



## Office of the Chief Trade Adviser

### **Assessment of the Potential Implications for Tonga's Private Sector of a Regional PACER Plus Agreement**

#### **Executive Summary**

##### **Background**

It is generally agreed among economists, business communities and policy makers that international trade liberalisation can lead to growth and economic development. Trade has been seen to offer significant economic gains to all countries over the long period through specialisation in comparatively more efficient sectors, greater competition, increased economies of scale, new technology, access to international markets, facilitation of investment etc. However, much depends on the trade policies adopted by individual countries to enable the private sector to produce and move goods and services across borders so as to bring about economic gains. As such, international trade should only be seen as part of a development strategy. It is through this prism that Tonga should look at the Pacific Agreement on Closer Economic Relations Plus (PACER Plus), which is being negotiated between 14 Pacific island Countries (PICs), Australia and New Zealand.

As a trade-dependent country, Tonga is actively engaged in the PACER Plus negotiations, which is to result in a comprehensive trade and development agreement. To ensure that Tonga benefits fully from PACER Plus, Tonga has recognised the importance of preparing its private sector so that it can take advantage of the opportunities provided under PACER Plus. To this end, the Tonga Chamber of Commerce and Industry (TCCI) and the Tonga Ministry of Foreign Affairs initiated this study to assess the implications of the PACER Plus for Tonga's private sector as well as assess the readiness of the sector to trade under PACER Plus.

With technical support from the Office for the Chief Trade Adviser (OCTA) for the Pacific Island Countries, this study was carried out to examine the potential implications of the PACER Plus Agreement for Tonga's private sector. The study also identifies some of the constraints and challenges faced by Tonga's private sector in conducting trade and highlights some of the opportunities under PACER Plus. It also gives an assessment of the preparedness of the Tongan private sector to immediately take advantage of the PACER Plus Agreement once implemented. In preparing the study, account was taken of the Tongan Strategic Development Framework (TSDf) 2015-2025, which identifies priority sectors for development, namely, agriculture, manufacturing, fisheries and tourism.

##### **PACER Plus Implications**

Providing a Chapter-by-Chapter assessment of the potential implications of the PACER Plus agreement for the Tongan private sector, the study identifies a range of potential effects. Some of the examples of potential implications for the private sector are as follows:

## Trade in Good

- compliance with relevant rules and regulations under PACER Plus, with minimal implementation costs;
- reduction of costs that comes with the simplification of procedures associated with the movement of goods across border;
- enhanced market access;
- lower prices for imported inputs, which would help Tongan products to become more competitive in international markets;
- increased imports and competition in certain products;
- substantial time for firms to adjust to increased competition as Tonga will have 25 years to implement tariff reductions; and
- Tonga will have the ability to exclude certain sensitive sectors from liberalisation commitments under PACER Plus.

## Trade in Services

- guaranteed expanded regional market for Tongan services exporters, including Australia and New Zealand, which could help in the expansion or diversification of services businesses in Tonga;
- the private sector would access better quality and lower cost services to Tongan firms that use services imports;
- clear and predictable rules on trade in services would help attract investment in services, thereby providing opportunities for transfer of technology and skills and joint ventures; and
- sole services suppliers would be able to easily move across borders to provide services.

## Rules of Origin (RoO)

- Tongan exporters would have to meet product specific rules of origin if they are to benefit from preferential tariff treatment under PACER Plus;
- flexible rules of origin would give Tongan producers the ability to use a wide range of foreign inputs in manufacturing and export under PACER Plus;
- RoO would provide Tongan firms with the opportunity to participate in regional and global value chains; and
- RoO will protect Tonga private sector against unfair competition by preventing circumvention by third parties.

## Customs Procedures

- the private sector would need to comply with the relevant disciplines which reflect best international norms and practices in customs procedures for the faster clearance of goods across borders;
- companies would benefit from reduced trade costs;
- reduced trading costs would enhance companies' productivity and competitiveness, which, in turn, might lead to an increase in exports; and
- increased competitiveness and growth in strength and productive capacities would also help Tongan companies to become international players.

### Sanitary and Phytosanitary (SPS)

- Tongan private sector, particularly those engaged in the agriculture sector would benefit from rules which are not a disguised restriction on trade by their trading partners
- Stronger enforcement of SPS rules would prevent the introduction of diseases from abroad which could have significant impact on their operations; and
- While the costs for meeting the SPS measures of trading partners could be prohibitive, assistance will be provided by Australia and New Zealand to ensure that they are able to meet their SPS requirements through programmes such as PHAMA.

### Technical Barriers to Trade (TBT)

- Tongan producers and exporters would have to comply with TBT measures of their trading partners;
- Their exports would not be subjected to arbitrary technical standards and conformity assessment procedures in their trading partners;
- Compliance with TBT measures might be costly for Tongan firms, as they may have to seek the services of experts in the destination market and adjust their production processes to ensure compliance with the relevant measures;
- Tongan exporters would benefit from assistance that would be provided by Australia and New Zealand to assist them to comply with their applicable TBT requirements.

### Investment

- There is the possibility of technology transfer from Australia and New Zealand, and access to a wider range of capital and skills, particularly through joint ventures established between Tongan firms and foreign investors;
- Tongan firms could also benefit from specialised services that might be provided by new companies investing in Tonga;
- Tongan investors looking to invest in another PACER Plus Party, including Australia and New Zealand will benefit from the clarity on the sectors open to foreign investment;
- increased foreign investment is likely to increase competition between domestic and foreign firms, thereby encourage Tongan firms to be efficient and competitive;
- The Tongan Government can maintain a reserve list of activities reserved to nationals and limiting the entry of natural persons.

### Arrangement on Labour Mobility and the Temporary Movement of Natural Persons

- Tongan companies could access a range of skills acquired by workers upon their return;
- The injection of money into the economy by returning workers would lead to increased economic activity which would benefit the private sector;
- the private sector would benefit from skills due to increased labour mobility; and
- skilled Tongans may want to move abroad, creating a shortage of skills on the Tongan labour market.

### Development Assistance

- The Tongan private sector is expected to benefit from improved infrastructure that would help address some of the supply-constraints faced by the sector;

- The private sector would benefit from assistance in building their productive capacities through potential business support programmes; and
- Various Government Departments and private sector associations could be strengthened using resources under development assistance which would, in turn, support the private sector to export through receiving targeted advice and benefitting from export promotion programmes.

## **Preparedness**

The study also examines the preparedness of the Tongan Private sector to meaningfully trade under PACER Plus. The examination revealed that the Tongan private sectors face a number of constraints, which include inadequate human and financial resources, limited PACER Plus compliance capacity especially in meeting SPS and TBT measures of trading partners, and limited appreciation of how they may benefit or avoid negative implications due to new trade regime. Examining the agriculture, fisheries, manufacturing and the tourism sectors, the study identifies the opportunities for each sector, a SWOT analysis was undertaken for each sector and the readiness of each sector was assessed to determine their capacity to export under PACER Plus. The outcomes include: (i) all the sectors under examination have the potential to benefit from the opportunities presented by the PACER Plus Agreement; (ii) the Tongan Government, besides financial and human resources constraints, is undertaking various sector specific measures to address a number of sector specific constraints; and (iii) the sectors which were examined are at different levels of preparedness, with some in a position to exploit the benefits under PACER Plus with minimal intervention and some requiring greater assistance.

## **Key Finding and Recommendations**

The study came up with a number of key findings and made two sets of recommendations – those which would help in immediately improving the situation of the private sector so that it can start benefitting from PACER Plus as soon as the Agreement comes into force and those which would improve the ability of the private sector to continue to meaningfully trade under PACER Plus in the medium to long-term.

### **Key Findings:**

- There are several legal and practical implications of PACER Plus for the Tongan private sector, which both the government and private sector need to have a better understanding of so as to be able to benefit from PACER Plus.
- The Tongan private sector has the desire to take advantage of the benefits under PACER Plus and is prepared to take necessary measures that would allow it to take advantage of the potential benefit under PACER Plus.
- Some sections of the private sector do not fully comprehend the issues under PACER Plus and require assistance to make them appreciate how they could benefit from the agreement.
- The Tongan Government has the opportunity to continue to negotiate bilaterally with Australia and New Zealand (in the context of PACER Plus market access negotiations) to find solutions to some of the issues raised by the private sector regarding current market access restrictions such as 2-day period for fish inspection by Australia.

- The private sector faces a number of supply-side constraints and challenges (cross cutting and sector specific), which affect the sector's ability to export and take advantage of market access opportunities under PACER Plus, particularly in the Australian and New Zealand markets. Through the government, the sector can get financial and technical assistance under Development Assistance Work Programme to address some of the supply-side constraints that have prevented their efforts to increase and diversify their exports.
- The Government of Tonga has put considerable effort in implementing some measures to mitigate the constraints faced by the private sector, but the effort has been hampered by a number of factors, particularly lack of finance and absence of human resources.
- Some constraints and challenges can be mitigated in the short to medium-term whilst others can be mitigated in the long-term.
- There are some government initiatives which are currently being implemented that are aimed at addressing some of the constraints faced by the private sector.
- The private sector is characterised by different levels of preparedness, which the Tongan government has to take into consideration when assisting the private sector to expand exports under PACER Plus.
- The private sector can play a critical role in mitigating some of the identified constraints and challenges.

#### Recommendations for immediate action

- The Government of Tonga should expedite the development of a trade policy framework that will guide trade mainstreaming. The trade policy framework will not only help Tonga to integrate trade into national development and poverty reduction strategies, but help in the operationalisation of trade under PACER Plus through incorporating trade into sectoral strategies, actions, plans and budgets.
- The Tongan Government should expedite the completion of those projects that are currently being undertaken such as upgrading of infrastructure, which help improve trade.
- The Government together with the private sector should further strengthen the public sector/private sector engagement, for example, through regular meetings, to collectively address some of the constraints and challenges faced by the private sector, with a view to fully tapping the benefits under the PACER Plus agreement. There should also be close collaboration regarding the implementation of the PACER Plus Agreement to ensure the incorporation of trade into sectoral strategies, actions, plans and budgets.
- The Tonga Government and the private sector should jointly organise learning events to better understand the legal and practical implications of PACER Plus.
- Private sector representatives should familiarise themselves with PACER Plus issues that impact on their businesses in order to devise strategies to fully benefit from the Agreement.
- The private sector should adopt measures that help improve their credit worthiness.

- The Tongan Government should continue to negotiate bilaterally with Australia and New Zealand (in the context of PACER Plus market access negotiations) to find solutions to some market access barriers related to technical regulations, standards and SPS and bio-security measures and other market access constraints identified by the private sector.
- Tonga should utilise the assistance that would be provided under the Development Assistance Work Programme to develop and strengthen productive capacities as well as developing export promotion strategies. Considering that Tonga has a comparative advantage in the production of vegetables, and that the agriculture sector can start benefiting from PACER Plus upon its coming into effect, the Tonga Governments needs to accord priority to the agriculture sector so as to build its capacity to supply and increase its exports. The PACER Plus Development Assistance offers a source of assistance to enable to sector to comply with SPS and TBT requirements as well as build capacity.

#### Recommendation of a long-term nature

- The private sector should explore various ways of initiating value added processing such as joining regional value chains, for example, through joint ventures with foreign investors.
- Tonga should increase production of vegetables and explore ways for value added processing with a view to increasing its exports.
- The private sector should find ways of reducing their costs to make their products more competitive in international markets.
- It is important for the Tongan Government to continue implementing business-enabling reforms which will improve private sector productive performance and enhance its ability to trade. In that regard, the upgrade of infrastructure should continue to be a priority for the Government.
- The Tongan Government should help the private sector to establish a mechanism that allows small businesses to link together to provide skills and services to each other.