PROTECTING AND PROMOTING TRADITIONAL KNOWLEDGE: A TOOL FOR ECONOMIC DEVELOPMENT IN THE PACIFIC

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With dwindling natural resource receipts for pacific government coffers, developing alternative revenue sources and economic activities is paramount. One sector that may provide sustainable revenue flows, a high participation rate of Pacific Islanders, and stable market demand is the utilization of the traditional knowledge (TK) sector. Significant challenges remain in establishing a stable and predictable policy and legal framework in which operators can confidently commercialize TK products. However, as will be seen in this paper, governments in the Pacific have taken the bold step to do this, which proves that there are opportunities beyond fish, rocks, and timber in Oceana.

Introduction

THE PACIFIC'S RELIANCE on its natural resources—fisheries, forestry, mining, and petroleum—is a ticking time bomb. Largely reliant on external markets, these resources remain highly volatile and, more worrisome, compromise the vulnerable ecosystem that clothes and feeds the islands. To defuse this threat, economies of the Pacific have deployed diversification policies to develop other sectors such as agriculture, tourism, and seasonal worker schemes. Unfortunately, these sectors are still contingent on external markets and therefore remain vulnerable.

A paradigm shift is required whereby the Pacific's greatest resource—traditional knowledge (TK)—must be harnessed. This paradigm shift must have the capacity to encompass a regional and global market and use

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readily available resources without being detrimental to the environment. No doubt significant challenges remain in developing a stable and predictable policy and effective legal framework for operators to commercialize TK products domestically and abroad. As I will show in this paper, the Pacific has taken bold steps to explore these development options and is proving that fish, rocks, and timber are not the only resources.

This paper will emphasize that TK has the potential to drive economic prosperity in Pacific economies. It will address this notion in four parts. Part 1, Limiting Our Wealth, examines the overwhelming reliance on natural resources and aid, which is affecting the health of Pacific economies. Part 2, First Action, tapping the silent majority, prescribes TK and broadly knowledge-based industries as an antidote to the declining revenue streams derived from natural resource receipts and external grants. Part 3, Second Action, and Part 4, Third Action, identify policy and legal arrangements to facilitate the prescriptions mentioned in Part 2. These include facilitating domestic demand, developing trade policies promoting TK products, and aid-for-trade frameworks promoting TK industry growth. The paper ends with a conclusion and recommendations.

Part 1: Limiting Our Wealth

Pacific economies are heavily reliant on natural resource receipts and external grants to fuel their fiscal policies. While taxation systems and custom duties provide steady revenue streams and potential opportunities from nonnatural resource investments are active, they remain comparatively insignificant. Therefore the outlook for fiscal policies is only positive when natural resource receipts and external grants have an upward trend. This is not the case when both these revenue streams are on the decline.

An Asian Development Bank Report on Pacific Economies, relative to gross domestic product, indicates that external grants are on the decline. This may be attributed to reprioritization of aid flows and the current state of the global economy. However this view may be distorted by external grant providers imposing conditions on aid to meet their foreign policy objectives. An example of this is China's checkbook diplomacy in the region, whereby infrastructure projects were given to the islands in response to and conditional upon them adopting the One China Policy. There is also a resurgence of the United States in the region as it adapts its aid programs to mitigate China's influence.

There are also declining receipts from natural resources, with a downward trend in revenues generated by fishing licensing fees and in the mineral and petroleum sectors. All follow a downward trend on exports, and concessions on taxes hamper collecting high revenues. Coupled with a limited tax base and reduction from custom duties through regional and multilateral trade commitments, as discussed below, it is a precarious situation.

Four actions must be taken. First, increase private sector activity through investing targeted service and manufacturing sectors. Second, facilitate effective domestic demand through local content arrangements and market and product development assistance. Third, establish an effective trade regime to access markets and protect goods and services. Last, improve external grants to promote nonnatural resource sectors.

Traditional knowledge (TK) and, more broadly, knowledge-based industries have the capacity to facilitate these four actions. The Pacific region is home to an array of cultures, 10 percent of the world's biodiversity, the largest ocean in the world, and a human resource that has engaged with its ecosystems for generations in the fields of science, medicine, transportation, agriculture, art, and the creative sector.

Therefore, the first action on targeted private sector activities must involve government investment in stimulating TK and other knowledge-based industries and encourage venture capital investments to fund product development.

The second action on facilitating effective domestic demand requires better capitalizing on the current production of high-quality TK products by helping producers make the transition to a full commercial industry. The current lack of commercialization can be partly explained by the fact that often TK products circulate or are produced in a nonmonetary context. So a legal framework on TK protection and related intellectual property needs to be established as well as grants, local content, and related industry support policies.

The third action would require a trade policy that secured investment, markets, and protection of TK products. This may be facilitated through the Melanesian Spearhead Group (MSG) and Pacific Island Country Trade Agreement (PICTA) as well as negotiated in the Pacific Agreement on Closer Economic Relations (PACER) Plus and Economic Partnership Agreements (EPAs), respectively, with Australia, New Zealand (ANZ), and the European Union.

The fourth action may be facilitated through the aid-for-trade frameworks whereby greater emphasis is placed on providers of the external grants to promote private sector growth and encourage trade in TK industries.

The following discussions will examine these four actions in greater detail.

Part 2: First Action: Increasing Private Sector Activity through Investing in Targeted Service and Manufacturing Sectors

Convincing the Source

Most Pacific islanders are engaged in the rural economy. This realization has made planners suggest technical training should be devoted to developing agricultural skills so that islanders may commercialize their major asset: land. While this may seem logical, the advantages are short term, with limited scope and markets.

A better use of resources would be to focus on technical training for the rural population to develop knowledge-based industries, in which TK and other knowledge-based processes and products are the source ingredient. The potential is greater because inclusion is not subject to gender, demographics, or social classes as land ownership is. Therefore coverage is wider and there is also a constant demand for TK products.

Technical training also has the potential to introduce different approaches to developing and diversifying the product. For example, a *bilum* (a local woven basket) may remain a string bag, but training in garment making and design may transpose materials and patterns onto upholstery or furniture and lead to fusions with other materials in producing other garments. Technology may also improve product durability and production lines.

Technical training must also be used as a bridge to access scientific fields of biotechnology and engineering. For example, TK products of a medicinal nature would need basic skill sets to appreciate toxicology, morphology, and taxonomy arrangements.

The proposed technical training should consist of the following:

- providing the skills and tools to further advance the commercial viability of TK products;
- providing opportunities to integrate different technologies or other products to further develop TK products;
- providing opportunities to enhance skills in fields related to enhancing TK products;
- developing business skills in commercializing the product;
- facilitating relationships with financial institutions to provide seed funding for TK products to be commercialized.

The focus is maximizing training programs to commercialize the TK product.

Finally, an appreciation of business skills is also important. The commercial relationships associated with developing TK products require negotiation skills, appreciating price formulations, and ensuring a profit is made. It also means designing an appropriate model to disperse money to all stakeholders.

Incubating TK Industries

Skills training are not sufficient to drive an industry. Components such as capital, investment partners/collaborators, and markets to consume the product are essential. Therefore, government policy must focus on five areas: (1) tax-free status on the industry and customs duty exemption on materials used; (2) start-up grants; (3) promote a conducive investment climate for collaborators; (4) subsidized utilities; and (5) domestic industry protection from imported like products.

These five areas are not revolutionary and are regularly applied in the natural resource sector. Unfortunately for most Pacific economies, these concessions have not yielded positive results or stable revenue returns, as mentioned previously. The difference with the TK sector is that most of the investment will be onshore and potential markets domestically and abroad remain positive. Table 1 shows suggested policy changes in these five areas using the bilum industry as an example.

Another critical facility is the legal protection framework for TK. Several Pacific economies have enacted policy and law on TK protection and some have explored amending intellectual property legislation to recognize TK, as for instance has been done in Vanuatu. One possible approach is to apply a *sui generis* framework that would allow the TK owner to choose what intellectual property to apply in different parts of product development. There has been some regional integration in this area with the MSG and Forum Island Countries formulating mechanisms to recognize and protect TKs.

While the Pacific should be commended for its efforts in developing TK systems, great challenges remain in capacitating regulatory bodies charged with administering the protection of these rights. Unfortunately for the sector, protecting these rights is not a priority, and scarce public service resources are used elsewhere.

Part 3: Second Action: Facilitating Domestic Demand

Most TK products are transacted in cultural noncommercial settings. Even when commercial, the transactions largely remain in the informal sector, where returns are not high. Therefore, while there is demand for TK products, the main challenge is to develop a variety of markets for TK consumption.

TABLE 1. **Suggested Changes in Government Policy Using the *Bilum* Industry as an Example.**

Tax-free status on the industry and custom duty exemption	Start-up grants	Conducive investment for collaborators	Subsidized utilities	Domestic industry protection
Waiving collections on goods and services tax, income tax, and customs duties on equipment and materials such as dyes, strings, and machinery for processing	Whether in partnership with financial institutions or government grants, the objective is to provide capital to commercialize *bilums*; this must be done on merit and viability to be commercialized	Attracting partners to invest in *bilum* production would require encouraging capital venture type funds where exemptions are given on business registration, tax incentives, capital movements, as well as visa and work permit applications; the scope of these partners may be a fashion house to furniture company or it may be a sector outside the garment industry—flexibility is the key	Power, water, and information and communication technology facilities are critical for TK products; these services should be subsidized	Domestic protection is required from competing imported products, so that the *bilum* industry is able to grow; these measures may range from import tariff protection to quantitative restrictions

This is where government policy can assist the industry in facilitating domestic consumption though the following activities: (1) mandatory local content of TK products; (2) national treatment on government procurement on TK products; (3) promotion of TK products. Table 2 identifies how these polices may apply.

This policy will remain effective only though a vibrant and proactive industry body that coordinates TK stakeholders to formulate standards for their products and meet production targets to meet the demand. It would be unwise for governments to assume this role.

Part 4: Third Action: Trading TK

While domestic demand may provide sufficient returns to TK owners, the ambition to export to a regional and global market must be encouraged in order to encourage revenue inflows. Therefore, a trade policy must

TABLE 2. **How Government Policy Can Assist Domestic Consumption Though Mandatory Local Content of TK Products, National Treatment on Government Procurement on TK Products; and Promotion of TK Products.**

Mandatory local content	National treatment on government procurement	Promotion of TK products
Retailers and distributors to have certain percentage reserved for TK products (e.g., all hotel rooms to have linen, paintings, and cosmetics that are sourced internally), this could be imposed in the form of a quantitative requirement, e.g., 10% of the floor space	Local content procurement in education materials, TK medicine, and other basic services the government procures to deliver services	"Made in the Pacific" labeling and encouraging consumers to be patriotic and purchase local products

advocate (1) tariff free and quota free duties on TK products; (2) noncumbersome rules of origin; (3) flexible biosecurity rules on TK products; (4) liberalized TK services; (5) protection and recognition of TK rights; and (6) protection and promotion of investments of partners in developing TK products.

Table 3 identifies the trade agreements Pacific economies are party to and how these arrangements may promote TK trade. Table 3 considers two existing frameworks: the Melanesian Spearhead Group Trade Agreement (MSG TA)[1] and the PICTA.[2] As we show below, both have membership of Pacific economies and, in their current state, focus on tariff liberalization for goods. The scope of biosecurity, services, TK protection, and investment are not part of the texts of these agreements but have, nonetheless, been advanced in different stages of negotiations.

Table 3 also considers agreements that are currently being negotiated, such as the Economic Partnership Agreement (EPA) between the African, Caribbean, and Pacific group of states and the European Union, as well as the PACER Plus Agreement (PPA). It is intended that both will have comprehensive provisions relating to economic and trade relations. The EPA has a draft text, while the PPA does not have one.

While the five areas highlighted are important considerations for TK trade, significant capacity constraints exist in coordinating functional trade departments within Pacific island states. The multifaceted policy and regulatory features of trade today, as well as international relations, requires full-time dedicated officers. This is not the case in many Pacific economies, as staff often have multiple roles, and there is also a shortage of technical staff.

TABLE 3. **The Trade Agreements Pacific Economies Are Party to and How These Arrangements May Promote TK Trade Considering Two Existing Frameworks: The Melanesian Spearhead Group Trade Agreement (MSG TA) and the Pacific Island Country Trade Agreement (PICTA).**

Tariff free and quota free duties on TK products	Noncumbersome rules of origin	Flexible biosecurity rules on TK products	Liberalized TK services	Protection and recognition of TK rights	Protect and promote investments of partners in developing TK products
MSG TA					
Most tariff lines are already duty free and quota free—this is not an issue	Change of tariff headings arrangements are favorable for TK products and provide flexibility in determining rules of origin	Biosecurity protocols are being established; this remains a major challenge for TK products accessing MSG markets	There is no services framework in the current text; however, efforts are under way for its formulation—TK services need to be identified and negotiated for market access	A current framework is under consideration by MSG members on reciprocal enforcement of TK rights; this is a positive sign for the region and for TK trade	No investment framework has been considered, which may cause reluctance for collaborative and investment activities
PICTA					
Tariff liberalization remains limited and therefore is an issue for TK products to access these markets	The cumulative rule is not desirable for TK products; change of tariff headings similar to MSG need to be adopted	No framework is in place and therefore may pose a market access barrier	Service negotiations are under way and, as with the MSG, TK services need to be identified by members with a view to negotiating their liberalization	No TK protection framework, and there seems to be no desire to establish one; this is a negative prospect for TK entrepreneurs exporting under PICTA	No investment framework and similar issues with MSG may arise

TABLE 3. **Continued.**

Economic Partnership Agreement					
Most tariff lines are already duty free and quota free; this is not an issue	The cumulative rule is not desirable for TK products	Rules are not flexible, and this is coupled with member state rules as well; development assistance must be sourced from the EU	No services framework	No TK protection framework, and there seems to be no desire to establish one; this is a negative prospect for TK entrepreneurs exporting under EPA	No investment framework and similar issues with MSG may arise
Pacer Plus Agreement					
No liberalization framework, but it is most likely to be asymmetrical whereby ANZ will apply duty free, quota free to Pacific products and the Pacific members will apply the same over a period of time	It is proposed that a change of tariff heading similar to MSG TA apply, as this will provide the flexibility to identify TK products	Protocols of biosecurity and standards are critical to access ANZ markets, and the Pacific would require assistance to meet these rules	ANZ must liberalize service sectors critical for TK products; this also includes visa and work permit related issues	ANZ must protect and recognize TK; this should be nonnegotiable	Investment frameworks must be advanced whereby entities are encouraged to move capital, personnel and technologies to advance TK products

Part 5: Fourth Action: Aid-for-Trade with a TK Twist

As discussed earlier, external grants are on the decline, although coordination among providers has improved, and therefore aid flows are now limited to entities that have the capacity to effectively deliver development priorities and assistance. One particular arrangement that should be of interest to TK entrepreneurs is aid-for-trade.

In its efforts to maintain the relevance of multilateral trade, in 2004 World Trade Organization members considered a new framework whereby aid by the Organisation for Economic Cooperation and Development members and other emerging economies was contingent on encouraging trade liberalization. This may range from addressing supply capacity and trade-related infrastructure in order to export more, to formulating trade policy frameworks.

The Pacific engaged in a similar exercise in 2010 whereby an Aid-for-Trade Facility hosted by the Pacific Islands Forum Secretariat was to manage a pool of resources (45 million Euros from 2010 to 2014), mostly from the European Union (EU), to target trade-related assistance. The author was part of this process, and the following initiatives were proposed with regards to enhancing TK industries:

- model policy in promoting creative, cultural and innovative industries;
- legal instruments in formulating key bodies to represent producers, practitioners, and stakeholders in the different sectors of the creative, cultural, and innovative areas;
- templates on drafting industry standards;
- template contracts to parties in the value chain of these industries;
- template financing contracts;
- toolkits on product and market development;
- toolkits on export promotion;
- intellectual property and traditional knowledge protection;
- funding of national consultants to use these toolkits to implement policies to promote TK industries and develop the private sector.

When prioritization was made by Pacific officials, the entire TK proposal was dropped and emphasis was shifted to institutional building as well as trade policy development. One conclusion that might be drawn from this is that in the eyes of many Pacific economies, TK remains an artifact only used on cultural celebrations, which has no economic relevance. Such a viewpoint is superficial and contributes to keeping many economies in bondage to natural resources and external grants.

Conclusion

This paper has identified the urgency for Pacific economies to look beyond natural resources receipts and external grants to fuel its fiscal policy. It has suggested TK industries provide an alternative to fill the revenue gap. For this to occur, four actions were proposed. These include the following:

1. upskilling TK entrepreneurs to assist them in commercializing their product;
2. facilitating the domestic demand for TK products;
3. formulate trade policies to promote and protect TK products and entrepreneurs;
4. formulating aid-for-trade frameworks that promote TK products.

The paper also mentioned critical challenges facing these actions. They include the following:

- shifting the mindset of technical training from agriculture to TK activities;
- establishing and supporting entities representing TK entrepreneurs;
- prioritizing trade policy in the public service;
- looking beyond institutional development in aid-for-trade assistance.

In conclusion, I am reminded of what an old friend told me when we pondered the revenue declines in external grants and natural resource receipts. He remarked, "The future of the Pacific does not lie in its rocks, timber and fish. It is in the hearts and minds of its people to use its invaluable resource, its knowledge, to unlock prosperity." TK is a viable alternative and has potential to diffuse this dilemma if a number of practical measures are implemented.

NOTES

1. Came into force in 1994 and currently consist of Fiji, Papua New Guinea, Solomon Islands, and Vanuatu.

2. Came into force in 2003. Members include most Pacific island economies.