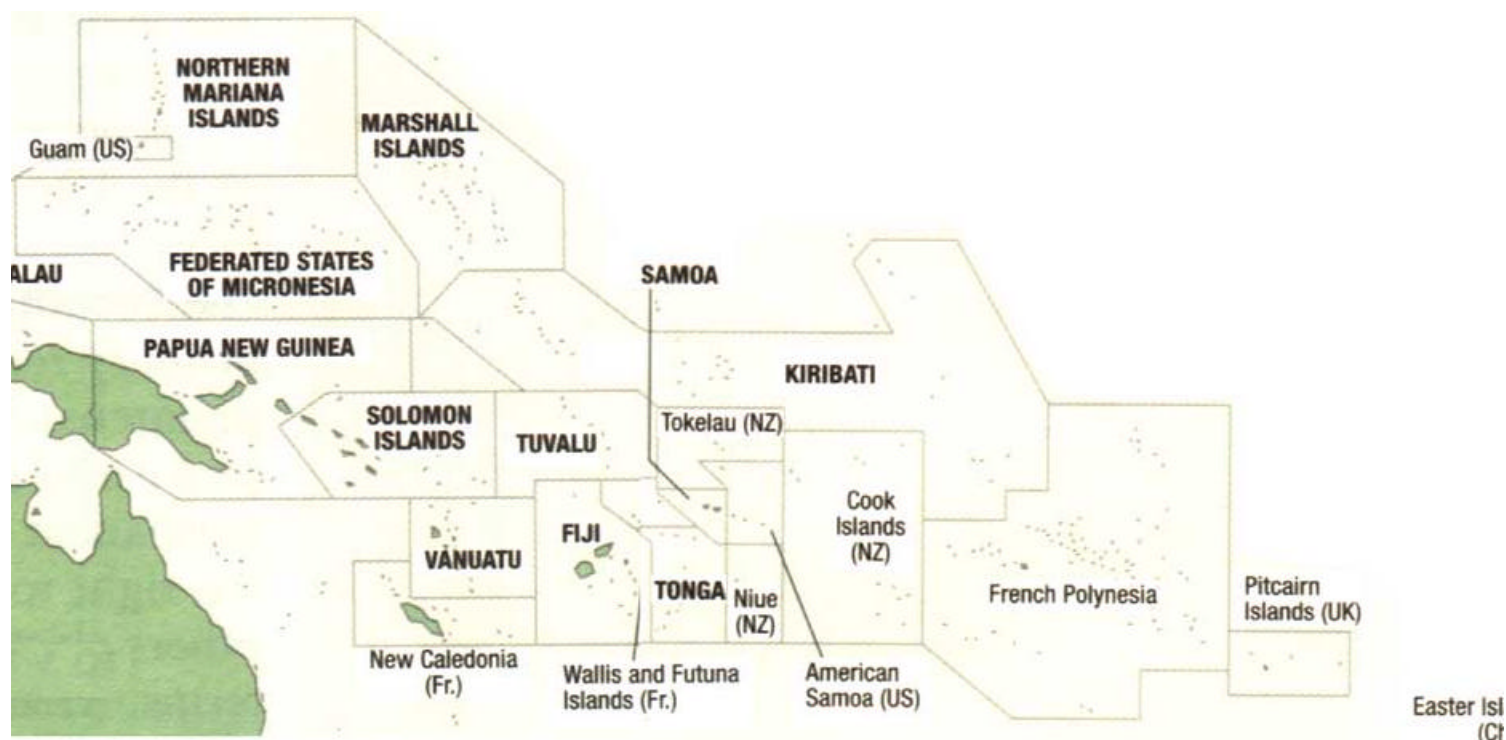


PACIFIC ISLAND COUNTRIES: commodity dependency, trade, and development prospects¹

1. Ecological typologies

The South Pacific region consists of two OECD-member countries (Australia and New Zealand), 14 developing and 5 least developed countries. Collectively they occupy 30 million km² of the Pacific Ocean, and about 540,000 km² (or 1.8%) of the total land area.² The non-OECD island countries are aptly coined as the Pacific island developing countries (PIDCs). They are geographically isolated by vast spans of sea, and characterized by unique sociocultural and ethnic diversity (Map 1). Their prospects for development is largely constrained by size economies, poor infrastructure, lack of and access to appropriate information and financial markets, to name but a few. These constraints make them highly vulnerable to vagaries of changing domestic, regional and global landscapes—globalization, weather and crop failure, and domestic political uncertainty or turmoil.



Map 1 Geographical Location of Pacific Island Countries

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² This excludes Papua New Guinea, which is, by far the largest in terms of population, land area and resource abundance.

2. Commodity-dependency

Agricultural production (including fisheries and forestry) remain the predominant sectors and are central to both development aspirations of PIDCs. On average, more than 85% of the Pacific island people are rural-based and depend on this sector for subsistence, gainful employment, and income. However, remittance and tourism in particular, are big money-spinners for few countries.³ The recent emergence and economic dominance of the enclave nonrenewable sector is restricted to few countries, especially Nauru, Papua New Guinea, Solomon Islands, and Vanuatu.

Many Pacific island economies are small and undiversified economies. Most are net exporters of agriculture, fisheries, forest, mineral and petroleum products. Moreover, they have narrow and concentrated export bases, relying heavily on two or less commodities for over 95% of their aggregate merchandise exports (Table 1). For example, Samoa's main commodity exports are fish, copra, and coconut oil, cream, Tonga's are squash, fish and root vegetables, and Vanuatu's are copra, timber and cocoa. A similar pattern of narrowness is evident in the larger island nations: Fiji's merchandise exports are concentrated in sugar, garments and gold, while those of Papua New Guinea are dominated by gold, petroleum, copper, timber and coffee.

Table 1 Commodity Structure of Pacific Island Countries Merchandise Exports, 1997

<i>Commodity classification</i>	<i>% of total</i>
1. Crude materials	35.8
2. Food and live animals	20.1
3. Minerals and fuels	16.2
4. Basic manufactures	13.3
5. Animals and vegetable oils	5.8
6. Miscellaneous manufacturing	5.8
7. Machinery and transport equipment	1.8
8. Unclassified goods	0.7
9. Chemical products	0.4
10. Beverages and tobacco	0.1

Source: Gordon de Brouwer, 2000. 'Should Pacific island nations adopt the Australian dollar?' *Pacific Economic Bulletin* 15(2):161-169.

³ Tourism services are an important source of foreign exchange earnings for all PIDCs and, in some cases, such as Samoa, Tonga and Vanuatu, it is the most important source, with Australia, the key player.

3. Commodity trading patterns

Aside from the extensive dependency on a few primary export and non-tradeable commodities, external trade relations of PIDCs tend to be concentrated in a number of small countries as well (Table 2., and Figures 1 & 2). For the Pacific regions as a whole, Japan and Australia are the principle destinations for Pacific Island's exports, while Australia and France are the major source of their imports.⁴

Table 2 Key Trading Partners of Pacific Island Countries, 1997

<i>Destination</i>	<i>Exports</i> \$A million	<i>% Share</i>	<i>Origin</i>	<i>Imports</i> \$A millions	<i>% Share</i>
Japan	955	26.1	Australia	1,527	33.3
Australia	782	21.4	France	786	17.2
United Kingdom	276	7.6	New Zealand	401	8.8
United States	276	7.6	Japan	389	8.5
Germany	266	7.3	United States	352	7.7
Others	1,095	30.0	Others	1,121	24.5

Source: Gordon de Brouwer, p.163 (modified).

For the 14 independent PIDCs, Australia and New Zealand tend to be the key trading partners. For instance, Australia accounts for over 40% of PNG's exports and over 50% of its imports, and more than a quarter of Fiji's exports (with Australia being the biggest source of tourism revenue) and 40% of its imports. Similar patterns appear for Samoa, Tonga and Vanuatu.

⁴ The Pacific islands include American Samoa (USA), Christmas Island (Australia), Cocos Islands (Australia), Cook Islands (NZ), Fiji, French Polynesia (France), Guam (USA), Kiribati, Marshall Islands, Micronesia, Midway Island (USA), Nauru, New Caledonia (France), Niue (NZ), Norfolk Islands (Australia), North Mariana Islands (USA), Palau (USA), Papua New Guinea, Pitcairn Islands (UK), Samoa, Solomon Islands, Tokelau (NZ), Tonga, Tuvalu, Vanuatu, Wake Islands (USA), and Wallis and Futana (France).

Figure 1 Key Markets for Merchandise Exports of Pacific Island Countries, 1997

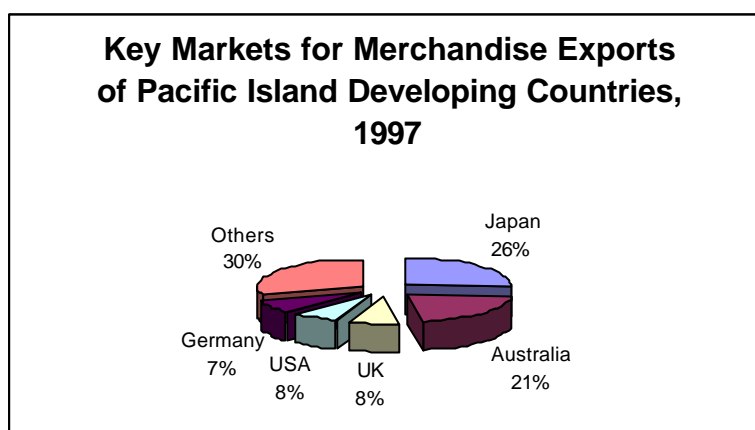
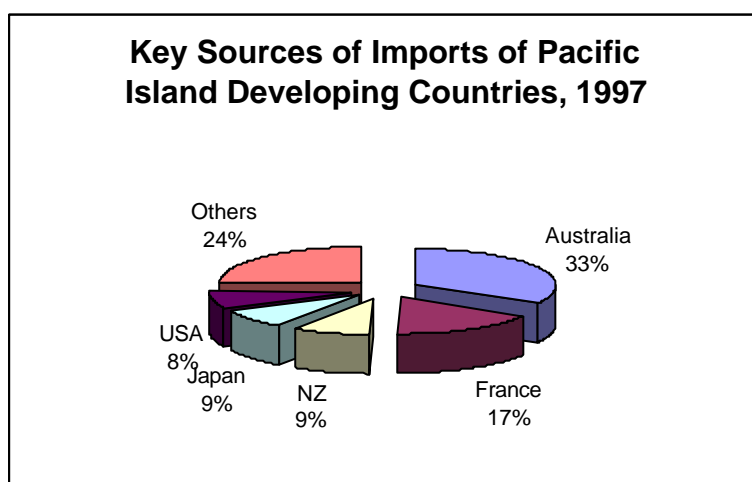


Figure 2 Key Sources of Imports of Pacific Island Developing Countries, 1997



4. Commodity development prospects

There is no doubting that the development and growth prospects for PIDCs are squarely anchored on the prosperity of primary commodity sectors. As commodity-dependent economies, they face various challenges, many of which are common to other developing countries in achieving diversification, retaining competitiveness and comparative advantages in production, and marketing of tropical products and non-renewable resources.

Pacific island producers are subjected to the vagaries of the world markets as they engage in producing a few tropical commodities and minerals of which a greater portion of the exports are concentrated in a few offshore markets. Like many other commodity-dependent countries, few, if any, of the Pacific island countries have escaped unscathed from the long term decline

in both nominal and real world market prices, slow growth (volume and productivity) and inelastic foreign demand. Moreover, geographical isolation (remoteness from major developed economy markets) and small size in terms of land area and local demand also present logistical as well as economies of scale problems. Collectively, they restrict opportunities for diversification, integration, competitiveness and broadening market access potentials.

Due to the above constraints, many PIDCs show little or negligible progress in diversification since the mid-1980s. In some cases, the situation seems to be worsening, particularly in smaller, atoll countries. Domestic inadequacies in transportation and communications infrastructure, weak institutional linkages, poor governance and 'mob rule' pose additional challenges. Given the dynamic environment in which commodity sub-sectors co-exist and function, their long-run comparative advantage and competitiveness are not assured (see Text Box 1).

While acknowledging that PIDCs are undoubtedly small, undiversified, and remote, it is clear that "smallness" should, and need not be used as an excuse to postpone cost effective, appropriate and pragmatic policy interventions at all levels so as to enhance their comparative advantages, and assist them attain some respectable levels of development. Development lessons could be drawn from successful strategies for export diversification and rapid growth implemented elsewhere, for example in Trinidad and Tobago. Faced with the developmental challenges resulting from intense competitiveness in the export commodities of importance to them, PIDCs need to identify and appropriate new forms of "economic rent", consolidate their comparative advantage in producing selected commodities, institute innovative but proven natural resources management regimes, and improve its [rents] distribution amongst its citizenry and foster investment in other productive activities such as value-adding, and niche and non-traditional products so as to escape from the tyranny of commodity dependency.

Text Box 1 Commodity Diversification, Competitiveness and Comparative Advantage in Pacific Island Developing Countries

Most agricultural producers in PICs have diversified farming systems, and complement their incomes from export commodities with about 50% from food and livestock production, remittance, and non-farm income sources.⁵

Recent studies have demonstrated that many of the PICs can be competitive and possess comparative advantage in agricultural markets. In general, larger PICs tend to demonstrate revealed comparative advantage (RCA, which is the ratio (in %) of a country's net exports of a commodity to its total trade of that commodity) in a broader array of products, and more dynamism in moving into new sectors and commodities. Smaller countries that depend on one and/or two commodities for exports and have demonstrated little ability to diversify their agricultural sectors.

Fiji, PNG, Solomon Islands and Vanuatu show stronger overall RCA, suggesting that their competitiveness in agricultural markets may improve. Fiji, Solomon Islands and Tonga have demonstrated comparative advantage and dynamism in producing fish and fish products. For instance, Tonga's RCA for fish and fish product strengthened from 5 to 61 and its export market share increased from 5% to 20%. Meanwhile, Fiji, PNG, Solomon Islands and Vanuatu have dynamic forestry sectors and strengthening RCA indexes and export market shares in forestry product.⁶

There's also sufficient evidence to conclude that the major export tree crops (coffee, cocoa, palm oil and copra) sub-sector in PNG are internationally competitive and possess comparative advantage at all levels.⁷ But these advantages gained at the farm level are lost during processing and marketing given the inherent distortions and inefficiencies along the commodity chain. That is why private sector involvement is critical to retain value at the farm level. Firm creates competitive advantage by perceiving and discovering new and better ways of compete in an industry and bring them to market, which is ultimately an act of innovation.

⁵ Overfield, D., 1994. *Coffee and smallholder households: economic issues and interim results*, Coffee Discussion Paper No.10, Coffee Industry Corporation, Papua New Guinea.

⁶ FAO, 1999. *Special Ministerial Conference on Agriculture in Small Island Developing States*, FAO, Rome.

⁷ Kannapiran, C.A., & E. Fleming, 1999. *Competitiveness and comparative advantage of tree crop smallholdings in Papua New Guinea*, GSARE Working Paper Series No. 99-10, University of New England, Armidale, Australia.