

# Commonwealth Small States

## *Issues and Prospects*

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## 8. Economic Integration in the Pacific: Review of Past Efforts and Future Prospects

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T K Jayaraman

### I. Introduction

Five decades ago, following the creation of the European Community, the first wave of regionalism spread across the world. Although European regionalism has blossomed into the realisation of the 'concept of an area without frontiers' as embellished in the Single European Act (1986), countries in other parts of the world, which had set regionalism as their goal, could not progress beyond the initial step. The emergence of the Association of Southeast Asian Nations (ASEAN) in the 1970s, which was hailed as another landmark, is yet to proceed beyond trade in goods and mobility in capital, not to speak of labour mobility. After being dormant for more than two decades, the wave of regionalism took off again. The United States of America, Canada and Mexico signed the North American Free Trade Agreement (NAFTA) in the 1990s. Noting this development, DeMello and Panagariya (1992) observed that regionalism was now being pursued on a larger scale, and it was no longer only among equals, since developing countries were seeking partnerships with specific developed countries.

The fear of net welfare losses due to preferential trading arrangements is real. The welfare losses arise from trade diversion: If the losses from preferential concession to a partner resulting from replacing imports from the cheapest source with expensive imports from the partner country are greater than gains from trade creation, there will be a reduction in net welfare. For this reason in particular, it was held that a preferential trading arrangement (PFTA), either among equals or with a few developed countries, was bad in principle as it is less optimal than multilateral free trade under the World Trade Organization (WTO). However, WTO-compatible PFTAs are now in vogue among small countries in different parts of the globe. It was felt that regional trading arrangements among small countries with complementary in nature, would result in lower net welfare losses as there would be fewer trade diversion possibilities. There are other gains as well: the small countries would be able to mobilise, nurture and exercise their collective market power; if the countries are socially and culturally



similar, they would be better placed to get together and harmonise various policies including tax policies and product standards; trade diversion risks would be minimised; and, if the number of countries is small, a cooperative solution is more likely.

The term regionalism is not strange to a small number of the erstwhile, colonised island nations in the Pacific. Growing from a handful in the 1970s to 14 in the new Millennium, the Pacific island countries (PICs), with a current population of 7 million, established in 1971 their regional organisation the Pacific Islands Forum,<sup>1</sup> along with a secretariat known then as the South Pacific Bureau for Economic Cooperation, now called the Forum Secretariat. The objective was to promote co-operation among the island nations in trade and economic development. Progress has been slow, however, with setbacks in some spheres and successes in others. Regional integration has remained an elusive concept, despite various efforts in several directions during the past 34 years. The introduction of the single currency in Europe, together with the expansion of the European Union to 25 countries five years later in 2004, has set off a new wave spreading across the Pacific island countries. The Pacific island states are now considering the Pacific Plan, a document formulated by their leaders in a meeting held under the Forum auspices in Auckland in 2004.

Aside from reviewing the past efforts by PICs to promote regional co-operation, this chapter assesses the weaknesses and strengths of such efforts and explores the avenues now open to PICs, with a view to finding ways to exploit the opportunities without repeating past errors of omissions and commissions. This chapter is organised into three sections. The first section deals with various components of regional co-operation leading to ultimate integration, with specific reference to experiences in the Caribbean countries, with which PICs share many commonalities. The second section reviews the progress of integration efforts in the Pacific, while the third and final section discusses future strategies.

## 2. Regional integration: Relevant experiences from elsewhere

Integration efforts in Europe, culminating in a currency union (the exchange rates were set in 1999 and the notes appeared in 2002), have inspired several regional groups of aspiring developing countries in different parts of the globe. It is worth remembering, however, that it did take nearly fifty years to realise the grand vision of Jean Monnet and Robert Schuman for a United States of Europe without each country having to surrender its sovereignty. The first set of steps in Europe are the familiar ones, straightforward and simple: establishing unhindered trade in coal and steel by establishing the European Coal and Steel Community, which subsequently grew into a customs union with free trade amongst the members but a common tariff against the rest of the world. With increased mobility in labour and capital, the customs union became a common market, followed by other developments in monetary integration.<sup>2</sup> The European integration efforts were driven soon after World War II by an intense desire and collective will on the part of the war-ravaged nations to put aside the historical animosities and work towards recovery and reconstruction against yet another

background of rising totalitarianism in the garb of an 'evil empire', the former Soviet Union. Such a passionate desire and sustained diplomatic efforts for integration were lacking in other regions in the post-cold-war years.

More recent experiences have shown that only perceivable economic gain is a powerful enough motivating force for small countries to come together to build a single economic space without barriers. The gains include larger economies of scale in production and distribution which are not realisable otherwise. A single economic space also attracts investment from overseas for producing goods for an assured market without any trade barriers. This is achieved by dismantling all barriers to trade in goods and services and promoting unhindered mobility of all factors of production, including labour and capital. Experiences have also shown that harmonisation of tax policies and product standards are also possible. Liberalisation of trade in goods has been more common than liberalisation in either services or labour movement. While progress towards promoting mobility of labour has been halting, remarkable progress has been achieved in many regions to deal with common regional problems – such as regional civil aviation and shipping services – to promote tourism and trade.

A comparative study on small island economies of countries of the South Pacific and the Caribbean (Fairbairn and Worrell, 1996) noted that the two regions do not command the range of information and skills needed for success in production for the international market, as domestic markets are very small. Even the best endowed have strengths in some areas and weaknesses in others. Noting that the requisite skills reside with government as well as the private sector, the two authors stress the need for pooling human resources so as to make available a wider range of skills, achieve synergies from the interaction of individuals within each profession, and attract and retain highly skilled personnel for whom a single country might not afford sufficient challenge or scope (Fairbairn and Worrell, 1996, p.95).

The experiences of the Caribbean islands, which share many commonalities with the PICs,<sup>3</sup> are highly relevant. Selected key indicators of countries in the two regions are presented in Table 8.1. The first initiative towards regional integration was taken by the Caribbean nations when they set up a Caribbean Free Trade Area (CARIFTA) as far back as in 1968. This was followed by a more definitive action when in 1973 they signed the Treaty of Chaguaramas establishing a Caribbean Community and Common Market (CARICOM). A secretariat was also set up. Among Caribbean countries<sup>4</sup> only the Dominican Republic is not a member (although it has a free trade arrangement with CARICOM).

The Treaty of Chaguaramas proved an inadequate mechanism for responding to various global developments, including intense competition among the rest of the world in regard to access to larger markets, as well as free movement of capital. The emergence of mega trading blocs and free trade areas in other regions necessitated the creation of a CARICOM Single Market and Economy (CSME). The 1973 Treaty of Chaguaramas was amended in 1989 with nine new protocols. The CSME is designed to pool resources to improve competition, mainly geared towards minimising both the



Table 8.1. Selected key indicators of Pacific island countries

	Population (‘000)	Per capita GDP (Current prices) in US\$ 2003	Human Dev Index Ranking	Aid per capita US\$ (2002)	Aid % of GDP 2002	Average growth rate (%) 1990– 2003
<b>Caribbean region</b>						
Antigua and Barbuda	76	10,449	55	192.1	1.90	3.2
Bahamas	314	15,797	51	NA	NA	0.4
Barbados	270	9,423	29	12.8	0.10	0.4
Belize	256	3,382	99	88.6	2.60	6.7
Dominica	79	3,438	95	381.7	12.10	1.4
Dominican Republic	8,745	2,514	98	18.2	0.70	4.7
Grenada	80	4,060	93	117.5	2.30	3.6
Guyana	765	937	104	84.9	9.00	3.3
Haiti	8,132	415	153	8.9	4.50	-0.4
Jamaica	2,651	3,008	79	9.2	0.30	1.0
St.Kitts and Nevis	42	7,745	39	683.8	8.00	3.7
St.Lucia	1,419	4,124	71	226.5	5.10	1.7
St.Vincent and the Grenadines	120	4,060	87	40.1	1.30	3.2
Suriname	436	2,199	67	26.9	1.20	2.1
Trinidad and Tobago	1,303	7,384	54	5.6	0.10	2.9
<b>The Pacific</b>						
Cook Islands	19	2,651	62	490.9	28.00	3.3
Fiji	799	2,281	81	41	1.80	1.6
Fed States of Micronesia	114	1,864	120	702	37.40	1.8
Kiribati	85	530	129	203.3	18.60	2.9
Papua New Guinea	5,099	523	133	36.4	7.2	3.2
Republic of Marshall Islands	51	2,008	121	823.3	49.60	2.3
Samoa	175	1,484	117	214.2	14.50	0.5
Solomon Islands	418	541	124	56.8	11.00	0.1
Tonga	98	1,347	63	217.2	16.40	2.5
Tuvalu	11	345	118	254	45	3.8
Vanuatu	183	1,138	129	133	11.7	2.1

- Notes: 1. Population and per capita GDP figures for the Caribbean are for 2003  
2. Population and per capita GDP figures for the Indian Ocean and the Pacific regions are for 2001  
3. Human Development Index for 2002

Source: ADB (2004), IMF (2004b), UNESCAP (2004)

problems of small states and structural deficiencies, with the target date set as January 1, 2006. CSME will be WTO compliant, and is also being prepared to be a platform for entering into a Free Trade Area of the Americas (FTAA), as well as to test the waters for more regional markets. Aside from the objectives of increasing competitiveness in the Caribbean region and facilitating the realisation of economies of scale, CSME is to create Pan-Caribbean product brands and companies specialising in such products, such as El Dorado (rum) of Guyana, Angostura (rum and sauces) and Chubby (a soft drink) of Trinidad and Tobago, and Appleton (rum) of Jamaica (World Bank, 2005).

The CSME, which is to be developed as a single economic space through the removal of all restrictions, is based on five pillars: (a) free movement of capital; (b) free movement of goods, services and people; (c) common trade and commercial policy; (d) harmonisation of economic, fiscal and monetary policies; and (e) a common currency (CARICOM, 2002). One of the most significant steps is to provide an institutional and legal framework by establishing the Caribbean Court of Justice (CCJ) for the region as a whole, with a view to ensuring an environment of economic stability and legal certainty in the CSME. In its original jurisdiction, the CCJ will interpret and apply the Revised Treaty of Chaguaramas. The Board of the Caribbean Development Bank has been authorised by the Heads of States to raise US\$96 million, intended to be disbursed to a Trust Fund that will finance the budget of the Court out of its earned income.

Besides the CCJ, there will be other CSME institutions, including a standards organisation, a conciliation commission, a regional securities body, a regional intellectual property rights office, and a regional development fund. Most of these new community institutions are premised on the existence of national counterparts that actually do not currently exist.

Progress as of 2004 towards establishing the CSME by January 2006 is shown in Table 8.2. Notable events, aside from the creation of the CCJ, include (a) enacting the Treaty of Chaguaramas into domestic law by 12 members of the CARICOM; (b) setting up national standards bodies; (c) gradual removal of unauthorised import duties and non-tariff barriers; (d) removal of restrictions to provisions of services and mobility of skilled labour; (e) introduction of a CARICOM passport by member countries; (f) accreditation of institutions; (g) agreement on transference of security benefits; (h) free movement and integration of capital markets; (i) harmonisation of laws; (j) signing of intra-regional double taxation agreements; and (k) common external policies and sectoral programmes and common support services. As for the introduction of a common currency, it was agreed to have a set of convergence criteria<sup>5</sup> similar to the ones put forward by the Maastricht Treaty in Europe.

Before moving to the next section, which reviews integration efforts in the Pacific region, it should be noted that almost all initiatives came from the Caribbean nations, without any external goading or pushing. In a way, all the innovations were home-grown, although there were supportive studies by international bodies and academics. This is because CARICOM membership is open only to the Caribbean nations and no



Table 8.2. Status of key elements of CSME

Elements	Status
1. Treaty of Chaguaramas (Revised)	The 12 CARICOM countries who signed have ratified. Barbados, Belize, Jamaica, St. Lucia, and St Vincent & the Grenadines have enacted Treaty into domestic law.
2. National administration	All 12 member countries have arrangements (identification of a Ministry/Agency for implementation of requirements).
3. Enforcement, regulation and supporting institutions	Agreement has been signed and necessary legislation enacted for setting up the creation of Caribbean Court of Justice Agreement has been reached to establish CARICOM Regional Organisation for Standards and Quality (CROSQ). National Standards Bureaus are established in 11 member states. National Competition Bodies have been established in Barbados, Jamaica and St. Vincent and the Grenadines.
4. Free movement of goods	Task Force was established to review the existing non-tariff barriers against intra-regional trade. A schedule for removal of unauthorized non-tariff barriers has been prepared. Discriminatory taxes and charges have been identified on a number of goods of CARICOM origin.
5. Free movement of services	Schedules of Commitments for removal of Restrictions by Member States have been prepared for phased removal by 31 Dec 2006. Programmes for restrictions on international maritime and air transportation will be negotiated.
6. Free movement of persons	CARICOM Passport will be issued by all member countries. Core Elements for a CARICOM Port of Entry/Departure form have been agreed. Two lines at ports of entry will be introduced: one for CARICOM nationals and another for non-CARICOM nationals.
7. Mechanism for equivalency and accreditation	Establishment of National and Regional Accreditation Infrastructure has been agreed.
8. Agreement on transference for social security benefits	Agreement entered into force on 1 April 1997.

Elements	Status
9. Free movement of capital	Schedules of Commitments for removal of Restrictions have been approved.
10. Capital market integration	Regional Stock Exchange has to be established. Caribbean Credit Rating agency has been established in Trinidad & Tobago.
11. Intra-regional Double Taxation Agreement	11 Member Countries have signed and ratified.
12. Harmonisation of laws	Draft 20 Modules of model custom legislation have been reviewed. Model Competition Law has been prepared. Model Consumer Protection Law has been prepared. Model Financial Institutions Law has been prepared.

Source: [www.caricom.org](http://www.caricom.org) accessed on June 15, 2005

major powers outside the region have had any say. The sense of ownership of reforms by the member countries of the CARICOM has been a great strength in terms of legitimacy in pushing the integration idea thus far.

### 3. Regional Integration in the Pacific

Efforts to forge regional co-operation with the ultimate goal of economic integration began almost simultaneously when some of the island nations in the South Pacific were de-colonised in the 1970s. The erstwhile colonial masters of the Pacific region took the lead, unlike in the Caribbean where integration efforts were purely CARICOM driven. In the Pacific Australia, besides being a founding member along with New Zealand of the Pacific Islands Forum in 1971, has been bearing a major portion of the costs of running the Forum Secretariat (previously known as the South Pacific Bureau of Economic Cooperation). Further, the two advanced countries are major providers of external aid to PICs.

Pre-dating the Forum there is another organisation, known originally as South Pacific Commission but now called the Pacific Community (PC) after having been enlarged to include the northern Pacific island states, Republic of Marshall Islands, Federated States of Micronesia, and Palau in the mid-1990s. The PC was established in 1947 under the Canberra Agreement signed by the then six colonial powers in the region (Australia, France, New Zealand, Netherlands, United Kingdom and United States of America). The Secretariat of the Pacific Community (SPC), located in Noumea, New Caledonia, assists all Forum island countries (FICs) as well as the non-independent US Trust Territories, French and UK possessions, including the smallest island of



Pitcairn, by providing technical advice, training, and dissemination of information in social, economic and cultural fields.

The functions of the Forum Secretariat are similar to the CARICOM Secretariat: servicing the PIC governments; co-ordinating regional approaches in areas of common economic interest; overseeing areas of functional co-operation; and acting as the focal point for a range of associated institutions. Notably absent from the list of the Forum's objectives, as Fairbairn and Worrell (1996) observed in their comparative study on the South Pacific Caribbean island economies, are the issues of a single market and a common currency.

Table 8.3 presents the milestones of the long journey towards economic integration. Fry (2005) divides the 34-year old history of regional co-operation and integration into five more or less distinct phases, with some overlap: (i) 1971–75: comprehensive regional integration; (ii) 1975–80: sectoral integration; (iii) 1981–85: regional security; (iv) 1985–90: collective diplomacy; (v) 1991–2000: harmonisation of national policies; and (vi): 2001 onwards: new regionalism.

In the early period, comprehensive regional integration was the main focus on the grounds that small-sized economies, if they could not go it alone, would not be able to realise the economies of scale in manufacturing operations and in purchase of essential items such as fuel and medicines; and that national shipping lines, a university, and a development bank would also not be viable. The arguments, though valid, were not catchy enough for the young island nations, as they did not have any notable manufacturing capabilities, nor was there any immediate demand then for shipping services, as there were no products to be exchanged between them, nor any big demand for tertiary education.

Attention was turned to sectoral integration in the second half of the 1970s. The setting up of the University of the Pacific (USP) in Fiji and the creation of Air Pacific (with shares held by PICs), were some important achievements. However, there was some disillusionment with Air Pacific, on the grounds that Fiji gained more from the common airline. Over a period Nauru, Samoa, the Solomon Islands, Tonga and Vanuatu, while retaining shares in Air Pacific, set up their own national airlines to promote tourist arrivals direct from major airports in Australia and New Zealand and Honolulu in the US. With regards to the USP, there were some rumblings as well. Fry (2005) refers to the writings of Crocombe and Ueantabo (1983) which reflected the concerns of other island nations about whether the University was serving only Fiji's interests. Although the USP responded to these concerns by setting up Extension Centres and special campuses in Samoa (Alafua) and Vanuatu (Emalus), the impressions of yesterday were not easily erased. Samoa went ahead and set up its own National University of Samoa. During the 2000 coup in Fiji, students enrolled at USP had to return to their respective island countries and their education was disrupted for a while. The dormant dissatisfaction surfaced again as some island nations, such as the Solomon Islands, indicated their desire to set up a university of their own.

Table 8.3. History of regional economic integration efforts in the Pacific

Years/Period	Events
1947	Establishment of South Pacific Commission (SPC) by six countries: Australia, France, New Zealand, Netherlands, the United Kingdom and the United States. SPC provided technical, consultative and advisory assistance in social cultural and economic activities. In 1998, with the inclusion of the Micronesian countries and northern Pacific States, which were former US Trust Territories, the name was changed to the Pacific Community. The acronym SPC is still retained and it stands for Secretariat of Pacific Community. There are 27 members. The programmes of SPC consist of three sectors: land resources, marine Resources, and socio-economic sectors. The functions are provision of technical assistance, education and training, and information/communication. SPC is located in Noumea, New Caledonia.
1968	The University of the South Pacific was established to provide higher education and training that reflects the aspirations and needs of the Pacific islands. The main campus is in Suva, Fiji, and there are two other campuses, one in Samoa, which hosts the School of Tropical Agriculture and in Vanuatu, which hosts the Law Unit and Language Unit. There are University Extension centres in other island states.
1971	Establishment of South Pacific Islands Forum by seven founding members (Australia, Cook Islands, Fiji, Nauru, New Zealand, Tonga, and Samoa). Expanded later to include in all 16 states, covering the Northern Pacific region. The name was changed to Pacific Islands Forum (PIF). It is popularly referred to as the Forum, which serves as the premier regional policymaking body of the of the self-governing states. The Secretariat is known as the Forum Secretariat and its objective is to service the Heads of Government meeting, to foster and promote regional economic cooperation, particularly on political, economic and trade issues.
1972	Establishment of the South Pacific Applied Geo-Science Commission (SOPAC). Started as a UN Project for mineral prospecting in offshore areas, it assists member countries in identifying, assessing, and developing mineral and non-living resource potential of extensive marine resources.
1974	Establishment of South Pacific Regional Environment Programme (SPREP). SPREP aims to provide assistance to the member states in the areas of protecting and improving the environment and ensuring sustainable development for the present and future generations.
1977	The Pacific Forum Line was founded for regional cooperation in shipping. It is a private company wholly owned by nine members of the Forum. The shareholding members are: Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Papua New Guinea, Solomon Islands, Tonga and Samoa.
1979	Establishment of the Forum Fisheries Agency (FFA). It provides technical assistance in the development of fisheries management policies and in negotiations on the issue of licenses. Collection of fees, and surveillance of zones; collecting and dissemination of information on prices; shipping, processing and marketing of fish and fish products; focusing on management procedures legislation, and



Years/Period	Events
	agreements within and outside the region. FFA is based in Honiara, the Solomon Islands.
	Establishment of South Pacific Trade Commission (SPTC) in Sydney to promote trade and development and encourage Australian investment in island countries, through joint ventures, the SPTC holds exhibitions.
1980	Establishment of Pacific Island Development Program (PIDP) in Honolulu under the East-West Center. Membership covers all island countries regardless of political status. PIDP conducts research on topics identified by Pacific island leaders.
1980-1989	<p>Period of Collective Diplomacy</p> <p>Successful negotiations with European Community on Lome Conventions.</p> <p>Negotiations on Law of the Sea</p> <p>Anti-nuclear dumping campaign against Japan's proposal to dump radioactive wastes in the Marianas Trench, demonstrating collective action. Anti-drift netting campaign against Japan and other environmental initiatives.</p> <p>Institutionalisation of understandings:</p> <p>South Pacific Nuclear Free Zone Treaty (1985)</p> <p>The Convention for the Protection of the Natural Resources and Environment of the South Pacific Region (1986)</p> <p>The Convention for the Prohibition of Fishing with long driftnets in the South Pacific (1989)</p>
1990-1999	<p>Period of Harmonisation of Policies</p> <p>Structural reforms</p> <p>Policy dialogues</p> <p>Donor-led reform programmes Funded by Asian Development Bank</p> <p>Melanesian Spearhead Group (Trade Agreement between four Melanesian countries: Fiji, Papua New Guinea, Solomon Islands and Vanuatu for freer trade.)</p>
2000	<p>Pacific Island Countries Trade Agreement (2002) for free trade among the Pacific Island Countries by 2010.</p> <p>Pacific Agreement on Closer Economic Cooperation (2002) for forging greater cooperation and negotiations by Pacific island countries with Australia and New Zealand to start in 2011.</p> <p>Preparation of Working Draft on Pacific Plan by Task Force for review and approval by Pacific island Leaders in December 2005.</p>

Source: Fairbairn and Worrell (1995), Fry (2005)

Sectoral integration did not proceed beyond USP and Pacific Forum Lines (the shipping service). As Fry (2005) notes, not only would sectoral integration in other areas require substantial outlays, but also PICs were not prepared to sacrifice their autonomy and they did not like that regional institutions were being located in well-off PICs such as Fiji. The differences between Fiji and other PICs quickly revealed the growing rift between them. So sectoral integration was replaced by a more practical approach of

collective diplomacy in many soft areas of co-operation, where conflicts were less likely to surface. The Lome negotiations with the European Community in the 1980s, the Law of the Sea Negotiations, and environmental protection arguments at the Rio Conference were some outstanding examples of success (Table 8.3). Along with these achievements, the regional security concerns of Australia and New Zealand to contain Soviet influence in many PICs led to new initiatives to meet situations such as Kiribati granting the Soviet Union legal access to fish in Kiribati waters and similar overtures by Vanuatu. This gave rise to resentment in PICs against Australia, that while Australia and New Zealand had kept diplomatic relations with the Soviet Union, the foreign policies of PICs were needlessly dictated by the metropolitan states. Fry (2005) observes that the late 1980s witnessed a shift in the approach of Australia. Its foreign policy pronouncements of 1988 indicated 'a constructive commitment' emphasising partnership rather than an agency of western interests or Australian hegemonic aspirations (which represented past Australian diplomatic thrusts).

In the 1990s, the Melanesian countries (Fiji, Papua New Guinea (PNG), Solomon Islands and Vanuatu) forged a trading bloc under the Melanesian Spearhead Group (MSG) Trade Agreement for free trade in select goods. Since there was no common secretariat to oversee implementation of MSG Trade, progress was slow as the PICs involved took time to prepare a list of agreed items, instead of drawing a negative list, which would have been simpler. Under MSG trade, Fiji and PNG built up trade surpluses with Solomon Islands and Vanuatu, with the result that the latter two decided to suspend free trade in early 2002 and re-imposed trade restrictions on imports from Fiji and PNG.

On a wider regional level, during this period efforts were made towards harmonisation of national policies. The emergence of 'neo-liberalism' and wider acceptance of the Washington Consensus of fiscal and monetary restraints, financial sector liberalisation, and public sector reforms paved the way for Australia and New Zealand to tie the goals of fiscal discipline and financial sector liberalisation and other related goals into their bilateral assistance programmes. The Asian Development Bank (ADB) funded several structural adjustment reforms that allowed a great deal of participation by Australian experts in public sector reforms and financial management through technical assistance components. Australian consultants implemented the donor-led ADB-funded agenda of privatisation, investment promotion and tariff reforms. The Comprehensive Reform Programme (CRP) in Vanuatu, which was implemented in large measure by Australian and New Zealand expertise during the second half of the 1990s (with ADB funding) came to be criticised on the grounds that it failed to take into account the sensitivities of the local populace. In fact, when the government changed, the first thing the new prime minister of Vanuatu did was to put the CRP in cold storage (Jayaraman, 2003). The unwillingness of the governments, who had been helped with loans from international funding agencies and grants from bilateral agencies, to accept obligations imposed by the legal agreements of loans, frustrated the Australian and New Zealand governments.



The frustration and disappointment with the poor progress regarding structural reform implementation led Australia and New Zealand to reconsider the past approaches. The terror attacks of 9/11 in 2001 on the United States imposed new responsibilities on Australia to make the Pacific safer from the newly emerging risks of terrorism as well as the already known risks of money laundering and gun-running. Additionally, ethnic strife and civil disorder in the Solomon Islands since the late 1990s and the overthrow of an elected government in 2000 in Fiji caused fresh worries to Australia and New Zealand. Furthermore, a study by Hughes (2003) described some PICs as 'failed states', since they could not effectively use their aid funds, and funds may have been diverted for personal use, amounting to corruption and wastage.

Taking the cue from Hughes (2003), an Australian Senate Committee (the Committee) held hearings on Australia's Relations with Pacific island States in 2002 and in their report *A Pacific Engaged: Australia's Relations with Papua New Guinea and the Island States of the Southwest Pacific* (Australian Senate Committee, 2003) concluded that a *Pacific Economic and Political Community*, along similar lines to the European Union circa 2003 should be a consideration in the medium to long-term future of the region. The Committee also considered the region adopting a common currency, preferably the Australian dollar, to promote fiscal and monetary discipline. Noting the observations (made in another context) by Mike Moore, the former WTO Director General, that studies showed that the countries preparing for entry to the EU do better than those without such objectives and that economic discipline brings with it growth, social progress and better governance (Feizkhah, 2003), the Committee observed that 'If PNG and PICs see benefit to their economies and their overall economic development by adopting the Australian dollar or using the potential for an integrated region as an incentive to reform and address the necessary structural and other issues, the Australian Government should not discourage this' (Australian Senate Committee, 2003, p.79).

Following the Australian Senate Committee's observations in July, the Prime Minister of Australia floated the idea of a single regional currency during the Leaders' Meeting in Auckland.<sup>6</sup> Since the subject was not included in the Agenda, it was not formally discussed. However, the indications were clear: in the event of regional integration in the medium to long-term future, dollarisation would be a logical conclusion.

In the meantime, increased globalisation has already thrown up some new challenges. Both the phased discontinuance of preferential treatment by the EU for the products of PICs and the end of the Sugar Protocol for Fiji's sugar exports under the Cotonou Agreement by 2007 required PICs to restructure their export industries to compete with the rest of the world for access to EU markets. The Cotonou Agreement is likely to be replaced by a new agreement, known as an Economic Partnership Agreement (EPA), on the condition that PICs should speed up and promote regional integration, at least on the lines of the MSG. Further, access to Australia under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) was also seen as becoming less and less significant as the Australian tariffs on imports of products such as coconut cream from cheaper sources in other regions were also being reduced. In the face of rising stiff competition from competitor economies, PICs had to take quick

action to restructure their economies and increase their bargaining position. Further, having found themselves unable to attract foreign direct investment in the immediate past, they wanted to come together and offer an assured regional market of 7 million people. The EU's offer of a new EPA to improve production capabilities and marketing skills means that PICs have to sign the Pacific Island Countries Trade Agreement (PICTA), ushering in a free trade area (FTA) among the 14 PICs, by 2010.

However, the PICs who were nervous about the prospect of any immediate removal of barriers because of both the impact on local consumer goods industries as well as the impact on government finances of the resulting loss of tariff revenue (Scollay, 2005), decided to leave Australia and New Zealand out of the FTA arrangement and keep it among themselves. Persuaded by the arguments of PICs that they looked upon PICTA as a stepping-stone for an eventual closer relationship with the two advanced Forum members, including free trade in goods and services as well as mobility of labour, Australia and New Zealand tacitly agreed to be kept out. They did all sign another agreement, however, known as the Pacific Agreement on Closer Economic Relations (PACER) with them. PACER requires PICs to start negotiations for freer trade in goods with Australia and New Zealand by April 2011. PACER would be triggered earlier than 2011 if any PIC, in its negotiations with the EU on Economic Partnership Agreements to replace the Cotonou Agreement, gives reciprocal access to the EU leading to FTA. Under the Road Map, it is expected that EPA negotiations will trigger PACER by 2006 (Grynberg, 2005). PACER covers only goods and there is no obligation on any PIC to extend negotiations beyond trade in goods.

Studies by Scollay (1998, 2005) and Grynberg (2005) show that free trade in goods with Australia and New Zealand would impose far higher adjustment costs than would the EPAs with the EU, as the trade volume with Australia and New Zealand is much higher than with EU (Australia being the more dominant partner) (see Table 8.4). The revenue loss from the abolition of tariffs on imports from two advanced Forum members has to be replaced by other taxes, including VAT, and Vanuatu in particular has to consider introducing income tax and other direct taxes. The only way to avoid triggering the PACER negotiations is to also avoid free trade in goods and deny access to the EU until 2011 (Kelsey, 2004), which is just not possible. As Kelsey herself admits, the mere opening of EPA negotiations with the EU would trigger PACER (as noted earlier) (Grynberg, 2005). Thus, PICTA may not ultimately give PICs enough 'breathing space', as PACER negotiations will have to commence sooner than contemplated. A more drastic remedy, suggested by Kelsey (2004, 2005), would be to withdraw from PACER, which will prove disastrous to all efforts towards regional integration.

On the other hand, a more practical solution has been suggested by Narsey (2003), which is to enter into a free trade area arrangement with Australia and New Zealand right away, although there will be revenue loss and higher adjustment costs involved. These adjustment costs would be much less now than they would be after 2011, assuming PACER is not triggered until then. During the interim period, any production capability built in the consumer good industries to increase trade exclusively among PICs will be rendered useless when free trade eventually commences with Australia



Table 8.4. Intra-regional exports and imports of PICs

Countries		Intra-regional exports (% of total exports)	Imports (% of total imports)	Intra-regional (% of trade total trade)	Intra-regional trade (% of GDP)	Exports to Australia (% of total exports)	Imports from Australia (% of total imports)	Exports to NZ (% of total exports)	Imports from NZ (% of total imports)	Total trade (% of GDP)
Cook Island	Average of 1994-1997	—	10.26	9.52	4.9	21.07	7.19	25.51	70.94	51.43
		—	11.76	10.83	5.6	28.3	9.75	10.4	68.2	52.45
		—	10.44	9.82	5.2	9.32	8.2	25.2	68.94	54.85
	2001	—	18.49	15.68	12.03	33.91	5.97	25.13	60.58	76.73
		—	11.12	9.74	6.77	29.12	6.1	8.2	74.83	74.4
Fiji	Average of 1994-1997	—	6.2	5.6	3.41	22.08	6.85	13.9	79.07	61.5
		0.31	0.07	0.38	0.505	26.67	39.86	6.99	15.50	76.87
		4.73	0.12	2.13	0.73	33.79	44.84	4.31	15.11	86.84
	2001	6.84	0.1	2.81	0.64	33.02	41.09	4.47	13.10	90.62
		7.11	0.14	3.35	0.94	25.67	48.71	3.53	13.04	89.62
Kiribati	Average of 1994-1997	8.33	—	3.7	0.07	19.74	44.26	3.46	14.88	82.5
		7.21	—	3.02	0.06	19.43	37.31	3.76	17.15	89.26
		—	7.8	5.15	11.67	3.02	18.11	—	3.94	88.78
	2001	—	10.01	8.7	17.06	4.05	21.82	—	1.69	102.74
		—	14	11.37	16.31	2.59	33.08	—	3.02	98.02
RMI	Average of 1994-1997	—	14.21	10.7	22.26	0.24	34.12	—	4.75	80.98
		—	20.8	11.87	21.53	0.39	37.16	—	2.91	91.87
		—	12.67	9.14	20.69	0.38	26.6	—	3.58	124.74
	2002	—	0.97	0.71	0.46	—	1.31	—	1.01	83.41
		—	0.78	0.7	0.35	—	2.01	—	0.71	67.93
		—	1.16	1.02	0.5	—	1.42	—	0.85	68.94

Countries		Intra-regional exports (% of total exports)	Imports (% of total imports)	Intra-regional (% of trade total trade)	Intra-regional trade (% of GDP)	Exports to Australia (% of total exports)	Imports from Australia (% of total imports)	Exports to NZ (% of total exports)	Imports from NZ (% of total imports)	Total trade (% of GDP)
FSM	Average of 1994-1997	—	1.25	1.05	0.54	—	1.46	—	0.89	68.33
		—	NA	NA	NA	NA	NA	NA	NA	61.3
		0.01	NA	NA	NA	NA	NA	NA	NA	67.62
	2001	—	—	0.01	0.01	NA	2.62	—	—	65.61
		0.19	—	0.02	0.01	NA	4.02	—	—	64.71
PNG	Average of 1994-1997	0.2	—	0.02	0.01	NA	19.79	—	—	64.39
		NA	NA	NA	NA	NA	NA	NA	—	73.07
		NA	NA	NA	NA	NA	NA	NA	NA	53.05
	2001	NA	NA	NA	NA	NA	NA	NA	NA	52.01
		NA	NA	NA	NA	NA	NA	NA	NA	52.01
Samoa	Average of 1994-1997	0.03	0.03	0.06	0.11	27.68	51.43	1.39	4.01	88.89
		0.21	0.24	0.45	0.21	18.72	52.41	0.69	4.12	94.70
		0.18	0.30	0.44	0.23	26.29	53.01	0.16	4.1	114.12
	2000	0.21	0.36	0.57	0.29	29.98	49.54	0.73	3.8	116.45
		0.1	0.21	0.25	0.2	24.62	51.29	1.35	4.02	94.42
Sol. Is.	Average of 1994-1997	0.10	0.13	0.31	0.18	23.74	49.26	1.32	4.4	95.81
		—	10.49	7.70	6.50	84.18	19.18	6.17	35.15	47.89
		—	18.08	11.9	11.6	48.96	16.23	2.74	22.59	51.74
	2000	—	16.67	12.27	11.52	58.95	14.59	3.68	23.01	57.34
		—	9.48	13.02	9.48	57.36	27.31	2.37	13.89	38.69
		—	12.6	9.98	13.64	60.98	13.12	1.42	17.32	59.9
		—	20.33	14.17	13.43	59.5	15.75	2.05	4.25	56.2
		0.38	0.66	1.04	1.92	1.38	40.92	0.26	7.43	94.27
		1.07	4.3	5.1	2.66	1.97	42.96	0.35	5.26	108.46
		1.29	3.7	4.36	2.81	1.34	38.53	0.47	6.29	110.78



Countries	Intra-regional exports (% of total exports)	Imports (% of total imports)	Intra-regional (% of trade total trade)	Intra-regional trade (% of GDP)	Exports to Australia (% of total exports)	Imports from Australia (% of total imports)	Exports to NZ (% of total exports)	Imports from NZ (% of total imports)	Total trade (% of GDP)	
Tonga	2000	2.1	6.1	8.2	3.7	2.79	27.5	0.74	5.63	85.89
	2001	—	7.46	4.4	NA	1.69	29.27	0.28	5.0	NA
	2002	—	9.1	5.10	NA	0.88	31.31	0.25	5.02	NA
	Average of 1994-1997	3.08	7.65	6.97	3.76	4.72	33.56	9.66	38.47	51.67
	1998	6.12	7.41	7.26	4.04	4.53	24.68	13.98	36.17	52.4
	1999	2.0	9.96	8.79	4.98	3.21	19.98	8.74	37.22	65.7
Tuvalu	2000	1.65	12.2	9.73	6.65	1.98	10.27	3.68	23.99	79.2
	2001	2.55	19.73	17.1	12.98	1.56	11.24	4.41	33.21	102.9
	2002	2.14	21.42	17.0	13.61	1.44	13.2	3.55	30.83	133.7
	Average of 1994-1997	1.04	30.49	45.5	29.23	—	39.41	—	6.31	81.63
	1998	1.61	59.81	58.39	41.24	—	20.21	—	6.31	70.06
	1999	5.14	63.84	57.18	45.67	—	18.1	—	5.27	79.87
Vanuatu	2000	11.39	58.58	56.01	58.77	—	19.57	—	4.57	104.93
	2001	13.92	65.19	62.48	69.7	—	16.28	—	7.68	52.10
	2002	9.16	54.32	51.1	NA	—	12.9	—	5.21	NA
	Average of 1994-1997	0.01	0.93	0.94	2.67	4.05	21	0.47	5.19	85.58
	1998	1.41	5.67	7.08	3.92	0.60	21.67	0.39	4.76	92.32
	1999	1.19	4.12	5.31	3.98	0.68	17.95	0.44	4.13	122.87
	2000	4.84	8.55	13.39	5.75	0.54	25.08	0.44	6.93	79.24
	2001	—	4.72	3.17	3.58	3.01	25.37	1.12	6.57	53.72
	2002	—	7.11	1.88	4.13	3.20	23.48	0.64	10.69	52.41

NA: Not available  
"—": negligible

Source: Asian Development Bank (2003)

and New Zealand, as all consumer industries in PICs will be wiped out. Narsey (2003) also suggests that during the PACER negotiations with Australia and New Zealand PICs, for their part, should seek relaxation of immigration restrictions for both skilled labour from PICs, enabling them to move freely to seek jobs in Australia and New Zealand, as well as for limited annual intake of unskilled labour with temporary work permits for employment in farms and other areas where the two countries currently experience shortages.

While the PICs are being confronted with these problems of bewildering complexities involved in trade agreements, the Group of Eminent Persons appointed by the Forum went around the region in 2003 and met numerous leaders in different walks of life and prepared their report. The PIC leaders met in Auckland in April 2004 to consider the Report of the Group, on the basis of which they agreed to evolve a Pacific Plan. A task force, called Pacific Plan Task Force (PPTF) was set up with specific terms of reference and consultation procedures and a timeframe for preparing the final document for endorsement at the next PIC Leaders Meeting, scheduled to take place in Port Moresby (PNG) in December 2005.

The PPTF's Working Draft has laid down the framework of the Pacific Plan, which will be built upon the four pillars of (i) economic growth; (ii) sustainable development; (ii) good governance; and (iv) security. Specifically with regards to economic growth, the Working Draft indicates that the Pacific Plan would seek to integrate trade in services, including the temporary movement of labour, in the PICTA/PACER negotiations and create bulk purchasing capacity for essential items such as fuel and medicines. While the second item of bulk purchase has been on the agenda ever since 1971 without any progress, the inclusion of trade in services indicates the willingness of PICs to consider deeper integration, of course for 'a price'. Thus, the ball is now in the court of the advanced Forum member countries to consider relaxing immigration laws. The other three items, namely sustainable development, good governance and security are familiar ones. They are now part of Australia and New Zealand's heavy involvement in the region: provision of experts in financial management, public sector reforms and strengthening legal machinery and the placement of prosecutor's services to bring to justice the perpetrators involved in the civilian coup of 2000, which led to the overthrow of the duly elected government, all of which will contribute to better governance and sustainable development; and the provision of a Regional Assistance Mission to Solomon Islands (RAMSI) to improve law and order in the ethnically divided nation. The draft Pacific Plan is now before the PICs and expected to be finalised by December 2005.

### The way ahead

Before looking at the short and long-run strategies to promote deeper economic integration among the Forum countries, it would be worthwhile taking stock of developments in the two regions: the Caribbean and the Pacific. The Caribbean is more integrated than the Pacific region. Commitments on CSME have been extensive and considerable progress has been made in terms of free trade, although some obstacles



remain in terms of the exclusion of some agricultural products and the continuance of quotas. While observing that a significant agenda still remains to be implemented, a recent World Bank study (2005) notes that there has been significant progress in liberalising trade in labour services among CARICOM countries.<sup>7</sup>

Progress in the Pacific, however, has been slow. There has been no serious commitment to regional integration of the kind envisioned in the original Treaty of Chaguaramas or the revised Treaty to usher in CSME. The main reason behind this, which is also the basic difference between the efforts towards economic integration in the Caribbean and the Pacific regions, is that while CSME is totally CARICOM driven, this is not the case in the Pacific. It is apparent that the draft Pacific Plan has been influenced by the Australian and New Zealand governments' concerns about regional security and stability. Although the title of Pacific Plan is obviously different from the earlier one, a *Pacific Economic and Political Community*, written by the Australian Senate Committee, the ingredients of Pacific Plan, which are called four pillars (i) governance; (ii) security; (iii) growth and (iv) sustainable development, are just the same. They reflect the particular concerns of the two major metropolitan powers, who also happen to be the founding members of the Forum. Since the two advanced Forum members are also major aid providers, PICs feel that any step towards integration of the region would mainly confer benefits on Australia and New Zealand, and hence there is a reluctance to go along the full way with them. 'What's in it for me?' is the question that has been haunting PICs.

It is the perceptions of small PICs that any deeper regional integration, as in the past, would benefit only major PICs, such as Fiji, and hence their apparent unwillingness to show of support. The failure of the regional airline and the poor performance of the regional Pacific Forum Shipping Line and the resulting tensions were pointers. Recently a major breakthrough was achieved in promoting tourism, in the successful conclusion of the Pacific Islands Air Services Agreement (PIASA). However, Fiji, to the disappointment of the others – in particular the small PICs – was reluctant to join PIASA. A centrally operated scheme to bulk purchase essential goods such as fuel and medicines, which has been talked about ever since 1971, was never put into place. Once again, bulk purchase figures in the draft Pacific Plan document. Small PICs, such as Tuvalu have expressed concerns that in the absence of more concrete support by bigger PICs for regional air services, bulk purchase of commodities and other regionally related needs, the envisaged Pacific Plan would not be any different from the previous efforts.<sup>8</sup>

PICs who chose to participate in free trade and deeper integration would naturally weigh up their gains and costs. Even among a subset of PICs, the Melanesian group, both the Solomon Islands and Vanuatu feel that the MSG Trade Agreement benefited only Fiji.<sup>9</sup> Group perceptions of small PICs have been that past efforts including the MSG Trade Agreement have benefited only bigger PICs. On the other hand, all PICs have the feeling that all of the past regional integration moves were in the interest of and influenced by Australia and New Zealand. These suspicions surface from time to

time including very recently, when the Solomon Islands, much to the disappointment of Australian interests, voted along with Japan on June 21, 2005 for a resumption of commercial whaling, which has been consistently opposed by Australia and New Zealand, the two developed member countries of the Forum.<sup>10</sup>

Looking back, both Australia and New Zealand did the right thing by stepping aside when the PICs decided to have a separate trade agreement aiming for a FTA amongst themselves by 2010. It would be most appropriate again for Australia and New Zealand to consider not rushing into negotiations with the PICs, although legally they can do so, if PICs in their negotiations for EPA trigger PACER earlier than 2011. The objective of PICTA is to foster trade and closer relations amongst PICs themselves without the two advanced countries, so that they can use it as a stepping stone. Both Australia and New Zealand will do well to let that happen. Eventually negotiations for closer relations, paving the way for free trade and ultimately regional integration, will have to begin under PACER after 2011. In the meantime, both Australia and New Zealand can have a look at their immigration laws and provide special access and temporary work permits for unskilled farm labour to work on their farms. Any substantial gestures of this nature will be of immense help in building trust.

Both a single market and a single currency are advanced concepts for which PICs are not yet ready. Although they were adopted as the goals of CARICOM a long time ago, the progress is understandably slow, as they involve sacrifices of some measure of sovereignty.<sup>11</sup> Aside from sovereignty issues, empirical studies on the feasibility of a common currency for PICs, either on their own or by adopting the Australian dollar, have indicated there has been no convergence observed in any economic real variables, such as gross domestic products, inflation, and real exchange rates of the PICs and Australia and New Zealand (Bowman, 2004, pp.115–32; Jayaraman, 2001, 2005b).

External shocks experienced by PICs and Australia and New Zealand in the past have been asymmetric, and hence they are unsuitable candidates for a common currency at this stage since common fiscal, monetary and exchange rate policies would not be appropriate either for PICs or for the union as a whole (Bunyaratavej and Jayaraman 2005, Jayaraman 2005a, 2006, Jayaraman, Ward and Zu 2005). Although it could be argued that most of the real economic variables such as real exchange rates are endogenously determined and hence a common currency could be adopted (Duncan, 2005), one has to recognise the presence of inherent risks, which are likely to be far greater than the anticipated gains. There will be no easy exit from a common currency arrangement once established, and it will only be at a very high cost (Worrell, 2003; Farrell and Worrell, 1994). Having been aware of the high risks involved in a currency union, the Heads of Governments of CARICOM did not want to take any chances and they prescribed the pre-union convergence criteria similar to those imposed by the Maastricht Treaty for adopting the common currency, the Euro.

Economic integration efforts in Europe began by promoting unhindered trade and were speeded up by labour and capital mobility. The CARICOM is just doing the same, by dismantling trade barriers and facilitating intra-region mobility of labour. The PICs



at this stage should concentrate on these essentials, leaving the other ambitious goals aside for a while.

## Notes

1. The Pacific Islands Forum comprises 14 Pacific island countries: Cook Islands, Fiji, Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and the region's two developed countries, namely Australia and New Zealand. Australia, which is the biggest aid giver to the PICs, bears nearly 80 per cent of the operating costs of the Forum as well. The current Secretary General is an Australian citizen, whose nomination in 2003 by Australia and subsequent election to the office was controversial, even though it was, in the end, by consensus, as it marked a departure from the past practice of having a citizen of one of the 14 PICs as the Secretary General.
2. There were several notable milestones. These include: the setting up of the European Coal and Steel Community in 1950, aimed at free trade in coal and steel by 1954; establishing the European Economic Community under the Treaty of Rome signed in 1957, the European Free Trade Association in 1960, and several regional institutions; and harmonising measures for facilitating movement of capital and labour under the Single European Act of 1987. The creation of a single market was achieved in 1992. Along with these measures, there were parallel efforts in monetary integration. These included introduction of the European Monetary System in 1979 to create an area of exchange rate stability among members by ushering in the Exchange Rate Mechanism and the European Currency Unit, paving the way for Monetary Union within the European Community. In 1989, the Delors Report recommended the introduction of a single currency by setting out the stages, including the establishment of the European Central Bank System. The stages included the signing of the Maastricht Treaty of 1991, which laid down the criteria for reaching convergence and enacting the Growth and Stability Pact of 1996. The latter levied a fine of 0.1 per cent of GDP on members in case of fiscal deficits in excess of the 3 per cent of GDP ceiling. These measures, which were introduced and implemented through political consensus, eventually prepared the members to become eligible for adopting the single currency. The Euro was ultimately born on 1 January, 1999.
3. These include: (i) Remoteness and insularity: being located far from major markets and comprising widely dispersed multi-island micro-states, resulting in high international and domestic transportation costs, arising from both the distances to be covered and the low volume of cargo. Further, the development of even a small domestic market is constrained by distances between settlements and infrequent internal transport services. (ii) Susceptibility to natural disasters: being frequently affected by adverse climatic and other natural events that typically affect the entire population and economy. (iii) Small population size: being limited by small population size affects institutional capacity and increases unit costs of services, and also restricts the potential for private sector growth and investment. (iv) Limited diversification: having a narrow resource base and small domestic markets necessarily results in being relatively undiversified in production and exports, and also limits capacity in the private sector. (v) Openness: relying heavily upon external trade and foreign investment to overcome inherent scale and resource limitations, which leaves states vulnerable to external economic and environmental shocks (Urwin, 2004).

4. The members of CARICOM are: (i) Antigua and Barbuda; (ii) Anguila; (iii) Barbados; (iv) Belize; (v) Dominica; (vi) Grenada; (vii) Guyana; (viii) Haiti; (ix) Jamaica; (x) Montserrat; (xi) St. Kitts and Nevis; (xii) St. Lucia; (xiii) St. Vincent and Grenadines; (xiv) Suriname; and (xv) Trinidad and Tobago.
5. The convergence criteria for accession to the monetary union, which were laid down in the Decision of the Conference of the Heads of Governments of the Caribbean Community on Caribbean Monetary Integration, Port of Spain, Trinidad and Tobago, July 1992 are as follows: The prospective member must have (i) maintained an unchanged US dollar value of its currency for at least 36 consecutive months; (b) maintained a minimum of foreign exchange reserves equivalent to three months of imports, for at least 12 consecutive months; and (iii) recorded a ratio of external debt service ratio to exports of goods and services of no more than 15 per cent (Farrell and Worrell, 1994, pp.244-46).
6. Chand (2003) notes that while New Zealand and small PICs chose to remain silent, the Prime Minister of Fiji snubbed the idea of a regional currency.
7. This includes free movement for graduates, media workers, musicians, artists and sportspersons, in all member countries of CARICOM, except two, Antigua and Barbuda, and St. Kitts and Nevis. Jamaica, Trinidad and Tobago, and Barbados further extended the free movement of architects and engineers. The full CSME is now expected to come on stream in 2008, with complete dismantling restrictions on labour movements within CARICOM (World Bank, 2005).
8. The Tuvalu High Commissioner observed in an interview with Jemima Garret on Radio Australia's Pacific Beat: 'If bigger PICs such as Fiji are keen on markets for goods under Pacific Plan, Tuvalu, which cannot export goods, would be looking for markets for labour' (Finiakaso, 2005). This opens the possibility of considering the intra-PIC labour movement, for skilled labour to start, as part of Pacific Plan.
9. The ongoing 'biscuit war' (Vanuatu banning the exports of Fiji's biscuits) is a glaring example of the difficulties involved in implementing a PFTA.
10. The Australian government accused the Solomon Islands of assuring one thing and doing something else. It happened at the best of times when relations between the Solomon Islands and Australia were cordial, as the RAMSI, largely funded by Australia, restored normalcy to the strife-torn country. It also strangely coincided with the Solomon Islands conferring the highest honour of the nation – the Star of Solomon Islands – on the prime ministers of Australia and New Zealand.
11. William Demas. A former Governor of the Central Bank of Trinidad and Tobago, who later became the first Secretary General of CARICOM observed that: 'A single independent currency entails a single set of economic, monetary, financial and fiscal policies designed to influence the balance of payments. Such a single set of policies is possible only with a high degree of economic union tantamount to political union' (Demas, 1974, p.54).

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