

US Trade Policy Options for Pacific Islands States Require Washington's Political Commitment

By Marcus Noland

Marcus Noland, Executive Vice President and Director of Studies at the Peterson Institute for International Economics and East-West Center Non-Resident Senior Fellow, explores avenues for more substantive US economic engagement with Pacific Island states

The Pacific Islands have emerged as a zone of contestation in the ongoing rivalry between China and the United States. While the US has long been the dominant military power in the region, China is raising its profile through activities like port visits, military exercises, and establishing diplomatic and security ties with regional states like Kiribati and the Solomon Islands. In 2018, Chinese leader Xi Jinping visited Papua New Guinea for the Asia Pacific Economic Cooperation (APEC) summit. President Biden was supposed to visit PNG in May 2023, in the first ever visit of a sitting US president to the Pacific Islands, but that trip was scuttled due to the debt ceiling fiasco in Washington.

In the economics sphere, the US has attempted to counter China's Belt and Road Initiative (BRI) together with Japan and Australia through the Blue Dot Network and the Indo-Pacific Infrastructure Trilateral to promote high-quality, transparent, and sustainable infrastructure development. The region contains considerable natural resources, and the US has been working with Pacific Island nations to promote sustainable resource management, in contrast to China's alleged illegal, unreported, and unregulated fishing in the Pacific. What has been missing, however, is a trade policy component to the US strategy to counterbalance China's exploration of a free trade agreement with the Pacific Islands Forum (PIF).

While US trade with the Pacific Island states is not large (roughly \$1 billion in two-way trade annually and the US does not feature in the top five trading partners of the PIF), the region seeks expanded trade—mainly for the sake of their own development. Exports include textiles, footwear, clothing, fish, coconut oil, mahogany, sugar, and in the service sector, call centers. The presence of significant diaspora populations concentrated in Hawaii and California could further stimulate US-Pacific trade integration.

The United States has preferential trading arrangements with a subset of Pacific Island states--the Republic of the Marshall Islands, Republic of Palau, and the Federated States of Micronesia-- through the Compacts of Free Association (COFA). However, even the benefits of these agreements are restricted by their limited coverage and inability to cumulate value-added to qualify for the trade preference. For example, tuna caught in one of these countries and processed in Fiji is subject to US tariffs. In contrast, such tuna can enter the European Union duty-free. In any event, the economic provisions of the COFAs are due to expire in 2023 and 2024 and must be renewed as part of the ongoing negotiations to extend the COFAs.

In principle, the US could offer the PIF a free trade agreement. But the Congress has not extended to the Biden Administration Trade Promotion Authority (i.e., fast-track authority) to negotiate such agreements, and even if it did, the PIF would likely find the demands of negotiating an FTA along the standard high-quality US template daunting. A less pain, less gain alternative to a fully reciprocal FTA would be for the US to extend unilateral trade concessions to the Pacific Island countries along the lines of the African Growth and Opportunity Act or the Caribbean Basin Initiative. This approach would require leadership from the Biden Administration and Congressional legislation.

Historically the US has maintained a program to extend duty-free treatment to low-income countries, the Generalized System of Preferences (GSP), which could be another mechanism for offering preferential trade to the Pacific, but GSP lapsed at the end of 2020, and in the current political climate, it is unclear when, if ever, it will be revived. Again, this route would require initiative by the White House and Congress.

If a revival of GSP is more than the political traffic will bear, what can be done? The current centerpiece of Biden Administration trade policy is the Indo-Pacific Economic Framework (IPEF) for prosperity, an initiative designed to avoid the need for Congressional legislation. IPEF is organized into four pillars--Trade; Supply Chains; Clean Energy, Decarbonization, and Infrastructure; and Tax and Anti-Corruption. In the words of one observer, “unlike traditional trade pacts, which seek to open new market access opportunities by lowering import barriers, IPEF seeks to promote common rules on labor, the environment, and digital trade and to share information to help participants develop joint approaches to countering economic coercion by third countries and managing supply chain disruptions.” Participants are not required to engage in all four pillars.

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Fiji, which has the deepest economic ties to the US of any of the Pacific Island states, and which signed a trade and investment agreement with the US in 2020, is a member, and participates in all four pillars. It might be possible to use Fiji’s participation in IPEF to set a precedent for other Pacific Island states to join IPEF. But even if this were possible, it is not clear to what extent the IPEF agenda addresses the trade and development needs of the Pacific Islands, which center on market access for their products and harmonized standards to promote digital trade.

Short of entering into formal agreements, the US could promote deeper ties by encouraging trade shows, business delegations, and the establishment of a US-Pacific Islands trade forum. Even without Congressional legislation, the US could do more on resource and climate issues: work through the World Trade Organization to complete the WTO fisheries subsidy agreement and help enforce restrictions on illegal and unregulated fishing.

Another alternative would be to essentially subcontract US leadership in this area to less politically constrained allies. Building on their 1983 bilateral Closer Economic Relations (CER) economic integration agreement, Australia and New Zealand extended preferential trade to the Pacific Islands. The Pacific Agreement for Closer Economic Relations-Plus (PACER Plus) is “a regional development-centered trade agreement designed to support Pacific Island countries to become more active partners in, and benefit from, regional and global trade”—as well as provide commercial benefits to Australia and New Zealand. To the extent that this effort is broadly consistent with US national interests, it may make sense to let Canberra and Wellington take the lead—though naturally they will set the agenda and be the primary beneficiaries of greater commercial benefits. It might be possible for the US to participate as an observer, or perhaps, eventually to join. The less trade-focused Indonesia-led Archipelagic and Island States Forum could be another venue through which the US could offer support.

If the point of a trade policy for the Pacific is to signal, to paraphrase President George H.W. Bush, “message: we care,” then some of these soft initiatives may be sufficient. But if one really wants to compete with China and address the trade and development needs of the Pacific Island states, then more concrete action is necessary. First and foremost, that means addressing the Pacific Island countries’ market access needs via an AGOA-type pact, renewed GSP, or a trade for climate deal, all which could be sold politically on national security grounds. The real constraint is political dysfunction in Washington. To quote the comic strip Pogo, “We have met the enemy and he is us.”

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