

The Pacific Development Dividend
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Go to any village in the South Pacific and you are likely to be offered Kava, a mildly narcotic drink traditionally consumed as a ceremonial and therapeutic drink in the Pacific.

My first drink of kava required some patience as the powdered root was soaked in water for an hour and then drained through cheesecloth. A sip of the stuff left me with numb lips and after a while I was feeling mildly sleepy and relaxed. There were smiles all around with my Pacific companions.

During the 1990s, Kava became a key export industry for several Pacific Island countries, generating a \$US200 million annually. However, quarantine and health concerns about the untested effects of this ancient drink led Australia to place bans on the kava trade in 2001, citing evidence of health problems from consumption of the product.

The ban was widely opposed in the Pacific as it had massive flow on effects to the farming sector in the Pacific. I pray the authorities don't do the same to the Scottish Whiskey industry for the same health reasons.

The story highlights how actions taken in the Australian national interest can hurt our neighbours.

Now a new test of our relations with the Pacific is about to get underway where our national interests are competing.

A regional free trade agreement, the Pacific Agreement on Closer Economic Relations Plus will be initiated at this week's meeting of leaders of the Pacific Island Forum countries in Cairns.

There are real opportunities and some serious risks for Pacific Governments in negotiating with the Australian Government now.

Trade Minister, Simon Crean, is making all the right noises to re-assure our neighbours. Minister Crean has clearly linked the outcomes of the negotiations to improving sustainable development in the Pacific. Such development is one of the goals of the Pacific Islands Forum too.

But what will this development really look like?

Pacific Island countries need to maintain access to advanced markets for their exports so they can continue to experience economic growth and have a chance of achieving their development goals. A successful trade agreement may succeed in establishing a strong, regional free trade area that maintains their access to Australian and New Zealand markets. True believers claim as much as a 30% increase in trade as a result.

But are these predictions overblown?

Opportunities for growth in the Pacific are limited in the current climate of declining global demand. The majority of the Pacific countries are projected to experience slowed growth of their GDPs in 2009 and the World Bank states that projected GDP growth for developing countries is at its lowest rate since the 1990s, and 'more fragile and low-growth economies', such as those of the Pacific Island Countries, are especially at risk.

While Pacific Island countries vary in their resource base, a major resource is their people. The World Bank estimates that 40% of Pacific Island countries populations are aged between 0-15 and another 20% between 15-24. Creating jobs and sustainable livelihoods should be a vital part of this agreement.

Securing access to the Australian and New Zealand labour markets for Pacific workers could be an important opportunity for the Pacific Governments.

Yet a pilot Pacific Labour Scheme has already been established in the fruit growing areas of the Riverina and its expansion could be pursued much more quickly outside a trade negotiations.

Another issue is the nature of trade negotiators themselves where the pull factors will be to national self-interest, which may not always suit the need of developing countries.

Evidence from the United Nations shows that developing countries need to retain policy options for economic growth and tariffs as part of their policy tool kit.

What is good for the goose is not always good for the gander. Negotiators cannot simply assume that market reforms that have been good for a huge economy like Australia's, such as removing tariffs, are good for small Island states of tens of thousands of people. A 15% tariff in a tiny Pacific state may be an essential revenue stream for government budgets to pay for essential health and education services.

Finally, there is a challenge is overcoming the 'democratic deficit' in trade negotiations: the lack of transparency, consultation and accountability towards the citizens of countries that are most affected by the agreement's outcomes over time.

Despite efforts by the Australian Government to allay concerns about the impacts of the trade agreement, there is little clear indication of whether, or how, Pacific Governments will seek to work together to inform their citizens about the potential economic and social impacts trade liberalisation.

A development dividend may be paid from these negotiations, but a lot of scrutiny is going to be needed to ensure it does.

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