The Development of Trade Arrangements in the Caribbean Island Nations and the Pacific Island Countries

Khushbu Rai[1]

Abstract

The contemporary turn of events post-Brexit and the election of Donald Trump hints at a return of protectionism. However, for years now, the World Trade Organization (WTO) has been advocating and continues to advocate that regional arrangements and closer economic integration would benefit all countries. Arguments regarding trade integration clearly have been contentious. Nonetheless, in regards to small island countries (SICs), it is quite evident that they perform better together than alone. The route to regionalism has been a long and painful journey for both the Caribbean Basin and the Pacific Rim. Many simply dismiss the sluggish growth of the Pacific Island Countries (PICs) in comparison with the Caribbean Island Nations (CINs) by simply declaring that regionalism is working better for the latter. This study presents a detailed account of efforts at nurturing regionalism on the part of these two seemingly similar, yet distinguishable groups of islands. Through such scrutiny, this paper documents a stark contrast in the development of trade arrangements that clearly influence the growth of the regions.

Keywords: Caribbean Island Nations; Pacific Island Countries; regional conflicts; regional integration; trade arrangements

[1]Teaching Assistant, School of Economics, Faculty of Business and Economics, The University of the South Pacific, email: khushbu.rai@usp.ac.fj

Introduction

Trade liberalization has come about only through long and painful discussions both for the Caribbean Basin and for the Pacific Rim. An interesting observation made by several authors is that "both in the Caribbean and in Oceania, regional states have had a significant history of cooperating in an attempt to lessen the inherent and linked problems derived from their size and their islandness" (Rolfe, 2007, p. 100). From the theoretical perspective of economic integration, the smallness of an economy forces production to be of sub-optimal size, causing economic disadvantage (Armstrong et al., 1998). These authors assert that the significance of trade to smaller economies necessitates economic integration, in hopes of benefiting from access to other/larger markets.

The World Trade Organization (WTO) for years has advocated that regional arrangements and closer economic integration can benefit countries by improving scale. Simultaneously, it acknowledged that under certain circumstances regional trading arrangements could also be an obstruction as they could invite rampant trade diversions (Freund & Ornelas, 2010). Arguments regarding trade integration clearly have been contentious. However, as regards Small Island Countries (SICs), in the Third Summit of the Alliance of Small Island States it was emphasized that it makes sense for small and less developed states to group together to take advantage of the "unlimited development opportunities to be achieved when pursued in partnership and with a sense of common purpose" (Alliances of Small Island States, 1999).

Integration among small island economies has long been at the heart of discussions by developing countries facing challenges of globalization. The past two decades attest to renewed interests in integration by means of trade arrangements. In 2000, a total of 170 regional trade agreements had been notified to the WTO. This rose to 330 agreements by July 2005. As of April 7, 2015, approximate 612 notifications of regional agreements had been received by the WTO (World Trade Organization, 2015). Such regional trade agreements have become increasingly prevalent. The scope of agreements has evolved as well. For instance, initially, the emphases of trade agreements were on visible trade barriers, the likes of tariffs and quotas. However, recently these have been extended to invisible barriers such as health (sanitary) and environmental standards, government regulations, labeling requirements, and measurement standards, increasing the complexity of such arrangements. As globalization accelerates, changes in the international trade system are inevitable. The WTO in 1994, for instance, extended the General Agreement on Tariffs and Trade from traded goods exclusively to include trade in services and intellectual property rights through the General Agreement on Trade and Services (GATS).

Viner in 1950 (as cited in Piquet, 1950) investigated the welfare-enhancing effect of economic integration and coined the terms *trade creation* and *trade diversion*. Simply put, trade creation is replacing higher-cost domestic production with lower-cost imports from a partner country, whereas trade diversion is replacing lower-costing cheaper imports from the world market with higher-costing imports from a partner. Thus, Balassa (1962) infers that the magnitude of the trade creation/diversion determines whether the economic integration process is welfare-enhancing or not.

Over the years, many countries have undertaken expansive steps. Newer countries have joined one or more such agreements and dormant agreements have been reviewed and revived. The World Bank evaluates one such preeminent example: the European Union, which originally was a Customs Union (Common Market to the European Community), later changed to a Single Market with free movement to labor, capital, and services and substantial regulatory harmonization and eventually to an Economic Union with a single currency (Fernandez & Portes, 1998, p. 197). As expounded by the aforementioned authors, economic integration unfolds in three stages. First, the trade is liberalized amongst partner countries. Next is the liberalization of the movement of factors of production; followed by integrational coordination of national policies, mostly involving exchange rates. The EU is just one of the best-known examples of regional trade agreements (Snorrason, 2012). More recently, the EU has been in the process of negotiating a new free trade agreement with the United States, known as the Transatlantic Trade and Investment Partnership (TTIP) together in an economic partnership with Japan. In the likely event that the United Kingdom decides to become an independent player post-Brexit, it will definitely have much less bargaining power than it had whilst being part of the EU.

Additionally, according to the WTO (2015), here are a few of the best-known examples of regional trade agreements: The European Free Trade Association (EFTA), The North American Free Trade Agreement (NAFTA), The Southern Common Market (MERCOSUR), The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), and The Common Market of Eastern and Southern Africa (COMESA). The WTO states that the above arrangements worked well for the member countries because mostly regional trade agreements supplement multilateral trading systems. However, in the wake of the 2016 US presidential election, previous arrangements on the trade forefront have been challenged. President Trump has been saliently engaged in renegotiating NAFTA; has withdrawn from the Trans Pacific Partnership; and has placed a hold on the TTIP with the EU. Hence, whilst recognizing the possibility of regional trading arrangements failing under certain circumstances, the WTO emphasizes trade integration as complementary to development. In WTO's analysis of Globalizing Regionalism, it is indicated that economic integration can particularly help small developing countries build on their comparative advantage, sharpen the efficiency of their industries, and strengthen their political commitment to an open economy (Moore, 2000).

Narrowing the focus to small island nations the likes of those in the Pacific and Caribbean regions, one finds commonality in their smallness, remoteness, institutional weakness, restraining infrastructure and production homogeneity. A region with economies that are small and isolated from integrated economic hubs is really constrained to derive benefit from economies of scale and domestic competition and, hence, likely to experience relatively higher costs of production and to lack competitive edge. Nonetheless, the combination of regional integration and opening of small economies has been seen as a catalyst for growth. High dependency on other economies, heavy reliance on importations and lack of local capacities have hampered development in these regions. It is believed that engaging in intra-regional trade as such would build up local export markets and provide confidence to smaller island economies to compete on a larger scale. Moreover, in addition to the traditional benefit of trade creation, regional integration acts as a platform for incorporation in the world economy and is particularly significant for enhancing effectiveness of small economies.

Comparative Analysis of the Caribbean and the Pacific – A Historical Account

Apart from commonality of issues in regional integration such as smallness, remoteness, poor governance, and so on, the literature draws a parallel between the two regions based on other compelling resemblances, such as the similar historical patterns that the Caribbean countries and the Pacific Island countries have established over the years on their respective journeys towards regionalism. These similarities, of course, accompanied by subtle dissimilarities, are the topic of discussion in the following sub-sections.

Colonial Legacy

A German historian, Richard Konetzke, traces the footing of the Caribbean region dating back to when Columbus set sail in *Santa Maria* to build a settlement on the north coast of Espanola (known today as Santo Domingo and Haiti). The scant background demonstrates that the Antillean islands (a common alternative name for the Caribbean region) were Europe's first economic stepping-stone outside itself.

One may not wish to reduce this to mere harbors of entry, trade destinations, or ports of call; in fact, they were Europe's very first overseas colonies. On the other hand, while Britain was initially hesitant to annex the scattered South Pacific Island group, growing German imperialism prompted the emergence of British influence. New Guinea was annexed by Germany and Papua got annexed by Britain. The two halves of the island came together under Australian rule under the auspices of the League of Nations post–World War I. Samoa and Micronesia were added to the list of Britain's existing annexations (Fiji and the Solomon Islands).

This British heritage made integrating considerably easier than it might otherwise have been within the Pacific and Caribbean regions. However, the literature shows that the level of integration differed. Differences, of course, are a matter of influence too when it comes to regional cooperation. The first such is the spread between the regional island states in the Pacific, whereas distances between the Caribbean isles are shorter. In addition, although the Caribbean is a part of the United States' immediate region due to its proximity, the US has not played a constructive role in the region. The giants Australia and New Zealand, in contrast, have actively participated in the regional development process for the Pacific Islands.
Both regions have also experienced their fair share of friction caused by the superpower nations of the world. Post–Cold War, the Caribbean Basin saw strife between the old colonial powers of Europe and the United States. Whilst Great Britain was pulling its hands away from the region, the US was subtly increasing its influence. Swelling US interest was also due to the (historic) threat once posed by the Soviet Union over missiles deployed in Cuba. History has named the events of October 1962 as the 'Caribbean Crisis'. As for the Pacific countries, though dependence upon colonial administrators is self-explanatory, the Pacific micro-states also attracted interest from outside powers with no former colonial history. Such overtures had been expressed by the former Soviet Union, China, and Japan through diplomatic ties, trade links, and aid and assistance. The North Pacific countries have their eyes set on the vast fisheries of the Pacific Island countries.

The next group of states that view the Pacific as a strategic ground are the United States and France. To them, the region is ideal for nuclear testing, mining operations, and military and communication bases. None of these groups wish to see their influence in the Pacific region dilute and as such clashes and conflicts are unavoidable.

Era of Enslavement

In the 15th century, the then newly colonized settlements required labor in large quantities. Within the Caribbean, "before-slavery laborers were: indentured servants, convicts, whore, petty thieves, labor organizers , the pariahs of Britain and France, as well as countless native Americans from the inlands themselves and from the mainland; after-slavery there were: contract laborers from India, China, Java, Africa, the Iberian Peninsula and elsewhere" (Mintz, 1974, p. 46). The waves of migration in the Caribbean Region has made it an epitome of as much ethnic, racial, linguistic, and physical heterogeneity as can be discovered in any other region of comparable size in the rest of the world. Noteworthy is also the fact that this transition in the context of that time was always massive:

> More than half a million Indians, both Moslem and Hindu, were shipped to the Caribbean region, most going to Trinidad and Guyana (erstwhile British Guiana), with smaller numbers to Dutch Guiana, Jamaica and Martinique; about 150,000 Chinese were imported, principally to Cuba; more than 30,000 Javanese, entirely to Surinam (Dutch Guiana); even a few Indo-Chinese ended up in the cane fields. Whatever their biases in other regards, the European planters of the Antilles were apparently quite free of prejudices when it came to brute labor—even fellow Europeans would do. Spaniards and Portuguese, in particular, reached the Caribbean colonies in large numbers in the nineteenth century, proving that Europeans too could cut cane beneath a broiling tropical sun. (Mintz, 1974, p. 47)

During the same period in the Pacific region, the colonies' tropical production of copra, sugar, vanilla, cocoa, and other products had become valuable commodities. The European trading companies in charge of controlling these commodities also owned the plantations on which these were cultivated as well as the avenues of shipping and retailing. As such, the late nineteenth century saw a significant immigration of Indian indentured laborers to work on the sugar plantations. The British colonial administrators defended the native land-tenure system which sustained the traditional life of the colonies, for example, the customary chief practices of Fiji and the royalty-based system in Tonga.

Post-independence, the nine states of the South Pacific (Western Samoa, Nauru, Fiji, Tonga, Papua New Guinea, the Solomon Islands, Tuvalu (formerly known as the Ellice Islands), Kiribati (formerly known as the Gilbert Islands), and Vanuatu (formerly known as New Hebrides) got divided into three broad cultural areas: Polynesian (center and east), Melanesian (west), and Micronesian (northwest). Evidently, there is significant cultural heterogeneity within each of these sub-regions (Fry, 1981, p. 456).

Dependence on the Metropolitans

The Caribbean region of perhaps fifty insular societies scattered over more than two thousand square miles of the sea, as well as certain mainland sub-regions, is described by Mintz (1974, p. 46) as just as utterly differentiated as it is complex. The writer goes on to add that the Caribbean is the most richly researched region yet the most poorly understood as well. Many researchers have their unfavorable views as regards the Caribbean's condition. Alonso (1994, p. 582) judges the Caribbean Basin to be at a crossroads since the early 1970s, when indigenous demography were experimented with, by fiat, to replace local populations with outsiders. In the face of political autonomy, even local elites could not save their economies from dependence on the metropolises and the United States. Mintz (1974, p. 45) agrees that dependence had become a habit for the Caribbean. Just consider how long they were dependent on empire for law, language, institutions, culture, even officials.

History has likewise witnessed an inevitable dependence on the part of the South Pacific micro-states on a handful of metropolitan countries Australia, New Zealand, France, Britain, and the United States, along with the European Community, Japan, and the Soviet Union/ Russian Federation. Before 1965, Pacific Islanders had little say regarding decisions concerning the region. The power predominantly lay in the hands of nations having territorial interests—Britain, France, the Netherlands, the United States, Australia, and New Zealand. These combined to form the South Pacific Commission (SPC) in 1947. SPC, now known as the Secretariat of the Pacific Community, was established to "encourage and strengthen international cooperation in promoting the economic and social welfare and advancement of the peoples of the non-self-governing territories in the South Pacific region" (Haas, 1989, p.32). Initially, during the formation of SPC, there were several rebellious efforts from nearly all Island Representatives, led by Sir Ratu Mara of Fiji, which resulted in the adoption of a memorandum of understanding (MOU) in 1974 that granted the Island delegates fair authority in regional affairs.

The Concern for Sovereignty

The beginning years of Caribbean integration were filled with struggle. While on one the hand there was a range of non-traditional security issues such as drug smuggling, on the other hand there was a rise in health pandemics. Already burdened with concern on sluggish integration, the member states were alleged of placing national interests ahead of regional and to be lacking in functional cooperation (CARICOM, 2005).There were questions of trading off sovereignty for higher trade exchange as well as the overpowering of the market by the bigger players. Dating back to 1965, the very first Heads of Government Summit was held to discuss the advancement of regional community. As a result, the CARIFTA (Caribbean Free Trade Association) was formed. CARIFTA was primarily formed to boost economic activity by removing tariffs on imports and quotas on goods produced within the Caribbean trade bloc. Troubles arose when it was realized that many of the partner Caribbean islands generated revenue from imposed trade tariffs and had become reluctant to remove these barriers. Later, discussions on CARICOM (Caribbean Community and Common Market) arose when smaller and poorer states of the Eastern Caribbean had complained that CARIFTA's existence benefitted the 'big four' countries of Barbados, Guyana, Jamaica, and Trinidad-Tobago (Corkran, 1976, p. 65). It was cited from the Guyana Chronicle, 2005 where the President of Guyana stated, "it is not an easy task to sell CARICOM to Guyanese as an integrated community with benefits to be derived when they are treated better outside of CARICOM than at regional ports of entry." Although the issue of 'sovereignty' was conflicted, it was unanimously agreed that CARICOM was not merely a regional integration platform but depended principally on shared cultural identity. The current befitting workhorse of Caribbean integration, CARICOM had to tackle the sensitive issue of sovereignty before any real regional economic planning could be undertaken.

In the South Pacific, conflicts of interest arose when the Pacific micro-states set on promoting and engaging in regional projects demanding enormous levels of resource commitment and substantial integration. A question of forgoing sovereignty arose when, to the disappointment of other Pacific Islands, many regional institutions got based in Fiji, e.g., USP (the University of the South Pacific), SPEC (the South Pacific Bureau for Economic Cooperation), the SPC Community Education Centre, the Telecommunications Training Centre, and Air Pacific. This stirred up tensions between Fiji and other island nations, which triggered a fight for power amongst the countries. Further rigidity set in, once there was metropolitan inclusiveness in regional affairs, for instance, the United States' involvement in the regional fisheries agencies. The regional cooperation turned into a political skirmish for power among the Pacific Island Countries, mainly including Fiji, Papua New Guinea, and Western Samoa.

Presence of Regional Organizations

Although it appears that economic integration has not been optimally realized yet in either region, many regional organizations have been orchestrated to assist the efforts of further economic cooperation. These organizations enhance regionalism in the arenas of education, government administration, resource management, disaster rehabilitation, justice, and law and order. Against the backdrop of distant routes, developing economies, and slim markets; without the strong presence of such regional bodies the island-states would become immaterial; they would lose their voice and their standing internationally. It is evident that the regional leaders are aware of the gravity of the situation. The table below is a compilation of regional organizations in the Caribbean and the Pacific that have been stepping stones towards regional trade integration.

Route to Regionalism

Never before has there been a greater need for these two regions to face the challenges posed by globalization head-on. The changes in WTO rules and decisions demand austere actions. For instance, the General Agreement on Tariffs and Trade, Article XIII[1], led to the removal of the preferential trade arrangements that affected the banana industry and sugar industry in both the Caribbean and the Pacific. Furthermore, WTO's mandate to reduce worldwide tariffs has worsened the competitiveness of the regional industries. The Caribbean and the Pacific, alike, have not always been able to keep abreast of technological advancements and evolving international trading patterns. It is not surprising, then, that promoting regionalism is no longer just a preference but rather a necessity. The following section discusses the journey of the two regions towards regionalism, in chronological order.

The Caribbean Basin

As early as 1958, the Caribbean began its evolution of regionalism with the establishment of the British West Indies Federation, in order for the small island economies to survive decolonization. The Federation was a political unit formed with the aim of regaining independence from Britain as a single Caribbean state. The Federation came to an end in 1962, without having achieved much due to an internal conflict of sovereignty. However, what the Federation did plant was an idea of odds through cooperative and centralized processes. The next three years saw the formation of a centralized regional cooperation in the management of the University of the West Indies which was later followed by developments in the regional shipping services, the Caribbean Meteorological Service (Rolfe, 2007, p. 101).

The Regional Heads of Government held their first summit in 1965, to discuss the concept of a regional community and as an outcome the Caribbean Free Trade Association (CARIFTA) was developed. The Commonwealth Caribbean Regional Secretariat was established in 1968 and the Caribbean Development Bank in 1969. Both were designed after the formation of CARIFTA to enhance the benefits to the region economically and developmentally through expansion and diversification of regional trade.

[1] GATT Article XIII: importation of any product must be applied consistently to all WTO Members.

Table 1. Selected Caribbean Regional Organizations and their Memberships

Organization	Membership
Association of Caribbean States (ACS) - was formed with the objective of improving transportation, enhancing trade, facilitating sustainable tourism, and having effective and coordinated response to local natural disasters in member countries.	Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts &Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago, and Venezuela.
Caribbean Court of Justice -is the judicial body for the Caribbean Community (CARICOM).	Antigua &Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago
University of the West Indies -was formed with aim of developing economic and cultural growth in the Caribbean.	Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago, Turks and Caicos Islands.
Global System of Trade Preferences among Developing Countries (GSTP) -is a preferential trade agreement, signed (1988) with the aim of facilitating trade between developing member countries.	Algeria; Argentina; Bangladesh; Benin; Plurinational State of Bolivia; Brazil; Cameroon; Chile; Colombia; Cuba; Ecuador; Egypt; Ghana; Guinea; Guyana; India; Indonesia; Iran; Iraq; Democratic People's Republic of Korea; Republic of Korea; Libya; Malaysia; Mexico; Morocco; Mozambique; Myanmar; Nicaragua; Nigeria; Pakistan; Peru; Philippines; Singapore; Sri Lanka; Sudan; Tanzania; Thailand; the former Yugoslav Republic of Macedonia; Trinidad &Tobago; Tunisia; Bolivarian Republic of Venezuela; Viet Nam; Zimbabwe.

Sources: Table information from Rolfe, 2007, p. 102; memberships from WTO website; objectives of the organizations from individual websites.

By 1971 all the region's (British) Commonwealth Island states and territories had joined CARIFTA in an effort to liberalize trade in manufactured goods and provide for managed trade in agriculture goods; it also contained special arrangements for the smaller countries of the Eastern Caribbean (Bannock, Baxter, & Davis, 2011,p.11). The difference of course between CARIFTA and the earlier agreement was that the former sought to attain political integration while the latter was focused on economic cooperation. CARIFTA was supposed to remove trade barriers, to benefit all members equally. This was believed to have transformed into a common market and customs union (Corkran, 1976, p. 52). CARIFTA was successful to the extent that exports proliferated, but along with that came wealth disparities within the region (Rolfe, 2007, p. 105). Corkran (1976) found cases of complaints, by smaller countries in the Eastern Caribbean that CARIFTA was biased towards benefitting larger countries like Barbados, Guyana, Jamaica, and Trinidad & Tobago. Hence, CARIFTA had been compromised and seemed not to meet the full expectations of the Heads of the Government.

In 1973, CARIFTA was transformed into a new community called Caribbean Community and Common Market (CARICOM). CARICOM had three broad pillars: "economic integration (a common market); functional cooperation (education, health and several other areas)[;] and foreign policy coordination" (CARICOM, 1973, Article 4). The Association of Caribbean States (ACS, 1994) was also designed during the same period, with the intention of promoting trade, sustainable tourism, the environment, transport and natural disasters (ACS 2005). Serbin (1994), Phillips (2002) and Girvan (2006) agree that ACS lacked cohesion and complete agreement by its members. Economic integration meant free movement of goods, services, capital, and people. The second pillar was to combine members' limited resources in areas like education, health, environment, science and technology, communications, meteorology, response to natural disasters (Warner & Anatol, 2015, p. 188), ultimately to foster the region's external position through coordinating member states' foreign policies. It was later noticed that CARICOM was not comprehensive enough and that it failed to address the stated objectives under the aforementioned separate pillars.

Therefore, partially as a result of and partially unconnected with CARICOM's development, seven Eastern Caribbean states formed the Organization of Eastern Caribbean States (OECS) in 1981. This replacement organization was established through the signing of the Treaty of Chaguaramas with the immediate membership of the region's four independent states; Barbados, Guyana, Jamaica, and Trinidad & Tobago (Rolfe, 2007, p. 101) (see Table 1). The OECS was formed with the objective of protecting sovereignty. Eight of the nine members of OECS (Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, Montserrat, and St.

Vincent and the Grenadines) share a common currency managed by the Eastern Caribbean Central Bank (Warner & Anatol, 2015, p. 188), and the Central Bank is in charge of maintaining financial integrity and transparency for these OECS states. Today the OECS has objectives to promote cooperation, to harmonize foreign policy, and to advance economic integration (OECS, 2005b). It is believed that OECS was successful in solving issues that CARICOM could not; for instance, starting in 2011, OECS ensured that all people from the sub-region would be able to move and work freely in other member states. The formation of OECS has also had positive outcomes in terms of levels of aid and technical and financial assistance (Lewis, 2003, p. 333).

During 1989, the Single Market and Economy was created. The common market had been replaced by the CARICOM Single Market and Economy (CSME), designed to be more responsive in the era of globalization. The CARICOM Single Market was officially inaugurated in 2006 and the Single Economy is scheduled for completion in 2015 (Bannock et al., 2011, p. 12). The reforms under CSME included free mobility of certain classes of people as well as movement of goods, services, and capital, through measures such as removal of all barriers to intra-regional trade and harmonizing standards so as to increase acceptability of goods and services being traded. It involved the formation of a monetary union, implementation of the Common External Tariff, and adoption of a common incentives programme (Rolfe, 2007, p. 106). CSME also ensured the right to establish CARICOM businesses in any Member State without restrictions and made provision for sharing collected customs revenue and external goods importation (Bannock et al., 2011, p. 19).

All in all, in the Caribbean, CARIFTA was the starting point of regionalism. This Caribbean Free Trade Agreement was active from 1968 to 1973. It stimulated regional exports of light manufactured goods; however most advantages skewed towards larger countries in the region. While convinced by the effectiveness of economic integration, the countries replaced CARIFTA with another agreement: CARICOM. The Caribbean Community Common Market reigned for almost three decades (1973–2006). It was a customs union with expanded scope to not only cover merchandise trade but also to facilitate provision of services, capital, and labor. The CARICOM council supported foreign policy harmonization as well as functional collaboration of education and health affairs. Post-2006 to date, the CSME has been driving social and economic integration in the region by forming a trade bloc. The CSME, along with the other features of CARICOM, added elements of currency union and functional cooperation on macroeconomic policy, sectoral policy, and external trade policy harmonization.

The Pacific Way

'The Pacific Way' terminology was coined by Fiji's former statesman, Ratu Sir Kamisese Mara to describe the Pacific region's ceremonial and lionized form of negotiations, discussions and dialogue. A revisit into the history of the South Pacific confirms the overgrowing interests of many metropolitan countries, the likes of Britain, France, the Netherlands, the United States, Australia, and New Zealand. As a result of which, in 1947, the South Pacific Commission was inaugurated to coordinate social and economic development of the dependent countries in the region (Haas, 1989). The leaders of the Pacific Island Countries demanded equal authority in deciding for the region and hence a memorandum of understanding was signed in 1974.

In order to accentuate indigenous control, another regional organization was established in 1965—the Pacific Island Producers' Association (PIPA). This organization was initiated by Fiji and later joined in by Western Samoa, the Cook Islands, Niue, Tonga, and the Gilbert (Kiribati) and Ellice Islands (Tuvalu). Initially, the aim of PIPA was to supplement closer cooperation amongst Pacific islands supplying bananas to the New Zealand market. However, at a later stage, this expanded to include shipping, marketing, and research as well (Fry, 1981). Many authors believe that a country's sheer economic weight gives it a voice and a role; following this notion Tupua Tamasese Lealofi IV, then Prime Minister of Western Samoa, asserted, at the 1971 PIPA Conference, "This is the strength by islanders, and created by islanders, and successful only from the efforts of such" (Fry, 1981, p. 463). This Polynesian assertion concluded in 1973 only after the formation of another organization with a broader role.

In the early 1970s, the Pacific leaders realized the need for a platform to promote political cooperation, one in which Pacific challenges could be addressed with one voice. In 1971, Fiji, Western Samoa, and the Cook Islands initiated the South Pacific Forum (SPF) (renamed to Pacific Islands Forum in 2000), because of many restrictions under SPC. Other island nations joined eventually, along with Australia and New Zealand. The discussions were widespread; however, much attention was given to discussions of French nuclear testing, decolonization, shipping, civil aviation, telecommunications, trade promotion, bulk purchasing, and the control of fishing resources (Fry, 1981, p. 464). In 1972, the South Pacific Bureau for Economic Cooperation (SPEC) became SPF's center for research and development. SPEC had been instrumental in coordinating negotiations with the European Community—promoting trade, examining feasibility of a regional shipping line, and contemplating matters of telecommunications and fisheries (SPEC, 1980).

The South Pacific Forum faced a major impediment, as it required considerable commitment in terms of natural resources as well as a compromise of national sovereignty. It was difficult at this point to prove how much regionalism had been practiced, as the negotiations put in place generally epitomized a lesser degree of integration. Fry (1981) cited examples of negotiation by individual countries for preferential access to external markets like the European Union, Australia, and New Zealand. This was contrary to the function of SPF in encouraging regional integration.

The South Pacific Forum then established three sub-regional groupings in the late 1980s. Alongside the South Pacific Forum, other Oceanic Regional Organizations were designed to provide a clearer mandate for specific activities. The first group, known as the Melanesian Spearhead Group (MSG), was formed in 1987 between Papua New Guinea, the Solomon Islands, and Vanuatu, and later joined by Fiji in 1996. It mediated trade disputes between members, advocated the development of a regional military security force, and considered the merits of a sub-regional air services agreement (Rolfe, 2007, p. 113). The second grouping constitutes smaller island states such as the Cook Islands, Kiribati, Marshall Islands, Nauru, Niue, and Tuvalu. This group discusses policies for such countries regarding regional transport infrastructure, climate change, and development funding (Rolfe, 2007). The third grouping, known as the Micronesian ‘compact states’ (Marshall Islands, Federates States of Micronesia and Palau), were part of the Free Association with the United States. The member countries of Compacts of Free Association (CFA) receive financial support and controlled access to education and health. In addition, these states get duty-free, non-reciprocal exports to the US to a certain degree. Surprisingly enough, these three groups of small islands work separately to pursue their interests and do so while keeping the wider interests of the Forum in prospect.

Even so, attempts to develop a regional airline and a regional shipping line have been less than successful in the past. The need for a proper transport infrastructure in the Pacific has already been acknowledged; however, in a region of small, widely separated, economically weak Island states, private operators would only operate if they could make a profit (Rolfe, 2007, p. 116). This difficulty in a region of small numbers and vast distances called for public sector cooperation.

An illustration of such government cooperation can be seen in the area of regional security. The peacekeeping operation in Bougainville (Rolfe, 2001) and stability operations in Solomon Islands (Kabutaulaka, 2005) are remarkable examples of ‘Pacific solutions for Pacific problems’. Other regional achievements have been the development of a regional nuclear-free zone in 1985 and the 1991 improvement on a regional fishing regime, which banned driftnet fishing (carried out by other nations).

Moreover, in 1981 came about the development of the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which received "duty free and unrestricted access on a non-reciprocal basis to the Australian and New Zealand markets" (Ministry of Foreign Affairs and Trade, 1996, p. 25). Some authors criticized SPARTECA as a platform to foster further dependency (Schultz, 2012); however, in several Asia Development Bank (ADB) reports a few positive impacts had been also noted. Australia's and New Zealand's slow but growing openness to other countries was a clear signal for the Pacific Islands to opt for a different approach towards economic liberalization.

The Pacific Island Countries Trade Agreement (PICTA) and Pacific Agreement on Closer Economic Relations (PACER) come into picture to provide "a basis for increasing regional integration and as a means to effectively prepare members' economies to respond to globalization" (Pacific Islands Forum, 2001). Again, criticisms for these agreements are many. PICTA was signed in 2001 and came into force in 2003, but only became operational as of 2007 (Prasad, 2008, p. 91). It was designed to enhance trade between the 14 member countries by reducing tariff barriers to zero, allowing a period of protection for selected products in order to support infant industries. The reasons underlying this is the fact that the key obstacle to inter-island trade is not trade barriers, but rather is the voluminous transportation costs due to considerable distances between the islands themselves, low economies of scale, and a lack of diversity between the items of trade. Connell and Soutar (2007) starkly verify that there is simply little to exchange between the Pacific Island Countries, citing one instance from the past—the 'kava-biscuit war' of 2004–2005. This case study shows breach of regulations under PICTA and MSG when Fiji banned kava from Vanuatu and in exchange Vanuatu sought to protect its biscuit industry from the more developed Fijian industry. Neither Fiji nor Vanuatu could be penalized as their actions reflected the sensitivity of trade in the region, when both the states have very little to trade. If anything, PICTA had been provoking competition rather than cooperation between the island states.

On one hand, amongst the region's top four export destinations only Tuvalu traded with a PICTA partner (7% of its total exports with Fiji). On the other, from within the region only Tuvalu (45.8%), Kiribati (27.5%), Samoa (20.5%) Tonga (26%) and Cook Island (6%) imported from the (same) PICTA partner - Fiji. According to the study by the Institute of International Trade (IIT 2008) this confinement was due to two reasons: (i) Fiji's impeccable location making it a transshipment hub and (ii) regional trade being higher for services (particularly communications and government services) than for goods. Consequently, to make PICTA truly a regionwide integration, inclusion of trade in services was inevitable. In 2004, PICTA got upgraded to PICTA Trade in Services (TIS) to cover 11 service sectors: business, communication, constructions, distribution, education, environmental, financial, health, tourism, recreational and transportation. PICTA TIS under negotiation currently are categorized in two broad areas: Trade in services for Sectoral Liberalization and Temporary Movement of Natural Persons. It was not until the deadline for the tariff- cuts in 2009 that the members of PICTA could utilize the provisions. Although at present no substantial progress has been made under the two categories, supporters affirm the future of PICs' as optimistic. Henceforth the Pacific Islands Forum Leaders are working towards creating a single regional market through extension of PICTA to PICTA TIS.

In the intervening time, Papua New Guinea and Fiji signed an interim Economic Partnership Agreement (EPA) in 2007 to maintain preferential access to Europe for processed tuna and raw sugar. While the rest of the Pacific Island Countries had little interest in European Union's EPA, Fiji and Papua New Guinea would have had to face significant raise in tariff rates had they not cooperated. Controversial as it is, PICs argue that EU's push for a new EPA is purely a strategy to access Pacific's raw material before the Islanders strike a deal to trade these resources with their (EU's) Asian rivals (PANG, 2008).

Further, the Pacific Agreement on Closer Economic Relations is a framework of which PICTA is an arm of. Negotiations on PACER had started in 2001 however was not in force until 2011 (Prasad 2008, p.91). Unlike PICTA, PACER included the two giants – Australia and New Zealand. The PACER commits all members to begin negotiation towards a free trade agreement by 2011 at the latest. Qalo (2003) argues that one of the shortfalls of PACER is that there is a scope for the current trade imbalances to increases under free trade agreements mostly due to Australia and New Zealand being highly efficient producers.

When Australia gains unprotected markets in the Pacific Small Island Developing States (SIDS) they could displace local producers. Adding on, Scollay (2001) writes that the economic effects are likely to be very small, may be negative for some Forum Island Countries'. An extension of the PACER agreement currently being debated is the PACER Plus.

The discussions regarding PACER Plus started when Australia and New Zealand (ANZ) brought to attention the Most-Favored Nation (MFN) obligation. Australia and New Zealand emphasized that PIC's having negotiations with European Union for preferential market access under EPA had triggered the MFN clause. As a result, ANZ introduced PACER Plus for free trade arrangements. The motive of PACER

Plus is to prioritize on issues of trade facilitation, regional labor mobility, shipping, aviation, telecommunication and water infrastructure. Nevertheless, it is also acknowledged that the benefits of such agreements will only manifest given strong effective domestic reforms. Pacific Islands are yet to improve on supply-side constraints, regulatory and governance policies and institutional arrangements. Deliberations on PACER Plus are on-going ever since. Many have criticized saying that PACER Plus is only benefitting the economically powerful in the region – Australia and New Zealand. The argument has reached an extent where the two largest Pacific countries are on the verge of retreating. Papua New Guinea's trade minister has declared PNG's withdrawal from this agreement already while Fiji having withdrawn once is currently uncertain. PACER Plus' cohorts believe that it will boost economic growth in the region but views of the PIC Heads differ.

Reflections

Purportedly, regionalism is working well for the Caribbean region (Warner &Anatol2015; Simms & Simms, 2007; Bennett 1999). However; the same cannot be claimed for the Pacific region. A closer look at the development of integrational arrangements within this paper brings to light subtle differences in the execution of these arrangements between the two regions.

When compared with other discussed trade arrangements, the spectrum of the Caribbean Community and Common Market agreement makes it the most robust trade agreement. CARICOM was as a result of the plight from smaller island countries upon being marginalized by other larger countries in the Caribbean region. It was not only a response for fair trade but also the Revise Treaty (Revised Treaty of Chaguaramas, Chapter 4, Article 51) under CARICOM assisted in the growth of intra-regional firms by allowing freer flow of capital and labor. The Pacific region still faces restrictions in this forefront. In addition, as evident in many of the Caribbean arrangements, integration amongst the countries of the region is practiced at a very advanced level. For instance, in the formation of OECS, eight of the nine countries are unionized under a common currency which is administered by a central bank. It is the Eastern Caribbean Central Bank which has also harmonized the macroeconomic policies and foreign policies of the member states. Moreover, under CARICOM Single Market Economy (CSME) there have been developments to co-ordinate national policies of Member States and the establishment and maintenance of an investment friendly environment (Warner & Anatol, 2015). Whilst the success of this protocol is not verifiable, a step toward pro-investment policy is definitely in the right direction.

In terms of chronological order; efforts of regional integration in the Caribbean region (be it economically, politically or functionally) substantiated approximately two decades prior to the negotiations in the Pacific. For the Caribbean, initial attempts of integrating regionally started with CARIFTA in the year 1965. One of the cited advantages of CARIFTA agreement was the increase in regional export in manufactured consumer products from Jamaica and Trinidad and Tobago (Bennett 1999, p. 136). In contrast, the Pacific talks of regional integration had not started until 1981. Although SPARTECA had stirred discussions on regional trade, its progress was sluggish. Concurrently the Micronesian CFA and Melanesian MSG were established. During this long gestation in the 1980s, the Pacific Island member countries lacked political conviction. It was reasoned that this lack of commitment was based on substantial rivalry amongst the island nations due to the similarity in their production baskets. Such conflict was demonstrated when, after the implementation of the MSG; several factories in Vanuatu were forced to shut down because they were incapable of competing with the trade in fiberglass and tinned fish from other Pacific countries. By the same token, due to the increase in imported beer from the Solomon Islands, Vanuatu's locally brewed beer has been run out of business. Likewise, many countries are unable to match the low cost of Fiji's bottled water, thus these infant firms had to shut down. At this juncture, PICTA was negotiated in order to include Australia and New Zealand in the trade equation. Furthermore, trade in services were additional elements of inclusion under PICTA TIS and PACER Plus trade negotiation. Nevertheless, the argument overgrowing competition rather than cooperation within the Pacific region remains.

References

Association of Caribbean States. (2005). *Association of Caribbean States.* [Online] March 2005. Retrieved from http://www.acs-aec.org/index.php?q=about/summits

Alliances of Small Island States. (1999). "Communique", Third Summit of the Heads of State and Government of the Alliances of Small Island States (AOSIS) Adopted at the United Nations25 September 1999. Retrieved on 03 March 2015 from http://aosis.org/wp-content/uploads/2014/09/AOSIS-Leaders-Declaration-1-September-2014-FINAL-.pdf

Armstrong, H., De Kervenoael, J., Li, X., & Read, R. (1998). A comparison of the economic performance of different micro-states, and between micro-states and larger countries. *The World Development, 26*(4), 639-656.

Balassa, B. (1962). The Theory of Economic Integration. The Economic Journal, 72(286), 389-391. Retrieved from https://www.taylorfrancis.com/books/9781136646317

Bennett, K. M. (1999). A retrospective look at the role of trade and regional integration in Caribbean development. *Social and Economic Studies, 48*(1-2), 127-153.

Bannock, G., Baxter, R., & Davis, E. (2011).*The Penguin dictionary of economics*: *Dictionary of economics* (7th edition) London: Penguin reference. Retrieved from https://trove.nla.gov.au/version/45682797

Caribbean Community (CARICOM). (1973). Original Treaty Establishing the Caribbean Community and Common Market signed at Chaguaramas. Retrieved from http://caricom.org/documents/4905-original_treaty-text.pdf.

Caribbean Community (CARICOM). (2005). News from the Community. Retrieved from https://caricom.org/media-center/communications/news-from-the-community/

Connell, J. (2015). Temporary labor migration in the Pacific. In Khonje, W. (Eds.), *Migration and Development: Perspective from Small States* (pp.60-92). London, United Kingdom: Commonwealth Secretariat.

Corkran, H. (1976). *Mini-nations and macro-cooperation: The Caribbean and the South Pacific / by Herbert Corkran; with a foreword by R. Richard Rubottom*. Washington, D.C: North American International.

Demas, W. (1965). *The economics of development in small countries with special reference to the Caribbean*. Montreal: McGill Press.

Fernandez, R., & Portes, J. (1998). Returns to regionalism: An analysis of nontraditional gains from Regional Trade Agreements. *The World Bank Economic Review, 12*(2), 197-220.

Freund, C., & Ornelas, E. (2010). Regional trade agreements. *Annual Review of Economics, 2*(1), 139-166.

Fry, G. (1981). Regionalism and international politics of the South Pacific. *Pacific Affairs,54*(3), 455-484.

Girvan, N. (2006). *Cooperation in the greater Caribbean: The role of the Association of the Caribbean States*. Kingston, Jamaica: Ian Randle Publishers.

Haas, M. (1989). *The Pacific Way: Regional cooperation in the South Pacific*, New York: Praeger Publishers.

Piquet, H. (1950). The Customs Union Issue. By Jacob Viner. (New York: Carnegie Endowment for International Peace. 1950. Pp. viii, 221. *American Political Science Review, 44*(4), 1055-1055.

Stoler, A., Prasad, B. C., Soni, N., Gallager, P., Hathaway, M. C., Baigent, H., Malua, M., Donaldson, V., Nasey, W., & Redden, J. (2008). Research study on the benefits, challenges and ways forward for PACER Plus. Institute for International Trade & the University of Adelaide, Australia. Retrieved from https://iit.adelaide.edu.au/docs/Final%20PACER%20Report%2012_06_08.pdf

Kabutaulaka, T. (2005). Australian foreign policy and the RAMSI intervention in Solomon Islands. *Contemporary Pacific*, 17(2), 283-308.

Lewis, P. (2003). Is the goal of regional integration still relevant among Small States? The case of the OECS and CARICOM. In Cynthia Barrow-Giles & Don Marshall, *Living at the Borderlines: Issues in Caribbean Sovereignty and Development* . Retrieved from https://www.researchgate.net/publication/281625553_Is_the_goal_of_regional_integration_still_relevant_among_small_states_The_case_of_the_OECS_and_CARICOM

McElroy, J. L., & Medek, K. J. (2012). Small Island Economies: Caribbean versus Pacific. *Islands and Small States Institute 4*(12), 1-32.

Ministry of Foreign Affairs and Trade (MFAT). (1996). The South Pacific Forum: Regional cooperation at work. *Information Bulletin No.56*, Wellington, New Zealand.

Mintz, S. W. (1974). The Caribbean region. *Daedalus, 103*(2), 45-71.

Moore, M. D. G. (2000). Globalizing regionalism: A new role for MERCOSUR in the multilateral trading system.*The World Trade Organization News*, 28 November 2000. Retrieved from https://www.wto.org/english/news_e/spmm_e/spmm45_e.htm

Organization of Eastern Caribbean States (OECS). (2005b). Organization of Eastern Caribbean States: Mission and objectives. The Organization of Eastern Caribbean States. Retrieved from https://www.oecs.org/homepage/strategic-objectives

Pacific Islands Forum (PIF). (2001). Thirty-second Pacific Islands Forum communiqué, PIFS (01)12, Nauru, 16-18 August. Retrieved from http://opac.spc.int/cgi-bin/koha/opac-detail.pl?biblionumber=31980

Pacific Network on Globalization (PANG). (2008). Pacific trade ministers slam EU bullying in Trade. 19th April, Scoop Independent News. Retrieved from: http://www.scoop.co.nz/stories/PO0804/S00306/pacific-trade-ministers-slam-eu-bullying-in-trade.htm?from-mobile=bottom-link-01

Payne, A., & Sutton, P. (2001). *Charting Caribbean development*, Gainesville: University Press of Florida.

Phillips, N. (2002) Reconfiguring sub-regionalism: The political economy of hemispheric regionalism in the Americas. Mercosur Study Group, Chatham House, 25 April. Retrieved from https://www.chathamhouse.org/sites/default/files/public/Research/Americas/phillips_paper.pdf

Prasad, B. C. (2008). Appendix I: A quantitative analysis of the potential benefit and cost of a PACER-Plus agreement. Research study on the benefits, challenges and ways forward for PACER Plus. Institute for International Trade & the University of Adelaide, Australia. Retrieved from https://iit.adelaide.edu.au/docs/Final%20PACER%20Report%2012_06_08.pdf

Qalo, V. (2003). Regional integration among Small Island States in the context of economic relations with large developed country partners, Suva: Pacific Islands Forum Secretariat.

Rolfe, J. (2001). Peacekeeping the Pacific Way in Bougainville. *International Peacekeeping, 8*(4), 38-55. Rolfe, J. (2007). Many small states, two regions, different constructions. *Social and Economic Studies, 56*(1-2), 96-134.

Schultz, J. (2012). Overseeing and overlooking: Australian engagement with the Pacific islands 1988-2007. Retrieved from http://hdl.handle.net/11343/37678

Scollay, R. (2001). Regional trade agreements and developing countries: The case of the Pacific Islands' proposed Free Trade Agreement, UNCTAD, New York and Geneva. Retrieved from http://www.unctad.org/en/docs/itcdtab11_en.pdf.

Serbin, A. (1994). Towards an association of Caribbean States: Raising some awkward questions. *Journal of Inter-American Studies and World Affairs, 36*(4), 61-91.

Simms, R., &Simms, E. (2007). The building blocks of successful regional integration: Lessons for CSME from other integration schemes. *Social and Economic Studies, 56*(4), 255-285.

Snorrason, S. (2012). *Asymmetric economic integration: Size characteristics of economies, trade costs and welfare*. ISBN: 978-3-7908-2860-3. Physica-Verlag Heidelberg, Springer.

South Pacific Bureau for Economic Cooperation., South Pacific Regional Environment Programme., & South Pacific Commission (1980). *Report.* Noumea, New Caledonia: South Pacific Commission.

Sutton, P., & Payne, A. (1993). Lilliput under threat: The security problems of Small Island and enclave developing states. *Political Studies, 41*(4), 579-593.

Warner, R., & Anatol, M. (2015). Caribbean integration—Lessons for the Pacific? *Asia and the Pacific Policy Studies, 2*(1), 184-196.

The World Trade Organization. (2015) Regionalism: Friends or rivals? Retrieved from https://www.wto.org/english/thewto_e/whatis_e/tif_e/bey1_e.htm