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A New Trade Agreement

T.K. JAYARAMAN

Last week in Port Vila, a new Melanesian Free Trade Agreement was reached by Trade Ministers from Fiji, Papua New Guinea, Solomon Islands and Vanuatu, the members of Melanesian Spearhead Group (MSG).

The new trade agreement, which took three years of negotiations, after signatures by MSG Leaders and ratification by parliament, will be known as MSGTA3, as there were two agreements before. It will come into effect from January 1, 2017.

The MSGTA3 is far more comprehensive as it is designed to cover not only commodity trade but also trade in services, labour mobility and cross-border investments. Though it would cover only four Pacific Island Countries (PICs), it will be the beginning of a full- fledged regional economic integration at a sub-regional level.

A grander goal was envisaged with the signing of Pacific Island Countries Trade Agreement (PICTA) in 2001 for 14 PICs, comprising besides the four MSG countries, 10 others: Cook Islands, Federated States of Micronesia, Kiribati, Nauru, Niue, Republic of Marshall Islands, Palau, Samoa, Tonga, and Tuvalu. Seven PICs are implementing PICTA. They are: Cook Islands, Fiji, Niue, Samoa, the Solomon Islands, Tuvalu and Vanuatu.

Sub-regional economic integration

The sub regional integration effort is nothing new. In the Caribbean, the Organization of Eastern Caribbean States (OECS) is a successful economic union since 1981. It comprises 10 island states (Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines) with common economic and trade policies. Above all, they have one single currency, the Eastern Caribbean dollar, one of the stable currencies: 1US$ = EC$ 2.70.

They achieved what the bigger Caribbean Economic Community (established with 15 states including the 10 member countries of OECS) is not able to achieve so far. Geographically, the

OECS form a near-continuous archipelago across the Caribbean Sea and that might be the reason for coming together.

What unites MSG is the Melanesian spirit.

When PNG, Solomon Islands and Vanuatu, without Fiji founded the formal cooperative arrangements in 1986 for fostering political cooperation, economic cooperation was not in their mind until the 1992 PNG Summit. In 1993, the first MSGTA was signed, covering three products: tea (a major export of PNG), canned tuna (a major export of manufactured products of the Solomon Islands) and beef (a major pastoral export of Vanuatu).

The MSG became a more formidable entity soon after Fiji's joining in1998.

During the next three years, 180 products were covered for free trade. However, trade between MSG countries created problems, as it happens in any free trade area. Fiji and PNG, which have significant manufacturing base, began to build up trade surpluses at the expense of the two less endowed countries.

Vanuatu restricted biscuit imports from Fiji and in a tit-for tat reaction, Fiji restricted imports of *Kava*, by re-imposing high tariffs. The popularly dubbed kava and biscuit wars were the symptoms of the fully entrenched 'domestic industries protection' sentiments.

Trade Volume

Intra-MSG trade during 2003-05 was approximately US$30 million, which was only 6 percent of all trade into the sub-region. In 2005, a revised agreement (MSGTA2) was adopted. It received a further boost following the 2006 military coup.

Fiji, which was isolated by political and economic sanctions by ANZ, solicited support from other MSG countries. Negotiations led to the signing of an MSG Constitution in 2007 focusing on solidarity. A Secretariat was established in Vanuatu in May 2008. There was a renewed emphasis on greater economic integration, not only in trade but also in services. It was agreed that there would be gradual liberalization of the negative list goods, reducing to zero tariffs by January 2013. Members excluded sensitive goods from duty reductions by placing them on a 'negative list'. The MSGTA2 also provided protection to 'infant industries' on the basis until such time they could grow and compete with goods from trading partners.

MSGTA2 emerged to be successful mainly because of the dragging of PACER Plus negotiations. In addition to trade in goods, MSG decided to focus on mobility of skilled personnel. The Skills Movement Scheme since 2012 has proved beneficial as trained teachers and nurses from Fiji moved to work in Vanuatu, meeting the current shortages in these two critical areas. During 2010-2014, MSG intra-trade rose by 114 percent: from F$79 million to F$169 million in a span of five years, accounting for 24 percent of Fiji's total trade with all other 13 PICs.

Latest aggregate data for 2014 reveal, intra-regional trade among PICs was around US$ 330 million; Fiji's exports to all other island countries was US316 million, amounting to 96 percent. This was followed in percentage terms by PNG (2) and Solomon Islands and Vanuatu (less than 1).

Fiji's imports was US$14million, amounting to 4 percent. The maximum imports in percent, was by Vanuatu (10); PNG (7); and Solomon islands (6). Maximum trade surplus (US$301 million) was enjoyed by Fiji.

Minor irritants

Already, just a week before MSGTA3 was agreed, the issue was flagged by Trade, Commerce and Industry Minister of PNG. The Post Courier reports that Fiji's continual denial of PNG processed and manufactured products such as the famous Ox & Palm corned beef, *Truka*i Rice and Snacks from entering the country has caused concern. In a letter to his Fiji counterpart, PNG Minister wrote that PNG's Ox & Palm corned beef and snacks are exported to Australia and Japan in commercial quantities and he did not understand "why Fiji continues to impose bio-security other non-tariff measures".

PNG exported K4.4 million (F$2.92million), while importing K48.6 million (F$32.24million) with a trade deficit of K44.2 million (F$29.32 million) in 2014.

Issues such as these are not unusual under regional trading arrangements.

Trade surpluses often present problems: for Germany in EU; Singapore in ASEAN; or India in South Asia.

Reducing tensions and avoiding repetition of kava or biscuit wars need statesmen-like decisions on the part of leaders.

Professor Jayaraman teaches at Fiji National University. His website is: www.tkjayaraman.com