

## WTO DOHA Round: An Opportunity or a Mirage for Fiji?

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### Introduction

The Doha Development Agenda (DDA) has been criticized by many international non-governmental organizations and developing country governments for maintaining the rhetoric yet not fulfilling the objectives of development (see, for example, Oxfam International, 2005). In fact the failure of the Cancun WTO Ministerial Meeting and lack of progress at the Hong Kong Ministerial meeting are largely attributed to the failure of the developed countries to meet their obligations set out in the DDA. In general terms there are four key issues that form the core of discussions within the DDA, constituting the development dimension. These are: fair trade, capacity building, balanced rules, and good governance (Ismail, 2005). Ismail (2006) argues that fair trade will remove obstacles that presently impede developing countries' exportation of their products to developed countries and will help them enhance their incomes. In terms of capacity building for increasing exports, developing countries need help in developing the appropriate infrastructure and institutions that would help them to develop their comparative advantage in key export areas and in particular, enhance their resourced-based exports. Balanced rules would mean flexibility for developing countries to implement development policies without simultaneously failing to meet their commitments and obligations under the World Trade Organisation (WTO) rules. In terms of good governance, the capacity of developing countries to participate in an open, transparent and inclusive way in reaching the decisions arrived within the WTO, is likely to enhance their ability to understand the obligations and the challenges facing them as a result of obligations and responsibilities under the WTO.

Developing country trade negotiators have highlighted at both Cancun and Hong Kong Ministerial meetings, the need to look at the provisions of the Special and Differential Treatment (SDT) to ensure propor-

tionality in the responsibilities and commitments of the WTO agreements so that developing countries are dealt with fairly and according to the progress in their development path. Ismail (2005), for example, argued that SDT should be applied separately to the development dimension provided for in the DDA.

Five perspectives on development have been conceived by different countries and parties in the debate on the DDA (Ismail, 2006). The first relates to market access negotiations and success in concluding agreements in this area. This perspective which has been advanced by the United States, is likely to boost exports from developing and poor countries. The second, advanced by the European Union, includes market access with capacity building as the key to supporting developing countries' export potential. The third, argued by developing countries led by Brazil and India, calls for ambitious outcomes in negotiations in agriculture, where subsidies provided by developed countries to their domestic farmers are the main stumbling block to the negotiations. The fourth perspective, led by India, Indonesia and other members of the G33, concentrates on maintaining food security and rural development needs of developing countries within the negotiations on agriculture. They also argue that provision should be included to cushion the impact on developing countries of reduction of industrial tariffs. This group also emphasizes the need to look at negotiations in the area of services and in particular in the areas relating to movement of unskilled labour to developed countries (mode 4) and strengthening of disciplines in mode 1 and mode 3 to allow for increased outsourcing of services to the developing countries.

The fifth perspective is that of the group of small and vulnerable economies into which Fiji and all the Pacific Island countries fall. However, this group is a diverse group of countries, which also includes all the least developed countries. Many of these countries believe that they are unlikely to benefit from the current round of negotiations if the SDT provision is not carefully considered for them. These groups of countries have therefore been very active in the negotiations in the SDT and in the Committee on Trade and Development Special Session (CTDSS). The 2004 July WTO General Council Decision recognized the problems of small and vulnerable economies and highlighted the development challenges facing these countries (WTO, 2004). These include the impact of preference erosion, commodity dependence and how this will be affected with negotiations in agriculture, net food importing countries, rural development needs and food security and supply side constraints to increasing their exports.

Despite the foregoing challenges of trade negotiations within the

framework of the DDA, trade liberalisation for most developing countries provides the best option in the globalised economy. Trade has always been one of the key drivers of development and many of the developing countries, such as Vietnam, China, South Korea, Malaysia, Mauritius, Botswana, Chile and more recently India, have used trade to generate high levels of growth and have been successful, although in varying degrees, in reducing poverty. International empirical evidence also points to the success of countries, that have pursued export-oriented policies and have liberalized their trade regimes.

Based on the experiences of countries that have undertaken trade liberalization and have used an export-led strategy for growth, it is very difficult for developing countries to argue some kind of trade restriction or protection. In this respect, the DDA was seen as an instrument that will allow negotiations to be concluded with substantial development benefits to the developing and poor countries. Negotiations on the DDA have many dimensions and there are various regional perspectives based on levels of development, resource endowments, geographical locations, levels of development and special needs of different groups. Pacific Island countries have special challenges and needs and these are articulated through various regional organizations. Some of these needs and challenges are similar to those in the African and Caribbean regions and there is always the need to work with the regional organizations there. Finally countries have their own unique challenges and problems and these have to be articulated in their negotiations.

The next section provides an audit of the outcomes of the Hong Kong meeting. Then the paper discusses the erosion of preferences and implications of this for Fiji, followed a section on the failure of the DOHA Round. Fiji's negotiating position is discussed next. The sixth section considers the developments in PICTA, PACER and EPAs. The penultimate section describes Fiji's recent growth paths and its implication for negotiations in the Doha Round. The final section provides some concluding comments.

### **An audit of outcomes for Fiji at the Hong Kong Ministerial Meeting**

In assessing the outcomes for Fiji, it is important to provide a brief overview of the issues that were at stake in Hong Kong. The first two paragraphs for the Hong Ministerial Declaration still support the DDA as follows:

*We reaffirm the Declarations and Decisions we adopted at Doha, as well as the Decision adopted by the General Council*

*on 1 August, and our full commitment to give effect to them. We renew our resolve to complete the Doha Work Programme fully and to conclude the negotiations launched at Doha successfully in 2006 (WTO, Ministerial Declaration, 2005, Para. 1).*

*We emphasize the central importance of the development dimension in every aspect of the Doha Work Programme and recommit ourselves to making it a meaningful reality, in terms both of the results of the negotiations on market access and rule making and of the specific development-related issues set out below (WTO, Ministerial Declaration, 2005, Para. 2).*

These two paragraphs give the first impression that negotiations might be progressing in a satisfactory manner. However, there are many issues that still remain unresolved and will require political commitments from the developed countries as well as the large developing countries. It is precisely the issues amongst these two groups, that have the potential to delay the whole DDA.

The outcome for Fiji is related to the outcomes for other small and vulnerable economies. In the broader context the EU refused to make any significant concession to the demands of the developing countries in relation to agricultural subsidies. The EU Trade Commissioner, for example, in a statement after the Hong Kong meeting, stated that the EU had no desire to push forward the reform of the EU Common Agricultural Policy ('Trade Chief says EU united on farm stance', 2005: 2).

In the negotiations on agriculture the EU did agree to remove export subsidies by 2013. The developing countries demanded that it be done by 2010. The disciplines on export credits, export credit guarantees or insurance programmes, exporting state trading enterprises and food aid were expected to be completed in April, 2006 but this deadline has not been met.

On non-agricultural market access (NAMA) large developing countries such as South Africa, India and Brazil have indicated that flexibilities in the adoption of a tariff reduction formula as part of the July 2004 Framework agreement remains on the agenda after the Hong Kong meeting. All the proposals on the reduction of tariff under NAMA have been based on the 'Swiss' formula approach. Developing countries have demanded flexibilities, which will allow them to make relatively lower tariff cuts than rich countries through the use of different coefficients. There are 8 proposals on the tariff reduction formula. The EU proposal provides for a simple formula where developing countries wanting greater flexibil-

ities in the application of tariff on some products make steeper overall cuts. Norway proposes two coefficients, one for developed countries and one for developing countries. The US also proposes two coefficients but a higher one for developing countries that want flexibilities. Other developing countries, like Chile, Columbia, Mexico, Pakistan and Caribbean countries, have all put proposals, that allow for flexibilities. The Hong Kong meeting, however, saw developing countries put up a united front to establish a strong link between the level of ambition in NAMA and that in agriculture in the final text of the Hong Kong Ministerial meeting's final declaration.

Many of the small and vulnerable economies like Fiji have concerns about the loss of revenue from steep tariff reductions. Many fear that this could worsen the balance of trade. According to the IMF, import duties still comprised about 15 percent of revenue between 1999 and 2001, and in African and least developed countries the share is about 34 percent.

Fiji has progressively reduced its tariff bands over the years, in particular since 1989 when trade reforms were first put in place. As shown in Table 1 tariff rates from a high of 185 percent in 1988, were reduced to 100 percent in 1993, 62 percent in 1998 and 27 percent in 2003, and has since remained at that level. The top band of 27 has been used to protect domestic industries. Most of the middle bands apply to intermediate and manufactured goods while raw materials attract only 3 percent. About 80 percent of import values charge duty below 10 percent; 84 percent is below 20 percent and 95 percent below 30 percent.

Fiji's tariff revenue has not been affected as a result of changes in the duty rates over the years. In fact the total revenue has increased as a result of the introduction of VAT. With imports becoming cheaper, the total volume and value of imports have increased (see Table 2).

The total customs revenue for Fiji, including VAT collections on domestic consumption, has been increasing and accounts for more than 50 percent of the total revenue (see Table 2).

In the services sector attempts were made to change the negotiating guidelines to move towards a more aggressive and ambitious one. The current methodology for the negotiations is provided for in the General Agreement on Trade in Services (GATS) adopted in 2000 and the guidelines adopted by the WTO in 2001. The agreement provides for a positive list approach. This means that countries choose the sectors for which they wish to make appropriate levels of concessions and the extent to which they need to open their markets. It is a methodology based on bilateral requests and offers. Countries initiate this and follow it through. For Fiji and other Pacific Island countries negotiations could be based on the basis

that the 14 Forum island countries negotiate with Australia and New Zealand under the Mode 4 provision for negotiation under services.

**Table 1: Fiji's Tariff Structure**

Year	Tariff Structure (%)	Bands
2005	0, 3, 15, 27	4
2004	0, 3, 15, 27	4
2003	0, 3, 10, 15, 20, 27	6
2002	0, 3, 10, 15, 20, 27	6
2001	0, 3, 10, 15, 20, 27	6
2000	0, 10, 15, 20, 27	5
1999	0, 10, 15, 20, 27	5
1998	0, 10, 20, 22.5, 35, 60, 75 0, 9.5, 15, 30, 45, 62	7 6
1997	0, 10, 22.5, 35, 60, 75	7
1996	0, 5, 10, 15, 17.5, 22.5, 30, 35, 50, 60	10
1995	0, 10, 20, 22.5, 35, 60, 80	6
1994	0, 5, 10, 20, 25, 30, 35, 50, 60, 65, 80	11
1993	0, 5, 7.5, 10, 25, 30, 35, 60, 65, 100	10
1992	0, 5, 7.5, 10, 15, 20, 25, 30, 35, 70, 75	11
1991	0, 5, 7.5, 10, 25, 30, 40, 50,	8
1990	0, 5, 7.5, 15, 20, 25, 30, 40, 50, 60, 80, 190	12
1989	0, 5, 7.5, 10, 15, 20, 25, 30, 35, 40, 45, 50, 55, 60, 70, 80, 90, 200	18
1988	0, 7.5, 20, 25, 30, 35, 40, 50, 60, 70, 75, 80, 185	13

(Source: Fiji Island Revenue and Customs Authority)

**Table 2: Customs Revenue for Fiji, 2001–2005**

Year	2001	2002	2003	2004	2005
Customs Revenue	206,375,903	247,316,952	283,538,837	296,458,512	301,072,842
Import Vat	142,194,861	168,919,882	245,334,843	258,068,588	286,135,345
Total Customs Collection	348,570,764	416,236,834	528,873,680	554,527,100	587,208,187
Total Revenue	716,922,544	938,945,492	398,945,492	1,024,397,543	1,064,576,287
% of Total Revenue	49	52	56	54	55

(Source, Fiji Island Customs and Revenue Authority)

Mode 4 specifically deals with movement of labour. This is one of the issues that Fiji and other Forum island countries would need to work out with Australia and New Zealand when it comes to dealing with negotiations under the PACER agreement. Liberalisation of trade in services could be a tricky issue for the Pacific Island Countries (PICs) if Australia and New Zealand do not deal with the issue of unskilled labour. New Zealand is already showing signs that it would consider temporary worker schemes in a positive manner (Fiji Times, 6 June, 2006).

In terms of the 'development package', the European Union identified 5 key development issues.<sup>1</sup> These were: development package for the least developed countries (LDCs); Cotton; preference erosion; the specific concerns of small, weak and vulnerable countries; and the issue of 'Aid for Trade' to support the needs of developing countries. The Hong Kong meeting on the development package was a failure.

For the LDCs, however, the US offered to provide duty free and quota free market access for up to 97 percent of tariff lines and to increase this progressively with no obligation to reach 100 percent. LDCs, however, were not happy with the concessions made by the US as they felt that US would be able to exclude all the products of export interest in the 3 percent exemption. However, discussions continued after the Hong Kong meeting has provided some positive results for the LDCs. These are mainly concentrated on giving positive consideration to requests for waivers by LDCs and a call to donors and multilateral agencies and international financial institutions to ensure greater policy coherence with WTO agreements in the conditionalities they often apply to developing country members. Finally, there is now agreement to allow flexibilities for LDCs not to comply with the TRIMS agreement until 2020.

### **Erosion of Preferences and Implications for Fiji and other Small and Vulnerable Economies (SVEs)**

The Doha Declaration (Article 35) has agreed to create a work programme for trade issues affecting small economies. The July 2004 General Council of WTO agreed to address the concerns of the small economies, including food security, rural development, livelihood and preference erosion.

It is well recognised that international trade can be a powerful driver of economic growth and poverty reduction. It is, however, not a panacea

<sup>1</sup> See letter by the European Commissioner, Peter Mandelson to WTO trade ministers dated 9 October, 2005. In his letter Mandelson, identifies five areas where Hong Kong Ministerial meeting should deliver.

for all economic ills of a country. This is particularly the case, if countries fail to adopt complementary policies such as investments in infrastructure, human capital, macroeconomic stability and institutional reforms. PICs will also have to increase productivity as they will have to compete with cheap labour economies. Current negotiations under the WTO involve trade in agricultural products, trade in services, non-agricultural market access, rules, trade facilitation, intellectual property (TRIPS Agreement), trade and environment, special and differential treatment and dispute settlement procedures. While all these are important for small and vulnerable economies the main focus at the Hong Kong Ministerial meeting was on Agriculture, NAMA and Special and Differential Treatment and trade in services.

The Monterrey Consensus<sup>2</sup> outlined two areas on which MDG-based international trade policy should focus. The first is that market access and terms of trade should be improved for the poor countries. The second is the improvement of their supply side competitiveness for low-income countries' exports, through increased investment in infrastructure such as roads, electricity, ports and trade facilitation.

The first issue that poses serious challenges in the negotiations is the question of preferential market access. Erosion of preferences has been a major issue for a large number of small developing countries. This has been a major issue for the ACP group of countries and the challenge for all of them is to navigate through the current negotiations and to get the best deal. It is well known that small and vulnerable economies are beneficiaries of many varieties of trade preferences, and many which derive from the relationships with their former colonial powers. Many of the preferences available to small economies are through special programmes such as the Caribbean Basin Initiative of Canada or SPARTECA of Australia and New Zealand. Also the European Union grants special preferences to a large majority of SVEs by virtue of the Cotonou Partnership Agreement between African, Caribbean and Pacific (ACP) countries and members of the European Union. Some SVEs, however, are beneficiaries of preferential agreements under the least developed countries (LDCs) category. At the first WTO Ministerial Conference in 1996 members agreed on the importance of granting trade preferences to LDCs. This was followed through successive ministerial conference and the 6<sup>th</sup> Ministerial Conference in Hong Kong agreed to grant duty free access to LDC exports. Some of the SVEs will be beneficiaries of this agreement.

Other preferential access is provided by the US and Japan and some

<sup>2</sup> Conference on Financing for Development held in Monterrey in 2002.

SVEs benefit from this as well. In 2000, for example, the US approved the Africa Growth Opportunity Act (AGOA) through which the Generalised System of Preferences (GSP) of the US was expanded to include the range of products, including clothing and textiles. Japan also reviewed its GSP in 2000 to provide duty free access to the Japanese market for industrial products from LDCs. The Japanese GSP was further reviewed and extended for another decade until 31 March 2014 and as LDCs, Kiribati and Tuvalu were added to the list of beneficiaries. In 2003 Japan further improved its GSP and the number of agriculture and fisheries products under duty free and quota-free treatment was increased from 300 to 500 items for LDCs.

In March 2001 the EU adopted the 'Everything But Arms' (EBA) initiative to providing duty and quota free access to all products but arms, and special trade regimes for bananas and sugar until preferences are phased out.<sup>3</sup> Small and vulnerable economies as a group at the recent Hong Kong Ministerial meeting asked that bananas, rice and sugar be brought under the 'sensitive' product category.

The new ACP-EU Cotonou agreement, which superseded the Lome IV convention, provides for an 8-year roll-over of the preferences previously granted under Lome IV, with minor improvements until 2008.

Canada also provides preferences under its GSP programme. In January 2003, Canada granted duty free and quota-free access to LDCs, except for dairy, eggs and poultry. Clothing and textile was added in 2003.<sup>4</sup> Australia and New Zealand provide important markets for Pacific SVEs and give duty and quota-free access to LDCs, of the Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu). The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is a non-reciprocal agreement providing duty free and unrestricted concessionary access to their markets.

While all this preferential treatment extended by these developed countries is important, the question remains: how effective have these GSPs been? Studies show that only a handful of countries really benefit from trade preferences.<sup>5</sup> Judging from the experiences of countries such as Fiji, and some of the Caribbean and Indian Ocean countries, it is clear that trade preferences have not been able to encourage investment and

<sup>3</sup> For Banana the phasing out period is 2002-2006 and for sugar and rice 2006-2009.

<sup>4</sup> For details of Canada's GSP and rules of origin see UNCTAD (2003) 'Trade Preferences for LDCs: An early assessment and possible improvements'.

<sup>5</sup> See for example Inama (2004) 'Preferential market access and erosion of Preferences: what prospects for SIDS', in UNCTAD (2004).

generate export diversification. These GSPs to some extent have created preference dependence export and preference dependent efficiencies. This is especially the case for ACP countries under the four Lome Conventions and now under the Cotonou agreement.

What is important now, however, for SVEs is how to counter the continuing erosion of trade preferences and policies to integrate their economies into the international economy and reap the benefits of global trading regimes. There is a possibility that disagreements could also arise between the SVEs and other, large, developing countries that favour removal of preferential prices and markets that exist for some developing countries.

Since the creation of the WTO, which is a major force for trade liberalisation, high rates of trade preferences have been diminished and further negotiations will eventually mean more erosion and in some case no preferences at all. For example, many countries are now taking disputes to the WTO and these disputes, when settled, are likely to erode preferences. Some of the disputes are (1) Banana Dispute; (2) Sugar Dispute (involving Brazil and Australia/Thailand and the EU over subsidies in the EU sugar regime); (3) Thailand-the Philippines/EU dispute over margins for preference for canned tuna (on which Fiji, Mauritius, Papua New Guinea, Fiji and Seychelles have concerns); and (4) the current negotiations over the fisheries subsidies under the WTO. These negotiations could undermine the revenue potential of small island economies, many of them dependent on access fees for their revenue. The disputes on sugar, bananas and tuna have been resolved in favour of the disputing parties. This means that SVEs that were beneficiaries of the preferential prices and markets will be affected.

However, notwithstanding the foregoing discussion, the SVEs have taken a cautious approach to trade liberalization in agriculture. Their main concern, loss of preferences, has remained on the agenda. These countries as a group have therefore called for some corrective measures to cushion the effect of the erosion of preferences. They have called for tariff liberalization to be delayed in developed countries on tariff lines where some developing countries currently enjoy preferences. In addition, they have called for other measures to assist them to keep the margin of preferences after the multilateral trade liberalization. They have also called for support for capacity building for implementation of complex agreements as the non tariff barriers (NTBs) like SPS and TBT agreements.

In support of the demands of the SVEs, a number of studies which point out that while the Doha round of negotiations could bring significant benefits to the developing countries, the LDCs and SVEs are less

likely to benefit much and in some cases could make losses (Anderson, Martin, Mensbrugge, 2005). Subramanian (2005) finds that trade liberalization by US, EU, Japan and Canada could cause losses of about 1.7 percent of total LDCs exports. Alexandraki (2005) found that in the case of Mauritius, St Lucia, Belize, St Kitts and Nevis, Guyana and Fiji preferences add more than 25 percent to the total value of exports. Sugar and banana alone account for 75 per cent of the preferences.

### **Failure of the Doha Round**

Most developing countries saw the Doha Ministerial Declaration as a definite and sure path to concluding the trade talks. The following statement of the Doha Ministerial Declaration, for example, had given this optimism: 'We seek to place [developing country] needs and interests at the heart of the Work Programme' (Doha Ministerial Declaration, Para 2).

For the small and vulnerable economies the failure of the Doha round would mean the lack of support from the WTO members for the effective operational responses to the trade-related problems of small economies in relation to agriculture and Non Agricultural Market Access (NAMA).

Oxfam International in its report to the Hong Kong Ministerial meeting makes the following sets of recommendations, which seem to form the core issues for developing countries and for the small and vulnerable economies (Oxfam International, 2005: 5-8).

#### ***On agriculture:***

- Set an end date of 2010 for all export subsidies and their equivalents.
- Implement much tighter disciplines and reductions on domestic support...
- Agree real and substantial reductions in rich country trade-distorting domestic support.
- Guarantee flexibility for developing countries to promote rural development and the livelihoods and food security of small farmers.
- Do not demand excessive tariff cuts from poor countries.
- Grant self-selection of special products for developing countries and an easy-to-use special safeguard mechanism.
- Agree genuine improvements in market access for developing countries into developed countries' market, including limitations on the scope of sensitive products.

- Implement the WTO panel's ruling on US cotton subsidies and eliminate all remaining trade-distorting support for cotton on a fast-track basis.
- Do not renew the peace clause.

#### ***On non-agricultural market access (NAMA):***

- Radically overhaul the July 2004 framework agreement text on NAMA.
- Guarantee flexibility for developing countries to choose which tariffs they reduce and by how much. Targets for an average reduction would be better than adopting a 'formula approach'.
- Give developing countries freedom to choose which tariff lines to bind and the rates at which they bind them. Do not make developing countries cut tariffs that they bind in this round.
- Eliminate rich country tariff peaks and escalation.

#### ***On services:***

- Exclude public services from developing country liberalisation commitments.
- Give developing country governments the right to limit liberalisation, especially in areas deemed essential to national development and poverty reduction.
- Reject 'benchmark' or other so-called complementary approaches.
- Prioritise development objectives in the services negotiations.
- Liberalisation by industrialised countries of areas where developing countries stand to benefit, such as 'mode 4' commitments on temporary migrant labour.

#### ***On Trade-Related Aspects of Intellectual Property Rights (TRIPS):***

- Agree an amendment to the TRIPS Agreement that is easy to use.
- Do not make developing countries pay for such a TRIPS amendment elsewhere in the negotiations.
- Carry out a proper review of the development implications of TRIPS, as promised in the original treaty.

#### ***For the least developed countries (LDCs):***

- Agree immediate duty and quota-free access to developed country markets for LDCs.
- Recognize LDC entitlements to 'special and differential treatment', extended implementation periods, and full exemptions.
- Allow acceding LDCs to retract any LDC-plus concessions already made in bilateral or multilateral negotiations.

- Extend the 1 January 2006 deadline for implementation of the full TRIPS Agreement by 15 years (as requested by LDCs).

***On other development issues:***

- Do not demand concessions in other areas in return for progress on implementation issues.
- Any aid must be complementary to – and not serving as a substitute for – better and fairer trade rules.
- Do not bind trade facilitation agreements; ensure developing country commitments are conditional on the provision of sufficient funding for their implementation.
- Address preference erosion via deepening existing preferences, compensation, improved rules of origin and technical assistance for compliance with food safety and product standards.
- Curb abuse of anti-dumping measures.
- Clarify the relationship between regional trade agreements and the WTO.
- Guarantee that adequate ‘special and differential treatment’ becomes part of the WTO rules for regional trade agreements.

***On the process of negotiations:***

- Consult all delegation in the talks.
- Report back all developments adequately and transparently.
- Do not present ‘take it or leave it’ agreements at the last minute.

**Fiji’s current negotiating position and its leadership of the SVEs**

Fiji like many other small and vulnerable economies has special challenges under the WTO negotiations. Fiji is a part of the SVE group. Its negotiating position is articulated by this group. SVEs currently form a very small part of the share of world exports. As shown in Table 1, Fiji’s share of world merchandise exports is 0.01%.

Fiji has been playing an active role in this group in putting through a number of proposals in the WTO. The first includes the trade related concerns of small and vulnerable economies in relation to domestic regulation (Article VI.4 Negotiations in the Working Party on Domestic Regulations; WPDR).<sup>6</sup> These countries have low government resources and capacity to develop appropriate domestic regulations for trade in services

<sup>6</sup> Communication was from Antigua and Barbuda, Barbados, Cuba, Dominica, Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Honduras, Jamaica, Mauritius, Mongolia, Nicaragua, Paraguay, St Kitts and Nevis, St Vincent and the Grenadines and Trinidad and Tobago. JOB (06)/66.

apart from the difficulties they are already having in consolidating all the regulations. In terms of services many of the providers are small and they lack the necessary resources for export requirements and procedures. The recommendations made by this group included allowing SVEs to implement and introduce new regulations to meet national policy objectives. Other specific recommendations were on qualifications requirements, qualification procedures, licensing requirements, licensing procedures, technical standards and transparency.

On market access for non agricultural products the SVEs have proposed that they should be allowed to make tariff reductions not exceeding 15 % but with minimum cuts of 10 % on individual lines and with no more than half the cuts at the lowest level of this range (WTO, TN/MA/W/66).<sup>7</sup> The SVEs believe that this would allow them to sustain the trade reforms that they would be required to undertake.

For many of the SVEs the contribution of agriculture to GDP is still very significant where the production and export profile is concentrated on a few commodities and export markets. In a recent submission the SVE’s<sup>8</sup> requested that those whose share of merchandise exports between 1995 and 2004 does not exceed 10 percent should proceed with reform processes in agriculture in accordance with the following (WTO: TN/AG/GEN/11: 2):

- Small, Vulnerable Economies will undertake linear cuts not exceeding 15 per cent, with a minimum of 10 per cent per tariff line, from the bound rate. No further commitments will be expected from the Small, Vulnerable Economies on the basis of modalities that may be agreed with respect to other elements under the market access pillar.

<sup>7</sup> Antigua and Barbuda, Barbados, Bolivia, Dominica, Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Honduras, Mongolia, Nicaragua, Papua New Guinea, Paraguay, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

<sup>8</sup> Communication from Barbados, Bolivia, Cuba, Dominican Republic, El Salvador, Fiji, Guatemala, Honduras, Mauritius, Mongolia, Nicaragua, Papua New Guinea, Paraguay and Trinidad and Tobago.

**Table 3: SVE's Share of World Merchandise Exports (1995-2004)**

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
Antigua & Barbuda	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	<b>0.0010</b>
Barbados	0.0050	0.0050	0.0050	0.0050	0.0050	0.0040	0.0040	0.0030	0.0030	0.0020	<b>0.0041</b>
Bolivia	0.0220	0.0220	0.0220	0.0210	0.0190	0.0200	0.0210	0.0210	0.0210	0.0240	<b>0.0213</b>
Dominica	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0000	<b>0.0009</b>
Dominican Rep	0.0750	0.0770	0.0850	0.0930	0.0920	0.0910	0.0880	0.0820	0.0750	0.0650	<b>0.0823</b>
El Salvador	0.0330	0.0340	0.0450	0.0460	0.0450	0.0470	0.0480	0.0480	0.0430	0.0370	<b>0.0426</b>
Fiji	0.0120	0.0140	0.0110	0.0100	0.0110	0.0090	0.0090	0.0090	0.0090	0.0080	<b>0.0102</b>
Grenada	0.0004	0.0004	0.0004	0.0008	0.0006	0.0012	0.0010	0.0010	0.0006	-	<b>0.0007</b>
Guatemala	0.0430	0.0390	0.0430	0.0480	0.0430	0.0430	0.0410	0.0350	0.0340	0.0330	<b>0.0402</b>
Honduras	0.0240	0.0250	0.0270	0.0290	0.0210	0.0220	0.0220	0.0210	0.0180	0.0170	<b>0.0226</b>
Mongolia	0.0090	0.0080	0.0080	0.0090	0.0080	0.0090	0.0090	0.0080	0.0080	0.0100	<b>0.0086</b>
Nicaragua	0.0090	0.0090	0.0110	0.0110	0.0100	0.0100	0.0100	0.0090	0.0080	0.0080	<b>0.0095</b>
Papua New Guinea	0.0530	0.0480	0.0400	0.0330	0.0340	0.0330	0.0300	0.0260	0.0300	0.0280	<b>0.0355</b>
Paraguay	0.0180	0.0200	0.0200	0.0190	0.0130	0.0140	0.0160	0.0150	0.0170	0.0180	<b>0.0170</b>
Saint Kitts & Nevis	0.0000	0.0000	0.0010	0.0010	0.0010	0.0010	0.0010	0.0000	0.0010	0.0010	<b>0.0007</b>
Saint Lucia	0.0020	0.0020	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	<b>0.0012</b>
St Vincent & Grenadines	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0000	<b>0.0009</b>
Trinidad & Tobago	0.0490	0.0480	0.0470	0.0420	0.0500	0.0680	0.0710	0.0620	0.0710	0.0710	<b>0.0579</b>

(Source: World Trade Organisation: TN/MA/W66)

- No tariff capping shall apply to the Small, Vulnerable Economies.
- Modalities shall provide for substantial improvement in market access for products of export interest to Small, Vulnerable Economies.
- Small, Vulnerable Economies will designate special products (SPs) based on their food security, livelihood security and rural development needs.
- Special Products (SPs) of Small, Vulnerable Economies will be exempted from tariff reductions and tariff rate quota commitments.
- All agricultural tariff lines will be eligible for the Special Safeguard Mechanism (SSM). SPs of Small, Vulnerable Economies will have automatic access to the SSM.
- The Small, Vulnerable Economies insist that the SSM shall contemplate price and volume-based triggers. Remedy measures should be effective and flexible to respond to the needs of the Small, Vulnerable Economies.

Negotiations on fisheries subsidies are important for SVEs. So far the debate between the ‘friends of the fish’ and the opponents has not produced any consensus on the way to proceed even though there is some movement since the Hong Kong meeting on the need to address the issue of subsidies so that the needs of the SVEs are taken into consideration. The SVEs have made proposals on fisheries subsidies (WTO: TN/RL/GEN/57/Rev.2:4)<sup>1</sup>: SVEs and mainly coastal states have sought appropriate special and differential treatment in all disciplines on fisheries subsidies. They have proposed that the following should not be subject to subsidies disciplines:

- any development assistance to developing coastal states;
- assistance to artisanal or small-scale fisheries. [This requires a consensus on the definition of ‘artisanal’ or ‘small-scale’. Some existing definitions of artisanal are based on vessel size in metres, capacity in gross registered tonnage (GRT), or area of operation in terms of proximity to the shoreline.];
- access fees in fisheries access agreements;
- fiscal incentives - to facilitate the development of capabilities of

<sup>1</sup> Paper from Antigua and Barbuda; Barbados; Dominican Republic; Fiji; Grenada; Guyana; Jamaica; Papua New Guinea; St. Kitts and Nevis; St. Lucia; Solomon Islands; and Trinidad and Tobago.

small vulnerable coastal states.

Other proposals from the SVEs include the 'Trade Related aspects of Intellectual Property Rights' (TRIPS), TBT and SPS where they are calling for developed countries to provide technical and financial help to implement the provisions. This is based on the fact that most SVEs do not have the capacity and resources to implement the provisions on their own. They also call for a establishment of the regional body to support these countries to deal with these technical agreements.<sup>2</sup> On Subsidies and Countervailing Measures (ASCM) the SVEs again called for extension of subsidy programmes under article 27.4 of the ASCM. This agreement comes from paragraph 10.6 of the Doha Declaration. In the case of Fiji the following provisions qualified for extension.<sup>3</sup>

- Short-term Export Profit Deduction, to the extent that it does not include the Export Finance Facility (EFF) and the Export Credit Ratio (ECR) programs.
- Export Processing Factories/Export Processing Zones Scheme;
- The Income Tax Act (Film Making and Audio Visual Incentive Amendment Decree 2000)

### **PICTA , PACER and EPAs**

The Pacific Island Countries Trade Agreement (PICTA) was signed by nine forum island countries in 2001. Together with Australia and New Zealand they also signed the Pacific Agreement on Closer Economic Relations (PACER). PICTA's main objective was to increase trade within the region through the following:

- on the elimination of tariff and non-tariff barriers to trade;
- in a gradual manner, with a minimum of disruption under clear rules of trade with conditions of fair competition;
- creation of a single market amongst the Pacific Island nations;
- taking into account the problems of the least developed and small island states.

<sup>2</sup> Communication from Antigua and Barbuda, Barbados, Cuba, Dominica, Fiji, Grenada, Jamaica, Mauritius, Papua New Guinea, Solomon Islands, St. Kitts and Nevis, St. Vincent and the Grenadines.

<sup>3</sup> Communication from Antigua and Barbuda, Belize, Barbados, Dominica, Dominican Republic, El Salvador, Fiji, Grenada, Jamaica, Mauritius, Papua New Guinea, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines (Annex a. G/SCM/W535).

PICTA is expected to provide a bigger market, with more opportunities for investment, competition and economies of scale in production. It is also intended that trade as a result of PICTA would lead to more capacity building and providing 'training ground' for more difficult conditions under the trading regimes within WTO negotiations. It has also been suggested that PICTA will provide a bigger and stronger voice for the Pacific Islands in other international negotiations and especially with our two developed partners, Australia and New Zealand (Narsey, 2004).

PACER has been signed and ratified by all the Pacific Island countries. This agreement includes Australia and New Zealand in the free trade agreements. Narsey (2004) points out that this is a 'reactive' agreement where article 6 requires that when PICs begin negotiations with other developed economies they should also negotiate with Australia and New Zealand. In addition, if this is not triggered before then it is mandatory to negotiate after 8 years of the PICTA agreement. PACER also provides for technical assistance and funding for trade facilitation in the Pacific Island countries (PICs) and negotiations for market access if Australia and New Zealand negotiate with non-forum island countries.

The Economic Partnership Agreements (EPAs) is between the EU and 77 states in Africa, the Caribbean and the Pacific (ACP). Historically this has been formalised by the Yaounde (1963–1975), Lome (1975–2000) and Cotonou (2000–2020) conventions. These agreements permit preferential access of ACP products to the European market. It must be noted, however, that the full potential of these preferences have never been realised.

The real issue for the current EPA negotiations between the EU and ACP is the WTO compatibility of any agreements. The EU is proposing free trade agreements with the ACP states for industrial and agricultural goods and unlike conditions in previous agreements these would be reciprocal agreements to bring them in line with WTO rules. The EU has also proposed other complementary agreements, which facilitate market access for services, rules on investment, competition and trade facilitation. ACP countries are naturally concerned with these proposals as this means a substantial reduction in tariffs and problems that they might have with developing their export capacity to take advantage of the freer access to the EU markets (Oxfam, 2006).

There seems to be a consensus that EPAs should be about sustainable development and putting in place strategies for poverty reduction (Bilal and Francesco, 2006). Article 20 of the Cotonou Agreement provides the overall framework for achieving the developmental objective:

The objectives of ACP-EU development cooperation shall be

pursued through integrated strategies that incorporate economic, social, cultural, environment and institutional elements that must be locally owned. Cooperation shall thus provide a coherent enabling framework of support to the ACP's own development strategies, ensuring complementarity and interaction between the various elements... Article 20.

The EU perspective is based on reciprocity, regional integration, trade and development. The establishment of the free trade areas within EPAs is expected to lead to the abolishment of substantially all trade barriers. Under the provision of reciprocity ACP countries will have to open up their markets to EU products. The benefit from this, as argued by the EU, is that it will increase competition amongst the ACP countries, reduce prices, stimulate investment and allow transfer of technology and knowledge. It is also expected to promote further regional integration and address the issue of non tariff barriers.

The ACP countries have their own perspectives on what the EPAs should deliver. They agree that development is related to trade liberalisation but they don't believe that it alone will lead to meaningful development opportunities and poverty reduction. They see opening up large regional markets and export opportunities for the ACP as potential factors for development (Oxfam, 2006).

In addition, they point out that high adjustment costs, loss of revenue through fiscal reform, loss of competitiveness due to adjustment costs and restructuring of domestic industries and compliance to international standards (especially with food processing industries, customs modernisation and development of regulatory mechanisms) are likely to reduce the potential for development and poverty reduction measures. The share of trade that will have to be liberalised to meet WTO compatibility, is shown in Table 4.

**Table 4: Share of the Value of Trade that ACP Regions must liberalise to meet the Minimum EU Criteria for WTO Compatibility**

EPA Regions	Value of Trade
Caribbean	83 %
West Africa	81 %
East and Southern Africa	80 %
Central Africa	79 %
Southern Africa	76 %
Pacific	67 %

(Source: Oxfam, 2006: 70)

This is also a major concern; some ACP countries feel that their development goals would be jeopardised (Oxfam, 2006).

The declaration by the African Union Commission in April 2006 on the EPAs is significant and relevant to the Pacific countries as well. The following declarations point to the fact that there is no convergence yet in sight on a number of contentious issues in the negotiations.

- The EPAs should be consistent with and not adversely affect the objectives and process of economic integration in Africa.
- No African country should be worse off under the new trade regime
- Conclusions of the market access aspects of the EPAs should take place upon completion of the proposed amendment to article XXIV of GATT to enable special differential treatment and development flexibilities; so that the EPAs can be pro-development (Para 8).
- African countries shall not make services commitments in the EPAs that go beyond our WTO commitments; and we urge the EU not to push our countries to do so (Para 10).
- African countries reject any attempt to introduce TRIPS-plus provisions on intellectual property issues in the EPA negotiations (Para, 12).
- The issues of investment policy, competition policy and government procurement, which have been removed from the WTO's Doha Work Programme, should be kept outside the ambit of the EPAs (Para 14).

### **Fiji's Growth Paths and Its Prospects under the Doha Agenda**

Fiji is ranked as a middle income developing country. However, its growth rate over the last ten years has not been very promising. On average the economy grew by less than 3 percent over the 15 year period. GDP per capita in the last decade has been growing at a low rate.

The low growth rates over the last decade have been due to low levels of investment. Private sector investment in particular has been low and has declined since the mid 1980s. The military coups of 1987 and the putsch of 2000 produced instability and investment levels have not grown significantly since then. In the last 5 years, while there has been a reversal of the trend the growth rate is still very small and the total investment rate falls short of the target rate of about 25 percent of GDP.

Low levels of private sector investment are also a cause of the poor

performance of the export sector. The trade deficit for Fiji has been on the rise. This trend is likely to continue if private sector investment in the export sector does not increase significantly.

Fiscal policy and management of government debt are problems for Fiji. High levels of budget deficit are a cause for concern. Government borrowing from the Fiji National Provident Fund has largely gone towards recurrent expenditure and contributed to high levels of consumption expenditure. Capital expenditure as a percentage of total expenditure has not increased in the past 10 years. The effect of this has been poor infrastructure development in areas such as roads, water supply, air and sea ports. Lack of proper infrastructure is impeding investment; this will have repercussions on the ability and willingness of the private sector to invest in developing the export capacity of the economy.

Government debt is also increasing which also a cause for concern in the private sector of Fiji. The total debt in the last 4 years has been more than 50 percent of GDP and is forecast to increase further. While this level of debt may be sustained in the short to medium term, if it continues to grow at this rate then in the long-run the debt level may not be sustainable. While the bulk of the debt is domestic, it does divert meaningful savings to consumption expenditure. As an important source of national savings the FNPF could be used more meaningfully to generate capacity in the economy, thus contributing to higher levels of growth.

In summary Fiji's growth is likely to be broad based in future and tourism is likely to remain the leading contributor. However, to sustain a growth rate of about 4–5 percent Fiji will need to look at diversification of its exports so that total exports can rise. The WTO negotiations and EPAs with the EU will open up markets for Fiji in a significant way. However, this would not mean much if we do not increase our volume and quality of exports. The fundamentals of the economy are stable and Fiji has the potential to benefit from free trade under the WTO, but there are very serious problems to be resolved.

### **Concluding Comments**

Trade negotiations under WTO and other economic partnership agreements present special challenges to the small and vulnerable economies. Many of them shared historical trade links to the former colonial powers and have continued to benefit from trade preferences. With the emergence of the WTO and the framework for the current negotiations in EPAs between EU and the ACP countries, many small and vulnerable economies including those in the Pacific region are worried about its im-

pacts. These concerns relate to reduction in tariff revenue and loss of markets due to competition from other producers. Like other SVEs Fiji also faces this prospect. Loss of preferential prices and markets for sugar and fish could have substantial economic consequences on the country.

Fiji and other ACP states will continue to benefit from the EU under the Cotonou agreement, under its provision for political cooperation and development assistance. For, example, they will continue to receive development finance and technical assistance currently available under the European Development Fund (EDF) and other assistance through the Regional and National Indicative programmes. However, it is not clear how the trade impact will affect their overall development. This is where most of the debate on the current EPA negotiations is focused.

Under the WTO negotiations the SVEs are focusing on the Doha Development Agenda and provisions in that which allow them to extract most benefits. The SVEs have been very active in putting proposals to the various committees of the WTO. Their current proposals range from those on agriculture, non-agricultural market access and fisheries subsidies.

The long-term future of the SVEs, however, rests on being able to navigate through the current negotiations. There might be exceptions for SVEs in the short to medium term so that adjustment costs and development agenda could also be pursued with trade liberalisation. In the long-term, however, SVEs will have to accept that they will have to integrate their economies in the multilateral trading environment and put in policies to reap the benefits of free trade. To do this SVEs have to address the supply side constraints such as poor economic infrastructure, weak institutions, poorly defined and insecure property rights in land and lack of human resources. Developing our export capacity would be the key to ensure that benefits of global and regional free trade agreements are retained by the SVEs. In the short to medium term SVEs would need strong support from developed economies in terms of building capacity in the export sector.

For Fiji and other PICs, agreements with Australia and New Zealand are vital for long-term sustainable growth of exports. Under PACER, Australia and New Zealand have an advantage as the PICs will have to open up negotiations with them if they enter into an agreement with the EU under the EPAs with the EU.

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