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A study of the challenges faced in the industrialization of the Smaller Pacific Island countries and territories; established import markets

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Abstract
The economic reality is that some nations are emerging and developing whilst others have achieved a comparable level of development and industrialization. The benefits of international trade, globalization, and interconnectivity of nations allow the purchase of supplementary goods and services from other economies. With time, markets are created and established for the export and import that facilitates this supplementary consumption. On the basis of innovation, research, and advancement, a majority of the export is done by the economies that have made advances in technology, industrialization, and factories. Thus the Developing and emerging nations' markets serve as an income source for developing nations which then introduces the problem of matching the level of their industrialization with their counterparts. The article provides insights into the role of the level of industrialization within the Smaller Pacific Island countries and territories. It also provides theoretical conclusions on the impact of industrialization on the established markets.

Keywords: Developing, established, factories, industrialization, international markets, pacific, trade

Introduction

Over the recent decades, the world has experienced great progress in globalization and advancement in technology. The discovery and widespread international use of recent developments like shipping containers started the globalization process which has influenced the international trade processes. Further recent technology such as Optical Character Recognition (OCR), Radio Frequency Identification (RFID), and QR codes have greatly improved the tracking, monitoring, and movement of shipping containers which underpins the efficiency and reliability of international trade. Although the technology and developments are available globally, some economies may have implemented and benefited from the advancement of such technology. However, some emerging nations like the Smaller Pacific Island countries and territories are yet to fully realize these in a material way. Real economic development by nations whose economies have under-developed or have developing industrial sectors has a comparatively higher dependency on importing goods and services that are not produced in their economies. The Smaller Pacific Island countries and territories are reported to have a highly volatile Gross Domestic Product (GDP) and are among the most remote, smallest, and most dispersed countries in the world (ADB 2016) [1]. This, therefore, presents a lot of challenges to national, regional, and international trade. In addition to the country-specific issues, some unique problems exist in the pacific that bear on e-commerce and international trade including the lack of access to up-to-date technology and the challenges of creating the relevant legal and other regulatory framework required to facilitate such trade.

The advances in technology and the progressive dependability of technologically enhanced resources for international trade, processes, and trade settlements in recent times has been driven by the goal of making international trade processes more inclusive and efficient. Various Pacific regional research has suggested that the growth of the digital economy of the Smaller Pacific Island countries and territories need a supportive eco-legal system, speedy internet access, the latest technology tools and platform, applications and data analytics, efficient facilitation of transfers with other countries, and supportive government laws and regulations (Azmi, I. M. A. G., & Phuoc, J. C., 2020) [2].

Some progress and development may have already been made in these economies, however, material industrialization may require structural changes to the existing suite of e-commerce-related legislation.

Research related to the correlation of the other Gross National Product (GNP) variables in other regions and developed countries abounds and takes various forms. Some have focused on the co-dependency or non-dependency of the GNP variables whilst others have been on the various permutations of other factors that impact the GNP. The Smaller Pacific Island countries and territories are markedly diverse in their physical distance from major markets, their geographic spread, population size, land area, and resource endowment, and additionally the service sectors dominate the economies (ADB 2016) [1]. This does have a considerable impact on the (GNP), and its associated components of, aggregate consumption, investment, government spending, exports, and imports. They have comparatively not been the focus of much of the research that happens due to their relative size and economic power. There are therefore a lot of areas that are yet to be explored in that regard. Some of the Smaller Pacific Island countries and territories are still at the preliminary stages of implementing an effective strategy whilst in some cases, the development of national relevant policies is still underway. Considering that many of the Smaller Pacific Island countries and territories are still developing economies, and industrialization of these economies are still under development, this research work strengthens the view and assertion of expanding the industrialization of the Smaller Pacific Island countries and territories whilst navigating the potential obstacles that the established markets that have supplied their imports in the process will present them in the process.

The smaller pacific island economies and industrialization

The Pacific Island region comprises 22 countries and territories which are diverse in geography, population size, culture, and economy (Charlton *et al.*, 2016) [3]. The population sizes within the region vary from 8.9 million in Papua New Guinea, the largest Pacific Island country to as little as 1,411 in Tokelau. The location, geography, smallness, and remoteness of the Smaller Pacific Island countries and territories is known to negatively impact their development trajectories and constrain their capacity. The well-being of the households is negatively affected by external shocks. GDP per capita is low in most Pacific Island countries and territories with some of the economies currently classified as Least Developed Countries, or low income countries. The Smaller Pacific Island countries and territories are substantially more remote from major markets, whilst they are also highly more internally dispersed (ADB 2016) [1]. This unique complexities increases their input costs associated with in the provision of goods and services (ADB 2016) [1]. The public sector is relatively large and drives growth in many economies whilst limited economic diversification characterizes the private sector.

The Smaller Pacific Island economies are also highly import-dependent to meet their needs and most are reliant on external income. The implication is that a lot more payments are being being to other established markets for the goods and services imported. This is a reflection of the growth of industrlization and factories in the region. The primary exports of the Smaller Pacific Island economiwes are mostly natural resources, goods benefitting from preferential access and high-value, low-volume products. Trade deficits are financed through the rent received from the export of services mainly from tourism earnings, offshore natural resources, and remittances, foreign investment, and development assistance. All of the Smaller Pacific Island countries and territories are classified as at least middle-income economies; only the Cook Islands has achieved high-income status. However, there is substantial variation in income levels. (ADB 2016) [1]. An industrialised nation by the development of the industries, employs more of their factors of production. They will therefore comparatively produce a lot more of the goods and services that are consumed by its citizens including the portion that is then exported to other markets. They may thus end up reducing the aggregate imports from other economies whilst creating jobs, increasing foreign income, and improving their balance of payments in the process. Much of the payments made to facilitate the imports could also be re-invested into economic systems and internal production that will also provide other benefits to the economy.

In addition to the existing complexities, International trade between the Smaller Pacific Island countries and territories and the rest of the world could be disrupted by technical limitations related to digital commerce, trade financing platforms, financial system integration, slowness or not having compatible trade systems. The expansion of blockchain-based distributed ledger technologies could have an impact on the trade supply chain. The advancement in technological development and enhancements has not fully taken off in the economies to take advantage of technology available. Machine Learning and Artificial Intelligence which is being used in other economies to optimize, manage shipping and translate E-commerce search queries or make global trade more sustainable, more efficient and provide better consumer services is yet to be fully integrated in all the economies (WTO 2018) [5]. The expansion of 3D printing and global payment systems and requirements for trade could potentially impact the Smaller Pacific Island countries and territories that may not have developed that resource.

Industrialization and the responses of established markets

The need to supplement the consumption of the economies of the goods and services that are not currently produced in the Smaller Pacific Island economies means the reliance on other established markets. The established markets from which these economies import from most often are the developed economies that have developed their own industries to the point of producing goods and services beyond their own aggregate consumption levels to the point of exporting some. The regular dependency on other economies to meet the consumption demands of an economy does have negative effects on the engagement of factors of production within the Smaller Pacific Island economies. Whilst their import activities will be assisting the development of the other economies, there will not be any encouragement of industrialization in the home economies. Such slow or limted industrialization will also have a negative effect on the optimal allocation of factors of production, the balance of trade, their ability to generate income from their own productivity and their foreign exchange balances. In the very extreme cases, this may also encourage the “dumping” of goods and services by international economies which will in turn lead to the destruction of local industries, or the increase in the unemployment of factors of production, or the overdependency on foreign goods and services, and most importantly not developing the sustainable development capability function as prescribed by the United Nations Sustainability Goals (Bromfield and Duarte 2022) [4].

As a result of the subdued industrialization within the Smaller Pacific Island economies and the subsequent development of industries in other economies, the markets of developing and emerging countries serve as a subset of the markets of developed countries. Any production improvements that could potentially lead to an increase in aggregate production and a subsequent increase in the consumption of locally produced goods and services in the previously subdued industrialised nations will invariably lead to a reduction of imports by developing and emerging countries of the goods and services of developed nations. On the one hand, this is good for the economies of the developing and emerging nations however it has a negative impact on the exports and revenue of developed countries that have prior to this event been exporting a material amount of their produce to these markets. Such markets and economies would therefore not be expected to be aiding and facilitating the industrial revolution or providing the relevant tools, resources, and systems necessary to effect the wholesome changes required to realize material improvements to the aggregate production of goods and services of the Smaller Pacific Island countries and territories to the level that it affects the aggregate consumption of imported goods and services. The ultimate responsibility of industrialization and development of an economy rests with the relevant governments and department who are appointed and voted into power and not another economy. However, for the real economic development of the Smaller Pacific Island economies, it will be very ideal and convenient for the industrialised nations that also provide them with various development projects and aids to include the processes, systems and technology that has led them to become exporters to these economies.

There is also the potential possibility that the production centers and economies that benefit from the imports created from the subdued development, industrial underdevelopment, or slow market development of the Smaller Pacific Island economies may become one of the main opponents of any developments that could potentially impact their exports and income. Generally, a high level of aggregate imports will indicate a positive growing domestic economy especially when certain types of assets are being imported. However, a deeper look at the composition will generate a clearer understanding. Imports that have a higher proportion of capital goods and services such as equipment and machinery that are to improve the economy's productivity over the long run are to be preferred to the increase in import of consumer goods and services. Also, an improvement in the industrialization of an economy, will lead to the substitution of some of the goods and services that they used to import. This will also lead to the reduction in payments to the economies that used to supply the goods and services. The underdevelopment in the Smaller Pacific Island economies means the closing of many industries, an increase in unemployment, dependency on overseas markets to meet their consumption, increase imports, underemployment of factors of production. The aggregate imports by these economies will be providing a material income to the economies who are fortunate enough to be on the receiving end of the international trade. The industrialization of developing and emerging nations will thus be a threat to their established goods and service providers. Underdevelopment of industries in developing and emerging markets means increased income, alternative income sources, better employment opportunities, and reduced unemployment in the developed economies that provide the goods and services imported which no national income focused economy will be happy to lose or reduce.

International trade and globalization has benefited all countries by allowing countries that are connected to the rest of the world to import what they are not able to produce or goods and services that they do not yet have a competitive advantage to augment their consumption. Nations do not have to be consumers of the goods and services they export although generally, they are consumers. This has allowed a great number of economies with the competitive or absolute advantage to produce goods and services not solely for their consumption but primarikly for exports. Another complex issue is that the economies that the established developed economies may help to develop its industries, systems and processes can become their competitors tomorrow. This may be a material contributor to the subdued development of these economies. Some forms of assistance provided to the Smaller Pacific Island Economies coupled with other factors like their resource abundant unique quality could potentially give them a huge competitive advantage in the production of some goods and services. This could change the productivity, and Gross National Product or Income materially. The economies that were once reliant on aid could easily become a producer and exporter of goods and services that may have previously been provided by the economies that assited them. The possibility of increasing the number of competitors especially in an area that has the potential of impacting international debts, and income with other socio-economic consequences will not be something that many economies will be willing to initiate.

Nations that are industrialized to the point of exporting goods, therefore, have the opportunity to generate income from international markets through trade and exports. This has implications generally on economies that may have a higher balance of trade deficits. A higher balance of trade deficit being affected will mean a material reduction in their payments or debts and subsequent implications on their import on their foreign income, goods and services, and trade. All other things being equal, an improvement in the aggregate production of local goods and services will have a negative impact on their imports with considerable ramifications on the income and economy of those that export to them. An Improvement in innovation to their own production and trade and elimination or reduction of the things that have affected their production or aided their imports will increase their industrialization.

Conclusion

Traditionally, the level and amount of Imports by the Smaller Pacific Island economies depend on alternative production costs of the goods and services or the costs of the factors of production or the competitive advantage the exporting economy has or the absence of the ability to produce that good or service. Behind all imports are established economies who are exporting their goods and services either in their raw form, semi-processed form, or fully processed into value-added goods and services. The established economies with time become conscious of and expectant of the income generated from the international trade as their established income. It will be in their interest to keep such channels which serve as their income source open. Any advancement in the importing country that could lead to a reduction or closure of such channels will not be a welcome venture as it implies reduction or elimination of their national income. This could be the explanation behind the slow progress in some economies and why developed countries do not provide the actual processes, systems, and programs that will actually lead to an increase in processing, industrialization, innovation, and advancement in the quality and balance of trade. Ultimately, it is the responsibility of the governments of every economy to ensure that they have policies that develop and advance their economies. In effect, the developed economies are under no obligation to pass on the skills, systems, processes, or technology that has led to their development.

The level of development and industrialization in the Smaller Pacific Island countries and territories suggest that a majority of their income is being given to the economies that are supplying the goods and services that are being imported. On the one hand, other economies are benefiting from the import arrangements and may not appreciate, or encourage any material reduction in the international trade. The economies that they could help to develop industrially can easily become their competitors tomorrow. The developing and emerging nations' markets that serve as the income source for developed nations present a dichotomous problem of matching the level of industrialization with the level of imports. An Industrial revolution that affects the imports of developing and emerging economies thus faces mixed responses from the established international markets that supply them.

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