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Pacific Island Economies: the role of international trade and investment

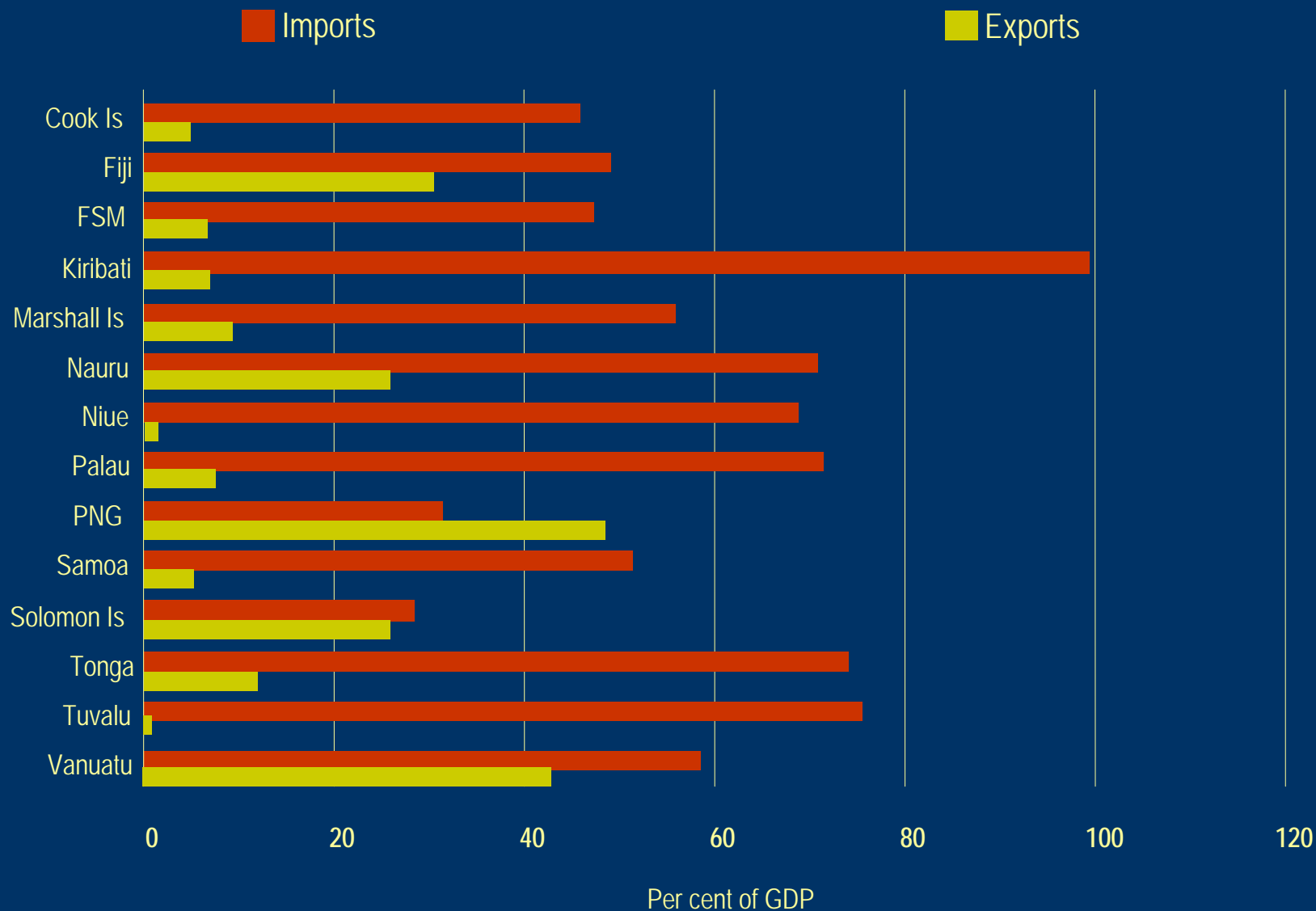
Thought leaders dialogue

30-31 August 2007

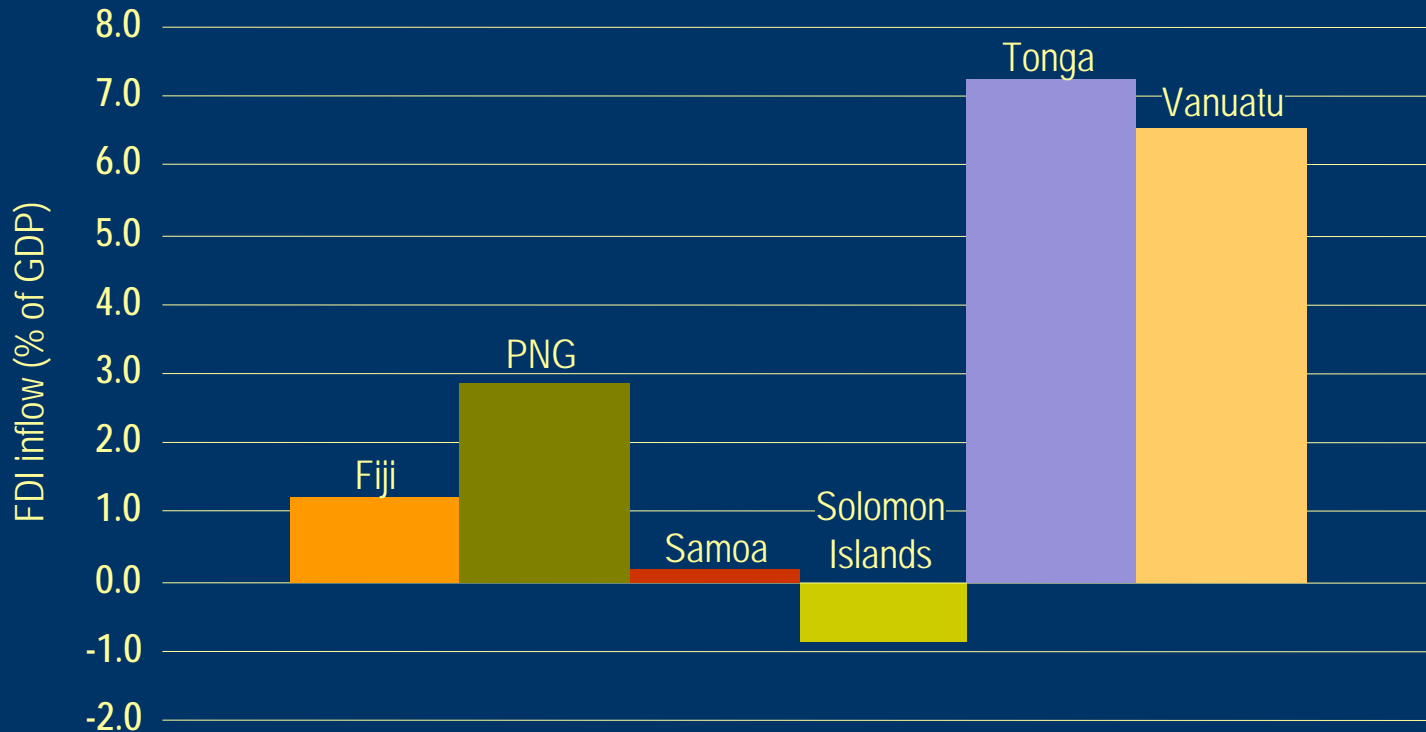
This presentation

- Role of trade in Pacific Island Countries (PICs)
 - the challenge of financing imports
- Removing barriers to trade and foreign investment
 - alternative approaches - unilateral, regional, multilateral
- Policies towards the movement of people

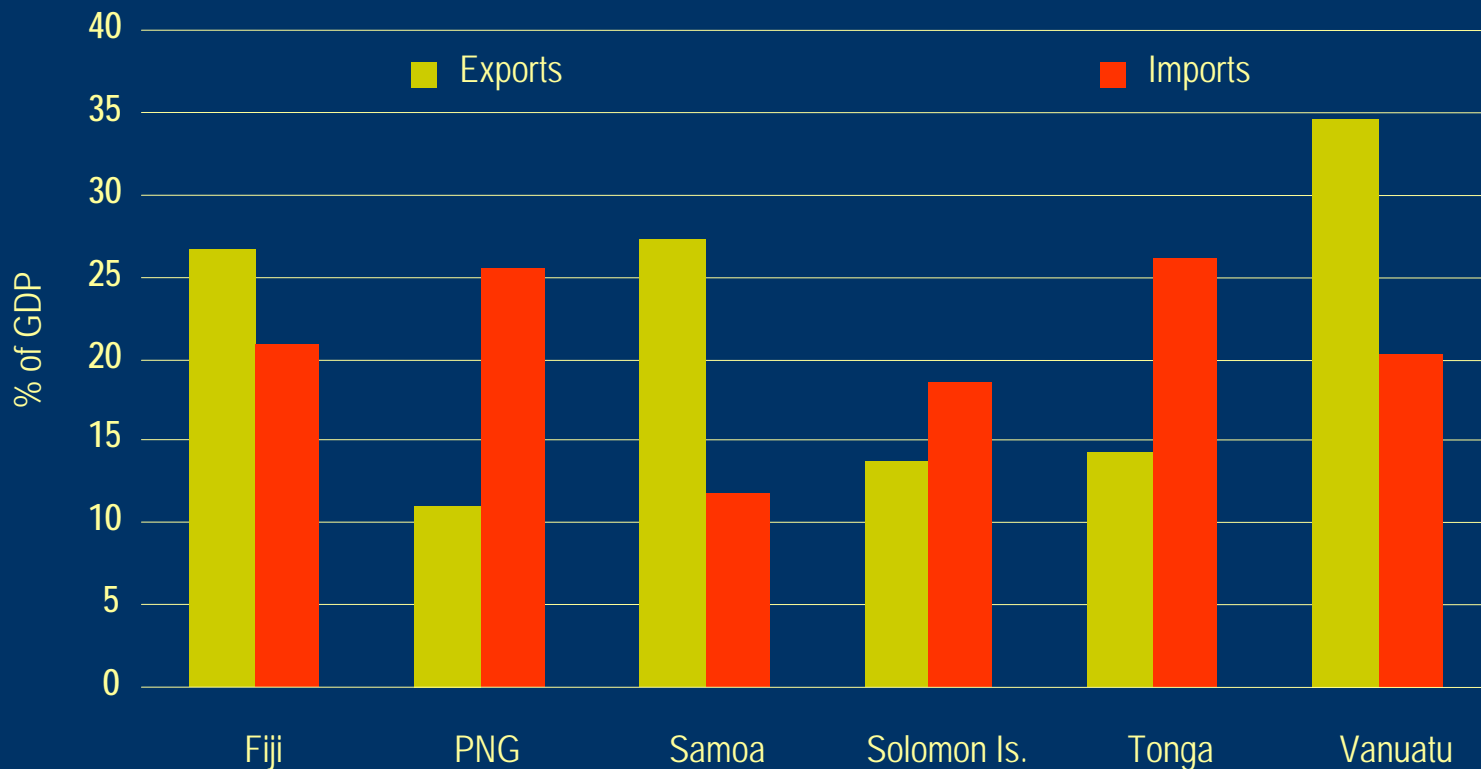
PIC economies import a lot of goods - but exports don't cover the bill



Foreign investment flows finance some of the imports for some countries...

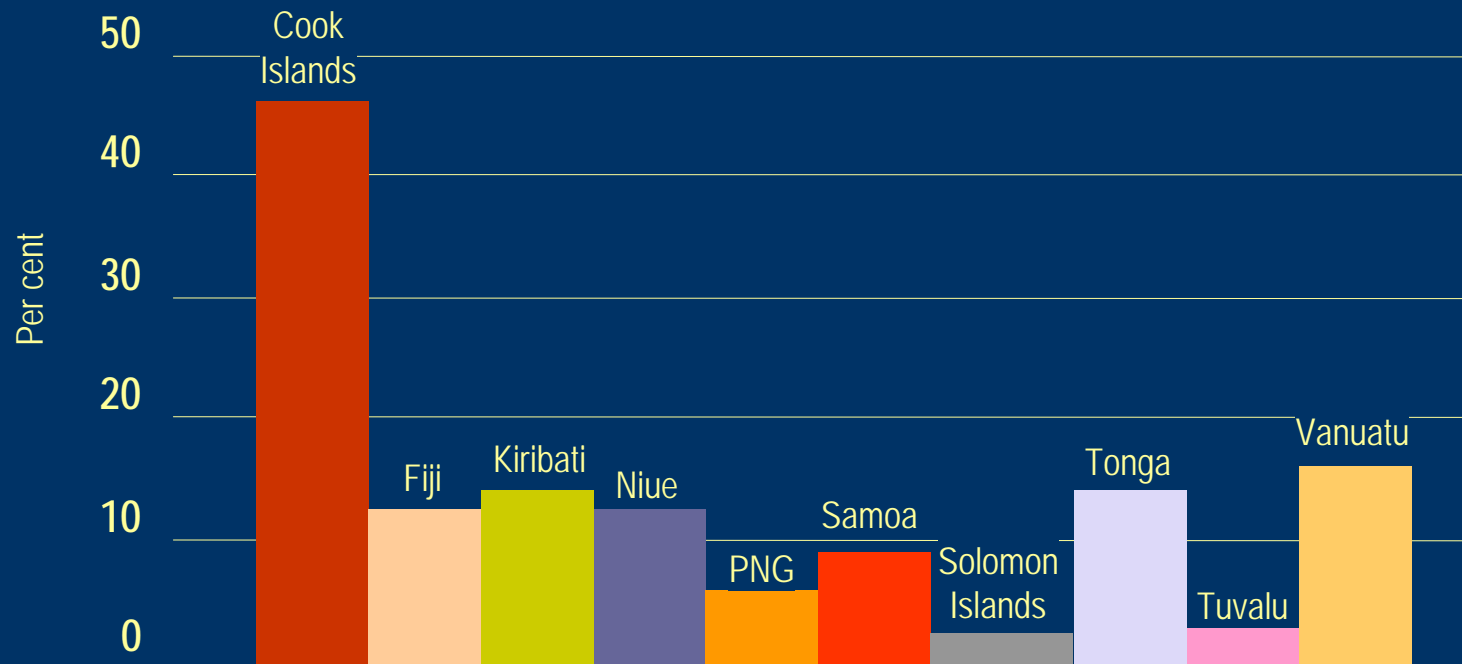


...and for some, services trade is significant, and the balance covers some of the goods import bill...



...reflecting the role of tourism

Tourism share of GDP



But aid flows and remittances foot much of the bill for many PICs...

	<i>Imports</i>	<i>Aid flows</i>	<i>Remittances</i>	<i>Exports</i>
	% of GDP	% of GDP	% of GDP	% of GDP
Cook Islands	46.0	3.5	0.7	4.9
Fiji	49.2	2.3	7.0	30.1
Kiribati	99.4	31.5	12.0	6.9
Marshall Islands	55.8	53.9	0.6	9.3
Micronesia, Fed. States of	47.3	49.7	1.0	6.5
Nauru	71.0	35.5	na	25.5
Niue	68.7	15.1	na	1.5
Palau	71.5	20.5	na	7.3
Papua New Guinea	31.4	6.4	0.2	47.8
Samoa	51.3	10.4	14.2	5.2
Solomon Islands	28.6	25.7	0.0	25.2
Tonga	74.1	16.3	39.2	11.6
Tuvalu	75.6	38.6	35.9	0.9
Vanuatu	58.7	11.7	3.3	42.4

Is this situation sustainable?

- Can PIC's expect remittances and aid to fund such a large share of imports in the future, and if not, what can be done to move to a more sustainable situation?
 - What actions can PICs take?
 - for example improving the policy environment for international trade and investment
 - And what actions can development partners, particularly New Zealand and Australia, take?

There are barriers to trade and investment at the border...

- Tariffs are reasonably high, and act as a tax on exports
 - But dispersion and discretion are bigger problems
- Explicit export taxation is falling
 - And where it serves as a resource rent tax, it may in some cases be too low
- There are direct impediments to foreign investment
 - Reserved sectors, limits on foreign ownership
 - Discretion in approval processes

...but behind the border barriers are much more significant

- Underdevelopment of institutions to support contracting and market activity deter foreign investors and export oriented activities.
- Poor policies towards key infrastructure and trade and communication services exacerbate constraints of size, remoteness and fragmentation.
 - Making it difficult to exploit comparative advantages in tropical agriculture and tourism, and participating in new international division of labour in services

These barriers limit economic opportunities

- The barriers are a constraint on *domestic* investment and internal trade as well
 - this may not have been a major problem in the past, as households implemented traditional semi-subsistence livelihoods
 - but demographics are eroding the viability of this kind of strategy
- Greater specialisation, trade and investment will be required for PICs to deliver improving living standards

Action is needed: can trade agreements help?

- Traditional regional trade and investment agreements aren't much help
 - They won't deliver much welfare gain
 - Nor do they provide mercantilist lubrication
 - Nearly all the gains can be achieved by unilateral action anyway
- What if a trade agreement between PICs and New Zealand and Australia included commitments on temporary migration?

Thinking about temporary migration

- Strong support from some quarters
- Currently linking underemployment, urban drift issues in PICs with labour issues in horticulture in ANZ
- Could be approached as a trade in services issue

Trying to disentangle the arguments #1

- Some (reasonably) incontrovertible propositions
 - Migration is probably good for New Zealand and Australia
 - PICs have a large and growing pool of under- or unemployed: getting them into productive employment would be good for them and their countries, and quasi-subsistence rural livelihoods will not provide for them for much longer
 - Permanent or temporary migration of these ‘unskilled’ people could be good for them and those who stay behind.

Trying to disentangle the arguments #2

- Some controvertible arguments
 - Temporary migration schemes are better long run bets than addressing the underlying causes of unemployment in PICs
 - It is practically possible to construct schemes that negotiate all of the minefields and actually deliver net benefits of an enduring nature
 - It is feasible and useful to approach these schemes as a trade in services issue in trade negotiations between PICs and ANZ.

Migration yields benefits ... but do temporary labour schemes?

- Recent analysis suggests that unskilled migration into ANZ could benefit PIC participants and those who stay at home
 - But skilled migration hurts those who stay behind
- Is it possible to construct temporary schemes to get a real benefit -
 - Targeting unskilled, but allowing commercial considerations in ANZ to operate
 - Getting political support in PICs, but not dissipating the rents
 - Feasible size of scheme relative to pool of underemployed

Useful to treat as a trade in services issue?

- In principle, can treat as an issue of trade in services, and view impediments the way we look at barriers to other trade
- But how does it play in calculus of trade negotiations?
 - What ‘concessions’ do PICs have to offer in return?
 - Locking ANZ into a binding agreement has appeal, but what if they want to quarantine and discriminate?
- Best to treat as a development issue?

Migration or development assistance

- PICs have labour, but lack complementary factors and institutions that are needed to put the labour to work
- NZ and Australia have the complementary factors of production, and demographics suggest migration would be beneficial
 - Migration shifts labour to the factors of production and the functioning institutional environment
 - Assistance aims to provide these factors in PICS
- Big question - what is the appropriate mix?