The Impact of Globalization on the Pacific Islands

Professor Stewart George Firth

Briefing paper for the

2nd South-East Asia and the Pacific Subregional Tripartite Forum on Decent Work

5 - 8 April 2005, Melbourne, Australia

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IS GLOBALIZATION SUCCEEDING IN THE DEVELOPING WORLD AND IN THE SMALL ISLAND STATES?

Has the globalization of the last quarter century improved the economic prospects of developing countries? The proponents of globalising economic policies, from the international financial institutions to national governments, answer this question with a resounding yes. In its 2004 report monitoring progress towards the Millennium Development Goals, the World Bank stresses that, in order to reach those goals, developing countries will need to solidify 'progress on macroeconomic stability', reduce trade barriers, and favour the market rather than regulating business.[1] In similar vein, the Australian government claims that 'the experience of Australia and many of its successful East Asian neighbours shows globalising economies, those that are open to international trade and investment, deliver their populations higher growth in per capita incomes and better living standards than those that remain closed to the world. In the 1980s and 1990s, developing countries that increased their exposure to international trade grew about four times faster than those that did not.'[2]

The economic and social record of the developing world suggests we should be cautious in accepting such conclusions. A study of the economic performance of 116 countries in two periods, 1960-1980, and 1980-2000, concluded that countries with a per capita GDP between $1,826 and $3,364 at the start of each twenty-year period experienced growth of 3.6 per cent average annual growth in the first period and just under 1 per cent in the second, which were the decades that were characterized by a shift to globalising policies such as lower tariffs, public spending cuts, privatization and fewer government subsidies. For the poorest countries, those with per capita GDP between $375 and $1,121 at the beginning of each period, a meagre average annual growth rate of 1.9 per cent between 1960 and 1980 became negative growth between 1980 and 2000. The study, which compared health and education as well, argued that the decades of globalization after 1980 showed 'diminished progress' in all except those countries that were doing well in the first place.[3] We know as well that life expectancy fell instead of rising in 34 countries between 1990 and 2003, and that 54 countries are estimated to have grown poorer in those years.[4]

These figures, it is true, show association rather than cause. Globalizers say the record of poorly performing economies in the developing world might have been even worse without globalization. By this account, their mistake was to not to embrace the market enough. In East Asia — China above all — the transformation of people's economic prospects since 1980 has been of historic proportions, and even in Africa the economic trend has been broadly upward since 2000. The fall in life expectancy, moreover, might be a consequence of HIV/AIDS. Yet, at the very least, we would be wise to pause before acclaiming globalization as the solution to global poverty. Not only are the growth statistics less than conclusive; just as important is the extent to which governments that have overseen economic success in the developing world — those of Malaysia and China, for example — have done so by ignoring the standard globalization gospel on key issues such as control of capital inflows and exchange rate regimes.

How, then, have the small island states of the Caribbean, Pacific and Indian Oceans fared in the era of globalization? Overall, they have performed better than sub-Saharan Africa but not nearly as well as the successful economies of East Asia. Small island states face special problems arising from smallness itself, limited technical capacity, dependence on volatile export markets, paucity of natural resources, vulnerability

[1] World Bank, *Global Monitoring Report 2004: Policies and Actions for Achieving the MDGs and Related Outcomes*, Washington, 2004, p. 1
[2] Department of Foreign Affairs and Trade, Economic Analytical Unit, *Globalisation: Keeping the Gains*, Canberra, 2003, p. xi.
[3] Mark Weisbrot, Dean Baker, Egor Kraev and Judy Chen, *The Scorecard on Globalisation 1980-2000: Twenty Years of Diminished Progress. Center for Economic and Policy Research Briefing Paper*, Washington, DC, n.d.
[4] *UN Human Development Report 2003, Millennium Development Goals: A compact among nations to end human poverty*, p.2.

to natural disasters such as cyclones, and restricted opportunities for comparative advantage in the global economy. While globalization offers opportunities that did not previously exist — the communications revolution, for example, now enables Fiji to have call centres that serve customers in South-East Asia — it also threatens long-established trading arrangements that have sustained important agricultural exports such as bananas (Jamaica) and sugar (Caribbean countries, Mauritius, Fiji). 420,000 tonnes of the 710,000 tonnes of sugar exported from the Caribbean annually benefits from special price arrangements that will disappear over the next few years under the impact of free trade. Similar effects will be felt in Mauritius and Fiji.

Overall, per capita GDP in the Pacific Islands has increased by 0.5 per cent per annum since 1975, by contrast with a decline of 0.9 per cent in sub-Saharan Africa.[5] Life expectancy in the Pacific has increased faster than in the Caribbean since then and infant mortality rates have fallen in pace with those of the Caribbean: in both cases, the Pacific Island countries have not reached levels as positive as those of the Caribbean but have achieved far more than sub-Saharan Africa. These broad conclusions, however, hide a more complex picture over time and between countries. The economic history of the region since the 1970s, the decade of independence for many Pacific states, has been one of fits and starts: slow growth in the early 1980s followed by a decade of success, 1985-1995, and, since then, a decade without growth except in a few countries. The record is by no means uniform: Fiji, Samoa and Tonga are the success stories of the last decade, while Papua New Guinea (PNG) and Solomon Islands stand out as the failures, Solomon Islands in particular.

The life chances and economic opportunities of Pacific Islanders differ markedly from one part of the region to another.

One reason is political status. The inhabitants of territories of metropolitan states such as Guam, the Northern Marianas and American Samoa (for the USA) and New Caledonia, French Polynesia and Wallis & Futuna (for France) have easily the highest standards of living in the Pacific. Incorporated in one way or another into the advanced world, they are subsidised by foreign economies that have benefited from globalization. People who live in countries that are freely associated with metropolitan states (Palau, the Federated States of Micronesia and the Marshall Islands with the USA and the Cook Islands and Niue with New Zealand) also benefit from their connection with the rich world, above all by having the right to migrate to it, an opportunity that many have taken. On their own, and with much lower standards of living and much less freedom to benefit from globalization, are the large majority of Pacific Islanders who live in the nine independent Pacific Island countries (Fiji, Kiribati, Nauru, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu).

A second, related reason is differential access to labour markets outside the Pacific. Samoa and Tonga have been remittance economies since the early 1990s, and Fiji is increasingly becoming one, as their citizens migrate to New Zealand, Australia, Canada, the USA and increasingly spend time as foreign workers elsewhere in the Pacific and in the Gulf states of the Middle East. Such access is also available to people from Kiribati and Tuvalu, but is denied to all but a tiny proportion of people in the Melanesian west of the region that confronts the most serious economic problems.

A third set of reasons are historical, cultural, and demographic. Solomon Islands, Vanuatu, and PNG, which lie in the Melanesian culture area, rank considerably lower on the UN Human Development Index than Fiji and the Polynesian countries to the east. The outside world reached them later than their eastern neighbours — the PNG Highlands, for example, did not encounter modernity in any sustained way until after World War II — and they consist of hundreds of different language groups thrown together by the experience of colonial

[5] AusAID, *Papua New Guinea and the Pacific - A Development Perspective*, Canberra, 2003, p.3.

rule but with little else to foster a sense of common national destiny or identity. In Fiji, Samoa, Tonga, Tuvalu and Kiribati, by contrast, the modern nation-state is home to a majority population of Pacific Islanders speaking a single language, possessing a common sense of national identity and bound together by a culture of chieftainship and hierarchy that has adapted more readily to the demands of modern government than have the more egalitarian political cultures to the west. At the same time population growth is significantly greater in Solomon Islands, Vanuatu and PNG than in Fiji, Samoa and Tonga. Where half the population has not reached adulthood, as is the case in Solomon Islands, Vanuatu and PNG, the challenge of increasing GDP per capita is correspondingly greater.

THE ORIGINS OF THE REFORM AGENDA IN THE PACIFIC ISLANDS

The policy shift in the region from nation-building interventionism towards globalization, privatization and the market can be traced to the mid-1990s. At a time when the institutions of global governance were renewing efforts to reshape the global economy in order to achieve free trade, freedom of capital movement and the supremacy of market institutions, the end of the Cold War emboldened aid donors to demand more of aid recipients. The new approach of the region's largest aid donor, Australia, emerged in 1994, when Australia's Minister for Pacific Island affairs told Island governments that there was 'no realistic alternative to competition and the pursuit of comparative advantage, no matter how daunting these concepts may appear'[6] . The reference to 'daunting' was a tacit admission that Island governments faced special difficulties in implementing such an agenda. Since then Australia's aid has been targeted at achieving economic reform, smaller public sectors, privatization, free trade and good governance in Pacific countries. The European Union (EU) has been preaching a similar globalization message to the Pacific since 1996. Trade and aid arrangements between the EU and the African, Caribbean and Pacific (ACP) states had been governed since the 1970s by the Lome Convention, which provided both special access for ACP agricultural exports to the European market and special prices for key commodities such as sugar. Such arrangements now became WTO-incompatible, and the EU began warning Pacific countries that they would have to be phased out in favour of a new convention and a new basis for EU-ACP economic relations. The new convention, signed in 2000, is the Cotonou Agreement and the new basis of relations, to be implemented from 2008, will be free trade and an end to special price regimes.

Pacific Island governments and regional institutions quickly embraced the new economic orthodoxy. Heavily dependent on globalising aid donors, they could hardly do otherwise. From 1997 the governments of the Pacific Islands Forum, which brings together the independent countries of the region, began sending representatives to annual meetings of economic ministers — the so-called FEMM (Forum Economic Ministers' Meetings) — who committed themselves to deregulating economic life, minimizing subsidies, privatizing government enterprises, assisting foreign investment, improving public accountability, reducing tariffs and moving towards complete free trade. The economic policies favored by APEC, the Asian Development Bank, the World Bank, the WTO and the IMF became those now enunciated by Pacific Island countries whether they were directly connected to those institutions or not. Like much 'policy' that emanates from Island governments, this commitment to reform was frequently rhetorical, designed to reassure donors that the region should continue to receive aid, and did not always lead to immediate change. But a process of gradual reform was set in train and has continued ever since.

[6] 'Australia's Relations with the South Pacific — Challenge and Change', 15 June 1994, quoted in Greg Fry, 'Climbing Back Onto the Map? The South Pacific Forum and the New Development Orthodoxy', *Journal of Pacific History*, vol. 29, no.3, p. 66.

GLOBALIZATION AND TRADE ARRANGEMENTS

The global move from protection to free trade has now reached the Pacific Islands. Leaders of the Forum Island States (that is, the 14 Pacific Island countries in the Forum, excluding the two others, Australia and New Zealand) committed themselves in 1999 to negotiating a regional free trade area and eventually reached a Pacific Island Countries Trade Agreement (PICTA), which came into effect in 2003. The geographical scope of PICTA is the Island Pacific; it covers trade only in goods, not services; and it provides that the five developing Forum Island countries will remove all tariffs and restrictions by 2010, while the nine small island states and least developed countries will do so by 2012. With detailed provisions about rules of origin, most favoured nation treatment, trade distorting measures and even dumping, PICTA appears to be a significant regional extension of global free trade. Yet, like many poorer countries, the Forum Island states sell little to each other, and PICTA covers a tiny percentage of their trade, which is mostly with the rest of the world, especially with Australia and New Zealand. PICTA will not change much in the way Island economies work, except perhaps to concentrate breweries and tobacco manufacture in a few countries.

Why, then, have the Island countries bothered to negotiate free trade among themselves? The answer is that Island countries are seeking to reassure aid donors and the institutions of global governance that they are adapting to the new global trading order. The plan for a free trade area signaled the region's willingness to consider new measures for dealing with globalization and trade liberalization, through regional integration. In any case, PICTA is merely a stepping stone to comprehensive free trade initiatives that will have a far greater impact on the economic prospects of the Island countries and the working lives of their people.

The first of these initiatives concerns the region's two largest trading partners, Australia and New Zealand, and is called the Pacific Agreement on Closer Economic Relations (PACER). Whereas PICTA mandates free trade only among the Island countries of the Forum, PACER provides for the eventual extension of the regional free trade area to Australia and New Zealand as well and came into effect in 2002. Under PACER's provisions, Forum Island countries must enter into free trade and economic integration negotiations with Australia and New Zealand no later than eight years after PICTA entered into force, that is, by 2011, and in any case as soon as the Island states begin negotiating over free trade with any country or group of countries that have a higher per capita income than New Zealand. This last provision for a trigger is designed to ensure that Australia and New Zealand are not disadvantaged by the Islands' trade arrangements with the EU, since these are also changing and are headed firmly in the direction of free trade. As it happens, the Island countries began free trade talks with the EU in 2004, so the trigger for PACER has already been pulled.[7]

The aim of PACER is to 'establish a framework for the gradual trade and economic integration of the economies of the Forum members in a way that is fully supportive of sustainable development of the Forum Island Countries and to contribute to their gradual and progressive integration into the international economy' by developing a single regional market.[8] The phrase 'Forum members' is important, because it includes Australia and New Zealand, which under PACER will seek to integrate the Island economies with their own in a comprehensively liberalised trade and investment regime. While the process will be gradual, the end effect will be that PACER will overtake PICTA and incorporate Island countries into a free trade area dominated by Australia and New Zealand.

The second free trade initiative now being negotiated in the Pacific Islands is with the EU. The consequences of the Uruguay Round of the GATT and the formation of the WTO in the mid-1990s continue to reverberate

[7] Jane Kelsey, *A People's Guide to PACER: The Implications for the Pacific Islands of the Pacific Agreement on Closer Economic Relations (PACER)*, Pacific Network on Globalisation, Suva, 2004, p. 25.

throughout the developing world, not least in the countries of the African, Caribbean and Pacific (ACP) group — mostly former colonies of European powers — which since the 1970s had come under the provisions of successive versions of the Lome Convention. In the case of the Pacific Islands, the most important provisions of Lome and its protocols applied to the export of sugar and tuna to Europe, sugar in particular. Under the Sugar Protocol, the EU not only guaranteed market access for sugar from Fiji (the only significant sugar exporter among Forum Island states), but also paid a price that was well above the world market level as compensation to Fiji farmers for the subsidies being paid to European sugar beet producers. A whole industry, sustaining a way of life for thousands of mainly Indo-Fijian farmers on the islands of Viti Levu and Vanua Levu, came to depend upon the Lome arrangements. From 1995 onwards, however, Lome became WTO-incompatible and the EU required a special WTO waiver to allow it to continue on an interim basis. By 2000 the EU and the ACP group had negotiated a new convention, the Cotonou Agreement, as the basis of trade and aid relations, and this time it was WTO-compatible. Under Cotonou, all special arrangements will expire by 2008, by which time the EU and the ACP states will have negotiated new 'economic partnership agreements'.

In plain terms, the EU and the Pacific Island countries have now entered negotiations over an economic partnership agreement that will create free trade between Europe and the Islands from 2008. While the EU/ACP Sugar Protocol is being separately reviewed, the EU has announced that it intends to cut the import price for preferential raw sugar imports, such as those from Fiji, by 37 per cent over three years from 1 July 2005 and to reduce quotas as well. Whatever the final outcome for sugar, it is certain to be less favourable than existing arrangements and to lead to a drastic decline of the Fiji sugar industry, which is estimated to provide employment for more than 40,000 people in a country of only 820,000.[9] And while the mantra of the globalizers is that Fiji should restructure its economy accordingly, the prospects for successful restructuring are far from obvious.

Fiji is also experiencing the end of another WTO-incompatible trade regime originating in the 1970s, the Multi Fibre Arrangement, which expired at the beginning of 2005. The expiry of the MFA, under which Fiji exported garments to the USA, affected only a few companies but has nevertheless delivered a blow to an industry that earns more for Fiji than sugar and employs about 14,000 people, many of them women whose cash income is a major part of family earnings. Lower sugar prices and fewer garment exports, both the consequence of globalization, have required the Fiji government to revise its growth predictions for the economy sharply downwards, from the 3.8 per cent achieved in 2004 to 1.5 per cent in 2005 and 0.7 per cent in 2006.[10] The Fiji garment industry will now depend even more than before on the South Pacific Regional Trade, Economic and Cooperation Agreement (SPARTECA), recently renewed for another seven years. SPARTECA allows duty free entry into Australia and New Zealand of certain manufactured goods from the Forum Island Countries, including garments from Fiji, though the margin of advantage for the Pacific has declined in recent years as Australia and New Zealand reduce their tariffs on garments and other goods from the rest of the world.

Sugar farmers face an uncertain future, and many are certain to be forced to become squatters in the area of the Suva-Nausori corridor, where rapid urbanisation is already straining infrastructure, housing and services. For workers in the sugar mills of the Fiji Sugar Corporation, the main effect of globalization and a declining sugar industry has been the introduction of a 'quality of work' productivity pay system, initially resisted by

[8] Parliament of the Commonwealth of Australia, Treaties Committee, *Pacific Agreement on Closer Economic Relations (PACER), done at Nauru on 18 August 2001, National Interest Analysis*, Documents tabled on 12 March 2002, para. 8.
[9] Fiji Mission to the United Nations, *Statement by H.E. Mr Isikia Savua, Permanent Representative of Fiji to the United Nations, During the Food and Agriculture Organization's Panel and Policy Dialogue on Trade, Development and Food Security in Small Island Developing States*, 6 Oct. 2004.
[10] *Fiji Times*, 2 Feb. 2005; *Republic of the Fiji Islands Country Brief*, January 2005, at <www.dfat.gov.au>

trade unions but finally accepted in the Sugar Industrial Accord of 1998. At the same time the Fiji Sugar Corporation has contracted out certain mill jobs, such as maintenance. Garment industry workers in Fiji must accept low wages in the knowledge that their employers can shift operations offshore at any time, leaving them with no job at all.

For Pacific Islanders in general, an important effect of the coming of free trade will be higher indirect taxes. Tariffs are an important source of government revenue for all Pacific Island countries, and their loss will compel governments to seek revenue elsewhere, especially by increasing the rate at which they are levied. Some countries without a valued added tax, such as the Marshall Islands, are contemplating introducing one in order to compensate for the loss of income from tariffs.

The impact of globalization on Pacific Islanders is diluted, however, by the extent to which they remain partly outside the cash economy. As one knowledgeable observer has pointed out:

> *The communal ownership of land is still strongly adhered to, the subsistence economy continues to complement the cash economy and provides livelihoods for many, and communitarian values of caring and sharing still motivate most people. Moreover, many who are unemployed in the formal sector of the economy create livelihoods for themselves (self-employment) in the non-formal sector. Thus in the Pacific alternatives to an export-oriented, market-driven globalised cash economy continue to exist and sustain small participatory communities…The modern formal cash economy devalues the traditional economy because, being money-based and reliant on production for cash, buying and selling and earning wages, it cannot comprehend or measure production for consumption, reciprocity, sharing and communal work without wages.*[11]

GLOBALIZATION AND MIGRATION

The flow of labour across national borders in the age of globalization has become a flood in some parts of the world, though governments continue to regulate that flow in ways that do not apply to the movement of goods, services and capital. Similar forces apply in the Pacific Islands, though their effect differs widely from one country to another.

Broadly speaking, there are four kinds of migration in the Pacific Islands. The first is migration from outer islands and rural areas to urban centres, a process that has been occurring continuously in every Island country for many years. While urbanisation is not as obvious in the Islands as in developed countries – because of the low levels of population involved – many Island countries are in fact becoming urbanised, as the attraction of wage labour and modernisation draws people from the villages. In independent Melanesia, the flow of population, and the inability of governments to provide housing, has produced squatter settlements in all the capital cities – Port Moresby, Honiara, Port Vila, and Suva. In PNG urbanisation has contributed to a serious breakdown of law and order; in Solomons the disputes over the occupation of land around the capital of Honiara have triggered ethnic conflict, a coup and a serious crisis of governmental authority; landowners in Vila in the past have caused national political crises; and in Suva there has been a rise in the crime rate and deterioration in the provision of services, though the situation there is better than elsewhere in Melanesia.

[11] Parliament of the Commonwealth of Australia, *Senate Foreign Affairs, Defence and Trade References Committee A Pacific engaged: Australia's relations with Papua New Guinea and the island states of the south-west Pacific* August 2003, par. 3.74.

Second, there is the migration of skilled Pacific Islanders from one part of the region, say, Fiji, to another such as the Marshall Islands or the Cook Islands, where qualified nurses and teachers can earn more than in their home country.

Third, indigenous Pacific Island peoples migrate from the Island states to Australia, New Zealand, Canada and the USA. In the smaller states of Polynesia and Micronesia this out-migration is considerable, and the remittances that emigrants send home to their relatives in the islands constitute a vital source of export income. The entire phenomenon is known as the MIRAB economy (Migration, Remittances, Aid, Bureaucracy), and some observers of the Pacific have defended the MIRAB economy as a way in which Pacific Islanders, by globalising their family networks, can make the most of their opportunities. Others see MIRAB as a form of development that cannot last in the long term. Generally speaking, MIRAB out-migration is not seen as politically destabilising; in fact, quite the opposite, because it provides a safety-valve for rising populations in very small countries. For the last fifteen years the leading remittance economies in the region have been Samoa and Tonga, where roughly half the population lives abroad. Many Samoans and Tongans have migrated to New Zealand, which now has a sizeable Pacific Islander population, and their remittances have become a vital contribution to national income.

In the last four years Fiji has joined Tonga and Samoa as a remittance economy, as thousands of Fijians join the British Army or are recruited as private security guards. Since the beginning of the war on Iraq, Global Risk Strategies has sent hundreds of former soldiers and police to Iraq to serve as escorts and private security guards in what it calls 'humanitarian aid and reconstruction projects in the Aviation, Oil, Banking and Infrastructure sectors'. Many more are now being recruited by another company, Meridian Services Agency. According to the Fiji Reserve Bank, remittances from Fijians working abroad rose from $FJ232 million in 2002 to $FJ243 million in 2003 and $266 million in the first eleven months of 2004, outranking gold and fish in export value and becoming almost as important as sugar.[12] The hunger for cash incomes among Fijians is shown by the queues of prospective guards who gather at the recruiting headquarters of the security companies in Suva. In this case the driving force behind much of the exodus of Fijians has been the privatisation of security, a phenomenon of the globalising era.

The fourth kind of migration, unique to Fiji, is the permanent departure of people of Indian descent, most of whom are highly skilled and well educated. It can be called 'ethnic emigration'. For years after independence in 1970 a steady flow of skilled and educated Indo-Fijians left their home country in search of a better life overseas. The military coups 1987, executed in the name of keeping Fiji for the indigenous Fijians, led to a much greater outflow of people. Almost 66,000 people left Fiji between 1987 and 1994, 90 per cent of them Indo-Fijian. They were the civil servants, doctors, lawyers, accountants, teachers, business people, entrepreneurs, engineers and skilled tradespeople of all kinds whose knowledge and abilities underpin the success of modern, knowledge-based economies. Many went to Sydney, Auckland, Vancouver, San Francisco and Los Angeles to prosper in a multi-cultural and tolerant social environment where their industriousness would bring rewards. Since 1987 almost 100,000 people have emigrated from Fiji, and many Indo-Fijians now invest in their children's education for the specific purpose of leaving the country in due course.

Yet labour migration is by no means universal in the region. Few people migrate to the rich world from its most heavily populated sub-region, PNG, Solomon Islands or Vanuatu. The most important reason is that fewer people in these countries possess the education or skills to qualify for entry into the metropolitan countries of the Pacific Rim, or, for that matter, the military training that would fit them for employment in the privatised security industry.

12 *Fiji Times*, 24 Jan. 2005.

THE PUSH FOR REGIONAL INTEGRATION

The Pacific Islands region has for long been one of the most aid-dependent in the world, in part because of its perceived strategic importance to key aid donors such as Australia and New Zealand and in part because of its smallness. Except for PNG, every Pacific Islands country is a microstate with a population of fewer than one million, and the 'small island states' such as Tuvalu and Nauru have tiny populations of fewer than 20,000. Sovereignty attracts aid, and, in cases of this kind, there are not many people among whom to distribute it.

Australia has for many years been the largest aid donor to the region as a whole, though not to each Pacific country, and has underwritten the development of PNG with one of the largest bilateral aid flows in the world. Japan is the next biggest donor followed by New Zealand, and after that come the EU, the USA, France, the UK and Canada. Changes in Australian aid policy therefore matter, and since 2003 Australia has shifted towards a policy of closer engagement with the region following the collapse of law and order in Solomon Islands. Australian aid to PNG increased by a third in 2004-2005, and aid to the South Pacific more than doubled, with much of the money paying for the reconstruction of government in Solomon Islands. The descent of Solomon Islands into disorder in the late 1990s owed much to the predatory business practices of logging companies from South-East Asia and the wholesale corruption of the country's political leaders. The economy was undeveloped at independence, with most people depending on gardens, fishing and cash crops for survival, and the country soon became almost completely dependent on timber for export income. The timber companies that invested in Solomon Islands steadily undermined the integrity of government institutions by bribing government officials to permit unrestrained logging of the country's virgin tropical forests with minimal payment of tax. By the mid-1990s corrupt politicians were permitting so many tax remissions to timber companies that government income was falling as log exports were rising. The government was bankrupting the country.

Meantime, people were migrating from other islands to the capital of Honiara on Guadalcanal Island, drawn by the bright lights and chance for wage employment at the government centre. Many of them came from the nearby island of Malaita, and the Malaitans became competitors with local Guadalcanal people for land and government jobs. None of this might have mattered if the Solomon Islands economy had provided a degree of prosperity for the rapidly growing population of young people in a country that has one of the world's highest birthrates. But it did not. Urbanised young men, in particular, with no jobs and no prospects, were potential recruits for whatever political movement might arise. This tinderbox of grievances burst alight in 1998, when Guadalcanal militants began a campaign of murder and arson to force the Malaitans off their land and out of their island. A ragtag army of Guadalcanal militants armed with shot guns and .22 rifles emerged, called the Isatabu Freedom Movement, and in 1999, declaring a state of emergency, the government repatriated thousands of Malaitans to their home island in an effort to bring peace.

The situation worsened in 2000. The Malaitans formed their own militia called the Malaita Eagle Force (MEF), which raided the police armoury for high-powered weapons and finally overthrew the constitutionally elected government, replacing the prime minister with one of their own choosing. As the MEF, in cooperation with many of the police, tightened its grip on the capital and began to distribute government funds to supporters, fighting intensified and looting became widespread. Many Solomon Islanders fled Honiara, and Australia sent a naval vessel to evacuate Australian citizens. Major commercial enterprises such as the Gold Ridge mine stopped operating. After further disorder and loss of life, Australia organised a peace conference between the two warring parties in Townsville. The Townsville Peace Agreement of October 2000 provided for militant factions to surrender their weapons under the supervision of an International Peace Monitoring Team, and to give the militants a new role by appointing them as special constables on the government payroll. Many ex-militants, however, decided to retain their high-powered weapons. No one could stop them.

The police force, now consisting mainly of Malaitans, was part of the country's problem, periodically intimidating the government into giving them 'compensation' or special payments, and doing nothing to stop the gangs of thugs who stole, raped and murdered as they pleased. An Australian diplomat described the Solomons as it was in mid-2003: 'imagine a country where hospitals, schools and clinics have simply ceased to function for a lack of funds, imagine a country where public servants go weeks without pay — not surprisingly, some turn up to work, but many do not — imagine roads that are literally falling apart, public thoroughfares that are the preserve of drunks and thieves. Then, to complete the picture, add to the mix guns, ethnic tensions, rogue police, corrupt politicians and business people, and armed criminals.'[13] Solomon Islands was becoming a failed state.

At this point Australia reversed its long-standing policy of avoiding direct intervention in the affairs of Island countries, and sent 1,600 soldiers and police to lead a regional intervention force. The Australian government describes it as a 'fundamental policy shift by Australia' that 'has sharpened the focus of engagement through necessity following the deterioration of security in Solomon Islands and in the context of global security and the understanding that a porous and undeveloped region is not in the interests of Australia'.[14] Further explaining the shift, Alexander Downer, minister for foreign affairs, has framed the argument in a wider context that includes not only terrorism but also the potentially destabilising consequences of globalization:

the spread of economic globalization brings great potential benefits - but only if countries can develop strong and resilient institutions, and maintain prudent economic policies. These are preoccupations of developed and developing countries alike. But for developing countries, the risks are particularly high. Hard-won economic gains can be quickly lost by the failure of institutions of governance, and the spread of violence and corruption. The Pacific has already produced one stark example of this - Solomon Islands - and it is important that we produce no more.[15]

Globalization, at least in the form it has come to Solomon Islands, is thus seen as a security problem.

Australia is also increasing aid considerably to PNG after almost thirty years as the country's major aid donor, from $334 million in 2003-04 to $436 million in 2004-05. The situation for many Papua New Guineans, especially rural villagers, is worse now than when the country gained independence in 1975. Roads are poorer, malaria more widespread, the health system in decline, crime more serious, unemployment levels higher, and HIV/AIDS an emerging threat. Australian aid consultants, sent by AusAID to Port Moresby, fear for their safety. 'The most dramatic decline in PNG', the Australian government concluded in 2004, 'has been in the quality of governance. The PNG government currently supports a wide range of programs that are not affordable within current budget parameters. Budget appropriations are often inadequate and agencies rarely receive the funds that have been appropriated. The result is that service delivery is limited and biased toward urban areas. The fundamental weakness of governance undermines investment by government, the private sector and development cooperation partners, threatening both prosperity and stability'[16]. Under what is called the the Enhanced Cooperation Program, worth $1.1 billion over the five years from 2004, Australians are occupying key positions in the public service, and more than 250 police are serving alongside their PNG counterparts in the capital and elsewhere.

At the same time Australia and New Zealand have encouraged the Pacific Islands Forum to embark upon a long-term strategy of regional economic integration under what is called 'the Pacific Plan'. The Eminent

[13] 'Operation Helpem Fren: Rebuilding the Nation of Solomon Islands', Speech to National Security Conference, 23 Mar. 2004.
[14] AusAID, *Pacific Regional Aid Strategy, 2004-2009*, Canberra, 2004, p. 4.
[15] Alexander Downer, 'Australia's Growing Obligations in the Pacific', *Pacific Islands Report, Commentary,* 29 June 2004.
[16] *Australia's International Development Cooperation 2004-05*, Canberra, 2004, p. 13.

Persons Group who suggested the Pacific Plan found evidence 'that current levels of cooperation are not a strong enough force to address the challenges now facing the Pacific. Globalization and the uncertainties of the international security environment present major challenges. Most Pacific Island countries are small, have limited resources and are distant from major markets. Some exist close to the knife-edge of economic and social viability'. They proposed regional cooperation and pooling of resources in transport, quarantine services, digital communication, judicial administration, and regional law enforcement as first steps towards a more comprehensive vision of Pacific Islands' integration in a single market. The Eminent Persons Group asked Pacific leaders 'not only to endorse the concept of the Pacific Plan, but also to be bold and innovative in pursuing it. Greater sharing of resources is the first step. We hope that Leaders will be prepared to go further, to consider regional integration that runs deeper than that established already under regional trade arrangements. We suggest that it would be timely for Leaders to consider options for future economic and political integration - possibly to develop a model that is unique for the Pacific.'[17] The Pacific Plan, still in the process of being formulated, is likely to lead eventually to a common currency throughout the region (some small island states already use the Australian dollar), a single central bank and even some measure of political integration in some kind of Pacific Union. The aim is to make the region competitive in a globalising age, as well as to enhance regional security, now seen more than ever as vital to the national interests of Australia and New Zealand.

Whether Islands integration will be accompanied by easier access by Pacific Islanders to the labour markets of Australia and New Zealand — as the logic of globalization would suggest and as Islanders would universally welcome — remains to be seen. An Australian Senate committee recommended a trial guest worker scheme for Pacific Islanders in 2003, and the suggestion was revived in 2005 by politicians in the governing coalition in order to relieve labour shortages in Australian agriculture. Many knowledgeable Pacific Islanders regard such access as a justified quid pro quo for removing tariffs from goods and services entering the region from Australia and New Zealand. But the Howard government is unlikely to make such a change in the politically sensitive area of immigration policy.

CONCLUSION

This paper has argued that globalization has not transformed the economic prospects of small island states, in part because of their special situation in the global economy. The recent economic record of the Pacific Islands is poor except in Fiji, Samoa and Tonga. The origins of the globalising reform agenda in the Pacific Islands lie in the mid-1990s, when major aid donors such as Australia and the EU began to impose new conditionalities on their development assistance to the region in the belief that only major restructuring towards more open market and investment regimes would foster economic growth.

The emergence of the WTO in 1995 rendered the central trade arrangements for the Pacific Islands, in particular, the Lome Convention and its sugar protocol, incompatible with the new global trading order. By the end of the 1990s, regional states had agreed to move towards free trade, and in 2000 the Lome Convention was replaced by the Cotonou Convention as the principal basis of the trade and aid relationship between the EU and the Pacific. The most important effect of this change will be the end of special sugar price arrangements for Fiji from 2008, already prefigured in the 37 per cent price reduction to occur over the next three years. Just as the sugar industry has become part of the social scene in many countries of the Caribbean, so in Fiji it has been the centre of Indo-Fijian culture since the late nineteenth century. People in Fiji find its disappearance

[17] *The Eminent Persons' Group Review of the Pacific Islands Forum*, April 2004.

so difficult to conceive that they have acted far too late to reform the industry, and a sudden, drastic restructuring now confronts the country. The end of the Multi Fibre Arrangement at the end of 2004 is affecting the Fiji garment industry, and is expected to lower the country's growth rate this year and in 2006, a politically sensitive year in a polity only recently affected by a coup.

For the region as a whole, the future of free trade is encapsulated in two agreements already in force, PICTA and PACER. The first, which applies only to trade between the Island states, will have minor consequences but the second, which extends free trade with the Island states to Australia and New Zealand will impact far more importantly on people's lives, not least by compelling Island governments to increase the rate of regressive taxation in the form of the VAT.

Globalization is encouraging labour migration from some, though not all, Pacific Island states, a number of which now depend heavily on remittances for export income. This trend will intensify, as the exodus of nurses, soldiers and security guards from Fiji shows.

In Solomon Islands, globalization has taken the form of poorly regulated investment in the forestry industry. The scandal of tropical forestry in that country combined with corruption and a weak state to undermine law and order, resulting in a coup in 2000, loss of government authority and, in response, regional military and police intervention led by Australia in 2003. The intervention marks a shift in Australian policy towards the region in the context of globalization and fear that weak states will undermine regional security in an age of terrorism. There is now a concerted push for regional integration, economically and in security terms, underwritten by massive increases in Australian aid and commitment. The economic context is one in which Australian engagement is meant to foster the further integration of the Pacific Islands into the global economy.