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PACER Plus Implementation: A Development Opportunity for Commonwealth FICs

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Abstract

The potential for trade-led sustainable development in most Forum Island Countries (FICs) in the Pacific remains largely untapped. These countries experience several challenges to trade, such as a lack of economies of scale, low levels of foreign direct investment (FDI), inadequate and under developed infrastructure, high costs of doing business and a host of other supply-side constraints. Recent changes in the global economic and trading landscape, including growing trade tensions and protectionism, growth in mega regional trade arrangements, and the rapid advancement in technology have created an additional layer of challenges, producing further impediments for these countries to trade. In addition, the outbreak of the COVID-19 pandemic further worsened their situation, impacting on their trade-led development prospects. However, the coming into force of the Pacific Closer Economic Relation (PACER) Plus Agreement in December 2020 offers a promising opportunity for these countries to deepen regional integration in the Pacific region and expand their trade for post-COVID-19 recovery and trade-led sustainable development in general. This paper provides an analysis of the possible opportunities for FICs presented by the PACER Plus Agreement and argues for the implementation of the Agreement for FICs to take advantage of these benefits.

JEL Classifications

Keywords

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1. Introduction

Trade is widely accepted as an essential tool for economic growth and sustainable development. In many countries around the world, trade has played an important role in helping lift individuals out of poverty and contributed to greater prosperity. Indeed, the 2030 Agenda for Sustainable Development recognises the unique role of trade in attaining numerous Sustainable Development Goals (SDGs). SDG 17.9 recognises the importance of strengthening international support aimed at capacity-building in developing countries to support national plans to implement SDGs, including through North-South co-operation. SDG 17.10–12 recognises the link between trade and the realisation of the other SDGs and pinpoints trade as a means of implementing the SDGs. SDG 17.11 is of particular relevance to developing countries as it calls on all countries and stakeholders to significantly increase the exports of developing countries and double the share of least developed countries (LDCs) in global exports by 2020 (United Nations 2015a). However, this goal has already been missed and LDCs remain marginal players in global trade.

For the Pacific Island Countries (PICs), especially Forum Island Countries (FICs)¹, the potential for trade-led sustainable development has not been fully tapped. Due to their small domestic markets and less diversified export baskets, FICs rely heavily on export markets outside their own region. However, like most Small Islands Developing States (SIDS), FICs experience several challenges to trade, such as a lack of economies of scale, low levels of foreign direct investment (FDI), inadequate infrastructure, and a host of other supply-side constraints. Moreover, the geographical remoteness of FICs adds to the cost of doing business and trading across borders by significantly raising transportation costs, making their products less competitive in international markets. Recent changes in the global economic and trading landscape, including growing trade tensions and protectionism, growth in mega regional trade arrangements, and the rapid advancement in technology have created an additional layer of challenges and resulted in an environment of considerable uncertainty, potentially creating further impediments to FIC's exports

to distant markets and threatening the traded development trajectories of these countries. The outbreak of the COVID-19 pandemic significantly worsened the global economic and trading landscape as it affected trade, investment and development prospects for most countries, including Commonwealth FICs, impacting on their trade driven development paths. Sustainable recovery hinges on successfully opening up economies, ending lockdowns and loosening restrictions on the movement of goods and people, which requires enhanced global and regional co-operation.

In addition, existing regional integration initiatives such as the Melanesian Spearhead Group Trade Agreement (MSGTA), the Pacific Island Countries Trade Agreement (PICTA) and the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) have not been fully utilised to contribute significantly to the sustainable growth and development of FICs. This is partly because of the limited level of implementation of these agreements.

The entry into force of the Pacific Closer Economic Relations (PACER) Plus Agreement² in December 2020 after Cook Islands became the eighth country to sign and ratify the agreement, offers a promising opportunity to deepen economic integration in the Pacific region, potentially offering tremendous benefits to the parties and supporting their post-COVID-19 recovery.³ By deepening regional integration and enhancing market access, the agreement can help to significantly increase the volume of trade between the FICs, Australia and New Zealand. However, several FICs – including the Federated States of Micronesia (FSM), Nauru, Palau, Republic of the Marshall Islands (RMI), Tuvalu and Vanuatu – are still to ratify the agreement. Fiji and Papua New Guinea (PNG) decided not to join, despite being actively involved in the negotiations for the PACER Plus Agreement. If these two countries decide to join the agreement at a later date, it would inevitably strengthen the overall regional integration push in the Pacific.

This International Trade Working Paper provides an analysis from the perspective of FICs (which are mostly Commonwealth countries)⁴ of the possible opportunities presented by

the PACER Plus Agreement. It focuses on the potential for the agreement to help these countries expand their trade and promote trade-led economic growth and sustainable development in the context of a changing, and increasingly challenging, global trading landscape, including the effects of the ongoing pandemic. It also highlights the importance of implementing the agreement so that FICs derive actual benefits.

The paper is divided into eight sections. Following this introduction, Section 2 discusses the important role that trade plays in the growth and development of FICs. Section 3 examines the several changes in the global economic and trading landscape which create significant uncertainties for the trade prospects of small states, making a case for FICs to undertake regional initiatives to promote and protect their regional trade interests. Section 4 analyses the regional integration dynamics in the Pacific that involve FICs and the challenges they face in taking advantage

of regional integration initiatives, which FICs should consider in implementing the PACER Plus Agreement. Section 5 provides a brief outline of the architecture of the PACER Plus Agreement to enable the FICs to use international trade as a tool for achieving robust economic growth and sustainable development. Section 6 outlines some of the benefits of the PACER Plus Agreement that FICs can exploit. Section 7 discusses some of the reasons for FICs to consider implementing the agreement and streamline it into their development strategies. Section 8 concludes the paper by restating that the PACER Plus Agreement provides an opportunity for deeper integration at a time when the global economic and trading landscape is changing, that can help FICs to break out of commodity export and low value-added traps that have affected their trade-driven development and enhance their productive capacities, export diversification, and structural transformation strategies.

2. Importance of trade to FICs

Most FICs depend on international trade for their growth and development, mainly due to their small domestic markets. As a result, their participation in regional integration initiatives and multilateral trade liberalisation processes is, to a great extent, driven by the potential for economic gains expected by undertaking trade liberalisation. Regional and multilateral trade agreements are intended, among other things, to eliminate some of the constraints to trade faced by these countries, thereby expanding their trade and helping them integrate into the global economy. Like most small island developing states (SIDS), FICs face unique structural challenges and vulnerabilities related to their size and geography, constraining their full participation in international trade. These include limited resources and endowments, lack of export diversification for products and markets, inadequate infrastructure, high costs of doing business (owing to increased energy, transport, and communication servicing costs), distance from major markets, and vulnerability to external and endemic shocks, including recurrent natural disasters. Despite facing

these challenges and vulnerabilities to trade, FICs trade in goods and services contribute notably more significantly to Gross Domestic Product (GDP) compared to the world average (Table 1). Using available data, Table 1 shows the significance of total trade in goods and services relative to GDP for several FICs and compares these figures with the world average.

As their economic growth is heavily reliant on trade in a very narrow range of goods and services, including commodity exports (see Table 2) under special preference arrangements that are prone to erosion, FICs experience extremely volatile growth compared to other developing countries.⁵ While the high level of volatility is mainly attributed to fluctuations in commodity prices in global markets,⁶ it is also a consequence of factors related to FICs' natural uniqueness and their specific characteristics. FICs are located in one of the world's most vulnerable regions in terms of intensity and frequency of natural and environmental disasters, subjecting them to frequent climate-related shocks. Such occurrences bring economic and environmental consequences, which most of these countries

Table 1. Total trade in goods and services as a % of GDP (2019)

Country	Exports (US\$ millions)	Imports (US\$ millions)	GDP (current, US\$ millions)	Trade (% of GDP)
World	25,041,182.51	25,003,349.64	87,445,066.06	57.23
FICs	13,539.11	8,535.68	29,792.01	74.10
Kiribati	33.26	202.33	194.87	120.89
Marshall Islands	55.00	68.00	237.41	51.81
FSM	146.66	284.22	414.33	103.99
Nauru	19.00	36.00	132.85	41.40
Palau	113.90	230.67	280.43	122.87
Papua New Guinea	11,747.43	5,576.35	24,969.70	69.38
Samoa	326.08	498.03	844.66	97.57
Solomon Islands	591.29	845.63	1,302.68	110.30
Tonga	116.92	343.26	508.41	90.51
Vanuatu	389.58	451.21	906.67	92.73

Note: Trade as a % of GDP is calculated as the sum of imports and exports divided by GDP.

Source: Calculated from UNCTADStat Database and World Bank WDI.

cannot cope with individually. As they are prone to seasonal cyclones and hurricanes, most FICs experience severe destruction of their economies, affecting their ability to trade. Their situation is made worse by their lack of adequate resources to cope with the aftereffects of disasters, and most of them take time to return to the path of pre-disaster growth.

The trade-related challenges faced by FICs make it difficult for them to participate in global value chains. Yet, by specialising in specific tasks within a value chain, FICs can, to a

certain extent, mitigate their lack of economies of scale and help diversify their export baskets and create employment (Lanz and Werner, 2016). Besides, most FICs are positioned at the initial stages of value chains (Zhuawu, 2013). As a result, they are less integrated into goods value chains. Available data shows that, compared to Caribbean small states, Pacific Island small states produce less value-added in both manufacturing and services (Table 3). Their annual growth in value-added in both manufacturing and services, which help demonstrate

Table 2. FICs Dependence on commodity exports (2019)

Country	Total merchandise exports (US\$ million)	Commodity exports (US\$ million)	Share of commodity exports (%)
World	18,814,381	5,250,245	27.91
FICs	12,125	11,594	95.62
Kiribati	13	12	92.63
Marshall Islands	55	6	11.23
FSM	49	47	96.56
Nauru	19	10	50.43
Palau	7	5	71.04
Papua New Guinea	11,399	10,973	96.26
Samoa	49	38	76.12
Solomon Islands	461	447	97.00
Tonga	20	15	75.16
Vanuatu	53	41	78.72

Source: Calculated from UNCTADStat Database.

Table 3. Pacific Island small states manufacturing, and services value-added (2019)

Countries	Manufacturing value-added (%GDP)	Manufacturing value-added (annual % growth)	Services value-added (%GDP)	Services value-added (annual % growth)
Pacific Island Small states	8.76	-1.68	58.47	0.90
Caribbean small states	12.15	-0.78	59.73	1.19

Source: Calculated from World Bank Development Indicators.

their level of product specialisation and diversification, is also below that of the Caribbean small states.

As a result, their performance in trade in value-added and integration into the goods value chains is limited and insignificant. Available data shows that except for PNG, the other FICs of Fiji, Samoa and Vanuatu, like most other SIDs from the Caribbean and Africa, use significantly less domestic value-added in producing goods and services for export and use far fewer imported value-added inputs to make intermediate or goods/services to be exported; while their domestic value is used less as inputs by industries in other countries to produce

goods and services for export to third countries (Table 4). The lower share of indirect and foreign value-added reflects the relatively lower integration of FICs into global value chains (GVCs) and their product specialisation and diversification. Yet trade in value-added and increased integration in value chains can play a significant role in expanding FICs trade.

Consequently, FICs' participation in international trade has not been impressive, despite their reliance on trade for their growth and development. The share of international trade in goods and services for most FICs remain at zero per cent despite experiencing increases in trade since 2005 (Table 5).

Table 4. SIDS participation in global value chains (2018)

Country	Domestic value-added (Domestic value-added in a country's exports) (US\$m)	Foreign value-added (Foreign value embedded in a country's exports) (US\$m)	Indirect value-added (Domestic value-added embedded in another country's exports) (US\$m)
World (189 countries) average	80.423	31.693	31.693
Antigua and Barbuda	0.123	0.0571	0.0506
The Bahamas	0.691	0.31	0.184
Bahrain	5.75	0.986	2.16
Barbados	0.57	0.0237	0.0735
Belize	0.288	0.0391	0.074
Cabo Verde	0.186	0.0744	0.0425
Dominican Republic	7.11	1.4	1.16
Fiji	0.674	0.19	0.146
Jamaica	1.65	0.517	0.435
Mauritius	2.29	1.14	0.714
Papua New Guinea	4.64	0.477	1.62
Samoa	0.161	0.0437	0.0419
Sao Tome and Principe	0.0783	0.0408	0.03
Seychelles	0.343	0.116	0.112
Surinam	0.818	0.203	0.431
Trinidad and Tobago	18.8	1.5	5.54
Vanuatu	0.173	0.055	0.0493

● Africa ● Caribbean ● Pacific

Source: Calculated from UNCTAD-Eora Global Value Chain Database.

Table 5. FICs share of World Trade (%)

Country	Goods (values in US\$ million)				Services (values in US\$ million)			
	2005	2019	World share (2019)	% change in world share (2005–2019)	2005	2019	World share (2019)	% change in world share (2005–2019)
World	10,456,193	18,814,381			2,685,808	6,226,802		
FICs	3,686	12,125	0.064	45.31	668	1,414	0.023	–9.61
Kiribati	4	13	0.000	40.74	11	20	0.000	–31.16
Marshall Islands	25	55	0.000	17.04				0.00
FSM	19	49	0.000	32.07	19	98	0.002	54.18
Nauru	3	19	0.000	71.59				0.00
Palau	13	7	0.000	–254.95		107	0.002	0.00
Papua New Guinea	3,383	11,399	0.061	46.60	303	348	0.006	–101.82
Samoa	87	49	0.000	–218.33	130	277	0.004	–8.62
Solomon Islands	103	461	0.002	59.62	41	130	0.002	26.33
Tonga	10	20	0.000	9.98	25	97	0.002	40.48
Vanuatu	38	53	0.000	–28.51	139	337	0.005	4.46

Source: Calculated from UNCTADStat Database.

3. Changing global economic and trading landscape

The coming into force of the PACER Plus Agreement happened when the global economic and trading landscape was already experiencing several changes, creating significant uncertainties for the trade prospects of small states. Major changes and challenges possibly affecting trade involving FICs, and with potential implications for the PACER Plus Agreement, are discussed in this section.

3.1 Growing trade tension and protectionism

The PACER Plus Agreement has come into force at a time when multilateralism is being challenged and confidence in the multilateral trading system continues to wane. Growing trade tensions, new technologies and geopolitical competition are exerting considerable influence on the global economic and trading landscape, leading to changes in the pattern of trade to reflect these new global dynamics. Rising trade tensions, especially between the United States and China, led to the World Trade Organization

(WTO) downgrading its forecast for merchandise trade growth in 2019 to 1.2 per cent, the lowest in a decade (WTO, 2019a). Increased trade restrictions added to the uncertainty, negatively impacting growth in the global economy and undermining trade-driven economic development and progress towards the attainment of the SDGs. Consequently, the global economy was hit by a backlash to globalisation, a rollback on trade liberalisation and constrained capital flows as many countries embarked on protectionist and inward-looking policies.

The above developments brought new challenges affecting the trade and development prospects of FICs. For instance, restrictive trade policy measures affected global demand and investment flows as well as economic growth. The high degree of concentration of FICs exports, particularly in commodities, both in terms of heavy reliance on a few products and a limited number of markets, discussed above, meant that their commodity sectors came under immense pressure as prices fell due to declining global growth and as market regulatory

changes occurred (Caballero et al., 2008). Their dependency on commodity exports meant that a sudden closure of their export markets threatened their macroeconomic stability, growth and economic development. The situation was compounded by the fact that the resilience of FICs to external shocks is generally weak, particularly in terms of market loss, causing them to lose their growth momentum due to changes in the global trading landscape.

3.2 The COVID-19 Impact

The outbreak of the coronavirus (COVID-19) pandemic in December 2019 exacerbated the already difficult trade situation of small states, especially small island developing states as it caused the deepest recession since the Great Depression of the 1930s (OECD, UNCTAD, and WTO, 2020). Merchandise trade and trade in commercial services dropped by 8 per cent and 20 per cent respectively, compared to the previous year (WTO 2021). In the first quarter of 2021, global trade in services remained sluggish, falling by 9 per cent year-on-year, driven by continued weakness in travel services, compared to goods which grew by 12 per cent year-on-year.⁷

According to the WTO (2020b), trade performance during the COVID-19 outbreak has much to do with the nature of the pandemic and the policies adopted to combat it with lockdowns and travel restrictions causing significant supply-side constraints on national economies leading to a reduction in output and employment in many sectors. The combination of lockdowns and reductions in income, alongside widespread job losses, contributed to reduced demand for products and services both in domestic and international markets. Consequently, despite two-thirds of the FICs remaining COVID-19 free, the pandemic impacted these countries' economies considerably. The measures they adopted to contain the spread of COVID-19 disrupted links between FICs and the world at large, interrupting international trade and the flow of remittances, while bringing tourism to a complete halt.

According to the IMF, the impact of the COVID-19 pandemic posed a threat to Pacific Island states that could cut deeper than some of the worst cyclones from previous years (IMF, 2020). The combination of trade restrictions

and lockdowns has significant implications for using trade as a post-COVID-19 recovery tool, and as a vehicle for sustainable development in general, as trade in some products and services came to an almost complete halt and the recovery of trade flows has been uneven. In the case of trade in services, most FICs appear vulnerable due to the importance of the services sectors in their exports and the high share of travel and transportation, and tourism in their services trade composition. As discussed above, the recovery of the services sector remains sluggish mainly due to restrictions on international travel. For example, for the week beginning 4 January 2021, flights worldwide fell by 43.5 per cent.⁸ Several FICs, such as Fiji, Palau, Samoa, Tonga and Vanuatu, which rely on tourism for much of their economic activity and employment and as a source of foreign exchange, experienced a sharp decline in tourism as they instituted travel restrictions, and so did major markets such as Australia and New Zealand. Travel restrictions also affected remittances to most FICs such as Samoa, Tonga and Vanuatu, which rely on seasonal work programmes with Australia and New Zealand.

COVID-19 restrictions also created issues along value chains by reducing the availability of essential inputs and intermediary products for use by industries (Banga et al., 2020). Such developments affected the export of intermediate products by some FICs who are integrated in value chains. Other FICs were also affected as suppliers and buyers of finished and intermediary products and services to and from the rest of the world and within the region.

The coronavirus pandemic demonstrated the vulnerability of FICs due to the concentration of their export baskets and reliance on few markets. They experienced losses in tax revenue due to export adjustments, which affected commodities exporters,⁹ reducing the capacity of governments to extend critical public services in response to the pandemic, including the provision of medical supplies and adequate food supplies.¹⁰ While the decline in global demand for commodities affected commodity export-dependent countries, especially those that rely on oil and gas such as PNG, disruptions in supply chains affected islands dependent on other sectors such as fisheries. The situation in some FICs, such as Fiji, Solomon Islands, Tonga and Vanuatu, was worsened by the simultaneous

occurrence of Cyclone Harold, which caused significant damage to croplands, devastating crops and smashing fishing boats (Zhuawu et al., 2020). This could take away a substantial share of economic growth in the short- to medium-term, while also bringing down productivity and, in the process, curtailing longer-term economic growth as well.

The uncertainty in the global trading system worsens the prospects for using trade as a recovery tool. As discussed above, the WTO recently reported some encouraging signs of a trade rebound after COVID-19, with the first quarter of 2021 experiencing a growth in trade in goods; but it also warned that continued pandemic effects could disrupt recovery and that trade will remain below the pre-pandemic trend (WTO, 2020b). Ballooning public debt resulting from countries' fiscal stimulus measures could also weigh down trade and economic growth over the long-term. Most FICs are likely to find an increase in debt burdensome and onerous. In addition, deficit spending could influence trade balances, reducing national savings and increasing trade deficits in some FICs. A recovery to FICs' pre-pandemic exports will also depend on an increase in global GDP, projected at 5.8 per cent in 2021 by the IMF. However, this GDP growth depends on the success of policy measures implemented by countries to contain the pandemic, the success of vaccine rollout programmes and the severity of future variants of the virus (WTO, 2020b). A weak global recovery that fails to return global trade and global GDP to the pre-pandemic levels in the coming years will adversely affect the trade-driven recovery of SIDS.

3.3 Growth of mega-RTAs

The conclusion of the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), the African Continental Free Trade Area (AfCFTA) and the Regional Comprehensive Economic Partnership (RCEP) signify the continued growth of large regional trade arrangements (RTAs) with varied membership and, in some cases, cutting across multiple continents and geographical regions. These mega-RTAs demonstrate a new architecture in modern trade by instituting new levels of market access commitments and new rules of trade governance. The development of mega-RTAs has implications for FICs, depending on their level of trade with

countries who are parties to these mega-RTAs. However, the FICs, themselves, hardly feature in the mega-RTAs and the larger configuration in the balance of power in global trade. In this regard, the FICs require a regional initiative that provides Pacific Island country centrality.

On the other hand, China, the world's second largest economy, has focused on doing business more with Europe, Asia and Africa, while the Pacific is somewhat in the margins because of the region's small economies and markets. For example, the Chinese Belt and Road Initiative focuses on reviving the ancient trade routes connecting Asia, Europe and Africa – the Silk Road Economic Belt. Meanwhile, the end of the post-Brexit transition period and implementation of the EU-UK Trade and Cooperation Agreement on 1 January 2021 will not cause major disruptions to trade between the UK and most FICs. On 14 March 2019, the UK signed a trade continuity agreement – named the UK-Pacific Agreement – with Fiji and PNG, to ensure uninterrupted trade between the countries post-Brexit. The agreement allows trade to continue on the existing terms under the Pacific-EU Partnership Agreement without additional barriers or tariffs. All goods imported by the UK from Fiji and PNG will enjoy duty-free market access, and Fiji and PNG will gradually remove 80 per cent of tariffs on UK products entering their markets. Pacific countries such as Kiribati, Solomon Islands and Tuvalu will continue to enjoy duty-free and quota-free market access to the UK and EU by virtue of being LDCs. Vanuatu, which graduated from LDC status on 4 December 2020, will continue to do so until its transition completes. Nauru and Tonga trade with the UK on Most Favoured Nation (MFN) terms. However, all these countries still face vulnerabilities related to limited production capacity, isolation from major markets (Australia and New Zealand aside), and a lack of resilience to climate-related shocks.

3.4 Advances in technology and trade

Rapid advances in technology have pushed the frontiers of trade, raising the need to rethink how trade is conducted and what it means for trade and investment policies, particularly for promoting structural economic transformation as far as possible. Indeed, advances in technology have presented companies with

opportunities to internationalise their operations, lower production costs, speed up production, and increase their trade. Changes in digital technology have contributed to a significant transformation in market dynamics, raising the value of and scope for e-commerce. According to WTO (2019b), technology has made it easier to trade in services and enabled an increasing share of services to be delivered via digital means. Production and trade have become complicated as producers attempt to adjust to the changes in consumption patterns, especially as consumers gain knowledge and information that inform their buying decisions faster through the internet. The advent of the Fourth Industrial Revolution (IR4) and artificial intelligence (AI) has raised the complexity of technological change, threatening jobs. Factories are expected to have fewer workers as they will be powered by AI technology as the IR4 age would be associated with higher levels of automation - whereby machines will perform an expanding share of tasks in homes, factories, hotels, hospitals and other workplaces.

Related to the advancement of technology has been the rise in global value chains (GVCs), which has contributed to the fragmentation of production, with a single product often being a sum of outputs produced in several countries. This has also translated into greater fragmentation of markets as trade-in value-added gained momentum. In this regard, most countries are taking the necessary measures to participate in GVCs. There are also proposals and initiatives related to re-shoring supply chains, reducing the length of supply chains and producing products at home, at least in some advanced economies with the technological capabilities, which can affect the participation of developing countries in value chains (Commonwealth, 2021). For most developing countries, the growth of GVCs can make it possible for them to diversify away from commodities as GVCs provide them with opportunities to specialise in one or several activities in which they have a comparative advantage. Participation in value chains will also enable developing countries to develop or strengthen existing backward linkages to domestic sectors such as mining and agriculture, providing jobs to low-skilled workers, helping drive economic growth and reducing poverty.

The increase in production, consumption and trade accompanied by rapid technological advances have placed new demands on the environment and depleted resources,¹¹ while also posing new challenges for the attainment of the SDGs. This requires countries to rethink the design of trade rules and policies that are appropriate to ensure all countries benefit equitably and help to address growing inequality within and between countries. Many countries, including some of the world's poorest, have made commitments to drastically cut their carbon emissions and move towards the use of 100 per cent renewable energy.¹² As governments take action to combat climate change, the conflict between trade rules and climate goals is escalating, putting countries in an unfamiliar situation, particularly regarding the potential trade implications of climate action and vice versa. Climate change poses several challenges for developing countries, especially blue economies, because of their vulnerability and limited capacity to deal with climate change issues and to achieve the SDGs. Indeed, the Paris Agreement, which came into force on 4 November 2016, recognises the threat that climate change poses to human societies and the planet. It also acknowledges that such changes might not be reversible (United Nations, 2015b).

Given the above background, there is concern that the future of Forum Island Countries (FICs) trade will continue to look bleak, mainly due to the trade slowdown and the challenges faced by FICs to trade in a changing global trading environment. This is concerning as international trade is intended to play a crucial role in helping countries achieve the SDGs. The considerable uncertainty currently present in the global trading landscape makes a case for FICs to pursue regional initiatives for promoting and protecting their regional trade interests. Australia and New Zealand have shown readiness to pursue economic openness regardless of anti-trade sentiments elsewhere, providing an opportunity for FICs to expand their trade with these countries. Therefore, there is the need to rethink in terms of prioritising regional trade, as trade with markets outside the region is unlikely, in the short- to medium-term, to lead to trade expansion that can fuel the growth of FICs.

4. Regional dynamics in the Pacific

Driven by the potential for economic gains expected under regional free trade arrangements, most FICs participate in one or two regional integration initiatives in the Pacific region, which are, to a greater extent, aimed at regional trade liberalisation to spur regional growth and sustainable development.

First, SPARTECA, a non-reciprocal trade agreement between the FICs, Australia and New Zealand, governs trade in goods, offering free and unrestricted market access to Australia and New Zealand for all products originating from FICs. Despite the existence of this agreement and regardless of their geographical proximity to Australia and New Zealand, trade between FICs and these two countries remains low compared to the rest of the world (Figure 1).

One possible reason for the limited exploitation of the duty-free, quota-free market access to Australia and New Zealand by FICs is the restrictive rules of origin (RoO) under SPARTECA. To benefit from SPARTECA preferences, an exported product has to be either (i) unmanufactured, raw, or wholly obtained or (ii) wholly or partially processed in a FIC, and the factory cost should represent 50 per cent or more of qualifying expenditure. As such, the imposition of relatively high duty rates on imported manufacturing inputs in some FICs, renders most of their exports uncompetitive in Australia and New Zealand despite their products being exempted from the payment of duties in these markets. In addition, FIC's products

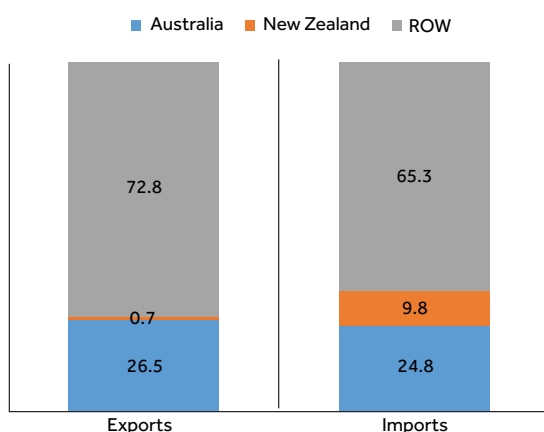
face other non-tariff trade barriers (NTBs) such as the need to meet the technical regulations, sanitary and phytosanitary (SPS) measures imposed by Australia and New Zealand. Consequently, FICs have not been able to take full advantage of the SPARTECA market access provisions.

Second, the PICTA was created with a view to creating a free trade area among the Pacific Island countries (PICs) that would, among other things, facilitate opportunities for sustainable economic growth and development in individual PICs, stimulate increased investment among the PICs, foster and facilitate expansion and diversification through trade liberalisation between the Parties, and build a single regional market that would contribute to the integration of the region into global trade through the progressive eradication of trade barriers. However, the intended benefits under PICTA, such as specialisation and greater efficiency in PICs economies, increased competitiveness of PICs producers, increased exports, expansion of productivity and output, and increased employment, cannot be fully realised, mainly because of the slow implementation of the agreement, with some countries missing set targets.¹³ Several FICs are not yet ready to start trading under PICTA. To date, 12 FICs have ratified the agreement, out of which only seven have indicated their readiness to trade under it. As a result, intra-PICTA trade remains low and has declined since 2014 (Figure 2).

Instead, the six major export destinations for FICs, in 2019, have been Australia, China, Japan, Singapore, Taiwan, and the Netherlands (Figure 3). Their five primary sources of imports have been Australia, Singapore, China, New Zealand, Japan and the United States of America (Figure 4). On the other hand, the extension of PICTA to cover trade in services has evolved slowly. The PICTA Trade in Services (TIS) Protocol has been signed by 10 FICs and ratified by four of these countries. Having been concluded in 2012, the Protocol is still to come into force.¹⁴

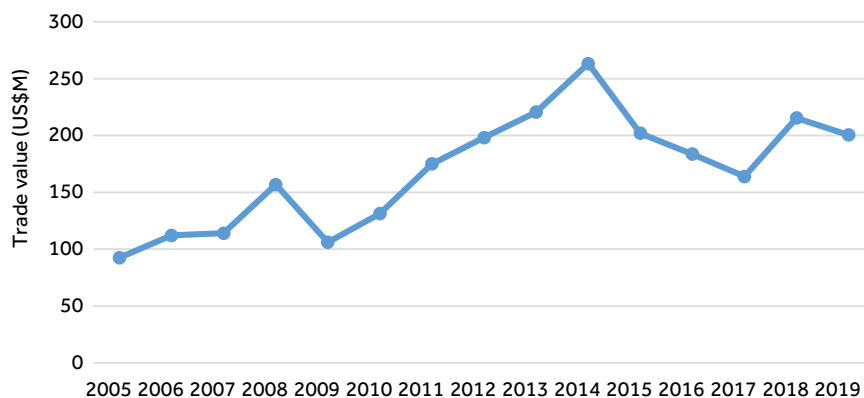
Third, the Melanesian Spearheading Group Trade Agreement (MSGTA) has a product coverage of more than 180 products. All duties have been eliminated under the agreement except

Figure 1. Share (%) of FICs trade with Australia, New Zealand, and the rest of the world (ROW) (2019)



Source: Calculated from UNCTAD Stats.

Figure 2. Value of intra-PICTA trade (US\$ million, 2019)



Source: Calculated from UNCTAD Stats.

Figure 3. Share (%) of FICS' top 6 export destinations (2019)

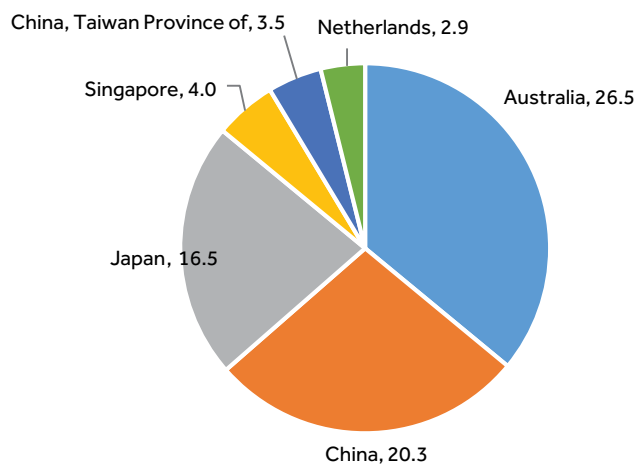
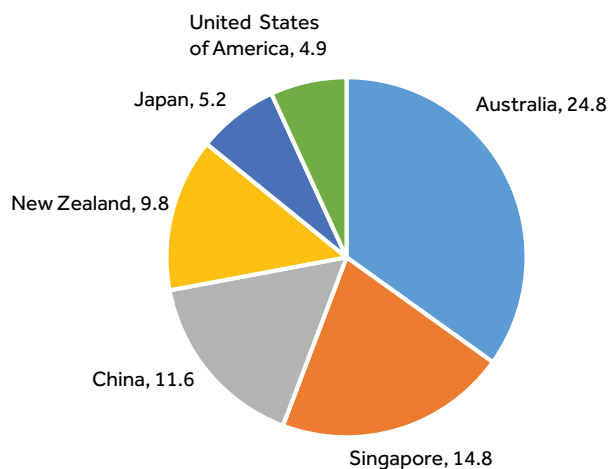


Figure 4. Share (%) of FICS' top 6 sources of imports (2019)



Source: Calculated from UNCTAD Stats.

Note: Partners are calculated as aggregate of Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

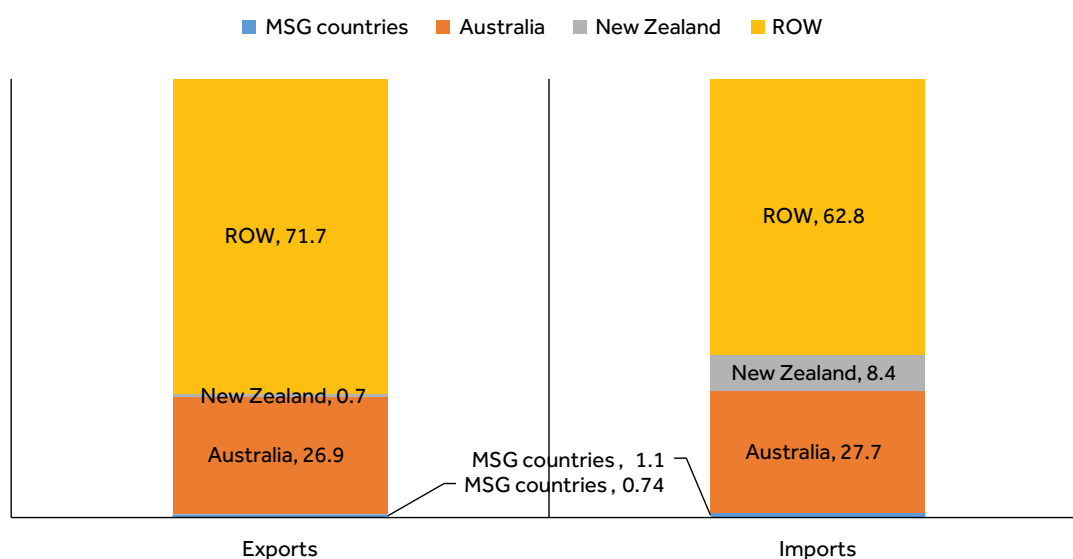
for a small number of products on the negative list. Under the new MSGTA3 (Melanesian Free Trade Agreement (MFTA), which was approved by MSG Trade Ministers in May 2016, Fiji and Vanuatu agreed to eliminate tariffs on all products originating in other MSG countries as of 2016, except those on the “Excepted Product List” (EPL) which are alcoholic beverages, tobacco and tobacco-related products. On the other hand, the Solomon Islands and PNG agreed to eliminate tariffs on all products originating in other MSG countries as of 2017, except for those on the EPL; and, in the case of PNG, cane sugar attracted a duty of 30 per cent until 2017 followed by 25 per cent from 2018 onwards. Apart from tariff elimination, the MFTA agreement comprises a labour mobility scheme (the MSG Skills Movement Scheme) to fill MSG members’ skill gaps. The scheme is limited to citizens of MSG countries and gives preferential treatment to participants concerning immigration formalities. Parties to the MSGTA have also completed negotiations on trade in services and investment. However, the MFTA is still not operational as it requires two countries to ratify the agreement for it to come into force. Two countries (Fiji and Solomon Islands) have signed the MFTA and are in the process of ratifying the agreement (MSG Secretariat, 2018).¹⁵

Intra-trade among MSG countries remains very low, comprising just 0.74 per cent of total

exports compared to about 27 per cent and 72 per cent for Australia and the rest of the world, respectively (Figure 5). In 2019, intra-MSG trade in imports accounted for 1.1 per cent of total imports, compared to about 28 per cent from Australia, 8 per cent from New Zealand, and 63 per cent from the rest of the world. Given the proximity of MSG countries to Australia and New Zealand, consideration should be given to expanding trade with these countries, which are more significant markets than MSG markets, and at the same time find ways to increase intra-MSG trade.

The above discussion shows that most FICs have not taken full advantage of the favourable market access offered under different regional preferential trading arrangements such as SPARTECA, PICTA and MSG to expand their trade. This has been due to various reasons such as the lack of economies of scale, low levels of FDI, inadequate infrastructure and other supply-side constraints. In addition, these countries produce and trade in similar goods, which limits the scope for regional trade expansion. Furthermore, the lack of implementation of agreements such as PICTA and the existence of NTBs and prohibitive RoO has weakened regional integration initiatives, constraining countries from expanding trade as a means to support sustainable growth and development.

Figure 5. Share (%) of intra-MSG trade compared to trade with Australia, New Zealand and the rest of the world (ROW)



Source: Calculated from UNCTAD Stats.

5. PACER Plus

The PACER Plus Agreement seeks to deepen trade and investment between Australia and New Zealand and the 14 FICs. Already, most FICs trade significantly with Australia and New Zealand (Table 6). The agreement recognises the unique challenges faced by FICs partners in international trade caused by their relatively small size, distance from major markets and high-cost structures. It provides an opportunity for Australia and New Zealand to deepen regional integration with these countries. As discussed above, the agreement comes into force against the backdrop of a changing global economic and trading landscape and at a time when FICs have been unable to take advantage of market access opportunities under existing preferential trade agreements such as MSG, PICTA and SPARTECA. A closer look at the PACER Plus Agreement shows that it can play a critical role in strengthening the capacity of FICs to take advantage of the trade opportunities presented by the deal, especially in a changing global economy. If implemented successfully, the agreement will contribute to enabling the FICs to use international trade as a tool for achieving robust economic growth and sustainable development. To help achieve the set objectives, the agreement contains several special and differential treatment provisions and other flexibilities favouring FICs. It is

also more flexible than other recent trade deals, requiring FICs to comply with generally fewer provisions in order to access preferential trading opportunities.¹⁶

The crafting and designing of the agreement were intended to help transform the economies of FICs onto a growth and development path that leads to poverty reduction, income generation, and greater opportunities and options for sustainable growth and inclusive development. The agreement was shaped out of recognition that the economies of FICs are highly vulnerable and that their success in achieving economic development depends on, among other things, the provision of assistance to enhance their productive capacities and diversify their economies and attract FDI. In this regard, the PACER Plus was crafted to go beyond compliance with the WTO by incorporating rules on investment, regional labour mobility and development assistance, thus covering areas in which the WTO currently does not have disciplines. This brings with it several benefits. For example, development assistance will help enhance productivity in FICs and build their trade capacity, thereby enabling them to take advantage of the market access provided under PACER Plus and beyond and transform their economies.

It is envisaged that, once signed and ratified by all parties, the PACER Plus Agreement will

Table 6. FICs level of reliance on Australia and New Zealand (2019)

Country	Goods		Services	
	Share of exports to Aus/NZ	Share of imports from Aus/NZ	Share of exports to Aus/NZ	Share of imports from AUS/NZ
FICs	27.78	34.76	14.21	14.16
Kiribati	0.20	29.47	3.15	12.90
Marshall Islands	0.01	0.07		
FSM	0.01	3.37		
Nauru	11.09	34.21		
Palau	1.23	1.62		
Papua New Guinea	29.25	40.14	20.40	14.60
Samoa	17.38	29.77	18.95	11.60
Solomon Islands	1.77	20.84	5.89	12.65
Tonga	32.38	31.26	10.25	12.01
Vanuatu	15.58	49.75	11.11	15.93

Source: Calculated from UNCTADStat and OCED-WTO BaTIS Datasets.

be the most comprehensive trade and investment agreement signed by the FICs either individually or collectively. It will present a unique opportunity for the FICs to achieve economic growth and sustainable development. It contains innovative features that provide them with a unique opportunity to expand trade and diversify their economies. Therefore, it is critical to understand the benefits that PACER Plus brings to the region and FICs. It is also essential to understand the implications of failure by FICs to implement PACER Plus and mainstream it into their development strategies. By implementing the agreement, the FICs will be able to take advantage of the provisions it contains to diversify their economies, attract investment, increase productivity and expand trade.

However, the gains under PACER Plus will not be evenly distributed across countries and there is the potential, in the short run, for winners and losers as countries, producers and consumers respond to changes in trade and investment patterns and changes in prices and market access. Like most agreements, PACER Plus will bring with its economic adjustment challenges such as employment losses and government revenue losses as countries incur adjustment costs. There is also the potential for environmental impacts resulting from the expansion of trade following liberalisation, which would potentially contribute to increased exploitation of natural resources. This calls for countries to carefully plan and sequence policies to bring about positive economic, social and environmental effects. As discussed below, the PACER Plus Agreement provides remedial measures which can be invoked to mitigate some of the challenges that trade liberalisation bring.

5.1 Capturing PACER Plus benefits

The development and growth of productive sectors in FICs, which comprise mainly micro, small- and medium-scale enterprises (MSMEs), is impeded by several challenges which, in turn, contribute to the inability of FICs to expand their trade. For example, most firms in PNG and Tonga are not ready to do business under PACER Plus due to several endogenous and exogenous supply-side constraints, such as inadequate infrastructure and standards and difficulties complying with SPS that contribute to low productivity and low trade.¹⁷ In this

regard, FICs must address these constraints if their productive sectors are to benefit from PACER Plus and other regional and multilateral trade agreements. PACER Plus provides an opportunity for addressing some of the trade-related limitations and challenges faced by FICs. Below are a few highlights.

Most FICs are hamstrung by cumbersome regulations and uncertainty about policy direction, which constrain business growth and expansion and export growth across all sectors. Because the PACER Plus Agreement does not forbid parties from restricting certain business activities to only locals, FICs could further improve on the clarity of their investment regimes, which can help foreign and domestic investors make business decisions that benefit the economies. Moreover, the PACER Plus Agreement provides FICs with the opportunity to regulate or amend existing regulations and introduce new ones, provided that they are not inconsistent with the agreement. However, there is a need for adequate consultation with the private sector before governments introduce new regulations or amend existing ones.

To comply with PACER Plus obligations, it is necessary to ensure that any new regulations do not constrain business activity, private sector development and export growth. Greater collaboration between governments and the private sector will help the FICs to develop capacities to take advantage of the market access opportunities available under PACER Plus. In addition, FICs can also take advantage of the support that will be provided by Australia and New Zealand under the development assistance component of the PACER Plus Agreement to strengthen their trade support networks and make them efficient in providing cutting edge services to the productive sector to enable the sector to capitalise on opportunities within the region and beyond. For example, assistance can be sourced to support FICs' Trade Ministries or Departments, which face several institutional challenges that limit their capacity to effectively and efficiently carry out their mandate to support producers' trade interests. In this regard, countries such as Tonga that feel they are not ready to trade under the new trade rules can consider utilising the PACER Plus development assistance support.¹⁸

FICs have inadequate and underdeveloped infrastructure that has contributed to high production and trading costs, affecting the

competitiveness of their firms in international markets. Their seaports are relatively small by international standards limiting the use of specialised equipment. The ports are also always congested and have limited capacity and technology to facilitate the quick release and movement of goods. Airfreight also faces similar issues of capacity. The UN Trade Facilitation Survey on Digital and Sustainable Trade Facilitation 2021 show that Pacific Islands have a paperless trade facilitation implementation rate of 31.31 per cent compared to 50.77 for LDCs, 49.19 per cent for sub-Saharan Africa and 46.15 per cent for Small Island Developing States¹⁹, making it essential for Pacific Island countries to expedite the implementation of trade facilitation measures to reduce costs. In this regard, PACER Plus offers opportunities for FICs to improve trade flows through targeting micro-level trade facilitation measures that are an impediment to trade. Already, Australia has demonstrated regional co-operation prospects related to trade facilitation by partnering with Vanuatu to automate SPS certificates, reducing the application process average time to as little as 10 minutes (Commonwealth, 2021).

Inadequate and underdeveloped infrastructure has also constrained the growth and expansion of the services sector, with both hard and soft infrastructure impacting services provision and quality (Soobramanien and Zhuawu, 2014). Some parts of FICs remain inaccessible due to the lack of roads. Road construction will link these areas to larger cities and open up new growth frontier opportunities, particularly in tourism. As such, the development of new transport infrastructure such as roads and port facilities and the upgrading of existing infrastructure can substantially impact the service sector and enable FICs to realise the full potential in this sector. Given their geographical isolation the development of digital infrastructure will promote the digital connectivity of FICs and enable them to digitise import and export procedures as part of efforts to modernise customs and trade with distant markets, improve digital service delivery and accessibility, and develop digital skills, e-government services and cyber-security capabilities. However, the development of such infrastructure requires considerable human and financial resources. FICs can take advantage of the PACER Plus Development and Economic Cooperation component to address the problem of inadequate

infrastructure, which, in turn, would contribute to facilitating trade.

As discussed previously, the cost of doing business is generally high in FICs, constraining domestic and foreign investment, and business growth in general. Producers also face some customs-related charges, which they must pay for customs clearance, which contributes to high production and trade costs, making FICs goods uncompetitive both in domestic and international markets. FICs can take advantage of the PACER Plus Development and Economic Cooperation component to address some of these constraints, for instance, those related to weak institutional support in areas such as customs and inadequate and underdeveloped infrastructure, which will help reduce production costs. The UN Trade Facilitation Survey on Digital and Sustainable Trade Facilitation 2021 shows that Pacific Islands lag behind other developing country regions in institutional arrangement and co-operation in trade facilitation with an implementation rate of 51.52 per cent compared to 60.74 per cent for LDCs, 59.38 per cent for sub-Saharan Africa and 57.69 per cent for Small Island Developing States. If implemented, the PACER Plus Customs Procedures regulations can reduce the trade costs faced by FICs firms and benefit both exporters and importers through the simplification and streamlining of customs procedures to facilitate the faster clearance of goods. It would also promote harmonisation of customs procedures in the region, thereby facilitating trade and reducing trade costs. Access to new technologies will expedite the clearance of goods and lead to reductions in customs-related charges.

In addition, liberalising services and investment regimes in FICs would facilitate the inflow of FDI into these countries, mainly from Australia and New Zealand. Furthermore, improved service delivery due to services liberalisation can enhance the export competitiveness of FICs, as they could contribute to lowering production costs for manufactured and agricultural goods. Services liberalisation will also result in competition, particularly in sectors dominated by state-owned or private monopolies such as energy, ICT and water.

Most FICs suffer from an inadequate skills base and rely on imported skills to perform vital tasks. The lack of a readily available pool of qualified and experienced workers results in low productivity, which affects the profitability

of FICs producers. The PACER Plus Temporary Movement of Natural Persons provisions will enable FICs to import the needed skills within a secure and predictable framework.

FICs have limited capacity to produce sufficient volumes to satisfy both the domestic and export markets, mainly due to a lack of mechanisation and use of modern technologies, high production costs, poor and inadequate infrastructure, and disruptions to production because of unreliable power supply. They also find it challenging to meet the SPS measures and technical requirements of trading partners, particularly in the case of agriculture exports to Australia and New Zealand. On the other hand, while some FICs exporters already adhere to internationally accepted standards by virtue of exporting to the European Union, Japan, Australia and New Zealand, most exporters face excessive delays in getting their products checked and certified by the relevant national bodies. As a result, most FICs businesses have resorted to importing cheaper products, mainly from China, rather than producing locally as many find it more profitable to be importers and distributors rather than producers and exporters. In addition, several Chinese businesses have established a presence in countries like Vanuatu and dominate the retail sector, importing cheap Chinese products for the local market. This threatens to impact negatively on employment in the FICs and may result in increased importation of sub-standard products, which undercut domestically produced goods that meet the applicable local standards and technical regulations.

The PACER Plus Development and Economic Cooperation component can be used to improve FICs non-productive operations through support for automation and effectively working with exporters to ensure that their products meet the relevant requirements in importing countries, particularly Australia and New Zealand. FICs can also use the support to upgrade their quarantine facilities and modernise their SPS and technical barriers to trade (TBT) regimes to effectively assist exporters in meeting the applicable technical regulations and standards in key markets and to ensure that only safe products enter the stream of commerce in FICs. This would help FICs, smallholder farmers and MSMEs, which regularly face difficulties in meeting the SPS and TBT requirements of trading

partners, to gain adequate access to regional markets. In addition, by referencing the WTO Agreements on Anti-Dumping and Subsidies and Countervailing Measures, the PACER Plus makes it possible for FICs to undertake investigations and impose anti-dumping duties or countervailing duties, where there is evidence of dumping or the provision of subsidies that cause injury to a domestic industry producing a like product if the injury is directly attributable to the dumped products or subsidies provided by a government. Given the highly technical nature of administering a trade remedies regime, FICs can seek assistance from Australia and New Zealand within the Development and Economic Cooperation component framework to train their investigating authorities.

Furthermore, FICs can also take advantage of this assistance to modernise their customs operations to expedite the clearance of legitimate products. The aid can also be used for training in risk management techniques to enable FICs Customs agencies and institutions to thoroughly investigate products entering their territories and intercept products that do not meet their SPS and TBT requirements. Automation of customs procedures and payment systems will also promote transparency and effectively deal with corruption, while helping to halt the trade in sub-standard products that pose a health risk and undermine the competitiveness of FICs producers.

Producers in FICs lack adequate access to credit, which constrains the expansion of the productive sector, leaving several producers experiencing a decline in export performance, mostly due to limited access to credit and export support, especially trade finance. The liberalisation of the financial services sector by FICs under PACER Plus will result in competition from new entrants, stimulating domestic banks in developing new products and providing better services to customers, including the provision of credit and trade finance to FICs producers. Increased banking activity in FICs would provide producers with the option of choosing a bank's services that best suit their credit needs. Improved service provision can also help stimulate demand and result in a higher volume of transactions through banks, meaning more resource mobilisation and lending is likely to occur, which would inject dynamism into the economy.

Annex 1 provides a summary matrix of some of PACER Plus's benefits and some of the challenges that can be mitigated under the Agreement and help in increasing and diversifying FICs' trade in the region.

5.2 The importance of implementing and mainstreaming the PACER Plus Agreement

The primary reason for most FICs to be part of PACER Plus is to ensure that trade is an integral part of their solutions to the development challenges they face in supporting growth and development, creating jobs, and lifting many lives from poverty, especially for the post-COVID-19 recovery period. In this regard, the benefits of PACER Plus cannot be taken for granted. As discussed above, most FICs have not benefited from existing regional arrangements partly due to poor implementation or lack of it. Given the benefits that PACER Plus brings to FICs, particularly in a changing global economic and trading landscape, FICs need to consider implementing the PACER Plus Agreement and mainstreaming it into their development strategies, if the agreement is to deliver on its intended benefits. Given that the global economic and trading landscape is changing, bringing with it significant uncertainty for international trade with implications for FICs, the implementation of PACER Plus in a region where existing regional integration initiatives have not significantly contributed to growth can provide an alternative in the FICs' quest for trade-led growth and sustainable development, and help them achieve the SDGs.

However, the success of the agreement is broadly aligned to member countries' commitment to implementing it. FICs that embrace, ratify and implement the agreement early will have a first-mover advantage in accessing the agreement's benefits. PACER Plus implementation entails FICs incorporating trade liberalisation initiatives under the agreement in their development policies. With the right mix of policies, trade under PACER Plus can make an immense contribution to the sustainable growth and development of FICs. Australia and New Zealand have shown readiness to help FICs implement and mainstream the PACER Plus Agreement so that they adopt the right policy mix at the domestic level to enable them to take advantage of the agreement.

Production bases in most FICs are made up of micro, small- and medium-scale producers and exporters. Integration under PACER Plus will increase access to markets and attract investment and technologies, mainly from Australia and New Zealand, under a set of shared rules. As such, it is fundamental for FICs to take into account the composition of their production bases when implementing and mainstreaming PACER Plus in their development strategies. In this regard, there is a need for FICs governments to work closely with their business sectors to ensure PACER Plus works to their benefit. FICs also need to identify specific steps they need to take in order to position themselves appropriately to grow capacity and attract investment. In this regard, technical assistance under PACER Plus Development Assistance can be used to help FICs design policies and regulations (within the context of PACER Plus) that are intended to establish a favourable environment for their business sector to benefit from the opportunities afforded by the agreement.

Situated far away from their major markets such as the EU, China and the USA, some of which are becoming increasingly protectionist, Australia and New Zealand offer the nearest major markets for FICs producers in the region. As such, PACER Plus can be the region's response to growing anti-globalisation sentiments as it will increase regional trade under rules that both parties agreed and helped design. This helps to bring regional stability in Pacific economic relations, assisting businesses to thrive. FICs will have increased access to markets closer to home, unlike restrictive markets abroad, which also means increased competitiveness as transport costs would have been reduced, including in the context of the PACER Plus trade facilitation commitments.

Apart from the potential for increasing investment flows from Australia and New Zealand to FICs, PACER Plus can also help the development of regional value chains and boost the participation of FICs businesses in these chains. The creation of regional value chains can help FICs producers to consolidate their market share, making it difficult for producers outside the region to access the regional market. Moreover, the enhanced ability of smaller producers in FICs to connect to regional value chains will enable them to access information on SPS, standards and quality, which help reduce costs of trial and error in accessing markets.

PACER Plus can help in the post-COVID-19 recovery process. Most FICs have limited fiscal capacity to counter the pandemic's impact through additional spending, with public debt among these countries having risen since the 2007–2008 global financial crisis (IMF, 2020). The implementation of the PACER Plus Agreement will help ensure FICs are in the best possible position to use trade to recover from the impacts of COVID-19 by taking advantage of new opportunities for exports and investment. Producers in Australia, New Zealand, and FICs are expected to benefit from better export opportunities as a result of the agreement. For example, most FICs have made a commitment on tourism in their services

schedules of concessions and the implementation of the PACER Plus can help in maintaining existing supply capacity along the tourism value chain, especially considering that Australia and New Zealand are the major tourist markets and sources of investment for FICs. Such investment can play an important role in refurbishing critical infrastructure and capacity and skills development in preparation for the reopening of tourism markets. In addition, the implementation of the agreement will reinforce intra-regional tourism and the establishing of cross-border travel corridors in the Pacific, especially considering the exhibition of low infection rates in the region.

6. Conclusion and way forward

The lack of deeper integration initiatives in the Pacific region has limited the contribution of trade to the sustainable growth and development of FICs. PACER Plus provides an opportunity for deeper integration at a time when the global economic and trading landscape is changing, bringing with it significant uncertainty for FICs trade in distant markets. In this regard, it would be necessary for FICs to consider speedy implementation of the PACER Plus Agreement to take advantage of its benefits and avoid missing out on the opportunities that regional integration brings. Implementing the agreement and ensuring it is mainstreamed into the development strategies of individual FICs is fundamental to enable them to achieve real progress through the delivery of commitments combined with practical technical assistance and capacity-building.

Given the challenges FICs face that constrain their participation in international trade, FICs require solutions that assist them to shift away from a heavy dependence on commodity exports and concentration in low value-added activities, which have affected their trade-driven development. FICs cannot continue doing the same things in a changing global trading economy. Trade-related solutions need to help enhance their productive capacities, enable export diversification and facilitate structural transformation. The implementation of the PACER Plus Agreement provides an excellent opportunity to tackle these issues. A lot will depend on an individual country's capacity to adjust to changes in trade, implement mitigating measures and trade under PACER Plus.

Notes

1 FICs are Pacific Island countries that are members of the Pacific Islands Forum (PIF): Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. These countries, except French Polynesia and New Caledonia, negotiated the Pacific Closer Economic

Relations (PACER) Plus Agreement with Australia and New Zealand who are also members on the PIF.
2 The two PACER Plus developed partners, Australia and New Zealand, have signed and ratified the agreement. Four Commonwealth FICs (Kiribati, Samoa, Solomon Islands and Tonga) have signed and ratified the agreement, three Commonwealth FICs (Nauru, Tuvalu and Vanuatu) are still to ratify the agreement

- and two Commonwealth FICs (Fiji and Papua New Guinea) have so far opted out of the agreement and are free to join later. Niue has also signed the agreement.
- 3 The continuation of the pandemic has potential to make the implementation of PACER Plus more difficult, especially if associated with continued restrictions on the movement of goods and people.
 - 4 Nine of the 14 FICs which negotiated the PACER Plus are members of the Commonwealth: Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
 - 5 Most FICs are commodity exporters, relying on a single commodity, which increases their vulnerability to external economic threats and shocks.
 - 6 For example, price trends for primary commodities (food, agricultural raw materials, metals, and fuels) have been fluctuating since 2014, with price fluctuations in the second half of 2019 dominated by fuel, which fell 22 per cent year-on-year (WTO 2020a).
 - 7 https://www.wto.org/english/news_e/news21_e/serv_23jul21_e.htm
 - 8 <https://www.statista.com/statistics/1104036/novel-coronavirus-weekly-flights-change-airlines-region/>
 - 9 The World Bank reported that COVID-19 affected both the supply and demand of commodities due to mitigating measures affecting economic activity and supply chains and that the process of most commodities fell since January 2020 with the potential to affect commodity supply and demand for a long period (World Bank, 2020). The WTO also reported a decline in non-edible agriculture products such as raw fur skins, wool, raw hides and skins, vegetable textile fibres, essential oils, live tree and plants (WTO, 2020c).
 - 10 Some countries, especially most small states, which rely on tourism for revenue experienced revenue losses due to the collapse in demand for tourism services and other tourist-related services. Countries that also rely on import duty for revenue experienced some losses because of the slowdown in trade.
 - 11 There has been an increase in the exploitation of resources (including marine resources), exploitation of new sources of carbon-based energy and changes in consumption which has changed the human relationship with nature to support the creation of wealth and the satisfaction of human demands, which has contributed to a rise in global temperature and climate change.
 - 12 The COP22 UN Climate change conference in Marrakech, Morocco in 2016 saw 48 countries promising to drastically cut their carbon emissions and move towards the use of 100% renewable energy.
 - 13 The slow implementation is partly due to countries not ready to trade under PICTA. Some countries are not prepared for the economic adjustments under PICTA and have adopted defensive reactions to employment losses and government revenue losses. Only seven countries, namely Cook Islands, Fiji, Niue, Samoa, Solomon Islands, Tuvalu and Vanuatu, have announced their readiness to trade under the agreement and are implementing it.
 - 14 Like in PICTA trade in goods, the reasons for the delay in the coming into force of the Protocol is that some countries are not prepared for the economic adjustments.
 - 15 Two countries are required to ratify the MFTA for it to come into force and all four countries are required to ratify the agreement for it to replace the 2005 MSG Trade Agreement: <https://www.msgsec.info/msg-trade/>
 - 16 For example, the lack of the usual 'investor-state dispute settlement' process, health and environmental regulations, and labour standards provisions make the PACER Plus Agreement less draconian and less one-sided in advancing co-operation in the Pacific region.
 - 17 This is based on an assessment by the author at the time of the PACER Plus negotiations to examine the readiness of the private sectors in PNG and Tonga to trade under PACER Plus.
 - 18 <https://bilaterals.org/?tonga-not-ready-for-new-trade>
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Annex 1 Summary Table for FICs Trade expansion under PACER Plus

	Challenges that can be mitigated under PACER Plus	PACER Plus benefits
Trade in Goods	<ol style="list-style-type: none"> 1. High cost of doing business contributes to making FICs products less competitive in international markets. 2. Limited productive capacity to take advantage of market access opportunities to increase and diversify exports and limited value-added raw materials processing. 3. Inability to satisfy the SPS and TBT requirements of trading partners prevents FICs from taking advantage of market access opportunities. 4. Limited access to credit facilities and trade finance. 5. Shortage of required skills set for FICs producers. 6. Limited transfer of technology. 	<ol style="list-style-type: none"> 1. Consolidate and increase market access in the region. 2. Increase and diversify exports by adding value to raw materials and opportunities to participate in regional value chains. 3. Access to cheaper inputs to improve the competitiveness of FICs exports. 4. Assistance to FICs to strengthen their SPS and TBT regimes and facilities to ensure that their exports meet the applicable standards in key markets. 5. Assistance from Australia and New Zealand to help FICs address supply-side constraints such as inadequate trade-related infrastructure and limited productive capacity, constraining FICs efforts to take advantage of trade agreements. 6. Provides FICs the opportunity to import the needed skills within a secure and predictable framework at a competitive rate. 7. Transfer of technology and technical and management skills.
Trade in Services	<ol style="list-style-type: none"> 1. High cost of doing business contributes to making FICs services less competitive in international markets. 2. Inability to realise the full potential in trade in services due to limited capacity and lack of diversification. 3. Limited innovation and entrepreneurial skills. 4. Limited access to credit facilities and trade finance. 5. Shortage of required skills set for FICs service providers. 6. Limited transfer of technology. 	<ol style="list-style-type: none"> 1. Consolidate and increase market access in the region. 2. Realise full potential in the tourism sector and diversify services exports through infrastructure development. 3. Access to cheaper services, which can enhance the competitiveness of FICs producers. 4. Attract foreign direct investment into critical services sectors, including financial services, telecommunication services, business services, energy services, and transportation services. 5. Access to specialised skills and transfer of technology from other PACER Plus Parties. 6. Opportunities for the transfer of technology and technical and management skills.
Investment	<ol style="list-style-type: none"> 1. High cost of doing business contributes to making FICs goods and services less competitive in international markets. 2. Lack of security and predictability resulting from changing government policies, undermining confidence in the economy, and deterring foreign investment. 3. Limited access to credit facilities and trade finance discourages new investment and disrupts the expansion of existing businesses. 4. Shortage of required skills set for the country's industry. 	<ol style="list-style-type: none"> 1. Secure and predictable investment climate resulting in confidence in FICs economies and the region. 2. Opportunities for increase investment flows from other PACER Plus Parties and third countries. 3. Opportunities for increased production of goods and services and diversification of export basket to include value-added goods and services. 4. Potential for transfer of technology and technical and management skills. 5. Opportunities for employment creation and upskilling workers. 6. Increased competition leading to a fall in prices and the production of better-quality goods and services.

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	Challenges that can be mitigated under PACER Plus	PACER Plus benefits
Temporary Movement of Natural Persons and Labour Mobility	<ol style="list-style-type: none"> 1. Growing unemployment, especially among the youth. 2. Shortage of required skills set for FICs producers. 	<ol style="list-style-type: none"> 1. Opportunities for FICs to send skilled, semi-skilled, and unskilled workers to Australia, New Zealand, and other PACER Plus Parties will help reduce the unemployment problem and promote social cohesion in the communities. 2. Opportunities for increased remittances and upskilling of workers, who, upon their return, can establish businesses to boost economic growth and development. 3. Potential for relieving shortages of skilled workers in FICs, enhancing productivity, and upskilling FICs workers.
Customs Procedures	<ol style="list-style-type: none"> 1. Burdensome trade rules and regulations cause a delay in the clearance of goods and increase business costs. 2. Limited port handling capacity and congestion. 3. Limited automation and the lack of skilled personnel to implement modern customs systems. 4. Unnecessary practices that undermine the FICs customs regime resulting, among other things, in revenue loss to the government. 	<ol style="list-style-type: none"> 1. PACER Plus will help simplify trade rules and regulations, facilitating the faster clearance of goods. 2. Assistance to be provided by Australia and New Zealand to help FICs Customs to modernise their customs operations, including through automation of procedures 3. Opportunities for enhancing the skills of FICs Customs Officers through dedicated training courses and programmes. 4. Reduce costs for FICs producers resulting in increased competitiveness. 5. Improved transparency and combating trade in sub-standard and pirated products.
SPS and TBT	<ol style="list-style-type: none"> 1. Limited capacity of FICs quarantining facilities to work with exporters to ensure compliance with the SPS and TBT requirements of trading partners, preventing FICs from taking full advantage of market access opportunities under trade agreements. 2. Lack of transparency and enforcement of FICs SPS and TBT measures result in the entry of sub-standard goods that pose a health risk to humans and animal life and undercut local products. 3. Application of SPS measures not always backed by science, creating frictions with trade partners. 	<ol style="list-style-type: none"> 1. PACER Plus will help ensure compliance with the SPS measures and technical regulations and standards of trading partners, ensuring that FICs take full advantage of market access opportunities under trade agreements. 2. Opportunities to strengthen the SPS and TBT regimes of FICs to ensure the effective implementation of FICs' relevant standards to protect and promote human, animal, and plant life and health and permit FICs governments to pursue legitimate objectives such as consumer protection. 3. Assistance to be provided by Australia and New Zealand to FICs quarantining facilities to enable them to discharge their duties effectively and efficiently.
Rules of Origin	<ol style="list-style-type: none"> 1. Given the use of a substantial amount of foreign inputs by FICs producers, it is often difficult to satisfy the rules of origin under trade agreements, preventing trade expansion and diversification. 2. Limited opportunities to participate in regional value chains. 3. Lack of skilled personnel to explain origin rules under various trade agreements to producers, exporters, and importers. 	<ol style="list-style-type: none"> 1. Make it easier for FICs products to qualify for preferential tariff treatment in Australia, New Zealand, and other PACER Plus partners. The PSR Schedule is flexible and allows Parties to choose between the change of tariff classification, regional value content methodologies, and process rules. 2. Facilitates value addition and encourages trade between PACER Plus Parties. Stringent anti-circumvention rules to ensure that benefits under the Agreement are enjoyed only by PACER Plus Parties. 3. Reduced transaction costs because of an agreement among the Parties to use a Declaration of Origin to claim preferential tariff treatment. 4. Training is to be provided to customs and trade officials to enable the private sector to take advantage of the rules to expand and diversify exports. 5. PACER Plus is less restrictive and allows global sourcing.

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	Challenges that can be mitigated under PACER Plus	PACER Plus benefits
Development Assistance	<ol style="list-style-type: none"> 1. Weak institutions and trade regimes that do not engender confidence in the business community. 2. The trade-related infrastructure of FICs is fragile and increases the cost of doing business, affecting FICs producers' competitiveness in international markets. 	<ol style="list-style-type: none"> 1. Assistance to be provided to FICs to implement their obligations under the PACER Plus Agreement. Implementation of the Agreement should boost trade and economic activity in FICs. 2. Assistance to be provided to FICs to address the supply-side constraints that have prevented them from taking advantage of market access opportunities under trade agreements. Assistance to be provided conforms to the four broad categories of Aid for Trade <ol style="list-style-type: none"> i. trade policy and regulations; ii. economic infrastructure; iii. productive capacity building; and iv. adjustment assistance.