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PAPUA NEW GUINEA'S PROSPECTS IN ASEAN

An Appraisal

P.A.S. Dahanayake

and

Ephraim Makis

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Papua New Guinea  
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## ABBREVIATIONS

The following abbreviations have been used throughout the text of Papua New Guinea's Prospects in ASEAN (Association of South-East Asian Nations): An Appraisal.

ACP	-	Africa, Carribean and the Pacific member countries of the Lome conventions
AIC	-	ASEAN Industrial Complementation
AIJVs	-	ASEAN Industrial Joint Ventures
AIPs	-	ASEAN Industrial Projects
ANCOM	-	Andean Common Market
EEC	-	European Economic Community
MFNT	-	Most Favoured National Treatment
PATCRA	-	Papua New Guinea - Australia Trade and Commercial Relations Agreement
PTAs	-	Preferential Trading Arrangements
SPARTECA	-	South Pacific Regional Trade and Economic Cooperation Agreement
SPC	-	South Pacific Commission
SPEC	-	South Pacific Bureau of Economic Cooperation
SPF	-	South Pacific Forum

## INTRODUCTION

Currently Papua New Guinea enjoys "special observer" status in ASEAN. In recent years, Papua New Guinea has been seeking closer ties with ASEAN. In early 1986, the government of Pias Wingti announced that it would seriously consider working towards full membership. In that connection, a major step was taken by applying to sign the Treaty of Amity and Cooperation with ASEAN. In June 1987, ASEAN gave the approval for Papua New Guinea to accede to the Treaty of Amity and Cooperation, and when the Treaty is signed, it will bring Papua New Guinea closer to ASEAN and full membership could then be only a matter of time. This paper briefly reviews ASEAN's progress so far and qualitatively examines the potential advantages and disadvantages to Papua New Guinea, should it obtain full membership.

The fundamental thesis of the conventional theory of integration, which began with Jacob Viner's pioneering work, is that economic integration is more gainful (or will increase welfare) if its trade creation effects exceed trade diversion effects.<sup>1</sup> The theory came under heavy attack for inadequacy in its application to the problems of developing countries. If we confine ourselves to the conventional theory "we are bound to conclude that customs unions between developing countries are not beneficial", because "Vinerian conclusion implies that in integration of developing countries, trade diversion will greatly exceed trade creation, because it is usually manufacturing countries which are competitive and developing countries which are complementary both to manufacturing countries and to each other" (Andic et al 1971). Therefore the need for a more dynamic theory to explain integration among developing countries was taken up by several economists.<sup>2</sup>

These writers argue that criteria more relevant to developing countries should be used to evaluate the success of integration among them. Industrialisation and foreign exchange savings through import substitution are cited as two important such criteria. In this approach, country should value a \$1 worth of home produced good as being greater than a \$1 worth imported (same) good (Andic et al 1971). Another suggested modification to the theory is that it should "take into account the likely long-term changes in the pattern of production. This is especially important for those countries where export industries do not constitute the leading sector, but rather as a consequence of the slow growth of export proceeds, there is a strong drive towards substitution" (Mikesell 1963). What should be most

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<sup>1</sup> Viner's analysis was later improved by Meade (1955), Lipsey (1957) and others.

<sup>2</sup> See Bhambi (1962), Mikesell (1963), Copper and Massell (1965), Kitamura (1966), and Andic et al (1971).

relevant are the effects on investments which will determine trade patterns a decade in the future, as compared with what they might be in the absence of the regional trading arrangements (ibid). The new theory that takes these factors into account attempts to establish that an economic integration among developing countries tries to maximise "development creation" rather than "trade creation" (of the conventional theory) (Andic et al 1971).

ASEAN, a grouping of developing countries in South-East Asia, is still a far cry from being a common market like the EEC or even a customs union. It has yet to pass the stage of being just a preferential trading arrangement among the member states. Yet next to EEC, ASEAN is perhaps the most recognised regional grouping in the world today. Its progress has been slow but steady. Some member countries, such as the Philippines, are working hard to move ASEAN in the direction of a common market ideal -- and ideal that might be a reality, given time.

Papua New Guinea's prospects in ASEAN are examined in the context of the theory of integration applicable to developing countries. The study relates principally to Papua New Guinea's interests. It does not consider trade diversion and trade creation effects from a global aspect. Also, in our view, it is not possible to make an ex-ante quantitative evaluation of costs and benefits to Papua New Guinea, taking into account the possible dynamic effects in the foreseeable future. Hence the present study is essentially a qualitative appraisal.

#### ASEAN

ASEAN was formed in 1967 and brought together five developing nations in South-East Asia -- Indonesia, Malaysia, Philippines, Singapore and Thailand. The sixth member, Brunei, which gained independence recently, joined the Association in 1984. Unlike most other economic groupings, ASEAN began operations very cautiously, allowing ample time for member nations to adjust to the new aims of regional cooperation through regular consultations among themselves.

ASEAN countries have the characteristics that favour a successful integration:

- (a) large internal market;
- (b) absence of a dominant high income partner;
- (c) wide variety of natural resources; and
- (d) common political will.

Structurally the member countries' economies are similar. Except for Singapore which is a city state based on trade and

industrial processing, they rely heavily on agricultural exports which are competitive:

- . Indonesia - petroleum, wood and rubber;
- . Malaysia - petroleum, timber, palm oil and tin;
- . Philippines - coconut, sugar and copper;
- . Thailand - rice, rubber and tin; and
- . Brunei - petroleum.

In their trade policies, a few differences still exist. Singapore, Malaysia and Thailand have been more outward looking than others. However, considerable progress has been made in making the ASEAN regional trade policy increasingly outward-looking, which has certainly earned credit for ASEAN as being a more progressive grouping than its African and Latin American counterparts. Generally, all ASEAN countries support free enterprise and welcome foreign investments and other foreign economic elements. The future economic progress and cooperation in ASEAN is most likely to be based largely on a free, market-oriented approach.

Although ASEAN was formed in 1967, its operations as an organ for regional cooperation really began only after 1976, when the first ASEAN summit was convened in Bali. The Bali summit led to the formation of the ASEAN Secretariat and systematic organisational structures and action plans for regional cooperation.

The decision-making process in ASEAN is described as cumbersome because of the unique 'consensus' requirement. However, ASEAN solidarity seems to be symbolised in the need for consensus which is considered essential for survival of a group characterised by enormous economic, political and social diversity.

Competition in production and differences in basic policy approaches of the member countries are said to have slowed down the progress in achieving the somewhat over-ambitious economic aims of the Association. However, as a group, ASEAN has made several achievements. It has won international recognition as an effective regional block on international economic, political and social issues. Since the formation of ASEAN, the individual economies have performed quite well when compared to the period before. During the last 13 years, each member country's average annual growth rate has been over five percent (see Table 1).

ASEAN's progress so far can be evaluated against the performance of the principal arrangements for economic cooperation that had been adopted. A United Nations study, commissioned in 1971 to examine arrangements for economic



TABLE 1  
Key Economic Indicators: ASEAN and Papua New Guinea

Country	Area ( '000 sq km)	Population mid-1982 (million)	GNP Per Capita 1982 (\$)	Average Annual Growth Rate of GDP 1970-1982 (%)	Total Trade 1982 (\$ million)	Annual Growth Rate 1970-1982 (%) $\frac{\text{Exports}}{\text{Imports}}$	Gross Domestic Investment/GDP 1982 (%)	Gross Domestic Savings/GDP 1982 (%)
Brunei	5.8	0.2	22 000	--	5 039	--	--	--
Indonesia	1 919	152.6	580	7.7	39 153	4.4	3.8	23
Malaysia	330	14.5	1 860	7.7	24 332	3.8	7.3	34
Philippines	300	50.7	820	6.0	13 239	7.9	2.1	29
Singapore	1	2.5	5 910	8.5	48 955	12.0	9.9	46
Thailand	514	48.5	790	7.1	15 493	9.1	4.3	21
Papua New Guinea	462	3.1	820	2.0	1 910	17.4	11.7	30

1980

Sources: World Bank, World Development Report 1984 and earlier issues, (Washington D.C., 1984); Far Eastern Economic Review Ltd., Asia 1983 Yearbook; and Key Indicators of Developing Countries of ADB, 1984.

cooperation in ASEAN, recommended three main techniques (United Nations 1974):

1. selective trade liberalisation;
2. industrial complementation to be negotiated through private sector involvement; and
3. package deal arrangements in the form of joint ventures.

Based on these recommendations, the Bali summit adopted the following as mechanisms for future economic cooperation:

1. Preferential Trading Arrangements;
2. ASEAN Industrial Projects; and
3. ASEAN Industrial Complementation.

#### Preferential Trading Arrangements (PTAs)

The PTA provides a framework for liberalising intra-ASEAN trade in a manner acceptable to the member countries. Intra-ASEAN trade has been very small -- about 17% of the total ASEAN external trade - and is made up mostly of traditional trade such as Thai rice to other members and primary products to Singapore (see Table 2). The objective of PTA was to provide for more intra-trade by removing, as far as possible, any existing obstacles to a freer flow of trade among the member countries.

PTA is supposed to operate through five mechanisms:

- (a) exchange of tariff preferences;
- (b) long-term quantity contracts;
- (c) purchase finance support at preferential interest rates;
- (d) preference in governmental procurement; and
- (e) liberalisation of non-tariff measures.

The first mechanism is the most important since it involves tariff reductions leading to trade liberalisation. Originally the scheme worked very slowly and involved tedious negotiations on a commodity by commodity basis. Later on however, an across-the-board tariff reduction approach became possible and by 1984 there were about 18 933 commodity items qualifying for tariff reductions. The 17th ASEAN Economic Ministers' Conference held in February 1985 approved 25% across-the-board tariff cuts on goods traded within ASEAN under PTA.

TABLE 2

ASEAN and Papua New Guinea Intra-trade (exports and imports) and  
World aggregates: 1984  
(\$ m)

Export to:	Export from:							World Total
	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN Total	PNG	
Indonesia	--	98	166	2 126	98	2 488	0.49	21 900
Malaysia	88	--	372	3 425	473	4 358	3.58	16 480
Philippines	8	178	--	321	9	517	3.21	5 270
Singapore	1 612	1 687	104	--	813	4 216	108.62	24 060
Thailand	47	352	23	616	--	1 038	.94	7 410
ASEAN Total	1 755	2 315	665	6 489	1 393	12 616	116.84	75 120
PNG	0.01	7.51	0.96	13.64	0.01	22.19	--	1 822
World Total	13 800	14 070	6 430	28 660	10 400	73 440	867	--

Sources: Institute of South-East Asian Studies; GATT, International Trade 1984/1985, 1985;  
PNG National Statistical Office.

However, the tariff cuts are subject to what is called 'national exclusion list of sensitive products'. Because of this, the practical impact of PTA on intra-ASEAN trade is said to have been very limited so far. Although intra-ASEAN trade increased from 13% of total trade in 1976 to 21% in 1983 much of the increase was due to the price rise related increase in the value of crude oil exports from Malaysia and Indonesia to Singapore refineries. Now that both producers refine their own oil, value of intra-ASEAN trade is likely to fall. Indeed, the share has already fallen to 17% in 1984. The failure of intra-ASEAN trade to show more significant impact of PTA preferences is said to be due to the failure of PTA to identify commodities for trade preferences in line with the comparative advantage of the member countries. The impact of tariff cuts has also been limited by rather strict rules of origin -- general requirement being 50% local content except for Indonesia which requires 60%.

Across the board tariff cuts have been applied only to 'non-sensitive' goods which each country is free to define as it chooses. For the PTA to be more effective and for member countries to benefit more from it, it has been suggested that deeper tariff cuts, as well as a greater willingness by members to liberalise their 'national exclusion lists of sensitive products', would be necessary (Wong 1985; Tin 1985).

#### ASEAN Industrial Projects (AIPs)

The objective of AIP is to promote industrial cooperation within the region through the involvement of government sponsored large-scale industrial projects. The idea is for each member country to specialise in one or a few projects in which it has a comparative advantage, and thus benefit from a regional division of labour. Each such industry would supply at least the part of the protected domestic markets of the member countries; the rationale being that the availability of a larger market through regional cooperation would make the industry viable.

The first package of AIPs was allocated in 1976: two urea projects -- one in Indonesia and one in Malaysia; a diesel project in Singapore; a super phosphate project in the Philippines; and a soda-ash project in Thailand. The investment in each, which was expected to be in the range of \$250-300 million, was to be shared on the basis of 60% by the host country and the balance of 40%, equally by the other member countries.

The progress of the first AIPs has been slow. Singapore and the Philippines changed the projects allocated to them to Hepatitis-B vaccine and copper fabrication respectively. The soda-ash project in Thailand was dropped when it was found that its economic viability was doubtful. It took nearly eight years for the revised package to see some form of completion.

It is the ASEAN view that any future AIPs would have to be economically viable. The projects would also have to be

politically acceptable to the respective member country. The AIP concept seems to be a sound one, but to meet both stated criteria may be difficult. That probably is the reason why some of the AIPs such as urea are reported to be in difficulties.

### ASEAN Industrial Complementation (AIC)

While AIP was the vehicle for industrial cooperation with government involvement, the AIC was the mechanism for cooperation with private sector involvement.

The aim of the AIC scheme was to get existing industries in each country to produce different components of a single product which would be traded within the region at a preferential tariff. The most feasible area for such cooperation seemed to be in the automobile industry. Even there, the scheme has not been a success mainly because of the elaborate and time consuming procedures involved in getting a single proposal approved.

Because of its complexity and failure to achieve any significant results, another scheme called the ASEAN Industrial Joint Ventures (AIJVs) was introduced. This scheme is said to have a much greater chance of success than AIC because of its greater flexibility and simpler procedures. A proposal can be processed with fewer (two or three) partners and less capital. Any manufactured product involving investors from at least two countries and having a combined minimum equity of 51% would qualify for a 50% tariff cut within the participating countries. In 1984, 21 AIJVs were approved indicating some degree of success in industrial complementation. Most of these projects were for the manufacture of motor spare parts.

In its activities for economic cooperation ASEAN's achievements so far can be described as modest. The success of trade liberalisation to promote greater trade within the region has been limited, although about 19 000 commodity items now qualify for preferential tariffs. Achievements in industrial cooperation have been even less satisfactory with AIP and AIC schemes being slow and only AIJVs showing some signs of success.

### Do These Shortcomings Imply Failure for ASEAN?

Success of economic cooperation in a regional grouping depends on the extent to which the member countries are willing to subordinate their national interests to regional interests. That process necessarily takes time and therefore any significant progress in economic cooperation is bound to take time.

Another reason is that in any arrangement for intra-regional economic cooperation, members are not likely to benefit equally. Each member country attempts to maximise the benefits it can derive, consequently, unequal distribution of potential benefits often becomes an obstacle to cooperative endeavours. Less-developed Indonesia is not likely to open its markets fully to

the more efficient other ASEAN producers. Similarly the more efficient Singapore may not be willing to reorient its economy from global to regional.

Proposals for arrangements towards greater economic cooperation within ASEAN have been made and discussed recently at academic circles (for example, Reiger 1986; Jackson 1986) as well as at various levels of ASEAN meetings.

The concept of an ASEAN free trade area (FTA) which would require complete elimination of intra-ASEAN tariffs while maintaining each ASEAN country's tariffs with the outside world, would not be acceptable to those countries which maintain relatively higher external tariffs such as Indonesia, the Philippines and Thailand. Such an FTA arrangement would encourage imports to high tariff ASEAN members such as Indonesia to be routed through a low-tariff-ASEAN country like Singapore, which would cause revenue losses to the former.<sup>1</sup>

Of course such problems inherent in the FTA concept can be avoided by creating a customs union (CU), which would require, in addition to elimination of intra-ASEAN tariffs, a uniform external tariff level to be adopted by all ASEAN members. Since a uniform tariff level acceptable to all members would be at least an average of the external tariffs of all members - say 25.5 percent (as in 1978), the CU proposal would be unfavourable to Singapore whose commercial success is dependent on low-tariff-entrepot trade. Thus, while the FTA proposal might be acceptable to low-external-tariff countries but not to those with high external tariffs, the CU proposal would have quite the opposite effect. In view of this conflicting implication of the two concepts, a compromise proposal has been suggested (Reiger 1986). It calls for:

- (a) the establishment of a CU among Indonesia, Malaysia, Thailand and the Philippines (i.e. excluding Singapore) and have a common external tariff at a level close to the external tariff level of Malaysia -- say 15 percent; and
- (b) the creation of an FTA for all member countries (i.e. the CU and Singapore) with the restriction that goods traded under FTA are strictly of ASEAN origin. Where and how the newest ASEAN member, Brunei, fits into this proposal is not clear yet.

<sup>1</sup> For instance, in 1978, average external tariffs of ASEAN member countries were as follows:

Singapore	5.6%
Malaysia	15.3%
Thailand	29.4%
Indonesia	33.0%
Philippines	44.2%

However, the Reiger proposal together with other proposals aimed at moving ASEAN in the direction of increased economic cooperation were to have been considered by the 1987 ASEAN summit. The Aquino government of the Philippines has been quite outspoken prior to the meeting in its support for a common market ideal for ASEAN. However, the consensus for an ASEAN common market or even a customs union is likely to take several years to materialise. Some member countries like Indonesia would require many years to make the adjustment necessary in preparation for such high-level economic cooperation.

Despite rather slow progress in economic cooperation, there have been several other arrangements in which the member countries have benefited and which can be considered as falling within the meaning of economic cooperation.

- Long-term supply contracts for basic commodities: Raw materials under these deals qualify for lower tariffs, and in times of short supplies, member countries supply each others needs first.
- Financial cooperation: Standby credit arrangements are available and the member countries' central banks can draw on such facilities.
- Preferential government procurement: This allows companies of member countries preferential access to government contracts. However, this is yet to be implemented.
- Programmes for supply of essential commodities: Arrangements are available for the member countries to share food stocks and petroleum in emergencies.

In addition, cooperation in areas of agriculture, forestry, tourism and communication have been quite beneficial to members. Those cooperative endeavours are bound to strengthen the base for long-term economic cooperation.

ASEAN has made notable progress in extra-regional activities to the benefit of its member states. Through dialogue and negotiations with the developed countries and the European Economic Community (EEC), it has been able to obtain better deals for its members, particularly in matters of common interest, such as in commodity trade. Since the gains from such arrangements are more evenly spread among members, extra-regional activities have progressed more rapidly with little hindrance.

Perhaps the most significant achievement of ASEAN is its success as a politically influential grouping in the region, if not in the global setting. It has quickly established itself as a forceful voice in the region and won worldwide recognition and respect as a spokesperson in matters of regional and global interest.

TABLE 3

Papua New Guinea's Exports to ASEAN - 1984  
(K'000)

Commodity	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN Total
Cardamom	-	-	-	177	-	177
Chillies	-	-	-	2	-	2
Cocoa	-	-	907	8 103	-	9 010
Coffee	-	3 082	-	209	-	3 291
Copra	-	-	-	436	-	436
Palm Oil	-	3 966	-	-	-	3 966
Prawns	-	-	-	16	-	16
Shell	-	-	-	2	-	2
Tea	-	-	-	3 860	-	3 860
Timber	-	-	-	46	-	46
Other	10	38	-	15	10	73
<b>TOTAL</b>	<b>10</b>	<b>7 086</b>	<b>907</b>	<b>12 866</b>	<b>10</b>	<b>20 879</b>

Source: National Statistical Office, Papua New Guinea.



## PAPUA NEW GUINEA AND ASEAN

Papua New Guinea is the largest island state in the South Pacific region. It shares a common border with the largest ASEAN nation, Indonesia. In physical size, Papua New Guinea is comparable with Malaysia, the Philippines and Thailand and in per capita income it is comparable to Indonesia, the Philippines and Thailand. Only its population and international trade are too small in relation to its physical size and possibly its natural resources (see Tables 1 and 2).

Structurally, Papua New Guinea's economy is similar to those of Indonesia, Malaysia, Thailand and the Philippines. Politically, Papua New Guinea is a democracy, as are Thailand, Malaysia, Singapore and since recently, the Philippines. Like most ASEAN countries, Papua New Guinea follows an open door policy on trade and industry.

Through its special observer status over the years, Papua New Guinea has been able to establish very close links with ASEAN and bilateral relations with individual member countries of ASEAN. There is no doubt that Papua New Guinea has its sights set increasingly on the growing ASEAN markets for greater trade relations. Recent policy statements indicating the government's growing interest in seeking closer relations with ASEAN, and the steps taken to sign the Treaty of Amity and Cooperation with ASEAN are indicative of Papua New Guinea's interests in full membership in the near future.

### Potential Advantages from Joining ASEAN

Potential economic benefits to Papua New Guinea can be examined under the existing ASEAN mechanisms for economic cooperation (PTA, AIP, AIJV, etc.), even though these have yet shown only a limited success. Considerable potential seems to exist for Papua New Guinea to expand its exports to ASEAN under preferential trading arrangements (PTAs). At present, Papua New Guinea's trade with ASEAN records a continuous unfavourable trade balance with imports far exceeding exports (see Table 2). Present exports to ASEAN countries consist largely of agricultural commodities such as cocoa, coffee, palm oil and tea and the destination for most of them is Singapore for entrepot trade. Indonesian and Thai markets have been hardly open to Papua New Guinean exports (see Table 3).

Potential for Papua New Guinea to export to ASEAN countries is likely to be more in agricultural products such as cardamom, chillies, cocoa, coffee, tea, timber, fish, etc., which are at present competitive with some ASEAN markets. With the prevailing preferential tariffs for member countries, Papua New Guinea would find it hard to penetrate ASEAN markets with these products. Full membership and the consequent tariff preferences for Papua New Guinea products are likely to pave the way for an expansion of Papua New Guinean exports to ASEAN markets.

ASEAN trade preferences (the scope of which is currently limited largely by 'rules of origin' and 'national exclusion list' restrictions) are expected to be more liberalised over time and that would improve Papua New Guinea's export potential further. But as Mikesell says, it is hard to judge a country's potential from the existing trade pattern (Mikesell: 1963). The trade pattern that will emerge in the future, after Papua New Guinea's entry to ASEAN, will determine the pattern of investment and production in the domestic economy. That pattern, probably will open up Papua New Guinea's new comparative advantages in a range of new products - a potential that is most likely for a developing country like Papua New Guinea which is endowed with vast national resources yet untapped - leading to both 'trade creation' and 'development creation'.

Hence the argument that Papua New Guinea at present has no difficulty in selling its agricultural exports, given the preferences it receives under PATCRA, SPARTECA and Lome agreements, and therefore a reciprocal preferential arrangement with ASEAN would not be worthwhile (Robson: 1985) is questionable. What is to be considered is not just the short-term costs and benefits, but also the long-term impact, taking into account the immense ASEAN market and the potential it could open up for new products in an economy which is relatively less developed industrially (see Table 4).

TABLE 4

Gross Domestic Product by Sector (%)  
Papua New Guinea and ASEAN, 1985

Country	Agriculture	Industry	Services
Indonesia	24	37	39
Malaysia	20	37	49
Philippines	26	34	40
Singapore	1	30	69
Thailand	23	29	48
Papua New Guinea*	38	23	39

\* For 1977

Sources: Institute of South-East Asian Studies; Papua New Guinea National Statistical Office.

Papua New Guinea may also benefit from the ASEAN mechanism to allocate large-scale industrial projects to member countries, under its AIP scheme. At present, the limited domestic market constrains the establishment of large-scale industrial projects in Papua New Guinea. With an assured and protected larger ASEAN market, Papua New Guinea would have a greater potential to establish one or two large industrial projects (such as cement) with greater economic viability. Similarly, the scope for joint ventures exists under the AIJV scheme which has shown relatively greater success in ASEAN. ASEAN investments in joint venture projects in Papua New Guinea will be further encouraged under this scheme by the assured preferential markets it provides in the participating countries.

Various other arrangements available for economic cooperation among member countries can also be beneficial to Papua New Guinea. Technical assistance and appropriate developing country technologies in areas such as agriculture, fisheries and housing are areas for potential benefit. ASEAN has been particularly successful in negotiations with developed countries on trading matters of common interest. Fisheries and forestry could be areas in which Papua New Guinea (and the South Pacific too) can benefit by involvement with ASEAN for joint negotiations. Another facility is financial cooperation under which member countries' central banks provide standby credit arrangements to each other. Also, politically, Papua New Guinea is likely to feel stronger and more secure as a member of ASEAN.

Experience with other third world economic integrations such as ANCOM, which have a longer history than ASEAN, shows that resultant trade expansion in the region helps the least developed members the most. Similarly, the gradual progress of inter-regional complementarities that result from expansion of intra-regional trade contributes to an increase in the process of economic growth of member countries (Garnaut:1980). It is noteworthy that ASEAN includes some of the world's most dynamic and rapidly growing developing countries. Therefore, the potential for Papua New Guinea to benefit from their extensive markets as well as their technologies, skills and financial cooperation seems considerable.

#### Potential Disadvantages from Joining ASEAN

Currently, Papua New Guinea enjoys some favourable trade relations with Australia, New Zealand and the EEC under economic cooperation agreements PATCRA, SPARTECA and Lome III respectively. The potential disadvantages in joining ASEAN are those that may arise in connection with Papua New Guinea's favourable relations with these countries.

Under the three agreements, certain Papua New Guinean products are permitted duty free entry into the respective markets. Preferences are non-reciprocal for Papua New Guinea (as for other developing countries coming under the agreements).

SPARTECA provides free access to New Zealand and Australia for certain existing products and some future exports of Forum Island Countries (FICs), including Papua New Guinea, while PATCRA permits similar access for Papua New Guinean products to Australian markets. Lome provides duty free access to EEC markets for primary products of Africa, Caribbean and Pacific countries, including Papua New Guinea.

These agreements, though well intended, are not without limitations. Both PATCRA and SPARTECA have come under heavy criticism for providing very little for the expansion of trade of FICs. Their strict rules of origin have not only restricted exports of FICs to Australia and New Zealand but also compelled FICs to be increasingly dependent on imports from these two countries to satisfy the rules of origin criteria.<sup>1</sup> Exclusion of some manufactured products from free entry (notable items for Australia being textiles, clothing, footwear and sugar) constrained industrial development in FICs.

How could Papua New Guinea's entry to ASEAN affect the preferential trade arrangements under these agreements? On the export side, upon full membership, Papua New Guinean goods will qualify for preferential tariffs in ASEAN markets. This is likely to result in a trade creation effect rather than a trade diversion effect. Papua New Guinea's exports to traditional markets where similar or better preferences are available are not likely to be diverted, and any expansion of exports to ASEAN countries therefore can occur only from increased production in Papua New Guinea.

It is in relation to imports that the most probable adverse effect on trade relations with non-ASEAN traditional partners such as Australia can result. It could happen only if Papua New Guinea's membership results in a considerable shift of Papua New Guinea's imports from these sources to ASEAN. However, a true trade diversion (in an economic sense) will result only if the trade was diverted from a low cost non-ASEAN country to a high cost ASEAN country. This is most unlikely given the highly efficient and low cost production techniques in ASEAN. If at all, the shift is more likely to be from a high cost non-ASEAN source to a low cost ASEAN source. If that happens it would be beneficial to Papua New Guinea.

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<sup>1</sup> Until recently, to qualify for duty free entry, FIC products had to have a minimum 50% local content. This has since been relaxed (as from 1986) to have at least 25% from materials from FIC countries and the balance of 25% to be from materials imported from Australia and/or New Zealand.

In any case, a noticeable shift of imports from non-ASEAN to ASEAN sources is unlikely. In addition to the usual Most Favoured Nation Treatment (MFNT), obligatory tariff reduction for ASEAN traded goods is only 25% and that too is subject to the National Exclusion List of Sensitive Products (NELSP) and the rules of origin criteria. In Papua New Guinea where most consumer goods and raw material imports are either duty free or attract a very low level of tariff, this obligatory reduction of tariff is not likely to make a significant price differential in favour of imports from ASEAN, provided the c.i.f. costs are about the same for the same goods from both ASEAN and non-ASEAN sources.<sup>2</sup>

Presently, the largest single item of import from ASEAN sources is refined petroleum from Singapore (see Table 5). This is about 70% of the total imports from ASEAN sources and is not likely to meet the rules of origin criterion.<sup>3</sup> Most of the rest of the imports from ASEAN sources constitute mainly food, textiles, garments and pharmaceuticals. Although these may qualify for tariff preferences, they enter Papua New Guinea virtually duty free.

Thus if Australia, New Zealand and the EEC are not likely to be adversely affected in trade with Papua New Guinea, on account of the latter's entry to ASEAN, it is inconceivable that Papua New Guinea's membership in ASEAN would have a damaging effect on the favourable trade relations accorded to Papua New Guinea under the aforesaid agreements. In particular, fears that by joining ASEAN, Papua New Guinea may lose benefits of PATCRA (Robson 1985:59) and that Australia may not forego its MFNT are unfounded. Although Australia has a claim to MFNT under PATCRA, Article 7(2) of the agreement exempts it in the event that a member, for example Papua New Guinea, obtains membership in another customs union.

2

Currently, the imports of essential consumer goods such as rice, tinned meat and fish, medicines, medical aids and books are duty free and a wide range of other consumer goods carry only a duty rate of 7.5%. Intermediate and luxury goods are subject to 25% and 50% duty respectively. A category of 'special goods' which includes alcoholic beverages, fuel, and motor vehicles is subject to varying rates of duty different from those applicable to the above four categories. For example, all passenger cars are subject to a flat rate of 75%.

3

To qualify for tariff preferences, ASEAN products must have at least 50% local value added, except for Indonesia which requires 60% local value added.

TABLE 5  
Papua New Guinea's Imports from ASEAN Countries, 1984  
(K'000)

Statistical Section	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN Total
0. Food and live animals	2	330	1 388	2 572	67	4 359
1. Beverages and tobacco	-	248	17	223	2	490
2. Crude materials inedible (except fuels)	-	95	-	437	1	533
3. Mineral fuels, lubricants and related materials	-	-	-	77 664	-	77 664
4. Animal and vegetable oils and fats	-	120	-	562	-	682
5. Chemicals and related products	-	346	344	2 659	10	3 359
6. Manufactured goods	269	1 062	113	6 395	269	8 108
7. Machinery and transport equipment	7	985	964	3 727	111	5 794
8. Misc. manufactured articles	181	180	174	8 175	423	9 133
9. Misc. transactions and commodities	7	15	28	67	-	177
TOTAL	466	3 381	3 028	102 481	883	110 239

Source: National Statistical Office, Papua New Guinea.

In any case, ASEAN was not set up on the basis that its member countries will have to rapidly dismantle their traditional trade and other ties with other countries. This has never been a requirement in ASEAN, nor have there been strict rules requiring uniform external tariffs for trade with non-member countries. Considering these features which are distinct from those of other Third-world groupings, Papua New Guinea's entry to ASEAN is not likely to harm its well-established economic and political relations with the traditional trading partners outside ASEAN.

### IMPLICATIONS FOR THE SOUTH PACIFIC REGION

The South Pacific region consists of 22 island nations with a total land area of 550 thousand square kilometres and a total population of about 5.5 million. Of all these nations, Papua New Guinea is the largest with a population of about 3.4 million and a land area of 462 thousand square kilometres.

The South Pacific region has two main organisations for regional cooperation - the South Pacific Commission (SPC) and the South Pacific Forum (SPF). The SPC is a technical organisation made up of independent and self-governing island nations and the metropolitan nations - Australia, France, New Zealand, U.K. and U.S.A. Its role is mainly advisory and consultative. It provides training and assistance in social, cultural and economic fields to the island nations in coordination with the metropolitan powers.

The SPF on the other hand is made up of the independent and self-governing island nations. Unlike the SPC which prohibits political expressions, the SPF fulfils a long-felt need for the independent states to jointly express themselves on political issues relating to the region. The Forum, through its Secretariat, the South Pacific Bureau of Economic Cooperation (SPEC), also provides for arrangements for economic cooperation and development in the region. Although considerable progress has been made in promoting cooperation in activities such as trade, transport, communication, energy, aid coordination, etc., there have been no definitive steps taken to establish closer economic cooperation in the form of preferential trade or free trade among the South Pacific nations. Rather, the progress on preferential trade arrangements has not been among the South Pacific island nations, but between themselves on the one hand and the two developed neighbours, Australia and New Zealand on the other.

The main reason for the lack of preferential trade arrangements among the South Pacific island nations is that most of them produce and export more or less the same products - coconut, fish, bananas, etc. Many island states are too small and industrially undeveloped to import agricultural raw materials from each other. In particular, Papua new Guinea's main export

products - copper, gold, coffee, cocoa, coconut, and timber - are of little use to other island nations and similarly most of their agricultural products are of little use to Papua New Guinea.

Thus Papua New Guinea's obligations to the South Pacific island nations are mainly those relating to the activities of the SPC and the SPF. As the largest of the island nations, Papua New Guinea has an obligation to provide a certain degree of leadership in political, social and economic development activities in the region. Thus, there is no question as to the important role that Papua New Guinea has to play in the South Pacific region.

However, being the largest economy, Papua New Guinea is not likely to benefit much from closer forms of economic cooperation among the Pacific nations compared to the costs such cooperation may impose on Papua New Guinea. Papua New Guinea is likely to be called upon to make substantial sacrifices to the benefit of the smaller nations, in the event closer forms of cooperation are introduced. For instance, an industrial cooperation arrangement such as the AIPs introduced in ASEAN would obligate Papua New Guinea to compromise several projects to the other island nations even though it may have the comparative advantage in them. In trade, Papua New Guinea's total exports to the region amount to about K4 million and imports to about K0.5 million - very negligible compared to its total world trade.

In any case, Papua New Guinea's entry to ASEAN is likely to have very little or no effect on its relations with the South Pacific nations. The absence of preferential trade arrangements with these nations would make it easier for Papua New Guinea to comply with any ASEAN trade liberalisation requirements. In fact, because of Papua New Guinea's dominant size in the region, its entry is likely to bring ASEAN and the South Pacific closer and the entire South Pacific nations are likely to benefit from such links. Papua New Guinea's present obligations to the South Pacific under the SPC and the SPF are in no way an obstacle to its joining ASEAN.

ASEAN's success in negotiating with the developed world on matters of common interest such as in areas of commodity trade could be beneficial to the South Pacific island nations who have similar problems in areas of fishing and timber. With its entry, Papua New Guinea would virtually become the ASEAN spokesperson for the South Pacific nations.

#### CONCLUSION

Membership in ASEAN, should it eventuate, is likely to result in net benefits to Papua New Guinea. Economic benefits would result from the ASEAN arrangements for economic cooperation. The potential benefits are likely to be largely in the scope for



expansion of exports to ASEAN markets. This is likely to result not from a diversion of exports from the already preferential non-ASEAN markets but from increased domestic production consequent on the new opportunities.

Papua New Guinea's imports from non-ASEAN markets are not likely to be seriously affected in view of its low import tariffs, unless the imports are found to be relatively cheaper in ASEAN markets.

Since Papua New Guinea's membership, therefore, is not likely to economically harm the non-ASEAN trading partners, it is also not likely to adversely affect the favourable trade relations that Papua New Guinea enjoys under PATCRA, SPARTECA and Lome III.

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