

## Economic and security challenges facing Papua New Guinea and the Island States of the Southwest Pacific

Submission to the Standing Committee of Foreign Affairs, Defence and Trade

by

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### Summary

On behalf of the Institute for International Trade, I have suggested that Australia should play a strong and unique role in contributing to what the Institute believes are mutually beneficial objectives of a single economic market for the Pacific region with attendant beneficial implications for regional security. To achieve this Australia should continue to advance a regional trade agreement, namely the Pacific Agreement for Closer Economic Relations (or PACER Plus as it is known). The Institute believes that among other things, PACER Plus could seek to address barriers to economic integration, assist with the trade related capacity building needs of the PNG and the southwest Pacific, promote public and private sector investment in the Pacific agricultural and services sectors and importantly, increase labour market access to facilitate greater migration and guest worker schemes.

## Submission

### Addressing the underlying causes of economic and political insecurity

The Institute for International Trade believes it is in Australia's long-term national interest to assist in the reduction of poverty and barriers to trade and economic development which we believe are the key underlying causes of insecurity and conflict in Papua New Guinea (PNG) and the southwest Pacific.

A more stable and prosperous PNG and southwest Pacific region is important for Australia as it will:

- assist Australia in addressing its own regional security objectives in terms of collaborative border security and dealing with regional terrorist threats
- will contribute to a more robust regional economy while assisting Australian importers and exporters
- should in the long-term reduce the high cost of aid and dependency on Australia
- see Australia move closer to its own UN commitments to assist low income countries such as PNG to achieve the Millennium Development Goals

The path to successful and sustainable development is extremely complex and there is no one size fits all solution. However, there are certain pre-conditions that the Institute believes are necessary.

1. Investment in and the achievement of basic needs and basic social services to ensure a healthy community and workforce in the Pacific
2. Investment in long-term education and training from primary school to adult education and particularly in vocational training
3. Investment in good governance via transparent and accountable democratic institutions
4. Investment in the capacity of PNG and the southwest Pacific to undertake vital economic and trade reforms that can deliver the benefits of long-term sustainable growth and development

Australia is in a strong position to enhance the achievement of these four pre-conditional investments. The Institute for International Trade wishes to briefly address the fourth of these pre-conditions and then bring to the attention of the Standing Committee, a more detailed report on the significance of a regional trade agreement involving the Pacific, Australian and New Zealand. There are others better qualified to elaborate on strategies to successfully achieve the investments proposed in 1, 2 and 3 above.

### An integrated regional trade agreement towards a single Pacific market

The Institute for International Trade believes that Australia needs to work in closely with PNG and the southwest Pacific in order to negotiate a new preferential trade agreement known as the Pacific Agreement for Closer Economic Relations or PACER Plus. We undertook a study recently to ascertain views in the Pacific about the potential challenges and benefits of a

regional trade agreement between Australia, New Zealand and the 14 Pacific Forum Island Countries.

The Institute for International Trade in South Australia together with the University of the South Pacific in Fiji and the Pacific Institute of Public Policy in Vanuatu undertook much of the initial analysis and consultations with key private and public sector representatives available during May 2007. Those consulted included for example the Pacific Forum's Alternate Spokesperson on PACER Plus, representatives from the Melanesian Spearhead Group (MSG), the Fiji-Australia Business Council, the Pacific Island Private Sector Organisation (PIPSO) and PNG private sector representatives and the Pacific Island Forum Secretariat itself. Consultations were also held with expert academics in the region and with trade officials from the New Zealand and Australian governments.

A copy of the final study is attached for the benefit of the Standing Committee and I would highlight for honourable members the lessons and some 40 recommendations in the 'Executive Summary'. Much of the complexity of the issues involved is covered in the more detailed report but in brief there are perhaps four key areas where Australia could play a particularly valuable role in advancing economic security for Australia in PNG and the southwest Pacific:

**1. Regional economic integration:** Maximise support for closer regional integration which ensures the economic multiplier effects of growth, investment and technological advancements in Australia and New Zealand benefit PNG and the Pacific region generally

**2. Trade related capacity building and technical assistance:** Focus on trade related capacity building needs across the following four areas:

- develop the trade policy and negotiating skills of public sector officials
- advance the involvement of SMEs and the private sector in driving trade and economic reform and growth
- address bureaucratic and industry bottlenecks which obstruct the expansion of business and trade
- invest in vital trade and economic infrastructure including rural infrastructure, roads and ports

**3. Investment in agriculture and services sectors:** Strong investment in two sectors: agricultural in order to increase productivity for both self-reliance and export; and the services sector, with a particular view to the development of education, health and tourist services.

**4. Labour market access:** Further embrace labour market access for PNG and Pacific Island nationals given our mutually interdependent needs. Australia will continue to need skilled and unskilled labour across the economy (transport services, horticultural, mining, healthcare services to name but a few) while Pacific Islanders can use the work experience and remittances to invest in their own development. Temporary labour market schemes need to be well managed and need to integrate vocational training that enhances the benefits for Pacific Islanders on their return.

There are a number of other recommendations in the attached report on PACER Plus that the Standing Committee may wish to note. My aim here however has been to briefly highlight the quintessential importance of regional integration, capacity building, Australian investment in key Pacific sectors and labour market access for PNG and the southwest Pacific as a means to

build economic and political security. These strategies should lead to a significant increase in jobs both locally and abroad that will be vital for the growing youth populations of the Pacific region. Australian aid can and should strongly assist in the achievement of these economic and trade objectives but it will also require mutual collaboration from both private and public sectors involved in a Pacific trade agreement to reduce the trade and business barriers that obstruct a freer flow of capital, investment and labour.

Australia is well placed to play a strong and unique role in contributing to what the Institute believes are mutually beneficial objectives of a single economic market for the Pacific region with attendant beneficial implications for regional security.