

Pacific Partners Outlook

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Strengthening Governance and Development in the Pacific

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As the United States focuses its energy on engaging the Asia-Pacific region, it has a growing interest in promoting good governance practices in Oceania. More than just democratic values and respect for human rights are at stake, as important as those are. The Pacific population is set to reach 18 million by 2050 and unemployment rates are already alarmingly high. The best means of ensuring regional stability is for economic development to truly take root. But it is difficult to attract capital to a region where poor governance means there is often high risk associated with investment. It is therefore in the interests of the United States to promote good governance as the key driver of economic development in this region.

Isolation is often blamed as the primary disincentive to investment in Oceania. Isolation undeniably remains an important consideration, but investment can be attracted to even the most isolated islands if good governance is practiced. A case in point is Mauritius, which lies in the Indian Ocean 1,242 miles off the coast of Africa. Nobel Prize laureate James Meade claimed in the 1960s that Mauritius would likely become a failed state because of its isolation. And yet by 2000 Mauritius's economic rise was being hailed as a "miracle." In reality, though, Mauritius's development was not miraculous, but

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rather the result of calculated good governance practices that transformed the island into an attractive destination for investment.

Since the 1970s, there has been a consensus in Mauritian politics to promote growth via sound economic policies, export zones, respect for property rights, and zero tolerance for corruption. Mauritius currently ranks 23rd among the 183 economies in the [World Bank's "Ease of Doing Business" index](#). With a population of approximately 1.3 million, Mauritius in 2011 had a per capita GDP of \$15,000. In contrast, the most diversified Pacific economy, Fiji, with a population of 890,000 people, had a 2011 GDP per capita of \$4,600.

Recent developments underscore the negative impact that governance issues can have on development and help explain why the economies of the two most populous Pacific Island countries, Papua New Guinea and Fiji, contrast sharply with those of states like Mauritius. For example, Papua New Guinea's Esso Highlands Ltd. liquefied natural gas (LNG) project, a joint venture project operated by Exxon Mobil, is expected to create local employment and increase Papua New Guinea's GDP by 15-20 percent. However, land ownership issues caused serious delays in 2009 and again this year as landowners used threats of violence in attempts to extract rents. The absence of the rule of law in the Highlands region became apparent with numerous events that stopped work in March and April on the LNG project, and violence by illegal miners near the Porgera Gold Mine prompted the government to deploy troops in January and again in late April. Former military commander Major General Jerry Singirok said of the latest deployment, "It's important that the investors see the government is concerned about the major investments...it's an act of deterrence." Despite the government's moves to protect foreign investments, however, the highly publicized difficulties faced by Exxon Mobil and other companies will serve as a cautionary tale to potential investors.



Papua New Guinea's development prospects are threatened by poor governance and weak rule of law at both the local and national levels. <http://www.flickr.com/photos/kabl1992/2779910307/>

Papua New Guinea is also facing political turmoil at the national level. The judicial and legislative branches have been deadlocked over a March 28 Judicial Conduct Bill giving the parliament the power to remove judges. The bill would have lasting implications for Papua New Guinea's separation of powers and political stability. This will affect how risky the country looks to foreign investors. Papua New Guinea is already ranked 101 out of the 183 economies in the "Ease of Doing Business" index. Tellingly, its poorest

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indicator on the index is the enforcement of contracts, on which it ranks 163rd. Undermining judicial independence will only make that indicator worse.

One finds further evidence of the importance of governance on investor confidence in Fiji. According to an [International Monetary Fund report](#) released in February, Fiji's 2006 coup coincided with a severe decline in economic growth. From the 1990s until the 2006 coup, economic growth averaged 2.75 percent per year. It has dipped to less than 0.25 percent per year since, well below Fiji's potential considering the economic boom elsewhere in the Asia Pacific. A 2009 [World Bank survey](#) found that the greatest barrier to firms investing in Fiji was political instability. The country is presently ranked 77th in the "Ease of Doing Business" index.



Mauritius's thriving capital, Port Louis. Unlike most of the Pacific Islands, Mauritius has defied its isolation and become a hot spot for foreign investment. <http://www.flickr.com/photos/rainaffectedbaboonparade/3773130877/>

There are some bright spots. On March 9, Fiji began a consultation process for a new constitution, and it looks as if the country may be on track for a return to democracy. The military regime headed by Prime Minister Commodore Voreqe Bainimarama has announced that elections will be held in 2014 and will be open to all candidates. These steps toward better governance and political stability have already resulted in greater investor confidence. For instance, U.S.-based Gibson Guitars on April 20 announced plans to open a mahogany processing factory by 2013 that will create 2,000 jobs.

The geopolitics of Oceania are changing, providing the Pacific Islands with an opportunity to break out of their relative isolation. Lying as they do within the vast expanse between Asia and the United States, the Pacific Island countries offer investors largely untapped economic opportunities: mineral resources to meet Asia's booming demand, the world's richest tuna fisheries, and vast tourism possibilities, among

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others. If properly developed, these nations have the potential to link their economies to the massive Asian and North American markets.

But tapping this potential depends on improving governance practices and reducing risk. The United States has reiterated its commitment to the region's development and has backed up that commitment with actions: sending the largest-ever U.S. delegation to the Pacific Islands Forum last September, opening a new USAID regional office in October, and supporting Vanuatu's and Samoa's accession to the WTO this year, among others. It therefore has a proven interest in promoting good governance as a critical part of helping the Pacific Islands maintain stability and reach their economic potential. ▲

The Week That Was

AUSTRALIA

Australian foreign minister Bob Carr makes first U.S. speech at CSIS.

The Honorable Bob Carr made his first U.S. speech as Australian foreign minister April 25 at CSIS's Banyan Tree Leadership Forum. The speech, entitled "Australia, the U.S. and the Rise of the Asia-Pacific," focused on the historical strength of the U.S.-Australia alliance and the prospects for deepening bilateral cooperation. A video of the speech is available [here](#).

Australia's Speaker of the House steps down due to fraud allegations.

Liberal member of Parliament Peter Slipper April 22 stepped down as Speaker of the House of Representatives over criminal allegations of fraud and sexual harassment. He is accused of misusing parliamentary transportation privileges and sexually harassing a male staff member. Slipper released his cab receipts April 27 in an attempt to clear his name, but will still appear in federal court in May on the sexual harassment charges.

Labor Party's majority drops to one seat in the House.

Prime Minister Julia Gillard's parliamentary majority has dwindled to just one seat following a series of recent scandals. Member of Parliament Craig Thomson quit Gillard's Labor Party at her behest April 29 amid allegations of misconduct, including the use of a labor union credit card to pay for prostitutes. This followed the replacement of House Speaker Peter Slipper, a member of the Liberal Party, with Labor member Anna Burke. The Speaker cannot vote except to break ties. Labor and its independent and Green Party allies now hold a slim 74-73 majority among the 148 remaining legislators. The sole uncommitted independent, Andrew Wilkie, has threatened to join a vote of no confidence.

Australia to withdraw troops from Afghanistan a year ahead of schedule.

Australian prime minister Julia Gillard announced April 17 that Australia's frontline troops will be moved out of Afghanistan by the end of 2013, a year earlier than previously planned. Australia will offer other assistance to the Afghan government as part of the withdrawal plan. Thirty-two Australians have been killed in Afghanistan since Australia joined the war effort more than a decade ago.

Australia eases sanctions on Myanmar.

Australian foreign minister Bob Carr announced April 16 that Australia will remove financial and travel sanctions on more than 260 officials in Myanmar. Australia, like many countries, placed sanctions on individuals affiliated with Myanmar's



The Honorable Bob Carr (left) made his first U.S. speech as Australian foreign minister at CSIS's Banyan Tree Leadership Forum. To his right is Gen. James Jones, who also spoke. <http://www.flickr.com/photos/csisseap/7133224707/in/photostream>



Australian prime minister Julia Gillard's parliamentary majority has shrunk to just one vote following a week of scandals. <http://www.flickr.com/photos/lundyk/6067838947/>

ruling junta. Australia is joining the United States, Norway, the European Union, and Canada in easing sanctions in response to recent political reforms and the election of opposition leader Aung San Suu Kyi to parliament. Australia will maintain its arms embargo against Myanmar and continue sanctions against 130 members of Myanmar's military.

NEW ZEALAND

High Court approves Shanghai Pengxin group purchase of dairy farms. New Zealand's High Court April 20 cleared China's state-owned Shanghai Pengxin group to purchase New Zealand's Crafar dairy farms. The High Court was prompted to review the company's January bid for the farms on the insistence of a domestic consortium that questioned Shanghai Pengxin's "business acumen." Observers questioned whether the real reason for the review was unease with Chinese ownership in the agricultural sector, and the review by the court sparked concerns about rising resource nationalism and protectionism in New Zealand's traditionally investor-friendly economy. The consortium opposed to the sale lodged a second appeal April 27, ostensibly on the same grounds.

U.S., New Zealand conduct joint military exercise. New Zealand is hosting a U.S.-New Zealand joint military exercise from April 26 to May 6. The exercise builds on a pattern of bilateral cooperation that was sparked by the 2010 Wellington Declaration. The U.S. contingent includes 35 Marines and 41 Army personnel who are conducting exercises with the New Zealand Army's 1st Brigade.

New Zealand calls for greater development cooperation with China in the Pacific. New Zealand minister for foreign affairs Murray McCully April 6 called for joint New Zealand-Chinese development projects in the Pacific during a trip to Beijing. McCully said New Zealand's expertise on Pacific issues can complement China's regional resources. China's presence in the Pacific is growing rapidly, and China now has more diplomatic representatives in the region than do Australia and New Zealand combined.

PAPUA NEW GUINEA

Political standoff over Papua New Guinea's election continues. Papua New Guinea's parliament April 5 voted to postpone for six months national elections originally scheduled for June 23. Prime Minister Peter O'Neill initially supported the parliamentary decision, but then declared that the



China's state-owned Shanghai Pengxin has been cleared to purchase New Zealand's Crafar dairy farms in a case that has highlighted fears of Chinese dominance of important sectors of the economy. <http://www.flickr.com/photos/mattcflynn/5479999765/>

election will be held on time after postponement faced strong domestic and international criticism. The tug of war has resulted in a standoff between O’Neill, the electoral commissioner whom O’Neill has attempted to remove from his position, and the Speaker of Parliament. The attempt to postpone the elections sparked mass protests and union strikes in late April.

Amendment to Judicial Conduct Bill latest salvo in parliamentary battle with Supreme Court. The National Parliament of Papua New Guinea April 17 introduced an amendment to the country’s Judicial Conduct Bill making it a criminal offense for judges to ignore an order of suspension. The amendment is the latest attempt to remove Chief Justice Salamo Injia, whom Prime Minister Peter O’Neill has attempted to suspend from his position despite the Supreme Court saying O’Neill lacks the power to do so. O’Neill said April 29 there is a permanent stay on the Judicial Conduct Bill. Salamo presided over the Supreme Court decision last December that declared O’Neill’s election by parliament unconstitutional. The government has also introduced a Court Amendment Bill that would make that ruling void.

PACIFIC ISLANDS

Flooding in Fiji causes \$29 million in damage. An April 16 estimate reveals that Fiji’s most recent flooding has caused approximately \$29 million in infrastructure damage. The floods, which began in late March, prompted the government to declare a state of emergency and caused at least 5,000 to flee their homes. It was the second severe flood to hit Fiji this year.

Pacific Islands Forum ministers visit Fiji. The Pacific Islands Forum Ministerial Contact Group (MCG), which includes the foreign ministers of Australia, New Zealand, Papua New Guinea, Tuvalu, Samoa, and Vanuatu, visited Fiji May 1 to discuss the country’s transition to democracy. The MCG was established in 2008 to monitor developments in Fiji following the country’s 2006 military coup. This was the first time the group has been allowed into Fiji. New Zealand foreign minister Murray McCully, who chairs the MCG, said the delegation was pleased with assurances it received about Fiji’s “firm intention to hold elections in 2014.”

Confrontation between Palau police and Chinese fishermen leaves four dead. A shoot-out erupted March 31 when Palauan police attempted to arrest a group of Chinese fishermen caught illegally fishing in a conservation area. The operation left one fishermen dead. Twenty-five others were arrested. In addition, a plane with a U.S.



Severe flooding in Fiji that began in late March is estimated to have caused even more damage than the devastating floods that hit the islands in 2009 (pictured). <http://www.flickr.com/photos/snapboot/3187433514/>

pilot and two Palauan police officers went missing while searching for a suspected Chinese “mother ship.” The three men are presumed dead. The 25 detained fishermen have been returned to China.



Fisheries commission meeting provokes criticism. The eight Pacific Island parties to the Nauru Agreement (PNA), and nongovernmental organizations including Greenpeace April 3 criticized the 8th session of the Western and Central Pacific Fisheries Commission for failing to improve tuna conservation measures. PNA chairman Transform Aqorau expressed disappointment that the commission, which met March 26-30 in Guam, reopened some previously off-limits high seas areas to commercial tuna fishing. New conservation measures will now have to wait until the commission’s next meeting in December. ▲

The Western and Central Pacific Fisheries Commission has come under fire for failing to implement new measures to protect tuna populations, including highly threatened bigeye tuna (pictured). <http://www.flickr.com/photos/sinn/288431760/>

Looking Ahead

New Zealand–U.S. Council 10th anniversary conference on May 4. The New Zealand United States Council will host its 10th anniversary conference on May 4 at the Sky City Convention Centre in Auckland. The theme of the conference will be “Growing beyond the Crisis: The Trans-Pacific Partnership—prospects and opportunities for business.” For more information, please visit the Council’s website at www.nzuscouncil.com.

Event on Asia-Pacific food security and trade in the Asia Pacific. The Inter-American Development Bank will hold a seminar May 17–18 examining food policy-related developments and initiatives in the broader Asia-Pacific region, including Oceania. The event, titled “Charting the Course: Food Security and Trade in the Asia-Pacific & LAC region,” will feature speakers including Tim Groser, New Zealand minister of trade and minister responsible for international climate change negotiations. More information is available [here](#).

CSIS and the Pacific Islands embassies to cohost Pacific Day. The CSIS Pacific Partners Initiative and the Ambassadors and Representatives of Pacific Island Countries and Territories in Washington, D.C. will cohost the annual “Pacific Day” May 23. The event will feature a seminar from 4:00 p.m. to 6:15 p.m. and a reception from 6:15 p.m. to 9:00 p.m. “Pacific Day” will be held at the Embassy of New Zealand. Admission to the event is by invitation only, but the seminar will be webcast live at www.csis.org/program/pacific-partners-initiative. For more information, email [Michael Appleton](#), Second Secretary (Political) at the Embassy of New Zealand.

“Down Under BBQ” at the Embassy of New Zealand. The Australia America Association and the Southern Cross Club will host a “Down Under BBQ” June 23. The event will be held from 5:30 p.m. to 8:30 p.m. at the Embassy of New Zealand, 37 Observatory Circle, NW. For more information and to RSVP, please click [here](#). RSVPs and payments are due by June 19.

Australian American Leadership Dialogue (AALD) July 15–18. The American Australian Education Leadership Foundations in Washington and Melbourne will host the annual Australian American Leadership Dialogue (AALD) July 15–18 in Washington. AALD is a private bipartisan diplomatic initiative that brings together leaders from both countries to explore ways to strengthen the bilateral relationship. For more information, please visit www.aald.org. ▲

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