

8

DEEPER INTEGRATION WITH AUSTRALIA AND NEW ZEALAND? POTENTIAL GAINS FOR PACIFIC ISLAND COUNTRIES

Robert Scollay

The seven million inhabitants of the Pacific island countries (5 million of whom are accounted for by Papua New Guinea alone) are scattered in more than a thousand islands over an area of ocean several times the size of Europe. Although the common label of ‘small vulnerable states’ suggests a degree of homogeneity, the Pacific island countries in fact exhibit great diversity in their economic characteristics. Dimensions of this diversity include population levels (from 5 million in Papua New Guinea to microstates with a few thousand inhabitants such as Niue, Nauru and Tuvalu); income levels (from over US\$7500 per head in Palau to just over US\$500 per head in Tuvalu according to Table 8.1); human development (from relatively high in Cook Islands and Palau to low Africa-like levels in Papua New Guinea and Solomon Islands—two of the most populous Pacific island countries), as also shown in Table 8.1; natural resource endowments (both land-based and marine); degree of industrialisation (from moderate development of light manufacturing in Fiji and to a lesser extent Papua New Guinea, to virtually zero in smaller Pacific island countries); and composition of exports and main areas of economic activity. Table 8.1 also shows that, while populations may be small, population density is very high in some Pacific Island countries, and that populations are also young and therefore likely to be fast growing.

Table 8.1 Selected economic indicators for Pacific island countries

	Per capita GDP (US\$, 1999) ^a	Population density (per km ² , 2000)	% of population under 15 ^b	Human Development Index
Cook Islands	4,727	81.0	35	0.822
FSM	1,810	168.1	43	0.569
Fiji	2,210	43.7	34	0.667
Kiribati	910	122.4	41	0.515
Nauru	7,292	521.4	42	0.663
Niue	4,375	6.9	37	0.774
Palau	7,613	40.0	28	0.861
Papua New Guinea	800	11.0	40	0.314
Rep. Marshall Islands	1,560	303.9	51	0.563
Samoa	1,060	59.5	41	0.590
Solomon Islands	750	14.6	47	0.371
Tonga	1,720	141.4	41	0.647
Tuvalu	571	380.8	43	0.583
Vanuatu	1,170	15.6	44	0.425

Note: ^a 1998 for Tonga, Tuvalu and Vanuatu; 1992 for Palau. ^b Various years 1989–99.

Source: Pacific Islands Forum Secretariat, 2002. *Regional Policy Support Document 2002*, Pacific Islands Forum Secretariat, Suva.

Table 8.2 shows that Pacific island states are heavily import dependent, with import to GDP ratios of over 40 per cent for all except the Marshall Islands. Export orientation on the other hand is much more variable. Exports are a significant factor in the economies of Fiji, Solomon Islands and the Marshall Islands, but much less significant in many other Pacific island countries. Tourism development is largely confined to Pacific island nations with direct air links to major tourism markets—especially Fiji and, to a lesser extent, also Cook Islands, Palau, Vanuatu, Tonga and Samoa.

It is important to keep these characteristics and dimensions of diversity in mind when considering the trade interests of the Pacific island countries.

The joining together of the fourteen Pacific island states with Australia and New Zealand reflects both the hegemonic role of Australia and New Zealand in the South Pacific, and also their special relationship with the Pacific island countries. The economic dimension of this relationship is now poised for further development, and this is the focus of this paper. The remainder of the paper is organised as follows. The next section reviews the traditional economic

Table 8.2 Trade ratios and visitor numbers

	Ratio of trade to GDP (%)		Visitor numbers (1995)
	Imports	Exports	
Cook Islands	42	3	47,899
FSM	60	5	
Fiji	48	37	318,495
Kiribati	67	14	2,653
Nauru	74	17	
Niue	50	n.a.	2,161
Palau	88	10	53,229
Papua New Guinea	57	10	
Rep. Marshall Islands	27	39	
Samoa	57	6	
Solomon Islands	54	59	2,072
Tonga	52	8	24,219
Tuvalu	82	9	922
Vanuatu	41	13	43,721

Source: Pacific Islands Forum Secretariat, 2002. *Regional Policy Support Document 2002*, Pacific Islands Forum Secretariat, Suva.

relationship between the Pacific island countries and Australia and New Zealand. The following section briefly summarises recent developments in the Pacific island countries' trade and economic relationships that have paved the way for new approaches to their economic integration with Australia and New Zealand. The final section explores the possible future nature of that economic integration and potential benefits for the Pacific island countries.

THE TRADITIONAL ECONOMIC RELATIONSHIP

Australia and New Zealand are the principal aid donors to the Pacific island countries, as Table 8.3 indicates—although Table 8.3 does not include the very substantial direct financial support provided to the US Trust Territories through their Compacts of Free Association (CFAs) with the United States. Table 8.4 shows that Australia and New Zealand are also major import sources for at least the Melanesian and Polynesian Pacific island countries—accounting for between 30 per cent and 55 per cent of the imports of each country shown. On the other hand, as Table 8.5 shows, these Pacific imports represent no more than a minor export market for Australia and New Zealand, accounting

Table 8.3 Average annual development assistance to the Pacific

	Per cent of total
Australia	42.6
New Zealand	16.1
European Union	12.7
UNDP	9.1
FAO	5.2
United Kingdom	4.8
Canada	3.1
Asian Development Bank	2.8
Japan	2.7
France	0.9
Total	100.0

Source: Pacific Islands Forum Secretariat, 2002. *Regional Policy Support Document 2002*, Pacific Islands Forum Secretariat, Suva.

Table 8.4 Share of Australia and New Zealand in trade of six Pacific island countries, 2002

	Australia	New Zealand	Combined
Imports			
Fiji	37.4	17.2	54.6
Papua New Guinea	49.3	4.4	53.7
Samoa	16.1	24.0	41.1
Solomon Islands	31.7	5.1	36.8
Tonga	13.2	30.7	43.9
Vanuatu	21.3	9.7	31.0
Exports			
Fiji	19.70	3.80	23.50
Papua New Guinea	24.20	1.35	25.55
Samoa	61.01	2.32	63.33
Solomon Islands	0.87	0.26	1.13
Tonga	1.37	3.40	4.77
Vanuatu	3.25	0.64	3.89

Source: International Monetary Fund, 2003. *IMF Direction of Trade Yearbook*, International Monetary Fund, Washington, DC

respectively for just under 1.5 per cent and just under 2 per cent of the two countries' total exports.

A second asymmetry in the trading relationship, is that Australia and New Zealand are much less significant to the Pacific island countries as export markets than as import sources. Figures in Tables 8.4 and 8.6 show that Australia and New Zealand are very minor export markets for Pacific island countries other than Fiji (with its significant garment exports to Australia), Papua New Guinea, and Samoa (with its special arrangement for assembly and export to Australia of wiring harnesses). The Pacific island countries account for only 1.2 per cent of Australia's imports and just under 0.5 per cent of New Zealand's imports (Table 8.5). On the other hand, Australia and New Zealand are important sources of tourists for those Pacific island countries with significant tourism industries.

The weak performance of Pacific island exports in Australia and New Zealand has occurred despite the existence of the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) since the early 1980s—and, in relation to Australia–PNG trade, also of the Papua New Guinea–Australia Trade and Commercial Relations Agreement—which provided duty-free access for almost all Pacific island exports to the two Forum partners. The development of Fiji garment exports and the Samoan wiring harness exports were two

Table 8.5 Share of Pacific island countries in trade of Australia and New Zealand, 2002

	Exports	Imports
Australia		
Fiji	0.44	0.18
Papua New Guinea	0.82	0.93
Other Pacific islands	0.21	0.09
Total	1.47	1.20
New Zealand		
Fiji	0.93	0.17
Papua New Guinea	0.34	0.27
Other Pacific islands	0.59	0.03
Total	1.86	0.47

Source: International Monetary Fund, 2003. *IMF Direction of Trade Yearbook*, International Monetary Fund, Washington, DC

significant developments under the South Pacific Regional Trade and Economic Cooperation Agreement. Access under the agreement—along with the availability of quota access to the US market—was a major factor facilitating the emergence of the Fiji garment industry in the late 1980s. Such successes, however, have been few and far between.

This lack of success can most likely be attributed to the SPARTECA rules of origin, which are based on the 50 per cent area content rule in the Australia–New Zealand Closer Economic Relations Agreement with some provision for relatively minor derogation. Arguably, this rule took little account of the realities of manufacturing in small island economies, where the lack of a significant manufacturing base made it inevitable that manufacturers would be more than usually dependent on imported inputs. Pacific island exporters also perceive quarantine regulations, and their implementation in Australia and New Zealand, as a very significant non-tariff barrier to their exports.

There is a strong mercantilist streak running through Australian and NZ trade policy toward the Pacific island countries. Market access has been vigorously pursued, for example, through the WTO accession negotiations of Vanuatu, Samoa and Tonga, and also since the late 1990s, through pressure for a new preferential trading relationship. Australia and New Zealand strongly resisted Pacific island pressure for liberal rules of origin in the early years of SPARTECA, and subsequent derogations were only grudgingly granted in the

Table 8.6 Main markets for Pacific island countries' exports, 1999
(per cent)

	Australia and New Zealand	Japan	United States	Other Asia Pacific developing countries	Other
Fiji	37.5	4.5	14.8	10.9	32.3
Kiribati	2.3	40.0	15.0	13.4	29.3
Papua New Guinea	26.5	11.7	4.6	15.0	42.2
Samoa	69.4	0.9	12.0	2.2	15.5
Solomon Islands	2.0	35.4	0.8	43.4	18.4
Tonga	11.5	59.0	19.0	2.0	8.5
Tuvalu	2.0	n.a.	n.a.	5.9	92.1
Vanuatu	1.6	11.2	25.3	5.5	56.8

Source: Pacific Islands Forum Secretariat, 2002. *Regional Policy Support Document 2002*, Pacific Islands Forum Secretariat, Suva.

face of repeated requests from the Pacific island countries. Facilitation of Fiji garment exports through introduction of the 'extended rules of origin' (allowing Australian and NZ content to count towards satisfaction of the area content rule) and Australia's Import Credit Scheme was motivated at least as much by support for the Australian cloth industry as by any desire for the development of Fijian industry, which could accurately be described as an accidental by-product of Australian policy towards its own industry. When the Credit Scheme had to be terminated following Australia's defeat in a related WTO dispute, the 'SPARTECA TCF' scheme, introduced to compensate Fiji partially for the impact of the disappearance of the Import Credit Scheme, continued the tradition of seeking to provide support for Australian cloth manufacturers while at the same time responding to calls from Fijian garment manufacturers for greater flexibility. It did so by introducing a system of Excess Local Area Content (ELAC) points, whereby over-fulfilment of the SPARTECA area content rules by using Australian cloth generates credits that Fijian garment makers can use in exporting garments made from cloth from other sources that would not meet the agreement's normal area content requirement. The increased ability to use cloth from other sources is thus effectively presented as a 'reward' for using Australian cloth.

CHANGING PACIFIC ISLAND COUNTRY APPROACHES TO PREFERENTIAL TRADE

Pacific countries' traditional approach to trade policy has been based around tariffs on imports and non-reciprocal preferential access for their exports to the markets of developed country partners. Tariffs were, and in a number of cases still are, an important source of revenue, and have also served a significant protective function in some Pacific island countries, notably Fiji and Papua New Guinea, where light manufacturing has developed behind the protective barriers. In addition to SPARTECA, non-reciprocal preferential market access agreements have included the Lomé Convention and its successor the Cotonou Agreement between the EU and the African, Caribbean and Pacific (ACP) states¹, and the Compact of Free Association (CFA) between the United States and its former trust territories.

As in the case of SPARTECA, the effect of the preferential arrangements with the European Union in encouraging Pacific island country exports has been limited to a very small number of products, mainly sugar from Fiji (via

the Sugar Protocol) and canned tuna exports from Fiji, Papua New Guinea and the Solomon Islands, while very little increased export to the United States by its former trust territories has been developed through the CFA preferences. Quota-based access to the United States under the Multi-fibre Agreement did, however, facilitate the development of significant garment exports to the United States from Fiji, and intermittently also from the former trust territories. In some cases a side-effect of preferential access was a lack of pressure to achieve and maintain international competitiveness, for example in the Fiji sugar industry, where competitiveness has deteriorated alarmingly. At the same time, high tariffs imposed for revenue-generating purposes in some Pacific island countries have raised cost structures and undermined international competitiveness.

This model of trade policy has been under steadily increasing threat since the late 1980s. Preferences began to be eroded with the implementation of unilateral tariff reduction programmes by Australia and New Zealand, and the implementation of Uruguay Round commitments by WTO members. At the WTO's Doha Ministerial meeting in 2001, further erosion occurred when the European Union had to accept a demand from Thailand and the Philippines for a reduction in tariffs on canned tuna as the price for securing a further waiver for the non-reciprocal preferences granted to the African, Caribbean and Pacific states under the Cotonou Agreement. Since then, challenges have continued to mount. The European Union's 'Everything But Arms' initiative and similar initiatives by other developed countries have provided non-African, Caribbean and Pacific least-developed countries access with market access equal to, or in some cases better than, that enjoyed by non-least developed African, Caribbean and Pacific countries, while the US African Growth and Opportunities Act has motivated some international clothing firms to relocate from Fiji to Africa. The WTO panel and appellate body decisions on EU sugar subsidies will inevitably force a major revision of the European Union's sugar regime, leading at the very least to a substantial fall in the EU sugar price and a corresponding fall in the value of the preferential access of African, Caribbean and Pacific sugar exporters such as Fiji. Fiji's garment exports to the United States are also threatened by the ending of textile quotas under the terms of the WTO Agreement on Textiles and Clothing and by China's entry into the WTO. A successful outcome to the Doha Development Agenda will inevitably bring with it further preference erosion.

The effect of these challenges to preferential access is ironically now being compounded by the accelerating worldwide trend to proliferation of preferential trading arrangements. When these arrangements are formed between trading partners with whom the Pacific island countries have no preferential trading arrangements (or preferences of a relatively limited nature such as Generalised System of Preferences), the Pacific island countries find themselves in the position of being victims of trade discrimination, due to their exclusion from these arrangements. The threat of this discrimination is particularly acute in East Asia, and, for Pacific island countries other than the 'freely associated states', in the United States. Both East Asian countries and the United States are beginning to develop important networks of preferential trading arrangements, and so far participation in these networks has not been offered to the Pacific island countries.

One other very disturbing historical trend has been the decline in the Pacific island countries' apparent ability to attract foreign direct investment (foreign direct investment). A recent study by Forsyth (2003) concluded that foreign direct investment inflows are now failing to keep pace with the depreciation of the existing capital stock. This trend poses a major threat to future economic growth in the Pacific African, Caribbean and Pacific states. Two sets of factors can be cited to explain this trend

- intensifying competition among developing countries to attract foreign direct investment and to be included in international production networks, and the inherent handicaps faced by the Pacific island countries (along with many other developing countries) in competing with more attractive investment destinations.
- lack of certainty offered to foreign investors, due to lack of an enabling policy environment, perceptions of policy instability and political threats to economic policy, and land tenure issues.

A further obstacle to the Pacific island countries' trade and economic development is the severe political impediments to the liberalisation of the key 'infrastructure' sectors of telecommunications, transport (sea and air), and financial services, and the inefficiencies that result from insulating these sectors from competition. Of these key sectors, significant progress toward liberalisation has been possible only in the case of air services, with the conclusion of the Pacific Islands Air Services Agreement (PIASA). The value of the agreement has been compromised, however, by Fiji's reluctance to join it.

Faced with these mounting challenges and the broader challenge of globalisation, the Pacific island countries had decided by the late 1990s that their traditional trade policy model was unsustainable, and the decision was made in principle to move to a more outward-looking policy approach. At the same time, there was great nervousness at the prospect of any immediate removal of barriers, due to concern in some cases over the impact on local industries and in other cases over the impact on government finances of the resulting loss of tariff revenue. Accordingly it was decided to investigate a Forum free trade area as an initial step, and studies on this concept were undertaken in 1998 (see Scollay 1998; also Stoeckel and Davis 1998).

An interesting debate followed on whether the proposed free trade agreement should be a Pacific island country-only arrangement or whether it should include Australia and New Zealand. Australia and New Zealand initially insisted that their status as Forum members entitled them to foundation membership of any such free trade agreement. The Pacific island countries, on the other hand, were fearful of the consequences of opening their economies up to free trade with Australia and New Zealand on a reciprocal basis. Although the studies showed that a Pacific island country-only agreement offered them only very limited potential benefits, the Pacific island countries considered that the correspondingly more limited adjustment that would be required of them made such an arrangement a more suitable first step into the world of reciprocal free trade, that could be followed later by negotiation of a free trade agreement with Australia and New Zealand. They therefore resisted Australian and NZ pressure for inclusion in the proposed free trade agreement, and in the process gained some very valuable experience in the practice of trade negotiations.

The atmosphere changed when it became evident that, under the terms of the Cotonou Agreement, the Pacific island countries would shortly be called upon to enter negotiations for a 'WTO-compatible' (and therefore reciprocal) free trade agreement with the European Union as the replacement for their existing non-reciprocal trade arrangement. Instead of insisting on entitlement as Forum members to immediate participation in a Forum free trade agreement, Australia and New Zealand began to insist on the principle that they could not accept being placed in a disadvantaged position relative to the European Union in Pacific island country markets, and this principle was also readily accepted by the Pacific island countries.

The result was the conclusion of two agreements, a Pacific Island Countries Trade Agreement (PICTA) providing for free trade among the Pacific island countries, and a Pacific Agreement on Closer Economic Relations (PACER), providing a framework for future trade relations between the Pacific island countries and Australia and New Zealand, including a future free trade agreement.

The Pacific Island Countries Trade Agreement is a conventional free trade agreement providing for elimination of trade barriers over a lengthy transitional period, with the exception of products placed by each Pacific island country on a 'negative list'. One discovery made by many Pacific island countries when they came to formulate their 'negative list' was that the number of sensitive industries requiring permanent protection from other Pacific island country exporters is relatively small. Fiji, which has a larger range of protected industries, decided that only a tiny fraction of these needed to be excluded from a Pacific island country-only trade agreement. Bucking this particular trend was Papua New Guinea, which insisted on an unnecessarily lengthy negative list, including even products not made in Papua New Guinea and not likely to be made there in future.

Two significant extensions of the Pacific Island Countries Trade Agreement have been envisaged, and some preliminary work has been done on both proposed developments. The first is the extension of the agreement to cover trade in services. As well as the potential benefits of liberalising trade in services, this could have the further merit of precipitating a review of service sector regulation in Pacific island country economies. The second is the expansion of the agreement to include some or all of the French and US Pacific territories. This would provide Pacific island countries with preferential access to markets that are very affluent by Pacific island country standards and that, at least in the case of the French territories, are highly protected against imports from other non-European sources. Cautious steps are being taken at present towards the possible opening of negotiations between the Pacific island countries and New Caledonia.

The Pacific Agreement on Closer Economic Relations responds to Australian and New Zealand concerns by providing that any Pacific island country or group of Pacific island countries that enters into negotiations with a developed country partner for a free trade agreement² must undertake consultations with Australia and New Zealand as soon as practicable thereafter, 'with a view to

the commencement of negotiations for free trade arrangements'. The agreement further provides that eight years after it is entered into force—in the absence of any triggering of this provision in the meantime—the Pacific island countries will enter into negotiations with Australia and New Zealand for a reciprocal free trade agreement. The 'price' received by the Pacific island countries for agreeing to this was the commitment by Australia and New Zealand to provide financial assistance for mutually agreed trade facilitation programs. After some initial skirmishing, this has resulted in the established of a substantial Regional Trade Facilitation Programme, funded by Australia and New Zealand.

In the meantime negotiations have commenced between the Pacific island countries and the European Union for an Economic Partnership Agreement (EPA) to replace the trade provisions of the Cotonou Agreement, as provided for under the latter. These negotiations are scheduled to conclude by 31 December 2007, to coincide with the expiry of the waiver that the European Union has obtained from WTO members for the trade provisions of the Cotonou Agreement. It remains to be seen whether this will lead to negotiations for a free trade agreement within the meaning of GATT Article XXIV:8, as specified in the Pacific Agreement on Closer Economic Relations, and if so how many of the fourteen Pacific island countries will eventually decide to participate in the negotiations.

In the meantime, however, the Cotonou Agreement has provided in conceptual terms a very useful example of an attempt to establish comprehensive linkages between trade arrangements, development assistance and development policies, all with the purpose of promoting sustainable development, and combined with an acceptance that the arrangements eventually agreed must address the specificities of the situation of the developing country parties to the agreement. This in turn has provided the Pacific island countries with the motivation and justification to develop and propose their own ideas on the kind of agreement best suited to achieving the avowed objectives of the Cotonou Agreement, given their particular circumstances.

The Economic Partnership Agreement negotiations are very demanding for the Pacific island countries, tying up a large proportion of the trade policy expertise. At the same time, the impact on the Pacific island countries of granting reciprocal preferential access to the European Union is not expected to be dramatic. A much more significant impact will result from a consequential agreement to concede reciprocal market access to Australia and New Zealand.

In this sense, the Economic Partnership Agreement negotiations can be usefully viewed as a 'trial run' for the eventual negotiations with Australia and New Zealand. The final section of this chapter considers some of the lessons that might usefully be transferred to those later negotiations.

NEXT STEPS WITH AUSTRALIA AND NEW ZEALAND

Hitherto the Pacific island countries' stance toward Australia and New Zealand on the issue of a free trade agreement has been entirely defensive, aimed at giving themselves 'breathing space' to prepare for the very substantial adjustments likely to be imposed by reciprocal free trade with Australia and New Zealand. Some Pacific island countries need this space to plan and begin to implement the restructuring of their fiscal systems that will be needed to cope with the loss of significant amounts of tariff revenue. Others need to build the capacity to engage more effectively in two-way trade, and to prepare for the structural changes in their economies that will follow from free trade with Australia and New Zealand.

The provisions of the Pacific Agreement on Closer Economic Relations make it inevitable that negotiations will have to begin with Australia and New Zealand at some point, the only questions being the timing, and, in the case that the negotiations are triggered by Article 6 of the agreement (rather than Article 5), how many Pacific island countries will be obliged to participate, or will choose to participate, in those negotiations. The agreement does not require that the negotiations reach a successful conclusion, so it remains open to the Pacific island countries to reject proposals from Australia and New Zealand they deem unacceptable. The Pacific island countries thus still have a number of cards that they can play if they continue to be defensively-minded in their stance toward Australia and New Zealand.

There is, however, a potential positive agenda that could be developed for negotiations with Australia and New Zealand, and it is here that the experience of the Economic Partnership Agreement negotiations with the European Union can prove instructive. As noted in the previous section, those negotiations require the Pacific island countries to consider how a 'development-oriented' agreement suited to their own specific situation and purposes should be designed. If the negotiations with the European Union go well, the resulting agreement can provide a precedent upon which the Pacific island countries may rely in their negotiations with Australia and New Zealand. In any event,

there is nothing to prevent the Pacific island countries from adapting the positions they develop for negotiations with the European Union to form the basis also of their position in negotiations with Australia and New Zealand. A further argument in favour of adopting a positive agenda is that prolonged pursuit of a defensive strategy in the face of the rapid changes in the international economy, including the proliferation of preferential trading arrangements, can only result in the increasing marginalisation of the Pacific island countries. If this outcome is to be avoided, the Pacific island countries have to judge the correct moment to move proactively toward constructive engagement with major economic partners. The conclusion of negotiations with the European Union may provide that moment in the case of Australia and New Zealand.

While the Pacific island countries' position toward the European Union has yet to be fully articulated, the main outlines that it should take are clear enough, and could easily provide a 'model' for a position to be taken toward Australia and New Zealand. It should include strong proposals on market access for goods, trade facilitation and promotion, trade in services, investment, and the development of key tradeable sectors in the Pacific island country economies.

On market access, given the almost complete duty-free access currently enjoyed by the Pacific island countries, the main area to be explored is rules of origin. It is worth investing effort into investigating whether the Pacific island countries can design and propose rules of origin for at least some products that might make feasible the development of new lines of exportable manufactures that are not possible under the current rules. There are grounds for hope that the European Union may be receptive to such proposals, which could in turn establish a useful precedent for negotiation with Australia and New Zealand.

On investment and trade facilitation and promotion, the message will be that market access by itself is unlikely to be effective, especially from a development perspective unless backed by strong provisions in each of these areas. The Regional Trade Facilitation Programme provides a solid basis on which to build further trade facilitation measures, and trade promotion is also an area that readily lends itself to capacity-building assistance. Investment is a problematic area, in that it involves inherent handicaps faced by the Pacific island countries that are not easily overcome, including small market size and isolation, as well as the intractable problems related to land tenure. Innovative strategies will be needed to overcome these difficulties, and it is not clear at this stage what those strategies will be. In the case of the European Union, the

Pacific island countries are sure to insist also that EU agencies such as the European Investment Bank and Centre for Development of Enterprise modify their programs and procedures to make them more accessible to the scale of businesses typically found in the Pacific island countries. Australia and New Zealand will have lot of ground to make up before they can match these facilities.

On services trade, the key demand will be for increased mode 4 (mobility of persons) access, since this is the mode for which the Pacific island countries have the biggest supply potential, and arguably the mode in which expanded access could make the biggest contribution to development. Mode 4 access involves temporary movement rather than permanent migration, so that the skills developed from expanding this form of services access will not be permanently lost to the Pacific island countries. This is not to say that the Pacific island countries could not also benefit from provisions for longer-term mobility as well, but mode 4 is undoubtedly the place to start, given the sensitivities associated with migration issues.

Increased mobility of persons between the Pacific island countries and Australia and New Zealand is likely to be one of the measures with greatest potential to contribute to development of the Pacific island countries, with impacts that extend well beyond the initial exchange of services. In cases where some two-way mobility already exists it is clear the sending Pacific island country derives considerable benefit from the resultant return of both capital and business and entrepreneurial skills. This will not be an easy issue for Australia and New Zealand to address, and there will be many complexities also to be considered from the Pacific side, but it must be confronted if the parties are serious about making maximum use of the potential of trade arrangements to promote development.

The Pacific island countries are also likely to insist that an integration agreement that purports to promote and support their economic development must also pay attention to the key tradeable sectors in their economies, such as tourism and fisheries. The approach to tourism, for example, would not necessarily involve a separate tourism agreement, but rather a drawing together of all existing commitments of the parties relating to tourism, to emphasise that these commitments should be viewed and treated as an integrated package. These would include commitments under trade in services and investment provisions of the new arrangements, commitments of the developed country

partners to development assistance, and commitments of the Pacific island countries to implementation of enabling policies.

The proposed strategy thus represents a holistic approach to economic integration between the Pacific island countries and Australia and New Zealand, based around the development needs and priorities of the Pacific island countries, and moving away from the approach heavily emphasising market access that Australia and New Zealand have tended to follow in the past. This holistic approach is already foreshadowed in Article 2 of the Pacific Agreement on Closer Economic Relations, in which the parties agree that their objectives include the provision of a 'framework for economic cooperation leading over time to the development of a single regional market'. The 'single market' concept as conventionally understood by trade economists includes free movement of labour and capital as well as free trade in goods and services. This provision was proposed by the Pacific island countries instead of the reference to eventual inclusion of services and investment suggested by Australia and New Zealand, to make it clear that future developments must include all aspects of economic integration of interest to the Pacific island countries, and not simply those aspects of particular interest to Australia and New Zealand.

The proposed approach, however, involves not only a holistic approach to economic integration, it also involves bringing together economic integration and development policy under a common purpose, as envisaged by the Cotonou Agreement. This could be something of a challenge for Australia and New Zealand, given the separation between trade policy and development policy recently adopted in the policy framework at least in New Zealand's case. Re-asserting the link between trade and development would, however, arguably represent a logical extension of the proposed Pacific Plan.

NOTES

- ¹ Under the Lomé Convention eight Pacific island countries were included in the ACP group (Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu), but with the signing of the Cotonou Agreement the remaining six Pacific island countries were included also, so that now all fourteen are African, Caribbean and Pacific states (known for Cotonou Agreement purposes as the Pacific African, Caribbean and Pacific states or PACPs).
- ² Defined as an agreement within the meaning of GATT Article XXIV:8