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Understanding MSG

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This week, Fiji commemorated the Silver Jubilee of Melanesian Spearhead Group (MSG).

The MSG includes three original members, PNG, Solomon Islands and Vanuatu. Fiji joined MSG in 1996. The MSG countries comprise more than 80 percent of the population, land area and GDP of all PICs.

In 1993, MSG Trade Agreement was signed, covering three products: tea (export of PNG), canned tuna (export of Solomon Islands) and beef (export of Vanuatu). The three PICs also committed themselves to grant each other 'most favoured nation' (MFN) status, meaning that any concessions granted by an MSG country to a non-MSG country would be made applicable to MSG members.

Lead role by Fiji

The MSG became a far more formidable entity only after Fiji joined MSG. About 180 products came to be included for free trade. Fiji with considerable manufacturing capacity and PNG with major natural resources soon began to run trade surpluses at the expense of the two less endowed countries. Consequently, Vanuatu restricted biscuit imports from Fiji, which was followed by Fiji's restriction of kava imports from Vanuatu. The kava and biscuit wars, as they were known were the symptoms of the fully entrenched "domestic industries protection" sentiments.

The volume of intra-MSG trade during 2003-05 was low and was only six per cent of all trade into the sub-region. In 2005, a revised agreement was adopted with the aim of further integrating the economies of member countries.

The political and economic isolation of Fiji by Australia and New Zealand, consequent to the events of 2006 strengthened the resolve of MSG to steer through the crisis. Negotiations resulted in the signing of MSG Constitution in 2007. Further, there was greater emphasis on economic integration not only in trade but also in services.

It was agreed that there would be gradual liberalisation of goods in the negative list, reducing to zero tariffs by January 2013. With the exception of Fiji, members excluded sensitive goods from duty reductions by placing them on a 'negative' list. The Agreement also provided protection to 'infant industries' on the basis until such time they can grow and compete with goods from trading partners.

In addition to trade in goods, MSG decided to promote greater mobility of skilled personnel. Although there were some anxious moments for leaders, since Port Vila Chamber of Commerce expressed concerns that locally available, skilled persons would be ignored and competed out of the market, wiser counsel prevailed. Under the Skills Movement Scheme, which began from September 2012, trained teachers and nurses, engineers, accountants, pilots, doctors and those with trade skills would move to work within MSG only to meet domestic shortages.

In September 2012, PNG removed 400 items from its negative list of goods. This means these items will be imported into PNG duty free from other MSG countries. Others in the list which would continue to be protected would include mackerel, salt and sugar. Vanuatu will remove tariffs on goods in its negative list by 2013 and Solomon Islands by 2017. Fiji has no negative list, which means goods from PNG, Solomon Islands and Vanuatu can enter Fiji free of duty.

The Caribbean example

These two developments are of significance: Sub-regional cooperation is no longer a parochial, divisive step. In the Caribbean (population of 16 million and 15 independent Caribbean nations and 7 various dependencies), economic integration was slow, similar to the Pacific region. However, a sub-regional effort initiated three decades ago has now blossomed into a success. Seven smaller member states known as an Organization of Eastern Caribbean States have a common currency too!

In his 2011 speech on *Pacific Regionalism: A Tale of lessons, identity and boundless opportunities*, delivered at Pacific Islands Forum 40th Anniversary Leaders Lecture Series in Apia, Prime Minister Tuilaepa praised the MSG efforts: “Melanesia has led and shown the way in establishing sub-regional groups”.

Under any economic integration efforts, there would be winners and losers. In Europe, Germany has been the chief gainer, having used single currency and free trade and investment opportunities. Even during the euro debt crisis, depreciation of the euro has made German goods cheaper to the rest of the world and its economy was surging.

If Germany were outside the euro zone, its currency, the mark would have appreciated and trade gains would have been reversed. With another crisis brewing in Cyprus, time has come for Germany to re-balance. The objective should be to save the members, not the currency alone.

Future of MSG depends on the leaders. Fiji, a relatively human resource rich country and PNG, a relatively natural resource rich country, and both with significant manufacturing capacity, should be prepared to share and spread the gains.