



TRADE POLICY REVIEW

REPORT BY

SOLOMON ISLANDS

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Solomon Islands is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Solomon Islands.

Contents

1 ECONOMIC ENVIRONMENT	3
1.1 Overview.....	3
1.2 Economic Growth	3
1.3 Fiscal Policy	3
1.4 Monetary Policy.....	4
1.5 National Debt.....	4
1.6 Inflation	4
1.7 Trade, Balance of Payments and Foreign Direct Investment	4
1.8 Sectoral Performance	5
1.9 Economic Challenges and Reform Efforts.....	6
1.10 Constitutional Reform.....	6
1.11 LDC Graduation	6
2 TRADE AND TRADE RELATED POLICIES.....	7
2.1 Diagnostic Trade Integration Study and Trade Policy Framework	7
2.2 Trade in Services and Investment	7
2.3 Most Favoured Nation (MFN) Tariffs.....	7
2.4 Export Taxes and Import Duties	7
2.5 Competition Policy	8
2.6 Intellectual Property	8
3 TRADE NEGOTIATIONS AND RELATIONSHIPS.....	8
3.1 Bilateral	8
3.1.1 Future Relations	8
3.2 Regional.....	9
3.2.1 Melanesian Spearhead Group	9
3.2.2 Pacific Island Countries Trade Agreement	9
3.2.3 Pacific Agreement on Closer Economic Relations Plus	9
3.2.4 Economic Partnership Agreement and Interim Economic Partnership Agreement	10
3.3 Multilateral Trading Arrangements under the WTO.....	10
3.3.1 Aid for Trade.....	10
3.3.2 Trade Facilitation Agreement	10
3.3.3 Fisheries Subsidies.....	10
3.3.4 Special and Differential Treatment: Small and Vulnerable Economies.....	11
4 CONCLUSION.....	11

1 ECONOMIC ENVIRONMENT

1.1 Overview

1.1. Since the last Trade Policy Review in 2009, Solomon Islands has made a number of important steps towards improving its trading and wider economic environment. As a result, the economic performance of Solomon Islands has been less volatile than previous years, with both the economy and the trade balance growing.

1.2. Furthermore, Solomon Islands has adopted legislation on customs valuation; notified its Category A commitments under the Trade Facilitation Agreement (TFA), which Solomon Islands intends to ratify once technical assistance requirements have been identified; adopted public procurement legislation; formulated a dedicated Trade Policy Framework (TPF) to guide Solomon Islands' trade, industry, investment and economic agenda over the coming years; made progress in the fisheries sector and set up an effectively functioning National Trade Development Council, the only cross government, private sector and civil society committee dedicated to ensuring the trade agenda is well captured within the wider national development strategy.

1.3. As a small island state with limited domestic capacity, trade is an integral part of the Solomon Islands' economy. This reliance on trade underpins the Solomon Islands' commitment to pursuing policies which promote the expansion of a liberal trading regime and greater diversification of domestic production to secure more value added from exported goods and services. Though Solomon Islands relies to a greater extent on preferential trading arrangements than on the multilateral agreements headed by the WTO, it still recognises the importance of the WTO in delivering global economic growth and seeks to work cohesively with other members to pursue a beneficial global trading regime. As such, Solomon Islands fully supports the conclusion of the Doha Development Round to achieve concrete developmental outcomes.

1.2 Economic Growth

1.4. Growth in the Solomon Islands' economy has markedly improved since the last Trade Policy Review. During the Global Financial Crisis in 2009, the economy suffered a severe downturn but quickly recovered registering 7.9% real GDP growth in 2010. Since 2011, growth rates have trended downwards but remained relatively stable since 2013, recording 2.9% growth in 2015. From 2016, GDP growth is predicted to remain steady, despite the expected declines in exports of primary commodities and the continued depression in the global economy. This growth should be driven by expansions across major sectors including wholesale and retail, manufacturing, construction, hospitality, and crucially, planned public investments. Lower energy prices will continue to support household incomes and growth in retail and trade. Additional sources of potential future growth include commodities exports, particularly of cocoa, fisheries, forestry and coconuts. The National Development Strategy, which sets out the strategic direction for the future development of Solomon Islands, in collaboration with donor efforts, are targeting these sectors in order to improve Solomon Islands' capacity to export by ensuring market access requirements are met and quality standards and testing facilities are improved.

1.3 Fiscal Policy

1.5. The fiscal performance of Solomon Islands has been relatively strong since 2009 with successive fully funded budgets as a result of economic growth, marginal tax reforms and donor assistance. Between 2009 and 2014 total consolidated funding increased at an annual average rate of around 14%. In 2014, the Solomon Islands' Government (SIG) recorded a fiscal surplus of SI\$129 million due to non-implementation of planned projects, a large increase in export duty from logs and increases in non-tax revenue from the fisheries sector. Externally sourced funding provided by donors grew at an annual average rate of around 19% from 2009 to 2014.

1.6. In 2014-15, revenue was subdued by the closure of the Gold Ridge Mine, and though revenue collection outperformed projections, donor support was lower than expected resulting in an overall deficit that was financed using reserves. Expenditure is set to grow in 2016, which if fully implemented would not be in line with a balanced budget. A notable achievement in 2015 was the full repayment of all outstanding domestic bonds. By the end of 2015, public sector debt stood at approximately 9% of GDP, one of the lowest in the Pacific Islands.

1.4 Monetary Policy

1.7. The introduction of the Central Bank of Solomon Islands (CBSI) Act in 2012 saw a marked improvement in transparency and accountability for the Solomon Islands monetary authority. Since the early 1980s, the Solomon Islands dollar (SI\$) has continued to consistently track a trade weighted basket of currencies, dominated by the US dollar, which has been allowed to fluctuate within a pre-determined band allowing greater flexibility to absorb global commodity price movements and minimise revaluation losses. In 2014, CBSI reviewed the exchange rate policy to make it more accommodative by pegging the SI\$ to a basket of major trading partners' currencies and removed the tight exchange rate margins enabling currencies within the exchange rate basket to adjust fully against each other to determine the value of SI\$. Bilateral exchange rate movements in 2015 showed a weakening of SI\$ against the US dollar but an appreciation against the Australian and New Zealand dollars, leading to cheaper exports to the US and cheaper imports from Australia and New Zealand.

1.8. Monetary conditions slowed in 2014, when the CBSI monetary base fell by 6% in the second half of the year, consistent with falls in gross foreign reserves, partly influenced by leakages in the capital account combined with revaluation losses. By 2015, however, the downward trajectory had reversed, with reserve money reaching a higher level than that recorded in 2013, driven by improvements in net domestic assets. Weighted average lending and deposit rates increased in the second half of 2014, leading to a 7 basis point rise in the weighted interest rate margin, but fell back in 2015.

1.5 National Debt

1.9. The Solomon Islands' Government continues to manage public debt in accordance with the Solomon Islands Debt Management Framework which governs how the existing portfolio of government borrowing is managed and any new borrowings that are incurred. Since the inception of the Honiara Club Agreement (HCA) in 2005, there has been a steady downward trend in total government debt outstanding, which by 2015 stood at SI\$697 million. Total debt stock, as a percentage of GDP, fell to 9% in 2015, from 12% in 2014; however, the trend is set to reverse in the near future once the pipeline debt is disbursed. Annual debt servicing as a proportion of domestically sourced revenue in 2015 was around 3.1%; thanks to the policies implemented by successive governments, borrowing is now at a sustainable and affordable level.

1.6 Inflation

1.10. From 2008 to 2013, inflation in the Solomon Islands' economy was relatively high, at an average of 7.5%. Modifications to the exchange rate regime in 2012 strengthened the currency which has helped to moderate inflationary pressures, though at a cost of lower export growth. By the end of 2014, headline inflation stood at just below 5%. Despite a sharp depreciation in SI\$ against the US dollar, imported inflation was contained below zero per cent, likely attributed to declining fuel and food prices and an appreciation of the SI\$ against the Australian and New Zealand dollars.

1.11. In 2015, Solomon Islands experienced deflation for the first time, reaching its lowest point in June 2015 of negative 4.8%, brought about primarily by lower domestic food prices. By the end of the year, headline inflation returned to positive figures, at 2.9%, with steady increases in the three month moving average recorded in the first quarter of 2016. Meanwhile, core inflation which excludes volatile, price control and excise items in the CPI has been steadily declining since its last peak at 8.3% in December 2012, and stood at 3.7% at the end of 2015.

1.7 Trade, Balance of Payments and Foreign Direct Investment

1.12. The balance of payments of Solomon Islands improved markedly in 2015 to a surplus position of SI\$395 million, reflected in improvements in the capital and financial accounts and reduced current account deficit, caused by boosts in FDI inflows. The trade balance, however, experienced a slight deterioration in 2015 to SI\$43 million. This was due to a decline in export values caused by a depreciation of SI\$ against the US dollar, and an appreciation against the Australian and New Zealand dollars, at 11.5% and 10.6%, respectively. The higher value of the SI\$ led to an increase in imports from Australia and New Zealand, due the lower prices of imported

goods. This, combined with low oil prices, added to the negative trade balance. Large capital outflows in the fourth quarter of 2014 contributed to the fall in gross foreign reserves.

1.13. Once logging exports contract, the trade balance is anticipated to worsen, particularly if growth in exports of other commodities remains stagnant. Notwithstanding data limitations, Solomon Islands has been the destination of significant inward investments; in 2015, approved foreign direct investment (FDI) applications rose by 14%, mainly in the wholesale and retail, mining, tourism, forestry and construction sectors. Total FDI stock in 2015 was estimated at SI\$5,157 million, the highest level since 2011 and a 6.6% increase on 2014. Looking ahead, the investment chapter in PACER Plus could promote further expansion in FDI; however Solomon Islands needs to ensure that foreign investment takes place in an appropriate regulatory environment.

1.14. As an aside, data scarcity severely hinders the formulation of trade policy. Improvements are underway in this area, via the introduction of the ASYCUDA World system, but capacity and resource constraints limit its effective use.

1.8 Sectoral Performance

1.15. Logging, along with mining, fisheries and agriculture, dominate the Solomon Islands' economy. Between 2011 and 2015, exports of logs increased relative to total exports, accounting for 46% of total exports in 2011, increasing to 68% in 2015. Exports of commercial crops, namely copra, coconut oil, palm oil, fisheries and cocoa, have been subject to volatility over the last five years. Exports of cocoa, copra and palm oil peaked in 2011, at SI\$231 million, SI\$119 million and SI\$326 million, respectively, and then declined to SI\$97 million, SI\$90 million and SI\$208 million in 2015, respectively. Exports of fish products increased consistently from 2011 to 2014, up to SI\$459 million, subsequently declining to SI\$381 million in 2015. Currently, a small percentage of the total catch in Solomon Islands' EEZ is processed domestically, with most exported to the EU. Compliance with the EU's stringent import requirements is a challenge for Solomon Islands fisheries; however, progress is being made and Solomon Islands expects to lift its 'illegal, unreported and unregulated (IUU)' yellow card imminently. Encouraging investment to expand processing should increase the contribution of fisheries to the economy.

1.16. The tourism industry, though currently underdeveloped, offers robust growth potential for Solomon Islands and the current tourism policy focuses on yield improvements, opportunities to generate linkages with other sectors, namely agriculture, and enhancing the domestic tourist experience. Visitor arrivals have been consistently above 20,000 since 2010, with the highest number recorded in 2013 of 24,431. Increased tourism could help alleviate the expected loss in export revenue from logging, smooth out the volatility of primary commodity exports, and generate employment. Currently, however, growth is constrained by low investment in the tourism sector resulting in low inventory levels, limited human resource capacity, limited marketing and poor infrastructure. Solomon Islands offers unparalleled beauty with pristine tropical ecosystems, perfect for tourists seeking adventure and an 'off the beaten path' experience. With extensive diving sites of both natural reef and World War II heritage, and at a short distance from Brisbane, Australia, Solomon Islands has the opportunity to attract tourists searching for more than just a sandy beach.

1.17. The telecommunications and transport sectors offer concrete examples of private sector led growth since the previous Trade Policy Review. The 2009 telecommunications reforms have led to extraordinary growth in the sector; competition has improved the efficiency and reliability of mobile phone services, significantly increasing employment and injecting substantial investment into the economy. The World Bank estimates that the telecommunications sector directly added 3.3% to real GDP growth between 2008 and 2012. In the transport sector, the government's growth record has been equally impressive. Since 2011, SIG, with support from the ADB and Australia, has contributed to the growth of the local contracting industry. By 2016, there were approximately 20 contractors able to undertake machine-based road works, compared to only 6 in 2011. This in turn creates new employment opportunities. Moreover, in 2015, 60% of labour-based road works were taken up by women. Tapping into the productive potential of women is fundamental to enhancing the trade performance of Solomon Islands, a facet well understood by the Solomon Islands' Government. In 2015, the National Strategy for the Economic Empowerment of Women and Girls was released, which sets out the strategic areas to enhance gender equality and improve the economic status of women.

1.18. Nonetheless, economic growth is projected to average only 3 to 4% per annum over the medium term. This rate of growth will not be sufficient to generate substantial improvements in living standards. The economic effects of the closure of production at the Gold Ridge Mine also highlight the challenges of Solomon Islands' narrow economic base. That said, potential investment projects, including the Tina River Hydro Power project, and further investments in mobile telecommunication and ICT (including the undersea cable), could provide additional support to the medium-term growth outlook. The Solomon Islands' liberal investment regime, upheld and promoted by the government, shows its commitment to meeting these challenges and working on critical areas of reform that will generate growth in emerging sectors in the economy.

1.9 Economic Challenges and Reform Efforts

1.19. There remain a number of substantial economic challenges facing the Solomon Islands' economy, not least the shortage of productive capacity to enable significant quantities and consistency of exports to the international market. Infrastructure remains poor; credit accessibility for small businesses remains limited and a lack of clear property rights and conflict over land ownership, high utility costs and expensive communications further reduce the ease of doing business and impede investment.

1.20. There are a number of reforms underway, however, that should go some way to addressing the myriad of challenges faced by the Solomon Islands economy. The upcoming Customs Act review should increase revenues through improved compliance measures. The National Transport Plan (2007-2026) and National Infrastructure Investment Plan (2013) set out the path for transport and infrastructure improvements and requests for development assistance should be linked with the priority initiatives identified therein. Reforms in areas such as competition and investment, applicable to the majority of sectors across the economy, have led to benefits for consumers, for example in the telecommunications industry. Despite considerable progress to date, further reforms are still necessary across the economy, to overcome those challenges identified herein and reinforce the benefits.

1.21. Government expenditure should increasingly aim at tackling productive capacity issues, improving infrastructure, health and education. Many government reforms are underway that are aimed at addressing the impediments to doing business in Solomon Islands, including comprehensive tax review, programmes designed to improve access to finance for Solomon Islanders, and the implementation of special economic zones to help attract investment. Despite many reforms, the business sector in Solomon Islands still suffers from an environment that is not conducive to investment compared to other countries in the region. An acute vulnerability to world commodity prices is also an ongoing challenge that Solomon Islands faces.

1.10 Constitutional Reform

1.22. The Government's constitutional reform programme is still underway, seeking to shift from a parliamentary democracy to a federalised system of governance, which will devolve greater planning, and decision-making to provincial and community levels.

1.11 LDC Graduation

1.23. In 2015, Solomon Islands met two thresholds for Least Developed Country graduation; per capita income, by 13% and human assets, by 9%. Subsequently, impact assessments to determine the vulnerability profile of Solomon Islands will be undertaken. Following which, if in March 2018 Solomon Islands again meets two of the three graduation thresholds, it will in principle be found eligible for graduation, pending endorsement from United Nations' Economic and Social Council (ECOSOC). Following endorsement of eligibility, Solomon Islands would typically be given three years until it officially graduates, at the end of 2021/22. This will depend to a certain extent on continued progress against the identified indicators.

2 TRADE AND TRADE RELATED POLICIES

2.1 Diagnostic Trade Integration Study and Trade Policy Framework

2.1. The Diagnostic Trade Integration Study (DTIS) completed in 2009 represents an important milestone in the process of developing a coherent approach to trade policy and trade related policy formulation, interlinking national activities, developing domestic legislation, identifying trade related technical assistance, prioritising trade agreements and mainstreaming trade policy into broader government planning processes. The action matrix comprising policy reform measures and capacity strengthening activities helped formulate the projects that have been and continue to be funded under the Enhanced Integrated Framework (EIF), specifically in the agricultural and tourism sectors.

2.2. Solomon Islands' dedicated Trade Policy Framework (TPF) 2015 is an ambitious document outlining policy measures and strategies which seek to transform Solomon Islands into an internationally competitive and dynamic economy that reaches out to the Pacific and beyond. As the government's comprehensive guide to trade policy, it effectively coordinates decision making and builds institutional support for trade policies to ensure effective participation in international trade by government, private sector and civil society. The objectives of the TPF are incorporated into the wider National Development Strategy, exemplifying trade as an area of strategic importance to Solomon Islands. As of yet, little progress has been made to implement the policy recommendations of the TPF. Technical assistance from donor partners is required to construct a detailed implementation plan and effective monitoring and evaluation tools.

2.2 Trade in Services and Investment

2.3. Services account for the majority of economic activity in Solomon Islands, fluctuating between 55 and 60% of GDP between 2007 and 2012. Approximately one quarter of services are exported, comprised predominantly of travel and transportation. Services imports encompassed, in addition to travel and transport, of other business services. Trade in services has run a persistent deficit since 2011 and in 2015 stood at SI\$601 million, a marginal reduction on the 2014 trade in services deficit of SI\$824 million. There are a number of pieces of legislation which regulate the quality of service provision for consumer protection, namely in the financial, aviation, and utilities sectors. In other sectors, a regulatory regime is absent or inadequate. Services legislation is currently being reviewed prior to making commitments on trade in services in trade agreements, given the increased risk of exposure domestic consumers and producers may face following liberalisation. Solomon Islands has a very liberal investment regime with few restrictions in terms of sectors for foreign investors to enter. Land ownership, however, does cause a number of constraints for foreign investors and reform in this area is much needed.

2.3 Most Favoured Nation (MFN) Tariffs

2.4. Over the past decade, tariff rates have fallen significantly with most goods taxed at 10%, below Solomon Islands' WTO bound rates. Restrictions raising tariffs are, at present, limited only to those parties to the Melanesian Spearhead Group Trade Agreement (MSG TA) and Pacific Island Countries Trade Agreement (PICTA), covering a small volume of imports. If pending regional trade agreements are signed, however, this will increase the volume of trade being subject to lower bound rates.

2.4 Export Taxes and Import Duties

2.5. The current regime governing import duties provides for a great deal of flexibility, given the absence of a legislative framework that creates space for Solomon Islands to implement trade policy. Though there is a recognition that a liberal tariff policy has the potential to drive growth, the fiscal challenges that were mentioned in the previous Trade Policy Review remain, including a narrow tax base given the limited size of the formal economy, vulnerability of fiscal revenue to commodity price shocks and restrictions over the use of export taxes in trade agreements as a means of generating fiscal revenue.

2.6. The domestic economy of Solomon Islands continues to rely heavily on a small number of unprocessed commodities. Despite increases in on-shore processing in the fisheries sector, only

approximately 11% is processed in country, amounting to a substantial portion of lost potential revenue through value addition activities. The constraints faced in the manufacturing sector limit the scope for value addition, given the difficulties sourcing inputs from the domestic economy. Given these restrictions, the opportunity for government intervention to promote domestic industrial activity is limited. Operating in the confines of low productive capacity, export taxes remain a necessary policy lever to encourage domestic processing to contribute to higher economic returns. Furthermore, export taxes provide an important source of revenue and a practical means of capturing economic rents from natural resources. Trade agreements which seek to restrict the use of export taxes are carefully assessed and attempts to negotiate sufficient policy space to allow for the continued use of export taxes, at least temporarily, are encouraged.

2.5 Competition Policy

2.7. As trade expands and Solomon Islands integrates further into the global architecture, an efficient competition framework is necessary to secure the interests of consumers and producers, ensure non-discrimination of foreign companies in the domestic economy and the efficient allocation of resources to incentivise innovation. Liberalisation and ensuing competition are recognised as key drivers of growth by the Solomon Islands' Government, which along with the Asian Development Bank (ADB) is developing a comprehensive competition policy for Solomon Islands, to replace the former ad-hoc approach.

2.8. Due to its diverse geography, relatively sparse population dispersed over significant distances, relying on private provision of key services could lead to lower than socially optimal levels of service provision in key economic provisions. The dominance of state owned enterprises (SOE) in a number of key sectors, including aviation, broadcasting, electricity, ports, post and water, seeks to connect the national economy and the provision of low cost access to these services is widely recognised as a driver of growth. Nevertheless the introduction of competition in some of these sectors could, if managed appropriately to ensure a suitable regulatory framework is in place, lead to improved service provision at lower costs. The government must consider what type of investment it wishes to attract and how to incentivise the private sector to participate. The recent problems with the Solomon Islands Ports Authority pricing structure show the problems that can arise through manipulation of key SOEs. A review into the current legislations governing these sectors should be undertaken to ensure greater transparency for Solomon Islanders.

2.6 Intellectual Property

2.9. Solomon Islands' interests in intellectual property remain much as they were detailed in the previous Trade Policy Review, principally, that given its minimal capacity to conduct original research and innovate, intellectual property should predominantly assist in poverty alleviation and rural development. At present, Solomon Islands' intellectual property laws are dated and not in compliance with its obligations as a WTO member, however, consultations on legislative reforms are under way. To best advance the interests of Solomon Islands, detailed consideration of the type of intellectual property protection required, consistent with its development plan, is necessary. Solomon Islands should continue to actively engage at the regional level to protect traditional biological resources and traditional knowledge, promoting the implementation of the Model Law on Traditional Knowledge and Expressions of Culture (TKEC) and the finalisation of the draft framework on Traditional Biological Resources, Innovations and Practices.

3 TRADE NEGOTIATIONS AND RELATIONSHIPS

3.1 Bilateral

3.1.1 Future Relations

3.1. The dominance of East Asia in global markets and the resultant shifts in global trade patterns have precipitated a change in outlook for many developing countries. Under the Generalised System of Preferences, Solomon Islands' exports have preferential, though not necessarily duty free, access to the markets of China, Chinese Taipei, Japan and South Korea. Despite this access, exports from Solomon Islands are disadvantaged by the preferential access of other countries' exports to these markets. To avert further preference erosion and ensure continued preferential access for key exports from Solomon Islands, such as copra and logs, trade policy may wish to

respond and shift accordingly, with the possibility of seeking improved access to Chinese markets and engaging more comprehensively with ASEAN Members.

3.2 Regional

3.2.1 Melanesian Spearhead Group

3.2. Despite the relatively low volume of trade undertaken by parties to the MSG Trade Agreements at present, the cultural, strategic and political importance of this regional grouping, to which Solomon Islands has been a party to since 1993, has the potential to provide a strong coalition for improving access elsewhere, namely East Asia. In 2017, Solomon Islands will provide duty free access to all but a few exempted products from MSG countries and exports from Solomon Islands will have duty free access to the markets of MSG countries. MSG parties' willingness to extend negotiations to trade in services, investment and labour mobility under MSGTA3 is likely to produce considerable benefits for Solomon Islands. Foreign investment should lead to employment generation, lower prices and greater choice for consumers; as well as opportunities to develop skills and undertake trainings in other MSG countries, to then utilise in the domestic economy.

3.2.2 Pacific Island Countries Trade Agreement

3.3. With the conclusion of other regional trading arrangements expected this year, the relevance of and interest in PICTA is likely to diminish amongst Forum Island Countries (FICs). Furthermore, under PICTA, labour mobility although originally included in the PICTA TIS, was excluded from final Protocol. For Solomon Islands, the benefits it is likely to receive from labour mobility may be largely satisfied by the MSG agreements. Despite the limited comprehensive coverage of sectors offered under PICTA, compared to other regional/preferential trade agreements, Solomon Islands intends to continue engagements with other parties, although what limited resources are available should be prioritised to regional negotiations which will likely have a greater impact.

3.2.3 Pacific Agreement on Closer Economic Relations Plus

3.4. Pacific Agreement on Closer Economic Relations (PACER) Plus negotiations commenced in 2009 with the aim of strengthening regional integration, securing guaranteed preferential market access for FICs to the Australian and New Zealand economies and realising a truly developmental approach to trade relations. The main Chapters of the agreement include Trade in Goods, Trade in Services, Investment, Development Assistance and Labour Mobility. For Solomon Islands, the prospect of increased market access for goods and services exports to Australia and New Zealand is not the principle driver of negotiations. Increased imports from developed country partners are likely to exceed the modest increase in Solomon Islands' exports, due to the extent of liberalisation demanded by the aforementioned parties and limited productive capacity in the domestic economy. The short term adjustment and implementation costs are likely to impose significant economic and political pressures. In acknowledging this, a core component of the agreement is Development and Economic Cooperation, whereby it is envisaged that assistance will be provided to Solomon Islands so as to enable the effective implementation of the agreement, strengthen productive capacities and promote sustainable growth and development through Aid for Trade.

3.5. Where Solomon Islands can accrue the greatest gains, given its sizeable comparative advantage in the supply of low skilled labour relative to neighbouring economies – identified along with development cooperation as a key offensive interest – is from improved access to Australia and New Zealand labour markets. To date, Solomon Island workers have benefited immensely from the Recognised Seasonal Employer (RSE) scheme which sends unskilled labourers to New Zealand, with numbers increasing from 238 in the 2007/08 season to 564 in the 2015/16 season. Despite this expansion, Solomon Islands lags significantly behind other Pacific Island countries; with Vanuatu for example sending over 3,000 workers in 2015/16. Participation in the Seasonal Worker Scheme (SWP) in Australia is far lower than under the RSE, with only 54 workers being sent in the 2015/16 season. Current efforts are underway to expand participation and take advantage of the significant benefits that should accrue following the removal of caps on the number of workers entering Australian labour markets. There are also significant gains to be made from the expansion of both schemes into other industries, including hospitality and tourism.

Labour mobility provides a clear mechanism for Solomon Islands to overcome some of its foremost intractable constraints, such as distance from major markets and high transportation costs. The benefits are significant, including skill development and remittances, which spent in the domestic economy, will boost economic growth.

3.6. It is the intention that PACER Plus be concluded in 2016. Discussions on the legal text are almost finalised; however, at the time of writing negotiations between Australia and Solomon Islands on market access offers for goods are still under discussion.

3.2.4 Economic Partnership Agreement and Interim Economic Partnership Agreement

3.7. Since the expiry of the waiver permitting Cotonou trading preferences in 2008, Solomon Islands has been trading with the European Union (EU) under the latter's GSP scheme offered to all LDCs. Negotiations of the comprehensive Economic Partnership Agreement (EPA), which commenced in 2002, have now stalled and are effectively terminated, given the inability to resolve the current impasse between some FICs and the EU related to the formers' management of their fisheries industry. Faced with the loss of GSP preferences in the advent of LDC graduation, Solomon Islands has begun to explore alternative trading arrangements to safeguard and expanded access of its fisheries products to the EU market, namely signing the interim Economic Partnership Agreement (IEPA), as Fiji and Papua New Guinea have previously done. Solomon Islands remains committed to the regional efforts which seek to conclude a development friendly comprehensive EPA which will produce regional wide benefits.

3.3 Multilateral Trading Arrangements under the WTO

3.3.1 Aid for Trade

3.8. Solomon Islands is committed to the WTO framework and during the review period has made progress to implement and domesticate the WTO agreements. The establishment of a mission in Geneva should encourage greater participation by Solomon Islands going forward.

3.9. Despite the significant progress Solomon Islands has made improving the trading capacity of the economy over the past decade, particularly following the establishment and assiduous efforts of the National Implementation Unit (NIU) under the EIF, there remains substantial room for improvement, demonstrated by the outstanding recommendations of the DTIS and TPF.

3.10. Current aid for trade requirements include technical assistance to ensure effective implementation and compliance with pending trade agreements, at regional and multilateral levels, much needed infrastructure support to improve connectivity, expand tourism opportunities and reduce transportation costs, and support to develop the productive capacity of Solomon Islands' exporters to take advantage of current market access opportunities. Significantly, diversification and value addition are essential facets that aid for trade programmes should address to secure foreign investment and encourage knowledge spill-over.

3.3.2 Trade Facilitation Agreement

3.11. Since the last Trade Policy Review, Solomon Islands has notified its Category A commitments under the Trade Facilitation Agreement (TFA) and is in the process of ratification, which through the identification of technical assistance requirements across each article, should enable participants in the trade value chain to ensure goods being exported and imported can do so with minimal disruption. In submitting its technical assistance and capacity building requirements, Solomon Islands hopes to address the fundamental challenges to trade facilitation, such as laboratory testing and infrastructure deficiencies to increase competitiveness and reduce costs to enable more effective participation in the global trading system.

3.3.3 Fisheries Subsidies

3.12. As a key industry in the Solomon Islands economy, the issue of fisheries subsidies is of considerable importance in Solomon Islands' engagement in the multilateral trading regime. As such, Solomon Islands considers excessive subsidisation by distant water fishing nations of their fisheries sectors as a key contributor to overfishing, with the resulting environmental and

economic damage, as well as acting as a distortion to global fishing trade. Solomon Islands continues to argue that current WTO disciplines need to be strengthened and that certain forms of subsidies which contribute to overfishing and overcapacity should be curtailed.

3.3.4 Special and Differential Treatment: Small and Vulnerable Economies

3.13. As an LDC, Solomon Islands is entitled to special and differential treatment across WTO agreements, which enables the expansion of trading opportunities, safeguarding of trade interests and support for capacity building to carry out general trade related activities. Though no agreement was reached on the way forward for the Doha Development Agenda at the 10th Ministerial Conference in Nairobi, Solomon Islands continues to support the establishment of a work programme for small and vulnerable economies to recognise the inimitable difficulties faced and to seek targeted support to overcome them.

4 CONCLUSION

4.1. Solomon Islands is fully committed to implementing and maintaining an open economy which encourages trade and the diversification of industry to generate economic growth. Though progress has been made since the last Trade Policy Review, Solomon Islands still has a long road ahead to ensure the gains from trade are fully secured and reach the most vulnerable.

4.2. There are a number of intractable constraints faced by the Solomon Islands economy which make participation in the WTO rules-based multilateral trading regime difficult, including geographical isolation, supply side and productive capacity constraints and vulnerability to natural disaster and climate change, which can further marginalise the economy from the global trading system. Solomon Islands seeks to underscore the importance of support from other Members to recognise these challenges and assist in their mitigation to guarantee the effective functioning of the WTO system for all members.
