



## Original Article

# Trade Negotiations and Regional Economic Integration in the Pacific Islands Forum

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### Abstract

*When the Pacific Islands Forum was established in 1971, regional economic integration was high on the policy agenda. Over the four decades since, a political commitment to regional integration has waxed and waned. This paper explores past and present prospects for economic cooperation through the lens of regional trade negotiations. Into the new millennium, Pacific governments lobbied World Trade Organisation (WTO) members to recognise their trade-related challenges, and sought special treatment in trade negotiations with the EU and with Australia and New Zealand. Despite these efforts, current trade negotiations among all Forum members—to extend the Pacific Agreement on Closer Economic Relations (PACER-Plus)—look unlikely to result in unique measures intended to help Pacific states take advantage of international trade. In this context, consideration should be given to downscaling formal trade negotiations in favour of other regional trade policy initiatives.*

**Key words:** regionalism, regional trade agreements, Pacific, Pacific Islands Forum, PACER-Plus

### 1. Introduction

Negotiations for a new regional trade agreement for the Pacific Islands Forum—to be called PACER-Plus—have entered troubled waters. A considerable dissonance of views persists between policy-makers in Australia and New Zealand and their counterparts in the Forum Island Countries. Pacific officials argue that a regional free trade agreement (FTA) would not in itself help the island states realise significant welfare gains, and thus innovative regional policy initiatives are needed. Australian and New Zealand trade officials do not share the precepts of this argument. While they acknowledge that island states require financial and technical assistance to negotiate—and implement—a new regional trade agreement, there is no consensus that PACER-Plus should be substantively different from other treaties being negotiated in the Asia-Pacific region. In the absence of agreement regarding the nature and extent of benefits arising from reciprocal trade liberalisation, talks have proceeded slowly and prospects for a mutually acceptable agreement remain poor. To understand how this impasse came about, this article explores the recent history of trade cooperation in the Pacific Islands Forum. In the final section, some suggestions for policy are also briefly discussed.

### 2. Trade, Regionalism and the Establishment of the South Pacific Forum

Island country members of the Pacific Islands Forum are some of the youngest states on

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earth, having achieved independence from colonial powers within the lifetime of most current island leaders. No sooner had these nations been born than serious consideration was given to joining them together (with Australia and New Zealand) in some form of economic union. When island states, led by Fiji's Ratu Kamisese Mara, first considered a regional body for political cooperation the prospect of trade integration was high on the agenda. In 1971, at the very first meeting of the South Pacific Forum,<sup>1</sup> a committee of senior officials was established to discuss the possibility of an economic union. However, it was quickly realised that the issues involved in pursuing a free trade area were complex and politically difficult. The committee recommended that a permanent secretariat be established 'to enable continuing consultation on this and other trade questions' (Department of Foreign Affairs and Trade 2004, p. 18). At the second South Pacific Forum, it was agreed that a South Pacific Bureau for Economic Cooperation (SPEC) would be established in Suva. More than 40 years later, the SPEC has changed its name—it is now the Pacific Islands Forum Secretariat—and still facilitates regional discussion on trade. However, a free trade agreement among all the Forum member states is yet to be.

When Papua New Guinea (PNG) achieved full independence in 1975, a trade agreement was negotiated with Australia—the Papua New Guinea-Australia Commercial Trade Agreement—cementing arrangements allowing PNG goods to enter Australia duty-free. Swiftly thereafter, an agreement granting preferential access to Australian and New Zealand markets for all Forum Island Countries was negotiated, and the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) was signed in 1981.

Australia and New Zealand were not alone in offering preferential market access to the Pacific Island countries. As European powers sought to redefine relations with former colo-

nies, trade arrangements that maintained colonial-era market access were negotiated for African states through the Yaoundé Convention of 1963, and extended to the Caribbean and Pacific states in the Lomé Convention of 1975. Lomé allowed for duty-free access to European markets for most exports, and included a series of commodity-specific protocols. In the Pacific, Ratu Mara played a key role negotiating the convention's Sugar Protocol, lobbying the UK government to secure price guarantees that would prove vital for employment and social stability in Fiji.

In the first decade of the South Pacific Forum, moves towards 'deep' regional economic integration were set aside in favour of a less ambitious agenda of sectoral cooperation and regional service delivery. Key initiatives included a regional university (University of the South Pacific), a regional shipping line (Pacific Forum Line) and a regional airline (Air Pacific). Even in these areas, however, political tensions, and particularly the view that the benefits of regionalism were accruing unfairly to Fiji, served to undermine a wholesale embrace of regional integration by island leaders. Despite this, the idea of a free trade area among Forum member states—often envisaged as a first step towards a more comprehensive integration through a common market, a common currency and regional political coordination—has proved to be recurring and remarkably persistent over subsequent decades.

### 3. Market Preferences and Pacific Islands Development

Duty-free access to developed country markets, particularly through the Lomé Convention and SPARTECA, helped 'cushion trading realities' in a number of Pacific states (MacDonald 1986, p. 117). Both agreements proved important for exports that were unlikely to have established or continued without them, and thus had significant development effects for those island states with

1. The South Pacific Forum was renamed the Pacific Islands Forum in 1999.

sufficient resources to develop export industries.<sup>2</sup> Preferences associated with the Lomé Convention were particularly important for exports of sugar from Fiji, and tropical tree crops (coffee, cocoa, oil palm, coconut oil) from PNG, Solomon Islands and Vanuatu. The convention also provided direct financial assistance—the so-called STABEX funds—to island exporters faced with volatile prices for agricultural commodities. Significant margins of preference were also available for processed tuna exported to Europe. Canneries in Fiji, Solomon Islands and later in Madang in northern PNG were reliant, ‘virtually completely upon the export of canned tuna to the EU market’ (Grynberg 1995, p. 80). A tariff rate set at 24 per cent on competing products from Southeast Asia—particularly from Thailand and the Philippines—ensured the profitability of canned tuna exports.

Ultimately, Lomé preferences had the effect of ensuring that the EU, ‘despite the vast distances involved in transporting low value products’, remained ‘an unnaturally significant trading partner’ for Pacific Island countries (Grynberg 1998, p. 3). Market preferences provided by the EU had significant welfare and employment effects. Guaranteed prices provided by the Sugar Protocol, for example, constituted a direct income transfer to Fiji, estimated in 2001 to be worth around US\$50 million per annum (Grynberg et al. 2006, p. 541). The Fijian sugar industry, reliant on hand-cut cane and ageing transport and milling infrastructure, would have struggled to maintain export volumes in the absence of above-world prices. By 2011, the industry still provided direct and indirect employment for some 200,000 people—around 20 per cent of Fiji’s population (International Monetary Fund 2011, p. 7). However, Lomé preferences

were not to last forever. In September 2007, the EU unilaterally withdrew from the ACP Sugar Protocol, and guaranteed prices for ACP sugar were phased down and removed altogether in 2012. With falling prices, sugar production is increasingly unprofitable in Fiji, although some growers have gained a price premium through fair trade certification (Bower 2012), while others have diversified away from sugar to higher value agricultural exports.

Preferential access to Australian and New Zealand markets, provided for under SPARTECA, also saw the development of commercial activity in the Pacific. Undoubtedly of most importance was the growth of textile, clothing and footwear exports from Fiji. When the Australian and New Zealand governments dismantled protections for their own textile industries in the late 1980s, many firms relocated to Fiji to reduce costs. This coincided with a pro-investment policy environment implemented by Fiji’s Rabuka government, including the establishment of low-cost ‘export processing zones’ and tax holidays for new factories. Amendments were also made to the SPARTECA rules of origin, allowing Australian and New Zealand products, even if initially sourced elsewhere, to count towards SPARTECA’s content rules. This enabled Australian and New Zealand firms to import thread from low-cost sources in Asia and export fabric to Fiji, where it was made into clothing through the so-called ‘cut, make and trim’ operations and re-exported to both countries duty-free. In essence, the labour-intensive component of domestic manufacturing in Australia and New Zealand was outsourced to the Pacific. Fijian exporters also benefited from preferential access to the US market, provided for by the Multilateral Fibre Arrangement (MFA).

The combined effect of policy changes in Australia, New Zealand and Fiji saw a spectacular growth in Fiji’s garment industry, with export earnings growing from less than FJD 5 million to FJD 113 million per annum between 1987 and 1990, accompanied by a tripling of employment in the sector (Storey 2003, p. 11). Indeed, there have been virtually no other

2. For some of the Pacific’s smaller ‘micro-states’ (such as Nauru, Niue and Tuvalu) and for more remote atoll states (such as Kiribati), there are very limited prospects for international trade, even with preferential access to destination markets. Indeed, only in the larger Melanesian states—Papua New Guinea, Fiji, Solomon Islands and Vanuatu—do traditional goods exports constitute a significant proportion of national gross domestic product (Hezel 2012, p. 11).

comparable examples of significant industrial development in the Forum Island Countries. By the turn of the millennium, around 18,000 Fijians, predominately women, were employed manufacturing garments and the number of tax-free factories in Fiji expanded from 27 in 1988 to 110 in 1999 (Cawthorne 2000). With the expiry of the MFA quota system in 2005, the Fiji garment sector contracted significantly. However, 40 factories remain in operation, with successful firms specialising in short-order, low-volume clothing production for the higher value Australian fashion market.

Preferential access to Australian and New Zealand markets also precipitated manufacturing exports from Samoa. In 1991, the Japanese firm *Yazaki* relocated a car-part factory to the country, which quickly became the second-largest employer after the public sector. The factory assembled and exported electrical wiring harnesses for cars that would then be completed in Australian factories. As with the development of the Fijian textile industry, the move essentially entailed an outsourcing of a labour-intensive component of manufacturing in Australia. Also, like the Fijian garment sector, the move came only after changes to domestic industry policy. *Yazaki* decided to relocate when the Australian Motor Vehicle Plan was modified to include Forum Island Country components in cars deemed Australian made. At its height, the factory employed 3,000 people, and while that number had dropped to 950 in recent years (Tone 2012), the factory remained a not-insignificant employer for a small and remote island nation with relatively few waged jobs.

It is clear that preferential access to developed country markets, particularly as provided through Lomé and SPARTECA, was important for the development of Pacific Island exports. Benefits accrued most to Fiji, through continued sugar exports to the United Kingdom and new garment exports to Australia and New Zealand. Indeed, historical trade preferences go some way to explaining why Fiji is the least aid-dependent Pacific nation (Hezel 2012, p. 22). Some argue that trade preferences had limited benefits for island economies because

they led to the development of activities that would not be viable when the preferences were removed. However, it remains unclear what, if any, trading opportunities would have emerged in their absence. Furthermore, a close reading of recent economic history suggests that preferences have had significant positive welfare effects in some Pacific states.

#### 4. Regional Trade Agreements Revisited as Response to Globalisation

Changes in the global trade regime during the early 1990s had significant consequences for the Forum Island Countries. Trading partners, particularly in Europe, made commitments during the Uruguay Round of negotiations which served to undermine the value of preferential market access. Furthermore, the MFA looked set to be phased out, thereby undermining Fijian clothing exports to the United States. The World Trade Organisation's (WTO) strengthened compliance mechanisms also meant that non-reciprocal preferences were increasingly exposed to legal challenge by other states. Taken together, these changes brought into sharper relief the competitive disadvantages faced by Pacific producers. To be sure, it was widely understood that the establishment of the WTO would create new opportunities for developing countries *on the whole*, as wealthy nations liberalised their markets in selected areas. However, there was also a realisation that Pacific Island states would face special difficulties taking any advantage of those opportunities. Thus, Pacific states faced an erosion of their existing trading position *and* faced ongoing difficulties attracting investment or developing new exports.

While globalisation was high on the agenda by the mid-1990s, so too was regionalism: the EU was developing a common market, a North American Free Trade Agreement was concluded in 1994, and in the same year Asia-Pacific Economic Cooperation (APEC) states resolved to pursue trade liberalisation through 'open regionalism'. In this context, policy advisors in the Pacific recommended regional trade integration as a suitable response to changes in the global trade regime. Melanesian states led

the way with the formation of the Melanesian Spearhead Group Trade Agreement (MSGTA) in 1993. The MSGTA provided for free trade in prescribed goods among PNG, Solomon Islands and Vanuatu. Soon thereafter, consideration was given to trade integration for the South Pacific Forum more broadly.

At the time, two distinct models of integration were considered. Australian policy-makers favoured Forum-wide cooperation in the form of 'open regionalism modelled on APEC, and with regulatory standards geared to the WTO' (Johnston 2009, p. 128). However, Pacific governments were of the view that a trade agreement among themselves would help Forum Island Countries adjust to a more sharply competitive global trading environment. Island governments were also concerned about greater adjustment costs associated with an agreement including Australia and New Zealand. Key advisors suggested a 'stepping stone' approach could allow for inter-island integration before island states moved to more ambitious liberalisation with larger trading partners. They suggested such an approach would allow Pacific countries to better manage the pace of reform (see Scollay 2010, p. 11). Others cautioned, however, that preferential agreements could act as 'stumbling blocks' that would lead to trade diversion and 'create interests which could stall the move toward wider liberalisation' (see World Bank 2002, pp. 31–2).

Primarily for political and geostrategic reasons, the Australian government insisted on being included in the processes of integration through the auspices of the South Pacific Forum. It was thought that exclusion from a regional trade agreement would send a poor message about Australia's place in the South Pacific Forum itself. Both Australia and New Zealand also had some commercial interest in securing preferential access to Pacific Island markets. Both governments, furthermore, argued that a Forum-wide agreement would be welfare-enhancing for the Forum Island Countries. Ultimately, two separate agreements were negotiated: the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relations

(PACER). The former provided for the liberalisation of trade in goods among the island states, while the latter provided for the possible future negotiation of a free trade agreement with Australia and New Zealand.

Australian concerns about being excluded from a Pacific trade agreement had been exacerbated in 1999 when the EU proposed a regional trade agreement to replace Lomé-era preferences. Policy-makers in Brussels had proposed that preferences contained in the Lomé Convention be replaced with reciprocal trade agreements, thus bringing the EU–ACP trading relationship in line with WTO obligations (particularly as found in Article XXIV of the General Agreement on Tariffs and Trade (GATT)). In 2000, Pacific ACP states signed the successor to Lomé—the Cotonou Agreement—which provided for the negotiation of a regional 'Economic Partnership Agreement' (EPA) between Pacific Island countries and the EU.

By early in the new millennium, Pacific Island countries were circumscribed by an increasingly complex array of trade arrangements. Island states were considering joining the WTO,<sup>3</sup> and looked set to negotiate and implement free trade agreements among themselves and with the EU and Australia and New Zealand. Despite moves to embrace new trade arrangements, there remained concern that negotiating reciprocal free trade agreements with developed countries would not provide significant economic benefits for the island states. In this context, Pacific policy-makers increasingly sought concessions from the international community and pursued *innovation* in the global trade regime.

## 5. Uniquely Vulnerable: Seeking Innovation in the Global Trade Regime

Early in the twenty-first century, there was an increasing consensus that producers based in Pacific Island states faced inherent disadvantages that limited their ability to compete in

3. Only Fiji, Papua New Guinea and the Solomon Islands were founding members of the WTO. Tonga (2007), Samoa (2012) and Vanuatu (2012) have acceded subsequently.

global markets. Factors such as small and dispersed populations, a limited resource base, distance from external markets, and an acute vulnerability to natural disasters all served to constrain opportunities to benefit from international trade. While the unique vulnerabilities of small island economies had been discussed more broadly for some time, new studies sought to quantify the extent of island-based disadvantage. Winters and Martin (2004) modelled the costs of production in small and remote economies, and found that exports from many small states were priced out of the world market *even in their areas of comparative advantage*. Gibson and Nero (2006, p. 15) found that Pacific Island states were not only further away from major economies than other small island states, such as those in the Caribbean, but they were also ‘much further away in terms of airfare-based measures of distance’. An appreciation of the unique features of Pacific Island economies led to an acknowledgement that there was ‘likely to be a permanent wedge between the cost of production in the Pacific and the world price in both manufacturing and services, making it difficult for the islands to compete in all but a few niche markets’ (World Bank 2009).

While there was agreement that Pacific Island states faced difficulties competing in a liberal global marketplace, there remained divergent views as to how to respond to the islands’ trading circumstances. Suggestions tended either towards regime *compliance*: encouraging Pacific states to liberalise trade in accordance with the regulatory requirements of the WTO and through WTO-compatible FTAs, or towards regime *innovation*: encouraging the international community to adapt multilateral trade rules and consider additional concessions that would reflect the special needs of Forum Island Countries. In part, differing policy suggestions reflected different understandings of the historical effects of trade preferences. Some argued that island states had little choice but to adapt to the global trade regime. Duncan and Redden (2009, p. 611), for example, suggested that there would ‘no doubt be pain associated with the loss of preferences in some Pacific small and vulnerable

economies (SVEs) . . . but SVEs will need to adjust to the inevitable’.

By contrast, Grynberg (2006) argued that the trade regime should be adapted to allow wealthy states to maintain preferences for Pacific countries. He also suggested that the international community should ‘devise appropriate interventions that will replicate the results of trade preference while avoiding some of the more market-distorting consequences’ (2006, p. 24). This analysis proved particularly influential among Forum island governments, who decided to seek innovation in the global trade regime itself. If developed countries were to provide preferential treatment to Pacific countries, this could contravene a key principle of the multilateral trade regime: that of non-discrimination. Thus, the island states lobbied WTO members to recognise a new category of small and vulnerable states. In 2001, at the launch of the Doha Round, members agreed to establish a work program ‘to frame responses to the trade related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system’ (WTO 2001, para 35). However, this work program would be designed explicitly so as ‘not to create a sub-category of WTO members’. While small island states may receive assistance to implement them, they would be required to commit to the same obligations as other developing country members, and developed countries would not be able to extend preferences to island states on a discriminatory basis.

Having gained limited recognition of their trade-related challenges at the WTO, Forum Island Countries pursued policy innovation through regional trade negotiations. At the outset of the EPA negotiations with the EU, for example, island governments suggested that an ‘FTA-Plus’ approach would be required if an agreement was to encourage development in the Pacific (Pacific Islands Forum Secretariat 2004). A roadmap for the negotiations, agreed between island trade officials and their Brussels-based counterparts, explained that a Pacific-EU EPA would ‘go beyond existing WTO measures and include provisions that effectively address the Pacific ACP states’ criti-

cal constraints of small size, dispersed land masses and populations, and isolation from major markets and sources of investment and supply for important economic inputs' (European Commission 2004, p. 2).

Between 2004 and 2006, Pacific trade ministers proposed unique measures to be included in the EPA. These included a reorienting of EU development institutions to reduce the costs of business finance in the Pacific, sector-specific strategies to encourage investment in Pacific tourism and agriculture, and a regional fisheries agreement. Pacific governments sought to link market access offers with aid-for-trade commitments from the EU. They also proposed labour mobility arrangements allowing Pacific islanders to work in Europe. However, when European officials responded with a draft EPA text, in August 2007, Pacific policy-makers were bitterly disappointed. They argued that the EU text set out the Commission's key demands while reflecting 'almost none of the key written proposals of the PACP group nor the positions put forward and key interests expressed by PACP Ministers and Officials' (Pacific Islands Forum Secretariat 2007).

Having failed to gain support for the view that an 'FTA-Plus' agreement would be needed, Pacific governments were reluctant to conclude a region-wide agreement. In late 2007, however, Fiji and PNG initialled interim EPAs covering trade in goods. Governments in both countries were concerned to ensure a continuation of market preferences that were vital for existing exports—sugar and canned tuna, respectively. These preferences looked set to be removed as a WTO waiver for Lomé preferences was due to expire on 31 December 2007.

The EPA talks with the EU framed subsequent negotiations for a Forum-wide trade agreement. Crucially, the EPA experience precipitated a *political* commitment from Australian and New Zealand trade ministers that they would support an 'FTA-Plus' regional trade agreement. As then Australian trade minister Simon Crean argued, 'Australia has learnt the lessons of the EPA negotiations with the European Union. We have learnt from that experi-

ence and we are not going to repeat it. Unlike the EPA, PACER-Plus is not just a trade agreement' (Crean 2009). However, translating this political commitment—that PACER-Plus would include unique and additional policy measures—into mutually agreed negotiating text would prove to be difficult.

## 6. The PACER-Plus Negotiations: Towards a Regional Stalemate?

In June 2007, Australian and New Zealand governments argued that negotiations between the Forum Island Countries and the EU had triggered articles of the PACER requiring discussion of a Forum-wide free trade agreement. Between mid-2007 and mid-2009, considerable diplomatic effort was expended securing support for a launch of 'PACER-Plus' negotiations. For the Australian government, this effort was driven by a change to overall trade policy orientation. Until the late 1990s, national interest had been pursued through the *multilateral* trading system, and there was a general 'antipathy towards preferential trade agreements' (Ravenhill 2008, p. 122). From 2000, however, the Australian government became an enthusiastic proponent of bilateral and regional trade agreements. Myriad commercial and strategic motivations drove this new policy orientation, but chief among these was a *defensive* imperative, based on the view that 'standing still is going backwards' (Capling 2008, p. 236). With other states negotiating preferential access to destination markets, Australian trade officials became concerned that new trade agreements were needed to maintain the commercial value of existing market access.

In the first decade of the new millennium, Australia pursued trade agreements throughout the Asia-Pacific region. Indeed, by the time PACER-Plus negotiations were launched, the Pacific Islands Forum was a relative 'empty patch' on the patchwork quilt of agreements being pursued in the geopolitical neighbourhood. While Australian commercial interests in a Pacific free trade agreement were limited, there was nonetheless concern to avoid preferential access being granted to

exporters from elsewhere. Australian policy-makers were also concerned for geopolitical reasons to avoid exclusion from processes of regional integration among Pacific Island states.

Because the PACER-Plus negotiations were pursued by Australia and New Zealand as part of a series of concurrent trade negotiations, officials from both countries were reluctant to consider measures that would differ substantially from other regional agreements, both to avoid precedents that might undermine ongoing negotiations and to maintain 'policy consistency among their various FTAs in order to reduce implementation costs' (Nathan Associates 2007, VIII). This desire for policy consistency sat uneasily alongside political commitments that PACER-Plus would not be a traditional trade agreement. Australian and New Zealand policy-makers were of the view that Pacific countries required special support to engage the PACER-Plus discussions, and potentially to implement commitments agreed to, but were not of the view that a substantially unique agreement would be needed. As then Australian high commissioner to Fiji, James Batley (2007), explained:

Yes, Australia (and New Zealand) are prepared to assist [Forum Island Countries] with transition, negotiation and adjustment costs; and yes, we are prepared to take careful consideration of issues like timeframes for implementation. But ultimately we are convinced that greater regional integration through trade liberalisation will bring its own rewards.

Australia and New Zealand funded a new Office of the Chief Trade Advisor, established in Vanuatu in 2009 to help coordinate the island countries' negotiating positions. While this support was welcomed, most Pacific governments remained concerned that a reciprocal trade agreement would, in itself, do little to help the island states take advantage of international trade. The Pacific's first Chief Trade Advisor Chris Noonan argued that 'the benefits from a traditional trade agreement would be relatively modest . . . whereas implementation and adjustment costs will likely be more immediate and significant' (Noonan 2011). This view—that a

'relatively small contribution to [Forum Island Country] development can be expected from a conventional FTA'—underscored efforts to 'identify dimensions with a greater potential development contribution that could be included in these agreements' (Scollay 2010, p. 13). As with the EPA negotiations, Pacific governments advanced proposals for unique measures that might be included in PACER-Plus. Chief among these were special access to Australian and New Zealand labour markets for Pacific workers, new 'aid-for-trade' to help the island states develop supply capacity, and more flexible rules of origin requirements to help island exporters take advantage of existing market access.

Between 2009 and 2013, the PACER-Plus negotiations proceeded slowly, with little agreement reached on key issues. Regarding labour mobility, Australia and New Zealand refused to countenance the inclusion of treaty commitments facilitating the movement of unskilled and semi-skilled Pacific workers (the areas of most interest to island negotiators). Perhaps concerned commitments could set a precedent for other negotiations; both governments continued to implement labour mobility schemes for Pacific islanders *outside of* the PACER-Plus discussions.<sup>4</sup> This cautious approach was not limited to Australia and New Zealand; many developed countries had resolved that trade agreements were a suitable framework for liberalising categories of *skilled* workers, but that temporary movement of unskilled workers should be managed through bilateral labour agreements (see Saez 2013, p. 2). By early 2014, it remained unclear what, if any, commitments were being considered by Australian and New Zealand negotiators regarding a movement of skilled workers.

4. In 2007, New Zealand implemented a 'recognised seasonal employer' scheme intended to address seasonal labour shortages in the horticulture and viticulture industries. The scheme gave preference to Pacific Island workers. In 2009, Australia introduced a pilot for a similar scheme, allowing island workers to pick fruit in Australia on a seasonal basis. In 2012, the pilot scheme was converted to a 4-year 'seasonal worker program' which was extended to new sectors—such as Australia's cotton and sugar industries and the tourism sector.



These might be considered as part of 'Mode 4' concessions in a trade-in-services agreement, or as part of an annexed side letter specifying market access in listed occupations (similar to annexes contained in FTAs between New Zealand and China, and New Zealand and Thailand).

With regard to aid-for-trade, indications were that Australian and New Zealand negotiators had proposed an 'economic cooperation' chapter in PACER-Plus similar to that found in the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). Chapter 12 of the AANZFTA refers to the provision of technical advice through an annexed work program, designed to help less-developed ASEAN states implement obligations in what is otherwise a fairly typical regional free trade agreement. However, Pacific governments continued to argue that aid-for-trade should go beyond assistance with the *implementation* of obligations and include measures intended to improve supply-side capacity. With regard to rules of origin, Australian and New Zealand officials rejected Pacific proposals for across-the-board flexibility, preferring instead cumbersome negotiations for rule changes on a product-specific basis.

At heart, the lack of progress in the PACER-Plus negotiations reflected a considerable and persistent dissonance in the way a regional trade agreement was conceived by Pacific policy-makers and their Australian and New Zealand counterparts. Australian and New Zealand officials argued that PACER-Plus should help the island states achieve trade liberalisation compliant with obligations of the international trade regime. By contrast, Forum trade ministers argued that 'PACER-Plus needs to be innovative to deliver its fundamental [development] objective' and that liberalisation through a WTO-compliant FTA would, in itself, be 'unlikely to deliver that objective for all [Forum Island Countries]' (Office of the Chief Trade Advisor 2011, p. 5). By 2013, a lack of meaningful progress in the negotiations meant that political commitment to PACER-Plus began to waver. In May, PNG trade minister Richard Maru indicated that his country was considering pulling out of negotiations, label-

ling them a 'complete waste of time' (Pareti 2013). In July, the Australian shadow minister for trade Julie Bishop argued PACER-Plus negotiations had 'stalled' and that 'fresh thinking' would be required to reinvigorate the talks (Bishop 2013). She suggested a regional agreement might be abandoned in favour of bilateral or selective negotiations with larger economies like Fiji and PNG. Whether a selective approach would be supported by Pacific governments was not known. However, it was clear that, more than 40 years after it was first proposed, a free trade area for the Pacific Islands Forum remained as elusive as ever.

## 7. Implications for Policy: A More Cooperative Approach Needed for Pacific Trade

Australian and New Zealand policy-makers are negotiating an array of bilateral and regional trade agreements throughout the Asia-Pacific region. However, considerable debate remains about the economic merits of free trade agreements (both for the members and third parties) and their implications for multilateral cooperation on trade (see, e.g., Krishna 2012). Furthermore, there is a relative consensus that the greatest domestic gains from trade liberalisation are realised not through preferential arrangements but through the removal, on a unilateral basis, of barriers to trade from all sources (see Sally 2008).

Perhaps most pertinently for cooperation within the Pacific Islands Forum, the new generation agreements pursued by Australia and New Zealand are ill-suited to addressing the unique trade-related challenges of Pacific Island states. Here, the analysis of Winters and Martin (2004) remains especially germane. Their research regarding the high cost of island-based production suggests that even if smaller Pacific states have access to destination markets and rationalise their domestic economies through trade liberalisation, there are still only limited prospects for exports at internationally competitive prices. This implies that, for smaller island states, negotiating new trade agreements is a poor use of limited resources. Even for larger Pacific

states, greater domestic gains are to be had through *unilateral* liberalisation (for discussion, see Warner 2007, p. 39). Furthermore, limited human resources in island trade departments could be put to better use developing supply-side capacity and addressing market access barriers in a more direct way.

The particular trade-related needs of Pacific states suggest that development gains are most likely to be realised not through traditional trade agreements, but through alternative forms of cooperation. Bilateral labour agreements are particularly important in this regard. For island states that cannot take advantage of export opportunities (and where opportunities are not sufficient to the needs of growing populations), Australian and New Zealand policy-makers should allow islanders to enter their labour markets on a temporary basis, a move likely to benefit both economies in any case. Some suggest that going beyond a regional FTA to a 'single regional market' among Pacific Island Forum countries would facilitate labour mobility, and bring together 'economic integration and development policy under a common purpose' (see Scollay 2005, p. 147). However, the political dimensions of pursuing deep regional integration remain fraught. The recent experience of pursuing a single market initiative in the Caribbean provides a cautionary tale in this regard (Warner 2012).

Ultimately consideration should be given to downscaling PACER-Plus altogether, in favour of policy initiatives more likely to help Pacific island countries take advantage of international trade. Much could be done to help larger Pacific countries make use of existing access to Australian and New Zealand markets. With regard to agricultural trade for example, gains to be made from increasing exports of high-value niche tropical crops are estimated to be substantial, but 'quarantine restrictions are major obstacles' for would-be Pacific exporters (McGregor 2007, p. 81). Australia already funds a Pacific Horticultural and Market Access program intended to address some of the issues involved, but more could be done to expedite the assessment of island produce for entry into both Australian

and New Zealand markets. Finally, Australian policy-makers should reconsider measures introduced in 2005 requiring backpackers to work in rural areas in order to extend their visitor visas (for discussion, see Hay & Howes 2012, p. 37). By 2013, nearly 40,000 second 'Working Holiday' visas were granted per annum, and 86 per cent of applicants engaged in agricultural work in order to qualify for those visas (Department of Immigration and Citizenship 2013). Reconsidering incentives targeted at holidaymakers could see rural producers hiring a more productive Pacific Island workforce *and* increase remittances to island states.

## 8. Conclusion

Regional trade negotiations in the Pacific Islands Forum need to be understood in their historical context. Pacific governments are still dealing with a long-run transition away from colonial-era export sectors reliant on preferential access to metropolitan markets. In their place have been limited opportunities for the development of competitive exports—in niche tourism and high-value agriculture, for example. Faced with a permanent decline in their trading position, island governments have negotiated regional trade agreements among themselves in the hope of stimulating economic activity. However, intra-island trade is, and will likely remain, small compared with trade between island states and external economies. Pacific countries have also sought to negotiate innovative measures in regional trade agreements with developed countries. However, arguments for special treatment have, in the main, fallen on deaf ears in Brussels, Canberra and Wellington. With little consensus regarding the likelihood and extent of economic benefits arising from a regional trade agreement for the Pacific Islands Forum, consideration should be given to downscaling the PACER-Plus negotiations in favour of unique regional policy initiatives designed with Pacific states in mind.

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