



Australia's New International Development Directions and Implications for Trade in the Pacific

Institute for International Trade

Context

Following the federal budget in May this year, the Australian government concluded a review of Australia's international development program and its future policy directions. Below, some of the key implications of the budget and policy review for trade and development in the Pacific Island region are elucidated, with reference to progress and challenges for the implementation of the Pacific Agreement on Closer Economic Relations Plus (PACER Plus) involving Australia, New Zealand, and Pacific Island Countries (PICs).

Australia's New International Development Policy

The new policy directions are very big picture, although trade and business development are identified as key components for building on Australia's capacity to "strengthen trade and business ties in the Pacific and build on labour market and migration pathways for PICs".² In general terms the policy document posits that:

Trade and investment can create more and better jobs, lower prices and stimulate economic growth. Australia will support partners to benefit from global rules-based trade — as they integrate into the multilateral trading system through the World Trade Organisation (WTO), implement their free trade agreement commitments, strengthen their economies through the Asia Pacific Economic Cooperation (APEC) and the Indo Pacific Economic Framework (IPEF), and increase their participation in the green and digital economies.³

The Review sets out some other encouraging outcomes such as:

- The establishment of an International Development Finance Advisory Committee to advise DFAT and the Government on development finance portfolio issues and risks.
- Concessional development finance to support Indo-Pacific countries tackle climate change.

The devil will be in the detail. "Blended Finance" mechanisms may just refer to ongoing attempts to encourage greater private sector and capital markets involvement in the aid program, which is not new.

Regarding PICs there is a welcome, if general, emphasis on supporting debt relief and financial sustainability consistent with recent G20 statements, as well as support for the region's Blue Pacific strategy and trade diversification. There is also a strong commitment to funding for climate change mitigation initiatives and social inclusion measures, which PICs will welcome.

- The establishment of the Australian Development Investments fund capitalised up to \$250 million and building on the Emerging Market Impact Investment Fund pilot program.
- The creation of a Blended Finance and Investor Engagement Unit to help mobilise additional finance.

¹The views expressed here are the author's alone and not those of the Institute for International Trade.



The Official Development Assistance (ODA) budget

The Albanese Government's first full year budget was read in May 2023. While the support for Aid for Trade is encouraging, overall Australia's commitment to ODA remains weak by international comparison. Australia is ranked 27th of 30 of the Organisation for Economic Cooperation and Development (OECD) countries⁴ that are foreign aid donors, based on ODA spend as a percentage of Gross National Income. This low ranking is due to years of subordinating the aid budget to other policy objectives.

Whilst the current government has at least committed to a small sequential increase of 2.5 percent per annum from 2026-27 onwards, Australia's public spending on ODA as a proportion of our GNI in 2023-24 will actually drop to 0.19 percent, falling below the 2022-23 estimated ratio of 0.20 percent. This is due to an increase in domestic economic growth above estimated figures.⁵

In the context of the Government's geopolitical concerns in the Pacific region coupled with a growing commitment to climate change mitigation, the Pacific region received a 0.26 percent increase from \$1,901.1 million in 2022-23 to \$1,906.1 million in 2023-24.⁶ This means that the Pacific now receives about 41 percent of Australia's total ODA.⁷

The Budget includes an additional commitment to a package of \$380 million per annum over 5 years from 2022-23 through to 2026-27, to be delivered by 13 government agencies, inter alia Defence, Infrastructure, Employment & Workplace Relations, and the ABC. While the increase is acknowledged many

in the development community have expressed concerns over the growing subordination of development priorities and the Sustainable Development Goals (SDGs) to defence and security concerns.

With respect to Aid for Trade, the news is generally good. Aid for Trade support is estimated to represent 17.3 percent of total Australian ODA in FY 2023/24, which maintains a target close to the 20 percent objective set under former Minister Julie Bishop.⁸ It is commendable that Minister Penny Wong has maintained an ongoing commitment to Aid for Trade. Based on the May Budget Estimates, the amount of Aid for Trade support for the Pacific for the financial year (FY) 2023/24, will be \$365.9 million, or 44.3 percent of Australia's total Aid for Trade commitment.⁹ This represents a 10.3 percent increase over FY 2022/3, and a 7 percent increase in total aid for trade support.¹⁰

Priorities for Australia's Aid for Trade include support for trade related infrastructure, trade diversification, digital trade and e-commerce, trade related sustainability measures as well as social inclusion and womens' economic empowerment. These priorities are reasonably consistent with the Pacific Island Forum Secretariat (PIFS) regional Aid for Trade strategy.

Implications for Pacific trade and PACER Plus

The Pacific's regional priorities, as laid out in the PIFS Aid for Trade Strategy (2020-25)¹¹, highlight the need for a deepening of trade markets through trade diversification, value add, trade facilitation reforms and the development of quality infrastructure such as SPS compliant equipment for agricultural exports.

There is equally strong emphasis on the need for capacity building and technical support for e-commerce and digital services, telecommunications, and tourism. There has also been strong support across the Pacific for the expansion of better managed labour mobility programs with greater emphasis on reintegration back into their local communities and building economic development domestically.

The PIFS see implementation of trade agreements as a key vehicle for the translation of their Aid for Trade Strategy into action and, in this regard, PACER Plus has an important and arguably pioneering role in supporting the PICs to benefit from all trade agreements.

So how has PACER Plus implementation fared to date? It is still early days given that PACER Plus only entered into force in December 2020, and that the Aid for Trade PACER Plus Implementation Unit (PIIU) was only established in December 2021. Nonetheless, the following preliminary observations are proffered.

PACER Plus Achievements

Despite some expressed concerns about the one-way flow of **trade and investment** from New Zealand and Australia, a recent export survey by Pacific Trade and Invest¹² states that 66 percent of exporters anticipate an increase in revenue and orders over the next year, especially in agriculture, while 63 percent of tourism businesses expect a positive turnaround within 12 months.

Given digital trade and ecommerce are key priorities for both PIFS and PACER Plus it is encouraging that the same survey shows **three-quarters of Pacific exporters are now using online channels** to generate export revenue, with the overall proportion of total revenue generated online also increasing to 52 per cent, up from 47 per cent in 2020.

Approximately 85 percent of all Pacific workers in Australia and NZ on temporary work schemes are from PACER Plus member countries.

The survey also found that over the next three years, **over two-thirds of Pacific exporters are planning to broaden their reach into new markets.** Among businesses targeting new markets Australia is the most favoured.

While these trends cannot be directly attributed to the initial impact of PACER Plus alone, they suggest that the private sector has increased confidence in their ability to expand trade utilising trade and investment agreements such as PACER Plus.¹³

A few observers have previously criticised me for arguing that the side agreement to PACER Plus, that is, the **Arrangement on Labour Mobility**, would enable first mover advantage for those PICs party to PACER Plus. To put in context, currently nine PICs are PACER Plus members but Fiji, Papua New Guinea (PNG) and some Northern Pacific countries have not joined. However, early results, as shown in Table 1, appear to support my assertion of first mover advantage. Approximately 85 percent of all Pacific workers in Australia and NZ on temporary work schemes are from PACER Plus member countries. Moreover, the proportion of arrivals from PACER Plus member countries has increased since the advent of PACER Plus.

The PPIU has had a significant initial impact in the roll out of the PACER Plus Aid for Trade program. Some notable achievements include:

- Initial work to avoid duplication with other donors in favour of cooperative activities and **enhanced donor coordination**; a good start.
- With strong support from the PPIU, PACER Plus members have made significant advances in implementing and updating the **automation of customs systems** including the development of ePhyto (electronic phytosanitary) certificates. The automation of these systems has substantially reduced the time needed for farmers and businesses to process goods for export or import.
- Assisted farmers in the Malaita province of the Solomon Islands and in Niue with **small scale infrastructure to facilitate harvesting** and the transport of taro products.
- Using the tariff free regime under PACER Plus Soltuna, a Solomon Island tuna exporter, has **increased exports to New Zealand** since the tariff differential allows

Table 1: Pacific Workers in Australia and New Zealand as at 30 June 2023

Country	SWP	PLS	RSE	Total
Fiji	1251	4008	879	6138
Kiribati	596	742	633	1971
Nauru	0	5	0	5
PNG	435	1022	248	1705
Samoa	3177	1803	4160	9140
Solomon Islands	1501	3216	960	5677
Tonga	5893	849	1930	8672
Tuvalu	0	82	234	316
Vanuatu	9645	1018	7100	17763
Total	22,498	12,745	16,144	51,387

Note: SWP is the Seasonal Worker Program; PLS the Pacific Labour Scheme in Australia; RSE the Registered Seasonal Employer program in New Zealand.

Sources: Dr Richard Bedford, University of Waikato and DFAT, Australia, August 2023.

its tuna exports to be more competitive with other lower cost tuna exports.

- Provision of **significant capacity building support for e-commerce and the expansion of tourism** and services trade generally. A good example is the Cook Islands recently launched their new e-commerce strategy, developed with support from the PPIU, utilising the fact that PACER Plus is the Pacific's only active Free Trade Agreement with a Trade in Services component.
- **The PPIU successfully hosted a large gathering of all PICs involved in labour mobility.** The annual meeting in Samoa provided extensive guidance and outlet for informed criticism as well as constructive debate on solutions to shared labour mobility issues in the Pacific. The PPIU also funded research to improve labour supply management in Tonga and labour mobility reintegration processes that support local economic development.

The PACER Plus agreement is somewhat unique in the Pacific Island region in that it has in-built monitoring, evaluation, and review mechanisms, requiring ongoing monitoring and mid-term reviews. This allows for regular feedback from PICs and greater transparency and accountability.

Challenges

Key challenges include:

- The need for further support **for the enhancement of Pacific banking, electronic gateways and financial services**, for example de-risking financial investments, easier access to credit and decreasing financial transaction costs are all ongoing tasks that will assist PIC businesses to further utilise e-commerce and tourism services, whilst extending such services to SMEs and businesses on the outer islands.
- Given the differing stages of PIC development, a key challenge is to





find a **balance between the specific needs of one PIC member, along with more regionally based solutions.**

Every PIC has its own specific Aid for Trade needs and Australia is prioritising locally led solutions as part of its new policy direction. However, sometimes the best solution is regional, for example the successful regional adoption of the automated ASYCUDA custom's system.

- Nonetheless, there remains the need for the development of **regional and/or local quality infrastructure**, for example, the provision of storage facilities or SPS testing laboratories to support Pacific agricultural exports.
- **Unlocking further investment opportunities and extending the benefits of PACER Plus to the community.** This includes the need to reach out to a greater number of SMEs, an increase in social inclusion activities and strategies to support women's economic empowerment.
- The PT&I survey shows that there is still **a lack of knowledge of PACER Plus**, its implications and the opportunities it provides for the business sector. Therefore, broadening awareness of the agreement amongst the private sector is essential.
- To avoid duplication whilst identifying new collaborative opportunities **constant updating of who is doing what in the Pacific Aid for Trade space** is required.
- Given the relatively small size of many trade departments and the reality of staff turnover **building and maintaining trade capacity within PIC governments** is vital. Meeting this challenge can

ensure effective articulation and implementation of PIC Aid for Trade needs and the strengthening of trade related governance practices.

At present, there are nine PIC members of PACER Plus, but making the agreement an open, useful and welcoming agreement for other PICs to join is an ongoing challenge. The change of government in Fiji has allowed for more open-minded discussions on their possible accession and some of the Northern Pacific countries have also expressed further interest in joining the agreement. Both Australia and New Zealand have reinforced to PNG that they are very open to their membership. Time will tell, but a broader regional coverage would further facilitate PACER Plus's potential benefits, particularly in trade in services sectors.

The big picture regionally

In summary, Australia's new development directions and budgetary outcomes for the Pacific, whilst not demonstrating any major shift in thinking or spectacularly new initiatives, do maintain and help to consolidate support for deeper trade and Aid for Trade support to the Pacific. PACER Plus members have benefited from the support provided by the PPIU and this looks set to continue, albeit with the need to address the challenges identified above.

On the bigger picture for Australia some major issues will need to be addressed. They include the need to tackle Australia's decarbonisation more seriously, given that climate change impacts are the top issues expressed strongly by Pacific leaders.

As noted earlier, Australia's development cooperation program seems to remain

overly subordinated to security and defence objectives. Defence budget papers show spending on defence for 2023-24 will reach \$52.5 billion in addition to the gradual disbursement of some \$350 billion (\$30 billion allocated in this year's budget) for the AUKUS agreement.¹⁴ There is still significant anger and concern across the Pacific (and in Australia for that matter), about the lack of consultation, nuclear implications and what seems to have become an overzealous preoccupation with security rather than economic development issues.

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Regarding the region's geopolitics it is positive to see Foreign Minister Wong, Trade Minister Farrell and now Prime Minister Albanese prioritising personal visits to China to help reset a more balanced trade and business relationship. If China itself can return to a more progressive and rules-based approach to trade, perhaps with the lessening of tensions, Australia can then strengthen its collaborative and trade focussed approach in working with our Pacific partners for sustainable, regional development in our Blue Pacific.

About the author

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Endnotes

1. As a Visiting Fellow to IIT Jim Redden participated in the Government's national consultation process given the Institute's particular interest in the implications for Aid for Trade and its role in assisting developing countries to implement trade agreements.
2. DFAT, 2023, Australia's International Development Policy, Canberra, pp 43
3. Ibid.
4. Australian Council for International Development (ACFID), 2023, Budget Analysis Presentation, Canberra, pp 4
5. Australian Council for International Development, 2023, Budget Analysis Presentation, Canberra, pp 7
6. Australian Government, 2023-24, Budget Estimates, DFAT, Canberra.
7. Australian Council for International Development, 2023, Budget Analysis Presentation, Canberra, pp 26
8. Australian Government, 2023-24, Budget Estimates, DFAT, Canberra.
9. Australian Government, 2023-24, Budget Estimates, DFAT, Canberra.
10. Australian Government, 2023-24, Budget Estimates, DFAT, Canberra.
11. Pacific Island Forum Secretariat, 2020-25, Pacific Aid for Trade Strategy.
12. Pacific Trade & Invest (PT&I), 2022, Pacific Island Export Survey.
13. Pacific Trade & Invest (PT&I), 2022, Pacific Island Export Survey.
14. Australian Government, 2023-24, Defence Portfolio Budget Statements

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