

## Papua New Guinea's Choice A Tale of Two Nations

Helen Hughes and Susan Windybank

EXECUTIVE SUMMARY

The withdrawal of the Australian police is disastrous for the people of Papua New Guinea. One hundred and twenty of the 210 police who were to be deployed under the Enhanced Cooperation Programme had only been in place in Port Moresby and Bougainville for a few months, but they were already having an impact on *raskols* in Port Moresby and on security in Bougainville.

Even these small beginnings invited a vigorous opposition. For police supplementing their pay by consorting with *raskols*, the presence of Australian officers meant a sharp cut in income. More than 300 police, protesting their low wages, demanded that the Australians leave. For senior police officers allegedly paid by Chinese triads to turn their eyes away from illegal gambling, drug, arms and people smuggling, the Australians' presence was even less welcome. The Enhanced Cooperation Programme, moreover, threatened the pervasive corruption with its large returns to many politicians, officials and their 'big men' associates throughout the country. The successful constitutional challenge by Luther Wenge MP and Governor of Morobe Province to the immunity that is essential to Australian police operations in Papua New Guinea therefore means that the 'big men' will continue to prosper while the 'grassroots' suffer.

Papua New Guinea is two nations. Policies followed since independence 30 years ago have given rise to a wealthy elite that educates its children well, often in Australia, so that they can succeed their fathers in parliament, in public office and in business. They live in large airy houses protected by razor wire, travel abroad on official and private business, take well-remunerated positions in international organisations and enjoy holidays overseas where they invest their income.

The other five and a half million Papua New Guineans live in the villages (85% of the population) and in shanty township settlements. This Papua New Guinea is hemorrhaging. After 30 years of consistently greater population growth than economic growth every social statistic indicates that living standards are abysmal. Women's work still maintains fair nutrition in most of the country, but by every other criterion Papua New Guineans are now among the poorest people in the world.

Traditional society has broken down. Of the more than 800 clan groups that make up this second Papua New Guinea, only a handful has been able to overcome the constraints of communal land ownership and the perversion of power by local 'big men' to invest in roads so as to get cash crops to market. Public and private funds are consumed in pig feasts so that 'big men' can reap the benefits of electoral office. Population pressure on land is eroding traditional village economies, exacerbating violence and civil conflict. The few roads that are passable have become tollways for bandits. Health care barely exists, particularly for women. HIV/AIDS threatens to engulf a third or more of the labour force in 10 or 15 years. Postmodern education theories have failed to give villagers literacy and numeracy. This makes for volatile politics, particularly for jobless youngsters in the towns who not only form criminal gangs but are also ready recruits for populist politicians seeking to grab attention by attacking Australia.

A few parliamentarians and some courageous commentators are attempting to conduct a debate about the desperate need for high, sustained growth to bring decent livelihoods to the villages and townships and unity, self-confidence and pride to their country. This debate not only relies on honest reporting by Papua New Guinean radio and press, but is also heavily dependent on Australian media coverage of Papua New Guinean news. Panglossian slants on the news in the Australian press serve this debate ill.

Improved security and reduced corruption are essential if growth is to be possible. Growth will bring jobs and rising incomes so that *raskols* will have an alternative to crime, 'ghosts' can be removed from the public service and corruption can be prosecuted in the courts. But only the Papua New Guinean Parliament can make the choices for growth without which the attack on crime and corruption cannot succeed. The Enhanced Cooperation Programme was intended to support the efforts of the beleaguered minority of reformers in Parliament committed to change. It would be a tragedy if Papua New Guinea's long-suffering second nation were betrayed by its loss.

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## **Introduction**

Only the most myopic observers fail to admit that crime and corruption are barriers to development. A consensus, underlined by daily reports of robberies, assaults and murders in the local press and Transparency International's high corruption rankings,<sup>1</sup> places Papua New Guinea not in the Asia Pacific, but among some of the worst performing African countries. The lack of security that is both a cause and effect of Papua New Guinean governments' failure to pursue growth policies was clearly identified as the principal reason for the difficulties facing the delivery of Australian aid. In mid-2004 the Australian government therefore initiated the Enhanced Cooperation Programme (ECP) to focus on law and order. Together with additional assistance for macroeconomic management, this was to amount to \$1 billion over five years, adding to the base \$300 million annual aid programme and totalling \$500 million a year of grant aid. On a per capita basis this is probably the largest long-term bilateral grant aid package to an independent country.

But Papua New Guinea's acceptance of this flow was grudging. The programme took months to negotiate. Prime Minister Somare even claimed that Papua New Guinea did not need Australian aid. His concerned colleagues, aware that this aid represented more than a quarter of total government revenues, persuaded him otherwise. Yet the Prime Minister found a pretext for suspending the ECP following an incident in April when he was asked to take off his shoes during a security check at Brisbane airport.

Prime Minister Somare's reluctance to accept the ECP was shared by other Papua New Guinean parliamentarians. Luther Wenge MP and Governor of Morobe Province accused Australia of trying to 'invade' Papua New Guinea and instructed a 'rally' of some 2,000 people to 'chase away' Australian police officers from Lae, the crime-ridden provincial capital. Mr Wenge instigated the Supreme Court challenge that found the immunity granted to ECP officers unconstitutional. His action was no doubt welcomed by politicians and public servants behind their razor wire, and by well-armed 'big men', fearing the exposure of corruption in the courts. The villagers and township women for whom improved security is the leading concern and who are the principal victims of petty corruption were, of course, not consulted. So police can continue to demand bribes at roadblocks and rough up curbside betel nut sellers and destroy their stock if they fail to pay their protection money.

## **Australian interests**

Papua New Guinea is not of economic importance to Australia. It competes in primary exports, and Papua New Guinean markets for manufactures are likely to be best met by Asian countries. Some Australian businesses are, nevertheless, interested in Papua New Guinea. The 21st annual Australia Papua New Guinea Business Forum attracted 180 participants in Cairns at the beginning of May, but did not lead to pledges of new investment. The demand that 60% of law firms become Papua New Guinean owned, on the contrary, threatens the withdrawal of key Australian firms.

Strategic concerns are becoming more important as cannabis is traded for guns and a trickle of migrants crosses the Torres Straits. The porous land border with the breakaway Indonesian province of West Papua also bears watching. Fears are emerging that Papua New Guinea could become a staging post into Australia for criminals, drug traffickers and people smugglers as evidence mounts of collusion between Asian crime syndicates and Papua New Guinean police and other officials at the highest levels.<sup>2</sup>

But Australian engagement with Papua New Guinea is also motivated by humanitarian and moral concerns. It is unconscionable for people in our neighborhood to be living such deprived lives as the majority of Papua New Guineans are. The response to the Boxing Day *tsunami* showed Australians' generosity, but most of Papua New Guinea's problems are man-made. Awareness of crime, corruption and economic stagnation underlies the questioning of the reasons for the ineffectiveness of Australian aid. Although many Papua New Guinean politicians find it incomprehensible, the Australian government is accountable to taxpayers for its expenditures abroad as well as at home. Aid will dry up if it is not spent effectively.

Papua New Guinea's failure to tackle its problems is leading to a growing sentiment in Australia that it should be left to its own devices. It is being argued that given the lack of results from 30 years of Australian aid expenditures, Australian taxpayers' funds would bring a higher return spent on improved border security through such initiatives as the \$23 million radar surveillance system now on trial in the Torres Strait.<sup>3</sup> But disengagement is the pessimists' solution. For the sake of the 'grassroots' Papua New Guinean majority of men, women and children, Australia should not give up and permit relations with Papua New Guinean politicians to fester.

## Security

Papua New Guinea's own Administrative Review of the Royal Papua New Guinea Constabulary in September 2004 concluded:

However we look at the law and order problem in PNG, it is a serious problem. This report is about the Royal Papua New Guinea Constabulary. It is highly disturbing because it outlines weaknesses in every area and aspect of the constabulary... Unless the government and the society commit themselves to reform and demand that it is carried out forthwith, with dedication and resolve, there will be no improvement... There has been a serious failure in disciplines and systems that has rendered the Royal Papua New Guinea Constabulary largely ineffective. It has been powerless to deal with rising incidents of violent crime, and unprofessional and unethical acts by some of its members have caused the community and the Government to lose its confidence and trust. These problems are continuing.<sup>4</sup>

The growth of crime is rooted in the excess of population growth over economic growth that has denied the vast majority of Papua New Guineans the opportunity of a decent income in agriculture or town jobs. The gangs of *raskols* are merely the tip of an iceberg of uneducated youngsters growing into adulthood without any economic or social opportunities. *Raskols* argue that corruption among politicians and public servants justifies their stealing.<sup>5</sup>

Chinese triads have introduced a new criminal element. They work with *raskol* gangs to exert domination over illegal gambling, prostitution, money laundering, and drugs, arms and people smuggling—thus far mainly illegal Chinese immigrants—into Papua New Guinea. They are alleged to have bought the acquiescence of senior police and other government officials.<sup>6</sup> The corruption that was hitherto principally known to enable Malaysian timber companies to operate illegally and bring automatic weapons into the Highlands is spreading to other sectors of the economy.

The ECP was devised when it became evident that the Somare government was unwilling to take steps to fund the Constabulary to enable it to perform its tasks and to reform it. Police in rural areas typically do not have enough petrol allowances to be able to chase criminals beyond town limits. At lower levels, low pay makes for corruption. At higher levels, greed is pervasive. If the Australian police do not return to Papua New Guinea and if the Somare government continues to deny its Constabulary adequate resources, the Chinese triads, *raskol* gangs and fighting clans will increase their influence throughout the country. For the second Papua New Guinean nation, life will get even harsher.

## TOWARDS A NEW DEVELOPMENT STRATEGY

In March this year Rowan Callick announced in *The Australian Financial Review* that 'For PNG, it's just one piece of good news after another'.<sup>7</sup> It is true that Treasurer Bart Philemon, with the help of ECP officials, has greatly improved macroeconomic management. The 2004 Budget was in surplus so that inflation was down to 2%. In marked contrast to the 1990s, high mineral tax revenues were not used as an excuse for borrowing abroad. Philemon deserves particular credit because he has been under pressure to waste public funds. That pressure will become more severe as the next election, due in 2007, approaches. But even taking into account the mineral prospects that the Somare

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Government is anticipating, the Economic Analytical Unit of the Department of Foreign Affairs and Trade concluded that ‘unless other economic sectors deliver some growth, PNG’s per capita income will continue to decline’.<sup>8</sup>

There is also a positive microeconomic signal. The ANZ Bank has negotiated an agreement to use the Post Office network to start savings banking, a more effective measure than ‘microfinance’ for small savers and investors. But that is all the good news on the economic front.

National income growth for 2004 was 2.6%. Population is officially growing at 2.26% a year, but real population growth is almost certainly 2.5% a year or more. Brian Gomez commented in *The National* that 4.25% annual population growth in the Southern Highlands ‘could well be the fastest anywhere in the world’.<sup>9</sup> These population and economic growth figures mean no per capita income growth and thus no rise in living standards for the tenth consecutive year. The same is forecast for 2005 with a projected national income growth of 2.9%. And actual growth has been below projected growth for years.

Thus, in spite of booming mineral and agricultural prices and in spite of the high volume of aid from Australia (with additional funding from other countries), the Somare government is failing to deliver even a minimal improvement to its citizens. These outcomes have been noted in Papua New Guinea,<sup>10</sup> but not in the Australian press.

### Roadblocks to growth

Prudent economic management is a necessary, but insufficient condition for growth. With continuing insecurity and counterproductive regulations and legislation, appropriate macroeconomic settings cannot do their work.

Growing population pressure on land is becoming evident. It is not coincidental that civil conflicts are most serious in the Southern Highlands, where population growth is highest. Yet the illusion that Papua New Guinea’s traditional communal land ownership is immutable persists, backed by the ‘big men’ who benefit from the status quo. Frank Kolma warned in *The National* last year that it is the people with guns and money who will end up with all the land unless reform, beginning with registration, starts immediately.<sup>11</sup> Communal land ownership is already leading to the emergence of food shortages, particularly for disadvantaged families headed by single mothers. The vaunted social protectiveness of *wantok* is failing. The absence of secure individual property rights to land, combined with the lack of roads and security, and counterproductive government marketing intervention, are holding back agricultural production.

### Papua New Guinea’s share of world agricultural markets, 2001, 2002 and 2003

	World exports 2003	Papua New Guinea’s share of world exports		
	US dollars 100,000	2001	2002	2003
<b>Coffee</b>	<b>9,580</b>	<b>0.64</b>	<b>0.85</b>	<b>0.88</b>
<b>Cocoa</b>	<b>5.417</b>	<b>1.08</b>	<b>1.22</b>	<b>1.34</b>
<b>Copra</b>	<b>40</b>	<b>10.70</b>	<b>6.74</b>	<b>4.55</b>
<b>Oil palm</b>	<b>9,657</b>	<b>1.89</b>	<b>1.48</b>	<b>1.28</b>
<b>Tea</b>	<b>2,578</b>	<b>0.23</b>	<b>0.19</b>	<b>0.21</b>
<b>Vanilla</b>	<b>32</b>	<b>0.31</b>	<b>2.06</b>	<b>9.88</b>

Source: United Nations Food and Agriculture Organisation, FAOSTAT Database, <http://apps.fao.org/faostat>

The value of coffee, cocoa and oil palm exports increased as drought receded, but coffee and cocoa volumes failed to return to 1980s levels. Copra exports declined. Vanilla exports, taking advantage of the decline in Madagascar’s production, increased, but the world market for vanilla is very small compared to coffee, cocoa, tea and oil palm and in

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all of the latter the shares of Papua New Guinea's exports are negligible. The number of vanilla producers shrank sharply from some 2,000 to three in 2004 because of communal land ownership problems and because marketing regulations, as with other agricultural exports, impeded vanilla exports.<sup>12</sup> In the expanding oil palm market, where Malaysia is abandoning production because of high labour costs, Papua New Guinea's share is shrinking. Poor agricultural export performance is a root cause of stagnation for the majority of Papua New Guineans.

The barriers to urban development are equally well-known. Proposals for labour-intensive manufacturing have been ignored for fear of trade union opposition, and more prosaically, for lack of government energy. Expatriate businesses make profits out of basics such as beer and colas and out of protected monopolies such as sugar, cement and transport. Some indigenous businesses continue to struggle against monopolies, regulations and failing infrastructure. But the only growth industries are crime and corruption.

Tourism's very considerable potential cannot be realised at present levels of insecurity. Funds allocated to promote it have been wasted on highly paid jobs abroad and on travel for officials and politicians.

The depredations of the timber loggers continue despite continuing exposure of the corruption in the granting of leases.<sup>13</sup> Ongoing mineral operations are benefiting from high prices, but the gas pipeline is still in the future and the Chinese Ramu nickel mine will not start till 2006. Other start-ups are possible but by no means certain. Acting Bank of Papua New Guinea Governor Benny Popoitai observed that 'private sector investment was dismal in 2004' in the very article headed 'For PNG, it's just one piece of good news after another'.<sup>14</sup>

The Somare government has spent a great deal of time fighting off no-confidence motions and otherwise appeasing opponents. Parliament has not sat a great deal of the time. The large Cabinet (of 28 members) and the 19 Provincial Governors barely manage to maintain appearances of governance. Little progress has been made on the reform agenda left hanging when the Morauta government was replaced by the Somare government. The attempt to restart the privatisation process by selling 51% of the state-owned national communications provider, PNG Telikom, to the South African company, Econet Wireless, failed. The deal was scuttled after a political fiasco that led to a parliamentary motion opposing the sale and a whirlwind of sackings, including that of the highly respected minister overseeing the privatisation.

The Telikom privatisation tried to establish a new private monopoly that would use its super-profits to (a) make up for paying a high price for the worthless Telikom and (b) subsidise rural mobile services by making its profits in urban areas. In other words, a new private monopoly would replace the old public monopoly. If the Papua New Guinean government were seriously interested in village telephony services it would forget about Telikom until open-entry competition in the mobile market establishes telecommunications in the country. Villagers cannot be given mobile phones that are cross-subsidised by town dwellers without creating a new mess. What villagers need is development so that they can earn the income to afford their own phones.

### **The need for growth**

Given peak raw material prices, the Papua New Guinean economy should have been growing by at least 7% a year. This rate of growth has proven necessary worldwide to achieve a momentum that permits the influence of monopolists and corruption to be overcome so that counterproductive laws and regulations can be reformed. Rapid growth means an increase in agricultural productivity and output together with increased output in manufacturing and tourism so that these sectors can support the development of services and income and job growth. Off-farm employment follows rising agricultural incomes and stimulates off-farm business as well as stimulating utility and service networks.

Worldwide experience also shows that declines in corruption, improved governance and effective democracy do not normally precede, but follow, growth. This has not

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only been the experience in East Asia, but also in other rapidly developing countries as disparate as Botswana and Chile. In the slowly growing countries of Latin America, the Middle East and in disastrous sub-Saharan Africa (except Botswana) where growth has not been a priority, the social consequences have included poverty, crime, corruption and fragile political systems. If the majority of people of Papua New Guinea are to enjoy rising living standards and if crime and corruption are to be attacked, a growth strategy has to accompany the campaign against crime and corruption.

The Somare government's Medium Term Growth Strategy is not a growth strategy but a laundry list of headings to be presented for funding to visiting aid officials.<sup>15</sup> It lacks a coherent socioeconomic database and a sectoral matrix that could identify the reforms needed to end economic stagnation. While such analytical knowledge of the economy is lacking, commentators will be able to continue to argue that market policies have failed.<sup>16</sup> The reality is they have not been introduced. Papua New Guineans who have undertaken postgraduate studies abroad have the capacity to undertake the modelling that would illustrate the growth needed to put Papua New Guinea on a sustained growth path of 7% plus a year. The National Research Institute could construct such a model and lead the debate that could identify the structural bottlenecks and reforms needed to overcome them.

Although the need to accelerate growth is recognised in Papua New Guinea, the key policy steps—land tenure reform, business regulation reform, industrial relations reform and the privatisation of key transport and public utilities—remain unpalatable to the deeply communitarian-influenced Papua New Guinean commentariat. Until the bottlenecks to growth are identified so that the debate can move forward to discuss market forces, reforms that are needed to facilitate growth will not take place, per capita income growth will continue to stagnate and most people in Papua New Guinea will continue to be severely deprived. Their disillusionment and demoralisation was evident at last year's Independence Day ceremony, captured by photographer Stephen Blackmore, who described the scene: 'The Governor-General and 40 of the military are all lined up on the main oval in Port Moresby. The oval is completely bedraggled and there was hardly anyone in the stands: the people who are there are being held back by the army with guns'.<sup>17</sup>

## **Education**

The proportion of the Papua New Guinea population that is literate is disputed. It is probably much less than half and only in Pidgin (*Tok Pisin*). How many boys and girls are now in school is also moot because most of the children in elementary and primary school are not learning to read, write, do maths or understand the world.

The lack of literacy makes a mockery of elections and democratic processes. It is no wonder that rent-a-crowds can be marshalled at a moment's notice to oppose land tenure reform or to reject Australian aid.

The Papua New Guinean Department of Education has fallen into the hands of postmodern education theorists. They have determined that children in their early years in village schools should be taught in one of the 800 or so vernacular languages, without working out how to obtain teachers in these languages, train them and provide them with teaching materials. Children do not learn phonics or multiplication tables. Curriculum reforms are moving further and further from basic skills to 'outcomes' with a focus on 'student-centred learning'.

The children who stay on for the few years of this 'learning' have great difficulty in learning Pidgin and to read and write. The better missionary schools (that account for 40% of education), though increasingly penetrated by postmodern fads, and international schools that the children of the elite attend in the main towns, are the only exceptions to this travesty of education. In the latter schools children also learn English, but the proportion of English speakers in Papua New Guinea is thought to be 1% or 2%. These are mainly children of the elite, many of whom attend boarding school in Australia. Inability to work in English is leaving the majority of Papua New Guineans further and further behind the elite, but Pidgin is thought to be a perfectly adequate language for the majority by old Papua New Guinea hands.<sup>18</sup>

Village parents do not see any results for the fees they have to pay because teachers' salaries—when paid—are much lower than those of the bureaucrats who administer the system. It is hardly surprising that schools are not maintained by communities, that parents do not care whether teachers attend or not, and that drop-out rates are so high they are even becoming of concern to the Department of Education.

Postmodern education theories did not originate in Papua New Guinea. They were exported to the Papua New Guinean Department of Education, universities and teaching colleges through aid programmes. Unless these trends are reversed and children in the villages and townships are taught how to read, write and communicate in one of the world's principal languages, Papua New Guinea will continue to lack the base for economic development. In most Asian developing countries English as a second language is prevalent in secondary schools so that their young people can be equipped for productive jobs in the 21st century. Papua New Guinea is falling further and further behind these countries.

### **Health**

Village health, particularly for mothers, infants and children, continues to be dismal despite large Australian aid inputs. Even simple pain killers are often unavailable in villages and townships. Urban hospitals, inadequate as they are, still depend heavily on expatriate staff. Byzantine central-provincial government relations erode much of the limited funding for health before it reaches patients in rural areas. There is no country-wide health system. Elite Papua New Guinean families travel to Queensland when they become ill.

The spread of HIV/AIDS is consequently still accelerating. The official HIV/AIDS count is only 8,000,<sup>19</sup> but realistic estimates have risen from 40,000 to 60,000. In the absence of a nationwide health system, predictions that by 2015-2020 the Papua New Guinean labour force will be reduced by a third are being fulfilled. Photographer Stephen Blackmore's worst moment came at a burial of infants abandoned at the Port Moresby morgue. 'Either the parents had died of AIDS or were too poor to pay the morgue fees. I photographed this burial of 20 babies and for me that was the end of the story that I wanted to tell'.<sup>20</sup>

### **CAN AUSTRALIAN AID HELP PAPUA NEW GUINEA?**

AusAID is not alone in facing extreme difficulty in trying to ensure that Australian aid to Papua New Guinea results in an effective use of Australian taxpayers' funds. Worldwide experience indicates that aid is only effective in countries with strong pro-growth policies.<sup>21</sup> Such countries soon do not need aid as the leading performers in the East Asian neighborhood have demonstrated. It is also a fact that aid is negatively correlated with growth: the countries with the highest aid per capita, including those in the Pacific, have been among the world's lowest growth countries. The negative effects of aid in substituting for local effort and encouraging waste and corruption have been at least as well demonstrated as aid's positive effects, particularly in countries that do not make pro-growth choices. They cannot be ignored.<sup>22</sup>

Most Papua New Guineans are unaware how much Australia contributes to their Government every year. Whether packaged as 'project' or 'sectoral', official aid is fed through Papua New Guinea's central bureaucracy so that much of it has benefited the elite in maintaining an inflated bureaucracy. In the past nearly 40% of Australian official aid went to 'governance'—that is, trying to improve the operation of the public sector.<sup>23</sup> NGO direct 'band aid' that seeks immediate outcomes has failed to have a lasting impact on health or education. A very considerable number of Australian and other mainly self-selected expatriates (many funded by aid), have been in Papua New Guinea for many years without appreciable results. They have not left behind a cadre of well-trained professional Papua New Guineans capable of moving forward a debate about growth and development, let alone implementing reforms. Much of the advice given by these expatriates runs counter to market-oriented policies that have proved crucial in the rapid development

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of Papua New Guinea's Asian neighbours. These expatriates have failed, and are failing, to indicate the pro-growth policy choices that Papua New Guinea faces.

### **Aid and growth**

AusAID is set to assist three Provinces (East New Britain, Southern Highlands and Central), bypassing bureaucratic morasses to reach the second Papua New Guinea nation directly. The aim is to ensure that health and education funding are not eaten up by central and provincial governments but can be supported by local communities and that infrastructural improvements, notably the 85% of road maintenance costs for which Australian aid pays, are not destroyed by criminals as soon as they are in place. But provincial services are heavily dependent on central and provincial governments so that the new AusAID efforts are also likely to be fraught with difficulties. In economic terms, the failure of Parliament to adopt pro-growth policies severely limits Papua New Guinea's absorptive capacity for aid.

Australian aid to Papua New Guinea amounts to more than \$500 million annually (a \$300 million base plus some \$200 million annually for the ECP). This equals K1,200 million or 26% of the 2005 Papua New Guinea K4,640 Budget.<sup>24</sup> The ECP specifies a five-year commitment and Australia's record as Papua New Guinea's principal and largest source of bilateral aid makes Australia's long term engagement clear. Japan, New Zealand and the European Union are the only other significant donors, but at best only add an estimated \$50 million. Japan's aid takes the form of concessional loans. The Somare government tried to add to its aid sources by approaching several developing Asian countries but though they are interested in Papua New Guinea's raw materials, they have proved not to be substantial aid sources. The World Bank and the Asian Development Bank have had severe difficulties in negotiating and implementing loans for Papua New Guinea. The World Bank's \$45 million attempt to rescue the timber industry from the corruption that is ripping out Papua New Guinea's timber without replanting, was rejected by the Somare government at the beginning of May.<sup>25</sup> This is likely to hold up further lending.

The suggestion that Australia should double its aid to Papua New Guinea to \$1 billion a year<sup>26</sup> before becoming satisfied that current levels of aid do not merely support the elite but benefit the majority of Papua New Guineans, would be an irresponsible waste of hard-earned Australian taxes. Additional volumes of aid in current circumstances would be likely to deter Papua New Guinea even further from reforms necessary for growth. It is also clear that no matter what level of aid Australia provides, going back to no-strings budget aid that was already seen to have failed in 1984 is not an option.<sup>27</sup> Nor, as Alexander Downer has repeatedly pointed out, is any attempt at 're-colonisation'.<sup>28</sup>

With the replacement of James Wolfensohn by Paul Wolfowitz as President of the World Bank, Australia's cooperation with the World Bank could become fruitful if the World Bank's new management turns from empty poverty rhetoric to growth policies that are the only way of reducing poverty in practice. The Asian Development Bank is eventually likely to be influenced by such a change. Australia and the World Bank could support Papua New Guinea in developing a sector based, quantitative growth strategy and promoting public debate that would identify reforms necessary for growth and thus provide support to reformers in Parliament.

The suggestion that Australia's engagement with the Papua New Guinea elite should be increased by 'a big meeting of government and non government leaders from both countries'<sup>29</sup> would not generate the policies that are essential for growth. A plethora of meetings, conferences, seminars and boondoggle travel by officials on both sides already wastes the scarce resources that ought to be devoted to rigorous examinations of policy choices and the building of Papua New Guinea's future. These are bureaucrats' solutions that will only give comfort to those parliamentarians, provincial governors and officials more interested in holding on to power and privilege than in relieving deprivation in villages and townships. Only if Papua New Guinea abandons the policies that have resulted in 30 years of population growth ahead of income growth can Australian aid be effective and will the lives of Papua New Guineans improve.

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## Endnotes

- <sup>1</sup> Transparency International's *Global Corruption Report, 2005*, ranked Papua New Guinea 102 out of 123 countries in its Corruption Perceptions Index for 2004, see <http://www.globalcorruptionreport.org/download.html>
- <sup>2</sup> Mark Forbes, 'Danger on our Doorstep', *Defender* (Autumn 2005), 23.
- <sup>3</sup> 'Surveillance Trial in Torres Strait', *The Sydney Morning Herald* (4 May 2005).
- <sup>4</sup> Government of Papua New Guinea and the Institute of National Affairs, *Report of the Royal Papua New Guinea Constabulary: Administrative Review Committee to the Minister for Internal Security, Hon Bire Kimisopa* (Port Moresby: September 2005), 1-2.
- <sup>5</sup> Mark Forbes, 'Murder, Mayhem and Madness', *The Sydney Morning Herald* (4 May 2004).
- <sup>6</sup> Craig Skehan, 'Chinese Gangs make Pacific their Playground' and 'Crime Fears Follow Trail of Migrants', *The Sydney Morning Herald* (19-20 February 2005); Forbes, 'Danger on our doorstep', 22-24.
- <sup>7</sup> 19-20 March 2005.
- <sup>8</sup> Nicholas Coppel, *PNG: The Road Ahead* (Canberra: Commonwealth of Australia, Department of Foreign Affairs and Trade, Economic Analytical Unit, 2004), p.xvii
- <sup>9</sup> 30 March 2005.
- <sup>10</sup> Brain Gomez argued in his column that 'As far as the present government is concerned Bottom Line believes its planning mechanisms are so conservative an argument could be made that the nation is charting a course where the nation would continue to go backwards, based on current economic growth projections. 'All Not So Rosy on the Economic Front', *The National* (30 March 2005).
- <sup>11</sup> 'PNG's Growing Landless People', *The National* (12 November 2004).
- <sup>12</sup> Lowy Institute, *Overcoming Constraints in Papua New Guinea* (Sydney: Lowy Institute Conference, February 2005), 7.
- <sup>13</sup> For details of agricultural export stagnation and timber industry problems see Helen Hughes, 'Can Papua New Guinea Come Back from the Brink?' *Issue Analysis* No. 49 (Sydney: The Centre for Independent Studies, 2004).
- <sup>14</sup> *Australian Financial Review* (19-20 March 2005).
- <sup>15</sup> See Charles Lepani in Hugh White and Elsinia Wainwright, *Strengthening Our Neighbour: Australia and the Future of Papua New Guinea* (Canberra: Australian Strategic Policy Institute, December 2004), 52.
- <sup>16</sup> John Millet, 'Prelude to recovery: confronting policy failure', *Pacific Economic Bulletin* 2005, 20(1):G 134-6.
- <sup>17</sup> *The Australian* (1 April 2005).
- <sup>18</sup> Leo Scheps, 'How Papua New Guinea Works', in *Quadrant* XLIX (4), 44-45, writes that on the basis of his long years of experience in Papua New Guinea, despite the evidence of difficulties village children have in moving from the vernacular to Pidgin, and of their low literacy and numeracy achievements, that Pidgin is a satisfactory universally understood national language that forms a bridge to English for the majority of Papua New Guineans.
- <sup>19</sup> Commonwealth of Australia, *Australia's Overseas Aid Program, 2003 -04: Statement by the Honourable Alexander Downer MP, Minister for Foreign Affairs* (Canberra: 2003).
- <sup>20</sup> *The Australian* (1 April 2005).
- <sup>21</sup> This empirical conclusion is supported by several World Bank research papers: C. Burnside and D. Dollar, 'Aid, Policies and Growth' (1997), P. Collier and D. Dollar, 'Aid Allocation and Poverty Reduction', P. Collier, S. Devarajan and D. Dollar, 'Measuring IDA's effectiveness' (2001) and P. Collier and D. Dollar, 'Development Effectiveness: What Have We learnt' (2001). These papers have been published in professional economic journals, but the data sets and assumptions on which their conclusions are based are dubious so that they contribute more to wishful thinking than to the testing of rigorous hypotheses. C-J Dalgaard, H. Hansen and F. Tarp, 'On the Empirics of Foreign Aid and Growth', *The Economic Journal* 114 (June) 2004, pp.191-216 also argues that long-term effects of aid depend on policies, 'deep' structural characteristics and the size of aid. Elegant econometrics, however, again rely on weak data and imaginative assumptions about how 'policies' translate into determinants. M. Clemens, S. Radelet and R. Bhavnani, 'Counting Chickens When They Hatch: The Short Term Effect of Aid on Growth', Working Paper Number 44 (Washington D.C.: The Center for Global Development, 2004) with equally elegant econometrics, the same weak data sets and even more imaginative assumptions argue that previous work in this area is 'flawed' because it takes too short a time horizon: the authors find, that no matter what, aid always results in growth!
- <sup>22</sup> Peter Bauer argued that aid had negative effects (P. T. Bauer, *Dissent on Development*,

Harvard University Press, 1971, 1976), illustrating his hypotheses with extensive empirical evidence. Because his views ran counter to the interest of the international aid industry, they have been ignored as in the most recent justification of aid by J. Sachs, *The End of Poverty: How We Can Make It Happen in Our Lifetime*, (Penguin Books, 2005) that promises instant success, even in Sub-Saharan Africa, providing enough aid flows and all the lessons of development from the rapidly growing countries of Asia are ignored.

- <sup>23</sup> Commonwealth of Australia, *Australia's International Development Cooperation, 2004-05, Statement by the Honourable Alexander Downer MP, Minister for Foreign Affairs* (11 May 2004), 14
- <sup>24</sup> Estimated from Commonwealth of Australia, *Australia's Overseas Aid Program, 2005 -06: Statement by the Honourable Alexander Downer MP, Minister for Foreign Affairs* (Canberra: 10 May 2005) and The Bank of Papua New Guinea, *Monetary Policy Statement by the Governor of the Bank of Papua New Guinea, Mr. L. Wilson Kamit, CBE* (Port Moresby: 31 January 2005), 9. Papua New Guinea, like the rest of the Pacific, continues to regard aid as a component of revenue, even if it consists of concessional loans that have to be repaid.
- <sup>25</sup> Rowan Callick, 'The Very Model of a Worthy Program Gone Wrong', *The Australian Financial Review* (21 May 2005).
- <sup>26</sup> Hugh White and Elsin Wainwright in ASPI's *Strengthening Our Neighbour*, recognising Papua New Guinea's dire economic, social and security situation, suggested that Australian aid should be increased to \$1 billion a year, without, however, dealing with the effectiveness of aid flows to non-performing countries.
- <sup>27</sup> Commonwealth of Australia, *Report of the Committee to Review the Australian Overseas Aid Program*, (Canberra: Australian Government Publishing Service, 1984).
- <sup>28</sup> Alexander Downer, 'Neighbours Cannot Be Recolonised', *The Australian* (8 January 2003).
- <sup>29</sup> Hugh White, 'PNG Aid More Order Than Law', *The Sydney Morning Herald* (18 May 2005).



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