

LOWY INSTITUTE
FOR INTERNATIONAL POLICY

The Secretary
Senate Foreign Affairs, Defence and Trade Committee
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By email: fadt.sen@aph.gov.au

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Dear Committee Secretary

**Re: Inquiry into the main economic and security challenges facing Papua
New Guinea and the Island States of the Southwest Pacific**

Thank you for the invitation to make a submission to this inquiry. In our submission (attached) we address a range of opportunities to increase the effectiveness of Australia's efforts to assist Pacific Island countries address their economic and security challenges. These include options for improving education standards, managing climate change, driving private sector development, increasing aid coordination with New Zealand and China, responding to law and order challenges and making the most of labour mobility schemes.

Yours sincerely



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**Submission to the Senate Standing Committee
on Foreign Affairs, Defence and Trade**

**Inquiry into the main economic and security challenges facing Papua
New Guinea and the Island States of the Southwest Pacific**

Introduction

The Pacific Islands region faces a number of difficult economic and security challenges. The Australian Government and the World Bank have assessed that the Pacific Islands region and Papua New Guinea in particular are not on track to meet the Millennium Development Goals by 2015. The negative impacts of climate change, deforestation, urban migration, lack of employment opportunities, law and order challenges, disputes over land ownership and high food and fuel prices are just some of the security challenges confronting the region.

The inherent obstacles to economic growth and trade include remoteness, infrastructure deficiencies, regulatory barriers to trade and investment, poor education standards and low skill levels.

Challenges in improving law and order continue in Papua New Guinea. Although RAMSI's presence in Solomon Islands has stabilised the country, there is a sense that Solomon Islands will need RAMSI's presence for at least another ten years before it can manage its own affairs.

Political instability remains a problem in parts of the Southwest Pacific. Although both Papua New Guinea and Vanuatu have demonstrated some improvements in parliamentary stability, Solomon Islands remains vulnerable to frequent changes of leadership, which has negative implications for its ability to implement national development policies.

The Pacific Islands region faces serious health challenges in the form of HIV/AIDS, tuberculosis, diabetes, and the declining capacity in health services in some countries, which have economic and security implications.

The Australian Government has developed a new approach to the Pacific, founded on mutual respect and responsibility and evidenced by increased ministerial engagement with the Pacific, the announcement of a seasonal labour scheme for four Pacific Island countries and the negotiation of Pacific Development Partnership agreements with Papua New Guinea and Samoa. This new approach should be commended.

The increasing engagement of other donors in the region and Australia's own intention to increase official development assistance to 0.5 per cent of Gross National Income by 2015-16 requires that Australia pay even more attention to aid coordination. The absorptive capacity of Pacific Island governments is already in question. Australia's implementation of the Paris Declaration on Aid Effectiveness needs to ensure that the accountability demands placed on Pacific Island governments are not onerous. The risks to the maintenance of positive bilateral relationships of the imposition of further conditionalities on development assistance in the Pacific Development Partnerships also need to be managed sensitively.

If Australia wants to create real development outcomes for Pacific Island countries, it needs to move beyond government-to-government assistance. Leveraging private sector and philanthropic interest in development and establishing initiatives for increased people-to-people links would help to transform the limited Australian perception of the Pacific Islands as poorly governed, needy or exotic to real appreciation of the value of our nearest neighbours.

We propose the following recommendations to assist Pacific Island countries meet the major economic and security challenges facing them. A more detailed examination of our proposals follows.

Recommendations

- a. Develop a visa category to allow Pacific Island graduates to work in Australia for a defined period after completion of their scholarship, as a means of increasing professional skills and building people-to-people links.
- b. Develop a staged migration strategy for small island states threatened by climate change or long-term viability.
- c. Assist Pacific Island countries to benefit from a future Emissions Trading Scheme in Australia.
- d. Leverage increased private sector and philanthropic interest in development through public-private alliances and tax incentives.
- e. Integrate AusAID and NZAID to minimise duplication and streamline our approach to regional development.
- f. Seek closer coordination of aid activities with China to better integrate its aid-giving with Pacific development objectives and ensure regional governance and accountability are not undermined.
- g. Discuss with Pacific Island governments the establishment of a standing regional police/para-military force that can be deployed to respond to security challenges in the region.
- h. Employ Australians of Pacific Islands background to provide pre-recruitment advice to potential seasonal workers and support or mentoring to seasonal workers in Australia, in the context of the new seasonal worker pilot scheme in the horticulture sector.
- i. Provide mini vocational scholarships to enable interested seasonal workers to gain formal skills qualifications while working in Australia.
- j. Refocus regional energies into implementation of regional governance initiatives as part of the Pacific Plan.

Education

Poor primary school completion rates in Melanesia do not augur well for the future stability of the most populous countries of the region. While education fares better in Polynesia, standards are still insufficient to provide the majority of school-leavers with the skills they need to gain employment or engage in further study.

Substantial additional funding must be put into education facilities in the Pacific Islands as a matter of priority. Continued donor efforts to improve governance and service delivery in the public sector in the Pacific Islands will not be sustainable if Pacific populations are not developing the knowledge and skills they need to hold their governments to account.

The region's most important universities – the University of the South Pacific (USP) and the University of Papua New Guinea (UPNG) – suffer from chronic underfunding, staff shortages, and inadequate facilities, which have affected their reputation. Private universities such as the Catholic Divine Word University in Madang are developing better reputations for producing skilled graduates than government-funded USP and UPNG.

The concept of a “Colombo Plan” for the Pacific is not a new one. The Australian Government and the World Bank launched a virtual Colombo Plan in 2001, which provided distance education and support for policy development using ICT. It was thought ICT-based training would reach a wider audience than traditional teaching mechanisms. Distance education and improved access to technology is essential to the development of higher education in the Pacific Islands. It does not, however, replace the significant benefits of student interaction that occurs on campus.

AusAID claims the *Australian Scholarships program*, which will double in size over five years to 19,000 scholarships for the Asia-Pacific region, continues the spirit of the Colombo Plan. Australia could leverage benefits from increased numbers of Pacific Island students studying in Australia by extending other opportunities to these students. Granting visas and creating opportunities for graduates to work in the Australian public or private sector for a defined period of two years after the completion of their studies would enable them to consolidate their studies in an Australian context. This would have the advantage of giving Pacific Island graduates a better understanding of the professional working environment that they can apply at home and create valuable links with Australian colleagues that will help build up more knowledge of the region in Australia. It would also give graduates more opportunities to apply for skilled migration.

Extension of the scholarship program to high school students would also help to give young people opportunities for higher quality education and facilitate their access to higher education or employment opportunities. The Australian Government has already announced an increased focus in the aid program on improving the access and quality of primary education in the Pacific Islands region, which is a much needed initiative.

Climate change

The negative impact of climate change has been acknowledged by Pacific Island Forum leaders as a security threat. Increased investment by Pacific Island governments in adaptation measures funded from national budgets, the Global Environment Facility, AusAID and other donor initiatives will help mitigate negative effects of climate change. Adaptation measures include improved land management techniques, greater use of water tanks and solar energy, coastal conservation, mangrove protection and innovative recycling techniques.

Australia can also assist by helping Pacific Island countries, particularly Papua New Guinea and Solomon Islands access the Emissions Trading Scheme when it is established. The PNG-Australia Forest Carbon Partnership is a step in the right direction as it assists the development of a forest carbon measurement and accounting system.

Australia has to acknowledge that the only viable future for the people of low-lying atoll states like Kiribati and Tuvalu lies in migration. Given that Australia will be at the centre of future plans to address the forced relocation of the populations of the atoll states, it would be in Australia's interest to develop a plan now to manage their

migration. Australia could offer these two states a staged migration program. In the first instance, increased numbers of scholarships should be made available to citizens of Kiribati and Tuvalu to study in Australia, with a provision that they be permitted to seek employment in Australia on successful completion of their studies. On obtaining full-time employment, they should be eligible for resident visas and fast-tracked family reunion visas.

This approach would have the advantage of providing incentives for young people to study in Australia, encourage an ordered and voluntary rather than forced migration process from Kiribati and Tuvalu, and ultimately lessen pressures on aid and on the welfare system in Australia. Both countries should also be encouraged to use their trust funds to support the capacity of their citizens to integrate into Australian society through education, training and welfare. Offering access to a staged migration process now gives Kiribati and Tuvalu opportunities to plan future development more effectively and seek further migration options in other countries based on the Australian model.

Even without the threat of rising sea levels, allowing the populations of small island states, including Nauru, access to migration to Australia or other countries in a controlled manner over an extended period would reduce the long-term aid dependence of these countries on Australia.

Private sector and foreign investment

Australian and other ODA has concentrated on building capacity and strengthening institutions in the public sector. Aid interventions are premised on acknowledged weaknesses in Pacific Island government agencies. The private sector in the Pacific suffers from similar constraints of a low skills base but receives very little donor support for capacity-building and faces difficulties attracting foreign investment.

Current obstacles to foreign investment create a vicious cycle for many Pacific Island countries. Negative perceptions about law and order, regulatory barriers to doing business, deficiencies in infrastructure and low skill levels are unlikely to be improved without the demand created by a significant private sector and by educated and employed communities. The small size of the formal private sector in Pacific Islands and a history of weak relationships or mistrust between governments and the private sector have meant the impetus for the reform necessary to enable growth has not been strong enough to inspire action from governments. A stronger business participation in domestic economies would help to increase demand for reform and demonstrate the benefits of better laws to Pacific Islands.

Benefits from freer regulatory environments have not flooded in to all Pacific Island countries that have improved their regulatory environments. Samoa, widely regarded as the most advanced reformer of the region with the most liberalised of regulatory regimes, did not attract any new foreign direct investment in 2006. Its total foreign FDI stocks are also relatively low, compared to countries that have engaged in less reform.

AusAID's funding of The Enterprise Challenge Fund, a six year \$20.5 million program that allows private-sector businesses to obtain matching grants to fund commercially viable pro-poor business projects is minor compared to the \$107 million being invested in the new Pacific Public Sector Capacity project over four years.

Australia could assist the development of the private sector in the Pacific in a more direct fashion. This could be undertaken through leveraging increased corporate and philanthropic interest in assisting communities lift themselves out of poverty. Public-

private alliances and tax incentives to encourage more philanthropy and investment should be considered. Greater participation by Australian companies in Pacific Island economies will help to create employment opportunities and generate more professional linkages beyond the aid and government sectors.

The US government's aid agency is implementing a Global Development Alliance which recognises the emergence of the private for-profit sector and the non-governmental sector as significant participants in the development process. USAID forms public-private alliances with the intention of stimulating economic growth, developing businesses and workforces, addressing health and environmental issues, and expanding access to education and technology. USAID has been able to leverage more value to development assistance through 600 partnerships with private corporations through this Alliance.

Expanding aid coordination with New Zealand

AusAID and NZAID currently pursue near-identical objectives in the Pacific, using independent bureaucracies. Given the high levels of existing cooperation in the Pacific, it would make sense to combine both agencies to the maximum extent possible. Our national interest objectives in the region are sufficiently close that the slight differences in approach that would inevitably arise over time would be more than outweighed by the benefits of reduced administrative overlap, the 'united front' this would bring to Australian and New Zealand aid giving and enhanced coordination. Steps should also be taken to begin to integrate our aid program with other major donors, such as Japan.

Integrating AusAID and NZAID could include allowing flexibility to switch funding between agencies, delegation of country programs to a single agency as already happens in places like Niue and Cook Islands (with room for some joint programs and joint staffing of single offices).

Expanding aid coordination with China¹

China's pledged aid to the Pacific has increased dramatically over the last three years. Pledges went from around \$US 30 million in 2005 to over \$US 290 million in 2007. Much of this pledged aid may never arrive or take several years to be dispersed. China has, nonetheless, emerged as a major regional donor.

China's emergence as a major regional donor has the potential to be of value to Australia by sharing the development burden among a wider pool of donors. However, aspects of the way China manages its aid program have negative consequences that have an impact on Pacific development objectives.

The secrecy surrounding China's aid program breeds suspicion from Pacific recipients unsure of Beijing's motivations, it inhibits donor coordination and undermines efforts to improve good governance and accountability.

There are also reasons to be concerned by the projects China supports and the way it funds these. Its aid is primarily targeted at infrastructure. While the Pacific is in need of critical infrastructure, Chinese-funded projects do not always appear to target priority needs. They can have high maintenance costs and be poorly designed for local conditions and could be more usefully delivered in coordination with other

¹ This section draws from a Lowy Institute report: 'The Dragon Looks South', 2008.

donors. In addition, large infrastructure projects are funded with concessional loans which increase debt burdens for Pacific states and tend to be delivered by Chinese firms using Chinese labour. This reduces the flow-on effects to local economies and could breed local social problems. Another issue is responsibility. The destabilising effects of China and Taiwan's chequebook diplomacy are well known and undermine expensive and difficult Australian security and development efforts in places such as Solomon Islands. China's pledged aid to Fiji offers another example. Just as Western donors have tried to clamp down and isolate the regime, China has continued dramatically to expand its aid program, with an agreement reached in 2007 for a \$US 150 million soft loan.

To address these issues, Australia – as the region's largest aid donor and security underwriter – needs to take a lead role in engaging China over its aid program.

Australia should encourage as many donors as possible to join it in encouraging China to adhere to the DAC principles. Additionally it should:

Improve transparency gradually: Australia should seek a leaders-level declaration committing Australia and China to work together in the Pacific as partners (in conjunction with Pacific governments). Detailed in this declaration would be a joint statement on coordination.

With this high-level endorsement in place, Australia should then work with other major donors at country level to encourage Chinese moves towards greater transparency.

Donors, working at the country level, should begin by requesting that China provide a regular update on the projects it is funding. This could be provided in hard-copy format initially, if China were uncomfortable with web-based publication. This limited opening could be followed up with a request for details on the type of aid it is providing and information on the size of each individual project.

Boost recipient transparency: Australia should work with other donors to encourage Pacific governments to publish details of the aid they receive from all donors, including China.

Enhance aid effectiveness: While China's aid is focused on large infrastructure projects it also funds many small projects that have significant development value. Australia should work with other donors to encourage China to put more emphasis on the effective grassroots areas in which it is already involved.

As a parallel track and in recognition of the fact that China can provide useful, low-cost, essential infrastructure, AusAID (and NZAID in the Cook Islands and Niue) should be tasked with offering to partner with China in identifying infrastructure projects of significant development value, such as essential health and education infrastructure, as well as infrastructure that enhances access to markets.

Partner with China: AusAID should seek to partner with China in a few suitable pilot aid projects. This would allow AusAID to build rapport and trust with Chinese aid officials with a view to closer engagement and would expose Chinese officials to the workings of a Western aid agency and processes for assessing, implementing and monitoring aid projects. It could also be used to introduce China to transparently

disclosing the details of its aid projects. This idea already seems to have the general support of the Australian Government,² but needs to be put into practice.

Mitigate the effects of dollar diplomacy: Commentators and governments regularly decry China and Taiwan's dollar diplomacy in the Pacific. Yet, the recent political changes in Taiwan mean the question of Taiwanese moves towards independence are, for now, unlikely to surface in any significant way. Seizing the opportunity this change presents, Australia should work with other donors, including the US, to encourage China to ease up its destabilising dollar diplomacy in the region that spreads corruption (while making similar appeals to Taiwan).

Law and order

The success of RAMSI in re-establishing law and order in Solomon Islands after a prolonged period of lawlessness in Guadalcanal and Malaita demonstrated the validity of a multi-country approach to policing in the Pacific. There are significant doubts about the capacity of the Royal Solomon Islands Police to manage the internal security challenges of Solomon Islands without the resources that RAMSI provides. Although Australian police placed in in-line positions in the Royal PNG Constabulary as part of the Enhanced Cooperation Program were withdrawn following a legal challenge, there was much enthusiasm in Papua New Guinea for the additional resources and skills provided by Australia. Pacific Island countries are likely to need external assistance to address internal law and order challenges into the future and so improve their attractiveness to investors.

The RAMSI Participating Police Force model could be adapted to create a standing regional police and para-military force that could be deployed to respond to individual security challenges or provide support to national police forces in times of need. Members of the force could be given access to training facilities in Australia and New Zealand. While the maintenance of a standing police/para-military force would be costly for Australia and New Zealand, it should be seen as an investment in the future stability of the region. The possibility of participating in a regional force that offers an opportunity to increase skills, knowledge and experience would help the morale of often underpaid police officers and target the energies of paramilitary officers. A regional force would also help mitigate against potential coups and reduce the effect of local loyalties interfering with policing outcomes.

Labour mobility

The Australian Government's announcement of a pilot labour mobility scheme that will give seasonal work visas to workers from Kiribati, Tonga, Vanuatu and Papua New Guinea is a welcome policy shift.

The Lowy Institute published a Perspective, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, in June 2008. The publication presented the outcomes of a conference we held with a number of stakeholders with an interest in the establishment of a seasonal labour scheme in the horticulture sector, including horticultural producers from New South Wales, Victoria, Queensland and the Northern Territory, exporters, recruitment agents, economists and government representatives. More information on the labour mobility issue is available in that publication.

² Kevin Rudd. Australia, the United States and the Asia Pacific Region: speech delivered at the Brookings Institution, 31 March 2008. 2008: http://www.brookings.edu/~media/Files/events/2008/0331_australia/20080331_australia.pdf.

Although the seasonal worker pilot scheme will be driven by the Australian horticulture sector, the Australian Government bears ultimate responsibility for the success of the scheme. It will want to ensure seasonal workers in the pilot scheme have a positive experience to protect the scheme from domestic criticism and possible perceptions in Pacific Islands about exploitation that could hurt bilateral relationships.

The provision of substantial pre-recruitment advice to Pacific Island communities on working and living conditions in Australia as well as counselling on the negative implications of working abroad would help ensure that those taking up employment opportunities in Australia do so armed with information and coping strategies. Employing Australian residents or citizens with Pacific Island backgrounds who have some experience of regional Australia to deliver this pre-recruitment advice and to provide support for workers in Australia would be a constructive and inexpensive gesture from the Australian Government.

The government could consider the provision of a mini vocational scholarship scheme to encourage employers to provide additional formal skills training, through TAFE or private institutions, to workers who demonstrate relevant capacity. This could complement the experience gained on the farm and offers workers skills and certification to improve their chances of gaining employment at home.

Greater cooperation with New Zealand in accessing the available labour pool in Pacific Island countries could help to maximise opportunities for workers and reduce administrative costs for sending countries. Expanding the scheme to other countries, particularly those without a migration outlet, will be important after the completion of the pilot program.

It would be useful to review the apparently overly onerous conditions applied to employers for recruiting Pacific Island workers, after a reasonable trial period. The scheme could also be extended to other industries as they prove their demand and capacity to manage and regulate labour fairly.

Regional organisations

The Pacific Islands region has a high number of regional organisations relative to the size of its population. These include the Pacific Islands Forum Secretariat and the Council of Regional Organisations of the Pacific (CROP) agencies of Forum Fisheries Agency, Pacific Islands Development Programme, Secretariat of the Pacific Community, Secretariat of the Pacific Regional Environment Programme, South Pacific Applied Geoscience Commission, South Pacific Tourism Organisation, University of the South Pacific, Fiji School of Medicine, and South Pacific Board of Education Assessment.

The Pacific Islands Forum Secretariat and the various CROP agencies are already mandated by Pacific Island governments to undertake work across a range of sectors to improve regional governance, economic growth and security. The challenge faced by Pacific regional organisations is translating their work into tangible outcomes for communities and villages across the Pacific. Australia could assist by encouraging more integration with community-based organisations, non-government organisations and the private sector.

The Pacific Plan, endorsed by Pacific Island Forum leaders in October 2005, provides a framework of regional cooperation and integration. It is based on the four

pillars of economic growth, sustainable development, good governance and security. The Plan has lost high-level focus and energy and needs to be reinvigorated.

Australian efforts to improve the effectiveness of regional organisations should be targeted on implementation of the Pacific Plan and encouraging more cooperation and reliance on regional governance where it is more effective than small national institutions. The creation of more organisations would put additional strain on already stretched resources of Pacific Island countries and is unlikely to deliver better outcomes.

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- promote discussion of Australia’s role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

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