

# Assessing Trade Flows of the Melanesian Pacific Island Countries Among MSG: An Implication on the Regional Trade Agreement

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## Content of Presentation

- Introduction
- Literature Review
- Research Question
- Discussions
- Conclusion and Implications
- References

## 1. Introduction (Setting the Background on Trade Flows)

- Early trading was centered around mercantilism with trade flows among colonies. However, well renowned Economists, advocated for free trade on the basis: national wellbeing , importance of exports and positive sum activity.
- The era of globalization has shaped the architecture of trade flows with transformation in the supply chain: Products are ‘Made in World’
- What is the prospective link between supply chain, trade agreements and trade flows for Pacific Island Countries?

## 1. Introduction (Melanesian Pacific Island Countries)

- The Melanesian region includes four independent nations namely; Fiji Islands, Papua New Guinea, Vanuatu and Solomon Islands.
- The Melanesian Spearhead Group (MSG) was established during an informal meeting in 1986. The group initially advocated for entire decolonization and freedom of Melanesian countries and territories which were under colonial rules.
- The Melanesian Spearhead Group Trade Agreement (1996) had been ratified and signed including Fiji as a member with the viewpoint of establishing regional trading block.
- The proposed changes in MSGTA3 are: cross border investment, labor mobility, trade in services and trade in goods.

## 1. Introduction (Understanding Trade Flows)

- In early literature, it has been well established that distance is a strong determinant of the intensity of the trade flows that occur between nations; nations that are geographically closer will tend to trade relatively more than nations that are far apart (Beckerman 1956; Ullman 1956; Smith 1964; and Linneman 1969 as cited in Srivastava and Green, 1989).
- Anderson and Wincoop (2004) argued that the ignorance of trading distance has been exaggerated and trade costs are larger even for highly integrated economies and higher than trade barrier costs.
- Measuring trade costs has its challenges (Anderson and Wincoop, 2004; Harrigan, 1993; Hummels, 2001a, 2007; Jack, Meissner and Novy, 2008).

## 1. Introduction (Understanding Trade Flows)

- Pacific Island Countries economic size and remoteness erodes comparative advantage and disadvantage trade flows.
- On the other hand, trade agreements, on case by case basis, can escort higher trade flows between bilateral partners.

## 2. Literature Review – Understanding Trade Flows

- Linneman (1966) regressed trade flows between 80 nations and the study concluded that variables with the greatest explanatory powers were; Gross National Product (GNP) and distance.
- The association between GNP (economic size) and trade flow is very obvious, there is tendency for larger nations to trade with larger nations (Srivastava and Green, 1986).
- The standard gravity equation framework yields single coefficients to assess the trade effects of possible trade costs proxies, characterized by constant trade cost elasticity whereby trade effects are homogeneous across all country pairs.

## 2. Literature Review – Understanding Trade Flows

- World Trade Organization (2015) acknowledged that small island developing states remain relatively marginalized from the global trading as a result of high trade costs.
- The Asian Development Bank report (2008) highlighted that a trade agreement between PICs and developed countries would be welfare enhancing.
- Chen, *et al.* (2014) highly recommended for trade integration among PICs to create economic prosperity.



## 2. Literature Review – Understanding Trade Flows

- Winters and Martins (2004) added that PICs have absolute disadvantage across industries due to the economic size.
- Gani (2010) used the gravity model to estimate trade flow using time series cross country data for the period of 1981-2005 and concluded that distance is a friction to PICs trade with the United States of America.
- Chen, *et al.* (2014) in the gravity model specification on Pacific Island Countries used dummy variables for some preferential trade agreements and colonial ties in addition to economic size and distance - identified remoteness (distance) as a barrier while preferential trade agreements and colonial ties supported trade flows in the Pacific

## 2. Literature Review – Understanding Trade Flows

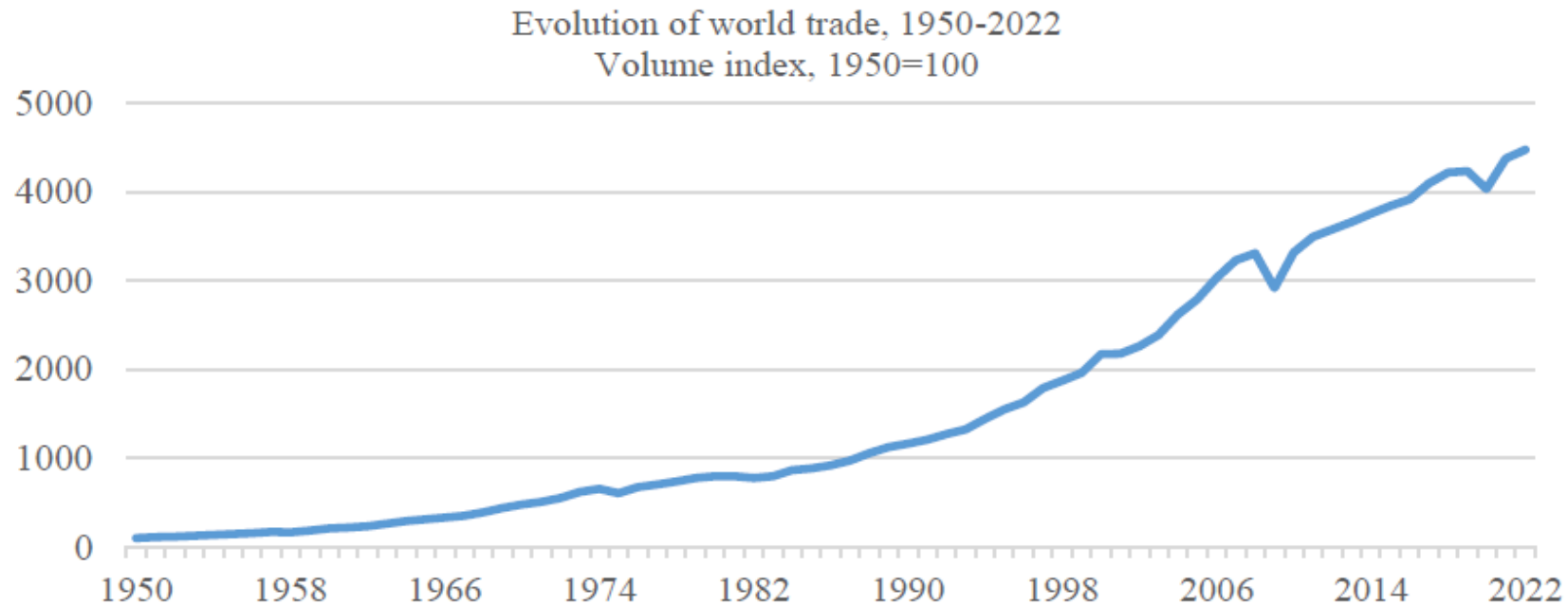
- Though trade barriers have declined substantially in the Pacific, high trade costs due to poor logistics, bureaucratic regulation and weak institutions have remained a constraint to potential benefit from trade agreements (Maiti and Kumar, 2016).

### 3. Research Questions

- The research problem evolves on the baseline that trade flows are vulnerable to distance and trade costs. High trade costs effectively isolate countries from the world market and has implication on both the demand and supply side.
- This research aims to:
  - Assess the trade flows among MSG members using trade performance indicators (how much trade is being shared among MSG members?)
  - Possible implication for Regional Trade Agreement

## 4. Discussion – Trade Flows and Trade Openness

Figure 1: Evolution of World Trade, 1950 -2022, Volume Index, 1950 =100

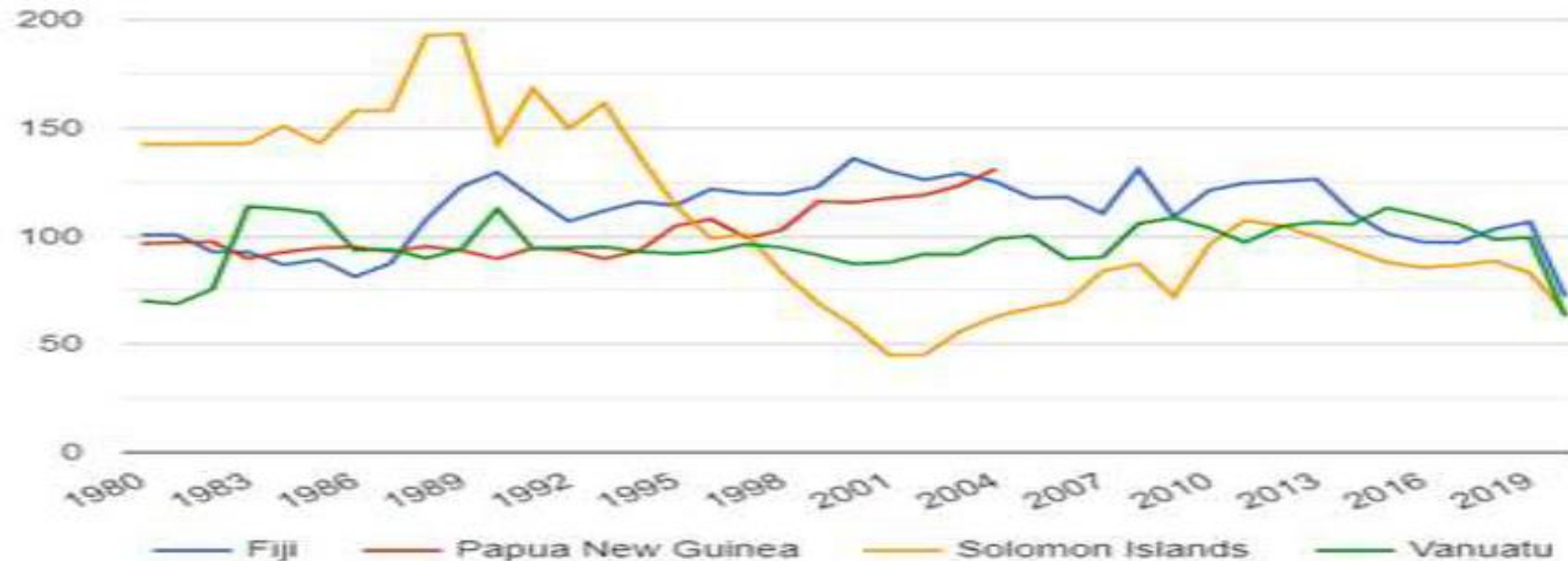


Source: The World Trade Organization (2023)

Global trade flows have grown to an unprecedented level facilitated by lowering of tariffs and creation of a shared set of rules (Asia Society, 2023)

## 4. Discussion – Trade Flows and Trade Openness

Figure 2: Trade Openness: Fiji Islands, Papua New Guinea, Solomon Islands and Vanuatu, 1980 - 2020



Source: The Global Economy (2023)

## 4. Discussion – Trade Flows of Melanesian Spearhead Group Members

### 3.2 Trade Flows of Melanesian Spearhead Group Members

Table 1: Average Value of Melanesian Spearhead Group Trade, 2000 - 2018 (US\$)

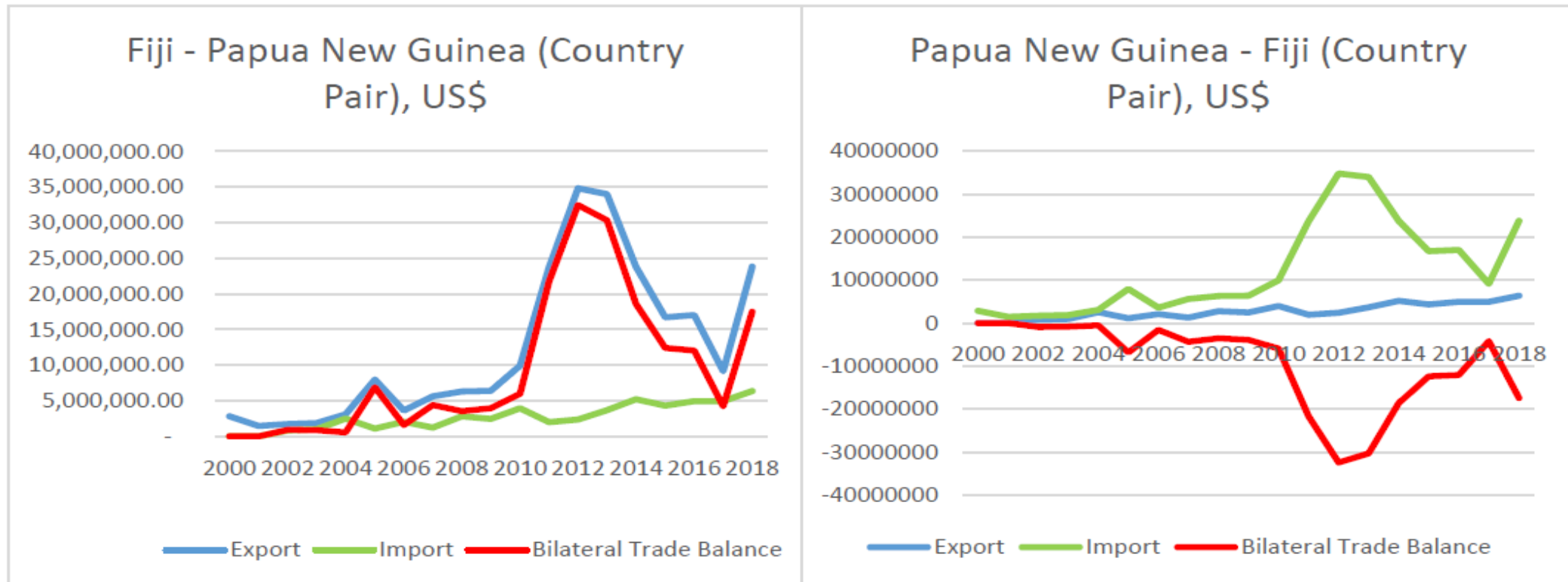
		(Exports)			
		Fiji Islands	PNG	Solomon Islands	Vanuatu
Imports	Fiji Islands	n/a	3,033,353	1,904,571	3,591,059
	PNG	12,296,842	n/a	1,485,667	1,959,000
	Solomon Islands	10,194,286	9,617,778	n/a	1,079,667
	Vanuatu	22,895,294	3,380,000	695,500	n/a

Source: The Observatory of Economic Complexity (2023)

Fiji has a strong outflow of trade with all the MSG members, highest with Vanuatu. A probable factor for Fiji's strong export is well established ports that facilitates re-exports.

## 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

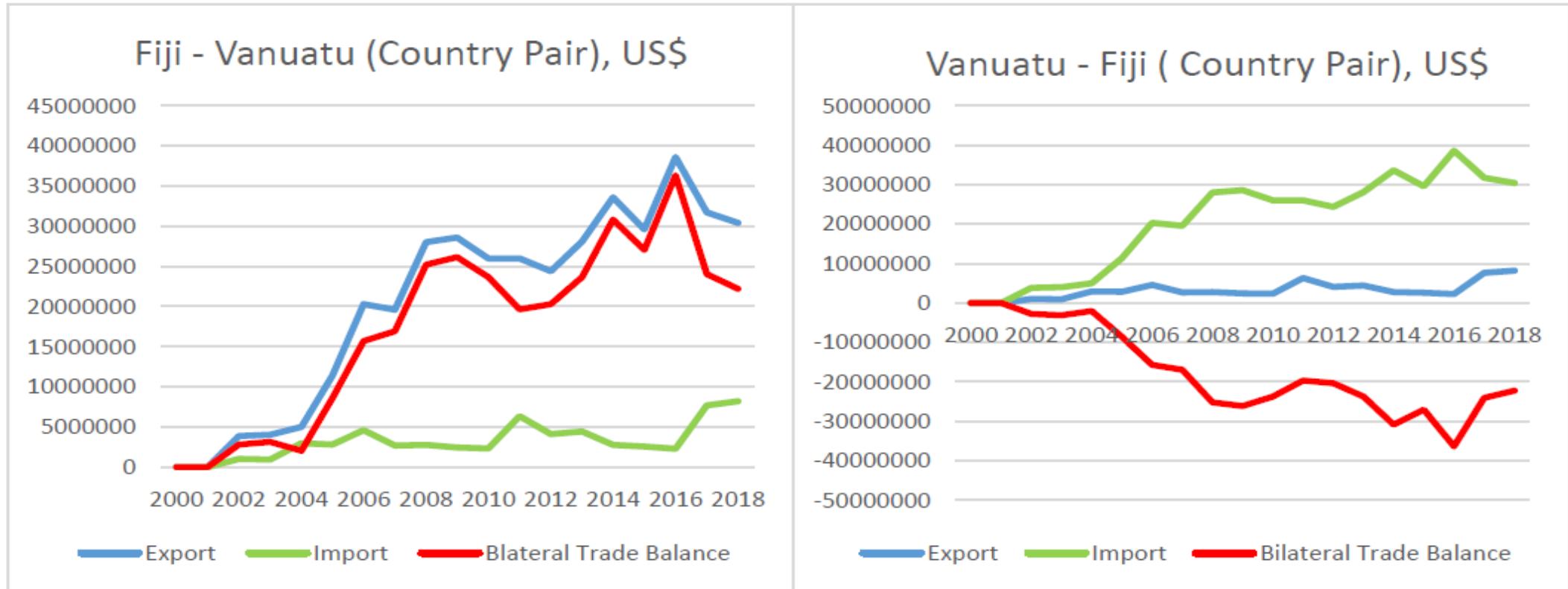
*Panel A: Fiji Islands and Papua New Guinea*



Fiji has a small bilateral import share relative to PNG. Fiji is a crucial trading partner for PNG.

## 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

*Panel B: Fiji Islands and Vanuatu*

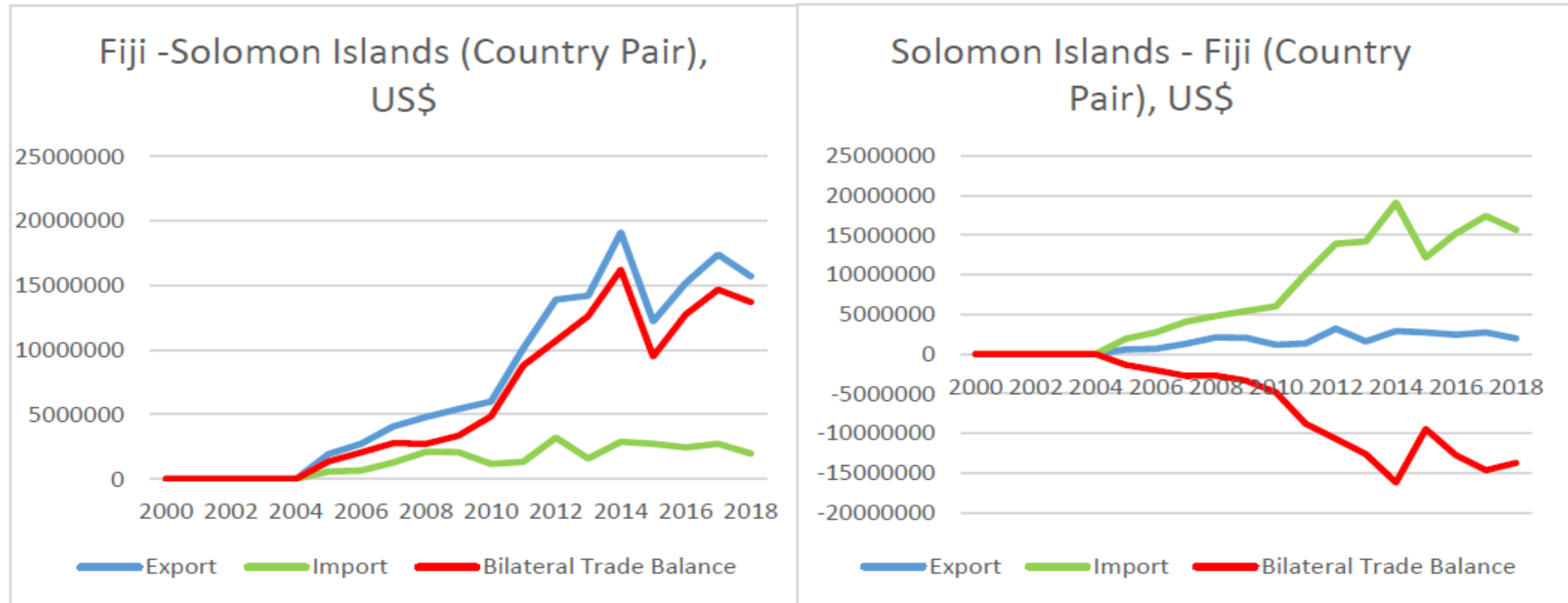


Fiji has a small bilateral import share relative to Vanuatu. Fiji is a crucial trading partner for Vanuatu.



## 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

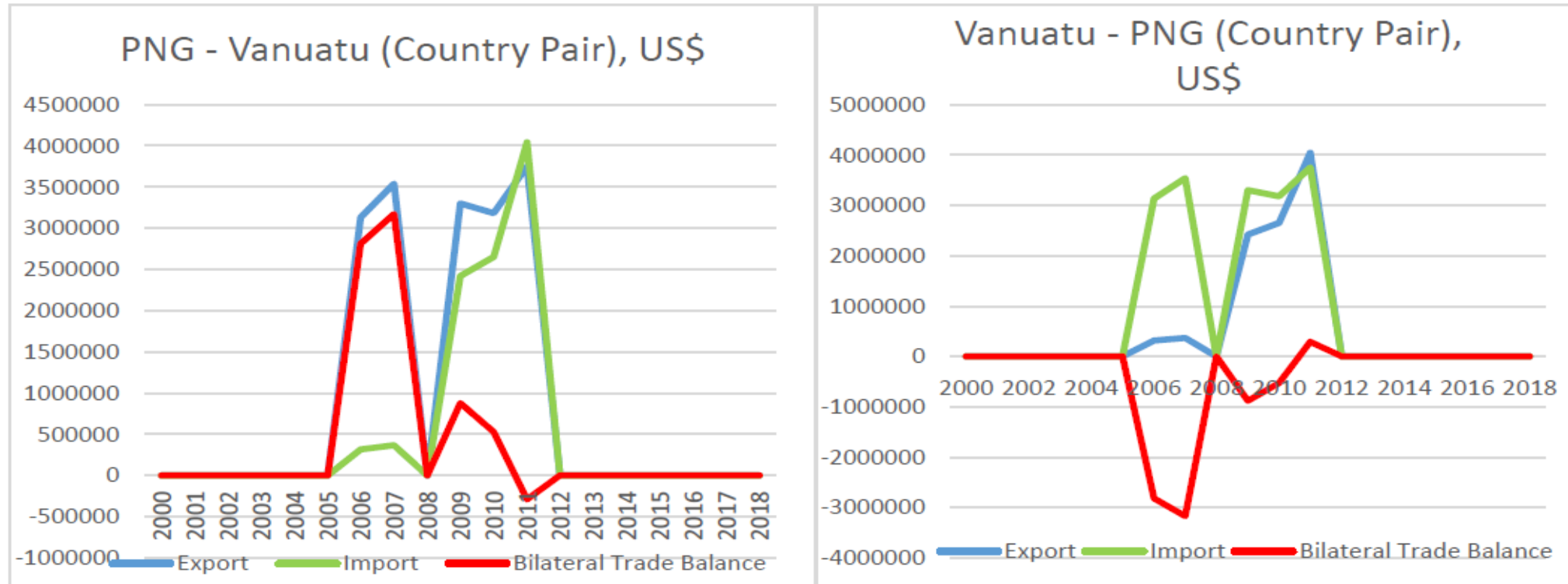
*Panel C: Fiji Islands and Solomon Islands*



Fiji has a small bilateral import share relative to Solomon Islands. Fiji is a crucial trading partner for Solomon Islands.

## 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

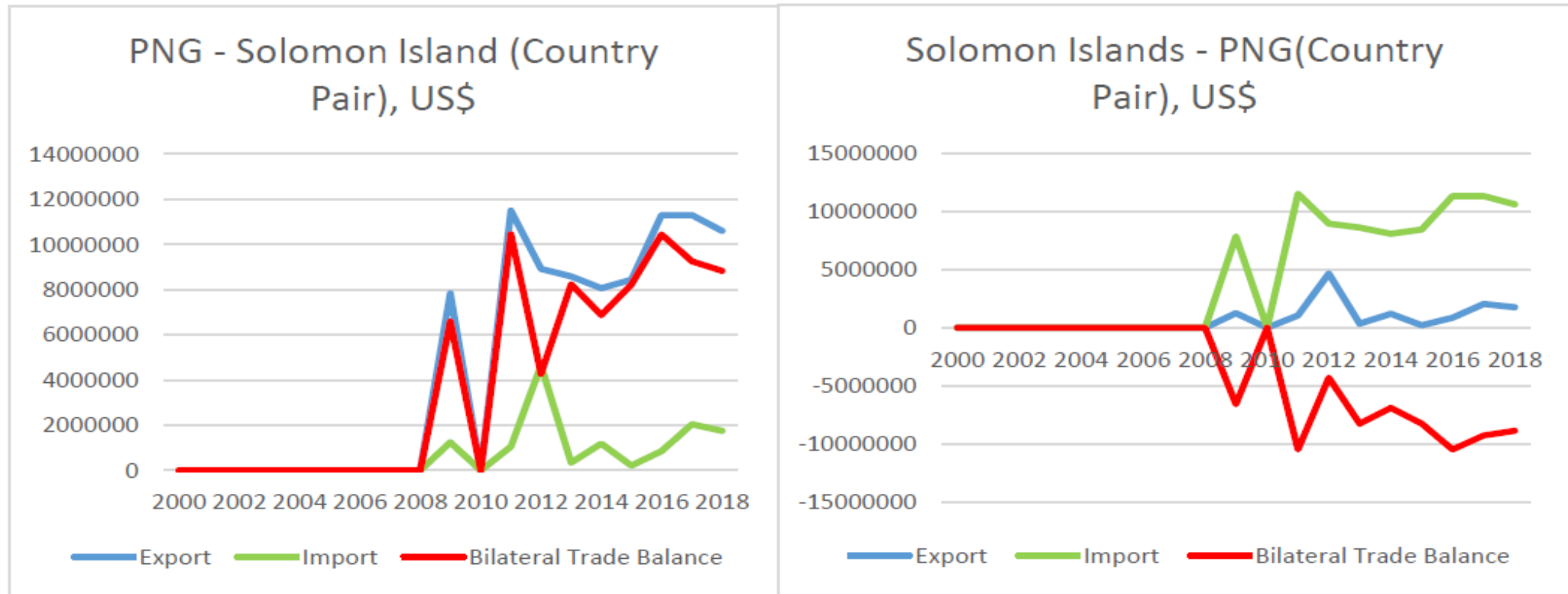
*Panel D: Papua New Guinea and Vanuatu*



There is very limited data on trade flows between the above country pair thus, restricting conclusion on bilateral trade share.

## 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

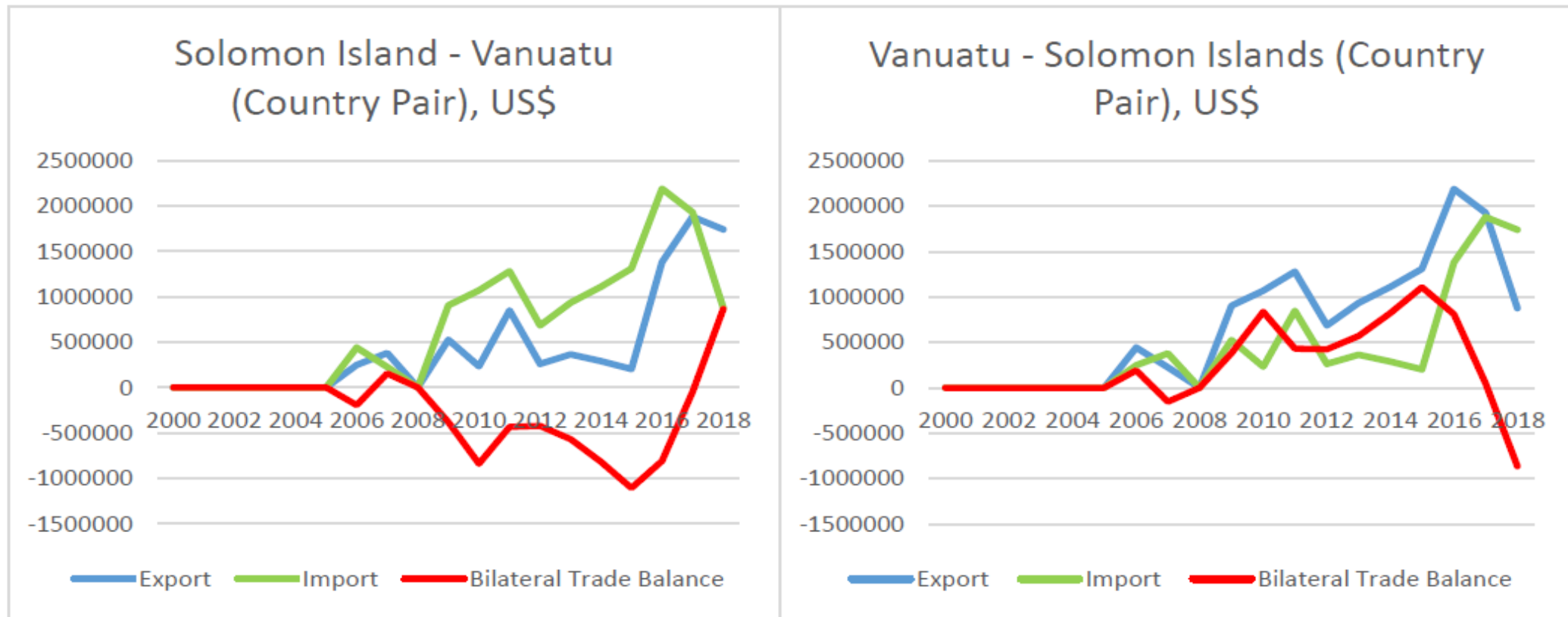
*Panel E: Papua New Guinea and Solomon Islands*



PNG has a small bilateral import share relative to Solomon Islands. PNG is a crucial trading partner for Solomon Islands.

#### 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs, 2000 – 2021, (US\$)

*Panel F: Solomon Islands – Vanuatu*



Vanuatu has a small bilateral import share relative to Solomon Islands. Vanuatu is a crucial trading partner for Solomon Islands.

#### 4. Discussion – Bilateral Trade Flows between Melanesian Country Pairs

- Grynberg and Kabutaulaka (1995) researched on Melanesian trade integration using data set till 1990 and found that Vanuatu and Solomon Islands are highly favorable for the MSG trade agreement.
- They found that Fiji has substantial export potential and has an economic interest entering into a trade relationship with the three PICs.
- MSG trade agreement is more of a political agreement with few economic benefits.

## 5. Conclusion and Policy Implications

- The MSG embarks on establishing a regional trade bloc. The MST trade agreement of 1996 was revised in 2005 and further revisions have been suggested for MSGTA3.
- It has been established that Fiji Island is a dominant player in the MSG with larger export share to the other members – attributed to well established ports for re-exports.
- The regional trade agreement must not dilute the comparative advantage of a trading partner while ensuring greater product market access for the region.

## 5. Conclusion and Policy Implications

- The caveats on the implementation of the trade agreement is to assess heterogeneous effects of trade cost on the bilateral trade.
- Furthermore, a commodity based analysis together with import duty revenue for MSG members is warranted to review the possible dilution of comparative advantage.
- If MSG members through MSGTA engage in trade with non-member partners, it is important that benefits of being part of the supply chain is shared considerably an fairly.

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*Thank You*