

From Riches to Rags

What Are Nauru's Options and How Can Australia Help?

Helen Hughes

EXECUTIVE SUMMARY

Thirty years after enjoying the world's second highest per capita GDP after Saudi Arabia, Nauru is on the verge of insolvency, has appalling health problems and was declared one of the first 'rogue' states under the United States Patriot Act. Some Nauruans, however, have accumulated private wealth.

Nauru's misfortunes have been primarily brought about by a disregard for basic economics and by inappropriate political institutions and policies, but it has also been the victim of predators that prey on the Pacific.

In the light of its history, what are Nauru's options? It can continue, with modifications, along its past and current course, or it can fundamentally reform its society and economy. If Nauru does not reform, its population will continue to increase from its present 11,000, crowding its 21sq km island, and its people will become sicker and poorer. Pity and blackmail may squeeze out enough aid to enable Nauruans to eke out an existence. If Nauru reforms, it can become modestly prosperous, recover its health and self-respect, and explore long-term options.

Immediate essential reforms are:

- Reshaping public finances by ascertaining its assets, paying off all legal debts and dividing remaining funds among Nauruan families to re-establish private property rights. Phosphate and other revenues should in future be paid to private individuals. Public expenditures should henceforth be funded by income tax. This would flush out private fortunes. Commercial operators should be sought to tender for air transport and other services, including banking.
- Downsizing parliament, commensurately with Nauru's population, into a *pro bono* local government council, with a rotating chairman and shrinking the paid public service to a small skilled core, with volunteers taking over many present paid functions and a new emphasis on health and education.
- Withdrawing from all international organisations except the Pacific Islands Forum and the South Pacific Community.

If Nauru takes these steps, it will not need aid. It will have a base for exploring longer term options of association with another Pacific country, or wait the long time it is likely to take until more Pacific islands are ready for federalism.

Australia has given aid to Nauru to enable it to find solutions to its problems. If Nauru reforms, it will not need further aid. If it does not reform, aid will be wasted.

Pacific islanders, including Nauruans, are welcome to apply to Australia's non-discriminatory immigration programme. Australia would also, no doubt, be open to negotiations for a form of association with a reformed Nauru if the latter wished to pursue such an option. Association could range from arrangements for Australia representing Nauru diplomatically to integration as an Australian territory if Nauruans were prepared to give up sovereignty over their island in return for full citizenship rights.

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I. FROM RICHES TO RAGS

Nauru is a very small coral island of 21 sq kms just south of the equator in the South West Pacific. Captain John Fearn, sailing from New Zealand to the China Seas in 1798, was the first European to visit. Nauru's nearest neighbour, Ocean Island, nearly 300 kms distant, is even smaller and is now uninhabited. Ocean Island's Banaban population was moved to a larger, fertile island in Fiji in 1946 because its phosphate was being mined out. Honiara is 1,200 kms, Suva 2,300 kms and Brisbane more than 3,300 kms distant.

Pandanus and coconut palms grow on a narrow belt of some 150 metres around the island and there are about 100 fertile hectares around Buada Lagoon. Inside the coastal belt a coral reef rises to 12 to 30 metres, peaking at 70 metres. This 'topland' originally consisted of high grade marine phosphate (not guano) forced up from the ocean floor among coral pinnacles. It could not be cultivated. Mined out, to-day it is a moonscape. The traditional Nauruan diet consisted largely of coconuts and fish, but fishing off the reef was often difficult because of storms and fish migration. Rainfall is variable and the island's porousness makes for limited water storage. During droughts, coconuts lost their vitamin content so that fertility fell, providing a natural limit to population growth.

The colonial period

In 1886 Germany took over Nauru with its 1,294 population.¹ The German administration (1888) attempted to export copra, but then found that the island was largely made of phosphate. Nauru landowners were recompensed as their land was mined and by royalties on the totals mined, but the German Administration placed the bulk of the phosphate income in a fund to administer the island. The phosphate was worked by Gilbert and Ellice (now Kiribati and Tuvalu) islanders and by Chinese workers.

The island was occupied by Australian forces for Great Britain in 1914 and Australia became the administering power on behalf of Great Britain, Australia and New Zealand after World War I. The British Phosphate Commissioners took over phosphate mining, selling the output to farmers in Great Britain, Australia and New Zealand below the world price.

Nauru's indigenous population had grown to 2,000 when the island was bombed by the Allies and when Japan turned it into a stationary aircraft carrier in World War II. To make room for the Japanese garrison, 1,200 Nauruans were shipped to Truk (now Chuuk in the Federated States of Micronesia) where all but 737 starved to death. After World War II Nauru became a United Nations Trust Territory. It continued to be administered by Australia on behalf of Great Britain, New Zealand and Australia. The British Phosphate Commissioners resumed phosphate mining. In 1963 Australian farmers paid a third of the world price for Nauru phosphate.² In the thoughtless protectionism of that era, they also received a superphosphate subsidy, so that they were paid to maintain unproductive agricultural practices. The economics were bad for Nauru and for Australia, and the politics were even worse for Australia as the administrator of a Trust Territory.

Toward independence

By 1963, with modest prosperity based on phosphate mining, Nauru's population had grown to 5,000. Nauruans manned local government, but some 2,000 island and Chinese 'guest' workers continued to mine phosphate. A small group of Britons, New Zealanders and Australian administered the island and managed phosphate mining.

The head of the Local Government Council, Hammer de Roburt, who survived exile to Truk, asked the Australian Congress of Trade Unions (ACTU) to help

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raise the wages of the Nauruan local government workers in 1962. When this was successfully accomplished, the ACTU was asked to help the Nauruans to obtain a larger share of the phosphate revenues. In 1963, after negotiations involving the United Kingdom and New Zealand as well as Australia, the price of phosphate was raised to the world price (from around 10 shillings to 30 shillings a ton), with the income increases going to Nauruans, principally to communal trust funds.

Hammer de Roburt followed up by seeking a viable future for the island. Australia's inability to protect Nauru from its searing World War II experience played a major role, but so did Nauru's experience of Queensland racism. When it was recognised in the 1950s that phosphate had a finite life, an attempt was made to follow the removal of the Banabans from Ocean Island by moving the Nauruan population to Australia. Fraser Island, then coming to its end as a source of rutile sands was tentatively offered to the Nauruans as a home, but was replaced by Curtis Island, then beginning to be mined for rutile sands. It was evidently thought that the Nauruan community could be preserved while becoming a source of labour to the Queensland hinterland. A Nauru delegation, headed by Hammer de Roburt visited Brisbane and Curtis Island. Hammer de Roburt had a sense of *deja vu* when he saw the rutile mining equipment. The Nauruan group was, moreover, subject to racist remarks with the delegates' wives, in particular, exposed to ridicule, in Brisbane. The Australian offer was rejected. Under Hammer de Roburt's leadership Nauruans opted for independence.

Nationalisation of the British Phosphate Commissioners became an objective because the company was unwilling to provide access to its books. Self-government was gradually introduced, with the Australian National University mounting a popular convention on the island to prepare a constitution for independence. From 1963 to 1968 standards of living rose markedly. Scholarships enabled Nauruan boys and girls to go to boarding secondary schools and to universities in Australia. Schools and health care on the island improved. So did transport and communications to the island. In 1968 the United Kingdom's, New Zealand's and Australia's flags were lowered and the Nauruan flag was raised. Nauru's total assets were then estimated to be some A\$500,000 per man, woman and child.

The Republic of Nauru

Nauru started its economic independence modestly, adopting the Australian dollar instead of establishing its own currency and central bank or accepting other extravagant proposals then being promoted in the Pacific. Ken Walker of the Sydney firm Philip Shrapnel & Co backstopped economic policies, helping to invest Nauru's accumulating fortune in financial markets and real estate (such as Nauru House on Melbourne's Collins Street) and investigating the possibility of owning ships to transport phosphate to its principal markets. There was a clear awareness of the finite nature of Nauru's phosphate and of the need to invest a significant proportion of its income in long-term assets. Kuwait was the example to be followed.

Phosphate prices rose in the 1970s, peaking at US\$68 a ton in 1975 (Table 1), giving Nauru a per capita GDP of \$50,000, the second highest in the world after Saudi Arabia. From 1968 to 2002, Nauru's population doubled, but it had exported 43 million tonnes of phosphate that earned a total income of \$3.6 billion (in 2000 dollars). Assuming that the cost of production was 30% and another 20% was spent on private and public consumption, this would have left \$1.8 billion (in 2000 dollars) for investment. At a conservative 7% a year in long-term instruments, this would have amounted to more than \$8 billion or (assuming five persons per family) nearly \$4 million per family. Instead, Nauru's communal net assets appear to be, at best, worth \$30 million. Some Nauruans, however, have accumulated considerable private fortunes.

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Table 1. Nauru phosphate exports, volume and value, 1968-2001

| Year | Phosphate exports tonnes | Phosphate rock U.S. dollars per tonne | Phosphate exports Constant (2000) Australian dollars |
|--------------|-----------------------------|--|--|
| 1968 | 2,149,000 | 11.50 | 166,457,642 |
| 1969 | 2,133,000 | 11.25 | 152,889,879 |
| 1970 | 2,125,000 | 11.00 | 143,174,424 |
| 1971 | 1,850,000 | 11.25 | 118,333,524 |
| 1972 | 1,100,000 | 11.50 | 63,843,298 |
| 1973 | 2,300,000 | 13.75 | 118,909,474 |
| 1974 | 2,287,600 | 52.77 | 381,625,921 |
| 1975 | 1,533,500 | 68.00 | 315,773,816 |
| 1976 | 754,700 | 35.83 | 77,528,492 |
| 1977 | 1,145,700 | 30.67 | 101,314,495 |
| 1978 | 1,999,000 | 29.00 | 149,574,272 |
| 1979 | 1,828,400 | 33.00 | 145,730,661 |
| 1980 | 2,086,700 | 46.71 | 210,320,302 |
| 1981 | 1,480,000 | 49.50 | 142,349,559 |
| 1982 | 1,358,800 | 42.38 | 112,806,024 |
| 1983 | 1,684,000 | 36.92 | 126,507,578 |
| 1984 | 1,358,500 | 38.25 | 102,238,286 |
| 1985 | 1,508,200 | 33.92 | 119,971,307 |
| 1986 | 1,493,600 | 34.26 | 118,067,160 |
| 1987 | 1,375,500 | 31.00 | 87,350,890 |
| 1988 | 1,540,400 | 36.00 | 93,406,897 |
| 1989 | 1,181,300 | 40.83 | 74,831,078 |
| 1990 | 926,200 | 40.50 | 56,398,825 |
| 1991 | 530,100 | 42.50 | 33,346,899 |
| 1992 | 747,300 | 41.75 | 48,153,353 |
| 1993 | 760,000 | 33.00 | 41,343,480 |
| 1994 | 613,000 | 33.00 | 30,732,703 |
| 1995 | 495,600 | 35.00 | 25,584,903 |
| 1996 | 510,400 | 39.00 | 27,181,780 |
| 1997 | 491,300 | 40.83 | 28,366,160 |
| 1998 | 484,200 | 43.00 | 34,624,523 |
| 1999 | 718,000 | 44.00 | 50,963,550 |
| 2000 | 527,800 | 43.75 | 39,675,687 |
| 2001 | 249,700 | 41.84 | 19,416,019 |
| <i>Total</i> | 43,326,500 | | 3,558,792,861 |

Sources:

Output: FAOSTAT Database; <http://apps.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture>

Prices: The IMF's International Financial Statistics Online; <http://ifs.apdi.net/imf/output> (Australian Deflators); <http://www.imfstatistics.org/imf>

Exchange rates: Reserve Bank of Australia; <http://www.rba.gov.au/Statistics/HistoricalExchangeRates/index.html>

The people of Nauru have not benefited from the island's wealth. Poor diet and lack of exercise has contributed to extremely poor health. Nauru has one of the highest incidences of diabetes (40% of the population), renal failure and heart disease. Alcoholism is a factor, leading to high motor vehicle accidents on Nauru's 18 kms of roads. Inevitably, the island's limited human resource base has been eroded as young people with initiative emigrated.

Fiscal difficulties began to emerge in the 1990s when wages for public servants fell into arrears and shipments of fuel oil could not be paid for. By 2001 Nauru had severe cash flow problems.³ Australia's placement of asylum seekers on Nauru in the 'Pacific solution' was a welcome contribution to the island's income. At the end of 2003, Nauru, nevertheless, could not pay its public service wages for Christmas; it was rescued by an Australian contribution of \$1.2 million.⁴ Satellite communications were shut down for non payment of subscription fees in March 2004. Australia then gave Nauru \$22.5 million of aid for two years to sort out its long-term options.⁵ In April 2004 Nauru House could receive incoming telephone calls but could not dial out because its telephone bills had not been paid. In May 2004 GE Capital Corporation began to resume Nauru's mortgaged properties because of Nauru's failure to repay a \$236 million loan.⁶ Nauru House is in the hands of receivers who have given Nauru until this month to vacate the luxurious top floor apartment/office used by Nauru presidents and other politicians visiting Melbourne.

II. WHY DID NAURU LOSE ITS WEALTH?

Basic economics explain much of Nauru's parlous state. The theory of resource rents suggests that the exploitation of minerals brings socioeconomic problems as well as wealth. In Nauru these were exacerbated because paternal policies replaced private property rights by communal funds that were mismanaged, wasted and became sources of corruption. Nauru was equipped with inappropriate social, economic and political institutions that led to wasteful international relations. And Nauru became the prey of predators that prowl the Pacific's waters.

Property rights

Nauru's basic problem lay, and still lies, in the neglect of individual property rights. From the German colonial period, communal trust funds absorbed the bulk of Nauru's earnings. Trust funds were expanded after World War I and again after World War II. Paternal Australian officials of the Department of Territories thought individual Nauruans would be incapable of looking after their own property, and did little to introduce the education that would have enabled them to manage their own affairs in the increasingly complex environment of the 20th century. Communal trust funds were established in the face of traditional Nauruan property rights that go back to pre-German days. Rights to the fertile circle of land around the dead phosphate 'topland' were recognised, together with the individual ownership of coconut palms, wells and pieces of reef for fishing. Property could be held by men and women and could be passed on in families through inheritance and by gifts. Leaseholds were available. The colonial powers accepted individual ownership. From the first phosphate excavations, individual landowners were recompensed and land ownership was extended to the previously unused 'toplands' when these began to be mined.

By the 1920s an informal land arbitration system was in place. In 1956 the Nauru Lands Committee was given legislative backing.⁷ When phosphate income increased in 1963 and arrangements began to be made for independence, the paternalism fitted with welfare statist philosophies of the times. There is no doubt that some individual landowners could have failed to save, might have invested badly and

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wasted some of their income. But, equally, it is likely that some would have managed their incomes well. Nauru does not lack able entrepreneurs. Considerable fortunes have been built up from earnings and from depredations of the public purse. While Nauru's public funds may be close to bankruptcy, there are considerable private fortunes. In the absence of huge public funds, the scale of mismanagement could not have taken place.

An inappropriate political environment

Contrary to its description as the 'Pleasant Isle' by its first European visitors, the small traditional Nauruan society was far from peaceful. Germany claimed that it assumed the island to stop the incessant fighting that prevailed in the small population in the years before its accession. Early explorers found inequality and incessant fighting characteristic of Pacific islands in spite of their apparent benign climates and ensuing ease of life. It is undoubtedly an aspect of smallness. Minor differences become major issues that are translated into generational clan feuds. The introduction of Protestant as well as Roman Catholic Christianity to Nauru heightened internal conflicts. In the 1950s a wave of suicides by women suggested psychological maladjustments that in a larger society might have been resolved simply by moving away to another town or another community. A Nauruan community only emerged from clan differences with the common perception that Nauruans were regarded as people of second rank by the colonial administrations and the British Phosphate Commissioners. Nauruan negotiators in Canberra were able to communicate freely with Nauru in Nauruan during the 1963 negotiations without worrying about security because no one in the Australian administration or the British Phosphate Commissioners' management had learnt to speak the Nauruan language. As formerly colonial countries reached for independence in the 1950s and 1960s, the Nauruan community, in spite of its small size, began to regard itself as a 'nation'.

The political institutions devised for the Republic of Nauru could have been effective for a large nation, but they have not served Nauru well. Nauru has a Parliament of 18 members that now, with a population of 11,000, represents a member for each 320 voters. It has a Cabinet of six members covering a gamut of internal and external policy areas applicable to much larger countries. (Australia, with 20 million people, has a House of Representatives member for every 100,000 voters and a Cabinet of 16.)

Becoming a member of Parliament became the principal path to prestige and power because it led to financial opportunities. Absurd levels of protocol were introduced and exacted. For example, the Presidents of Nauru expected to be greeted by senior Australian public servants with full protocol at any time of day or night when they arrived on their frequent, and often private, visits to Melbourne.

Political instability was the inevitable result of excessive representation and remuneration. It persists until today. Policy alternatives have not been developed. An attempt to form a political party, the Naoero Amo, in September 2001 by a young group that briefly published *The Visionary* came to nothing.⁸ Politics remain highly unstable because they are not concerned with policy options but with personalities and incomes.

The public service expanded rapidly in keeping with the absurd levels of political participation. At the end of the 1990s, when phosphate mining was clearly coming to an end, public service, mainly Nauruan, employment, peaked at 1,600. There were then about 2,000 (immigrant) phosphate workers. Yet the filing of all accounts is years behind statutory requirements. There has been no public accountability.

Inappropriate international relations

The main beneficiaries of the colonial system that carved up the Pacific into small island territories were the colonial officials who lived on its 'rents' in the islands

at far higher standards of living than they could have afforded in their home countries. As colonialism came to an end after World War II, colonial officials pushed for islands' individual independence instead of encouraging a viable federation of Pacific states. As islands gained their independence, their elites became the beneficiaries of political rents, creating beggar states dependent on aid and pushing viability and the prospect of federal arrangements in the Pacific into the distant future.

Post World War II international organisations encouraged further rent seeking by elites. Nauru abandoned its modest 1960s international stance in 1999 to become the second smallest member (after Tuvalu) of the United Nations (UN). Because it has the voting rights of China or India within the UN, it has been able to court political support by countries with international agendas. Thus China has contributed to Nauru's coffers in return for political recognition and the ditching of Taiwan.

Nauru has an office at the UN in New York, a Consul General in Melbourne and a High Commissioner in Suva. It is a member of another 17 international organisations.⁹ International public servants make their living out of creating clients and servicing them with meetings, conferences, seminars and visits. Membership of international organisations attracts a vast, daily flow of documents; most of these have no relevance to Nauru and are not read by anyone on Nauru. But membership of these organisations provides Nauruan public servants and politicians with postings and travel and Nauru with corresponding costs. With the exception of the Pacific Islands Forum and perhaps the South Pacific Community, these costs are dead weight rents and waste Nauru's resources.

Academic advisors and the culture of complaint

Nauru has joined other Pacific countries in viewing itself as a victim of its colonial past and therefore expects compensation, notably by Australia. There is no doubt that Australian (and to a lesser extent British and New Zealand) farmers benefited up to 1963 when Nauru began to receive the world price for phosphate. The case that Nauru was also a victim of environmental degradation by phosphate mining is, however, not persuasive. The 'top lands' were not used or usable before mining. An argument that the mined out phosphate coral pinnacles should be filled and topped up by earth was absurd because coral is porous and would not hold soil. Nauru was, nevertheless persuaded by Christopher Weeramantry to claim compensation from the Australian Government on these grounds¹⁰. After an inquiry and costly litigation in the International Court of Justice, Nauru and Australia signed a Compact of Settlement in 1992 which ended litigation by Nauru against Australia over the rehabilitation of phosphate land mined before independence. Australia paid Nauru \$57 million in part settlement of the claim and was to provide A\$50 million over a period of 20 years (paid in annual instalments of \$2.5 million (indexed at 1993 values) under a Rehabilitation and Development Cooperation Agreement. The United Kingdom and New Zealand contributed \$12 million each in recognition of the below world price phosphate sales to their farmers. Christopher Weeramantry moved from an obscure Melbourne academic post to becoming a Judge of the International Court of Justice.

An unfortunate side effect of this litigation and of UN membership has been to encourage Nauru to join other Pacific islands in becoming a mendicant state. In recent years, it tried to exact aid from United States lawyers with whom it was negotiating financial deals only to find that they had a criminal background and had no authority to speak on behalf of the United States government, which could see no reason to give Nauru aid. Nauru has also approached China for aid.

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Pacific predators

Every Pacific island has been pestered by ‘entrepreneurs’ promising huge returns on ‘innovative’ investments. The advice of responsible financial analysts and advisors has been made to look exploitative—colonial—because of relatively low returns. These ‘entrepreneurs’ also offer substantial financial and other kickbacks to politicians and public servants, engendering a culture of corruption. Nauru’s phosphate wealth made it particularly susceptible to these operators.

As income rose, even Hammer de Roburt began to see Nauru as a major Pacific power, investing in real estate throughout the Pacific, in shipping and in its own airline. A quest to purchase a fertile island closer to other population centres to which Nauruans could move was desultory. With the 1970s income boom, investment schemes became wilder and wilder, with real estate purchases and other ‘investments’ in Australia, the United States, the Philippines and throughout the Pacific. Instead of investing in secure modest returns, Nauru became the victim of crooked banking schemes.

Nauruan politicians and officials travelled the world extravagantly in pursuit of such ‘investments’ with many spur of the moment decisions and a complete lack of accountability and control. The airline alone, on the grounds that it was necessary to connect Nauru with the world, is estimated to have lost between \$40 and \$80 million a year. Nauru clearly did not have the capacity to undertake investments or to manage them. The prices of land and other investment properties purchased by Nauru in Melbourne were grossly inflated so that vendors and agents made unconscionably large profits. These ‘deals’ were known to Melbourne real estate firms which chose not to warn the Nauruan purchasers. Nauru was advised to invest \$60 million in dubious bank instruments through the law firm of Allen, Allen and Helmsley. When one of Allen’s partners disappeared with \$6 million, the alarm was raised and some of the money was recovered, but the total losses were never established.¹¹ Similar exploitation took place in the Pacific, the Philippines and in the United States. The often quoted funding of \$3 million of a musical production on the London stage for a promoter who had worked on Nauru was a minor bad investment. At best, investments brought in incomes well below their potential and were allowed to run down. And there were also huge cash losses.

As phosphate prices and export income fell and income from investments failed to materialise, Nauru began to borrow to maintain the lavish expenditures and kickbacks of its peak income years. By the 1990s it was mortgaging its investment portfolio to maintain expenditure levels funded when phosphate income was at its peak.

When annual expenditures began to exceed income, Nauru was ‘advised’ to become an offshore tax haven. It has registered more than 450 bank shells. Its offshore banking quickly became a ‘laundry’ for investors avoiding taxes, drug and other traffickers. In 1998 alone Nauru was said to have laundered, with substantial kickbacks, \$70 billion of Russian mafioso funds¹². In 2002, the United States forbade its banks to have any contact with Nauru, thus defining it as one of the first rogue states under the 2001 Patriot Act.¹³ In February 2003 President Bernard Dowiyogo was said to have signed a decree on his death-bed in the United States ending off-shore banking.¹⁴ In December 2003, President Rene Harris wrote to the Organisation for Economic Cooperation and development (OECD) that Nauru agreed to end its off-shore banking and asked for aid to make up for the resulting loss of income.¹⁵ An internet website, however, still states that Nauru is ‘absolutely the easiest jurisdiction’ in which to get a banking license. The site advertises that a bank can be established with as little as \$500,000. The minimum capital is \$100,000, but this does not have to be deposited for two years. The registration fee is \$75,000, with an annual renewal fee of \$7,500.¹⁶ But substantial kickback fees

(\$600,000) to leading Nauru politicians have also been allegedly essential for bank registration with diplomatic status (a special Nauru passport) thrown in.¹⁷ The Bank of Nauru is advertised as regulating the industry. It is in such dire straits that it often restricts withdrawals to \$100. Most Nauruans do not accept its cheques. Nor do banks worldwide.

Nauru started selling passports in the mid 1990s (following Kiribati) and had sold more than 1,000 by 2003 for \$1,500 each. It was seen as being of assistance to money launderers, traffickers and terrorists by the United States. The US Secretary of State, Colin Powell wrote to Nauru condemning the 'indiscriminate' sale of Nauru passports in 2002.¹⁸

III. NAURU'S OPTIONS

Nauru has two principal options: it can continue on its past and current trajectory and become a poverty and ill health stricken Pacific beggar and pariah, or it can choose healthy, modest standards of living for its 11,000 people.

The first step toward the latter would be to recognise that Nauru is not a nation in the sense that China or India are nations, but a small community. It has a common history, language and cultural ties, but it is the size of a small country town. Such recognition is necessary for Nauru to abandon the inappropriate, costly political institutions with which it has been saddled. It would have to stop flirting with uneconomic projects constantly put before it by unscrupulous 'entrepreneurs'. The current ones appear to be the deep mining of the remaining phosphate and the construction of a deep water harbour. Such projects can only bring further costs and grief.

A programme for a healthy, prosperous and viable Nauru

Nauru urgently needs to reform its public finances. It has to assess its financial position, ascertaining its assets and paying off all legal debts, but disregarding the illegal claims of predators. Whatever funds remain should be divided among Nauruan families to re-establish private property rights. Future phosphate and other revenues should also be paid to individuals. Public expenditures should henceforth be funded by an income tax on all residents, flushing out private fortunes.

Off-shore banking has to be closed down and the sale of passports has to be stopped. Commercial tenders should be called to operate air and other services, including banking. Hopefully Air Nauru's and the Bank of Nauru's assets will exceed their liabilities. If not, their creditors will have to suffer the losses they have risked.

Nauru needs to reshape its institutions to match its size and political needs. It needs to return to the *pro bono* Local Government Council of the 1950s to manage its affairs. Given the effect that a presidential title has exercised, a rotating chairman would seem preferable to a long term Chief. The public service needs to shrink to a small core of paid professionals headed by an experienced operating officer. Many of the so-called jobs now undertaken by paid wage and salary workers could be carried out on a part-time basis by volunteer community workers.

Nauru has severe health problems and its limited land area indicates that population planning is essential. Nauru's elite sends its children to school abroad because of the poor quality of local schooling. Community involvement in social policy reforms and their implementation is urgent.

Nauru should resign from all international organisations except the Pacific Islands Forum and the South Pacific Community.

Nauruans have emigrated to Australia and elsewhere. They can continue to emigrate to Australia provided they meet Australia's worldwide non-discriminatory immigration rules. Working abroad would bring remittances.

Nauru has to assess its financial position, ascertaining its assets and paying off all legal debts, but disregarding the illegal claims of predators.

If Nauru undertakes basic reforms, it can attain modestly comfortable living standards from household gardens and palm trees, fishing, the continued sale of deep sea fishing rights to Japan, South Korea, Taiwan and the United States, income from its domain name and geostationary satellite rights and from stamp sales. Joining with other Pacific islands to attract tourists to its 'moonscape' and reef diving could add income if simple, traditional attractive tourist facilities were provided. If such a programme was successful, derelict ships could be sunk off the reef to encourage deep sea diving.

Further options

If Nauru stabilised its economy so that it became modestly prosperous, healthy and well regarded internationally, its options would widen.

Nauru's principal asset is the 320 sq km ocean zone around the island. At present its main value lies in fishing rights, but it has potential marine mineral possibilities and the island has a strategic and security value. Nauru could parlay its ownership of the island and marine zone into varying degrees of association with Australia, New Zealand, Fiji or another country. The most prosperous territories in the Pacific are those that have an association, including some immigration access, with a developed country. They include American Samoa's and the North Marianas' association with the United States and the Cook Islands' and Niue's association with New Zealand. Nauru could go further and seek complete integration with Australia, New Zealand or another country, to gain high living standards with full immigration rights. Nauruan families could then choose where to reside or maintain homes in two or more locations. This would mean ceding all rights to the island of Nauru—selling Nauru's principal remaining asset in return for citizenship—to the country with which Nauru would integrate.

IV. HOW CAN AUSTRALIA HELP?

It is now recognised that aid is only effective in a context of 'mutual obligation' by donors and recipients. Australia is now contributing funding and personnel to enable Nauru to assess its situation carefully and accurately. Australia could also help to prepare the reforms necessary to put Nauru back on its feet. If Nauru undertakes thoroughgoing reforms, it will quickly improve its economic and political standing and will not need further aid.

If Nauru does not adopt the economic, political and social reforms that will give it a decent and healthy standard of living, aid cannot help it. Donors that succumb to pleas for aid will be taking money out of their taxpayers' pockets and throwing it away. If Nauru persists in the policies that have led to its present dire situation, it can only expect grudging and limited aid.

Australia cannot discriminate among Pacific islands in its international relations policies. Some islands, notably Tuvalu, have managed their economy much better than Nauru despite extremely limited natural resources.¹⁹ They flood at high tide and their population may require relocation if, whatever the cause, climate shifts lead to more severe flooding.

Australia has an immigration programme that has been judged to be more successful than any other country's in integrating immigrants into the economy and society. Australians do not want to see ghettos of Pacific island 'guest' workers with all the associated problems or communities of newcomers living on welfare. Pacific islanders are welcome immigrants, but they have to meet the skill and language skill criteria that Australian immigrant selections exercise worldwide. Only negotiations for complete political integration would be likely to change Australian attitudes.

If Nauru persists in the policies that have led to its present dire situation, it can only expect grudging and limited aid.

Endnotes

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