

PACER – The negatives don't make a plus

I would like to start by acknowledging the traditional owners of this land, the Gadigal People of the Eora Nation, and that their sovereignty was never ceded. When we talk about issues of rights and development it's important to remember whose land we stand on and that the struggle for Indigenous justice continues.

The Australian Fair Trade and Investment Network (AFTINET) is a network of unions and community groups that supports fair trading relationships with all countries, based on human rights, labour rights and environmental sustainability. There is information here about how to become a member as well as the work that we do.

This morning I will be speaking about trade and development, in particular the proposed trade agreement between the Pacific Islands, Australia and New Zealand and how this won't meaningfully address development.

When we talk about development we need to stop and think exactly what this term means. For too long the notion of development has been rigid and tied to a particular free trade agenda. This notion has to go.

Development instead needs to be considered as something far more dynamic, something to be determined by developing countries and their peoples themselves. Development in both policy and practice must be defined by all those involved, ensuring that not only do they have a say in which way their community/country/region develops but also, and more importantly, that they have some form of control over it. Development must be tailored to the needs of communities; one size will no longer fit all.

In order for trade to play a role in supporting democratic development, trade must also be considered to be a dynamic, adaptable factor. We've seen for the last thirty years the primacy given to the neo-liberal, or "free market" theory of international trade, long promoted as the answer to development.

International trade agreements have been the major mechanism for implementing this model of trade. Through these agreements, commitments by governments on tariffs, subsidies, levels of regulation for services and investment amongst other things are legally bound and incredibly difficult to change without paying some form of compensation.

Whilst these agreements are effective in locking in free trade reforms, they are not so effective in addressing issues of development. The recent global assessment on agriculture authored by the Food and Agriculture Organisation, World Bank, UN Development Program, and the World Health Organisation amongst others reported that free market policies are failing the poor and support for small-scale, sustainable farming as a way to address food sovereignty¹. Nobel Prize winner and former chief economist of the World Bank, Joseph Stiglitz has noted that rapid tariff reductions can lead to the destruction of local industries without developing capacity to develop new areas of employment². Just last month the United Nations Conference on Trade and Development reported that:

“By and large, Least Developed Countries have benefited little from the global economy, and the progress they made during the boom years at the start of the new Millennium has proved mostly ephemeral. That is because LDCs exported mostly basic farm goods and raw materials and increased their reliance on them during the boom.³”

The global economic crisis, coupled with the food and climate crises indicates that the belief in free trade and the promotion of the market as the best means to allocate resources is now well and truly without credibility.

It is against this backdrop that we see the latest instalment of the “free market” theory for development begin to be unveiled here in the Pacific. Australia and New Zealand (as well as some Pacific Islands Countries) are pushing for a

¹ International Assessment on Agricultural Knowledge, Science and Technology for Development, 2008, available at www.agassessment.org

² Stiglitz, J. and Charlton, A. (2005), *Fair Trade for All*.

³ United Nations Conference on Trade and Development, 2009, *Least Developed Countries Report 2009: The State and Development Governance*, available at <http://unctad.org/Templates/webflyer.asp?docid=11721&intItemID=2068&lang=1>

regional free trade agreement, known as the Pacific Agreement on Closer Economic Relations, or PACER-Plus.

Next week Leaders of the Pacific Islands Forum will most likely agree to start negotiations for PACER Plus. This agreement is being sold as something that moves beyond the standard free trade agreement format and is focused more on regional development. The Australian and New Zealand governments have argued that the “plus” in PACER Plus will be capacity building and other sustainable development support for the Pacific Island Countries. This however seems at odds with statements by former New Zealand Trade Minister Phil Goff that PACER is aimed at ensuring market access for New Zealand companies to Pacific markets⁴.

In order for the Pacific to take advantage of any discussions on PACER Plus, they must first be in a position to enter into informed consultations with their constituents. If development through trade is to have any genuine local control and direction, the first step would be country consultations. This is something the Pacific had wanted prior to any possible entering into of negotiations on PACER Plus. We have seen recently Ministers from the Cook Islands, Solomon Islands and Vanuatu express this concern. The Solomon Islands Foreign Minister summed it up by saying:

*“My greatest concern is the possibility that we might not be able to involve the groups that will be affected by a PACER-Plus agreement from the very start of the negotiating process. I want every one of my countrymen that will have a stake in this agreement to have a say. And I believe that this must happen before my country's position is finalised and important decisions are made...”*⁵

It now looks like consultations, if they happen at all, will only happen in parallel with negotiations, undermining the consultation process as an effective means of indicating whether or not Pacific peoples even want to enter into

⁴ Goff, P. (2007) 'Preliminary Discussions on Pacific Trade Agreement' *Ministerial Press Release New Zealand Minister of Trade, 12 June 2007*. New Zealand Government.

⁵ Statement by PACER-Plus Lead Spokesman to FTMM. Delivered by Hon William Haomae, Minister of Foreign Affairs and External Trade, Solomon Islands. Apia, Samoa, 17th June, 2009.

negotiations, and if so, what they want from any agreement. Control over the PACER Plus process is already being taken away from Pacific Peoples.

In addition to the issue of consultation there are the impacts that can be anticipated in the Pacific from such a so called “development agreement”. A PACER Plus feasibility study has predicted a 30% increase in levels of trade within the region, resulting in increased opportunities for producers and consumers⁶.

Sadly though, the study doesn't indicate the distribution of that trade increase. With the Pacific already enjoying mostly duty free access to Australian and New Zealand markets, it is the removal of Pacific tariffs that would spark the increased trade, especially for Australia and New Zealand. Indeed one only has to look at the feasibility study's predicted loss of 75% of Pacific manufacturing jobs under PACER Plus to get the sense that the Pacific will indeed be flooded by imports⁷. How dismantling 75% of the employment in one of the major regional value-adding industries promotes development I'm at a loss to understand. The “plus” in PACER appears to be for Australia and New Zealand.

The removal of Pacific tariffs also undermines a key source of revenue for Pacific Governments. Under PACER Plus some Pacific governments are forecast to lose up to 17% of government revenue from the removal of tariffs on Australian and New Zealand goods. For example, a country like Samoa stands to lose 14% of its budget, or the rough equivalent of its entire health budget.

The solution that is being touted as the best way to replace that lost government revenue is through a shift towards more individual taxation, like Value Added Taxes or GSTs. Such solutions however have been shown by the IMF to only replace up to 30% of previous revenue levels leaving

⁶ Institute for International Trade report, June 2008, “Research Study on the Benefits, Challenges and Ways Forward for PACER Plus”, available at: www.iit.adelaide.edu.au/docs/Final%20PACER%20Report%2012_06_08.pdf

⁷ Institute for International Trade report, June 2008, “Research Study on the Benefits, Challenges and Ways Forward for PACER Plus”, available at: www.iit.adelaide.edu.au/docs/Final%20PACER%20Report%2012_06_08.pdf

governments to make up the 70% outstanding or simply spend less⁸. Other options like privatisation also begin to enter the discussion once it becomes too hard for governments to fund and make accessible essential services.

Then of course there are the impacts that increased consumption taxes will have on access to staple foods for many of the Pacific who live a semi-subsistence lifestyle. Tariffs target the more affluent as they are predominantly applied on luxury items produced externally whilst GSTs/VATs target all consumption, including from the poor. Once again, what development outcomes can be expected from the reduced ability of governments to fund essential services, as well as increases in the price of staple foods?

All these development negatives don't seem to add up to a PACER "plus".

But perhaps I'm being negative and looking at a cup and calling it half empty. All these impacts are what are now being referred to as "adjustment costs", a nicer way to refer to what used to be called negatives. Surely increased trade will increase investment and jobs and people's livelihoods and economic growth in general, meaning that in the long-term, the adjustment costs will work out for the better.

But it hasn't for Australia.

Australia's experience with free trade agreements has seen them fail to uphold the many benefits that were used to sell them in the first place. The Australian Parliamentary Library⁹ and the Mortimer review¹⁰ reported that Australia's trade agreements have delivered higher trade deficits, inconclusive increases in market share, and with the exception of some food, manufacturing and service providers, many experienced no increase in

⁸ International Monetary Fund Working Paper 112, *Tax Revenue and (or?) Trade Liberalization*, June 2005.

⁹ Background Note on Australia's Free Trade Agreements by the Economics Section of The Australian Parliamentary Library, 2008, available at: <http://www.aph.gov.au/library/pubs/bn/2008-09/AustFreeTradeAgreements.htm>

¹⁰ Mortimer Review (2008) *Winning in World Markets* available at http://www.dfat.gov.au/trade/export_review

exports. The of course there's the loss of 26,000 manufacturing jobs attributed to trade agreements¹¹.

Given these results for the Australian economy, which is in a much better position to deal with the "costs", if I was from the Pacific, I wouldn't feel comfortable signing up to guaranteed costs with only possible or even unlikely, econometrically modelled benefits.

From what is on the negotiating table it seems that the current framework for PACER Plus lacks any real difference from the standard, one-size-fits-all trade agreement model. If PACER Plus indeed was to be unique, it would take as its starting point something other than demanding the removal of tariffs in the Pacific – a key ingredient to the same old trade liberalisation for development mantra. Instead it seems as if we are trying to offset the shortfalls of our trade regimes by wrapping them up in aid programs!

The current global economic crisis has given us the opportunity to begin to really reflect on international trade and development and forge a new path forward in this area that supports community led and controlled development. Trade can play a part in development, but not in its current form.

The choice facing us is whether we want to see the Australian Government continue to pursue a policy on Australia's trade that dictates what development means and the way it is to be achieved, or, whether we support a process that gives all of us, here in Australia, the Pacific and elsewhere, a greater say in our economic futures.

¹¹ Australian Manufacturing Workers Union, *The Potential Impacts of the Australia-China Free Trade Agreement*, Sydney, 2007