1

Pacific island regional integration and governance: an overview

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The geographic clustering of several small Pacific island countries (PICs) in the immediate neighbourhood of Australia and New Zealand has supported a degree of regional identity. The Pacific islands, moreover, have long remained sheltered from the pressures of global commerce, and particularly from the competitive pressures of the rapidly growing Asian economies located to the north. In the case of Pacific island nations, even the closest neighbour could be located some several hundred kilometres away by sea, with its attendant high costs of transportation. Local industries, therefore, have enjoyed a significant degree of 'natural' protection. Furthermore, a number of the local PIC-based industries have enjoyed regulatory advantages through a combination of high domestic tariffs and preferential access into industrial country markets. The natural and policy-induced barriers to trade, however, are falling rapidly, with this trend likely to continue for the foreseeable future. Transportation and communication costs have been falling due to technological progress, while the regulatory barriers are receding as global trade is liberalised. These developments are exerting pressures for change within several Pacific island countries. The adjustment, if well managed, has the potential to offer significant economic gains to the individual countries and to the region collectively.

The forces for regionalism, that is increased trade intensity between neighbouring states, has persisted over history but these forces are likely to be even stronger in the future. Large fixed costs of trade, including those pertaining to communication and shipping, have meant that neighbouring states have a greater tendency to trade amongst themselves than with economies located afar. Globalisation, constituting an increasing volume of trade and investment flows between sovereign states, however, is having its impact on the most isolated of the economies. The handicap of geographic distances is diminishing given rapidly falling communications and transportation costs. The expanding spatial horizons of international trade and commerce are creating their own challenges as much as presenting new opportunities for growth amongst hitherto isolated and thus sheltered island economies of the Pacific.

Regionalism offers the opportunity to reap the benefits of scale. The Pacific islands countries, as a group, face cost disadvantages due to their small local markets and isolation from the major markets. The large distances by sea raise transportation costs in comparison to similar distances by land, so falling transportation and communication costs present the opportunity to the Pacific island countries as a group to integrate their markets in order to tap into the gains from a larger and more deeply integrated market. The highly fragmented markets have to date raised the costs of local industries and particularly those with inherently large economies of scale. The problems of small markets were long recognised and have been responsible for the establishment of several regional institutions including a regional airline, a regional university, a regional shipping service, and separate regional institutions to manage the maritime environment, air safety, and the fisheries stocks. The emergence of international security concerns, including the threats of drug trafficking, people smuggling, and international terrorism, all provide even greater impetus for regional governance.

The benefits of economies of scale extend to the provision of regional public goods such as environmental protection, air and marine safety, sustainable management of deep-water fisheries, and more lately the control of cross-border crimes. An institutional architecture that provides for regional public goods such as regional security has several merits, including the advantages of scale leading to greater cost efficiencies and the ability to integrate information flows across national jurisdictions. Given the geographic proximity of the Pacific island countries to Australia and New Zealand, such advantages are likely to flow on to the wider Pacific region and the global community more generally. Recent concerns with regional security have drawn Australia and New Zealand closer to the Pacific islands countries, particularly in addressing security threats within the region. The Pacific Plan signed by the 16 leaders of the Pacific Forum at its 2005 meeting, as an example, has an economic and security agenda. Greater fluidity in information flows across the Pacific, moreover, could lead to closer cultural, economic, and social ties between the communities, thus consolidating a regional identity.

The ongoing process of deeper regional integration within the Pacific island countries will raise the competitive pressures faced by domestic industry from abroad. These pressures will create the demand for more efficient delivery of public services. The Pacific island countries could thus be pressured into pooling regional resources to reach economies of scale in the supply of goods and services enjoying significant economies of scale. The individual Pacific island country that continues to face the cost disadvantages of size and isolation could end up facing large out-migration, leading to a hollowing out of domestic industry as the most productive labour and capital gravitate towards the metropolis in the surrounding industrialised countries. This is not necessarily an undesirable outcome, particularly when it could lead to a situation of large remittance flows back to the Pacific island countries. Such flows could sustain a small resident population within the Pacific island countries and possibly attract retirees from elsewhere. Remittances and retirees could, in a deeply integrated region, sustain far-flung communities without the need for donor support

The Pacific island countries have lagged behind the Caribbean and Mediterranean small island states in their experimentation with regional integration and pooled governance. The Caribbean states, for example, have invested in a common currency while the Mediterranean states of Malta and Cyprus have adopted the Euro and have now joined the European Community. The Indian Ocean state of Mauritius, in contrast, has adopted a unilateral stance towards liberal trade and has its own currency. The Caribbean Community provides a model for the Pacific island countries to consider assessing how they might maximise their gains from the recently endorsed Pacific Island Countries Trade Agreement (PICTA). Mauritius, in contrast, offers an alternative path in the form of unilateral liberalisation. The Pacific island countries have the advantage of backwardness in that they can draw lessons from the experience of other small states.

The twelve chapters in this edited volume are the product of a conference held at the Australian National University in June 2005 that brought together experts from around the world to consider specific issues pertaining to regional integration and governance within small states. The papers collectively address the challenges posed to small states by the quickened pace of globalisation. The lessons learnt from the experiences of small states are then used to draw policy lessons for the Pacific island countries. The issues addressed in this volume are far from being either exhaustive in their coverage or conclusive in their findings; the aim here has been to wet the appetite of the interested reader and to encourage greater research on this subject.

While the individual chapters are written as standalone pieces, the volume has been structured in four parts; namely, the context, governance, case studies, and a contrarian view. Chapters 2, 3 and 4 provide the context in terms of the policy challenges facing small island states from globalisation; chapters 5, 6 and 7 provide the institutional settings and the potential for pooled regional governance; chapters 8 to 11 are specific case studies drawn from the PICs; and chapter 12 is a contrarian view on the appropriateness of regionalism in the Pacific.

Chapter 2 by Alan Winters sets the context for Pacific-specific analysis on regionalism and governance. Alan, drawing on an earlier joint study with Pedro Martins, shows that the costs of manufacturing activity for small economies are considerably larger than those for larger economies. This finding is of little surprise, but then leads to the stark conclusion that small isolated states would not be able to sustain a manufacturing sector under liberal global trade. Trade protection, as argued by Winters, is damaging since it only exacerbates the problems of smallness. Donor-funded industry subsidies such as those offered by trade preferences could be, but are not necessarily, welfare enhancing. The moral case for aid on the handicaps of size is also discounted since small states on the whole are not income-poor. Regionalism, by permitting the 'scaling-up' of small fragmented economies, and international labour mobility provide the most pragmatic options for welfare-enhancing reforms. Chapter 3 by Briguglio et al. provides a conceptual framework to measuring economic resilience. Economic resilience is distinguished from economic vulnerability—the latter is inherited, while the former constitute policy actions taken to mitigate the adverse consequences of the inherited handicaps of size and isolation. Chapter 4 uses a partial equilibrium model to assess the impact of WTO-sponsored agricultural trade liberalisation on small, island developing economies. The authors find that the large gains from such liberalisation are inequitably distributed, and more pertinent to this volume, that small states are net losers from liberalisation of global agricultural trade.

Chapter 5 provides the Pacific context, particularly with respect to past attempts at pooling resources in industries facing large economies of scale advantages. Greg Fry notes that the Australian government's recent push for greater pooling of regional resources is not all that new. He provides several examples of regional institutions created in the early to mid-nineteenth century by the colonial administration with a view to pooling regional resources for greater cost efficiency. Fry contrasts 'regional integration' that is inwardly focused with 'collective diplomacy' that has an outward focus and is motivated by the pursuit of collective foreign policy objectives. Ron Duncan in Chapter 6 considers the prospect of a common currency for the Pacific Island region. Ron argues that capital market integration is something the Pacific island countries cannot do without, thus the choice for PIC policymakers is between monetary independence and exchange rate stability. He makes a strong case for the latter. Chapter 7 builds on the notion of vulnerability, arguing that the rising pace of globalisation increases the economic vulnerability of small states. The authors use the case of Mauritius to provide evidence in support of the proposition that government size increases with openness to international trade. They argue that larger governments are needed as a buffer against the adverse effects of globalisation.

The four case studies, each covered in chapters 8 to 11, are instructive on the challenges of, and opportunities presented by, increased regional trade. Robert Scollay in chapter 8 notes the asymmetry in exports vis-à-vis imports between the Pacific island countries as a group and Australia and New Zealand. While Australia and New Zealand account for some 30–55 per cent of total PIC imports, the Pacific island countries collectively account for less than 2 per cent of total exports from Australia and New Zealand. The major exports from the Pacific island countries into Australia and New Zealand are PNG minerals, Fiji garments, and Samoan automotive (wire harness) parts: the last two are due to preferential trading arrangements and thus under threat due to preference erosion. Future trade losses to the Pacific island countries will be compounded by the formation of new preferential trading arrangements with Asia and between Australia and the United States that exclude the Pacific island countries. Parris and Grafton in chapter 9 note that some 40 per cent of the global tuna catch is from the PICs' exclusive economic zones. The common pool nature of this resource calls for joint management but this is absent given poor governance and inferior institutions. The discussant to this paper raises an interesting concept of 'tuna mining'. Chapter 10 considers the case of air transport, an industry that enjoys significant scale economies and network externalities but one that has experienced serious problems within the Pacific islands countries lately. The authors highlight the inherent problems of low densities and policies that have impeded competition within PIC aviation. Chapter 11 is a case study of preference erosion in the case of Fiji sugar. Preferences, as shown by this case study, can induce the development of an inefficient industry that is then left exposed to serious adjustments following their withdrawal. Policies in the form of lump-sum transfers equivalent in value to the preferential rents and marginal cost pricing is recommended to induce adjustment to a subsidy-free trading environment.

The last chapter offers a contrarian view on regional integration in the Pacific. Phil Powell argues that integration amongst the individual Pacific island countries is possible only after the nation state has matured. He argues that current proposals for deeper regional integration within the Pacific are, thus, premature. This view is not without controversy, however.