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Report

From the Millennium Development Goals to the Sustainable Development Goals

Learning the lessons from the trade diagnostic studies in the Pacific

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Key messages

- The Sustainable Development Goals (SDGs) that will be adopted in 2015 need to include a commitment to deliver a new global trade framework for the world's least developed countries and small-island states, such as the Pacific Island Countries.
- Market access will be meaningless without increasing productive capacity. Focus also needs to also be placed on behind-the-border measures including on rules of origin, supporting adherence to standards, and ensuring that aid for trade is additional and targeted.
- Regional trade agreements are changing the global trade landscape and shaping the future trading opportunities for the Pacific. There is a need to ensure small and economically powerless countries are not adversely affected by such agreements, nor their aspirations to achieve regional integration undermined.

This paper contextualises the debate on the transition from the Millennium Development Goals (MDGs) to the Sustainable Development Goals (SDGs) with reference to the Pacific. It argues that the Pacific island countries (PICs) have much to gain from the SDGs if these goals contribute to trade development and better reflect their trade and development-related needs. We discuss how this could be achieved, given the trading realities in the Pacific and the lessons from existing processes, including Diagnostic Trade Integration Studies.

One major shortcoming of the MDGs was their failure to include dimensions of structural economic transformation or to integrate the development of productive capacities (Basnett and Keane, 2013). They generated funding and political attention for social development, but not for trade and economic development.

The PICs – which comprise 22 tiny, open economies and territories – have struggled to benefit from globalisation and from their greater outward orientation facilitated through liberalisation.[1] Most have large goods-trade deficits and all face tariff-preference erosion (the difference in tariffs for imports from PICs and from other countries). Their economic growth and human development performance is, in many cases, below the developing-country average and their aid per capita remains the highest in the world. Ultimately, trade development can help the PICs operate autonomously and with reduced donor support.

Table 1: Human Development Index, GDP growth, GDP per capita and net ODA (2012)

	HDI rank and value	**GDP growth (%)**	**GDP per capita (current $)**	**Net ODA (per capita, current $)**
	Median*: 94 (0.712)	LIC and MIC** average: 3.8	LIC and MIC** average: 3,966	LIC and MIC** average: 78.44
Pacific	113 (0.56)	2.8	3,927	815.65
Data by country				
Cook Islands	n.a.	n.a.	n.a.	n.a.
Fiji	96 (0.702)	2.30	4,467	122.71
Kiribati	121 (.0629)	2.81	1,736	641.55
Marshall Islands	n.a.	1.90	3,471	1446.29
Micronesia, Fed. Sts.	117 (0.645)	0.43	3,155	1112.62
Nauru	n.a.	n.a.	n.a.	n.a.
Niue	n.a.	n.a.	n.a.	n.a.
Palau	52 (0.791)	5.25	11,006	722.75
Papua New Guinea	156 (0.466)	8	2,184	92.76
Samoa	96 (0.702)	2.89	3,620	638.84
Solomon Islands	143 (0.53)	3.90	1,835	554.91
Tonga	95 (0.71)	0.84	4,494	745.75
Tuvalu	n.a.	0.17	4,044	2483.77
Vanuatu	124 (0.626)	2.25	3,183	410.17

*Source: Authors' calculation based on Human Development Report 2013 and World Development Indicators. Accessed May 2014. * Median value calculated using all countries included in the Human Development Index. ** Low-, lower-middle- and upper-middle-income countries (excluding PICs), as classified by the World Bank at February 2014.*

[1] The 14 small island members of the Pacific Islands Forum are Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Eight observers and associate members, not all of which are independent states, are New Caledonia and French Polynesia, Tokelau, Wallis and Futuna, American Samoa, Guam, the Commonwealth of the Northern Marianas and Timor Leste.

The realities of trading in the Pacific

Trade can help development in the PICs by increasing formal employment and reducing aid dependency, helping these countries attain their development goals. Trade fuels the economic engine to raise government revenues and build the formal employment that is needed to achieve the development goals to which governments have committed.

The PICs are among the countries likely to be worst-affected by climate change. Their governments are therefore committed to identify the importance of climate change and support time-bound targets for maximum global temperature rises.[2] The current draft of the SDGs mentions an Action Area on climate change, but the issue remains highly contentious. Sea-level rise and extreme weather-events as a result of climate change threaten tradable agriculture and subsistence farming in the PICs – a spur to the expansion of formal employment.

Other trade issues such as subsidies in the fisheries sector – also mentioned in the current SDG draft – are strongly supported by the PICs, given the instability and uncertainty around trading arrangements for fisheries, which could lead to the overexploitation of stocks, particularly tuna. For some countries in the region, such as the Solomon Islands, tuna is a high-value export, and its processing provides much-needed jobs.

Pacific island governments have stated that the success of the SDGs depends on how they are implemented. They also want the SDGs to go further than the MDGs, demanding a focus on 'equality and fairness' among trading partners, referring explicitly to the importance of Aid for Trade (AfT).[3]

While preferential market access has helped, the MDGs overlooked productive capacity and capabilities. The PICs lack the capacity to meet the demand for their products and services and building such capacity requires measures to transform the economic structure to propel it into higher value-adding activities in services and processing. Better roads, international transport and utilities are critical, but so too are 'softer' infrastructure aspects such as skills and information and communication technology (ICT). So the Pacific island governments are right to emphasise the importance of AfT, if it means development assistance to build infrastructure and develop productive capacity, and capabilities.

Their demands also relate to the need for continued special and differential treatment. PICs do not trade on an equal footing with other countries because of their capacity and geographic constraints, which increase trading costs, and more creative thinking is needed in this area.

Although MDG8 (on global partnerships) called on the international community to meet the needs of Small Island Developing States (SIDS), existing trade and development mechanisms, such as the Generalised System of Preferences, focus on the Least Developed Countries (LDCs) – a problematic category in that it now includes some middle-income countries. The international community needs to address this differentiation issue, which means that the SDG trade targets are likely to differ to those in the MDGs. Better targeting of trade and development mechanisms also means considering the trade needs of SIDS.

Learning the lessons from diagnostic studies in the Pacific

Other lessons could be learned from existing UN processes such as the Diagnostic Trade Integration Studies (DTISs). We highlight six major findings from the DTISs completed over recent years in Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu – all LDCs (EIF, 2014). While not exhaustive, each DTIS has relevance for the SDGs. Most of the findings also apply to other non-LDC PICs.

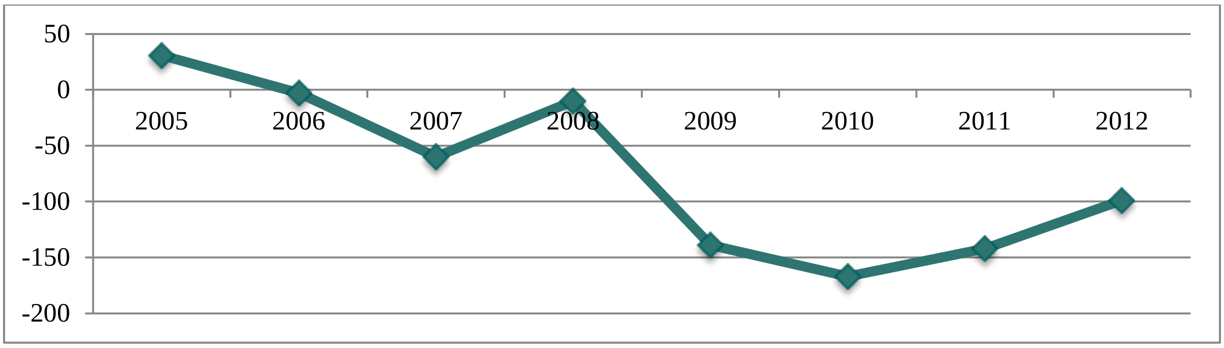
1. Market access is not enough

Six PICs are members of the World Trade Organization. Four Pacific LDCs have duty and quota-free (DFQF) access to the United States and Europe (under Everything But Arms and the Generalised System of Preferences), as well as to China. The South Pacific Area Regional Trade Agreement (SPARTECA) gives PICs DFQF access to Australia and New Zealand. The region is engaged in negotiations towards a trade agreement with Australia and New Zealand, the Pacific Agreement on Closer Economic Relations (PACER Plus) which would give those

[2] Statements by Papua New Guinea, Timor-Leste and Solomon Islands at 5-9 May 2014 Session of Open Working Group.
[3] Statement by Papua New Guinea, Nauru and Palau at 5-9 May 2014 Session of Open Working Group.

countries reciprocal access to markets. Twelve states are members of the Pacific Island Countries Trade Agreement (PICTA). The Melanesian Spearhead Group (MSG) Trade Agreement involves the four main independent western Pacific countries: Fiji, Papua New Guinea, Solomon Islands, Vanuatu.

Figure 1: Net trade in goods and services for Pacific Island Countries (balance of payment, current $ million)



Source: Authors' calculation based on World Development Indicators. Accessed May 2014.

The May and June 2014 drafts of the SDGs called for yet further market access for LDCs and developing countries. However, Pacific DTIS have found that, while welcome, market access alone cannot increase trade to a level that contributes enough to economic growth and social development. Improvements in market access have not increased in Pacific island exports (Figure 1 above). In three decades of trade liberalisation, international market access has increased, tariffs and trade barriers have fallen and inward access has risen, but exports of Pacific island goods and services as a proportion of economic output have remained static: around 36% on average (authors' calculations using World Bank data). Trade has not contributed as expected to employment, government revenues or poverty reduction, so more attention is needed for other behind-the-border measures.

2. Build productive capacity

To benefit from preferential market access, which erodes over time given the tendencies towards reductions in trade taxes, productive capacity is essential. Put simply, the PICs have opportunities to export their products (with considerable demand in developed markets), but cannot produce enough, in consistent enough quality, to meet that demand and integrate into supply chains. Table 2 shows the size of European Union (EU) import markets for the top two exports from PICs: palm oil and tuna. In 2009, PICs accounted for about 12% of EU palm-oil export, falling to around 9% in 2013, while the share of tuna import increased marginally.

Table 2: Table 2: Top export products from the Pacific Island Countries to the European Union

Product	Export (2009-2013 average)	Size of EU import market (2009-2013 average)	PIC share in total EU imports (%)	
			2009	2013
Palm oil	351,213	3,239,591	12	9
Tuna	96,531	2,408,576	4	5

Source: Authors' calculation based on ITC TradeMap. Accessed May 2014.

The Solomon Islands provides a typical example: the country has good international market access as a WTO member. Markets are very open but the economy remains undiversified and vulnerable to adverse market shifts because of a high dependence on unprocessed logs, which account for up to 75% of exports, on average. Since independence in 1978 exports have declined as a proportion of economic output while aid per capita has risen to one of the highest levels in the world.[4]

The Solomon Islands suffers from weaknesses in productive capacity and, therefore, trade development, including transport, finance, land ownership and infrastructure. The current approach – global integration through trade agreements accompanied by fiscal austerity – falls short of its objectives, and policy-makers are recognising that the enhancement of productive capacity, which means the transformation of productive structure, is vital. This requires a focus not only on exports but also on imports and the possibility of selective import substitution: the costs of imports are high because of trade costs.

3. Tackle sanitary and phytosanitary requirements

In some cases, even when countries meet the demand that exists for their products, sanitary and phytosanitary (SPS) requirements have constituted an even bigger barrier to exports than in other regions. A well-known example is kava, a traditional mildly narcotic root crop originating in Vanuatu. In 2001 30 to 40 people in Europe were reported as having become ill or died after taking kava in pill form as an alternative to conventional sedatives. European countries immediately banned the product, followed by Australia, New Zealand and the United States. An estimated one-third decline in kava exports from Vanuatu the following year cut yearly exports earnings by 20% and has had a major impact across the region.

The Pacific island governments cannot afford to fight such cases at the WTO dispute settlement body, although exports to some markets have re-opened following lobbying and scientific assessments by the World Health Organization.

4. Improve rules of origin

Even when productive capacity does exist and SPS requirements are met, rules of origin (RoO) are often too complicated to allow PICs to make use of trade agreements. Within the world of Global Value Chains (GVCs), the inability to input and use sourced material can restrict countries' ability to export. There have been calls from the region, and elsewhere, for a definition of RoO based on a change in tariff headings rather than value-addition. At the last WTO Ministerial in Bali in December 2013 the LDC group also called for guidelines on RoO.

For example, the SPARTECA agreement with Australia and New Zealand, which account for most Pacific island exports, stipulates that 50% value must be added locally. However, this is too restrictive, given severe productive capacity and capability constraints.

Similar complexity applies to RoO proposed for fish under the comprehensive Economic Partnership Agreement (EPA) with the EU. Several PICs (LDCs and non-LDCs) hope to obtain 'global sourcing' of fish, which means they could acquire fish from outside the circle of EPA signatories, process it and export it to the EU tariff-free. However, despite the severe productive-capacity constraints already described, which for fisheries include a lack of cold storage facilities, the EU offers global sourcing to PICs only if they have an EPA – a Free Trade Agreement – with the EU. The costs that will result from the removal of tariffs towards the EU under an EPA, coupled with the introduction of other regulatory measures (including the abolishment of export taxes – permitted under the WTO), are seen to outweigh the benefits by many PICs, despite their need to expand formal employment opportunities by increasing fisheries processing.

The trade goals included in the zero draft of the SDGs focus on the multilateral trading system, not on the large regional agreements that now shape the global trade landscape. These agreements could further marginalise PICs, and there is a need to ensure that this new wave of regional agreements promote, rather than undermine, the achievement of the SDGs for the Pacific.

5. Simplify negotiations

Most PICs, even the larger ones like Fiji and Papua New Guinea, lack the resources to cope with the complexity that characterises modern trade negotiations. The DTIS study in Tuvalu in 2010 found that the single trade officer was out of the office for 40% of the time and spent 55% of her time on international meetings and

[4] http://www.lowyinstitute.org/publications/lessons-ramsi

associated preparation and debriefings. Even an average-sized PIC trade department might have only half a dozen officials covering all issues.

By comparison, the Japanese, European or United States trade delegations at international meetings alone may have over 200 members. It is impossible for small island governments to negotiate on an equal footing, and these inequalities need to be addressed, including through staff training in negotiations. But other issues also need to be considered that are, to some extent, tactical. These include: standardising and reducing the range of issues on the table; not leaving all issues undecided until the last moment; and holding negotiations and meetings in Pacific island capitals. Several negotiations have either failed or ended in poor outcomes for the region, including the most recent regional negotiations for an EPA with the EU.

6. Prioritise the services sector

The PICs are distant from major markets and face problems of transport, infrastructure, size and economies of scale. However the steady rise in trade in services, which depends less on physical distance and fragmentation – from 39.2% of GDP in 2005 to 50.0% in 2013 – bodes well for the future. A tourism and accompanying construction boom has taken place in several PICs. An upturn in labour export to Australia and New Zealand was described by the World Bank as one of the more successful development interventions anywhere in recent years. ICT holds particular promise for this remote region. One or more SDGs that provide explicit support to the growth of productive capacity in such services, and the new opportunities arising from trade in services, would reap significant rewards.

Harnessing momentum within the trade community

WTO members have converged on a trade agenda that goes some way to adapting to the changed landscape of global trade and investment patterns. The Bali package agreed in the WTO at the end of 2013 goes beyond the trade liberalisation agenda to include trade facilitation, RoO and a services waiver allowing developed countries to make certain concessions to LDCs that they do not provide to other countries. All of these are, in different ways, responses to the changing trade environment as well as the specific call from LDCs like the Solomon Islands for a broader range of trade and development instruments.

WTO members have agreed on the provision of resources for trade facilitation, although the exact amount and how this will be implemented is up for discussion. The WTO has, however, developed a work programme that focuses on reducing trade costs. Information on many of the key indicators to measure cost of trading and trade competitiveness are missing for the PICs, but country and product-specific analysis shows that the high cost of trading undermines their trade competitiveness and their ability to benefit from preferential markets access.

In the Pacific, reducing the cost of trading will involve not only improving trade logistics and infrastructure, but also increasing the capability to negotiate with the private sector and regulate the trade-logistics sector effectively. While AfT should focus on reducing the cost of trading in a measurable way, it should also align to other interventions to increase productive capacity, create jobs and, ultimately, transform economic structures.

LDCs have called for specific measures to facilitate trade, such as simpler RoO. As discussed, these rules matter because they increasingly determine the ability of countries to integrate within new emerging production networks. Ensuring that the rules countries offer in their system of Generalised System of Preferences (GSP) are commensurate with those offered under free-trade agreements could generate greater incentives to include countries, and regions such as the Pacific within supply chains.

Market access is meaningless if countries lack existing productive capacity or the ability to cumulate with third-party countries; this means the degree to which inputs, processes or materials coming from one trading partner are allowed to count towards satisfying country-of-origin requirements. In the case of fisheries, the ability to source globally and not only from national fleet (which may be limited) could help to increase the amount of processing undertaken onshore, and hence expand formal employment opportunities. There are differences between the major developed countries, and lessons that should be heeded; these could be taken into account in the design of the fine print for the so-called mega-regionals including the Trans-Pacific Partnership Agreement in which Australia and New Zealand (the Pacific countries' major trading partners) are participating. One contribution of the SDGs could be to advance an agenda which improves the ability to make use of market access, including reforming rules of origin and harmonising them for countries not ready to enter into free-trade deals, and in line with the most progressive systems.

Services, agriculture and fisheries remain the sectors with the greatest economic potential in the Pacific. These sectors are connected, not least because the farm and fishing industries supply hotels and restaurants. Services hold particular promise with the increasing use of ICT and developments in labour export. The Bali WTO ministerial went some way towards ensuring implementation of the LDC services waiver. An explicit mention within the SDGs of the role of services as a driver of all trade and economic growth could help to ensure that this sector receives the attention it deserves.

All things considered, the SDG agenda must acknowledge the limitations of the previous focus in the MDGs on tariff measures applicable at the border. The trade-related SDGs should aim at increasing productive capacity, creating jobs and, ultimately, transforming economic structures. Aid for trade needs to be additional to traditional overseas development assistance. It also needs to be well targeted. There is scope for harmonising and providing more liberal rules of origin under countries' GSPs towards the Pacific. Focusing on addressing behind-the-border issues – the regulatory environment that shapes trade beyond measures applicable at the border – as well as overcoming the supply-side constraints that supress the ability to meet external demand could better assist PICs in using trade as a driver of structural transformation, and hence poverty reduction.

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