

Endemic instability of the

South Pacific

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Independence and aid

When Captain Cook cruised the South Seas in the 18th century, life in the islands was so attractive that he had to take heroic measures to prevent his crews from deserting. The islands were beautiful and lush, food and leisure were ample, and island dances and rituals attested to plenty. The islands did have a dark side. Incessant fighting led to cannibalism and many rituals used human sacrifices. Infanticide prevented excessive population growth. But to 18th century sailors the contrast with their home or shipboard lives made the Pacific Islands seem like paradise.

After the colonial carve-up of the Pacific, the pace of change remained slow. Exports of minerals and agricultural products paid for cargoes of industrial goods, but investment in ports, roads and utilities, health and education was largely confined to administrative centres where European and American colonial administrators and missionaries enjoyed a leisured, if isolated, life. Paul Gaugin and Robert Louis Stevenson were among the many 'beachcombers' who escaped the harshness of 19th century industrial societies in the Pacific.

When the last quarter of the 20th century inaugurated a new era of independence, the gap in living standards between island and industrial countries no longer favoured the Pacific. Technological change had transformed industrial countries. Nearby Asia not only achieved political independence, but began to catch up with industrial societies, becoming socially, politically and culturally integrated into the modern world. Pacific Islanders thought that political independence (or territorial self-government) would set them on the same path to progress.

The aid industry promised to help. Between 1970 and 2002, the Pacific received \$US55 billion (in 2000 dollars), the highest per capita aid flows in the world. For Papua New Guinea aid only averaged \$US100 per head annually, but French Polynesia and New Caledonia received more than \$US1000 per capita a year and the very small islands of Niue and Tokelau averaged over \$US3000 per head per year. Apart from France, Australia has been the principal aid contributor to the Pacific, together with the United States, Japan and New Zealand. The International Monetary Fund, the World Bank and the Asian Development Bank

have contributed little aid funding, but they have devoted thousands of man hours and hundreds of thousands of pages of advice to the Pacific. So have UN agencies. The Pacific Islands are members of more than 30 international organisations whose staff constantly visit the region. Pacific bureaucrats, academics and businessmen in turn attend international conferences, workshops and seminars.

Two economic theories hypothesise about the effect of aid on growth and development. A 'two gap theory' argues that poor countries cannot save enough or earn enough foreign exchange to invest and grow; they need aid to fill these two 'gaps'. This is the justification for the vast international aid industry, with its army of staff, that transfers \$US50 billion a year to developing countries worldwide. Unfortunately, research on aid and development has been unable to find that aid leads to growth. Economists agree that aid is only effective if a country adopts pro-growth policies. And there is now even doubt whether aid is effective in these circumstances. Certainly, in rapidly growing countries, from Botswana to China, aid has not been a factor in development. Overall, the relationship between the volume of aid and growth is inverse.

An opposing theory of aid, the Bauer thesis, argues that aid is inimical to growth and development for three reasons. First, aid makes it possible for governments not to govern responsibly, but to waste their revenues on excessive payments to politicians and public servants instead of building roads, ports electricity networks, health centres and schools. The principal effect of aid is thus to keep irresponsible governments in power. Second, aid has negative economic impacts. Aid flows overvalue the currency, harming exports. Because aid goes to governments, it inflates the public sector at the expense of the private sector. And third, aid encourages corruption. Bauer therefore argued that it is extremely difficult, if not impossible, to give aid effectively.

Economic stagnation

The Pacific is a microcosm of the Bauer thesis. Aid has enabled Pacific governments to pursue economic policies that prevent growth. Table 1 shows the appalling development record of the Pacific since independence.

	Population 2002	Population growth 1970–2000	National income per capita: 2001 purchasing power parity in \$US	Average annual real income growth per capita		
				1970–2000	2002	2003
Papua New Guinea	5,320,000	3.7	2450	1.0	-3.0	0.0
Fiji	812,000	1.9	4920	1.7	2.7	3.4
Solomon Islands	447,000	3.9	1910	-1.4	-12.8	-2.5
French Polynesia	235,000	3.7	24080	0.1	3.4	na
New Caledonia	213,000	3.2	25,200	-0.9	na	na
Vanuatu	199,000	4.6	3110	-1.1	-1.9	-0.6
Samoa	170,000	0.6	6130	2.0	5.3	3.5
Fed. States Micronesia	118,000	3.3	na	-1.3	0.6	na
Tonga	100,000	0.5	na	2.1	-1.1	na
Kiribati	91,000	2.8	na	0.6	-0.8	na
North Mariana Islands	70,000	na	na	na	na	na
Marshall Islands	50,000	2.9	na	-3.5	-1.3	na
Cook Islands	21,000	0.0	na	na	7.1	na
Palau	20,000	na	na	-0.3	-0.5	na
Wallis and Futuna	20,000	na	na	na	na	na
Nauru	12,000	na	na	na	na	na
Tuvalu	11,000	1.6	na	na	na	na
Niue	2000	na	na	na	na	na
Tokelau	1000	na	na	na	na	na

Table 1: Population, Per Capita Income in 2001 and Average Annual Real per Capita Gross Domestic Product Growth, 1990–2001, 2002 and 2003. (Source: H. Hughes, 'Aid has failed the Pacific', *Issue Analysis*, May 2003 and 'Is the Pacific viable', *Issue Analysis*, December 2004, Centre for Independent Studies, Sydney)

Some of the smaller territories, notably Samoa, the North Marianas, Cook Islands and Niue have shown some progress. All but Samoa are not independent but have a close association with a developed country. Average per capita income is also higher in French Polynesia and New Caledonia—territories of metropolitan France—but it is highly skewed toward the French bureaucrats who run the public services. In the main, the only non-elite Pacific islanders who have improved their standards of living are Samoans, Tongans, Indian Fijians, Micronesians and others who have emigrated from the Pacific.

Overall population has been, and is, growing faster than income. With elites—'big men' in villages, politicians and public servants and a few business people—appropriating most of the benefits of growth, most Pacific Islanders' standards of living have stagnated or declined. The hard work of the women keeps the Pacific fed, but agricultural exports have declined. Men are not taking up coffee, cocoa, copra, palm oil and other opportunities, there is therefore no off-farm employment and there are no urban jobs. Boys grow into men without a decent education and without opportunities to work and earn an income. Girls have even worse prospects.

Social disintegration

Social deprivation means Pacific Islanders—particularly the women—live in the most socially retarded countries in the world. Many Pacific Islanders can only expect to live 60 years compared to Australia's 80 years. Child, infant and maternal mortality is horrific because of the limited availability of water and sanitation and crowded housing

on which diarrhoea and chest diseases thrive. Malaria is returning and modern diseases are spreading. Nauru has the highest incidence of diabetes in the world. An HIV/AIDS epidemic is emerging with more than 40,000 people across the region already infected. If HIV/AIDS continues to be neglected, 1–1,500,000 people are expected to be infected by 2015–2020 in Papua New Guinea alone.

Less than half of the children in the Pacific attend primary school regularly. Village schools lack sanitation, power, books and often pencils and paper. Teaching methods that have destroyed the three 'R's in Australian schools dominate. In addition, teaching in local languages has become so iconic that today's children (like Aboriginal Australian children in remote communities) are less well educated than they were in Missionary schools. Aid pays for these philosophies in the Pacific. Only the elites, the French territories and communities with emigration in mind, have a reasonable education.

Corruption at the top leads to economic stagnation and social disintegration follows. Port Moresby ranks alongside other economically failed capitals such as Nairobi, with the highest incidence of violent crime in the world. Its gang warfare is like Haiti's. Crimes against property have reached epidemic proportions in Suva as unemployed youths drift into town. Violence, particularly against women, is prevalent in villages where property crime is also increasing. Disturbances in the Solomon Islands were essentially over land and jobs. While the Australian-led RAMSI (Regional Assistance Mission to the Solomon Islands) force found it easy to deal with relatively small numbers of modern weapons, home-made rifles and

machetes, in Bougainville and the Papua New Guinea Highlands fighters are armed with large numbers of modern high-powered weapons. A cannabis-for-guns (packed in crates of secondhand clothing) trade flourishes via the Northern Territory. Kalashnikovs are unloaded in timber camps with saw-milling equipment. The Pacific is awash with guns. Political coups ever threaten to explode.

At present the Pacific's social and political disintegration does not represent a traditional military threat to Australia. The Solomon Islands are not going to invade us. Nauru's, Kiribati's and Vanuatu's chasing of China's and Taiwan's favours will not precipitate an international war. The sale of passports by Kiribati and Nauru and the theft of Papua New Guinea's passport printing equipment do not represent a major invitation to terrorists. The Pacific Islands' pornography and pedophile Internet sites do not have a world monopoly. Money laundering by Nauru and Vanuatu 'off-shore banking' is part of worldwide systems, but it damages the Pacific through corrupt payments to local elites that result in political thuggery.

But if the Pacific continues to stagnate its problems will increase. By mid century, with the demographics already in place, Papua New Guinea will have a population of some 10 million and the Pacific as a whole some 15 million compared to Australia's 23 to 25 million people. At the very least, unless there is substantial growth, Australia will be flooded by 'boat people' from the Pacific. At worst, Papua New Guinea could become a serious failed state and/or a formidable rogue one. Our military and police forces will inevitably be, to use the polite euphemism, 'put in harm's way', as our children and grandchildren reap the dragon's teeth that our policies are sowing.

Is the Pacific viable?

The international aid industry supports the Pacific in a litany of excuses for its lack of growth. The smallness of the countries, their distance from markets and each other, their location in the midst of the vast Pacific and their geographic configurations (too mountainous or too low and flat), are

said to prevent growth and require large volumes of aid. These excuses do not bear examination. The Pacific islands are located near the world's most rapidly growing markets in Asia. They have enormous tourist potential. Most of the land is fertile. A regenerating timber industry could be a great source of wealth. The Pacific has huge fish resources. And the Pacific's 'rim of fire' is rich with minerals. The costs of transportation and communications have been sharply reduced so that distance would not be a problem if Pacific governments did not pursue counterproductive transport and communications policies.

The Pacific's natural advantages suggest that its per capita income should be growing at some seven per cent a year. With the growth-oriented policies that have been followed in rapidly growing developing countries, the present per capita income of some \$US2500 per head would become \$US20,000 (in today's dollars), that is close to Australia's current per capita income, in one generation or some 30 years. Pacific Islanders could then have the standard of living that Australians enjoy today. Reform can not, of course, be imposed from the outside. But the pages of Pacific newspapers show that there is a strong demand for growth and security. If aid did not support policies that undermined growth, the Pacific Islands could then choose reform options.

A reform agenda

Inappropriate institutions, introduced in the colonial era and extended by international agencies in the early days of independence make the Pacific egregiously over-governed (Table 2). Pacific countries are spending the bulk of their revenues and aid on excessive parliamentary and public-service structures. Nothing is left for education, health and investment in infrastructure. For the smaller islands, membership of the UN and other international organisations imposes financial costs and uses scarce manpower. The colonial powers were too self-centred to create some form of Pacific federation. It will now take at least a generation to collapse even the small Pacific institutions into one efficient polity.

	No. of members of parliament	Voters per representative	No. of cabinet members
American Samoa	20	1534	na
Cook Islands	25	509	6
Fiji	71	6451	22
French Polynesia	49	3533	15
Kiribati	13	3877	12
Marshall Islands	33	875	10
Fed. States Micronesia	14	4017	12
Nauru	18	320	6
New Caledonia	54	2453	10
Niue	20	65	4
Norfolk Island	9	151	4
North Mariana islands	18	3217	9
Palau	16	867	9
Papua New Guinea	109	25,361	28
Samoa	49	2104	13
Solomon Islands	50	3770	20

Table 2: Members of Parliament, Voters per Representative and Cabinet Members in the Pacific, 2004.
(Source: H. Hughes, 'Is the Pacific Viable?', Issue Analysis, December 2004, Centre for Independent Studies, Sydney.)

Twenty years of aid-supported programs to 'improve governance' in the Pacific have not addressed the fundamental problems of excessive government. Some countries have improved their budgetary management, they have not done so by downsizing but by reducing investment and social-sector expenditures. The Pacific Islands will have to cut their governments and international memberships to a size commensurate with their real needs if they are to be able to grow and develop. Some of the smaller ones would be well advised to follow prosperous territories, such as American Samoa and the North Marianas, and integrate with larger, effective states. All will have to reduce their governments and public services to be able to grow.

The theory of resource 'rents'—incomes from minerals, timber and fish—suggests that such incomes are, similarly to aid, difficult to manage. Resource industries create little employment, appreciate the exchange rate so that labour-intensive exports are difficult, and lead to corruption. Nauru's path from 'riches to rags' classically illustrates the failure of the theory of rents in the case of minerals. By opting for early intensive resource development, the Pacific has wasted its resource income. Mineral and timber 'rents' are now falling to compensate for risks associated with crime and civil unrest. They continue to be wasted.

The communal ownership of land is the principal brake on Pacific growth. The productivity of agriculture remains low as a result. Agricultural exports are in decline throughout the Pacific. In Fiji tourist hotels have to import fruit and vegetables from New Zealand and Australia. No country in the world has developed without individual property rights. Communal ownership suits the village 'big men' and their parliamentary allies. Land registration and the reform of land tenure are unfortunately opposed by many of the expatriates who have been managing land policy in the Pacific and by anthropologists fearful of losing their laboratories. It is also opposed by the socialists who dominate thought in Pacific universities and idealise 'wantok' as a social security system. But communal ownership at best provides security at a very low standard of living and none when population presses on land. The weak fare better when the development of private property rights stimulates growth.

The Pacific has inherited inappropriate business regulations that prevent the growth of the informal sector. Police are still bulldozing markets and upsetting women betel nut sellers' trays when they are not paid their 'protection' money. Although base wages are low even in the 'formal' sector, industrial awards, with shift work, holiday and even long service loadings come into play when a firm becomes established and this prevent its expansion. Fiji was able to establish clothing exports by ignoring such rules after the 1987 coup, Samoa has motor vehicle component exports and the Northern Marianas also export clothing, otherwise there is negligible labour intensive production.

Although most of the Pacific islands are open to trade, some have been damaged by protectionist measures that

provide little employment, raise costs to other producers and consumers, but make large monopoly profits for the privileged businesses that engage in sugar, cement, canning and other production on an inefficient scale for domestic markets. Paradoxically, SPARTECA's (South Pacific Trade and Economic Cooperation Agreement) preferential market access to Australian and New Zealand markets damaged Pacific exports. The United States had a similar scheme. Pacific exports could bear high labor and infrastructure costs. As tariffs declined, Pacific exports were exposed to competition from Asia in Australasian and American markets. The European Union is spending its aid to the Pacific developing a Pacific Union in its image. But the Pacific countries' trade, unlike Europe's, is dominantly with the rest of the world because they do not have, even on a Pacific-wide basis, the economies of scale for the variety of goods and services they need. Pacific politicians and bureaucrats are rejoicing in the rents from yet another inappropriate trade scheme.

The Pacific's water, power, sanitation, transport and communications are still largely government owned. Their costs are high so that they burden producers and consumers and they do not reach outside the principal centres. Privatisation is urgent.

Migration to Australia

Australia, as arguably the world's most successful country of immigration, knows that firm policies are needed to ensure that the benefits immigrants gain and bring to their new country exceed the costs. Immigrants are thus a problem for host countries that encourage welfare dependency. Many South Pacific Islanders have been able to improve their living standards merely by accessing New Zealand welfare payments. But the resulting problems of poor schooling, alcoholism, drug abuse and criminal behavior plague the immigrant ghettos. Barely literate and unskilled immigrants would not be able to find jobs in Australia. Where they were skilled they would eviscerate the narrow skill bases at home.

The proposal for temporary guest workers from the Pacific stems from wishful thinking about a pliable labour supply for such jobs as fruit picking and domestic nannies at present supplied by young, educated and entrepreneurial backpacking, tourists and exchange workers. But there is still a reserve of unemployed in Australia for such jobs, notably in Northern Australia where efforts are now being made to engage young unemployed Aborigines dependent on social security in 'mutual obligation' commitments. European and North American experiences suggest that short-term immigration leads to serious problems. In the Pacific there would be another problem with the management of short-term unskilled migration. When in 2003 a group of Australian Senators visiting Port Moresby raised the possibility of a managed short-term migration program from Papua New Guinea to Australia, the proposal was welcomed by leading Papua New Guinea politicians. They worked out a scheme by which those 'selected' would be expected to pay for the privilege before the Senators had left Port Moresby. They had no doubt heard of Imelda

Marcos' schemes to milk Filipino domestic servant emigrants.

Migration is not a substitute for development. If Pacific countries develop, migration will continue to take place at the margins. Australia's worldwide non-discriminatory immigration policy has attracted Pacific immigrants in the past and will no doubt continue to do so.

What can Australia do for the Pacific?

Australia—whether it acknowledges it or not—is the hegemonic power in the South Pacific. We will be held responsible if the lack of growth results in failed states and/or terrorist dangers in the region. Yet until the middle of 2003, when the Howard Government initiated the RAMSI response to the Solomon Islands insurrection, Canberra gave scant attention to the South Pacific. And both RAMSI and the 'enhanced' police and legal aid program for Papua New Guinea were top-down political initiatives rather than reflections of an awakening by Canberra academics and public servants to the developing crises in the Pacific.

APSEG (The Asia and Pacific School of Economics and Government—formerly the National Centre for Development Studies) at the Australian National University, through its *Pacific Economic Bulletin*, has been the only voice analysing Pacific trends and urging reform for growth. The Canberra international relations establishment dismissed the alleged 'doomsdayism' of APSEG's '2010' project that correctly predicted stagnation, misery and insecurity as population growth exceeded economic growth in the Pacific, (Greg Fry, 'Framing the Islands: Knowledge and power in changing Australian images of the South Pacific', *The Contemporary Pacific*, 1997).

The Australia Defence Association called for security assistance to be provided to Solomon Islands when they first requested it in 2002. In June 2003 the Australian Strategic Policy Institute supported intervention in the Solomon Islands in *Our Failing Neighbour—Australia and the Future of the Solomon Islands*, but gave little thought to the economic causes of the Solomon Islands' collapse and none to how the country's economic future should be rebuilt. The Department of Foreign Affairs and Trade, *Solomon Islands: Rebuilding an Island Economy* (Canberra, 2004), again failed to analyse the underlying causes of the Islands' economic decline and gave no indication of how rapid growth might be achieved.

Once committed the Australian Federal Police and the Australian Defence Force did their job quickly and efficiently. Australian aid and advisers have reconstituted parliament and the public service, but more than a year after the RAMSI intervention, there is no movement toward property rights, jobs and economic growth. The Solomon Islands have become totally welfare dependent and their prospects remain bleak.

The last 30 years have shown that Australia cannot place any reliance on the international aid organisations in helping the Pacific to grow. Their agendas are dominated by their headquarters' need to appease their Non-Government Organisation critics. The international aid agencies turned toward 'Millennium Development Goals' that seek to mitigate poverty by the distribution of aid funds but ignore production and growth. Asian Development Bank and World Bank funding for productive projects has become negligible. Their staff recognise that the Millennium Goals are not appropriate responses to Pacific needs, but they can do nothing in the face of their headquarters' priorities.

Australia has no choice but to lead aid and development efforts in the Pacific. The increased capacity of the Treasury and Department of Finance to contribute to Australia's efforts for Pacific development have been important in enabling Canberra to contribute positively to Pacific problems. Inter-departmental jealousies and frictions will have to be overcome and academic research will have to be utilised if Canberra is to develop policies that will help the Pacific achieve rapid growth so that Islanders have access to agricultural land, jobs and business opportunities. Crime and civil conflicts can then not just be damped down, but put down. Only if Pacific Islanders can see evidence that they will be able to enjoy healthy, educated and productive lives will our neighbourhood become truly pacific. ♦

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