

CHAPTER 6

The Political Economy of Change

Overcoming the Barriers to Change

Our analysis in previous chapters has suggested that poor economic governance in a number of FICs—and the instability and occasional insecurity that followed—have imposed very substantial economic burdens on the citizens of those countries. The estimates undertaken by consultants and summarized in Chapter 2 indicate that the benefits of addressing governance issues—estimated at some US\$8 billion over 10 years—dwarf by a considerable order of magnitude the benefits from any other key goal of the Forum considered in the Pacific Plan.

There are, moreover, compelling economic and social reasons for addressing this issue on a regional basis, rather than attempting to just strengthen national institutions through bilateral or multilateral programs. In many FICs, existing institutions of governance are themselves underfunded and too small to function in the manner required to address complex governance problems. Even in larger societies there is a reluctance to impose sanctions against those who violate normal international standards of good governance. External strengthening of FIC governance structures through bilateral donor programs carries considerable risk for the donor. *Regionalism offers an effective way of strengthening such institutions.*

Similarly, we have seen that the economic benefits of a policy of providing temporary market access to labor markets of all Pacific Islands Forum members would create very substantial economic benefits for all parties—FICs, and Australia and New Zealand. In the example of nursing, an area of very substantial shortages, a trade and development initiative has been suggested. It is estimated that the benefit to the region from a 1%

opening of labor markets in developed Forum members—filled by FIC workers—would be equivalent to US\$1.6 billion, accruing over 3 years.

If these estimates are even approximately correct, then why have the potential beneficiaries of measures aimed at temporary labor movement and improved governance not implemented them on their own? The answer lies in what economists term a "political economy of change" problem. This problem is very much at the heart of the challenge of creating a new regionalism through the Pacific Plan. Like the benefits of trade liberalization, the benefits of good governance and market liberalization are shared by many while the costs are imposed on a few. However, the few losers are often well organized and vocal, and in position to oppose reforms that will result in improvements in governance, or more liberal markets. The potential beneficiaries of good governance are widely dispersed, and often have limited or no understanding of the relationship between their predicament and the absence of good governance.

The question, then, is how to manage the change from the current situation to superior circumstances. In economic theory, the resolution of such a problem is simple enough: the gainers compensate the losers. Such an approach to changes in governance arrangements clearly would be inappropriate. Other methods are needed. Where group consensus is required to reach agreement, however, only one participant need support maintenance of a poor governance regime to block development of alternative governance arrangements that may benefit all.

The region's development partners and the donor community have a significant interest in good governance. Table 6.1 shows that major donors to the region, such as Australia, New Zealand, the European Union, and Japan have devoted substantial amounts of development assistance to FICs where governance and security have been problematic. They can be expected to continue to provide further such assistance for the foreseeable future.

When the donor community acts on a bilateral basis to address governance issues, however, such action is too often seen as direct interference in the internal affairs of sovereign island states. The manipulation of such perceptions by those who benefit from poor governance through orchestrated nationalist reaction to bilateral intervention has occurred in the Pacific as well as in other regions. Bilateral intervention of this type thus

Table 6.1: Grants from Donors to Fiji Islands, Nauru, Papua New Guinea, and Solomon Islands (constant 1995 US\$ million)

	Fiji Islands (1973–2003)	Nauru (1975–2003)	Papua New Guinea (1973–2003)	Solomon Islands (1978–2003)
Australia	318	61	7,400	276
European Community	111	10	594	211
Japan	122	5	227	108
New Zealand	20			16
United Kingdom			44	163
Total	593	76	8,300	778

Source: Organisation for Economic Co-operation and Development, Development Assistance Committee, online database.

poses risks for the donor community, and donors have considerable interest in mitigating these risks. Regional institutions, however, should in no way be seen as “political cover” for bilateral or international donors, but as the region’s best chance for genuinely regional responses to regional and national economic problems. At present there are no economic institutions or policy bodies in the Pacific region that deliberate on the future economic policy of the region.

On the issue of temporary movement of people to satisfy labor shortages in developed countries, the question is why OECD countries do not voluntarily opt for such arrangements given the aging of their populations and their need for labor. The reason may be that while the proposed liberalization of labor mobility is a “win-win” situation for OECD countries and FICs, the current situation is net win for OECD countries. The migration of skilled labor as currently allowed by OECD countries is in effect a transfer of trained human and economic resources from developing to developed countries. This is true even after considering the net benefit of remittances coming back to the host country. The results of research commissioned for this report (Walmsley et al. 2005) indicate clearly that the current situation—severely restricted access of unskilled FIC labor to Australia and New Zealand combined with relatively unrestricted and permanent movement of skilled labor—is a worst-case scenario from the viewpoint of FIC welfare.

Providing an alternative to the current system, predicated solely on migration and the resulting net transfers of wealth, thus faces barriers

similar to those confronting a move to good governance. In the absence of any international system of compensation, which is unlikely to emerge, a shift away from the current use of migration to a trade and development approach based on temporary movement to deal with labor shortages in OECD countries requires a wholesale shift in thinking.

To manage the change, it is necessary to devise a mechanism or instrument that allows all Forum members to move away from present suboptimal positions to a position where all parties are better off. The two areas where economic benefits will be substantial for all parties are governance and temporary movement of people. Governance is the issue of greatest immediate concern to Australia and New Zealand, while the temporary movement of people is of greatest interest to FICs seeking gainful and remunerative employment opportunities for their citizens. Nevertheless, FIC citizens will gain from better governance at home, and Australia and New Zealand will undoubtedly benefit from reduced bottlenecks in their labor markets. In this dilemma may lay the seed of an agreement between the parties. However, temporary movement of labor is not likely to be of interest to those five countries (Marshall Islands, FSM, Palau, Cook Islands, and Niue) that have virtually unfettered access to either New Zealand or the United States (US). It is principally in Kiribati, Melanesia, and Tuvalu where this proposal will be of greatest economic and political value.

To manage change from the current situation, a narrow focus on governance and labor movement may not be sufficiently broad. The concerns of all Forum members must in some way be addressed to encourage the entire Forum membership to agree to an instrument for change. The concerns of aid and sustainable development should consequently be addressed in such an instrument. Provision of long-term guarantees of assistance in a contractual arrangement should be of interest to all FICs, with the possible exception of PNG, which already has such a contractual arrangement with Australia.

A departure from the current suboptimal situation must draw on the experience of clubs and the lessons learned as discussed in Chapter 3. The pool of benefits must be large if the participants are to remain in the club and the club is to remain viable. An element that has traditionally cemented relationships and created stable clubs in the Pacific is the right of citizens to move where salaries are more remunerative and where economic opportunities are greater. This element will need to be present in the Pacific Plan to ensure its success and stability.

A Legal Structure for the Pacific Plan

A legal structure for the Pacific Plan could provide a long-term vision, and reflect as closely as possible the key goals of the Forum agreed by leaders—governance, security, economic growth, and sustainable development. A legal structure should also group a set of proposed regional initiatives under each of the four pillars. Such proposed initiatives were examined in Chapter 5. Several of the proposed initiatives should be implemented as soon as possible as short-term, confidence-building measures.

The Long-Term Vision

The long-term vision for the Pacific Plan should see *negotiation of an agreement where all members would make commitments toward good governance in return for a renewable 5-to-10-year aid and trade agreement.*

Aid¹

There are two reasons why aid commitments are a necessary part of any legal arrangement that is developed between Forum members. First, the assurance of a stable aid relationship between the FICs and Australia and New Zealand would be seen as one of the major benefits to all Pacific island countries. It is not necessarily the volume of development assistance, but its stability, continuity, and predictability that are of considerable value to FICs. The second reason is that, as pointed out in chapters 3 and 4, new regional arrangements agreed under the Pacific Plan will require specific, long-term, and additional financing to ensure their effective establishment, ongoing viability, and capability to deliver on the vision of Pacific leaders.

Relative to their size, aid to FICs—while varying considerably—is high by international standards. Nonetheless, there has been a substantial decline (40%) in total aid to FICs (excluding the “US Compact” countries)² since 1980, with PNG—arguably facing the greatest development challenges—seeing a 50% decline. Significant increases since 2003 by both Australia and New Zealand, predominantly focused on Melanesia, only partially offset this long-term trend. Insufficient aid levels are clearly not the primary constraint to improved governance and economic growth performance in the Pacific, but this report does concur with the international consensus (Sampson 2005) that (i) aid can promote growth under the right conditions; (ii) aid is more effective in a good governance environment; and (iii) aid can mitigate the negative effects of adverse external shocks and can increase growth in countries vulnerable to such shocks.

In addition to providing certainty and a tangible commitment to partnership with FICs, a long-term aid commitment would therefore

- reduce the vulnerability of FICs to external shocks;
- assist FICs through technical assistance to renew their efforts to address priority governance weaknesses and to implement policy reforms that create an environment conducive to economic growth; and
- support the development of the skills required to take advantage of more integrated regional markets.

More specifically, this report has argued that regional institutions can play a significant role in helping establish an environment in which good governance and economic growth can flourish. Aid commitments to the regional governance pillar of the Pacific Plan (and, indirectly, to the other Pacific Plan pillars) will be essential to help FICs deliver on the governance commitments also proposed under this agreement.

To achieve the twin goals of stability of the aid relationship and adequate additional resources for Pacific Plan initiatives, FICs and Australia and New Zealand should agree on commitments for a 5–10 year period along the following lines:

1. Australia to give at least 0.08% of its GDP and at least 25% of its total aid budget to Pacific Island Forum countries, with FICs excluding PNG to receive at least 0.03% of its GDP;
2. New Zealand to give at least 0.08% of its GDP and at least 25% of its total aid budget to FICs; and
3. at least 25% of Australian and New Zealand aid to FICs to be provided through regional channels, with clearly identified additional financing earmarked for the implementation of priority Pacific Plan initiatives.

The targets do not necessarily represent optimal levels of aid to FICs. They do, however, represent equal burden sharing between Australia and New Zealand while providing adequate resources for both existing bilateral programs and the additional resource demands of the proposed regional initiatives. They are realistic goals based on recent trends in Australia's and New Zealand's aid to FICs.

Trade

In the coming years, FICs have profound decisions that will need to be made on trade relations among themselves, and with the EU, Australia, and

New Zealand. From the perspective of FIC citizens, the single greatest benefit of trade liberalization cannot come from liberalization of agriculture or industry, but rather from liberalized movement of people and the liberalization of services. As noted in Chapter 4, the one resource that the Pacific countries have in great abundance is youth—a resource that is in increasingly short supply in Australia and New Zealand as well as throughout OECD countries. This constitutes a basis for trade that can be made mutually advantageous if Australia and New Zealand open markets in a targeted and market-friendly way, and take a "trade and development" approach to temporary movement, along the lines of the Kiribati-Tuvalu model of training and employing mariners on EU vessels. While FICs seek access to the ANZ market for their nationals, Australia and New Zealand have quite rightly argued that there is only the most limited market demand for unskilled labor, and that skills are required for market access to translate into gainful employment.

While services are normally considered a "second generation" trade issue in regional integration negotiations (usually following a goods agreement), such an approach may not be possible in the case of the Pacific. Further, Chapter 4 case studies showed that many different approaches to regional market integration are possible, and that it is advantageous to begin with the liberalization that yields the largest mutual benefits. In the example of a regional nursing school, we have focused on what we have called a trade and development approach to temporary movement. In this approach, sectors of mutual interest become the focus of market opening commitments along with the development assistance to increase the capacity to supply the necessary labor. There are a number of such sectors. What is needed is a proactive approach to mutually beneficial trade and development agreements involving the training and temporary movement of Pacific nationals.

Governance

Given the difficulties in measuring governance—let alone compliance with vague definitions of "good governance"—this report will not propose specific provisions for governance commitments. However, one vital element of governance commitments is that Forum members accept the proposed regional governance bodies and endeavor to make them a vital part of domestic economic life. The analysis of Chapter 4, particularly that of regional cooperation, suggested that there are multiple ways these commitments can be formulated, ratified, and enforced.

Nonetheless, without bound commitments from development partners to provide acceptable levels of technical assistance, FICs should avoid making legally bound commitments to good governance. This is not because the objective of good governance is not desirable, but rather because such obligations require the implementation of modern methods of economic management that are very often not available in small and isolated FICs. Failure of governance can be the result of a lack of political will to implement what are very often difficult measures, but frequently such failures can be a direct result of the absence of resources and capacity for the implementation of many of the modern standards that are necessary. While providing some services regionally will lower costs of operation, we have seen from several of the prefeasibility studies that these same services—which are currently provided nationally—are very much underresourced. So much so that, in the absence of additional commitments of external resources to regional approaches, FICs making bound commitments to governance could find themselves violating obligations due to inadequate resources.

Short-Term Confidence-Building Measures

A number of proposals highlighted in this report could, if implemented at the earliest opportunity, provide the political momentum necessary to propel the longer-term vision of the Pacific Plan. If properly implemented, they could build on the recommendations of the EPG report and place the “big idea” of Pacific interdependence squarely at the front of the regional political agenda.

The limited time and resources available to the consultants for preparation of this report prevent fully informed recommendations regarding the implementation of any of the projects that have been considered. What has been undertaken are prefeasibility studies that do indicate several projects worthy of full feasibility study. The studies have provided valuable insights into the nature of regionalism in the Pacific. These studies and insights can quickly lead to initial measures that are consistent with the objectives of the Pacific Plan and will genuinely address the concerns and needs of the region.

Projects worthy of full feasibility studies are recommended below. These recommendations, however, should not be construed as a definitive conclusion regarding any particular intervention.

Governance

The Pacific Plan should contain a central focus on governance. This report has emphasized that there is no single panacea for good governance. However, the scale of losses from poor governance argues that action must be taken in strategic areas for good governance if the deterioration in development indicators throughout the Forum membership is to be reversed.

A package of four initiatives is recommended, aimed at improving economic governance. Each initiative requires a regional approach that will strengthen national capacity. Given the importance of governance to the region, this report proposes that all four elements of the governance “package” be implemented as short-term, confidence-building measures. All these projects could be developed within existing regional organizations without creating another regional body. It is vital, however, that (i) clear arrangements are put into place to ensure their proper functioning, their institutional identities, and their separation from existing regional bureaucracies; and (ii) sufficient capacity be put into place so that existing organizations can absorb these new entities.

Reiterating the fuller analysis of Chapter 5, the recommended initiatives include

1. a regional economic and statistical technical assistance facility;
2. a regional facility to assist customs officials in collecting revenue;
3. a regional panel of public sector auditors; and
4. a regional ombudsman

Economic Growth

To increase economic growth and build momentum toward the longer-term vision for the Pacific Plan, two short-term confidence-building measures should be implemented:

1. harmonized regional terms and conditions of fisheries access, and
2. creation of a pacific regional nurse training facility.

Given the importance of economic growth to the region, four other regional initiatives are recommended for consideration:

1. implementing telecommunications liberalization, with an adequate regulatory framework;

2. create a joint purchasing facility for petroleum products and other essential import items; and
3. expanding labor mobility to other areas, apart from nursing.

The creation of a Pacific Aviation Safety Office is already under way, and deserves priority support from Forum member countries to expedite its early, full establishment.

Sustainable Development

As a first-step confidence-building measure, a regional sports institute would have significant net economic benefits, depending upon its success in training a new generation of athletes and in disseminating sports and sports-related leisure in FICs. Given the high incidence of lifestyle-related diseases in the region and their high economic cost, an optimal policy would be one that combines the training of athletes with bringing sports persons into the region's education system as teachers.

Two other initiatives would have a significant positive impact and merit further study:

1. a regional statistical office; and
2. a regional body to protect intellectual property rights.

Security

As with governance, there is no single panacea to counter rising instability and insecurity, particularly while FIC performance under the other three pillars—especially governance—remains weak. One area where regional intervention may be able to enhance FIC economic and social well-being is in pooling resources to create **a regional training facility to supply civilian police training for international peacekeeping**. The success of the Regional Assistance Mission in Solomon Islands has demonstrated the considerable positive impact on quality of life from improved policing. At the same time, the rising demand for police forces abroad presents an opportunity for local police forces to not only generate revenue but also gain crucial experience abroad. At the country level, there is scope for positive feedback into local policing and improvement of the employment situation.

Trade Agreements and the Pacific Plan

It is crucial that the Pacific Plan be considered in the context of the many ongoing bilateral and regional trade negotiations occurring within the Forum. FICs are in the process of, or are about to begin, negotiating and implementing trade agreements on a number of fronts. These include

- implementation of PICTA (entered into force April 2003),
- the Economic Partnership Agreement (EPA) with the EU (negotiations commenced in 2002),
- WTO Doha Development Round (negotiations commenced in 2001), and
- PACER negotiations (2011, but could be triggered by May or October 2006)

This agenda imposes a very heavy negotiating and implementation burden on FICs, and also raises key issues of the sequencing of negotiations, legal precedents, and participation in various negotiating fora. There are also vital issues of how these contractual arrangements are to be implemented and how they relate to the emerging Pacific Plan. A possible way forward is proposed below for the reconciliation of these negotiations with the Pacific Plan. The proposal aims, as a key outcome, to strengthen regional cooperation and integration in trade matters. Figure 6.1 summarizes the inter-linkage between the different trade agreements.

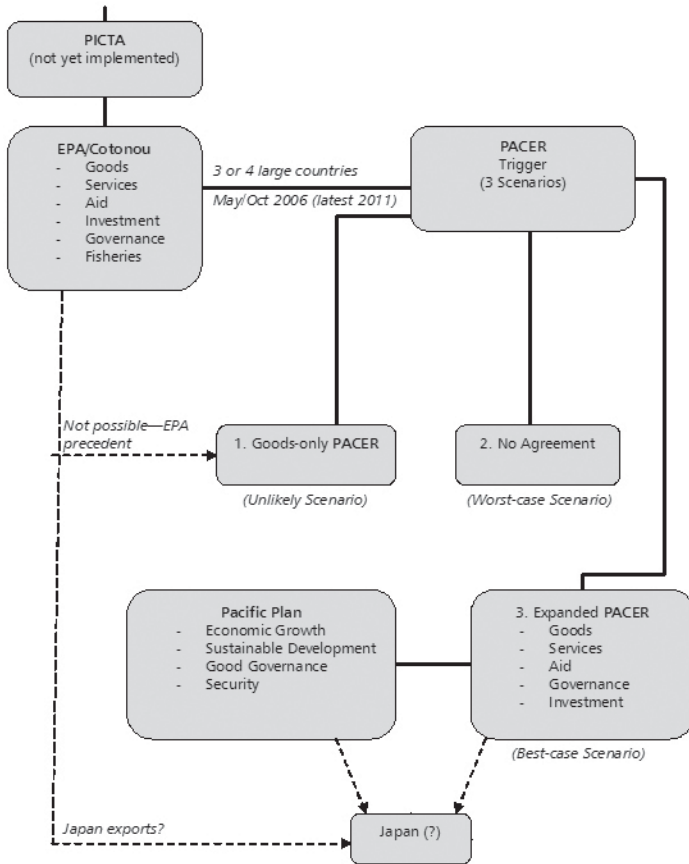
Pacific Island Countries Trade Agreement

While PICTA negotiations are complete, there remain difficult issues over the implementation of obligations under the agreement to eventually establish a free trade area. Implementation of the agreement has slipped due to technical issues, such as rules of origin, and negative lists that have delayed officials.

Economic Partnership Agreements

Pacific ACP (PACP) states have commenced formal negotiations with the EU on a multifaceted agreement covering trade in goods, services, investment, and fisheries. Once the EPA negotiations are completed, PACPs will be party to a contractual EPA/Cotonou agreement that covers aid, trade, political and economic governance, and development. Thus far only three countries are understood to have indicated a desire to negotiate a free trade agreement (FTA) in goods (PNG, Fiji Islands, and Samoa). These negotiations will commence, according to the agreed Road Map, by May or possibly October, 2006. The EPA negotiations envisage a multiple agreement

Figure 6.1: The Pacific Plan and Forum Island Country Trade Agreements



EPA = Economic Partnership Agreement, PACER = Pacific Agreement on Closer Economic Relations, PICTA = Pacific Island Countries Trade Agreement.
 Source: Sampson 2005.

arrangement negotiated on an a la carte—i.e., opt-in, opt-out basis—covering goods, services (including temporary movement of persons), investment, and fisheries.

For there to be an FTA in goods between these three, and possibly more, PACPs and the EU, the implementation of PICTA (or the accession of Samoa to the Melanesian Spearhead Group [MSG] trade agreement) is a precondition set by the EU. If the EU and the PACP were to agree to an FTA in goods without first implementing PICTA or extending the MSG to

Samoa, then EU goods would enter PACP markets at a lower rate of duty than that of the PACP neighbors. This would therefore contradict the EU's stated objective of supporting regional trade integration.

Pacific Agreement on Closer Economic Relations

Under the terms of PACER, by April 2011 at the very latest, all FICs need to commence negotiations on an FTA with Australia and New Zealand. If any FIC commences negotiations on a goods agreement with a non-Forum developed country before then, they will automatically trigger the developed country (most-favoured-nation) MFN obligation to enter consultations leading to an FTA under PACER (Article 6.3(a)). For those countries that decide to enter into an FTA in goods with the EU, PACER will be triggered in May or October 2006. At present PACER covers only goods, and there is no obligation on any Forum member to extend negotiations beyond the trade in goods.

If PACER is triggered by Fiji Islands, PNG, and Samoa as a result of EPA in May or October 2006, and there are no changes to the scope of PACER, then Australian and New Zealand trade officials will negotiate a goods-only FTA with these three countries—either bilaterally or as a group. In such case, these three countries can reasonably expect that the negotiations will be more rigorous and concessions required of them more substantial than would be the case if all FICs, including least-developed and small states, negotiated as a group. The remaining FICs will have to negotiate an FTA with Australia and New Zealand by 2011. The precedent established by the negotiations with Fiji Islands, PNG, and Samoa will inevitably determine the shape of the agreement negotiated with the 11 remaining FICs.

A goods agreement with Australia and New Zealand is likely to impose higher adjustment costs on FICs than the EPAs, given the magnitude of Australian and New Zealand imports. Moreover, as the loss of import duties will almost certainly be made up by higher trade-neutral taxes, such as VAT, there is likely to be very limited benefits for FIC consumers and producers. As a result, without a multifaceted trade and development agreement that has sufficient scope and pool of potential benefits to offer mutually advantageous terms to all parties, there is considerable risk that the PACER negotiations based on a goods-only agreement would be unsuccessful.

It must be recalled that the PACER obliges members to commence negotiations on an FTA. If the terms are not deemed to be mutually beneficial, however, then there is no obligation to complete such FTA negotiations with Australia and New Zealand. The likelihood of a goods-only PACER failing will rise the more benefits the EPA negotiations provide. FICs would be reluctant to agree to an FTA with Australia and New Zealand, and incur the very high transition costs, if they receive relatively less benefit than they have achieved in the EU negotiations. In the event of a failure of a goods-only PACER negotiation, Australia and New Zealand exports to those FICs that have goods EPAs with the EU would be permanently disadvantaged in comparison to EU exports. While such an arrangement is WTO-compatible, it is of the most doubtful political viability given the size of Australian and New Zealand economic and political importance in the region.

In many ways the Pacific Plan covers areas currently covered by the Cotonou Agreement. It is this fortuitous and coincidental synergy that creates the possibility for the expanded PACER merging with the Pacific Plan. Indeed the objectives of PACER, as set out in Article 2, state that the parties wish to establish a “framework for the gradual trade and economic integration of the economies of the Forum members in a way that is fully supportive of sustainable development,” and “...to provide economic and technical assistance to the Forum Island Countries in order to assist them in implementing trade liberalisation and economic integration.” Thus the stated objectives of PACER are similar, though not identical, to the four pillars of the Pacific Plan.

The Integration of Japan into Pacific Trading Arrangements

Following the completion of the EPA in goods, and of PACER as it is currently formulated, imports into the Pacific from the EU, Australia, and New Zealand will be duty free. Japan is the second or third-largest source of imports for many FICs. It would be the only major aid donor to the region with exports subject to any residual import duties that would exist in FICs following EPA and a goods agreement under PACER. FICs should consider whether such a situation is sustainable. Given the high short-term costs of adjusting to FTAs with the EU, Australia, and New Zealand, the extra cost of a similar trade agreement with Japan may be quite low. Until the year 2000, Japan, as a matter of national trade policy, did not negotiate FTAs. Japan has now reversed this position, and is in negotiations with a number of neighboring countries.

FICs should also reflect on the appropriate sequencing of the inclusion of Japan in Pacific trade negotiations. It may be administratively burdensome to include Japan, as FICs are already negotiating on so many fronts. But including Japan early in the process will potentially provide substantially greater net benefits from a more comprehensive treaty arrangement in the context of Pacific Plan/PACER negotiations (see Figure 6.1).

A Two-Track “Critical Path”

If Forum members approach the Pacific Plan as simply a series of projects to be implemented without a complementary negotiating structure, there is the considerable risk that the international and donor community will see such an approach as a “shopping list.” This approach will gain limited support. If, on the other hand, the short-term interventions are given a framework leading to a new approach to regionalism, with demonstrable evidence that all parties are willing to make bound commitments that address the region's problems in a rigorous and comprehensive manner, then the process is far more likely to gain credibility and support within and beyond the region. Consequently, it is vital that leaders embark on a “**two-track approach**” to Pacific Plan implementation. This approach is summarized in Table 6.2 below.

Table 6.2 A Time Line for Regional Integration

Date	Confidence Building Measures	Negotiating Track
October 2005	Forum Leaders decide to commence feasibility studies of 6-7 confidence-building measures outlined above	Forum leaders agree to negotiate a binding arrangement covering governance, trade development, and aid
November 2005	Forum Secretariat begins feasibility studies	Forum undertakes legal and economic feasibility studies and commences dialogue to develop terms of reference for PACER negotiations
June 2006	Forum finance and planning ministers consider results of feasibility studies	Forum trade and finance ministers consider draft terms of reference for negotiations
October 2006	Forum leaders consider recommendations of finance ministers and decide on implementation schedule	Forum leaders consider recommendations from finance and trade ministers on terms of reference for negotiations
January 2007		Negotiations commence for the expanded PACER.

PACER = Pacific Agreement on Closer Economic Relations

The *first track* should comprise a range of concrete measures that build confidence in the process, and confidence in an emerging partnership that will be mutually beneficial to FICs and Australia and New Zealand. The interventions must not be seen as random projects of dubious economic benefit. They should be seen as being consistent with and an integral part of the *second* or *negotiating track*. It has been argued that the negotiation of PACER, scheduled to begin in 2006, should be broadened to cover the areas of the Pacific Plan—security, governance, growth (including trade and aid relations), and sustainable development. PACER negotiations of such scope would thereby become a genuine and comprehensive Closer Economic Relations agreement between Forum members

In order for a credible process to emerge from the current dialogue, there is a need to combine short-term confidence-building measures with a **simultaneous decision** to negotiate a contractual arrangement between all Forum members that encompasses all the areas that have been described in the Pacific Plan. **Therefore, Forum leaders should, at the next leaders meeting in October 2005, agree to full feasibility studies on a range of confidence-building measures, and simultaneously announce the commencement of negotiations of the Pacific Plan/PACER.**

Resourcing the Two Tracks

If the Forum is to endorse the timetable proposed above, the Forum Secretariat will need a commitment for expanded resources to implement both the feasibility studies as well as the negotiations. A period of 3–5 years will be required, where a significant expansion of personnel and financial resources will be needed for a successful completion of negotiations. While a European Commission (EC)-style expansion at this early stage would be unfeasible and counter productive without supplementation, failure to address the resource needs of the Pacific Plan would place great strain on the Secretariat's current capacity. Pursuit of the proposed timetable without expanded resources could jeopardize a beneficial outcome for the entire Forum membership.

The Democratic Deficit and a New Pacific Regionalism

Once Forum leaders commence the process of deepening Pacific regionalism based on contractual commitments, as proposed above, then an important lesson must be learned from the experience of other regional integration bodies. The most advanced regional integration body is the EC, which has evolved into an extremely powerful institution. The EC, however, is perceived by an increasing portion of the European population—rightly or wrongly—as beyond the direct democratic control of its own population. It is for this, among numerous other reasons, that approval of a new European constitution has proven extremely difficult and contentious in national referendums. There is increasing concern in Europe about the potential devolution of further power to a body such as the EC.

While regional bodies in the Pacific are by no means as powerful as the EC, the process of negotiating a substantial treaty arrangement will heighten perceptions that many of the region's bodies are open to potential capture by donor interests, or by the international bureaucracy that manages them. The analysis of Chapter 4 suggests there is substantial precedent both in and outside the region for such an outcome. The likely future financing arrangements for many regional institutions—involving continuation of current substantial aid transfers—heighten these concerns. How can concerns be assuaged that structures emerging from a “new regionalism” are democratic, rather than a mechanism for increasing control by aid donors and regional bureaucrats?

No easy assurance can be given, and this is an issue that requires considerable research and reflection to avoid a repetition of the type of political reaction that the European experiment is currently experiencing. If Forum leaders wish to pursue a deeper contractual integration, then this question of a **political track** to the integration process should be considered at the earliest possible time. Indeed, the Forum and the CROP agencies do not have a governing structure that incorporates a permanent sitting body of members that reviews the full range of regional activities. To create such a body, even with instruments of “carbon-copy” democracy, would require assuring that representatives of all Forum members have a permanent representative based in Suva. This is necessary as a very first step to a more representative arrangement. The smaller FICs would need assistance to

assure that each has a voice in a permanent decision-making and oversight body based at the Forum Secretariat. This could be the first step toward an eventual “Pacific Senate” with elected representatives.

If the region is to seriously pursue a deepening of integration, it is incumbent upon the Forum and its members to commence, at the earliest possible time, a public dialogue on future democratic structures, and allow leaders and citizens to reflect on the appropriate mechanisms of democratic governance.

One conceptual issue that needs to be addressed is that of “equality of membership.” Will a PACER/Pacific Plan have institutions that treat all members equally? The analysis has so far focused entirely upon the needs of FICs, without addressing whether the institutions that would be created by a PACER would apply equally to all members. Such a question would appear to be rhetoric in nature as “equality before the law” lies at the very heart of international public law. However, several interesting possible anomalies might arise. It has been assumed throughout that the institutions that require strengthening are only those found in FICs. Indeed, the institutions pertaining to governance, security, sustainable development, and growth are strong in Australia and New Zealand, but it is not inconceivable that situations may arise where regional institutions could be called upon to undertake analysis or investigation in Australia and New Zealand. It is hardly inconceivable, for example, that a regional ombudsman could, under certain circumstances, be asked to undertake an investigation in Australia or New Zealand and release a nonbinding report. This consideration—applied across all of the proposed regional initiatives—should seek to ensure that the “rules” of the region’s institutions apply equally to all members.

ENDNOTES

- 1 This section draws heavily from Sampson (2005).
- 2 The three former US territories—Federated States of Micronesia, Marshall Islands, and Palau—receive long-term financing through their Compacts of Free Association with the United States.