Executive Summary

The distinct characteristics of the Pacific region create unique challenges and opportunities for digital development

Digital technologies are transforming how people interact, how businesses operate and how economies are configured. In this process, many countries around the world are struggling to determine how to deal with the development and policy implications of the evolving digital economy. For Pacific small island developing States (SIDS), challenges are amplified due to the distinct characteristics of their economies. Most countries are small in terms of population size – the region is home to 8 of the 10 smallest economies globally – with trade-dependent economies that are physically isolated from major markets and less integrated into global air and maritime shipping networks. This hampers participation in regional and global trading systems, exacerbates connectivity challenges and makes the region less attractive for international investments.

Nevertheless, digital technologies have much to offer the region. Digitalization represents a key solution to narrowing the vast trade distances in the Pacific and to integrate urban and rural markets. For isolated archipelago nations, digital platforms can provide opportunities to open or expand access to local, regional and international markets and knowledge networks. Digital businesses also benefit from lower start-up and operating costs. From a broader perspective, digital transformation offers opportunities for the region to accelerate progress towards virtually all the Sustainable Development Goals (SDGs).

This first Digital Economy Report: Pacific Edition 2022 examines the current status of the emerging digital economy in the Pacific, focusing on connectivity and access to digital technologies for people and businesses. It highlights that a relative lack of data and information on important issues hamper the ability of policymakers to make informed decisions as they deal with the development implications of the digital economy and how to create and capture value by stakeholders in the region. The approaches taken will affect not only trade, innovation and economic progress, but also a range of issues related to human rights, health, education and national security. By providing a holistic view of the Pacific digital economy, the report seeks to contribute to an enhanced understanding of these complex and interrelated factors.

Although connectivity challenges remain, e-commerce is beginning to emerge and offers the potential to accelerate development

The geographic characteristics of Pacific SIDS with widely dispersed populations create fundamental challenges to securing affordable ICT connectivity in these countries. Despite progress related to strengthening digital infrastructure, significant gaps remain in terms of access to reliable, affordable, high-speed and high-capacity broadband Internet. On average, Pacific SIDS lag behind the average for developing economies and SIDS on most indicators of ICT connectivity. Indicators include international bandwidth per user, 3G and 4G coverage, fixed broadband connection speed, mobile broadband subscriptions, affordability of broadband packages and Internet use. The average for Pacific SIDS is generally similar to the average for least developed countries (LDCs).

Increasing levels of access to digital technologies are converging with growing opportunities for e-commerce and digital trade. More and more economic activity in the region occurs on digital platforms for digital payments, social media, messaging and e-commerce. Remittances carried out on digital payments platforms play a particularly important role in some economies.

Although levels of activity vary across the region, online stores and e-commerce platforms are beginning to emerge and establish themselves in the Pacific. Significant commercial activity occurs on Facebook, where various groups bring together buyers and sellers in informal online marketplaces. These 'social sellers' exist in almost all Pacific SIDS. Formal e-commerce platforms, such as Jungle and BzzMart in Papua New Guinea and VitiKart in Fiji, are gaining traction with domestic customers and businesses. Fewer export-focused e-commerce businesses have been established in the region.

Notably, global business-to-consumer (B2C) e-commerce platforms have yet to penetrate the Pacific markets.

For many businesses and consumers, social media can serve as a building block for local digital entrepreneurship and innovation. The anticipated growth of digital businesses and e-commerce platforms can also lead to higher productivity, greater opportunities for micro, small and medium-sized enterprises (MSMEs) and new job creation. E-commerce could also be leveraged as a tool for integrating urban and rural markets. Archipelago states face pervasive challenges to private sector development, with their vast distances between markets and high barriers to buyer–seller discovery and trade. With many people living in rural areas, businesses are forced to limit operations to their immediate surroundings. In this environment, digital marketplaces and online stores could facilitate broader market access and more domestic and regional trade.

The emerging digital economy in the Pacific risks widening existing divides

Notwithstanding the development potential of e-commerce and the digital economy, there are several risks to consider. The dominance of major platforms and data providers can distort the distribution of wealth created by the digital economy and hinder local value creation and capture. Evidence from other regions suggests that the pandemic may have accentuated the concentration and consolidation of market power rather than reducing inequalities between and within countries. In some instances, digitalization has resulted in job losses or the accrual of value to those with higher levels of education and income.

Although digital technologies can help to achieve inclusive and sustainable development, they can also lead to new divides and greater inequality. For example, gender inequalities in the digital sphere exacerbate existing gender divides and, at the same time, women and girls remain vulnerable to digital threats. The net impact of the digital economy in the Pacific is hard to predict but the impacts in other regions suggest that the digitalization of economies will be broadly disruptive. For particular groups, sectors and industries, progress is likely to be uneven.

Given these risks, inclusion should be placed at the centre of the digital development agenda. In the Pacific, digital development should not be viewed within a narrow development lens where progress is measured solely in terms of more people and businesses using the Internet or participating in e-commerce. Digital development should be pursued in the context of the broader realization of economic, social and cultural rights as well as all other human rights, and for the transformative changes envisioned in the 2030 Agenda for Sustainable Development. These rights include the right to education, the right to food, the right to health, the right to an adequate standard of living and the right to work.

Policies and regulations in the Pacific need to be adapted to the digital economy

Digital technologies create both opportunities and challenges. It is the responsibility of governments, in close dialogue and partnership with other stakeholders, to shape the direction of the emerging digital economy in the region so that it benefits all Pacific islanders. Policies that solely prioritize access to digital technologies for consumers and businesses will not be sufficient. A holistic approach is needed that balances the importance of access with other social and economic considerations.

As in many other parts of the world, policies and regulations have not kept pace with the pace of digitalization in the Pacific. In most countries, policies related to data, competition, taxation, labour markets and intellectual property have not yet been adapted to the digital age. Trade agreements and consumer protection laws also rarely take into account the complexities associated with increased online commercial and trade activity.

Policymakers in the region will need to update relevant policies and regulations, with the aim of building inclusive digital economies. Impacts on vulnerable groups should be considered in the context of potential risks such as job losses or market consolidation, which may result in lower pay or reduced labour protections in some industries. At this early stage, there are more questions than answers about how to deal with the digital economy. Given the limited empirical evidence, as well as the rapid pace of technological change, policy responses will need to be regularly reassessed and adjusted.

Build on the strong momentum to address policy concerns

Fortunately, there is strong momentum in the region to advance the digital economy and address its most pressing policymaking concerns. Many Pacific countries have completed e-commerce diagnostic studies and started formulating national e-commerce strategies. The diagnostic studies, such as eTrade Readiness assessments, provide a broad understanding of the digital development issues facing countries and stress the importance of policy coherence, both nationally and regionally.

Looking ahead, policies that strengthen the overall business, policy and regulatory environment for the digital economy will be important. Several frameworks have been developed to provide guidance to policymakers. The emphasis within these frameworks on the cross-sectoral nature of the digital economy has important implications for policymakers, which include identifying priorities of various reforms with limited government resources; understanding core challenges and opportunities at the interplay of various ecosystem components; and articulating visions and actions that can lead to an inclusive digital economy.

Research and data collection efforts should be strengthened

More in-depth research and data on the digital economy and its development implications in the Pacific are needed. Reliable and comprehensive data on connectivity, access and use of digital technologies is needed to inform policymaking and to track the progress of related interventions. In addition, more dedicated research on the development implications of the digital economy should support policy design and implementation, development programming and regional cooperation initiatives. Enhanced research capacity could help to document and project the benefits and costs accruing to Pacific countries from digitalization.

One approach to enhancing research capacity could be to establish an 'Institute for Pacific Digital Economies' in one of the leading research institutions in the region. This institute could work with development partners, researchers and non-governmental organizations to carry out research, organize capacity building workshops and publish research findings on issues that are relevant to the digital economy in the Pacific. One important area that could benefit from additional research by such an institute is the potential development implications of the digital economy for marginalized groups, including women and people living in rural areas, in the context of achieving sustainable and inclusive outcomes.

Regional cooperation and international support are key for building inclusive digital economies

While some issues related to the digital economy can be addressed through national policies and strategies, the unique characteristics of Pacific SIDS necessitate greater regional cooperation and consensus-building as well as international support. Effective solutions in the digital era require multi-stakeholder collaboration involving governments, the private sector, academia, non-governmental organizations, community groups, research institutions, multilateral development banks and development partners. The complexity of the challenges calls for new partnerships, innovative thinking and creative solutions. New digital governance models may be needed that balance access and growth with resilience and inclusion.

In many ways, the Pacific is well placed to strengthen regional cooperation on digital development. The Pacific E-commerce Initiative provides a platform for policymakers to engage in regional dialogue and consensus-building on the digital economy. The Pacific Regional E-commerce Strategy and Roadmap also provides a common approach to strengthening the enabling policy environment for e-commerce and the digital economy in the region.

This regional momentum has already resulted in significant development partner support. A number of regional programmes – such as the Pacific Digital Economy Programme (PDEP), the Pacific Agreement on Closer Economic Relations Plus (PACER Plus), the Automated System for Customs Data (ASYCUDA) and Markets for Change – are focused on empowering consumers, producers and innovators in the digital economy. Global initiatives can also help to bring partners together for digital development in the Pacific. These include eTrade for all (35 partner organizations working in the digital economy

space) and the Alliance for eTrade Development (a global development alliance between the United States Agency for International Development (USAID) and twelve private sector partners). Furthermore, traditional donors supporting economic and trade development in the region, including the Australian Department of Foreign Affairs and Trade, the New Zealand Ministry of Foreign Affairs and Trade, the European Union, USAID, the World Bank and the Asian Development Bank (ADB), all have ongoing multi-year, regional, subregional and national projects.

Despite recent progress, more development partner support is needed

There is still scope in the Pacific to expand regional initiatives, develop synergies between initiatives at the regional and international levels, and strengthen public–private collaboration. The development community will need to explore more comprehensive ways to support countries in the Pacific, with development partners integrating the digital dimension into their aid policies and strategies. This support should place inclusion at the centre of the digital development agenda, with the aim of reducing digital divides and building capacities in the public and private sectors.

Some Pacific countries lack the capabilities to develop, implement and enforce new policies and regulations related to e-commerce and the digital economy. In this context, more support from donors will be needed to support policymakers as they seek to strengthen the enabling business, policy and regulatory environment for the digital economy. Collecting data and information on digital connectivity and use will be important to developing evidence-based policies and to track their related impacts.

Policymakers will also need to be empowered to participate effectively in processes and meetings related to the digital economy, including at regional and international levels. Finding adequate solutions to cross-border data flows, taxation of global digital platforms and international trade, for example, will require global collaboration and policy dialogue. The full involvement of Pacific countries in these discussions will be critical and any global consensus will need to incorporate the unique circumstances of SIDS.

The Pacific is still in the early stages of its digital transformation. This can be seen as good news because the impacts of technology do not follow a predetermined path. Digital technologies create both opportunities and challenges, with outcomes dependent on policy choices. Governments and partners have a responsibility to build inclusive digital economies that leave no Pacific islanders behind.