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# INSTITUTIONS AND TRADE IN PACIFIC ISLAND COUNTRIES

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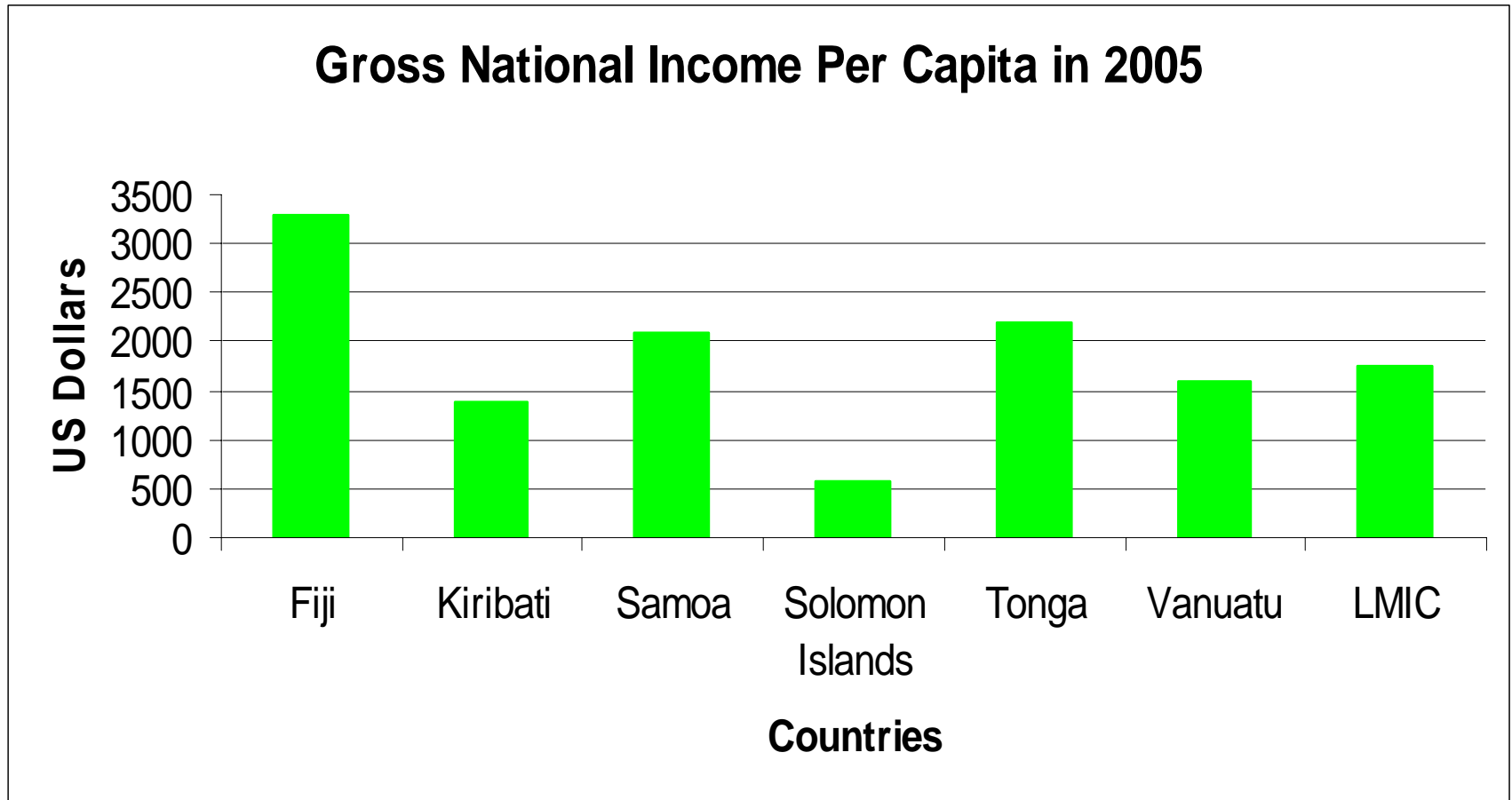


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# 1. PURPOSE AND FRAMEWORK

- To examine if institutional quality matters for trade in selected Pacific Island countries
  - 4 indicators are chosen and tested:
    - Government effectiveness
    - Regulatory quality
    - The rule of law
    - Control of corruption
  - Data: 1996-2004
  - Case of 6 Pacific Island countries
    - Fiji
    - Kiribati
    - Samoa
    - Solomon Islands
    - Tonga
    - Vanuatu
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## 2. DEVELOPMENT ACHIEVEMENT

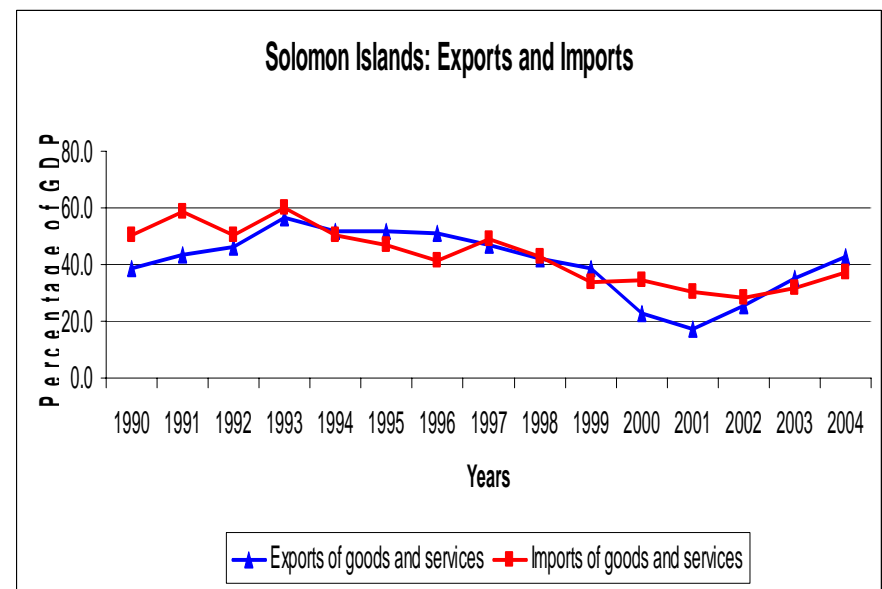
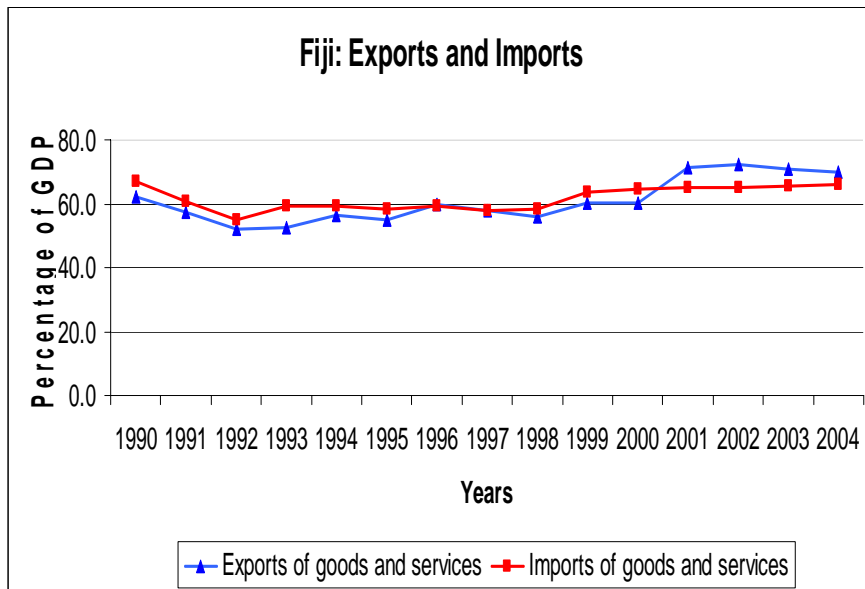


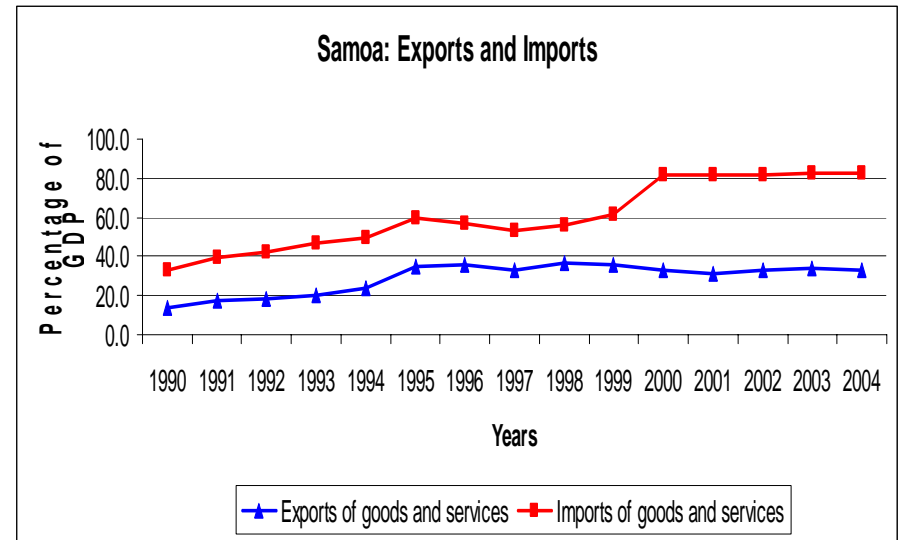
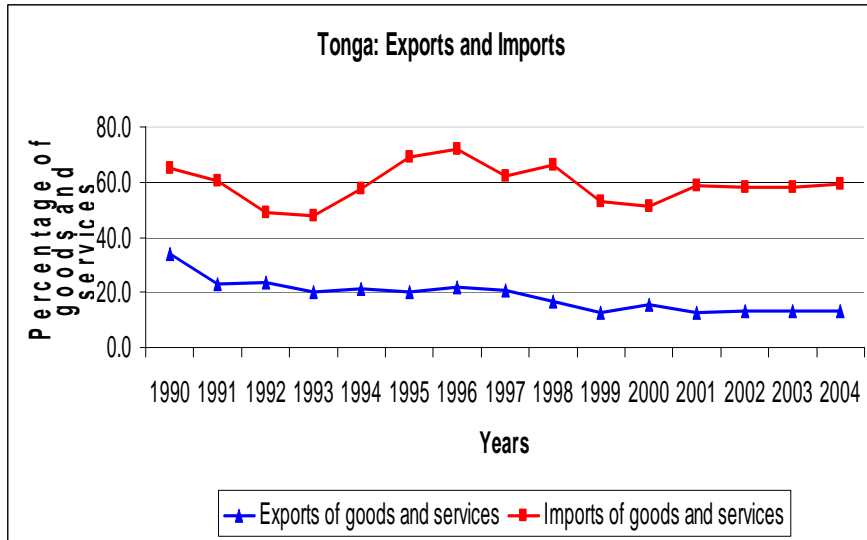
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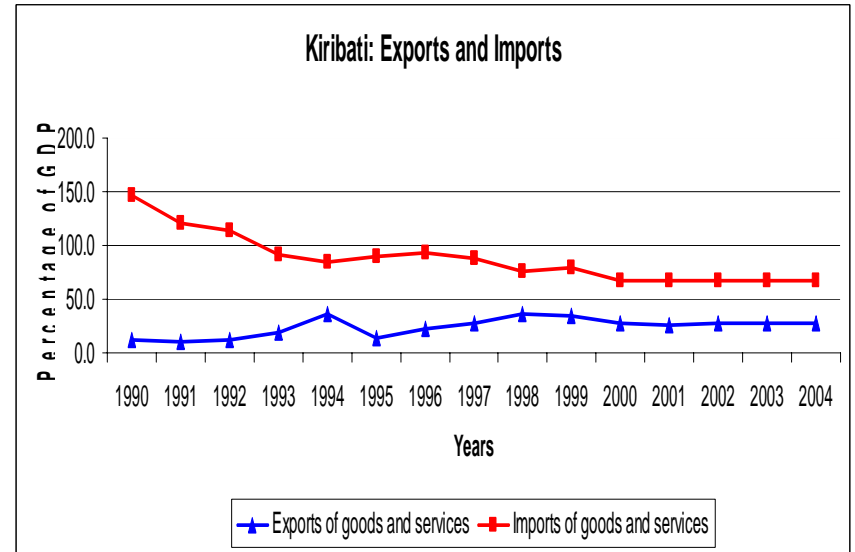
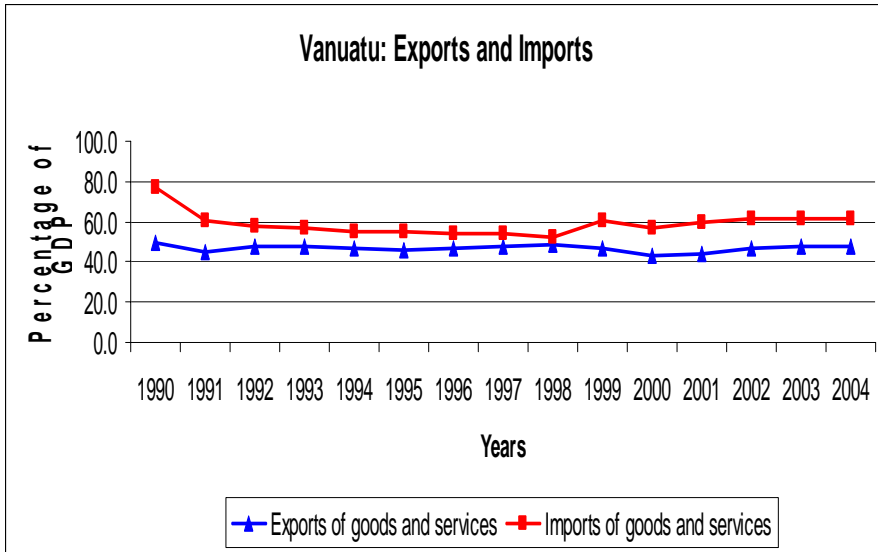
### 3. AN OVERVIEW OF TRADE IN PACIFIC ISLAND COUNTRIES

- Narrow export structures
  - Low ratios of exports to GDP
  - High ratios of imports to GDP
  - Inward oriented for long periods
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# 3.1 Exports and Imports (% of GDP)











### 3.3 Imports by SITC in 2004 (% of Total)

SITC	Fiji	Kiribati	Samoa	Solomon Islands	Tonga	Vanuatu
<b>Food and live animals</b>	<b>1.6</b>	<b>2.3</b>	<b>19.3</b>	<b>28.8</b>	<b>13.5</b>	<b>19.3</b>
Beverage and tobacco	0.1	0.0	1.4	0.0	<b>14.1</b>	<b>3.9</b>
Crude materials excluding fuels	0.1	0.0	<b>3.1</b>	<b>74.8</b>	<b>11.4</b>	<b>1.7</b>
<b>Mineral Fuels etc</b>	<b>1.5</b>	<b>0.0</b>	<b>17.8</b>	<b>0.1</b>	<b>19.3</b>	<b>13.1</b>
Animal, vegetable oils and fat	0.1	1.5	2.4	0.0	0.6	0.5
<b>Chemicals</b>	0.9	0.0	8.1	0.0	<b>4.9</b>	<b>10.9</b>
Basic manufactures	2.2	0.0	31.1	0.0	0.8	14.4
<b>Machines, transport equipment</b>	<b>2.5</b>	<b>0.0</b>	<b>23.8</b>	<b>0.0</b>	<b>15.3</b>	<b>21.4</b>
Miscellaneous manufactured goods	1.1	0.0	14.5	0.0	4.1	10.3
Unclassified goods	0.1	1.4	0.0	6.1	9.0	3.0

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## 3.4 Export and Import Markets

- **Export markets**

- USA
- Australia
- United Kingdom
- New Zealand
- Germany
- Japan

- **Newer export markets**

- Samoa, Tonga, Kiribati and Portugal for Fiji
- Indonesia for Samoa
- Korea, China and Thailand for Solomon Islands
- Korea for Vanuatu

- **Import markets**

- Australia
  - Singapore
  - New Zealand
  - Japan
  - USA
  - Fiji
  - China
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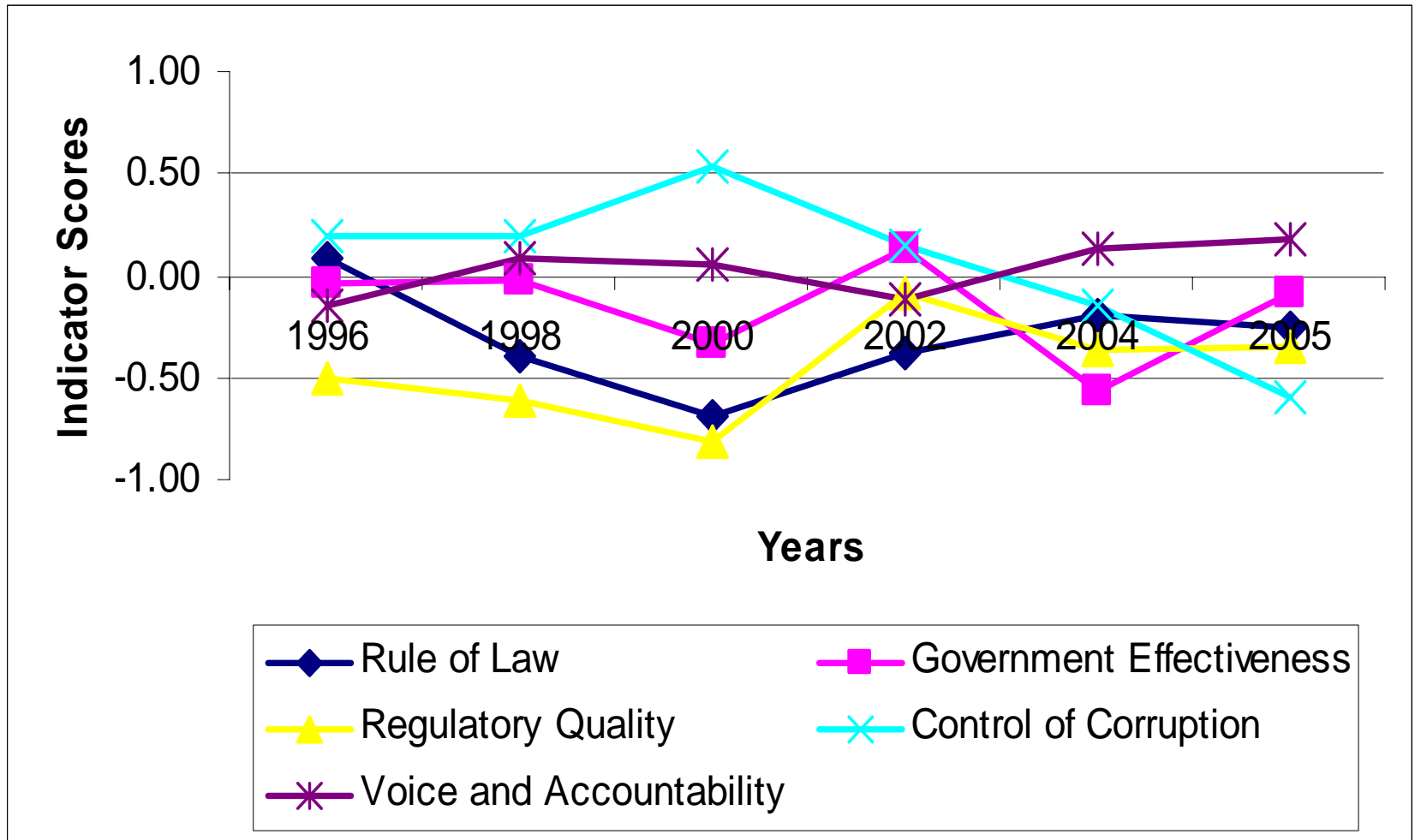
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## 4. INSTITUTIONS PACIFIC ISLAND COUNTRIES

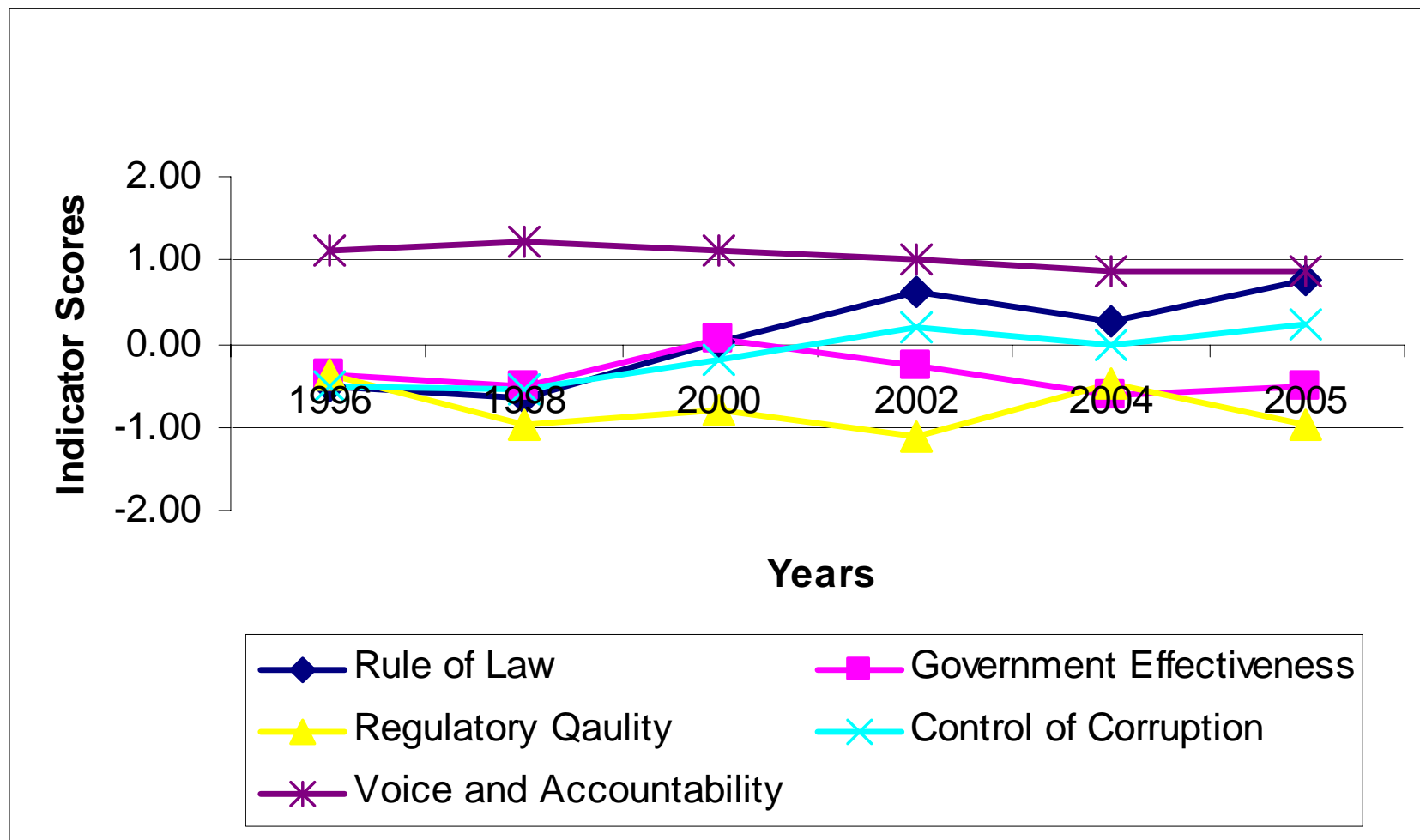
- Good institutions: core focus for PICs
  - The Pacific Plan (Forum Secretariat, 2005)
    - Economic growth
    - Sustainable development
    - **Good governance**
    - Security through regionalism
  - Pacific 2020 Report (AusAID, 2006)
    - Reform strategies have to give much more attention to institutions .... in establishing an environment that is conducive to economic growth
    - Several PICs scored on the low side when it comes to institutional quality
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# 5.0 INSTITUTIONAL ACHIEVEMENTS

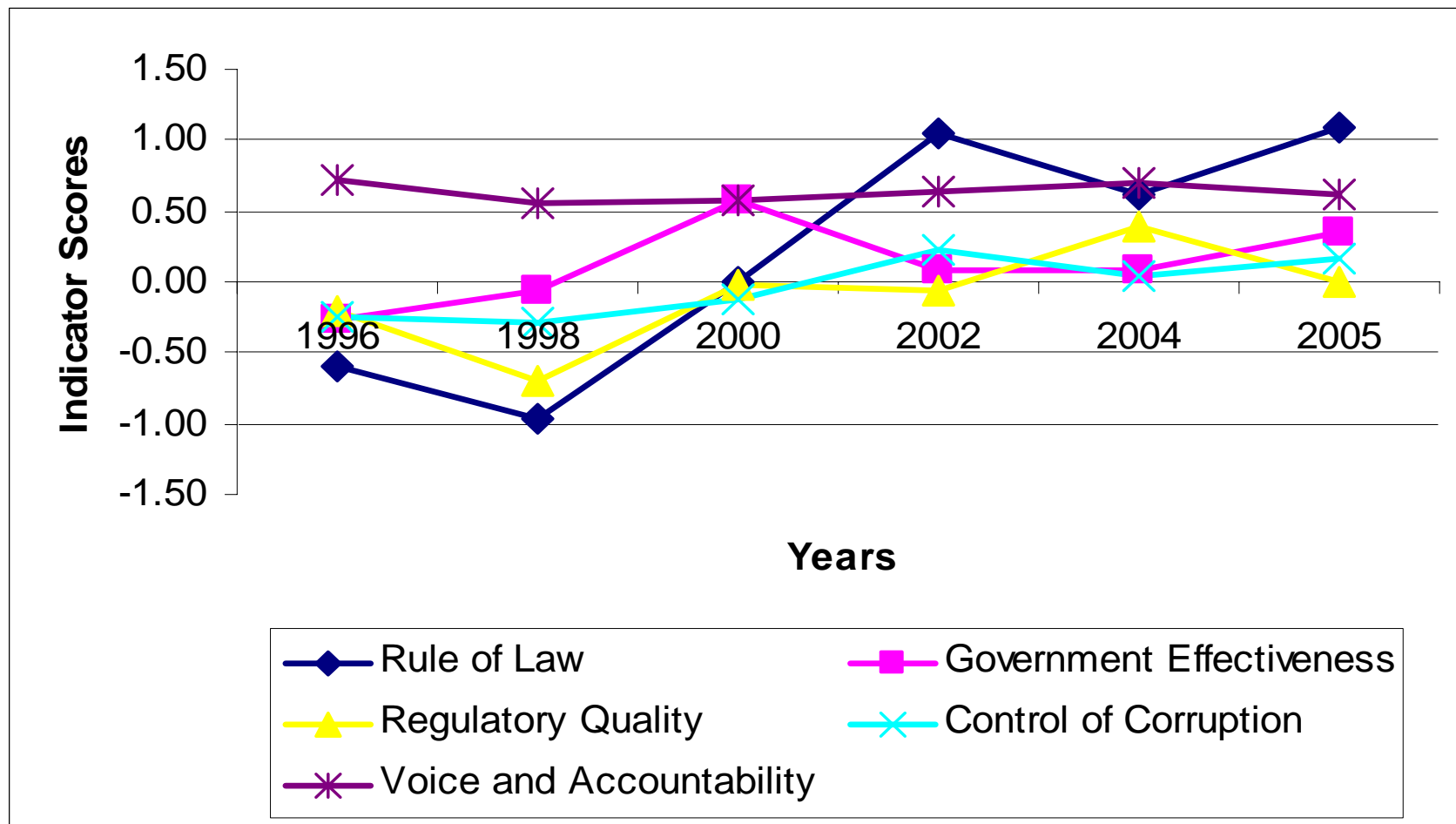
## 5.1 Fiji



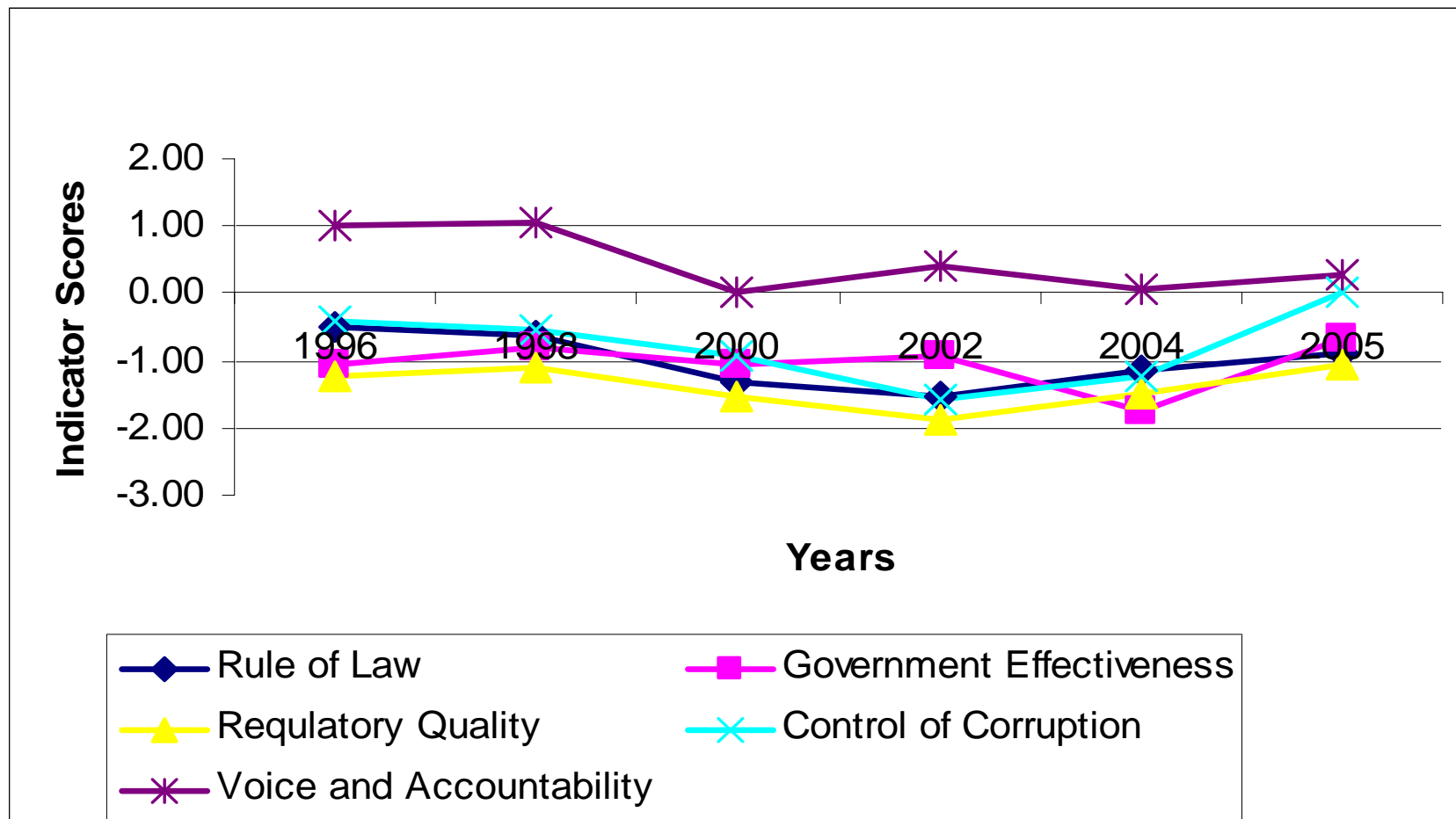
## 5.2 Kiribati



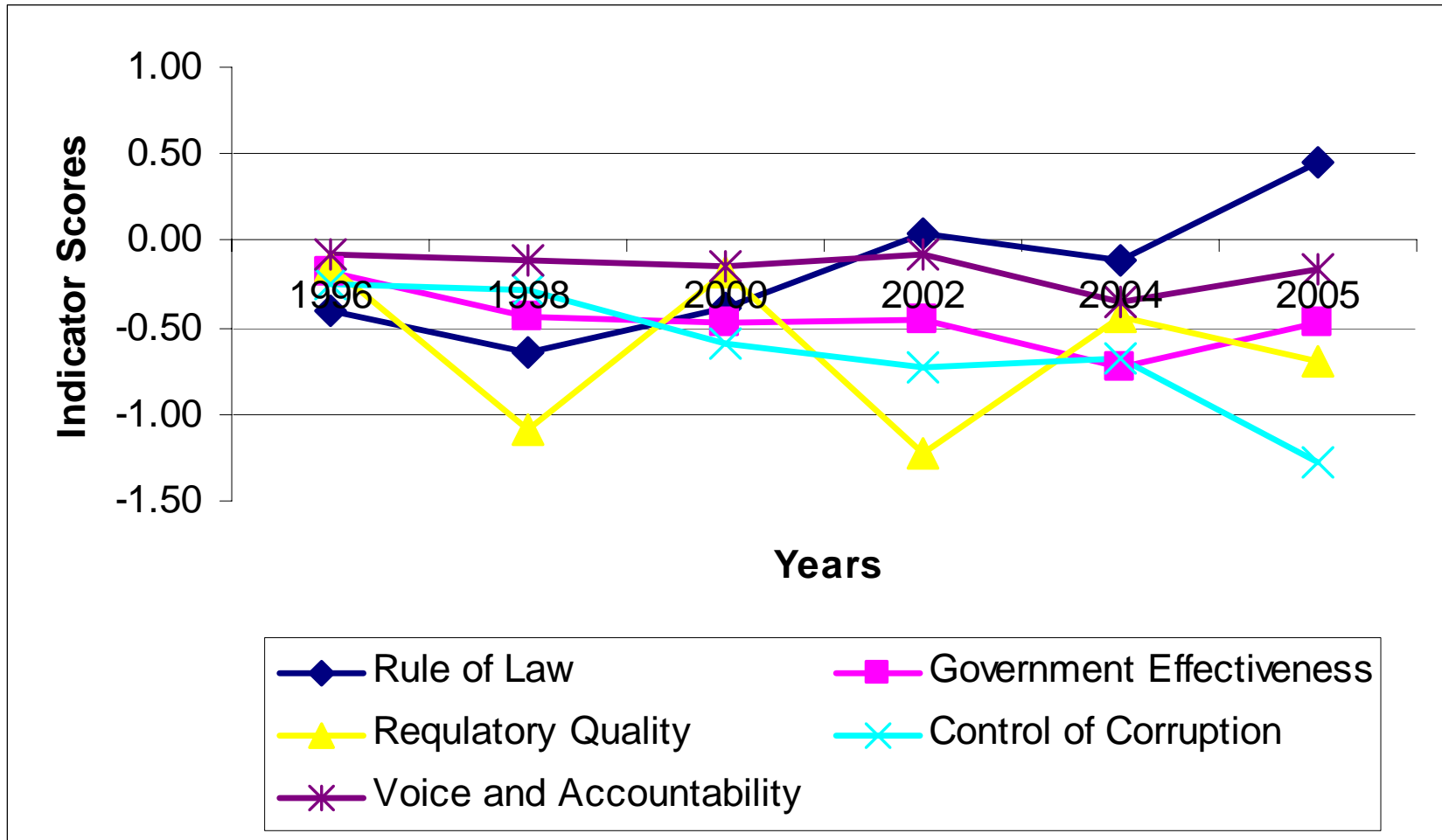
## 5.3 Samoa



## 5.4 Solomon Islands

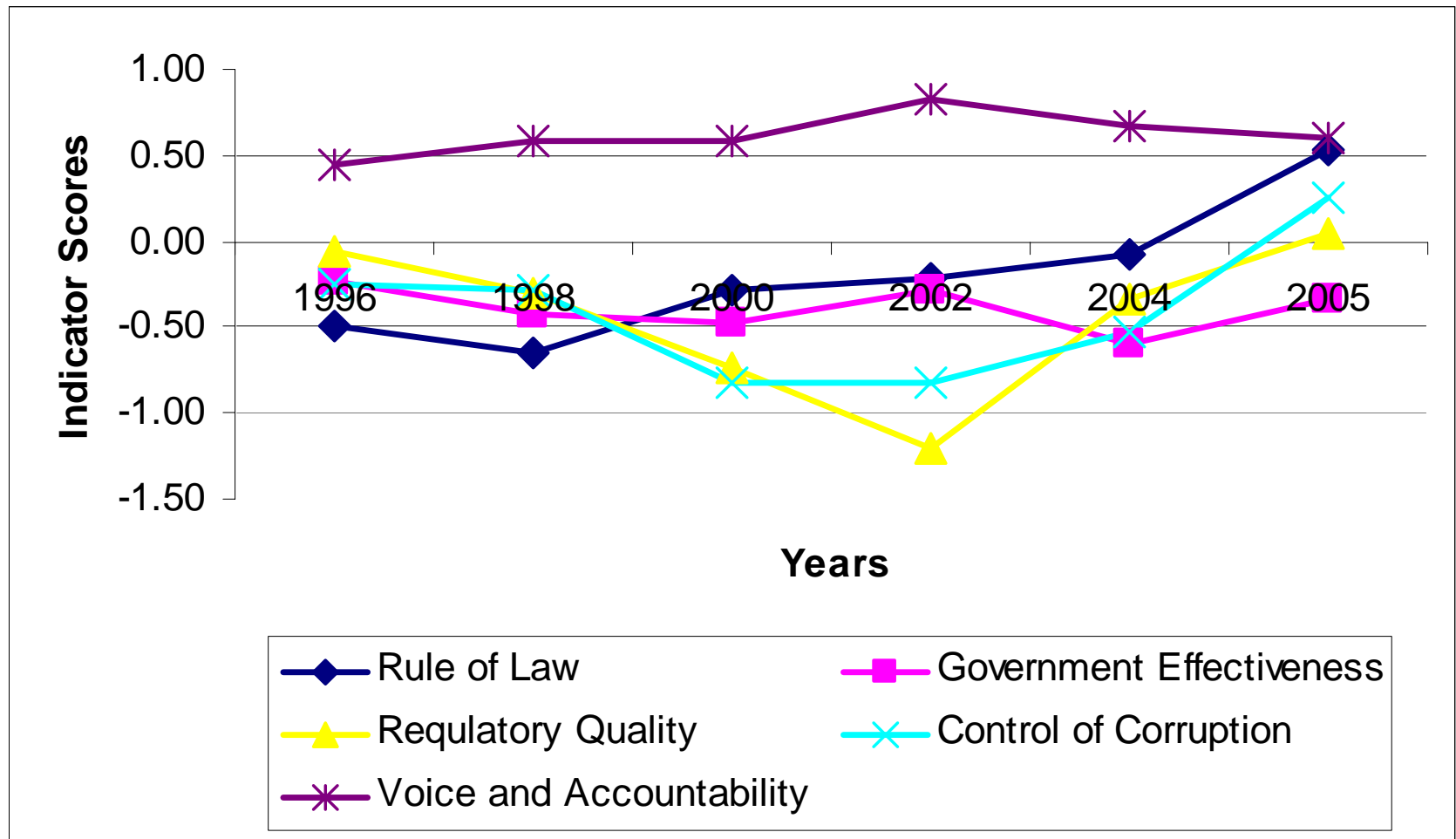


# 5.5 Tonga





## 5.6 Vanuatu



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## 6.0 LITERATURE

### 6.1 Theoretical Literature

- Institutions and economic progress (North, 1990)
  - Institutions fundamental market (Coase, 1998 and Rutherford, 2001)
  - Poor institutions reduce the total factor productivity of the economy (Hall and Jones, 1997)
  - Economies that protect property rights, that adhere to the rule of law and whose bureaucracies are relatively competent catch up to developed nations quickly (Keefer and Knack (1997))
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## 6.2 Empirical Literature

- Ill functioning institutions: hinders trade (Anderson, 2001)
  - Bad institutions: reduce the volume of trade (Anderson and Marcouiller, 2002)
  - Deterioration in institutions: low performance in terms of manufactured exports (Meon and Sekkat, 2004 and Achy and Sekkat (2003)
  - Lack of enforcement of contracts: reduce trade (Anderson and Young, 1999)
  - Main impediments to international trade: contract enforcement (Rodrik, 2002)
  - High trade intensity: lower corruption levels (Ades and Di Tella, 1999 and Wei, 2000)
  - Ill-functioning of institutions: increases both costs and risks of trading abroad (Anderson, 2001)
  - Deterioration institutions: reduces foreign demand (Anderson and Marcouiller, 2002)
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# 7. ANALYTICAL FRAMEWORK

- Fixed effects model correcting for AR(1) errors
  - Reduced form equation
  - *Control variables*
    - Per capita income
    - Exchange rate
    - Trade policy
    - Technology
  - *Institutional indicators*
    - Regulatory quality
    - Government effectiveness
    - Rule of law
    - Control of corruption
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## 8.0 RESULTS:

### 8.1 Institutional Variables

- *Government effectiveness*: matters more to importers than exporters
  - *Regulatory quality*: improved regulatory environment is essential as it positively facilitates increased levels of trade.
  - *Rule of Law*: the deterioration in rule of law seems to be working against improved exports for the Pacific Island countries.
  - *Corruption*: presence of corruption tends to reduce imports.
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## 8.2 Results: Control Variables

- *Real exchange rate*: provide weak confirmation that the appreciation of exporter's currency harms its exports.
  - *Technology*: strong support that higher levels of technological diffusion are vital for improved trade
  - *Trade policy*: The results confirm that being a member of WTO and living with the WTO principles of trade liberalization and becoming more outward oriented strongly facilitates more trade.
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## 9. CONCLUSION

- Institutional quality is an integral part of enhancing trade for a country
  - PICs have problems with the institutions that support or facilitate trade
    - There is now increasing realization that institutional factors may be the missing link
    - PICs ought to improve the institutional environment to enable the growth of trade
    - PICs would need to go beyond the study of various types of institutions to the quality of these institutions if they are to increase their export potential.
  - Improving institutional quality, especially those which are required to facilitate trade and investment.
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