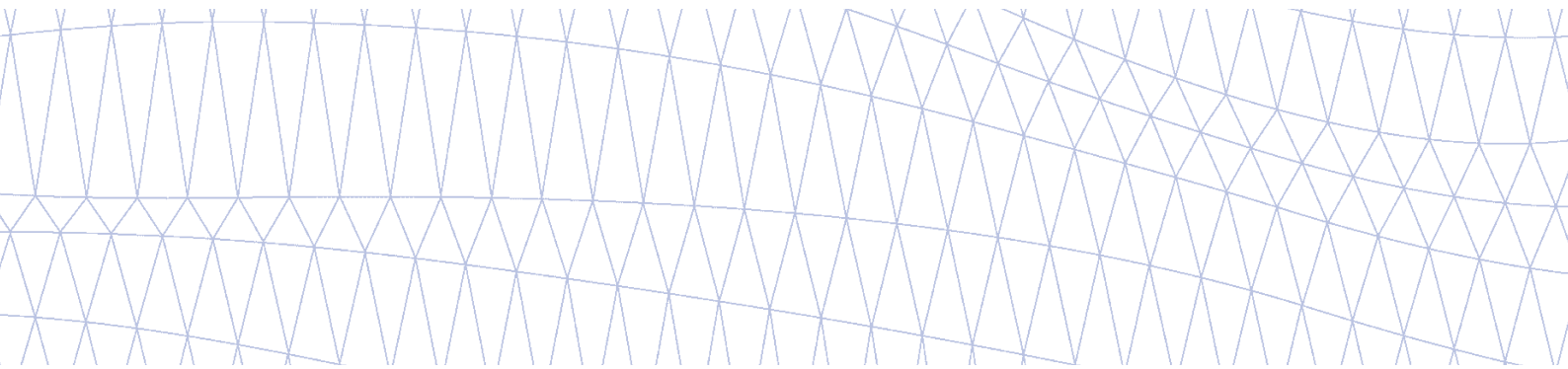




VANUATU GOVERNMENT | 2012 | TRADE POLICY FRAMEWORK



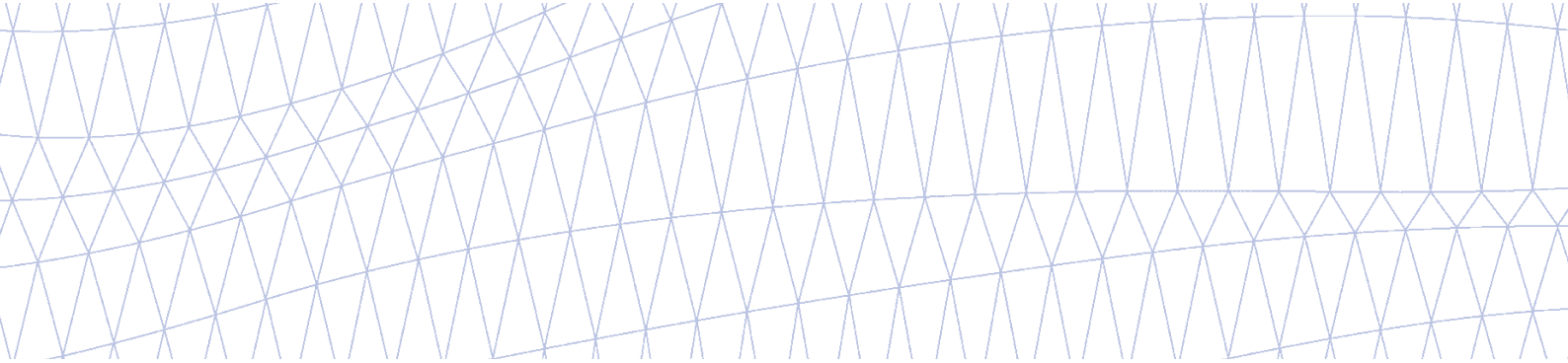




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The Vanuatu Trade Policy Framework has been drafted by Professor Biman Chand Prasad and Doctor Andrea Giacomelli under the direction of the Department of External Trade (DET), Ministry of Trade, Commerce, Industry, and Tourism (MTCIT). The realisation of this document has been possible thanks to the generous support provided by the Hub & Spoke Project, managed for the Pacific Region by the Forum Secretariat. Support from the Vanuatu Ministry of Trade, Commerce, Industries and Tourism and its partners is also acknowledged.

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It is with much pleasure that I am able to write a few words as a forward for the Vanuatu Trade Policy Framework document on behalf of the government and the people of Vanuatu. Indeed such a task calls for careful thinking, deep reflection and steadfast focus on a visionary path.

The thinking, reflection and resulting vision of the Vanuatu Trade Policy Framework is right for the country as it pleads a cause of the poor and needy, and supports the segment of our community who is working hard in trade and commerce.

Happy and content men and women of Vanuatu are not to be taken for granted for just like everyone else they have higher aspirations for better education, improved health and greater wealth materially, socially and spiritually. The Vanuatu Trade Policy Framework is one of the most valued and honourable attempts at setting the policy direction which the whole spectrum of the Vanuatu society can aim towards.

Economic and social changes at all levels do point out that policy decisions must be firmly anchored to the careful understanding of mutable local dynamics. Vanuatu's trade in commodities and services is an inherent part of globalisation and Vanuatu's engagement with the international trade community is a testament to the changing environment around us. For Vanuatu, domestic trade and commerce is hugely significant but in the same vein, external markets for exports of Vanuatu's commodities and services are equally crucial. This policy framework recognises that an increased export will assist Vanuatu to trade herself out of poverty.

While the facts and recommendations do reflect on all manners of trade, it is obvious that a paradigm shift in public thinking and discourse on trade in commodities and services is required. To focus our attention on trade in

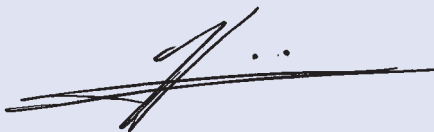
commodities is crucial as espoused in the Priority Action Agenda of the Vanuatu government. These commodities are generally sourced from the primary sectors of the economy - the sector that supports the majority of the Vanuatu people for food security, environmental sustainability, energy provision and, amongst other things, availability of land.

But at the end of the day, we cannot escape the powerful evidence calling for a much greater focus on trade in services. The huge opportunities that trade in services can provide to our people call for a decisive shift in the attitude of our government, away from complacent observation and towards proactive and convinced support.

Engagement with our trading partners and friends, our development partners and multilateral and regional organisations shall from now on also be guided by the vision set out by our Trade Policy Framework. It is thanks to this vision that developments in trade negotiations and aid for trade will increase their effectiveness to protect and promote our people

Like the human heart, busy processing blood, pulsing every second and growing the human body and intellect, Vanuatu's trade can only be a living aspect of our society - never resting, forever beating and busy always and productive to the end.

The Trade Policy Framework will aid the heart of our trade, commerce and industry, and so I commend it to the Republic of Vanuatu.



Hon Ham Lini Vanuaroroa
Deputy Prime Minister
Minister of Trade, Commerce, Industries and Tourism

29th June 2012

VI | EXECUTIVE SUMMARY

The limited size of Vanuatu's domestic market implies that development opportunities ultimately depend on its ability to penetrate foreign markets. A Trade Policy Framework defining a national consensus on trade-based growth policies will significantly help to achieve the ultimate purpose of an "educated, healthy, and wealthy" Vanuatu.

The objectives of the Vanuatu Trade Policy Framework are to: mainstream trade into Vanuatu's national development strategy; enhance development through increased exports of goods and services; guide and inform the workings of Vanuatu's National Trade and Development Committee; inform trade negotiations; and facilitate increased inflows of Aid for Trade (AfT).

Over the last decade Vanuatu's economic growth has been based on two sectors: services and construction. Within services, tourism-related activities are responsible for a significant share of growth. Construction services have benefited from both public and private investments. Equally important, prudent fiscal and monetary policy and a series of key reforms opening up previously restricted markets have been crucial to sustain strong economic growth. With public and private investments set to continue in the context of an improved business environment, the economic outlook for Vanuatu is therefore positive, subject to the pursuit of continuous prudent fiscal policy and further economic reform.

Whilst the contribution of services to Vanuatu's GDP is around two times higher than goods, over the past decade exports of services generated foreign exchange receipts which were around five times higher than those generated by goods. Tourism contributed for around 80 percent to Vanuatu's export of services. The future tourism performance will be dependent on the ability to reduce market of origin concentration and to create stronger economic linkages with the local economy. The performance of other services will be crucially dependent on the ability to design and implement an overarching services policy, which is currently missing. Vanuatu trade in goods continues to be focused on primary products. This exposes the substantial failure of the import substitution policy followed so far, whilst calling for targeted support to enhance productive capacity and add value of goods with significant export potential.

The Vanuatu Government has already in place a significant number of trade-related policies. The review of those policies, together with extensive national

consultations, has been instrumental to identify the key constraints, or barriers, preventing the further expansion of trade in goods and services (Barriers to Trade). The most significant Barriers to Trade existing in Vanuatu relate to lack of sufficient infrastructures, unresolved land issues, lack of a Competition Policy/Law/Authority, Customs procedures still dependent on a pool of untrained/uncertified private agents, inadequate concession contracts for stevedoring services, lack proper of facilities to deal with Sanitary and Phytosanitary (SPS) issues and with Technical Barriers to Trade (TBT), lack of productive capacity and inadequate education/training of the Ni-Vanuatu workforce. Vanuatu needs to tackle those barriers if it is to find its way out of poverty and into development by boosting exports.

Aid for Trade (AfT) represents one of the main tools available to the Vanuatu Government to address Barriers to Trade. Over the last decade Donor Partners came to increasingly appreciate the importance of eliminating Barriers to Trade. This is demonstrated by the fact that the steady increase in Official Development Assistance was mostly due to additional AfT funds - currently standing at around 50% of Official Development Assistance. Whilst AfT has so far privileged infrastructural projects it is recommended that Donor Partners positively consider the possibility of providing additional funds to the macro-area of productive sectors.

Trade negotiations can also be used to address Barriers to Trade. Negotiations are a complex tool to achieve a straightforward objective: boosting the domestic economy by facilitating specialization in areas of comparative advantage. Vanuatu needs to frame negotiating proposals aimed at eliminating key Barriers to Trade in those areas, in particular on services and labor mobility. On the goods side, offensive interests are more limited but benefits can be achieved if smart concessions on tariff liberalization are coupled with assistance to overcome Barriers to Trade related to Customs and SPS/TBT issues and to support truly infant industries.

Thirty one high-level recommendations conclude the Vanuatu's Trade Policy Framework. These include over-arching and sector-specific recommendations, recommendations to break specific Barriers to Trade, and recommendations on trade negotiations. These recommendations represent a comprehensive Trade Policy Framework suitable to guide public policy for the years to come.

A TPF can only result in the development of a coordinated approach to trade and converging trade rules and regulations. By creating a national consensus around a small set of well defined priorities, the TPF aims to set the right conditions to overcome existing deficiencies in trade planning and enhance the Government's capacity to formulate, coordinate and implement trade policies for the benefit of its own people. The TPF aspires to become the National Trade Constitution which will create the pre-conditions for the smooth and effective workings of Vanuatu's National Trade and Development Committee (NTDC, or Vanuatu's Trade Parliament).

The limited size of Vanuatu's domestic market implies that development opportunities ultimately rely on its ability to further penetrate export markets. A Trade Policy Framework defining a national consensus on trade-based growth policies could significantly help to achieve the ultimate purpose of an "educated, healthy, and wealthy" Vanuatu.

If accompanied by the necessary structural domestic reforms and the right policy mix, the TPF can play an important role in promoting export-led growth, which will in turn lead to higher standards of living and welfare.

1.1 Objectives

The objectives of this TPF are to:

1. Mainstream trade into Vanuatu's national development strategy including the Priority Action Agenda (PAA) or any future agreed national priorities;
2. Establish a policy platform that builds upon and coordinates sectoral priorities for the ultimate purpose of enhancing development through increased exports of goods and services;
3. Create the pre-conditions for the smooth and effective workings of Vanuatu's National Trade and Development Committee;
4. Play a vital role in articulating Vanuatu's trade interests and ensuring that these are reflected in trade negotiations; and
5. Facilitate increased inflows of Aid for Trade (AFT) for the purpose of implementing trade policies and assisting Vanuatu to fully exploit the opportunities offered by trade agreements and broader trade frameworks.

The TPF has undergone a comprehensive process of national consultations with Government stakeholders, private sector representatives, Donor Partners, and with a number of non-state actors. A list of those consulted is included in Appendix A.3. The framework was finally validated at a national workshop held in Port Vila on the 12 April 2012.

1.2 Structure

The TPF is structured as follows. Chapter 2 discusses growth trends over the past decades and presents a brief analysis of the sources of growth to identify whether economic fundamentals are strong enough to lay-down sound foundations for a successful trade policy.

Chapter 3 discusses trade performance in goods and services. It identifies the trends and patterns of trade by making use of a number of complementary data sources. Adequate care has been taken to address data consistencies and changes in accounting frameworks in consultation with relevant data agencies.

Chapter 4 summarizes key aspects of trade-related sectoral policies with a view to identify their major objectives and evaluating the extent of trade mainstreaming. The survey provides useful information on the constraints faced by the various economic sectors, in particular on Barriers to Trade (BTT).

Chapter 5 builds upon the survey undertaken in Chapter 4 and highlights the key BTT emerging from extensive national consultations. It recommends that national stakeholders jointly focus their interventions on addressing those barriers.

Chapter 6 is devoted to the analysis of Aid-for-Trade (AfT). It provides a brief summary of AfT trends in Vanuatu, at both aggregate, donor, and purpose code level. It also presents some recommendations for Donor Partners to increase AfT's effectiveness in addressing BTT.

Chapter 7 briefly discusses how BTT could be overcome via trade negotiations. It also provides policy recommendations on the formulation of a pragmatic agenda for trade negotiations.

Chapter 8 concludes by providing a broad summary of the TPF and presenting high-level recommendations that were accepted by national stakeholders and which therefore can be seen as representing the emerging *National Trade Constitution*.

This section presents an economic outlook of Vanuatu over the last decade. It also summarizes the sources of economic growth and indicates whether Vanuatu's current trends appear sustainable over the short to medium term.

The Trade Policy Framework aspires to become the
National Trade Constitution which will create the
pre-conditions for the smooth and effective workings
of Vanuatu's National Trade and Development
Committee (or Vanuatu's Trade Parliament).

2.1 Economic Activity and Performance

Vanuatu hosts a population of approximately 250,000 people comprising mainly of Ni-Vanuatu on a total land area of 12,190 square km. Over the last decade, the annual population growth rate has been 2.3 percent. The recently drafted National Population Strategy proposes options to lower this trend rate. Agriculture is the economic activity which directly supports around 75% of the local population, whilst the services sector makes-up most of its Gross Domestic Product (GDP).

Over the last decade Vanuatu’s economic growth has been based on two sectors: services and constructions.

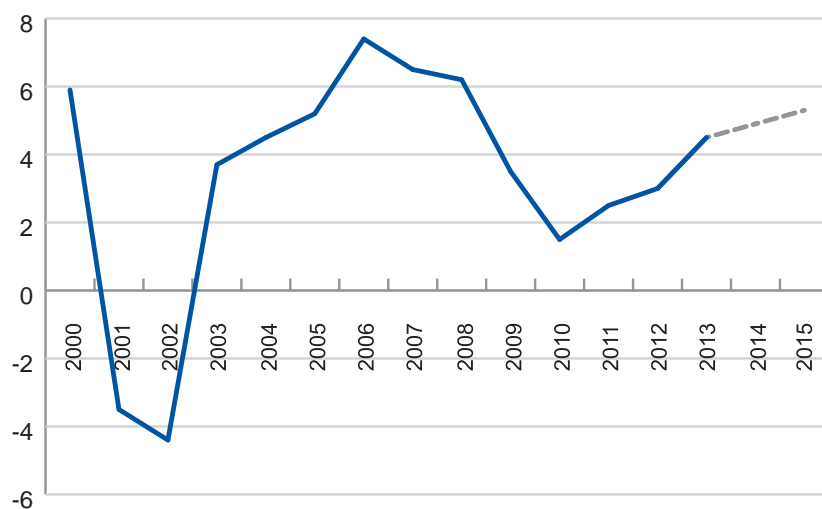
These are: (i) the islands are widely scattered and mountainous; (ii) highly vulnerable to natural disasters; (iii) long distance from major markets; (iv) dependent on small domestic market; and (v) faces volatile trade prices with narrow export base. These include: Fiji, Tonga, Western Samoa, Papua New Guinea and the Solomon Islands. Source: UN National Accounts (2012).

As others countries in the region, Vanuatu faces a number of structural socio-economic constraints . Despite this, over the last decade the growth rate of Vanuatu’s real GDP has averaged 3.4 percent (see Figure 2.1). By regional standards, this is commendable if we consider that other major Pacific Island Countries (PICs) only averaged 2.1 percent over the same period . Vanuatu’s Ministry of Finance and Economic Management (MFEM) estimates a growth rate of 2.5 percent in 2011 and subsequent acceleration through to 2015.

Figure 2.1

Figure 2.1
REAL GDP,
ANNUAL
GROWTH RATE,
PERCENTAGE
CHANGE

Source: MFEM (2012)



2.2 Supply and Demand

The sectoral composition of GDP over the period 2000-2011 is presented in Figure 2.2. Although agriculture is the economic activity which directly supports around 75% of the local population its contribution to national GDP is just around 20%. Most of Vanuatu's GDP is service oriented (69% on average over the period 2000-2011). *Figure 2.2*

Within the industry sector (10 percent of GDP on average over the period 2000-2011), Vanuatu has a very narrow manufacturing base (4 to 5 percent of GDP). The small contribution of agriculture and manufacturing, in general, indicates that value addition activities are still at an early stage. As noted by the Vanuatu's Industrial Policy this also indicated a substantial failure of the import substitution policy followed by the Government since independence.

A closer investigation to the services sector shows that about 15 percent of GDP is generated by wholesale and retail trade and 12 percent by government services. Transport, communication, financial, real estate and food/accommodation services each generate a proportion of GDP between 4 and 7 percent.

The MFEM data also show that the services sector also happened to be the largest contributor (68%) to economic growth between 2000 and 2010. The agricultural contribution to economic growth (about 15%) was mostly imputable to crop production, whilst the industrial contribution was mostly due to constructions.

Analysis of aggregate expenditure using data from the UN National Accounts (2012) shows that over the period 2000-2011 the bulk of spending (68%) was on private consumption. Investment's share was 23%, whilst the share of Government recurrent expenditure was 14%. The share of merchandise exports was 49%, whilst the share of merchandise imports was 55%: this highlights Vanuatu's structural imbalance in merchandise trade, something that will be further analyzed in the following chapter. From a dynamic point of view, public expenditure steadily reduced its contribution to GDP growth, although it continued to increase in absolute values. The same is true for private consumption. On the other hand, the contribution from public and private investments almost doubled over the relevant period (from 17% in 2001 to 30% in 2010).

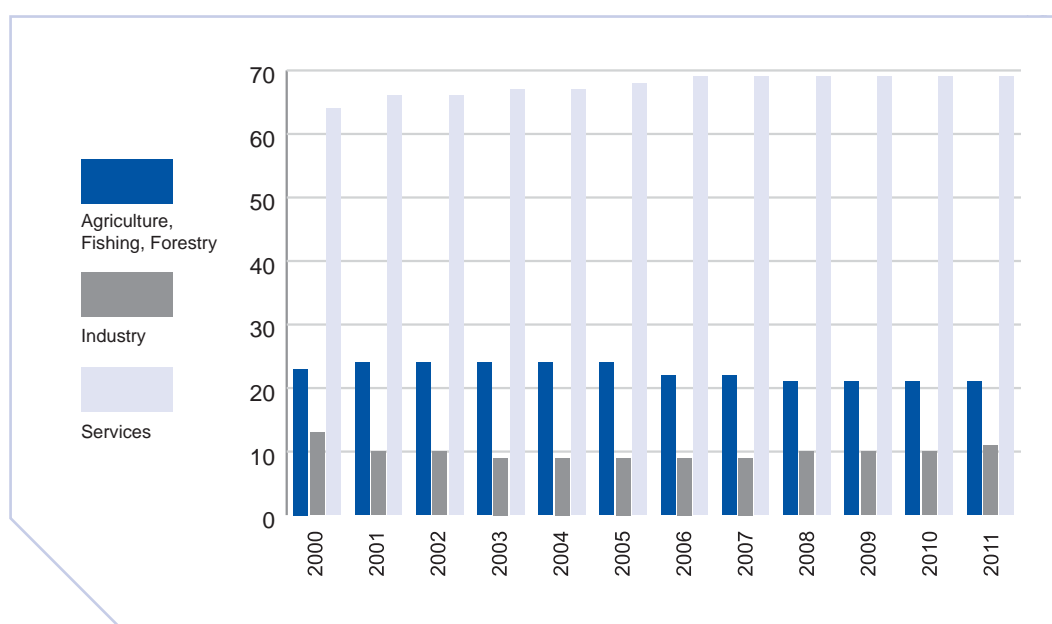


Figure 2.2

COMPOSITION OF
GDP, PERCENTAGE

Source: MFEM (2012)

2.3 Other Economic Fundamentals

Other macroeconomic fundamentals are also relevant when gauging Vanuatu's development prospects. These can be summarized as follows:

1. A prudent mix of fiscal and monetary policy allowed Vanuatu to stem inflation and improve its fiscal position. Vanuatu has also maintained a healthy level of foreign reserves.
2. Financial sector reforms have seen the entry of a new commercial bank and an increase in credit to the private sector. Year-on-year credit growth reached almost 50 percent in February 2009 before stabilizing from February 2010 onwards at a relatively strong average of around 14 percent. Credit growth in Vanuatu has therefore remained relatively robust in the face of the global financial crisis through to 2012. Market-oriented microfinance programs were also implemented over the past decade which helped to further increase liquidity in Vanuatu.
3. Deregulating access for international airlines has improved competition and resulted in increased tourism activity (trade in services) which has played a crucial role in maintaining the trade deficit at an acceptable level.
4. The opening up of the telecommunications sector has provided greater and cheaper access to mobile phone communications and improved Vanuatu's business environment.

The continuation of a positive outlook for the medium to long term is crucially dependent on the implementation of sound policies for self-sustained growth not only in the services sector, but also in agriculture/forestry/fisheries and manufacturing, in particular through value addition.

5. A number of reforms have been undertaken to create an environment that is more conducive to business and to remove barriers to business start-ups and operations – such as streamlining the process to obtain a business license, to approve foreign investments, to register foreign companies, etc.
6. Funding from the Millennium Challenge Corporation (\$66 million over a five year period) boosted Vanuatu's infrastructure development. Donors are further increasing their focus on infrastructure development, and a series of major infrastructural projects are being implemented or are in the process of being implemented - urban infrastructures, shipping, road and air transport. As a result, investments (and the contribution of constructions to GDP growth) are set to increase over time – as acknowledged by the Vanuatu 2011 Budget statement.
7. A cornerstone of solid macroeconomic performance has been good governance - Vanuatu has improved on political stability, rule of law, and corruption (see Kaufmann and Mastruzzi, 2008).

8. The Vanuatu’s Labor Market Assessment (2011) indicates the formal economy is growing at approximately 1500 jobs per year, whilst around 4000 people enter the labor market each year. The move away from traditional to modern society requires even faster rates of economic growth in sectors where a relevant number of locals can be productively employed - agricultural processing, tourism, etc. – and possibly the opening of increased overseas employment opportunities.
9. Vanuatu’s vulnerability to sudden withdrawals of Donor Partners’ funds appears to be high. It is agreed that in addition to domestic factors, the impressive growth and macroeconomic performance is also due to significant foreign aid, which is at around 8.2 percent of GDP in 2009. A quick look at the 2011 Budget reveals that most of the economic growth forecasted for the next 3 years is related to the construction sector, an area whose performance is strongly dependent on the amount of donor support. In absence of policies for self-sustained growth, the continuation of current positive trends can therefore be at risk in the medium term.
10. Since 2008 Vanuatu’s fiscal position has been slowly deteriorating. Fiscal deficits during periods of economic expansion are not advisable as they endanger macro-economic stability – a precondition for sustainable economic growth. Figure 2.3 shows that the increase in ODA flows has been coupled with increasing deficits over the last 3 years. When computing fiscal balance by just considering primary recurrent government revenue (excluding grants), the deficit figures look worrisome, at around 6 percent of GDP in 2011. Recent government deficits requiring domestic financing through issuing government bonds have also highlighted the need for better coordination with the Reserve Bank to ensure liquidity conditions (and in turn interest rates and inflation) are not adversely affected. *Figure 2.3*

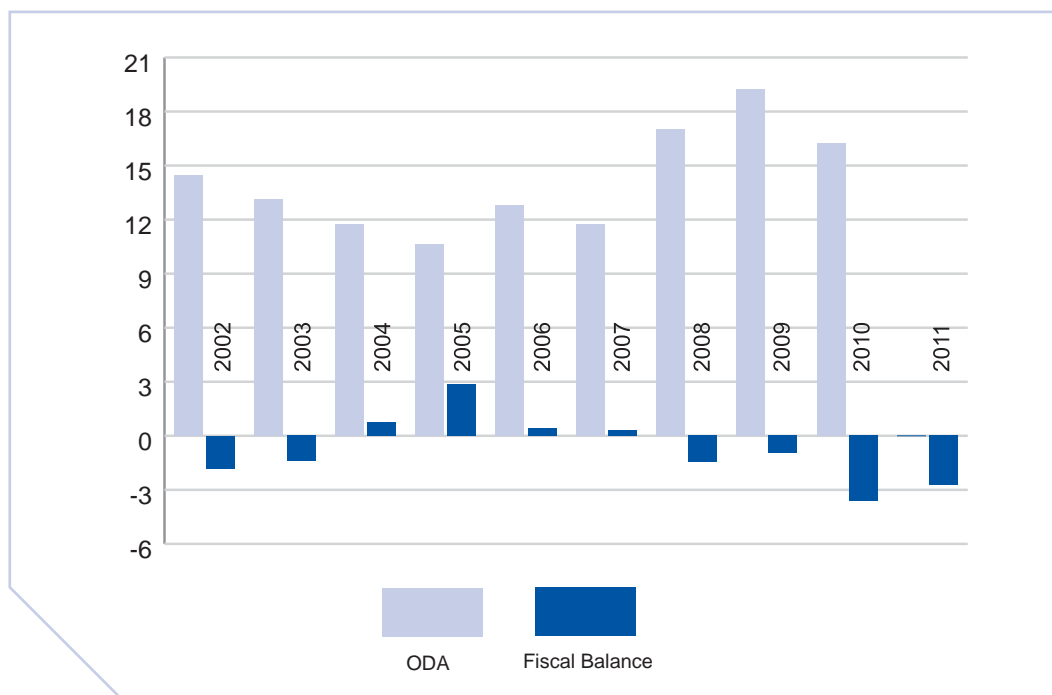


Figure 2.3
FISCAL BALANCE AND OFFICIAL DEVELOPMENT ASSISTANCE, PERCENTAGE OF GDP

Source: MFEM (2012) and OECD (2012)

2.4 Conclusions

Over the last decade Vanuatu's economic growth has been based on two sectors: services and constructions. Vanuatu's geographical isolation, together with the inability to increase supply and the lack of significant value adding activities have contributed to the marginalization of agriculture/forestry/fisheries and manufacturing. Within services, tourism-related activities are responsible for a significant share of growth. Vanuatu's financial services remain significant, but stable, whilst the share of value added by telecommunications has increased by 50% as a result of liberalization policies. Constructions have benefited from both public and private investments. Whilst private investments have been focused on tourism related activities, public investments have targeted infrastructural projects which are instrumental to the elimination of key economic constraints. Equally important, prudent fiscal and monetary policy and a series of key reforms opening up previously restricted markets (noticeably air transport and telecommunications) have been crucial to sustain strong economic growth.

With public and private investments set to continue in the context of an improved business environment the short-term economic outlook for Vanuatu is therefore positive. The continuation of a positive outlook for the medium to long term is crucially dependent on:

1. the re-establishment of a prudent fiscal policy and enhanced coordination with monetary policy;
2. further pursuit of the economic reforms to improve business environment; and
3. the implementation of sound policies for self-sustained growth which build upon the enhanced infrastructural endowment to foster private sector development, not only in the services sector, but also in agriculture/forestry/fisheries and manufacturing, in particular through value addition.

Given the limited size of the domestic market, private sector development ultimately calls for the need to increase export of goods and services. A description of merchandise and services trade is addressed in the following chapter.

CHAPTER 03 | TRADE IN GOODS AND SERVICES

3.1 Overview

Data on Vanuatu's trade performance are reported in Table 3.1. Over the period 2002-2010 Vanuatu's merchandise exports increased by 77% while imports increased by 115% leading to a significant deterioration of balance on trade in goods, from a deficit of VT 8 billion in 2002 (59% of total merchandise trade) to VT 18 billion in 2010 (65% of total merchandise trade). Import trends were due to both economic growth and the rapid pace of economic expansion of import-intensive sectors (tourism and constructions). Observed trends in goods indirectly reflects the existence of a number of Barriers to Trade (BTT) whose details will be discussed later in the report.

On the services side, the situation is completely opposite. Whilst export of services increased by 115% during the period 2002-2010 (from VT 13 billion to VT 27 billion), services import grew by a more modest 71% (from VT 7 billion to VT 12 billion). As a result, trade surplus increased from VT 5 billion in 2002 to VT 14 billion in 2010. During this period, export of tourism services averaged 70% of total services export. Telecommunications, financial, and business services also recorded positive, although less significant growth rates.

Favorable trends in services, coupled with a substantial balance of the Income Accounts (which, inter-alas, records currency movements originating as a result of assistance from Donor Partners) contributed to counterbalance the structural deficit originating from trade in goods and to maintain Current Accounts deficits at an average level of around VT 4 billion. [Table 3.1](#)

Table 3.1 VANUATU'S TRADE PERFORMANCE, VT MILLION *Source: Reserve Bank of Vanuatu (2012)*

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance on Trade in Goods	-8,117	-7,949	-8,398	-10,215	-11,459	-14,993	-22,641	-20,482	-18,583
Exports	2,793	3,249	4,264	4,166	4,166	3,040	4,230	5,887	4,947
Imports	10,910	11,198	12,662	14,381	15,625	18,033	26,871	26,369	23,530
Balance on Trade in Services	5,342	5,741	6,282	6,941	8,055	11,633	12,342	14,622	14,506
Services credit	12,707	13,664	14,226	16,094	17,435	20,910	23,594	26,094	26,743
Services debit	7,365	7,923	7,944	9,152	9,380	9,277	11,252	11,472	12,237

3.2 Trade in Goods: Exports

Analysis of exports data is problematic. Whilst national export data are substantially unreliable, the use of mirror data is affected by the current open-registry fishery policy which artificially inflates export values of Vanuatu's fish (Harmonized System (HS) chapter 3), machinery, vessels and parts thereof (from HS chapter 70 to 96). On balance, it was agreed that mirror data depurated from the inflated chapters (HS 3, and HS 70 to 96) provide a more reliable picture of Vanuatu's exports and these have therefore been used for the purpose of this analysis. Data are presented in Appendix A.1.

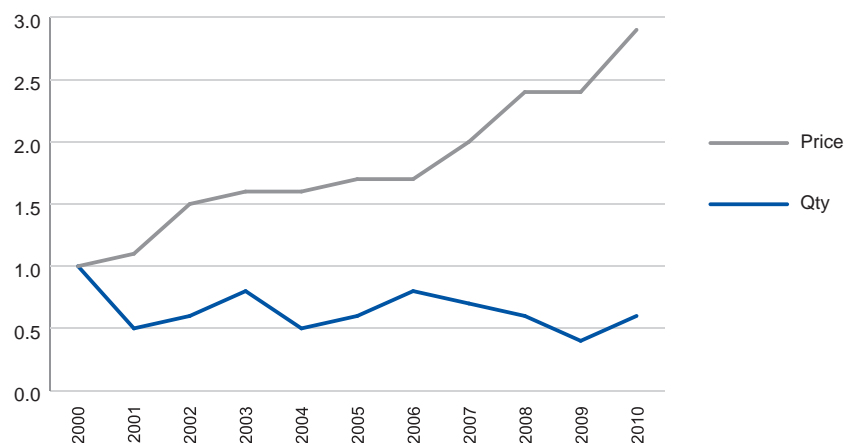
Over the past decade exports of services generated foreign exchange receipts which were around five times higher than those generated by goods.

Copra still remains Vanuatu's main export commodity, although as a percentage of total exports it declined substantially, from 39% in 2000 to 21% in 2010. The decline in the relative weight of copra was matched by an increased visibility of coconut oil, whose share increased from 3% in 2001 to 19% in 2010, to become Vanuatu's second most important export commodity. Whilst the joint share of copra and coconut oil remained stable at around 40%, export dynamics highlighted above clearly show that Vanuatu was able to add value in this area. The coconut oil exported from Santo crucially contributed to this positive trend of value addition. Kava, cocoa beans, seaweed, meat, and timber represent the other main export commodities, with average shares of 10.5%, 10.3%, 7.0%, 5.6% and 2.1% respectively. Whilst shares for kava, cocoa beans, and seaweed followed an upward trend over the observed period, the shares of meat and timber steadily declined.

It is worth noting that prices for cocoa beans, meat and to a lesser extent kava showed sharp increases over the past 10 years. However, ironically, Vanuatu was not able to benefit from these trends as shown by the decline in exported quantities. This finding clearly highlights serious capacity constraints that need to be overcome if Vanuatu is benefit from trade. Aggregate trends (index numbers) for cocoa beans and for meat are shown in [Figure 3.1](#).

Figure 3.1
AGGREGATE
TRENDS FOR
COCOA BEANS AND
FOR MEAT, INDEX
NUMBERS

Source: elaborations from
WITS (mirror data)



It is also worth noting that none of the higher value-added products presents a significant export share. On the other hand, many of these products registered above the average growth rates over the last decade. Fast-growing products include essential oils, meal of root crops, coffee, medicaments, food preparations, and art crafts.

Amongst the five top export destinations Europe detains the bigger share (29.5%) followed by Japan (9.5%), New Caledonia (8.5%), Philippines (7.5%) and Fiji (7.3%).

3.3 Trade in Goods: Imports

Vanuatu's imports are shown in Appendix A.2. Trends show that imports have increased from all major sources. Five countries of origin provide Vanuatu with around 75% of its imported goods. The last decade saw a substantial stability of Australia and New Zealand's positions (average shares of 37% and 17% respectively), a decline of France (average share of 4.1%), and an increase of China and Fiji (average shares of 8.0% and 7.8% respectively). Statistics on imported goods reflect the Vanuatu's limited manufacturing base. On average, import of appliances represents 17% of total imports, followed by chemical products (15%), and food/beverages (12.5%). These three categories make up around 50 percent of Vanuatu's total imports. It is also worth noting the significant import share detained by vegetable products (8%), an area with significant linkages to the tourism industry and where Vanuatu might wish to explore options to increase domestic supply capacity.

The upward trend in total imports is unlikely to change as Vanuatu does not have either the capacity or the resources to substitute many imported goods. From a longer-term perspective, it is also clear that indiscriminate policies of import substitution have substantially failed to achieve any significant result. Over the past 30 years, tariff protection and duty exemptions for manufacturing businesses without linkages to the primary sector have failed to transform those businesses in leading exporters.

As acknowledged by the Vanuatu's Industrial Policy (2011), the Government needs to move away from indiscriminate import substitution and towards targeted support to sectors with significant growth potential (those linked to domestic primary production and with adequate production factors). Some of those *truly infant industries*³ were identified in section 3.2 of this policy framework. A more comprehensive treatment of Vanuatu comparative advantages can be found in Pacific Institute for Public Policy (2009).

3.4 Trade in Services: Tourism

Tourism services are the main contributor to Vanuatu's exports. Tourism expenditure as percentage of GDP increased from 26 percent in 2002 to 33 percent in 2010 (RBV, 2012). Over the past decade exports of tourism services alone generated foreign exchange receipts which were around four times those generated by merchandise exports - VT 15 billion on average over the period 2002-2010, see Figure 3.2. Moreover, average growth in tourism receipts (10%) was much higher than that of receipts from merchandise exports (6.6%).

³ The term *truly infant industries* refers to high growth and export potential activities with strong linkages to the primary sector and where process of value addition is still at an initial stage, or has still to be fully explored.

Data on export earnings are mirrored by trends in visitor arrivals – see *Figure 3.3*. Over the period 2000 to 2010 total visitor arrivals doubled from just fewer than 110,000 in 2000 to over 240,000 in 2010. As receipts more than doubled over roughly the same period this indicates an increased sophistication and value addition of the Vanuatu’s tourism product. *Figure 3.2*

Figure 3.2
EXPORT OF
TOURISM SERVICES,
VT MILLION

Source: Reserve Bank of
Vanuatu (2012)

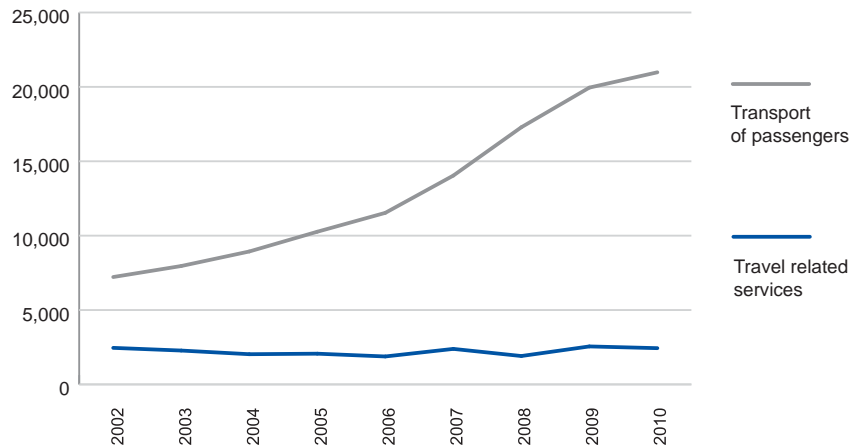
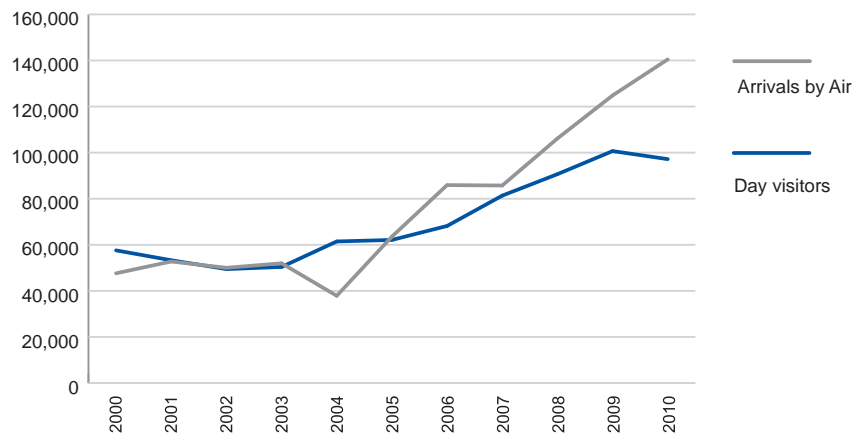


Figure 3.3
TOURISM ACTIVITY,
ARRIVALS AT THE
BORDER

Source: Vanuatu National
Statistical Office (2011)



Vanuatu also increased its relative tourism attractiveness during the observed period. This can be captured by noting that whilst world tourism air departures increased by around 29% between 2000 and 2009⁴, Vanuatu’s arrivals by air increased by a remarkable 75% over the same period. It is noted that dynamics for same-day visitors (cruise ship visitors) were even more favorable than those of arrivals by air.

On a less positive note, Vanuatu’s tourism appears to be highly concentrated as arrivals from the three main countries of origin added up to 84% of total visitors in 2000. Australia dominated the market with a share of 64%, followed by New Zealand (14%), and New Caledonia (7%). Concentration remained broadly unchanged in 2010. It is also noted that the greatest majority of tourism activities currently take place in the urban areas (notably in Port Vila), although current statistics are unable to provide an accurate picture of rural tourism.

⁴World Bank Development Indicators (2011)

In this context, policies to reduce tourism concentration by capturing visitors from new potential markets (notably Asia) need to receive due attention from the tourism industry. Strategies to further increase value addition by increasing linkages between tourism and the local economy should also be actively pursued, including options to increase tourists' consumption of local products. The recent project of waterfront regeneration for Port Vila appears to provide good opportunities for increased value addition. Any waterfront upgrades and beautification in Luganville, Santo, may also provide similar opportunities.

The future tourism performance will be dependent on the ability to reduce concentration and to create stronger economic linkages with the local economy. The performance of other services will be crucially dependent on the ability to design and implement an overarching services policy.

3.5 Trade in Services: Labor Mobility and Remittances

Temporary labor mobility schemes have become an important development tool for Vanuatu. The country is currently part of two labor mobility schemes related to the agriculture/horticulture sector: the New Zealand's Recognized Seasonal Employer (RSE) scheme and the Australian Pacific Seasonal Workers Pilot Scheme (PSWPS).

Vanuatu joined the RSE scheme in 2007. The number of contracts awarded under the scheme (proxy for the number of workers involved) increased steadily from 306 in 2007 to a record 2380 in 2011. According to the Vanuatu's Annual Development Report 2010 (2011) two surveys were conducted to estimate net remittances from Ni-Vanuatu participants to the RSE. The results of the surveys indicated in between VT 425,530 and VT 270,298 the mean net returns from RSE participants. Using the average of the two figures (VT 347,914) it is therefore estimated that RSE remittances grew from VT 106 million in 2007 to VT 828 million in 2011.

The PSWPS was announced by the Australian Government in 2008. The Pilot will run until 30 June 2012. The recent PSWPS review has resulted in the confirmation of the scheme and its pilot extension to a numbers of new sectors.

The number of contracts awarded to Ni-Vanuatu under the Australian scheme has been very disappointing over the first two years (six in 2009 and four in 2010). The number of contracts increased to 58 in 2011. Using estimates for the RSE scheme, remittances from PSWPS increased from around VT 2 million in 2009 to around VT 20 million in 2011.

Based on the above estimates labor mobility is currently generating around VT 850 million per year to Ni-Vanuatu workers⁵. This already represents a significant source of revenue, as it broadly corresponds to around 20% of the total benefits generated by the tourism industry⁶.

Tourism and fishing activities may also provide significant opportunities for labor mobility. Consultations revealed that that a substantial number of Ni-Vanuatu workers are currently employed by international cruise liners and foreign fishing vessels. Unfortunately, statistical information for this type of labor mobility could not be obtained by relevant Government Departments.

⁵ It is worth noting that figures reported in the Vanuatu's Balance of Payments are significantly lower than TPF estimates. ⁶ Tourism expenditure is estimated at around VT 22 billion in 2010. Assuming 23% of that expenditure goes towards wages, this returns benefits of around VT 5 billion. The 23% figure has been calculated by estimating the percentage of national wages over total output. According to the 2001 Business Survey the proportion of GDP represented by wages is 33.3%. Applying this percentage to the 2010 GDP (VT 67 billion), we can estimate 2010 total wages (VT 22.3 billion). We can finally divide estimated wages by the sum of 2010 GDP plus Imports (VT 95 billion). This returns a percentage of around 23%.

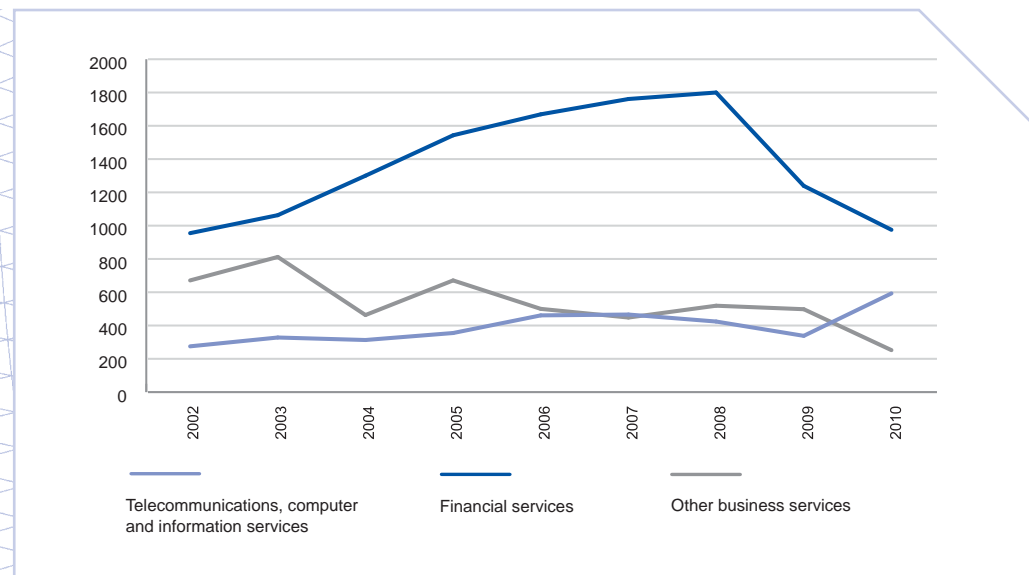
Vanuatu trade in goods exposes the substantial failure of indiscriminate import substitution policies, whilst calling for targeted support to enhance productive capacity and add value of goods with significant export potential.

3.6 Trade in Services: Other Services

Financial, telecommunication and business services generated average export earnings of around VT 2 billion over the period 2002-2010, roughly 50% of the earnings generated by merchandise exports. However, with the exception of telecommunications, average growth rate was either nil (financial services) or negative (other business services). These findings suggest two main observations. First, the liberalization policy pursued in respect to telecommunications has not only improved Vanuatu's business environment, but was also crucial to enhance Vanuatu's export base. Second, the lack of an overarching service policy setting the foundations for a successful export performance in respect to services where Vanuatu enjoys a comparative advantage risks undermining development perspectives of a number of sectors able to generate significant value added and employment opportunities for Ni-Vanuatu.

Figure 3.4
EXPORTS OF
OTHER SERVICES,
VT MILLION

Source: Reserve Bank of
Vanuatu (2012)



3.7 Conclusions

Whilst the contribution of services to Vanuatu's GDP is around two times higher than the contribution of goods (70% versus 30%), over the past decade exports of services generated foreign exchange receipts which were around five times higher than those generated by goods. Tourism contributed for around 80% to Vanuatu's export of services. The future tourism performance will be dependent on the ability to reduce concentration and to create stronger economic linkages with the local economy. The performance of other services will be crucially dependent on the ability to design and implement an overarching services policy, which is currently missing.

Vanuatu trade in goods continues to be focused on primary products. This exposes the substantial failure of the indiscriminate import substitution policy followed so far, whilst calling for targeted support to enhance productive capacity and add value of goods with significant export potential.

CHAPTER 04 | SECTORAL POLICIES AND PRIORITIES

The Vanuatu Government has already in place a significant number of trade-related policies. A quick review of those policies is provided below. This review, together with extensive national consultations, has been instrumental to identify the key constraints, or barriers, preventing the further expansion of trade in goods and services. Barriers to Trade (BTT) will be illustrated in the following chapter.

The 2011 update of the Priority Action Agenda has initiated the process of mainstreaming trade.

4.1 Priority Action Agenda (2003 and 2011 update)

Vanuatu's development priorities were agreed in 2003 and are summarized in the Priority Action Agenda (PAA). These are:

1. Private sector development
2. Macroeconomic stability
3. Good governance
4. Primary sector development
5. Better basic health services
6. Improved access and quality of education
7. Improved economic infrastructure and support services

The 2003 PAA has been recently updated. It is important to note that the 2011 update has initiated the process of mainstreaming trade into national policy by adding an explicit trade strategy under priority No. 1 and by incorporating trade-related performance indicators in priorities No. 4, 6, and 7. This follows from the recognition that trade in services has gained primary economic significance in Vanuatu and that the possibilities to further expand primary and manufacturing production ultimately rely on the ability to penetrate foreign markets. Trade-related sectoral policies stemming from the PAA are summarized in the following sections.

4.2 Foreign Policy (2012)

Vanuatu's Foreign Policy is guided by the principles of non-alignment, mutual cooperation, respect for international law, sustainable development, sovereign equality of states and promotion of international peace and security. Vanuatu has pursued cooperation with the other Pacific Island States as reflected by its membership of the Pacific Islands Forum (PIF), the Pacific Community, and the Melanesian Spearhead Group (MSG).

The Vanuatu Ministry of Foreign Affairs fully acknowledges the strategic importance played by trade agreements in fostering healthy international relations as demonstrated by the significant space reserved to the treatment of those agreements in the pursuit of Vanuatu's Foreign Policy objectives.

In addition, it is important to note that the Council of Ministers has endorsed in March 2011 a Strategic Policy that would guide the opening of new representations globally. Trade opportunities represent one of the key criteria to determine the opening of strategic representations. Vanuatu's diplomatic missions are currently located in Canberra, Australia; Brussels, Belgium; Beijing, People Republic of China; Suva, Fiji; United Nations, New York; Consular Generals are in Noumea, New Caledonia; Auckland, New Zealand; Shanghai, Peoples Republic of China; and Consulates (Headed by Honorary Consuls) in Sydney, Australia; Manila, Philippines, and South Africa.

The consultation team noted that the Ministry of Foreign Affairs would be willing to provide office space in its diplomatic missions to host representatives from trade-related agencies - notably, the Vanuatu Investment Promotion Authority (VIPA) and the Vanuatu Tourism Office (VTO). However, it was noted that lack of funds in line agencies has so far prevented this policy from being implemented. There is high potential for VIPA/VTO to work very closely with the Ministry of Foreign Affairs and Vanuatu's diplomatic missions: lack of resources in trade-related agencies to fund participation in diplomatic missions is therefore felt to act as a barrier against increased foreign investments and tourism development.

Recommendations from the Overarching Productive Sector Policy, the Vanuatu's Industrial Policy, and the Vanuatu Tourism Action Programme are fully in line with those of the Trade Policy Framework.

4.3 Productive Sector Policy - Scoping Report (2010)

As of today, the Productive Sector Policy Scoping Report (PSPSR) represents the key policy document setting strategic directions for the primary sector. According to the PSPSR, primary sector policies should be focused on achieving the following objectives:

1. Improved access to domestic and foreign markets
2. Improved quality and safety
3. Increased productivity and competitiveness
4. Enhanced value addition
5. Improved training
6. Better coordination and monitoring

Enhancing productive capacity, value addition, and improving market access crucially respond to the need of eliminating Barriers to Trade (BTT) and are therefore in line with the thrust of the Trade Policy Framework. In terms of capacity enhancement, the PSPSR recommends that high-value and strategically important sectors (those which have high GDP ratios, support larger population, and have high employment prospects) should be prioritized. As for foreign market access, the PSPSR further recommends that export strategies need to focus on agricultural products for which Vanuatu has a comparative advantage. A follow-up mission to finalize the overarching policy for the primary sector is currently underway. A quick look at the draft document reveals that emerging recommendations are fully in line with those of the TPF.

The PSPSR's recommendations are also in line with the thinking of the current administration. At a recent retreat of senior government officials the Prime Minister of Vanuatu laid emphasis on the development and the manufacturing sector. He emphasized the need to link the manufacturing sector to the primary sector including agriculture, forestry and fisheries. These sectors have the potential to increase production and contribute to exports.

4.4 Forestry Policy (2011)

The recently drafted Forestry Policy (FP) takes into account some of the new challenges facing the sector. The FP's directions which are more relevant to trade development are summarized below:

1. Forest Management - in particular the need to roll out an extensive reforestation program and to protect non-wood products with high trade potential such as nuts, medical herbs, etc.
2. Climate Change - in particular the opportunities to generate foreign exchange earnings through carbon trading.
3. Forest Industries - in particular promoting domestic value addition for wood and non-wood products.

Consultations with the Department of Forestry revealed that those strategic directions are being successfully implemented, and that trade has been substantially mainstreamed into policy-making. Opportunities for carbon trading are perhaps worth being explored further given that Vanuatu is likely to enjoy some comparative advantages in this area. All in all it appears that the Vanuatu's forestry sector is on the right track to provide a very positive contribution to trade and national development.

4.5 Livestock Policy (2012)

A Livestock Policy (LP) is currently being finalized. It provides a series of recommendations to enhance supply capacity of pigs, chickens, goats, and cattle. The single most important factor of production limiting optimal pig and chicken production is feed and feeding. Concurrently, the present genetic make-up of the village chickens and pigs does not cater for fast growth, high meat and/or egg production and reproductive efficiency. Injection of new genes into the present gene pool is identified as the way forward. On goats the LP recommends an aggressive educational programme on the socio-economic benefits of the goat. On cattle, rehabilitation of the pasture is recommended as a way forward, together with enhanced farmer education in the arts of breeding.

Whilst the TPF acknowledges the need to focus on the domestic market for livestock in respect to which Vanuatu is not yet self-sufficient – notably, pigs, chicken, and goats – it is also noted that the treatment of cattle would have benefited from an increased focus on export/market access strategies. The treatment of BTT in respect to cattle is somewhat lacking and exclusively focused on tax issues.

4.6 The need for a national Fisheries Policy

The Vanuatu Fisheries Act mandates the development of management policies to preserve Vanuatu's rich fisheries resources. Despite a number of Fisheries Management policies are now in place, a comprehensive fishery development policy laying down strategic foundations to maximize development opportunities from fisheries resources is currently missing. Whilst fisheries contribution to Vanuatu's GDP is still limited, national fisheries (coastal, aquaculture, and oceanic) have the potential to further enhance Vanuatu's development through options such as on-shore processing and enhanced linkages to the tourism industry.

In regards to regional and international fisheries, the Maritime Act established Vanuatu as an open registry nation soon after independence, with the intention of establishing a means of revenue generation for the country. The open-registry policy generates around 0.5 percent of total Government revenues. The high number of registered Vanuatu-flagged fishing vessels affects mirror data on exports. According to those data, Vanuatu emerges as the largest Pacific exporter of fish (VT 19 billion in 2010), flagged fishing vessels, and parts thereof. At the same time national statistics only records VT 300 million of fish exports in 2011. These data suggest the need to implement strategic options to take full advantage of regional and international fishing activities for the purpose of increasing value added from Vanuatu's fisheries sector.

The Trade Policy Framework recommends that a comprehensive fishery development policy be drafted to maximize social and economical benefits to the people of Vanuatu.

4.7 Industrial Policy (2011)

The Industrial Policy (IP) targets to attain: (i) improved economic diversification and enhanced domestic value addition; (ii) enhancement of the linkages among the economic sectors; (iii) creation of an enabling environment for the private sector growth; and (iv) increased contribution of manufacturing to merchandise trade.

The IP recognizes that in the face of volatile international markets, reliance on primary exports will fail to bring about sustainable benefits for Vanuatu. The proposed solution is to move up the value-added chain, where markup and income elasticity of demand are higher and the international markets are relatively more predictable and stable. In addition, the IP advocates for Vanuatu's international competitiveness to be enhanced through branding, marketing and product differentiation.

Quite encouragingly, the IP policy recommends that trade protection, if any, should only be based on the performance of the productive sector and the gains from trade.

It is plain to say that trade considerations have been fully mainstreamed into the Vanuatu's IP. The key challenge facing the Department of Industry is now moving on policy implementation, and in particular on the ability to selectively apply trade protection based on Vanuatu's comparative advantages.

4.8 Tourism Action Programme (2008)

Tourism has become the leading economic activity in Vanuatu. Visitor arrivals are at record levels and the industry contributes around 20-30% of GDP. The development of the Tourism Action Programme (TAP, 2008) incorporates recommendations from previous strategic documents, in particular the Vanuatu Tourism Master Plan (2004). The objectives of the TAP which are more relevant to trade include:

1. Promote strong economic growth;
2. Reduce the regional imbalances (urban/rural tourism);
3. Generate foreign exchange earnings, local incomes and employment;
4. Minimize income leakages; and
5. Promote greater Ni-Vanuatu participation

Recommendations to achieve those objectives fall into five thematic areas

1. Planning and Institutions, notably the establishment of a Department of Tourism, Provincial Tourism Councils, and Provincial Tourism Plans. All of these recommendations have already been implemented.
2. Tourism Marketing, notably re-branding of the Vanuatu's tourism product (implemented), and enhanced marketing efforts (ongoing).
3. Investment and Product Development, notably zoning policy, support to SMEs in outer islands, encourage competition in utility/telecommunications, address tourism leakages, support commercialization of indigenous arts and music, and develop/implement a Cruise Ship strategy. Support provided so far to tourism SMEs (*truly infant industries*) appear insufficient and should be scaled up given the high potential for those activities to support inclusive tourism growth. A zoning policy has yet to be drafted and implemented. Studies into tourism leakages have failed to stimulate comprehensive implementation plans, whilst a Cultural Policy linking tourism and indigenous art/music, as well as a Cruise Ship strategy, are still missing. Tourism leakages are still significant due to weaknesses of local agriculture and agro-industry.
4. Infrastructure and Transport, notably the upgrade of tourism wharves/airports, the provision of electrification, telecommunications, and roads to key tourism destinations, and the opening of air connections with new markets. Whilst significant infrastructural projects are ongoing, the opening of new air connections is lagging behind and should be prioritized.
5. Education and Training, notably, to establish an Education and Training Strategy for the tourism industry and a mentoring/training program for SMEs in rural areas. None of these programs have so far been established or implemented. Whilst Vanuatu's training institutions appear to be adequate to satisfy the needs of major resort operators, lack of training is evident for Ni-Vanuatu operating SMEs in rural areas.

Lack of a comprehensive set of data to guide Vanuatu's tourism policy is striking. Current datasets are only focused on urban tourism and fail to capture key variables such as length of stay, value addition, supply capacity etc. Policy prioritization calls for a robust system of data collection. The establishment of such a statistical system is therefore strongly recommended by the Trade Policy Framework.

Whilst the TPF concurs that efforts need to be scaled up to develop sustainable tourism in the outer islands, it is important not to forget that urban tourism currently contributes for 80% to international arrivals. Efforts to improve value adding in urban tourism should focus on ambitious programs of waterfront regeneration and enhancement of the natural environment. The TPF welcomes the current NZ initiative on waterfront rehabilitation for Port Vila, whilst at the same time advocates the piloting of creative initiatives on environmental education akin to those successfully rolled-out in cities such as Bogotá, Colombia.

4.9 National Investment Policy (2005)

The 2005 policy framework for investment promotion simply describes the current investment landscape. The National Investment Policy document aims to clarify and enhance investors' understanding of the Vanuatu Government's policies whilst failing to set out strategic directions for investment promotion. It is therefore recommended that this policy be drafted as a matter of priority.

The importance of the Broadband Submarine Cable project highlighted by the Vanuatu Infrastructure Strategic Investment Plan is also echoed by Vanuatu's Universal Access and ICT Services Policies.

4.10 Vanuatu Infrastructure Strategic Investment Plan (2012)

With the growth in the scale and breath of economic activity, demand for infrastructure and utilities has increased. Recently, a large proportion of aid had been devoted to the establishment of new transport infrastructure in Vanuatu, whilst the Government has been tasked to fund maintenance costs.

A Vanuatu Infrastructure Strategic Investment Plan (VISIP) is currently under draft. Priority projects under the plan have been recently identified using a multi-criteria assessment methodology. The methodology fully mainstreams trade considerations into infrastructure development. In particular, the following criteria assure that infrastructure policies are closely linked to trade facilitation.

1. Impact on infrastructure users (reduce cost of doing business)
2. Government's ability to meet ongoing costs (assures sustainability)
3. Service capacity and access to markets (facilitates trade)
4. Extent to which the project supports growth of the tourism (export promotion)

The top-priority projects identified by the VISIP for each thematic area are presented in *Table 4.1*. Whilst Donor Partners' funds for some of the projects identified have already been allocated (rural roads) or committed (Port Vila's urban development) funding for most of the remaining projects are still lacking. The prioritization exercise is nonetheless very useful to attract future funding commitments on a selected number of priority projects. The Trade Policy Framework supports the projects identified as they can chiefly contribute to eliminate key Barriers to Trade.

In addition to the top-priority projects identified by the VISIP, a number of additional infrastructural projects are currently being implemented (renewable energy projects in outer islands) or are in the process of being implemented (an inter-island shipping program and a project to upgrade Ifira Port in the capital city).

URBAN FOCUS	RURAL FOCUS
Port Vila & Luganville Urban Development Project	Series of rural road rehabilitation projects
Bauerfield Airport Improvement	Series of provincial water supply projects
Efate Geothermal Plant	
Submarine Broadband Cable to Fiji	
Solid Waste Management Projects in Port Vila & Luganville	
Upgrading of Santo Main Wharf	

Table 4.1
VISIP PRIORITY INFRASTRUCTURE PROJECTS
Source: VISIP prioritization tool

4.11 Vanuatu Universal Access and ICT Services Policies (2011)

The importance of the Broadband Submarine Cable project highlighted by the VISIP is also echoed by Vanuatu’s Universal Access (UA) and ICT Services Policies. The draft UAP, developed in 2011 and expected to be reviewed and approved in 2012, stresses the centrality of this infrastructure to achieve the Government objective to provide broadband internet access to 85% of the population by 2015. The draft ICT policy gives a flavor of the number of growth and trade-enhancing objectives that such an infrastructure can be able to achieve, such as: cost-effective e-training, rural development, increased competitiveness for Vanuatu’s goods and services businesses, e-health, environmental protection, and good governance. The Trade Policy Frameworks echoes these remarks and fully supports the Government efforts to finalize an ICT Services Policy and to provide Vanuatu with Broadband Cable connection as a matter of urgency.

4.12 Vanuatu Education Sector Strategy (2006) and subsequent policies

Although education is not conventionally considered a primary target of a trade policy, strong linkages actually exist between education and the ability to boost exports. For example the significant labor shortages existing in the Vanuatu’s domestic market coupled with a structural excess of labor supply clearly signal the need to better target educational policies. Moreover, the possibilities for overseas absorption of excess supply strongly depend upon the skills of those unemployed.

The Vanuatu Education Sector Strategy (VESS) drafted by the Ministry of Education (MoE) represents key policy document identified during national consultations. The VESS highlights a number of significant challenges facing the education system. Most worryingly, those challenges appear to be concentrated in secondary, tertiary, and vocational education, i.e. the areas which mostly can contribute to trade-based development. Key challenges include:

1. Lack of qualified teachers. According to the VESS the professional competence of teachers needs to be strengthened.
2. Inadequacy of the school's curriculum. This is traditional and designed to educate a limited number of academically inclined students.
3. Tertiary education providers (VIT, Nursing College, Agricultural College, etc.) operate in isolation, and without clear control/coordination mechanisms. The possibility of bundling these institutions under the umbrella of a single University is considered by the VESS.
4. Accreditation of Technical and Vocational Education and Training (TVET) providers is not mandatory. The quality/suitability of TVET courses is therefore difficult to assess. The VESS argues for the need to strengthen the Vanuatu National Training Council (VNTC) to monitor quality in the TVET sub-sector. Whilst accreditation is now mandatory and quality/suitability of TVET courses is being assessed, the limited resources of the VNTC imply that much more needs to be done in this area.
5. Lack of coordination between Donor Partners initiatives. As a consequence the sector has been developed around different agendas and the parallel offices and systems of donors, rather than around a national education sector strategy.

An education Road Map was developed in 2009 by the MoE to implement the VESS' recommendations. A TVET Policy by Ministry of Youth Development, Sports and Training (MYDST) was approved in 2010 to further guide the development of technical and vocational education in Vanuatu. A National Skills Development Strategy was finally developed in 2011 by the Prime Minister Office (PMO) to determine demand and supply of priority skills in the Vanuatu economy and to recommend options to deliver those skills.

Whilst policy inflation and lack of coordination appears to be affecting the Vanuatu's education system, the key areas of concerns identified by the VESS have yet to be successfully tackled.

It has been pointed out by stakeholders that the lack of a Trade Policy Framework for Vanuatu itself represented a barrier to enhancing trade. It is hoped that this framework would at least be useful to fill that gap.

For an effective TPF the identification of Barriers to Trade (BTT) is vital. National consultations and the review of sectoral policies revealed that significant barriers to both trade in goods and services exist in the economy. This chapter does not attempt to provide a comprehensive list of all the BTT, but wishes instead to focus on those barriers which emerged as the most binding to further enhance trade-based economic growth.

CHAPTER 05 | BARRIERS TO TRADE

5.1 Infrastructures

The majority of stakeholders identified infrastructure constraints as the major BTT. On a positive note, it appears that the Vanuatu Government and Donor Partners are progressively increasing their commitment to infrastructural projects and that the Government is devising effective tools to prioritize its infrastructural needs, such as the VISIP.

Consultations revealed that the Government's capacity to absorb an increasing number of infrastructural projects is limited by its scarce human resources and the ability to source adequate funds for maintenance. These are themselves BTT which call for an appropriate staging of key infrastructural projects over the long-term.

For an effective Trade Policy Framework the identification of Barriers to Trade is vital. In Vanuatu, these relate to infrastructures, business environment, SPS/TBT issues, productive capacity and education/training

Provision of better roads was considered to be one of the key requirements for promoting agricultural production and delivery of produce to urban centers for sale or processing/value adding. It was revealed that roads in some outer islands (Tanna, Malekula and Ambae) are currently being upgraded with the support of AusAID within the context of a multi-year program of roads rehabilitation. After the completion of major road projects in Efate and Santo, it was generally felt that outer island roads should now receive priority. However, extension of the Santo road network was still deemed important to facilitate agricultural production. Since road maintenance is carried out by the Government, the maintenance budget should increase proportionally to the extension of the national road network. The Public Works Department indicated that no new allocations are made for maintenance and it is difficult to maintain roads.

Besides roads, lack of electrification, water supply, good ports and airport facilities, and regular shipping were identified as major infrastructural BTT for outer islands. This is in line with the results of the prioritization exercise conducted by the VISIP.

Whilst AusAID and the EU have projects in place to tackle electrification needs in outer islands NZAID and ADB is in the process of funding a major program of inter-island shipping.

The provision of regular shipping services to the islands was felt as crucial to provide the connectivity necessary to transport people and goods from one island to another but more importantly to bring goods to Port Vila and Santo for exports. Effective and efficient shipping services would require the building of jetties,

wharves and storage facilities. A recent study by UNECSAP (2011) for the Asia-Pacific region showed that about 25% of the changes in non-tariff trade costs are explained by the 'line shipping index'⁷. Given Vanuatu's geographical location and lack of good connectivity, attention and priority on improving shipping services and port facilities will help reducing trade costs and hence boosting exports and reducing costs of imports.

The NZAID inter-island shipping program is expected to address key BTT concerning inter-island shipping – the program will support shipping services to routes considered uneconomical, build jetties, rehabilitate wharves, and build an inter-island terminal in Port Vila. A BTT that NZAID won't be able to address concerns the reservation of inter-island shipping services below 80 tons to Ni-Vanuatu – a provision which appears to discourage the establishment of a healthy and transparent inter-island shipping service, and to create opportunities for rent-seeking. The TPF recommends this barrier to be removed by liberalizing inter-islands shipping services through an amendment to the Reserve List under the VIPA Act.

Stakeholders were pleased with the progress being made in the provision of telecommunications services. On the other hand it was felt that underlying infrastructures for internet are still inadequate. The lack of provision of broad-band internet services still poses serious difficulties for the development of existing and prospective businesses in all economic sectors and this will have to be addressed urgently by the implementation of Broadband Submarine Cable project.

5.2 Business Environment

Vanuatu ranks 76th out of 183 countries in respect to the World Bank 2012 Ease of Doing Business index. Whilst this suggests that Vanuatu's business environment is relatively friendly, a closer look to the index components reveals areas for further improvement, and indirectly highlights a number of BTT:

1. Time to Start a Business (complex bureaucracy)
2. Getting Electricity (lack of infrastructures and competition)
3. Registering Property (land issues)
4. Trading Across Borders (customs procedures)

With the exception of complex bureaucracy, all the above BTT clearly emerged during national consultations. Since infrastructures have already been addressed, this section will focus on land issues, lack of competition, and customs procedures. The TPF understands that significant reforms to streamline bureaucratic producers for the purpose of starting a business were implemented in 2011 and more are expected in 2012. These reforms will be reflected in future editions of the Ease of Doing Business report. Bureaucratic procedures are therefore no longer deemed to represent a binding BTT.

⁷The index is calculated based on five components (a) number of ships; (b) the container carrying capacity in 20 foot equivalent units of those ships; (c) the number of companies; (d) the number of services; and (e) the maximum ship size, always referring to ships that are deployed to provide liner shipping services to an economy's port(s) UNESCAP (2011).

5.2.1 Land Issues

Land issues in Vanuatu have always attracted attention from investors and donors. While this represents a binding constraint for the attraction of domestic and foreign investments, Vanuatu has so far managed to maintain a positive investment climate thanks to its very friendly tax regime and a favorable macroeconomic management.

According to the Vanuatu Investment Promotion Authority (VIPA) which was established in 1998, the difficulty of securing leases in a timely manner delays and sometimes stops investment in the country. The VIPA also believes that land availability in around Port Vila and in Luganville will become a major issue in the future.

The Department of Lands felt that there should be a better coordination between different arms of the government dealing with land issues - Department of Lands, Department of Provincial Affairs, and Land Tribunal all play a role in land matters.

The key BTT which emerged in respect to land are summarized below:

- 1 Lack of a zoning policy – customary ownership appears to prevent zoning from being implemented given the ultimate right of custom owners to decide over the use of their land. It is understood that the *Mama Graon* Project will help the Government to address the issue of zoning. Lack of zoning was indicated as a binding BTT by the Ministry of Agriculture, Quarantine, Forestry and Fishery (MAQFF) and by the Department of Tourism;
- 2 Difficulties in using the land as a collateral to secure a bank loan, in particular in the outer islands, due to lack of certainty over land values; and
- 3 Difficulties in leasing land for the purpose of foreign investments when this involves the creation of a new lease, due to uncertainties/litigation over land ownership.

The TPF urgently recommends that land issues are urgently addressed via a comprehensive program of land registration and evaluation, and the introduction of legal reforms necessary to implement land zoning.

5.2.2 Lack of Competition Policy/Law/Authority

While Vanuatu's taxation structure makes the country very attractive, limitations to competition are still distorting economic efficiency. Lack of competition can be the result of explicit political directions or can simply be due to the lack of appropriate controls and sanctioning mechanisms in sectors which are theoretically open to competition (wholesale/retail trade, financial and other business services, domestic air transport, etc.).

As for explicit limitations, whilst the protection of some economic activities where Ni-Vanuatu business have real potential can be justified on economic grounds (for example small tourism bungalows), it is plain that other restrictions have the potential to damage the country's competitiveness and its ability to growth (inter-island shipping, stevedoring, etc.). As for de-facto limitations, these should be tacked without hesitation.

In this context, the majority of stakeholders strongly felt that the drafting of a competition policy and law, and the establishment of a competition authority

should be given priority. The main task of a competition authority would be that of enforcing competition in those sectors subject to de-facto limitations. It could also provide technical advice to the Government and generate public awareness on the implications of breaking explicit limitations which still exist in the country.

5.2.3 Customs Procedures and Stevedoring

The ability trade across borders can be negatively affected by time and cost issues. Time issues mainly fall under the remit of Vanuatu's Department of Customs and Inland Revenues (DCIR). Consultations with the DCIR revealed that bidding BTT are currently affecting import procedures, whilst no particular problems were detected for export procedures. The key BTT identified by DCIR on the import side was the lack of training/certification systems for pre-clearance agents and inadequate port infrastructures for inspection. Interestingly, it was noted that prospective Free Trade Agreements (FTA) might have the potential to delay customs procedures by introducing provisions such as advance ruling, issuance of Rules of Origin (ROO) certificates and ROO administration, and penalties for administrative errors.

Cost issues appear to be primarily affected by contractual arrangements in respect to stevedoring. Stevedoring services are currently operating under contractual arrangements which have pushed the costs to very high levels. The Vanuatu government should seriously consider renegotiating stevedoring concessions. Donor Partners could usefully support the Government in this respect through the provision of technical advice and adjustment funds.

5.3 Exchange Rate and Interest Rate Spread

Some stakeholders mentioned that the current exchange rate policy is acting as a BTT. A country's exchange rate can support or hinder its exports and have an impact on the price of imports. An overvalued exchange rate could mean cheaper imports and may help exports of goods which have significant import contents. On the other hand, overvaluation might reduce export competitiveness. Vanuatu's exchange rate is pegged to an undisclosed basket of currencies of Vanuatu's major trading partners. The 2011 International Monetary Fund Article IV report highlighted that Vanuatu's exchange rate might be slightly overvalued. This aspect might deserve further consideration from the Reserve Bank of Vanuatu (RBV) and the MFEM.

There are other issues that the RBV pays attention to ensure that an enabling environment is created to support investments. These include a close watch on the interest rate level and the loans-deposits interest spread. Despite seeing improvements in the interest rate spread since around 2000, this variable still appears to be too high and not fully justified in the light of macro-economic fundamentals. As of the September 2011 the spread was approximately 8 percent.

5.4 Sanitary and Phytosanitary Issues and Technical Barriers to Trade

Inadequate facilities and capacity in dealing with Sanitary and Phytosanitary (SPS) issues and with Technical Barriers to Trade (TBT, such as Standards & Conformance, Quality Assurance, etc.) can delay exportation, increase its costs, and even prohibit exports. SPS/TBT issues appear to represent a problematic area for Vanuatu which will necessitate substantial resources.

It was noted that a comprehensive SPS/TBT policy is currently missing in Vanuatu. Stakeholders commented that an SPS/TBT policy would be necessary to clearly allocate responsibilities amongst the entities playing a role in this area⁸, identify and cost missing facilities etc. On a positive note, the Department of Quarantine is currently working on a Bio-Security Bill which, based on a regional template, will combine and streamline the existing pieces of legislation under the Department and is expected to facilitate exports.

The Department of Quarantine pointed to a series of missing post-harvesting facilities to ensure that produce is not wasted and damaged, including facilities for bio-treatment (fumigation), inspection facilities (collection points for checking and certifying), quarantine laboratories (to test for pest and diseases). The Food Technology Development Centre currently lacks a food laboratory (to test food safety) as is therefore prevented from undertaking the very activity that justified its establishment.

At institutional level, clear indications emerged about the need to implement the Act establishing a Chamber of Agriculture and/or strengthen existing intermediate organizations. This would allow Government authorities to structurally engage farmers on SPS/TBT issues, something which is currently very difficult. This message was widely supported by all Departments falling under the umbrella of the MAQFF.

The Vanuatu Commodity Marketing Board (VCMB) also emerged as BTT in discussion with SPS/TBT authorities. The VCMB appears to simply duplicate functions currently undertaken by the Department of Quarantine with the result of increasing costs and reducing competitiveness of Vanuatu's commodities.

It was also revealed that the Department of Quarantine has been successful in negotiating a number of export protocols with New Zealand. These products included eggplants, sweet corn and pineapple. However, over the last four years no exports were recorded for these products. The issue of lack of production needs to be addressed. Request for market access/negotiations of export protocols must be better informed aligned with supply capacity.

5.5 Lack of Productive Capacity

National consultations suggested that over the past decade policy interventions to increase supply capacity of Vanuatu's goods were somewhat neglected. Data presented in Figure 3.1 for exports of cocoa beans and meat (increasing sale prices coupled with decreasing quantities sold) are there to remind us that trade facilitation cannot be successful in absence of something to trade. The extension services directly provided by the Department of Agriculture and Rural Development (DARD) are necessarily limited given its small operational budget. Enhanced efforts are underway by both the Vanuatu Government and Development Partners to provide resources and assistance to increase production. However, in the light

⁸Department of Quarantine, Department of Health, Department of Fisheries, Vanuatu Food Technology Development Centre

of Aid for Trade data (chapter 6), funds do not appear adequate to reverse current downward trends. Both the DARD and the Department of Ni-Vanuatu Businesses see cooperatives as the best way forward to organize small farmers, provide training and extension services, and increase production. Given the strong linkage between agricultural production, improved livelihoods in outer islands, opportunities for value addition in areas of comparative advantage, and export performance, it is crucial to intensify efforts to increase agricultural production. The TPF agrees with the PSPSR that high-value and strategically important sectors and agricultural products for which Vanuatu has a comparative advantage should be prioritized including fish, coconut, cocoa, kava, meat, timber, sandalwood, root crops, and coffee.

5.6 Education and Labor Force

Education and training of appropriate workforce will be crucial for enhancing exports, growth and employment. Technical and vocational skills will need emphasis. Vanuatu has already achieved some successes in this area, for example in the tourism industry. However, much still needs to be done. Despite the many educational policies in place, consultations revealed that the Government still lacks policy tools to identify its human resources needs.

The Ministry of Education sees itself as the overall institution responsible for delivering the labor force of the future. It recognizes the need to coordinate this role with other departments and institutions such as the Vanuatu National Training Council (VNTC).

Currently the Ministry of Education is working on implementing a National Curriculum Statement that covers trade and business considerations. In addition, the development of a National Qualification Framework by the VNTC should facilitate greater participation to the workforce including from individuals in the informal sector.

At present Vanuatu's school system has a significant number of untrained teachers and major efforts will be needed to fill this gap. The Ministry acknowledged that lack of properly trained teachers remains a key BTT in particular in areas such as Accounting, Economics, ICT, and Science.

Vanuatu still needs to carefully assess its labor demand and then match it with what is being done in the schools in terms of curriculum, teachers and facilities. It will have to assess its population growth in light of its new population policy and then work out the numbers of primary and secondary schools and teachers it would need.

Various Development Partners such as the NZAID, AusAID, and UNICEF have been actively involved in funding education, in particular at the primary level.

The role of the Vanuatu National Training Council is important in supporting the development of technical and vocational training in Vanuatu. Their current work is guided by the VNTC Act. The VNTC has developed a national Technical and Vocational Education and Training (TVET) policy which provides direction for the management of the TVET system. The key BTT in the TVET sector appear to be:

1. Lack of tools to understand skills which are in high-demand in the labor market

2. Lack of capacity of training institution to deliver high-quality training and the right quantity. Most institutions currently deliver course at certificate 1 and 2 levels only. The VNTC is trying to overcome this limitation by piloting the introduction of vocational courses in secondary schools (from year 7). This could also help students who might be dropping out before they are ready for formal training in tertiary educational institutions.
3. Lack of career counseling

It was also revealed that Vanuatu lacks a national language policy which if developed could help the country's international attractiveness for trade and investment. About 40% of the population speak French but are not very fluent in reading or writing. It was suggested that a careful language policy to promote both English and French as international languages could provide Vanuatu with a competitive edge to trade with French territories in the Pacific and also to attract investment. Mauritius in the Indian Ocean can be used as an example to explore this option further.

There is a strong feeling within the MoE that lack of coordination in the tertiary education system represents a binding BTT. Lack of coordination appears to be due to the lack of a centralized system to coordinate all the educational/training activities in the country. It was suggested that all different educational/training institutes should be amalgamated into a Vanuatu National University. The Fijian and Samoan models of amalgamation may provide examples of legislative framework which could be used to create such an entity.

5.7 Trade Policy, Trade Legislation, Trade Institutions

All national stakeholders welcomed the formulation of the TPF. It was felt that a policy document coordinating trade-related aspects of sectoral policies and establishing a national consensus on the high-level priorities to boost exports was long overdue. It was also stressed that the priorities established by the TPF should guide the conduct of trade negotiations by the Department of External Trade (DET).

Stakeholders also welcomed DET's plans to re-convene the National Trade and Development Committee (NTDC) as the high-level inter-ministerial decision-making body on trade policy.

The drafting of a Trade Act was seen by many stakeholders and the next logical step following approval of the TPF. It was felt that a Trade Act should formally allocate responsibilities for Trade Agreements under the Ministry of Trade, Commerce, Industry, and Tourism (MTCIT), propose changes to the ownership of some trade-related Acts which are currently under the remit of other Ministries and give legal status to the NTDC.

Stakeholders did not see any problem with the current institutional setting seeing the DET under the portfolio of the MTCIT. It was noted that each option present advantages and disadvantages. It was felt that the best way forward to maximize advantages and minimize disadvantages of the current institutional setting is that good working relations are maintained between the MTIC and the Ministry of Foreign Affairs. The TPF does not recommend any change to the current institutional setting.

5.8 Conclusions

Extensive national consultations revealed a number of key BTT. These relate to infrastructures, business environment, SPS/TBT, productive capacity and education/training. Vanuatu needs to tackle those barriers if is to find its way out of poverty and into development by boosting exports.

CHAPTER 06 | AID FOR TRADE

Aid for Trade (AfT) represents one of the main tools available to the Vanuatu Government to address BTT. The AfT initiative was launched at the 2005 WTO Ministerial Conference in Hong Kong. This chapter briefly reviews AfT performance in Vanuatu using data from the Organization for Economic Cooperation and Development (OECD). Aid for Trade is here defined according to OECD/WTO as Official Development Assistance (ODA) interventions whose purpose-code falls under one of the following categories⁹:

1. Enhance Trade-Related Infrastructure
2. Develop Productive Capacity for Trade
3. Trade Policy and Regulations
4. Promote Trade-Related Adjustments

Aid-for-Trade allocated to Vanuatu was broadly aligned with Vanuatu's comparative advantages and with the need to break Barriers to Trade.

6.1 Aid for Trade in Vanuatu

Before looking at AfT it may be useful to briefly observe trends of total ODA. *Table 6.1* illustrates dynamics for ODA at constant 2005 prices¹⁰.

Over the last decade ODA disbursements increased at a rate of 11% from around USD 40 million in 2002 to around USD 100 million in 2010. Looking at shares and growth rates it can be said Australia and New Zealand's commitments to support Vanuatu remained unchanged over this period, whilst US and Japan increased their commitments. Support from France¹¹ and the EU steadily declined.

⁹For further information on the specific AfT components see: http://www.oecd.org/document/21/0,3746,en_2649_34665_4323035_7_1_1_1_1,00.html

¹⁰It is important to note that OECD data presented in Tables 6.1, 6.2, and 6.3 do not report the substantial aid flows from China as well as aid from multi-lateral donors.

¹¹Consultation with France reveals that some interventions may not have been captured by OECD statistics

Table 6.1 ODA DISBURSEMENTS, MILLION USD AT 2005 PRICES Source: OECD (2012)

Year	Australia	USA	New Zealand	Japan	France	EU	Others	Total
2002	19	1	5	0	8	7	0	41
2003	24	1	6	3	4	5	0	44
2004	24	2	5	4	5	4	0	45
2005	23	2	5	4	3	7	0	44
2006	25	3	7	5	7	9	0	56
2007	22	2	7	11	12	5	0	59
2008	25	26	10	15	11	4	0	92
2009	40	23	15	13	7	3	1	102
2010	45	19	11	15	4	2	0	97
Average Growth Rate	12	40	9	61	-8	-13	4	11
Average Share	43	14	12	12	11	8	0	100

Table 6.2 presents figures on AfT over the period 2000-2009. AfT as a percentage of total ODA steadily increased over the last decade, from 14% in 2002 to 46% in 2009. Whilst the concentration of Japanese and US funds on infrastructural projects explains most of this trend, a positive contribution was also provided by the increased focus of Australian and New Zealand funds towards AfT initiatives.

Table 6.2 AFT DISBURSEMENTS BY DONORS, MILLION USD AT 2005 PRICES Source: OECD (2012)

Year	USA	Japan	France	Australia	New Zealand	EU	Total	Share of ODA
2002	0.0	0.0	4.5	0.2	0.2	0.6	5.5	13.6
2003	0.0	1.1	1.2	0.3	0.6	0.8	4.0	9.1
2005	0.0	2.1	0.4	0.3	0.5	2.6	5.8	13.3
2006	0.0	1.3	1.4	0.9	0.6	2.2	6.5	11.6
2007	0.1	5.3	7.1	1.2	0.3	2.0	16.0	27.1
2008	24.2	11.7	7.0	1.3	1.6	0.5	46.3	50.2
2009	18.4	10.2	0.3	10.2	7.3	0.3	46.8	46.1
Average Share	31	25	17	11	8	7	100	..

Table 6.3 illustrates AfT disbursements categorized according to their purpose-code. The table provides useful indications about the areas which were most impacted by Donor Partners' interventions.

Table 6.3 AFT DISBURSEMENTS BY PURPOSE, MILLION USD AT 2005 PRICES Source: OECD (2012)

PC	Descriptions	2002	2003	2004	2005	2006	2007	2008	2009	Av. Growth Rate	Av. Share
21	Transport	2.7	1.7	3.8	2.2	1.2	2.9	32.0	36.8	45	61
22	Communications	0.8	0.2	0.2	0.4	0.3	1.4	1.5	6.3	34	8
23	Energy	0.8	0.3	0.2	0.0	0.2	2.9	9.1	1.4	8	11
24	Financial Sector	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.1	16	0
25	Business Support	0.0	0.0	0.2	0.7	0.3	0.2	0.3	0.7	48	2
31	Primary Sector	1.0	1.6	0.9	1.5	2.1	6.5	2.7	1.0	1	13
32	Manufacturing & Mining	0.0	0.1	0.0	0.4	0.3	0.8	0.2	0.0	-2	1
33.1	Tourism Policy	0.1	0.0	0.4	0.9	1.3	1.2	0.5	0.4	18	4
33.2	Trade Policy/Reg./Adjust.	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	31	0
	Grand Total	5.5	4.0	5.7	6.5	5.8	16.0	46.3	46.8	36	100

The OECD database shows that over the period 2002-2009, 80% of AfT was allocated to infrastructural projects, in particular transport-related infrastructures (60% of total funds). Productive sectors received the remaining 20%, with agriculture and tourism representing the major beneficiaries (14% and 4% respectively). Service sectors other than tourism (PC 25 and 31) received a very limited amount of funds. This is pretty worrying given that the combined export earnings from these sectors is equal to the whole export earnings generated by goods. Funds allocated to trade policies, regulations and adjustments were also very limited¹².

6.2 Aid-for-Trade and Barriers to Trade

The aggregate picture provided by Table 6.3 suggests that AfT allocated to Vanuatu was broadly aligned with Vanuatu's comparative advantages and with the need to break Barriers to Trade. In order for alignment to be improved, the TPF recommends that support to tertiary productive sectors (services) should not only be limited to tourism. A more disaggregated analysis of the Purpose Codes can also be helpful to refine the judgment and identify further areas for improvement. As Vanuatu currently lacks monitoring and evaluation systems able to verify the outcomes of AfT interventions, the analysis must implicitly assume that all projects were successfully implemented. The key findings of the Purpose Code analysis can be summarized as follows:

- 1 For nearly all the productive sectors the Purpose Code "sectoral policy and administration management" attracted continuous and substantial support. This resulted in a number of sectoral policies which have been useful to identify development needs and recommend tailored interventions. Donor Partners should now be encouraged to support any measures to avoid unnecessary policy inflation and focus their assistance on supporting the implementation of recommended interventions for the productive sectors.
- 2 None of the funds accruing to agriculture have been directed towards enhancing productive capacity of either food or industrial/export crops. As lack of agricultural supply capacity represents one of the key BTT it is strongly recommended that future Donor Partners' assistance be geared towards enhancing capacity in agriculture.
- 3 Support for agro-industry is absent. Given Vanuatu's comparative advantage in this area it is essential that agro-industry projects be urgently developed and supported.
- 4 Despite continuous support to "fishing policy and administration management", the sector does not appear to have benefited to a substantial degree. AfT to the fishery sector should probably be reviewed and new interventions devised to achieve a sustainable contribution of Vanuatu's fisheries to the country's economic growth.
- 5 Support to financial intermediaries (formal/informal) has been very limited. Enhanced forms of intervention should be considered given that access to finance was identified by stakeholders as an important BTT.

¹² It is noted that some funds for trade policies/regulations/adjustments were allocated to Vanuatu by multilateral organizations or channeled through regional organizations. As OECD data for Vanuatu cannot capture multilateral/regional funding mechanisms, figures presented in table 6.3 for PC 33.2 should be considered as conservative estimates.

- 6 Support to privatisation/de-monopolisation initiatives is absent and should be considered, may be in the form of a compensation fund, in the light of the high costs that the Government would be likely to face if it decided to terminate a monopoly concessions before their expiry date.
- 7 Donors Partners' support on infrastructures has so far privileged road transport whilst support to air/sea transport and telecommunications has been fairly limited. Whilst it is recommended that donors increase their focus on addressing the most binding constraints in the relatively neglected areas, it is understood that this is already happening to a certain extent and that ambitious projects on inter-island shipping, airports upgrading, and underwater cabling are being considered by the Government, Donor Partners, as well as private investors.
- 8 Donors' interventions in power generation have exclusively focused on renewable sources, which is in line with the national energy road-map and the broader climate change agenda. Donors' subsidization of renewables is essential given the relatively high production cost of these sources compared to more traditional ones.

Whilst Aid-for-Trade has so far privileged infrastructural projects it is recommended that Donor Partners positively consider the possibility of providing additional funds to the macro-area of productive sectors (goods and services), an area which hosts a significant number of Barriers to Trade.

6.3 Conclusions

Consultation with Development Partners revealed significant interest in the development of Vanuatu. Over the last decade Donor Partners came to increasingly appreciate the importance of eliminating BTT to support sustainable development. This is demonstrated by the fact that the steady increase in total ODA was mostly due to additional AfT funds. Whilst AfT has so far privileged infrastructural projects it is recommended that Donor Partners positively consider the possibility of providing additional funds to the macro-area of productive sectors (goods and services), an area which hosts a significant number of BTT.

The recent decision by the Vanuatu Council of Ministries to create an AfT Monitoring and Evaluation (M&E) system to track and coordinate Aid for Trade initiatives appears to go in the right direction to improve AfT effectiveness. The M&E system, to be managed by the DET in close cooperation with the Prime Minister's Office Aid Coordination Unit, could also form the basis for the draft of a national AfT policy, to be developed taking into account the forthcoming update of the Pacific AfT strategy.

All Development Partners with one possible exception indicated their willingness to take part as Observers to re-convened National Trade and Development Committee (NTDC). It is believed that donor participation could facilitate the development and funding of clear plans to address BTT. Participation in the NTDC could also facilitate enhanced coordination. This is of particular importance since Donor Partners' coordination on productive sectors appears to be weaker compared to other areas such as health and education.

CHAPTER 07 | TRADE NEGOTIATIONS

7.1 Strategic Directions for Trade Negotiations

It is important to understand that small developing economies such as Vanuatu can benefit from integrating fully within the Pacific region and beyond. While trade facilitation begins at home, and Vanuatu has a lot to achieve as pointed out in the chapter on BTT, the country can further benefit from being part of multilateral, regional and bilateral trade agreements and economic partnerships. It is evident that there is now a real risk that the World Trade Organization (WTO) Doha Round of negotiations may not be concluded in the near future. The immediate trade future for developing economies in the Pacific including Vanuatu will therefore rest on how they negotiate regional and bilateral trade agreements. Considerations of preference erosion also justify the need to size momentum through bilateral/regional trade agreements.

Trade negotiations are a complex tool to achieve a straightforward objective: boosting the domestic economy by facilitating specialization in areas of comparative advantage.

Trade negotiations are a complex tool to achieve a straightforward objective: boosting the domestic economy by facilitating specialization in areas of comparative advantage. An approximate way to identify areas of comparative advantage is to simply look at exports – if a country is exporting a certain good/service this indicates that conditions must exist for that good/service to be internationally competitive.

The analysis undertaken in the previous chapters suggests that likely comparative advantages for Vanuatu lie in the following areas:

1. Tourism
2. Financial/Business/Telecommunication services
3. Services provided by overseas laborers
4. Primary products
5. Manufacturing products obtained from primary products

Evidence also indicates that stronger comparative advantages exist in services (80% of Vanuatu exports) compared to goods (20% of Vanuatu exports). A sensible policy for Vanuatu's negotiators is therefore using the tools provided by trade agreements to increase exports in these areas.

The most challenging aspect in this respect lies in the fact that the country's comparative advantages mostly lie in the services sector.

It is true that benefits from services liberalization can be huge. An illustration on how services liberalization can encourage greater competition and efficiencies is provided by the Airspace Services Agreement between Australia, New Zealand and Vanuatu, which represents one of the key contributors to Vanuatu's growth in the tourism sector.

However, it is also true that formulating services proposals is generally considered to be more difficult than formulating goods proposals: merchandise trade enjoys some statistical basis, a clear measurement of BTT (at least for tariffs, less so for non-tariff barriers) and a long history of negotiations at the global and regional level. Even for larger and more developed economies, however, services negotiations are relatively new, the measurement of BTT is far more challenging, and the balance of concessions is more difficult to assess. It is therefore clear that securing tangible benefits from services negotiations will require significant investment in time, research, and sector-specific analysis. The Vanuatu's TPF identifies some possible areas where Technical and Financial Assistance could be sought in exchange for Vanuatu's commitments in the services sector:

1. De-Monopolization Commitments vs. Assistance to negotiate the breaking monopolies and compensating former monopolists;
2. Commitments to establish Competition Laws/Authority vs. Assistance to set up and operate a competition regime;
3. Commitments to services liberalization;
4. Reciprocal commitments on labor mobility;
5. Commitments to facilitate foreign investments, under the understanding that any such commitments should only be taken just upon careful assessment of potential costs and benefits¹³; and
6. Assistance on training. This type of assistance, when coupled with commitments to facilitate foreign investments, can be crucial to boost Vanuatu's trade competitiveness. With approximately 4,000 school leavers graduating from secondary schools in Vanuatu every year, the demand for educational services is high. Vanuatu needs to add skills and re-skill its human capital into areas where job potentials are high, such as for work in the transportation, insurance and banking, and real estate. If FTAs stimulate foreign direct investments in offshore educational institutions and partnership agreements between Vanuatu's education providers and those in other Parties, access to quality educational services will be a distinct possibility. This will ensure timely production of skilled human resources for key growth sectors and will add significantly to Vanuatu's trade and investment profile.

Vanuatu currently lacks a negotiating strategy on services. To take into account the importance of Vanuatu's trade in services the TPF recommends that such a strategy be urgently drafted to assist trade negotiators. A thorough understanding of the regulatory framework and potential gaps will need to inform the negotiating strategy: as illustrated above, negotiating trade in services should not be narrowly defined as negotiating which services to liberalize but also negotiating how trade in services can better be developed through assistance for undertaking key reforms.

On the goods side, Vanuatu will have an interest in using negotiations to break BTT related to Customs and SPS/TBT issues, and in securing a framework of Rules of Origin (ROO) which is adequate to its processing capabilities. Tariff liberalization should be pursued up to the extent allowed by fiscal considerations. Fiscal stress should be avoided by negotiating adjustment funds and technical/financial assistance to reform the tax system and improve collection of domestic taxes. Protection should be considered for manufacturing products which are obtained from primary products and that are starting to penetrate foreign markets – the *truly infant industries*.

¹³ For example, countries such as Australia have adopted policies of not signing up to Bilateral Investment Treaties due to the risks of inflated compensations being paid to foreign investors.

Country consultations revealed that small scale enterprises claim to face significant foreign competition and that the reduction in tariffs could only compound this problem, generate closures and job losses. The TPF takes the view that this concern is probably overstated. Given the limited nature of *non-infant* manufacturing in Vanuatu, the net effect of tariff reductions will be relatively small. The gains from competition, through cheaper prices for consumers and cheaper inputs for producers, should outweigh the loss due to a few businesses closures whilst at the same time improve Vanuatu's business environment to the benefit of sectors where the country enjoys comparative advantages. On the other hand, given the limited *non-infant* manufacturing base in Vanuatu, it is also true that lack of tariff liberalization for *non-infants* will not be able to damage the country to a great extent.

When engaging with developed countries, Vanuatu's negotiating team will also be tasked to secure additional AfT. The BTT identified in Chapter 5 and the recommendations on AfT provided in Chapter 6 can lay the foundations for the development of a national AfT strategy and monitoring/evaluation system that Department of External Trade (DET) negotiators can use as the basis to secure additional AfT in the context of trade negotiations.

7.2 Current Negotiations and Future Opportunities

Vanuatu is now a WTO member. Joining the WTO gives Vanuatu a seat on the international body establishing trade rules – this is an important advantage as all the Free Trade Agreements (FTA) negotiated by Vanuatu inevitably reflect WTO disciplines. The major challenge ahead for Vanuatu will now be that of devising a comprehensive WTO negotiating strategy, establishing a discrete set of negotiating priorities, building international alliances beyond the Pacific region, and using those alliances to achieve its priorities. The careful drafting of WTO post-accession strategy will also be crucial to implement WTO obligations and benefit from WTO rights – this is true also for other trade arrangement that Vanuatu is currently part of, such as the MSG. The FTA involving Vanuatu are presented in [Table 7.1](#)

FTA	Coverage	Status
Melanesia Spearhead Group (MSG) FTA	1. Trade in Goods 2. Trade in Services 3. Labor Mobility	1. Concluded (under review) 2. Concluded
Economic Partnership Agreement (EPA)	1. Trade in Goods	1. Under negotiations
Pacific Islands Countries Trade Agreement (PICTA)	1. Trade in Goods 2. Trade in Services 3. Labor Mobility	1. Concluded 2. Under Negotiations 3. Under Consideration
Pacific Agreement on Closer Economic Relations (PACER) Plus	1. Trade in Goods 2. Trade in Services 3. Labor Mobility	1. Under Negotiations(X) 2. Under Consideration 3. Under Negotiations

Table 7.1

FTA INVOLVING VANUATU

Source: DET (2012)

Note: (X) = except for tariff liberalization

The MSG FTA is one of the two FTA ratified so far by Vanuatu. The MSG FTA covers Vanuatu, Solomon Islands, Papua New Guinea and Fiji. A progressive schedule of tariff reductions was initiated in 1998 with 100% tariff liberalization envisaged for 2013. Vanuatu and Fiji started to trade under MSG rules without delay and the MSG trade agreement appears to have boosted trade in goods between the two countries. During the period 2002-2009 both Vanuatu exports to Fiji and Fijian exports to Vanuatu increased by around 300%. On average and over the same period Vanuatu exported 7.3% of its goods to Fiji, whilst Fiji exported 7.8% of its goods to Vanuatu.

PICTA was ratified by Vanuatu in 2005. Trade with PICTA countries which are not MSG members is negligible given their limited productive and absorptive capacity.

Looking at the FTAs under negotiation/consideration, the following remarks appear appropriate:

1. The recently concluded MSG's arrangement on labor mobility can allow Vanuatu to address some the skill shortages identified during national consultations. Countries such as Fiji and Papua New Guinea are facing shortage of skilled and potentially unskilled labor and Vanuatu may be able to benefit from those shortages.
2. Given the relevance of the EU market to Vanuatu's exports, incentives are in place for Vanuatu to join an EPA. The option of pulling out of an EPA is less attractive now that Vanuatu stands to lose preferential market access to the EU due to its imminent graduation from Least Developed Country (LDC).
3. PICTA Trade in Services may provide some benefits to Vanuatu. A labor mobility agreement under PICTA could be mutually beneficial given existing labor shortages in some PICTA countries which are not MSG members.
4. PACER Plus can provide significant benefits on the condition that Vanuatu is able to formulate negotiating proposals conducive to the elimination of BTT in the services sector, and to secure a good deal on labor mobility for low-skilled/semi-skilled workers. With surplus labor and lack of employment opportunities in Vanuatu, one of the biggest gains for the country can come from increased labor market access. On trade in goods Vanuatu will benefit for tariff liberalization given Australian and New Zealand's comparative advantages in this area – Vanuatu already imports 50% of its goods from these two countries. In reducing tariffs, attention should be given to protect fiscal revenues and Vanuatu's *truly infant industries*. Vanuatu should seek to secure ROO adequate to its processing capabilities and seek assistance on Customs and SPS/TBT issues.

¹⁴ Consideration could be given as to whether the suggested agreements could be better entered into regionally or sub-regionally.

Since benefits from an FTAs will be directly proportional to the level of pre-existing trade flows between prospective partners, Vanuatu might also wish to pursue a series of bilateral trade agreements¹⁴ with a discrete number of countries which are excluded by current negotiations, and in particular:

1. New Caledonia, one of the key export markets for Vanuatu's goods and services;
2. Japan, one of the key export markets for Vanuatu's goods and a market with significant potential for trade in services; and
3. China, one of the biggest import markets for Vanuatu and a market with significant export potential in goods and services.

7.3 Conclusions

Trade negotiations have the potential to boost Vanuatu's exports in areas of comparative advantage. Vanuatu needs to frame negotiating proposals aimed at eliminating key BTT in those areas, in particular on services and labor mobility. On the goods side, offensive interests are more limited but benefits can be achieved if smart concessions on tariff liberalization are coupled with assistance to overcome BTT related to Customs and SPS/TBT issues and support to *truly infant industries*.

Form an organizational point of view the TPF welcomes the recent decision by the Council of Ministries about the leading role that the NTDC should have in coordinating inputs from national stakeholders, building consensus around negotiating priorities and providing clear mandates to DET negotiators.

The Department of External Trade takes the view that the following set of recommendations represents a comprehensive Trade Policy Framework suitable to guide public policy for the years to come. A national consensus around these statements was sought and found via comprehensive national consultations and a national validation workshop.

These recommendations represent a comprehensive Trade Policy Framework suitable to guide public policy for the years to come.

8.1 Overarching Recommendations

- I. The limited size of Vanuatu's domestic market implies that in order to find its way out of poverty and into development Vanuatu must necessarily export increased quantities of goods and services. In other words, increasing Vanuatu's export competitiveness represents the key strategy to boost Vanuatu's development.
- II. Vanuatu should re-establish a prudent fiscal policy as a precondition for a sustainable export-led economic growth, and improve coordination with monetary policy.

8.2 Sector-specific Recommendations

- III. To boost exports of goods Vanuatu's productive capacity for commodities where the country enjoys a comparative advantage must be prioritized. These commodities include fish, coconut, cocoa beans, kava, beef, timber, sandalwood, root crops, and coffee beans. Agricultural expansion will offer job opportunities in the rural areas and provide Vanuatu's *truly infant industries* such as essential oils, meal of root crops, coffee, medicaments, food preparations, and art crafts, with the necessary raw materials for mass production.
- IV. In the context of primary industries the fishery sector is performing below potential. A comprehensive Fisheries Development Policy covering options to further develop opportunities from aquaculture, coastal and oceanic fisheries must urgently be drafted to lay the foundations for the provision of greater benefits to the broad Ni-Vanuatu population.
- V. Indiscriminate policies of import substitution have substantially failed to achieve any significant result. Tariff protection and duty exemptions for manufacturing businesses without linkages to the primary sector have failed to transform those businesses in leading exporters. Whilst economic considerations can justify protection for Vanuatu's *truly infant industries*, protection for non-infants is not recommended.
- VI. Over the past decade export of services generated foreign exchange earnings which were around five times those generated by exports of goods. Future growth of Vanuatu's exports will be mainly based on trade in services. Vanuatu is currently lacking an overarching Services Policy and this should be urgently

developed. Vanuatu’s Services Policy will refine strategic options to increase exports in areas of comparative advantage such as tourism, labor mobility, banking, telecommunications, business and environmental services (including carbon trading).

VII. Tourism is currently representing the major engine of export-led growth. Key policy options to further increase export earnings should include:

- increase support to Ni-Vanuatu SMEs in particular with the creation of a comprehensive training program for reserved tourism activities;
- draft and implement a Zoning Policy;
- draft and implement a Traditional Knowledge, Cultural Expressions, and Bio-Diversity Policy which should, inter-alias, identify and stimulate links between tourism and indigenous art/music;
- draft and implement a Cruise Ship Policy;
- negotiate the opening of new air connections with promising countries of origin, notably in Asia;
- create of a comprehensive tourism dataset to guide tourism policy; and
- improve value adding for urban tourism, notably through initiatives of waterfront regeneration, broad-based environmental education, and improved linkages with the primary and agro-industry sectors.

8.3 Recommendations to Break Systemic Barriers to Trade

VIII. The VISIP prioritization exercise identifies priority infrastructural projects for Vanuatu (see Table 8.1). In addition, a number of additional infrastructural projects are currently being implemented (renewable energy projects in outer islands) or are in the process of being implemented (an inter-island shipping program and a project to upgrade Ifira Port in the capital city). The VISIP priority projects must be staged appropriately and implemented. Amongst the priority projects, the Submarine Broadband Cable has the potential to deliver very significant benefits to Ni-Vanuatu. The budget of Government Departments tasked to maintain infrastructures must increase proportionally to the extension of the infrastructural network.

URBAN FOCUS	RURAL FOCUS
Port Vila & Luganville Urban Development Project	Series of rural road rehabilitation projects
Bauerfield Airport Improvement	Series of provincial water supply projects
Efate Geothermal Plant	
Submarine Broadband Cable to Fiji	
Solid Waste Management Projects in Port Vila & Luganville	
Upgrading of Santo Main Wharf	

TABLE 8.1

VISIP PRIORITY INFRASTRUCTURE PROJECTS

Source: VISIP prioritization tool

IX. Reservation of inter-island shipping activities appears to discourage the establishment of a healthy and transparent inter-island shipping service, and to create opportunities for rent-seeking. Inter-island shipping should be further liberalized by amending the list of reserved activities under the VIPA Act.

X. Land issues must be addressed via a comprehensive program of land registration and evaluation in urban and rural areas, and the introduction of legal reforms necessary to implement land zoning.

XI. A Competition Policy and law must be drafted and a Competition Authority established. Vanuatu's competition authority would be tasked to enforce competition in those sectors which are already liberalized. It could also provide technical advice to the Government and generate public awareness on the implications of introducing competition into new sectors.

XII. Customs clearance time must be reduced by establishing a training and certification system for pre-clearance agents and by providing adequate port infrastructures for Customs inspection.

XIII. Stevedoring concessions should be revised through negotiations. Donor Partners should support the Government by providing technical advice and adjustment funds.

XIV. A comprehensive SPS/TBT policy must be drafted to clearly allocate responsibilities amongst the various entities playing a role in this area, identify and cost missing facilities. The Department of Quarantine must be urgently provided by state-of-the art post-harvest facilities, including facilities for bio-treatment (fumigation), inspection facilities (collection points for checking and certifying), quarantine laboratories (to test for pest and diseases). The Food Technology Development Centre must be equipped with a food laboratory to test food safety and quality and support the development of Standards to ensure conformance and quality assurance.

XV. Implement the Act establishing a Chamber of Agriculture and/or strengthen existing intermediate organizations to allow Government authorities to structurally engage farmers on SPS/TBT and agricultural issues.

XVI. The VCMB should be liquidated and closed as it simply duplicates functions which are currently undertaken by the Department of Quarantine with the result of increasing costs and reducing competitiveness of Vanuatu's commodities.

XVII. Analytical tools to estimate labor demand and current/prospective supply must be established and regularly updated. This is essential for the successful conduction of Education, TVET and labor policies (including policies on labor mobility).

XVIII. Vanuatu's pool of teachers must be increased and upgraded, in particular in areas such as Accounting, Economics, ICT, and Science subjects.

XIX. Vanuatu's school curriculum must be revised to make it more relevant to the needs of the labor market. A National Qualification Framework must be developed.

XX. Assessment of quality and relevance of TVET providers must be improved and the VNTEC must be provided sufficient resources to comply with its mandate.

XXI. Tertiary education providers should be bundled under the umbrella of a Vanuatu National University. The Fijian and Samoan models of amalgamation may provide examples of legislative framework which could be used to create such an entity.

XXII. A careful Language Policy to promote both English and French as national languages should be explored to provide Vanuatu with a competitive edge to trade with French territories in the Pacific and to attract investments.

XXIII. The Department of External Trade must re-convene the National Trade and Development Committee (NTDC) as the high-level inter-ministerial decision-making body on trade policy.

XXIV. The drafting of a Vanuatu Trade Act must be pursued as and the next logical step following approval of the TPF.

XXV. There is high potential for VIPA/VTO to work very closely with the Department of Foreign Affairs and Vanuatu's diplomatic missions. Financial resources should be provided to pilot participation of VIPA/VTO in key diplomatic missions

XXVI. A VIPA Investment Promotion Strategy Framework is currently missing and should be urgently drafted.

National stakeholders agreed that recommendations of the Vanuatu Trade Policy Framework will be used to establish a comprehensive medium-term implementation plan which allocates responsibilities to suitable leading agencies, establishes timelines for delivery, and defines clear performance indicators to track progress towards agreed objectives.

8.4 Recommendations on Aid-for-Trade

XXVII. To improve Aid-for-Trade effectiveness:

- Donor Partners must avoid unnecessary policy inflation and focus their assistance on supporting the implementation existing policies for the productive sectors.
- AfT allocated to Vanuatu must be fully aligned with Vanuatu's comparative advantages and with the need to break Barriers to Trade. In order for alignment to be improved, support to tertiary productive sectors (services) should not only be limited to tourism.
- Support to the primary and secondary productive sectors must also be increased focused towards:
 - o Enhancing productive capacity for either food or industrial/export crops.
 - o Supporting the agro-industry.

8.5 Recommendations on Trade Negotiations

XXVIII. Vanuatu should draft a comprehensive WTO negotiating strategy, establishing a discrete set of WTO negotiating priorities, building international alliances beyond the Pacific region, and using those alliances to achieve its priorities. Vanuatu should also draft a WTO post-accession strategy.

XXIX. Services negotiations must be prioritized because 80% Vanuatu's comparative advantages lie in the services sector. Vanuatu currently lacks a negotiating strategy

on services. To take into account the importance of Vanuatu's trade in services the TPF recommends that such a strategy be urgently drafted to assist trade negotiators. The Vanuatu's TPF tentatively identifies some possible areas where Technical and Financial Assistance could be sought in exchange for Vanuatu's commitments in the services sector:

- De-Monopolization Commitments vs. Assistance to negotiate the breaking monopolies and compensating former monopolists
- Commitments to establish Competition Laws/Authority vs. Assistance to set up and operate a competition regime
- Commitments to services liberalization
- Commitments to facilitate foreign investments
- Reciprocal commitments on labor mobility
- Assistance on training

XXX. On the goods side, Vanuatu must use negotiations to break BTT related to Customs and SPS/TBT issues, and to secure a framework of Rules of Origin (ROO) which is adequate to its processing capabilities. Tariff liberalization should be pursued up to the extent allowed by fiscal considerations. Protection should be considered for manufacturing products which are obtained from primary products and that are starting to penetrate international markets – the *truly infant industries*.

XXXI. Vanuatu must prioritize agreements that can provide significant benefits:

- Implementation of the MSG's arrangements on labor mobility, given labor shortages in countries such as Fiji and Papua New Guinea.
- An EPA, given the relevance of the EU market to Vanuatu's exports and the fact that Vanuatu stands to lose preferential market access to the EU due to its imminent graduation from Least Developed Country (LDC).
- A PICTA agreement on labor mobility, given existing labor shortages in some PICTA countries which are not MSG members.
- PACER Plus, given the potential benefits arising from the elimination of BTT in the services sector, and from securing a good deal on labor mobility for low-skilled/semi-skilled workers. On trade in goods Vanuatu will benefit for tariff liberalization given Australian and New Zealand's comparative advantages in this area. In reducing tariffs, attention should be given to protect fiscal revenues and its *truly infant industries*. Vanuatu should seek to secure ROO adequate to its processing capabilities and seek assistance on Customs and SPS/TBT issues.
- Bilateral trade agreements with a discrete number of countries which are excluded by current negotiations, and in particular New Caledonia, Japan, and China.

A summary of the Trade Policy Framework recommendations is provided in Table 8.2, which concludes this document. National stakeholders agreed that those recommendations will be used to establish a comprehensive medium-term implementation plan which allocates responsibilities to suitable leading agencies, establishes timelines for delivery, and defines clear performance indicators to track progress towards agreed objectives. The medium-term implementation plan will represent the key strategic tool to manage the workings of the National Trade Development Committee.

Table 8.2 SUMMARY OF TPF RECCOMENDATIONS

No.	RECCOMENDATIONS
OVERARCHING	
I	Increasing Vanuatu's export competitiveness represents the key strategy to boost Vanuatu's development
II	Re-establish a prudent (anti-cyclical) fiscal policy and improve coordination with monetary policy
SECTOR-SPECIFIC	
III	Expand production for commodities where the country enjoys a comparative advantage such as fish, coconut, cocoa, kava, beef, timber, sandalwood, root crops, and coffee to provide job opportunities and support Vanuatu's <i>truly infant industries</i>
IV	Draft a comprehensive Fisheries Development Policy to enhance development opportunities from coastal and oceanic fisheries and aquaculture
V	Pursue performance-based import substitution in respect to <i>truly infant industries</i>
VI	Draft an overarching Services Policy to increase exports in areas of comparative advantage such as tourism, labor mobility, banking, telecommunications, business, and environmental services (including carbon trading)
VII	<p>To further develop tourism exports:</p> <ul style="list-style-type: none"> • boost training for reserved tourism activities • draft a Zoning Policy • draft a Traditional Knowledge, Cultural Expressions, and Bio-Diversity Policy • draft a Cruise Ship Policy <ul style="list-style-type: none"> • negotiate the opening of new air connections with promising countries of origin, notably in Asia; • create of a comprehensive tourism dataset • improve value adding for urban tourism, notably through initiatives of waterfront regeneration, broad-based environmental education, and improved linkages to the primary and agro-industry sectors.
BREAKING BARRIERS TO TRADE	
VIII	Implement the VISIP priority projects and increase operational budget of Government Departments tasked to maintain infrastructures proportionally to the extension of the infrastructural network. The Submarine Broadband Cable has the potential to deliver very significant benefits to Ni-Vanuatu
IX	Further liberalize inter-island shipping by amending the list of reserved activities under the VIPA Act
X	Implement a comprehensive program of land registration and evaluation in urban and rural areas, and introduce legal reforms necessary to implement land zoning

 BREAKING BARRIERS TO TRADE cont.

XI	Draft and implement a Competition Policy and law and establish Competition Authority
XII	Establish a training and certification system for pre-clearance agents and provide adequate port infrastructures for Customs inspection
XIII	Revise stevedoring concessions through negotiations. Secure support from Donor Partners via technical advice and adjustment funds
XIV	Draft a comprehensive SPS/TBT policy allocating responsibilities amongst the various entities, identifying and costing missing facilities. Provide the Department of Quarantine with state-of-the-art post-harvest facilities, including facilities for bio-treatment, inspection facilities, and quarantine laboratories. Provide the Food Technology Development Centre with a food laboratory to test food safety and quality and support the development of Standards to ensure conformance and quality assurance
XV	Implement the Act establishing a Chamber of Agriculture and/or strengthen existing intermediate organizations
XVI	Liquidate and close the Vanuatu Commodity Marketing Board
XVII	Establish analytical tools to estimate labor demand and current/prospective supply and ensure regular updating to support the conduction of Education, TVET and labor policies (including labor mobility policies)
XVIII	Increase and upgrade Vanuatu's pool of teachers, in particular in areas such as Accounting, Economics, ICT, and Science subjects
XIX	Revise Vanuatu's school curriculum to make it more relevant to the needs of the labor market and develop a National Qualification Framework
XX	Provide additional resources to the VNTC to improve assessment of quality and relevance of TVET providers
XXI	Bundle tertiary education providers under the umbrella of a Vanuatu National University drawing upon the the Fijian and Samoan models of amalgamation
XXII	Draft a Language Policy to promote both English and French as national languages
XXIII	Re-convene the National Trade and Development Committee (NTDC) as the high-level inter-ministerial decision-making body on trade policy
XXIV	Draft a Vanuatu Trade Act
XXV	Pilot participation of VIPA/VTO in key diplomatic missions
XXVI	Draft a VIPA Investment Promotion Strategy Framework

AID FOR TRADE EFFECTIVENESS

To improve Aid-for-Trade effectiveness:

- Donor Partners must avoid unnecessary policy inflation and focus their assistance on supporting the implementation existing policies for the productive sectors.
- Aid for Trade allocated to Vanuatu must be fully aligned with Vanuatu’s comparative advantages and with the need to break Barriers to Trade. In order for alignment to be improved, support to tertiary productive sectors (services) should not only be limited to tourism
- Support to the primary and secondary productive sectors must also be increase and focused towards:
 - Enhancing productive capacity for either food or industrial/export crops
 - Supporting the agro-industry

TRADE NEGOTIATIONS

XXVIII Draft a comprehensive WTO negotiating strategy to establish a discrete set of WTO negotiating priorities, and build international alliances beyond the Pacific region. Draft a WTO post-accession strategy

XXIX Prioritize services negotiations and draft a negotiating strategy on services. Identify areas where Technical and Financial Assistance could be sought in exchange for Vanuatu’s commitments in the services sector - for example: (i) De-Monopolization Commitments vs. Assistance to negotiate the breaking monopolies and compensating former monopolists; (ii) Commitments to establish Competition Laws/Authority vs. Assistance to set up and operate a competition regime; (iii) Commitments to services liberalization; (iv) Reciprocal commitments on labor mobility; (v) Commitments to facilitate foreign investments; and (vi) Assistance on training

XXX Use goods negotiations to break BTT related to Customs and SPS/TBT issues, and to secure a ROO framework which is adequate to Vanuatu’s processing capabilities. Pursue tariff liberalization up to the extent allowed by fiscal considerations. Protect the *truly infant industries*

XXXI Vanuatu must prioritize agreements that can provide significant benefits:

- Implementation of the MSG’s arrangements on labor mobility
- An EPA
- A PICTA agreement on labor mobility
- PACER Plus.

Bilateral trade agreements with New Caledonia, Japan, and China.

47 | APPENDIX A.1 | MERCHANDISE EXPORTS

Table A1.1 VANUATU EXPORTS, VT MILLION,

HS Code	HS Description	2000	2001	2002	2003
0303	Fish, frozen, whole	1053	920	1453	3420
0302	Fish, fresh or chilled, whole	10	3	0	3
0301	Live fish	2	7	9	41
0305	Fish, cured, smoked, fish meal for human consumption...	0	0	0	1
0304	Fish fillets, fish meat, mince except liver, roe	1	1	4	8
2936	Provitamins and vitamins, their derivatives	0	0	5	5
1203	Copra	781	359	217	355
1513	Coconut, palm kernel, babassu oil, fractions, refi...	61	129	424	168
1211	Plants, plant parts for perfumery, pharmacy, etc,	164	239	115	105
1801	Cocoa beans, whole or broken, raw or roasted	188	60	272	329
1212	Locust beans, seaweed, sugar beet, cane, for food	10	11	79	98
0202	Meat of bovine animals, frozen	191	147	76	135
4407	Wood sawn, chipped lengthwise, sliced or peeled	140	64	23	31
3301	Essential oils, resinoids and terpenic by-products	0	0	5	1
2306	Oil-cake other than soya-bean or groundnut	6	7	35	50
4101	Raw hides and skins of bovine, equine animals	30	27	19	28
0201	Meat of bovine animals, fresh or chilled	0	0	0	15
1106	Flour and meal of legumes, roots, tubers, nuts, ci...	0	4	4	2
0307	Molluscs	26	15	7	9
4420	Ornaments of wood, jewel, cutlery caskets and case...	0	12	4	8
0508	Coral, shell, cuttle bone, etc, unworked, and wast...	8	12	8	24
1209	Seed, fruit and spores, for sowing	1	0	3	4
1515	Fixed veg fat, oil, fractions, not chemically modi...	0	1	4	7
2106	Food preparations, nes	0	1	0	0
0901	Coffee, coffee husks and skins and coffee substitu...	0	0	1	0
0206	Edible offal of domestic animals	2	1	0	2
3304	Beauty, make-up and skin care preparations	0	0	6	0
3004	Medicaments, therapeutic, prophylactic use, in dos...	0	1	0	1
0805	Citrus fruit, fresh or dried	0	0	0	0
0904	Pepper (Piper), crushed or ground Capsicum, Piment...	0	2	1	0
	Others	410	406	609	535
	TOTAL (excl. HS 70 to 90)	3085	2429	3385	5386
	TOTAL (excl. HS 3 and 70 to 90)	1994	1483	1913	1904

EXCLUDES HS CHAPTERS 70 TO 90

Source: WITS (mirror data)

2004	2005	2006	2007	2008	2009	2010	Average growth rate	Average share (fish)	Average share (no fish)
12303	14207	19263	20613	20077	13510	19034	33.6	80.8	..
33	0	0	120	0	225	216	36.6	0.4	..
53	93	58	22	33	21	36	32.5	0.2	..
1	0	0	17	30	11	26	61.0	0.1	..
6	2	41	3	3	33	23	46.5	0.1	..
8	29	1	6	5	6	9	..	0.0	..
982	268	616	690	1205	220	606	-2.5	4.0	22.0
997	1015	312	226	1226	206	527	24.0	3.4	18.5
107	234	319	414	442	417	437	10.3	1.9	10.5
185	170	271	327	248	308	588	12.1	1.9	10.3
293	285	482	334	266	143	5	-5.5	1.3	7.0
126	155	163	148	245	81	128	-3.9	1.0	5.6
87	58	52	44	37	26	27	-15.3	0.4	2.1
50	31	52	76	80	45	52	100.6	0.3	1.4
88	94	18	27	28	0	22	14.0	0.2	1.3
35	41	39	50	38	21	13	-7.7	0.2	1.2
4	53	103	50	44	2	15	..	0.2	1.0
3	4	1	51	97	25	81	70.3	0.2	1.0
9	14	53	11	9	11	10	-9.3	0.1	0.6
4	7	8	21	20	21	12	38.6	0.1	0.4
5	3	9	15	8	16	9	0.8	0.1	0.4
6	12	27	7	23	6	5	22.5	0.1	0.3
5	7	5	11	2	10	31	65.8	0.1	0.3
1	2	9	16	8	12	16	60.0	0.0	0.2
0	8	47	0	0	1	6	54.9	0.0	0.2
3	8	8	6	14	6	5	8.6	0.0	0.2
1	2	8	7	12	9	4	..	0.0	0.2
0	11	3	2	0	8	18	49.1	0.0	0.2
1	4	6	3	5	5	4	..	0.0	0.1
0	0	0	0	0	0	8	52.5	0.0	0.0
758	249	251	415	253	309	217	-6.2	2.8	15.4
16154	17064	22226	23730	24460	15715	22191	21.8
3750	2748	2810	2945	4307	1904	2847	3.63

Table A1.2 VANUATU EXPORTS, VT MILLION, TOP 20 DESTINATIONS,

DESTINATION	2000	2001	2002	2003	2004
Thailand	3202	6411	11355	27491	105846
Japan	12170	7148	4357	8048	16850
Belgium	4250	1108	893	772	10928
New Caledonia	0	1112	1143	1419	1736
Germany	3695	1520	840	1390	5453
Philippines	0	0	0	0	0
Fiji	0	0	752	940	2928
Singapore	647	338	1835	2382	1616
Australia	360	1614	2349	1229	2012
Mexico	0	0	0	0	1191
USA	765	831	2717	793	905
Malaysia	730	27	610	575	151
France	574	255	1206	1320	1035
New Zealand	377	676	551	316	663
Cuba	0	0	0	0	0
China, Hong Kong SAR	798	690	1104	850	782
United Kingdom	13	72	667	249	508
Other Asia, nes	927	832	174	384	567
Viet Nam	0	0	0	0	0
Netherlands	599	3	532	0	615

EXCLUDES HS CHAPTERS 70 TO 90

Source: WITS (mirror data)

2005	2006	2007	2008	2009	2010	Average growth rate	Average share
119985	158327	173405	172196	102395	131411	45.0	64.9
15773	29265	33611	30814	25439	57372	16.8	15.5
7673	6668	1779	10255	1378	9	-45.7	2.9
1855	2984	2861	3529	3973	3389	13.2	1.5
3412	1815	552	182	932	2607	6.2	1.4
0	1726	3853	9350	1382	6064	36.9	1.4
2862	4787	3415	2711	2187	..	16.5	1.3
1148	1320	2377	918	2282	2653	25.7	1.1
3339	2232	1641	1358	277	924	-6.0	1.1
0	6185	2471	0	978	4198	..	1.0
1091	1008	922	975	1326	1305	5.1	0.8
74	222	862	4157	1789	1515	56.2	0.7
493	605	874	1895	203	1797	24.2	0.7
343	375	1202	1608	573	1608	10.1	0.5
8031	0	0	0	0	0	..	0.5
503	651	780	316	206	200	-12.9	0.4
1482	852	680	634	538	535	25.0	0.4
184	216	195	10	1012	1726	8.4	0.4
0	0	0	0	6127	0	..	0.4
523	116	819	336	391	2103	109.7	0.4

Table A1.3 VANUSTU EXPORTS, VT MILLION, TOP 20 DESTINATIONS,

DESTINATION	2000	2001	2002	2003	2004
Belgium	425	111	89	77	1093
Japan	398	430	251	282	242
New Caledonia	0	110	114	142	174
Germany	369	152	82	138	545
Philippines	0	0	0	0	0
Fiji	0	0	72	94	288
Singapore	65	33	183	237	161
Australia	34	156	231	104	188
Malaysia	73	3	61	57	15
France	49	23	121	132	103
USA	76	82	145	46	47
New Zealand	38	68	55	32	66
China, Hong Kong SAR	63	56	105	79	74
Netherlands	59	0	53	0	61
Bangladesh	0	0	93	198	129
United Kingdom	1	6	66	25	50
Papua New Guinea	0	27	130	146	199
Thailand	0	5	0	0	4
Other Asia, nes	93	83	17	38	57

EXCLUDES HS CHAPTERS 70 TO 90 AND HS CHAPTER 3

Source: WITS (mirror data)

2005	2006	2007	2008	2009	2010	Average growth rate	Average share
767	667	178	1025	138	1	-45.7	16.2
201	207	154	263	103	144	-9.7	9.5
186	298	286	353	397	339	13.3	8.5
334	180	52	2	84	247	-3.9	7.8
0	48	385	935	138	606	88.6	7.5
285	479	342	271	219	..	17.3	7.3
114	132	237	91	153	234	13.7	5.8
322	207	145	125	11	79	8.6	5.7
7	22	86	416	179	151	7.6	3.8
48	60	87	189	20	177	13.6	3.6
59	70	76	83	118	125	5.1	3.3
34	37	120	160	38	125	12.7	2.7
33	58	72	29	20	17	-12.1	2.2
50	11	77	26	29	203	13.2	2.0
0	2	129	0	0	0	..	2.0
138	78	57	53	37	38	39.6	1.9
0	0	0	0	0	0	..	1.8
7	63	254	91	3	0	-9.6	1.5
18	22	19	1	11	15	-16.5	1.3

Table A2.1 VANUATU IMPORTS, VT MILLION, BY HS SECTION

HS Section	2002	2003	2004	2005	2006	2007
XVI - Machinery, Appliances, etc.	1502	1356	1719	2014	2684	3168
VI - Products of the Chemicals or Allied Industries	1637	1334	1524	2532	2340	2724
IV - Prepared Food, Beverages, Spirits, Tobacco	1265	1452	1443	1586	1731	2074
XVIII - Optical, Photographic, medical instruments etc.	738	695	940	1286	1834	1827
Section II - Vegetable Products	951	1030	1497	1181	1321	1463
XV - Base Metals and Articles of Base Metal	629	649	881	977	1163	1483
Section XI - Textile and Textile Articles	516	582	652	1004	849	907
Section I - Live Animals; Animal Products	343	397	422	447	517	627
Section V - Mineral Products	333	360	395	462	560	648
Section X - Pulp of Wood, Paper, etc.	230	243	199	260	343	399
Section IX - Wood, Articles of Wood, etc.	244	208	236	274	314	343
Other Sections	1334	1250	1229	1385	1947	1984
TOTAL	9723	9555	11136	13408	15603	17648

Table A2.2 VANUATU IMPORTS, VT MILLION, TOP 5 ORIGINS

	2002	2003	2004	2005	2006
Australia	4411	4497	5319	5624	6756
New Zealand	2081	2056	1931	2262	3085
China	298	342	562	708	918
Fiji	621	604	726	847	1108
France	625	551	483	503	779

Source: DCIR (2012)

2008	2009	2010	2011	2008	2009	2010	Average growth rate	Average share
5052	3783	3181	2737	6.9	17.1	1	-45.7	16.2
2745	3442	2928	2733	5.9	15.1	144	-9.7	9.5
2504	2433	2555	2885	9.6	12.5	339	13.3	8.5
2492	1991	1942	1524	8.4	9.6	247	-3.9	7.8
1938	1930	798	660	-4.0	8.0	606	88.6	7.5
1911	2141	1453	1327	8.6	7.9	..	17.3	7.3
877	1055	1518	1129	9.1	5.7	234	13.7	5.8
784	786	970	1062	13.4	4.0	79	8.6	5.7
857	746	692	510	4.8	3.5	151	7.6	3.8
623	577	583	545	10.1	2.5	177	13.6	3.6
485	392	398	378	5.0	2.1	125	5.1	3.3
3065	2820	2107	1683	2.6	11.8	125	12.7	2.7
23332	22097	19127	17172	6.5	100.0	17	-12.1	2.2

Source: DCIR (2012)

2007	2008	2009	2010	2011	Average growth rate	Average share
6785	8032	8042	7920	7373	5.9	37.1
3931	4061	3946	3693	3426	5.7	17.4
1255	2493	2892	2701	1847	22.5	8.0
1487	2087	2069	2005	2084	14.4	7.8
669	1428	669	594	815	3.0	4.1

Table A3.1 LIST OF BILATERAL CONSULTATION MEETINGS

No.	Date/Time	Date/Time	Person(s) consulted
01	Tuesday 07 February	10:00 – 11:00	Director
02	Tuesday 14 February	10:00-11:00	Director & DG MTCIT/MNVB
03	Tuesday 14 February	15:00-16:00	Director
04	Wednesday 15 February	08:30-09:30	Director and Senior Officials
05	Wednesday 15 February	10:00-11:00	Senior Representatives
06	Wednesday 15 February	13:30-14:30	Senior Representatives
07	Wednesday 15 February	15:00-16:00	Acting Director, General Manager Food Centre, focal point PHAMA
08	Thursday 16 February	07:30-08:20	Director
09	Thursday 16 February	08:30 – 09:30	DG MAQFF
10	Thursday 16 February	11:30-12:30	Acting Director
11	Thursday 16 February	13:30-14:30	Senior Officials
12	Thursday 16 February	15:00-16:00	Acting Director
13	Friday 17 February	08:30-09:30	Directors & DG Education
14	Friday 17 February	10:00-11:00	Chief Executive Officer
15	Friday 17 February	11:30-12:30	Commissioner
16	Friday 17 February	13:30-14:30	Director
17	Friday 17 February	15:00-16:00	CEO
18	Friday 17 February	16:30-17:30	Acting Director and Senior Officials
19	Monday 20 February	07:30-08:20	Director
20	Monday 20 February	10:00-11:00	Senior Officials
21	Monday 20 February	11:30-12:30	Head and Senior Officials/Second Secretary
22	Monday 20 February	13:30-14:30	Senior Representatives
23	Monday 20 February	15:00-16:00	Deputy Ambassador
24	Monday 20 February	16:30-17:30	Head(s)
25	Wednesday 22 February	07:30-08:20	Head(s)
26	Wednesday 22 February	08:30-09:30	Resident Representative and Senior Officials
27	Wednesday 22 February	13:00-14:00	Acting CTA
28	Wednesday 22 February	14:00-15:00	Director
29	Wednesday 22 February	15:00 – 16:00	Senior Officials
30	Wednesday 22 February	16:30 – 17:30	Director and Senior Officials
31	Wednesday 22 February	17:30 – 18:30	Head(s)
32	Thursday 23 February	09:00 – 10:00	DG, Director Trade
33	Thursday 23 February	10:15 – 11:15	Senior Representative
34	Thursday 23 February	11:30 – 12:30	Acting Director
35	Thursday 23 February	17:30 – 18:30	Team Leader

Organization	Ministry
VNSO	MFEM
Department of External Trade	MTCIT
Vanuatu Cultural Centre	..
Department of Tourism	MTCIT
Vanuatu Chamber of Commerce	MTCIT
RBV	..
Department of Quarantine and Livestock, & the Food Centre	MAQFF
Department of Cooperative and Ni-Vanuatu Business	MNVB
..	MAQFF
Department of Forestry	MAQFF
Department of Customs	MFEM
Public Works	MIPU
Department of Education	ME
Vanuatu National Training Council	ME
Department of Labor	MIA
Department of Land	ML
VIPA	ML
Department of Finance	MFEM
Department of Agriculture	MAQFF
Prime Minister Office	PMO
AusAID/AUS High Commission	..
NZAID	..
France	..
UN	..
EU	..
JICA	..
OCTA	..
Department of Foreign Affairs	MFA
Energy Unit	ML
Department of Industry	MTCIT
ADB/WB/IFC	..
MSG	..
China	..
Department of Environment	MIA
Vanuatu Overarching Productive Sector Policy Consulting Team	..

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