

The Pacific is Viable!

Helen Hughes

EXECUTIVE SUMMARY

All is quiet in the Pacific. The past year has seen no coups or new insurrections. Nauru voted out those who led it from riches to rags and now struggles to save something from the wreckage. But for the 30th successive year, there has been no growth. With aid running at more than \$1.5 billion a year to soften the effects of stagnation, Pacific governments continue to opt for inaction.

Stagnation, poverty and descent into crime and conflict are not inevitable but the result of Pacific governments' policy choices and the implicit support of aid for those choices. The Pacific is rich in resources, has a benign climate and is near the fastest growing markets in the world. This paper argues that all Pacific islands could be viable at high standards of living within a generation if they adopted policies that match their endowments. Their aid and trade partners could help them to such outcomes by supporting agricultural productivity and job creation. The paper is a road map for rapid growth and development in the Pacific.

Every community has to earn its living. In the Pacific, this means cash crops in addition to food gardens, jobs in labour intensive industries such as tourism and manufactured exports, and jobs in construction and services. Resource development—minerals, timber and fish—will only bring net benefits on top of a productive, labour intensive economic base. The policy measures needed to make every Pacific island viable are well known: abandoning communal land ownership for individual property rights; deregulating counterproductive rules that prevent the growth of an informal sector, eliminating protectionist measures, freeing up labour markets and downsizing and privatising the public sector. When public employment shrinks as a proportion of total employment and rising economic activity increases public revenues, increased expenditures on health and education will become possible without loss of macroeconomic stability.

Economic reform is not enough. Overblown governments impose heavy costs, absorb entrepreneurial talents and encourage corruption. Past programmes to improve 'governance' have consolidated fraught institutions at the cost of investment in infrastructure, health and education. The Pacific needs radical reforms of government as well as the economy before policing and law can bring a new morality to public and civil life.

Because colonial powers failed to create regional arrangements for the Pacific at independence, it will now take time before individual island states become viable so that regional arrangements can work. The smaller islands may find links to developed countries more conducive to viability at high living standards than independence or federation with other small states.

Preferential immigration access to Australia could damage Pacific viability. The best way to support the Pacific is through continuing trade liberalisation to reward the steps necessary to increase exports from the Pacific and thus create incomes and growth. Aid should cease to be a prop for governments unwilling to choose growth and development, and focus on assisting choices for growth.

1. Introduction

After poor performance in the 1990s (Table 1), with the exception of Samoa and the Cook Islands, the Pacific continued to stagnate in 2002 and 2003. Papua New Guinea's per capita national income growth is expected to be 0.3 per cent in 2004. So low are expectations for the Pacific that *The Australian Financial Review* labelled this abysmal performance 'good times'.¹ With its tourist industry benefiting from the Bali attacks, Fiji is nevertheless struggling to maintain positive per capita growth.² The ending of insurgency in the Solomon Islands by the Australian led Regional Assistance Mission (RAMSI) was a landmark achievement.³ Vanuatu has also stabilised to zero growth.⁴ In mid-2004 it became evident that Nauru has lost and wasted nearly \$2 billion dollars.⁵

Table 1. Population, 2001 per capita income and average annual real per capita income growth, 1990-2001, 2002 and 2003.

	Population		National income per capita		Average annual real income growth per capita		
	2002 '000	2001 US\$	2001 purchasing power parity US\$	1990-2001 %	2002 %	2003 %	
<i>Papua New Guinea</i>	5,420	580	2,450	1.0	-3.0	0.0	
<i>Fiji</i>	881	2,150	5,800	1.7	2.7	3.4	
<i>Solomon Islands</i>	447	590	1,910	-1.4	12.8	-2.5	
<i>French Polynesia</i>	235	22,730	24,080	0.1	3.4	NA	
<i>New Caledonia</i>	213	15,060	25,200	-0.9	N.A	NA	
<i>Vanuatu</i>	199	1,050	3,110	-1.1	-1.9	-0.6	
<i>Samoa</i>	170	1,490	6,130	2.0	5.3	3.5	
<i>Micronesia Fed. States</i>	118	2,150	NA	-1.3	0.6	NA	
<i>Tonga</i>	100	1,530	NA	2.1	-1.1	NA	
<i>Kiribati</i>	91	830	NA	0.6	-0.8*	NA	
<i>North Mariana Islands</i>	70	9,210	NA	NA	NA	NA	
<i>American Samoa</i>	58	8,000	NA	NA	NA	NA	
<i>Marshall Islands</i>	50	2,190	NA	-3.5	-1.3	NA	
<i>Cook Islands</i>	21	NA	NA	NA	7.1	NA	
<i>Palau</i>	20	6,780	NA	-0.3	-0.5	NA	
<i>Wallis & Futuna</i>	20	NA	NA	NA	NA	NA	
<i>Nauru</i>	12	NA	NA	NA	NA	NA	
<i>Tuvalu</i>	11	NA	NA	NA	NA	NA	
<i>Niue</i>	2	NA	NA	NA	NA	NA	
<i>Norfolk Island</i>	2	19,530	27,440	NA	NA	NA	
<i>Tokelau</i>	1	NA	NA	NA	NA	NA	

Source: 2002 population and 2002 and 2003 per capita income growth from CIA Factbook, updated November 2004 (<http://www.cia.gov/cia/publications/factbook/index.html>) unless superceded by country sources; 2001 per capita income in US dollars (at official exchange rates) and in purchasing power parity US dollars, and 1990 -2001 per capita income growth, *World Bank Atlas*, 2003 (Washington, DC: 2003).

Throughout the Pacific, income earning opportunities scarcely increased, underlining the conclusion that 'Aid Has Failed the Pacific'.⁶ With rampant corruption, narrow elites have appropriated the benefits of growth in most Pacific islands, so that crime and civil conflicts continue to escalate. Hopefully, introducing more than 250 Australian police, legal and other 'mentors', will stabilise Papua New Guinea. The declining fortunes of sugar growing and timber scandals have rent Fiji. Inevitably, as rural people crowd into jobless Suva, crime is spreading. Corruption, including payments made by money launderers and tropical fish harvesters despoiling its tropical reefs, has made headlines in Vanuatu. Despite large emigrants' remittances, the bankruptcy of the Royal Tonga Airline threatens Tonga's fragile economy.

Norfolk Island—an Australian territory—has the highest standard of living in the Pacific. American Samoa and the North Marianas benefit from economic integration with the United States. Most Cook and Niue islanders live in New Zealand, and Samoa, Tongan, Micronesian and Fijian Indian emigration is also high. Metropolitan France makes large transfers to its

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Pacific territories, but the benefits are skewed toward French public servants. Samoa is the only independent Pacific state to have achieved modest growth.⁷

The dismal economic performance of the Pacific islands, followed by crime and insurgency, has led to the hypothesis that the Pacific is not viable. A litany of excuses—distance from markets and within the Pacific, topography (too mountainous or too low lying) and subjectivity to typhoons—is not only used by the Pacific states but also by aid agencies to support this view. Consequently, it is argued, the Pacific needs more aid now and in perpetuity as well as free access to Australian, New Zealand and other developed country labour markets through migration. In fact, the Pacific is ideally located near the most rapidly growing markets in the world in Asia, it has the resources Asia seeks, and transportation and communication costs have fallen markedly during the past 30 years and are still falling. Switzerland, with the highest income country in the world, has more rugged terrain than Papua New Guinea or the Solomon Islands and a harsher climate. European countries started with hundreds of tribal languages but developed sophisticated national *lingua francas*. English and French are ready to play this role in the Pacific and provide access to world trade, science and culture. The Pacific's own policies are the reasons for its stagnation.

This paper, while taking into account the considerable range of Pacific islands' resources, argues that all the Pacific islands are viable, provided they adopt appropriate institutions and policies that will achieve growth of around 7 per cent per capita per annum. With 7 per cent growth, per capita incomes would double every decade. Lower income states such as Papua New Guinea with per capita annual incomes around \$2,500, could approach a per capita annual income of \$20,000 within 30 years, or in one generation. This is the per capita annual income of Taiwan, a generation ago a poor developing country that now enjoys decent 21st century living standards. Some of the higher income Pacific countries could develop even faster. Those that do not choose growth and development will continue to stagnate.

The next section of the paper examines the economic causes of Pacific stagnation and outlines the reforms necessary to overcome bottlenecks to growth. The inappropriate structures of Pacific governments are discussed in section 3. Law and security issues follow in section 4. The role of international organisations in the Pacific is presented in section 5 and section 6 reiterates the contribution of aid to the Pacific debacle. Section 7 turns to prospects for regional arrangements. Section 8 examines whether there is an emigration solution to the Pacific's problems.

2. The economic causes of stagnation

No one economic policy, but a counterproductive policy mix, differently weighted in different states and territories of the Pacific, is responsible for the Pacific's failure to grow and develop.

Resource exploitation policies

Most Pacific islands have relied heavily on the exploitation of natural resources. Mining, timber and the sale of fishing rights brought incomes, but true to the theory of natural resource rents, at high economic and social cost. Typically of immature societies, resource incomes have partly been appropriated by village elders, but the bulk of resource rents have subsidised members of parliament and the public service, often in the form of corrupt pay-offs, instead of being spent on roads, sea and air transport, communications, energy, schools and health. Much resource income has been wasted. Report after report has drawn attention to timber corruption in Papua New Guinea,⁸ links between village 'big men' and the central government have been a major source of corruption in the Solomon Islands,⁹ and a mahogany scandal has erupted in Fiji.¹⁰ Resource rents were the cause of Nauru's descent from the second highest per capita income in the world to bankruptcy. Where resource exports form a significant proportion of total exports, they overvalue the currency for other exporters, creating a bias against agricultural and labour intensive exports and tourism. Resource exploitation creates a few highly paid jobs, notably in mining, but raises input costs for agriculture and labour intensive manufacturing. Fiji, Samoa, the Northern Marianas and Norfolk Island, fortunate in not having significant mineral or timber exports, have been able to develop tourism and manufacturing for export, making them the best performing Pacific economies. Only very mature societies, such as Norway, have been able to manage problems created by resource rents. For most of the Pacific, mineral and timber exploitation is likely to see similarly counterproductive future outcomes. Mineral exports have declined as civil unrest deterred exploration. Mineral and timber investors are demanding higher returns to their

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investment as crime and civil unrest increase risks, further eroding resource benefits. But Pacific governments have become so dependent on resource rents that they are, nevertheless, relentlessly pursuing resource exploitation.

Communal land ownership

More than 90 per cent of the people of the Pacific live in villages. Because women work hard to grow food, except in marginal areas, most people are reasonably well fed. Pacific islanders do not go hungry as Sub-Saharan Africans or poor Asians do. But after 30 years of independence, most Pacific islanders are deprived of living standards that millions now enjoy not only in industrial countries, but also in developing Asia. In Papua New Guinea, Solomon Islands, Vanuatu and most of the small islands, villagers do not have houses with water, power and sanitary facilities or access to transport and communications. Pacific islanders wear second hand clothing from charity bins. Most villagers have negligible cash incomes because there is little productive agriculture. Consequently there is a dearth of private and public construction, retail trade and other off-farm occupations that have raised standards of living in developing Asia. Because there are no rural work opportunities, particularly for men, young people drift to towns, where, however, there also are no jobs. Violence against women, other violent and property crimes and civil conflicts have exploded in the country. In most urban areas in the larger states crime is rampant.

The communal ownership of land is the primary reason for deprivation in rural Pacific communities. Communal ownership provides some food security, but at a very low level, and at the cost of agricultural productivity and output. The rapid take up of crops from coffee to vanilla demonstrated Pacific islanders' desire to earn incomes from agriculture. But the output of the principal export crops declined throughout the Pacific from the mid 1980s. New crops have been taken up and dropped.

Papua New Guinea's copra, coffee, cocoa and tea exports have declined. Oil palm failed to take advantage of a rapidly growing world markets despite the efforts of the large scale estate sector.¹¹ Communal land leasing by indigenous Fijians to Indian Fijian sugar farmers resulted in ethnic conflict over land rents. Indigenous Fijian villagers received high rents from sugar leases while sugar exports were subsidised by the European Union, but these subsidies are being phased out. Short leases contributed to low sugar productivity and hence to the decline and likely disappearance of the sugar industry. Communal land ownership has stopped a shift from sugar to crops with better prospects. In Tonga, pumpkins are an exception to otherwise declining agricultural exports. Samoa has seen falling copra, cocoa and taro exports. Vanuatu's copra, coffee and beef exports have declined. Table 2 shows that the level of Pacific exports is well below that of similar small but growing developing countries such as Botswana and Mauritius, and also below even much larger large developing countries with strong long-term growth such as Thailand.

Table 2 Merchandise and service exports per capita, (US dollars), Pacific states, Botswana, Mauritius and Thailand, 2002

	<i>Merchandise exports per capita US\$</i>
<i>Papua New Guinea</i>	310
<i>Fiji</i>	644
<i>Solomon Islands</i>	306
<i>Vanuatu</i>	116
<i>Samoa</i>	75
<i>Micronesia Fed. States</i>	186
<i>Tonga</i>	91
<i>Kiribati</i>	100
<i>Marshall Islands</i>	450
<i>Botswana</i>	3,160
<i>Mauritius</i>	1,110
<i>Thailand</i>	1,110

Source: World Bank, *World Bank Atlas* (Washington DC: 2004).

Tourist hotels complain that they can not buy adequate quantities and qualities of local produce. When the Tolukuma Gold Mine sought to provide villagers with an agricultural future by producing vegetables and fruit for the Port Moresby market after the mine is exhausted, communal

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land ownership scuttled the project,¹² typically of 30 years of efforts to supply Port Moresby with food. Shortages of land for agriculture following from communal ownership led to the conflicts that destabilised the Solomon Islands and are emerging in other islands.

Communal ownership of land has facilitated egregious corruption in timber exports, with large losses of tax revenues and failure to replant forests with resulting environmental degradation in Papua New Guinea, Solomon Islands, Fiji and Vanuatu. Unless individual property rights are established, further timber exports from the Pacific will lead to more corruption and environmental degradation.¹³ The World Bank's inability to grasp and pursue this essential point has made it a helpless spectator to Pacific timber deprecations unable to fund timber projects.

No country in the world has developed without individual property rights. In the Pacific, inept land registration attempts, combined with poor central government land management policies concerned to squeeze 'rents' from the agricultural sector, have contributed to the failure to establish private property rights in land. The Fiji National Land Trust Board, with a 25 per cent 'take' of landowners' rents, is typical of past poor land management policies. But the land ownership debate has been stalled by expatriates involved in land policy formulation, who are so convinced of the benefits of communal land ownership that they deny its costs.¹⁴ Land reform and the decline of associated 'wantok' relationships is a threat to anthropologists' 'living museums'. The degradation of traditional culture as bride prices soar and 'big men' who exploit their communities in return for an occasional pig feast and alcoholism and bring increased violence against women are of little concern. The 'big men' who do not want to lose their privileged positions in the economy and in society are supported by socialists within and outside the Pacific. The Morauta Government in Papua New Guinea found it impossible to introduce land reform when urban socialists, headed by local and expatriate University staff and their students, marshalled opposition to reform.

Abandoning communal for individual land ownership has been difficult from mediaeval England to 18th century Japan. 'Enclosures' resulted in hardship but made way for high productivity agriculture, off-farm employment and urban development, thus raising living standards. Accumulated experience and modern technology have made land reform possible with low costs and high returns. A variety of new approaches and techniques that will be attractive to significant groups within traditional communities can be developed once it is understood that continuing communal ownership of land means continuing stagnation.

Regulation, protection and industrial relations policies

The Pacific inherited inappropriate business and industrial relations policies based on post-World War II 'welfare state' beliefs. Although the island economies, like all small economies, have to trade, protectionist policies were introduced because it was thought that they would create employment. But tariffs and import restrictions only created a few jobs in firms that lacked economies of scale and efficiency. They survived because wages and profits were protected, but their high prices burdened consumers and created biases against exports. Together these policies have severely restricted informal and small business creation and the jobs they bring. They have also been major barriers to the creation of labour intensive manufacturing for export. In Fiji, industrial relations barriers were eased after the 1987 coup when unemployment soared, but the efficiency of the emerging clothing industry was undermined by the preferential SPARTECA (South Pacific Trade and Economic Cooperation Agreement) regimes negotiated with Australia and New Zealand. As tariffs fell in Australia and New Zealand, the SPARTECA preferences were eroded. Similar United States preferences have led to problems for the clothing industry in the Northern Marianas. It remains to be seen whether the Samoan motor vehicle parts industry can survive falling Australian tariffs.

Infrastructure

The Pacific has failed to invest incomes from resource rents and aid in roads, airports, ports, water supply and sanitation, power, education and health. Transport is totally inadequate in the larger resource rich territories of the Pacific, notably Papua New Guinea, Solomon Islands and Vanuatu so that goods and people can't get to markets, children can't get to school and health services cannot be delivered. Public ownership of telecommunications allied with private monopolies is contributing to government revenues, but their high costs and low quality are denying the Pacific the advantages of technology essential to overcoming internal and external distances.¹⁵

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Public ownership is another colonial heritage, supported by 'welfare state' policies of the 1960s and 1970s. UNIDO (United Nations Industrial Development Organization) and other UN agencies encouraged Pacific governments to invest in public enterprises to control 'the commanding heights' of their economies, so that public sectors did not just include utilities but ranged from the production of battery chickens and eggs to banking. They all failed.

Although public enterprises in the Pacific soaked up large proportions of public revenues, the goods and services they provided have been costly and inefficient. Their high costs stifled the provision of new infrastructure. There have been no profits to reinvest. Typically of most public enterprises worldwide, inefficient management, excessive wages, corruption and political manipulation followed, with incessant public sector scandals.

Privatisation is essential but very difficult. Most public enterprises have negligible assets so that where governments have recognised their high costs, notably in Samoa, privatisation has been difficult. Successful privatisation, such as that of the PNG Banking Corporation has been rare and largely confined to businesses that do not have significant monopoly characteristics and should not have been in the public sector in the first place. Yet privatisation is essential because improvements in the cost, quality and extent of public services are essential to growth.

Education and health

Education and health are not only critical components of living standards, but also factors in economic efficiency and development. Because the Samoas, Tonga, Cook Islands, Niue and some of the Micronesian territories are emigrant societies, they have reasonable primary and secondary schools. So do Fijian Indians and so does Norfolk Island. The majority of people in these states and territories are literate. French language education persists in French Polynesia and New Caledonia and some remains on Vanuatu. At the other end of the spectrum, in Papua New Guinea, Solomon Islands and Vanuatu only half the children are in primary school and the majority of these do not learn reading, writing or arithmetic. Their education has been captured by the view that local cultures can only be preserved by exclusively teaching in local languages in early school years. As most of the children that get to school only remain for 3 or 4 years, they do not learn a common language that could unite their countries culturally. Many Pacific communities are less literate now than they were when missionaries were the principal educators. Where children manage to advance to upper primary and secondary schools, their English, maths and overall knowledge are so poor that they cannot undertake standard tertiary studies. Those few who qualify for professional training in the sciences, medicine or the law, or for post-graduate studies, continue to be handicapped by their lack of basics. Teachers, in particular, reach such low standards that they perpetuate educational deprivation. There is no research basis for this approach to education. Where European and Asian children start learning foreign languages in kindergarten, in the years where languages are easiest to learn, the majority of Pacific children are only taught in a language that is spoken on one atoll or by one tribe. For village 'big men' who dominate politics, the economy and society, this is welcome. But there are few jobs for illiterate youngsters. It is not surprising that they drift into crime and prostitution.

Health services parallel education, ranging from relatively developed in urban areas in the higher income islands to non-existent in the large poor countries. Maternal, infant and child health indicators are abysmal. Expectation of life is only 60 years for the majority of Pacific islanders. Poor housing, without water supply, sanitation or power is a major factor. The lack of latrines in rural schools exacerbates diarrhea. Chest diseases, eye and ear infections are prevalent. There is often no treatment for simple fractures resulting from accidents or violence against women. Malaria is returning and modern diseases are escalating. With over 40 per cent of the population affected, Nauru has the highest incidence of diabetes in the world. There are more than 40,000 HIV/AIDS infections. If there is no improvement in health policies, 1 to 1.5 million people are expected to be infected by 2015-2020 in Papua New Guinea alone.

Though low growth means that health and education are starved despite aid inflows, raising education and health standards is not a question of funding but also of policy content. Current policies mean that only the children of elites become literate and even the elite schools are thought to be so deficient that wealthy islanders send their children to boarding school abroad. Hospitals soak up a large proportion of health expenditures, but are also inadequate. Wealthy islanders use Brisbane for their health needs. With human capital increasingly important for productivity no countries can grow with current Pacific education and health policies.

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Macroeconomic policies

After years of excess expenditures over revenues, with high borrowing, budget deficits and inflation, the Pacific islands have improved their macroeconomic management. Papua New Guinea has reduced its budget deficits, though major debt repayments loom on the horizon. Fiji's budget deficits have also fallen. Australian aid has underwritten the entire Solomon Islands budget, restoring it to balance. Among the smaller islands, Kiribati, Tuvalu and Niue have had reasonably prudent macroeconomic management for some time, the Cook Islands' has improved, and a new government is trying to grapple with Nauru's bankruptcy. But with the exception of Samoa, macroeconomic stability has not been achieved by increasing economic activity to raise revenues or by reducing wasteful expenditures. Except for windfall benefits of good weather and high primary product prices, revenues have stagnated. Aid continues to be absorbed by current expenditures, and budget stabilisation has been achieved at the cost of education, health, policing, law and investment in infrastructure. Stability can only be sustained in a growth context by eliminating wasteful functions and inefficient staff and stimulating economic activity to increase revenues so that investment in infrastructure, education and health can be increased.

3. Government

Because the colonial powers refused to contemplate a federation of Pacific states to preserve individual colonial heritages, independence led to economic and political fragmentation with swollen government structures. Socialist idealists burdened Papua New Guinea with 19 provincial governments (plus the National Capital District) in addition to an unwieldy central government system. Despite some reforms, the flow of funds between the central government and the provinces remains Byzantine, encouraging corruption at all levels of transportation, education, health and other sectoral administrations. Provincial governorships go to 'big men' who expect to increase their wealth during their tenure.

Both in terms of the number of parliamentary representatives per voter and cabinet members, the Pacific is heavily, even absurdly, over-governed. (Table 3).

Table 3. Numbers of members of parliament, voters per representative and cabinet members in the Pacific, 2004

	<i>Number of members of parliament</i>	<i>Voters per representative</i>	<i>Number of cabinet members</i>
<i>American Samoa</i>	20	1,534	N/A
<i>Cook Islands</i>	25	509	6
<i>Fiji</i>	71	6,451	22
<i>French Polynesia</i>	49	3,533	15
<i>Kiribati</i>	13	3,877	12
<i>Marshall Islands</i>	33	875	10
<i>Micronesia Fed States</i>	14	4,017	12
<i>Nauru</i>	18	320	6
<i>New Caledonia</i>	54	2,453	10
<i>Niue</i>	20	65	4
<i>Norfolk Island</i>	9	151	N/A
<i>North Mariana islands</i>	18	3,217	9
<i>Palau</i>	16	867	9
<i>Papua New Guinea</i>	109	25,361	28
<i>Samoa</i>	49	2,104	13
<i>Solomon Islands</i>	50	3,770	20
<i>Tokelau</i>	48	11	3
<i>Tonga</i>	30	1,654	10
<i>Tuvalu</i>	15	459	7
<i>Vanuatu</i>	52	2,182	13
<i>Wallis&Futuna</i>	20	476	N/A
<i>Australia</i>	150	98,447	16

Note: Lower chamber only in bicameral parliaments; the number of representatives per voter was estimated from the population aged 15 years and over plus pro rata population to voting age.

Source: United States, *CIA Factbook*, updated 11 May 2004 and Commonwealth of Australia, Department of Foreign Affairs, Country and Regional Information, <http://www.dfat.gov.au/geo>

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States extended the public services left from colonial times to match the size of parliaments with ministries, commissions, legal and other structures creating bureaucracies that mimicked the administrative arrangements of their much larger colonial parent countries without any regard to the costs entailed. These public servants then set about creating legislation and regulations to fill in any remaining gaps.

These government structures have two principal consequences. Government and the public service swallow up most of the available revenues and the aid that flows to the Pacific. Nauru had 1,600 public servants for a population of 10,000 people in the 1990s. Thus although the Pacific has received the highest aid per capita of any developing region, little of the aid has gone either to social services or investment. Secondly, with the failure to create a productive base for Pacific economies, governments and the public services became the principal sources of income earning directly and through corruption engendered by parliamentary or public service power.

As government and public services swallowed up national revenues and aid, expenditures were encouraged to run ahead of revenues leading to borrowing from private as well as public sources, and thus engendering further corruption in the form of kick-backs on loans. AusAID, the World Bank, the Asian Development Bank, the IMF (International Monetary Fund) and other international agencies became concerned with improving 'governance' in the Pacific. Hundreds of consultants found employment in restructuring governments and administration. The identification of 'ghosts' on public payrolls has been an outcome. But because the aid organisations failed to identify the fundamentally flawed government structures and policies that have caused economic stagnation, but almost no private sector income earning opportunities have been created. The Pacific governments have not even dared to dismiss the 'ghosts'! The effort dedicated to improving 'governance' has contributed to greater macroeconomic stability, but public sector employment remains equal to or greater than private formal sector employment in most of the Pacific islands. In Australia the public sector, despite seven governments and a large welfare establishment, represents only about about 25 per cent of total employment. Pacific states can only become viable if they stop fiddling with 'governance' at the margin and downsize their government and public services to affordable proportions.

4. Law, security and morality

Governments have the fundamental responsibility of maintaining internal and external security. Their responsibility includes adequate policing to prevent crime, laws that penalise corruption, a legal system that brings law breakers to justice, and the preservation of civil peace. Policing and legal systems are not sufficient to enforce law and security. The lack of income earning possibilities in rural areas and jobs and informal sector opportunities in towns will encourage criminal behaviour. Unchecked corruption at high levels gives justification for criminals in villages and on the street. Civil disorder ranging from urban gang fights to clan fighting is inevitable while there are no income earning opportunities and no jobs, and there is widespread evidence that the rest of the world lives at a much higher standard of living. Civil conflicts, secession movements and political coups will persist if the Pacific economies continue to stagnate and if morality continues to decline. Economic progress is impossible in such an environment.

The Pacific has acquired an international reputation for money laundering (in Nauru and Vanuatu), for passport sales (Nauru, Kiribati and Papua New Guinea) and as a centre of pornographic, particularly pedophile, internet sites. All these are associated with corrupt payments to politicians and senior public servants. They bring no benefits to Pacific communities.

The RAMSI force found it easy to deal with relatively small numbers of modern weapons, home-made rifles and machetes, but Bougainville and the Papua New Guinea Highlands fighters are armed with modern high-powered weapons. Australian police and legal 'mentors' can help Papua New Guinea to turn toward law and order, but only at the margin. Unless the Pacific makes a serious turn toward greater respect for the law, starting with a new morality in the upper echelons of government, it has no future.

5. International organisations

From the end of the 1960s, the United Nations staff made vigorous efforts to persuade Pacific islands as small as Nauru and Tuvalu (then with populations of some 6,000) to become UN members. Although it was clear that any benefits that Nauru would receive would be outweighed by the costs of membership, Nauru was seduced by promises of political power and the financial

gains this could bring. Not surprisingly, when Nauru found that its representative office in New York became too costly, it resorted to selling passports to pay for it. China and Taiwan have added to corruption in the Pacific by competing for recognition (in Kiribati, Nauru, Vanuatu and Papua New Guinea). The promise of a vote in favour of Australia for this or that UN Committee is used to pressure for aid.

The independent countries of the Pacific belong to a large number of international organisations. Papua New Guinea leads with 40 memberships, Tonga has 31, Samoa 30, but Nauru also has 18 and Tuvalu 13. Each week containers full of these organisations' documents arrive in the Pacific. Most have no relevance to Pacific problems. They support communitarian and socialist objectives that are inimical to the Pacific's economic progress and build opposition to the reforms that are essential to the Pacific's viability. The international organisations provide opportunities for travel to meetings, conferences and seminars. The one, and only, real advantage of 'least developed status' (claimed by Kiribati, Samoa, Solomon islands, Tuvalu and Vanuatu) is that the UN meets the cost of travel for officials from designated countries to attend meetings and conferences. Otherwise such travel is a considerable burden to small countries. The UNDP (United Nations Development Program) coordinates UN and other international agencies' considerable activities in the region. Pacific hotels thrive on the patronage of international staff. Several international organisations have representative offices in the region. Travel to meetings and conferences with the Pacific and further abroad constantly distract politicians and public servants from attending to problems at home. The principal beneficiaries of the Pacific islands' international memberships are the international organisations whose employment and power they support,

6. Aid flows to the Pacific

The Pacific continues to receive more than \$1.5 billion a year in aid (official development assistance), representing the developing world's highest aid flows per capita. But the principal impact of aid continues to be to support inappropriate government structures and policies and thus to retard development.

During the past 20 years the IMF, the Asian Development Bank and the World Bank have written thousands of pages about the Pacific. Many consultants and staff have been employed to write these reports. Some of the information collected and some of the analysis has been useful, but most has not added to knowledge about the region. It is doubtful that they have been read by relevant officials let alone affected policy debates.

The international aid organisations have been markedly inefficient in carrying out project aid. The ADB took 5 months to build one kilometre of road in Chimbu Province in Papua New Guinea early this year. The World Bank is processing a loan to replant old oil palms on small holdings that it initially financed 30 years ago. Where are roads, ports? Power stations and water tanks that aid should have built? Loans can not be repaid by failed projects but must be serviced by taxpayers, that is, largely by low income islanders. It is not surprising that Pacific governments regard such funding as part of their revenue streams and utilise it to maintain government and public service expenditures.

With their projects failing, the Asian Development Bank and the World Bank departed from investment in increased production and productivity to redistribution in line with priorities established at their headquarters to reach an accommodation with international NGOs (Non Government Organisations). But the Millennium Development Goals which seek to ameliorate poverty worldwide by (increased) aid to 'the poor' in developing countries are not relevant to the Pacific. The World Bank's attempt to determine 'poverty' in Papua New Guinea in keeping with its ideology, produced a published paper in a refereed journal,¹⁶ no doubt satisfactorily to its authors' promotion prospects. Its conclusion, however, that 37 per cent of Papua New Guinea's population is 'below the poverty line', is clearly meaningless.¹⁷

The IMF's headquarters' objectives also prevailed when the Solomon Islands, Samoa, Tonga and Vanuatu were saddled with inappropriate central banks. These banks have elaborate buildings and employ scarce and costly highly trained staff. Their seignorage (currency profit) is not likely to cover their cost. Such small countries should have adopted an international reserve currency such as the US dollar as the former American dependencies did. Typically, the Reserve Bank of Vanuatu, has been unable to prevent the off-shore banking system from 'laundering' drug trafficking funds. The Reserve Bank of the Solomon Islands did not prevent the collapse of the banking system in 2003. If the IMF is serious about development in the Pacific it will assist these

But the principal impact of aid continues to be to support inappropriate government structures and policies and thus to retard development.

The demand for changed, pro-growth policies is being expressed in Pacific newspapers.

countries to abolish these central banks and adopt more efficient and cost effective currency and financial regimes.

Because of the failure of international organisations to contribute to Pacific development, Australia has had to take the lead in making aid to the Pacific support growth. It is not likely to be able to deflect the IMF, the World Bank or the Asian Development Bank from their headquarters' preoccupations although these are failing worldwide, but AusAID will have to develop aid instruments and measures that will cease to subsidise counterproductive policies. The 'enhanced' aid mentor programme for Papua New Guinea was the first step in this direction. The rest of Australian aid, however, is still largely spent on enabling Pacific governments to remain in power by ameliorating failing education and health sectors and funding infrastructure maintenance.

The demand for changed, pro-growth policies is being expressed in Pacific newspapers. Frank Kolma, in 'PNG's growing landless people' (*The National*, 14 November 2004) is an eloquent plea for land reform. On the same day, *The Post Courier* editorialised: 'Unless or until the Government makes the necessary hard decisions to move expenditure from low-priority areas to those areas that will improve welfare and stimulate growth, there will be no substantial improvement if we do not invest for the future there will be no dividend to be gained'. Letters to the editor constantly indicate dissatisfaction with the status quo. The *Times of Tonga* is an Auckland émigré voice for the reforms so urgently needed in feudal Tonga. The imminent appointment of a Chief Economist to AusAID should enable an aid programme for land reform, deregulation and privatisation and new education and health policies to begin to make the Pacific work toward 6 to 7 per cent per annum growth rates.

7. The outlook for regional organisations

Had the colonial powers promoted a federation of Pacific states in the 1960s, at least for the smaller Pacific territories, instead of creating independent states in their own image, the Pacific could by now have been a prosperous region. The costs of government would have been shared and thus reduced. Common financial, transportation, communication and other services would have given scope for economies of scale and the pursuit of excellence while concentrating on individual island comparative advantages in production and developing rich individual cultural styles. Sporting teams—notably football—would be contributing to a sense of common identity.

Such a future was lost as colonial officials created the morass of governments that plagues the Pacific. It may now take a century to get back to what should have been the starting point. Local vested interests have become so entrenched that, except for small territories, any sort of regional arrangement that would require giving up economic and political power is unlikely. Smaller territories may instead see advantages in integration with developed economies to overcome the diseconomies of political independence. Norfolk has done so. Cook Islands, Niue and Tokelau have arrangements with New Zealand. Nauru may wish to move in this direction and Tuvalu and Kiribati would be well advised to do so. As the Marshalls, Palau and the Federated States of Micronesia see the widening standard of living disparities with American Samoa and the Northern Marianas, they may also become disillusioned with political independence.

The Pacific's medium sized territories—Tonga, Samoa, Vanuatu and Solomon Islands—would benefit from a federal structure. But while Samoa has some understanding of economic issues and has hence achieved some growth, standards of living in the other economies in this group are low and stagnant. The dominant elites have no interest in economic or social progress, but persistently pursue policies that make growth impossible. Substantial emigration from Tonga has not brought relief as it has in Samoa because Tonga has been unable to shake off the absurd feudal exploitation put in place in colonial times. It remains, arguably, the worst governed territory in the Pacific. Arguments that regional arrangements would lead to improved economic management in developing country groupings was widely canvassed in the 1970s and 1980s. Many regional arrangements were created with UN encouragement. They all failed.¹⁸ Only when countries are well managed can they come together effectively.

Two aid funded regional organisations continue colonial divisions in the Pacific: the Francophone Pacific Commission located in Noumea and the Anglophone Pacific Forum in Suva. The Pacific Forum has attempted to take up Pacific wide fishing and other environmental issues and is trying to develop these issues modestly but realistically. Its present focus is on rationalising air and other transportation policies. Even such a modest ambition presents a formidable task.

Pacific countries' exports are sold to industrial and rapidly growing Asian countries. Where they

have been able to abandon colonial ties (not in the Francophone French Franc territories) they source their imports from the cheapest suppliers, also mainly in East Asia. Regional trade arguments are generally political and only weakly economic because they cause costly trade diversion. There is no economic case for a Pacific trade area.¹⁹ A free trade area was proposed, nevertheless, by the Melanesian Spearhead Group to free trade in 200 categories in 1996. There was much talk but no trade. A broader Pacific Island Countries Trade Agreement covering Forum members was signed in 2001. Although the European Union is now starting to dismantle its destructive preferential policies, it is using its aid funding to persuade the Pacific to create an economic community on European lines. All these initiatives delight Pacific politicians, bureaucrats and 'eminent persons' for whom they mean travel and fees. The considerable costs are, of course, borne by low income taxpayers in the Pacific and in donor countries.

There has also been talk of an economic community that would join the Pacific islands to the Australia-New Zealand Closer Economic Relations Trade Agreement with free trade, free movement of labour and capital and a common currency. Until Pacific states show signs of prudent economic management that will lead to their rapid catching up with Australian and New Zealand living standards, this must be a distant prospect.

8. Is emigration from the Pacific a solution?

Emigrating has been the only way for most Pacific islanders to improve their living standards. Samoans, Tongans, Indian Fijians, Cook and Niue islanders and migrants from the Micronesian states are well established in New Zealand, Australia, the United States and other countries. The Pacific islands of emigration benefit from remittances. In smaller states these can far exceed the value of exports.²⁰ Some migrants return to establish businesses in the islands and many more would do so if the island economies were growing. Returning and visiting migrants raise the levels of economic, social and political debate, contributing to reform where the political system is sufficiently open. The emigrant diaspora also contributes to such debates. But emigration also has costs, to the migrants, the home countries and the host countries.

All migrants have adjustment problems, although falling transport and communication costs have eased the maintenance of family ties. As migrants tend to be the most skilled and entrepreneurial in a community, their departure 'hollows out' the small domestic human resource bases in the islands. Where people and economies become remittance dependent, local production shrinks. Small islands such as the Cooks and Niue have become retirement communities for those left behind.

Migrants are also a problem for host countries that encourage welfare dependency. Pacific islanders have been able to improve their living standards merely by accessing New Zealand welfare payments. But dependent on welfare, they have failed to adjust to New Zealand's private property based economy that provides the taxes for welfare. Welfare dependence has been reinforced because 'wantok' attitudes persist when immigrants do not work. The resulting problems of poor school attendance, alcoholism, drug abuse and criminal behaviour plague immigrant ghettos, often persisting into second and third generations. Gang warfare, notably against Maori groups, has followed. Migrants who opt for work, home ownership and education are harmed by prejudices created by welfare dependent ghettos. Many Pacific migrants move on to Australia as soon as they become New Zealand citizens to get away from 'wantok' pressures.

Proposals for a large flow of migrants from the Pacific to Australia do not take into account the balance of costs and benefits either to home countries or to host countries. If Pacific migrants are barely literate and unskilled, they will not be able to find jobs in Australia. Whatever the legal situation, they will need welfare support. If they are skilled they will increase the shortages for skilled labour at home.

The proposal for Pacific temporary 'gast arbeiter' from the Pacific stems from wishful thinking for a pliable labour supply for such jobs as fruit picking and domestic 'nannies' at present supplied by young, educated and entrepreneurial 'back packing' tourists and exchange workers. There is, moreover, a large reserve of unemployed in Australia for such jobs, notably in Northern Australia where efforts are now being made to engage young unemployed Aborigines in 'mutual obligation'. Europe's and North America's experience suggests that short-term immigration leads to many problems. Refusing to accept unskilled short-term immigrants has enabled Australia to lead the world in integrating immigrants into the community. In the Pacific there would be an additional problem with short-term unskilled emigration. When a group of Australian Senators raised the

As migrants tend to be the most skilled and entrepreneurial in a community, their departure 'hollows out' the small domestic human resource bases in the islands.

possibility of a managed short-term migration programme from Papua New Guinea to Australia in 2003, the proposal was welcomed by leading Papua New Guinea politicians. They worked out how those 'selected' for jobs in Australia could be made to pay for the privilege even before the Australian Senators left Port Moresby. They had no doubt heard how Imelda Marcos milked emigrating Philippine maids.

At the margin, migration makes it possible for enterprising people to improve their standards of living. It cannot be a substitute for development. The current movement of some 7 million asylum seekers and illegal migrants annually, with its horrendous costs to the migrants and to host countries, is the consequence of the failure of development in Latin America, the Middle East and Africa. The danger that Australia faces if the Pacific does not grow and develop is a flood of illegal immigrants fleeing dysfunctional homelands. Development is much more humane and cost effective in the Pacific as in other developing regions than migration. If Pacific countries develop, migration will continue to take place, but only at the margin. Australia's worldwide non-discriminatory immigration policy has attracted Pacific immigrants in the past and will no doubt continue to do so.

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