



A Comparison of SPARTECA and PATCRA

Summary of Max Robertson, 'The South Pacific Regional Trade and Economic Cooperation Agreement: a critique', NCDS, Islands/Australia Working Paper No. 85/2 and 'The Papua New Guinea Australia Trade and Commercial Relations Agreement: a critique', NCDS, Islands/Australia Working Paper, forthcoming.

The agreements

The Papua New Guinea Trade and Commercial Relations Agreement (PATCRA) is a preferential, non-reciprocal agreement between Australia and Papua New Guinea which came into force on 1 February 1977. The agreement essentially formalized trading arrangements which had existed between the two countries before independence.

The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is also a preferential, non-reciprocal agreement. It is between Australia, New Zealand and the Forum countries of the South Pacific (Fiji, Papua New Guinea, Solomon Islands, Tonga, Vanuatu, Western Samoa, Cook Islands, Tuvalu, Kiribati, Nauru, and Niue). It came into force on 1 January 1981. In Australia's case it consisted of lists of imports eligible for duty-free access into Australia.

At the Cook Islands Forum meeting in August 1985, the Australian Government announced several liberalizing measures. The new provisions are to come into operation on 1 January 1987. Access to Australian markets will be on an unrestricted basis for all products other than those to which

Australian sectoral policies currently apply (clothing, textiles and footwear, sugar, steel and passenger motor vehicles); the rules of origin will be liberalized; the two positive lists are to be replaced by a negative list restricting imports only in the categories to which global policies apply. However, it was agreed that the clothing quota would be maintained and allocated by the Department of Trade.

The objectives of the agreements

Both agreement are intended to provide freer trade by granting duty-free access to the Australian market (and the New Zealand market in the case of SPARTECA), expanding and diversifying trade, stimulating investment in exports, providing cooperation in marketing, and promoting other forms of commercial cooperation.

Historical trading relationships between Australia and the Pacific

During the colonial period, the Pacific countries obtained most of their imports of goods and services from Australia and New Zealand. However, Australia and New Zealand's shares of Papua New Guinea's and the island states' imports are falling as traditional relations give way to economic ones.

Australia and New Zealand have, in any case, never been the principal markets for the South Pacific. Australia particularly, and New Zealand to some extent, have similar natural endowments to the South Pacific and they have small populations, so that they can absorb only limited volumes of the traditional commodities exported by Pacific countries. The principal exceptions are phosphate (from Nauru), coffee and tea, and (for New Zealand) bananas, for which the two Pacific industrial countries form significant markets for the South Pacific countries.

Other trading arrangements

Trading relationships in the Pacific are governed not only by SPARTECA and PAFCRA. Most other industrial countries also give the Pacific countries preferential treatment. The EC, Japan and the United States, under the Generalised System of Preferences, either reduce or eliminate import duties on most goods from developing countries and treat them preferentially with respect to quantitative restrictions. In addition, the EC's Lomé Convention gives privileged access (mostly duty free) to the Pacific countries' products in EC markets. Quotas are also markedly liberalized for these countries. The markets of the EC, Japan and the United States are substantially larger than those of Australia and New Zealand.

Trade developments under the two agreements

From 1980 to 1984 when both agreements were in operation, only Western Samoa and Fiji increased their exports to Australia.

In Western Samoa this was the result of Australian investment in a joint venture in a wood veneer factory, together with increased taro and coconut imports by an Australian firm. Fiji's increased exports to Australia consisted of coconut oil, leather products, timber, clothing and molasses. For most of these exports, however, access was already free before SPARTECA.

All other Pacific exports to Australia have either stagnated or declined.

The lack of success in exporting labour intensive products can be explained by the following factors:

1. The South Pacific countries are not price competitive, mainly because wages and fringe benefits are too high in relation to productivity levels. South Pacific products can thus barely compete with Australian and New Zealand goods even though nominal wages are higher in these two countries. They generally cannot compete with efficient Asian producers even with substantial margins of tariff preference. That is, manpower policies have eroded the export competitiveness of the South Pacific countries. South Pacific producers, despite their geographic proximity, cannot compete, for example, for the tariff quotas in clothing and footwear (which carry a 5 per cent preference for all developing countries from 1 July 1986) which are open to all countries.
2. Exchange rates are overvalued for exports because of the 'Dutch disease' effects of rich natural resources such as gold and copper and high aid inflows. This hampers exports of labour intensive and other goods that do not have high natural resource rents.
3. Australian markets for South Pacific products are small and growing slowly. It is difficult to expand export shares to such markets rapidly.
4. In some cases communication and transport difficulties impede exports.
5. Entrepreneurial and commercial skills in some Pacific islands have yet to be developed.

The South Pacific countries have been very critical of the agreements (especially SPARTECA). The smaller Forum island countries consider that SPARTECA has little to offer them. Access provisions for some products that the larger countries consider to be important were not thought to be generous enough and some important items had initially been omitted from privileged access. The 'origin' rules were claimed to be too severe though they were more open than those of other industrial countries which required extensive evidence of 'origin'. The South Pacific countries also claimed that the 'origin' rules were administered unsympathetically. Most of these objections should be over-

come by the 1985 revisions which are to come into operation on 1 January 1987. However, the agreements have had very little impact on output, export and employment because the Australian and New Zealand markets are relatively unattractive and the South Pacific countries are not competitive in labour intensive products. These problems will not be overcome by the new agreement.

A Closer Economic Relations (CER) Agreement

At the Cook Islands meeting, the Australian Prime Minister also announced that he was establishing an Interdepartmental Committee to evaluate the prospects of extending the Closer Economic Relations Agreement already existing between Australia and New Zealand to all the Forum countries.

It was argued that such an arrangement would give security of investment for investors in the South Pacific because (following EC precedents), once it was established, it would be very difficult to dismantle. It was also argued that such an agreement would halt trends towards protectionism in some South Pacific economies because the reciprocity conditions would compel the reduction of existing trade barriers and prevent the erection of new ones.

As reciprocity would require the progressive abolition of all customs duties and other trade restrictions within the region, such an agreement would also have implications for the collection of revenue duties on which the developing South Pacific countries (like most other developing countries) have to rely heavily for the foreseeable future.

Existing import replacement industries in the South Pacific would face increasing competition from lower priced products from New Zealand and Australian manufacturers operating with larger economies of scale and more realistic exchange rates. But privileged treatment for Australia and New Zealand would lead to trade diversion which would result in higher costs for South Pacific country consumers.

It is not surprising that integration between countries at markedly different levels of economic development has been an almost universal

failure. The incorporation of the southern Mediterranean countries into the EC is an extremely complex process despite the relative sophistication of their economies. The only effective customs union between an industrial and developing countries is that between South Africa, Lesotho, Botswana and Swaziland. This is hardly a model that Australia would wish to follow!