

# Chapter 4

## An Enhanced Role for the Pacific in the Indo-Pacific Economic Architecture?

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# Chapter 4

## An Enhanced Role for the Pacific in the Indo-Pacific Economic Architecture?

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### 1. Introduction

The Pacific island countries (PICs) of Melanesia, Micronesia, and Polynesia span the Western Pacific region. Although their maritime jurisdiction covers huge tracts of the Pacific Ocean, most PICs have small populations and land masses with correspondingly small economies. PICs have recently undertaken a rebranding exercise, in which they conceive of themselves as ‘large ocean countries and territories’ due to their enormous exclusive economic zones (EEZs) rather than as ‘small island states’ because of their small land masses and economies (PIFS, 2019a). In reality, both identities remain highly relevant. While PICs possess large swathes of maritime jurisdiction, they often lack the capacity to fully take advantage of their ocean resources or to enforce their jurisdictions.

While PICs may be geographically located at the heart of one of the most dynamic and integrated regions in the world, they nonetheless suffer from the tyranny of distance. Many airplanes and ships transit their jurisdictions, but air and sea connectivity remains infrequent and expensive. Due to their small market size and high trade costs, integration into global supply chains remains difficult.

However, there is some cause for optimism. PICs have been making progress on some important fronts, such as telecommunications infrastructure and regulation, e-commerce, and cooperation on product standards. Integration amongst PICs has also become increasingly institutionalised in recent years, although the architecture remains somewhat fragmented.

Despite these practical difficulties, PICs are taking steps to improve their integration with the Pacific region, including with traditional partners (i.e. Australia, New Zealand, and the United States [US]), as well as newer partners, especially in Asia. Indeed, there are even examples of increased engagement with the ‘Indo’ part of the Indo-Pacific, as India seeks to increase its footprint in the region and as PICs look for strategic cooperation with Indian Ocean small island states.

However, to the extent that the Indo-Pacific is perceived in geopolitical terms as a hedge against Chinese expansionism — or as a requirement to choose sides in a struggle between great powers — PICs are wary. They continue to adopt a ‘friends to all approach’ and seek to engage with, and benefit from, strong relations with all key partners.

Depending on how these broader geopolitical tensions evolve in the coming years, PICs may find it increasingly difficult to manage all of these partnerships. PICs have moved closer to China in recent decades, but deeper integration is hampered by the fact that some countries continue to provide diplomatic recognition to Taiwan. Moreover, the region remains wary, especially amongst the general population, that economic cooperation with China carries more benefits than risks. One positive impact of China’s increased interest has been to encourage traditional partners, such as Australia and New Zealand, to ‘step up’ or ‘reset’ their commitments to the region. There are even signs that the US is looking to pay more attention to PICs, but it is unclear if this will translate into meaningful or sustained engagement.

## 2. The Pacific Region

To understand how PICs engage in integration with the rest of the world, it is necessary to understand the dynamics of integration within the region. The key regional body driving integration, the Pacific Islands Forum (PIF), has been bringing the countries of the region together for a leaders' meeting for over 50 years. The PIF is supported by a secretariat based in Suva. In addition to its primary role of organising the annual Leaders meeting, the Secretariat has taken on a range of other roles over the years, including convening regular ministerial meetings (for economic, foreign affairs, and trade ministers), arranging dialogues between PICs and other partners, coordinating regional positions in certain multilateral negotiations, and providing technical assistance to members. Convening the annual leaders' meeting remains the Secretariat's core task, which includes the preparation of policy briefs and other documents to guide discussions as well as an outcomes document following the meeting.

The PIF has 18 member countries: 14 PICs from the sub-regions of Melanesia, Micronesia, and Polynesia; the developed countries of Australia and New Zealand; and the French territories of New Caledonia and French Polynesia, which became full members in 2016.<sup>10</sup>

As a regional political and economic community, the PIF is unique insofar as it brings together both developed and developing countries. For certain purposes, Australia and New Zealand are considered fully integrated members of the region, although they are also deeply integrated into other regional economic groupings such as Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN)+ arrangements, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). They are also involved in the Quad (i.e. the Quadrilateral Security Dialogue, consisting of the US, Australia, India, and Japan); Australia, New Zealand, and US Security Treaty (ANZUS); and AUKUS. Depending on the context, references to the 'region' may include Australia and New Zealand, or it may have a narrower meaning focussed on the PICs only.

Defining the region's membership can be further complicated by the fact there are a range of other states and territories that are not members of the PIF, but who nonetheless play an important role in regional cooperation. For example, the regional body responsible for customs cooperation, the Oceania Customs Organisation, has a broader membership than the PIF, as it includes American Samoa, Guam, Northern Mariana Islands, and Wallis and Futuna.<sup>11</sup> These territories are not PIF members based on the traditional view that membership be reserved for independent or self-governing states, although the criteria for membership has become more amorphous since the French overseas territories were admitted in 2016.

Timor-Leste can also be classified as part of the region by external actors, although it lacks a shared culture and history with the PICs and is not normally described or referred to as a PIC. The European Union (EU), for example, groups Timor-Leste with PICs for its engagement on matters such as the negotiation of a regional economic partnership agreement, post-Cotonou negotiations, or the programming and administration of the EU's large regional aid programme (i.e. the European Development Fund). China also included Timor-Leste in Foreign Minister Wang Yi's eight-nation tour of the Pacific in 2022.

While PICs are generally perceived as relatively small on the world stage, including in the Pacific Small Island Developing States grouping at the United Nations, there is an important distinction within the region between larger players and the 'Smaller Island States (SIS). Papua New Guinea (PNG) has the largest economy and population in the region, although Fiji arguably plays a more important role,

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<sup>10</sup> PIF Secretariat, <https://www.forumsec.org/>

<sup>11</sup> OCO Secretariat, <https://www.ocosec.org/>

including by serving as a hub for air and sea transport. The PIF therefore contains dedicated mechanisms to ensure that the voices of the SIS states are taken into account in regional discussions, including through the annual SIS leaders meeting, although this does not always prevent these countries from feeling that their voices are marginalised in regional discussions.

PICs share a common history and identity and, through the Blue Pacific narrative — which was officially adopted at the 48th PIF Leaders Meeting in Apia in 2017 — they have expressed a desire to both strengthen their regional identity and to cooperate on issues of shared concern, especially those relating to the large tracts of Pacific Ocean over which they have maritime jurisdiction (PIF Secretariat, 2019a). Regional cooperation and integration is further guided by *The Framework for Pacific Regionalism* (PIF Secretariat, 2014b) and the 2050 Strategy for a Blue Pacific Continent (PIF, 2022). While the PIF generally seeks to speak to the rest of the world with a single voice based on the principle of consensus (i.e. the ‘Pacific Way’), there are some important areas of divergence worth noting.

First, there are important instances of sub-regional integration, which arguably go deeper than the region-wide integration projects pursued through the PIF and other regional bodies. Most notably, the Melanesian Spearhead Group (MSG) has established a free trade agreement (FTA) which includes the economic heavyweights in the region, Fiji and PNG, as well as Solomon Islands, and Vanuatu. In addition to these four states, the MSG has a fifth member, the Kanak and Socialist National Liberation Front, a political party that represents the interests of New Caledonia’s Melanesian population.

Second, there can often be significant tensions within the region. In February 2021, the five Micronesian PIF members submitted their notifications to withdraw from the PIF over a supposed breach of a ‘gentlemen’s agreement’ that the next Forum Secretary-General would come from their sub-region (The Guardian, 2022). This slight opened deeper wounds, as northern SIS states feel they are marginalised in regional decision-making processes. While the intensity of feeling after the Secretary-General election was exacerbated by failures of diplomacy and communication, there are substantive reasons why these countries feel less connected to the region.

The Federated States of Micronesia (FSM), Palau, and Republic of the Marshall Islands (RMI) have a unique history compared to the rest of the region. Following World War II, the US was responsible for the administration of these territories. When they subsequently became independent states, they elected to enter into a Compact of Free Association, which established a close security and economic relationship with the US, including by bringing them under the American security umbrella and creating a right for their nationals to live and to work in the US. While this compact brings significant benefits to its Micronesian parties, it also acts as a barrier to greater integration with the rest of the region, including through the Pacific Agreement on Closer Economic Relations (PACER Plus) FTA.

The rift between Micronesia and the rest of the PIF was seemingly resolved through regional diplomacy under the Suva Agreement in 2022, which included some meaningful concessions for Micronesian states, but this did not prevent Kiribati from making the surprising decision to formally withdraw from the PIF (The Guardian, 2022). It chose not to attend the Leaders’ Meeting in July 2022, and it remains unclear whether or how it will be reintegrated into the region.

Third, there is significant divergence in the region over diplomatic recognition for China and Taiwan. In 2019, Solomon Islands switched its recognition to China following 36 years of diplomatic recognition towards Taiwan. This was a highly controversial decision, which has been rejected by Malaita, the country’s largest province and a lead player in the ‘tensions’ that ravaged the country during 1998–2003. This has led to ongoing diplomatic frictions, including when the governor of Malaita accepted Taiwanese aid for COVID-19 and publicly thanked the ‘country’ of Taiwan for support fighting the ‘Wuhan virus’ (Lowy, 2020).

The PIF remains split on the question of the diplomatic recognition of Taiwan. Taiwan is still recognised diplomatically by four SIS states; Kiribati has switched recognition multiple times and most recently switched back to China in 2019. This divergence within the membership makes it difficult for the region to engage with China in a unified manner and can also create diplomatic or even protocol issues regarding how the PIF manages relations with both China and Taiwan, especially when the annual leaders meeting is hosted by a member that does not diplomatically recognise China. In 2018, Nauru refused to let Chinese representatives enter the country with official passports; its president, Baron Waqa, later accused a Chinese official of trying to ‘bully us’ when he stormed out of a dialogue partners’ meeting after not being given the floor (Guardian, 2018).

This split also makes it difficult for China to truly engage with PICs through regional diplomacy. While China has generally preferred to take a bilateral approach, in 2022 it started engaging in some regional diplomacy by proposing a 10-country ‘regional’ agreement covering trade, police cooperation, and disaster resilience (ABC News, 2022). Not surprisingly, this proposal was strongly opposed by those countries that recognise Taiwan, while others suggested that Chinese efforts at regional diplomacy should be channelled through the PIF. These efforts have so far been rebuffed, although there is scope for China to continue consultations with a view to achieving a meaningful outcome in future.

Fourth, there are some important divergences regarding how different PICs engage with the rest of the world. The Compact countries seek closer association with the US in contrast with the rest of the region, which is more deeply integrated with Australia and New Zealand, especially Cook Islands and Niue whose citizens have full residency and working rights in New Zealand.

Perhaps the most striking example of national divergence is PNG, as it is the only country in the region with a land border. PNG’s border with Indonesia arguably brings benefits by integrating it into South-East Asia, including as a member of APEC. In fact, PNG took advantage of its hosting of APEC in 2018 to improve engagement between APEC and the PICs by inviting PIC leaders to meetings in the margins of APEC Summit. New Zealand had plans to integrate PICs further during its hosting of APEC in 2021, but this was thrown into turmoil when the country completely shut its borders as part of a long-term COVID-19 strategy.

PNG’s border with Indonesia is also a major source of tension due to the Free Papua Movement, which is strongly supported throughout Melanesia and has, at times, been supported by the PIF, including as one of the five ‘priorities for regional action’ identified by PIF leaders in 2017 under *The Framework for Pacific Regionalism* (PIF Secretariat, 2014b). Indeed, tensions around the status of West Papua may explain why Indonesia is actively undertaking the ‘Pacific Elevation’ to increase engagement with the region, including through an Indonesian-sponsored Pacific trade show and new bilateral cooperation agreements with Cook Islands and Niue.

Despite these divergences, there are also some major examples of successful PIC collective diplomacy. On the world stage, the PICs have achieved some success by collectively projecting their voices on issues of key concern. The United Nations Convention on the Law of the Sea negotiations secured massive EEZs for the region; PICs also successfully pushed for the Treaty of Rarotonga, which turned the South Pacific into a nuclear weapons-free zone (United Nations, 1982; United Nations, 1985). Most recently, PICs have played a key role in international negotiations on climate change and the oceans (i.e. Sustainable Development Goal 14), including through Fiji’s presidency of the 23rd annual Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change meeting in 2017.

There have been some significant instances of successful regional security cooperation as well. The Regional Assistance Mission to Solomon Islands (RAMSI, discussed further below) involved active

contributions from all PICs, including through the mobilisation of military, police, and civilian personnel. Due to their small size, PICs have sought to create regional infrastructure, including through the establishment of a regional university, the University of the South Pacific, with a main campus in Suva and satellite campuses throughout the region.<sup>12</sup> PICs have further sought to integrate their economies through a variety of regional trading arrangements, discussed further below.

Some observations are worth noting about the nature of the PIF as a system compared to other regional integration projects around the world. As far as regional decision making is concerned, the PIF is ultimately based on diplomatic engagement — the strength of personal relationships and political declarations by leaders and ministers — rather than hard legal commitments in the form of treaties or other constraints on national sovereignty. There have been exceptions, however, where PICs have sought to formalise their integration through legally binding treaties.

In the Pacific, regional institutions exist to facilitate engagement between members or to offer technical assistance rather than to enforce commitments. To the extent that members make political commitments to each other, implementation occurs at the national level, and there are no hard mechanisms to enforce implementation, although diplomatic pressure or development assistance can be used to encourage it. Regional institutions can also be used to provide soft ‘enforcement’ mechanisms, such as peer review or scorecards regarding implementation.

The non-prescriptive nature of regional cooperation can be illustrated by the RAMSI. While this example of regional security cooperation was underpinned by the Biketawa Declaration, the fact that it finally occurred in 2003 as a highly resourced military, police, and civilian intervention was ultimately due to changing political winds, including the commitment of the prime ministers of Solomon Islands and Australia. The Biketawa Declaration was not a sufficient condition for the RAMSI — and it was arguably not even a necessary condition — although it did facilitate political and diplomatic negotiations for the creation of the mission, as PIF members already had a shared vision and language for thinking about regional security concerns (PIF Secretariat, 2014a).

PICs also use regional institutions as a rallying point for collective diplomacy, so they can coordinate regional positions and speak to the rest of the world with one voice. This type of collective diplomacy has been employed in United Nations Framework Convention on Climate Change negotiations by pooling scarce diplomatic resources at the PIF joint mission to the World Trade Organization in Geneva or by facilitating various meetings with dialogue partners.

### **3. How Do the Pacific Islands Fit into the Indo-Pacific Region?**

For the PICs, reconceptualising their geography as part of an Indo-Pacific region is counterintuitive, especially when their integration within the traditional Asia-Pacific region has not yet been fully realised. While the PICs lie at the heart of the Asia-Pacific in a geographic sense, they are largely marginalised from integration efforts led by Pacific Rim countries. Air and sea connectivity to PICs remains poor, and integration into value chains is stymied by their small economies of scale and high transport costs.

PICs are not demandeurs for the idea of a geostrategic realignment around the idea of the Indo-Pacific, but they also realise that these moves are taking place with or without their active engagement. For them, the current geostrategic changes bring both opportunities and risks.

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<sup>12</sup> University of the South Pacific, <https://www.usp.ac.fj/>

Opportunities are arising because of growing interest from countries looking to engage with PICs, which has further sparked increased attention from traditional partners such as Australia, New Zealand, and the US. While most of the attention has focussed on China's growing interest in the region, PICs have also increased their engagement with APEC, especially under PNG's hosting in 2018, and with South-East Asia through the *ASEAN Outlook on the Indo-Pacific* (ASEAN, 2019).

The 'Indo' portion of the Indo-Pacific also has the potential to bring opportunities, even if geography places limits on the degree of integration. PICs have already forged strategic partnerships with small island states in the Indian Ocean to jointly advocate their interests, on issues like climate change and the oceans, in multilateral forums. Further, the region has some important historical and cultural links to India, most notably in Fiji where a large share of the population has roots in South Asia due to controversial indentured labour programmes dating back to the colonial era. India is actively seeking to cooperate further with PICs, including through its Indo-Pacific Oceans Initiative.

However, the heightened attention to PICs also creates risks for the region. Most notably, geopolitical developments may pressure PICs to abandon their 'friends to all approach' to choose sides in a battle between great powers.

#### **4. Growing Interest in and Attention on Pacific Islands**

In some respects, PICs are beneficiaries of the increased geostrategic competition in the Indo-Pacific region. For many years, the Pacific received little attention from Northern Hemisphere powers, while Australia and New Zealand were the only developed countries courting deep relationships consisting of trade, investment, movement of people, and establishment of diplomatic ties and large-scale aid programmes.

After being largely neglected by the most of the world, PICs are enjoying a moment where they are increasingly being courted by both the US and China. China has had a few wins in its battle with Taiwan for diplomatic recognition from countries in the region. Since the Solomon Islands and Kiribati switched to China in 2019, Taiwan is now only recognised diplomatically by four of the smaller countries in the region, although it continues to maintain representation and influence in countries that do not formally recognise it.

China has also been on a 'charm offensive', as typified by the recent tour of the region by Foreign Minister Wang. China has also entered into a range of bilateral agreements, which will increase its influence in the region. It also sought to change its diplomatic approach to engage with PICs through regional efforts aimed at complementing its bilateral diplomacy. While it has had some success upgrading its bilateral relationships — most notably its high-profile security and economic agreement with Solomon Islands — its call for a regional partnership with the Pacific was ultimately not successful. It is hard to assess how significant these new agreements will be in practice, as little detail has been provided publicly, but they are still symbolically important.

While the US established much goodwill during its Pacific campaign in World War II, it has largely been absent from Melanesia and Polynesia in recent decades, although it maintains close relations with the Compact states. The US has seemingly been content to let Australia and New Zealand carry the banner for the liberal international order in the Pacific region, but this has changed recently due to China's intense engagement.

In February 2022, Antony Blinken marked the first visit to Fiji by a US Secretary of State in 36 years. There, he announced the reopening of a US embassy in Solomon Islands (RNZ News, 2022). This was backed up a few months later when US Vice-President Kamala Harris, speaking via videoconference

to the PIFS Leaders' Meeting, announced that the US would be opening new embassies in Tonga and Kiribati and a new United States Agency for International Development (USAID) regional office in Suva. She further announced a \$500 million assistance package for fisheries sustainability in the Pacific, the creation of a new US envoy post dedicated to the PIF, and the drafting of a national strategy on the Pacific Islands (ABC News, 2022c). While this reengagement by the US has created some goodwill, it does not directly respond to some long-standing irritants for PICs, including the US's failure to ratify the protocols to the Treaty of Rarotonga or to fully address the legacy of its nuclear testing programme in RMI.

Of course, increased interest by powerful countries does not necessarily translate into increased benefits for PICs. There are concerns that PICs lack the resources to effectively manage all of these relationships or to assess the risks that accompany these new opportunities, especially considering the limited capacities of their understaffed bureaucracies. This has played out most notably in debates around Chinese 'debt trap diplomacy'.

According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), several countries in the region are at high risk of debt distress, including Kiribati, PNG, Tonga, and Tuvalu (ABC News, 2022b). The Asian Development Bank (ADB) is the major creditor in the region; however, amongst bilateral lenders, China has a huge footprint. In the case of Tonga, China holds over half of its debt, which is a troubling situation at a time when many of these countries are suffering from recessions, inflation, and a need for increased government spending to fight COVID-19 and climate change (ABC News, 2022b).

While PICs have become increasingly attracted to Chinese concessional loans because there are no strings attached — at least none related to governance — there are fears in some quarters that some of these infrastructure projects offer poor value-for-money or that they may even serve dual-use purposes (i.e. for the Chinese military).

PIC leaders insist that they have the diplomatic wherewithal to leverage the increased competition in the region to the advantage of their countries. They reject as condescending and arrogant the suggestion that they are poorly placed to play off China and the US, not to mention Australia and New Zealand. Indeed, there are signs that PICs are becoming increasingly selective about their use of Chinese loans to avoid debt traps. In Samoa, a country highly indebted to China, newly elected Prime Minister Fiamē Naomi Mata'afa followed through on her mandate by cancelling a Chinese-backed port project soon after her election on the basis that it did not offer sufficient value for the money.

In reality, the key question may not be whether PICs benefit from the increased attention coming from non-traditional partners but rather which actors within PICs extract the benefit. There are growing fears of China's diplomatic and aid resources being used for 'elite capture' in ways that ultimately undermine governance and democracy in the region. While the precise contents of China's security agreement with Solomon Islands has not been made public (although there have been leaked drafts), there are fears regarding its use by the Government of Solomon Islands to quell civilian unrest or even to prop up a government that does not have democratic support.

Indeed, on the question of relations with China, there seems to be a disconnect between the views of PIC governments and those of their people. Despite the lure of economic benefits that China can offer, there is often popular resistance to Chinese investment in the region, such as the Freesoul resort development on Malolo Island in Fiji, which attracted significant media attention and a High Court challenge due to illegal works leading to significant environmental damage (Fiji Village, 2022). Opposition politicians seem to see increased value in distancing themselves from China as well. After



the successful use of this strategy by Prime Minister Mata'afa during the 2021 Samoan election campaign, Fijian opposition leaders have adopted a similar line in 2022.

That said, PICs leaders can argue that their 'friends to all approach' has been successful at sparking renewed interest from traditional partners. The change of government in Australia in 2022 also bodes well for Australia–Pacific relations. Australia's monumental shift on climate change will improve its relations in the region, following the Leaders' Meeting in 2019 when Australia Prime Minister Scott Morrison was acrimoniously criticised by the rest of the region for his continued support of the coal industry. Indeed, within days of winning the election, Australia's newly appointed Foreign Minister Penny Wong visited Fiji as a top priority, partly to pre-empt any surprise announcements from China Foreign Minister Wang's visit through the region.

## **5. Risks: Picking Sides**

It may become increasingly difficult for PICs to thread the needle with their 'friends to all approach'. Indeed, PICs are not alone in fearing that global politics may be moving in the direction of a new Cold War between the US and China, in which other countries are forced to pick sides. This would be far more serious for PICs than the original Cold War where they were far from the main military flashpoints and their alignment with the Western camp did not really isolate them from other potentially important partners.

Under a new Cold War scenario, PICs would face a serious dilemma. They have strong historical, economic, and cultural links with Western countries, especially Australia and New Zealand. They are major beneficiaries of the rules-based international order, especially since it guarantees their security and maritime jurisdiction, which is a major source of resources and revenue for most countries in the region. They also enjoy deep people-to-people links grounded in sports, education, tourism, and religion with the West.

At the same time, PICs rightly see significant benefits from their growing engagement with non-traditional partners. China has become an important trade partner, source of investment, and provider of development assistance. Chinese firms, including state-owned enterprises, are playing an increasingly important role in large construction projects throughout the region. While the people-to-people links with China are generally weaker, some countries in the region are home to a relatively large Chinese diaspora, which is a driver of economic development but also of ethnic tensions, as is the case in Solomon Islands.

The Pacific's 'friends to all approach' was on full display in May 2022 when Fiji warmly hosted China Foreign Minister Wang on his eight-nation tour of the region and entered into a number of bilateral agreements to grow their partnership — before becoming the first PIC to declare its participation in US President Joseph Biden's *Indo-Pacific Economic Framework for Prosperity* (The White House, 2022). There are immense benefits to be had if PICs can successfully maintain warm relations with all partners, but it is largely out of their hands whether this balancing act is sustainable or whether the world is heading for another Cold War.

## 6. Trade and Aid

Economic integration, including through formal FTAs, has historically focussed on integration amongst PICs, such as the *Pacific Island Countries Trade Agreement* (PICTA) (PIF, 2003). Despite strong ambitions to integrate economically as a region, the PICTA suffers from some important weaknesses, including non-ratification and non-implementation by a number of parties and the fact that trade flows amongst these countries are actually quite low.

Australia and New Zealand are also considered a key fixture in the regional architecture, dating back to the founding of the South Pacific Forum (as the PIF was originally known). They are the driving force behind the PACER Plus, a reciprocal FTA that seeks to attract region-wide buy-in.<sup>13</sup> While the PACER Plus has been ratified by a significant number of Pacific states, it has failed to attract support from the two leading economies in the region — Fiji and PNG — and the Compact states have legal constraints preventing them from engaging in deeper integration with the rest of the region.

The PACER Plus seeks to improve integration amongst PICs in addition to better connecting them to the Australian and New Zealand markets. It is likely to have a better record of implementation than the PICTA due to the establishment of a well-resourced implementation unit, based in Samoa, as well as a dedicated aid-for-trade programme to support domestic reforms. Part of the attraction of the PACER Plus is that it includes creative new labour mobility schemes that offer Pacific Islanders a chance to work in Australia and New Zealand where they can earn higher salaries, save money, and develop new skills.

These schemes originally targeted unskilled seasonal workers to undertake short-term contracts (i.e. less than 1 year), helping fill labour shortages on farms. Australia and New Zealand have since piloted and implemented newer programmes that allow semi-skilled workers to relocate, including with their families, for the purpose of long-term contracts (i.e. up to 4 years). Australia is also looking to replicate a successful model from New Zealand that will create dedicated pathways towards permanent residency for Pacific Islanders as well.

These labour mobility programmes have become a key pillar of economic development for a number of PICs. In Samoa, the programme is managed directly by the Prime Minister's office, while the Government of Solomon Islands has declared the goal of having 10,000 labour mobility workers by 2025 (Solomon Times, 2022).

These programmes have also proven to be highly resilient. During the COVID-19 lockdowns that saw Australia and New Zealand essentially close their borders to non-citizens, the governments showed political will to make exceptions for Pacific Island workers. Australia and New Zealand made special arrangements for in-country workers, some of whom were virtually locked out of their home countries due to de facto bans on inward travel to remain COVID-19-free pending widespread vaccination. The Government of Australia also introduced dedicated quarantine programmes to allow cohorts of new workers to arrive, even at a time when many overseas Australians were complaining about the difficulties of returning home due to the limited quotas in quarantine hotels.

Labour mobility was intended to serve as an incentive to attract Fiji and PNG to join the PACER Plus, but Australia and New Zealand have seemingly decided to delink these issues. Even without being signatories to the PACER Plus, Fiji and PNG have access to these schemes, and they are increasingly taking advantage of them. However, the exclusion of the two largest PIC economies from the PACER Plus does undermine its true potential as a driver of regional integration.

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<sup>13</sup> PACER Plus Implementation Unit. <https://pacerplus.org/>

There are other important drivers of economic integration in the region apart from FTAs. The PIF has institutionalised annual meetings of trade ministers to address high-priority issues such as the World Trade Organization's fisheries subsidies negotiations and the economic implications of COVID-19. At this meeting in 2020, ministers adopted a regional aid-for-trade strategy that encourages a regional approach on e-commerce, trade facilitation, connectivity, and services trade (PIF Secretariat, 2020). The PIF Secretariat has also launched the ambitious Pacific Quality Infrastructure initiative to improve product standards in the region as well as the Pacific Regional Infrastructure Facility (PRIF) to facilitate donor coordination on infrastructure projects.<sup>14</sup> It is also pooling resources on trade promotion in key markets through the network of Pacific Trade Invest offices.

In addition to Australia and New Zealand, PIC exporters target other developed country markets, including those of the EU, US, and Japan. While PICs have benefitted from unilateral preferences into these markets, under Generalised System of Preference programmes for all developing countries or dedicated duty-free quota-free (DFQF) programmes for least-developed countries, attempts to formalise trading arrangements through reciprocal FTAs have produced more fragmentation than integration.

The EU sought to enter into a region-wide economic partnership agreement with the Pacific group of states (including Timor-Leste), but negotiations ultimately broke down, leading it to sign an interim agreement with Fiji and PNG who feared losing market access for priority products, including sugar and fish. The interim agreement has some appeal to those PICs who are graduating from least-developed country status and are thus scheduled to lose their DFQF access to the EU market under the Everything but Arms regime. However, it is unlikely to develop into a truly regional agreement in the near future.

Samoa and Solomon Islands have acceded to this interim economic partnership agreement, and other PICs have expressed interest, an outcome that risks creating further economic fragmentation in the region. However, trade with the EU remains so small that it has little scope to produce economic distortions, especially when most Pacific exports are primary products rather than processed products requiring sophisticated value chains across different countries. Since leaving the EU, the United Kingdom has also been engaged in a 'Pacific Uplift' campaign to raise its engagement with Commonwealth countries in the Pacific, including by opening new embassies in Samoa, Tonga, and Vanuatu.

While Australia, New Zealand, and the EU have sought deeper institutionalised trading arrangements with PICs, this does not necessarily mean that trade flows are growing with these countries. If integration is assessed based on trade flows rather than negotiated agreements between governments, China is clearly becoming an important partner. Trade between China and PICs has exploded since 2000, during a period where trade with Australia has largely stagnated even if it remains significant in absolute terms. The main driver of this trend is an increase of Chinese imports into the region, often at the expense of Australian imports, although exports from PICs to China have also grown.

That said, goods trade is becoming less important as an indicator of trade integration. There are many aspects of a healthy trade relationship that do not show up in trade statistics. In the case of Australia and New Zealand, labour mobility is a huge driver of remittances and economic development — even if it is hard to measure the precise benefits of such programmes.

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<sup>14</sup> PIF Secretariat, Pacific Quality Infrastructure, <https://www.forumsec.org/pacific-quality-infrastructure-pqi/>; and Pacific Region Infrastructure Facility, <https://www.theprif.org/>

Tourism from these countries is also critical to the region. In Fiji, where tourism is one of the main export activities, the government made the painful decision to ban all inward travel in March 2020 to prevent the spread of COVID-19. By June 2020, well before vaccines had become available, it launched negotiations to create special travel corridors exclusively for Australian and New Zealand tourists because of their importance to the Fijian economy, even while remaining closed to the rest of the world. This exercise proved unsuccessful, and Fiji ultimately managed to reopen its borders to the world in late 2021 following a severe Delta outbreak and a widespread vaccination programme.

Despite PICs' diversification of goods trade in recent years, Australia and New Zealand continue to be key partners. In addition to strong trade ties, these countries can offer a level of deeper integration that is not truly available to other economic partners in Asia. Much of this comparative advantage relates to people-to-people links due to large PIC diasporas and the fact that Australia and New Zealand remain the partners of choice for Pacific Islanders seeking to study or work overseas. Other partners are making more scholarships available to Pacific Islanders, including Japan and China, but language and cultural barriers ensure that numbers remain relatively low.

## **7. Priorities and the Enhanced Concept of Security**

There have also been some important examples of security cooperation in the region. The Biketawa Declaration, adopted by PIF leaders in 2000, addresses regional security as part of a broader context that also encompasses governance issues such as respect for democratic norms (PIF Secretariat, 2014b). The most noteworthy example of successful security cooperation was the RAMSI, which was predicated on the Biketawa Declaration and an explicit request by the Government of Solomon Islands for support.

PICs have generally been major beneficiaries of the peace dividend flowing from the liberal international order. Most PICs do not have a standing army, and those PICs that do are generally more concerned with disaster response or peacekeeping missions in the Middle East and Africa than with the prospect of any form of conventional warfare in their own region.

At the 2018 Leaders' Meeting in Nauru, PIF members collectively agreed to redefine their approach to regional security and negotiated the Boe Declaration (PIF, 2018). It was complemented 1 year later by an action plan agreed at the Leaders' Meeting in Tuvalu (PIF, 2019b). This regional approach is based on an 'expanded concept of security', which identifies climate change as 'the single greatest threat to the livelihoods, security and well-being of the peoples of the Pacific'. It further addresses human security and humanitarian assistance as well as environmental and resource security.

The Boe Declaration does recognise a number of security concerns in the narrower sense, such as transnational crime and cybersecurity, but traditional security concerns are not at the top of the regional agenda. Moreover, the Boe action plan fails to include international norms of non-aggression or respect for territorial integrity and maritime jurisdiction amongst its list of six priority security issues.

This appears a lost opportunity following the war in Ukraine and increasing signs of militarisation in the Taiwan Strait. The Boe Declaration formally supports the rules-based system in its preamble, but perhaps PICs took it for granted that respect for territorial integrity is an inviolable feature of the international system and that it would be a waste of their diplomatic voice to explicitly address these types of systemic issues as part of their priority security concerns. This reflects a deeper concern amongst PICs that an increased focus on traditional security threats may detract attention from their own priorities of climate change, development, and human security in the broader sense.

Arguably, the region should take conventional military threats more seriously. In 2017, 1 year before the Boe Declaration was negotiated, the PIF Foreign Ministers' Communiqué expressed concerns over North Korean threats to strike Guam with a missile (PIF, 2017). The region is home to US military bases, and it could become a frontline if tensions between the US and China escalate into open warfare.

Further, there are persistent but unconfirmed news reports of China negotiating with different countries in the region, including Vanuatu and Solomon Islands, to establish a military base. While this would represent a tectonic shift in the balance of military power in the region — and require all countries in the region to reassess their own security postures — there are currently no regional mechanisms that would act as a hard constraint against such an action. The decision to host military bases remains a sovereign choice for each individual government and is not limited by any legal or procedural constraints in regional agreements. While PICs are generally loathe to accept any constraints on their sovereign decision-making power, this seems like the type of issue where a regional agreement based on hard commitments — rather than mere exhortatory declarations — could produce significant positive externalities for all countries.

## **8. Pacific Values**

Due to their physical proximity to Australia and New Zealand, as well as strong historical linkages, PICs share common values with the West. Most countries have parliamentary democracies, modelled on approaches from the United Kingdom or US, and embrace other liberal values such as freedom of speech. It was the protection of these values that was explicitly pursued in the Biketawa Declaration, one of the region's earliest expressions of solidarity on security issues and political governance.

PICs are also major beneficiaries of the rules-based international system that enables them to trust that their territorial integrity will be respected, even in the absence of any meaningful military capacity, and that accords them jurisdiction over massive EEZs.

However, these Western values do not sit seamlessly alongside traditional structures such as the influence of village chiefs, which means that officials can sometimes face uncomfortable quandaries when their obligation to uphold the rule of law or to pursue the national interest conflicts with traditional obligations to their communities. These traditional values can also hamper the adoption of certain liberal ideas that are now considered mainstream in the West, such as gender equality or LGBTQIA rights.

This tension within PICs can lead to the fragility of certain seemingly deep-rooted institutions. Samoa recently experienced a constitutional crisis due to the unwillingness of outgoing Prime Minister Tuila'epa Sa'ilele Malielegaoi to accept the transition of power to the new government led by Fiamē Naomi Mata'afa. This may be partly due to the US's own crisis of democracy following its 2020 election, but there is little doubt that China's model is admired by certain leaders in the region with autocratic inclinations.

During Foreign Minister Wang's May 2022 tour of the Pacific, there was extensive reporting of how easily PIC governments accepted China's calls to restrict media access to events or to tolerate heavy-handed tactics by Chinese security officials towards journalists. Even if PICs nominally support press freedom and permit it within their own societies, the willingness of their governments to make compromises to prevent diplomatic frictions with China is alarming. Indeed, in the months following the visit, several countries passed new laws that seem to reduce media independence, including the Government of Solomon Islands's decision to take ownership of the national broadcaster and to outlaw reporting critical of the government.

Finally, it is worth noting that for PICs, decision making at the regional level relies heavily on consensus, while discussions with the rest of the world generally only produce meaningful outcomes if they are based on deep engagement. Australia and New Zealand arguably upset others in the region when they shifted their posture towards an Indo-Pacific strategy without undertaking meaningful dialogue with PICs beforehand. This situation has since been partly rectified through deeper discussions about increased geopolitical tensions in the region and the potential consequences for PICs.

Indeed, China's first foray into regional diplomacy was largely a failure, perhaps because it underestimated the importance of meaningful dialogue rather than merely presenting a *fait accompli*. While China has had some success entering into bilateral deals on short notice and with little scrutiny — its security and economic deal with Solomon Islands even blindsided Australia's diplomats — it will soon learn that regional diplomacy progresses slowly, requiring patience and sustained engagement. PIC leaders may find that they have a stronger negotiating position when dealing with China together as a region, but it remains to be seen if China has the patience to continue engaging at a regional level — even if it raises the costs of diplomatic engagement while slowing down the realisation of substantive outcomes.

## **9. Conclusion**

The reimagining of geopolitics in terms of the Indo-Pacific region represents a significant development for PICs. While there is some scope for them to increase their engagement with the 'Indo' part of the new region, the reality is that their security and economic interests primarily lie in the Pacific theatre. On the economic front, the increased attention and resources coming to PICs have the scope to make a meaningful contribution to development, provided that those resources target critical human and societal needs instead of being captured by elites.

PICs are right to prioritise climate change and development as their most pressing needs, but they should also recognise that the rules-based system, which is increasingly coming under threat, is foundational to the achievement of their priorities as well as to the maintenance of peace and security in their region and the world. PICs have scope to influence economic and strategic decisions by those major powers who are increasingly interested in the Pacific. This influence, however, may be undermined by insufficient political will and regional unity, especially as the PICs seek to sidestep politically difficult questions to maintain an increasingly fragile 'friends to all approach'.

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