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## **PACER Plus and Getting Island Nations a Better Deal**

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Early April, Solomon Star carried a news item which did not receive much local attention. However, it created a mild flutter among students, who are doing research on economic integration in the Pacific. They were curious whether the island countries were seeking exchange rate arrangements such as common currency, besides free trade and factor mobility.

I had to check the cause of flutter and seek clarification.

### **Regional integration**

Since 2011, Forum Island countries (FICs) have been negotiating with the other two members: namely Australia and New Zealand (ANZ) on two development priorities as part of PACER Plus.

The term PACER stands for Pacific Agreement on Closer Economic Relations between the FICs and ANZ, which was earlier aimed at fostering free trade and signed in 2001. The term Plus was added in 2009 to reflect the aspiration of the signatories of PACER to be “more than just a conventional trade agreement, but one which places the sustainable economic development of the FICs at its core”.

The Forum Leaders’ vision for the enhanced PACER Plus is sustainable economic development of FICs, which is sought to be promoted through capacity building and development assistance from ANZ.

Two development priorities are: labour mobility between FICs and ANZ; and development assistance. While labour mobility should be on a continuing base and extended beyond temporary schemes, development assistance should be designed to compensate FICs, which would be losing revenue from their import duties consequent to free trade; and for financing their annual fiscal deficits.

Although New Zealand’s Recognised Seasonal Employer (RSE) scheme and the Australian Seasonal Worker Program (SWP) are well received, FICs want them on a permanent basis as

binding commitments to be incorporated in the PACER Plus Agreement. However, ANZ are reluctant.

So, the negotiations are dragging on.

### **Cause for the flutter**

Against this background, Robert Sisilo, lead spokesperson for the FICs addressed the participants at a three- day PACER-Plus meeting of FICs' and ANZ's officials held in Port Vila early this month. A paragraph from his speech was this:

"As I have stated many times before, the FICs will be undertaking legally binding commitments in other areas such as Trade in Services, Investment and Trade in Goods where we are less likely to benefit and would incur revenue losses. *For PACER Plus to be acceptable, the exchange rate has to be right.* We have heard time and time again that Australia and New Zealand do not have a commercial interest in these negotiations, but the reality is that without substantive commitments on labour mobility and development assistance, they will be the major beneficiaries of this Agreement".

The words: "*For PACER Plus to be acceptable, the exchange rate has to be right*" created the flutter.

Presently only six FICs have independent currencies: Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. The other eight are using one of the three currencies, Aussie, Kiwi or American dollar as legal tender.

Are FICs searching for a new solution for solving outstanding issues? Are they seeking a currency union with a single currency or monetary union?

### **A Pacific Economic Union?**

In 2003, an Australian Senate Committee recommended a Pacific economic and political community similar to the European Economic Community, which preceded the European Union. The Eurozone later emerged with a single currency in 1999. The Senate Committee also suggested the Australian dollar as a common currency.

The Eurozone is the ultimate of economic integration, with free movement in goods, labour and capital. Without mobility of labour, countries can adopt the currency of a major member country, surrendering monetary sovereignty. The woes of Greece, Cyprus, Spain and Italy have shown that unless there is some greater fiscal integration, involving sacrifice some measure of political sovereignty, a currency union cannot be a total success.

Recognizing these limitations, the Eminent Persons Group appointed by the Forum rejected the idea of a Pacific Union on the ground that conditions were not ripe.

## **Clarifications**

In response to the query, a trade officer of the Solomon Islands Government explained the reference to an exchange rate by the Forum Lead Spokesperson was “only a metaphor for what we hope to gain and sacrifice in the negotiations”.

It was meant that unfettered market access offered by FICs should be matched by Australia and New Zealand with what FICs would gain (such as labour mobility and development assistance). That alone would contribute to an equal and mutually beneficial exchange.

It was clarified that PACER Plus does not seek monetary integration or promote the idea of single currency.