Session 18: Regionalism’s Role in Integrating the Pacific into the Global Trading System

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Summary

Overview

Following decisions taken by Pacific Islands Forum Leaders in August 2009, PACER Plus (Pacific Agreement on Closer Economic Relations) negotiations have begun, aiming to deepen economic cooperation between the 14 developing Pacific island countries (PICs) and Australia and New Zealand through a comprehensive, reciprocal regional trade agreement. PACER Plus builds on previous agreements within the Pacific region (SPARTECA, PICTA etc). The session discussed the aims of PACER Plus to assist the long-term economic development of the PICs through closer integration with two neighbouring developed countries, as well as implications for their integration into the global economy, and reinforcing WTO disciplines with potential value-add. The session included expert speakers and participants from the Pacific Islands Forum Secretariat, the International Centre for Trade and Sustainable Development (ICTSD), the Institute for International Trade (IIT) at the University of Adelaide, and H.E. Mr Tim Yeend, Ambassador and Permanent Representative of Australia to the WTO. Hosted by IIT, the session was moderated by Mr Raul Torres, Counsellor in WTO’s Development Division, a recent Visiting Fellow at IIT.

Panel presentations

Historical perspectives on Pacific regionalism include: the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), under which exports from the Pacific islands have duty-free, quota-free access to Australian and New Zealand markets; the Melanesian Spearhead Group (MSG) sub-regional free trade agreement; and the Pacific Island Countries Trade Agreement (PICTA) operational as a goods-only agreement between the developing Pacific island countries since 2007. Ongoing efforts to achieve greater trade and integration and enhance and stimulate sustainable economic growth and development are consistent with the Pacific Plan endorsed by Pacific Islands Forum Leaders in October 2005.
Further steps towards the creation of a single regional market include current negotiations to extend PICTA to trade in services and labour mobility, and recent developments on PACER Plus. Since Forum Leaders took the decision in Cairns in August 2009 to commence PACER Plus negotiations, there have been two meetings of Forum Trade Ministers, including to set priority issues (initially rules of origin, trade facilitation, development assistance, and regional labour mobility – to which were added, in April of this year, shipping, aviation, telecommunications and water infrastructure). The PACER Plus negotiations are expected to take several years to complete and implement, with no set deadline for their conclusion.

Ambassador Tim Yeend focused on a number of parallel and complementary issues: the PACER Plus regional negotiations, and Australia’s aid for trade efforts in the Pacific, as well as support for the multilateral trading system. He emphasised that building resilient economies, sustainable growth and prosperity in the Pacific islands can best be achieved through engagement with the international trading system. At the same time, the degree to which trade liberalisation can deliver real development benefits relies also on support and implementation of strong, effective domestic reforms (addressing supply-side constraints, adjustment costs, macroeconomic, regulatory and governance policies, and institutional arrangements).

There is an acknowledged need for flexibility, to recognise the differences between countries in the Pacific and their levels of development. Australia is keenly aware of the capacity constraints facing small, developing island countries, and is funding capacity building activities and trade negotiation training for regional officials from all 14 of the PICs, delivered by IIT, as well as independent national research studies for each Forum island country on its individual needs and trade priorities under a potential future PACER Plus agreement. Australia and New Zealand are also funding the recently established Office of the Chief Trade Adviser (OCTA), based in Vanuatu, to independently advise and assist the PICs in the PACER Plus negotiations.

Consistent with this approach to PACER Plus, Australia’s broader aid-for-trade commitment is providing significant funding for the Pacific, including as a proportion of its total aid-for-trade flows in 2009-10. This is aimed at improving the “behind the border” capacity of the PICs to engage in multilateral and regional trading systems and initiatives, and to benefit from global trade. These programs focus on areas including: upgrading economic infrastructure in trade-enabling sectors (transport, energy, telecommunications); building Pacific workforce skills to enhance regional labour supply, productivity and mobility (through support for regional and bilateral education and training initiatives, and the regional multi-campus Australia Pacific Technical College – APTC); strengthening private sector capacity and reducing business costs; supporting sustainable market opportunities and trade facilitation, including to improve regulatory compliance (customs, quarantine, standards, conformance) and increase market access for value-added Pacific agricultural and horticultural products; and strengthening natural resource management.

Commitment to a successful conclusion of the Doha Round is Australia’s trade policy priority, backed by support and technical assistance for Pacific countries and developing country WTO members to engage effectively with the multilateral trading system. A successful Doha Development Agenda (DDA), and aid-for-trade initiatives, also have the potential to realize several MDG-8 targets.

Raul Torres, Counsellor in WTO’s Development Division and a Visiting Fellow at IIT in 2010, and Keith Wilson, Senior International Trade Law Counsellor at IIT, outlined the Institute’s activities, including those relating to capacity building for the Pacific island countries in preparing for PACER Plus. Mr Wilson noted the two distinct but mutually reinforcing aspects of the topic for the Session, one being the role of regionalism, and the other the integration of the Pacific into the global trading system. Support for effective and workable regionalism may have a relatively more important role to play for small Pacific island countries, marked by serious capacity constraints, economic and social vulnerability. At the same time, while there are a variety of ‘levels’ of trading arrangements and ‘recipes’ for integration in today’s world, none of the various recipes for growth and development turns away from integration, and the need to
reduce the negative impacts of the two great disintegrators – distance (remoteness) and border barriers (protection).

There are also considerable differences between the Pacific island countries themselves. Some are relatively large and resource-rich, such as Papua New Guinea. But most, including several micro-states, have few economic endowments, and overwhelming reliance on imported food, fuel and manufactured goods, foreign aid, subsistence agriculture, fisheries and, increasingly in several cases, tourism and related services. There is scope for services liberalisation to encourage greater competition and efficiencies in the PICs in sectors including education, transport, and tourism. Regional case studies, such as in the air services and telecommunications sectors in Vanuatu, support this approach.

The regional cooperation and trade-related capacity building (TRCB) dimensions of a PACER Plus agreement would reinforce mutual long-term interests going beyond economic and trade dimensions, to security and development issues, environmental and educational concerns. The reduction of barriers to trade aims to create a more integrated and robust regional Pacific economy, making it easier for the private sector to do business, export, import, invest and contribute to local economies. The ‘Plus’ in PACER Plus will become the focus for a broad and comprehensive agreement, which should not focus too narrowly on tariffs and rules of origin (ROOs), but much more on interconnectivity, communications, information, harmonisation and simplification of regulatory procedures, and research into each individual PIC’s comparative advantage. In that context, there needs to be time for the PICs to develop their negotiating positions to suit their particular needs and interests. Flexibility will be required in relation to sensitive areas, as well as sequencing and timing issues.

The aim of PACER Plus is “to create jobs, boost economic growth, and raise living standards”. Ambassador Sergio Marchi, Senior Fellow at ICTSD, focused on the realities of the central question (“How is this mission to be accomplished?”). He addressed several core substantive and procedural issues (the need for national consultations and broad dialogue; clearly defined and realistic capacity building and development assistance; the inclusion of good practices on labour mobility as part of regional trade negotiations; the importance of a ‘positive environmental agenda’, including in the face of the threats of the climate change dimension for several of the PICs; an ‘economy-wide’ perspective on services, balancing the right to regulate with the benefits of integration into dynamic global supply chains; and fair and effective trade dispute settlement mechanisms).

Ambassador Marchi began his presentation by underscoring the strengths of multilateralism based on clear, predictable international trade rules for the benefit of “the 3 C’s” – companies, countries and citizens. His analysis of regional approaches for a successful PACER Plus agreement emphasised the crucial role of several other “C’s”, including confidence (to avoid “situations where a bad process trumps the best potential substance”), credibility (in negotiation expectations, ‘equality’ and enforcement), commitment and co-operation (on labour mobility), capacity building and coordination (on the environment), competitiveness (in services) and compliance.

Panel discussions included contributions from Ms Manleen Dugal of the Pacific Islands Forum Secretariat office in Geneva, as well as issues raised by participants from the ACP Secretariat, ADB and a number of developing country and civil society representatives and NGOs, including the Pacific Network on Globalisation (PANG).

Questions concerned: coherence with multilateral disciplines for small and vulnerable economies (SVEs) and the problems of scarce human resources in ‘sea-locked countries’, to deal with concurrent multilateral and regional negotiations; the coverage of services, investment and other chapters under PACER Plus; and revenue implications for the PICs. The importance of engagement with all constituencies was stressed, including involvement of States and non-state actors (NSAs).
On relationships with multilateral developments, a recent Policy Brief prepared by IIT addresses “How Trade Initiatives are Helping to Achieve the MDGs”. The conclusion of the Doha Round will be important for least developed countries not necessarily in producing dramatic liberalisation, but to restrain protectionism, and create greater security of market access in developed country markets. MDG-8 contributes to further development of an open, rules-based, non-discriminatory trading and financial system with a commitment to good governance and poverty reduction, including to address the special needs of least-developed countries and small island developing states.

Clearly, there remain challenges – political, economic, and developmental in terms of infrastructure and technical assistance needs – to build trade-related capacity, manage adjustment and domestic reform processes, and increase understanding by informing and consulting with local community groups, the private sector and the general public.

Politically, Fiji’s participation in PACER Plus is subject to a decision to keep it informed through the OCTA, and referral to a Ministerial Contact Group. Decisions have also been taken regarding an annual meeting with NSAs, to bring affected interests together and address a perceived lack of trust.

Economically, some of the PICs fear the risk of being swamped by Australian and New Zealand goods and services and of losing substantial revenues from customs tariffs. Studies have suggested significant increases in regional merchandise trade volumes of up to 20-30% as a cumulative effect of several FTAs involving the PICs (eg PICTA, PACER, EPAs). Revenue loss estimates in a number of studies have varied greatly, with some predicting significant impacts for some PICs, while for others the impact is less.

For development, a focused economic development chapter will be an important element for the PICs, as well as ongoing development assistance programs. PACER Plus negotiations are in the early stages, and have yet to consider the shape of potential services and investment chapters. Some of the biggest gains could be in labour market liberalisation, particularly if unskilled labour is included, and this is an area where many of the PICs have a major interest.

In concluding, with improvements in the quality of information available, the quality of discussions, both in the negotiations themselves and in consultations with other international and regional actors, will benefit from being tested by ‘sharp and accurate’ analysis, not selective inputs. Data remains incomplete, but forthcoming studies are based on a better range of data, and evidence from comparable island countries both in the region and elsewhere. These demonstrate welfare gains and multiplier effects on GDP growth resulting from lower tariffs, with revenue offsets over time from consumption-based taxes. A Senior World Bank economist (Luthria, 2009), acknowledges the difficulties and failed experiences of trying to build up a series of very small markets, yet firmly reinforces the benefits of regionalism for SVEs in reducing ‘frictions’ created by economic barriers, and when small markets become closely linked economically to their nearest larger markets.