



23 October 2008

Dr Kathleen Dermody  
Secretary  
Senate Standing Committee on Foreign Affairs Defence and Trade  
PO Box 6100  
PARLIAMENT HOUSE  
CANBERRA ACT 2600

Dear Dr Dermody

**THE ECONOMIC AND SECURITY CHALLENGES OF PAPUA NEW GUINEA AND  
THE ISLAND STATES OF THE SOUTH-WEST PACIFIC**

I am pleased to attach the Council's submission to the above Inquiry.

If the committee wishes I will be pleased to meet with the members of the Committee for a discussion about the issues raised.

Yours sincerely

A handwritten signature in black ink that reads "B. S. Anderson".

(Brian Anderson)  
President

**SUBMISSION BY AUSTRALIA FIJI BUSINESS COUNCIL TO AUSTRALIAN SENATE  
STANDING COMMITTEE ON FOREIGN AFFAIRS DEFENCE AND TRADE INQUIRY INTO  
THE ECONOMIC AND SECURITY CHALLENGES OF PAPUA NEW GUINEA AND THE  
ISLAND STATES OF THE SOUTH-WEST PACIFIC, OCTOBER 2008.**

**ABOUT THE COUNCIL**

The Australia Fiji Business Council is a non-profit association of businesses with interests in the Australia Fiji bilateral business and economic relationship and Fiji's economic development.

The Council:

- Promotes bilateral trade and investment and the economic development of Fiji.
- Provides a channel for communicating to governments policy issues of importance to business.
- Acts as a networking facilitator for businesses working in the bilateral relationship.

The Council operates from a secretariat office based in Brisbane. It has a counterpart organisation in Fiji, the Fiji Australia Business Council. The two Councils have since their establishment in 1986 worked in co-operation, but since the coup in Fiji in December 2006 that relationship has become more difficult.

The Council has a shared secretariat with the Australia Fiji Business Council and the Australia Pacific Islands Business Council.

The Council President makes periodic calls on Foreign Affairs portfolio ministers and parliamentary secretaries in Canberra and on senior officials of various relevant departments. The secretariat maintains regular contact with officials of the Australia Department of Foreign Affairs and Trade.

The Council is exempt from the requirement to register as a lobbyist under the Commonwealth Government's Code of Conduct for Lobbyists.

**A PACIFIC ENGAGED: AUSTRALIA'S RELATIONS WITH PAPUA NEW GUINEA AND THE ISLAND STATES OF THE SOUTH-WEST PACIFIC**

In 2002 and 2003 the Foreign Affairs, Defence and Trade References Committee conducted an enquiry into Australia's Relations With Papua New Guinea And The Island States Of The South-West Pacific and on 12 August 2003 tabled in the Senate its report under the above title.

It is the Council's view that as a starting point for the current enquiry it would be worth re-examining the submissions, transcripts and the report which contained many worthwhile recommendations. Many of the recommendations remain apposite.

The Council considered the response of the then Australian Government, lodged on 24 June 2005, tardily some one year and ten months after the tabling of the report, insipid and lacking imagination.

A copy of the comments on the final report made by the Council, in partnership with the Australia Papua New Guinea Business Council and the Australia Pacific Islands Business Council, to the then Foreign Minister, the Hon Alexander Downer MP, and the then Chairman of the Committee, the late the Hon Senator Peter Cook, is attached for the information of the Committee.

**THE ECONOMIC AND SECURITY CHALLENGES**

The over-riding security issue in Fiji is the establishment of an environment in which the constitution and organs of government are fully respected and that disagreements by parties within the polity with the decisions of governments are resolved democratically and

constitutionally. A recent decision by the Supreme Court of Fiji has created some uncertainty, and possibly some precedent, about the extent to which governments can be removed by force yet remain within the constitution. The implications of this decision are yet to be fully explained, but potentially could lead to chronic instability in Fiji.

There is no doubt that economy and security in Fiji are inextricably linked. The coups of 1987, 2000 and 2006 have all had a negative effect on the economy. Even though the immediate economic impact was deeper from the 1987 and 2000 coups, the economy recovered more quickly, possibly because civilian government and the security environment was restored reasonably promptly. It has been said that the combined effects of the three coups has been to tether Fiji's economy at around 1987 levels i.e. the economy is 20 years behind where it could have been given stable political and economic conditions.

But the 2006 coup has had a deep and prolonged economic effect. According to the Reserve Bank of Fiji the economy contracted by 6.6% in 2007 (the previous five years had average growth of 0.9%, within a range of 0.6% (2005) and to 5.5% (2004)). Before the current global financial crisis, the Reserve Bank of Fiji had projected growth in 2008, 2009 and 2010 as totalling 5%. Achievement of these projections would mean that three years after the coup the economy would still be 1.6% behind where it was in 2006 before the coup. Clearly, when set against recently emerged global economic conditions one would expect these figures to be difficult to attain. Now is not the time to have a weak economy, so Fiji can expect a rough economic ride over the next few years, even if democratic government was restored tomorrow.

Beyond the issue of establishing an environment in which the constitution and institutions and protocols of government are fully respected and that disagreements with the decisions of governments are resolved democratically and constitutionally, the greatest economic and security challenge faced by Fiji revolves around employment growth. There are a whole range of issues which bear on the management of the economy and security matters in Fiji, but the key to driving improvement in most of these matters is the growth of sustainable employment for the people of Fiji.

Fiji, like most Pacific island countries, has a high proportion of its population aged 20 or below. This youth bulge is rapidly approaching adulthood, with little clear prospect of being able to enter the mainstream economy. Even now, the number of young people moving from the education system into the economy exceeds by a factor of up to ten the number of new jobs being created in the economy. The Reserve Bank of Fiji regards labour market indicators as mixed, with new job creation appearing weak.

Failure of the economy to provide meaningful employment for large numbers of young people has already manifested itself in emerging law and order issues in Fiji, and if increasing numbers of young people find themselves economically deprived so the problem is likely to grow. A deteriorating internal security environment will discourage investment and stifle long term sustainable employment growth. This is a significant security issue not only for Fiji but also for Australia.

Fiji's economy is seriously hampered by its continuing reliance on sugar as its main agricultural production. Fiji has very great potential to diversify its agricultural sector and become a regional agricultural powerhouse by growing agricultural exports and becoming more self-sufficient in agricultural production, especially for its voracious tourism industry. There is recognition of this amongst many policy makers, but leadership and implementation has been slow. Some foreign companies have successfully developed contract farming models serving their own business needs in, for example, tobacco and poultry, and there are isolated examples of co-operative business ventures successfully being developed in agricultural production in some communities. These are good models, but leadership and energy is required to grow these isolated examples into a diversified national agricultural economy.

In many respects, given a period of a stable political environment, consolidation of good governance and stable fiscal and economic policy, Fiji is better placed to build its economy than many of its Pacific island neighbours. Successive governments in Fiji have, unfortunately, failed to provide the leadership and vision necessary to utilise its position in the region to drive growth. This is the challenge to which future Fiji governments must rise if Fiji is to recover its economic position as a hub of the region. If it does not, other countries may seek to occupy this role. This will weaken the region overall as no other country in the region has Fiji's central geographic location and relatively developed infrastructure nor can replace Fiji effectively as a regional transport hub.

### **THE BILATERAL RELATIONSHIP**

No discussion about Fiji can ignore the current state of the bilateral relationship. Australia is Fiji's major trading partner, and is the largest source country for Fiji's tourism industry. Australians are visiting Fiji in ever increasing numbers, and according to Fiji Visitor Bureau figures Australia's share of the inbound tourist market in Fiji is growing more strongly than any other market. Australian individuals and businesses are the major foreign investors in Fiji, the interests of some companies going back more than 100 years. A substantial number of Fiji citizens have made Australia their home, but retain strong linkages back in Fiji.

Thus, the bilateral relationship is broad and deep when it comes to people and business.

The Council takes the view that in a bilateral relationship with the deep and rich history of the Australia Fiji relationship, the governments in each country are simply the custodians of the relationship for the period of their own incumbency. The owners of the relationship are the people, and governments need to be careful that by their own actions they do not tear down that which has been built by the people over more than a century and a half. Unfortunately both the Australian Government and Fiji Interim Government have recently been tearing at the fabric of the relationship. This needs to stop, and more measured and carefully calibrated actions and responses need to be taken by both governments to more accurately reflect the wider relationship.

The Council does not condone the actions of the Fiji Military Forces in removing from office by force the elected Fiji government. Nor does it condone abuses of human rights of Fiji citizens which have occurred at the hands of the Fiji military and Fiji police since December 2006, nor the attempts to cow the media through summary expulsion of the heads of media organisations in Fiji for attempting to operate a free and independent press. Nor is it helpful that the Fiji Interim Government has reneged on the commitment by its Leader to the Pacific Islands Forum Leaders in 2007 that elections would be held in Fiji by March 2009. None of these actions or inactions are helpful to Fiji's domestic or international interests.

But we consider that some of the Australian Government's responses to the situation in Fiji are also unhelpful. For example, comments by the Prime Minister of Australia at the Pacific Islands Forum in 2008 that the Fiji Interim Prime Minister "chickened out" (reported as a direct quote on ABC News on 20 August 2008) of attending the Forum is not helpful to resolving differences. Shouting at each other in the media never is. More measured comments are more likely to achieve results.

The former Australian Government introduced so-called "smart sanctions" against Fiji, specifically travel sanctions imposed against people who are classified by the Australian Government as "supporters" of the coup. These sanctions have been maintained by the current Australian government which, sadly, in relation to its management of relations with Fiji is beginning to look just like the former Australian government. We think they are, in fact, "dumb sanctions" because they are contributing to the "dumbing down" of the Fiji Public Services and other key institutions.

The bans placed by the Australian government on certain Fiji citizens under this policy appear arbitrary and completely unjustified.

Imposing bans indiscriminately runs the risk of alienating people who have been and will continue to be important to the bilateral relationship. More generally, the bans could themselves be an abuse of the human rights of the persons on whom they are imposed. It is difficult to argue that any these people are a threat to Australia's security. It is also difficult to sustain the argument that it is fair and equitable to blame sons and daughters and members of the wider family units for the sins of their mothers and fathers and other relatives in accepting appointments in the interim government.

Some Australian businesses in Fiji have been affected because employees have been subjected to travel bans and their employing companies have been unable to deploy their staff resources as they need. So the bans have an economic impact in that they affect business.

Bans imposed on career public servants, as distinct from those who have accepted appointment opportunistically after the coup, and who continue to serve the government of the day are unfair and without natural justice. Many of these people have played a key role in the bilateral relationship and are well disposed towards Australia. Imposing bans is counter-productive to Australia's long term interests.

Perhaps the most remarkable case of the imposition of a travel ban which has come to our notice involves a prominent Fiji businessman who accepted appointment as Chairman of the Board of the Fiji Institute of Technology, Fiji's premier technical training institution which was in 2007 in desperate need of management reform, and which is an institution which has a direct impact on the future of Fiji's young people and the development of their work skills development and thus on the economy.

This really bizarre example of the stupidity of policy and blind bureaucracy bears relating in some detail here because it highlights how people who are friends of Australia and supporters broadly of Australia's policy objectives are being penalised by the Australian government simply because they are patriots concerned for their country rather than supporters of the military coup, and shows how without real cause the Australian Government risks alienating an influential pool of people in Fiji.

The businessman concerned is very well known to members of the Council and has made a positive contribution to the Australia Fiji business relationship for most of his adult and business life – he was in fact the first local President of the Fiji Australia Business Council more than twenty years ago. He has made a very positive contribution to his own country in a whole range of appointments over many years to government boards under successive governments and through involvement with NGOs including being Chairman of the Fiji chapter of Transparency International. He is regarded by those who know him as having very high integrity. Yet according to a letter he received from the War Crimes and Character Assessment Screening Branch of the Australian Department of Immigration and Citizenship the Australian Minister for Foreign Affairs had determined that his presence in Australia would be "contrary to Australia's foreign policy interests".

We are advised that he only found out by chance in November 2007 that he was subject to a travel ban when he was planning to travel to Brisbane to his niece's wedding. On the advice of some friends, he decided to check with the Australian High Commission in Suva to see if his name appeared on their list of banned persons. He says he was very surprised when he was told that indeed it did, and that they (i.e. the Australian High Commission) were holding a letter from Canberra for him, but didn't know how to get in touch with him (he subsequently received

the letter dated 6 September from the High Commission in an envelope postmarked 12 November).

That an official of the Australian High Commission would say he or she did not know how to get in touch with this eminent businessman brings into question in which milieu some parts of Australia's diplomatic representation in Suva operate. His private and business name and address are in the Fiji telephone directory, his business with his name prominently displayed operates on one of the most highly visible street intersections in the Suva CBD. A simple enquiry to the High Commissioner or the Deputy High Commissioner who cannot but know this man, or the AusAID Section which has utilised his services on various aid matters, would have answered their question if they seriously wished to locate him and deliver the letter. It raises serious doubts about what level of knowledge the people who make these decisions actually have about the people who are the subject of the decisions.

Back to the niece's wedding. When the banned businessman told his sister that he would not be able to come, his sister, who has been in Australia for many years and is a solid supporter of the Liberal Party, called a Senator in her State. The response to her appeal was that the Minister for Foreign Affairs decided that while the travel ban remained it should not be applied to prevent him attending his niece's wedding, and the Department of Foreign Affairs and Trade advised the Department of Immigration and Citizenship that a visa for that purpose should not be refused on foreign policy grounds. His sister had to sponsor him to travel and had to put down a deposit of A\$20,000. She got this back as soon as he returned to Fiji. It is not clear where in the Australian government system some person decided that this eminent Fiji businessman who has made countless business and private visits to Australia over many years and probably never breached any visa conditions should be required to lodge a \$20,000 bond in return for waiving the "contrary to Australia's foreign policy interests" tag placed on him in relation to a single specific visit. Talk about how to alienate friends!

Finally, the advice the Australian Government is giving to people who are subject to the imposition of the travel bans and the gobbledygook used makes intelligent people cringe. It is assumed that the letter sent to the businessman cited in the above case is a standard letter. The letter, in part, states that a person has 28 days to show that the ground on which the visa was cancelled does not exist, or another reason why the visa should not have been cancelled, and that if the person shows such information within that time the cancellation might be revoked. The letter then states "it is not possible for the Minister to revoke the cancellation decision in this case, even if you make submissions showing that the ground for cancellation does not exist or there is a reason why your visa should not have been cancelled."

Bans such as the cases cited, and no doubt there are other people similarly affected that we have not yet heard about, damage the relationship at a personal level and potentially alienate people who are friends of Australia and the government's broad policy objectives.

The Australian Government needs to be cleverer in the way it approaches its relations with Fiji. Perhaps an external circuit breaker is needed, such as an eminent independent person to act as a mediator to find a way of working co-operatively with the Fiji Interim Government develop a roadmap back to parliamentary democracy in Fiji.

## **EMPLOYMENT GROWTH**

The key to employment growth will be the development of a vibrant and sustainable SME sector. Business is committed to work for the growth of small and medium enterprise as the driver of economic and employment growth and which is therefore a key factor in the achievement of development targets through poverty reduction.

A recent World Bank global study on doing business ranked Fiji 39<sup>th</sup> amongst the 181 countries surveyed, but 1<sup>st</sup> out of 10 Pacific Islands Countries included in the report. The ease of doing

business index averages the economy's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. By comparison, Singapore ranked 1<sup>st</sup> and Australia ranked 9<sup>th</sup>.

There is an excess of bureaucracy to be traversed at all levels of starting and operating a business, with increased burdens if the business requires access to land and/or if it is a foreign business investment. Fiji's performance over the last three years declined against eight of the ten indicators in the World Bank study.

Further commentary relevant to employment growth can be found below under the heading Barriers To Trade, Foreign Investment, Economic Infrastructure, Land Ownership And Private Sector Development.

## **THE RELATIONSHIP BETWEEN DEVELOPMENT ASSISTANCE AND BUSINESS DEVELOPMENT**

The Council acknowledges the value which development assistance funding from the Australian government, delivered through AusAID, has made in many areas in Fiji.

We also acknowledge the accessibility of the Director-General of AusAID and senior staff when calls are requested on them in Canberra.

It is, however, only recently that some senior staff in AusAID have recognised the importance of the private sector in delivering long term sustainable economic growth. But this recognition has been patchy within the organisation, and there appears to be uncertainty within AusAID about how to effectively engage with the private sector.

There must be much more focus in the aid program on business development. This goes beyond supporting capacity building and improvement of the business enabling environment, but includes supporting the building of business and entrepreneurial skills through the aid program and, very importantly, assisting small business with access to capital which at present is a significant impediment to small business growth.

The Enterprise Challenge Fund is a step in the right direction of assisting with access to capital, but its major drawback is that a successful applicant is required to be in a position to put up \$100,000 in equity or kind towards the project being funded. There will be cases where good business proposals will fail to qualify for the ECF grant due to this requirement.

There are a range of further non-bank financing mechanisms including micro-finance which may be available for some businesses.

There is also merit in the suggestions floated in 2007 that Australian companies investing in Pacific island countries might qualify for Australian tax concessions provided certain specified criteria about the investment were met.

## **LABOUR MOBILITY**

As an advocate since at least 2002 of seasonal labour market access for Pacific Island countries to meet labour shortages in Australia's horticulture industry the Council applauds the Australian Government for its decision to introduce a pilot scheme.

However, we do consider the pilot scheme to be timid. Australia's greatest interests lie in Melanesia, and it is our view that all the Melanesian countries, including Fiji, should be included in the pilot scheme. Instead, the Australian Government has piggy-backed on the pioneering work done by the New Zealand Government in their Recognised Seasonal Employer (RSE) scheme and included only countries which were included in that scheme with the addition of Papua New Guinea.

From the Council's perspective, such a scheme has benefits for Australia in that it will assist overcome a shortfall in available labour in the horticulture sector, projected to be some 100,000 over the next several years, and will assist horticulturalists to increase food production to meet both Australia's domestic needs and to expand Australia's exports of fresh fruit and vegetables.

A scheme will also assist the Pacific islands economies by providing another source of revenue for those countries through remittances (in 2006, remittances were reported globally to exceed USD300bn: development assistance globally was reported in 2006 to be USD104bn). It will also provide a social safety valve for countries which have a serious youth bulge. A high proportion of the population is under 20 years of age in almost all countries: there is little if any employment growth to absorb these people into the workforce. The Council does not see a scheme as a panacea to the economic problems of these countries, nor a reason for countries to defer taking the necessary, sometimes hard, decisions necessary to improve their economies.

### **EDUCATION AND SKILLING**

The national education system in Fiji at tertiary level is probably one of the more effective in the region. It has two universities (The University of the South Pacific and the privately operated University of Fiji), and the Fiji Institute of Technology which is the major provider of a wide range of technical and vocational courses.

Unfortunately the primary and secondary education levels are patchy. They are a mix of government and private, generally based around religious or cultural organisations, schools with very mixed resources and mixed capacities. Government schools are generally very poorly resourced, and rely heavily on community inputs. In a country where reports suggest 34% of the population live below the poverty line the capacity is limited for communities to provide resources to support local schools. But even within the private schools there is a wide range of variation in the resources available. The rural/urban divide adds to the unevenness of education available.

The Australian Pacific Technical College, while established as a response to pressure from the Pacific islands governments on Australia at the Pacific Islands Forum in 2005 to allow access by Pacific island nationals to the Australian seasonal labour market, is a step in a forward direction towards further improving tertiary education in Fiji.

The APTC concept would be enhanced by being expanded to provide effective strengthening of the whole education system in Fiji to the point where technical and professional qualifications obtained at Fiji educational institutions have equivalency with Australian qualifications.

Such recognition would facilitate the movement of Fiji citizens between the two countries at a higher level than just as unskilled seasonal workers.

An equivalence in technical and professional qualifications will also assist to achieve the objectives envisaged for regional economic integration under PACER Plus.

Much could be achieved by removal of the obstacles which are put in place both in Fiji and Australia to the recognition of professional and technical qualifications obtained in the other jurisdiction. Mostly in Australia these obstacles occur at the State level through the policies of technical and professional associations which make difficult registration by overseas applicants.

The Fiji Government and aid donors in the education sector must work closely with business in identifying future employment needs of business, and ensure that the education system is tuned to produce workers with the appropriate skills and training to enable their absorption into the workforce. Appropriate technical training is an essential.



## **BARRIERS TO TRADE, FOREIGN INVESTMENT, ECONOMIC INFRASTRUCTURE, LAND OWNERSHIP AND PRIVATE SECTOR DEVELOPMENT**

### **Trade and Foreign Investment**

There is substantial work to be done in removing barriers to trade and foreign investment in Fiji. As noted above, Fiji ranked 39<sup>th</sup> in the World Bank's recent global study on doing business. It has a long way to go to reach what should be its benchmark goal – comparability with Singapore. Comparability with Singapore is a goal the Council has been advocating for Fiji for a long time. Fiji has enormous potential to become a type of Singapore of the Pacific given its central location within the region, the size and diversity of its economy which provides it with the critical mass for further development, and the undoubted skills and talents of its people who are fortunate to have in Fiji the region's pre-eminent educational institutions, which are capable of turning out highly skilled and qualified graduates.

Fiji can also look to Mauritius for inspiration. The CIA World Fact Book describes Mauritius as follows: "Since independence in 1968, Mauritius has developed from a low-income, agriculturally based economy to a middle-income diversified economy with growing industrial, financial, and tourist sectors. For most of the period, annual growth has been in the order of 5% to 6%. This remarkable achievement has been reflected in more equitable income distribution, increased life expectancy, lowered infant mortality, and a much-improved infrastructure. The economy rests on sugar, tourism, textiles and apparel, and financial services, and is expanding into fish processing, information and communications technology, and hospitality and property development. Sugarcane is grown on about 90% of the cultivated land area and accounts for 15% of export earnings. The government's development strategy centers on creating vertical and horizontal clusters of development in these sectors. Mauritius has attracted more than 32,000 offshore entities, many aimed at commerce in India, South Africa, and China. Investment in the banking sector alone has reached over \$1 billion."

Fiji often expresses some aspirations to emulate Mauritius. But frequently it is its own worst enemy. There is a strong sense of protectionism in Fiji, especially where foreign investors are involved. The Fiji Islands Trade and Investment Bureau occasionally moves the deck chairs around, but the underlying structural impediments to foreign investors does not change. Despite rhetoric to the contrary it is not an especially welcoming environment for foreign investors, and only the committed and persistent survive. The existence of a restricted industries list (which excludes selected business types from any foreign investment), reserved industries list (which requires a minimum Fiji domestic equity in the business and/or a minimum foreign investment level, sometimes very substantial), restrictive fiscal and foreign exchange policy, and an opaque taxation system all mitigate against the development of a vibrant economy with steady inflow of foreign investment and development of new trade opportunities for Fiji.

Australia and Fiji have a bilateral Agreement on Trade and Economic Relations (AFTERA) which entered into force in 1997.

The opening article of the Agreement states that the parties shall take all appropriate measures to facilitate, promote, strengthen and diversify trade, economic relations and investment, with the aim of achieving a mutually beneficial expansion of trade, economic relations and investment. But since its coming into force this Agreement has lain in a drawer with no specific activity undertaken to bring it to life.

In September 2005, the Australian and Fiji Ministers for Foreign Affairs agreed to establish a working group comprising officials from both countries and representatives of business to work together on issues which are an impediment to the growth of bilateral business and the Fiji economy, and bring forward some recommendations to Ministers within six to twelve months.

The working group held its first meeting in August 2006, but unfortunately since then despite requests from the Council for a further meeting government officials have been unable to schedule such a meeting.

### **PACER Plus**

The Council strongly supports work being done towards closer economic integration between Australia and the Pacific Islands countries, including Fiji through PACER Plus. Indeed, prior to the decision by the Australian government to commence negotiations for PACER Plus the Council had been advocating that Australia, New Zealand and Fiji should form an economic triangle along the lines of the Australia New Zealand economic relationship under ANZCERTA. Such an idea was first floated in the early to mid-1990s by then Fiji Prime minister Sitiveni Rabuka, but his idea was never developed into a form policy proposal nor discussed further.

It is the Council's view that Australia and Fiji need to embrace each other economically in order to unlock the true potential of the Fiji economy for the benefit of all its people.

Our vision is for Australia and Fiji to be in an economic relationship similar to that which exists between Australia and New Zealand. Indeed, it may be that the best outcome from PACER is that the ANZCERTA is opened up to Pacific islands countries in the same way that the EU has in recent years become open to States which were not even considered prospective members not so many years ago.

Achievement of such an outcome requires political and economic courage and leadership in Australia and Fiji. It needs a lot of work to establish a vision of what sort of relationship Australia and Fiji will have in 30 to 50 years.

What must be resisted is that some vested interests will want to use the PACER negotiations to just fiddle at the margins – that it might be seen as just a tariff adjustment and market concession exercise, or as something which benefits Australia at the expense of Pacific islands economies. To overcome this it needs people to think outside the square and take long term visionary view.

It is understandable that individual businesspeople will assess the opportunities and threats presented by PACER Plus against the needs of their individual businesses. The policy and advocacy capacity of the Fiji Government needs to be bolstered, possibly through the aid program, to enable it to take leadership in the debate and to make assessments and policy in Fiji's longer term national interests which might well be different from the interests of some individual businesses.

It will be important that there is an extensive process of dialogue with all stakeholders about what might be achieved in the long term by PACER Plus, and that a roadmap is established which includes appropriate measures for capacity building across the Fiji economy and for mitigating the potential social effects in the short to medium term which might be the outcome of necessary economic restructuring necessary to achieve the long term goals and objectives of PACER Plus.

The Council's view is that, setting aside current political and economic problems, the Fiji economy is such that Fiji should be able to lead the way for the Pacific in moving at an accelerated rate towards the relationship envisaged under PACER Plus.

Twenty five years ago many people thought that ANZCERTA would never amount to much, but look at what it has achieved. PACER Plus must be seen as a long term opportunity like ANZCERTA.

Sixty years ago in Europe no-one envisaged the full scope of what could be achieved through economic integration through what is now known as the European Union.

Without vision and courage to start a journey to the future, the relationship will be consigned to one of lost opportunity. If you always do what you've always done, then you'll only get what you've always got!

### **Economic Infrastructure**

Efficient well maintained infrastructure is crucial to business.

It is vital that the Fiji Government ensures that Fiji's telecommunications sector operates at world class standards of service, efficiency and cost. This is not currently the case, although recent developments have moved encouragingly in the direction of greater competition and efficiency. But Fiji Government policy needs to reflect a firm and clear commitment to efficiency and competition in the telecommunications sector, and its actions need to be more proactive in forcing change. The recent start of an independent mobile telephone operator is a positive step. But international telecommunications, internet access, and domestic land line service provision still requires reform to enable Fiji to have a world standard service

Similarly, measures need to be taken to ensure that other infrastructure such as roads, power, water, ports and airports are properly funded and otherwise resourced, so they can operate efficiently and effectively in a clear policy environment that is focussed on microeconomic reform and competition.

Fiji faces serious challenges with all of its economic infrastructure. Current infrastructure plant is deteriorating. Without good infrastructure no business, whether private or government, will thrive and remote communities especially will remain weak and be denied access into the mainstream economy. Due to inconsistent rainfall in catchments for its hydro-electricity generation Fiji is currently under threat of power cuts which will damage business and the economy. This is a systemic problem caused by years of poor planning and inadequate funding. Reticulated water supplies in main urban and resort areas and also undersupplied and in some case water is being trucked in. This too is a product of many years of poor planning and inadequate funding. Major highways are now in a worse condition than they have been for many years, and ports and airports are in serious need of upgrade to meet modern demands.

The Australian government could work offer to work with the Fiji government to develop strategies for overcoming these problems, including the possibility of innovative financing through Public Private Partnerships where appropriate.

### **Land Ownership**

As throughout the Pacific, land access in Fiji requires careful management. Fiji has done better than most countries through the establishment of its Native Land Trust Board which manages the relationship between landowners and tenants, and generally provides an effective mechanism to enable land to be utilised for economic purposes of benefit to both the landowner and the land user.

But land issues can always be used for political purposes because of the deeply ingrained cultural value of land to Fijians, and the fear of the alienation of their land. There are politicians in Fiji who have made lifetime careers out of fear mongering on land issues. The former Qarase government in Fiji brought forward proposals in its penultimate term relating to foreshore land management which threatened to undermine existing businesses and put at risk future investment in coastal properties. These proposals were based more on political expediencies than on sound economic policy.

Work being undertaken through AusAID generally on possible reforms to enable better economic usage of land while allow landowners comfort and security are very worthwhile, and may lead in time to a more stable and predictable environment for all parties. This work needs to continue in partnership with Pacific stakeholders.



AUSTRALIA FIJI  
BUSINESS COUNCIL



AUSTRALIA PACIFIC ISLANDS  
BUSINESS COUNCIL



AUSTRALIA PAPUA NEW GUINEA  
BUSINESS COUNCIL

***A Pacific engaged, Australia's relations with Papua New Guinea and the island states of the south-west Pacific,***

**COMMENTS ON THE REPORT OF THE SENATE COMMITTEE  
ON FOREIGN AFFAIRS DEFENCE AND TRADE**

We have now had an opportunity to review the report of the Senate Foreign Affairs, Defence and Trade References Committee, *A Pacific engaged, Australia's relations with Papua New Guinea and the island states of the south-west Pacific*, which was tabled in the Senate on 12 August. We are pleased to offer the following comments which we hope will be helpful to the government in formulating a proactive and forward looking response to the report.

We commend the committee for producing a very detailed report. We consider that all the recommendations made in the report are worthy of very thorough consideration. Some of the recommendations can and should, we believe, be implemented quite quickly and to good effect. Others will require a much longer period of discussion to determine whether they are achievable. Some of them may only be practical in the very long term.

In the opening sentences of his tabling statement in the Senate on 12 August, the Chairman of the Committee, Senator Cook, referred to the Pacific islands region as a *"somewhat neglected part of our neighbourhood"*, and said that over the last two decades references to the Asia Pacific region have focussed on Asia to our north or about how the Pacific ties Australia to the North and South American continents. We support this broad assessment of neglect and oversight, and recall comment made by the Honourable Ieremia Tabai, former President of Kiribati, who during his time as Secretary-General of the then South Pacific Forum from 1992 to 1998 sometimes referred frustratedly to the Pacific islands as *"the hole in the Asia Pacific doughnut"*.

The Councils would like to think that this report, combined with recent strategic and regional policy changes, might create a new dawn in the relationship between Australia and the countries of the region, providing an impetus to give greater focus to the building of enduring linkages at all levels.

Recommendation 1 of the report proposes further research, analysis and debate on the idea of a **Pacific economic and political community**. It lists seven objectives of such a community. The Council supports the seven objectives listed as providing a sound basis for, at the very least, Australia's relations with the countries of the region whether or not they eventually translate into an economic and political community. We would, however, emphasise that the objective of sustainable economic growth for the region, which is listed first of the seven objectives, can only be achieved through the

development of strong national private sectors which can combine to form a strong regional economy.

We support, and will be pleased to participate in, debate about the merits of the Pacific economic and political community. There are many complex issues which will form part of the debate, many of which will be considerable obstacles to the achievement of a community,. But we believe the debate is well worth having both in Australia and around the region. It may be worth noting at this point that at the time Europe set out on its journey to its present day union there were many who believed the difficulties would prevail and the idea would fail. So the idea should not be dismissed without thorough examination and debate.

We suggest that if an **Eminent Persons Group** is formed to consult on this or wider issues that its membership include at least one person with extensive business experience around the region. The Councils would be pleased at an appropriate time to put forward a name or names for consideration.

The report makes two recommendations in relation to **quarantine** matters. The Councils support the thrust of those recommendations, but would suggest that in relation to recommendation 4 which proposes a bi-annual meeting of Australian and Pacific island countries quarantine and health authorities that AQIS should establish a regular dialogue with Australian business interests in the region to ensure that it is fully briefed on issues of concern to Australian business on quarantine and health issues. The Council would be willing to be the co-ordinating point for that dialogue process.

Recommendation 6 proposes the Forum Economic Ministers Meeting (FEMM) should be involved in public education strategies relating to explaining policies directed towards the achievement of **economic self sufficiency**. In assessing the question of economic self sufficiency, it is important to acknowledge that some Pacific island states are so small and have such limited resources that their potential for economic self sufficiency is very limited. What is crucial is that each country, whether large or small, manages whatever resources it has in the most effective manner and for the benefit of all its people. While the action proposed under the recommendation would be fine in so far as it goes, it is our view that additional focus needs also to be placed on educating political leaders and officials in addition to the community in general about the central importance of the development of the private sector as the driver of economic growth.

The Joint Statement issued at the end of the 2002 FEMM in Vanuatu recorded that *“Ministers recognised that economic reform was most successful when conducted in partnership with the private sector. The Ministers encouraged wider consultation with all private sector interests when developing economic reform policies so that the implementation of those policies would be more effective. They also recognised that developing an environment of trust and mutual respect is a prerequisite for successful consultation between the public and private sectors.”*

On the day preceding the FEMM, a Forum Secretariat initiated workshop involving public and private sector representatives from Forum countries was held to discuss public private sector partnerships. A number of recommendations for action were agreed at this workshop, and endorsed by the FEMM, including that the Forum Secretariat would seek funding to assist the strengthening and development of public private sector consultative mechanisms at the national and regional level.

Participants in the workshop agreed that the then President of the Fiji Employers Federation, one of the few reasonably well resourced private sector organisations in the region, would co-ordinate setting up a networking process nationally and regionally. Unfortunately when he developed a proposal to take this process forward and sought funding support from the Forum Secretariat he was rebuffed. We are unaware of any further action taken on this FEMM approved initiative.

The Councils strongly believe that private sector development is crucial to economic development in the Pacific island countries, although we also recognise that the size of some of the smallest countries means that the size of the private sector will in those cases be very limited. But with the exception of the more developed economies, there are few effective chambers of commerce or peak private sector bodies which can engage in informed policy discussions with governments. Regional co-operation between the more developed private sector peak councils and the less well developed groups can help enhance the relationship between all groups and their national governments, and will assist regional business and economic development. In some cases, governments see the private sector as some sort of enemy. Sometimes political leaders endorse the recommendations of regional meetings without understanding the implications of their decisions, frequently because their bureaucracies have limited policy analysis and advising capability.

There is a good deal of nurturing required to help all parties develop dialogue and policy discussion at a national level before regional consultative processes are likely to be viable. It seems to us that the Forum Secretariat could play a valuable role, with support from our Councils and private sector bodies in the more developed economies, in providing this nurturing to the poorly resourced private sector, as well as to the public sector, in the Forum island countries.

The report's recommendations on the **tourism** industry are broadly supported. Tourism is the proven growth product in the Pacific, but performance in the region is patchy. It is, however, important to recognise that as with most other issues in the region there is no "one size fits all" solution. The tourism industries in some Pacific island countries, notably Fiji, Cook Islands and New Zealand, and to a lesser extent Vanuatu, are well developed, professionally managed and marketed, and provide an attractive world class product. Indeed, in any "guidance", as the report describes it, being provided to Pacific island countries on developing viable tourist industries, the other countries in the region with successful tourist industries could make a valuable contribution, helping to make give the initiative more of a home grown flavour.

The question of **labour mobility**, which might also be called the right of freedom of movement, has many facets. It is linked closely to the concept of regional integration, although it is not necessarily dependent on such integration being full and complete. Remittances form an important part of the economies of mostly the smaller Pacific island economies, although the emergence very recently of remittances as a significant factor in Fiji's national accounts comes as something of a surprise. It is our view that those countries which will most benefit from labour market access in Australia are those which have such limited national resources that their capacity to develop their national economies and grow employment opportunities are quite constrained.

While the Council supports some form of access to the Australian labour market, we believe it should be carefully managed and initially focus on those countries which have limited national resources and opportunities for economic growth and national labour market development, and with which Australia has the closest ties.

The northern Pacific Micronesian states have their own special relationship with the United States of America, and some of the Polynesian states have special arrangements with New Zealand. These two groups of countries appear objectively to be in less need of labour market access to Australia. Countries such as Papua New Guinea, Solomon Islands, Vanuatu and Fiji, are sufficiently well endowed with resources that, with efficient management, can be developed into sustainable economies for the benefit of all their people.

Thus, In the model we would suggest, the countries to which such a scheme might be of most value and to which it might initially be applied would be Nauru, Tuvalu and Kiribati which have little in the way of natural resources and economic growth potential, and have the closest ties to Australia.

If a scheme were to be applied more widely, we would suggest that it might be offset in some way against the migration program from each country which might encourage a reduction in the brain drain from the region. We would also counsel strongly that any labour market access scheme should not be limited to seasonal work, which appears to have been part of the focus of the committee. People from the Pacific islands can offer skills in almost any field, and should not be stereotyped as seasonal workers. Labour mobility programs can be an effective tool for skills transfer.

Some Australian businesses with interests in the Pacific already operate workplace exchange programs for skills development and transfer, and would be willing to develop these further with the necessary support from the Australian and Pacific island governments in relation to visas and work permits.

The Australia Papua New Guinea Business Council recently wrote to the Foreign Minister, Mr Downer, endorsing initiatives being taken to utilise the **development assistance** program with Papua New Guinea to address law and order, governance and financial management issues in Papua New Guinea. We endorse this principle across the region.

The matter of whether to conclude bilateral treaties on development assistance with Pacific island countries is one for the Australian government to decide, but we would suggest that size and scope of the aid relationship with Papua New Guinea sets it apart from the other countries in terms of how formal the bilateral aid relationship should be.

We certainly endorse the concept of establishing performance benchmarks to assess aid delivery, including the goal of increasing local participation.

The Australia Papua New Guinea Business Council has greatly appreciated the willingness of AusAID senior staff to engage in dialogue on the PNG bilateral program over the last year or so. The other Councils would welcome similar opportunities in relation to other Pacific island countries.

The Councils would like to see four key characteristics in the aid program across the region:

- greater consultation with business in programs which have an effect on economic production and the operation of the business sector.
- more careful selection of aid program managers to ensure there is an understanding of the national environment and a strong personal commitment to the development of the particular country – it is the perception of business that some aid program managers are not so committed, but see their work as just another job in the continuum of their career.
- ensuring that programs are designed in bite sized chunks which are digestible within the relevant administrative environment.
- ensuring that aid program review mechanisms produce an honest appraisal of their effectiveness, and not one which seeks to justify that the resources input has been effective (the “met or exceeded objectives” syndrome should be avoided). There is some concern within the Council that some aid program providers have greater attention to maintaining their contract status rather than being rigorous about program quality assessment.

The Councils acknowledge the invaluable role of **community based and volunteer organisations** in building community relationships, advancing economic development and facilitating skills transfer. The Australia Fiji Business Council and the Australia Papua New Guinea Business Council are association members of AESOP, and two of our Vice-presidents hold the Chair and Deputy Chair of AESOP. We support proposals to increase the resources available to AESOP and Australian Youth Ambassadors for Development. We note also that there are many community based and volunteer groups in the region which perform invaluable work in social and economic development. The need to properly resource these groups should not be overlooked.

The concept of “**twinning**” Australian local government councils and public service departments with Pacific island countries has some interesting possibilities. As we pointed out in our submission, many Australian local government councils manage larger budgets and deliver a wider range of services to their communities than some



Pacific islands national governments. Twinning opens up the possibility of skills transfer and a whole range of community based relationships which could potentially provide substantial benefit for Pacific island countries, and is worth exploring further. We are aware that some Queensland government agencies have developed close, even in some circumstances almost mentoring, relationships with especially agencies of the Papua New Guinea government, but also with some other Pacific island countries. There could be scope to build on these already established relationships.

**Institutional strengthening**, especially in the law and justice and governance sectors, is already a significant part of the Australian aid program in the Pacific, and we support its continuation. We think the record in this area is mixed. It is of critical importance to be clear as to the goals of proposed institutional strengthening projects, including careful evaluation of the long term impact and value of the proposed project. It is an area of high importance to business, as a country's performance in this sector is one of the factors informing foreign investment decisions.

In our submission to the committee, we made much of the need to develop **closer political relationships** between Australia and the Pacific island countries. We commented on the current Prime Minister's failure to regularly attend Pacific Island Forum meetings, and the lack of bilateral visits to the region by ministers, except notably for Mr Downer and in the case of Papua New Guinea. We have noted with interest that other submissions also raised this issue.

We are delighted the report picks up this issue, and makes appropriate recommendations. We strongly advocate the liberalisation of ministerial and parliamentary travel to the Pacific islands region to encourage visits to the region, either as part of an itinerary for travel to destinations beyond the region or on discrete visits to Pacific island countries. We reiterate here that with careful scheduling it is possible to make a one or two day visit from Australia to the Pacific island countries closest to Australia. Such visits should not be regarded as counting against overseas travel entitlements, or should be part of a separately established and discrete program.

The Councils stand ready to facilitate contact with Australian business in the region by any minister or member of parliament visiting Pacific island countries.

We would also support a program of the Minister for Trade or the Minister for Foreign Affairs being pro-active in leading delegations of Australian business people on visits to the larger economies in the region. The New Zealand government is much more pro-active in this area, although we would not advocate exactly following the New Zealand model. Such a program would increase the profile of the region in Australia, and demonstrate to both Australian business and to Pacific island governments and business a strong commitment to the region by the Australian government.

The Councils share the view of the committee that the **media and education programs** in Australia are failing to secure the sustained interest of most Australians on

Pacific issues. It is our experience that Australians have mostly a negative perception of the region which inhibits investment and economic development.

In the case of Papua New Guinea, the historical associations of wartime, colonial administration and public service, or missionary experience are diminishing through generational change in Australia, meaning fewer and fewer Australians feel any connection with that country. Much is made of the Australian experience at Gallipoli, but in many senses the Papua New Guinea campaign in the second world war was of greater importance to Australia's security as a nation. Yet the PNG campaign, and especially the battles for the Kokoda Track and Milne Bay, are barely recognised by the current generation of Australians. Paul Keating, then Prime Minister of Australia, said at the Bomana War Cemetery on Anzac Day 1992, the 75<sup>th</sup> anniversary of the landing at Gallipoli, "... it might be said that, for Australians, the battles in Papua New Guinea were the most important ever fought". In searching for the right balance in the economic and social development of Papua New Guinea, it is important to rebuild those old linkages.

Fiji is largely viewed through the prism of the holiday experiences of the 100,000 plus Australians who visit annually as tourists or television images of coup leaders George Speight or Sitiveni Rabuka. There is no understanding of the wider economy, and of the opportunities there for doing business. The fact that Australian companies with long experience in Fiji continue to expand and reinvest there is an untold story in Australia.

The Australian community largely dumps all Pacific island countries into one basket. If there is a problem in one country, it is seen as region wide. Media commentary of an arc of instability reinforces this perception.

The Councils are willing to play their part in seeking to improve media and community understanding of the countries in the region.

The proposal for the establishment of an **Australia Pacific Council** has much to commend it as a first step towards changing the ignorance and false perceptions of the region. Such a Council, adequately resourced and with representatives from business, public service and academia with experience in the region, would be a very exciting initiative. The Councils are keen to support in any way we can the establishment of such a Council. There are members of the Councils whose knowledge of countries in the region would enable them to make an outstanding contribution to the work of such an organisation. The Councils would be pleased at an appropriate time to put forward a name or names for consideration.

We do not think the report adequately addresses the **brain drain** issue in its recommendations. The report discusses the issue in its narrative, and makes comments encouraging the continuation of tracing studies on returning students. We would at the very least like to see these tracing studies continue in order to produce a more comprehensive picture than the one which exists at present, although our preference would be for a study of AusAID scholarship recipients over the last ten years

and see how many of them are still contributing to the economic development of their country of origin. The flight of intellectual capital has a significant debilitating effect on the long term economic, political and social development of these economies, and we need to have a more accurate picture of its extent. We note comments in the report narrative that it is facile to argue the brain drain because there are no jobs available. We would suggest that where there is a scarcity of jobs, and this is not universally the case, it is because there is a linkage which needs to be broken between such scarcity, poor economic development and emigration.

The report fails to make any recommendations on the vexed issue of **regional aviation**. For as long as it remains the case that travel between any two Pacific island capitals is often best achieved through Brisbane, Sydney or Auckland, the region's economic development will be constrained. Business travellers, as well as tourists, require improved frequencies and competitive fares. We are aware that the Pacific Islands Forum at its meeting in Auckland in August agreed to an Australian funded study on regional aviation. The Councils would like to have opportunities to contribute to the work to be undertaken, particularly as prior to the announcement of the Forum study we had been undertaking the preparation of a paper on aviation in the region.

One of the issue raised in the Councils' submission was its concern about **travel advisories** issued in relation to Fiji at the time of the May 2000 coup. The advice issued at the time was not seen by the Australian government as a trade sanction, but its effect was the same as one. The advice recommended against all travel to Fiji at a time when the turmoil was restricted to a limited geographical area well away from most tourist areas. It was a significant factor in the decline in tourist arrivals in Fiji, led to economic hardship in Fiji, and damaged Australian business interests. The issue was also raised with the committee by others in relation to Papua New Guinea.

The issue arose again after the lodgement of our submission when, in January 2003, another travel advisory on Fiji was issued by DFAT and caused considerable concern to the Fiji tourist industry which includes substantial Australian business interests.

The narrative of the report discussed the issue to some extent, and makes a suggestion about how DFAT might deal with these issues in future. Although not in the form of a recommendation, we hope that DFAT will take note of the concerns of the Council and of the report's suggestion and will establish an appropriate consultative mechanism for the issue of future travel advices. The Council appreciates that the protection of Australian citizens overseas is of the highest priority for the Australian government. Such a priority demands that such advices are accurate and precise, and that they are not used as a means of making political statements nor applying economic sanctions.

Before concluding this paper, we wish to place on the record our appreciation for the willingness of the Minister for Foreign Affairs and the Minister for Trade and their department and other portfolio agencies to engage in dialogue with the Council on matters which are of concern to Australian business in the region. We believe we all benefit from this dialogue, and look forward to its continuation.

There is much in the report, and in recent Australian government policy initiatives, which the Council supports. We again make the offer that the knowledge and experience of the Council in the region is available to contribute to the debates and policy processes which we hope will now follow this report.