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A Comparative Assessment of Balassa (1961) and Torrant

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A thesis submitted in fulfillment of the requirements for the degree of
Doctor of Philosophy

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March, 2016
Statement by Author

I, Radika Kumar, declare that this supervised research project is my own work and that to the best of my knowledge, it contains no material previously published or substantially overlapping with material submitted for the award of any other degree at any institution, except where due acknowledgement is made in the text.

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ABSTRACT

Regional Economic Integration (REI) is not a new phenomenon. Different regions around the world have pursued REI in order to achieve the ultimate objective of growth and development. In the ambition to pursue REI, regions have adopted different processes or pathways to reach the final objectives. Balassa (1961) had developed a theory of REI based on a unidirectional approach towards regional economic integration.

According to Balassa (1961) trade integration is a five step process commencing with Free Trade Area, Customs Union, Common Market, Economic Union and finally a Political Union. The European Union Model of REI is the closest in proxy to the notion proposed by Balassa (1961). However, this theory and its applicability in the context of the Pacific have to be examined in order to ascertain its significance or insignificance.

A further, plausible and practical approach towards REI in so far as trade integration is concerned has to be explored for the Pacific. This PhD thesis therefore examines the extent of the applicability of Balassa’s theory of regional economic integration vis-à-vis regional trade for the Pacific and examines whether the Ramon (2003) approaches provide an alternative. This research findings show major policy implications for the Pacific REI process in trade under the current unidirectional form and the failure towards it in the Pacific. A unidirectional approach is more process based than outcomes. It is not applicable for the Pacific REI in trade. As a result, REI in trade for the Pacific region merits a different approach where the needs of the different countries are accounted for and also one that is based on outcomes instead of processes.

The key findings of the thesis which add to the literature of new knowledge in that the linear model of regional economic integration, proposed by Balassa’s (1961) theory is not the best applied approach for the Pacific. Furthermore, the research findings add value to the literature of knowledge by identifying an alternative approach on a multidimensional aspect for trade integration in the Pacific. The

This is used as a basis to develop an alternative framework for regional economic integration. The extension of Torrent (2003) approach for the Pacific encompasses a multidimensional framework of regional economic integration. This multidimensional framework provides a more practical approach for trade integration in the Pacific. It commences from trade in services, complementing sectoral agreements, institutional trade facilitation development and ends with trade in goods agreement. In other words, it provides for a mix and reversal process of economic integration in trade achieving the ultimate legitimate objective of any REI that is growth and development of a region.
<table>
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<tr>
<th>ABBREVIATIONS</th>
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<tr>
<td>ASEAN</td>
<td>Association of South Eastern Asian Nation</td>
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<td>ALBA</td>
<td>Bolivarian Alliance for the Americas</td>
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<td>APEC</td>
<td>Asia Pacific Economic Community</td>
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<td>ARIC</td>
<td>Asian Regional Integration Center</td>
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<td>AMU</td>
<td>Arab Magreb Union</td>
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<td>CARICOM</td>
<td>Caribbean Community and Common Market</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>ECOWAS</td>
<td>Economic Community of Western African States</td>
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<td>EC</td>
<td>European Community</td>
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<td>EII</td>
<td>Export Intensity Index</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>ES</td>
<td>Export Share</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>IS</td>
<td>Import Share</td>
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<td>MSG</td>
<td>Melanesian Spearhead Group</td>
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<td>PACER</td>
<td>Pacific Agreement on Closer Economic Relations</td>
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<td>PIC</td>
<td>Pacific Island Countries</td>
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<td>PICTA</td>
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<td>PIF</td>
<td>Pacific Island Forum</td>
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<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>REI</td>
<td>Regional Economic Integration</td>
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<td>ROI</td>
<td>Regional Orientation Index</td>
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<td>SACU</td>
<td>Southern African Customs Union</td>
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<td>TIS</td>
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<td>MERCOSUR</td>
<td>Southern Common Market of South America</td>
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<td>MTC</td>
<td>Micronesian Trade Committee</td>
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CHAPTER 1: INTRODUCTION

Different perspectives have been used to define the concept of REI. REI at one hand is associated with social integration whilst on the other has been included in international cooperation. REI also encompasses the basic existence of trade relations between countries as a sign of integration, whilst also have been pursued as a distinction between integration and cooperation. (Balassa, 1961, 174).

Economic Integration is a growing phenomenon. The practice of REI in the area of trade has been expanding over the decade in one form or another. According to Feng and Jenna (2003), economic integration is the most measurable and common form of integration. Another perspective of economic integration is defined by the neofunctionalists. The neofunctionalist approach relates regionalism with society. It perceives the society as a sundry group of interest that will benefit from the integration process. The theory further moves onto explaining the spillover effects of integration. It is of the view that integration is deepened from economic to political level. This will result in the emergence of the domestic political system. (Rosamand, 2001).

The neo functionalist theory also views the existence of a higher authority above the national states that would pave the right directions for the integration process. This high authority if guided by the state with wrong advice will lead to the failure of the state. In this theory, the integration process is premiered by technocratic elites.

The motivation towards REI is well justified through its traditional and non-tradition gains. The traditional gains from REI include trade gains, increased returns and increased competition and the increase in foreign direct investment. The non-traditional gains from REI include the ability of governments to pursue policies that are geared towards the improvement of welfare, provide a signaling effect to investors in being consistent and credible investment zone, provide greater coordination and bargaining power for small fragmented economies and enable countries to garner positive interactions and interdependency, thus reducing conflicts.
However on the downside, if a regional partner maintains a significant tariff it may well within the REI create diversion in trade leading to loss in welfare. The competition and returns to scale may also be derailed in very tiny markets thus negatively affecting the REI process. Moreover, market-enlargement and investment may also be adversely affected in cases where tariff uncertainty is prevalent. On the non-traditional side, the lock in policies within the REI may create further difficulties in implementing the rules and administering it. In addition, in the event of greater divergence than convergence in the REI, it may likely create more distortion and tension amongst members.

In other words, REI is a subject worth studying in particular from the assessments on the advantages and disadvantages, how different regions have paved integration is interesting to ascertain. There are different regional fragmentations in the world that have formed regional groupings in the bid to create or intensify REI and each is based on a set of model and or framework that determine its practical applicability and outcomes.

With the creation of the many different regional grouping around the world such as the European Union, the Association of South East Asian Nations (ASEAN), the MERCOSUR and the African Caribbean and the Pacific (ACP) group of countries, a critical issue that needs to be examined is whether a set model of integration is suitable for all countries or do different regions require different frameworks. Indeed from a practical point of view, with geographic dissimilarities, differences in the level of development and the different economic and social requirements of members from different regional groupings, the concept of “one size fits all” does not cascade in the realm of REI. Having said this, it does not discount the fact that most regions around the world have to an extent emulated the model of regional economic integration inspired by the European Union (EU) and by its predecessor and main foundation of the European Community (EC).
The European (better Western Europe) REI is premised on treaty, institutional independence, procedural code and acquis, budget, policy creation and management, visibility, common and harmonized policies, single market and extensive external relations and diplomacy based model of the REI. One of the reasons for the dominance of the European Community (EC) model of REI is due to the fact that it has been the premier and the oldest forms of REI. The association of EC with other regions such as the African Caribbean and Pacific (ACP) countries under the Economic Partnership Agreement has also influenced the regions demeanor of REI.

In the context of the Pacific, regionalism is defined by the three different axis of action, a) Regional Cooperation which involves the setting up of dialogues or processes between Governments; b) Regional provision of Public Goods/services, which involves pooling of national services e.g. customs, health, education, sports etc. at the regional level and c) Regional integration which involves lowering market barriers between countries. (PIFS, 2007, 4). According to Bela Balassa (1961), the model of economic integration is premised on the five unidirectional forms of integration which includes (1) Free trade area (2) customs union (3) common market (4) economic union and (5) political union. (Andrei, 2011).

Critics have pointed out the flaws of the Balassa model of linear REI. This linear model of REI as proposed by Balassa has failed in regions such as Africa. Hartzenberg (2011) undertook a study of the regional integration in Africa. His finding suggests that the African integration records have not been impressive. Despite the fact that Africa has done a large number of regional integration arrangements in sub-regional blocks such as the ECOWAS, COMESA, SACU and the EAC, there have been little efforts in principle to promote intra-regional trade and thus highlighting the inappropriateness of the linear model for African regional integration.

He further highlights the fact that the African architecture of the linear model principles has been a result of the engagement of the African continent with the European Union. The transition from the Lome Convention to Cotonou agreement and the ongoing Economic Partnership agreement (EPA) negotiations is a major determiner. The arduous
and tiring process of the difficult EPA negotiations reflects to some extent the variance between the African paradigm of regional integration and the EU’s model of regional trade agreements as well as challenges of the African regional integration.

Hartzenberg (2011) further accentuates the constraints encountered by the African continent in fully adhering to the linear model of the REI. Factors including interalia geography, per capita income, infrastructure, availability of resources, competitiveness, historical colonial powers and other non-tariff barriers are important factors to the REI process. He also highlights that in following the linear model of the REI, trade in services which may be important to the African continent. This, however, has received very little attention as it is only realized in the step wise common market stage. As such the linear model of REI process disregards what is important for a region based on the priority and is more process oriented.

It is imperative to understand the dynamics and the form in which REI has taken form in the Pacific as well. The Pacific small island states comprise of 22 countries and territories that are spread over thousands of islands in a vast geographic area of the Pacific that are divided by the Pacific Ocean. (Secretariat of the Pacific Regional Environment Programme, 2013, 4). The total population of the Pacific is about 10 million. There are 14 small economies of the Pacific from the Melanesia, Micronesia and the Polynesian region that are also members of the Pacific Island Forum.

To better understand the dynamics of the region, the Pacific can be further fragmented into the North and the South Pacific. Despite being a region, the North Pacific has different form and architecture when it comes to doing business then the South Pacific. The North Pacific comprises of the Freely Associated State that is made up of the Republic of Marshall Islands, the Federated States of Micronesia and Palau. The major market for the North Pacific is the United Stated of America (USA). The islands of the North Pacific are small island states that have an arrangement with the United States under the US Compact State agreement.
The United States provides special access to these nations in the North Pacific by giving them access to many of the US domestic programs such as disaster response, services of the National Weather Services, the US Postal Service, the Federal Aviation Administration, the Federal Communications Commission and privy to work, study and live in the United States. In addition to this, goods are also imported duty free from these countries into the USA.

On the other hand, the South Pacific consists of countries that are from the Melanesian and Polynesian group of countries which consist of Fiji, Papua New Guinea, Vanuatu, Solomon Islands, Tonga, Samoa, Cook Islands, Kiribati and others. These economies are structured differently and are mainly independent. There major source of revenue are from different forms of taxes in comparison to the North Pacific States where its dependence is heavily on US grants under the US Compact arrangement. Furthermore, the South Pacific is closer to the Australian and New Zealand markets and Economies such as Fiji and Papua New Guinea have a larger export base relative to other Pacific Island Countries.

Papua New Guinea by far is the largest economy with land mass of 462000 sq km and population of about 8 million. It is thus the largest by geography, population size and gross domestic product. The region is a mix of very small economies that consist of population of close to a 100-300 thousand people. These are smaller islands and atolls which include Tuvalu, Kiribati and the Cook Islands. Other economies of the Pacific though relatively small in size in comparison to other countries in the world, are yet larger in size then the small islands. Papua New Guinea, Fiji, Solomon Islands and Vanuatu are the largest economies in the Pacific and are sub-grouped as the Melanesian region. These dynamics will in the latter part of the thesis reflect on how the Pacific economies are unique in characteristics and therefore merit a tailor made framework for REI in relation to trade negotiations.

The Pacific, despite being varied in terms of the North and South are members of the common regional body the Pacific Island Forum. The Pacific Island Forum is a regional
association of 16 member countries of the Pacific including Australia and New Zealand that is a political grouping of the Pacific states. Annex 1 provides an indication of the population, economy, and land mass and gross domestic product of the small island states of the Pacific.

Prasad (2003) analyzed the economic structure of small island states using simple linear regression, concluded that export processing zone seems to be viable for a small island economy however such success is premised on political stability, good governance and free market access to developed countries. He further highlighted that commercial agriculture is not a model for small islands given its contribution to economic development being modest and has not aided in preventing rural poverty. In addition to the Prasad (2003) also offers solutions for services sector in particular tourism, offshore financial centers and remittances as conduit to growth for small island states in the Pacific.

Figure 1: Geographic location of the Pacific Island States.

Source: https://www.google.com.fj/search?q=map+of+pacific+island+countries+and+territories&tbm

There are six countries in the Pacific that are members of the WTO. These include Fiji, Papua New Guinea, Solomon Islands, Vanuatu, Tonga and Samoa. These economies either categorize itself in the small vulnerable group of countries or in the least developed group of countries. As per the classification of the WTO, economies that are
in the small vulnerable group of countries have less than 0.01% of global trade share. As a result for the Pacific region, competing in trade on a global scale is therefore an extreme challenge.

The economies of the Pacific find it difficult to operate alone in the global economy and the less developed economies encounter particular hurdles in its quest for prosperity. (Bowman, 2005, 1). The Pacific continues to face unique challenges which include interalia a small population size, resource constraints, distance from trading partners and markets, natural disasters and the negative impact of climate change. (UNESCAP, 2013, 1).

Prasad (2011) in his study on the critical issues of economic growth for the Pacific Island States further identified key constraints of the Pacific Island countries as natural disasters and poor infrastructure. However, Prasad (2011) also suggests that, deeper integration of the Pacific Island economies could mitigate the constraints such as customary land leases, deregulation of monopolistic structures and create the demand for good governance, transparency and accountability in the public sector.

Furthermore according to the United Nations Economic and Social Survey Report of April, 2013, the economic performance of the Pacific Island economies as a whole has declined in 2012. In relation to the external sectors, the Pacific Island developing economies face high and rising current account deficits, reflecting largely the low performance of merchandise exports. In addition to this, unemployment has risen due to an increased pool of young age population. This presents a major challenge for many economies of the Pacific which could have social and political implications if not addressed.

In the context of the Pacific region, given its geo-political and geo-economic dynamics and the change in the priorities of the region over the years coupled with its distance from the markets, low level of competitiveness, low GDP per capita and poor manufacturing and export base, it is important to assess the extent of applicability of the
linear model of REI i.e. Balassa’s theory of the REI (how workable is it in the Pacific), and if possible propose an alternative framework of regional economic integration, premised on the latest development of the Analytical Framework for Regional Economic Integration by Torrent (2003). The different regional integration that has been developed as a result of the different historic, geographic, political and economic factors have to adapt to the challenges of the future. (Moreno J, 2002, 73).

Torrent (2003) has proposed an Analytical Framework for Regional Economic Integration. Torrents’ analytical framework is premised on the notion that regional integration follows numerous paths which may lead in different directions and even if these paths do share some common elements, it does not necessarily follow the “five successive steps” of the Balassa model. In this case REI aims to strengthen social and economic preconditions in order to reach its end objectives using certain instruments. Thus Torrent (2003) model analyzes its development in terms of different dimensions which allows for the establishment of a typology of regional integration process.

The Chair of the Review Committee for the Pacific Plan during his presentation to the Pacific Island Forum Leaders meeting in Majuro, Marshall Islands in September 2013 also articulated similar sentiments. The preliminary findings of the consultations accentuated two very clear thoughts (i) “the compelling need for greater regional cooperation and integration across the Pacific” and (ii) “the region is at the cross roads of needing regionalism more than ever before.” (Pacific Plan, 2013)

To date, the Pacific as a region has been engaged in negotiations through regional trade agreements in the bid to pursue REI. However, it has been over a decade, the Pacific has experienced very limited outcomes from the REI. The Pacific is still negotiating the Economic Partnership Agreement with the EC. The latest ACP Press Report dated 18 July, 2013 highlights that the EU has currently suspended efforts to settle a trade deal with the 14 members of the PACP bloc despite demands from the region to wrap up negotiations by end of the year. The reason for the suspension is due to the fact that both the Pacific and the EU are unable to resolve “serious divergences” in the last round of
talks on the EPA. The divergences were over the fisheries management, fisheries access and global sourcing provision within the EPA among others. (ACP Press, 2013, np). The latest development on the EPA is the recent correspondence from the EU to the Pacific countries has been the demand to comply with the EC conservation and management measures as a condition for the region to have global sourcing for fresh, frozen and chilled fish. The negotiations are still ongoing and both parties the EC and the Pacific are yet to have another meeting in 2014 to discuss this further.

As a result, in view of the proliferation of regional trade agreements in the Pacific region (PICTA, PACER, EPA, MSG) and recognizing the failure in negotiations with other regional partners it is evident that the Pacific region still lags behind in so far as the real material use of the trade agreements concerned. As a result the key objectives of this research are as follows:

To determine whether the current REI framework premised on Balassa’s theory of is practical for the Pacific or not;

1) To explore an alternative framework for regional economic integration suited for the Pacific region based in Torrent (2003) approaches; and

2) To ascertain the applicability and or non-applicability of Balassa’s theory of the REI for the Pacific.

Furthermore in fulfilling the above objectives, the following assessments will be taken into consideration:

1) an analysis of the flow of trade using regional economic indicators for the Pacific under the Pacific Island Countries Trade Agreement (PICTA) and the arguments thereof for the failure of the regional negotiations and the need for the alternative framework of regional economic integration;
2) an analysis of the existing models of REI (i.e. EC, the ASEAN and the Pacific) and the Analytical framework of Regional Economic Integration proposed by Torrent (2003) and

3) the proposal for a suggestive alternative framework for regional economic integration derived from the proposed Analytical Framework of Regional Economic Integration by Torrent (2003) for the Pacific. (i.e. an extension of Torrent 2003 approaches).

The deliberation from this thesis is aimed to aid trade negotiators and trade advisers to evaluate the existing strategy for trade negotiations and will create cognizance in the Pacific region at large of the multidirectional approach for regional economic integration as opposed to the unidirectional form by Balassa. The multidimensional approach aims to achieve better results in trade negotiations leading to more practical free trade agreements that will lead to the aggregate growth for the Pacific region at large.

At the end, the rest of the theses are as follows:

1) **Chapter 2: Literature Review**

Chapter 2 provides an overview of the literature review of REI. In this chapter a detailed literature review on REI is examined. It commences with defining regional economic integration using the neofunctionalist, neo liberal and neoclassical theories and further distinguishes between positive and negative integration approaches. The literature also examines Balassa’s theory of regional economic integration and provides criticism on the theory. This section further analyses the alternative models proposed by different scholars such as the Bolivarian Alliance for Peoples of our Americas (ALBA) model of integration and the Torrent (2003) approaches.

In studying the literature on regional integration, it is also important to study the factors related to regional economic integration. As such chapter 2 further studies the literature in this area by assessing factors contributing to regional economic integration in different regions including the ASEAN and the EU. It further adds
onto the different studies conducted by various scholars of the REI and the results and findings of the studies. Finally, Chapter 2 analyses regionalism in the Pacific by first of all defining the features of the region, assessing the fundamental constraints encountered by the region and also shedding some light on the initial Pacific Plan and the current review of the Pacific Plan in 2013. This highlights the failure of regionalism in the Pacific. To provide further impetus to the literature of work, the final section of the literature review also takes into account of the views of prominent authors that distinguish further limitations of regional economic integration.

2) Chapter 3: Regional Economic Integration: An Analysis of Trade in Goods

Chapter 3 provides an analysis of the REI process using the regional economic indicators. The chapter is divided into two major sections. Section 1 of the chapter will analyse the extent of regional economic integration in the area of trade in goods between the Pacific Island countries which include Fiji, Papua New Guinea, Solomon Islands, Vanuatu, Samoa and Tonga. Section 1 will also discuss in detail the methodology applied for the assessment and the rationale behind using the export intensity index, the trade intensity index, the import share, the export share and the regional orientation index for the analysis. Section 2 of Chapter 3 will further examine and analyze the level of REI by assessing the trade relationship between the six Pacific Island Countries against the non-Pacific members. As a result, chapter 3 will assess:

(i) the magnitude and direction of trade in goods between the six Pacific Island countries trading under the Pacific Island Countries Trade Agreement; and

(ii) whether the formation of a free trade area (FTA) is a necessary first step and or conduit for the Pacific Island countries to move towards regional economic integration as proposed by the linear/unidirectional model of Balassa’s theory.
3) **Chapter 4: Rationale for the non-sequential approach of REI in the Pacific**

Chapter 4 builds onto the analysis from chapter 3. The findings from chapter 3 allude to the fact that within the Pacific region the commencing point of the regional economic integration from tariff liberalization is not practical. As such, Chapter 4 examines the economic reasoning behind this and provides further clarity and justification as to the rationale on why the formation of a free trade area and a customs union is not the commencing point for Pacific REI.

4) **Chapter 5: Comparison of the EU, the ASEAN, the Pacific REI process.**

Chapter 5 provides a comprehensive analysis of cross regional dynamics in the area of regional economic integration. Building onto the analysis from Chapter 4 on set areas i.e. the objectives of the REI for the Pacific, the external dimension, the effective content, the strength of the REI and the dynamism and capacity of adapt, this chapter undertakes a comparative analysis between regions. In pursuing the comparative analysis the European Community (EC) and the ASEAN model of the REI is compared against the Pacific. The comparisons will enable one to ascertain the similarities and differences which exist in the models. The EC and the ASEAN models of the REI process are used for comparison and both these models are widely publicized and debated on in the field.

5) **Chapter 6: Framework of the Regional Economic Integration for the Pacific.**

Chapter 6 is divided into two sections. Section 1 of chapter 6 provides factual justifications on the importance of trade in services liberalization as a first step towards the REI for the Pacific. On the basis of section 1, section 2 provides an alternative framework model for the REI in the Pacific, examining in depth Balassa’s theory of REI, proposing an alternative framework for REI based on Torrent (2003) approaches. The chapter also provides justifications as to reasons why Balassa’s theory of REI is not fully applicable in the context of the Pacific.
6) Chapter 7: Conclusion, Recommendations and further research

Chapter 7 discusses the conclusion and recommendations of this thesis. On the basis of the analysis of the previous chapters, this section in principle provides a summary and also recommends the need for Pacific to consider the proposed alternative framework of the REI process. The new framework for the REI process is more practical and conducive for the Pacific and an extension of Torrent (2003) approach.

One of the major limitations of this research had been the collation of data. Due to unavailability and insufficient data from the Pacific countries, alternative sources of data from the Asia Regional Integration Center, the World Bank and the International Trade Center has been used for the purpose of the analysis. Data from these sources are credible and used widely as secondary source of information.

Nonetheless, the research merits consideration given that it brings to the Pacific region an approach towards REI that can be applied more practically with tangible outcomes for the region. The research develops the extended approach by examining the diversity of the Pacific region.
2.1 Definition of Regional Economic Integration

Economic integration has been a common phenomenon and a means for developed and developing countries to increase their trading boundaries. Scholars have held many different perceptions in defining the term. Some of the proponents of economic integration associate this closely with social integration and international cooperation issues whilst others have opted to distinguish the latter from the former. (Balassa, 1961, 174).

According to Feng and Jenna (2003), economic integration is the most measurable and common form of integration outside the European Union (EU). This is due to the fact that political integration is difficult to achieve due to the difficulties relating to binding legislation, transfer of sovereignty and supranational institutional structures. As a result, integration to some is a Community (EC) model which is characterized with a treaty base, institutional independence, procedural code and acquis, budget, policy creation and management, visibility, common and harmonized policies, single market and extensive external relations and diplomacy which is a more complex form of regional integration.

REI is also closely related to trade diplomacy and enhancing political relations. Deep arrangements within a regional integration might assist in political relations between member countries by establishing a means to avoid conflicts with neighboring countries. The negotiations between neighboring countries provide for the trust and understanding of members in a region thus enabling countries to take consensual actions. (Schiff etl, 2003, 192).

Moreover, regional integration is also used as a shield to deal with external threats by a nation. According to Viner (1950), in order for a country to deal with external security threats, the need to form an alliance independent of trade preferences is vital. However, in forming such alliance, Viner (1950), starting with a trade pact, premised on the view
to form an economic union amongst the weak may eventuate into a political union, that would be strengthening forces.

Regional integration and strengthened alliance of small nations also have a positive correlation. This is applicable to countries that often encounter severe disadvantages in terms of low bargaining power and high negotiation costs with the rest of the world. Thus small countries can reduce negotiation costs and at the same time increase the market and negotiating power by pooling resources in a coordinated manner where common interests prevail. (Andrimananjara etl, 2001).

Baldwin (1995) further introduced the term of regionalism to be called “domino regionalism”. This simply means that countries join into a regional integration agreement or develop new ones as a result of the creation of an existing one. In other words an act of a regional integration process leads to the next.

The main incentive for the creation of domino regionalism is to prevent oneself from being outside a bloc when every other member is inside. This is in fear of ones terms of trade being deteriorated or an intimidation of trade war that would close the market. (Schiff, 2003, 236).

According to Nesadurai (2002) regionalism is interpreted as an instrument for countries to pool resources so that the international political economy can be influenced. The types of regionalism that emanate from globalization is determined by the dynamics of the domestic political economy which is focused on the tension between growth/efficiency on one hand and distributive priorities on the other.

Moreno (2002) relates regional integration as a phenomena and suitable response to globalization. This is accentuated in the context of the political sphere where states have to decide to develop forms of cooperation and common integration in order to strengthen regional ties.
Moller & Woodland (2006) discussed the theoretical concept of open regionalism. They argue that one difference of open regionalism is a non-preferential group of countries that consent to coordinate its non-discriminatory tariff policies and undertake internal income transfers. This non-preferential group according to Moller and Woodland (2006) is consistent with the ambitions of the WTO in that in any arrangement made, members’ welfare is improved without any harm to the welfare of the rest of the world.

The neo functionalist theory associated regionalism with the society. It perceives the society as sundry groups of interest where the integration process will benefit the group. The theory further explains the notion of spillover as a means through which integration is deepened from economic to political and as a result the formation at an integrated state union that has characteristics of the domestic political system will emerge. (Rosamand, 2001).

The neo functionalist theory also views the existence of a higher authority above the national states to pave the right directions for the integration process. This high authority if guiding the state with wrong advice will lead to the failure of the state. In this theory, the integration process would be premiered by technocratic elites and thus the governance of the union is not premised on ideological grounds, but on the practical satisfaction and interests of technocratic expertise.

Murray (2008) on the other hand believes that regional integration encompasses economic, political, security, legal and social aspects. Scharpf (1996) provides the distinction between positive integration and negative integration theories in the context of the European integration process. According to Scharpf, negative integration comprises of the elements of market making and market correcting policies. In other words it follows the rationale of the common market and therefore entails a deregulatory or market making nature.

These interventions against national barriers to the free movement of goods, persons, capital and services in the negative integration process reduce the barriers to the free movement of goods, persons, capital and services. This as a result reduces the range of
national policies choices and represents the primary loss of political power over the capitalist economy. (Scharpf, 1999, 70-71).

In contrast to this, positive integration on the other hand, comprises of the attempt to regain some power by the political system through society and market re-regulation. These cater for the detrimental impact that may result from the liberalization process when complete power is granted to the market. These in particular include the impact of free movement of goods, persons, capital and services. These require a certain magnitude of re-regulation, in other words, having a market shaping attribute. The further market re-shaping involves the creation of new institutional models at the domestic level to regulate in such areas as consumer protection, environment policies, safety of workers etc. (Scharpf, 1999:45).

Tinberg (1954) provide a much simpler definition of regionalism categorizing it into positive and negative integration. According to Tinberg (1954), positive integration relates to the positive efforts of coordinating integration whereas negative integration involves the removal and limitations of policies.

According to the WTO Secretariat (2003), given the current era of regional agreements, there are two broad patterns that are emerging. The WTO members that traditionally were dependent on the multilateral trade regime are increasingly joining regional agreements to promote trade. The other pattern witnessed is that a number of region and continent wide mega trade blocks like the Free Trade Area of the Americas (FTAA) or the Euro-Mediterranean FTA are being negotiated. These negotiations will result in a significant share of global trade flow to be diverted through these trade blocks.

The influx of regional trade agreement as a result has welfare impacts of Regional Trade Agreements (RTAs). Viner (1950) has introduced the concept of “trade creation” and “trade diversion” and concludes that liberalizing trade at a regional level is unambiguous. He believes that RTA’s can either lead to trade creation or trade diversion. If in the event, that members of an RTA, switch from inefficient domestic producers and
import more from the efficient producers from other members of the RTA, then efficiency gains lead to production and consumption efficiency. However, the opposite is true in terms of trade diversion, where members switch imports to low cost producing countries in the rest of the world and from the countries that are high cost producers. As a result, trade diversion will reduce the overall welfare of the partner countries and the rest of the world.

Summer (1991), however is of the opinion that regional trade agreements are more welfare enhancing as trade diversion is only likely to have a gentle impact on parties. Furthermore, Lipsey (1957 and Summer (1991) also base their arguments to say that if the member countries are geographically close and are natural trading partners, the risk of trade diversion is minute. Similar sentiments in these regard has been expressed by Krugman (1991), Frankel (1997), Frankel, Stein and Wei (1995), Frankel and Wei (1997).

On the contrary, Bhagwati (1995) and Panagariya (1996) hold a different view. According to these scholars, trade diversion is likely to supercede trade creation in almost most situations. Trade diversion according to them is inevitable in the case when countries import from and export to union members and countries outside the union. Furthermore, they also assert that if members of a regional trade agreement are small in relation to the rest of the world, very little trade creation will take place. As a result under the latter condition, trade diversion has dominant effect.

- **Balassa’s theory of Regional Economic Integration**

Balassa’s theory of REI coincides with the neo-liberal school of thought. However, the theory provides a process based approach in terms of identifying the steps which a region may undertake to achieve REI. According to Balassa (1961) the concept of economic integration can take several forms that represent varying degrees of integration. These are transposed into five steps which comprise of a free trade area, a customs union, a common market, an economic union and complete economic integration. In the first stage i.e. in the free trade area, tariffs and quantitative restrictions between countries concerned are
eliminated; however, each country has the right to retain the tariff toward non-members. In the second stage of the customs union, aside from the suppression of discrimination in the field of commodity movements in the union, there has to be harmonization of tariffs in trade with non-members.

A much higher method of economic integration is obtained in a common market where not only trade restrictions but also the factor movement’s i.e. labour restrictions come into play. The fourth process of an economic union, as opposed to the common market, combines the suppression of restrictions on commodity and factor policies, in order to remove discrimination within policies. The final process where total integration is expected to be achieved aims to unify monetary, social and countercyclical policies and thus the establishment of a supranational authority whose decisions are binding on member states. (Balassa, 1961, 175).

- Criticism of Balassa’s Regional Economic Integration Process

Andrei (2012) critiques some major flaws in Balassa’s theory of economic integration. The theory has major flaws as it did not approach the fiscal aspect of the economic integration process. Secondly, Balassa has overlooked the concept of a common currency which was equivalent to the monetary union stage in its proposed model. Mundell (1961), on the other hand has premised his arguments on the formulation of an optimum currency area to that of factor mobility in particular, labour mobility.

Mundell’s argument further provides insights that if an exchange rate regime in a region results in unemployment in one fragment of the region, or if it compels another part of the same region to accept inflation as the remedy for unemployment, then the regime is not optimal. In other words according to Mundell, the optimal currency area is not feasible. In other words, Mundell drives the notion that in the case in which a region has a high degree of labour mobility, the region has a fixed exchange rate. In such cases, another mechanism
of adjustment is required to restore equilibrium. Mundell therefore has proposed labour mobility to be that adjustment mechanism that may bring the balance of payments back into equilibrium.

Andrei (2012) further conceives that integration can occur in two stages namely the “incipient integration” and the “advanced integration”. The incipient integration is based on a customs union along with a free trade area which is the key to economic integration.

Other proponents of the REI such as Hurrell (1995) asserts that the five forms of integration include the regional, societal, regional awareness and regional identity, inter-state cooperation and an aggregation of regional blocs of the EU. According to Van Langenhove et al. (2006), caution should be applied when considering the steps towards economic integration as these steps should not be considered as a preconceived measure. He further asserts that the EU integration process has had poor political leadership and economic sclerosis. As such, it is better to examine the chronological approaches and discuss old and new regionalism and examine the pattern. This notion is supported by Deiter (2001) views that successful regionalism is premised on “genuine leadership”.

The Bolivarian Alliance for the Peoples of our America (ALBA) is a model of integration launched in 2004 as an alternative of the integration to the one based on free trade and the neo-liberal policies. ALBA’s current membership includes eight Latin American and Caribbean countries which has a combined population of 70 million. ALBA was pioneered by Cuba and Venezuela as a Bolivarian alternative to free trade agreement. ALBA is based on the principles of cooperation, solidarity, complementarity and sovereignty. This model aims to address most of the criticism that has been put forward on the neoliberal integration. Issues such as those pertaining to the role of state and policy space are addressed.
In this model, the tariff protection for the infant industries are allowed, the public procurement is seen as a tool for development, the intellectual property rights are subordinated to the right to development and health. In addition, the basic social services are implied to be separated from privatization and commercialization. It also has special treatment for the indigenous enterprises; a concessionary treatment of smaller and weaker economies and the rights of labour is also recognized. In addition to this, the financial and social cooperation is key to the ALBA model and is not linked to relations driven by trade liberalization. (Girvan, 2010).

The most recent, Torrent (2003) had proposed an Analytical Framework for Regional Economic Integration that shows that REI does not necessarily have to follow a unidirectional path by way of the five successive steps as proposed by Balassa. Torrent further uses the examples of NAFTA and MERCOSUR. He shows how NAFTA formed a common market without entering into previous stages while MERCOSUR has moved upon political union without advancing to common market.

Torrent (2003) therefore proposes a framework of the REI which aims to build social and economic preconditions to reach the objectives by using certain instruments. The development within the REI is then analyzed by its different dimensions which allow for the establishment of a typology of the regional integration processes.

2.2 Factors related to REI

The factors leading towards economic integration are also core to the decision of whether Balassa’s theory is applicable in different settings and on its validity to the Pacific region. Chand (2004) highlights the smallness of domestic markets and the small size of the Pacific economies that leads to minimum efficient scale of production. As
such given the different economic structure of the Pacific economies, REI has to be examined from different lenses.

Krugman (1993) perceives regionalism to be an easier substitute due to the failure of the multilateral trade negotiations. Regionalism according to Krugman reduces the cost of non-cooperation and creates certainty in the trading system. Furthermore, according to Krugman multilateralism creates complications in negotiation and thus most countries find it easier to deal with bilateral and regional issues.

However, Bhagwati (1993), Panagariya (1996) and Bergsten (1996) hold a different perception. These authors believe that the shift towards regionalism is a direct result of the move by the United States of America from supporting multilateralism to regionalism. As a result many developing nations, due to fear of being excluded participate in regional trade agreements. Countries that cannot be part of the larger free trade agreements, attempt to create their own by joining a regional trade agreement between the excluded members. This as a result creates a bandwagon effect in that no countries want to be left out.

Similar sentiments are shared by Baldwin (1995,1997) but with a slight difference. He explains the “domino theory of regionalism”. Despite the fact that countries rush to join regional trade agreements due to fear of exclusion, however regionalism is not a result of countries losing faith in the multilateral system or the United States of America adapting to regionalism. He believes that the surge of regionalism is a result of individual events which has multiplied many times over by domino effect. For instance the announcement of the United States-Mexico free trade agreement resulted in the North American Free Trade Agreement (NAFTA) and countries requested for membership. Thus these events had domino effect.

Ghosh (2004) provides another perspective to regionalism. According to her, the motivation for regionalism in particular for the United States of America and the European Union has been the influence of massive capital that compels the developing
countries to make deeper trade and investment commitments. For the developing countries the real motivation to forge regional grouping is to prevent domination by the larger developed countries.

There have been several studies undertaken on the basis of the Agreement of the South East Asian Nation (ASEAN) and the European Commission model which identify the context in which the integration occurred. The reason behind East Asian moves towards regional integration was due to the concern of the North America and Europe’s momentum since the Cold War.

Secondly, there had been greater frustrations with the pace of the US unilateralism which led to new commitments in the multilateral context and finally the need to have mechanisms for effective cooperation based on geographical distance and a need to reduce transaction outlays. (Choppaparu, 2005, 133).

The EC case of economic integration had been attributed to different causes. These include (i) the increased deployment of modern scientific and technical evolution which had contributed to the rapid increase in production in most developed countries. This led to the limited capacity of domestic market to absorb the capacity which therefore required the widening of sales of production and economic integration, (ii) the global competition that led to increased production and capital concentration and the search for new markets due to the restrictions imposed at the national borders. As a result the movement of capital became a prerequisite, (iii) the rapid developments of the United States of and Japan had an impact on the production of European countries to jointly promote new ideas and technologies and defeat competition and (iv) the desire of other developed countries to foster relations with former colonial states. (Marin et al., 2009).

Furthermore, some scholars are of the view that there should not be comparative views of regional integration. In his findings Murray (2004) asserts that the process of integration of EU is attributed to changing international landscapes, security agenda and ideologies. The question on whether or not the EU model replicates a model of politics,
economics or society is an open ended question. As such he argues that the challenges in
comparative regional integration are the potential of falling into the trap of assuming
certain pathways which is proven for the European Union but may not be true for other
regions.

The formation of the European Commission into the European Union may lead towards
an undefined point of integration and incorporation of countries. However, there was no
set framework and no single model for integration. The process has been time
intermittent and time sclerotic. According to Schmitter et al (2008), there is no dominant
theory of how and why the European integration works.

The notion of different integration context is also supported by Chuen (2003). Chuen
perceives that institutional structures also create the difference between Asian and the
European integration. The East Asian countries have a history linked with communist
rule and democracy and as such sovereignty is not pooled. The legal system is based on
fundamentally different practices and the social cultures make a regional rule of law
principle difficult to achieve.

2.3 Regionalism Versus Multilateralism and Related Studies

In addition to the different underlying theories attributing to REI, the literature
accentuating the synergy and competition between regionalism and multilateralism
merits discussion. Bhagwati (1994) examines this argument on whether regionalism is a
building block or a stumbling block vis-à-vis multilateralism. There are two schools of
thoughts in thes debate. According to Krugman (1991) and Summers (1991), regional
trading blocs enhances welfare without contributing to any adverse impact on the
multilateral trading system. Summers views the world to be divided in to a small number
of trading blocks. The small number of trading blocs according to Summers prevents the
delimma of free rider system from the multilateral system.
On the contrary Panagariya (1998) challenges this notion by alluding to the fact that it is in principle unclear whether free trade agreements have an effect on the members in the region. His reasoning is because in a free trade agreement members retain their own external trade barriers and at the multilateral level tariffs are negotiated individually. The sentiments of Krugman (1991) and Baldwin (1991) is also extended by Ethier (1998) and Lawrence (1999). These individuals also do not foresee regionalism as a threat to the multilateral trading system but a complement. Baldwin asserts that given the fact that trade has been freed by major partners multilaterally; there is very little regional liberalization that is capable of creating anti-liberalization forces.

Baldwin (1994) has a differing view in so far as South-South free trade agreements are concerned in that the results of these alliances may be different. Ethier (1998), discusses the current form that regionalism is taking place and asserts that the form does not threaten multilateralism. He views regionalism is more a contributory step toward multilateralism and as a result regionalism will not harm multilateralism.

On the contrary, conventional regional economist such as Bhagwati (1992,1994), Krueger (1995) and Bhagwati and Panagariya (2003) are of the view that preferential trade agreements are basically discriminatory in content and as a result the shift towards the preferential trade agreements is seen to be a major threat to multilateralism. Bhagwati and Krueger further add that the rise in regionalism is dangerous because it leads to inter block trade wars and domination of small countries by bigger partners in the regional blocks which as a result reduces the enthusiasm for partner countries to participate in multilateralism. As a result, the regional trade agreements divert attention from multilateral trading block. They further believe that the structure of the preferential trading agreements lead to trade discrimination and thereby affect the multilateral trading system.

Bhagwati further argues that the proliferation of the preferential trade agreements may result in the complex system of regulatory structures and preferences where market access for products in a country will differ widely depending on their origination is the “Spaghetti Bowl” dilemma. It is likely to lead to complexity and lack of transparency in
the global trading system. Bhagwati and Panagariya (2003), further argue that by pushing aggressive treaties in trade on a bilateral basis, the developed countries are further weakening the power of the developing countries.

In a regional trade agreement between a developed and developing country, the former often manages to include aggressive trade liberalization clauses, investment protection clauses and superfluous issues in the treaty. If abandoned objections about these issues occur in a bilateral level, the developing country cannot resist these issues on a multilateral platform. This works in two ways, one it assists developed countries to pursue these issues in the WTO multilateral forum and also at the same time break the alliance of developing countries in the multilateral negotiations.

Neumann (2009) in his study on the prominence of regional trade agreements and the multilateral trade rules of the WTO suggested that regional trade agreements is a complement to the multilateral trading system. He further asserts however, that despite its advantages and disadvantages, regionalism cannot be denied in the current global trading regime with the likelihood that more countries will intensify regionalism in the near future. In this connection, if a very high proportion of global trade gets diverted through the regional mechanisms, the WTO is bound to lose some of its relevance in the global trading system. He has also cautioned that if the world will be divided into few mega blocks, then the weakest countries will be marginalized.

The analysis by Plummer et al (2006) shows the difference between the ASEAN and the EC integration and the context in which the integration occurred. The difference included (i) the institutional environment facing ASEAN in the first decade which is different to the EC in the 1950s, (ii) the diversity of the ASEAN in terms of economic development compared to the EC and (iii) the degree of openness of the ASEAN compared to EU in the 1950’s.

Krugman (1991) in his analysis showed that the worst regional integration agreement in the world is of three types, including one with few large blocs with more trade and tariff
being free. Krugman findings further suggested that in reality there are more trade diversion and blocs that have greater bargaining power. These blocs raise tariffs against each other that has detrimental effects. As such Krugman suggests that a single bloc is best as it would mean global free trade. However, Krugmans results have flaws in that he only analyzed customs union, but most regional integration agreements are free trade area in which members maintain its own external tariff regime. (Schiff, 2003, 225).

In terms of regionalism and tariff levels, Bond etl (1996) suggested that, commencing from a worldwide free trade, the introduction of regional integration agreements and allowing it to expand creates two countervailing forces, the incentive to cheat and the welfare loss. In Bond etl (1996) modeled the welfare loss dominates, with the result that it is difficult to maintain free trade in a bloc-ridden world. In other words, Bond etl (1996) emphasizes that regionalism exerts pressure for protectionism.

Manzano and Bedano (2011) in studying REI for the Asia Pacific Economic Cooperation (APEC) developed a modality for the region at a sectoral level as an alternative to the Free Trade Area of the Asia Pacific (FTAAP). The model developed has been an extension of Wonnacott (1994). It argues that the liberalization on a Most Favoured Nation (MFN) principle in which includes APEC members that are principle suppliers.

Warner (2012) undertook a comparative analysis between the Pacific and the Caribbean integration. His study found out that there are many differences between the two regions despite the fact that the two regions are often grouped together. The Caribbean Common Market and Community (CARICOM) is much closer to the larger markets and are not as geographically fragmented as the Pacific. Most of the CARICOM states are better resourced with skills and stronger entrepreneurial base then Pacific island countries.

Warner (2012) finds that in spite of the fact that there may be merits in various approaches to regional integration and that some of the approached have been influenced by the EU model, it is unclear whether the logic of the European model is applicable to the Caribbean and Pacific integration. For both regions, the merits from trade and
investment liberalization are small and these agreements do not deliver enough benefits to build confidence and the required support for a broader integration agenda. As a result, a collective negotiating arrangement with external partners is unlikely to be the pathway to either strengthening regional coherence or reaping the gains from trade and open capital markets.

The lessons drawn from the Caribbean is that groups with strong historic and cultural ties can progress where the larger regional groupings are struggling. Another lesson from the Caribbean is in matching the scope and the ambition of the integration agenda to political and capacity realities. The CARICOM is often critiqued for adopting mandates which do not coincide with its implementing capacity. Most of the decisions of the Caribbean have used a top down approach making it difficult for decisions to be adopted at national level.

According to Draper (2010), in his study on African integration, his findings concluded that many of the states of the Sub-Saharan Africa do not have the capacities to manage development processes, nor have the ability to engage in the complex institutional forms of economic integration aligned to the EU model of integration. Draper (2010) further asserted the view of the willingness to replace “hard sovereignty” with “soft sovereignty”. This as a result may lead to the good governance agenda. However, he emphasized that for such agenda to be achieved; it has to be premised on intergovernmentalism and not on supernatural structures that demand major sovereignty concessions. He further argued that for the Sub-Saharan African countries, in so far as REI is concerned. A different approached would be more appropriate than the formal European Union method.

Draper (2011) provides more insights into the African Union integration. He points out that the African economic integration suffers from multitude of problems, ranging from the issue of overlapping of memberships, unfulfilled commitments and over ambitious goals. As such Draper (2011) proposes to the policy makers to reconsider the basic foundations on which integration is based whilst being cognizant of the strong European ties. Draper (2011) has further criticized the dominant European model of economic
integration for the Sub-Saharan African region. He also asserts that the dominant European procedures would do more destruction than good to the Sub-Saharan African region.

The European Union’s approach towards REI has not been always successful and thus provides mixed impressions in the African continent. In particular the trade policy aspect of commitment has often created frustrations in Africa in particular with the contention of the Economic Partnership Agreement. There have also been wide differences on whether the EU model of integration has served its purpose. In the case of Africa, it is explicit that regional integration in the region should follow its own pace and on its particular economic and political interest endogenous to the regions priorities. (Bilal etl, 2011, 16).

Mapuva (2013) identifies with the problem of overlapping and concurrent membership by the South African Development Community (SADC) member states is an impediment towards the REI. Overlapping is an issue as member states concentrate on individual economic interests without working as a region. Thus multiple memberships with overlapping effects results in further inconsistencies in the economic policies of countries. Mapuva (2013) also highlights the problem of over ambitious forecasts of liberalization of intra-regional trade in the SADC region via a customs union and a common regional currency area.

On the more limited areas of the effects of regional integration on trade, different perspectives have been applied, from the very beginning until now of the European integration. Verdoorn and Janssen (1954) analyzed the impact of the elimination of internal tariffs in the union on trade flows and on the terms of trade. In doing so, they had applied a general equilibrium framework in their investigations. However, their work had been subjected to criticism as they have underestimated the prospects of trade creation. They failed to account for the intra-industry specialization following the elimination of tariffs within a union. On the contrary, another study undertaken by Krause (1963) seems to have done the inverse in over-estimating the trade diverting
effects of the European Common Market for United States exports by assuming a high
elasticity of supply for the key firms within the European Commission.

Lamfalussy (1963) further studied regional integration by comparing changes in share of
the European Commission as a proxy of import market with the exports of participating
non-members of the community. In doing so he had considered the fluctuations in trade
flows between 1958-1960. His findings did not provide clear evidence of either a
positive or negative effects on trade integration in the common market.

However, according to Waelbroeck (1964), comparisons should be made between the
actual and hypothetical trade flows to provide a more accurate conclusion. Abedelaziz
(1997) assessed the significance of economic integration among developing countries
taking the Arab Magreb Union (AMU) as a case study. His findings suggest that the
import expansion effects of the AMU, in total and by commodity as seen from the
perspective of Algeria are modest.

Baldwin (2011) studies provide an in-depth analysis of the sequencing effects of
regional integration by comparing the economic integration processes of Europe and the
ASEAN integration. The findings of Baldwin (2011) study further suggests that the “The
European experience very clearly shows that nations will only accept losses of policy
autonomy in line with the political-economy gains of doing so. As such the lessons of
Europe suggests the concept which Baldwin terms as “No pain, No gain”. In contrast to
this, the economic integration of the Asian region is de facto already and is quite
advanced in East Asia, so the gains from standard regional integration-the elimination of
tariffs on intra-regional trade would be modest. These modest political-economy gains
tell us that any institution must also accept the best modest sovereignty loss or the so
called “modest gain, modest pain”.

Furthermore, deeper trade integration in the European case requires the establishment of
supranational institutions. This involves the removal of commercially important behind
the border barriers (usually the technical term is “non-tariff trade barriers”) for different
product standards to accrue economic benefits. However, this is not a realistic option for Asia although harmonizing the product standards in the automobile sector in Asia accrued substantial economies of scale. (Baldwin, 2011, 57).

Moreover, in so far as regional institutions are concerned, a strong regional institution resulted in sovereignty transfer in the European sense. This, however, seems unrealistic in the Asian integration. With the varied monetary preferences and economic divergences in Asia, such an arrangement would very likely start operating asymmetrically. (Baldwin, 2011, 57).

In addition to this, Baldwin (2011) also points to the difficulties in sequencing trade and monetary integration. From the European experience there is a two-way relationship between higher trade flows and more stable exchange rates. However, this relationship is asymmetric. An increase in the bilateral trade has a vital first order effect on bilateral exchange rate stability. In contrast, exchange rate stability has modest pro trade effect even when stabilization leads all the way to currency union. As a result, stabilizing exchange rates may trigger a feedback mechanism that favors future trade integration which is weak. (Baldwin, 2011, 58).

There have been several empirical studies conducted by various authors in the different hemispheres pertaining to regional integration issues. All of them have looked at different aspect in the context of the various countries. Within the Western hemisphere covering the countries such as Canada, United States of America, Chile, Argentina, Brazil and Colombia see Brown, Deardorff et al (1992, 1995), Burfisher, et al (1992), Lewis, Robinson and Wang (1995, 1996). For the study on European integration see Liapis and Tsigas (1998) and for Asia see Brown, Deadorff and Stern (1996) and Coyle and Wang (1998).

A more general study on regional integration has been conducted by Benjamin (1994) in which he studied 10 countries (United States of America, Canada, European Union, Japan, China, Asia, Australia, New Zealand, South East Asia and the rest of the World).
His studies apply the multi-country computational general equilibrium (CGE)) model to stimulate the effects of multilateral free trade agreements against the variety of regional trade agreements formed with different combinations. The key results of his study suggest that regional trade agreements mostly create trade and increase global welfare.

However, there can be a notable trade diversion and not all countries in the world are beneficiaries. The larger and more developed economies fare best under wide-spread liberalization. The increased trade volume between potential partners leads to strengthened benefits to the bloc partners and greater gains are accrued from tariff reductions.

Burfisher, et al (1998) looked at North American Free Trade Agreement (NAFTA) countries (Canada, United States of America and Mexico) and created a scenario of events to study the effects of domestic farm policy reforms. The findings of the study concludes that trade creation exceeds trade diversion.

According to Dent (2001,) in his study he examines the ASEAN and EC integration and asserts that caution should be exercised. The ASEAN development is different from the EC. ASEAN is attributed with informal discussions with few formal systems for political and economic reasons.

In contrast this was not the case for the EC. ASEAN integration also did not involve the transfer of sovereignty. The EU objectives were region centered whereas the East Asia integration was state centered. The ASEAN principles are also based on the policy of non-interference in the domestic affairs of its members; it does not have a supranational institution and no common treaties as the EC. There is no ASEAN court of Justice but a secretariat.

Torrent and Molinevo (2005) have attempted to develop a new model for North South agreements by studying the EU-Mercosur bi-regional relationships. They have tried to ascertain optional solutions that may assist in the consolidation of the economic
relationships between developed and developing countries whilst invigorating the multilateral system and the required development policy space.

In their new model of the North-South preferential trade agreements Torrent and Molinevo (2005) have proposed a two-step agreement. The first phase involved setting adequate provisions to act as the so-called “hook” providing the space for future developments and setting up of institutions that will ensure that all developments are effectively implemented through detailed disciplines.

In this connection, Torrent and Molinevo (2005) have provided guidelines on the regulatory approach for trade in goods, trade in services, foreign investment and labour mobility. In the area of trade in goods, a joint institution could prove to be a mechanism to address matter in an incremental manner once the agreement has been in force. In the area of services, Torrent and Molinevo’s (2005) findings suggest Mercosur has in principle replicated the General Agreement on Trade in Services (GATS) structure and regulation for services as well as the EC in some of its bilateral agreements even if, internally, it follows a completely different approach.

Although the approach seems to be GATS Article V (regional economic integration) compatible but it is not promising in terms of effective integration and liberalization. It instead creates impediments for investment and labour mobility. In so far as the effective liberalization/integration issues are concerned, the regulatory content of such an agreement is confined to the multilateral rules and are limited to regulatory adjustment necessary to grant some access on the basis of market access and national treatment, however, no obligations are imposed beyond the national policies.

On the effects of GATS treatment of investment and labour mobility, this is applicable under modes 3 (commercial presence) and modes 4 (movement of natural persons) only. The notion of foreign direct investment (FDI) in the sense of mode 3 application of the GATS may accrue some validity in the WTO context however it does not really address the true sense of investment. It rather according to Torrent and Molinevo (2005) creates
more confusion and technical and legal negotiations difficult in the sense of the EU-Mercosur agreement. They further concur that the same notion is true for the movement of workers.

The GATS mode 4 supply of services is an approach that leads to nowhere. In the context of GATS, the term “movement of natural persons” does not allude to independent workers entering a member’s labour market, but are referring to workers that are already employed by a foreign supplier of services and used by the supplier to provide service in another country or to independent service suppliers who have to travel and stay a limited period of time abroad in order to provide a service for the supplier.

Torrent and Molinevo (2005) further argue that there could be a creation of a new world of possibility if the GATS is delinked from the four different modes of supply and treated individually. Mode 1 refers to cross border supply of services (e.g. online services) and mode 2 related to consumption abroad. Both the modes share common economic characteristics whereby the demand is accumulated in one country and the supply comes from another country. As a result, modes 1 and 2 give rise to the current transactions. Mode 3 which refers to commercial presence related to foreign direct investment. Mode 4 foresees the real need to address the movement of natural persons i.e. workers and their families, even if one is not employed by a foreign supplier of services and as a consequence do not fall within the scope of GATS. For cross border supply of services and consumption abroad, a negative list approach could be adopted which would identify quantitative restrictions and as a consequence bring about regulatory restrictions to a more transparent environment.

The findings of Rana (2007) in the review of the trends and prospects for enhancing integration in East Asia outlined the so-called “Multi-track, Multi-speed” or “variable geometry, flexible boundary” roadmap for East Asia. The multi-track approach comprised of a trade track and a monetary and finance track. With the proliferation of FTA’s in the region, policy makers need to account for the “spaghetti bowl” effects of
FTA’s. As such FTA’s need the implementation of stringent rules of origin and other conditions that increase administrative costs.

Different FTA’s have different rules of origin cost which in relation to implementation is high. A solution to this is the careful design of FTA’s to ensure compatibility with others. A review mechanism for FTA’s is therefore required. In order to strengthen trade integration, proper infrastructure development, trade facilitation and connectivity has to be improved. The second component to the proposed East Asian integration is on the money and finance track and the possible establishment of the Asian Monetary fund.

2.4 Regionalism in the Pacific

Focusing the attention of key studies conducted in the Pacific on regionalism, Grynberg et al (2005) considered regionalism as a whole and identified issues such as good governance and economic growth to be of the highest priorities of regionalism.

Grynberg (2009) further highlights the inherent economic conditions of the Pacific region which impacts regional economic integration. Issues of smallness, the absence of economies of scale, physical dispersion of often tiny population over the wide area of ocean and the isolation from the market are identified factors of impediments for the region.

Grynberg (2009) further relates the immutable physical characteristics of the Pacific region to that of the commercial costs of starting and operating a business in the Pacific Islands. In doing so and illustrating the realities of the Pacific, he compares countries such as Niue and Tuvalu as uses where commercial activity geared towards exports in effect does not exist. He further argues the fact that the Ricardian comparative advantage is meaningless as the absolute cost disadvantage is too large to cover the adjustment costs.
In a briefing paper of June 2008, the Pacific Institute of Public Policy further defined the architecture of the Pacific. In most of the Pacific island countries the fiscal regime is inflexible, causing it to be difficult for governments to capture any additional surplus through other forms of taxation. The Customs departments are struggling to administer and collect existing tax revenue. As a result a vulnerable revenue position leaves very little room for the major fiscal changes that would emanate from significant and rapid tariff reductions with major trading partners.

Furthermore, the term the “Pacific Way” tends to promote decision by consensus in the Pacific. The state of art European decision-making models is considered culturally alien. (Pacific Institute of Public Policy, 2008, 3). Moreover, the notion of “one size doesn’t fit all” is indeed true for the Pacific region. The Pacific islands are small and converging them to a particular issue is difficult unless compelled. One must understand the geopolitical and economic marginality and vulnerability of the Pacific.

As such some issues are best left at national level. Each of the small Pacific countries requires national resources to make regional funding work. It is of no use devoting regional funding into standardizing customs procedures when each individual department of customs operates on different level playing field. (Pacific Institute of Public Policy, 2008, 4).

- **The Pacific Plan**

The Pacific Plan is considered to be the initial regional dossier that enshrines the foundational principals of regionalism in the Pacific. The inception of the Pacific Plan was done in 2005 through the Auckland declaration where leaders of the Pacific Island Forum adopted the following vision:

“Leaders of the Pacific region can, should and will be a region of peace, harmony, security and economic prosperity, so that all of its people can lead free and worthwhile lives. We treasure the diversity of the Pacific and seek a future in which its cultures, traditions and religious beliefs are valued, honored and
developed. We seek a Pacific region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values and for its defence and promotion of human rights. We seek partnerships with our neighbors and beyond to develop our knowledge, to improve our communications and to ensure a sustainable economic existence for all.” (PIFS, 2007, 1).

The initial dossier of the Pacific Plan defines three different axis of action, a) Regional Cooperation which involves the setting up of dialogues or processes between Governments; b) Regional provision of Public goods/services, which involves pooling of national services e.g. customs, health, education, sports etc. at the regional level and c) Regional integration which involves lowering market barriers between countries. (PIFS, 2007, 4).

Despite the positive decisions adopted by leaders in 2004, Grynberg (2013), points out to major flaws in the initial Pacific Plan. Grynberg associates the failure of the Pacific Plan to that of an intervention which does not result in the continuation of change following the intervention. In this connection, he points out that the Pacific Plan had failed as a result of having a top-down approach and one that had been initially developed by Australia and New Zealand. In reality, Grynberg critiques that the initial plan was one where the officials of Australia and New Zealand had basically taken regional aid programs that were already being implemented and renamed it as the Pacific Plan. In other words this was a one sided plan imposed on the small island states.

Grynberg (2013) further alluded to the failure of the trade agreements namely the Pacific Island Countries Trade Agreement and the Melanesian Spearhead Group Agreement. Both these agreements have initially been signed into Trade in Goods. He points out to the challenges encountered by the Pacific in implementing the agreement is the high real economic costs involved.
Sanga (2011) in his findings acknowledges that regionalism in the Pacific has been compromised by tensions between national and regional priorities. His findings further suggest that “one-size fits-all” is not a viable approach in so far as regional partnership in the Pacific is concerned. Sanga (2011) also identifies the challenge of scale, distance and isolation that calls for regionalism in the Pacific to have special attention and support.

The recent report from the Review of the Pacific Plan also identifies that progress in the Pacific in terms of regional economic integration issues have been limited. The reviewers are of the view that there is an urgent need to identify some quick wins in areas that are important to the Pacific Islanders. This will act as an indicator that regional integration is “alive” and “well” in the Pacific region. (Pacific Plan Review, 2013, 82).

Further specific studies relating to regional integration and trade has been conducted by different authors in the Pacific. Scollay (2008) in his assessment on the impact of trade liberalization on the Pacific island countries recommends that the appropriate future structure of the Pacific Island Countries trade agreement (PICTA). He proposes that the structure should be taken by proper assessment of the legal advice, the provisions of other existing agreements and the future developments in the Pacific.

Scollay (2008) further cautions that the decision to progress with an agreement on free trade in services in effect requires negotiations of provisions on liberalization of investment. Thus a decision must be made in the process of liberalization as to how the investment in the services sector is to be handled.

Jayaraman (2007) in his study looked at the readiness of the Pacific Island countries in forming a currency union. The findings of Jayaraman (2007) show that a currency union amongst the groups of the Pacific, including Australia and New Zealand, is not practical. In relation to the sub-grouping of countries within
the Pacific, the position of forming the currency union is even worse. The reason for this according to Jayaraman (2007) is the huge divergence that exists between the nominal and real exchange rates, without any clear pattern of convergence in inflation. Moreover, there is a complete absence of convergence in the growth rates as well. As such the study of Jayaraman (2007), does not find any credible basis to support the case of currency union amongst the Pacific Island States.

Goundar (2010) in a media commentary further provided the basis for the non-applicability of REI under the PACER Plus agreement in light of the many challenges encountered by the Pacific Island countries. Amongst others, he has also highlighted the issue of simultaneous trade agreements being negotiated, the issue of trade diversion and the complexity of implementing the different rules of origin and alluding to Bhagwati’s “Spaghetti bowl notion. However, Goundar (2010) further accentuated that unilateral liberalization is an alternative which the Pacific Island countries need to consider.

Prasad etl (2005) undertook a study on the supply-side constraints faced by the Pacific Island Countries. Supply side constraints are also an important factor in determining the extent to which a country would integrate. Issues such as poor infrastructure, insecure tenure, access to land and property rights has to be addressed in order to ensure efficient production in the Pacific.

Prasad and Singh (2007) in their findings argue that small states such as the Pacific need special treatment due to the fact that trade openness has only temporary effects on small states and its outputs. As a result Prasad and Singh (2007) propose that the small states must develop their competitive growth sectors through improved institutions, infrastructure and productivity.

Regional integration and domestic reforms are also related. According to Prasad (2011), the Pacific Island countries must accelerate the plan for economic integration through its plans of speeding up reforms. He further highlighted the
move that the Pacific region has to undertake in order to connect with communities and economies. Prasad (2011) also alluded to the cost that would eventuate if economies did not integrate. Cost in terms of communication, air and shipping services would be high. These services are deemed essential in facilitating trade in goods and services.

**Concluding Remarks**

The literature review has identified different ways in which authors have defined regional integration. This research primarily focuses on REI with a particular focus on trade integration in the Pacific. There have been numerous studies conducted in different regions that have experienced different magnitude of success and or failure from the REI. In the case of the Pacific, different studies have been conducted at regional and sector specific level that relate and or contribute to the dynamics of Pacific REI.

The literature also accentuates the unique characteristic of the Pacific region and discusses how “one size does not fit all”. An analogy that is true for the Pacific regional integration. The recent review of the Pacific Plan also identifies the slow progress of regional integration and the challenges under the current integration process.

The next chapter (Chapter 3) will analyze using regional integration indexes on whether the Pacific Island Countries Trade Agreement has had any significant impact on regional trade under the current framework commencing from trade in goods as the first steps towards regional economic integration in trade. In doing so different regional economic integration indexes is used for the analysis.
CHAPTER 3: REGIONAL ECONOMIC INTEGRATION: AN ANALYSIS OF TRADE IN GOODS

This chapter is divided into two sub-sections. Section 1 of the chapter will analyze the extent of regional economic integration of trade in goods between the six Pacific Island Countries namely, Fiji, Papua New Guinea, Solomon Islands, Samoa, Vanuatu and Tonga. Section 2 of this chapter will further examine and analyze the level of REI by assessing the trade relationship in goods between the six Pacific Island States and the non-Pacific members.

This chapter aims to identify two things:

1) The magnitude and direction of trade in goods between the six-Pacific Island Countries; and
2) Whether the formation of a Free Trade Area (FTA) is a necessary conduit for the Pacific Island Countries to move towards REI as proposed by the unidirectional method of Balassa’s theory.

Methodology

In demonstrating whether the current regional economic integration in terms of the formation of trade in goods is merited and to ascertain the extent of the applicability of Balassa’s theory of REI the following methodology will be applied:

(i) Quantitative Analysis

In analyzing the degree of economic integration with respect to the regional trade agreement the Pacific Island Countries Trade Agreement (PICTA) trade in goods, regional integration indexes will be used to demonstrate the intra-regional trade
flow of exports between the six PIC WTO countries namely Fiji, Papua New Guinea (PNG), Samoa, Tonga, Vanuatu and Solomon Islands.

The rationale behind selecting the six countries is that these countries are members of the WTO and are parties to the regional agreement of the PICTA (Trade in Goods).

The six countries have ratified the agreement and are deemed to be trading under the agreement. In addition to this, given that all these countries are members of the WTO, as such it is presumed that there applicability of trade rules, emanate from the rules of the multilateral trading system.

One of the major impediments of the research for the Pacific has been the lack of available data, which is also a constraint in this analysis. For this analysis a 12 year data set from the Asian Regional Integration Center (ARIC) (2001-2012) is used to analyze the extent of regional economic integration for the six PIC WTO members.

**(II) Information on the Indexes**

Despite the fact that there are several studies conducted in different regions as discussed in the literature review (see Verdoorn and Janssen (1954), Lamfalussy (1963), Abedelaziz (1997), Lewis, Robinson and Wang (1995) etc.), the studies have been conducted on the basis of the available data. For the Pacific region, data collation is a major challenge which has to a large extent been a major impediment in undertaking quantitative analysis in the Pacific. This research encounters similar constraints.

Nonetheless in ascertaining the degree of effectiveness of free trade agreement (FTA) amongst the Pacific Island Countries, an assessment of the degree of integration between the six PIC WTO members is undertaken using the trade
indicators. This will determine the direction of integration and indicate the beneficiaries from the integration process if any. Moreover, in order to detail the degree of integration, a further level of assessment on the integration by commodity is analyzed to ascertain the regional orientation of products traded. For the purpose of this analysis, the regional orientation index is applied. Given the limited availability of data, the regional orientation for PNG, Samoa and Fiji is assessed against the top 10 products.

In addition to this, in assessing the level of integration between the PIC and that of non-PIC PICTA members, a comparison is made using the Export Share (%) of Fiji, PNG, Samoa (PICTA members) Australia, New Zealand, China and USA (non-members of PICTA) into the PICTA countries from 2000-2012. Note: only three PICTA countries are chosen in this analysis given the availability of data for these countries.

In assessing the degree of integration of the six PIC WTO members the comparisons are made using pre-PICTA Trade in Goods ratification and post PICTA trade in goods ratification to determine the level integration. Export share (%) is used as the regional indicator give that data on this indicator is the only available data for PICTA non-members. As benchmark for the integration years, the date of ratification of the PICTA Trade in Goods as the probable year for the inception of economic integration.

(iii) Definition of the Regional Indexes

**Export share** is the percentage of exports going to a partner to total exports of a country/region. It is computed as the dollar value of exports of country/region \( i \) to country/region \( j \) expressed as a percentage share of the dollar value of exports of country/region \( i \) to the world. A higher share indicates a higher degree of integration between partner countries/regions.
Export intensity index is the ratio of a trading partner’s share to a country/region’s total exports and the share of world exports going to the same trading partner. It is calculated as:

\[ \text{Export intensity index} = \frac{x_{ij}}{X_{iw}} \times \frac{X_{iw}}{X_{ww}} \]

where \( x_{ij} \) is the dollar value of exports of country/region \( i \) to country/region \( j \), \( X_{iw} \) is the dollar value of the exports of country/region \( i \) to the world, \( x_{wj} \) is the dollar value of world exports to country/region \( j \), and \( X_{ww} \) is the dollar value of world exports. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade.

Export share is the percentage of exports going to a partner to total exports of a country/region. It is computed as the dollar value of exports of country/region \( i \) to country/region \( j \) expressed as a percentage share of the dollar value of exports of country/region \( i \) to the world. A higher share indicates a higher degree of integration between partner countries/regions.

Import share is the percentage of imports from a partner to total imports of a country/region. It is computed as dollar value of imports of country/region \( i \) from country/region \( j \) expressed as a percentage share of the dollar value of imports of country/region \( i \) from the world. A higher share indicates a higher degree of integration between partner countries/regions.

Trade share is the percentage of trade with a partner to total trade of a country/region. It is computed as the dollar value of total trade of country/region \( i \) with country/region \( j \) expressed as a percentage share of the dollar value of total trade of country/region \( i \) with the world. A higher share indicates a higher degree of integration between partner countries/regions.
Regional Orientation ratio

The regional orientation index shows whether exports of a specific product from the region of study to the given destination are greater than exports of the same product to other destinations. In other words, it measures the importance of intra-regional exports relative to extra-regional exports. The index is a ratio of two shares. The numerator is the share of a country’s exports of a given product to the region of interest in total exports to the region. The denominator is the share of exports of the product to other countries in total exports to other countries. It takes a value between 0 and $+\infty$. A value greater than unity implies a regional bias in exports.

(iv) Rationale for using the Regional Economic Indicators.

The four initial indicators namely export intensity index (EII), the export share (ES), the import share (IS) and the trade share (TS) are vital in this assessment as they show trade flows indicating the direction of integration. These indexes alone has major flaws as it only predicts a part of the integration, however when used in combination it shows a much transparent picture of the integration process. EII and ES only show the trade flow and integration perspective from the export side, while IS only reflect this from an importing perspective.

The TS which combines total trade (export and import) fails to show how the individual variables of export and import share individually. As a result this thesis uses all the four indicators to determine the direction of integration and ascertain the effectiveness of regional integration in the Pacific.

The regional orientation index (ROI), also determines the direction of trade however, it is more streamlined and shows individual product performance which the other four indicators are not able to reflect. However, due to the difficulties in collating data from ROI at a more general level, the other four indicators are also vital. As a result, this thesis will use all the five indicators to draw its findings.
3.1 Assessing the degree of integration of the six PIC WTO members pre-PICTA Trade in Goods ratification and post PICTA Trade in Goods ratification

For the purpose of this analysis data from the ARIC database is extracted. The six WTO PIC members namely Fiji, PNG, Solomon Islands, Samoa, Tonga and Vanuatu are selected in this analysis. All the five countries with the exception of Vanuatu had ratified the PICTA Trade in Goods agreement in 2003. Vanuatu had ratified the agreement in 2005. As such for the assessment, the benchmark year of 2003 will be used as the point of PICTA Trade in Goods within the region with the assumption that actual trade commenced under PICTA.

a) Fiji

Table 1: Fiji’s Pre PICTA and Post PICTA Performance

<table>
<thead>
<tr>
<th>Partner</th>
<th>EII FJ (1)</th>
<th>AES FJ (3)</th>
<th>AIS FJ (5)</th>
<th>AV TS FJ (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>18.6</td>
<td>0.31</td>
<td>0.12</td>
<td>0.99</td>
</tr>
<tr>
<td>SAM</td>
<td>1200</td>
<td>2.7</td>
<td>0.02</td>
<td>0.18</td>
</tr>
<tr>
<td>SL</td>
<td>256</td>
<td>0.37</td>
<td>0.03</td>
<td>0.15</td>
</tr>
<tr>
<td>VT</td>
<td>398</td>
<td>0.75</td>
<td>0.01</td>
<td>0.29</td>
</tr>
<tr>
<td>TGA</td>
<td>1661</td>
<td>1.6</td>
<td>0.04</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Table 1 depicts Fiji’s pre and post PICTA integration performance by comparing the export intensity index (EII), the average export share (AES) (%), the average import share (AIS) (%) and the average trade share (ATS) (%). A time series data is used to compile the results. The time range of the data is from 1990-2012 (22 year data). The benchmark year for the pre PICTA include years prior to and until 2002, whereas post PICTA has been 2003 and onwards. The reason for using these time intervals as benchmark, is due to the fact that Fiji had ratified the PICTA Trade in Goods agreement in 2003. As a result years prior to that would form a sound basis for pre-PICTA analysis, whereas years after, on the assumption, that trade resumed after ratification was deemed to be post-PICTA years.
• **Average EII Index for Fiji in comparison with the PIC WTO countries.**

Columns (1) and (2) of table 1, shows that the overall EII index for Fiji has increased post PICTA Trade in goods. However the magnitude of increase between countries seems to show a different pattern. Fiji has the highest EII with the two small economies of Tonga and Samoa. On the other hand with Solomon Islands and Vanuatu there is significant EII. It is however interesting to note that despite PNG being one of the largest economies in the Pacific region by size, population and natural resources, Fiji is still unable to penetrate its market as effectively as it is able to do so for the other countries such as Samoa, Tonga, Solomon Islands and Vanuatu under PICTA Trade in Goods. There may be several factors attributing to this pattern.

In spite of the low level of tariffs, the non-tariff barriers may be a reason as to why Fiji is still unable to penetrate fully into the PNG markets under PICTA trade in goods. Non-tariff barriers come in many forms including interalia sanitary and phytosanitary, technical barriers, rules of origin issues and import procedures. In addition to this, despite air link and transport link between Fiji and PNG, the cost of transportation is high which may be another factor creating the barrier to trade under PICTA trade in goods.

PNG is yet to undergo full reforms in its customs, bio security and standards. Furthermore, the other three countries have ratified the PICTA agreement before PNG. On the other hand, PNG had just recently ratified the agreement; as a result, reforms will need to be undertaken in the PNG markets for Fiji to export. Having said this, given that PNG is a member of the World Trade Organization (WTO) and will be implementing its obligations under the WTO trade facilitation agreement, similar to that of Fiji, which may take some years to realize depending on the donor assistance and funding. There may be possible positive implications once the WTO trade facilitation agreement comes into realization in
particular in terms of customs and other trade-related areas dealing with trade facilitation.

Moreover, competition from other partner countries such as Australia and New Zealand into the PNG market may be another reason for the inability of Fiji to fully penetrate the PNG market. Challenges in terms of high shipping and freight cost are an added burden for Fiji. In addition to this, Fiji may be exporting under other trading arrangement to PNG (i.e. under the Melanesian Spearhead Group or the multilateral Most Favored Nation rates), however, the amount of trade in goods exports vis-à-vis EII is low.

**Average Export Share (AES) (%) for Fiji in comparison with the PIC WTO countries.**

Columns (3) and (4) of table 1, depict that in comparison to Pre-PICTA and Post-PICTA scenarios the percentage of AES has increased for Fiji relative to its exports in the five WTO PIC countries. Fiji’s has the highest AES with Samoa (2.51%) and Tonga (2.5%). Fiji also has experienced moderate AES with Vanuatu (1.26%) and Solomon Islands (0.68%). Similar to the EII, Fiji’s export share in PNG has been the lowest at 0.5%.

This again is much dependent on the intensity to which Fiji exports in PNG. As stated earlier analysis of the EII, there may be several reasons for the low exports from Fiji into the PNG market under the PICTA. The non-tariff barriers in terms standards, biosecurity and unnecessary or stringent import procedures may be a reason for the low export into PNG. Furthermore, the distance and high cost of transportation are also contributory factors towards low level of exports. The competition from other trading partners such as Australia and New Zealand maybe another reason for the low exports into the PNG market. Samoa and Tonga are closer markets and exports under PICTA trade in goods from Fiji are thus larger compared to other markets.
Given that Tonga and Samoa are smaller economies with low manufacturing base, exports and demand for Fijian manufactured products are greater from Fiji. Other factors such as low cost of doing business and streamlined or few procedures for export into the two economies may be another reason why exports into these markets may be high. Having said this, analyzing the overall performance of the EII under PICTA trade in goods, the EII of Fiji relative to exports under PICTA is relatively small.

- **Average Import Share (AIS) (%) for Fiji with the PIC WTO countries.**

Columns (5) and (6) of table 1 shows Fiji AIS (%), with respect to the five PICTA WTO countries pre-PICTA and post-PICTA. Diametrically, there has been a very minor change in Fiji’s average share of imports into the country from the five PIC WTO countries. Fiji’s average import share into PNG is the highest at 0.16%. Tonga, Samoa and Solomon Islands have a low share of their imports entering the Fijian markets. The average for the three countries range between 0.01%-0.03%. For Vanuatu there is no data available.

However, looking at the overall figures, average import share is still relatively small. There could be several reasons attributed to this trend. Firstly, PNG has only recently announced its readiness to trade under PICTA trade in goods. The export base in other Pacific Island countries is small as a result may not fully cater for the domestic demands in Fiji. Competition from other non-PICTA parties may be higher and as a result creating further divergence and difficulties for the PICTA parties to penetrate the Fiji market. In addition to this, in terms of compliance of customs, standards and biosecurity measures, Fiji is well developed and advanced in this area in comparison to other Pacific Island economies. The difference in the compliance stages in terms of customs, quarantine and biosecurity and the difficulty in its compliance may create an additional barrier for other PICTA members to import to Fiji.
Average Trade Share (ATS) (%) for Fiji with the PIC WTO Countries.

Columns (7) & (8) of table 1 show Fiji’s ATS (%) in the pre-PICTA and post-PICTA period with respect to the five PIC WTO countries. With regards to the average ATS (%), Fiji has the highest ATS with PNG (of 1.17%) followed by Tonga (of 1.04%). For the other three countries, Vanuatu, Samoa and Solomon Islands, the ATS is between 0.29%-0.53%.

The reason for the high ATS may be a result of the flow of imports between Fiji and PNG. Given that PNG is yet to ratify PICTA trade in goods agreement, this could be a likely reason as to why exports may be low from Fiji into PNG under the scheme. Furthermore, Fiji may be trading more under other trade agreement such as the Melanesian Spearhead Group Agreement. Tonga is one of the closest neighbours of Fiji in so far as geography is concerned. This as a result would lead to high export flows from Fiji into Tonga. Vanuatu, Samoa and Solomon Islands ATS are low. There could be several reasons attributed to it, the three economies may be importing more from Fiji and exporting less under PICTA trade in goods resulting in the low ATS is. There may be difficulties encountered in relation to the high transportation costs and also competition from non-PICTA parties in terms of trade may be relatively strong.

Countries such as Australia and New Zealand may be trading with these countries under the most favored nation rate of tariffs which is relatively low. In addition to this, Vanuatu and Solomon Islands may be trading with Fiji under the Melanesian Spearhead Group Agreement which may be more beneficial to the economies.

Concluding Remarks

(i) With respect to Fiji’s integration status within the region and comparing the average values of the respective change in the indexes pre-PICTA and post-
PICTA, one could infer that Fiji has to an extent been able to utilize the PICTA Trade in Goods agreement and been able to export to the five PIC WTO members, however, given that the percentage increase under the indexes are very minute, it shows that in terms of the full utilization of the aspect of economic integration, it has not benefitted Fiji to a maximum extent. The direction of trade for Fiji seems to be multidimensional.

(ii) It is interesting to observe that Tonga is the closest in the overall ranking in so far as economic integration is concerned and more so it also shows that Tonga is a net importer of goods from Fiji followed by Samoa. On the other extreme, it is interesting to note that in terms of exports Fiji’s export under PICTA in comparison to the other Pacific Island Countries is the lowest with PNG. On the other hand, Fiji’s AIS is the highest with PNG. This indicates a degree of integration between the two countries exists, however, in numerical terms the value is less than 1.5% which is minute.

(iii) For Samoa, Solomon Islands and Vanuatu, Fiji seems to have more exports in the countries compared to the imports, this again shows that Fiji has the comparative advantage, however, the numerical average figures are minute in nature and as a result it could be inferred that Fiji has not realized the full benefit of regional integration despite having a trade agreement based on tariff liberalization.

(iv) There are several reasons attributing to the low utilization of PICTA Trade in Goods by Fiji despite its existence for more than 10 years. Firstly, the difference in customs, quarantine and standards measures in the respective PICTA parties is a reason as to why trade is minimal. Secondly, other issues related to trade facilitation measures such as cumbersome export and import procedures could be reasons. With the entry into force of the WTO Trade Facilitation agreement, countries may experience some differences however this is yet to be analyzed. Thirdly, the distance and high cost of transportation
is another challenge for the small economies that contribute to the low value of trade under PICTA Trade in Goods. In addition to this, the supply side constraints and low development in infrastructure further impedes trade under PICTA goods. Finally the competition from non-PICTA members such as Australia and New Zealand and its competitiveness to export under the most favored nation rates may also have an effect on the low levels of trade in PICTA Trade in Goods.

b. Papua New Guinea (PNG)

Table 2: PNG’s Pre-PICTA and Post-PICTA performance

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>PNG AV EII (1)</th>
<th>PNG AES (3)</th>
<th>PNG AIS (5)</th>
<th>PNG AV TS (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAM</td>
<td>N/A</td>
<td>7.1</td>
<td>0.02</td>
<td>0.001</td>
</tr>
<tr>
<td>FJ</td>
<td>3.2</td>
<td>5.1</td>
<td>0.056</td>
<td>0.08</td>
</tr>
<tr>
<td>SI</td>
<td>61.22</td>
<td>87.21</td>
<td>0.096</td>
<td>0.08</td>
</tr>
<tr>
<td>VT</td>
<td>20.43</td>
<td>26.29</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>TGA</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: ARIC database and authors own calculations

Table 2 depicts the pre-PICTA and post-PICTA results for PNG using the average of the export intensity index (EII), the average export share (AES) (%), the average import share (AIS) (%) and the average trade share (ATS) (%). The benchmark year for PNG is 2003, which is the year of ratification by PNG of PICTA Trade in Goods. This represents the post- PICTA years. The years between1990-2005 represent pre-PICTA years. The data is extracted from the ARIC database and average of the regional indicators is compiled for results.

- **Average EII Index for PNG with the PIC WTO countries.**

Column (1) and Column (2) of Table 2 depicts the average EII for PNG pre-PICTA and post PICTA with the five WTO PIC countries that are members of the PICTA. PNG’s average EII is highest with Solomon Islands. This is followed by Vanuatu and Fiji. It is interesting to note that despite Fiji being the most
developed economy in comparison to Vanuatu and Solomon Islands, PNG has the lowest EII with Fiji. There is insufficient data available to comment on the results of Tonga and Samoa. There could be several reasons attributed to this pattern.

Firstly, PNG is yet to ratify the PICTA Trade in Goods agreement thus making it difficult for Fiji to export under the scheme. Given that Fiji and PNG are also parties to the MSG Trade in Goods agreements, there could be possibilities that the utilization rate of the MSG goods agreement is much higher than PICTA trade in goods. Fiji and PNG are also members of the WTO and could therefore have the option to apply the tariff rates on the most favoured nation basis in trade.

However, it has been widely recognized that other non-tariff barrier issues have also been an obstacle for countries in the Pacific. The unwarranted restriction on standards, biosecurity and rules of origin in relation to procedural requirements is another reason for the low levels of trade. Moreover, other bigger players such as Australia which is much closer to Papua New Guinea and has a more competitive manufacturing sector base may be creating competition for Fiji as well.

It is interesting to note that PNG’s EII though small is the highest with Solomon Islands. There could be several reasons attributed to this, given the small export base in the Solomon Islands and its huge dependency on imports in comparison to economies such as Fiji, it may be exporting more goods from PNG. The distance is also a key factor; it takes approximately one hour and 30 minutes flying time to reach from Solomon Islands from Papua New Guinea in comparison to flying time of approximately three hours from Fiji to Solomon Islands. This to the private sector determines the ease of obtaining goods at a faster time with less freight cost.

Vanuatu again is a smaller market and is dependent on imports. As such PNG may be a closer market to import from in comparison to other markets. Given
that each economy has a different level of compliance in terms of biosecurity, quarantine and standards; it may be easier for PNG to penetrate the Vanuatu market.

- **Average Export Share (AES) (%) for PNG with the PIC WTO countries.**

Column (5) and Column (6) of table 2 depict the AES (%) of PNG pre-PICTA and post-PICTA. PNG’s percentage change in AES is the highest with Solomon Islands of 0.094%. This is followed by the Vanuatu and Samoa which have AES of 0.03% and 0.02% respectively. PNG’s AES is the lowest with Fiji of 0.006%. The AES relationship between PNG and Tonga cannot be commented upon due to unavailable data.

The AES despite being minute is highest with Solomon Islands due to reasons stated in the EII analysis above. Solomon Islands is a net importer of goods and therefore may be importing more from PNG. The distance is also an element that determines the AES trend of Solomon Islands. PNG also has a low level of AES with Vanuatu, Samoa and Fiji, due to reasons stipulated earlier in explanations of the EII trend. In addition, competition from non-PICTA parties utilizing the MFN rate provided by these WTO member countries may be creating further competition for PNG, in particular countries such as China, Australia and New Zealand.

- **Average Import Share (AIS) (%) for PNG with the PIC WTO countries.**

Columns (5) and (6) of table 2 depict the AIS (%) of PNG pre-PICTA and Post PICTA. PNG’s AIS (%) is the highest with Fiji pre and post PICTA with AIS of 0.17%, whereas for Vanuatu and Solomon Islands the AIS of 0.03%. Tonga and Samoa has an AIS is 0%. The reason for high imports from Fiji, despite the overall figure of the AIS being very minute, is due to the larger export base and private sector competitiveness of Fiji in relation to other countries. Furthermore,
Fiji may be at a better level playing field when meeting the customs, quarantine and other standard requirements then other Pacific Island countries, thus being able to export to PNG. Nonetheless, looking at the low levels of imports from Fiji under the PICTA goods agreement, it may be a possibility that Fiji and PNG are trading better on the MSG goods agreement. In addition to this, other non-PICTA parties such as Australia, New Zealand and China may be exporting more to PNG under the most favoured nation tariff rates and may be more competitive then the Pacific island economies at large. The other Pacific economies are small and import dependent in itself and as such due to low export base may not be fully utilizing the full benefits of PICTA trade in goods with PNG. Other factors such as high transportation cost and difficulty in meeting export requirements of PNG could be major hurdles.

- **Average Trade Share (ATS) (%) for PNG with the PIC WTO Countries**

Columns (7) and (8) of Table 2 depict PNG’s ATS (%) pre-PICTA and post-PICTA. PNG’s ATS (%) is the highest with Fiji (0.17%). This is followed by Solomon Islands and Vanuatu which have the same value of 0.03%. For Samoa and Tonga the ATS is 0%. The ATS consists of exports and imports. The high AIS with Fiji could be a result of the high ATS.

Despite the ATS being low, PNG has the highest ATS with Fiji due to the size of the economies and capacity to trade. Both the countries may also be trading under other trade agreements such as MSG Trade in Goods and thus may not be utilizing PICTA goods arrangement to the extent possible. Competition from other non-PICTA parties such as China, Australia and New Zealand may also have an implication on the low ATS as a whole.

For other economies, such as Solomon Islands, Vanuatu, Samoa and Tonga, given its smallness and import dependency and perhaps competition from non-
PICTA parties, the ATS is even lower with PNG. Solomon Islands and Vanuatu being MSG goods agreement members may be using that arrangement.

- Conclusion on PNG’s integration within the PIC WTO members

(i) With respect to the integration indexes and PNG’s integration status among the five WTO PIC countries, one can infer that PNG has to a very minute extent been able to integrate with the other five WTO PIC countries. This is evident by the small change in the percentage of the EII, AES, AIS and ATS levels between PNG and the five PIC WTO countries.

(ii) With respect to the direction of integration, there seems to be mixed results. In so far as exports are concerned, PNG to a small extent has been able to penetrate the markets of the small PIC countries that are those of Solomon Islands and Vanuatu. On the other hand, pertaining import shares, its import share with Fiji is the highest. Nonetheless the percentage change by value of the share is still minute.

(iii) There is a further interesting trend as PNG seems to trade better with the small island countries as opposed to Fiji which is regarded as the most developed nation in terms of infrastructure, transportation, logistic etc. in the Pacific region. There could be several factors attributing to PNG’s pattern of integration. This could be a result of the demand for PNG’s products, the ability of PNG’s product to meet the non-tariff requirements of customs, standards and quarantine and high cost of transportation. It may be possible for PNG to meet the standards imposed by the small island states in comparison to those imposed by Fiji. In addition, the competition in terms of imports from non-PICTA parties such as Australia, New Zealand and China, that are more competitive and have a large export base, may also be the reason for low levels of trade under PICTA trade in goods.
(iv) Considering the country with which PNG is ranked most highly with in terms of integration is Vanuatu. This could again be a result of PNG’s ability to meet the requirements of exports from Vanuatu. The reduced distance and transportation links may also be the reason for trade between the two countries.

(v) None the less, despite indicating the ranking of PNG with the five PIC WTO member countries, one should also be mindful that the percentage change in the values of the indicators is minuscule. This indicates that for PNG tariff concessions by way of a trade in goods agreement to be the first step to regional economic integration is not feasible. PNG may have its competitiveness in other sectors of the economy.

c) Samoa

Table 3: Samoa’s Pre-PICTA and Post-PICTA performance

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>SAM EII (1)</th>
<th>SAM AES (3)</th>
<th>SAM AIS (5)</th>
<th>PNG AVTS (7)</th>
<th>(8)</th>
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<tr>
<td>PNG</td>
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<td>0.05</td>
<td>0</td>
<td>0.006</td>
<td>0.2</td>
</tr>
<tr>
<td>FJ</td>
<td>32.05</td>
<td>60.31</td>
<td>0.49</td>
<td>0.68</td>
<td>11.37</td>
</tr>
<tr>
<td>SI</td>
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<td>N/A</td>
<td>N/A</td>
<td>0</td>
</tr>
<tr>
<td>VT</td>
<td>N/A</td>
<td>0.19</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TGA</td>
<td>197.95</td>
<td>1419.4</td>
<td>4</td>
<td>1.7</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Source: ARIC database and authors own calculation.

Table 3 depicts the regional integration indicators for Samoa pre-PICTA and post-PICTA. The benchmark year determining the post-PICTA years for Samoa is 2003, which is the year of ratification. The average of the indicators is reflected in table 3. Data for past 10 years prior to Samoa’s PICTA ratification and after its ratification has been used for the analysis.
• **Average EII Index for Samoa with the PIC WTO countries.**

Column (1) and (2) of table 3 depict Samoa’s EII in comparison with the five WTO PIC members. From the analysis it is reflected that Samoa has the highest EII with Tonga, (Δ in EII of 1222). This is followed by Fiji with a Δ in EII of 28.26. For the other three countries namely PNG, Solomon Islands and Vanuatu due to in availability of data comments on the EII could not be made. However considering the post PICTA EII from table 5 for PNG and Solomon Islands, it could be inferred that a very small degree of exports may have entered these markets from Samoa, however whether there was an increase or decrease, this cannot be ascertained. Nonetheless considering Samoa’s EII between Tonga and Fiji, trade between the two countries have been high in relation to exports.

Reasons for the high EII could be a result of proximity. Tonga is closer to Samoa. The culture of Tonga and Samoa being the Polynesian group of countries may be another major factor commensurate to trade. Another factor contributing to trade between the two countries could be the ease of doing business in terms of trade facilitation issues (ability of Tonga to meet the standards, quarantine, customs and export requirements of these economies).

• **Average Export Share (AES) (%) for Samoa with the PIC WTO countries**

Columns (3) and (4) of table 3 depicts the AES (%) of Samoa with the five WTO PIC’s. Samoa has the highest AES (%) with Tonga, of a Δ in AES of 1.6%. This is followed by Fiji with a Δ in AES of 0.19%. For PNG, Vanuatu and Solomon Islands due to unavailable data the AES (%) cannot be commented on. Similar trend as EII index is prevalent for Samoa in relation to its AES being the highest with Tonga followed by Fiji. Reasons similar to those accentuated earlier on the EII index could be reasons for such a trend.

The culture between Tonga and Samoa being part of the Polynesian region may be a determinant to trade. Furthermore, other economic factors such as the proximate distance, the ability to meet the customs, quarantine and other export
requirements of Fiji and Tonga could be reasons for high AES between these two economies.

- **Average Import Share (AIS) (%) for Samoa with the PIC WTO countries**

  Columns (5) and (6) of table 3 depicts the AIS (%) for Samoa with the five PIC WTO countries. Samoa’s AIS (%) is the highest with Fiji with $\Delta in AIS$ of 4.93%. This is followed by PNG of a $\Delta in AIS$ of 0.194% and Tonga with $\Delta in AIS$ of 0.19%. For Vanuatu and Solomon Islands there are no changes in the AIS (%). In relation to import share, it is interesting to observe that amid the PICTA parties. Samoa’s AIS is the highest with Fiji, followed by PNG.

  These two economies are the largest and most developed in the Pacific region and thus have a greater production and manufacturing base. Samoa’s increased imports from Fiji may be a direct result of available air transportation, relatively low cost of imports in comparison to other Pacific countries and the ease of doing business in Samoa, in terms of meeting the standards, customs and other trade facilitation measures when exporting into the country. Samoa’s AIS with PNG and Tonga are relatively a very small percentage. There could be certain products that may be imported from these two countries into Samoa, perhaps for a niche market and as a result the AIS being low. However, a major share of Samoa’s trade under PICTA is with Fiji.

- **Average Trade Share (ATS) (%) for Samoa with the PIC WTO Countries**

  Columns (7) and (8) of table 3 depicts the ATS (%) for Samoa with the five PIC WTO countries. Samoa experienced the highest $\Delta in ATS$ of 3.16% with Fiji. This is followed by Tonga ($\Delta in ATS$ of 0.52%) and PNG with $\Delta in ATS$ of 0.22%. For Solomon Islands and Vanuatu there has not been any change in the ATS pre PICTA and post-PICTA.
The results of the ATS align itself with other indicators. Samoa’s highest trade share is with Fiji. Under the PICTA trade in goods schedule, Fiji had allowed for all imports from the PICTA parties on duty free quota free basis. As such, this could be one of the advantages that Samoa is capitalizing on. Furthermore, factors such as air transport links, distance to the market, the streamlined procedures of export and import and the ability of both Fiji and Samoa to meet the customs, quarantine and other trade facilitation procedures may be reasons for increased trade.

With the latter two economies namely, Tonga and PNG, the ATS is less than 1%, depicting that despite trade happening between the two economies and Samoa, it is relatively low. In the case of Tonga, the economy of Tonga is relatively small and as such there may be little to trade in terms of goods. In the case of PNG, despite it being one of the most developed markets of the South Pacific, distance and consumer taste may be reasons as to why trade with Samoa may be low. In addition competition from Fiji and other non-PICTA parties to an extent may be a resultant factor of low trade with Samoa.

- **Conclusion on Samoa’s integration within the PIC WTO members.**

(i) From the analysis, in so far as integration is concerned, through the PICTA trade in goods Samoa has not been able to fully integrate with the five PIC WTO countries. In cases where it had experienced some exports and imports, the value of exports and imports are minuscule.

(ii) In terms of export, Samoa has integrated well with Tonga, whereas in terms of imports Samoa seems to import the most products from Fiji. However, as is the case for exports, the figure for import values is also low.

(iii) The reason for Samoa engaging more with Fiji and Tonga could be a result of the distance, connectivity and fewer items being on the negative list of Tonga
and none in the case of Fiji on PICTA trade in goods, which may allow Samoa to trade with Fiji and Tonga.

(iv) However, accounting for the overall results in terms of the average values of the indicators, Samoa’s trade with the five WTO PIC countries are minute. It can therefore be asserted that tariff liberalization alone is not the solution to economic integration for Samoa. Other areas need to be explored.

d) Solomon Islands

Table 4: Solomon Island’s Pre-PICTA and Post-PICTA performance

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>SI AV EII (1)</th>
<th>SI AES (3)</th>
<th>SI AIS (5)</th>
<th>SI AV TS (7)</th>
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<tbody>
<tr>
<td></td>
<td>PRE</td>
<td>POST</td>
<td>PRE</td>
<td>POST</td>
</tr>
<tr>
<td>PNG</td>
<td>39.52</td>
<td>59.25</td>
<td>0.65</td>
<td>1.19</td>
</tr>
<tr>
<td>FJ</td>
<td>11.97</td>
<td>9.62</td>
<td>0.17</td>
<td>0.11</td>
</tr>
<tr>
<td>SAM</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>VT</td>
<td>256.42</td>
<td>358.74</td>
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<td>0.92</td>
</tr>
<tr>
<td>TGA</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: ARIC and authors own calculations

Table 4 depicts the pre-PICTA and post-PICTA integration index for Solomon Islands with the five PIC WTO countries. For analysis purposes, a 10 year data prior to and after the ratification of PICTA Trade in Goods by Solomon Islands have been used. The benchmark year for trade under PICTA for Solomon Islands is deemed to be the year of ratification i.e. 2003. The average of the export intensity index (EII), the export share, import share and trade share have been calculated respectively using the 10 year data.

- Average EII for Solomon Islands with the PIC WTO countries

Columns (1) and (2) of table 4 shows the average EII of Solomon Islands with the five WTO PIC countries. Solomon Islands have the highest EII with Vanuatu with $\Delta in Av EII$ of 154.1. This is followed by PNG with $\Delta in Av EII$ of 19.73. With Fiji an interesting scenario in the pattern of exports is shown. It has a negative $\Delta in Av EII$ of 2.35. Solomon Islands EII relationship with Tonga and Samoa could not be commented on due to unavailable data.
There could be several reasons attributing to the increased EII between Solomon Islands and Vanuatu. These could include the proximity to distance between the two countries, the easiness of the private sector in Solomon Islands to meet the customs, quarantine and other trade facilitation requirements as opposed to the requirements of other PICTA members. In relation to PNG the EII of Solomon Islands is positive but low, simply because PNG has not ratified PICTA trade in goods. Solomon Islands may also be trading under the MSG trade in goods agreement with PNG. In relation to Fiji, Solomon Islands is a net importer of goods as a result it has a negative EII.

- **Average Export Share (AES) (%) for Solomon Islands with the PIC WTO countries**

Columns (3) and (4) of table 4 shows the AES (%) between Solomon Islands and the five PIC WTO countries. Solomon Islands has the highest AES (%) with PNG. The $\Delta in Av AES$ from Solomon Islands into PNG is 0.54%. This is followed by Vanuatu with a $\Delta in Av AES$ of 0.41%. It is interesting that with Fiji, Solomon Islands export share post PICTA has been reduced with a negative $\Delta in Av AES$ of 0.06%. For Tonga and Samoa there is no change in AES. Again reasons similar to those identified in terms of the patterns in the EII could be associated with the trend in exports of Solomon Islands with PNG and Vanuatu. In the case of Fiji, it is consistent to the negative EII index denoting that Solomon Islands is a net importer of products from Fiji.

- **Average Import Share (AIS) (%) for Solomon Islands with the PIC WTO countries**

Columns (5) and (6) of table 4 shows the average AIS (%) of Solomon Islands with the five PIC WTO countries. The AIS (%) for Solomon Islands is low with $\Delta in Av AIS$ of 1.9% with PNG and 2.62% with Fiji when comparing the pre-PICTA and post PICTA periods. For the other three PIC WTO countries i.e. Samoa, Tonga and Vanuatu the AIS is 0%. In relation to Fiji, the AIS (%) is
highest for Solomon Islands are on a negative EII. Solomon Islands are a net importer of products under PICTA trade in goods. In relation to PNG, Solomon Islands also imports significantly.

It should be noted that PNG has not yet ratified the PICTA trade in goods agreement and as such the imports into Solomon Islands from PNG may be low. Having mentioned this, one has to also be cognizant of the MSG trade in goods agreement which is a sub-regional agreement between Vanuatu, Fiji, PNG and Solomon Islands. It may be a possibility that these four countries may be trading under this agreement exceptionally.

- **Average Trade Share (ATS) (%) for Solomon Islands with the PIC WTO Countries**

Columns (7) and (8) of table 4 shows the ATS (%) of Solomon Islands with the five PIC WTO countries. Solomon Islands have the highest $\Delta$ in ATS (%) with PNG of 1.19% followed by Fiji of 1.17%. Solomon Islands average ATS $\Delta$ (%) with Vanuatu is 0.25%.

For Tonga and Samoa the ATS (%) is 0%. PNG and Fiji are the two larger economies in the Pacific and trade with these countries and Solomon Islands is evidently high for reasons of low economies of scale, cultural factors, ease of doing business in terms of quarantine, biosecurity and standards requirements and transportation links. Solomon Islands trade with Tonga and Samoa may be low due to limited export base of both the countries that limits trade in relation to trade with countries such as Fiji, PNG and Vanuatu. It should also be noted that Fiji, PNG and Vanuatu are also members of the Melanesian Spearhead Group and forge a greater bond in relation to culture, trade and economies which may be an overriding factor in trade as well.
• Conclusion on Solomon Island’s integration within the PIC WTO members.

(i) With respect to the economic integration of Solomon Islands, it can be inferred from the results that despite signing onto the PICTA and ratifying the goods agreement in 2003, Solomon Islands has not experienced a sufficient degree of integration.

(ii) From the results above, it is interesting to note that whilst Solomon Islands had the highest EII with Vanuatu on average, its EII with Fiji had dropped by a certain percentage. This as a result indicates that for Solomon Islands, there may have been a shift in the export markets or the PICTA constraining its exports further. A similar trend is shown in Solomon Islands export share within the PICTA region. Solomon’s has experienced a minor 0.06% decline in its export share with Fiji.

(iii) In so far as trade share for Solomon Islands is concerned it has increased slightly with PNG and Fiji, this may be the result of the increased imports from these countries. However, the percentage increase is extremely small and therefore it can be asserted that Solomon Islands did not really improve on its trade patterns within the Pacific.

(iv) In relation to the country which ranked the most close to Solomon Islands in trade is PNG. However, as mentioned integration of Solomon Islands is small as the average increases are less than 0.02%. This is insignificant.

(v) Despite the existence of trade, the increase is very small to even assert that Solomon Islands had really integrated with the PIC WTO members in relation to the engagement with the PICTA region. For Solomon Islands tariff liberalization as first step toward regional economic integration did not yield favorable results. The low exports could be a result of non-tariff barriers
imposed in the form of quarantine and customs requirements. In addition to this, due to its smallness and low manufacturing base in comparison to other Pacific Island countries such as Fiji and Papua New Guinea, Solomon Islands thus would not be in a position to compete.

e) **Tonga**

**Table 5: Tonga’s Pre-PICTA and Post-PICTA performance**

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>TGAA V EII (1)</th>
<th>TGAA AES (3)</th>
<th>TGA AIS (5)</th>
<th>TGA AV TS (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FJ</td>
<td>233.63</td>
<td>531.45</td>
<td>2.62</td>
<td>5.58</td>
</tr>
<tr>
<td>SAM</td>
<td>239.42</td>
<td>1844.29</td>
<td>0.3</td>
<td>4.56</td>
</tr>
<tr>
<td>VT</td>
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<td>N/A</td>
<td>0</td>
<td>0.01</td>
</tr>
<tr>
<td>SI</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Column (1) and (2) of table 5 shows the average EII index for Tonga pre-PICTA and post-PICTA. Tonga has the highest EII with Samoa with average $\Delta \text{in EII}$ of 1605. This is followed by Fiji with an average $\Delta$ in EII of 298. (Note: data for PNG, Vanuatu and Solomon Islands is not available). There could be several reasons attributed towards Tonga’s high EII with Samoa.

Table 5 depicts the regional trade integration indicators for Tonga pre-PICTA and post-PICTA. The benchmark year for post-PICTA integration is 2003, which is the year of ratification. Data for past 10 years prior to ratification were averaged to estimate the pre-PICTA performance of Tonga. With respect post-PICTA performance data for 10 year period of Tonga’s ratification for have been averaged and used for the purposes of the analysis.

- **Average EII for Tonga with the PIC WTO countries.**

Columns (1) and (2) of table 5 shows the average EII index for Tonga pre-PICTA and post-PICTA. Tonga has the highest EII with Samoa with average $\Delta \text{in EII}$ of 1605. This is followed by Fiji with an average $\Delta$ in EII of 298. (Note: data for PNG, Vanuatu and Solomon Islands is not available). There could be several reasons attributed towards Tonga’s high EII with Samoa.

These could include the proximity to the markets, the culture and historical relations, the ability of Tonga to easily meet the customs, quarantine and other
trade facilitation procedures and also the demand for Tongan products into the Samoan market may be some of the reasons. Fiji is another closer market for Tonga with convenient air transportation links. In addition, Fiji allows for duty free and quota free access of products under PICTA which may be another reason as to Tonga’s ability to export into the Fijian market.

- **Average Export Share (AES) (%) for Tonga with the PIC WTO countries.**

Columns (3) and (4) of table 5 shows the average export share of Tonga pre-PICTA and post-PICTA. Tonga’s export share with Samoa has increased by a small percentage post-PICTA with $\Delta$ in AES of 4.26%. This is followed by Fiji with a $\Delta$ in AES of 2.96%. For the other three countries, PNG, Vanuatu and Solomon Islands there is no change. Tonga’s export share in relation to Samoa and Fiji is 2.96%. This is due to similar distance to the market, cultural and historical ties, for most PICTA goods and the ability of Tonga to meet the customs, quarantine, standards and other trade facilitation requirements.

- **Average Import Share (AIS) (%) for Tonga with the PIC WTO countries**

Columns (5) and (6) of table 5 shows the AIS (%) of Tonga pre-PICTA and post-PICTA. Tonga’s AIS is the highest with Fiji ($\Delta$ in AIS of 18%), this is followed by Samoa ($\Delta$ in AIS of 1.38%) and Vanuatu of $\Delta$ in AIS of 0.04%. The $\Delta$ in AIS for PNG and Solomon Islands is 0%. Tonga has the highest AIS with Fiji.

This is due to its closeness of distance. Fiji also has a bigger manufacturing base and capacity to export to Tonga. Most of the industrial firms from Fiji also have commercial presence in Tonga providing much need for imports of raw materials from Fiji. In addition, Fiji is able to meet the quarantine, customs and other requirements of Tonga in relation to exports. Samoa on the other hand, may also be able to export to Tonga given the cultural and historical ties between the countries, the ability of the Samoan firms to meet the trade facilitation requirements of Tonga and the easiness of air transportation links.
Average Trade Share (ATS) (%) for Tonga with the PIC WTO countries

Columns (7) and (8) of table 5 shows the ATS (%) of Tonga pre-PICTA and post-PICTA periods. Tonga ATS (%) is the highest with Fiji that is \( \Delta \) in ATS of 16.95\%. This is followed by Samoa with \( \Delta \) in ATS of 0.31\%. Tonga’s average trade share with PNG and Solomon Islands is 0\% indicating no change.

It is evident that Tonga’s trade share with Fiji is highest given that it is a net importer of goods from Fiji. Reasons perceived earlier pertaining to distance to the market, the cultural and economic relations, the easiness to penetrate into the markets and the readily available air service links could be likely additional reasons as to why Tonga’s ATS with Samoa and Fiji are positive, though minute in percentage.

Conclusion on Tonga’s integration within the PIC WTO members.

(i) Tonga direction of exports to the PICTA region is more favorable with Samoa as its total exports into Tonga are the highest in comparison with other PIC WTO countries. However, the value of exports is small in numerical terms. This as a result could be inferred to reflect that, exports have increased but only to a minimal level and as a result real economic integration is not achieved.

(ii) In terms of imports, Tonga’s imports the most from Fiji; this also has a resulting effect that Tonga’s total trade share (export & imports) is the highest with Fiji. Similar to exports, the import percentage in numerical value is very small to actually comment on whether real economic integration had taken place for Tonga in relation to exports under PICTA.
Aside from Samoa and Fiji, Tonga’s export and import are either 0% or relatively small (< 5%), which reflect that Tonga has not been able to economically integrate into meaningful trade under PICTA Trade in Goods agreement.

f) Vanuatu

Table 6: Vanuatu's Pre-PICTA and Post-PICTA performance

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>VT AV EII (1)</th>
<th>VT AES (%)(3)</th>
<th>VT AIS (%)(5)</th>
<th>VT AV TS (%)(7)</th>
<th>VT AES PRE</th>
<th>VT AES POST</th>
<th>VT AIS PRE</th>
<th>VT AIS POST</th>
<th>VT AV TS PRE</th>
<th>VT AV TS POST</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>57.66</td>
<td>40.53</td>
<td>0.95</td>
<td>0.98</td>
<td>0.75</td>
<td>1.42</td>
<td>0.75</td>
<td>1.17</td>
<td>0.75</td>
<td>1.17</td>
</tr>
<tr>
<td>FJ</td>
<td>7.12</td>
<td>8.35</td>
<td>0.12</td>
<td>0.08</td>
<td>3.44</td>
<td>6.34</td>
<td>2.44</td>
<td>3.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAM</td>
<td>N/A</td>
<td>N/A</td>
<td>0.03</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.01</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TGA</td>
<td>N/A</td>
<td>29.67</td>
<td>0.02</td>
<td>0.03</td>
<td>0</td>
<td>0</td>
<td>0.01</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SI</td>
<td>364.61</td>
<td>271.53</td>
<td>0.52</td>
<td>0.53</td>
<td>0.48</td>
<td>0.84</td>
<td>0.46</td>
<td>0.68</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ARIC database and authors own calculation.

Table 6 depicts Vanuatu’s pre-PICTA and post-PICTA performance over a period of 8 years prior to and after the ratification of PICTA trade agreement. The average of the export intensity index (EII), the average of the export share (ES) (%), the average of the import share (IS)(%) and the average trade share (ATS) (%) are the regional economic indicators applied to determine the level of integration of Vanuatu in the PICTA region. The benchmark year for the PICTA trade in goods in for Vanuatu is 2005. This is the date of the ratification of PICTA by Vanuatu.

- **Average EII for Vanuatu in comparison with the PIC WTO countries**

Columns (1) and (2) of table 6, shows the average EII for Vanuatu pre-PICTA and post-PICTA with the five WTO PIC members. It is interesting to note that apart from Fiji, Vanuatu has experienced a negative average change in its EII with PNG and Solomon Islands. The average $\Delta$ in EII with Fiji is 1.23. It shows a decline in the $\Delta$ in EII of 17.13 for PNG and 93 for Solomon Islands pre and post PICTA. Due to limited available data the average $\Delta$ in EII for Samoa and Tonga cannot be assessed.
Vanuatu may be able to export to Fiji due to closeness to the market, its ability to meet the customs, quarantine and other trade facilitation procedures. In addition to this given that Fiji allows for duty free and quota free access for all products under PICTA, it provides greater flexibility for Vanuatu to export to Fiji under PICTA. In the case of PNG and Solomon Islands, the reason for the decline in the EII could be attributed to Vanuatu importing more from these two countries then exporting. Another reason could be that Vanuatu may be trading under the MSG trade in goods agreement with these two countries as opposed to PICTA trade in goods. PNG has only announced its readiness to trade under PICTA trade in Goods but has not in principle ratified the agreement. This as a result may have bearing on the decline in EII for Vanuatu.

- **Average Export Share (AES) (%) for Vanuatu with the PIC WTO countries.**

Columns (3) and (4) of table 6 depicts the AES (%) for Vanuatu pre-PICTA and post-PICTA with the five PIC WTO countries. Vanuatu’s export share is the highest with PNG of an average Δ in AES of 0.03%. This is followed by Solomon Islands with an average Δ in AES of 0.01%. Vanuatu’s export share with Samoa remain the same pre and post PICTA, however it is interesting to note that it has experienced a decline in export share with Tonga (Δ in AES of (0.03%) and Fiji (Δ in AES of (0.04%).

The above change in figures with PNG and Solomon Islands are minute, basically indicating that Vanuatu did not export substantially to these two countries. It is vital to note that both PNG and Solomon Islands are members of the MSG Trade in goods agreement. It could be another possibility that Vanuatu is trading with the two countries under the MSG. In addition to this, PNG has not ratified PICTA trade in goods agreement. This may also have an implication on the exports from Vanuatu. Nonetheless, Vanuatu’s decline in the AES with Tonga and Fiji indicates that these economies may be exporting more to Vanuatu then importing.
- **Average Import Share (AIS) (%) for Vanuatu with the PIC WTO countries**

Columns (5) and (6) of table 6 depicts the AIS (%) for Vanuatu with the five PIC WTO countries pre-PICTA and post-PICTA. Vanuatu’s average \( \Delta \) in AIS (%) is the highest with Fiji (\( \Delta \) in AIS of 2.9%), followed by PNG with an average \( \Delta \) in AIS of 0.67% and Solomon Island with a \( \Delta \) in AIS of 0.36%. For Samoa and Tonga there has been no \( \Delta \) in AIS (%).

The direction of import flows indicate that Vanuatu is indeed trading more with the MSG member countries that are part of the PICTA goods agreement. There could be several reasons associated with such a pattern, including the cultural and historical ties, wide production base in the three economies of Fiji, Solomon Islands and PNG, ability of these economies to meet the customs, quarantine and other trade facilitation procedures and also the availability of air transportation links.

- **Average Trade Share (ATS) (%) for Vanuatu with the PIC WTO countries**

Columns (7) and (8) of table 6 depicts the ATS (%) for Vanuatu pre-PICTA and post-PICTA with the five WTO PIC countries. Vanuatu has the highest average \( \Delta \) in ATS with Fiji of 1.34% followed by PNG of \( \Delta \) in ATS of 0.42% and Solomon Islands with a \( \Delta \) in ATS of 0.22%. With Samoa, Vanuatu has a negative average \( \Delta \) in ATS of 0.01%.

Vanuatu has experienced no change in the average ATS (%) with Tonga. Vanuatu has the highest trade with Fiji and is possibly the net importer of goods from Fiji. It also has minute trade with PNG and Solomon Islands. Again the three economies form the Melanesian group of countries and are the largest in terms of resource and economic base. As such it may be one of the key reasons for Vanuatu to engage into trade with these economies. The other reasons as alluded to earlier may be distance and proximity to markets, the availability of air
transportation links and the ease of doing business (ability to meet customs, quarantine and other requirements).

- **Conclusion on Vanuatu’s integration within the PIC WTO members.**

(i) Vanuatu’s performance pre-PICTA and post-PICTA into the PICTA region show minor average change in the indexes to determine its direction of integration in the PICTA region.

(ii) In relation of exports, Vanuatu shows mixed results, however one can assert that Vanuatu’s exports has been highest with Fiji in so far as ranking is concerned. The value of the average change in percentage is small to actually predict any economic integration.

(iii) It is further interesting to note that on average, Vanuatu’s exports has worsened post PICTA with Solomon Islands, PNG and Tonga. This shows the aspect of trade diversion. The existence of MSG goods agreement may be another reason.

(iv) In terms of imports, Vanuatu’s major imports are from PNG, Fiji and Solomon Islands. This is reflected in the trade share as well. However, it is interesting to note that Vanuatu’s average change in ATS has worsened post-PICTA.

**Regional Orientation Index (ROI)**

For the purpose of this analysis and due to data limitations for the six PIC WTO countries, the analysis for the ROI is examined for two economies out of the six countries under study in the research i.e. Papua New Guinea and Fiji. Given that these two economies are the largest amongst the Pacific Island countries. The
ROI examines the direction of trade of a country at specific product level which provides an indication on the dimension of specific trade in products and where countries have increased competitive advantages.

For the purpose of this analysis the selections of 10 products have been made that are likely to be traded under PICTA. The assessment is again based on the pre-PICTA and post-PICTA trade analogy as conducted in the latter part of the analysis. However, the difference is that the analysis is done at product level.

The following are the list of Products chosen for the analysis. The selection is based on the commonality of trade products which both the countries are producing.

<table>
<thead>
<tr>
<th>Number</th>
<th>Product List</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fish, Crustaceans, Molluscs and others</td>
</tr>
<tr>
<td>2</td>
<td>Dairy Products, Bird Eggs and Natural Honey</td>
</tr>
<tr>
<td>3</td>
<td>Edible Vegetables and Certain Roots</td>
</tr>
<tr>
<td>4</td>
<td>Coffee, tea, mate, spices</td>
</tr>
<tr>
<td>5</td>
<td>Preparation of Meat, Fish and Crustaceans</td>
</tr>
<tr>
<td>6</td>
<td>Sugar and Sugar Confectionary</td>
</tr>
<tr>
<td>8</td>
<td>Cocoa and Cocoa preparation</td>
</tr>
<tr>
<td>9</td>
<td>Tobacco and Manufactured Tobacco Substitutes</td>
</tr>
<tr>
<td>11</td>
<td>Soap, Organic Surface, Active agents</td>
</tr>
<tr>
<td>13</td>
<td>Knitted Art of Apparel and Clothing</td>
</tr>
</tbody>
</table>

*Source: APTIAD UNESCAP database*

- **Product ROI Index Analysis**

1) **Fish, Crustaceans, Molluscs and others (Refer to Annex 1)**

The ROI for Fiji for Fish, Crustaceans, Molluscs and others are less than 1%. (0.02 in Year 2000), (0.03 in Year 2005 and 0.01 in Year 2006). These were the only three years in which Fiji had exported the product to PICTA countries. In comparing the pre-PICTA and post-PICTA results, there does not seem to be any major change in the export of these products by Fiji.
Adversely, the ROI has declined by 0.01 indicating no regional bias in terms of exports of this product for Fiji.

On the other hand, in the case of PNG, the ROI is higher than Fiji indicating that PNG exports more of Fish, Crustaceans, Molluscs and other products in the PICTA region. However, there has been a dramatic decline of ROI from 12.63 (2001) to (3.84) in 2009. There could be several reasons attributed to this decline.

There could be a possibility of market diversion by PNG from PICTA to non-PICTA countries in the exports of these products to the European Union. PNG has signed the interim EPA in 2007 and therefore the shift of exports into the European Union for fish products is evident. Another reason could be that the non-PICTA members i.e. Australia, New Zealand and China may have a greater export share of this product creating competition in the region and trade diversion.

Lastly, one must also be mindful that though PNG has ratified the agreement it has not implemented it and as a result facing higher tariff rates from other countries which as a result derails the competitive advantage of PNG on this product. In the case of PNG one could assert that the regional bias of the product is higher than Fiji but still lower to even conclude its competitiveness in this product.

2) Dairy Products, Bird Eggs and Natural Honey (Annex 2)

The ROI for Dairy products, Bird Eggs and Natural Honey for Fiji, are available for exported post-PICTA years. The highest ROI of 9.04 was experienced in 2006. However, in the latter years the ROI had declined significantly (0.02 in 2009). Fiji’s regional bias in terms of this product is low. On the contrary for PNG, its ROI had been significantly high from 2002-2006, showing a positive regional bias for exports of these products in
both the periods of pre-PICTA and post-PICTA. PNG’s ROI was the highest is 2006 (of 12942.83) showing that despite PNG’s non-readiness to trade under PICTA it still had competitive advantage in exports of dairy products, bird eggs and natural honey.

3) **Edible Vegetables and Certain Roots (Annex 3)**

Fiji’s ROI is less than 1% for edible vegetables and certain root crops. However, it is interesting to note that Fiji’s exports, though may not be regionally bias towards this product but the exports has increased in post-PICTA years indicating market creation for these products. On the other hand, PNG has a favorable regional bias of edible vegetables and certain roots in 2003 (48.04). However, this was the only year in which PNG had significant export bias for this commodity into PICTA countries.

4) **Coffee, Tea, Mate and Spices (Annex 4)**

Fiji’s ROI for coffee, tea, mate and spices had been the highest in 2003(6.94), however this has significantly declined to 0.58 in 2009 indicating low regional bias for the export of these products into the PICTA region. Fiji is not an exporter of coffee or tea which could also indicate that it may have a regional bias in spices. On the contrary, PNG’s ROI has been fluctuating pre-PICTA and post-PICTA years, however, in 2009, its ROI is the highest (7.2) which shows a regional bias for PNG in the exports of coffee, tea, mate and spices into the PICTA region. It also indicates that in spite of implementing PICTA agreement, PNG still has a competitive advantage in coffee, tea, mate and spices which may as a result provide less incentive for PNG to implement PICTA trade in goods.

5) **Preparation of Meat, Fish and Crustacean (Annex 5)**

Fiji’s ROI for preparation of meat, fish and crustacean is high in the pre-PICTA years in comparison to the post-PICTA years. Fiji had the highest exports of the product in 2000. (ROI=4.79) and 2002 (ROI=3.13). However,
in the post-PICTA years (2003 and onwards), the exports of the product has declined showing a lower regional bias for the product in the PICTA region. (ROI=0.14 in 2009). On the other hand, in the case of PNG, it had the highest ROI in 2003 of 96.42 showing a positive regional bias for PNG on this product. However, the ROI had declined significantly over the latter years with ROI=5.06 in 2009 reducing PNG’s regional bias for the product.

6) **Sugar and Sugar Confectionary (Refer to Annex 6)**

Analyzing the pre-PICTA and post-PICTA periods, Fiji’s ROI in both the periods has been less than 1 with the exception in 2000 of an ROI of 1.59. It is however, interesting to note that despite the ROI being less than 1 in other years, Fiji’s ROI has been slightly higher in the pre-PICTA period (2002 and before) in comparison to post-PICTA (2003 and onwards). Fiji’s ROI in 2008 was 0.02. In the case of PNG, it had recently started exporting the product as its ROI calculation are only for 2008 (ROI=1.59) and 2009 (ROI=1.4). For exports the preparation for vegetables, fruits and nuts neither of the countries have any regional bias into the PICTA region for the products.

7) **Cocoa and Cocoa Preparation (Annex 7)**

For cocoa and cocoa preparations, during the pre-PICTA periods Fiji had a higher regional bias for the exports of these products into the PICTA regions. The highest ROI is in 2001 of 189.05. However, in the pre-PICTA years, Fiji’s exports of cocoa and cocoa preparation have declined into the PICTA region. The only data on ROI that has been provided for 2005 (ROI=1.57). In the case of PNG, the only data available is for 2008 with ROI=0. This shows that both Fiji and PNG do not have any regional bias for this product.

8) **Tobacco and Manufactured Tobacco products (Annex 8)**

For tobacco and manufactured tobacco products, Fiji experienced a higher export of the products post PICTA in 2008 (47.51) and in 2009 (56.83) indicating a higher regional bias for the exports of the product in the PICTA
region. PNG however has not exported this product in any of the stipulated years (2000-2009).

9) **Soap, Organic surface and Active agents (Annex 9)**

For soap, organic surface and active agent, Fiji’s ROI has increased post-PICTA in comparison to pre-PICTA period. Fiji has been exporting more of the product in the latter part of the year i.e. ROI=16.34 (2008) and ROI=12.33 (2009). It could be asserted that Fiji has some degree of regional bias in the exports of soap. However, for PNG it has a one–off export on soap in 2008 with a ROI=125.02. It is difficult to assert PNG’s regional bias however one could infer that in 2008, PNG had a higher regional bias on the product in comparison to Fiji.

10) **Knitted Art of Apparel and Clothes**

Fiji has spread over the years 2000-2008 in exporting knitted art of apparel and clothes to the PICTA region. However, the ROI is less than 1 indicating that Fiji did not have regional bias in terms of exporting the product into the PICTA region prior to and after ratification of PICTA. The highest ROI=0.26 which has been experienced in 2007. In the case of PNG, its case is peculiar, in that it has exported knitted arts of apparel and clothes into PICTA countries in three periods of 2003 (ROI=925.05), 2007 (ROI=89.72) and 2009 (ROI=0.84). In the latter two periods PNG had a regional bias on the exports of the product however in 2009 it did not experience any regional bias. This may be due to PNG’s inability to remain competitive in the market and the fact that nonmember exports of the products may have increased.

- **Concluding Remarks**

(i) The ROI analysis clearly reflects that at a product level integration, there is little to no export bias for Fiji and PNG under PICTA trade in goods agreement.
(ii) These results also confirm the earlier results of the low level of integration under PICTA between and amongst countries.

(iii) There could be several reasons to attach to this anomaly i.e. to the reason the agreement has not progressed. The initial pre-conditions forming the agreement may not have been examined properly, the rules applied in the regional economic integration of PICTA countries may not have been conducive to enhance exports and the influence from non-members may have been a stronger factor in relation to competition.

3.2 Assessing the level of integration of the six PIC WTO members against non-member countries using Export share (%)

For the purpose of this analysis a comparison using the export share (%) and the trade share (%) will be undertaken for the three PIC WTO members that are members of PICTA namely Fiji, PNG and Samoa against major trading partner countries that are non-members of the PICTA countries. The export share (%) and trade share (%) will be measured by the export and trade inflows which these countries bring about to the PICTA region. In undertaking the analysis data from 2000-2008 is used for the purpose of the assessment.

Table 7: Comparison of Export Share between PICTA members and Non-PICTA members from 2000-2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>SM</th>
<th>PNG</th>
<th>FJ</th>
<th>CH</th>
<th>NZ</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
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</tr>
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<td>2008</td>
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<td>2007</td>
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</tbody>
</table>

Source: ARIC and authors own calculations
Table 7 above depicts the export share of trade entering the PICTA region by the members of the group (Fiji, PNG and Samoa) and by the non-members (Australia, New Zealand and China). The PICTA trade in goods agreement was signed by the members in 2000 and ratified in 2003. The trade share prior to the ratification of PICTA trade in goods associate a high percentage with the non-PICTA members i.e. Australia and New Zealand. Australia’s trade share in the PICTA countries from 2000-2002 are 1.05%, 1.47% and 1.37% respectively, whilst New Zealand’s trade share is 1.04%, 1.06% and 1.39%.

Despite the ratification of the PICTA trade in goods, there is only a slight variation in the trade share of the three PICTA member countries. Fiji’s trade share seemed to have increased the most between 2003-2009 in comparison with the PICTA countries of PNG and Samoa. Samoa’s trade share seemed to have declined from 0.41% in 2003 to 0.27% in 2009. For PNG, its trade share has only increased by 0.02% in 2003-2009. In comparison to the non-member countries of the PICTA Trade in Goods agreement, Australia’s export share though relatively higher than the PICTA member countries over the period of 2003-2009, seems to experience a decline from 1.44% in 2003 to 0.98% in 2009.

In contrast to this, New Zealand export share has rapidly increased in 2003-2008 from 1.55% to 2.22% in the PICTA countries. It is interesting to note however, that New Zealand had experienced a decline to 1.3% in 2009. China has also experienced an increase of its trade to PICTA parties by 0.02% in 2003-2009.

- **Concluding Remarks**

From the analysis above the following can be depicted in terms of the comparison of export share between member and non-member countries to PICTA trade in goods.

(i) The export share of the non-member countries in comparison to member countries into PICTA region is high when comparing the overall trend.
(ii) There seems to be an improvement in the export share of Fiji which is a PICTA member whereas PNG and Samoa have both experienced a contraction in its export share, thus trade diversion.

(iii) In so far as comparison of export share indicator is assessed, the members of the PICTA agreement have not yielded the promising results of the economic integration in the region.

(iv) The non-member countries and major trading partners such as Australia, New Zealand and China still have a competitive advantage despite better concessions provided within PICTA countries.

It can be deduced therefore that trade in goods liberalization in terms of tariff concession within the PICTA trade in goods agreement is not the solution to the REI for the Pacific.

Chapter 3 has analyzed the magnitude of the impact on regional trade in goods prior to and after the ratification of PICTA in the Pacific region. At specific country level analysis, it has been clear using the regional integration index that trade in goods as a commencing point for regional economic integration in the Pacific did not yield the expected outcomes. The 10 year PICTA agreement has very little to no impact in terms of the intensity of trade in the region. More interestingly the results also show that exports from non-PICTA member countries such as Australia and New Zealand are high in comparison to the members of the PICTA region. Thus despite the notion of regional economic integration is welcomed, commencing from trade in goods is not a valid preposition.

In other words, areas where the Pacific has competitive advantage and potential for growth should be explored. In order to assess the Analytical Framework for REI that would be a practical solution, the current existing mechanisms in the Pacific has to be
studied and analyzed in the form of the institution, the existing agreements and the pre-
conditions of the Pacific has to be re-visited. As such Chapter 4 discusses the existing
institution and state of play of REI in relation to the existing agreements in the Pacific
and also closely studies the pre-conditions of the Pacific Island Countries. This would
be a useful element in discussing a framework for REI in the latter parts of the thesis.
CHAPTER 4: RATIONALE FOR THE NON-SEQUENTIAL APPROACH TO REGIONAL ECONOMIC INTEGRATION FOR THE PACIFIC

Chapter 3 factually demonstrated using regional trade indicators the low level of REI experienced by the six Pacific Island Countries namely, Fiji, PNG, Samoa, Tonga, Vanuatu and Solomon Island in the area of trade in goods under the PICTA. Interesting highlights from the factual analysis is that under the PICTA trade in goods agreement, the analysis show that exports into the Pacific region is greater from countries that are not part of the PICTA. Moreover, there is minute level of trade if any amongst the six PICTA countries in spite of the 10 year long standing trade agreement.

Complementing the factual assertions on the non-workability of the formation of a free trade area, chapter 4 further analyzes the economic reasoning’s and provides further clarity and justification as to why the formation of a free trade area and a customs union is not the commencing point for Pacific REI.

However, before delving into the economics of the REI, it is also important to understand the current state of play of the REI in the Pacific in order to be able to comprehend the current state of the regional architecture and trade dynamics that need to be developed. As such, chapter 4 is compartmentalized into three sub-sections. Section 1 will provide an overview of the current state of play of the REI.

In section 1, discussions pertaining to the Pacific Plan, major regional institutions in the Pacific and an analysis of the PICTA and MSG trade in goods agreement vis-a-vis the integration in the Pacific. Section 2 of Chapter 4, analyses the PICTA and MSG goods agreement under the parameters of the objectives, institutional arrangement, external dimension, effective content, strength, the dynamism and capacity to adapt the REI.

Section 3 of chapter 4 will provide further economic justifications as to why the creation of a free trade area and the economic union is not the commencing point for REI in the
Pacific. In this section discussions on the economic conditions of the Pacific Island countries and the pre-conditions of the REI process for the six PIC WTO countries are analyzed.

4.1 The Current Status of Regional Economic Integration in the Pacific.

Section 1, serves to provide a summary of the current state of play of the REI in the Pacific. For clarity purposes, the chapter will provide a synopsis of the Pacific Plan accentuating key elements of the REI and its application in relation to decision making and levels of influence by member states. Furthermore, the chapter will provide the summary of the major regional institutions and the extent of its influence in decision making in the REI. Finally the section will provide a summary of the major regional economic agreements in the Pacific.

A) The Pacific Plan

The Pacific Plan is regarded as the main framework for the region which encompasses the views, aspirations and the goals of the Pacific as a region towards growth and development. The Pacific Island Forum Secretariat is a regional organization comprising of 16 members including the current six members which are subject of the study.

In 2004 the Pacific Island Forum Leaders, in view to strengthen regional cooperation and integration and responding to the many challenges encountered by the Pacific countries endorsed the following vision:

“Leaders believe the Pacific region can, should and will be a region of peace, harmony, security and economic prosperity, so that all of its people can lead free and worthwhile lives. We treasure the diversity of the Pacific and seek a future in which its cultures, traditions and religious beliefs are valued, honored and
developed. We seek a Pacific region that is respected for the quality of its governance, the sustainable management of resources, the full observance of democratic values and beyond to develop our knowledge, to improve our communications and to ensure a sustainable economic existence for all” (PIFS, 2007, 2).

In order to transpose the vision of the leaders the Pacific Plan has been focused on four broad strategic objectives which includes:

a) Economic Growth: This includes increased sustainable trade (including services and investment), improved efficiency and effectiveness of infrastructure development and associated service delivery and increased private sector participation in and contribution to development.

b) Sustainable Development: which includes reduced poverty, improved natural resource and environmental management, improved health, improved education and training, improved gender equality, enhanced involvement of youth, increased levels of participation and achievement in sports and recognized and protected cultural values, identities and traditional knowledge.

c) Good Governance: which includes improved transparency, accountability, equity and efficiency in the management and use of resources in the Pacific and

d) Security which includes political and social conditions for stability and safety. (PIFS, 2007, 3).

Regionalism is a subject which has been emphasized in the plan associating it with countries working together for their joint and individual benefits. It is important to note that the Pacific Plan regionalism does not implicate any limitation on individual
countries sovereignty. In other words it provides member countries the right to keep its
domestic policies and decision making processes without any external influence. The
regionalism of the Pacific plan, aims to complement national program and add value to
the national initiatives. The regional dimension of the Pacific plan depends on the
support of the civil society, private sector organizations, development partners and other
stakeholders.

Despite the fact that the Pacific Plan does not explicitly state the final outcomes which
the region is aiming to target from regionalism, it does provide indications of its end
goals by way of assessing the benefits and costs of regionalism. Regionalism in the
Pacific aims to gain favoured economies of scale and enhance the movement of goods,
services and people over long distance. (PIFS, 2007, 4).

The Pacific Plan, despite not explicitly defining REI, provides for three different axis
line of regionalism for the consideration of the Pacific which includes:

a) Regional Cooperation: These involve the setting up of forums for
dialogues or processes between governments. It further defines regional
cooperation to addressing services such as health, statistics, audit
etcetera, which are provided by member countries, however one which
requires coordination between countries. This as a result is based on an
agreed principle or coordinating body.

b) Regional Provision of Public Goods/Services: These include pooling of
national services such as customs, health, education, sports etc. to
regional levels and

c) Economics and Trade: these includes the lowering of market barriers
between countries which are at the border or technical issues such as
quarantine measures, import taxes, passport requirement etc. It is further
alluded as improving access of Pacific businesses to consumers by
reducing economies of scale and reducing price whilst providing more choice for consumers.

The Pacific Plan further outlines the test for regional integration in three ways which it perceives would add value. These include:

a) Market test: which involves answering some of the questions such as the ability of the market to provide services and the extent or need for the engagement of national governments and/or regional bodies. If the market is providing the services well, then the involvement of national governments and regional bodies should be minimal;

b) Subsidiarity test: this involves testing the ability of how well the national and local governments can provide the service; and

c) Sovereignty test: this involves ascertaining whether the regional initiative affects the degree of sovereignty held by national governments. The Regional initiatives should move the management of the services to regional bodies but not the decision on the priorities.

**Review of the Pacific Plan**

The Chair of the Pacific plan review in 2013 made a presentation to the Leaders. In his presentation the Chair placed the following recommendations from the review of the Pacific Plan:

(i) Pacific needs to conduct Forum meetings in which leaders have the space to debate how best to progress the regional integration;
(ii) The network of the regional agencies needs to respond to the political agenda as opposed to setting the political agenda;

(iii) The reforms within the Pacific Islands Forum Secretariat need to institutionalize a robust public policy process i.e. a troika format discussion;

(iv) The need for further empowerment of regional and sub-regional organizations and regional meetings;

(v) Developing a shared understanding of the path to deeper regional integration;

(vi) A Special Process and a unique test for Smaller Island States (SIS) initiatives and the new Board for Pacific integration and commitment to addressing better integration of SIS.

(vii) The need to articulate the concept of sustainable development and encouragement of sustainable private sector growth as the key driver of improved standards of living and reduced dependence on aid; and

(viii) Coordinate aid flows in efficient and effective ways to support regionalism and the institutional incentives provided by them for organizations to respond appropriately to the regional agenda. (Pacific Plan Review, 2013, np)
B) Major Regional Institutions in the Pacific

1) Pacific Island Forum

The “Agreement Establishing the Pacific Island Forum” (AEPIFS) which was opened for signing by the Pacific Island Forum members in 2005, is the fundamental dossier that dictates the role, functions and powers of the Forum. The key objective of the forum emanates from the aspirations of the overarching dossier which is the Pacific Plan.

The Pacific Island Forum has been established as an international organization comprising of the 16 member countries of the Pacific Island Forum which includes Australia, Cook Islands, Fiji, Nauru, New Zealand, Samoa, Tonga, Federated States of Micronesia, Kiribati, Niue, Palau, Papua New Guinea, the Marshall Islands, Solomon Islands, Tuvalu and Vanuatu. Unlike other regional groupings, under the AEPIFS new members may be admitted into the Forum however subject to the fulfillment of certain conditions as stipulated in Article 1 of the AEPIFS.

- **Purpose of the Pacific Island Forum**
  
  Article II of the AEPIFS states that “The purpose of the Forum is to strengthen regional cooperation and integration, including through the pooling of regional resources of governance and the alignment of policies, in order to further Forum members shared goals of economic growth, sustainable development, good governance and security.”

- *From the excerpt above the purpose of the Pacific Island Forum aligns with the plans stipulated by the members in the initial Pacific Plan. The excerpt also indicates that regional integration was one of the key objectives of the organization with a view to achieving amongst others the final outcome of economic growth in the region.*
• **The Decision Making Body**

  Article III of the AEPIFS clearly outlines that the “preeminent decision-making body of the Forum shall be the Forum Leaders’ Meeting”.

  • *Article III as a result clearly shows that the Pacific Island Forum is an organization which does not hold any supranational powers to make decisions on behalf of the member states. The respect for national sovereignty is intact. In other words, the Pacific Island Forum is leaned in so far as REI is concerned.*

• **The Role of the Pacific Island Forum Secretariat**

  Article IV of the AEPIFS states that the “Forum shall have a secretariat as the Pacific Island Forum Secretariat (PIFS)”. Article VI on the “Appointment of Secretariat staff” states that the “Secretary General shall be appointed by the Forum Leaders under such conditions as the Forum Leaders may decide”. As per article VII on functions state that “the Secretary General shall act as secretary to the Forum Leaders Meeting”.

  “The Secretary General shall also act as secretary to Ministerial meetings, the Committee and such other councils, committees or working groups may be established by the Forum.” Furthermore the article details the expected types of secretariat role of the Secretary General.

  “The Secretary General shall be responsible, in close consultation with the Forum Chair and within the limits set by the Forum Leaders from time to time, for setting Forum leaders meeting agendas and coordinating responses by members to regional events, particularly crises. The Secretary General shall also perform other functions and duties as directed by Forum leaders.” Article VIII outlines further functions of the
Secretariat which “are to provide policy advice, coordination and assistance in implementing the decisions of the Forum leaders.”

- The above articles on the functions of the secretariat clearly stipulate that the Pacific Island Forum Secretariat has more of an advisory role; the key decisions are made by the Pacific Island Forum Leaders. The Pacific Island Forum Secretariat does not have the powers to make or legislate any decisions for the Pacific Island Forum members.

2) Melanesian Spearhead Group

The Melanesian Spearhead Group (MSG) is a sub-regional organization which has the membership of Fiji, Papua New Guinea, Solomon Islands and Vanuatu. It is important to study the institutional arrangement of the MSG given its importance in terms of the membership. The Agreement establishing the MSG (AEMSG) which was prepared in 2007. The AEMSG also states that the group is open to new members and observers based on certain conditions and decision of the MSG leaders.

- Purpose of the MSG
  Article 2 of the AEMSG entails “the purpose of the MSG to promote and strengthen inter-membership trade, exchange of Melanesian cultures, traditions and values, sovereign equity, economic and technical cooperation between states and the alignment of policies in order to further MSG shares goals of economic growth, sustainable development, good governance and security.

- The MSG vision to an extent emanates from the Pacific Plan and amid other outcomes the group is also focused on trade and economic growth.
• **Decision Making Body**

Article 9 of the AEMSG states that “the preeminent decision making body shall be the leader’s summit. The Leaders’ summit shall consist of the Heads of Government of each member country or the nominee and in the case of a member organization, the Head of the duly authorized representative”. It further states that the “Leaders’ summit shall take decisions at its sessions by consensus of all the Leaders present”. If consensus cannot be achieved, further dialogue and consultation shall be encouraged and pursued until a decision is made”.

• **The above excerpt clearly outlines that the individual countries have intergovernmentalist powers to make a decision. In other words the sovereignty of the states is not compromised.**

• **The Role of the MSG Secretariat**

Article 15 of the AEMSG outlines the functions of the secretariat. It states that “The Secretariat shall be headed by the Director General who shall be appointed by the Leaders’ Summit.” It further states that “the secretariat shall be responsible for the administration and management of the affairs of the MSG, provision of policy advice, coordination and assistance in implementing the decisions of the constituent bodies of the MSG and such further functions consistent with its purpose that may be determined from time to time.”

• **From the above excerpt its clearly indicates that the role of the MSG Secretariat is limited to advisory and policy recommendations. It does not have any powers to make decisions on behalf of the member states.**
3) Major Regional Trade Agreement in the Pacific

- **Pacific Island Countries Trade Agreement: Trade in Goods**
  The PICTA is a free trade agreement which includes the membership of 14 Forum Island Countries excluding Australia and New Zealand. The countries that are members to PICTA are Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea (PNG), Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The PICTA trade in goods agreement was signed by countries on 18th August 2001 and entered into force on 13 April 2003.

  To date 11 out of the 14 forum island countries have ratified the agreement. PICTA is regarded as the stepping stone to other free trade agreement such as the Pacific Agreement on Closer Economic Relations (PACER). In addition to the PICTA TIG, the Pacific Island Forum leaders had launched the PICTA trade in services negotiations in 2008. After seven intensive rounds of negotiations, in August 2012, the agreement has been signed by some of the Pacific Island Forum members.

  Tonga, Samoa, Vanuatu and Papua New Guinea along with other smaller Pacific Island Countries have signed on to the agreement. Fiji and Papua New Guinea are yet to sign the agreement. The key sectors of focus in the negotiations had been tourism, transportation and the business service sectors.

- **Melanesian Spearhead Group (MSG) Agreement**
  As a step towards Melanesian economic integration, the members Fiji, PNG, Solomon Islands and Papua New Guinea have signed onto the MSG trade in goods agreement. The MSG Agreement is based on a negative list approach similar to the PICTA trade in goods agreement. PNG had ratified the agreement recently in 2012.
Similar to PICTA trade in goods agreement, the members are also discussing its move towards trade in services as well. However, the MSG unlike the PICTA is moving towards cooperation agreements which are seen to be a build up to a fully-fledged trade in services agreement. In this connection, the members have signed on the Memorandum of Skills Movement Scheme in 2012. The agreement aims to ensure the free movement of human capital (labour mobility) across the MSG countries.

In 2015, the members of the MSG have been negotiating on an expanded MSG agreement and have included other components including chapters on Sanitary and Phytosanitary, Technical Barriers to Trade, Customs, Rules of Origin and Intellectual Property Rights. The negotiations are ongoing.

- **Economic Partnership Agreement (EPA)**
  
The Economic Partnership Agreement between the Pacific and the EU is still under negotiations. The EPA between the Pacific and the EU had been triggered as a result of the expiration of the Cotonou agreement. Another measure was the impossibility to reconcile with the World Trade WTO law the continuation for the EU to grant favorable treatment to the ACP group at large. Amid the Pacific, in 2009, Fiji and Papua New Guinea had signed onto the interim EPA. PNG had later on in 2011 ratified the interim EPA.

  Fiji has recently on 17 July, 2014, notified to the European Union of its decision to apply the interim Economic Partnership Agreement (EPA) with the European Union. The interim Economic Partnership Agreement (EPA) between the European Union and Fiji is thus ready for implementation. The interim EPA was deemed to be an agreement which would be valid until the Comprehensive EPA is agreed to by the Pacific Island countries. European Union and the Pacific have been negotiating on the Comprehensive EPA for more than 10 years. However, similar to the
difficulties encountered by other region, the comprehensive EPA on its own also has several contentious issues which need resolution.

On 05 July, 2013 the EU and the Pacific representatives have held further talks on the Comprehensive Economic Partnership Agreement. This meeting has discussed issues exclusively entailing to fisheries which seems to have a deadlock. The fisheries negotiations deal with accessing favorable rules of origin from the European Union under “global sourcing provision” is of key interest to the Pacific region.

Whilst there is a deep interest from the Pacific in obtaining global sourcing for fresh, frozen and chilled fish, the European Union, on the other hand has linked global sourcing to the issue to the conservation and management measures. In other words, the European Union has conditioned to the Pacific region that in order to utilize the global sourcing rules, it has to comply with the conservation and management measures imposed by the European Union.

The Pacific region on the other hand holds the strong views that it already has a recognized set of conservation and management measure under the Western Central Pacific Fisheries Commission (WCPFC). The addition imposition of the conservation and management measure is therefore not acceptable to the Pacific. Other contentious topics for negotiations include trade in goods, development cooperation, sustainable development and rules of origin. In 2015, the European Union has agreed on a three year hiatus on the Comprehensive EPA (C-EPA) negotiations. The negotiations as such are stalled.
The Pacific Island Development Forum (PIDF)

The PIDF is a recently formulated regional architecture. This regional arrangement is the considered architecture for sustainable development for the Pacific and as such for the purpose of this research is vital to discuss and determine its synergy to REI in the area of trade. The formulation of the PIDF was endorsed by the Pacific Island Leaders at the 2012 “Engaging with the Pacific” meeting on the 23-24 August.

The PIDF is a space for catalyzing, mobilizing and mainstreaming actions in support of sustainable development through green economy in the Pacific island countries. It’s an action-oriented platform to identify innovative solutions that will ensure sustainable development through adopting green economic policies.

PIDF works closely with international institutions to engage state and non-state actors to develop high-impact collaborations on sustainable development through Green Economy.” (PIDF, 2013, 6). The PIDF applies an all-inclusive platform and as such brings together leaders from the public and private sectors and civil society to address regional development challenges, through innovative alliance.

The vision is to have “A United, Distinctive and Sustainable Pacific Society”. The theme echoes the following sentiments:

- **United-All Pacific People irrespective of political status.** The PIDF is open to all Pacific Island Countries irrespective of their political status whether independent states or dependent territories and will involve all sectors of the economy whether public, private or civil society.

- **Distinctive- Only Pacific Peoples and Values.** The PIDF will include the People of the Pacific and will reflect their values of respect, compassion, service etc.
Sustainable Pacific Society- A Pacific Society that has re-balanced the three pillars of development. Their economies are characterized by smart growth: economy based on knowledge and innovation, Sustainable Development: Resource efficient, greener and competitive economy and inclusive growth: high employment economy with social and terrestrial cohesion and equitable distribution of wealth. (Source: PIDF, 2013,9)

Current Status of the PIDF
The first PIDF meeting was convened in Fiji in August, 2013. The meeting recognized the importance of PIDF as a body that could advance issues pertaining to Sustainable development and also PIDF being the nexus to regional and global processes on sustainable development issues. The second meeting of the PIDF was held in June, 2014.

(vi) Micronesian Trade Committee (MTC)

The notion behind the development of the Micronesian Trade Committee is to establish a “Micronesian Block” to address trade and trade-related issues that affected the Federated States of Micronesia (FSM), the Republic of Palau (Palau) and the Republic of Marshall Islands (RMI). The formation of this sub-regional grouping in the North Pacific was first discussed at the 7th Micronesian Presidents’ Summit (MPS) held in September 2007, in the Federated States of Micronesia. At the Summit the Presidents’ of FSM, RMI and Palau have directed the trade Ministers to explore the possibility of establishing a Micronesian Trade Committee.

The MTC was formally established during the 1st MTC Meeting on July 3, 2008, in FSM, through a Memorandum of Understanding (MOU). Article 1 of the MOU states that “the three Governments hereby establish a MTC to strengthen their sub-regional collaboration and integration efforts by
enhancing their trade capacities and coordinating and promoting their positions on trade issues of mutual interests”

At the 12th MPS held in July 2012 in RMI, the Presidents of the three Countries endorsed the recommendations of the 5th MTC Ministers Meeting to upgrade the MOU establishing the MTC into a treaty and the creation of a Working Group to review the draft treaty. The technical working group of the MTC was convened from the 30 June-01 July, 2014 whereby members have worked towards developing a Treaty Establishing the MTC. At the 6th MTC Trade Ministers Meeting from the 14-15 July, 2014, in Federated States of Micronesia, the Ministers had in principle endorsed for the Treaty Establishing the Micronesian Trade Committee (MTC). The Treaty also includes a priority area of cooperation and multi-phased approach towards adopting a common market. Article 5 of Treaty proposes a multi-phased approach towards achieving common market. The approach is in four phases:

1. Phase One: Setting the Rules and Institutions for preferential trade and investment;
2. Phase Two: Towards free trade and investment
3. Phase Three: Harmonization of trade and investment policies-towards customs union; and
4. Phase Four: Realization of a Micronesian Trade and Economic Block as a common market.

As way forward from the 6th MTC Ministers meeting, agreed that the signing of the Treaty will take place in the margins of the Third International Conference on Small Islands Developing States on September 1-4, 2014, in Apia, Samoa. Among the three countries that are members, the Republic of Marshall Islands have ratified the agreement in 2014. The Federated States of Micronesia and the Republic of Palau are undertaking their national consultation processes prior to ratification.
4.2 Analysis of the PICTA Trade in Goods and MSG Trade in Goods Agreement

For the purpose of this analysis, a comparison is made between the PICTA trade in goods agreement and the MSG trade in goods agreement. The comparisons will aim to ascertain an understanding on the objectives of the REI for the Pacific. In undertaking the analysis, the Analytical Framework of REI proposed by Torrent (2003) will be used as the premises to undertake the analysis.

In comparing the agreement, the extent of the applicability of the supranational and intergovernmentalism approaches in both the agreements will be identified. Furthermore, the application of institutional arrangements (i.e. the manner in which disputes are settled will be examined. Institutional arrangements may not in itself determine economic integration; however, an increase or decrease is interconnected to the effective application of these regional rules and its adaptation.

Moreover, the agreement will be used to determine the external dimensions of the REI as well. The external dimension would constitute the issues within the agreement which has an impact on third countries. Note that for the purpose of the analysis on external dimension, in Chapter 3, further numerical analysis on the impact of PICTA export share by PICTA and non-PICTA members is analyzed to show the impact of the agreement on third countries.

In addition, a comparison of the effective content of the REI process will be examined. This is demonstrated numerically in chapter 3 section 1 of the analysis, by comparing the trade intensity index, the export share, import share and export intensity index of the PICTA countries. However, in this section, comparison between the MSG trade in goods and PICTA trade in goods agreement will be analyzed by studying the width times the depth concept. In this concept the criteria for the depth is asserted to be the extent to which member states will remain free to regulate the specific topics differently. The more a member country regulates a specific topic the shallower the process will be in terms of depth.
The strength of the REI process is an area which will be assessed using the two agreements of PICTA trade in goods and the MSG trade in goods agreement. The strength of the REI process is analyzed by the credibility and effectiveness of the law of integration and member states political commitments. The political commitment alone is not a pre-requisite to REI, but credible laws are also equally important. As such the credibility factor is a matter of degree i.e. achieving different degrees of credibility using different mechanisms.

The final element in the comparison which will be considered is the dynamism and the capacity for adaptation. The need for adaptation therefore depends on the goals which are pursued and the adequacy of the initial instruments. In other words it has to primarily deal with the mechanisms to creating law and the swiftness with which the new or reformed laws can be adapted to new circumstances. This will be analyzed by examining whether the trade agreements have the mechanisms to create law and the swiftness with which the new or reformed laws can be adapted to new circumstances. In this the analysis will consider the static and dynamic nature of the REI process.

Annex 9 shows the analysis between PICTA and MSG trade in goods using the following framework which is transposed from Torrent 2003 Analytical Framework of REI and synchronized for this analysis. The framework includes the following:

1. Objectives of the PICTA and MSG trade in goods agreement.
2. Institutional Arrangement of PICTA and MSG trade in goods agreement.
3. The external dimension of PICTA and MSG trade in goods agreement.
4. The effective content of PICTA and MSG trade in goods agreement.
5. The strength of PICTA and MSG trade in goods agreement in the REI process.
6. The Dynamism and Capacity of adaption for the PICTA and MSG trade in goods agreement.
A. Objectives of the REI

In terms of the objectives of the REI for PICTA and MSG trade in goods agreements, both seem to have a common objective in so far as the outcomes of the Pacific REI process is concerned. However in PICTA it explicitly mentions the creation of a single regional market and the creation of a free trade area in the region. This as a result indicates the aspirations of the current agreement to move towards the five processes of the REI as mentioned by Balassa’s theory of REI. On the other hand for the MSG trade in goods, the general undertaking to adhere to the objectives is not a binding commitment however, “parties shall make every effort” which defeats the purpose of the agreement.

a) Institutional Arrangement

Furthermore, on institutional arrangements, the PICTA TIG has the outlined process for dispute settlement should a case arise. The process commences with consultations and then moves to dispute settlement in the event of non-resolution. It is interesting to note that the language for dispute settlement is non-binding as the parties “shall endeavor” which again defeats the purpose of the agreement and also such propositions will reduce the effectiveness of these rules for adaptation and thus creates an ineffective REI process for the Pacific. On the other hand, for the MSG TIG, the institutional arrangement only calls for consultations. As a result, it does not factor any further means of dispute resolution. Thus the decreased level of instruments for institutional arrangements indicates the ineffective rules to facilitate adaptation and for the REI process in the Pacific.
b) **External Dimension**

In so far as the external dimensions are concerned, the MSG and PICTA trade in goods agreements to an extent display this. Both the agreements have articles pertaining to the effect of the agreement on other arrangements. PICTA TIG however, has an important accession clause that explains to an extent the reaction of the parties to third country in terms of membership. The MSG trade in goods has a Most Favored Nation (MFN) clause which enables other parties to enjoy the same rights should a member enter into an agreement with a third party. Both PICTA and MSG TIG have been based on the negative list approach. There seems to be significant overlaps and trade diversion experienced between the agreements. For instance in the case of Papua New Guinea it has 3 items on the MSG trade in goods negative list whereas PICTA trade in goods is yet to announce its readiness to trade.

c) **Effective Content**

For the effective content, that measures the width and the depth of the agreement, it shows that PICTA TIG and MSG TIG members are able to freely implement and regulate its domestic policies. The non-implementation of the agreement does not have any consequence or legal implications prescribed in the agreement. Furthermore, members are also able to freely exit the agreement with notifications. In other words, for both the agreement one can deduce that in so far as the effective contents are concerned, the agreement, despite using ambitious language has an ineffective content. The more the ability of the member states to remain free to regulate specific topics differently, the shallower the process of integration is in terms of its depth.
d) Strength

In relation to the Strength of the REI, the members in both the PICTA and MSG trade in goods agreements use voluntary compliance out of the measure in goodwill to implement. There may also be the issue of overlap of the implementation or preference for countries. For instance Fiji, PNG, Solomon Islands and Vanuatu that are members of both the agreements can concentrate on either of the agreements when it comes to strength and as a result defeating the purpose of integration.

e) Dynamism and Capacity to Adapt

For dynamism and capacity to adapt, the PICTA TIG agreement does not explicitly mention the re-opening of the agreement, however, the indication for a review every five years and the desire to enter into a free trade area indicates that the agreement calls for the future modifications. However, this would depend on the strength of the REI and also the effective content mentioned earlier in the discussions. For the MSG TIG, it does not provide a clause for re-opening of the agreement and neither does it provide any specific timelines for the reviews. It only states that a party in its “opinion”, which means that unless a party deems necessary the agreement, may not be re-opened for negotiations. Alongside this, it is also important to note that currently both the MSG and PICTA agreements have moved into trade in services areas which was solely a mere decision of the Pacific leaders. As a result, the dynamism and the capacity to adapt the REI process is more leaned towards being static then dynamic.

Section 1 of chapter 4 provided an overview of the current state of the regional economic integration for the Pacific whilst section 2 thus far had undertaken a comparative analysis of the PICTA trade in goods and MSG trade in goods under the Analytical Framework of REI proposed by Torrent
Section 3 will provide economic justifications as to why the move towards REI commencing from free trade area and customs union is not practical for the region.

Section 3 of chapter 4 will also discuss in detail the pre-conditional characteristics (refer to Annex 10) of the six PIC WTO members in relation to the following aspects. (These pre-conditional characteristics are also derived from the Analytical Framework of REI proposed by Torrent 2003. These include:

(i) Geography which will include the economic characteristics in terms of resources, climate, border/sea, colonial rule and the transportation;
(ii) The population size of the economies;
(iii) The economic size which will include the Gross Domestic Product (GDP), the GDP per capita and other macroeconomic indicators for the Pacific; and
(iv) Political congruence which will include institutions for regulating trade, settling disputes and the degree of political support in the area of trade through determining the position of trade in the national dossier of the countries.

4.3 Economic Conditions of the Pacific Island Countries

In order to assess the economic conditions of the Pacific Island Countries it is important to look at the social, economic and political congruence of the island states. The similarities and or differences identified will indicate the degree to which REI in the area of trade can occur in this region.

In the area of social analysis, geography, climate, land, populations are indicative factors that will be discussed. For the economics of the region, indicative factors such as the GDP, the GDP/capita, the sources of government revenue, the exchange rate system and
the tariff rate applied on all products and the cost of doing business indicators are used. On political congruence, the study of institutions responsible for the trade in the respective Pacific island economies is examined.

a) Geography

The six Pacific island countries that are members of the WTO have commonalties in terms of the resource endowment. In the case of Fiji, Solomon Islands and Vanuatu, fresh fish is a key product whereas for PNG species of tuna is a major resource. However, across the board, the PIC’s are rich in mineral resources. Papua New Guinea has gold, offshore oil and gas products; Fiji is endowed with gold and bauxite whereas countries like Solomon Islands and Vanuatu have other minerals. For Tonga and Samoa similar to other Pacific countries, agricultural sector is of key importance to the country despite the fact that the resources are utilized at different levels. For the small PIC’s subsistence agriculture is the major economy though a few products such as copra and coconut oil are exported. In terms of climatic conditions the Pacific share common tropical climate as well.

In terms of land mass, Papua New Guinea has the largest land mass (462,540 km sq), followed by Solomon Islands, Fiji and Vanuatu. Tonga and Samoa, on the other hand, have a smaller land mass in comparison to the other four countries. Amid all the countries, Tonga has the smallest land mass of 748 sq km. Fiji, however, has the largest land mass for agriculture (4,276 sq.km), followed by Vanuatu (1,870, sq km) and PNG (1,190 sq. km). Solomon Islands, Samoa and Tonga have smaller agricultural land mass.

b) Population

In relation to the population size, PNG has the largest population of more than 6.3million people indicating a potential market for trade. This is
followed by Fiji with around 858,000 people, Solomon Island (523,000 people) and Vanuatu (224,000 people). Tonga and Samoa have a relatively smaller population range between 100,000-200,000 people. However, it is interesting to note that most of the people in the six PIC countries fall within the young working age category of persons.

The working age population (15-64 years), as a percentage of total population for the six PIC countries shows that more than 50% of its population falls under the working age category. Fiji has a working age population of 66% followed by PNG (58.8%), Vanuatu (58.6%), Samoa (57.4%), Tonga (56.8%) and Solomon Islands (56.3%). The young population density of the PIC WTO countries further indicate that the Pacific needs to focus more heavily into the services sector (labor mobility) in comparison to the traditional economic sectors (i.e. agricultural sector).

c) Colonial Rule

The colonial rule of each country within the Pacific indicates the influence on the jurisdiction and legal system. Fiji, Solomon Islands and Tonga have been colonized by the United Kingdom and as a result may have influence of its economic organization and adoption of its jurisdiction from the British history. Papua New Guinea had gained its independence from Australia, one of its close neighbors. As a result, in relation to the economic organization and adoption of its jurisdiction, along with aid it is connected with the Australian history.

Samoa had gained its independence from New Zealand and as a result its economic organization and the adoption of its jurisdiction as well as aid are linked with New Zealand. Vanuatu is an interesting case, as the country had been colonized by the French and British. As a result it is likely to be
influenced by both the colonial powers in the adoption of its legal and economic systems.

The analysis of the different colonization indicates the cultural and the economic systems of these countries. This as a result impacts the manner in which trade in the countries occur which very much will impact the REI. It also has an impact when it comes to issues of harmonization of legislations across countries in trade and when dealing with domestic legislation pertaining to trade standards.

d) Economic Size

In so far as Economic size is concerned in relation to the Gross Domestic Product (GDP) at nominal price, PNG has the highest GDP of $US12.6b however, it has the lower GDP/capita of $US1,900 compared to other countries. Fiji has a GDP of $US3.6b however its GDP/capita is lower than Tonga (US$3,601). Solomon Islands has a GDP of $US 840m but has the lowest GDP/capita of $US 1,553.Vanuatu has a GDP of $US 743m and a GDP/capita of $US 3,036.Samoa has a GDP of $US 630m but a GDP/capita of US$5,965 which is the highest of all the PIC WTO countries.

Tonga on the other hand has a GDP of $US439m with a GDP/capita of $US 4220 which is the second largest in terms of per capita income for the six PIC WTO members. However, in order to ascertain the peculiar trend in the GDP a close examination of the GDP/capita and the revenue generation mechanism of the PIC have to be studied.

In brief, all the PIC WTO members to an extent derive its revenue from taxes, however for the smaller island countries such as Tonga and Samoa the taxes on imported items is a major source of revenue along with foreign aid. Most of these countries do not deduct income tax from its workers (e.g. Vanuatu); as a result the net disposable income is high for these countries. In relation to
the goods and services tax, the prices of goods in these economies tend to be high. As a result this shows that GDP and GDP/capita in the case of the Pacific region does not clearly indicate the state of the economy’s performance.

Moreover, in relation to the fiscal and monetary policies, all of these economies have a strong influence in terms of government intervention in regulating the fiscal budget. With exception to PNG, which has a high density of natural resources, it is based on the flexible exchange rate systems. All the other five PIC WTO members have a fixed exchange rate system. The creation of a regional stock exchange between the countries as a result would not be feasible given the level of regulation in currency and exchange rate systems at regional level.

e) Political Congruence

In relation to coordinating issues pertaining to trade, each of the five PIC WTO member countries has its own relevant ministries and line agencies (mainly the Ministry or Department of trade as the focal point on trade issues). In other words, the PIC WTO countries regulate their own domestic policies in so far as trade is concerned.

f) Status of the PIC WTO Countries

In so far as ranking of these PIC WTO countries, Fiji and PNG are clustered in the small vulnerable group of economies at the WTO and are middle income economies from the United Nations ranking. The other four PIC WTO members, Tonga, Vanuatu and Solomon Islands are regarded as Least Developed Economies (LDC’s) in the WTO and the United Nations group of countries. Samoa has recently graduated it status to be in the developing group of countries.
g) Other Indicators

Apart from the economic pre-conditions it is also important to analyze the state of the current business environment of the six PIC WTO countries in order to ascertain the extent of impediments in the flow of goods across borders. Issues pertaining to trade facilitation are a major area of concern and are an existing challenge for small island countries. This is no different in the case of the Pacific. Looking at the business extent of disclosure index for the six PIC countries, the value ranges from 3.0-5.0. Fiji, Solomon Islands and Tonga have a business disclosure index on 3.0, whereas PNG and Samoa both have an index of 5.0.

This indicates the difficulties encountered by the business community in terms of disclosing information. Reasons for this could be the burdensome regulatory requirements which the business community needs to fulfill. (Note: Fiji has recently in 2013 announced the implementation of a one stop shop concept for investors, depending on the outcome, the business disclosure index may increase for Fiji, however this has to be studied more in depth with other factors as well).

Furthermore, with the isolation of the Pacific as a whole, from the rest of the world and its division by sea, the cost of transportation is high. This as a result impedes trade. In assessing the cost of exports ($US per container) the cost of transportation for Vanuatu is the most expensive ($US 1690 per container), followed by Solomon Islands ($US 1070 per container). PNG, Samoa, Tonga and Fiji though have a lower cost; the value is still high in monetary terms. The cost of export ($US per container) for the four countries range between $US 650- $949.

Moreover, analyzing the liner shipping connectivity index (LSCI) which indicates the shipping services within the PIC, Fiji has a LSCI of 12.4,
followed by PNG (6.9), Solomon Islands (6.1), Samoa (4.4), Vanuatu (3.9) and Tonga (3.4). Assessing the range of LSCI with index = 100, the LSCI for the Pacific is relatively low, indicating the impediments in exporting of products within the PIC countries.

In addition to this, the logistical performance index, the overall index for Fiji, PNG and Solomon Islands for which data has been available indicates that the index is 2.4. Data for Samoa, Tonga and Vanuatu are unavailable. The index is low which indicates that the countries need to improve their logistical support services in areas of tracking and taking consignments, quality of logistics services, the arrangement of competitively processed shipment, the efficiency of customs clearance process and in relation to improving its quality of trade and transport related infrastructure.

This chapter has provided an overview of the Pacific Island Countries REI in its current form. section 1 of chapter 3, had provided an overview of the current state of the REI in the Pacific by way of discussing the regional institutions and the existing trade agreements concluded by the region. Section 2, further analyses two of the Pacific trade agreements in goods, PICTA and MSG under the analytical framework of the REI proposed by Torrent (2003). It also provides commentary as to how the agreement has had certain gaps which the Torrent (2003) framework had identified. Thirdly, thus we move onto a more in depth analysis of the economic conditions that prevail in the Pacific in section 3 of the chapter by looking at the social, economic and political congruence of the states. This will further aid in identifying the Framework for the REI for the Pacific.

**Concluding Remarks**

Chapter 4 has only provided comparisons between states in the Pacific. However, in order to develop a framework that is practical, it is also
important to compare the other regional frameworks that exist for comparison and ascertaining the best fit for the Pacific. Chapter 5 will provide a comparison of the European Union, the ASEAN and the Pacific REI process. In order to provide comparisons the Analytical Framework of the REI proposed by Torrent (2003) is used to make comparisons.

Chapter 5 will provide a comprehensive analysis of the European Union, the ASEAN and the Pacific Island Countries REI processes. The aim of the comparisons is to ascertain the magnitude of difference which exists in the models. The reason for using EU model and the ASEAN model for comparisons is because these have been widely used and debated in the field of REI and stand as dominant models.

In undertaking the analysis, the Analytical Framework of the REI proposed by Torrent (2003) is used to provide comparisons between the three models. The comparison also identified the gaps that exist between the models and how the Pacific REI process in trade may or may not be different to other EU and the ASEAN model.

a) Membership and Country’s Level of Development

- The European Union
  In each of the three regions, membership in relation to the number and the size of the economies vary. In the case of the EC, there are 28 countries which make up the community. It is interesting to note that all the countries are within the European range and as a result have common culture that may be a factor in trade and economics. Looking at the ASEAN region, the region was formed with 10 member states. In relation to culture, similar to the EC, their membership also has the common culture of Asia which may have been one of the reasons as to why countries came to a common political congruence more easily.

  In contrast, in the case of the Pacific region, though this research is limited to the study of the six PIC’s, the greater Pacific members for the PICTA trade in goods agreement comprise of 14 countries which are a mix of the Melanesian, Polynesian and the Micronesian group. Despite
the fact that these countries have a common Pacific culture, each grouping may have different forms of doing business which may have an impact the Pacific REI process.

Aside from the culture on the economic aspect, each region has a different level of development in relation to income, resources, sourcing of government revenue and exchange rate system. In the case of the EC, the member states range from high to middle income countries with a total economic size of the Gross Domestic Product (GDP) to be $US16.6 trillion and a GDP per capita of $US33,609.

In relation to the resource base, the EC has a strong manufacturing sector which is key to the economic development. The contribution of Agriculture in the EC is very limited in terms of the REI process because the agricultural policies within the EC are defined at the regional level. Aside from this, the EC is one of the major aid donors.

In addition to this, from the logistical performance indicator index, EC’s overall rating is 3.5, which is significantly higher. This further indicates that the EC is in a better position to facilitate trade and provide logistical support in comparison to the Pacific. The logistical performance index measures the ability to track consignments, the competence and quality of services rendered, the ease of arranging competitively priced shipments, the efficiency of customs clearance processes, and the quality of trade and transport related infrastructure.

- **The ASEAN**

The ASEAN is also a combination of developed middle income and least developed countries that form the membership. The GDP for the ASEAN region is worth $US1.8billion with GDP per capita ranging from the lowest of $US715 and the highest (Singapore) of $US43,929. In terms of
the resources, the ASEAN region has a well-developed agricultural, manufacturing (clothing and textile, automotive etc.) and services sector.

Similar to EC, the ASEAN’s major source of income are revenue from exports, taxes, remittances and public finances. In the case of the EC however, a part of the member states income is transferred to a regional budget. Aid in the form of projects is also provided to small LDC economies. The ASEAN has similar flexible exchange rate system as the EC due to its large export base. As such the market dictates commerce in the region.

- **The Pacific**
  The PIC’s constitute of 14 Pacific Island Countries. The economies of the Pacific unlike the ASEAN are a mix of low middle income countries, least developed economies and the small vulnerable economies with a share of less than 0.01% of world trade. The major sectors of the economy include agriculture, fisheries, forestry and mineral resources such as gold and offshore oil.

  The total GDP of the Pacific is approximated to be $US439m with GDP per capita of $US 2531. Most of the PIC’s in particular the small island states mainly rely on taxes from import and are dependent on aid and concessional loans. Countries such as Tonga and Samoa also depend on remittances. The Pacific has a fixed exchange rate system with exception to Papua New Guinea which has a flexible exchange rate due to its high volume of natural resources. The Pacific, unlike the EC and ASEAN, use fiscal policy measures at large to determine the budgetary allocation and distribution of resources, given that the economies have narrow export base.
b) **Geography and Population**

Both the ASEAN and the EC have landlocked economies with a few of its countries divided by sea and as such use both air and road transport in the facilitation of trade. As such the cost of doing business for both EC and ASEAN in terms of facilitation of trade is much lower in comparison to the PIC’s which are” sea locked.” The PIC’s are further challenged with high transportation costs of air freight and inter island shipping services.

In relation to population the EC member states have a total population of 5094m whereas the ASEAN member states have a population of 598.5m. In comparison to this, the Pacific has a population range between 0.1m-12.6m. PNG has the highest population. Other Pacific Island countries of population range are less than a million including Fiji.

The population density of a region impacts the demand and supply and the price elasticity which ultimately impacts the overall trade patterns of the regions and the REI processes. It is interesting to note that the Pacific has a young population base which is a promising prospect for labour mobility and services trade in the region. The ASEAN and EC have a high percentage of ageing population and as such the future state of play in relation to labor demand is likely to increase in these regions.

c) **Political Congruence in Trade**

The ASEAN region has an influence of the French and British colonies. This has a major influence in the jurisdiction. The Pacific on the other hand has a mix of colonial history in different countries with French, Britain, Australia and New Zealand.
As such, the jurisdiction of a region and its influence matters in the REI process in the legislative and commercial areas. The different applicability of the jurisdiction may impede trade facilitation and also harmonization process which ultimately protracts implementation. In relation to the ownership on trade matters, for the EC, trade in goods is an exclusive competence of the union.

In other areas (Services, Investment) competences are distributed between the EU and its member states in a complex way. For the Pacific and the ASEAN, trade is controlled (coordination and implementation) by the respective Ministries of trade or relevant bodies in the individual Pacific countries.

d) Objectives of the REI Process and Institutional Arrangements.

The final outcomes of the REI for all three regions to an extent seem to converge in that the EC, the ASEAN and the Pacific aim to have economic growth. However, it assessing the level of ambition, the EC REI is more ambitious and demands countries to integrate with an accelerated pace in order to attain economic and development goals. It aims at accelerating the diversification of economies and coordination and harmonization of regional and sub-regional policies to promote and expand inter-regional trade aspirations.

EC’s aspiration to the high level of ambition is displayed in its institutional arrangements. The EU has a customs and monetary union and a single market which is fully implemented. It is founded on the Treaty of Rome (1956). The EC has a Commission which proposes legislations and manages and implements EU policies and the budget and contributes to the enforcement of EU law and represents it internationally in the area of trade. After the entry in force of the Treaty of Lisbon in 2009, a European External Action Service has been created with a broader scope in the only area of external relations.
There are two councils that coexist, the European Council and the Council of the European Union. The role of the European Council, composed by the heads of Government, is to provide support on major political issues pertaining to the European integration. The Council of the European Union is the main decision making body of the EU. It takes decision/passes EU laws on proposal from the EC in consultation with a European parliament (co-decision). It coordinates broader economic policies, concludes international agreement, approves budget and coordinates the cooperation between national courts and defense.

There is the European Parliament that is elected by the people and the legislative parliament which has the powers over legislation, budget and supervisory role and adopts law through decision. A European Court of Auditors controls and manages the EU budget.

The European Court of Justice is another arm of the EC which acts as a sort of constitutional court and guarantees the uniform interpretation of EU law. The Court of First instance settles disputes raised by individuals when they concern the application of EU law and Member State jurisdiction are not competent. Other important organs of the EC include the Economic and Social Committee which articulates the opinion of organized society on economic and social issues. The Committee of the region which expresses opinion of the regional and local authorities both advisory bodies and the European Ombudsman deals with citizens’ complaints by any EU institution or body.

The ASEAN objectives on the other hand are ambitious but its aim towards REI varies slightly to that of the EC or can be said to be an extension of the EC. The ASEAN aims through its Economic community objective to create a freely integrated market in the region. The ASEAN FTA embodies the elimination of almost all tariffs. The ASEAN, however, has not moved into
the depths of economic integration as the EC. The ASEAN also aims through its Security Community objectives to resolve all conflicts by use of peaceful diplomacy in the region and not by force. The ASEAN community through its social, cultural and community objectives aims to assist the disadvantaged groups, rural workers and women and children.

In relation to the ASEAN structure, the group was formed as a regional organization in 1967 and is an inter-governmental organization. The ASEAN operates more as a secretariat which coordinates the ASEAN organs. It is responsible for the organization of ASEAN Ministerial meetings and initiates plans and programmes of activities for the ASEAN regional cooperation as per the policy guidelines. In other words, it initiates, advises, coordinates and implements ASEAN activities.

Unlike the EC, the ASEAN does not have a council and the decision making powers rests on the Heads of the States and ASEAN Government through ministerial meetings. Unlike the EC, the ASEAN members retain their sovereignty. The ASEAN is premised more towards political cooperation and regional forum arrangements to discuss issues and find resolutions. Each member has its own parliament/government unlike the EC which has a European Parliament. The ASEAN structure is more flexible. In addition, the ASEAN does not have a Court of Justice but decisions are priori to each countries judicial system. The ASEAN work through committees. The ASEAN however is similar to the EC in that it has an ASEAN Financial and Central Bank.

The objectives of the Pacific REI in comparison with the ASEAN and EC are seen to be a subset of both. The Pacific objective for REI is aimed at diversifying and expanding trade in order to improve the economic and social standards of people of the PIC’s. In order to achieve this, the Pacific works through its institutional arrangement, the Pacific Island Forum (PIF).
The PIF is a non-governmental organization aimed at strengthening regional integration and cooperation in the Pacific. Unlike the EC and ASEAN, the PIF displays a role in providing policy advice and organizing for forum meetings. It does not have any supranational powers to impose a decision on members. The PIF does not have any Council or Court of Justice and neither any regional bank. The decisions on issues are made through Ministers and Leaders meetings. Each member has its own sovereign rights and manages its own internal affairs for law enactment, judiciary system and regulation of fiscal and monetary policies. Each PIC determines its own budgetary policies as well.

The institutional arrangement of each of the region is different. The EC has a regional organization which is a customs and monetary union and a single market which is fully implemented. The decision of the EC is based on decisions and procedures that emanates from the Treaty of Rome founded in 1956. The ASEAN on the other hand, is an inter-governmental organization which was established 11 years after the Treaty of Rome. The Pacific Island Forum is a more recent organization compared to the EC. It is a non-governmental organization which is aimed at strengthening the regional integration and cooperation in the Pacific. It is important to note that the different regional organizational structures is a key determinant of the magnitude of the decision making power in the different regions.

e) External Dimension and Effective Content

The external dimension concerns the regions engagement in relation to third countries. The existence and or absence of external dimension in the REI process concerns the risks of diversion of trade and investment and the problem which member states to an agreement would encounter due to multiple membership. In relation to the external dimensions, given that the
EC member states do not have sovereign rights to their own domestic policies (the laws and legislation are enacted by the Commission with representation as well as the conclusion of agreements are done by the Commission), in terms of influence on the external dimensions the EU has an exclusive competence in the area of trade in goods. In other areas there is very complex distribution of competences between the EU and its Member states. In areas of member’s competence, they can continue to sign separately bilateral agreements.

On the other hand, for the ASEAN, given that the liberty to negotiate and conclude agreements rests on the individual member states, ASEAN (members with countries such as India, Korea, Japan, China and the EU i.e. the ASEAN) has the liberty to conclude agreements individually. It may create the possibility of multiplication of membership. In the case of the Pacific, four of the six Pacific Island Countries, Fiji, Papua New Guinea, Solomon Islands and Vanuatu are members of the PICTA trade in goods and the MSG Trade in goods. Both the agreements are in trade in goods and premised on the negative list approach. As a result there are tendencies for overlapping as a result of multiple memberships.

Aside from the external dimension factor, one has to be cognizant of the effective content of the agreement. In cases where a member is a signatory to two different agreements in a region, the content of the agreement will also determine the degree to which multiplication and overlapping may or may not occur and the capacity to implement the agreements. For the EC given that the member countries implement the regulations in trade which are imposed on them by the European Commission, the members do not exercise full sovereignty and do not determine their own domestic policies.

As a result, each member adopts uniform laws passed externally; the content is deep and effective in the EC context. The content is deep and broad in the
areas of trade in goods, services, investment, and movement of workers, monetary policy and the harmonization of standards, agriculture and competition.

However, the content itself does not determine the REI processes success; the strength and dynamism which will be discussed later are important congruent factors. In the case of the ASEAN, the member states to a large degree have control over their own domestic policies. Despite the fact that the ASEAN members through their political will and understanding are time bound to implement the agreement (ASEAN 2020 vision), the members exercise own decision making powers for individual state affairs.

As a result the ASEAN content may not be as deep and effective as the EC in relation to the content. The Pacific on the other hand, retains the full right as individual member state to exercise its domestic policies. As a result, depending on the individual countries development and implementation capacity, the agreement is implemented at an individual pace by PIC’s. As a result, the PIC’s content is more flexible and shallow.

f) **Strength and the Dynamism and Adaptability of the REI**

The strength of the REI process is determined by the credibility and effectiveness of the law of integration and the member states political commitment. The EU has always combined the respect for the EU law with a strong political commitment by member states. However, there seems to be a considerable decrease in both as a combined result of the latest enlargements and the economic and political crisis.

Looking at the dynamism and adaptability factor, these depend on the goals pursued and the adequacy of the initial instruments. The EC Treaty of Rome
and the subsequent treaties contain provisions on the creation of new laws and regulations. It is therefore dynamic.

For the ASEAN, the strength of the REI process, the ASEAN though explicitly does not have an institution as the EU; its members have the political commitment to implement the agreements within a set time frame. The agreement on the framework of the ASEAN mandates that members shall cooperate with the ASEAN secretariat indicating a degree of REI strength. In terms of dynamism and the capacity to adapt i.e. the creation of new laws, though there is not explicit mention as in the EC case, however, the Agreement on the Framework for ASEAN provides for the creation of the members to engage with other countries in light of the changing climate. As a result the ASEAN REI is also dynamic.

For the Pacific, in relation to the strength of the REI process, each PIC member controls its own domestic policies and determines the importance of the REI in its national strategies. Looking into the PICTA goods agreement there is no clause to explicitly indicating neither the sign of imposition nor any implications for slow or non-implementation. On the issue of dynamism and capacity to adapt, the PICTA trade in goods has a “review clause” for the agreement to be reviewed which indicates the creation of new provisions. However, the ability to adapt depends on the strength and the effective content of the REI for the Pacific which is shallow.

Chapters 3 and 4 thus far have provided factual justifications along with economic rationales by way of comparing the differences between the six Pacific member countries and then broadly compared the Pacific state of REI with the EU model and the ASEAN model. The comparisons are undertaken in light of the overall economic environment of the regions, the objective of the REI process, the institutional arrangements, the external dimensions, the effective content, the strength of the REI process and the dynamism and
capacity to adapt. There are clear divergence in terms of the architecture of the EU and the Pacific REI process. In comparison with the ASEAN REI, the Pacific has some common elements such as the informal meetings and secretariats role which does not have any mandatory powers but the decision is based on consensus of member states.

In addition, in comparison with the levels of development (legal and infrastructure) and other economic indicators such as the GDP, the GDP/capita and the population base for the Pacific region, despite the fact that REI can be a positive impetus to regional prosperity, however the orientation of the REI processes require deep thinking.

Following from the analysis in the of chapter 5 and reading it alongside the discussions from chapter 3, two core issues relating to regional economic integration in relation to trade has been identified:

- The magnitude and direction of trade in goods between the six PIC countries and
- Whether the formation of an FTA and Customs Union are necessary steps for PIC’s to move towards REI proposed by the unidirectional method of Balassa (1961).

The above assertions are discussed in the latter part of the discussions.

1) The Magnitude and Direction of Trade in Goods

In order to assess the magnitude and direction of trade flows in goods, using regional indicators, the findings clearly reflect that despite the existence of the PICTA trade in goods agreement, the member countries in this case the six PIC countries have not integrated fully. There is minute indication of trade flows between certain members; as such REI
has not transpired. Delving into the second layer of integration is the export flows of non-PICTA members into PICTA countries. It shows that even without being members, Australia and New Zealand’s trade flow within the Pacific is substantial. This indicates that tariff elimination is not the only means to integration and liberalization. Other factors such as non-tariff barriers, economies of scale and resource availability are key factors.

2) **Whether FTA and Customs Union are the first key moves towards REI (Unidirectional Approach).**

In examining this assertion, it is important to firstly discuss the elements involved in the formation of a free trade area (FTA) and customs union and assess it against the development of the Pacific. An assessment of the formation of the free trade area and customs union as per GATT Article XXIV is examined.

When a WTO member decides to enter into a regional trade agreement, it can deviate from the non-discriminatory procedures of General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS). This however is only possible if the member enters into such arrangements under specific conditions specified below:

- Paragraph 4 to 10 of Article XXIV of GATT 1994 and the Understanding on the Interpretation of Article XXIV of GATT 1994;
- Paragraph 2 © of the so-called Enabling Clause (i.e. 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries; and
- Article V of GATS governs RTAs in the area of trade in services for both developed and developing country members.
GATT: Article XXIV provides for the definition of Free Trade Area (FTA) and Customs Union.

GATT Article XXIV: 8 (b) define FTA to be “A free-trade area to be understood to mean a group of two or more customs territories in which duties and other restrictive regulations of commerce are eliminated on substantially all trade between the constituent territories in products originating in such territories.

GATT Article 8: (a) (i)-(ii) define a customs union to be “understood to mean the substitution of a single customs territory for two or more customs territories so that (i) duties and other restrictive regulations of commerce are eliminated with respect to substantially all trade between constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories and (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.

In the case of the Pacific as discussed in chapter 4, the Pacific is distinct in many respects from other regions.

- The composition of the Pacific Island Countries
  The Pacific is a mix of countries that are at different levels of development. Though one may relate it closely to the ASEAN region in that members are made up of least developed countries and small vulnerable economies the Pacific has other challenges that make it unique. These include being distant and isolated from the market and the low level of development of the Pacific countries to that of the ASEAN.
As a result, using the EC model or Balassa’s theory in totality is not justifiable.

- **Infrastructure Development**
  In forming an FTA, member countries are required to have complementary economic structures. In the case of the Pacific due to the different levels of development it is a difficult and arduous process to develop complementary economic structures. The economies in the region operate at different levels of development and have a different legislative requirement that makes it difficult to have common economic structures.

- **Harmonization of Taxation and Regulations**
  A deepened free trade area or customs union also calls for at least some harmonization of taxation laws and regulations. The Pacific with its colonial past, lack of resources and different degrees of development will find it burdensome to harmonize its taxation and regulatory policies. The Pacific countries exercise sovereignty over their individual state affairs and for net importing region; taxes are vital source of government revenue. As a result, for the smaller economies of the region will encounter greater difficulties and face greater revenue loss consequences. In addition, with low manufacturing base and poorly developed agricultural sector, exports may not recover the revenue loss from taxation but incur greater cost to the region as a whole. The same applies to regulatory harmonization as well.

- **Common External Tariff**
  Forming a customs union, if in accordance with Balassa’s theory, this was considered a necessary step towards regional integration in other areas comprised under the notion of “Common Market”. For the Pacific, countries will encounter greater problems in converging to have common external tariff across member states. Taxation is a vital part of the revenue for small island states and formulation of a common external tariff may
have implications and cause budgetary constraints on governments. The small island economies also have very limited export base therefore these economies do not have an alternative revenue source aside from taxes.

- **Common Trade Policies**

  Each of the Pacific Island countries as identified in chapter 4 have different levels of development, are endowed with different resources and have independent judiciary and legal system. The formulation of a Common Trade Policy for the region will be more difficult and if critically analyzed not feasible as well.

  **Concluding Remarks**

  As such from the three chapters (3, 4 and 5) the following can be asserted:

  1. **Under the current REI with respect to PICTA, the trade flow between the Pacific (in case of the six PIC WTO) members is minimal despite the elimination of tariffs;** and

  2. **It is therefore not practical for the Pacific to follow the unidirectional approach of forming a free trade area and Customs union for the REI process in the Pacific. As such a unidirectional path for the REI in relation to trade is not an option as proposed by Balassa’s theory (1961).**

  The beginning of Chapter 5 has provided a detailed analysis of the three regional economic models namely the EU, the ASEAN and the Pacific using the Analytical Framework of the regional economic model proposed by Torrent (2003). The analysis has identified gaps as to why the unidirectional model of the REI is not practical for the Pacific and the constraints that exists in relation to the levels of development, infrastructure, institution, regulatory differences and different domestic
policy regimes in trade. As a result, the Pacific has to consider a more practical approach to the REI in trade that provides the end goals of growth and development.

Furthermore, from the analysis of previous chapters, it is clear that the linear approach of the REI process sequencing is not the feasible commencing point for Pacific integration. As such chapter 6 will highlight the options available for the Pacific in relation to the REI in the area of trade. This will be more practical for the Pacific. It will be based on the Analytical Framework of REI proposed by Torrent (2003).
Chapter 6 will provide an assessment on the key areas where the Pacific as a region has comparative advantage and potential to thrive. The assessment will consider the goods and services export markets of the Pacific. The analysis as a result will aid in the development of a proposed framework for the REI that can be used in the Pacific.

In developing the framework, the existing analytical framework of Torrent (2003) will be used as a basis. The reason for using Torrent (2003) framework is that it is based on a multidimensional approach, providing the flexibility needed to develop the processes and outcomes of the REI which would be more suited for the Pacific. This is based within the parameters that will consider the objectives, the institutional arrangements, the external dimension, the effective content, the strength, dynamism and capacity to adapt.

The chapter is divided into two sections. Section 1 will assess some of the key areas where the Pacific as a region may have a comparative advantage and a potential to thrive. This is undertaken by analyzing the goods and services export markets. Section 2 will propose a framework for the REI which may be used in the Pacific. The suggestions will aim to achieve an outcome oriented result as opposed to a process based on Balassa’s five stage of REI process. This section will also examine the criticisms of the linear model of Balassa’s theory of REI.

6.1 A Comparative Analysis of THE in Goods and Trade in Services for the six PIC WTO Countries.

This section will compare the goods and services exports between the six PIC countries in relation to the world exports. In order to ascertain the importance of trade in services in the region, Table 8 depicts the total exports of services by the six individual PIC
countries (Fiji, PNG, Vanuatu, Solomon Islands, Samoa and Tonga) in thousands of $US per year. These are individual exports of the respective countries to the world.

- **Ranking of services exports for the Pacific Island Countries**
  In relation to services export ranking of the six Pacific island countries in ascending order, Fiji is ranks as the highest service exporting country in the Pacific, followed by Papua New Guinea, Vanuatu, Samoa, Solomon Islands and Tonga. On average between 2009-2013, Fiji exported $US 10,692,27 worth of services, PNG on average exported services worth $US 316,870. Samoa’s average exports totaled $US 133,946. Solomon Islands exported services worth $US12,88,87 while Tonga’s value of services exports amounted to $US53,780.

  The major services exports for the Pacific include tourism and related services, hotel services, transportation and professional services amongst others. There are several reasons attributed to the high exports of services from Fiji. The economy of Fiji is open to investors, it has a streamlined its processes in doing business and has accessibility to major infrastructure and support services such as banking, telecommunications and transportation. Other Pacific island economies need to improve their service delivery in particular developing the required infrastructure to ensure that the market is attractive for foreign direct investment. Key services such as financial services, telecommunications and transportation are important.

- **Ranking of product exports amongst the Pacific island countries**
  In terms of the product exports ranking for the six Pacific island countries in ascending order, on average Papua New Guinea is the highest exporter of goods, followed by Fiji, Solomon Islands, Vanuatu, Samoa and Tonga. On average (2011-2013), PNG exported goods worth $US 2,146,100. Fiji

Samoa on average exported goods worth $US 40,895 while Tonga exported goods worth $US 8,404 in the same period. Aside from Papua New Guinea, for other Pacific island countries, the exports of services are more significant given the boom the country is experiencing in its natural resources sector. Aside from this, Papua New Guinea requires development in other sectors such as agriculture and manufacturing for purposes of diversification.

Table 8: Total Services Exports ($US Thousands) of the Six PIC WTO Countries (2008-2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>368,729</td>
<td>185,399</td>
<td>310,411</td>
<td>528,726</td>
<td>559,818</td>
<td>-</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>233,559</td>
<td>248,254</td>
<td>279,699</td>
<td>285,954</td>
<td>321,833</td>
<td>-</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>-</td>
<td>69,897</td>
<td>106,501</td>
<td>138,351</td>
<td>142,357</td>
<td>187,329</td>
</tr>
<tr>
<td>Tonga</td>
<td>34,648</td>
<td>48,407</td>
<td>62,576</td>
<td>76,998</td>
<td>80,921</td>
<td>-</td>
</tr>
<tr>
<td>Fiji</td>
<td>-</td>
<td>787,082</td>
<td>977,557</td>
<td>1,157,207</td>
<td>1,208,306</td>
<td>1,215,986</td>
</tr>
<tr>
<td>Samoa</td>
<td>133,372</td>
<td>148,295</td>
<td>157,381</td>
<td>171,069</td>
<td>192,989</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: International Trade Center

Table 9: Total Product Exports ($US Thousands) of the Six PIC WTO Countries (2008-2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>-</td>
<td>-</td>
<td>5,499,320</td>
<td>4,517,686</td>
<td>713,497</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>37,746</td>
<td>46,174</td>
<td>63,532</td>
<td>454,462</td>
<td>260,327</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>127,108</td>
<td>218,349</td>
<td>417,425</td>
<td>687,306</td>
<td>658,813</td>
</tr>
<tr>
<td>Tonga</td>
<td>7,798</td>
<td>8,257</td>
<td>14,392</td>
<td>15,583</td>
<td>12,047</td>
</tr>
<tr>
<td>Fiji</td>
<td>628,675</td>
<td>841,361</td>
<td>1,069,471</td>
<td>1,220,602</td>
<td>713,497</td>
</tr>
<tr>
<td>Samoa</td>
<td>45,976</td>
<td>70,250</td>
<td>66,264</td>
<td>76,102</td>
<td>62,109</td>
</tr>
</tbody>
</table>

Source: International Trade Center
Composition of total labour force

One of the key elements in analyzing an economy’s level of resources aside from examining the goods and services sector is to determine the availability of human capital. In the case of the six PIC WTO members, on average 49% of the labour force participation rate as a total of the entire labour force is comprised of individuals between the ages of 15-24. This as a result reflects the need for the region as a whole, in its REI to consider labor mobility on the agenda. PNG has 58.46% of its labour force between the ages of 15-24, followed by Vanuatu (58.1%), Solomon Islands (49.48%), Fiji (44.88%), Samoa (43.48%) and Tonga (58.1%).

Table 10: Labour Force Participation in the Pacific

<table>
<thead>
<tr>
<th>Indicators (Average)</th>
<th>FJ</th>
<th>PNG</th>
<th>SAM</th>
<th>SI</th>
<th>TGA</th>
<th>VT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor force participation rate for ages 15-24, total (%)</td>
<td>44.88</td>
<td>58.46</td>
<td>43.48</td>
<td>49.48</td>
<td>39.36</td>
<td>58.1</td>
</tr>
<tr>
<td>Labor force, total</td>
<td>360264</td>
<td>2954697</td>
<td>69422</td>
<td>203676</td>
<td>41452</td>
<td>100925</td>
</tr>
</tbody>
</table>

Source: World Bank and Authors own calculation

NB: the average is from 2007-2011

Concluding Remarks

In summary the discussion in section 1 of Chapter 3 confirms two key elements:

- The Development of the Services Sector is an important first step towards REI for the Pacific region. At the aggregate regional level, services sector is the major sector for the region and

- Given the lack of resources, infrastructure and the complexity as well as impediments encountered by the Pacific island countries in terms of goods exports (refer to chapter 3-5), services liberalization coupled with mode 4 expansion (skilled plus unskilled labor exports) are key first step towards REI.
6.2 Framework for Regional Economic Integration for the Pacific.

Section 1 of chapter 6 provided factual justifications on the importance of trade in services liberalization as a first step towards the REI for the Pacific. This section will therefore build on to section 1 of chapter 6 and provide for an alternative framework model for REI. It will examine in depth Balassa’s theory of REI, proposing an alternative framework for REI and providing justifications as to reasons why Balassa’s theory of REI is not fully applicable in the context of the Pacific.

- **Balassa’s Theory of the REI**

  Bela Balassa in 1961 developed the theory of the regional economic integration. The theory states regional economic integration to take a linear approach. In other words the REI is a five process commencing with Free Trade Area, Customs Union, Common Market, Economic Union and finally a Political Union.

  As such Balassa had asserted that in order to achieve REI in a region a five stages/process of the REI is necessary. However, prior to examining an alternative framework that would aid regional economic integration for the Pacific in trade, it is important to discuss the reasons as to why Balassa’s theory of REI based on the linear model is not applicable in the Pacific.

- **Criticisms of Balassa’s theory of REI with respect to Pacific integration process**

  a) **Timing**

     Based on the analysis in the former chapters, it is evident that the timing of the theory is an important element to look at. Balassa’s theory was recognized in the 1960’s. This period marked the early years when
the EC integration was progressing. The world economy since then has advanced and has progressed in different trade dynamism and “business is not as usual”.

The economic environments in which markets operate in the 21st century are different from the context in which it operated in 1990’s and beyond. The economics and trade environment has been modified by the growing importance of services and the fast development of the information and communications sector. The EC integration itself will undergo massive demographic shifts in the coming years. The working age population in the EU is projected to decline by 17% between 2010 to 2050. Moreover, the increased international economic integration has increased the competitive pressure not just in the EU but at the global scale. (Ilzkovitz F etl, 2007, 8).

As a result the Torrent (2003) framework, on the other hand, provides a more practical scenario and is more based on the current circumstances of economies today. It provides the flexibility for countries to determine its own processes in integration to reach the end results. This model is more practical for small island states and can be applied in the Pacific region.

b) Focus of Process

Balassa’s theory is more process oriented. A country has to move through the five stages to achieve the ultimate end result of REI in trade. In the case of the Pacific the ultimate aim is to improve the social and economic status of the region as a whole. As a result, for the Pacific, some of the steps of the Balassa’s theory of REI can be forgone in achieving the outcome of the REI.
c) Pre-conditions

Balassa’s theory also failed to mention about the pre-conditions of the member countries in terms of geography, economic size and levels of development. These factors are not clearly reflected in the process of integration. It can be argued that Balassa’s theory of the REI is premised, closer to the European Union model.

If one studies the member countries within the EC that are part of the REI arrangement, the countries fall within the middle to high level economies. From historical analysis these economies of once applied protectionist measures to develop its own sectors and economies prior to promoting even stage 1 of the REI process and share borders.

The economies of the EC have been well placed in terms of capacity, infrastructure and resource before commencing with REI. The Pacific on the other hand is still challenged with its economic size (smallness), low export base, distance/isolation from the market coupled with high transportation costs. In other words, Balassa’s theory of the REI process does not take into account of the different levels of development for the member countries.

d) Harmonization of Policies

Balassa’s theory of the REI process also emphasizes on harmonization of regulatory policies and the granting of supranational powers to regional institutions. This framework may have worked for the EC given the similarities of the members of the group and its level of development per se. However within the Pacific there is a mix of the small economies and least developed countries and each nation is committed to retaining its sovereign rights to domestic decision making policies.
In addition, given the lack of infrastructure, colonial imperatives and capacity it is impossible to harmonize laws and regulations easily. Balassa’s theory of the REI process is, in fact developed within the European framework. Europe, in history has never experienced colonialism as is the case of the many Pacific Island countries. Balassa’s theory of REI did not account for this fact. In the case of the Pacific, the PIC’s have been colonized by different economic powers of its time. The country legislations and judiciary as a result is influenced by different systems. This as a result creates a much greater challenge when moving towards a customs union.

In chapter 4, using the sample of six economies of the Pacific namely, Fiji, Papua New Guinea (PNG), Solomon Islands, Vanuatu, Tonga and Samoa an analysis using the regional integration indicators depict that there is very little integration amongst the economies. The PICTA agreement was regarded as a stepping stone for deeper economic integration in the region and the small island states in the Pacific began with the trade in goods agreement with a view to forming a free trade agreement. Regrettably after a decade the agreement had been futile. The small economies of the Pacific with exception to Fiji, had encountered major difficulties in relation to the implementing of the agreement.

As such it is vital to develop a framework for New REI for the Pacific in the area of trade. Annex 12 provides the elements for a New Framework for the REI in the Pacific. The New Framework is an application of Torrent (2003), framework on REI. In developing the new framework, the seven elements have been used to deliberate on the substance of the new Framework. The following key questions are examined.
a) The objective of the Pacific REI
b) The multidimensional Pacific REI process
c) The role of regional economic institutions
d) External dimensions and relationship with non-members
e) The effective content of the REI
f) The strength of the REI
g) The dynamism and capacity to adapt the REI

e) **The Objective of the Pacific REI**

Balassa’s theory looks more at the process rather than the outcome of the REI. In the theory proposed by Balassa (1961), it is adamant on the fact that REI in relation to trade is based on a unilateral approach. This approach as highlighted earlier comprises of five step process commencing with Free Trade Area, Customs Union, Common Market, Economic Union and then Political Union. A region or group of countries cannot overlook a process in the integration process. On the contrary the thesis proposes that alternative approaches can be adopted and it’s not the process that one has to be concentrating on but the outcomes achieved from the REI. In the case of the Pacific, there are wide differences between the economies and one size does not fit all.

From the various regional sub-groupings, the Pacific in principle has three divided blocks in relation to culture. The Melanesian group comprising of Fiji, Vanuatu, Solomon Islands and Papua New Guinea, the Polynesian comprising of countries such as Tonga and Samoa and then the Micronesian comprising of countries such as the Federated States of Micronesia, the Republic of Marshall Islands and Palau.

In relation to geography, the Melanesian and Polynesian countries are located in the South Pacific whereas the Micronesian economies are
located in the North of the Pacific. In relation to population and commerce, the Melanesian groups combined are regarded as the engine of commerce and trade in the Pacific. Close to 80% of the population and trade in the Pacific region is from the Melanesian group. Given that the Polynesian group of countries such as Samoa and Tonga are closer to the Melanesian in relation to geographic situation, the positive externalities from the development of Melanesia is to an extent experienced in the Polynesian region, in that these countries can import from countries such as Fiji and Papua New Guinea.

Fiji is the hub of the South Pacific and is lucrative to foreign investors. Fiji has well developed infrastructure, financial markets, and airline transportation and telecommunication sector. With a well educated population (literacy rate greater than 90%), domestic expertise is in abundance. Papua New Guinea is the pinnacle of the Pacific in relation to natural resources.

The economy is booming as a result of natural resources such as gas, oil and gold. In addition to this considering the supply chain of export products of these economies, the South Pacific’s major and closest trading partners have been Australia and New Zealand. The European Union is also a market for Fiji and Papua New Guinea for Sugar and Canned Fish. This however is in the context of the Economic Partnership Agreement.

In contrast, the North Pacific, which comprises of small island states such as Republic of Marshall Islands, Palau and the Federated States of Micronesia are located in the North Pacific. The trade dynamics of the three economies are extremely different as opposed to the South Pacific. The three countries also known as the Freely Associated States (FAS) and depend much on the United States of America. The three countries
have signed on an agreement with the United States known as the United States Compact State Agreement.

As a result of this arrangement, the citizens of the FAS have duty free and quota free market access to almost of the products with exception to some manufacturing goods and canned tuna. In addition to this, the citizens of the FAS are allowed to study, live and work in the United States without any restrictions, in other words, free movement of people is granted under the Compact arrangement.

As a result of the vast difference on how trade is conducted in the Pacific region, the objectives of REI within the sub-regions also vary on the one side with the association with Australia and New Zealand and on the other side, the association with the United States.

It is therefore clear that the Pacific region needs to shift its focus from the processes of a unidirectional approach toward REI to a more creative and practical multidimensional approach. A multidimensional approach is geared more towards achieving the outcomes from the REI process. The end outcomes of the REI should be the focus i.e. economic growth and social development for the citizens of the member countries.

f) Multidimensional REI Process for the Pacific

In view of the difference that exists between the Pacific region it is obvious that the region is very unique in terms of its structure. The association and dominance of Australia and New Zealand on one end of the scale and the United States of the other, speaks much as to why a unidirectional approach may not be the best approach in the Pacific. One has to be cognizant that Balassa’s theory of REI was based on a region
that had no dependence on any other economy nor did it had any developed economy influence. As a result, economies were more symmetrical as opposed to the asymmetries of the Pacific region. As a result the Pacific REI has to be developed in stages.

However, in constructing the multidimensional structure of regional economic integration, it must take as a basis of departure, a set of interrelated issues, not trade in goods. Trade in services and labour mobility is more prominent in the Pacific Island Countries. This is crucial towards moving into the REI process. On average 49% of the population of the Pacific are made up of the young labour force. It is evident that the Pacific will encounter challenges of employment generation in future. As such in the stage 1 process, the Pacific REI process should focus on the Mode 4 labour mobility plus agreements. The mode 4 plus agreement can be mapped to an extent on one of the elements of stage 3 (Common Market) of Balassa’s theory of the REI process with specific concentration to be made on mode 4 plus arrangement/agreements within the region and beyond.

Mode 4 plus will be of interest to the region and once the member states have negotiated the agreement among themselves. Subsequently, the member states can then move as a region to negotiate an agreement with countries in the North. These could include the United States and the European Union and countries in the South (Asia) that are likely to experience labour shortages in the near future due to an aging population.

Along these agreements, the Pacific as a region has to work on regional policies to train and develop the skills and capacity of the labour force which is suited to the demands of the foreign markets and internal regional markets. As a result concurrent with stage 1 process, the Pacific
as a region has to either devise policies and or opt to obtain a mutual recognition agreement which by means will aim at harmonizing the legislations and standards of countries across the Pacific to enable the movement of labour resources. It is paramount for the Pacific region to ensure, despite the difference in the South and North frontiers to be able to recognize each other’s labor laws and system and arrive to a consensus on qualifications that are commonly recognized in the region. Such an initiative will provide greater impetus to labour mobility agreements with countries in the North.

Under Balassa’s model, it does not fully address these concerns. At present the restraint in labour mobility negotiations for the Pacific is that countries within the region fail to recognize qualifications, as such when approaching a developed country for labour mobility scheme, there is very less leverage to convince the latter of a deeper integration in labour movement. The multidimensional approach will address these concerns. This can be the second stage process that should be concurrent with stage 1 process.

In the third stage process, it should focus on specialized areas of services liberalization. This is similar to the preposition by Manzano & Bedano (2011) that also support sectoral level liberalization and undertook a study for the Asia Pacific Economic Community (APEC). The services liberalization as a whole is considered in stage 3. This is the Common Market Stage of the Balassa’s theory. However, there is a distinction to be made, that it will be a partial adoption of the common market stage in the case of the Pacific. Certain elements of services liberalization coupled with progressive specialized trade in services agreement is the distinctive manner to proceed in Stage 3.
In this stage the region should focus on specialized trade in services agreement and examine more in depth by focusing on mode 1- cross border supply of services. The Pacific encounters a lot of difficulties in exporting. Challenges such as distance and isolation from the markets, high transportation costs are often impeding factors. The innovative approaches to the trading system within the Pacific are vital. As such mode 1 cross border supply of services should be one of the key areas of specialized service sector liberalization.

Complementing this, e-commerce infrastructure including internet connectivity, telecommunications and financial services could be liberalized as these sectors are supported by mode 1 and the information communication and technology (ICT) infrastructure. The agreement should take the form of the specialized sectoral services liberalization instead of an all holistic approach which very often creates complexities for small island states which do not have the capacity.

Moreover, within the area of trade in services, subsequent to specific sector agreements and liberalization commitments, the Pacific could move into the second liberalization phase to further support services such as the air transport specific to cargo shipments, courier services, logistics and support services. In the North Pacific, air transportation is a major challenge that affects trade and thus it becomes more critical that the liberalization in transportation is key.

In addition to these sectors, the next step within specific service sector commitment would be the liberalization of basic sectors related to social care such as health and education. Subsequent to these other sectors of importance such as manufacturing sector (Agro and non-agro processing) and the retail sector can benefit from specific sectoral agreements. Key to most Pacific Island economies are agricultural production. Aside from
Papua New Guinea and Fiji, other Pacific island economies such as Samoa, Tonga, Republic of Marshall Islands, Kiribati and other depend heavily on agricultural production. The agro-processing sectors will also commensurate value addition of the agricultural production.

The specific service sector liberalization will also enable the PIC’s to improve their domestic legislations before entering into an agreement. In the context of trade in services domestic reforms and regulatory policy are vital to ensure that the sector is regulated and also provide the conducive investment climate for foreign investors. Specific trade in services sectoral agreements will ensure that integration is effective and also takes into account the differentiated needs of the Pacific region.

The next element or step/stage is for the PIC’s to remove the relevant non-tariff barriers. According to Meyer (2010), non-tariff barriers to trade are measures that are in place in the markets which make it difficult for foreign companies to enter a market or export its products. These non-tariff barriers are also deemed unwarranted in the context of the broader world trade as it restricts the flow of goods and services.

It also increases prices of goods and services and are detrimental for consumers. In the case for exporters, major difficulties are encountered in obtaining access to markets due to the requirements that the products has to be tested and assessed in the importing country to ensure that local requirements are met. Therefore the removal of the non-tariff barriers is paramount.

This will form stage 4 of the multidimensional model and is derived from some of the elements of the stage 3 Common Market of Balassa’s theory of the REI process. In order to support the conducive movement of goods, supportive structure is required. As such the need for specialized
sector specific trade facilitation arrangements in standards, bio Security and quarantine and other trade facilitation areas need to be well established. The finding of Draper (2010) also supports the notion of trade facilitation with a focus on specific regulations linked to network infrastructure as an important element of REI.

Non-tariff barriers include any government measure other than tariffs that restricts trade flows. These take the form of quantitative restrictions, import licensing, voluntary export restraints and in the case of the European Union variable levies featured in its common agricultural policy. Variable levies is a complicated system of import surcharge that aims to ensure that the price of a product in the domestic market remains unchanged despite price variations in exporting countries.

With the current conclusion of the Agreement on Trade Facilitation in Bali, Indonesia in 2013, the Pacific countries that are members of the World Trade Organization could easily align their policies to these agreements to ensure that non-tariff barrier issues are dealt with. Once the processes are well established, (stage 1-4), the Pacific can then move on to an arrangement on trade in goods. The loss in revenue as a result of tariff reductions will be negated by the former stages of the REI process from trade in services and mode 4 plus arrangements via remittances. As such the issue of adjustment cost will also be minimal or eliminated.

It is also important to be cognizant that while proposing the first step of Mode 4 labour mobility as the commencing point for REI and a means, in the future, to compensate the tariff reduction impact with the remittance inflows, that the PIC must also work towards having a well-coordinated financial sector. The financial sector should be which is presumed to be liberalized under the specific sectoral sectors prior to tariff liberalization which is the final stage.
The notion that remittances are a private income whereas tariff is a public income and its offsetting revenue effects may be questioned in so far as the workability of the framework is concerned. However, previous studies conducted in the Pacific show that remittance contributes to the economic growth of the region and country. Kumar (2011) in his study on Samoa and Tonga using the augmented Solow model has examined the connection between remittance and economic growth using a 28 year period data. The findings of his study suggest that inward remittances leads to growth and economic activities in the countries by adding liquidity to the financial sector (banks) which consequently raises credits to the private sector.

Kumar, Choong & Jayaraman, (2011) further recommends that appropriate incentive measures are required to encourage the recipient of remittances to deposit it as savings in banks. He had recommended the incentive measures to include providing better interest rates for remittance depositors in the domestic currency deposits. The Government in consultation with the financial institutions should also review the current fee structure and other charges on inward remittances at both ends with a move to removing any impediments that limit remittance flow via formal channels.

The above systems have to be implemented by each PIC countries in the process of liberalization under the proposed framework. This will thus ensure that remittance inflows from labour mobility are put into effective use.

g) Role of Regional Economic Institutions

The role of regional economic institutions is paramount in ensuring that REI of a region is well established. This depends on the degree of power
which the institution is granted. According to Moglu (2005), economic institutions matter for economic growth. This is because it shapes the incentives of key economic actors in the society. It also influences investment in physical and human capital, in technology and the organization of production.

Moglu (2005) did mention that despite the importance of cultural and geographical factors, in relation to economic performances, differences in economic institutions are the major source of cross-country differences in economic growth and prosperity. Economic institutions not only determine the total economic growth of the economy but also a range of economic outcomes including distribution of resources in future.

At present and as discussed in chapter 4, there are several institutions in the region with an element of regional trade as one of the agenda. However, it is interesting to note, apart from the Micronesian Trade Committee, that are currently pursuing discussions on a treaty agreement and seriously discussing the possibility of forming sub-regional laws on trade, other institutions such as the Pacific Island Forum Secretariat, the Melanesian Spearhead Group Agreement and others have a very “soft” power.

These institutions merely have an advisory and secretariat role to enact as opposed to implementation of sub-regional laws pertaining to trade issues. This is a justified role given the difference that the Pacific economies experience in relation to the economic size, the dependence on different states i.e. South Pacific more dependent on Australia and New Zealand and the North Pacific more dependent on United States of America. As a result, the difference in the judicial structure and the sensitivities of the individual member states towards sovereignty issues is of merit.
Having said this, in the case of the sub-regional grouping of the Melanesian Spearhead Group and the Pacific Island Forum Secretariat as a facilitative role is suitable, however in the case of the North Pacific, in the context of the Micronesian Trade Committee (MTC), which is under formation, certain sub-regional powers may be granted to the body, given that the three current members have common legal practice inherited from the United States.

However, if in future the Micronesian Trade Committee invites other Micronesian countries such as Kiribati and Nauru, then a more facilitative role is better. This is simply because the latter two economies are more inclined toward the Australian and New Zealand systems of operation that influences its respective legal and domestic regulations.

As a result, in the context of the multidimensional approach, the institutions in the region should only be limited to advisory roles, facilitation of meetings and secretariat support. It should not interfere with the decisions of the member countries. In other words, a member driven approach has to be applied. The regional economic institutions should also be engaged in monitoring of projects, however, the ownership should be with the members.

**h) External Dimension**

In the aspect of external dimension, given the structure of the Pacific, in relation to size, the economic reliance of the North and South Pacific, the pattern of trade and the relative dependence on aid for trade at different levels, coupled with the sensitivity in sovereignty, the individual Pacific countries under the multidimensional approach should be provided the liberty to negotiate and have third party arrangements that are non-members of the Pacific group.
Given the dynamics in trade and the slow REI as analyzed in Chapter 3 in relation to the PICTA trade in goods, it is important that given the regional differences that the individual countries are given the liberty to negotiate with third parties. This should not have an implication on the regional trading arrangements secured.

However, in doing so, in the case of overlapping arrangement of members, proper and effective mechanisms of consultations between the members affected should be used to resolve the matter. Under the US Compact state agreement, the FAS states are required to consult with the United States in the event that they enter into an agreement with a developed country. This is similar to the application at the multilateral level as well. Complementing this, members should also be free to arrange development aid agreements bilaterally.

i) Effective Content

As discussed earlier, in relation to the content, the degree of liberalization and the final impact in terms of the outcome matters. As mentioned earlier, the Pacific is a region with differences. These differences are incumbent in relation to the spread of the region by geography, the size of the region, economies of scale, colonialism, export base and other issues discussed in the latter part of chapter 6.

These differences therefore impose on the region to integrate in agreements that have meaningful impact. The individual country asymmetries amongst other regions of the Pacific require that the REI process should have contents that are effective with meaningful results and ease of implementation. As a result, the multidimensional approach is the best means to ensure that the arrangements have effective contents. The commencement of the integration process which should commence
with mode 4 plus type arrangement followed by mode 1 specific sectoral agreements and specialized sectoral agreements. Subsequent to these, trade facilitation agreements, in specific areas can be agreed followed by the trade in goods liberalization.

The content should also have a strong element of development dimension and aid provision. The needs of each individual Pacific country may vary. As a result, the individual needs should be linked to specialized projects via development aid. These arrangements should have a review clause (5-10 years) to enable the creation of new agreements over time with the changing trading system of the world economies.

j) Strength of the REI Process

In the context of the Pacific, the strength of the REI process will depend on the effective content and the sectoral arrangements amongst members. Noting the vast difference that exists in the region, any arrangement to the strength of the integration process for the Pacific will also depend on the political will and the ability of the states to surrender their individual powers to a minor extent to make legislative and domestic reforms. For example, under the multidimensional approach in the first step of a mode 4 plus type agreement on labor mobility, the issue of mutual recognition and countries being able to recognize the labor and immigration standards of each other requires domestic reforms and also political directives. In other words the strength will depend on the degree of meaningful cooperation between countries and the seriousness towards the integration outcome.
k) Dynamism and Capacity to Adapt

The Pacific is without doubt a region with differences. There is asymmetry that exists at two layers. The first layer is how the international community perceives the region. The Pacific region as a whole is seen as small island states that constitute of countries that are either part of the small vulnerable group of countries or the least developed countries. None of the Pacific Island economies are developed economies.

The Pacific island economies relative to the other more developed countries is a region that has low export base, one that is more isolated to major markets, has low economies of scale, has low export base and highly dependent on imports. The second layer of the Pacific is that it is a region that has its own regional asymmetries. The Pacific has two major spreads of countries, are those countries that are in the South Pacific and the other are those countries that are in the North Pacific. The South Pacific countries major export markets are Australia and New Zealand and few exports from countries such as PNG and Fiji also enter the European Union markets.

The North Pacific on the other hand, the FAS have long standing relationship with the United States and much of its domestic and legal systems are aligned with the United States System. Its major source of Government budget revenue, almost 65% is attained from the United States Compact Free Agreement. The Compact State Agreement between the FAS states and the United States has the most favored nation clause which requires that the FAS states consult the United States in the event of an agreement with a developed country. It is therefore vital to note that for these countries any regional economic integration initiative has to be made in consultation with the United States.
As a result, looking at the Pacific region as a whole and applying a unidirectional approach of Balassa’s theory of REI will either slow negotiations as in the case of the Economic Partnership Agreement that is now been a decade long agreement. It will be not be concluded or may not reach signature state, also in relation to implementation will not be effective as in the case of the PICTA trade in goods agreement.

As a result, pertaining to dynamism and capacity to adapt, the REI arrangements for the Pacific is best achieved using a multidimensional path as opposed to the unidirectional form proposed by Balassa’s theory. The illustrative diagram below depicts the graphical illustration of the unidirectional approach to the REI as proposed by Balassa (1961) under the five step approach (free trade area, customs union, common market, economic union and political union) against the proposed multidirectional approach towards REI proposed by Torrent (2003). As such the proposed new approach for the Pacific in relation to REI is an extension of Torrent (2003) approach under the proposed framework of REI for the Pacific.

**Concluding Remarks**

Chapter 6 provides an assessment of the alternative options for the Pacific economies towards REI I in relation to trade. In the assessment of goods and services measured by exports, the exports of trade in services exceed that of goods. It indicates that in regional trade negotiations, trade in services is paramount. The chapter further provides an alternative framework for regional economic integration in the Pacific which is based on the initial Torrent (2003) approaches with an extension for the Pacific.

It further provides the rationale for the proposed approach as practical way forward for integration in the Pacific. In doing so it identifies the failure of the Balassa model (1961) model in relation to timing, regional
and sub-regional differences, colonialism and its influence, the challenges of regions and the evolution of 21st century regionalism.

Balassa’s 1961 Framework of REI

Approach

(Unidirectional Approach)

Stage 1: Free Trade Area (tariffs and quantitative restrictions)- Right to retain tariff toward non-

Stage 2: Customs Union which deals with harmonization

Stage 3: Common Market: Restriction on Trade and factor movement restriction.

Stage 4: Economic Union: Common Market and removal of discrimination with policies

Stage 5: Political Union: Total Integration, Monetary, Social, Countercyclical policies and establishment of supranational authority


(Multidimensional Approach)

Stage 1: Mode 4 Plus Agreements. Labour Mobility Agreement for Skilled and Semi-Skilled Professionals

Stage 2: Concurrent to Stage 1: Harmonization of Labour standards or establishing mutual recognition agreements

Stage 3: Subsequent to Stage 1 and Stage 2, Specializes mode 1 services liberalization and specialized sectoral agreements in ICT, Telecommunications, and Financial services should be formed.

Specialized sectoral agreements in health and education should follow

Specialized Sectoral agreements in other services including wholesale, retail should follow.

Stage 4: Removal of Non-Tariff Barriers that is specialized sector specific trade facilitation arrangements in standards, biosecurity and quarantine to be developed and or move towards obtaining international best practice accreditation in the area of trade facilitation.

Stage 5: Trade in Goods Agreement with liberalization of Tariffs.

Note: The above framework should also be complemented by assessment of the economic institutions, external dimensions, and effective contents, strength of the REI and the dynamism and capacity to adapt.
CHAPTER 7: CONCLUSION, POLICY IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

CONCLUSION

The key findings of the research thesis which add to new literature of knowledge is that the REI process under the linear model as proposed by Balassa (1961) is not the best approach toward REI in trade for the Pacific. Firstly, as identified the context in which Balassa’s theory was developed was during a time when world trade was evolving at a slow pace.

The theory of Balassa (1961) associates itself with the European Union Model of integration. The European Union has a very different landscape to REI than of the Pacific region. In relation to the objectives of the REI, the structure of economies, the independence of nations and ability of the European Union to make decisions is well advanced. In addition the legal, judicial and domestic structures are also closely related. As such Balassa’s theory best fits the model of the European Union.

In contrast, the Pacific region has two very different dimensions. The first dimension, if one regards the Pacific as a region holistically are that the economies of the Pacific encounter similar challenges in terms of smallness, isolation from major market, high transportation and air freight cost, intermittent transportation (sea and air), high dependence on imports, reliance on agricultural products and having a small export base. However, in the second layer of difference, if one telescopes the North and the South Pacific, the degree of vulnerabilities is at different levels.

There are economies in the Pacific that are deemed to be larger and more developed such as the Melanesian region in the South Pacific with Fiji and Papua New Guinea being the most developed. The Polynesian has a medium level of development such as Tonga and Samoa. The North Pacific where the majority of the small island states are situated is different in relation to the alliance it has with developed trading partners.
The countries in the South have an association with Australia and New Zealand as their key traditional partners whereas the countries in the North Pacific are under the United States Compact Free Agreement. The colonialism, to date has also influenced the culture of commerce and investment in the Pacific which as a result has footprints in the legal, judicial and domestic legislation and decision making process.

In a nutshell, the theory of Balassa (1961) failed to identify such differences in its theory of REI. The Balassa model projects a unidirectional process and assumes that one size fits all scenarios. This is not true in the modern era of regionalism. Balassa (1961) theory of regionalism fails to identify how the unilateral approach would play into future regionalism as countries of different regions move in pursuit for integration. It also does not determine how the model may either change or be suited to the respective interests of the region. From a 21st century current trade perspective, the dynamics of regionalism has evolved. As highlighted by Bhagwati (1993) and Panagariya (1996), there is a shift that has been experienced in regionalism as a direct result of the move by the USA from supporting multilateralism to regionalism.

There is also the concept of fear by developing countries of exclusion from regional trade agreements that compels them to participate in regionalism. Furthermore, the “bandwagon effect” of no countries wanting to be left out is also true. As a result those countries that are not part of the larger free trade agreements, attempt to create their own regional trade agreements. Furthermore, Balassa’s theory also fails to identify the sentiments of the “domino theory of regionalism” and the approach a country should apply; there is a rush to join trade agreements for the fear of being excluded. Balassa (1961) theory despite being reputable in its time and age and suited for the European Union is not the best approach to regional integration in the Pacific region.

At the beginning of chapter 1 whilst introducing the subject, the parameter for the research has purely focused on the REI in terms of trade integration in the Pacific. In demonstrating and challenging whether the REI process in the Pacific had any beneficial
and conclusive impact, in chapter 3, the regional trade indicators have been applied with respect to the six Pacific Island countries, Fiji, PNG, Samoa, Tonga, Vanuatu and Solomon Islands that are members of the PICTA trade in goods agreement.

The findings provide sufficient evidence that the PICTA trade in goods agreement which commenced from trade in goods with a view to form a free trade area did not achieve its initial objectives of REI. Trade amongst the member countries as a whole under PICTA trade in goods is very small. Furthermore, the findings had also provided that exports from non-PICTA members are greater than PICTA members in the Pacific region. It therefore shows that despite duty free tariff rates, there are other factors that determine exports in the Pacific. These may include the inability of members to produce; low economies of scale and in efficiency in production, non-tariff barriers and value chains. As a result, the PICTA trade in goods is ineffective. Additionally, it also indicates that Balassa’s theory of the linear process of REI is not the best approach toward integration given the diverse nature of countries in the Pacific.

In order to further determine the areas in which the Pacific would benefit, in terms of the REI, chapter 4 examined the trade in services sector. In comparison with the total exports of goods for the six Pacific countries, the trade in services had shown a dominant positive impact. In addition, labour mobility as way of mode 4 services trade is also promising for the region. The chapter also identified the key features of the Pacific region which makes services trade more attractive than trade in goods. Issues such as geo-political and geo-economic factors in relation to the isolation from markets, low export base, difference in the legislations, and poor infrastructure amongst others were factors impeding trade.

Chapter 5 further studied the cross regional dynamics of the REI process by undertaking a comparative analysis of the EC model, the ASEAN model and the Pacific model with respect to the composition (membership), the economic development, geography and population, political congruence to trade, institutional arrangements, external dimension and effective content, strength and dynamism of the REI process and the regulatory
requirements. The analysis has clearly identified that the dynamics of regional integration for the Pacific differs from the European Union and the ASEAN.

The Pacific REI process is further constrained by geography, size, capacity, economic development and the different dynamics of the North and South Pacific having different levels of institutional arrangement. The decisions pertaining to trade and REI are determined by individual countries that exercise independence in sovereignty. In so far as commitments are concerned, the sectoral commitments of the Pacific are not as extensive as the EU or ASEAN. The Pacific is a unique case on its own and requires an arrangement that facilitates REI in trade on the basis of an outcome driven approach. This is the multidimensional approach that accounts for the 21st century trade realities for the Pacific.

Chapter 6 therefore assesses the alternative options for the Pacific economies towards REI to ensure that the region maximizes its trade interaction amongst its members and with non-members too. In assessing the goods and services measured by exports, trade in services exceeds the trade in goods for the region. It indicates that in regional trade negotiations, trade in services is a key element toward meaningful regional integration.

The chapter further proposes an alternative framework for REI in the Pacific which is based on the initial Torrent (2003) approaches by way of an extension of the approach for the Pacific. The proposed approach or model is practical for the region and captures the factors which the Balassa model (1961) failed to identify in relation to timing, regional and sub-regional differences, colonialism and its influence, the challenges of regions and the evolution of 21st century regionalism.

Under the extension of the Torrent (2003) approaches the form of Pacific REI adopts partial elements of the unilateral approaches and bases it against the New Framework of the REI proposed by Torrent (2003). As a result, in the first stage of the REI process, the commencement should be from mode 4 labor mobility plus agreement. This is derived from an element of the stage 3 of the Common Market from Balassa’s theory.

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Concurrent with the stage 1 process, the Pacific region taking into account the dynamics of trade in the North and the South Pacific should develop policies and or opt for a mutual recognition agreement which would aim at harmonizing legislations and standards of countries across the region to enable the movement of labor resources. In stage 3, the processes should focus on specialized areas of trade in services liberalization. In stage 3, other elements such as specialized agreements should be given paramount importance and therefore liberalization should be in those sectors that will enable the development of other sectors. Commensuration to this, e-commerce infrastructure including internet connectivity, telecommunications, financial services and transportation also will need to be liberalized which should be supported by mode 1-cross border supply of service. Other sectors such as agro processing and non-agro processing should be liberalized in the second phase.

In stage 4, the Pacific needs to remove the non-tariff barriers. The removal of non-tariff barriers is derived from the elements of the common market of the unilateral approach. There is however a need for specialized sector specific trade arrangement in standards, bio security and other trade facilitation areas. Finally, once the above process of REI is established, the Pacific can then move on to the final stage of an arrangement in trade in goods. The issue of tariff revenue losses as a result of tariff reductions and preference erosion issues will be counteracted as a result of the former stages of the REI processes from trade in services and mode 4 labor mobility plus arrangements through remittances.

On the argument of remittance being a private income and its impact within the Pacific in terms of real investment. Kumar (2011) recommends that appropriate incentive measures are required to encourage the recipient of remittances to deposit it as savings in banks. He had recommended the incentive measures to include providing better interest rates for remittance depositors in the domestic currency deposits. The Government in consultation with the financial institutions should also review the current fee structure and other charges on inward remittances at both ends with a move to removing any impediments that limit remittance flow via formal channels. As a result it
also supports the multidimensional approach of regional economic integration in the Pacific.

Furthermore, the role of the regional economic institution, the external dimensions, effective content and dynamism also play a pivotal role in ensuring the framework for the alternative multidimensional approach to regional economic integration in the Pacific.

RECOMMENDATIONS

From the findings of the research it is vital that the policy makers including the trade negotiators and trade Ministers of the Pacific region revisit the Pacific REI in relation to Trade. The policy makers and trade ministers of the Pacific region need to revisit this very important area of the REI in relation to trade and consider the alternative framework proposed in the thesis. The alternative framework on the extension of the Torrent (2003) model provides for practical solutions tailored for the Pacific REI. It is applicable and useful for the Pacific regions in particular given the failure in the current negotiations such as the Comprehensive Economic Partnership Agreement and the resistance that trade agreements do not accrue benefits. Issues on meaningful market access, the right to regulate, policy space and also erosion of tariff preferences could be countered under the steps of REI in trade.

The new alternative model identifies areas in which the Pacific has potential and comparative advantage when viewing trade holistically. For example having a young pool of educated labor force in the region is an asset and strengths in services sector. Moreover, the new alternative model can be considered in tandem with the developments of the region and its future ambitions to integration with the different prominent trading blocs such as ASEAN countries in relation to the Regional Comprehensive Economic Partnership Agreement or the Trans Pacific countries. Moreover, the changes that have followed the implementation of the Lisbon Treaty by the European Union on 01 December, 2009, calls for the Pacific to reconsider its
strategic trade position. The European Union tends to classify together, the Pacific with the Asia region as “Asia-Pacific” group as opposed to the previous configuration of the ACP. This will have implications for the region. As highlighted earlier, there are existing differences that exist within the North and South Pacific, amalgamating the region with Asia will add further pressure on aid and resources. The multidimensional model of REI for the Pacific provides the region with an opportunity to organize itself prior to entering negotiations with the mega regional blocks.

The current approach used for regional integration within the Pacific and the developed economies achieves the ultimate outcomes that the region had been embarking on. The Comprehensive Economic Partnership Agreement has taken a 10 year long journey without conclusion. The multidimensional approach provides the flexibility and new dynamism to revive and obtain maximum returns for the Pacific with consideration to its uniqueness.

Moreover, the recent expiry of the Cotonou agreement in 2017 calls for the Pacific to search for alternative markets to trade. Having a sound foundational base and alternating process for the REI process vis-à-vis the framework for the REI for the Pacific on a multidimensional platform based on Torrent (2003) approach will provide the practical solution. However, this framework has to be considered by the region presently to ensure that it is translated into valuable outcomes in future.

The alternative model is a tailor made framework for the Pacific derived from the Torrent (2003) approach. It will further provide the much needed confidence and the zeal to negotiate a meaningful agreement. This will also prevent the Pacific from engaging in negotiations that are protracted and arduous without any conclusions or if conclusions are made, it will prevent the non-implementation of the agreement.

One has to consider that what matters is not so much the signature on an agreement but the implementation aspects to reap real benefits from it. The alternative framework of the regional economic integration on the extension of Torrent (2003) approach as
identified in Chapter 6 (refer to Annex 12) will improve and enhance REI for the Pacific in relation of trade. The new multidimensional framework will also remedy the bottlenecks in the current trade negotiations that have led to the slow implementation, suspension or failure of regional trade agreements and more so the wastage of time, effort and resources of all parties. As a result for the Pacific region, it will also cushion revenue implications and budgetary concerns, given that resources will be allocated efficiently in core areas where trade negotiations and a fruitful agreement will real benefits. It will provide real solutions for the Pacific. The multidimensional framework is more practical and economical as well.

POLICY IMPLICATIONS

Being cognizant of the difficulties encountered under the linear model of REI and the sentiments expressed by previous scholars, the thesis has proposed a framework that is derived from the Torrent (2003) Analytical Framework of REI and can be considered to be an extension of the Torrent (2003) model. This model is more suitable for the Pacific. It encompasses a multidimensional approach toward REI which is more feasible for the 21st century.

The Framework proposed by Torrent (2003) is assessed against the Objectives, Institutional Arrangements, External Dimension, Effective Content, Strength, Dynamism and Capacity to Adapt. It thus supports a tailor made solution for the Pacific to integrate in trade commencing from services and ending at trade in goods. A more mixed and reversal approach is adopted as opposed to the traditional linear model of integration proposed by Balassa (1961).

This research finding show major policy implications for the Pacific REI process in trade under the current unidirectional form and the failure toward REI for the Pacific. A unidirectional approach is more process based than outcomes. It is not applicable for the Pacific REI. As a result, REI in trade for the Pacific region merits a different approach
where the needs of the different countries are accounted for and also one that is based on outcomes instead of processes.

Within the Pacific region, it is disheartening to witness that to date; there is no meaningful regional trade agreement that embodies the needs of all the Pacific countries. This is more so an inherent issue which is difficult to counter given the vastness of the Pacific region. The regions in the Pacific can be lensed into three fragmentations. The South Pacific, constituting of the larger Pacific economies such as Fiji, Papua New Guinea, Vanuatu and Solomon Islands. The Central Pacific comprises of small economies such as Nauru, Niue, Kiribati and Tuvalu. The North Pacific comprises of another set of smaller island states such as the Republic of Marshall Islands, the Federated States of Micronesia and the Republic of Palau. As a consequence, if a regional trade agreement has to be negotiated, each party has very different levels of development. To consolidate these economies into a region, often challenges exist when countering the demands. The development levels of the island states are different. This contributes further when approaching the developed countries in a regional context on negotiations. The Pacific countries at times disagree within and therefore creating the dilemma of tabling proposals as a region to the developed country parties in negotiations.

However, the fundamental issue has always been the REI framework under which the Pacific negotiators have commenced negotiations. Within the region, the Pacific Island Countries Trade Agreement (PICTA) was initially signed and deemed as a stepping stone for Pacific REI. It commenced with a trade in goods chapter and moved into services. However, given the challenges encountered by many small island states in the Central and North Pacific, PICTA has not been implemented.

The Pacific region had also embarked on the EPA, however, only the I-EPA has been signed by Fiji and Papua New Guinea with the latter implementing the agreement. The C-EPA which was deemed to supersede the I-EPA has entered into a hiatus between the EU and the Pacific for three years given the unresolved issues on fisheries. Both the PICTA and EPA had commenced with trade in goods component and the benefits have
only accrued to select few countries in the South Pacific (Fiji and Papua New Guinea). This is an explicit example of failure of REI in trade with benefits accruing too few select economies.

This is due to the fact that ever since the inception of REI, the Pacific regions trade integration is based on a linear model. This is identified in the PICTA trade in goods model and the Economic Partnership Agreement. For the latter it has been more than ten years and the agreement have not concluded. The former, on the other hand, despite being concluded has minimal to no impact in relation to the final outcomes of REI in trade in the Pacific. Trade integration among the Pacific countries has minimal to no impact among member countries. The findings of the research therefore adds value to new literature of knowledge by identifying an alternative approach whereby the REI process in relation to trade integration for the Pacific needs to be redefined in process to focus on tangible outcomes. It shows the practical application of a meaningful REI given the trade dynamics and uniqueness of the Pacific region.

The Pacific needs to consider a multidimensional approach towards REI. Panagariya (1998), Bhagwati & Panagariya (2003) and Goundar (2010) have also argued along the lines that preferential trade agreements and free trade agreements are more discriminatory in content. Goundar (2010) has further proposed an alternative towards unilateral liberalization.

As such, real issues such as trade in services, labor mobility, non-tariff measures (quarantine, bio security and standards), customs implementation and other trade facilitation measures should have be addressed first and foremost. In addressing the issues under the framework technical assistance and capacity building is also a paramount area. However, the value of technical assistance also needs to be assessed carefully. For example, on issues relating to non-tariff barriers, conformity assessment, mutual recognition and equivalence in goods and services are key areas requiring attention. As a region, the identified components have massive policy implications, in
relation to developing the commerce of the region as a whole. It also directly affects the private sector development in the Pacific region.

The extension of Torrent (2003) model as findings of this research provides a multidimensional solution to address the concerns for the REI in trade for the Pacific. It therefore identifies the different steps that the Pacific regions should first counter in real negotiations that will address the common issues first, consolidate the region truly as one in relation to trade and the REI for the Pacific. Furthermore, the approach will assist in the implementation of an agreement. Approaching a trade negotiation process and agreement in a multidimensional framework will ensure that the benefits of the REI will accrue to the entire Pacific region.

This will also ensure that all the countries in the region engage with interest and vigor. It will further counter the issues of parties losing interest or threatening to withdraw or walk out in the middle of the negotiations towards conclusion. In addition, it will also place pressure on the developed countries in the negotiations to yield to the demands of the Pacific region. The region will be more organized and each country will understand that it will benefit substantially and not be merely a participant in the trade negotiations. Ultimately, as accentuated, the extension of Torrent (2003) further focuses on the outcomes of REI in trade as opposed to Balassa (1961) which is process oriented. As a result, the multidimensional approach will lead to sustainable economic development and employment for the Pacific.

LIMITATIONS AND FURTHER RESEARCH

The thesis also has some limitations. The research only covered the already existing agreements and accounted for its impact in the multidimensional model of Torrent (2003). However, there is room to analyze the impact of mega-regional trade. The research could further use the proposed multidimensional approach and assess it against the conclusions in the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and to an extent the Pacific Alliance. This will be an
important aspect to assess the approach within the framework that best fits the negotiations. The TPP is a mega regional trade agreement that has been concluded in 2015. The members of the TPP include United States, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. On the other hand the RCEP which is led by China includes India, Korea, Australia, New Zealand, Japan and the ASEAN (Lao Peoples Democratic Republic, Myanmar, Philippines, Thailand, Cambodia, Brunei, Malaysia, Singapore and Vietnam). The third emerging group known as the Pacific Alliance includes Chile, Columbia, Peru and Mexico. Countries such as Australia and India are observers to the Pacific Alliance.

With the emergence of the three mega-regional block future research can be expanded using the current model and extending it to show the multidimensional processes that would be required if the Pacific decides to enter into consultations and possible accession/negotiations with either the TPP, RCEP or the Pacific alliance block. Further research could be done to ascertain the modalities which the Pacific as a consolidated region could propose for negotiations with the respective regional blocks.

Furthermore, Australia and New Zealand and also members in the mega regional block. A further analysis could be undertaken using the TPP and PACER Plus and the multidimensional framework proposed in the thesis to ascertain how the actual modalities of negotiations should in principle have been or could be amended to be. As such, further research could focus on the new multidimensional model and be assessed against the outcomes and the different processes to apply to maximize the benefits of mega-regionalism. This is important, given that the Pacific region is a not a party to the emerging regional trade agreements. However, these agreements will have implications given parties of interest are involved in these negotiations. These include Australia, New Zealand, United States and Asia.

Moreover, accessing data from the Pacific is often a major challenge. Given the lack of available data for the Pacific, the research is confined to the analysis of the multidimensional framework for the Pacific region. However, in future with further
available data, empirical analysis on certain core issues such as non-tariff measures linked to other inherent challenges such as transportation cost, logistics and customs issues could be analyzed to show the numerical impacts of the multidimensional framework in undertaking negotiations in the architecture. It could further be expanded to analyze the magnitude of resource savings the Pacific economies could achieve should it adopt the multidimensional framework. Resource gains in relation to budget, time and human capital would be important to assess under the framework. This is subject to available data.
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ANNEXES

ANNEX 1: OVERVIEW OF THE PACIFIC ISLAND COUNTRIES.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Land Mass</th>
<th>Economy</th>
<th>GDP (USD)</th>
<th>GDP/capita (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federated States of Micronesia</td>
<td>112,000</td>
<td>700 sq km</td>
<td>Agriculture and Fisheries</td>
<td>252 million</td>
<td>2,442</td>
</tr>
<tr>
<td>Fiji</td>
<td>837000</td>
<td>18,272 sq km</td>
<td>Agriculture, Clothing, Fisheries, Forestry, tourism and sugar</td>
<td>3.1 trillion</td>
<td>3,612</td>
</tr>
<tr>
<td>Kiribati</td>
<td>92,533</td>
<td>726 sq km</td>
<td>Copra, fisheries and Sea weed</td>
<td>116 million</td>
<td>1,160</td>
</tr>
<tr>
<td>Palau</td>
<td>19,907</td>
<td>487 sq km</td>
<td>Fisheries and Tourism</td>
<td>192 million</td>
<td>9,281</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>9 million</td>
<td>462000 sq km</td>
<td>Agriculture, Fisheries, forestry, mining</td>
<td>7.7 trillion</td>
<td>1,076</td>
</tr>
<tr>
<td>Republic of Marshall Islands</td>
<td>54,000</td>
<td>181 sq km</td>
<td>Agriculture and US Military spending</td>
<td>151 million</td>
<td>2,879</td>
</tr>
<tr>
<td>Samoa</td>
<td>180,741</td>
<td>2,934 sq km</td>
<td>Agriculture, fisheries, manufacturing and tourism</td>
<td>443 million</td>
<td>2,349</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>450,000</td>
<td>28000 sq km</td>
<td>Agriculture, fisheries and forestry</td>
<td>629 million</td>
<td>1,145</td>
</tr>
<tr>
<td>Tonga</td>
<td>101,991</td>
<td>688 sq km</td>
<td>Agriculture</td>
<td>278 million</td>
<td>2,658</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>10,000</td>
<td>26 sq km</td>
<td>Agriculture, fisheries and philatelic sales</td>
<td>25 million</td>
<td>2,623</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>204,000</td>
<td>12,190 sq km</td>
<td>Agriculture, fisheries and tourism</td>
<td>522 million</td>
<td>2,112</td>
</tr>
</tbody>
</table>

*Source: World Development Indicators, World Bank*
## ANNEX 2: REGIONAL ORIENTATION INDEX FOR FISH, CRUSTACEANS, MOLLUSCS AND OTHERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiji</th>
<th>PNG</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.02</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>-</td>
<td>12.63</td>
</tr>
<tr>
<td>2002</td>
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<td>2003</td>
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<td>5.12</td>
</tr>
<tr>
<td>2004</td>
<td>-</td>
<td>4.48</td>
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<tr>
<td>2005</td>
<td>0.03</td>
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<tr>
<td>2006</td>
<td>0.01</td>
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<td>2008</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>3.84</td>
</tr>
</tbody>
</table>

*Source: ARTNET Database*
ANNEX 3: REGIONAL ORIENTATION INDEX FOR DAIRY PRODUCTS, BIRD EGGS, NATURAL HONEY.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiji</th>
<th>PNG</th>
</tr>
</thead>
<tbody>
<tr>
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<td>-</td>
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<tr>
<td>2001</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>-</td>
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<td>2003</td>
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<td>2410.35</td>
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<td>-</td>
<td>625.91</td>
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<tr>
<td>2005</td>
<td>0.67</td>
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<td>2006</td>
<td>9.04</td>
<td>12942.83</td>
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<tr>
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<td>0.07</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>0.06</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>0.02</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: ARTNET Database*
## ANNEX 4: REGIONAL ORIENTATION INDEX FOR EDIBLE VEGETABLES AND CERTAIN ROOT CROPS

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiji</th>
<th>PNG</th>
</tr>
</thead>
<tbody>
<tr>
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<td>-</td>
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<td>2006</td>
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<td>0.04</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>0.03</td>
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</tbody>
</table>

*Source: ARTNET Database*
### ANNEX 5: REGIONAL ORIENTATION INDEX FOR COFFEE, TEA AND MATE

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee, Tea and Mate.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
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<td>2003</td>
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<td>-</td>
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<td>2006</td>
<td>1.19</td>
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<td>2007</td>
<td>0.24</td>
<td>6.07</td>
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<td>2008</td>
<td>1.62</td>
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<td>2009</td>
<td>0.58</td>
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*Source: ARTNET Database*
# ANNEX 6: PREPARATION OF MEAT, FISH OR CRUSTACEANS

<table>
<thead>
<tr>
<th>Year</th>
<th>Preparation of Meat, Fish or Crustaceans</th>
<th>PNG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.79</td>
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<td>2001</td>
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<tr>
<td>2003</td>
<td>1.81</td>
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<td>2005</td>
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<td>2006</td>
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<td>2007</td>
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</tr>
<tr>
<td>2009</td>
<td>0.14</td>
<td>5.06</td>
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</table>

*Source: ARTNET Database*
## ANNEX 7: SUGAR AND SUGAR CONFECTIONARY

<table>
<thead>
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<th>Year</th>
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<th>PNG</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>0.97</td>
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<tr>
<td>2002</td>
<td>0.62</td>
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<td>0.02</td>
<td>1.59</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*Source: ARTNET Database*
ANNEX 8: OUTCOMES OF THE PIDF MEETING- 2013: “From Rio to the Pacific”

Recalling that the United Nations Conference on Sustainable Development 2012 (Rio +20) endorsed green economy as a tool for sustainable development;
Recognizing that green economy can address the ecological divide (environment degradation, resource depletion, climate change and natural disasters and ocean acidification), the social divide (poverty, inequalities, health and NCDs etc.), and the spiritual-cultural divide (suicides, violence against women etc.);
Recognizing that it’s critical to have strong, innovative and inclusive leadership that creates meaningful partnership to address the root causes and promote green growth;
Noting that many Pacific island countries and organizations including the Pacific Small Islands Developing States and the Melanesian Spearhead Group have endorsed the use of green economy and green growth as a key tool or paradigm for accelerating integrated and inclusive development; have or are planning green economy policies and roadmaps; and are already involved in implementing many green initiatives;
Recognizing that the Pacific is diverse and that there is a need to tailor initiatives to individual needs of countries and sub-regions and that the Pacific populations will double by 2050 providing additional pressures on resources;
Acknowledging that there are significant gaps and “divides” in the Pacific regarding sustainable development and the unfinished business of Millennium Development Goals and there is a need for a strong multi-stakeholder space where leaders of governments, private sector and civil society of the Pacific island countries and territories can dialogue and agree on green economy approaches and initiatives for inclusive and sustainable development;
Noting that there is increasing support and assistance that can be made available for coordinating, facilitating and supporting the shift or transition from brown economy to green economy including from all old, existing and new development partners;
Recognizing the establishment of the United Nations High Level Political Forum as the successor to the Commission on Sustainable Development to oversee the implementation of the post 2015 development agendas;

Therefore the forum agreed that:
A body such as PIDF can advance the issues, approaches and initiatives recognized in the aforementioned paragraphs;
The PIDF provides a link to regional and global processes, including that of the United Nations, and CROP agencies that also link with existing national sustainable development consultation processes that include private sector, civil society/communities.

ANNEX 9: ANALYSIS OF PICTA AND MSG TRADE IN GOODS AGREEMENT WITH RESPECT TO THE REI FOR THE PACIFIC.

<table>
<thead>
<tr>
<th>Comparison Indicators</th>
<th>PICTA TIG Article</th>
<th>MSG TIG Article</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Objective of the REI</strong></td>
<td>The objectives of the parties concluding this agreement are to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f)</td>
<td>Strengthen, expand and diversify trade between parties;</td>
<td>1. The Objectives of the Parties in concluding this Agreement are:</td>
<td></td>
</tr>
<tr>
<td>g)</td>
<td>Promote and facilitate this expansion and diversification through the elimination of tariff and non-tariff barriers to trade between the Parties in a gradual and progressive manner, under an agreed timetable and with a minimum of disruption</td>
<td>(a) to promote and facilitate the free flow of identified goods and services;</td>
<td></td>
</tr>
<tr>
<td>h)</td>
<td>Develop trade between the Parties under conditions of fair competition</td>
<td>(b) to ensure as far as possible that trade between the Parties takes place under conditions of fair competition; and</td>
<td></td>
</tr>
<tr>
<td>i)</td>
<td>Promote and facilitate commercial, industrial, agricultural and technical cooperation between the parties</td>
<td>to contribute to the harmonious development and expansion of world trade and to progressive removal of barriers thereafter.</td>
<td></td>
</tr>
<tr>
<td>j)</td>
<td>Further the development and use of the resources of the Pacific region with a view to the eventual creation of a single regional market among the Pacific Island economies in accordance with the respective social and economic objectives of the Parties, including the advancement of indigenous peoples; and</td>
<td><strong>Article 4: General Undertaking</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribute to the harmonious development and expansion of world trade in goods and services and to the progressive removal of barriers</td>
<td>Parties shall make every effort to plan and direct their development policies with a view to creating conditions favorable for the achievement of the objectives of the Agreement and the implementation of the provisions of this Agreement and shall abstain from taking any measures likely to jeopardize the achievement of its objectives and the implementation of its provisions.</td>
<td></td>
</tr>
<tr>
<td><strong>Article 3: Free Trade Area</strong></td>
<td>1. The parties shall gradually establish a free trade area in accordance with the provisions of this agreement, with the understanding that Least Developed Countries and Small Island States may be integrated in accordance with different</td>
<td>Both the agreements seem to have a common objective in so far as the outcomes of the Pacific REI process are concerned. However, in PICTA it explicitly mentions the creation of a single regional market and the creation of a Free Trade Area for the region. This as a result indicates the aspirations of the current agreement to move towards the five processes of the REI as mentioned by Balassa’s theory of REI which is leveraged towards the EC model.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>On the other hand for the MSG TIG agreement the general undertaking to adhere to the objectives is not binding commitment however “parties shall make every effort” which defeats the purpose of the agreement.</td>
<td></td>
</tr>
</tbody>
</table>
structures and by different time frames than other Parties. The Area shall consist of the territories of the Parties to the agreement. The Parties may agree to extend the area to include any other State, Territory or Self-Governing Entity, subject to terms consistent with this Agreement which shall be negotiated between the Parties and the other State, Territory or Self-Governing Entity.

<table>
<thead>
<tr>
<th>Article 21: Consultations</th>
<th>Article 19: Consultations and Reviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. If a Party considers that: (a) an obligation under this Agreement has not been, or is not being, fulfilled; b) any benefit conferred upon it by this Agreement is being, or may be, denied; c) the achievement of any objective of this Agreement is being, or may be, frustrated; a case of difficulty has arisen or may arise; or a change in circumstances necessitates or might necessitate, an amendment of this Agreement; a) it may notify any other Party of its wish to enter into consultations. The Party so requested shall enter into consultations in good faith and as soon as possible, b) with a view to seeking a mutually satisfactory solution. For the purposes of this Agreement, consultations between the Parties shall be considered to have commenced on the day on which notice requesting the consultations is received.</td>
<td></td>
</tr>
<tr>
<td>Article 22: Dispute Resolution</td>
<td>1. In addition to the provisions for consultation elsewhere in this Agreement, consultation shall take place between the Parties if a Party is of the opinion that any benefits conferred on it by this Agreement are not being achieved and if it requests such consultation in writing. In such consultations, which shall take place as soon as practicable, the Parties shall consider appropriate measures to remedy the situation, which has prompted the request.</td>
</tr>
</tbody>
</table>

For Institutional Arrangement, the PICTA TIG has the outlined processes for dispute settlement should a case arise. The process commences with consultations and then moves to dispute settlement in the event of non-resolution. It is interesting to note that the language for dispute settlement is non-binding as the parties shall endeavor which again defeats the purpose of the agreement and also such propositions will reduce the effectiveness of these rules for adaptation and as a result creates an ineffective REI process for the Pacific. On the other hand for the MSG TIG, the institutional arrangement only calls for consultations. As a result it does not factor any further means of dispute resolution. Thus the decreased level of instruments for institutional arrangements indicates the ineffective rules to facilitate
Paragraph 1 have failed within 60 days to resolve the dispute between the Parties, any Party to the dispute may notify the Secretary General and the other Parties to the dispute of its wish to resolve the dispute by mediation. The Parties may agree on a mediator or request the Secretary General to appoint a mediator. Any costs relating to such mediation shall be borne by the Parties to the dispute in equal shares.

3. Where the mediation process referred to in Paragraph 2 has failed within 60 days, or such time period as agreed to by the Parties to the dispute, to resolve the dispute between the Parties, any Party to the dispute may notify the Secretary General and the other Parties to the dispute of its decision to submit the dispute to arbitration, pursuant to the provisions of Annex V.

4. The Secretary General in consultation with the Parties, shall develop, maintain and, from time to time, amend a list of individuals who may be designated as Arbitrators for the purpose of this Article and Annex V. The Parties, in consultation with Secretary General, shall establish the criteria for individuals to be included in the list of potential arbitrators.

5. The list described in the preceding Paragraph shall identify each individual, including that individual’s nationality, and briefly describe the individual’s experience with respect to both international trade and international arbitration, the individual’s training or qualifications for services as an arbitrator, and any areas of special expertise which the individual possesses.

6. Where a Party fails to comply with the arbitrator’s award, any Party affected by this failure may enter into consultations with the other Parties with a view to persuading the defaulting Party to comply. Where such consultations are unsuccessful within 60 days, any affected Party may suspend the application to the defaulting Party of concessions or the performance of any other obligations under this Agreement, until such adaptation and the REI process in the Pacific.
time as the defaulting Party complies with the arbitrator’s award. The level of the suspension of concessions or performance of other obligations by the affected Party shall be equivalent to the level of nullification or impairment of benefits under this Agreement to that Party caused by the defaulting Party.

7. Once the defaulting Party complies with the decision of the Arbitrator, all action taken under the preceding Paragraph shall be terminated.

<table>
<thead>
<tr>
<th>3) External Dimension</th>
<th>Article 24: Effects on other Agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. This Agreement shall not exempt any Party from its obligations, or abrogate the rights of any Party, under any existing international agreements to which it is Party.</td>
<td></td>
</tr>
<tr>
<td>2. Nothing in this Agreement shall prevent Parties from entering into any other agreements relating to the maintenance or establishment of customs unions, free trade areas or arrangements for frontier trade to the extent that those agreements are consistent with the terms and objectives of this Agreement.</td>
<td></td>
</tr>
</tbody>
</table>

**Article 27: Accession by other States, Territories or Self-Governing States**

By unanimous agreement the Parties may permit any State, Territory or Self-Governing Entity not listed in Paragraph 1 of Article 26 to accede to this Agreement. The terms of such accession shall be negotiated between the Parties and the State, Territory or Self-Governing Entity desiring to accede to this Agreement pursuant to Paragraph 1 of this Article.

**Article 5: Most Favored Nation Principle**

1. The Parties shall accord to one another in relation to trade between them the most favoured nation (MFN) treatment.

2. The provisions of paragraph 1 of this article shall not apply to:
   - (a) tariff preferences or other advantages granted by either Party consequent on the membership of the Party in other free trade agreements or customs unions or on interim agreement leading to the formation of another free-trade area or custom union;
   - (b) such measures as either Party may take pursuant to a multilateral international commodity agreement or arrangement.

**Article 16: Association with Agreements**

1. The Parties may agree to the association of any other member of the Melanesian Spearhead Group or any other country, which is a member of the South Pacific Forum.

2. The terms and conditions of the association referred to in paragraph 1 of this Article shall be negotiated between the parties and the other member of the Melanesian Spearhead Group or a country, which is a member of the South Pacific Forum.

In so far as the external dimensions are concerned, both under the MSG and PICTA TIG agreement to an extent display this. Both PICTA TIG and MSG TIG have articles pertaining to the effect of the agreement on other agreements. PICTA TIG, however, has an important accession clause that explains to an extent the reaction of the parties to third country in terms of membership.

The MSG TIG has the MFN clause which enables other parties to enjoy the same rights should a member enter into an agreement with a third party. Both PICTA TIG and MSG TIG have been based on the negative list approach. There seems to be significant overlaps and trade diversion experienced between the agreements. For instance in the case of Papua New Guinea it has 3 items on the MSG TIG negative list.
4) Effective Content (Width times Depth)

<table>
<thead>
<tr>
<th>whereas in PICTA TIG it has not implemented the agreement. Further analysis in chapter 5 analyses this problem.</th>
</tr>
</thead>
<tbody>
<tr>
<td>In this agreement, PICTA TIG, the parties are free to regulate its own policies domestically. The role of the Pacific Island Forum Secretariat is mainly advisory in nature. The members are also able to exit the agreement freely by giving notification as in article 28 of the agreement.</td>
</tr>
<tr>
<td>Article 28: Duration, Withdrawal and Termination. 1. This Agreement is of a perpetual nature. 2. Any Party wishing to withdraw from this Agreement shall give notice of its intention to do so to the Secretary General, who shall notify the other Parties accordingly. The Party giving notice shall cease to be a Party to this Agreement 180 days from the date on which notice is given to the Secretary General, unless the Party has withdrawn its notice in the meantime, in which case it shall continue to be a Party to this Agreement. 3. This Agreement shall terminate 180 days after all the Parties have given notice to the Secretary General of their intention to withdraw from this Agreement.</td>
</tr>
<tr>
<td>The MSG TIG agreement allows the parties to freely regulate their domestic policies and implement the MSG TIG agreement. The members are also able to exit the agreement by providing notice to the members. Article 21: Entry into force and Duration 1. A Party which desires that this Agreement be terminated shall give to the other Parties notice in writing of its desire and consultations shall then take place between the Parties as soon as practicable. If at the end of one hundred and eighty (180th) day from the day on which notice was given, the Party which has given notice still desires that this Agreement be terminated and again gives to the other Parties notice in writing to this effect, this Agreement shall cease to have effect on the one hundred and eighty (180th) day from the day on which the last mentioned notice is given.</td>
</tr>
<tr>
<td>The Effective Content is quiet low. In both the agreements of PICTA TIG and MSG TIG members are able to freely implement and regulate its domestic policies. The non-implementation of the agreement does not have any consequence or legal implications prescribed in the agreement. Furthermore members are also able to freely exit the agreement with notifications. In so far as further analysis on the effective content, chapter 5 also shows how PICTA TIG's trade flows with respect to the six PIC WTO members. In other words, for both the agreement one can deduce that in so far as the effective contents are concerned the agreement despite using ambitious language has ineffective content. The more the ability of the member states to remain free to regulate specific topics differently, the shallower the process of integration in terms</td>
</tr>
<tr>
<td>187</td>
</tr>
<tr>
<td>5) Strength of the REI</td>
</tr>
<tr>
<td>6) Dynamism and Capacity to Adapt</td>
</tr>
</tbody>
</table>
(iii) removing goods from the lists of excepted imports (Article 8); (iv) eliminating measures distorting trade in goods (Article 9); (v) liberalising developing industries (Article 14); (vi) liberalising government procurement (Article 15); (vii) implementing measures to facilitate trade and harmonise business laws and other measures (Article 18); and (viii) broadening and deepening the relationship established by this Agreement (Article 19);

(b) assess whether the Agreement is operating effectively;

c) evaluate the need for additional measures or modifications to increase its effectiveness;

d) endeavour, in the spirit of this Agreement, to identify ways to accelerate the time frames for liberalisation, including the removal of items from their lists of exempted imports; and

e) consider any other matter relating to the implementation of this Agreement or trade within the Area or in the Pacific region.

Article 3: Free Trade Area

The parties shall gradually establish a free trade area in accordance with the provisions of this agreement, with the understanding that Least Developed Countries and Small Island States may be integrated in accordance with different structures and by different time frames than other Parties. The Area shall consist of the territories of the Parties to the agreement.

The Parties may agree to extend the area to include any other State, Territory or Self-Governing Entity, subject to terms consistent with this Agreement which shall be negotiated between the Parties and the other State, Territory or Self-Governing Entity.

neither does it provide any specific timelines for reviews. It only states that of a party in its opinion... which means that unless a party deems necessary the agreement may not be reopened for negotiations.

Having said this one may also note that currently both the MSG and PICTA agreements are have moved into trade in services areas however it was solely due to the decision from the leaders.

In terms of the dynamism and the capacity to adapt the REI process is more leaned towards being static then dynamic.
### ANNEX 10: ANALYSIS OF THE PRE-CONDITIONS FOR THE REI PROCESS FOR THE SIX PIC WTO COUNTRIES

<table>
<thead>
<tr>
<th>Indicator</th>
<th>FJ</th>
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<th>SI</th>
<th>SAM</th>
<th>TGA</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Geography</strong></td>
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<td></td>
<td></td>
<td></td>
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<td>Resources</td>
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</tr>
<tr>
<td>Agriculture (Sugar, Rice, Dairy)</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Mineral Resources (Gold and Bauxite)</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Fisheries, Forestry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural resources, mineral and renewable energy, forestry, fisheries (rich in tuna), copper, offshore oil, gold and hydropower.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisheries, Timber, Copra, Palm Oil, Minerals, Lead, Zinc, Nickel &amp; Gold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, Fisheries, Coconut Cream, Coconut Oil, Copra</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handicrafts (small scale), subsistence Agriculture, cash crops-banana, coconut, coffee beans, vanilla beans, root crops</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, Copra, Kava, Beef, Cocoa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate</td>
<td>Tropical</td>
<td>Tropical</td>
<td>Tropical</td>
<td>Tropical</td>
<td>Tropical</td>
<td>Tropical</td>
</tr>
<tr>
<td>Land Boundaries (km sq)</td>
<td>18,274</td>
<td>462,540</td>
<td>28,400</td>
<td>2,831</td>
<td>748</td>
<td>12,190</td>
</tr>
<tr>
<td>Agricultural Land (km sq)</td>
<td>4,276</td>
<td>1,190</td>
<td>910</td>
<td>350</td>
<td>310</td>
<td>1,870</td>
</tr>
<tr>
<td>Colonial Rule</td>
<td>Britain</td>
<td>Australia</td>
<td>United Kingdom</td>
<td>New Zealand</td>
<td>Britain</td>
<td>France and UK</td>
</tr>
<tr>
<td>Transportation method</td>
<td>Air, Ships and inter island boats</td>
<td>Air, Ship and inter island boats</td>
<td>Air, Ship, Inter Island Ship</td>
<td>Air, Ship, Inter Island Ship</td>
<td>Air, Ship, Inter Island Ship</td>
<td>Air, Ship, Inter-Island Shipping</td>
</tr>
<tr>
<td>Population</td>
<td>874,742</td>
<td>6.3 million</td>
<td>523000</td>
<td>194,320</td>
<td>103,036</td>
<td>224,564</td>
</tr>
<tr>
<td>Population Age between 15-64 (% of total population)</td>
<td>65.90</td>
<td>58.8</td>
<td>56.3</td>
<td>57.4</td>
<td>56.8</td>
<td>58.6</td>
</tr>
<tr>
<td>Economic Size</td>
<td>GDP</td>
<td>GDP/capita (USD)</td>
<td>Source of Government Revenue</td>
<td>Exchange Rate System</td>
<td>Tariff rate applied, Simple mean on all products</td>
<td>Political Congruence</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------</td>
<td>-----------------</td>
<td>------------------------------</td>
<td>----------------------</td>
<td>------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td>USD 3.671b (nominal)</td>
<td>$3,601.90</td>
<td>Taxes (direct and indirect), loans and aid</td>
<td>Fixed Exchange Rate</td>
<td>11.80%</td>
<td>Ministry of Industry and Trade is the key agency. However it consults other relevant ministries such as the Ministry of Agriculture,</td>
</tr>
<tr>
<td></td>
<td>USD 12.655b (nominal)</td>
<td>$1,900 USD</td>
<td>Taxes (direct and indirect), loans and aid</td>
<td>Flexible Exchange rate</td>
<td>N/A</td>
<td>Department of Trade in consultation with other relevant authorities</td>
</tr>
<tr>
<td></td>
<td>USD 840m (nominal)</td>
<td>SUS 1,553</td>
<td>Taxes, Loans and Aid</td>
<td>Fixed Exchange Rate</td>
<td>N/A</td>
<td>Department of Trade in consultation with other relevant authorities</td>
</tr>
<tr>
<td></td>
<td>USD 630m (nominal)</td>
<td>SUS 5,965</td>
<td>Taxes, Loans, Remittances and Aid</td>
<td>Fixed Exchange Rate System</td>
<td>N/A</td>
<td>Department of Trade in Consultation with other relevant authorities</td>
</tr>
<tr>
<td></td>
<td>SUS 439m (nominal)</td>
<td>SUS 4220</td>
<td>Taxes, loans, remittances and aid</td>
<td>Fixed Exchange Rate</td>
<td>N/A</td>
<td>Department of Trade in Consultation with other relevant authorities</td>
</tr>
<tr>
<td></td>
<td>SUS 743 million</td>
<td>SUS 3,036</td>
<td></td>
<td>Fixed Exchange rate</td>
<td>11.80%</td>
<td>Department of Industry and Trade is the key agency. However it consults other relevant ministries such as the Ministry of Agriculture,</td>
</tr>
<tr>
<td>GDP/capita (USD)</td>
<td>$3,601.90</td>
<td>$1,900 USD</td>
<td>SUS 1,553</td>
<td>SUS 5,965</td>
<td>SUS 4220</td>
<td>SUS 3,036</td>
</tr>
<tr>
<td>Source of Government Revenue</td>
<td>Taxes (direct and indirect), loans and aid</td>
<td>Taxes (direct and indirect), loans and aid</td>
<td>Taxes, Loans and Aid</td>
<td>Taxes, Loans, Remittances and Aid</td>
<td>Taxes, loans, remittances and aid</td>
<td></td>
</tr>
<tr>
<td>Exchange Rate System</td>
<td>Fixed Exchange Rate</td>
<td>Flexible Exchange rate</td>
<td>Fixed Exchange Rate</td>
<td>Fixed Exchange Rate System</td>
<td>Fixed Exchange Rate</td>
<td></td>
</tr>
<tr>
<td>Tariff rate applied, Simple mean on all products</td>
<td>11.80%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Political Congruence</td>
<td>Ministry of Industry and Trade is the key agency. However it consults other relevant ministries such as the Ministry of Agriculture,</td>
<td>Department of Trade in consultation with other relevant authorities</td>
<td>Department of Trade in consultation with other relevant authorities</td>
<td>Department of Trade in Consultation with other relevant authorities</td>
<td>Department of Trade in Consultation with other relevant authorities</td>
<td></td>
</tr>
<tr>
<td>Institution for Regulating Trade</td>
<td>3.0</td>
<td>5.0</td>
<td>3.0</td>
<td>5.0</td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Business Extent of Disclosure index (0=less, 10=more)</td>
<td>3.0</td>
<td>5.0</td>
<td>3.0</td>
<td>5.0</td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>cost of export ($US per container)</td>
<td>655</td>
<td>949</td>
<td>1070</td>
<td>690</td>
<td>755</td>
<td>1690</td>
</tr>
<tr>
<td>Number of documents required to export</td>
<td>10</td>
<td>N/A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of documents required to import</td>
<td>10</td>
<td>N/A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>----</td>
<td>-----</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Liner Shipping connectivity index</td>
<td>12.4</td>
<td>6.9</td>
<td>6.1</td>
<td>4.4</td>
<td>3.4</td>
<td>3.9</td>
</tr>
<tr>
<td>logistical performance index - Ability to track or take consignments</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>logistical performance index - Competence and quality of logistics services</td>
<td>2.2</td>
<td>2.2</td>
<td>2.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Logistical performance index ease of arranging competitively processed shipment</td>
<td>2.4</td>
<td>2.3</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>logistical performance index - Efficiency of customs clearance process</td>
<td>2.1</td>
<td>2.0</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>logistical performance index - Frequency with which shipments reach consignee within scheduled or expected time</td>
<td>3.1</td>
<td>-</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>logistical performance index: overall</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Status</td>
<td>Middle Income Country</td>
<td>Middle Income Country</td>
<td>Least Developed Country</td>
<td>Least Developed Country</td>
<td>Least Developed Country</td>
<td>Least Developed Country</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------</td>
<td>-----------------------</td>
<td>-------------------------</td>
<td>-------------------------</td>
<td>-------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Small Vulnerable Group Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Development Indicator, World Bank
## ANNEX 11: COMPARISON OF EC, ASEAN & PACIFIC REI PROCESSES

<table>
<thead>
<tr>
<th>Indicators</th>
<th>EC</th>
<th>ASEAN</th>
<th>Pacific</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Membership</strong></td>
<td>There are 28 countries that are EC member states. These include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom (Original members), Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic Slovenia (joined 2004) Bulgaria Romania (joined 2007) and Croatia (2013)</td>
<td>There are 10 countries which makes the ASEAN. Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.</td>
<td>16 countries make up the Pacific Island Forum as per the Pacific Plan. However for the purpose of this analysis with respect to PIC-TA TIG the 14 PIC members are accounted for.</td>
<td>Each of the region differ in terms of the number of countries which are members to the regional agreements</td>
</tr>
<tr>
<td><strong>Country Mix</strong></td>
<td>Developed, High-Middle Income Countries</td>
<td>Developed Middle income and LDC economies</td>
<td>Small vulnerable economies and least developed countries</td>
<td>Unlike the EC and the ASEAN the Pacific countries (six PIC) in these research is made up small vulnerable and or least developed economies and therefore face additional challenges to REI.</td>
</tr>
<tr>
<td><strong>Geography</strong></td>
<td>Agriculture, Manufacturing and Services Sector. The Manufacturing Sector of the EC are key, but Agriculture is very limited in terms of REI because agricultural policy is defined at the regional level.</td>
<td>Agriculture, Mineral Resources, Manufacturing, Services Sector, financial, Telecommunications and ICT etc.</td>
<td>Agriculture, fisheries, forestry and mineral resources such as gold, offshore oil etc.</td>
<td>The EC and ASEAN have a well-developed manufacturing and services sector. For the Pacific, agriculture, fisheries and forestry seem to be the major exports. In other words the Pacific has a small export base.</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Boundary</td>
<td>Some countries are landlocked and most have common borders but the UK and Ireland are islands.</td>
<td>Landlocked with some divided by sea for e.g. Philippines and Thailand</td>
<td>Sea locked-countries are not landlocked but surrounded by the Pacific Ocean</td>
<td>Both the ASEAN and the EC share similar characteristics in terms of land area. These economies are land locked as a result the distance to the market and the ease of movement of goods and services along with the cost of doing business is deemed to be lower in the two regions. As opposed to the Pacific region, distance and increased cost of transportation is a major impediment to trade.</td>
</tr>
<tr>
<td>Transportation</td>
<td>Air, Railroad and Road Transportation</td>
<td>Air and road</td>
<td>Air, Ships and Inter-Island Ships</td>
<td>For the ASEAN and EC regions, being landlocked road transportation between countries is an easier and cheaper mode to facilitate trade. However, for the Pacific region the cost of trade facilitation is expensive due to the high air and freight cost. Air and Shipping are key means to export products between Pacific countries. The Pacific also faces major challenges in shipping services between the different island countries.</td>
</tr>
<tr>
<td>Colonial Rule</td>
<td>None</td>
<td>French, Britain</td>
<td>A mix of French, Britain, Australia and New Zealand. However, for some years there has been German influence as well.</td>
<td>The Colonial rule for Pacific and the ASEAN are different. The influence of the Colonial powers would have an impact of the jurisdiction of the different countries which as a result would have an impact on trade as well.</td>
</tr>
<tr>
<td>Population range</td>
<td>509m</td>
<td>598.5m</td>
<td>0.1m-12.6m</td>
<td>The population of the Pacific is relatively small in comparison to ASEAN and EC. This as a result has major impacts on the overall economic outlook of the regions.</td>
</tr>
<tr>
<td>Economic Size</td>
<td>GDP</td>
<td>GDP/capita</td>
<td>Source of Govt. Revenue</td>
<td>Logistical Performance Index (LPI)-overall : between 0-5</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------</td>
<td>------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>US 16.63trillion</td>
<td>US $1.8b</td>
<td>The whole range of taxes, a part of the member states income is transferred to a regional budget.</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>US 436m</td>
<td>US $2,531.80</td>
<td>Taxes, Aid, Remittances, Public financing.</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>US $715-43,929</td>
<td>US $2,531.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>US $436m</td>
<td>US $2,531.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The GDP of the Pacific is relatively small compared to the ASEAN and the EC region. As a result Government measure through fiscal policies are important.</td>
<td>The GDP/capita is also small for the Pacific in comparison to the EC and ASEAN region. This GDP/capita has an impact on individual consumption level and the demand for products as well.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Objectives of REI

<table>
<thead>
<tr>
<th>Article 28 of the ACP-EC Comprehensive Partnership Agreement of the EC states that the objective of the EC in the REI process are to:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- Foster the integration of economies into the world trading system:</strong> Security Community-resolving all conflicts by use of peaceful diplomacy and without use of force.</td>
</tr>
<tr>
<td><strong>- Accelerate economic cooperation and development both within and between regions:</strong> Economic Community-most vital to create a free integrated market in the region. The ASEAN FTA embodies eliminating virtually all tariffs</td>
</tr>
<tr>
<td><strong>- Promote free movement of persons, goods, capital, services, labour and technology:</strong> Social Cultural Community-disadvantaged groups, rural workers and women and children.</td>
</tr>
<tr>
<td><strong>- Accelerate diversification of economies and coordination and harmonization of regional and sub-regional policies and:</strong> Promote and expand inter and intra-trade with third countries.</td>
</tr>
</tbody>
</table>

### Institutional Arrangements

<table>
<thead>
<tr>
<th>EU has a customs and monetary union and a single market fully implemented. The EU’s decisions and procedures are premised on the treaties. The Treaty of Rome was founded in 1956</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN was established in 1967 and is an inter-governmental organization</td>
</tr>
<tr>
<td>The PIF is a non-governmental organization aimed at strengthening regional integration and cooperation in the Pacific.</td>
</tr>
<tr>
<td>The EU is a customs union and therefore does not have any sovereign rights; on the other hand the Pacific and ASEAN region are formed at NGO’s and IGO’s.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regional Organization</th>
</tr>
</thead>
</table>

197
The European Commission proposes legislations and manages and implements EU policies and the budget and contributes to the enforcement of EU law and represents it internationally in the area of trade. After the entry in force of the Treaty of Lisbon in 2009, a European External Action Service has been created with a broader scope in the only area of external relations.

The ASEAN has a secretariat which is coordinates the ASEAN organs for the effective implementation of ASEAN projects and activities.

The ASEAN and the PIF on the other hand has secretariat which are more having and advisory and secretariat role. The decision is taken by Head of States or Leaders on any matter.

The Pacific Island Forum Secretariat has the role to provide policy advice and organize for forum meetings. It does not have any supranational powers to impose any decisions on member countries.

The Secretary of the ASEAN initiates, advises, coordinates and implements ASEAN activities.
| Council | Two Councils coexist: the European Council and the Council of the European Union. The role of the European Council, composed by the heads of Government, is to provide support on major political issues pertaining to the European integration. The ASEAN does not have a Council. It however makes its decision through the ASEAN Heads of States and Government. The Head of States are the ultimate decision making body. The meeting of the Head of States is convened once a year. The PIF does not have a council. The final decision on all matters are made by the Pacific Island Forum leaders. The mandates of the leaders form the basis for further work pursued by the members. However, each member has the right through the Forum leaders meeting to agree to a decision by consensus only. The EC has a council whereas the ASEAN and PIF has individual committee meetings. The EC Council is more organized and has the power to enact laws whereas the ASEAN and PIF play a more secretariat role in organizing meetings and having an advisory role. |
|---|---|---|---|---|
| | In addition the ASEAN Economic Ministers (AEM) and ASEAN Foreign Ministers meeting and Finance Ministers meetings are also convened. | The PIF has other meetings at the Foreign Ministers and Senior officials as well as technical committee meetings to discuss sectoral issues. | | |
| | The Council of the European Union is the main decision making body of the EU. It takes decision/pass EU laws on proposals from the EC in consultation with the European parliament. (decision), coordinates broader economic policies, concludes international agreement, approves budget, coordinates the cooperation between national courts and defence. At times other ministerial meetings are convened based on sectoral importance. | | |
| Parliament | There is the European Parliament that is elected by the people and the legislative parliament which has the powers over legislation, budget and supervisory role and adopts law through decision. A European Court of Auditors controls and manages the EU budget. | There is no ASEAN parliament in place. Countries have Political Cooperation where issues pertaining to Political and Security are discussed in the community. The ASEAN Regional Forum aims to promote confidence building, preventive diplomacy and conflict resolution in the region. | There is no PIF parliament. The PIFS has the Pacific Island Countries Trade Agreement that dictates trade for the 14 PIF countries excluding Australia and New Zealand. The PIF also has meetings pertaining to Political dialogue in the region. | The ASEAN and PIF do not have parliaments unlike the EU. Decisions are therefore made by member states for ASEAN and PIF. |
| Court of Justice | The Economic and functional cooperation deals with preferential arrangements for trade to increase intra-ASEAN trade and the ASEAN Free Trade Area. | National Jurisdiction must apply the EU law. However, the European Court of Justice acts as a sort of Constitutional Court and guarantees the uniform interpretation of EU law. The Court of First instance which settles disputes raised by individuals when they concern the application of EU law and Member State jurisdiction are not competent. | There is no court of Justice. There is no court of Justice | EC is more advance and has a court of Justice. ASEAN and PIF have their own judicial system. |
| Other Organs | European Economic and Social Committee which articulates the opinion of organized society on economic and social issues. The Committee of the regions which expresses opinion of the regional and local authorities both advisory bodies and the European Ombudsman which deals with citizens’ complaints by any EU institution or body. | The ASEAN has 29 committees of Senior Officials and 122 technical working groups specialized in specific areas. | The PIF has committee meetings at officials and technical levels but it is not as diverse as ASEAN | |
| Regional Banks | European Central bank which manages the monetary policies of the union | ASEAN Financial and Central Bank | none | The Pacific does not have a Regional Bank. The challenge on the harmonization of policies is an issue for the PIF and most countries have its own fiscal and monetary policy controlled domestically. |
| External Dimension | EU has an exclusive competence in the area of trade in goods. In other areas there is very complex distribution of competences between the EU and its | The ASEANs engagement with the countries such as the India, Korea, Japan, China and EU. The member | Four out of the six PIC WTO members in this research are members of both PICTA TIG and MSG TIG agreement. | |
Member states. In areas of Member competence, they can continue to sign separately bilateral agreements. states have the liberty to negotiate with non-ASEAN countries.

The MSG TIG agreement has the MFN clause whereas PICTA TIG has no mention of it. In addition member countries are free to negotiate trade and cooperation agreements with non-members.

In the ASEAN the member countries to an extent of sovereignty over their domestic policies. Despite the fact that ASEAN are provided with time limit for liberalization under ASEAN Vision 2020, however countries to an extent exercise its own sovereign rights.

In the existing Pacific TIG agreements, countries are free to regulate their own domestic policies. In addition, the analysis of the trade flows between PICTA countries and non-PICTA member’s shows that trade flows within PICTA is low. As a result in terms of Goods the content is ineffective.

As a result, in terms of effective content, ASEAN to an extent has some effective content. It is in those areas where regional decisions and policies are followed and implemented by member states.

In terms of the effective content the EC is more stringent whereas the ASEAN and PIF are flexible and have shallow content.

Effective Content

The content is deep and broad in the EC context in the areas of trade in goods and services, investment, movement of workers, monetary policy, and harmonization of standards. Agriculture and competition.

In the existing Pacific TIG agreements, countries are free to regulate their own domestic policies. In addition, the analysis of the trade flows between PICTA countries and non-PICTA member’s shows that trade flows within PICTA is low. As a result in terms of Goods the content is ineffective.

As a result, in terms of effective content, ASEAN to an extent has some effective content. It is in those areas where regional decisions and policies are followed and implemented by member states.

The content is deep and broad in the EC context in the areas of trade in goods and services, investment, movement of workers, monetary policy, and harmonization of standards. Agriculture and competition.
<table>
<thead>
<tr>
<th>Strength of the REI</th>
<th>The EU has always combined the respect for the EU law with a strong political commitment by member states. However, there seems to be a considerable decrease in both as a combined result of the latest enlargements and the economic and political crisis.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Agreement on the framework on ASEAN mandates that members shall cooperate with the ASEAN secretariat indicating the strength of the REI process.</td>
<td></td>
</tr>
<tr>
<td>Each PIC member controls its own domestic policy and has its own sovereign rights. As such there is no clause in the goods agreement to indicate any sign of imposition nor any legal implications for slow or no implementation.</td>
<td></td>
</tr>
<tr>
<td>The EC model due to the mandatory requirements for implementation has greater strength then the voluntary compliance for ASEAN and PIF.</td>
<td></td>
</tr>
<tr>
<td>Dynamism and Adaptability</td>
<td>The EC Treaty also contains the capacity to adapt by way of provisions to create new laws and regulations. It is therefore dynamic.</td>
</tr>
<tr>
<td>The Agreement on the Framework for ASEAN provides for the creation of the members to engage with other countries in light of the changing international climate paving way for member states to form bi-lateral relationships. As such the agreement is more dynamic.</td>
<td></td>
</tr>
<tr>
<td>The PICTA TIG does not explicitly mention the re-opening of the text or clauses indicating new additions. However the review clause every five years indicates that the agreement is open to discussion. The PIC agreement is therefore more static then dynamic.</td>
<td></td>
</tr>
<tr>
<td>All the three regions PIF, ASEAN and EC provide for provisions to create new laws. However the level of dynamism depends on other factors such as the strength and the effective content of the agreements.</td>
<td></td>
</tr>
</tbody>
</table>
**ANNEX 12: FRAMEWORK FOR NEW REGIONAL ECONOMIC INTEGRATION FOR THE PACIFIC**

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<tr>
<th>ELEMENTS</th>
<th>COMPONENT</th>
<th>COMMENTS</th>
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<td>Objective of the Pacific REI</td>
<td>To attain economic growth and social development for the region by integrating with the region and beyond using a compartmentalized approach.</td>
<td>The Pacific region needs shift its focus from the processes to ensuring means/ways through which the ultimate end results for the region is achieved i.e. economic growth and social development for the citizens of the member countries.</td>
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**Pacific REI Process**

| Stage 1 – Mode 4 Plus arrangement | Elements of Stage 3 (Common Market) of the Balassa’s theory of REI process with specific concentration of mode 4 plus arrangements/agreements within the region and beyond. | Being cognizant of the increasing young population of the Pacific which will add to the labour force of the economies and being aware of the challenges of employment creation which it may pose to the individual small Pacific Island Countries, a specialized mode 4 plus arrangement is the first option which the region needs to organize itself. Once region has integrated through a mode 4 plus agreement it can then negotiate as a region with countries of the North (EU and USA) and South (Asia) on the movement of persons. |

| Concurrent Stage 2 with Stage 1. Harmonization of Labour Standard or Mutual Recognition Agreements. | Elements of Stage 2 (Customs Union) of Balassa’s REI process. However focus to be on Mode 4 plus harmonization of certain legislations and standards of countries across the Pacific to enable movement of labour resources. Alternatively in some areas, the Pacific as a region can agree on mutual recognition agreements as well. | It should be noted that in this stage, the Pacific will not be fully adopting a customs union architecture but only focusing on mode 4 plus harmonization and or mutual recognition agreements. |

| Stage 3: Subsequent to Stage 1 and Stage 2. Specialized Mode 1 services liberalization | Elements of Stage 3 (Common Market) of Balassa’s theory of REI processes. A progressive specialized trade in services agreement to be discussed with particular focus on mode 1 (cross border supply) of services i.e. online trading. | In this stage the region should focus on specialized trade in services agreement and examine more in depth by focusing on mode 1 supply of services. Being mindful of the impediments faced by the Pacific such as distance and isolation from the markets compounded with high transportation costs, innovative trading system should be developed that would aid Pacific businesses to trade online under mode 1 supply of services. Complementing this, e-commerce |

| Specialized Sectoral Agreements in ICT, Telecommunications, and Financial Services | | |
| Specialized Sectoral Agreements in Health and Education | | |
| Specialized Sectoral Agreements in other services including Retail, Whole sale and others. | | |
infrastructure in terms of internet connectivity, telecommunications, financial services have to be liberalized accordingly. The liberalization of ICT sector will be key to enhancing the development of mode 1 supply of services. These agreements should take the form of specialized sectoral services liberalization instead of an all holistic approach creating complexities for the small Pacific Island economies.

Within the area of Trade in Services, subsequent specific sector agreements and liberalization commitments could then move on to the second phase of liberalizing further support services such as air transport specific to cargo shipments, courier services, logistics and support services.

Following these sectors, other basic sectors which would aid in the provision of better social care such as health and education can be liberalized through specific trade in services sectoral agreements. Finally other sectors including Manufacturing and Retail sector could be liberalized on sectoral basis.

NB: This will also enable the Pacific Island Countries to improve their domestic legislations before entering into agreements.

Specific Trade in Services sectoral agreements will ensure integration is effective and also takes into account of the special needs of the island countries.

| Stage 4: Removal of Non-Tariff Barriers | Elements of Stage 3 (Common Market) of Balassa’s theory of REI process. Prior to moving into Trade in Goods Tariff liberalization the Pacific Island Countries need to have the supporting infrastructure to enhance trade. As such specialized Trade Facilitation Arrangements between the regions should be discussed. | From the Common Market, the element of the removal of non-tariff barriers i.e. which may require the enhancement of standards within the region to meet international best practices to facilitate market access for goods and also the establishment of required infrastructure has to be completed. This will aid in trade facilitation. |
| Stage 5: Trade in Goods Agreement | Elements of Stage 1 (Free Trade Area) of Balassa’s theory of the REI process to be used in Stage 5. | The loss in tariffs revenues will be negated by the latter stages of REI process from trade in |

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services and the mode 4 plus agreements (remittances). This will be an alternative to the adjustment costs which Pacific currently demands due to loss of revenue from tariffs.

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<th>Role of the Regional Economic Institutions</th>
<th>Given that the Pacific region is small and given the different legal and judicial systems and the sensitivity on sovereignty of the nations, the Pacific Regional Economic Institutions can be more geared towards providing a facilitative role for the member states, similar to the ASEAN institutions however, the institutions should only be subjected to advisory roles, facilitation of meetings and secretariat support. It should not interfere with the decisions of the member countries. In other words a member-driven approach has to be used. The Regional Economic Institutions should also assist countries in monitoring of projects, however, the ownership of project should be with the members.</th>
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<td>External Dimension</td>
<td>Members of the Pacific should be free to negotiate with trade arrangements with a third party member. However, in the event if there are over laps to a certain arrangements which impacts a member of the region, then mechanisms of consultations should be used similar to what is used with the multilateral trading system rules. In addition, members should be free to arrange for Development aid agreements bilaterally.</td>
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<td>Effective Content</td>
<td>The Content of the Pacific REI process should commence with a mode 4 plus type agreements followed by a mode 1 specific agreements and specialized sectoral agreements. Subsequent to these, trade facilitation agreements in specific areas can be agreed on followed by the trade in goods liberalization. The content should also factor in development dimensions and aid provision by developed countries. The needs of individual Pacific countries may vary as result individual needs should be linked to specialized projects via development aid. The arrangements should have a review clause (5-10 years) to enable the creation of new agreements over time with the changing trading system of the world economies.</td>
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<td>Strength of the REI</td>
<td>The Strength of the REI will depend on the content and the sectoral arrangements. However the commitment by member countries is also a important component that is Political Will plus effective specialized arrangements will determine the strength of the REI process.</td>
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<td>Dynamism and Capacity to Adapt.</td>
<td>The Pacific REI arrangements are compartmentalized and will adopt a multidimensional path instead of the stationary unidirectional approach proposed by Balassa’s theory.</td>
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