focus on low yield, high value niche products (spices, cocoa, vanilla, etc).

   e. i. There should be investment (including via development assistance from the Federal budget) in more and better linkages between Pacific island countries and state governments and agencies, with a particular focus on Queensland given its preferential position in relation to transportation links.

      ii. TIQ should be resourced to establish an office and full suite of resources in the Pacific island region (possibly in Suva/Nadi or Port Moresby/Lae).

   f. Greater investment should be directed towards promotion of Pacific products, especially those from creative industries, to Australian businesses. Drawing on the lessons of the past, this should be focused on the fostering of B2B relationships, including by providing resources as needed.

   g. Appropriate research and resourcing should be applied to the development of Pacific Pavilions in key locations in Australia in order to showcase Pacific products and make them available for purchase by Australian consumers.

   h. Future investments in ICT capabilities in Pacific island regions should include support for parallel infrastructure (hard and soft) that will support the growth and development of productive sectors in Pacific island countries.
Supporting agricultural value chains key to employment

Agriculture is the most important economic sector for the Pacific island countries—providing livelihoods, cash-employment and food security for more than eight million people. Tropical agriculture is especially important in larger Melanesian countries (Papua New Guinea, Solomon Islands, Vanuatu, Fiji). Typically, food production dominates the sector—with ‘village-level’ farmers growing and distributing a large quantity and varied range of fresh vegetables, root crops, nuts, fruits and flowers. Because many of these farmers focus on growing food for their own families, or to share with others through socially-embedded systems of exchange, traditional food production is often under-represented in national accounts and has been identified as a ‘hidden strength’ of Pacific economies (especially in times of global market volatility, such as the 2008 Global Financial Crisis and the COVID–19 pandemic). Other sectors—particularly tourism and mining—are important in some Pacific countries, but are unlikely in themselves to provide the volume of job opportunities required to meet the needs of growing Island populations.

Trade in agriculture offers opportunities for promoting Pacific employment. Pacific populations are by world standards young, and rural. It is important that efforts to expand trade and investment in Pacific island countries aim to promote new employment and livelihood opportunities for young people in agriculture. In the past, agricultural exports from Pacific Island countries were generally in the form of undifferentiated colonial-era crops—such as copra and sugar—that were destined for distant markets in Europe. For some time, large-scale plantations dominated commercial exports. Over recent decades, however, the smallholder sector has been fastest growing, particularly in Melanesia. This sector has also proved to be remarkably price-sensitive, with many farmers choosing what to grow based on the vagaries of international markets.

Smallholders in the Pacific are unlikely to compete either on price or volume with low-cost, high-volume producers in South East Asia. Island growers face inherent cost disadvantages. ‘Village-level’ production involves small economies of scale, input costs are high, natural disasters are common and transport between islands is often expensive and/or infrequent. In short, growers need to receive considerable returns to compensate for these unavoidable costs.

To take advantage of international trade in the 21st century, smallholder producers in the Pacific will need to focus on high-value, low-volume exports. Thankfully, opportunities abound, and island producers already export a range of high-value agricultural products to markets across the globe. Furthermore, many of these exports complement traditional systems of food production without supplanting them. Pacific smallholders are growing food around and underneath high-value crops destined for export. Crops like sandalwood (and other high-value timbers), noni trees, indigenous nuts or kava are all suitable for inter-cropping in smallholder food gardens and village plantations.

Key to the future of commercial agriculture in the Pacific islands is high-value, low-volume niche exports. Higher-value exports include ‘single source’ products (coffee, chocolate, spices etc), virgin coconut oil, cosmetics, indigenous nuts and oils, fresh fruit and vegetables, livestock, cut flowers, organic produce, and plantation timbers (see Table 1.0 for an overview of key niche agricultural exports). A continuing diversification of agricultural exports in Pacific island countries means that rural communities are presented with the opportunity to participate in higher-value production chains. There are excellent opportunities to commercialise production of high-value timbers, nuts, and tropical fruits and vegetables.

Table 1.0: Regional bounty in the Pacific

<table>
<thead>
<tr>
<th>Region</th>
<th>Key niche agricultural products</th>
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<tbody>
<tr>
<td>Melanesia</td>
<td>High-value plantation timber, fair-trade sugar, bottled water, virgin coconut oil, coconut products (cosmetics, furniture, etc), fresh tuna (sashimi), ‘single source’ cocoa and coffee, kava, fresh fruit and vegetables, indigenous nuts, fresh flowers, preserved spices, organic beef, pearls.</td>
</tr>
<tr>
<td>Polynesia</td>
<td>Virgin coconut oil, cosmetics, black pearls, noni juice, dried organic fruits, spices, single source cocoa and coffee kava, fresh fruit and vegetables (particularly squash), indigenous nuts, fresh fish, vanilla.</td>
</tr>
<tr>
<td>Micronesia</td>
<td>Virgin coconut oil, coconut products, import substitution.</td>
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Source: Wesley Morgan

Marketing is key to improved returns. Many places in the Pacific are inherently marketable. Remote and ‘exotic’ locations, warm and happy people, and ‘clean and green’ production fire the imagination of would-be consumers. Sophisticated marketing strategies which use the Pacific ‘brand’ to stand out from the crowd are one way of targeting discerning buyers who are prepared to pay more for island produce—a price premium that is vital to offset high costs of production. An example of successful marketing for a niche product is that of Fiji Water, which has become a globally
recognised brand. The NZ government has supported the development of a ‘True Pacific’ brand, intended to promote high-quality Pacific produce.\(^5\) Through its aid program, Australia could also look to support the marketing and branding of Pacific island produce. Similarly, the Australian aid program could directly support the marketing of Pacific produce by facilitating semi-regular trade fairs, a Pacific Expo in capital cities, intended to showcase Pacific products and link Pacific island exporters with Australian retailers. Again, NZ already leads the way in this regard, hosting an annual Pacific Expo that is well attended by both business and Pacific political leaders.

Developing accessible export pathways, and overcoming quarantine hurdles, is key to growing Pacific agriculture. It is no good harvesting high-value papaya or ginger, or cut-flowers if there is no way to get produce to consumers who are prepared to pay top dollar for them. A key challenge of course is transport—is there any way to get to market? But perhaps an even bigger issue is market entry. Agricultural economist Andrew McGregor argues that quarantine is the weakest link in the Pacific’s horticultural export marketing chain. At the ‘sending’ end Island governments have limited capacity to support exporters by negotiating new market entry and resolving ongoing access issues. In many cases vital infrastructure is missing, such as heat-treatment facilities to remove fruit fly and other pests, or port and air-freight facilities.

At the ‘receiving’ end, developed country governments could do much to speed up the assessment of Pacific produce. Timelines for clearing biosecurity requirements into Australia can be agonisingly slow. Sant Kumar, chairman of the Fiji Fruit and Vegetable Industry Council, says it took the better part of a decade to have heat-treated pawpaw cleared for entry into Australian markets (nine years longer than it took to gain entry to NZ). As Kumar explained: “Trade, trade, trade … all the time we hear that trade is a solution … I tell you how can there be any trade if there is no market access for our products?”\(^5\) Saten Kumar, operations manager for Mahen’s Exports (based in the Sigatoka Valley in central Viti Levu, Fiji), said his company was focusing on exports to NZ, as a greater range of fresh produce was covered by bilateral quarantine agreements with NZ. Mahen’s Exports purchases about F$20,000 (approx. AU$14,000) worth of produce from village farmers in Fiji’s Sigatoka Valley each week, exporting dalo, eggplant, chillies, long beans, okra, curry leaves, dalo leaves (rourou), and so on to a Pacific diaspora living in NZ. Fiji exports a greater range of agricultural exports to NZ than to Australia—in large part because of difficulties meeting Australia’s quarantine requirements.

Previously, Fijian growers have argued it would take two lifetimes for Australian quarantine agencies to approve for import the full range of fruits and vegetables Fijian growers are now ready to supply to Australian consumers.\(^5\) Key to overcoming quarantine barriers will be cooperation between governments and the private sector to set priorities. Exporters (and would-be exporters) in each island country are often keenly aware of potential markets for their produce, but establishing and maintaining quarantine arrangements with destination countries is a role for government.

Through its aid program, the Australian government should strengthen value chains for Pacific exports and work with Australian retailers to promote niche, high-value Pacific produce. An expansion of agricultural exports from the Pacific will ultimately be driven by consumer demand. We will see new and increased Pacific exports where there is a demand for high-value tropical produce (e.g., coffee, chocolate, tropical fruit), where there are transport options available, and where market access and quarantine arrangements are in place. At present, a greater range of Pacific produce is sold into NZ than into Australia. Consumers in cities like Auckland want access to Pacific produce. Good examples include exports of sweet red papaya from Fiji (a popular breakfast fruit) and exports of taro to a Pacific diaspora living in NZ. In Pacific island countries, local businesses and government officials are working together to prioritise areas of cooperation for gaining (and maintaining) access to Australian markets.

The Australian government already supports the development of new commercial opportunities in agriculture, particularly through the Pacific Horticultural and Agricultural Market Access ( PHAMA-Plus) scheme. However, much more could be done in Australia to improve market access. At present just one person within the Department of Agriculture (supported by the PHAMA-Plus program) is tasked with facilitating access to Australia for products such as ginger, taro, limes, leafy vegetables, breadfruit, dried spices, and handicrafts. The Australian aid program should consider working with Australian retailers (including large supermarket stores in parts of Australia with a large Pacific diaspora population) to improve awareness of what Pacific products are available, to develop new product supply chains, and perhaps even to incentivise retailers to source Pacific produce. Support for market testing and research should also be considered. Finally, new research is needed to explore the challenges and opportunities facing Australian businesses that already source Pacific products. This would help to develop a greater understanding of ‘weak points’ in the value chains that might be ameliorated with targeted support from the Australian aid program.
Kava is a key export crop for a number of countries in the Pacific islands region, most notably Vanuatu and Fiji. The inability of kava producers to be able to export their products to Australia has been a sticking point for an extended period of time. During a visit to Vanuatu and Fiji in 2019, Scott Morrison flagged that there was an opportunity to change this situation. This was followed by an increase in the amount of kava that can be brought in for personal use from 2kg to 4 kg per adult and the announcement of a trial of commercial importation to be commenced during 2020. While a welcome step, this commercial trial has yet to commence and there are aspects of what has been proposed that require revision. One is the length of the trial, which has been set at 12 months. This is not of sufficient length for producers to establish a viable consumer market. This is particularly the case for producers from Vanuatu, who do not have a ready market in the form of a large diaspora in Australia (as is the case for Fijian, Samoan, and Tongan farmers).

Possible ways forward:

4. Pacific island populations are young, and rural. Considerable opportunities exist to expand high-value agricultural exports to Australian consumers. Australia should, through its aid program, help to strengthen agricultural value chains for Pacific exports. Opportunities exist to work with Australian retailers to promote niche, high-value Pacific produce.

5. Support for Pacific agricultural export pathways, particularly through the PHAMA-Plus program, is important. More resources should be allocated to addressing Australian quarantine requirements and expediting the assessment of Pacific products.

6. Australia’s aid program should look to strengthen value chains for Pacific exports and work with Australian retailers to promote niche, high-value Pacific produce. This could include direct support for the marketing of Pacific produce (financing for a unique ‘Pacific’ brand), a semi-regular Pacific Expo linking island exporters with Australian business, and the establishment of a working group with Australian retailers who source Pacific produce. New research is also needed to explore challenges and opportunities facing Australian businesses who work with Pacific suppliers.

7. Australia should continue the trial of commercial imports of kava from Pacific island countries. The initial trial period (of 12 months) should be extended (to at least 24 months) to allow would-be exporters to develop a viable market.

Expanded opportunities for labour mobility offer mutual benefits

The cost of production in the Pacific is higher than it is in most other parts of the world and trading competitively is a uniquely difficult prospect for island businesses. In this context, orthodox prescriptions for economic growth and export-led development do not hold, and policymakers must look for unique solutions. Increasingly, attention is being paid to opportunities linked with migration and mobility.

With access to air travel, and growing living standards on the ‘Pacific rim’, Pacific islanders have been leaving home in substantial numbers since at least the 1970s. Initially, this was considered a “straightforward developmental loss to the community of origin”. However, researchers investigating the effects of outward migration subsequently found many workers continued to remit a percentage of their income back home, and that these remittances were critically important for a number of island economies. This economic behaviour was, and is, grounded in Pacific cultures of family and community obligation.

Even as Pacific people ‘voted with their feet’ by seeking work abroad, policymakers continued to have their doubts. Early in the post-independence period there was concern that relying on remittances constituted a form of economic dependency, one which did not sit well with rhetoric about autonomous development strategies. Furthermore, a number of economists suggested remittances would undermine longer-term sources of economic development by drawing away productive labour and would undercut competitiveness by driving up domestic wages. Many experts also argued remittances were an inherently unstable source of income, which could not be considered a sound basis for economic development.

In recent times however, there is growing consensus that migration and mobility are important drivers of development in Pacific Island countries. Whilst not a panacea, there is evidence that there are ‘triple wins’ to be had. Both longer term migration and temporary mobility arrangements can entail economic benefits for migrants themselves, for the sending country, and for the receiving country. In 2006, an influential report from the World Bank recommended that pilot mobility schemes be pursued “between Pacific populations and other nations with an economic need for unskilled labour and a development interest in the Pacific region”. Over the following decade, both NZ and Australia introduced, and expanded, temporary mobility schemes allowing Pacific islanders to work in rural industries on a seasonal basis. Thousands of Pacific islanders have since taken up this new opportunity to earn incomes abroad.
Current trends suggest that, by 2030, the number of seasonal workers travelling to Australia and NZ each year might reach 50,000.56 Today some 12,000 workers per year participate in Australia’s Seasonal Worker Programme (SWP), undertaking temporary work picking fruit and other horticultural jobs in rural and regional areas.57 Australia has also expanded opportunities in other areas as well. In 2018 Australia introduced a Pacific Labour Scheme (PLS), which allows Pacific workers to be employed in low and semi-skilled occupations in rural and regional Australia for up to three years. While the PLS scheme is still in its infancy, six industries are currently participating in the scheme in a range of sectors—ranging from hospitality to aged care—and more than 80 businesses are approved employers.

Australia’s temporary mobility schemes are not without their challenges. In future, policymakers ought to do more to ensure that women, and people from isolated or poor communities, have opportunities to participate in mobility arrangements. They also need to ensure that Pacific island workers are not subjected to exploitation by unscrupulous employers abroad. Migrant workers in Australia and NZ need effective representation to protect their rights around pay, conditions, and health and safety in the workplace. This will continue to require tripartite dialogue between governments, trade unions, and private sector representatives. Schemes that allow for longer stays—the PLS scheme for example—present a particular challenge for Pacific island families. Consideration should be given to allowing families to accompany workers to Australia, or better yet allowing permanent migration to workers employed under the scheme.

Restrictions on mobility linked with the COVID-19 crisis make it difficult to assess prospects for Pacific labour mobility in the immediate future.58 Nonetheless, it is clear that labour mobility programmes have been a major success in developing Australia’s relations with Pacific island countries over the past decade. Mobility has also generated much needed income for Pacific island communities and helped to build skills of island workers.

Australian policymakers should look to build on the successes of labour mobility by creating new pathways for temporary mobility, and permanent migration, for Pacific island workers. The World Bank and the Development Policy Centre at the Australian National University have recommended Australia initiate a new ‘Pacific Integration Visa’ that would allow a quota of Pacific islanders (initially set at 9,000 visas per annum) to enter Australia and to become permanent residents after a period of employment. As well as helping to meet labour shortages in Australia, such a scheme would have many of the same benefits (and fewer challenges) of longer-stay mobility schemes.

Finally, as climate change and sea-level rise threaten the future of low-lying atoll islands, Australian policymakers should plan for migration and resettlement. Here again the World Bank proposes the establishment of an Australia and NZ ‘Atoll Access Agreement’, which would allow open access to Australia and NZ for people from the atoll nations of Kiribati and Tuvalu. People living on other atoll islands in the Pacific already have migration opportunities to metropolitan countries (namely France, NZ and the US). Analysis from the World Bank suggests such a scheme would see i-Kiribati and Tuvaluan migration to Australia and NZ increase significantly, while remaining a tiny fraction (0.6 per cent) of the overall permanent migration program.

Possible ways forward:

8. Pacific labour mobility entails significant economic benefits for Pacific island countries and for Australian employers. Mobility arrangements should be considered alongside policy for trade and investment. Australian policymakers should build on existing labour mobility schemes and look to extend them to new industries and sectors. Consideration should also be given to expanding options for permanent migration, including through a new ‘Pacific Integration Visa’. Finally, Australia should create an ‘Atoll Access Visa’ allowing permanent migration to Australia for Pacific islanders from Kiribati and Tuvalu.

Notes


8. Hezel, *Pacific Island Nations: How viable are their economies?*


10. Matthew Allen, Michael Bourke and Andrew McGregor, ‘Cash Income from Agriculture’ in *Food and Agriculture in Papua New Guinea*, eds. R. Michael Bourke and Tracy Harwood (Canberra: Australian National University, 2009), 1615–1632.


15. See for example the following reports: Robert Scollay, *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands’ Proposed Free Trade Agreement* (Geneva: United Nations, 2001); Robert Scollay and J Gilbert, MFN (Non–Preferential) *Liberalisation by Forum Island Countries: Commentary on CGE Analysis of Economic Effects* (Suva: South Pacific Forum Secretariat, 1998) and Nikunj Soni, Belinda Harries and Betty Zinner-Tosa, *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries* (Watergall Consulting Ltd, Port Vila, 2007).


19. Note that for Forum island countries with a compact of free association with the US, imports from the US are more significant than from Australia and NZ. Note also that Singapore is a key source of imports for many Pacific island states, explicitly and exclusively as the source of bulk petroleum imports. For a discussion see Tiru K. Jayaraman and Evan Lau, ‘Oil Price and Economic Growth in Small Pacific Island Countries’, *Modern Economy* 2, no. 2 (2011): 153–161.


25. Winters and Martins assembled data on business costs from 92 countries and determined that for many small countries the costs of production are such that even in their areas of comparative advantage exports are priced out of the world market. For a discussion see L. Alan Winters and Pedro M. G. Martins, *When Comparative Advantage is Not Enough: Business Costs in Small Economies* (Washington, DC: The World Bank, 2004).


29. See for example the following reports: Robert Scollay, *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands’ Proposed Free Trade Agreement* (Geneva: United Nations, 2001); Robert Scollay and J Gilbert, MFN (Non–Preferential) *Liberalisation by Forum Island Countries: Commentary on CGE Analysis of Economic Effects* (Suva: South Pacific Forum Secretariat, 1998) and Nikunj Soni, Belinda Harries and Betty Zinner-Tosa, *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries* (Watergall Consulting Ltd, Port Vila, 2007).


32. See for example the following reports: Robert Scollay, *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands’ Proposed Free Trade Agreement* (Geneva: United Nations, 2001); Robert Scollay and J Gilbert, MFN (Non–Preferential) *Liberalisation by Forum Island Countries: Commentary on CGE Analysis of Economic Effects* (Suva: South Pacific Forum Secretariat, 1998) and Nikunj Soni, Belinda Harries and Betty Zinner-Toa, *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries* (Watergall Consulting Ltd, Port Vila, 2007).


36. See for example the following reports: Robert Scollay, *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands’ Proposed Free Trade Agreement* (Geneva: United Nations, 2001); Robert Scollay and J Gilbert, MFN (Non–Preferential) *Liberalisation by Forum Island Countries: Commentary on CGE Analysis of Economic Effects* (Suva: South Pacific Forum Secretariat, 1998) and Nikunj Soni, Belinda Harries and Betty Zinner-Toa, *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries* (Watergall Consulting Ltd, Port Vila, 2007).


The particular example that was focused on in this discussion was cacao.

See also Ben Bohane, ‘From the Ocean to the East, it Looks like Australia’s Pacific Policy is all at Sea’, Sydney Morning Herald, 20 December 2019.


The inaugural ‘Pacific Exposition’ was held in Auckland in 2019.


See also Bohane, ‘From the Ocean to the East, it Looks like Australia’s Pacific Policy is all at Sea’.


See Penjueli and Morgan, ‘Putting Development First’.


See Bertram and Watters, ‘The MIRAB Economy in South Pacific Microstates’.

For a discussion see Bernard Poirine, ‘Should We Hate or Love MIRAB?’, The Contemporary Pacific 10, no. 1 (1998): 65-105.


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