AID WATCH
Action on Aid, Trade and Debt
FACT SHEET

Aid for Trade and PACER-Plus

What is aid for trade?

Aid for trade is a broad term used to describe development assistance aimed at strengthening recipient countries' ability to benefit from trade. Aid for trade offers developing countries an assistance package that includes reforming trade policies and regulations (e.g. modernising tax and customs systems), building economic infrastructure (such as roads, ports, etc.), improving agricultural productivity and export diversification, as well as assistance to offset adjustment costs of implementing trade agreements.

Aid for trade has gained increasing prominence since the launch of an aid for trade initiative at the 2005 WTO Ministerial Meeting in Hong Kong. Promoted as a package of assistance to enable developing countries to maximise the benefits and minimise the adjustment costs of trade liberalisation, the aid for trade initiative aimed to allay concerns over the implementation costs of WTO agreements. By providing financial support to help developing countries renew their commitment to 'free trade', aid for trade was also seen as a catalyst to advance the Doha round of negotiations.

While the Doha round has stalled, aid for trade continues to be used as a tool for furthering comprehensive trade liberalisation. According to a 2009 report by OECD and WTO, aid for trade commitments by multilateral and bilateral donors in 2007 were approximately 20 per cent greater than they were during 2002-2005.

Australia's aid for trade strategy

In line with international trends, Australia's funding under the aid for trade banner has increased significantly, from approximately $160 million in 2006-07 to around $384 million in 2008-09.[1] This increase has coincided with efforts to negotiate regional and bilateral free trade agreements (FTAs), particularly with countries in Asia and the Pacific.

According to Trade Minister, Simon Crean, Australia's aid for trade strategy is about "creating the practical alignment, or coherence, between our trade policy – which unambiguously calls for the continued liberalisation of trade – and Australia's development assistance". The alignment of Australia's development assistance program to its trade liberalisation agenda is evident in its promotion of PACER-Plus, a proposed regional trade agreement between Australia, New Zealand, and Pacific Island Forum countries. PACER-Plus has been touted as essential to promoting economic integration and growth in the region which, according to Simon Crean, is "the central plank of the [Australian] Government's Pacific engagement strategy."

Aid for trade and PACER-Plus

The Australian government has and continues to promote PACER-Plus as a "unique agreement" which is in the interests of Pacific Island countries. Australian government ministers and agencies have argued that, unlike other FTAs, PACER-Plus is about putting "substance into the 'Plus' through aid for trade that responds to the needs identified by Pacific island nations."[2] This includes "individual schedules of commitments and tailored trade development assistance taking into account the particular circumstances of each country".[3] The uniqueness of PACER-Plus is thus said to come from the inclusion of an aid for trade package, which aims to enhance the capacity of Pacific Island countries to benefit from increased market access, while providing assistance to lessen the adverse impacts of trade liberalisation (such as the displacement of domestic industries and jobs due to increased competition from imports and loss of government revenue).

As discussions around PACER-Plus have progressed, Australia has announced funding for a number of PACER-Plus-related research and capacity building activities: $1.5 million over three years to the Office of Chief Trade Advisor (OCTA), $65,000 for each Pacific Island country to conduct PACER-Plus-related research, and $1.27 million to train Pacific trade officials and negotiators.[4] While the funding of such initiatives has been used to demonstrate Australia's commitment to building trade-related capacity in the region, Pacific civil society organisations have expressed concerns over how Australia and New Zealand are using aid for trade funding to drive the research and capacity-building agenda – and that this represents a conflict of interests given Australia and New Zealand are parties to the proposed agreement.[5]

The Australian-funded training program for Pacific trade officials, for example, involves upcoming negotiators engaging in relevant debates with "Australian negotiators who will be part of future PACER-Plus negotiations." As pointed out by a Pacific civil society statement (June 2009), "it is extremely unusual for trade officials to improve their negotiating capacity by discussing their national issues and

concerns *with those they would then be negotiating with!*"[6]

A new approach to the Pacific?

Since coming into office in late 2007, the Rudd government has announced a "new approach" to engagement with the Pacific region, with a stronger focus on partnerships based on respect for "the independence of the island nations, and the diversity and complexity of development challenges across our shared region."

On a bilateral level, Australia's "new approach" to the Pacific is being implemented through Pacific Partnerships for Development (PPDs), of which eight have been signed to date. According to AusAID, the PPDs give effect to Australia's commitments to increase the effectiveness of its development assistance in line with principles and modalities outlined in the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008).[7] Implicit in these declarations is a commitment to strengthen country ownership and better align development assistance with national development strategies and priorities. In other words, there is a commitment from the Australian government to ensure that Pacific Island peoples and governments determine their own development trajectories and have greater control over those processes.

However, the 'development' and 'ownership' rhetoric around PACER-Plus has not yet been matched by meaningful action. Furthermore, the promises of increased aid for trade through PACER-Plus has served to divert attention away from the fact that the agreement will require reciprocal liberalisation of Pacific Island countries' trade with Australia and New Zealand. This will have major consequences for Pacific Island economies and communities, including significant losses in government revenue, undermining of public services, business closures and loss of policy space. While trade commitments would be binding and enforceable, promises of increased aid for trade are not. Even if they are delivered, there is no guarantee that aid will necessarily be directed to the areas determined a priority by Pacific Island countries.

The provision of trade-related assistance and capacity building can help improve trading opportunities for Pacific Island countries. However, tying such development assistance to the establishment of a reciprocal trading regime which obliges Pacific Island countries to liberalise their trade with Australia and New Zealand, constrains the policy options and instruments they can use to pursue their development goals.

A number of areas have already been identified where Australia's assistance could help improve trading opportunities for Pacific Island countries. These include, for example, reducing trade barriers (such as Australia's kava ban) and providing training and skills development to assist Pacific Island countries meet strict quarantine requirements in Australia and New Zealand. Given the important role of remittances to Pacific Island countries, another area in which Australia can provide support is by expanding seasonal labour mobility schemes, drawing on lessons to date to ensure such schemes benefit Pacific Island countries while safeguarding the rights of workers.

Such initiatives do not require a free trade agreement to be implemented, and in fact can begin now. As recent briefing papers published by the Pacific Network on Globalisation (October 2009) and Oxfam (July 2009) point out there are viable alternatives to PACER-Plus, which allow greater flexibility for each Pacific country to pursue their respective economic and social objectives.[8] Rather than pursing an agreement fraught with dangers, risks and uncertainties for Pacific Island economies and communities, Australia's trade-related assistance and its overall aid program should focus on meeting the needs and priorities of Pacific peoples and their governments.

References:

1 http:/www.oecd.org/dataoecd/42/27/43147111.pdf

2 Simon Crean, Commencement of PACER Plus Negotiations, Transcript - Ministerial Statement, 18 August 2009.

3 Department of Foreign Affairs and Trade, http://www.dfat.gov.au/geo/spacific/pacer/index.html Accessed 10 August 2009

4 http://www.trademinister.gov.au/releases/2009/sc_090618_pif.html

5 2009 Statement to Pacific Island Forum Trade Ministers regarding deliberations on potential PACER-Plus negotiations, issued by Pacific civil society organisations, churches and trade unions (June 2009)

6 ibid.

7 Port Moresby Declaration, March 2008, http://www.ausaid.gov.au/country/PortMorDec.cfm

8 Paris Declaration on Aid Effectiveness http://www.oecd.org/dataoecd/11/41/34428351.pdf; Accra Agenda for Action http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/*AAA*-4-SEPTEMBER-FINAL-16h00.pdf

9 See Oxfam Australia and Oxfam New Zealand. Pacer Plus and its Alternatives: Which way for trade and development in the Pacific? (Oxfam Briefing Paper, July 2009); Pacific Network on Globalisation. New Trading Arrangements with Australia and New Zealand: What Options for Development? (PANG, October 2009)