CHAPTER II

AUSTRALIA AND SOUTH PACIFIC FORUM:
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Many small countries in the South Pacific region are facing enormous problems that have caused them to defer or avoid decisions to meet their shifting social and economic needs and they lack the clout and muscle. Despite belonging in the Asia-Pacific region, where trade has been the engine of growth, the development of South Pacific countries is yet to pick up momentum. One may even question the slogan that is in air that "twenty-first century belongs to the Pacific". In an area of economic growth and dynamism, the South Pacific is certainly the poorer cousin. Therefore, one cannot deny the observation made by the news magazine, The Economist, that the South Pacific Island micro-states as "resourceless rocks".¹

The peaceful post-independence development of the South Pacific nations, their commitment to democratic values and respect for human rights, and their typical concern to safeguard western security interests, have left no doubt where they stand in the global east-west equations. So much so that they can very often be taken for granted by larger powers which in relative terms includes Australia as well as New Zealand.²

There are states in the South Pacific with populations too small for self-supporting economic activity but growing too fast to benefit from any economic growth. Their land areas are tiny but sea areas are huge. For many of them, their colonial past has presented them with unhelpful consequences. The living standards set by previous administrations which cannot be sustained, minimal experience of training and education for their people, over large bureaucracies providing inappropriate service, having to make do with narrow resource bases.

¹ Australia Foreign Affairs Record AFAR, (Canberra), Vol. 54, No. 3, March 1987, p. 144.
² ibid.
dependant on aid and migrant labour remittances instead of production for their wealth. Their economic conditions are too serious and nothing has changed in the post-Cold War era. They are continuously exploited by the outside countries and some of the island states' economies are still below the subsistence level.

Another factor that led to the dismal economic growth is population growth and poor human resource development among the growing population. The population of the region is currently more than six million, of which PNG accounts for 61 percent. Population densities differ widely and are particularly high for the small island countries. On the other hand, according to the World Bank report, the acute shortage of qualified and experienced personnel represents a fundamental constraint to development in the South Pacific.

The third factor that led to an uneven economic growth is differences over the resource endowment of the island countries. Typologically, Pacific Island Countries (PIC) fall into four categories based on resource endowment, which in turn largely determines their capacity for self-sustained growth. The first category is the relatively large countries (PNG, Fiji, Solomon Islands, New Caledonia and Vanuatu) having the best resource potential, accounting for 84 percent of population, possessing extensive areas for agriculture, and in general, control large EEZs. These countries have achieved a relatively high measure of economic diversification (forestry, agriculture, fisheries, tourism and for some other minerals) and economic growth as a direct consequence.

The second are the middle level countries of Western Samoa and Tonga with a modest resource base, limited land for agriculture, small Exclusive Economic Zones (EEZs), no

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4 Martin Tiffany, "The People - Our Hope", *Pacific Island Monthly (PIM)*, (Suva), January 1993, p. 27.
exploitable minerals, and tourism potential which is limited. Hence, prospects for significant economic diversification and growth are somewhat circumscribed.

The third are the poor countries of Kiribati, Tuvalu, Niue, Tokelau and the Cook Islands, which generally face severe poverty of land-based resources and a lack of capacity to exploit their comparatively large EEZs. Agriculture is predominantly subsistent and offers little scope for diversification.

The last group is of those whose "special" advantages compensate for poor economic prospects. These include Nauru, which is overwhelmingly dependent on phosphate; Palau, Guam and the Commonwealth of the Northern Marianas, all of which are strategically valuable to, and receive large financial grants from the United States; and American Samoa whose favourable location and good harbour have allowed it to become a major fish processing centre. This group has been able to achieve living standards that are among the highest in the region.5

Regional organisation is well managed and transparent in the South Pacific. The regional efforts, largely effected through the SPF and the SPC and their specialized agencies, bring direct tangible benefits to participating agencies, and tight economic or political integration is not pursued. Links have also been established with traditional donors for purposes of securing financial and technical assistance and on a per capita basis. The region is considered as the highest aid recipient in the world. But, this generous level of aid have, however, often caused real structural problems and forced governments to defer or avoid decisions necessary to meet their shifting social and economic requirements.6 On trade aspects,


while trading channels with traditional partners are well established (Australia and New Zealand primarily), but economic relations with Asia-Pacific rim and other world's financial and aid agencies like IMF, World Bank, WTO, to date, have limited.

Development Constraints

The South Pacific Island countries have, throughout the period of their modern independence, faced a series of difficulties and limitations dictated in large measure by geographic isolation, small domestic markets, narrow productive bases and vulnerability to natural disasters. And the island countries remained preoccupied in addressing these problems.

The most obvious and the most far reaching constraint, affecting all countries with the possible exception of PNG, is their small physical size and remoteness from metropolitan centres. Compounding the small size, many island countries have a narrow resource base and the coral-based island such as Niue and Tokelau are virtually, "resource less rocks," lacking even arable land, forests, pastures, streams or rivers.

Not only the countries of this region are small, but many of them are widely scattered, separated from each other and the major metropolitan centres by vast areas of ocean. The consequences of this isolation are high transportation costs, infrequent air and shipping services, often non-existent in the case of outer islands, and high administration costs.

Natural disasters such as hurricanes, floods, tidal waves and drought besiege many island countries as a result of their geography. Fiji, Tonga, Guam and the Northern Marianas are particularly vulnerable to hurricanes that destroy vital agricultural based resource as well as housing and other facilities. The coral atolls are subject to tidal wave damage and if the
predictions associated with the "greenhouse effect" are born out.\(^7\) Several of these atolls will cease to exist, and other countries will lose vast areas of shore line which support the bulk of the population and supply vital sources of food and agricultural land.

Another consequence of smallness in terms of population is that domestic markets are tiny by world standard and even in the case of PNG with a population of 3.7 million, fragmentation and poor transportation effectively reduce market size. Small and dispersed populations with low national incomes limit the potential for industrial diversification and restrict benefits of economies of scale. Small economies are also exposed to the vagaries of world market forces, being price takers for their agricultural exports, and sharp fluctuations in short-term world prices have an immediate effect on the local economy, especially the rural sectors. Heavy dependence on imported goods and services make the countries vulnerable to imported inflation and this has a tendency to negate domestic efforts to achieve price stability. Foreign aid and investment are also dominated by outside influences and since many island countries are heavily dependent on these sources, they add a further instability to development efforts.

Shortages of basic inputs, particularly development capital and skilled labour further hamper development efforts. Low per capita incomes and poorly developed savings habits result in low domestic savings and underdeveloped capital markets which further increase dependence on foreign aid and investment. Shortages of skilled manpower extend to technical, professional, managerial, administrative and entrepreneurial levels, are a result of poor education and training in the past, and loss of skills through emigration. This "skills gap" has partly been filled by the recruitment of expatriates but this is a short-term solution, costly and not an altogether satisfactory alternative.

\(^7\) P. Roy and J. Connell, "The Greenhouse Effect: Where Have All the Islands Gone?", PIM, April/May 1989, p.15.
In general, the severe shortages of skills experienced by most of the Island countries weaken their capacity to absorb and apply modern technology and undermine the growth potential of all sectors, particularly the private sector which should be the most dynamic in terms of development efforts. In addition, cultural traditions are still powerful forces in contemporary Pacific Island society and the existence of certain cultural institutions tends to weaken the modernization process and slow down the development effort, e.g., customary land tenure, attitudes to saving and the requirement of a capitalistic individualistic-oriented economy, and efforts to reduce high population growth rates which run counter to strong religious and cultural beliefs.

Economic Structures

The striking variation in endowment between the relatively large and resource rich countries such as PNG, and those such as Kiribati and Tuvalu which are small and resource poor, is reflected in their economic situation. The economies of the majority of the Pacific Island countries are dominated by the primary sector - agriculture, forestry and fisheries - on both a commercial and subsistence levels. As much as 60 percent of the population are dependent on the primary sector and it typically accounts for over half the gross domestic product. This is true of the Cook Islands, Solomon Islands, Tonga, Vanuatu, Western Samoa and PNG. The sharp contrast to these countries are the United States associated countries (the Northern Mariana, Guam, and even American Samoa), where agricultural activity of any kinds is virtually non-existent due to rapid monetization, unsuitable agricultural conditions. In Solomon Islands, PNG, Tonga and Western Samoa, subsistence production is particularly strong, accounting for 25-30 per cent of gross domestic product and supplying foodstuffs, housing and basic needs as well as a safeguard against the instabilities of the monetary economy.
The agricultural sector is hampered on the export side, due to problems of storage, transportation, lack of research to improve production and strains, lack of market analysis and poor incentives to farmers to improve crop output and quality of their produce. Another obstacle to enlarging export incomes from agricultural products is that the countries tend to produce a small range of common products and so compete with one another for markets. Forestry sectors are quite well developed in some countries, e.g., in PNG, forest products accounted for 12 per cent of export earnings in 1985. The Solomon Islands, Fiji, Tonga, Vanuatu and Western Samoa also have forestry industries, but in general, there is little value-added processing of timber.

Several of the countries have substantial mining sectors. PNG operates two of the largest mining companies in the world (Panguna Copper Mine on Bougainville Island and Oktedi Gold and Copper Mine in Mount Fabian), and gold, silver and copper exports accounted for $1,023 million or 69 per cent of total export earnings in 1988. New Caledonia has the second largest nickel reserves next to Cuba, and together with non-ferrous metals this accounts for virtually 100 per cent of the country's exports. Nauru is wholly dependent on phosphate production, to the exclusion of almost everything else. Fiji and Solomon Islands also have some mining interest, predominantly gold. In those countries with a substantial mining interest, export earnings are dominated by one or a few products and as there exert a substantial influence on the economy this may not altogether be so favourable.

Fiji, PNG and New Caledonia have the most diversified industrial sectors characterised

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by several major processed products and import-substitute goods. Fiji's main industrial products (sugar, fish, coconut oil, concrete, cigarettes, beer, timber, wood products, biscuits, corrugated iron roofing) and manufacturing related to them account for 12 per cent of gross domestic product. In PNG industrial activity is dominated by processing - sugar, palm oil, wood products - and import replacement manufactures. Tonga's Small Business Centre produces a variety of manufactured products for domestic and export markets and American Samoa has substantial fish processing operations. For the remaining countries, however, except for the smallest ones, which have virtually no manufacturing potential, the general pattern is one or two processing ventures together with a small range of import substitute enterprises.

The service sector is unusually large in most Pacific Island countries. Government administration, finance, tourism and trading are particularly important in the resource poor islands and may account for 60 per cent of gross domestic product. This high percentage is caused by a government sector inflated by foreign aid, high levels of remittance from overseas as is the case of Western Samoa, philatelic services (Western Samoa, Cook Islands), tourism and international finance centres. These "service" or "transfer" economies are found in the Cook Islands, Tuvalu, Niue and Tokelau and it is these aspects - migration, remittances, aid and bureaucracy - which provide the impetus for development and for raising the level of welfare services.

Tourism is one of the major foreign exchange earners for Fiji and Vanuatu and is becoming increasingly important in Western Samoa, Tonga and Solomon Islands. For the micro-states, tourism has yet to make any impact due to their remoteness, water supply and accommodation problems.

Foreign private capital has played a vital role in many of the island countries to compensate for a paucity of both capital and expertise common throughout the region, as
mentioned above. One consequence has been foreign domination of trading, mining, telecommunications, banking, insurance and hotels but the trend now is towards natural resource development. PNG's mineral and petroleum exploration, and mineral exploration in Solomon Islands and Fiji are examples.

National Income

By the standards of developing countries, national income per capita is high in the Pacific region, ranging from a low of $400 for Solomon Islands to a high of $9,090 for Nauru, with an average for the region of $1,297. The countries with higher than average gross domestic product per capita have had the benefit of special factors and/or extra financial aid, including substantial budgetary assistance: American Samoa benefits from large scale fish processing and personnel remittances from overseas; Guam from a large military presence and tourism; New Caledonia from nickel production and highly paid expatriates including military; French Polynesia from tourism and a large military presence; and Nauru from phosphate mining.

On the other hand, Fiji has achieved a higher than average income per capita (at least up to the military coup of 1987), due to a sustained and diversified growth pattern, led by tourism, manufacturing and heavy foreign investment. The countries at the low end of the scale, (Kiribati, Tokelau, Tuvalu and Western Samoa), will suffer even lower levels of income without the effects of heavy inflows of foreign aid and remittances. Of these countries, Kiribati is somewhat less disadvantaged as it receives substantial revenues (up to $6 million per year) from an overseas investment fund i.e., the Revenue Equalisation Reserve Fund (RERF), accumulated from phosphate surpluses.

Data on growth rates in terms of real gross domestic product is not available for many
countries, but by and large Fiji, PNG, Solomon Islands and Tonga show a fairly consistent pattern of growth from the mid-1970s to 1985, despite the recession of 1981-82 which affected most countries economy adversely. For the period 1972-1985, the annual percentage growth rates in real gross domestic product were 4 for Fiji, 1.7 for PNG and 7.5 for Tonga. The rates imply a real increase in income per capita, except in the cases of PNG and New Caledonia, which both experience negative changes, -1.1 and -0.3 respectively. For Kiribati, the World Bank estimate is -12.6 percent but this largely reflects the end of Ocean Island phosphate mining in 1979 and does not reflect changes in the living standards in Kiribati. Available evidence would indicate that the Cook Islands has also experienced a sizeable decline during the 1970s and the other island countries would also have been affected by the decline, up to 1985, in prices for major exports such as copra.

Foreign Trade

Because of the relatively underdeveloped nature of the Pacific Island economies, exports are fairly limited and natural resources dominate - nickel, gold, copper, phosphate and other metallic ferrous ores and non-ferrous metals - accounting for $1,050 million in 1986. Other important export items were agricultural based products - sugar, oil, coconut oil, fruit and vegetables, cocoa and coffee, copra - which accounted for $449 million and logs and timber worth $142 million.

PNG, Fiji and Solomon Islands have the most diversified export sectors with at least five major export items each. Among the smaller islands, copra and coconut products and other

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10 Common wealth, n. 8, p. 31.

11 ibid., p. 31

12 ibid., p. 32.
agricultural products dominate exports. For Nauru, American Samoa and New Caledonia a single product is of overwhelming importance, phosphate, nickel and fish canning respectively.

Major trading partners are the European Community Countries, United States, Australia and New Zealand - a pattern resulting from political and historical associations as well as geography and transportation considerations. There are many examples of heavy export flows to one or two metropolitan centres, which reflect these ties - American Samoa to the United States, and French Polynesia to France. The same is true of imports as can be seen by the pattern of flow from France to New Caledonia, Australia to PNG and New Zealand to the Cook Islands.

Export performance has not been encouraging on a whole and combined with low commodity prices on international markets, has caused serious balance of payments problems. In some cases, personal remittances and foreign aid have offset commodity account deficits but not to a sufficient extent to reduce the balance of payments pressure. Corrective measures have had to be implemented such as devaluation and foreign exchange control with subsequent contraction in economic activity. Although prices have recovered lately, a stable balance of payments is still elusive.

Foreign Aid

The South Pacific is one of the most heavily assisted regions in the world. This external assistance flow into the region by way of official development assistance, both multilateral and bilateral. This aid plays a crucial role in meeting government budgetary and development needs and in providing foreign exchange.

About 90 per cent of official aid are bilateral with Australia, France, the United States
and are mainly in the form of budgetary assistance to former colonies or dependent territories. This is particularly true of France also, whereas Australia, New Zealand and the United Kingdom aid tends to be more diversified.

Multilateral aid is dominated by EC (under LOME Convention), UNDP and international financial institutions such as Asian Development Bank (ADB) and the World Bank. This form of aid is generally accorded to members, and soft-term concessionary loans and technical assistance are predominant forms of aid offered by some agencies.

French Polynesia, New Caledonia, PNG and the United States associated Pacific Islands are the main aid recipients and until recently, this was mainly budgetary aid. On a per capita basis, the small countries are heavy recipients - Cook Islands, Niue, Tokelau and Wallis and Futuna.

ODA accounts for 40 per cent and over of total government revenue and between 35 and 50 per cent of total government expenditure in most countries. This heavy dependence is becoming a source of concern because it weakens self-reliance, leads to artificially high consumption patterns and distorts resource use not to mention the possibility of external political pressure. However, without such assistance development programmes could not be carried out, so support for foreign aid continues. It appears that many of the traditional aid donors are scaling up assistance and are willing to make long-term commitments, the proposed United States government aid arrangement with Palau being an example. New sources are also opening up, e.g., Japan, and it would appear, therefore, that aid dependency would remain high in the foreseeable future.

Talking about the South Pacific Forum (SPF) over the past decade, most Forum Island countries (FIC) have achieved only slow growth in real per capita incomes despite a generally
favourable natural and human resource endowment, high levels of external assistance and generally sound economic management.

Gordon Bilney, the Minister for Foreign Affairs and Trade, speaking to the Foreign Correspondent Association in Sydney on 15 June 1994 felt that for the dismal condition of the South Pacific's economy, both the FIC as well as the donor countries are responsible. He, again, said constraints to development as discussed above or the lack of sufficient external assistance are not responsible for such a condition rather the policy framework adopted in the region have often retarded the prospects for long-term sustainable growth. Until appropriate national policies are implemented and regional economic bodies work in co-ordination, little improvement can be expected.

Consequences of Continuing Slow Economic Growth

The lack of economic development, when combined with high population growth rates, unsustainable exploitation of natural resources and rapidly rising community expectations has led to a growing range of social and economic problems, including permanent environmental degradation. In addition, the rush of technological change is adding to pressures on existing social and political structures and heightened the social and economic expectations, which may not be realisable.

These issues were discussed in detail at the Global Conference on Sustainable Development in Small Island States. This conference resulted in the development of an agreed plan of action which, it followed up by concerted activity at national, regional and international levels, which should lead to the development of more effective and sustainable

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14 Ibid., p. 6.
development strategies.

As can be seen from above, the FIC are beset with geographic constraints, but economic and socio-cultural factors also serve to frustrate the realisation of development aspirations. These constraints are particularly severe in the case of the smaller island countries whose future prospects for development are bleak.

Time has been changing so also the politics of region. Questions of economic development are, more than ever, at the top of the political agenda. The quest for regional development will inevitably lead to more independent policies that will be driven by a heightened awareness of national self-interest.

The island states' network of international contacts is spreading beyond the historical legacies of Australia, New Zealand, the United States, United Kingdom and the Commonwealth. The search for new markets and more diverse trading opportunities are also reflected in a greater assertiveness in foreign policy decisions. There are significant differences in size and economic development, for example, between Australia and most of the island countries of the South Pacific.

There is also confusion within Australia about the relationship, because the South Pacific is a region of great constraints; and indeed it has an extraordinarily successful record of indigenous regional organisation. But it is also an area of extraordinarily wide social, political and cultural diversity. Land areas with the exception of PNG, are small but the sea areas and distances involved are enormous. Island states face great problems of development but, even in the countries where income per head is low, the quality of life is relatively high. The transition

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15 Fairbairn, n. 5, pp. 81-83.
from colonialism to independence in the South Pacific has been peaceful without parallel, yet tensions exist in the area as a consequence of developments in great power interests in the region.

South Pacific Island countries should experience an increase in trade with Australia and New Zealand. Potential Australian exporters to the South Pacific are being encouraged by a recently launched export assistance package. The package "Export Start Up" is the brainchild of AUSTRADE (the Australian Government's Trade Commission).

According to Philip Sibree, AUSTRADE's executive General Manager in charge of product development and marketing in the South Pacific, the scheme is aimed at new South Pacific exporters. He said interested exporters would be given training in Australia on various aspects of exports from the basics to various peculiarities of Pacific destinations. This will include talks by exporters currently trading with the South Pacific. Australian Trade Commissioner in Fiji, Steve Ryan said, what they are targeting, are small to medium sized Australian businesses - with an annual turnover of not less than a $15 million under the export start up scheme.

At present South Pacific accounts for about seven percent of Australia's export and there is good growth in PNG and New Zealand and growth overall for the other Pacific Islands.

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17 ibid.
18 ibid.
19 ibid.
Australia is the region's largest investor and trade partner. Total Australian investment in the region by 1991 is about $1.6 billion. It is worth about $85 million in Fiji alone. Australian exports to Pacific Island States totalled $1448 million in 1991 increasing 11 percent over the previous year. Its aid package to the island states excluding PNG in 1989/90 was about $85 million. To PNG, it totalled about $300 million.\(^{20}\)

Regional products are given free entry into Australian market by the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) of 1980 and encouraged by the South Pacific Trade Commission funded by the Australian government. Australia's interests in the region are not limitless. South Pacific trade and investment constitute less than 5 percent of Australians global involvement.\(^ {21}\) They were concentrating a lot more on New Caledonia and singled out that country, PNG, New Zealand and Fiji as countries where good opportunities exist. The growing importance of Asia for Australia cannot be denied. For example, the Republic of Korea represented 0.2 per cent of Australia's export market at a value of A $9.7 million in 1970-71. In 1990-91 the share was 6.2 per cent and the value A$3238.4 million. In comparison Fiji in 1970-71 had a share of 0.6 valued at A$24.7 million, the share fell to 0.4 per cent in 1990-91 although the value at A$235.3. Similarly, PNG's share fell from 3.7 per cent to 1.5 per cent although value rose from A$163.4 million to A$775.8 million.

New Zealand's Minister for Trade Negotiations, Philip Burdon, in the early 1990s led a trade mission to PNG and Fiji to "unashamedly promote New Zealand as a competitive supplier to the region".

New Zealand's South Pacific markets were worth NZ$631 million in the year to June


\(^{21}\) Tiffany, n. 16, p. 15.
1992. In that year New Zealand exports to the region grew by 18 per cent, a faster rate of increase than exports to the rest of the world. These exports accounted for 3.67 per cent of total exports making the South Pacific a larger market for New Zealand than some much higher profile regions.

Burdon wants to show New Zealand exporters the potential of the region is just starting to be tapped. He says the PNG economy has been enjoying growth rates in excess of 10 per cent per annum and says if Australia can achieve exports to PNG in excess of A$1 billion per annum, Kiwi exporters should be able to better their existing $92 million.

Basically, what Australia and New Zealand are saying is while Asia is looming larger and larger on the horizon of the Pacific - the South Pacific in particular - well always be a major part of their trade and investment. Australia regarded itself as a middle sized global power with its major economic interests in the Northern Hemisphere.\(^2\)

**Australia in the Forum**

Australian foreign policy towards the South Pacific is based on a strategy for maintaining and developing a partnership with Pacific island countries which promoted regional stability through economic development and the shared perceptions of strategic and security interests.

In the early 1990's, Australia's foreign policy priorities may have emphasised on the Asian sub continent but it has not undermined the South Pacific region. Australia, till date, has remained as the major aid donor of the FIC. It provides fifty per cent of the required money for the functioning of the SPF and also a major donor in the SPC. Australia also in a number of

times, pleaded before the world bodies like UNDP, and World Bank to invest in the South Pacific region. Its bilateral relations with Forum members have also shown that Australia is one of the key players for the FIC.

At the same time, Australia cannot neglect the region because it is considered as the most valuable market for Australian manufacturing goods. Australian corporations have also substantial interests in commerce, agriculture, finance and tourism in the South Pacific.

For the smooth running of the Forum, New Zealand and Australia each pay a third of the regular budget, with the Forum island countries together contributing the other third. Australia and New Zealand also contribute to extra-budgetary projects and along with them in recent years, non-regional donors have also made a valuable contribution to support the financing of the secretariat and its work.

The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) of 1980 also allowed for duty free and unrestricted access on a non-reciprocal basis to the Australian and New Zealand markets. The South Pacific Trade Commission in Sydney and the South Pacific Trade Office in Auckland provide this assistance to the FIC, which are funded by Australia and New Zealand respectively.\(^{23}\)

Market access alone, of course, is not enough and Australia through some of its aid programmes assisted the island countries in producing goods that have some potential for export to the Australian and other markets. For instance, take the example of the Australian assisted coconut factory, which was handed over to Tonga in 1986.\(^{24}\) There was potential for


the product of that factory to enter Australia and New Zealand duty free under SPARTECA. At full capacity, this factory was capable of generating about three million dollars in export earnings and if this continued and exported to Australia regularly, it would, have at least, easily redressed the imbalance in Tonga's trade with Australia.

Australia has also fostered and taken part actively in a range of South Pacific's regional organisations. It has built up solid relationships with independent nations of the South Pacific, and pursued a particular objective of promoting economic stability and prosperity.

Australia's economic relationship with the Forum countries, is based upon indicative planning for developmental assistance. This process was initiated, in the early 1980s. This however, accounts for only part of its aid effort in the region; taking all aid flows into account, it's expenditure is considerably too high.

The Australian government is always providing sufficient incentive to FICs for speeding up their developmental pace. The motive behind this is that Australia always sought the South Pacific's product at a reasonable price. In March 1991, the Australian Government released a major industry statement, which seems to be offering the FIC the prospect of much sought after new investment. Already the giant Melbourne-based Yazaki automotive manufacturer has decided to move one of its major component plants to Western Samoa. Other manufacturers are considering following suit. A number of multinational Companies (MNCs) are also trying to enter into the South Pacific.

On the other side, Australian Prime Minister Bob Hawke's statement on March 12, 1991 showed its keenness to speed up Canberra's tariff reductions. As a result, Australia aimed at a general tariff level of just 5 per cent on most manufacturing and agricultural imports by
1996. Although, clothing, textiles and car parts will retain their relatively high levels of protection for longer, those levels too, will come down faster in the future than originally anticipated under specific industry plan.

In the Island nations, with their special preferential access to the Australian market, lower tariffs have been seen as a threat. Many Pacific business people fear increased competition from big producers in Asia that may wipe out the Pacific's fledgling export industries. There is no doubt that lower tariffs will make it tougher for Island manufacturers who have enjoyed duty free access SPARTECA, and will put trouble before the Island exporters. The Pacific Islanders will have to strive hard to meet the challenge.

At the same time, the Australian industry statement holds out the promise of more investment in island economies. The lowering of tariffs makes it much more attractive for Australian manufacturers, now paying high Australian wage rates, to go offshore. At the moment Australian garment manufacturers are also looking at the possibility of relocating their units in the Solomon Islands, Vanuatu, Fiji, Tonga and Western Samoa. Other manufacturers are interested in part processing in the island nations.

Although the island nations have the advantage of being close to Australia, generally stable, and in many cases with their own preferential access to markets in the United States and Europe, (under the Lome Convention), the competition to win investment is still tough.

Australian manufacturers are also examining opportunities in the bigger low wage countries in Asia, most of which have more years of experience in attracting this sort of

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26 *ibid.*
investment. Some are investigating possibilities in places closer to target markets. Garment manufacturers, who are exporting to the US, for instance, have been looking at prospects in the Caribbean. So, what are Australian investors looking for when they consider offshore investment? These questions have remained unanswered till date.

Many island nations are now offering attractive investment incentives. What is most important to investors is to know that company law and licensing requirements are easily subject to the whims of various public servants or ministers, that there will not be catastrophic hidden costs and that the ground rules will not change, suddenly, once they are established. Although some investors are holding back until upcoming elections, before making their decision to invest in Fiji and Vanuatu, they are optimistic about the future in both countries.

In Australia, Fiji’s Finance Minister and co-Deputy Prime Minister, Josevata Kamikamica, has won wide respect for his efforts to set the interim government’s relations with foreign investors on a sound footing. And Vanuatu’s prospects under new Prime Minister, Donald Kalpokas, are seen as bright.

While some still have concerns about political stability, particularly in Fiji, there is a growing feeling of confidence. In Fiji, Major General Sitiveni Rabuka has boosted confidence leaving the army and joining the interim government. Rabuka, the leader of the 1987 coups, is now joint Deputy Prime Minister with Kamikamica.

At present Australia’s own recession, which was admitted by Treasure John Kerin was considered to be the worst since last sixty years, is dampening investor’s enthusiasm. Australia’s

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27 ibid.
28 ibid.
Trade and Overseas Development Minister, Neil Blewett, has warned that the rate of recovery in the retail sector, important to Island exporters, is expected to be "quite slow".\textsuperscript{29}

In the longer term, however, because the industry statement is about restructuring, Australian investment in the South Pacific is likely to be unaffected. And some companies are moving offshore despite the recession.

That can be seen in Yazaki's decision to invest in Western Samoa. Yazaki, a big car part manufacturer, will be making automotive wire looms, a lightweight labour intensive component which links the car battery to lights indicators and other accessories.\textsuperscript{30} Yazaki's decision to move to Western Samoa was based on its good experience with Samoan workers in New Zealand and its increasing concerns about high labour costs in Australia.

The Australian government's decision to exempt Car components made in FIC from duty means more investment in that area. Other manufacturers, too, in a wide range of industries are considering the island nations as a site for part processing.

The long-term interest is still strong in investment on tourism sector. Australian investors are aware that with the dawn of the Pacific century, the population of this area will have a better standard of living and therefore, the people will be able to spend on tourism. Investors have also realized that during the 2000 Olympic scheduled to be held in Australia, the tourist industry in the South Pacific will achieve tremendous success due to its natural scenic beauty. Other long-term investment prospects lie in more high-tech industries.

With its proximity to Australia and lower wages, the South Pacific has a natural

\textsuperscript{29} \textit{ibid.}

\textsuperscript{30} \textit{ibid.}
advantage for producing small lightweight components that are easy to transport. A recent joint meeting of the Fiji-Australia and Australia-Fiji Business Councils nominated opportunities in communication and data processing, health and education services, component manufacturing and consultancy services serving the region as potential growth areas for the next 5 years.\(^{31}\) In relation to health services the councils were envisaging investment in high grade hospitals selling operation and recuperation packages for wealthy people seeking a pleasant way of dealing with their non-acute ailments.

Australia imported more than A$49 million worth of fruit and vegetables from the FIC. This was a 13% increase on the import figures for 1989-90, and since then, it continues to grow.\(^{32}\) Australia considers the countries of South Pacific to be major zones of investment. The FICs consider Australia as the major market and always wanted to avoid stiff competition from the Asian and New Zealand suppliers.

Until 1992, the regional developed powers such as Australia and New Zealand did not have a firm policy on their aid funded projects in the South Pacific to ensure maintenance costs\(^{33}\) (known as recurrent costs) on these were adequately covered. As a result, the issue had been approached on an ad hoc basic. Over the years, the donors have adopted the same approach.

The downside of this arrangement was that recipient governments had often now allowed or budgeted sufficiently for maintenance of on-going costs after donor funds have been used, resulting in large expensive capital projection falling into disrepair.


\(^{32}\) \textit{ibid}.

\(^{33}\) Alfred Sasako, "Going an extra mile", \textit{PIM}, April 1993, p. 39.
For example, in 1985, the Australia International Development Assistance Bureau, formalised a "South Pacific Customs Development project of which CHARM (Customs Heads of Administrations Regional Meeting)\[34\] is a think tank. The projects thrust and emphasis has been training, which has been at lower levels of the customs hierarchy. Fiji, Kiribati, Niue and Vanuatu are the first to implement the more efficient Harmonised Tariff System of customs and exercise revenue collection.\[35\] With the changes, has come the delight of the world of high tech and its appropriate training.

One of the immediate successful of this project has been the forging of an enviable relationship between the nine members of the CHARM and Australia and New Zealand.

The successful result of the project was the co-operation forged the Australian customs official to contact Fiji immediately after finding a Fiji - bound shipment of arms in systems. Then there was the co-operation between Australia and Vanuatu customs officials, which led to the May 1989 drug haul in Sydney and Port Villa.\[36\]

The most unfortunate part of the project is that, for the work programme, not sufficient additional grant has been made by the Australian government that led to the functioning of the project unsatisfactory.

Another glaring example is, the Australian Government, thinking of providing "technical training to the South Pacific Island States’ small entrepreneurs, initiated special

\[34\] "Charming Customs", PIM. August 1989,p.47.
\[35\] ibid.
\[36\] ibid.
courses in Australia. It provided a budget for these programmes, and kept it under the control of the market advisory service, which falls under the department of Foreign Affairs and Trade.\textsuperscript{37} On the contrary, specialist training is being provided by the Australia Executive Service Overseas Program Ltd. (AESOP), a self-help programme that has been benefited hundreds of small businesses throughout the Islands.\textsuperscript{38} Visits to Australia for this programme on attachment to the commission are short, perhaps a week or two. The attachment programme is put under the umbrella of SPARTECA. The funds have been granted by the AIDAB. Due to lack of require cost and subsequently recurring costs, the program is virtually restricted to marketing matters. The program also stopped the initiative to 'provide specialised training courses to the islander's business community'.

Therefore, the requirement of the maintenance cost for the on-going projects is of immediate necessary. These recurrent costs have to be remained as a major component of any aid package.

The recurrent cost has been remained as the one of the major factor, which has caused hiccups in bilateral relations between some FIC on one hand, and Australia and New Zealand on the other. In 1993 the Pacific Island Countries/Development Partners' meeting held at the Forum Secretariat Headquarters in Suva, also echoed FIC call for understanding and a clear policy on the issue by Australia and New Zealand.

Finally, it seems the persistent calls by leaders and officials from FIC for understanding by the two developed neighbours have paid off. Australia and New Zealand decided to address this very issue in a joint study in October 1993 with a view to formulating an overall policy


\textsuperscript{38} \textit{ibid.}
framework on recurrent cost financing in the South Pacific. A "Joint Australia/New Zealand Policy on Recruitment Cost Finance in the Pacific" study has found that full consideration of the recurrent or on-going costs of aid projects improves their performance and that donor support for recurrent costs can be a very effective form of aid. 39

"Australia and New Zealand have decided that they will realistically evaluate and assess all projects in order to identify all recurrent cost implications and ensure that all responsibility for these is properly identified at the commencement of any project". 40 Hence, recurrent cost support is now Australia and New Zealand's official aid policy for the South Pacific. It says "Community development activities and activities that assist the poor will be particularly targeted and this joint initiative will be funded from within the existing bilateral allocations". 41

Australia and New Zealand made it clear that recurrent cost financing support would not be provided for income-generating projects. The FIC, which receives millions of dollars in bilateral aid from Australia and New Zealand every year, have hailed the initiative as a breakthrough.

In a way, it is a new phase in the ever-revolving donor-recipient aid relationship. Some donor countries may find adjusting to this new arrangement difficult, because of the cost implications, but this adjustment is only temporary because once the recurrent cost financing component is included in the aid package, there will be no misunderstanding by either party in terms of their shared responsibility.

39 Alfred Sasako, n.33, p.39.
40 ibid.
41 ibid.
One area where the FIC may have to seriously consider is whether this new arrangement encourages aid dependency - something that many island nations are trying to escape. This, of course, raises a number of questions. For instance, what the FIC should do, if they feel the new arrangement does encourage aid dependency.

At the same time, however, any increased commitment by donors to cover maintenance cost for at least in the initial period, following the completion of the project should not rob FIC of their commitment to self-reliance. This means the FIC must increasingly judge the need for projects against their ability to eventually pay the maintenance and on-going costs. It is, perhaps reassuring to know that Australia and New Zealand are extending their ever-helping hand to island members of the Forum.

It serves as a useful avenue for consultations and dialogue on largely aid matters between officials of Forum, Island countries and those representing donor countries and agencies. One of its main targets is to foster greater levels of consultations, coordination and policy dialogue aimed at more effective aid delivery and increased investment. Although it is relatively new, the usefulness of this medium has earned it a place in the Forum Secretariat's annual calendar.

The recurrent cost facilities in the aid grants have benefited most the Forum members. It allowed them to pressurize the donor countries to invest maintenance cost on serious issues. For example, Australia recognizing the global warming and sea level rise are the most serious threats to the survival of some Pacific Island States. In 1992, the Prime Minister of Australia, Paul Keating revealing the problem announced in the 23rd Forum meet at Hanoi that, Australia would provide $A1.3 million to upgrade meteorological services in the region.42 The

money was directed to provide support the region's sea level rise and climate change monitoring projects. It also provided $A.5 million for the development of region-wide biodiversity conservation and management project.  

But the most immediate problem is that the donors are not convinced the way the money is being spent by the Forum members. The donors complained that a bulk amount has been taken away by the Pacific Island's bureaucracy and a least amount is being spent for the infrastructure development. The United States also decided for making huge cut in its aid projects and decided to close its aid projects down or at least continue them temporarily for some years. The departure of USAID from the region was just in a series of blows to the region, what is not widely understand in the Pacific is that the region's biggest business is not mining or fishing or copra but soliciting aid from the international community.

The departure of USAID from the region is a body blow mostly to the private sector, which was strongly supported by USAID programmes. In several crucial areas of private sector development programmes, such as trade and agriculture its programme has been extremely important. However, by 1994, all the USAID programmes totalled not more than US$8 million per annum. The departure represents something symbolic to many Pacific islanders who maintain a deep political empathy for the US. Many older Pacific islanders still fondly recall their encounters with American GI's during World War II. There are few in Washington who appreciate, or apparently care about, the deep reservoir of political support that exists for the US in this part of the world.

The departure of the US from the region, however, is far more profound than just the

43 ibid.

closure of the USAID office. The US is also planning to drastically cut its economic assistance to the Marshall Islands and the Federated States of Micronesia (FSM) once the current compact of Free Association expires in the year 2000. According to one senior director of the Asian Development Bank, the US intends to cut its budget to the FSM and Marshall Islands by as much as 2/3 after the year 2000. The Director, who did not want to reveal his name, said "the US is desperately short of funds and while US $200 million did not look like much a few years ago, it now looks like a lot of money." 45

It is not just the recession that has caused the shift in its policy. Since the fall of the Berlin Wall, leaders in the region have known that the US as well as the major western powers has been concerned with matters related to Eastern Europe. It was widely felt that European and US aid would shift to the beleaguered economies of Eastern Europe.

However, paradoxically it has not been the developments in Eastern Europe but rather the Middle East that are putting greatest immediate pressure on the US. With the signing of the peace agreement between Israel and the Palestine Liberation Organisation (PLO), will be for several years to come an inflow of enormous amounts of aid from the US to Israel, which has traditionally been the US government's main aid recipient.

If the departure of USAID was not frightening enough, it was followed by an announcement by the British government at the recent SPC conference that it was intending to leave the organisation. The shock announcement was accompanied by a pronouncement by the UK about maintaining its support to the region but through other multilateral organisations. Few believed that UK assistance would continue to be forthcoming in a region where its vital interests were microscopic.

45 ibid.
The reaction of regional leaders to the UK announcement was predictable. Headed by Tuvalu Prime Minister, several island countries are actively and openly pushing for the acceptance of Japan as a full member of the SPC. Several years ago Japan expressed an interest in membership. Japan has an enormous aid budget package but it became extremely difficult for Japan to spend the sums (of not less than US$2 million) in the FIC, thus FIC would like to see it join the commission, for very obvious financial reasons.  

With the departure of Canadian aid earlier and now the British and the Americans, it is clear that very soon, and not 10 years from now, the islands will have to face the reality of diminished aid budgets and greater reliance on their own ability to generate foreign exchange earnings.

Donors are sceptical on investing in the South Pacific because, despite pumping of hundreds of millions of dollars into the South Pacific in the past decade, there has been very little visible economic growth. For that time, 23rd Forum meet at Honiara initiated to start a regional development strategy, which encouraged the optimal use of resources directed to the areas most in need.

For the first time, it was decided to keep an eye over the donor's money. All seven regional organisations will also be involved in the process, particularly in defining the activities to be pursued at the regional level.

46 ibid.

47 Alfred Sasako, "Where has the money gone", *PJM.*, November 1992, p. 53.
The data base being develop, will provide a significant input for the proposed regional strategy. The comprehensive data base will allow access to all relevant regional project data to which funds have been formally committed in 1991.48 This is expected to encourage accountability and development co-ordination, and minimise duplication of effort. For the first time, it will list, year by year, how much money had come into the region, the sector has been benefited, the name of the donor(s), the regional organisation which implemented the program and the number(s) of FIC that benefited.

This is very important because even Australia is not satisfied on the way the money is being spent in the South Pacific. The 34 South Pacific Conference which was held in Port Villa in October 1994 highlighted the South Pacific's financial problems and shown that external budget expected to reach South Pacific Island was already cut by 2.35 per cent.49 Not only that the warning for cut also received from Australia, the main contributor which provides one third of all contributions to the 27 member countries of the South Pacific.

Defending the decision the Australian representative, Minister for Development, Cooperation and Pacific Affairs, Gordon Bilney said that the budget needed to be more "realistic" since a larger part (about a quarter) of South Pacific Commission's work programme remained unfunded.50 He said, even Australia would not ready always to "pick up the bill" as a result of poor financial management from Pacific Island Countries.51 Australia and also USA, UK and other outside powers made huge cut in their budgetary assistance, which has led to dwindling in Pacific's economy. The South Pacific Forum has also witnessed the same kind of trend. Most

48 ibid.
50 ibid.
51 ibid.
of the outside countries are making huge cut in their budgetary assistance.

The SPARTECA and Australia

The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) was signed by Heads of Government at the eleventh South Pacific Forum meeting at Tarawa in 1980 and came into operation in 1981. The agreement allows for duty-free and unrestricted access on a non-reciprocal basis to the Australian and New Zealand markets. This has applied to all goods of the FIC origin entering New Zealand since 1 July 1988. Australian quotas on textiles, clothing, footwear, steel, passenger motor vehicles, and sugar were phased out on 1 March 1993.

The agreement's aim is to provide the island countries with more certain market access and facilitating investment planning. The agreement recognises that the full potential of the access provisions can be achieved only through closer economic cooperation, and contains provision for development assistance aimed at enhancing the export capabilities of the FIC. SPARTECA is administered by the Forum Secretariat, through the Committee on Regional Economic Issues and Trade (CREIT) which monitors the agreement and reports annually to the Forum through the Secretary General.

Since SPARTECA came into operation imports to New Zealand from the region have increased in several trading items, including timber products, coconut products, canned fish and clothing, which were previously subject to customs duty and/or import licensing. SPARTECA continues to be a significant expression of the willingness of New Zealand and Australia to assist in the economic development of the FIC with practical assistance and experience in the area of trade promotion, and in the complex tasks involved in marketing products overseas. The South Pacific Trade Commission in Sydney and the South Pacific Trade Office in
Auckland provide the assistance in particular.\textsuperscript{52}

The regional Trade Commissioners and their staff are actively involved in the region, assisting the FIC exporters with marketing and trade promotion in Australia and New Zealand. They also provide training attachments for trade officials from the FIC.

The Forum has shown satisfaction over the reports of the Regional Committee on Trade (RCT), which is being held every year since the SPARTECA's inception. The Forum with satisfied that trade under the SPARTECA continued to grow and that Australia and New Zealand are continuing efforts to assist the development of the Forum countries. The Forum welcomed the announcement by Australia that across-the-board duty-free unrestricted access was to be granted to all exports from the FIC other than products to which Australian sectoral policies apply.\textsuperscript{53}

It also welcomed moves by Australia and New Zealand to liberalise the rules of origin for imports under SPARTECA. The Forum acknowledged the concern of Small Island Countries that the provisions of SPARTECA were not particularly relevant to their needs. Their export-oriented base was so small that they could not take advantage of the concessionary terms of trade that were available under the Agreement and special arrangements might be necessary in their case.

The Forum welcomed the offer of Australia and New Zealand to enter into discussions, without obligation, of whether there would be an advantage for other Forum countries to enter a broadened Australia-New Zealand Closer Economic Relations Agreement (ANZCER).

\textsuperscript{52} Bulletin, n.23, pp. 25-26.

\textsuperscript{53} AFAR, Vol. 56, No.8, August 1985, p. 703.
In the context of trade and investment the Forum welcomed an announcement by New Zealand of extensions to the Pacific Islands Industrial Development Scheme (PIIDS) which was intended to increase the effectiveness of the Scheme in attracting soundly based investment to the Forum countries.

South Pacific Forum countries, led by Fiji, are looking for greater access to the Australian and New Zealand markets. A meeting of Fiji - Australia and Australia - Fiji Business Councils in Suva in 1990 called for a review of the SPARTECA. 54

Josevata Kamikamica, Fiji's Deputy Prime Minister and Minister for Finance and Economic Planning have raised interesting points on the value of SPARTECA. He said, "SPARTECA had been very beneficial for Fiji", but many island countries would be disappointed because on closer inspection, many of them have found it irrelevant. Many of them do not produce products that Australian want to buy. And, in general, the Australian markets where they can supply are small and stagnant. It might even be that SPARTECA has diverted the attention of small island businessmen from more promising opportunities in other parts of the world, under the LOME Convention or the Generalised System of Preferences. 55

Many of the island leaders feel the time was appropriate to consider changes to the agreement, and particularly, mentioned inefficiencies that were brought about by the rules of origin clause of the SPARTECA.

Since its inception, there have been a number of changes made to SPARTECA, including some very important ones during its seventeen years of operation and as altered circumstances generate inefficiencies its provision should and no doubt will be reviewed

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The SPARTECA was established to achieve progressively duty-free and unrestricted access by the Forum countries to the Australian and New Zealand markets; to accelerate and foster development of the islands through expansion, development, promotion and marketing of their exports and through promotion of investment in the islands themselves; and to "promote and facilitate economic co-operation, including commercial, industrial, agricultural and technical co-operation" among the Forum countries.

But from the beginning, many islands saw SPARTECA's access provisions, particularly the promise of unrestricted access, and the rules of origin - which define what island goods are - as the only pot of gold at the end of the rainbow. If their products could move freely into Australia and New Zealand, the belief was, their economic problems would be solved.

Eventually, the tariff walls came down and the rules of origin eased. But that did not resolve the economic problems, even for those islands which have gained greatest benefit from the dropping of the barriers, such as Fiji with its clothing industry. The lifting of tariff barriers has eased island trade problems, but the debate on entry has become more sober, more realistic, as it has become clearer that there is no quick and simple formula for economic prosperity anywhere.

As Kamikamica said, the agreement, including the entry concessions, has been very beneficial for Fiji. But it could be equally good for the smaller islands if they put aside their fixation about getting goods into Australia and New Zealand and look more closely at the provisions on promotion, cooperation and investment.\(^{56}\)

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\(^{56}\) *ibid.*
Article 8 of the agreement, for example, offers economic, commercial and technical help, and still there are doubts if all its potential opportunities have been examined or not. Kamikamica again said, "article 8 of SPARTECA has been highly effective in assisting its promotional efforts. Australian funding under the agreement has been very efficiently handled, by providing reliable and timely finance for trade missions and the preparation of promotional materials, including publications, video tapes and interactive information systems".  

Help is available for the FIC under Article 8 to improve local technology and knowledge of markets, to broaden the scope of manufacturers and small businesses, to help people develop competitive products for overseas markets - not necessarily Australia and New Zealand will buy, are missing great opportunities in other directions.

For example, the very first item in Article 8 provides for facilitation of co-operation between commercial and industrial organisations in the region, and the simplification of trade procedures and formalities, but this has not penetrated into all levels of the business communities in Australia, New Zealand or the Forum countries. Many business people are still unaware even of SPARTECA's existence.

Much could be done to achieve simplification in customs control, quarantine, money transfer and communications. Things such as the standardisation of shipping documents, formation of Shippers Councils and pre-shipment certification could be explored, probably with very good saving in time and money.

Another SPARTECA commitment is to provide specific assistance within bilateral aid programs for industrial, agricultural, forestry and fisheries development in the Forum countries. Even if these products are destined for export, there is a lack of commitment to help

57 *ibid.*
development of appropriate businesses.

Australia and New Zealand have committed themselves to help Forum countries approach in international organisations such as the UN and the Commonwealth Secretariat, which are sometimes best placed to provide special help and assistance. But who knows this help is available? There is implicit agreement by Australia and New Zealand to assist island countries in their efforts to sell to third country markets. This question, over the years, is being precisely raised by most of the tiny FIC.

Most vocal has been Fiji's Trade and Commerce Minister Berenado Vunibobo SPARTECA's functioning, who told the Suva meeting in 1990 that CER would adversely affect Pacific island exports to New Zealand and Australia. He said all the parties to the SPARTECA agreement should discuss a new arrangement which would involve New Zealand, Australia, Fiji, Tonga, Niue, Federated States of Micronesia, Marshall Islands, Western Samoa, Vanuatu, Cook Islands, Solomon Islands, Kiribati, Tuvalu, Nauru and Papua New Guinea.

Vunibobo singled out the rules of origin clause in SPARTECA because this requires 50 percent of the cost of an item, which must be added in one of the Forum countries, or by a combination of Forum countries. If the goods are going into Australia, that item cannot have more than 25 percent of New Zealand content as part of the requirement, and the reverse arrangement for exports to New Zealand.

"It makes one feel like a caged bird who is prevented from spreading his wings", said Vunibobo. He was in favour of unrestricted Australian and New Zealand content. Fiji had

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59 ibid.
achieved considerable improvements in manufacturing, but the SPARTECA agreement needed review if this momentum were to be maintained.

The Forum Secretariat is now undertaking a study of CER and its effects on the island countries. Under SPARTECA, the Forum countries have duty-free access to the Australian and New Zealand markets. New Zealand has no exempted goods, while Australia does have controls over some goods still subject to central government protection, including steel, passenger motor vehicles, sugar, together with textiles, clothing and footwear.

The problem for the Forum countries is not the aspect of duty, but as Vunibobo made clear, the rules of origin. There has been disappointment throughout the region that SPARTECA has not been the universal remedy to trade problems, and it has never quite met the expectations aroused when it was signed back in the 1970s.

Fiji has done the best, reducing its balance of trade problem with Australia. In 1989, the figure is likely to be about A$20 million. South Pacific Trade Commissioner Bill McCabe told Pacific Islands Monthly that Fiji has 12 per cent of Australia's sales of imported men's suits and slacks and that share would grow.60

Australia, Fiji's main trading partner under SPARTECA, introduced the Australia Industry Plan in March 1991, which in turn reduces the tariff levels on most imports into Australia to five per cent by 1996, and therefore the value of the duty free access that Fiji goods receive in Australia. It signals the end to most of the trade advantages currently enjoyed by Fiji under SPARTECA. It could reduce the importance of Australia as a export market for Fiji, and signalled a beginning for Fiji to diversify their export market.

60 ibid.
Vunibobo said the country needed to look at steps to facilitate the move towards freer trade, for example removal of the non-tariff barriers. Fiji wanted to diversify its sources of supply, broaden its range of import providers and look further afield for markets. It still enjoys preferential access to Australia and New Zealand, but it is looking at the future for more support.

It is not just Fiji which has found SPARTECA less than the complete answer; the former Kiribati President Jeremia Tabai had also voiced disappointment in the Suva meeting as he contemplated the fact that Australia exports more than a hundred times more goods to Kiribati than it buys in return.61 Tonga, on the other hand, has made significant exports under SPARTECA, especially with its clothing factories exporting the knitted sweaters and leather jackets to both Australia and New Zealand.

McCabe - and others - keep returning to the point that the key to the issue is not access (that is no problem in most cases) but finding goods the countries can export. The South Pacific Trade Commission took the unusual step of actually putting up its own money to buy a consignment of coconuts from Kiribati, but by the time they arrived there was a guilt on the Sydney market; they were diverted to Auckland but they were inadequately packed and many were too small to be sold.62 McCabe believes the export attention should be focussed on developing products and ensuring quality. On this count, Kiribati is developing dried fish exports with some success.63

61 ibid.
62 ibid.
63 ibid.
An Australian Foreign Affairs official said the Fiji case was being examined, and Australia was waiting on a study by the Pacific Commission into CER and its likely repercussions in the region. But he said that the Pacific states would be worse off under CER membership than with the present SPARTECA arrangement. Under the current deal, the island exporters have no reciprocal requirements. They could discriminate against Australian and New Zealand exports if they wished and that would not abrogate the Sparteca arrangement.

But if they joined CER (even if that were possible - the agreement does not presently allow for any other parties other than Australia and New Zealand) then the island states would have to allow unlimited and duty-free access to Australian and New Zealand goods.

Not only would this have implications for the revenue earned from tariffs and duty, but would possibly destroy all hopes of industrial development as goods flooded in. But foreign affair officials in Canberra do recognise that there is a concern and apprehension in the region regarding CER and the possibility that they will be locked out. The Australian government is prepared to discuss whether a limited form of CER membership would be possible, so that it can allow the vulnerable island economies to maintain their own protection barriers.

It is clear that discussion of this complex issue is only just beginning. The FICs are aware that there is urgency. And Australia is taking all efforts to dismantle its trade walls. SPARTECA gave the island states a competitive advantage only while exports from other low-cost producing countries, in Asia particularly, came into Australia with high duty.

What seems clear is that Australia and New Zealand will have to look at ways to
ensure that their Forum members have every help. Presently, despite some problem areas, Australia is co-operating and showing that its good will gesture towards the FIC. One classic example of Australian's co-operative attitude was its involvement in the Fiji garment industry episode, which occurred in 1994 and saved an estimated 11,000 Fiji garment factory worker's job. 66

The garment industry and Fiji government heaved a sigh of relief when an Australian customs delegation arrived in Fiji in July 1994 to clear the cloud of uncertainty hanging over the interpretation of SPARTECA's rules of origin clause. 67 Before the clarification was made, SPARTECA guidelines, could have closed down some manufactures and caused massive redundancies.

Talking on the SPARTECA's guidelines, a Businessperson and a leading garment exporter, Padam Lala, of Lotus Garments in Suva, said the clarification had improved garment operators' viability. 68 According to Lala, manufacturers had been complaining that the Rules of Origin clause of SPARTECA need revision. Manufacturers had been put in a situation where it was necessary to be inefficient to qualify for SPARTECA incentives.

SPARTECA's Rules of Origin clause stipulated that exports should have at least 50 percent of the local content. Since a large proportion of the local input has traditionally been labour, a cost-efficient labour force would have meant a reduction of local content. Australia clarified the Customs Regulation in April, which effectively placed limitations on what could be counted towards the 50 per cent local content requirement under Rules of Origin. Among

66 Yonus Rashid, "In keeping with the spirit of SPARTECA", PIM, October 1994, p. 21.
67 ibid.
68 ibid., no. 21.
items, which were excluded, were administration, repair and maintenance and packaging costs.

This restriction attracted criticism from Jim Ah Koy, then Chairman of Fiji Trades and Investment Board (the government arm for promoting investment), and other manufacturers. Fiji's Prime Minister Sitiveni Rabuka also followed up the issue with Australian authorities at the Forum meeting in Brisbane in July.69

Subsequently, Australia, responded by sending two senior customs officials to Fiji to examine and re-interpret the Rules of Origin clause in accordance with the spirit of SPARTECA. Lala believes the efforts of Ah Koy, the Trade and Commerce Minister, and Fiji's ambassador to Australia, Peter Stinson, helped to achieve a understanding of the clause, with the belief that this would prove fruitful not for Fiji alone, but for all the SPARTECA member countries.

He said some of the Rules of Origin requirements, which merely needed clarification, were amicably resolved while others, which local manufacturers thought needed revision, and thus, were referred back to Australia for further consideration.

Australia's Bilateral Relations with Forum Members

Australia maintains a very cordial and healthy relationship with the Forum members. Australia's relationship with the FIC at the bilateral level is not questionable. It always tried to co-operate and promote the developmental pace. Although Australia is the most developed member of the SPF, but it always maintain a balance and most of the decisions pertaining to development taken consensually in the forum. It never imposed any kind of decision upon the FIC.

69 ibid.
Despite positive thinking by the Australians, regarding the Forum members, there are some grey areas which has affected the bilateral relations between Australia and some individual island countries. For example, the political turmoil in Fiji in 1987, had affected Australia - Fiji relations to a large extent. Recently, the Bougainville crisis nuclear testing of Mururoa Asoll, etc. have created certain observations and tensions. Despite that in a submission to the Joint Committee on Foreign Affairs, Defence and Trade inquiry into Australia's relations with the South Pacific, AIDAB categorised the South Pacific States in terms of economic potential.\(^70\) It suggested that PNG, Fiji, Solomon Island and Vanuatu have the most adequate resource bases from which to achieve self-sustaining development. PNG, in particular, has substantial natural resources with considerable scope of development.

PNG has a special historical relationship with Australia. Australia accounts for over 70 per cent of total aid to PNG. Most of this is provided as united cash grants, which are spent by the government through its normal budgetary process. But in recent years, a decline in direct budget support has reduced the reliance of PNG on Australian aid. It was planned that budget support will remain at its current level of $275 million until 1991. Over this period, $5 million per annum from a base of $15 million since 1988-89 expanded expenditure on other more targeted aid activities such as project aid.

On the other side, prior to the coups of 1987, Fiji was the largest recipient of Australian aid to the Pacific after PNG. Following the coup Australia suspended the provision of aid to Fiji, with the exception of training assistance. Selected activities have since been resumed but planning of further aid to Fiji has not gone beyond 1988-89. For 1988-89, the ongoing program included a number of projects of benefit to the entire Fiji community such as

\(^70\) AFAR, Vol. 59, No. 11, September, 1988, p. 355.
medical aid and staffing assistance in basic community service areas such as engineering and water supply.

In addition, the Budget provided $10 million in respect of proposed program of special economic assistance intended to help Fiji’s recovery from its present serious economic difficulties in late 1980’s. The components of this program have yet to be fully decided but again there will be a focus on Australian source goods and services including medical supplies and equipment. In implementing this program the Australian Government always takes account of political, constitutional, economic and social developments in Fiji, including human rights, as well as Fiji Government priorities.

In the Solomon Islands and Vanuatu, Australia’s aid program aimed to assist those sectors that offer the greatest scope for contributing to long-term self-sustaining development. Around $9 million is budgeted for each country in 1988-89. Expenditures focus on primary industries including forestry, fisheries and livestock; human resource development through the provision of academic infrastructure, training and technical assistance; strengthening the capacity of the public sector; and assistance with public utilities.

Western Samoa and Tonga have natural resource endowments, which are adequate to sustain the population, but economic prospects rely on a continuing high level of remittances and on further development in agriculture and tourism. Australian aid to these countries focuses on improving education facilities, expanding agricultural export potential, provision of infrastructure and training assistance. Each received around $7 million in 1988-89. Australia acknowledged that, there might be a need for a special approach to aid activities including the Cook Islands, Kiribati, Niue and Tuvalu. In recognition of the special problems facing Tuvalu, Australia always contributed and cooperated with the FIC.
Australia - PNG Bilateral Economic Relations

The Joint Declaration of Principles (JDP) Guiding Relations between Australia and PNG, which was signed in December 1988, laid the framework for the future development of the bilateral relationship on the basis of mutual interests and reciprocity. Subsequently, the relationship got another boost up after the inauguration of Australia-PNG Ministerial Forum in October 1988. The Forum was established under Article 21 of the JDP and reflected the important principle that "each of the elements (of the relationship) should be conducted with due regard to the relationship as a whole. The Australia-PNG ministerial forum discussed all major issues relating to them but special emphasis has always been given to economic aspects.

According to the Australian Minister for Transport and Communications, Gareth Evans, while addressing the PNG-Australia Colloquium, in Townsville on 10th August, 1988 said there are four fundamental interests that PNG and Australia have in common.⁷¹

First, both have a shared strategic interest. The two collaborate closely on issues of strategic significance and maintain a strong defence cooperation program. The defence clauses are at the core of the Joint Declaration of Principles. They are valued by the Australian and Papua New Guinea Governments alike. The Australian Minister for Defence, Kim Beazley, visited PNG in July 1988. This was his second visit in less than a year and a sign of continuing commitment for maintaining a strategic partnership with its nearest neighbour.

A second common interest is their interest to sustain democratic institutions. This interest covers a wide range of concerns - respect for the rule of law, the effective functioning of Parliament as a means of reflecting the will of the people, the maintenance of the

independence of the judiciary and the freedom of the press. However, it should not be supposed that a common commitment to parliamentary democracy means that Australia and PNG necessarily share all the same political and social values.

Thirdly, PNG and Australia have important economic interests in common. Both are well endowed with natural resources and pattern of development has many parallels. Both depend heavily on agricultural and mining sectors to generate the much-needed foreign exchange. Both are vulnerable to the vagaries of international commodity markets and shared common interests in working towards a fairer and freer world trading system.

Just as Australia is enduring the painful process of structural adjustment in order to adapt to the new realities of the international trading environment, so also the PNG faces the challenge to transform the enormous potential wealth lying beneath its forests and seas into sustainable and balanced economic growth that will provide opportunities to improve the living standards of the services available to all of its people.

Further, and not withstanding, the disparities in our levels of economic development, both PNG and Australia are seeking to attract foreign investment, particularly with a view to stimulate growth in secondary industry and the service sector.

In Australia, to quote Gareth Evans, "Australia has already moved away from the earlier policies of shielding its manufacturing industry from developing country's competition and have turned purposefully to lower protectionist barriers." It has already learned the hard way which makes more sense to face up to the competition than to hide from it and supported PNG in international debate on this issue and sought to negotiate a less protectionist world

\[72\] \textit{ibid}, p. 361.
trade environment.

In terms of markets, PNG is much valued by Australian business, PNG is its largest market, after New Zealand in the South Pacific. More than that, it is the third-largest market of overall manufactured goods. Australia purchases much less from PNG. Thus, there is a significant trade gap from time to time. Yet Australia is doing its best and co-operating with the PNG to bridge the gap.

There are no barriers impeding access for PNG products into the Australian market. PNG needs to develop its export capacity to take full advantage of the market opportunities, which already exist in Australia.

Australia is also keen to encourage its business firms and enterprises to invest in PNG. This is not a goal confined to the glamorous mining sector. Australia also actively supports and encourages its investment in PNG's manufacturing industry and service sector.

High priority is being given to these concerns in the current review of PATCRA (the PNG-Australia Trade and Commercial Relations Agreement). Both Gareth Evans and his PNG counterpart, Peter Peipul, Secretary of the Department of Trade and Industry, had agreed that there is a growing scope for the small enterprises to function in the PNG market and for companies of all sizes in PNG to collaborate in joint ventures with Australian companies, taking full advantage of the relative strengths of the two economies. Therefore, delegates of both the countries felt that this Australia-PNG colloquium which took place in 1988 will contribute very positively and substantially to this process in the future.73

73 ibid. p. 361.
A fourth shared interest is in peace and stability of the Pacific region. The region is undergoing rapid economic and social change and it is becoming increasingly complex. The regional situation is evolving at a dramatic pace because of the region's increasing importance in the global strategic environment, the interest and activity in the region of a growing number of external powers and the emergence of indigenous nationalism along with an ambiguity towards former colonial powers.

Events in Fiji in the past and recent developments in New Caledonia have demonstrated the evolving nature of the region, and the need of its policies to be responsive to rapid and significant change. This evolution has many positive aspects. Through the SPF it has accomplished substantial gains for the region in fisheries, communications, economic development. The Forum members including Australia and PNG have also worked closely together to improve the effectiveness of the regional consultative machinery.

Economic Interaction with PNG

Among all the countries in the South Pacific, Australia, has invested the most in PNG. Similarly, for PNG, Australia is the most significant source of foreign investment and recent trends hold promise of a dramatic increase. PNG is the 14-largest export market for Australian products which in 1987 totalled $722.6 million; an increase of $583.9 million over the previous year's figure. The main exports include gold, coffee, tea, fish, vegetable oils, rubber, timber and tobacco. The balance of trade is in Australia's favour with Australia supplying about 40 per cent of PNG's total imports. PNG has gained increased importance as a purchaser of Australian manufactures; it is the sixth-largest customer-market of Australian exports of manufactured

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74 The Monthly Record, Australian Foreign Affairs and Trade (Canberra), Vol. 61, No. 1, 1990, p. 29.
goods, valued at $340 million in 1987. In response to a PNG initiative, the PATCRA was concluded in 1977 and is currently being reviewed in line with the JDP. Under the existing Agreement, PNG commodities receive duty free access to Australia. Issues under consideration in the negotiations include strengthening the free trade provisions on a reciprocal basis, trade promotion, the role of small business and facilitating access for PNG goods into the Australian market. The first meeting of PATCRA was held in Cairns in June 1988.

PNG is assisted in the development of markets in Australia through Developing Country Trade Assistance Program (DCTAP), which is managed by the Market Advisory Service (MAS), through the Department of Foreign Affairs and Trade. It has access to the International Trade Development Centres in Sydney and Melbourne through DCTAP, and to the services of the South Pacific Trade Commissioner in Marketing their products in Australia.

The progressive shift towards project aid in the bilateral relationship reflects PNG's declared aim of achieving fiscal self-reliance. The planning and implementation of the Project Aid Programme is in accordance with the policies and priorities set by the PNG Government. Over the past two years, 25 joint projects have been established including support for rural development, strengthening the capacities of some government departments, assistance to civil aviation, provincial administration, law and order, education and health. Under the Head of Mission Discretionary Aid Fund (HOMDAF), $120 000 was decided to set aside for small

75 ibid., p. 29.
projects (including small-scale business ventures).

Australia: A Major Aid Donor to the Forum Island Countries

Setting aside the French and the US Territories (including the former Trust Territories), Australia is the main donor and, consequently, has special responsibilities relating to the effects of aid on countries of the region. According to the Australian aid programme 1989-90, its primary objective is to promote the economic and social advancement of the people of developing countries in accordance to Australian humanitarian concerns, as well as Australia's foreign policy and commercial interests.77

The primary objective of Australian aid programme to the South Pacific is to promote equitable, self-sustaining economic growth and social development. A further objective is to develop and maintain close relations with the region consistent with Australia's strategic, political and commercial interests.

The South Pacific region occupies an important place in Australian aid program. In 1987, Australia's total aid was A$976 million, of which A$420 million, or 43 percent went to the FIC and other regional organisations. PNG continues to be major recipient, accounting for 34 per cent of the total aid. Australian aid to the South Pacific (excluding PNG) has increased thirteen fold since 1970-71 to A$76 million, with A $36 million being provided to individual countries on a bilateral basis.78

78 ibid.
By 1991, total Australian investment in the region has about A$1.6 billion. Australian exports to the FIC totalled $1488 million in 1991 increasing 11 percent over the previous year. It's aid package to the FIC excluding PNG in 1989-90 was about $85 million and to PNG, it totalled to $300 million.79

Australian aid programme functions under the "Australian International Development Assistance Bureau" (AIDAB). This agency works as the provider of Australian overseas aid. On the other hand, reliance on overseas aid is a fact of life for most of the FICs. The continued receipt of aid will remain as a vital factor for the FIC in pursuing development equations in the coming days.

Australia's efforts in the overseas aid arena have attracted particular attention since 1994. First, there was the release of the 1994-95 budget which revealed that funding for official development assistance has once again decreased as a portion of GNP, prompting accusations that the low level of assistance will adversely affect the government's trade and foreign relations. Then there was barrage of criticism from PNG's Deputy Prime Minister and Foreign Minister Sir Julius Chan who maintained that Australia's decision to phase out budgetary aid in favour of programme and project aid would affect PNG's independence and sovereignty.80

With Australia's overseas aid programme under such scrutiny, the release of Frank Jarrett's, "The Evolution of Australia's Aid Program"81 is particularly timely. It represents the

81 ibid.
first detailed look at Australia's aid programme and is a mandatory reading for anyone with even a fleeting interest in how Australia views its relationships with other countries.

Frank Jarrett has attempted to address all the issues central to the aid debate. It examines the motivations behind Australia's aid programme, how much money is being spent, what it is being spent on, how programmes are delivered, which countries are benefited, and how efficient and effective the aid programme is? In the process it reveals much about the thinking of Australian governments and, to a lesser extent, about Australian people. The result yields is some extremely uncomplimentary observations about aspects of the aid programme. At the top of the list is the criticism of the fact of diminishing priority Australia attaches to overseas aid as a budget item, prompting the damning assessment that Australia's current contribution "may be close to the bare minimum necessary for retain in (its) standing as a good international citizen and a significant nation in world affairs". The figures tell the story that the overseas aid funding has sunk to 0.36 percent of GNP in 1992 compared to 0.52 per cent 20 years earlier. Australia's ranking among the Development Assistance Committee countries has slumped from fifth out of fifteen in 1960 to thirteenth out of eighteen in 1991.

Equally damning is the possibility that government policy may simply reflect the negative attitude of Australians towards spending money on aid. Two opinion pools are cited as evidence, one which found that Australians thought the aid programme should be cut first if reductions in government expenditure were contemplated, and another which reversed the question and found people thought the aid programme should be last on the list for increases in public expenditure.

82 ibid.
83 ibid.
The relationship between Australia's overseas aid and trade is also scrutinised. Growth in exports to developing countries has far outweighed growth in imports. Frank Jarrett commented that Australia has benefited from the growth in income from developing countries without providing a commensurate contribution to trade. There is also criticism of the controversial Development Important Finance Facility (DIFF), which provides concessional loan packages to Australian industry competing in developing economies. The DIFF scheme received aid funding of A$343 million in the five years between 1987-92. The conclusion is that it is "questionable whether DIFF should be treated as aid rather than "expenditure on export trade promotion" and that in the longer term "Australia's trading interests may be better served by using aid funds to increase awareness of potential through educating overseas students in Australia".

A large part of Australia's country programmes to the Pacific islands is delivered through development projects. There is a variety of mechanisms through which project aid is disbursed e.g., accountable cash grants, the small grants scheme and the provision of expert and specialised consultancy for technical assistance. Other forms of aid include the commodity assistance program, staffing assistance and training. Australian aid is not usually provided for local costs but in recognition of the special constraints of the FIC, Australia does meet local costs in some cases. At the same time, it also meets some recurrent costs in South Pacific countries.

Special attention to the Pacific region has long been a feature of its aid management arrangements. It can be traced back to early 1980's. In January 1988, the AIDAB Centre for Pacific Development and Training (ACPAC) was established. This is the result of the merger

84 ibid.
of the former Pacific Regional Team, that provided specialised advice on the Pacific, and the International Training Institute, which trained people from developing countries. ACPAC provides professional support to AIDAB in the areas of program and project identification, design, appraisal and monitoring. Its Development and Training Group focuses on the training needs of Pacific countries through the provision of short, intensive courses both in Australia and in recipient countries.

Australia also supports regional organisations and multi-country projects in the Pacific. These include the South Pacific Commission (SPC), the South Pacific Bureau for Economic Cooperation (SPEC), the Forum Fisheries Agency (FFA) and the University of the South Pacific (USP). Australia views regional programmes as an important means of achieving economies of scale necessary to some development activities. Health, transport and communication are good examples of sectors in which a regional approach can help to achieve cost effective implementation of activities. Australia also provides funds for joint ventures, co-financing, and some NGOs (non-governmental organisations). In addition, a high priority is placed on providing rapid emergency assistance, when required, for the cyclone-prone nations of the Pacific. In recent years, there has been an increase in activities of the aid donors in the region. In particular, the EC and Japan have shown an interest in the region to increase their aid.

Australia has welcomed the activities of other donors in the region. However, Australia and other donors are interested in ensuring the effectiveness of these flows. Relative to the size of Pacific island economies, aid flows to the region are large. The Pacific has some of the highest aid flows per capita in the world. Australia understands that improved coordination of activities between aid donors would be a means of increasing the effectiveness of total aid flows to the region. The establishment of the World Bank Consultative Group on PNG and its
first meeting in May 1988 has provided a good example of the benefits of aid coordination.\textsuperscript{86}

### South Pacific Environment and Australian Aid

The most urgent problem that the Forum countries are facing is that they are experiencing environmental threats stemming from the processes of development and underdevelopment. The two are linked in a growth spiral as the pace and quantity of aid entering the region increases and leads to hastily conceived and poorly planned development.

Donor organizations bear a heavy responsibility to ensure that their development projects are adequately assessed for environmental effects and that provisions are made for continuous monitoring of these effects with adjustments made as necessary to the project operation.

Representatives of both recipient and donor organisations frequently argue that it is not their role to initiate environmental assessment of aid projects or to influence the nature of development because important issues of sovereignty which must be respected first are at stake. Donors also cannot interfere in the internal political affairs of the recipient country. Thus it is for the recipient governments to determine development policy and to initiate environmental assessments according to their domestic requirements and standards.

Such arguments do not hold weight in the South Pacific for two reasons. First, the FIC works under the SPREP, established for co-ordinating and integrating environmental assessment and development. Donor governments also provide aid as per the SPREP guidelines. Secondly, aid agencies can and do have a profound influence over the nature and

\textsuperscript{86} ibid.
shape of development. Because, Australia, New Zealand, France and the US have contributed approximately 70 per cent to the core budget of the SPREP.

An Environmental Review of Australian Aid Projects

Australia has particular expertise to offer to the South Pacific countries in undertaking many types of environmentally beneficial projects. Soil conservation, erosion control and fertility restoration are well-developed practices in Australia and have special pertinence to island environments. Australian scientists can help with forest management and reforestation, which is of increasing value to, degraded islands. Developing and cultivating crops appropriate to island conditions, pest control through careful use of pesticides or biological methods, quarantine procedures, and appropriate agricultural technologies are all fields in which Australia is well placed to provide expert support. Other fields in which Australia has extensive practical skill includes coastal, estuarine and coral reef management and restoration, nature conservation and protected area management, and the complex problems association with urban planning and development.

The Australian Centre for International Agricultural Research (ACIAR) is drawing on Australia's research expertise in tropical agriculture to address some of the environmental problems which severely limit agricultural production in the region. In 1986-87, the Centre operated on a budget of A$13 million (with a further A$1.4 million in specific-purpose grants from AIDAB) in its bid to build the capacity of the developing countries to improve the social, physical and economic well-being of the poor by increasing productivity, stability and sustainability in the agricultural sector. ACIAR has supported projects on the rehabilitation of marine resources, for example, coconut crabs in Vanuatu and giant crabs in Fiji and PNG;

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helping fishing in Tonga and the Solomon Islands (identifying constraints and opportunities); and biological control of weeds and insect pests in Fiji and elsewhere. In 1985, the Centre's budget was cut by 21 per cent but by 1995 that has been increased profoundly due to the involvement of the SPF. The importance of ACIAR and similar bodies in linking Australian research and training institutions and NGOs with South Pacific organizations must be reflected in consistency.

Some 400 bilateral projects were being funded by AIDAB worldwide in mid-1987. About 170 or 42 per cent of these were being undertaken in South Pacific countries. At least fifty (50 per cent) of the island projects are concerned with resource management or public developments and services that might cause significant environmental change. 88

Australian Parliament and Environmental protection

Since 1974, the Australian government has had a statutory obligation to ensure that, as far as practicable, matters significantly affecting the environment are fully examined and taken into account in its decisions and actions, specifically in relation to:

* formulation of proposals;
* carrying out of works and other projects;
* negotiation, operation and enforcement of agreements and arrangements;
* making decisions and recommendations; and
* incurring expenditure.

The Environment Protection (Impact of Proposals) Act, 1974, requires proponents of

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88 AIDAB, Australia's Relations with the South Pacific, Report Submitted to the Joint Parliamentary Committee on Foreign Affairs and Reference, August 1988, p.13.
environmentally significant decisions or proposals to provide information to the Minister responsible for environmental matters so that the level of environmental assessment required can be determined. Responsibility for deciding if a proposal is environmentally significant or not, and hence subject to the Act, rests with the action of the minister or project proponent which, in the case of development assistance projects, is the Minister for Foreign Affairs and Trade or AIDAB.

In Australia, wholesale application of domestic procedures may not be appropriate for aid projects. This has already been the case in the USA where, in 1980, new regulations were based on the same principles adopted under NEPA which directs that environmental impact assessments must always be performed. Similar regulations need to be introduced in Australia to clarify AIDAB's responsibilities with respect to the environmental implications of its programs.

AIDAB resisted applying such an agreement to its development assistance programs and Senate Committee, after completing its scrutiny, prompted the Bureau to consider adopting an MOU with the Department. Initially a Memorandum would provide the opportunity to spell out comprehensively and in a formal manner the conceptual approach and administrative arrangements which are to be adopted to address environmental matters. Given the special circumstances, the conventional Memorandum format would not be appropriate. The document needs to go further in recognizing the requirements of the Environment Protection Act and the OECD Council Recommendations and in embracing the principles set down in the World and National Conservation Strategies. Most importantly, the Memorandum needs to place the responsibility for conducting environmental assessment of aid activities firmly with AIDAB and not with the Environment Department, so that those most intimately

concerned with aid program development and implementation come to accept environmental assessment as a routine aspect of their work. The current procedure whereby action that the Ministers must refer to as 'significant' domestic development proposal to the Department for determination of the appropriate level of assessment ought to be modified so that these decisions would be made by AIDAB, in consultation with the Department through the Liaison Committee. The Memorandum also should hold AIDAB accountable by detailing formal reporting requirements to the Committee, Environment Minister and the Parliament.

The MOU is a second best option. In practice, it is not the most effective instrument when the implementing agency has displayed minimal commitment to environmental policies. In such cases, the MOU, although has no force in law, tends to give the appearance of sound environmental administration while reinforcing the status quo. In the long term, the feasibility of giving legal expression to the Memorandum through amendments to the Administrative Procedures under the Act or some other statutory avenue, needs to be examined. Although this field of environmental regulation is in its infancy worldwide, Australia can benefit from the experiences of other national and international donors (as in formulating its own environment policies and procedures for development assistance.

90 ibid.