

**A Critical Response to the Pacific Island Countries Trade Agreement (PICTA),  
Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Islands  
Forum's  
Social Impact Assessment**

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In August 2002, the Pacific Islands Forum will meet in Fiji. An official announcement of the coming into force of PICTA and PACER is expected to be made.

PICTA and PACER are legally binding agreements which together aim at making Pacific island states conform to World Trade Organisation (WTO) trade rules by gradually opening their economies to free trade. PICTA, an agreement among Pacific Island states, will come into effect a month after six Pacific governments have ratified it. So far, four countries have ratified PICTA - Fiji, Samoa, Tonga, and the Cook Islands.

Pacific Island peoples have had no say in the discussions and negotiations on PICTA and PACER. There have been no public consultations or debates, not even within national parliaments, over these far-reaching agreements.

The Pacific Islands Network on Globalisation (PANG) has critically examined both agreements and a Social Impact Assessment (SIA) commissioned by the Forum Secretariat. In PANG's view, the agreements are neither in the Island countries' interests, nor have they been conceived or drafted by Pacific leaders. And the SIA appears to be an attempt to pull the wool over the eyes of Pacific leaders and peoples.

PANG urges Pacific leaders to think before they ratify the agreements, and, if they have already ratified, to withdraw from them.

### **What PICTA and PACER Really Mean**

PICTA and PACER are instruments to lock the Pacific Islands into an unjust trade regime that will see their national economies systematically opened to suppliers of goods (and, eventually, services and investment) from all around the globe. This is the main objective of trade liberalisation.

Australia and New Zealand have been keen to ensure that their trade and economic interests in Forum Island markets are adequately defended should Pacific Island countries begin free trade negotiations with non-Forum partners like the European Union (EU). PACER was drawn up to protect Australian and New Zealand economic and trade interests in the Pacific.

PICTA will involve a gradual lowering of tariffs on goods traded among island states over a ten-year period. Parties to PICTA are also required to remove all non-tariff barriers (quotas, import and export licences etc) and are prohibited from offering lower tariff rates to non-PICTA countries.

While not a free trade agreement itself, PACER provides a framework for future free trade agreements and economic relations in the region as a whole, including Australia and New Zealand. While it requires ratification by eight Pacific states, in reality, these negotiations will be triggered when the EU begins negotiating free trade agreements with Pacific Island countries in September 2002, under the Cotonou Agreement, which

replaced the Lome agreement. PACER will also facilitate PICTA's implementation by offering a programme of financial and technical assistance in the areas of trade facilitation, trade promotion, capacity building, fiscal reform and structural adjustment.

Although PICTA is hailed as a landmark achievement in the 'history of international co-operation in the Region', both agreements are merely stepping stones towards full compliance with the WTO. They are part of an externally driven agenda. Far from furthering *co-operation* among Pacific Island states, PICTA will encourage *competition* between them and could provoke unanticipated discord and tension among them and their peoples. This could undermine the regional unity that has been a hallmark of successful negotiations around shared resources like fisheries.

The WTO is a powerful and extremely undemocratic multilateral institution, dominated by the developed countries. There is mounting criticism of its undemocratic processes, its powers, and unjust trade agreements. Through the WTO, the economic interests of developed states and of transnational corporations, which seek open access to the globe's resources and markets, are being advanced at the expense of the interests of countries and communities.

Internationally, the International Monetary Fund (IMF), the World Bank, other multilateral financial institutions like the Asian Development Bank (ADB) and the WTO work together to force nation states to open their economies, even though this means that national economic interests, and those of ordinary people, may be seriously harmed. There is mounting evidence of the link between the worldwide spread and intensification of poverty and policies of economic and trade liberalisation through structural adjustment. Pacific island states are being made to toe the line, as are African, Caribbean, Asia and Latin American states by implementing structural adjustment programmes and moving gradually towards free trade through regional mechanisms such as PICTA.

Key elements of PICTA, which strongly mirror provisions in the WTO and other free trade agreements, have worrying implications. These include:

- **Most Favoured Nation (MFN):**

Under PICTA, MFN obliges all parties to PICTA to treat each other no less favourably than any other signatory state. MFN is a fundamental principle of the WTO, where it obliges all members to treat all suppliers of products and services equally, with no supplier (eg. national company) enjoying favoured treatment compared with another/others. This means no special protection for local industries or service providers. Indeed, the related principle of 'national treatment' is one, which insists that there is no such thing. So no Pacific island government would be able to secure any kind of economic activity for nationals, or categories of nationals, except under the provisions for protecting developing industries, limited to five years (10 for LDCs).

- **Rules of origin:**

Goods, which can be traded under the reduced tariff arrangements of PICTA, must have at least 40% local (PIC) content. This is easily achieved, even if a "good" is primarily manufactured outside the region (say in China) and merely finished in, say, Fiji or Samoa. The provision is open to abuse by enterprises/investors with a primary production base outside the Pacific and merely finishing operations within the island states.

- **Government Procurement:**

One of the most controversial areas in WTO talks, free trade in government procurement would open up contracts to supply national governments (the biggest purchasers of goods and services in most countries) to potential suppliers anywhere. PICTA's government procurement article obliges signatory governments to identify and remove as soon as possible measures holding back liberalisation and to adopt transparent practices. Within two years of PICTA coming into force, however, an agreement on detailed rules for government procurement will be concluded, to be included as a protocol to PICTA. Opening up government procurement could see domestic suppliers of goods (and eventually, services) to governments in the region being out-bid and undercut by bigger suppliers in or operating from another Pacific Island state.

- **Negative List:**

A Pacific Island country may protect goods produced locally for the domestic market from competition by products produced in another Pacific state by higher tariff rates if they include them on a 'Negative List'. This provision simply extends for these goods the timetable for tariff reduction on other goods. It is unclear with whom Pacific governments consulted before deciding which goods to include on the Negative List. According to documents from the Forum Secretariat Fiji had no products on the list.

### **Forum Secretariat's Social Impact Assessment Fundamentally Flawed**

PANG considers the SIA a shoddy piece of work - riddled with inaccuracies, misinformation and bias. It draws on out-dated reports and statistics, misrepresents the Pacific Island countries' present social, economic and political realities, provides entirely speculative 'forecasts', and is not independent. Its main aims appear to be to assure Forum Island leaders that PICTA's benefits will far outweigh any negative social impacts, and to convince them that any social costs will be minimal.

Produced by Professors David Forsyth, former head of the University of the South Pacific (USP)'s Department of Economics who now works for the Forum Secretariat, and Nii-K Plange of the USP Sociology Department, the report runs to 158 pages. So it is unlikely to have been thoroughly read by the Pacific Heads of Governments who have already signed on their countries to PICTA and PACER. PANG asks which Pacific leaders read the Forsyth/Plange report, and whether the report's findings influenced their decision.

This report accepts without question the following expected economic benefits of a free trade agreement: increased exports, expansion of output and employment, cuts in prices

of some imports, improvements in the range of product choice and in product quality, improved productivity and higher levels of investment (including foreign investment). It suggests that there will also be increased income (national and personal) and 'opportunity for greater spending on health care and education and on improving living standards generally'. Increased demand for female labour is also predicted, with the associated social benefit that this may 'enhance the status of women in the community and in the home'. None of these claims are substantiated. Nor is the report substantiated by reference to studies of free trade areas elsewhere or the impacts of trade liberalisation in other developing countries.

A 1999 Food and Agriculture Organisation (FAO) study on the impacts of implementing the General Agreement on Trade and Tariffs (GATT) Uruguay Round in 16 developing countries, including Fiji, throws some sobering light on these predictions. It showed that food imports had risen much faster than exports, and that import surges in particular products (notably dairy products - especially milk powder - and meat products - mostly poultry) were a common experience. Competition from food imports had the effect of undermining local (food) production, driving smaller producers out of business, while reduced domestic support to farmers in line with trade liberalisation measures made it difficult for farmers interested in production for export to take advantage of expanded market access.

Given the known impacts of inferior food imports on the diets and health of Pacific Islanders, the probability of increased inflows of cheaper food imports under eventual free trade affecting food choices and nutritional health in the region is high. A South Pacific Commission study in 2001 on the reasons behind food choices in Tonga found that while people preferred and recognised the higher nutritional value of fresh, local foods, they were eating larger amounts of imported foods, including fatty meats and simple carbohydrates. Most preferred foods were eaten less often than the less preferred foods. Bread, mutton flaps, imported chicken parts were among the least preferred and yet were among the most commonly eaten foods. In the same way foods considered to be less healthy were consumed more often than foods considered to be healthier. Low-fat traditional foods were perceived to be the most nutritious whereas imported simple carbohydrates were considered to be the least healthy. The study found that the discrepancy between preference and actual consumption appeared to lie with price. In Tonga, fish costs 15-50 % more than mutton flaps and chicken and in many areas is less easily purchased. Bread and rice are cheaper and more accessible than taro.<sup>1</sup>

It is not likely that PICTA will see trade among the Pacific Island countries expanding greatly. Its significance lies in the fact that it is a stepping-stone towards the free trade regime being ushered in under the Cotonou Agreement and PACER. A 2001 (UNCTAD) report stated plainly that 'trade creation' or increased trade as a result of the Pacific free trade agreement was likely to be minimal, but the agreement should not be evaluated as a "stand-alone" exercise, but rather seen as part of *'a wider process of*

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<sup>1</sup> Pacific Islands Report on Evans et al (2001) - Globalisation, Diet & Health: An Example from Tonga, Bulletin of the WHO, 79 (9): 856-62.

*gradually integrating the FICs into the global economy', and 'in the context of the FICs' existing non-reciprocal free trade arrangements with Australia and New Zealand and the European Union, and the prospective future development of those relationships'.<sup>2</sup>* Clearly, the real reasons for PICTA and PACER are well understood by institutions outside the region.

An understanding of the PICTA's impact requires an assessment of its links to the trade negotiations which the Forum Island countries are obliged to conduct with their major developed country economic partners, as provided for in both the Cotonou agreement and PACER. The SIA omits any consideration of this. Indeed, by emphasising that impacts will be minimal without taking account of what they are a part of, it may seriously mislead Pacific Island leaders into thinking that PACER will likewise have 'minimal impact', when this is quite untrue. The money spent on the PICTA social impact assessment might have been better spent on an *independent* assessment of the likely impacts on Pacific societies and economies of PACER and future trade negotiations with the EU.

### **Omissions and Factual Errors**

The SIA contains some significant omissions and factual errors, especially in the economic and social impact country profiles. These include:

- The absence of any reference to the implementation and impacts of economic restructuring, despite its significant effects in all Pacific island states.
- The reference to the citrus industry in the Cook Islands, which no longer exists, and the absence of any references to the pearl industry, which has emerged as a major source of foreign exchange, and to new developments in the tourist industry in the last five years;
- The lack of discussion on the future of Fiji's garment industry, except for a passing reference to an expected decline in clothing employment;
- In the lengthy discussion on the expected rise in female employment within manufacturing in Fiji, the absence of any consideration of the quality of such employment, vis a vis wages, working conditions and security of employment. Expanded jobs for women are expected to have the positive effect of 'augment(ing) total household finances', even though it is acknowledged that in many cases the women employed will be sole household earners;
- The absence of any mention of Papua New Guinea's present socio-economic crisis (poverty, unemployment, rising levels of crime and violence against women etc) which has reached critical levels and which is in no small measure related to the imposition of structural 'reforms';

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<sup>2</sup> UNCTAD (2001) Regional Trade Agreements And Developing Countries: The Case Of The Pacific Islands' Proposed Free Trade Agreement, Policy issues in international trade and commodities, Study series #10, 01/07/2001, 50 pages

- The out of date reference to woollen clothing manufacturing in Tonga, as the knitting industry, triggered into being by the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), has since died;
- The projected increases in exports and employment, linked to financial services, which are unlikely with the future of tax havens now in doubt. The Vanuatu case requires more in-depth analysis.

### **PANG's concerns**

Pacific Island countries are small players in the global economy. Agreements such as PICTA and PACER will make our countries more dependent than ever before on the dominant players in the global economy and will rob them of the rights to decide the direction of their own societies, and to protect their industries, their lands, and their traditional way of life. We are being asked to open our doors even further to overseas products, overseas investments and overseas service producers. Our national assets will be open to purchase by overseas interests while we are being asked to make the labour of our workers available at the lowest costs. We are being asked to surrender control to outside forces. Effectively our freedom is being diminished. The social costs of this process has not been properly assessed but evidence from elsewhere urges great caution.

PANG is particularly concerned about the impact of free trade on the ownership of and access to land. The Pacific region's system of communally owned land directly conflicts with the view that resources should be used by those who can put them to the most productive or profitable use and that all should have equal access to the globe's resources. Are communal tenure systems which may protect the well being of thousands of ordinary Pacific islanders at risk of being 'reformed' in the interests of the global free trade and investment agenda? What consequences will changing land tenure or access arrangements have for Islanders who are dependent on semi-subsistence livelihoods?

PANG calls on Pacific governments to heed the voices of concern within the region (eg. Pacific Churches, Non Governmental Organizations (NGOs), trade unions, women's organisations) and to question whose interests are being served by structural adjustment and trade liberalisation. PANG expressly calls on Pacific leaders:

- Not to ratify these agreements
- To withdraw from the agreements if they have already ratified them
- To refer decisions on PICTA and PACER to national parliaments; and
- To encourage wide public debate.