



Where are we headed? Free Trade in the Pacific

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Three Main Questions:



- What does free trade mean for the Pacific?
- Is the Economic Partnership Agreement (EPA) with the EU really about development?
- Do we know what we are getting into? Re: EPAs, PACER and wider implications for the Pacific



1. What does free trade mean for the Pacific?

There are two basic rules:



- Rule Number One:
 - Products from all countries must be treated the same. Preferential deals that give Pacific products better treatment are no longer acceptable.
- Rule Number Two:
 - The Pacific can't discriminate against foreign produced goods. So we have to stop protecting local producers.

Free trade in theory:



- assumes a 'level playing field'
- 'integrate into the global economy'
- We are told this will have a number of advantages, such as...



- 1. Competition from imports will force local firms to become more efficient.*

- **But** few local producers can compete with cheaper imports
- Global export competitors
 - bigger scale
 - higher-tech producers
- More efficient?
- Loose livelihoods?



*2. Pacific countries can create
“niche markets”
and focus on what they produce best
(comparative advantage)*



- **But** few high-value goods that we can produce more efficiently than other countries.
- Pacific Island economies
 - Too small-scale
 - Remote with high transport costs
 - Lack the necessary skilled workers
 - Technology
 - Capital
- Unrestricted global competition
= selling unprocessed natural resources.



3. It 'makes sense' for Islands to import goods produced more efficiently than locals can produce them.



- **But** if local producers are driven out of business we become dependent on imports!
- Food security?
- Industry inputs?
- Especially if exports struggling.



4. The cost to Pacific industry is outweighed by benefit of cheaper goods for consumers



- **But** in practice foreign producers and 'middle men' tend to increase their prices when tariffs are removed
=> consumers don't get cheaper prices
- Even if imports become cheaper, they might be undesirable!
- We want jobs and industry!



5. Tariff cuts force governments to raise revenue in alternative ways that don't disrupt trade.



- **But** this means:
 - value added tax (VAT)
 - ‘user charges’ on public services or “user pays”
 - hit poorer people harder than import taxes
- Increases need for cash
- most people live from the land and the sea, supported by remittances from overseas
- Increases urban drift
- problems of unemployment and squatting

% Govt. Revenue Loss



	PICTA	EPA	PACER	US MFN	Total
PNG	0	0	2	0	2
Fiji	0	0	3	0	3
Samoa	1	0	12	3	18
Vanuatu	2	1	18	0	22
Solomons	1	0	4	0	6
FSM	0	0	1	6	8
Cooks	2	0	6	0	8
Tonga	6	0	19	2	27
Palau	0	0	0	4	4
Marshalls	0	0	5	20	25
Kiribati	4	0	15	0	19
Tuvalu	8	0	5	0	14
Niue	0	0	7	0	7
Nauru	0	0	6	0	6

Source: Responding to the Revenue Consequences of Trade Reform in the FICs, PIFS August 2007

Free trade not just in goods/commodities:



- Trade in services - 'importing' *services* from foreign firms: banks, telecoms, electricity, education, health and water supply.
 - Services run by private (foreign) firms
 - User pays
- Trade in Intellectual Property Rights
 - Licensing for use of patents, technology and **medicines**

Free Trade: What do we get?



- More foreign competition for local producers
- Risk of 'banana republic'
- Risking our food security
- There is potentially little benefit for consumers
- Substantive loss of government revenue with implications of:
 - Introduction of value-added taxes which hit the poor harder
 - Loss of policy space in both economic and social policy.

Trade is Cross-cutting:



- Gender
- Youth
- Health
- Education
- Workers
- Environment



2. Is the EPA with the EU really about development?

The EPA



- WTO Compatible, free-trade agreement
 - between the Pacific ACP (PACP) and the European Union (EU).
- Part of wider negotiations for new trading arrangements between the EU and its ex-colony states in:
 - Africa, the Caribbean and the Pacific (ACP countries)

EPA Negotiations Timeline



- 1975 – First Lomé Convention signed
- 2000 – Cotonou Partnership Agreement signed
- Sept 2004 – Pacific negotiations started
- June 2006 – Submission of Pacific EPA draft text
- August 2007 – Submission of EU EPA draft text
- 31 Dec 2007 – EPA “Deadline”

EPAs 'development tools'?



“No question in Europe’s development and trade policy is more pressing than how we can use trade to help African, Caribbean and Pacific countries **build stronger economies** that can contribute to **poverty reduction** and **break their dependence on trade preferences and basic commodity trade**. The key is to give greater confidence and more opportunities to **local businesses**, attract **new investment** and build strong **regional markets**. These will in turn strengthen their **capacity to compete in global markets**.”

Peter Mandelson, EU Trade Commissioner

Louis Michel, EU Development Commissioner

The Pacific's Pro-Development EPA



- Flexibility, opt-in for goods
- Adjustment funding and capacity building
- More flexible Rules of Origin
- Assistance to SMEs
- Labour Mobility
- Options for PACPs not signing

EPA = Free Trade NOT Fair Trade



"Pacific Island Countries should note that whatever may be the kind rhetoric of aid donors, trade negotiations are not likely to be conducted in the warm spirit of human kindness for Pacific Island peoples."

Prof. Wadan Narsey, 2004



Summary of Likely Costs



- Loss of government revenue and jobs
- Triggering of PACER negotiations early
- Dangers from services and investment
- Loss of sovereignty for building new industry, controlling foreign investors, future development options
- High costs of administration
- Loss of leverage for other trade negotiations



3. Do we know what we are getting into? EPAs, PACER and wider consequences.

PACER



- The **Pacific Agreement on Closer Economic Relations**
- signed in 2001
- Under intense pressure from Australia and New Zealand
- paves the way for a free trade agreement with Australia and NZ.

EPA Negotiations may trigger PACER



- Article 6 of PACER:
if any Pacific Island Country “commences formal negotiations for free trade arrangements” with another developed country, then they must commence similar FTA negotiations with Australia and NZ.

Watch out for circling sharks!

Pacific Island Countries

Australia and NZ
China?
Japan?



Aus&NZ want in on the action in 'their lake' ...



- NZ exports to the Pacific Islands are worth \$1.2 Billion each year!
- “When it comes to trade, there is no ‘special relationship’ with the Pacific. The [trade] negotiators do a group hug, then put their Geneva hats on...”

Anonymous NZ Govt. Representative



' A free trade agreement between Australia, NZ and the Pacific is necessary to ensure NZ "is not disadvantaged by preferential access to Pacific markets being given to European countries"'

Phil Goff, New Zealand Minister of Trade



“It’s obviously in Australia and New Zealand’s interest that any new deal that the South Pacific countries may do with the EU doesn’t disadvantage Australian exporters into those same countries.”

*Warren Truss, Australian Trade Minister,
2007*

Pacific ACP States share of EU, Aus & NZ imports



	EU	Australia	New Zealand
Cook Islands (2001)	0.33%	6.05%	74.85%
Federated States of Micronesia (2000)	n.a.	5.90%	0.80%
Fiji (2001)	*1.82%	39.76%	18.68%
Kiribati (1999)	0.28%	46.12%	3.73%
Nauru	n.a.	n.a.	n.a.
Niue (1998)	0.20%	1.20%	86.89%
Palau (2000)	0.62%	1.63%	0.16%
Papua New Guinea (2001)	1.99%	58.20%	3.91%
Republic of Marshall Islands (2000)	>0.1%	10.00%	0.40%
Samoa (2001)	4.20%	26.60%	34.40%
Tonga (2000)	0.70%	28.32%	35.06%
Tuvalu (1999)	1.51%	38.37%	11.70%
Vanuatu (2001)	*5.32%	52.11%	19.58%

* France only

** includes Guam

Sources: ASYCUDA (Papua New Guinea), national statistics (others)

PACER could be a disaster!



“Pacific Countries continue to view PACER with great suspicion, because they know that three quarters of Pacific manufacturers will collapse (and thousands will lose their jobs), because they cannot compete with Australian and NZ goods under free trade.”

Professor Wadan Narsey, Director Employment and Labour Market Studies USP, 2007

Conclusion



Conclusion



- Free trade is not inevitable
- The Pacific must set its own development priorities
- Self-determination
- A nuclear-free and independent Pacific
- Economic self-determination

