

Papua New Guinea On the Brink

Susan Windybank and Mike Manning

EXECUTIVE SUMMARY

Papua New Guinea (PNG) shows every sign of following its Melanesian neighbour, the Solomon Islands, down the path to economic paralysis, government collapse and social despair.

- For most of PNG's five million people, living conditions have barely improved since independence. Windfall mining revenues and generous levels of aid have subsidised a small political elite at the expense of investment in roads, education and health. Deficit financing and government borrowing for unproductive spending have left little money for key state institutions such as the police, legal system and armed forces. Violent crime rates are soaring, law and order have broken down, and PNG cannot effectively monitor and defend its land and sea borders.
- Democracy has been hijacked by those responsible for and benefiting from the 'systemic and systematic' corruption of public institutions. Some exemplary prosecutions for corruption would help restore legitimacy to government, but the legal system seems incapable of bringing either small or large crooks to justice.
- Population growth is high but economic growth is negligible so that the country is going backwards. Job creation is totally inadequate. The build-up of unemployed young people, particularly in urban areas, leads to demoralisation, social breakdown, escalating crime and growing civil unrest. The extent of lawlessness scares off investors and tourists, reinforcing a downward spiral whereby no jobs are created and law and order get worse.
- This decline is accelerating. In the past, PNG has always muddled through despite grim economic conditions and dire prognoses because people could fall back on subsistence farming and local markets to survive. But this social safety net now appears to be disintegrating under the impact of crime, which has spread to villages. The resulting hardship is taking its toll on traditional village life, fuelling urban drift.
- The central government's weakness makes a fight for the spoils of secession more attractive to resource-rich regions. Protracted internal conflict, like the devastating war in Bougainville, threatens what remains of national cohesion. The government appears to have lost control of parts of the oil-rich Southern Highlands, which are contested by strongmen and criminals. This chaos is spreading to other parts of the country.

Australia will not be able to ignore any fallout. There is no 'exit strategy' as far as the neighbourhood is concerned. Geographical proximity and a shared history forged during the colonial era and World War II make our bilateral relationship with Papua New Guinea unique. Both the Australian public and the international community expect that Australia—as a developed neighbour, principal source of trade, aid and investment, defence partner, and former administering power—will take prime responsibility for resolving any problems should something go wrong. Failure to do so would undermine Australia's aspirations to regional leadership.

It is clear that the longstanding 'hands-off' approach of respecting PNG's sovereign right to make its own choices by supporting its development since independence through generous aid has not worked in spite of AusAID's best efforts. Little development has taken place. The dilemma is that more intrusive options—such as withholding funds until corruption is addressed—may adversely affect Australian interests and are bound to attract charges of callousness and 'neocolonialism' on both sides of the Torres Strait, as well as stiff opposition from those with a personal stake in the status quo.

The condition of PNG and Australia's obligations with respect to it need to be urgently addressed. The matter is too important for debate to be inhibited by tagging alternative policy directions as 'recolonising' PNG and continuing with more of the same. Both the well-being of PNG and Australia's reputation are at stake. If PNG's downward spiral continues, conditions common in mineral-rich, central African countries will follow, leading to the further impoverishment of most Papua New Guineans at best or anarchy at worst. It would be a tragedy if for a lack of imagination or willingness to address hard issues, PNG sank into terminal decline.

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**Australia
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Introduction

Australia's security environment is at its most benign when the strategic balance between the major powers in the Asia Pacific region is stable, and neighbouring nations are doing well.¹ In recent years, however, several countries that make up the island chain of greater Indonesia and Melanesia to the north and east of Australia have been wracked by domestic turmoil. From secessionist struggles to civil wars to communal violence, fragmentation and internal conflict now threaten political stability and national cohesion,² and hence our security. This ongoing volatility should be of the utmost concern to Australian policymakers. Potential flashpoints further afield such as conflict on the Korean Peninsula cannot be ignored, but closer to home continuing upheaval in the 'arc of instability' has become critical.

The most pressing and seemingly intractable problems are in the four Melanesian islands nearest to Australia: Fiji, the Solomon Islands, Papua New Guinea and Vanuatu. This paper examines the economic, social and political challenges facing Australia's closest neighbour and ex-colony, Papua New Guinea (PNG). It discusses the consequences for both Australia and PNG should present trends continue, and asks what Australia can do to help. A forthcoming *Issue Analysis* paper will look specifically at Australian aid policy and make recommendations for change.

The emergence in PNG of what are regarded as attributes of a 'failed state' suggests that Australia should rethink its relationship with PNG now to avoid high costs in the future. The alternative is the prospect of a Solomon Islands style collapse, but on a much larger scale. The dilemma is that Australia's capacity to influence PNG's future is no substitute for genuine and sustained commitment to reform from the country's leaders. Australian advice and pressure are not always welcomed, but ultimately both countries share important common interests that override what was once dubbed the 'colonial overhang'. A renewed focus is needed on how Australia can encourage and support change from within.

International experience demonstrates that economic development, political stability and social progress depend on the attitudes of people themselves, the quality of institutions and government policy choices. Papua New Guinea must tackle such basic issues as economic discipline (no more spending binges and deficit financing), transparent and honest public institutions (an end to jobs for the boys, and prosecutions for corruption), public sector reform (small but effective government) and investment in hard and soft infrastructure (transport, schools, health, police and the legal system).³ This would enable private sector expansion to create jobs, and would help to ease the law and order problem. It would also restore some legitimacy to central government. Without progress on these issues no outside help, no matter how well-meaning, will have an impact on PNG's deeply-seated problems.

Such change must take account of the extraordinary cultural diversity of the country, and historical and structural challenges to development. But Papua New Guinea will have to survive and make its way in the 21st century. Papua New Guineans generally want all the things that people elsewhere want. To be able to afford them, they need a cash income and to get this income PNG has to be able to export cash crops, minerals and petroleum products, fish, timber or encourage tourism. Without adequate infrastructure, the rule of law, good leadership and a willing population—as well as some assistance from Australia—this will not happen.

STATE OF THE NATION

Papua New Guinea is struggling to survive as a viable nation. The economy has stagnated, and the outlook for growth is bleak. Abundant mineral resources—large deposits of gold and copper and substantial oil and natural gas reserves—and generous levels of foreign aid⁴ have created 'windfall' incomes (economic rents) that have led to waste and corruption. Rent-seeking has subsidised the rise of a small political elite and overblown central government at the expense of investment in infrastructure and diversification of the economy. The non-mineral sectors, in particular agriculture,

have been hurt by high exchange rates maintained for two decades through the hard kina policy. Transport and communications have been neglected. Roads have become impassable in rural areas where some 85% of the population live. Government provision of basic education and health services has collapsed outside the capital.

The lack of progress is reflected in PNG's social indicators, which are closer to those of Sub-saharan Africa than to the rest of the Asia Pacific region in terms of population growth, fertility rates, school attendance, and infant and maternal mortality statistics (see table 1 below). Less than 10% of the population is employed in the formal sector, and the number of young people without jobs is appalling. Most people depend on subsistence farming and some cash cropping for survival. Life expectancy, the most reliable indicator of development, is the lowest in Melanesia by more than 10 years. Malaria and tuberculosis are making a deadly comeback while the alarming rise in HIV/AIDS infection rates is the highest in the Pacific.⁵

Table 1. Papua New Guinea's social indicators compared

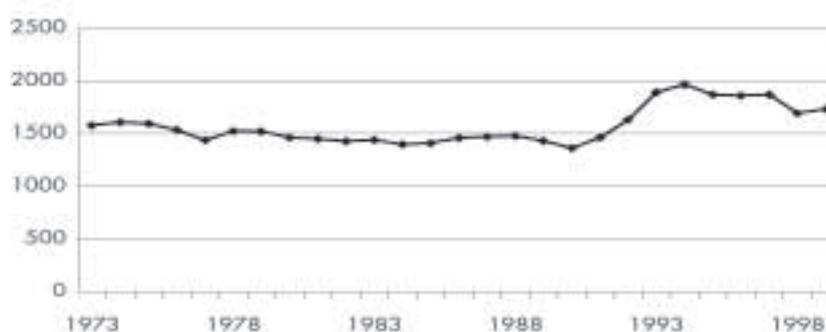
	PNG	Kenya	Zimbabwe	Thailand	Australia
Expectation of life at birth (years) 2000	56.7	50.8	42.9	70.2	78.9
Annual population growth rate 1975-2000 (%)	2.5	3.3	2.9	1.7	1.3
Average years of schooling (2000)					
Total	2.9	4.2	5.4	6.5	10.9
Male	3.3	4.7	6.0	7	11.2
Female	2.4	3.7	4.7	6	10.7
Fertility rates (births per woman) 1995-2000	4.6	4.6	5.0	2.1	1.8
Infant mortality rates (per 1,000 live births) 2000	79	77	73	25	6
Maternal mortality (per 100,000 live births) 1985-1999	370	590	700	44	6

Note: International comparisons should be treated with caution. Maternal mortality data, for instance, are those reported by national authorities. UNICEF and the WHO periodically evaluate these data and make adjustments to account for the well-documented problems of underreporting and misclassification of maternal deaths. Education data do not take into account differences such as length of school year and education quality. *Source:* United Nations Development Programme, *Human Development Report 2002* (New York: Oxford University Press, 2002); schooling estimates from World Bank, *World Development Indicators 2002* (Washington D.C., 2002).

Today's conditions are mainly the product of structural imbalances in the economy that existed at independence, and of conventional policies that failed to correct them. In the past 25 years, per capita GDP has barely risen (figure 1 below). What growth has taken place has been concentrated in the mining and petroleum sectors, but their 'enclave' nature means a relatively small labour force. The contribution of the non-mineral sectors to the economy (agriculture, fisheries and forestry) has stagnated over the past decade (see figure 2 next page) despite a larger workforce, indicating very low rural incomes. Such lopsided development has mainly benefited urban elites. As far as rural villagers are concerned, anecdotal evidence suggests that many believe their quality of life is now worse than it was 20 or so years ago.⁶

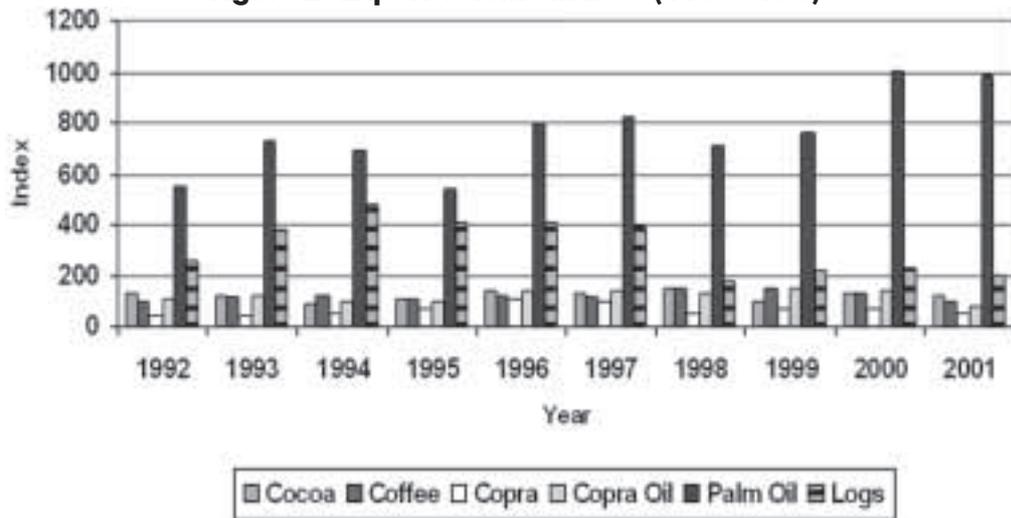
Many rural villagers believe their quality of life is now worse than it was 20 or so years ago.

Figure 1. Papua New Guinea per capita GDP, 1973-1999 (constant 1998 Kina)



Source: International Monetary Fund, *International Financial Statistics*, <http://ifs/apdi/net/imf.about.asp>

Figure 2. Export volume indices (1980=100)



Note. Palm oil exports are one of the few bright spots in the agricultural sector. New Britain Palm Oil Limited, PNG's largest and fastest-growing palm oil firm, accounts for over half of total output.
Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin* (September 2002).

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Declining living standards have been accompanied by a severe and prolonged degradation of public institutions. Corruption is both 'systemic and systematic', as former Prime Minister Sir Mekere Morauta put it—systemic because it has invaded the whole process of policymaking and decision-making, and systematic because it is organised and often highly sophisticated. Nepotism is entrenched at the highest levels. The arbitrary appointment of clan members or political cronies to public office, regardless of merit, has politicised and destabilised the bureaucracy and state-owned enterprises, most of which are running at a huge loss.⁷

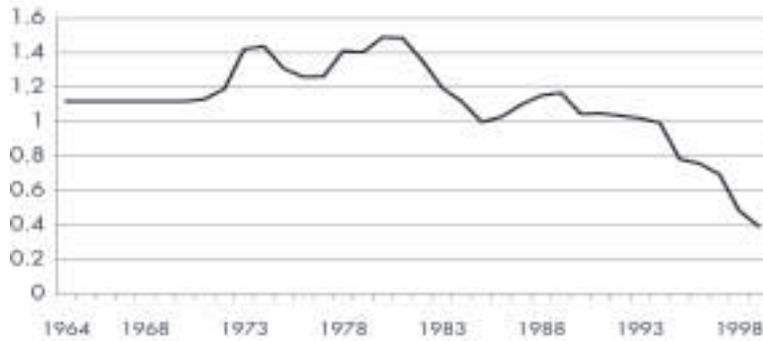
This has starved the economy of funds and, ominously, undermined the most fundamental role of government—the protection of life and property. Law and order have broken down, and crime rates (fuelled by high unemployment) are soaring. Control over parts of the Highlands is uncertain. Unless the legitimacy and authority of central government is restored, PNG risks degenerating into a patchwork of local fiefdoms contested by strongmen and criminals. This scenario is already being played out in the oil-rich Southern Highlands, where lawlessness and violence dominate. It is now spreading to other parts of the country so that PNG is becoming close to ungovernable.

The deteriorating state of the nation is a far cry from more optimistic expectations at independence in 1975. Today some older Papua New Guineans look back nostalgically on the colonial period as a time when government was stable, progress was steady and infrastructure worked. By electing PNG's first post-independence prime minister Sir Michael Somare again, people appear to be expressing a desire to restore legitimacy to government—to go back to the early postcolonial 'honeymoon' period when the first Somare government inherited institutions that were to be the basis of development. But the 'father of the nation' faces an enormous task to pull the country back from the brink. As PNG enters its 28th year of independence, failure to lay the foundations for a turnaround in its fortunes would dissipate hopes for the future.

From crisis to crisis

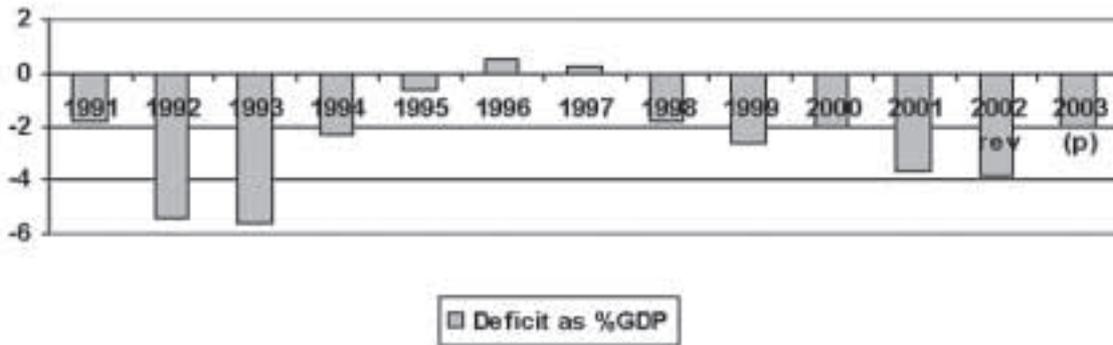
PNG is on the verge of another financial crisis. Like many of its predecessors, the new Somare government faces a budget blowout. With a deficit of nearly 4% (down from an initial estimate of 8% after a supplementary budget) and a public debt to GDP ratio over 70% (from zero at independence), PNG has lost international credibility. Interest costs absorb more than half the development budget,⁸ and debt repayments are looming. Most of the debt is in US dollars, but the kina is now trading in the low 20 US cents range. As figure 3 opposite shows, this is a fall from a high above US\$1 in the early 1980s. The currency's decline began after the closure of the Bougainville mine in 1990 and the 1994-95 macroeconomic crisis that led to its eventual float.

Figure 3. US dollar to kina exchange rate 1964-1999



Source: International Monetary Fund, *International Financial Statistics*, <http://ifs.apdi.net/imf.about.asp>

Figure 4. Budget surplus/deficit as % of GDP



Source: Department of Treasury and Finance, *Economic and Development Policies* (Port Moresby: November 2002).

This bleak fiscal outlook is a result of persistent budget deficits (see figure 4 above) and a government habit of spending more than it collects so that it has to borrow heavily to fill the gaps. Markets and aid donors generally view deficits with less scepticism when money is spent on capital assets such as infrastructure. In PNG, however, deficit finances have not been spent not in ways that generate an economic return, but have been absorbed by the public service and political system instead (see box 'Politics is the Economy' overleaf).

The ability of the government to manage its way out of these fiscal crises is declining. In the past, PNG was able to open up new mines as existing ones were winding up. But mining revenues are going down, and there are few new projects on the horizon. Within the next decade, oil production is likely to cease while annual copper/gold output is falling.⁹ The proposed AU\$6.5 billion gas pipeline from the Southern Highlands to Brisbane, if it had gone ahead, may have helped PNG cross the line. But if past experience is any guide, such projects tend to be counterproductive because mineral rents encourage more profligate spending and more borrowing. Public debt is already unsustainable and PNG taxpayers face a huge bill for loans that were either spent unwisely, or disappeared.

In the short term, averting another financial crisis means balancing the budget by cutting spending on the bloated and inefficient public sector. Public sector employment accounts for roughly half the total formal workforce, with the public payroll consuming around 40% of total government expenditure. Some 10%-15% of the estimated 75,000 public servants are 'ghosts'—employees who are dead, who move from department to department collecting multiple paychecks, or who enter the public service under a number of different names. Eliminating the 'ghosts' alone could save the PNG government up to AU\$45 million a year.¹⁰ Without public sector cuts, there is little money leftover for health, education, infrastructure, police, and the legal system, further undermining the legitimacy of the state and security throughout the country.

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POLITICS IS THE ECONOMY

Public office and public sector jobs are fiercely contested prizes funded by mineral revenues and aid receipts. These monies increase the power and resources of the government and bureaucracy relative to the rest of society, promising comparatively large rewards and squeezing the commerce most people revert to. The resulting politicisation of public life raises the stakes in the struggle for power. Democratic elections have become the primary means of accessing state finances; almost 3,000 candidates competed for 109 seats in the 2002 elections.

First-past-the-post voting has heightened this contest by turning elections into a zero-sum competition between rival clans. Introduced at independence, the system involves a single round of voting with the person receiving the most votes declared the winner. Politicians can therefore get elected on a very small percentage of the vote. In some cases up to 40 candidates may run for the same seat, so members of parliament (MPs) can win with less than 10% of the vote (that is, a 90% rejection rate). Their only loyalty is to a narrow clan or village.

Electoral politics accounts for much government overspending and official corruption. It costs a lot of money to get elected. Being returned to political office depends on whether MPs can recover their considerable election expenses. Many run as independents and join political parties during post-election 'horse trading' sessions, producing unstable coalitions held together more by patronage—such as an offer to pick up the tab for election expenses or a ministerial post—than by party loyalty based on common policies or ideas. They are also under pressure to reward supporters: 'almost all expenses can be forwarded to your member if you voted for him'.¹¹ The high turnover among incumbents—80 of PNG's 109 parliamentarians lost their seats in the 2002 elections—means the pursuit of personal wealth is seen as both rational and imperative for political survival.

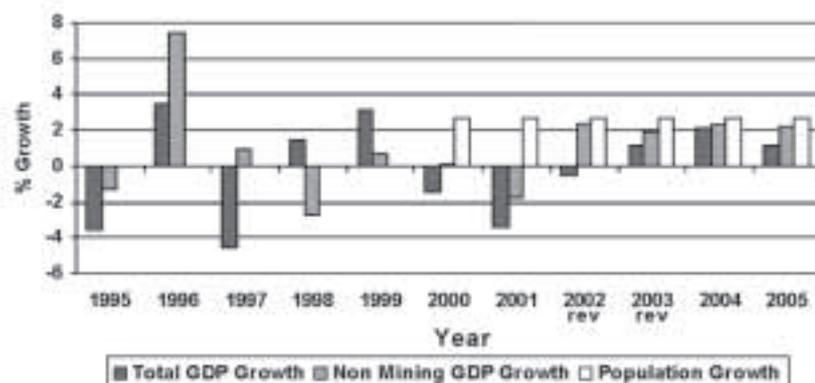
The aim of the electoral laws introduced by the former Morauta government is to influence electoral behaviour by creating incentives for cooperation instead of competition between clans. The Integrity of Political Parties and Candidates Act passed in 2001 is intended to encourage party coalitions and strengthen the government of the day while the change to limited preferential voting (where voters mark at least three preference votes on their ballot paper) is aimed at increasing the level of representation.¹² Politicians will have to campaign and win support beyond their narrow electorate interests. Making MPs more accountable to a broader cross-section of the population should reduce electoral spending binges over time. But if the new laws are subverted by vested interests, they will not lead to meaningful change.

A downward spiral

PNG faces a number of major challenges that require politicians to put aside short-term personal gain and start acting in the country's interests. The most pressing problem is employment. The country faces a demographic time bomb. Its population of over five million is increasing at an annual rate of 2.5%. This is not an intrinsic problem. Rapid population growth can foster development. But in PNG economic growth is not keeping pace with population increase (see figure 5 below) so that the country is going backwards. There are not enough jobs for the 50,000 or so young people entering the labour market each year. This is not a new trend. A recent report estimated that the size of the formal workforce went from 124,000 in 1978 to only 146,000 in 2001 despite the population having doubled in that period.¹³

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Figure 5. Real GDP growth 1995-2005



Source: Mekere Morauta, *Economic and Development Policies* (Department of Treasury, 2001); Bank of Papua New Guinea Governor's Six Monthly Report (June 2002); B. Philemon, *Supplementary Budget 2002* (Department of Treasury: 2003 Budget, August 2002).

There is a continual build-up of unemployed and underemployed youth, particularly in urban areas. With no jobs to go to, many turn to so-called raskol crime to do better than in the subsistence economy.¹⁴ The capital Port Moresby accounts for nearly half of all reported crimes—from murder, grievous bodily harm and sexual assault to robbery and drug related offences. It was ranked the worst place to live in a 2002 ‘hardship’ survey of expatriates in 130 cities worldwide, worse even than cities renowned for their high crime rates and violence such as Johannesburg (93), Manila (105), and Bogota (115).¹⁵

The extent of lawlessness has tarnished PNG’s international image, scaring off tourists and undermining investor confidence. In a recent survey, employers rated crime and theft, then corruption, poor infrastructure, and public policy instability as the biggest impediments to doing business in PNG.¹⁶ The average company spends some 8%-10% of its turnover on private security and losses from theft. This security payout, when combined with high interest rates (around 18%), rising utility costs (fuel, electricity), increases in license fees and bureaucratic delays in getting work permits, frequent and sudden changes in public policy (such as a recent proposal to reverse VAT), and bribes to corrupt officials,¹⁷ means businesses are forced to look for savings. They either move offshore, close down or lay off workers. So unemployment rises and law and order get worse.

The social toll

Papua New Guinea has faced dire economic conditions and grim prognoses before, but the worst has never happened. It has always muddled through because people could fall back on subsistence farming and the local economy to survive. This safety net now appears to be disintegrating. Crime is not confined to urban areas. It is a nationwide problem. The resulting hardship is taking its toll on traditional village life and the social support system that has enabled ordinary Papua New Guineans to weather hard times in the past.

East New Britain Province (see map, p.11) once led the country in development and welfare of its people, but now thieves are breaking into homes and stealing from plantations and village gardens. Other regions are worse. Bandits use the poor condition of roads in rural areas to ambush villagers taking their coffee to market. Some 20% to 30% of coffee production is stolen at an estimated loss of 150 million kina a year.¹⁸ Highway hold-ups and potholed roads hamper the delivery of essential services and the development of a domestic market because people and goods cannot move easily. Villagers often have to cover long distances to reach health clinics. Teachers have deserted posts in some regions. They do not have access to banking facilities or basic food and other goods because transport has broken down and travel is unsafe. Parents see little point in sending their children to school when there are no jobs to go to at the end of it. This dearth of opportunity in rural areas is fuelling the drift towards urban centres.

To slow urban drift a renewed focus is needed on increasing earnings from agriculture and improving rural incomes. An export-led recovery that harnesses PNG’s rich agricultural potential would help to bring rural production into the formal economy so that wage jobs are created and a domestic market can grow. But while poor infrastructure, the collapse of government services and rising theft and violence are the most immediate and serious constraints to enterprise and improved quality of life at the village level, the system of communal land ownership that covers more than 90% of the country also remains an obstacle to sustained and widespread rural investment.¹⁹ Development can only take place with the collective consent of landowners. Individuals cannot buy or sell land as a commodity, so land cannot be turned into an asset to generate private wealth by using it as collateral for bank loans.

Customary ownership does not preclude individual access to and use of land so that clan and family members can grow food and cultivate cash crops. And a US \$100 million palm oil plantation is now being established on communal land after agreements over lease payments were reached. But such arrangements are informal, overlapping or involve regular renegotiations. Much productive land lies idle because

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the terms of use that landowners demand are not attractive or because it is difficult to settle conflicting claims to land.

Historical experience has shown that no country has developed with a communal land system. High-income nations abandoned traditional land tenure some time ago. This is at odds with the Melanesian tradition of communalism, but it must be addressed by Melanesians themselves if long-term development is to take place.

Land rights

Disputes over land not only threaten development but also lives. At the national level, the Papua New Guinean constitution makes it clear that what is under the ground belongs to the state, but customary landowners hotly contest this notion at the local level. They often make excessive demands on resource developers, resorting to intimidation and threats until their conditions are met. Last year in the Southern Highlands power supplies were cut to the Porgera gold mine and oil transportation was disrupted from Kubutu oilfield.²⁰

The protracted Bougainville conflict is a tragic example of where such resource-related violence can lead. This secessionist war (1989-1998) was fought over the Panguna copper mine, although longstanding aspirations to independence played a role. The mine contributed 40% to PNG’s export earnings at the time. The insurgents—mine workers and landowners who formed the Bougainville Revolutionary Army—demanded compensation for environmental spoilage and a greater share of the mine’s profits. But the underlying motivation may have been to wrest control of the mine and, eventually, the island province from the central government:²¹ the Bougainville Peace Agreement signed in 2001 calls for regional autonomy and promises a ballot over independence at an unspecified date in the future.

It is no coincidence that ‘identity’ wars and demands for regional autonomy or independence ignite around large-scale resource projects. When the central government’s authority is contested at the local level, the spoils of secession become more attractive to resource-rich regions. Genuine group grievances—such as a glaring lack of basic services at the provincial level despite a disproportionately large contribution to the national coffers—are then inflated by opportunists to revolt against the state.²²

Down but not out?

In this very depressing picture, there are a few important positive features. So far PNG has remained intact, avoiding the worst of the internal conflict that has blighted development in parts of Africa. In contrast to many postcolonial states, it has also maintained a record of formal democracy since independence. Changes of government have been regular, relatively peaceful and constitutional. A free press means some exposure of corruption. The judiciary is independent, and PNG’s constitution guarantees basic civil and political liberties.

For each positive, however, some significant caveats are required:

- Territorial integrity has been maintained, but the war in Bougainville claimed some 10,000 lives (mainly through malnutrition and disease), and led to the closure of the Panguna mine (later written off), a dangerous standoff between PNG’s defence forces and the civilian government (see below), and the destruction of the island’s infrastructure (hospitals, roads, schools). Australia and New Zealand put troops on the ground and helped broker a ceasefire. A peace agreement was hammered out, but the situation is far from settled. The ongoing troubles in the Southern Highlands indicate other challenges that lie ahead.
- The Papua New Guinea Defence Forces (PNGDF) have violently challenged the authority of the state twice in recent times. In 1997 the military—demoralised and bled dry by the Bougainville war—revolted after the government hired foreign mercenaries to help end the conflict and re-open the Panguna mine. The PNGDF sent the foreigners home, and the ‘Sandline Affair’ cost the Chan government the next election. In 2001 attempts to reform the PNGDF again tested relations

between the military and central government. Some officers staged a mutiny when plans to downsize the defence force by offering voluntary redundancies (funded by Australia) were leaked.²³ The government withdrew the reform package. A more recent rebellion was put down and several soldiers court-martialled. While this indicates ongoing government/military tensions, the likelihood of a fully-fledged coup is remote given the army's small size and the logistical difficulties in sustaining military control over such a rugged and ethnically fragmented country.

- AusAID gave \$6.5 million to the PNG Electoral Commission for 'capacity building' and improving the quality of the electoral roll, yet blatant vote-rigging, intimidation and electoral violence ensued at last year's election. Over 30 people were killed. Polling was abandoned in parts of the troubled Southern Highlands. Twice as many people voted as were counted in the 2000 census to be of voting age in some districts. These problems do not augur well for the smooth introduction of a new and more complicated voting system (see box, p.6) at the next general elections in 2007.
- The Westminster model of parliamentary democracy is more apparent than real. In some countries this has led to a stable two-party system, but at PNG's last election some 42 parties ran for office and 24 parties won seats. Many of these subsequently joined larger and more established parties. The inherent instability of such coalition government is likely to be exacerbated by the notorious constitutional provision for votes of no confidence 18 months into the parliamentary term; this has led to more changes of government on the floor of parliament than at elections.
- Damning reports by the Ombudsman, the PNG chapter of Transparency International and endless commissions of inquiry into corruption and other abuses of public office receive widespread media coverage, but no arrests or prosecutions take place. The Ombudsman has referred many who contested the 2002 election to Leadership tribunals for corruption. Former Prime Minister Bill Skate, who was implicated in the plunder of the National Provident Fund (the private sector superannuation fund), is now Parliament Speaker.
- While the Supreme and National Courts are thought to have stood the test of time, a widening gap between the formal legal system and informal customary law has eroded the authority of the lower courts. In remote areas that are difficult for the police to reach, local disputes are increasingly resolved through traditional methods of compensation or violent retribution such as tribal 'payback' because villagers want instant justice. The biggest victims of this are women. Rape and domestic violence are rarely prosecuted, let alone reported. Domestic violence is considered a private affair, while rape cases are often settled by the accused giving money or goods to the victim's family.

Tribe versus nation

At the heart of PNG's problems is a cultural clash between traditional tribal customs and the institutions of modernity. Nationhood and centralised government were imposed on a geographically scattered and exceptionally diverse tribal society of some 800 language groups: 'common purpose, even common speech, was always an ambitious goal'.²⁴ Members of parliament use public office to dole out financial support and jobs to followers from their own language group or wantok (pidgin for one-talk) instead of governing in the interest of the country. This is not dissimilar to Western pork-barrelling in marginal electoral seats, but in PNG it is ingrained under the guise of Melanesian culture. Politicians have twisted around the 'big man' tradition of gift-giving and patronage at the village level to justify gross corruption and graft at the national level. A 'get rich quick' attitude pervades politics and society. Overcoming this political culture, and the opposition to reform from those who benefit from it, is the greatest obstacle to change in PNG.

Aid agencies talk about the need for 'good governance', 'institution strengthening' and 'capacity building', but PNG's dysfunctional institutions suffer from a lack of legitimacy as much as they do a lack of capacity or resources. The popular view is

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that there are two sets of laws—one for those with power and influence, who corrupt the formal system and get away with it, and another for the ‘grassroots’ or ordinary people. At issue is not the absence of laws and regulations, such as sanctions against the misappropriation of public funds, but a glaring lack of enforcement. Raskols mimic political leaders’ corrupt behaviour at the street level, enriching themselves through theft. Law enforcement has not matched the escalation in crime²⁵ so that gangs operate with relative impunity. When criminals and corrupt politicians go unpunished, people lose respect for state laws and the authority of central government collapses.

WHY PAPUA NEW GUINEA MATTERS

The demise of Papua New Guinea does not excite much interest in Australia, which is more preoccupied with Southeast Asia. It now takes a disaster like the Aitape tsunami in 1998 to impact on the public consciousness. Australians’ response to that emergency demonstrated that there is still some goodwill towards PNG, particularly among those who lived or worked there after World War II. But the people-to-people links that once characterised relations at both a formal and informal level are not as strong between emerging generations. Australian prime ministerial representation has been absent from a number of South Pacific Forums. Many Australian companies now focus on the larger, more affluent and more stable Asian markets. Fewer journalists cover PNG, and those that do report that it is hard to get their stories into newspapers. Their editors blame dwindling public and business interest.

This relative neglect reflects changed international circumstances and domestic priorities. Yet Papua New Guinea is a substantial neighbour. It is by far the largest of the Pacific island countries, with a land area nearly twice that of New Zealand. Its population is already a quarter the size of Australia’s and is expected nearly to double by 2025. It is a billion dollar market for Australian investment and exports. Australia has a 52% share of total imports, although China and ASEAN countries are challenging this position. In recent years, PNG has been the only Pacific country to enjoy a small trade surplus with Australia, due mainly to crude petroleum exports. Australia remains PNG’s principal source of bilateral aid,²⁶ with the annual budget of over \$300 million making up one third of total Australian country aid.

History has demonstrated that the security of PNG and Australia are inextricably linked. The 60th anniversary of the Kokoda Trail battles last year commemorating the defeat of Japanese invasion forces in PNG during World War II is a reminder that its territorial integrity is directly related to the defence of continental Australia. The large amounts of aid that successive Australian governments have poured into PNG go back to a longstanding policy of ‘strategic denial’: making certain that other countries potentially hostile to Australian interests do not gain a foothold in the territory that stands between us and Asia.

It is not necessary, however, for a state to threaten Australia militarily (as in 1942) to cause serious security problems. Should PNG’s downward spiral continue so that it unarguably becomes a ‘failed state’, it could attract transnational criminals, people smugglers, drug and arms traffickers—and terrorists. PNG can neither effectively monitor its land and sea borders nor control parts of its territory, making it relatively easy for such groups to slip in undetected and use the country as a base for operations or point of entry into Australia.

Australia and PNG are separated at their closest points by just a few kilometres (see map opposite). A growing drugs-for-arms trade across the Torres Strait is of increasing concern to both governments. Firearms are sold on to Highlanders and raskol gangs, thus contributing to the corrosive effect of escalating crime and violence in PNG. Drugs—mainly marijuana (‘New Guinea Gold’)—end up on Australian streets. The Torres Strait has also been used by illegal third country immigrants to Australia, who arrive in PNG after crossing its porous land border with the Indonesian

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province of West Papua (formerly Irian Jaya). These problems are manageable for now,²⁷ but could change with little warning.

The risk that Islamist terrorists may use PNG as a haven cannot be dismissed in light of last year's Bali bombing. PNG's strategic backwater status and institutional instability could provide new opportunities to exploit the weakest link. Terrorists could pay PNG's criminal gangs to assist them with preparations for attacks on Australian soil or against Australian civilians and assets in PNG. A cash-strapped PNG government could resort to selling passports and visas to the highest bidder, or terrorists may use PNG as a

Given the increased availability of and resort to arms, the risk that PNG will descend into anarchy is high.

flag of convenience to register ships that transport operatives and equipment.²⁸ Such scenarios indicate that internal developments in PNG have direct security implications for Australia.

The ability of Australian authorities and their PNG counterparts to work together effectively on these issues is limited while the central government is unstable and weak, and security forces are rundown and demoralised. Australia has spent over a half a billion dollars since independence on assistance to the PNGDF—the largest allocation of defence funds to any single country—while an AusAID project to strengthen the police force has been running for over a decade. Yet these key state institutions remain under-resourced, poorly equipped and ill-disciplined.

Until recently, there had not been any PNGDF patrols of its land border with the Indonesian province of West Papua in a decade because of resource shortages. If the 'Free Papua' campaign for independence were to spill over the border into neighbouring and culturally similar PNG, Australia could find itself caught in the middle between its defence ties with PNG and maintaining good relations with Indonesia.

Civilian command over the PNGDF remains uncertain, as the 1997 Sandline crisis and the 2001 mutiny demonstrated (see p.8). The outnumbered police force has lost control of large parts of Port Moresby and major towns, and is outgunned by heavily armed groups in some regions. A recent disturbing trend is the theft or disappearance of weapons from police and military armouries, indicating that some unscrupulous officers have formed associations with criminal gangs and other groups outside the law. Given the increased availability of and resort to arms, and the weakness of state security forces, the risk that PNG will descend into anarchy is high.

Australia will not be able to ignore any fallout. There are still over 7,000 expatriate Australians living in PNG. Australian governments increasingly accept consular responsibility for their citizens overseas. If internal security in PNG worsens, the Australian Defence Force might have to be deployed to evacuate not only Australian nationals but also possibly citizens of other countries. It is likely that many Papua New Guineans would want to follow the exodus, either as legal migrants or refugees. Health services in Queensland are already under pressure from PNG nationals who have crossed the Torres Strait to access better care.²⁹ Given the high rates of HIV infection and other contagious diseases in PNG, uncontrolled people movement is not only a health issue but also a security risk, however unintentional.

A big question mark hangs over how effective Australian aid can be when the rule of law has broken down, infrastructure is dilapidated, government agencies are paralysed, the economy has stagnated, and the social fabric has frayed. Some Australian companies have now given up on PNG, reflecting an international climate in which business is becoming increasingly risk averse. Despite the advantages of historic ties, a common language, geographic proximity, and Australian-inspired legal, commercial, administrative and industrial relations systems, the costs of doing business are relatively high and they are not getting the return on their investment that they can get elsewhere.³⁰

What Australia can do to help

A fundamental review of Australian policy towards PNG is urgently needed. If we continue with more of the same, PNG's problems will only get worse. Vigorous public discussion, going beyond both traditional Australian ways of viewing PNG and the platitudes of the international aid industry, is required to find a better way to help PNG. In conducting that discussion, Australia should be prepared to acknowledge some policy errors of both commission and omission. It should consider all options and should not be intimidated by the prospect of charges of 'neocolonialism'.

The Australian Strategic Policy Institute has called for nothing less than a 'change of policy paradigm' towards PNG and the Melanesian islands: 'We may need to draw on international experience in dealing with failing and failed states elsewhere in the world to help fashion a new model for our involvement in some countries in our neighbourhood.'³¹ A more activist approach might involve sending teachers, doctors and policemen instead of short-term consultants and advisors to PNG, overturning Australia's largely passive role of offshore financier since independence.

It is clear that the generous Australian aid of the past 28 years—over \$12 billion dollars since 1975³²—has not worked. The nature of aid makes it part of the problem, not the solution. The anticipation of aid has enabled successive PNG governments to live beyond their means, encouraging irresponsible policies and postponing the need for reform. Like welfare dependency in developed countries, aid dependency in developing countries entrenches a 'handout' mentality. The well-known problem of 'moral hazard' results—that is, a failure to tackle problems because the government can always be confident that international friends will come to the rescue.

Attempts to reform aid have led to partial solutions at best. For more than two decades following independence, Australia delivered budget aid—no strings attached—to PNG. But such cash support is a government-to-government transfer that rarely makes it to ordinary people because it is 'fungible'—that is, funds can be used for non-designated purposes—leading to wasteful spending, misappropriation of funds and corruption.

AusAID now directs development assistance to projects and programmes, agreed on by both countries, in specific sectors such as infrastructure, education and health. It is forming new partnerships with the private sector and non-government organisations to deliver aid. But some 60% of this is so-called boomerang aid to short-term Australian contractors. Moreover, despite the best of intentions, AusAID risks appropriating responsibility for core issues like education and health, displacing local initiatives at best and becoming a surrogate government at worst. The legitimacy of the state in PNG is 'performance-based'.³³ If it does not provide basic services, the trust between government and civilians that is essential for social cohesion is broken.

Admittedly, AusAID is in difficult position. Bilateral aid must take account of Australian strategic and economic interests as well as humanitarian objectives. But Australia has been following rather than leading the policy debate among multilateral aid donors—the World Bank, the International Monetary Fund and the Asian Development Bank—when it has the specific knowledge of PNG to clarify the reforms that are urgently needed. To avoid accusations of neocolonialism, however, Australia has sometimes worked through these international institutions to deliver bad news and has been party to some of their one-size-fits-all policy failures.

A forthcoming *Issue Analysis* paper will examine the record of Australian aid to PNG

It is clear that the generous Australian aid of the past 28 years—over \$12 billion since 1975—has not worked.

and Pacific island countries, and the legacy of inappropriate policy advice that has contributed to their problems. It will explore other options from cutting aid altogether to more targeted or conditional aid to migration, education and labour market policies.³⁴ ABC journalist Graeme Dobell canvassed some of these latter alternatives in a recent public lecture, arguing that Australia must live up to its claims to regional leadership by transforming aid policy into a comprehensive 'Pacific People Policy'.³⁵ To do so, Australia would need to put some substance behind a 'whole-of-government' approach.³⁶ The problems of Papua New Guinea and its Melanesian neighbours do not divide up neatly between government departments. Australia has an Iraq taskforce when it needs a Melanesian taskforce. A good start towards rebuilding familiarity with the neighbourhood could be made if the current Senate inquiry into Australia's relations with PNG and the other Pacific countries crossed the Torres Strait to listen to Papua New Guineans themselves instead of conducting hearings from a safe distance.

Conclusion

Australia has a responsibility to help PNG because it is best placed to do so and because the stability and well-being of our closest and largest Melanesian neighbour is in our national interest. If current trends continue, PNG will sink further into chaos and poverty. Australia will not be able to quarantine any fallout. But our commitment to PNG is not, nor should it be, open-ended. A frank reappraisal of where we share common interests is required, and how those interests can best be advanced.

Ideas and leadership matter. Some politicians argue that PNG was better off before European contact, yet many older Papua New Guineans believe their quality of life improved during the colonial era. Advocates of a 'Melanesian way' try to have it both ways, telling citizens that they can 'go back to the land' and enjoy the material benefits of modern statehood when present trends suggest that rather than having both they may risk having neither. Other commentators externalise problems by blaming Australians and outsiders for the lack of development in PNG. Today ordinary Papua New Guineans are paying the price for this grandstanding. PNG's leaders must address the country's problems and arrive at the policies and reforms that will turn things around. The alternative is frightening.

Endnotes

- ¹ 'Security problems are manageable even when one of these two factors goes bad, as long as the other factor does not . . . What would gravely threaten our security would be a combination of hostility among the region's major powers and instability among our nearer neighbours. That is what happened, for example, in 1942.' Hugh White, 'Australian Defence Policy and the Possibility of War', *Australian Journal of International Affairs*, 56:2 (July 2002), p.261.
- ² See Benjamin Reilly, 'Internal Conflict and Regional Security in Asia and the Pacific', *Pacifica Review* 14:1 (February 2002), pp.7-21.
- ³ These problems are not unique to PNG. See Mark Falcoff, 'Latin America on the Brink', *The American Enterprise* (October/November 2002), pp.42-43.
- ⁴ Overseas Development Assistance (ODA) flows to PNG totalled over AUD\$15.9 billion (in 1998 dollars) from 1970-1999, by far the highest in the Oceanic region. Admirers of the French model in the Pacific should note that ODA flows to French Polynesia and New Caledonia were second only to PNG at AUD\$8.5 billion and AUD\$8.8 billion respectively over the same period. Figures from the Development Assistance Committee, *Development Co-operation Report* (Paris: Organisation for Economic Cooperation and Development, 1971-2000).
- ⁵ Unemployment among the working age population has been estimated at around 40%. The UNDP *Human Development Report 2002* puts life expectancy at 68.3 for the Solomon Islands, Vanuatu 68.0, and Fiji 69.1. Some 10,000 tuberculosis cases are reported annually in PNG, while malaria is the leading cause of outpatient mortality and the second leading cause of hospital admissions and deaths. Chloroquine-resistant malaria is endemic even in the Highlands, which were once malaria-free (United Nations, *Papua New Guinea: Common Country Assessment*, section 2.3.2, available from [www.undp.org.pg/cga/PNG%20CCA%20Report%20\(final%20version\).pdf](http://www.undp.org.pg/cga/PNG%20CCA%20Report%20(final%20version).pdf)). An estimated 10,000-15,000 Papua New Guineans are infected with HIV/AIDS. To compare, Australia with a population nearly four times that of PNG has less than

The current Senate inquiry into Australia's relations with PNG and other Pacific countries should cross the Torres Strait instead of conducting hearings at a safe distance.

12,000 HIV positive people. AusAID, 'HIV/AIDS in Papua New Guinea', <http://www.ausaid.gov.au/country/png/hivaids.cfm>

- ⁶ According to surveys conducted for the PNG Human Development Report. United Nations, *Papua New Guinea: Common Country Assessment*, section 1.3, (see n.5).
- ⁷ The National Capital City Commission (Port Moresby council), Post PNG Limited, Motor Vehicle Insurance Limited, PNG Harbours Board, PNG Banking Corporation, Investment Corporation, Agriculture Bank, Air Niugini and the Electricity Commission have all been close to bankrupt. Maxine Pitts, 'Crime and Corruption: Does Papua New Guinea Have the Capacity To Control It?', *Pacific Economic Bulletin*, 16:2 (November 2001), p.127; David Kavanamur, 'Papua New Guinea', *The Contemporary Pacific* 14:2 (2002), p.456.
- ⁸ Satish Chand, 'Deficit Bias, Debt Accumulation, and Economic Crises in Papua New Guinea', Paper presented to the Kumul Students International Conference (Canberra: The Australian National University, 4-5 July 2002), p.23.
- ⁹ The Australian Export Finance and Insurance Corporation (EFIC) estimates that the forecast loss in mining and petroleum exports amounts to about 65% of export revenue and almost 25% of internal revenue. Roger Donnelly, *PNG Country Risk Assessment* (EFIC, 21 December 2001), http://www.efic.gov.au/economics/crapng_text.asp
- ¹⁰ According to the managing director of the Brisbane-based company that won the contract to computerise and clean up the PNG government's payroll system. 'Concept Systems Wins PNG Government Payroll Deal', *The Sydney Morning Herald* (26 September 2002).
- ¹¹ James Chin, *The Canberra Times* (30 May 2002).
- ¹² This is not a new voting system for PNG. See Benjamin Reilly, 'Economic Decline and Political Reform in Papua New Guinea', *Pacific Economic Bulletin*, 17:2 (November 2002), p.139.
- ¹³ Theodore Levantis, *Papua New Guinea Employment, Wages and Economic Development* (Port Moresby and Canberra: Institute of National Affairs and Asia Pacific Press, 2000).
- ¹⁴ An annual average of 11,500 serious crimes was reported to police in the second half of the 1990s alone, a 65% increase compared to a decade ago. Statistics on crime rates, however, are unreliable and are largely limited to urban areas, where only 15% of the population live. It is thought that more than half of sexual crimes go unreported. Based on Papua New Guinea police department figures (1980-1998). World Bank, *Papua New Guinea: Improving Governance and Performance* (Washington DC: World Bank, 1999), p.108.
- ¹⁵ Jon Copestake (ed), *Worldwide Cost of Living Survey* (London: The Economist Intelligence Unit, 2002), www.eiu.com
- ¹⁶ Mike Manning, *Factors Contributing to the Lack of Investment in Papua New Guinea: A Private Sector Survey*, INA Discussion Paper No.74 (Port Moresby: Institute of National Affairs, 1999); Theodore Levantis and Mike Manning, *The Business and Investment Environment in Papua New Guinea: A Private Sector Survey*, INA Discussion Paper No. 86 (Port Moresby: Institute of National Affairs, 2002).
- ¹⁷ 'To distinguish between *greasing* corruption and blocking corruption, [the above 1999 INA survey] firms were asked about their advance knowledge of the amount of bribe. Only 19 percent said they knew the amount of the required payment, whereas in other developing regions the average is generally above 40%. Furthermore, 32 percent . . . said that more money could be asked for by other officials, and 56 percent believed the service was then not delivered as agreed . . . Such patterns indicate the unpredictable nature of bribes, making such actions more likely to block economic activity than to grease the wheels of business.' World Bank, *Papua New Guinea: Improving Governance and Performance*, pp.112-113, (see n.14).
- ¹⁸ PNG Business Council chairman, Mel Togolo (personal communication, 4 December 2002).
- ¹⁹ For example, see a recent analysis by David Lea, 'Resolving the Complexity of Land Mobilisation Issues in Papua New Guinea', *Pacific Economic Bulletin* 16:2 (2001), pp.36-52. For a discussion of the problems posed by traditional land tenure across Melanesian societies and the prospects for individualised tenure, see Ron Duncan and Satish Chand, 'The Economics of the "Arc of Instability"', *Asian-Pacific Literature* 16:1 (May 2002), pp.1-8.
- ²⁰ Locals may have been venting their frustration at not being represented in the national parliament, according to a Porgera mine spokesman. Brian Robins, 'Highland Villagers Stop Oil Flow to PNG Terminal', *The Sydney Morning Herald* (29 October 2002). PNG senior criminologist Richard Skiani reports that, 'Several violent incidents have also occurred in resource development projects such as the Mount Kare goldfields . . . in Enga Province, the Lihir goldmine in New

- Ireland province, the Higaturu oil palm estate in Northern Province, the Ok Tedi mine and the associated Fly River pollution in Western province, and the Poreporena Freeway in the nation's capital.' R. Skiani, 'The Criminal Threat in Papua New Guinea', *Australia and Papua New Guinea: Crime and the Bilateral Relationship*, ed. Beno Boeha and John McFarlane (Canberra: Australian Defence Studies Centre, 2000), p.47.
- ²¹ See Duncan and Chand, 'The Economics of the "Arc of Instability"', pp. 3, 5-6, (see n.19).
- ²² Paul Collier, *Economic Causes of Civil Conflict and Their Implications for Policy* (Washington DC: World Bank, 15 June 2000). Such conflict is one of the signs of what one analyst has dubbed the 'Africanisation' of the South Pacific. Benjamin Reilly, 'Trouble in "Paradise": The Africanisation of the South Pacific', *Policy*, 17:1 (Autumn 2001), pp.3-7. For a response to the 'Africanisation' thesis, see Jon Fraenkel, 'The Coming Anarchy in Oceania? A Critique of the "Africanisation" of the South Pacific Thesis', Paper presented to the 15th Pacific History Association Conference (Papa-I-Galagala: The National University of Samoa, 9-13 December 2002).
- ²³ Michael Jeffery, 'Key Developments in Military Reform in Papua New Guinea: Implications for Australian Policy', Paper presented to the annual forum *Strategic Update* (Canberra: Australian Defence Studies Centre, 15-16 November 2001).
- ²⁴ Lisa Clausen, 'Tribe Versus Nation', *Time Magazine* 150:14 (6 October 1997).
- ²⁵ As a share of total recurrent government spending, law and order has hardly changed from ten years ago. Police numbers have remained virtually the same since independence despite an increase of over 70% in the population. World Bank, *Papua New Guinea: Improving Governance and Performance*, pp.110 and 111, (see n.14).
- ²⁶ This may slowly be changing. Japan is now PNG's second biggest donor, while Chinese aid to PNG nearly matched Australia's in 2000 (after PNG decided not to establish diplomatic relations with Taiwan). But Japan seems more concerned with access to PNG's fisheries than in taking over the country. China—and Taiwan—appear interested in PNG mainly because of United Nations votes. Some analysts, however, have considered other motivations (for example, Stratfor, 'China Looks to the South Pacific', 21 May 2001, www.stratfor.com). Unlike Australian, American and multilateral aid, Chinese aid is untied. China may be using this aid to buy political influence—the Chinese already maintain a satellite and missile tracking facility on Kiribati—eventually turning this influence into military capability by deploying shore-based anti-ship missiles throughout the region. In the event of a American-Sino confrontation in the Pacific China could seriously disrupt not only military deployments to the area but also trade and supply lines in key shipping lanes along the Indonesian archipelago to the Indian Ocean, and between the US and Australia. Yet although China has been more active in the Pacific, it has not yet been aggressive.
- ²⁷ For a threat assessment see Mick Keelty, 'Bilateral Cooperation in Cross-Border Crime; An Australian Perspective', in *Australia and Papua New Guinea: Crime and the Bilateral Relationship*, pp.76-83, (see n.20).
- ²⁸ As the recent example of Tonga demonstrates. 'The Ships That Died of Shame', *The Sydney Morning Herald* (14 January 2003), p.13.
- ²⁹ Peter Urban, 'Not In Our Backyard, On Our Doorstep', *IPA Review* (December 2002), p.7.
- ³⁰ According to testimony given by Mr Pat Stortz, Manager of the South East Asia and Pacific Markets Office, Austrade, at the Senate Foreign Affairs, Defence, and Trade Committee inquiry into Australia's relationship with Papua New Guinea and other Pacific Island countries hearing on 25 October 2002. See www.aph.gov.au/Senate/committee/fadt_ctte/PNG/index.htm for the transcript. According to World Bank estimates, 'compared to Indonesia, PNG's electricity prices are twice as high, labour costs four times higher and urban rents ten times higher.' Quoted in the 2001 United Nations report, *Papua New Guinea: Common Country Assessment*, (see n.4).
- ³¹ Aldo Borgu, *Beyond Bali: ASPI's Strategic Assessment 2002* (Canberra: The Australian Strategic Policy Institute, November 2002), p. 29, www.aspi.org.au
- ³² Peter Urban, 'Not In Our Backyard,' p.6.
- ³³ Sinclair Dinnen, 'Threatening the State: Crime and Public Order in Papua New Guinea', in *Australia and Papua New Guinea: Crime and the Bilateral Relationship*, p.68, (see n.20).
- ³⁴ Emigration is low from PNG to Australia. According to the Department of Immigration and Multicultural and Indigenous Affairs submission to the current Senate inquiry (see n.30), some 23,000 people born in Papua New Guinea reside in Australia, and most are originally of Australian descent (Submission No. 40, p.12, available at www.aph.gov.au/Senate/committee/fadt_ctte/PNG/submissions/sublist.htm). In other Polynesian and Micronesian island countries

experiencing high population growth but low economic growth, emigration has acted as a 'safety valve' for the rapidly growing number of unemployed and underemployed young people. See Ron Duncan and Satish Chand, 'The Economics of the "Arc of Instability"', p.2, (see n.19).

³⁵ Graeme Dobell, 'The South Pacific—Policy Taboos, Popular Amnesia and Political Failure', (Canberra: The Menzies Research Centre, 12 February 2003), p.21.

³⁶ *The Australian Financial Review's* Asia Pacific editor, Rowan Callick, has made this observation several times recently (e.g.: 'Once More Into the Breach of PNG's Hell, 23 November 2002).

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