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The French Pacific Territories and Free Trade

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Since the early 2000s, there has been an acceleration of economic cooperation projects in Oceania with the apparent goal of introducing common regional rules for free trade. These attempts to move towards a single market include the Pacific Agreement on Closer Economic Relations (PACER, 2001), the Pacific Island Countries Trade Agreement (PICTA, 2002), and the most recent attempts at ratifying PACER Plus (2017). However, New Caledonia and French Polynesia are still absent from the negotiations.

Dr Jeremy Ellero, Research Associate at the Law and Economics Research Laboratory at the University of New Caledonia, explains that "The integration of the French territories into the wider drivers in Oceania would induce a modernization of the growth fundamentals and a homogenization of the level of economic development of the Pacific islands."

Oceania covers a sixth of the globe and its nations shows striking contrasts. Whether it be in surface area, population density, or GDP, Pacific islands countries can appear as a composite and fragmented space.

The French territories of New Caledonia, French Polynesia and Wallis and Futuna suffer from the same isolation and narrowness of markets as the majority of Small Island States (SIS). For example, though the French Polynesian archipelago is richly endowed with mineral resources, it can only leverage its exceptional natural heritage through tourism, whereas the Wallis and Futuna Islands rely solely on mainland financial transfers.

Regardless, the French territories are characterized by levels of gross domestic product (GDP) and human development comparable with those of developed countries. Indeed, massive financial transfers combined with tariffs and quotas on imported goods have created overprotected economies whose purchasing power is unrelated to actual economic power.

In New Caledonia as in French Polynesia, over 97% of companies have fewer than 10 employees. As in most of the islands of Oceania, the economic model is mainly oriented towards the domestic market and has few skills for export. Thus, geographical isolation, lack of commercial openings, and the heterogeneity of the Pacific Island economies have a direct influence on commercial policies.

The justification for this protectionism lies in the fragility of the industrial and commercial fabric of the French territories that could not compete with unfettered free trade. In addition, weak domestic demand slows down the development of a strong and diversified business environment. The transition from an import substitution scheme to a conquest of market share can only be done by determining the comparative advantages of the French territories, while building the sectors likely to export internationally. For the time being, the export capacity of the French territories (excluding New Caledonian nickel) is virtually nonexistent.

In a context of weak price competitiveness, it seems necessary to expand the research field to island business strategies and the development of private sector activities.

Studying the economies of small islands presents a unique set of challenges. The majority of academic literature is focused on the neoclassical or Keynesian schools, which translate poorly into the peculiar parameters of small islands. Economic studies of the smaller islands experienced a

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boost in the 1990s with the creation of the Small Island Developing States group at the UN. Since then, much of the analytical focus is a diagnosis of insular constraints combined with a description of the various postcolonial subsidies. Small island economic literature consistently concludes that transportation issues and small scales of production lead to a paradoxical view of free trade. Isolation encourages withdrawal, but opening is essential for growth of living standards. Consequently, the reality of SIS required special treatment in major international trade negotiations.

The islands of Oceania have always been protected from the pressure of free trade, and more specifically from commercial competition from the South Pacific developed countries (though this may change with PACER Plus). The developing member countries of the Pacific Island Forum benefit from preferential access to Australia and New Zealand markets through the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA, 1981). The French territories are linked to the French economic sphere by an association agreement providing access to the European Union (EU) market free of customs duties and without quotas. The French territories' commercial ties with the EU discourage all attempts to meet the requirements of the World Trade Organization.

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Given these unusual circumstances, it is appropriate to question the optimum degree of economic integration within Oceania. The low level of development and narrow markets of the SIS prevent commercial opportunities. However, the relatively high GDP in Australia and New Zealand, combined with the stability of their economies, offer trade potential. In this context, a wider economic opening of the French territories raises complexities. Many of the other Pacific islands are developing countries with unskilled workers seeking to export labor for seasonal employment. An influx of these seasonal workers could asphyxiate the small Caledonian and Polynesian job markets. At the same time, the high value-added products of the Australian and New Zealand industry are likely to destabilize the economies of the French collectivities.

The integration of the French territories into the wider drivers in Oceania would induce a modernization of the growth fundamentals (financial transfers, indexation, currency overvaluation) and a homogenization of the level of economic development of the Pacific islands.

Ultimately, opportunities for mutually beneficial integration are more likely to be in areas such as services, or through bilateral agreements with Australia and New Zealand that do not have an economic dimension. Greater openness towards those countries could be offset by non-economic cooperation. Therefore, free trade shall be perceived locally as a first step towards regional integration in other areas: institutional, normative, monetary, academic, military, and scientific.

This article is a synthesis of the main trade-related research that has taken place in the last four years at the Law and Economics Research Laboratory of the University of New Caledonia. It is part of a project named "Pacific regional integration – PICTA/PACER". Starting in 2011, the Laboratory was chosen and financed by the Pacific Fund of the French Ministry of foreign affairs to assess the economic consequences, in theory, of adopting a free trade area for the French Pacific territories. This project gave rise to a flagship publication Which regional economic integration for the French Pacific territories? *Lagadec G.(dir.), Ellero J., Farvaque E., 2016, New Caledonia University Press, 122 pages.*

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