Unilateral Liberalisation or Trade Agreements? Which Way Forward for the Pacific*

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Outline of Presentation

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Trade Issues and Options in the Pacific
Impact of Trade Agreements on PICs: Empirical Evidence
Modelling the Trade Options
Some Results
Summary and Challenges Ahead
Introduction

World trade negotiations remain stalled since the Doha round in 2001

- A consequence of failed trade agreements has been the proliferation of other types of trade arrangements and liberalization efforts

Dominant view of trade liberalization:
- Free (or freer) trade fosters economic growth
- But impacts vary for different countries and regions.

Aim of our study*:
- To analyze possible effects of some trade options on PICs and to discuss policy implications
- PNG and Fiji used as case studies

Pacific Islands Trade Agreement (PICTA), 2001
- FTA for 14 FICs, initially covered Trade in Goods; ratified by 11 out of 14 FICs
- Now includes Trade in Services; slow progress in TIS

Pacific Agreement for Closer Economic Relations (PACER) Plus (Australia, NZ + 15 FICs)
- Lack of agreement on nature & extent of benefits; slow progress

Economic Partnership Agreement
- Agreement concluded by EU, PNG & Fiji in 2007
- Ratified by EU in Jan 2011; by PNG in May 2011; by Fiji in July 2014

The Australia-Papua New Guinea Economic Cooperation Treaty (2014)

The Melanesian Spearhead Group Trade Agreement
- Reciprocal FTA between 12 FICs
Empirical Evidence on Impacts of FTAs in PICs

PICTA:
Scollay et al. (1998):
  Qualitative; focused on issues of concern for negotiations.

EPA:
Scollay (2002):
  overall effects and trade effects are likely to be small and positive, some risk of trade diversion.

Perez (2006): 50% tariff reduction on ACP imports + 80% reduction in tariffs on EU imports:
  1.32% decline in GDP; fiscal loss of about 1.6% GDP.

Fontagne et al. (2008): 90% bilateral trade liberalisation
  Exports to increase by 37% per cent
  Imports from the EU increase by more than 1%
  Minimal trade diversion and tariff revenue effects in Pacific
PACER Plus:

Stoeckel and Davis (1998):

- Welfare gains would increase substantially to A$200 m compared with A$5 m under PICTA
- Out of the 14 PICs, Fiji, PNG and the Cook Islands are significant gainers
Scenario 1: Unilateral Tariff Reduction
Scenario 2: PICTA
Scenario 3: EPA and PACER Plus
Fig. 1: Impact on PNG and Fiji’s GDP Growth

(a) PNG

(b) Fiji

- Unilateral Tariff Liberalization

- PICTA

- EPA-PACER

2009  2010  2011  2012  2013  2014
Fig. 2: Impact on PNG and Fiji’s Key Sectors

(a) PNG

- Unilateral Tariff Liberalization
- PICTA
- EPA-PACER

(b) Fiji

- Unilateral Tariff Liberalization
- PICTA
Fig. 3: Impact on Trade

- **PNG exports growth**
- **PNG imports growth**
- **Fiji exports growth**
- **Fiji imports growth**

Labels:
- EPA-PACER
- PICTA
- Unilateral Tariff Liberalization
All three forms of tariff reduction provide overall economic growth

But the RTAs outperform unilateral tariff liberalization

PICTA not as beneficial as the EPA-PACER agreement

But is a move in the right direction

To move forward and at the same time avoid second-best outcomes with PACER Plus,

- Developed countries need to dismantle non-tariff barriers (e.g., cumbersome customs procedures, rules of origin requirement and quarantine controls)
- Parties need to agree on exact form of aid for trade and to effectively monitor and assess the outcome for improvements
- PICs need to have sufficient autonomy to pursue own policy agendas
- PICs need to step up in terms of accountability and transparency
- Developed countries need to invest (or take on joint ventures) in PICs to set up value-added industries (e.g., agro-processing) to improve linkages with other sectors.
THANK YOU