

PUBLISHED VERSION

Richard Pomfret

Multilateralism and regionalism in the South Pacific: World Trade Organization and regional fora as complementary institutions for trade facilitation

Asia and the Pacific Policy Studies, 2016; 3(3):420-429

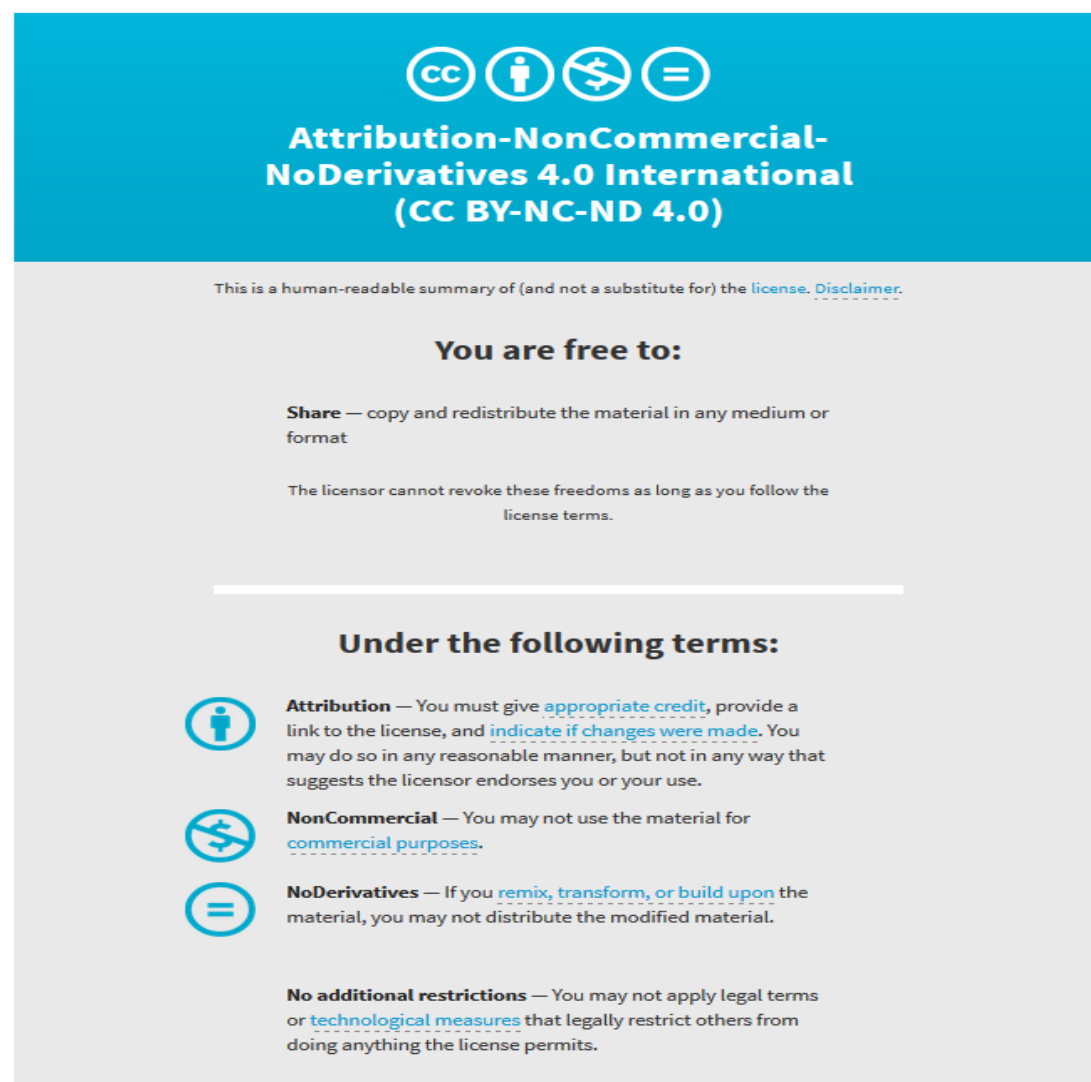
© 2016 The Authors. Asia and the Pacific Policy Studies published by John Wiley & Sons Australia, Ltd and Crawford School of Public Policy at The Australian National University. This is an open access article under the terms of the Creative Commons Attribution-NonCommercial-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited, the use is non-commercial and no modifications or adaptations are made.

Originally published at:

<http://doi.org/10.1002/app5.144>

PERMISSIONS

<http://creativecommons.org/licenses/by-nc-nd/4.0/>



The image is a graphic for the Creative Commons Attribution-NonCommercial-NoDerivs 4.0 International (CC BY-NC-ND 4.0) license. It features a blue header with the CC logo and icons for Attribution (person), Non-Commercial (dollar sign with slash), and No-Derivs (equals sign). Below the header, the text reads: "Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0)". A disclaimer states: "This is a human-readable summary of (and not a substitute for) the [license](#). [Disclaimer](#)." The main body is divided into two sections: "You are free to:" and "Under the following terms:". Under "You are free to:", it lists "Share" (copy and redistribute) and states that the licensor cannot revoke these freedoms as long as the license terms are followed. Under "Under the following terms:", it lists three conditions: "Attribution" (give appropriate credit, link to the license, and indicate if changes were made), "NonCommercial" (not use for commercial purposes), and "NoDerivatives" (not remix, transform, or build upon the material). A final note states: "No additional restrictions" (may not apply legal terms or technological measures that restrict others from doing anything the license permits).

Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0)

This is a human-readable summary of (and not a substitute for) the [license](#). [Disclaimer](#).

You are free to:

Share — copy and redistribute the material in any medium or format

The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

Attribution — You must give [appropriate credit](#), provide a link to the license, and [indicate if changes were made](#). You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

NonCommercial — You may not use the material for [commercial purposes](#).

NoDerivatives — If you [remix, transform, or build upon](#) the material, you may not distribute the modified material.

No additional restrictions — You may not apply legal terms or [technological measures](#) that legally restrict others from doing anything the license permits.

6 November 2017

<http://hdl.handle.net/2440/108720>



Original Article

Multilateralism and Regionalism in the South Pacific: World Trade Organization and Regional Fora as Complementary Institutions for Trade Facilitation

Richard Pomfret*

Abstract

As World Trade Organization (WTO) membership becomes almost universal, the Pacific island countries stand out as the largest group of outsiders. As the islands seek to replace reliance on preferential trading arrangements by competitive exports, market access and trade facilitation have become key policy concerns. In this context, WTO membership and regional or bilateral trade agreements are complementary institutions for increasing the potential success of new exports. The WTO sets out agreed principles for market access, and membership includes a dispute resolution process that provides redress against unjustified obstacles to exports, whilst trade facilitation in the sense of overcoming particular cost-raising obstacles to trade is better delivered by regional and bilateral agreements. The argument is supported by evidence from Pacific and other small island economies.

Key words: Pacific islands, trade facilitation, WTO

Trade has always been important for the Pacific islands, but they have found it difficult to develop substantial exports beyond a handful of natural resources. In the 1970s and 1980s, the Pacific islands' trade negotiations focused on obtaining favourable market access for specific primary or niche products, but by the end of the century, this strategy was becoming

unsustainable. Economic geography (limited resources, small and dispersed populations, distance from markets, and poor transport links) has led to high costs and low volumes, so that the future key for exports is identification of niche tasks that can overcome the obstacles of geography and difficulties of market access.

The world trading system has been changing since the 1990s in terms of the following: (i) peak institutions, as the World Trade Organization (WTO) superseded the pre-1995 General Agreement on Tariffs and Trade (GATT) and the World Customs Organization (WCO) assumed increasing significance; (ii) forms of trade, with increasing importance of global value chains; and (iii) lead issues, as trade facilitation has displaced tariffs and non-tariff barriers in the policy headlines.¹ These changes occurred against a backdrop of falling transport costs and the revolution in information technology that is transforming the situation of formerly isolated small island economies.² This

1. These changes are analysed in Pomfret (2016). Non-tariff barriers remain important, but as a leading trade policy issue, they have been displaced by trade facilitation since the Uruguay Round Final Act terminated the major quantitative restrictions (including the Multifibre Arrangement (MFA)) and set out conditions for sanitary and phytosanitary measures and technical barriers to trade.

2. Transport costs have fallen by both air and sea. In an Asian Development Bank project presented at the 2015 Pacific Update Conference in Suva, Patricia Sourdin estimated (by the cif-fob/fob measure) that between 1990 and 2013, ad valorem transport costs of 14 Pacific islands to Australia fell from 9 to 6.5 per cent by air and from 7.5 to 4 per cent for sea transport. During this period, a variety of value chains have been established in agricultural products, cosmetics, jewellery and other sectors.

* School of Economics, University of Adelaide, Adelaide, SA 5005, Australia; email <richard.pomfret@adelaide.edu.au>

article analyses these developments around the theme of the relationship between multilateral (WTO) and regional institutions or bilateral agreements as frameworks for trade facilitation in the Pacific region.³

In the twenty-first century, WTO membership is essentially a commitment to abide by a body of agreed world trade law. Membership sends a signal to traders and export-oriented investors about acceptance of these rules and gives access to a dispute settlement mechanism (DSM) that has been successfully availed even by small economies. Whilst the WTO sets out principles relevant to trade facilitation (e.g. transparency and non-discrimination, freedom of transit, and avoidance of unnecessary fees and formalities), the WTO is not a useful forum for resolving specific sources of costs for international traders at or behind another country's border. Regional trade arrangements or bilateral agreements offer a way to address trade facilitation issues, for example, by standardising customs forms or single windows (as in Association of South East Asian Nations (ASEAN)) or by targeting specific practices in a bilateral agreement (as Singapore and other ASEAN members have frequently done since 2000).

The 1970s and 1980s

The first meeting of the South Pacific Forum was initiated by New Zealand and held in Wellington in August 1971. Seven countries were represented: New Zealand, Australia, Cook Islands, Fiji, Nauru, Tonga and Western Samoa. They agreed to meet annually, and at the next meeting established the South Pacific Bureau for Economic Cooperation in Suva (now called the Pacific Islands Forum Secretariat).

When Papua New Guinea (PNG) became independent in 1975, a trade agreement was

negotiated such that PNG goods entered Australia duty-free. In 1981, all Forum members gained preferential access to Australia and New Zealand under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). In practice, SPARTECA was especially important for Fiji's garment exports, which grew rapidly after 1987.

Meanwhile, the 1975 Lomé Convention granted most African, Caribbean and Pacific (ACP) countries preferential access to the European common market. The Lomé Convention included some commodity-specific terms, which were important for Fijian sugar exports. Lomé preferences also benefited coffee, cocoa, oil palm and coconut oil exporters in PNG, the Solomon Islands and Vanuatu, and tuna exports from the Solomon Islands and PNG.⁴

Within the South Pacific Forum, there were several examples of sectoral cooperation and regional services delivery (Dornan & Newton Cain 2014). Creation of the Pacific Forum Line shipping company and Air Pacific led to tensions about the distribution of benefits, and both have been bought by individual nations.⁵ However, the University of the South Pacific, established in 1968, the Forum Fisheries Agency (established 1979) and the Partners to the Nauru Agreement on fisheries (signed 1982, office established 2010) continue to be successful cooperative ventures. Dornan and Newton Cain (2014) provide other, less significant examples of successful collaboration and also examples of failed initiatives.

In sum, in the 1970s and 1980s, there was limited cooperation and no progress towards freer trade amongst the Pacific islands. Relations with other countries were more important than intra-Pacific integration. External

3. In this article, I use trade facilitation to broadly cover simplification of trade procedures and reduction of the costs of international trade, other than through reductions of tariffs or non-tariff barriers such as quotas. For more background on trade facilitation and on twenty-first century trade agreements, see Duval (2007), WTO (2011), Sourdin and Pomfret (2012), Neufeld (2014) and, specifically on the Pacific region, Anukoonwattaka (2012).

4. The European common market in 1975 consisted of nine countries, but the preferential tariffs were part of the *acquis* accepted by all new members of the Community, or European Union as it has been called since 1993. Preferential access was especially important for tuna exporters because canned tuna exports from major competitors such as the Philippines and Thailand faced the 24 per cent common external tariff.

5. Fiji took over Air Pacific in the 1990s and rebadged it as Air Fiji. In 2012, Samoa bought the Pacific Forum Line.

developments provided non-reciprocal preferential access to markets in Europe and Australasia, and the larger island economies had become heavily dependent on preferential treatment. Completion of the Uruguay Round of multilateral trade negotiations in 1994 and establishment of the WTO in 1995 destabilised this policy environment.

From General Agreement on Tariffs and Trade to the World Trade Organization

Between 1947 and 1994 an increasing share of world trade was conducted under the aegis of the GATT. The contracting parties (23 in 1947 and 123 in 1994) agreed to abide by a list of commitments, set out in 38 articles and based on the fundamental principles of non-discrimination and transparency. GATT is best remembered for the eight rounds of multilateral trade negotiations conducted by the contracting parties in which tariffs were much reduced and non-tariff barriers were also subject to some control. GATT succeeded because, over five decades, countries came to accept the benefits of a liberal global trade regime based on agreed principles and because the contracting parties, for the most part, abided by the principles, even though enforcement mechanisms were weak – little more than permitting retaliation against delinquent trade partners.

In 1994, the Final Act of the Uruguay Round brought together this body of trade law and specific commitments on tariffs and agreement on major non-tariff barriers, as well as incorporating areas previously excluded such as agriculture, textiles and clothing, and services. The Final Act also established a more substantial administrating body, the WTO, and a binding DSM. The WTO began operations in January 1995.⁶

The Uruguay Round Final Act had a direct impact on Fiji's garment producers. The MFA had allowed the high-income countries to impose detailed bilateral quotas on imports from low-wage countries, and Fiji's preferential access to the Australian market was

valuable because the market shares of the major Asian garment-producers were restricted. In the Final Act, countries committed to eliminate MFA quotas within a decade, and the quotas disappeared by the end of 2004. In 1999, the garment industry employed about 18,000 Fijians, and the number of factories had increased from 27 in 1988 to 110 in 1999 (Morgan 2014, 328). By 2005, only 40 factories remained in business. There was some lasting benefit, as the remaining firms had gained sufficient expertise to maintain market niches, for example, supplying short-order high-quality garments to Australian importers with whom they had established links, but the pre-1999 growth was clearly unsustainable.

More generally, establishment of the WTO with its DSM posed a fundamental challenge to the preference-based trade under Lomé or SPARTECA. Such non-reciprocal arrangements were clearly contrary to GATT's non-discrimination principle, because they neither met the Article XXIV requirements for free trade areas and customs unions nor fell under the exceptions permitted for encouraging economic development. Whilst third countries had tolerated these preferential arrangements before 1995, in the new environment they would inevitably face judicial challenge.

Pacific Islands' World Trade Organization Membership

The WTO has 162 members, of which six are Pacific island economies (Table 1). The members are generally nation states, but some sub-national customs authorities are members (e.g. Hong Kong) and the European Union acts as a single member. Other countries have observer status, which means that they are in the process of applying for membership.⁷ Currently, twenty-one membership negotiations are under way, although some are stalled. Only fourteen United Nations member countries do not have WTO membership or observer status: Democratic People's Republic of Korea,

6. For more details of this historical evolution, see Pomfret (2001, Part I).

7. The Holy See (the Vatican) is the only observer exempted from the requirement to pursue accession negotiations.

Table 1 Pacific Island Countries and the WTO

<i>WTO members (joined)</i>	<i>Population</i>	<i>Non-members</i>	<i>Population</i>
Fiji (1996†)‡	861	Federated States of Micronesia	104
Papua New Guinea (1996†)‡	6,859	Kiribati	98
Solomon Islands (1996†)	526	Marshall Islands	52
Tonga (2007) ‡	104	Nauru	10
Samoa (2012) ‡	186	Palau	20
Vanuatu (2012) ‡	236	Tuvalu	10

†acceded to GATT in 1993 or 1994;

‡WCO member. The Pacific Islands Forum has observer status to the WTO Committee on Trade and Development on a meeting-by-meeting basis and to the Committee on Trade and Environment. The Table only includes members of the United Nations.

WCO, World Customs Organization; WTO, World Trade Organization.

Source: https://www.wto.org/english/thewto_e/acc_e/status_e.htm (accessed 2 July 2015). UN population data, in thousands, from <http://esa.un.org/unpd/wpp/Excel-Data/population.htm>

Eritrea, Federated States of Micronesia, Kiribati, Marshall Islands, Monaco, Nauru, Palau, San Marino, Somalia, South Sudan, Timor-Leste, Turkmenistan and Tuvalu.

Three Pacific island countries (Fiji, PNG, and Solomon Islands) acceded to the GATT in 1993 and 1994, and became WTO members in 1996. Despite being the most populous Pacific island countries, as small countries distant from Geneva, all three had no permanent representatives at the WTO and were limited in playing an active role in the WTO, or even keeping abreast of developments.

At the June 1999 Trade Ministers Meeting, the Pacific Islands Forum Secretariat proposed establishing a shared representative office in Geneva to facilitate representation of Forum countries, both WTO and non-WTO members, in WTO negotiations.⁸ A Forum representative would be present at all WTO meetings, tasked with observing WTO operations and reporting on all issues affecting Forum members. The WTO Secretariat assisted in establishing the office. The Pacific Islands Forum Representative Office in Geneva officially began operations in July 2004. A major strategic purpose of the Office was to follow developments in the WTO negotiations and to act as a channel

of communication between the WTO and the Forum members (Bowman 2005).⁹

The next three largest Pacific island countries applied for WTO membership in the second half of the 1990s, but accession negotiations were protracted. Tonga applied in 1995 and became a WTO member in 2007; concerns included loss of tariff revenue and of future policy space. Samoa's application was lodged in 1998; the accession process was characterised by gradual reforms and was concluded in 2012. Vanuatu's negotiations were the longest (application in 1995, accession in 2012).

The timing of Vanuatu's application was in response to two factors. Since independence in 1980, Vanuatu had pursued an import-substitution strategy, which by the mid-1990s, was considered a failure¹⁰; negotiators accepted the desirability of opening up the closed economy, although a consequence of the import-substitution policies was that a handful of producers were strongly opposed to any reduction in protection.¹¹ A second

9. Commencing in 2004, the representative office also facilitated 6-month placements in Geneva to enable trade officials from Forum members to work with the WTO on issues important to their countries, and to promote capacity-building across a range of trade issues.

10. Amongst other things, despite restrictions on imports, the merchandise trade deficit amounted to between 15 and 38 per cent of gross domestic product (GDP) during the 1990s (Gay 2012, Table 1).

11. Although manufacturing only accounted for 3 per cent of GDP, six 'vocal manufacturing companies', producing ice cream, wooden furniture, toilet paper, fruit juice, corned beef and sawn timber, were protected by import tariffs of 35 per cent (Gay 2012).

8. The Forum Secretariat represents 16 countries: Australia, the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, New Zealand, Niue, Palau, PNG, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu.

impetus was that by 1997, Vanuatu's neighbours and principal trade partners (Fiji, PNG, Solomon Islands, Australia and New Zealand) were all WTO members. This led to a feeling that trade relations might be enhanced by membership.

Vanuatu had virtually completed its negotiations by 2001 when the Minister of Trade suspended the process. Vanuatu's initial accession strategy was excessively technical, and it did not sufficiently leverage political capital in the region and in Geneva to its advantage. There was little discussion in Vanuatu to convince stakeholders of the benefits of accession, which was supported by a thin constituency of officials involved in the negotiations.¹² On the other side of the negotiating table, WTO members pursued a 'one-size fits all' negotiating strategy, which failed to appreciate Vanuatu's limited administrative capacity. In particular, because Vanuatu was first in line of a group of least-developed countries, WTO members were wary of setting precedents. The WTO secretariat played a limited role in the initial accession process, perhaps reflecting the infancy of the organisation.

By the time that Vanuatu returned to the negotiating table in 2007, all of these conditions had changed (Basnett 2013). The WTO established accession guidelines for least-developed countries in 2002,¹³ and the Secretariat built expertise to assist candidates for accession. More fundamentally, the attitude of the high-income countries towards

providing assistance for trade facilitation, and for WTO accession, changed. The concept of Aid for Trade was popularised after the 2005 G7 summit. Indicative of this shift and its implication for Pacific islands was the presence of Vanuatu's Roy Joy as an invited participant at the Organisation for Economic Co-operation and Development November 2008 Policy Dialogue on Aid for Trade in Paris.

In the reactivated negotiations, Vanuatu sought and welcomed assistance from the Pacific Forum (and bilaterally from the Forum's richest members, Australia and New Zealand) as well as from the WTO Secretariat. The negotiators were careful to keep the government informed of all aspects of the negotiation process, and also ensured widespread dissemination of information about this process. This succeeded in assuaging popular preconceptions of 'recolonization' or that Vanuatu was being forced to accept 'WTO-plus' terms for accession (Gay 2012), and in garnering support from domestic stakeholders, for example, several non-government organizations who previously opposed WTO-accession became more aware of the benefits for the community. Of course, some stakeholders remained opposed to membership, such as the protected producers mentioned earlier, or people in the retail sector who feared the inflow of foreign competition if Vanuatu made any commitments under the agreement of trade in services.

There are several lessons from the Pacific island countries' WTO accession experiences. First and foremost, WTO accession should not be viewed as a technical process to be completed as quickly as possible. It is important to ensure that politicians in government and in opposition are kept informed of negotiations and that the wider population is informed of the benefits and costs of accession. In the absence of such information, it is easy for the WTO to be portrayed as an external threat rather than a voluntary organisation. If WTO Working Party members do object to policies, the objections should be assessed and, if they are in fact in the applicant's own interest, then reforms should be introduced after domestic debate (as Samoa did). Similarly, any fiscal implications of tax

12. Only five staffs from the departments of trade and customs were involved in the negotiations, and they failed to communicate with the government, business, non-government organizations or the wider community. This was later acknowledged by the lead negotiator, Roy Mickey Joy, who also failed to recognise that WTO members might be both supportive of Vanuatu and protective of their own national interests, for example, he was shocked that Australia and New Zealand opposed Vanuatu's agricultural export subsidies (Grynberg & Joy 2000; Gay 2012)

13. See the webpage of the Sub-Committee on Least-Developed countries at https://www.wto.org/english/tratop_e/devel_e/dev_sub_committee_idc_e.htm. For an external report, see 'New WTO rules ease entry for least-developed countries', *The Guardian* (London), 6 July 2012, at <http://www.theguardian.com/global-development/2012/jul/06/wto-rules-least-developed-countries>.

reform can be addressed gradually (as Tonga did). Finally, technical and aid-for-trade financial assistance are available from the WTO, other multilateral organisations and bilaterally, although applicants should not be surprised if bilateral donors have national interests that they wish to protect.

The last point highlights the evolution of the WTO, whose Secretariat has developed experience and expertise relevant to the accession of small poor countries, that is, the majority of new members since 1995. The reluctance of Pacific islands to join the WTO appears to be primarily due to size and location, which make negotiations in Geneva difficult. However, these reservations have become less relevant in part because the larger Pacific island economies were pathfinders and also because the regional organisation has fostered cooperative action.

In the twenty-first century, WTO membership is less onerous than in the previous century, when GATT signatories participated in rounds of trade negotiations whose costs and benefits may have been hard for a small country to assess. Today, not being in the WTO and agreeing to abide by the globally accepted international trade law is anomalous. The anomaly is highlighted by the fact that Pacific islands and Timor-Leste account for half of the UN members neither in the WTO nor negotiating accession, and that the other countries in this group are either microstates without trade policy independence (Monaco and San Marino) or are outlaw or failed states (Eritrea, North Korea, Somalia, South Sudan and Turkmenistan).

Costs and Benefits of World Trade Organization Membership

The costs and benefits of WTO membership are unlikely to be dramatic. The main costs are in terms of constrained future policy space and of monitoring developments. For a small open economy, WTO rules are consistent with desirable policies, and any significant exemptions can be included in the accession protocol

(Liu 2014). Viewing the WTO as a body of accepted international trade law, there is little need to monitor change, especially if acceptance of future changes is not mandatory.¹⁴ Taking advantage of the dispute resolution mechanism offers challenges to small economies with limited resources, but there are sources of support for legal action and, as the Antigua case (described later) showed, success is possible even for the smallest countries.

World Trade Organization members benefit from the existence of international trade law. For the most part, this is a passive benefit because other WTO members observe the law. Occasionally, it may be necessary to enforce rights, and an important advantage of the WTO is that any member can bring a case, and there are many examples of small countries successfully reversing harmful actions by large trading partners. The first ever WTO dispute involved a challenge by Venezuela of United States treatment of petroleum imports; Venezuela won the DSM case, and the United States changed its policies in line with the panel's judgement. When Ecuador won a case against the European Union's banana import policies, the large trade partner again accepted the need to comply with the DSM judgement. The point is that even powerful trading nations would rather maintain the WTO's legitimacy and credibility than defend specific national advantages.

An interesting case from the Pacific islands' perspective concerned a niche service export by a small island economy, Antigua, to the United States. After Antigua began to export online betting services to Americans, the US authorities introduced measures to restrict the trade. Antigua took the case to the WTO, where the DSM panel found in its favour in 2005. The United States claimed that omission of online gambling from the list of services that

14. Major WTO agreements, such as the 1997 Information Technology Agreement to eliminate all tariffs on a specified list of information technology goods, have been plurilateral, meaning that implementation is voluntary. By contrast, the Doha Development Round, which was initiated in 2001 as a successor to the GATT-era multilateral trade negotiations, has been inconclusive because consensus amongst 162 negotiators is elusive.

it excluded from coverage under its accession to the 1994 WTO General Agreement on Trade in Services had been an oversight, but this carried no legal weight, and the judgement was upheld on appeal in 2007 (James 2007).¹⁵ Apart from the success of a small island state (population about 80,000 in 2005) vis-à-vis the world's largest trading nation, the case illustrated the value of DSM access when a country is stymied from diversifying its exports. Antigua's online gambling exports were a newly-developed niche export, and a lesson is that the benefits from WTO membership may accrue in an unpredictable future context.

The indirect benefits come from the signalling effect. WTO membership sends a signal that a country abides by world trade law. This is important for traders in other WTO member countries and also for foreign investors; a foreign investor may not come to a country just because it is a WTO member, but not being a WTO member may deter foreign investors. In sum, it is difficult to demonstrate precise tangible benefits from WTO membership, but the protection of market access rights and the signalling effect are potentially important for small economies. Against these small but definite benefits, have to be set the limitation of policy space and the financial cost of negotiating WTO access and of monitoring WTO developments, which are today trivial and transient for the small open economies of Pacific Forum members.

Pacific Islands and Regional Trade Agreements Since 1995

The Pacific Islands are not insulated against change in the global economy. The preferential treatment they received as colonies and after independence through Lomé or SPARTECA is no longer admissible in a world where the WTO has superseded GATT. This is also a

world where international trade increasingly involves trade in tasks within international supply chains and, associated with this change, trade negotiations are primarily about trade facilitation.

In 1999, the European Union, concerned about the WTO-incompatibility of the Lomé Convention, announced that it would negotiate a new reciprocal trade agreement with the ACP countries, and the 2000 Cotonou Agreement provided for negotiation of Economic Partnership Agreements (EPAs) with the Pacific islands. Partly in response to this, Australia and New Zealand in 2001 signed the Pacific Agreement on Closer Economic Relations (PACER) with the Pacific Forum islands, which were negotiating trade liberalisation amongst themselves under the Pacific Island Countries Trade Agreement (PICTA) with a target of removing tariffs on intra-PICTA trade in most goods by 2021. In the early 2000s, there was a fundamental division between the Pacific island countries, who argued the need for special treatment to offset their vulnerability as isolated island economies, and the EU (European Union) and Australia and New Zealand who saw negotiations as a route to WTO compatibility. This came to a head as the WTO waiver for Lomé trade preferences was due to expire at the end of 2007.

In 2007, the EU announced the running down of the sugar protocol for ACP partners, and guaranteed prices were phased out by 2012. Direct and indirect employment in Fiji's sugar production numbered around 200,000 or 20 percent of the work force in 2011 (IMF, 2011). Some producers have gained a price premium through fairtrade certification, but most will have to find other work (Morgan 2014, p. 327). Tariff reduction in Australia and New Zealand eroded the margin of protection for Pacific island exporters to those markets, and termination of the MFA destroyed much of Fiji's garment industry. Other activities that had benefited from preferential tariff treatment, such as the Japanese-owned factory producing electrical wiring harnesses for cars in Samoa for the Australian market, also cut back production as preference margins were eroded.

15. The Antigua case dispelled the argument that small countries lack the capacity to pursue a DSM case, although concerns remain about their ability to effectively enforce and monitor the outcome (Jackson 2012).

The largest Pacific island countries, PNG and Fiji, signed reciprocal EPAs with the EU in order to avoid loss of preferential access to European markets, but other islands were unwilling to do so. If the Pacific islands were to accept full reciprocal free trade, then they may as well eliminate their tariffs and join the WTO, which most of them were still wary of in 2007 (Table 1). Australia and New Zealand responded by offering to take their negotiations beyond-trade issues, and between 2007 and 2009, they negotiated the launch of PACER-Plus negotiations, which begun in October 2009.¹⁶ However, PACER-Plus negotiations progressed slowly in large part due to continuing dissonance between the position of Australia and New Zealand, who envisaged a WTO-consistent trade agreement that would not create precedents of exceptional treatment, and the Pacific islands that expected exceptional treatment (Morgan 2014). Attempts to include labour migration as a distinctive feature with favourable treatment for Pacific islanders were rebuffed by Australia and New Zealand, which preferred separate migration protocols rather than treaty obligations.

Prospects for Pacific Island Economies

The Pacific islands are still comparatively young nation states, and it should be no surprise that their development strategies continue to evolve in response to their own experiences. With respect to trade policy, they have mostly pulled back from the ill-starred import-substitution policies adopted soon after independence. This is in step with global experience that has seen wholesale policy shifts away from import substitution strategies, and as a consequence, the great increase in WTO membership as low and middle income

countries adopt more outward-oriented development strategies. The Pacific islands have partially followed this route, with six countries now WTO members, but the number of non-WTO members in the region is exceptionally large, reflecting ongoing distrust of globalisation. Another manifestation of this distrust, centred on concerns about ability to compete on a flat field, has been the clinging to quasi-colonial preferential access to the markets of former imperial powers or neighbouring high-income countries via Lomé and SPARTECA and their successors. That approach is clearly defunct in today's global economy, as 'arguments for special treatment have, in the main, fallen on deaf ears in Brussels, Canberra and Wellington' (Morgan 2014, 334).

What then can the Pacific islands do? They can follow the by now well-trodden path of recognising the WTO's pre-eminence in world trade law and joining the organisation. A similar case can be made for joining the WCO, the other body whose standards and norms are acknowledged by almost all countries in the global economy, and whose importance has increased as greater attention is being paid to trade facilitation.¹⁷ At the same time, they can follow a second well-trod path of using bilateral or regional agreements to tackle trade facilitation issues.

Beyond the general obligations of non-discrimination and transparency for WTO and WCO members, trade facilitation concerns specific costs of international trade often associated with domestic regulations either at or behind the border. Such costs are best met by establishing regional norms, such as the open borders of the EU's Schengenland or the common customs forms and single windows of ASEAN, which involve deeper integration than simply removing tariffs on intra-regional trade, or by bilateral agreements to remove obstacles identified by the signatories. The shift from classic free trade areas or customs union to deeper integration was

16. This was in the context of Australia embracing bilateral trade agreements. Before 2000 it only had agreements with New Zealand and SPARTECA, but subsequent bilateral agreements entered into force with Singapore in 2003, with Thailand and with the United States in 2005, and with Chile in 2009. Further bilateral agreements have entered into force since 2009 between Australia and Malaysia (2013), South Korea (2014) Japan (2015) and China (2015), and more are under negotiation.

17. The WCO has 180 members, who account for 98 per cent of world trade. Only four Pacific islands are WCO members: Fiji (since 1997), Samoa (2001), PNG (2002), Tonga (2005) and Vanuatu (2009).

already apparent in the major integration agreements of the 1980s and early 1990s (the EU Single Market, the North American Free Trade Agreement, and Closer Economic Relations between Australia and New Zealand). Since 2000, bilateral and other trade agreements have proliferated, especially in Asia, which had largely been absent from previous waves of trade agreements (Pomfret 2011). The country signing the most post-2000 trade agreements is Singapore, which has zero tariffs practically across the board, highlighting that Singapore is interested in reducing trade costs rather than negotiating mutual reduction in tariffs.

In the South Pacific, regional trade negotiations move slowly because large trading partners are no longer willing to offer preferential access to their markets and the small islands are reluctant to sign free trade agreements with reciprocal tariff-free access. Regional institutions can focus on reducing trade costs (e.g. by simplifying and standardising customs procedures and logistics), and developing regional services such as certification and testing to ensure compatibility with sanitary and phytosanitary measures. For example, Australia, whilst dragging its feet on PACER-Plus, has been willing to provide funding for a Pacific Horticultural and Agricultural program that addresses market access issues. Similarly, New Zealand has been willing to assist Pacific islands to achieve the laboratory certification necessary for their exports to meet sanitary, phytosanitary and other standards, for example, the New Zealand overseas development agency's assistance to Spices of Fiji.

Can WTO membership plus agreements to reduce trade costs succeed for economies as small and remote as the Pacific islands? Only time will tell, but the other changes in the global economy mentioned in the Introduction will help. Falling transport costs, especially for air-freight, can help the islands to export niche products competitively. The IT revolution of the last quarter century reinforces the erosion of distance, as customers and suppliers can be more easily sourced beyond the islands and merchandise can be tracked. In sum, the Pacific islands' isolation is today less of an obstacle to economic development than in the past,

although their size and location still represent challenges; to create the best environment for their countries to participate in the global economy, policymakers should accept the principles of WTO trade law and negotiate to reduce specific obstacles to their countries' exports.

April 2016.

Originally written as a background paper for presentation at the 2015 Pacific Update Conference: Pacific Development in a Changing Global Economy held at the University of the South Pacific in Suva on 15-16 July 2015. I am grateful to two referees for helpful comments on an earlier draft.

References

- Anukoonwattaka W (2012) Trade Agreements and Arrangements in the Pacific Subregion, *APTIAD Briefing Note*, UN-ESCAP Trade and Investment Division, Bangkok, viewed 12 January 2016 <<http://artnet.unescap.org/APTIAD/documents/APTIAD-Briefing-Note-4.pdf>>.
- Basnett Y (2013) The trials and tribulations of acceding to the WTO: Vanuatu's experience, *Bridges Africa* 2(5), International Centre for Trade and Development, viewed 12 January 2016 <<http://www.ictsd.org/bridges-news/bridges-africa/news/the-trials-and-tribulations-of-acceding-to-the-wto-vanuatu's>>.
- Bowman C (2005) The Pacific Island Nations: Towards Shared Representation, *Managing the Challenges of WTO Participation: Case Study 33*, World Trade Organization, Geneva, viewed 12 January 2016 <https://www.wto.org/english/res_e/booksp_e/case_studies_e/case33_e.htm>.
- Dornan M, Newton Cain T (2014) Regional Service Delivery among Pacific Island Countries: An assessment. *Asia and the Pacific Policy Studies* 1(3), 541–560.
- Duval Y (2007) Trade Facilitation beyond the Doha Round of Negotiations, in ESCAP, *Trade facilitation beyond the multilateral trade negotiations: Regional practices, customs valuation and other emerging issues* (United Nations, New York); draft, viewed

- 12 January 2016 <<http://www.unescap.org/tid/artnet/pub/tipub2466.pdf>>.
- Gay D (2012) Vanuatu's Suspended Accession Bid: Second Thoughts? WTO Center VCC (Vietnam), viewed 12 January 2016 <<http://wtocenter.vn/wto/case-studies/vanuatu's-suspended-accession-bid-second-thoughts>>.
- Grynberg R, Joy RM (2000) The Accession of Vanuatu to the WTO. *Journal of World Trade* 34(6), 159–173.
- Jackson S (2012) Small States and Compliance Bargaining in the WTO: An analysis of the Antigua-US gambling services case. *Cambridge Review of International Affairs* 25(3), 367–385.
- James S (2007) Time to Double Down on Online Gambling, *Cato Institute - TCSdaily.com*, viewed 12 January 2016 <http://www.cato.org/pub_display.php?pub_id=8188>.
- Liu J (2014) Accession Protocols: Legal status in the WTO legal system. *Journal of World Trade* 48(4), 751–771.
- Morgan W (2014) Trade Negotiations and Regional Economic Integration in the Pacific Islands Forum. *Asia and the Pacific Policy Studies* 1(2), 325–336.
- Neufeld N (2014) Trade Facilitation Provisions in Regional Trade Agreements — Traits and Trends, *Working Paper ERSD-2014-01*, World Trade Organization, Geneva.
- Pomfret R (2016) *International Trade Theory and Policy*. World Scientific Publishing Company, Singapore.
- Pomfret R (2011) *Regionalism in East Asia: Why has it flourished since 2000 and how far will it go?* World Scientific Publishing Company, Singapore.
- Pomfret R (2001) *The Economics of Regional Trading Arrangements*. Oxford University Press, Oxford.
- Sourdin P, Pomfret R (2012) *Trade Facilitation: Defining, measuring, explaining and reducing the cost of international trade*. Edward Elgar, Cheltenham UK.
- WTO (2011) The WTO and preferential trade agreements: From co-existence to coherence, World Trade Report 2011. World Trade Organization, Geneva.