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China's WTO accession: trade and policy implications for Pacific island countries

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After a long wait of some 15 years, China finally became a member of the World Trade Organisation (WTO) in December 2001. This was a major milestone not only for China but also for the WTO, boosting the coverage and potential impact of the multilateral trading system. China can now fully participate in the WTO and help shape the rules on which the multilateral trading system is based. This development also has important regional implications, including some potential implications for Pacific island economies.

China's WTO accession

Although China's WTO accession was important, its trade opening reforms started well before then, and actually accelerated during the 1990s. Such efforts stemmed mainly from unilateral motives to open the economy. It was this major directional change in trade and other domestic economic policies that facilitated China's WTO accession and will continue to shape the future pace of its liberalisation policies. Enormous progress in trade policy reforms was made before accession; average tariffs dropped from 41 per cent in 1992 to 12 per cent in 2001 and major services reforms introduced, for example. Reductions in protection and trade barriers negotiated for accession are generally much smaller than previous cuts. China was already a major world trader before accession; its share of global trade had risen from 0.17 per cent in 1986 to almost 5 per cent in 2001—the world's fifth largest exporter. China's WTO accession marks an important turning point in its use of external commitments to underpin future unilateral reforms (Martin 2003). Meeting China's accession commitments are estimated to raise global welfare annually by US$74 billion, of which about half will accrue to China (Ianchovichina and Martin 2002).

The accession process may well have influenced the timing of many of these reforms. For example, China's GATS commitments on services are claimed to be the largest liberalisation ever undertaken under the WTO (Mattoo 2003). Such multilateral commitments provide China's trading partners with confidence that its liberalisation thrust will continue, and signals its determination to push ahead on reforms.

They help guard against future back-pedalling in China's trade reforms, and thereby make the trading system more predictable. Any assessment of the possible implications of WTO accession on the Pacific islands must therefore focus on the impact of China's continued openness and economic expansion. To what extent, for example, will Pacific island countries be able to realise any increased trade opportunities in China and withstand the inevitable increased competition from lower-cost Chinese products in third export markets and at home?

Table 1 **Main exports of selected Pacific island countries**

Country	Main export commodities	Main export markets
Cook Islands	Pearls, grapes, fresh fish, clothing, footwear	New Zealand, Japan, United States, Australia
Fiji	Sugar, fish, textiles and clothing, fruit and vegetables	Australia, European Union, Japan, New Zealand, United States
Kiribati	Fish	Japan, United States, Hong Kong, Australia, European Union
Niue	Fruits and vegetables	New Zealand
PNG	Logs, fish, coffee, cocoa, ores, petroleum, non-elecrical machinery	Australia, European Union, Japan, New Zealand, United States
Samoa	Fish, fruit and vegetables, electrical machinery	Australia, New Zealand, European Union, United States, Hong Kong
Solomon Islands	Fish, logs	Australia, European Union , Japan, Korea, New Zealand, United States
Tonga	Fish, fruit and vegetables	Australia, European Union, Hong Kong, Japan, New Zealand, United States
Tuvalu	Fish, cosmetics, medicines, non-electrical machinery	European Union, South Africa
Vanuatu	Fish, fruit and vegetables, beef, oilseeds	European Union, Korea, Japan, United States, Australia, New Zealand

Source: Bosworth, M. and Duncan, R., 2000. 'Non-tariff measures facing exports from the Pacific island countries', in *Non-Tariff Measures with Potentially Restrictive Market Access Implications Emerging in a Post-Uruguay Round Context*, ESCAP Studies in Trade and Investment 40, UNESCAP, Bangkok:132.

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Pacific island country trading patterns

Pacific island country trade patterns provide some insights into the potentially likely impact on them of China's economic and trade liberalisation, and hence of its WTO accession.

Pacific island country trade and production patterns are heavily concentrated; the top three commodities generally account for over three quarters of total exports (Table 1).[1] This is not surprising, and is largely due to their smallness and specialised resource endowments. They are also trade dependent, again largely for economic reasons, exporting mainly primary commodities, especially logs, fish products, agricultural products like sugar, tree crops (coconut and oil palm products), and fruit and vegetables. Since their manufacturing base is very limited, industrial products are mainly imported.

Export markets are also heavily concentrated, largely reflecting their limited production base (Table 1). Most island exports are to industrial markets, especially Australia, the European Union, Japan, New Zealand and the United States (Duncan, Cuthbertson and Bosworth 1999). Although Pacific island countries have limited capacity to diversify export markets, it is important that they try to boost their competitiveness by continually seeking out new emerging markets for their products. Becoming too locked in to traditional, especially preferential, markets that may disappear or become less attractive in future is undesirable. Global conditions change, such as from exchange rate realignments, changes in overseas trade barriers and international shifts in comparative advantage, so that markets may come and go. Imports are predictably from many sources, including Asia. There is little intra-island trade, despite efforts for this to increase under regional initiatives, such as the Melanesian Spearhead Group and more recent developments.[2]

Pacific island country trade and production is dominated by the largest economies of Fiji, Papua New Guinea, Solomon Islands and Vanuatu. However, with the possible exception of Solomon Islands, these are more diversified than the other island economies. Papua New Guinea also has substantial oil and mineral resources, while Fiji produces significant clothing and along with Vanuatu exports substantial tourism services.

Pacific island trade with China is relatively small (Table 2). Exports are insignificant, except for logs from PNG and the Solomon Islands. China was Papua New Guinea's second-largest log export market (after Japan) and accounted for about one-third of its log exports in 2000. However, because of the importance of minerals, log exports to China were less than 1 per cent of total Papua New Guinea exports. The Chinese market was much more significant for Solomon Islands, accounting for about 19 per cent of total exports, or about 23 per cent of log exports, and was the Solomon Islands' second largest log market after Korea. Logs sourced from Pacific island countries are mainly processed in Asia, especially Japan and Korea.

The impact of China's accession on Pacific island trade

The lack of Pacific island exports to China suggests that China's WTO accession and continued trade reforms are unlikely to provide them with too many new export opportunities in China. They have not benefited from China's substantial liberalisation to date, and there is little reason to think this would change substantially in the near future. The narrow production base of the Pacific island countries does not match the

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Table 2 **Main exports of selected Pacific island countries to China and other markets, 2002**

	China's share (per cent)					Top 3 export markets
Product and code	Fiji	PNG	Samoa	Vanuatu	SI	
Canned fish (032)	.	-	.	-	-	*PNG:* Hong Kong, SI, Singapore *Vanuatu:* Australia *SI:* UK, Japan, Australia
Wheat flour (046)	-	.	.	.	.	*Fiji:* Samoa, Tonga, Vanuatu
Cereal preps (048)	-	-	.	.	.	*Fiji:* Samoa, Tonga, Vanuatu *PNG:* SI, Australia, NZ
Fresh fruit (051)	.	.	-	.	.	*Samoa:* NZ, Australia
Fresh/pres. vegetables (054)	-	.	-	-	.	*Fiji:* NZ, US, Australia *Samoa:* NZ, Japan, Switzerland *Vanuatu:* Australia, US, NZ
Preserved vegetables (055)	.	.	-	.	.	*Samoa:* US, NZ
Sugar preps (062)	-	.	.	.	.	*Fiji:* Australia, PNG, Samoa
Spices (075)	-	.	.	.	.	*Fiji:* Australia, NZ, Germany
Animal feed (081)	.	.	.	.	-	*SI:* Australia, NZ
Food preps (099)	.	.	-	.	.	*Samoa:* NZ, Australia, US
Rough wood (242)	.	29.3	.	-	23.3	*PNG:* Japan, China, Korea *Vanuatu:* Taiwan *SI:* Korea, China, Philippines
Shaped wood (243)	.	0.2	-	-	.	*PNG:* Australia, NZ, Germany *Samoa:* NZ, Australia *Vanuatu:* Japan, Korea, Taiwan
Non-ferrous metal scrap (282, 284)	.	.	-	.	-	*Samoa:* New Zealand *SI:* Australia
Silver ores (285)	.	-	.	.	.	*PNG:* Singapore, Japan, Germany
Crude animal matter (291)	.	.	-	1.0	3.8	*Samoa:* US, Canada *Vanuatu:* Ecuador, US, Taiwan *SI:* US, Hong Kong, Japan
Processed vegetable oils (431)	.	-	.	.	.	*PNG:* Italy, Australia
Special and electrical machinery (718, 729)	.	.	-	.	.	*Samoa:* PNG, New Zealand, Germany
Telecoms equipment (724)	.	.	-	.	.	*Samoa:* Sweden, UK, Singapore
Boats (725)	.	.	.	-	.	*Vanuatu:* Indonesia, Korea, Japan
Furniture (821)	0.1	.	.	.	.	*Fiji:* Australia, NZ, US
Clothing (841)	-	.	.	.	.	*Fiji:* Australia, US, NZ
Footwear (851)	0.2	.	.	.	.	*Fiji:* Australia, NZ, Anguilla

Source: UN Comtrade.

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areas where Chinese production is likely to contract as imports rise with further trade liberalisation. China's WTO reforms are likely to provide export opportunities in land-intensive agricultural products, such as wheat, maize and soybeans. These products are of no export interest to Pacific island countries. China may offer some limited opportunities for exporting fruit and vegetables, which are relatively important Pacific island country exports. However, this is rather uncertain. China may also become an important regional exporter of these products; vegetables have been negatively protected in China and so production will presumably expand following reforms. Opportunities to increase processed fish exports to China are also likely to be very limited.

Many of the main tariff reductions on industrial products from accession will be on labour-intensive goods, such as electronics and light manufacturers, in which China has a comparative advantage. Although the Pacific islands produce a few of these products, mainly limited to small Samoan exports of certain machinery and equipment, they would not be able to compete with China. They will also be unable to realise the increased market opportunities available to foreign suppliers from China's services reforms.

China's liberalisation will therefore provide Pacific island countries with very few, if any, direct export opportunities. One possible major exception is logs, which Papua New Guinea and the Solomon Islands already export significantly to China. Given China's comparative advantage in labour-intensive products, timber processing may increasingly relocate from Japan and Korea to China, thereby promoting log exports to China. However, China already imports many unprocessed logs from elsewhere—especially from Africa, the Russian Federation and Malaysia. Moreover, any future Pacific island log exports to China may see reduced exports to Japan and Korea.

China's liberalisation is likely to negatively impact on Pacific island exports in third markets. Empirical research suggests that China's trade reforms following accession will greatly expand Chinese trade. More competitive Chinese exports of products in which it has a comparative advantage are therefore increasingly likely to displace other exports and capture major shares in regional markets of interest to Pacific island countries Asia, a potentially large market for fruit and vegetables may, for example, become a major destination for Chinese exports. Although Pacific island countries mainly export fruit and vegetables to Australia and New Zealand, Asian markets remain potentially important to the Pacific islands if such production is to expand. Chinese exports of fruit and vegetables to Australia and New Zealand may also increase (depending upon quarantine restrictions of these countries) and if so could displace Pacific island exports.

Such displacement of the islands' exports in third markets is likely to occur in clothing and footwear. This would affect mainly Fiji, which has the largest garment industry among the Pacific island countries, and focuses on low value-added cut, make and trim assembly operations. China has a large comparative advantage in these activities, and clothing exports are projected to more than double when the Multifibre Arrangement (MFA) is removed from 2005. China's accession ensures that its exports will benefit from the removal of MFA restrictions; otherwise China would have remained subject indefinitely to such export quotas. Its exports to heavily MFA-restricted markets, such as the United States, are therefore likely to expand and displace less efficient exporters, such as Fiji, which receive preferential access by largely avoiding the MFA quotas.[3] The United States is Fiji's second-largest clothing

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export market, accounting for 38 per cent of such exports in 2000. While Fiji's main clothing market, Australia, does not maintain MFA restrictions, it has relatively high tariffs on clothing imports. Fijian clothing exports enter Australia duty free under SPARTECA and benefit from significant tariff preferences. These margins have declined substantially in recent years as Australia has lowered its trade barriers. Fijian exporters are likely to be subjected to increased competitive pressures in Australia from lower-priced Chinese exports, especially as such margins are further narrowed should Australia

Table 3 **China's main import sources for major products exported by selected Pacific island countries**

Product and code	Major import source and share (per cent, in parentheses)
Canned fish (032)	Japan (33), Chile (12), Philippines (9)
Wheat flour (046)	Japan (23), US (19), Australia (16)
Cereal preps (048)	Ireland (36), US (19), Netherlands (7)
Fresh fruit (051)	Philippines (22), Ecuador (22), Thailand (17)
Fresh/pres vegetables (054)	US (30), Canada (15), Indonesia (14)
Pres vegetables (055)	US (65), UK (8), Belgium (4)
Sugar preps (062)	US (17), Korea (14), Hong Kong (12)
Spices (075)	Indonesia (26), Taiwan (23), Japan (16)
Animal feed (081)	Peru (43), US (13), Russian Federation (8)
Food preps (099)	Japan (42), US (27), Taiwan (8)
Rough wood (242)	Africa (46), Russian Federation (22), Malaysia (14)
Shaped wood (243)	Indonesia (29), Malaysia (14), US (9)
Iron and steel scrap (282)	Russian Federation (23), Kazakhstan (17), Japan (18)
Non-ferrous metal scrap (284)	US (28), Kazakhstan (13), Hong Kong (12)
Silver ores (285)	Korea (94), Venezuela (3), Austria (1)
Crude animal matter (291)	US (30), Australia (9), Kazakhstan (8)
Processed vegetable oils (431)	Indonesia (40), Malaysia (37), Korea (4)
Special industry machinery (718)	Germany (24), Japan (22) US (11)
Telecoms equipment (724)	US (20), Japan (17), Sweden (11)
Boats (725)	Japan (21), Taiwan (11), Taiwan (10)
Electrical machinery nes (729)	Japan (27), Taiwan (16), Korea (12)
Furniture (821)	Germany (32), US (14), Taiwan (13)
Clothing (841)	Hong Kong (53), Japan (26), Korea (5)
Footwear (851)	Italy (20), Indonesia (13), Hong Kong (9)

Source: UN Comtrade.

further reduce its most-favoured nation tariffs. The same applies to Fijian footwear exports, which are sold mainly to Australia and New Zealand also under significant SPARTECA tariff preferences.

Policy implications for island economies

Export opportunities for Pacific islands in China are therefore unlikely to increase given their respective trading patterns and areas where Chinese imports are most likely to rise as its WTO commitments are implemented. Indeed, the net trade effects may well be negative as lower-cost Chinese exports expand, especially of textiles and clothing, and displace their exports in key regional markets. This raises important policy questions, including how they should respond to such developments. What does this mean for their future economic prospects, and how should they respond to China's WTO entry and continued liberalisation?

China already imports products from other countries that compete directly with Pacific island country exports. For example, China imports canned and processed fish from mainly Japan, Chile, the Philippines, Thailand, Mexico and Korea. Fruit, vegetables, spices and vegetables are also imported from a range of countries, including the Philippines, Ecuador, Thailand, the United States, Indonesia and Japan. Logs are also imported mainly from Africa, Russia, Malaysia and Indonesia (Table 3).

To be able to realise market opportunities in China, and any market for that matter, Pacific island countries must be internationally competitive. Evidence suggests that it is not primarily market access barriers in China or elsewhere that have hindered Pacific exports, but rather an inability to compete with other world suppliers (Bosworth and Duncan 2000). The international competitiveness of Pacific exports depends upon supply factors, and these ultimately depend on domestic, including trade, policies. Market access will not improve trade performance of non-competitive industries; more competitive suppliers will instead benefit. A more affluent China boosted by trade and investment liberalisation will expand the Chinese market and increasingly generate export opportunities, but only for efficient foreign exporters.

Over-dependency on preferential markets

A sure indicator of Pacific island production inefficiencies in key areas is their reliance on preferential access to traditional export markets. Certain major Pacific exports are not substantially outside these markets, and are therefore unlikely to be internationally competitive. For example, canned and processed fish is exported almost exclusively to the European Union under substantial Cotonou preferences, and would not be competitive with world efficient suppliers, such as Thailand, without these preferences. Similarly, Fijian sugar is only exported to the European Union and to the United States under preferential duty and import quota arrangements. The same applies to Fijian exports of garments to Australia and New Zealand.

Industries over-reliant on preferential markets are likely to be inefficient; those resources could be better used in more productive activities. Such markets can disguise domestic inefficiency and effectively act as large disincentive to become more efficient and to seek out new markets. There are real dangers for Pacific island countries continuing to rely overly on preferential markets, because this inevitably means relying on inefficient industries. Trade preferences represent bad aid and bad trade.

Moreover, while tantalising for developing countries, they are economically costly in the long run and a poor surrogate for developed countries providing them with genuine most-favoured nation access (Stoeckel and Borrell 2001). While preferential access is frequently associated with higher prices in heavily protected markets (like for sugar and fish in the European Union), these rents reduce the competitiveness pressures needed for these industries to be efficient (they are usually subject to high protection on the home market as well). Rents are usually dissipated at home through waste and inefficiency and/or captured by wholesalers/importers in the importing country.

Reliance on preferential markets can impede structural reforms in Pacific island countries by encouraging resources to remain in inefficient industries. This can also undermine export diversification of products and markets. To reduce such dependency requires Pacific island countries to attract foreign investment (they have insufficient domestic savings) into internationally efficient industries. Foreign aid can help by providing the fundamental infrastructure and institutional support needed for an efficient market economy to operate, but must avoid providing perverse incentives that so often hinder rather than facilitate structural change into more efficient activities. Breaking this vicious cycle to ensure that efficient industries expand is required if they are to generate sustainable growth.

Pacific island countries also depend on the generalised system of preferences (GSP) access to many industrial markets. Evidence suggests that dependency on preferential markets for exports, at least in the case of non-reciprocal GSP schemes, is likely to make a country less likely to liberalise its own trade policies.

Domestic economic reforms required

At the heart of their economic problems is the need to develop efficient industries that can compete internationally at home and in export markets. Overcoming such supply constraints requires a well functioning market economy to allow industries with comparative advantage to develop and prosper. Their own economic policies, including macro-stabilisation and structural reforms aimed at liberalising trade, investment and production are needed to raise their economic efficiency. Fundamental reforms to develop institutions to improve economic governance and promote sound commercial practices, such as secure property rights, enforceable contracts and accepted accounting practices, are essential if Pacific island economies are to develop. The efficient public provision of essential infrastructure services, such as telecommunications, roads, education and health, is also needed. Pacific island governments urgently need to address these policy reforms.

While trade liberalisation is no 'silver bullet' for growth and must be accompanied by many other fundamental reforms, it remains an essential ingredient (Berg and Krueger 2003). The economic gains from increased efficiency of dismantling import barriers, which are ultimately a tax on efficient exports, should not be underrated. There is substantial evidence linking trade liberalisation with economic growth. Non-discriminatory trade liberalisation (most-favoured nation tariff reductions) work best and unambiguously maximise the economic gains from trade liberalisation. It ensures trade creation (rather than trade diversion) and guarantees that imports will be sourced from the most efficient world suppliers. Such imports provide the competition that improves efficiency, productivity and hence

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growth. The best route to achieve such reforms is usually unilateral, but to be successful requires a strong government commitment and domestic ownership of the reform program.

Since several Pacific island countries are either themselves WTO members or undergoing accession, it is useful to examine how this may also help them to reform.[4] WTO membership may help domestic reforms, but certainly provides no guarantee. It can effectively support unilateral trade reforms facilitate if governments are prepared to make substantive multilateral commitments to ‘lock in’ domestic reforms to limit future policy backsliding.[5] However, although frequently lost sight of in multilateral negotiations, because a country’s economic gains come mainly from its own trade reforms, and not from receiving greater market access abroad, there is little economic sense in a country making its own reforms conditional on trading partners also reforming. Thus, while in the WTO reducing trade barriers are seen as a ‘concession’ providing greater market access to be reciprocated by trading partners (the basic mechanics of the negotiations), such reforms benefit a country irrespective of what other countries offer in return. Such reforms are economic benefit and not a cost to the country concerned. This is confirmed by empirical studies that repeatedly show that trade-liberalising economies gain most from the multilateral system. In other words, if WTO members are to generate substantial benefits under the multilateral system they must be prepared to liberalise. Even in agriculture, achieving more liberal developed markets will provide only limited benefits to developing countries unless they too liberalise; and those that liberalise most are likely to gain most economically.

The Pacific islands and other developing economies often overlook where the gains from multilateral trade liberalisation mainly come from. In the current Doha Round, for example, developing countries have correctly insisted industrial economies provide genuine market access in their areas of main interest, including agriculture, they have incorrectly pushed for more comprehensive open-ended ‘special and differential’ provisions that will not require them to make meaningful commitments to liberalise trade.[6] Such application of special and differential effectively makes the WTO irrelevant to their domestic reforms and largely undermines the main economic value of the WTO to them. Obtaining substantial benefits under the multilateral system requires domestic reforms; sitting on the sideline and doing nothing thinking that benefits will be reaped from other country’s reforms providing market access is illusory.

Increased regionalism

As elsewhere in the world, the Asia Pacific region is undergoing increased regionalism from ‘free-trade arrangements’ designed to discriminate against non-member trading partners. Pacific island trade is dominated by such regional agreements involving developed partners. Trade between the Forum island countries and Australia and New Zealand is subject to non-reciprocal SPARTECA preferences and also by PATCRA preferences between Australia and Papua New Guinea. The non-reciprocal European Union’s Cotonou Agreement (the successor to the Lomé Convention) also heavily influences the trade of Pacific ACP (Africa, the Caribbean and the Pacific) states.[7] It is to be replaced in 2008 by reciprocal Economic Partnership Agreements (EPA) between the European Union and ACP states, which may be negotiated bilaterally or by regional groupings.[8] It has been suggested that such reciprocal agreements are likely to economically hurt ACP states by transferring tariff revenue to the European Union with no offsetting reductions in import prices from the European Union (Schiff 2002).

Other regional developments may also have adverse implications for Pacific island country trading prospects. For example, Australia and New Zealand have themselves decided to pursue regional preferential trading arrangements. Australia is currently negotiating such arrangements with Thailand and the United States. China, having just joined the WTO, is negotiating a preferential trading arrangement jointly with ASEAN members, to be fully operational within 10 years, and also with some individual ASEAN countries. The possibility of Japan and Korea also joining the China/ ASEAN arrangement is also being actively considered. Such arrangements seriously risk diverting trading opportunities from Pacific island countries to participating countries, thereby making their task of establishing efficient industries based on regional export markets more difficult.

The proliferation of such arrangements in the region is potentially costly and dangerous for Pacific island countries, and is likely make their trade regimes far more complex and potentially distorting.[9] Moreover, they may be compounding these problems by forming their own potentially costly regional trading arrangements that also have obscure economic benefits. From 13 April 2003 the 14 Forum island countries have agreed to phase in a free trade area by 2011 under the Pacific Island Countries Trade Agreement (PICTA).[10] While these arrangements are strongly supported politically to encourage regional trade and provide a path for broader trade liberalisation, the evidence for this is inconclusive. Costly trade diversion often predominates, and there is no evidence that regional trade pacts among developing countries lead to more liberal trading regimes; they are neither a necessary nor sufficient condition for an open and liberal trade regime (Foroutan 1998). What the evidence clearly shows is that any such gains from discriminatory liberalisation are ambiguous and at best small, and are always swamped by much larger unambiguous gains from non-discriminatory trade liberalisation carried out either unilaterally or multilaterally.

Not only are such arrangements between developing countries likely to lower welfare for the group as a whole, any gains are also likely to be unevenly spread among members. Smaller and poorer members are likely to lose most, and any gains likely to accrue to the more developed members (Schiff 2002). This may adversely affect regional cooperation. To mitigate against these undesirable effects of discriminatory regional trading arrangements requires members to undertake unilateral most-favoured nation reforms supported by effective multilateral commitments.

Conclusions

China's WTO accession and further trade liberalisation is likely to have a minimal impact on Pacific island country trade patterns and opportunities. China is an insignificant export market for Pacific island countries, except for unprocessed logs. China imports products that compete with their exports from other more competitive suppliers. There are likely to be some negative effects in third markets as lower-cost Chinese exports displace Pacific island products, such as clothing exports from Fiji to the United States, and also in Australia. Their lack of penetration in regional markets by Pacific island countries, inability to realise market access openings in China (and elsewhere), and over-reliance on preferential markets reflects non-competitive industries. Pacific island countries must improve their international competitiveness by undergoing essential domestic, including trade, reforms to improve their efficiency so that they can compete in non-preferential markets. While the multilateral system may help, it could undermine such reforms, especially if Pacific island countries insist on open-ended 'special and differential' treatment that overly weakens their multilateral commitments. Proliferation of preferential trading arrangements in the region may undermine their trading interests by excluding them from major regional markets. The economic benefits from them forming a preferential trading arrangement by 2011 and negotiating a reciprocal EPA with the European Union as a replacement for the Cotonou Agreement by 2008 are highly questionable, and would make Pacific island country trade regimes more complex and less transparent.

Notes

1 Three-product export concentration ratios of selected Pacific island economies ranged from 97 per cent for the Marshall Islands to 67 per cent in 1991–93. Corresponding ratios for Australia and New Zealand were 26 per cent and 36 per cent (World Bank 1995).

2 The Melanesian Spearhead Group was formed in 1993 between Papua New Guinea, Vanuatu and the Solomon Islands and extended to include Fiji and New Caledonia in 1996.

3 Trading partners may take special safeguards action against China's exports, including, textile and clothing exports for up to 12 years following China's accession. Competition in third markets from other low cost Asian exporters was expected to increase anyway following abolition of the MFA restrictions maintained by many developed economies from 2005, again subject to special safeguard measures available to developed markets to restrict such imports to protect domestic producers.

4 Fiji, Papua New Guinea and Solomon Islands are founding WTO members by virtue of their GATT status. Tonga, Samoa and Vanuatu are currently undergoing accession.

5 It can also help governments advance the reform interests of efficient exporters as a powerful counter-lobby to inefficient domestic producers wanting protection.

6 This is not to deny that the value to developing economies of other forms of 'special and differential', such as technical assistance and even longer transitional periods to implement commitments.

7 These are Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

8 Phase I of the negotiations should result in an agreement between ACP and the European Union on ACP-wide and crosscutting issues, to ensure success of Phase II negotiations which will focus on region-specific arrangements (South Pacific Forum Secretariat 2003). The decision by forum island countries (which includes all Pacific ACP states) to progressively implement a free-trade agreement by 2011 suggests that a single EPA is to be negotiated with the European Union; negotiating separate EPA among members of the same free-trade agreement would be very difficult. Even as it is, negotiating such an arrangement that includes only a sub-set of FIC- FTA members is going to be difficult.

9 The decision by forum island countries (which includes all Pacific ACP states) to progressively implement a FTA by 2011 suggests that a single EPA is to be negotiated with the European Union; negotiating separate EPA among members of the same FTA would be very difficult. Even as it is, negotiating such an arrangement that includes only a sub-set of FIC-FTA members is going to be difficult, and is likely to generate a much more complex and cumbersome regional web of trading arrangements. The economic effects of such criss-crossing regional preferential trading arrangements are unclear and are likely to make Pacific island countries trade regimes less transparent.

10 The initial countries to have ratified PICTA are Cook Islands, Fiji, Niue, Samoa and Tonga.

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