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## AUSTRALIA'S CHANGING ROLE IN THE SOUTH PACIFIC: GLOBAL RESTRUCTURING AND THE ASSERTION OF METROPOLITAN STATE AUTHORITY

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There is now a considerable body of critical literature highlighting the radical restructuring associated with Australia's developing Asian attachment. Yet Australia's place in the South Pacific has attracted almost no media attention, let alone critical analysis. Indeed, in the efforts to promote Australia as part of Asia, Australia's historical standing as the dominant metropolitan state power in the South Pacific has all but been ignored. This is something of a paradox because Australia's role in the region has changed fundamentally. The Australian state is playing a pivotal part in seeking to effect the radical restructuring of the Pacific Island economies and institutional transformations in Island states.

The changing role of the Australian state has been most dramatically played out in the pressures that have been brought to bear on Papua New Guinea. While it has been the World Bank that has orchestrated the assault on the "nation's independence and sovereignty", Australia effectively engineered the World Bank intervention. The immediate cause of this was Australia's refusal to provide an advance on its budgetary assistance to Papua New Guinea in early 1995. Papua New Guinea had approached Australia for assistance in the face of a liquidity crisis that threatened to send the kina into free-fall depreciation. When

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this was not forthcoming, largely at the direction of Australia, resort was made to the World Bank and the International Monetary Fund. A multilateral assistance package was stitched together on the condition that Papua New Guinea embark on a radical restructuring program. Among the conditions were the usual grab-bag of demands for liberalising the economy that have become such a common feature of World Bank assistance: "a freeing up of the market" based on cutbacks in government spending, trade liberalisation, tighter monetary targeting, removal of price controls, removal of restrictions on foreign investment, a sell-off of government assets and, by implication, a programme of wage deflation.

Papua New Guinea was not in the position to offer any serious resistance to the conditional assistance package presented by the World Bank and agreed to commence the task of implementing the package of changes demanded. However, in the lead up to a decision on the second tranche of the package, improvements in the economic outlook and a strengthening kina prompted the Papua New Guinea government to question the wisdom of following the letter of the law of its agreement with the World Bank. This set in train a game of brinkmanship, with the government resisting some aspects of the demands for changes to the political and economic administration of the nation. In a bitter and ultimately futile war of words, Papua New Guinea's Prime Minister and Finance Minister found themselves having to retreat from a position of upholding "Parliament's integrity and the nation's sovereignty" and telling the World Bank to "go to hell", to seeking a wording in the "letters of development policy...that provide the bank with no scope for believing that we have ceded political sovereignty to them", then finally "making desperate placatory moves...to convince the bank that PNG has met all conditions for the loan" (*Papua New Guinea Post-Courier* 4-6 October 1996, 9 October 1996; *The Australian Financial Review* 7 October 1996). The Prime Minister conceded that: "In an in[ter]dependent world where economic reputation and international standing are valuable commodities, it is now time to accept" the authority of the World Bank to dictate the form and composition of Papua New

Guinea's economic program (*Papua New Guinea Post-Courier* 9 October 1996).<sup>1</sup>

The demands being made of Papua New Guinea and other Island states for the restructuring of national institutions and economic policies represent a dramatic shift in the exercise of economic and political power in the South Pacific. The World Bank had spearheaded the demands for restructuring, but it was Australian initiatives that engineered the World Bank's actual intervention. Some South Pacific analysts have touched on issues leading up to this intervention, examining the changing focus of Australia's South Pacific policy and especially its new development agenda. Yet the recent developments have attracted little coverage in the Australian media let alone any serious critical consideration (Fry 1995; Denoon 1995). Beyond some cryptic references there has been no reporting of Australia's support for the World Bank-sponsored adjustment package (*The Australian* 7 October 1996; *The Australian Financial Review* 7 October 1996). There is clearly a need to analyse the role of regional metropolitan powers and international aid agencies in this attack on "national sovereignty". It is an attack which, given the institutional and economic policy changes being demanded, effectively seeks to redefine the place of, and terms on which, the Island states will be articulated into the global political economy.

In this paper, I examine the reform proposals being demanded of Papua New Guinea, as well as other Pacific Island states, as part of the Australian state's larger preoccupation with promoting economic development and global economic restructuring. Some commentators have associated Australia's changing attitude towards the South Pacific with the ending of the Cold War and the dissipation of strategic considerations. Greg Fry has challenged this explanation as overly simplistic because it ignores other pressures defining Australia's concerns

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1 Papua New Guinea remained locked into the World Bank-sponsored restructuring path because access to other sources of finance with less stringent conditions attached had been foreclosed by financial markets signalling that if Papua New Guinea failed to meet World Bank conditions the government's credit rating would "torpedo to zero" (*Papua New Guinea Post-Courier* 4-6 October 1996). On Australian support for the World Bank structural adjustment program, see Callick 1996.

with securing order in the region and the way in which policy has become increasingly driven by "economic rationalism" (Fry 1993; 1995).

However, in acknowledging the shifting terrain of the dominant preoccupations shaping Australia's definition of its place in the South West Pacific, from a position not at all clearly defined to one driven by strategic considerations and then increasingly by economic considerations, I shift the focus away from the state driven by economic rationalism to one increasingly defined in terms of an accumulation agenda. In so doing, I highlight the paradox of the changing character of Australian influence in the South Pacific. The paradox is bound up in the continuing importance of Australia as a state that has exhibited a determination to contain its commitment to the Island states whilst simultaneously asserting unparalleled authority in orchestrating economic and political reforms among the Island states. It is a paradox that has been premised on the Australian state asserting the force of the Island states' political sovereignty whilst simultaneously imposing a particular form of economic, administrative and social restructuring of the Island nations in the quest for promoting economic self-reliance.

### Australia's Historical Role in the South Pacific

Australia emerged as the dominant metropolitan power in the South West Pacific in the post-World War Two settlement. The foundations for this dominance lay in the Island states' formal incorporation into the orbit of European capitalism in the latter part of the nineteenth century, as France, Germany, Britain and the Australasian colonies sought to secure their future through the acquisition of territories and, subsequently, in the defeat of Germany in World War One. Through the exercise of colonial rule, the work of Australian missionaries, and Australian capital's dominance of agricultural enterprise, mining and commerce, Australia became the dominant force through much of the South Pacific (although not in the French Pacific territories), shaping the incorporation of the Island economies into the global political economy.

The striking of the 1952 ANZUS Treaty formalised the dominance of Australia and New Zealand. ANZUS secured the political authority of

the US in the region, with the South Pacific transformed into one realm in a larger region of strategic concern organised under the American umbrella, *pax Americana*. The Treaty did not entail the US committing itself to a direct and active interest in the South Pacific, but rather, effectively sanctioned Australia, and New Zealand, as the powers responsible for maintaining political and strategic order in the region - for policing the *American lake* and thereby defining the role of the Australia state in the region.

This political order remained unchanged until the late 1960s when New Zealand, Australia and Britain commenced granting independence to their various Island colonies. In many respects, political independence brought few changes to the institutional order that had secured the South West Pacific as the domain of the Western strategic alliance and certainly no substantive changes to the hierarchy of relations in the South West Pacific. Australia and New Zealand assumed primary responsibility for shaping and influencing the form of the post-colonial Island formations. The Australian state assumed a prominent role in assisting and in charting a course for political and economic development in the South Pacific through its direct support for its own ex-colonies, such as Papua New Guinea, as well as other ex-colonies and through its dominant role in the regional authority formed by the metropolitan states, the South Pacific Commission. This dominance continued to be felt after the granting of independence to the Islands, through the regional association, the South Pacific Forum, which was established in 1971 as a forum for all of the independent Island states of the South Pacific.

Moreover, the South Pacific's incorporation into the global political economy continued to be almost entirely mediated by metropolitan capital. It was Australian capital - mercantile, industrial and financial - which dominated throughout the South Pacific. Agreements between independent governments and metropolitan powers guaranteed the rights of metropolitan capital and, more generally, the sanctity of capitalist development.

There was comparatively little opposition to this; it had not been the struggles of indigenous independence movements that had lifted the colonial shackles. There was all but no institutional basis, let alone popular movements, for the newly independent Island states to challenge

the political, economic and strategic order advanced by these metropolitan powers. Moreover, much of the political structure and so many of the personnel who made up the independent states, including the incumbent political leaders, were products of the colonial systems, and the colonial powers had constructed state structures in the islands whose principal function was to promote the integrity of Island polities.<sup>2</sup>

Nor was there much economic scope for expressions of greater independence. Whether organised around the interests of metropolitan capital or the endeavour to promote indigenous commodity production, the development of industry and of industries that generated export income was not extensive enough to establish the economies as prosperous components in the global economic system. With Island states pressed to carry the burden of funding large state bureaucracies, and with comparatively insignificant domestic surpluses on which they could draw to finance governmental process, the Island states remained reliant upon the economic assistance of metropolitan states to sustain their domestic economies.

The scope for greater economic self-reliance was also undermined by the few ways in which economic independence could be expressed. The most noteworthy means entailed national governments buying out the interests of some major metropolitan capitalist enterprises. Governments in Fiji, Papua New Guinea and the Solomon Islands, responding to resurgent nationalist sentiments and other struggles, were spirited into nationalising some dominant sectors that had been controlled by metropolitan capital. The nationalisation of the property of some companies and the buying out of plantation companies, and especially the interests of CSR, Burns Philp and W.R. Carpenter over the 1970s, was symbolically very important because these enterprises had been the spearheads of an earlier era of Australian imperialism.

However, nationalisation provided little substance to reshaping the material basis of the newly independent economies. Although it diminished the significance of metropolitan capital in pivotal spheres of

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2 Australia, for instance, provided considerable assistance in the form of finance, personnel and direction in the development of state apparatuses, not only to its former colony of Papua New Guinea but also in other independent states.

the Islands' economies, it did not remove them from the global network of commodity production and exchanges that had been established by metropolitan capital. The assertion of economic nationalism could not have come at a worse time for it coincided with the worldwide collapse of primary commodity prices.<sup>3</sup> Problems also tended to be exacerbated by the backward state of the agricultural investments and enterprises taken over. With the legacy of a narrow economic base and specialisation in a limited range of commodities, and with few resources to invest in enhancing productivity, efforts to improve the viability of the island economies were always going to be problematic. If anything, the nationalisation programs only served to reinforce a greater dependency on the metropolitan powers.

The political and economic structures of the larger of the Island states tended to lock them into an existing global political and economic order. Independence presented similar problems for many of the other smaller Islands. While they could establish state-controlled and managed cooperatives to oversee the collection and disposal of tropical commodities, they generally did not possess the resources that would have enabled them to achieve some degree of self-sufficiency or economic viability in their international economic relations; deteriorating commodity prices merely added to their problems. Consequently, national aspirations when asserted tended not to present any serious challenge to the dependent character of the Island states, especially the dependence on economic support.

For Australia, the parlous state of the Island economies meant that, while it was largely strategic concerns that defined its continuing role as the dominant force in the South West Pacific, economic considerations were never far from the agenda. The sustained depression of agricultural commodity prices through the 1970s and 1980s served to reinforce this. There were some considered and concerted efforts during this period to provide assistance for building more diversified economies, especially

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3 In contrast, metropolitan capital, with profits driven down by low commodity prices, took advantage of the nationalist sentiments to dispose of their non-paying plantations and other investments and restructure their business activities out of the South Pacific.

the assistance to encourage the development of export-earning activities that broke with the traditional emphasis upon primary commodities and to underwrite a greater commitment by private enterprise.<sup>4</sup> However, such measures were largely piecemeal, and the provision of economic aid by metropolitan powers remained the more crucial element in Australia's endeavours to improve the material well-being of all of the Island states.

The conservative Fraser government did seek to explore the rationale for Australia's continuing commitment to and role in the South West Pacific, although it must be acknowledged that this was but one part of a larger inquiry commissioned into Australia's relations with the third world. The Harries Report of 1979 provided a broad brush appreciation of the different factors explaining Australia's Pacific commitment. Beyond the very general objective of acting as a responsible member of the international community and as a former colonial power wanting to assist in the development of the Island nation states, the Report noted some ancillary benefits, such as the political capital to be gained from supporting the development of Third World nations as well as the economic gains from investments and trading. However, the Report contended that the principal factor defining Australia's Pacific interests was strategic. It was based on Australia continuing to commit resources to secure the regional strategic order organised around *pax Americana*, and it was this that shaped Australian development programs as one of the principal means of securing the Islands' endorsement of this order (Harries 1979: 104-8, 116-17).<sup>5</sup>

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4 The chief institutional instrument for this was the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), struck in 1970 and modified substantially in 1980, a non-reciprocal trade agreement that provided for duty free and unrestricted or conditional entry of island produce into Australia and New Zealand. A similar agreement subsequently formed the basis of the Papua New Guinea-Australia Trade and Commercial Relations Agreement (PACTRA). This contrasted with the earlier Papua New Guinea-Australia Trade Agreement of 1976 which basically ensured Australian exporters preferential access to the PNG economy. (Amarshi, et.al., 1979: 76.)

5 As loosely defined as Australian and New Zealand obligations under the ANZUS Treaty were, the formal responsibility for securing the southern reaches of the American Lake were constantly being reconfirmed and refashioned, as was evident in the 1977 ANZUS Maritime Surveillance Agreement which required extensive arrangements for maritime reconnaissance and surveillance and,

## Redressing the Lacuna in Australia's Pacific Presence

The Harries Report made it abundantly clear that Australia had yet to formulate a coherent policy on the shape of its place in the South West Pacific and the nature of its relations with the independent Island states in the post-colonial era. Beyond the presumption that Australian and New Zealand support for Island development would secure endorsement of *pax Americana*, the Pacific policies formulated by the metropolitan states were not well crafted. At best, they were clumsy, with some tentative support of the idea of self-determination and endorsement of the South Pacific Forum's nuclear-free Pacific sentiments (Fry 1993: 230). At worst, they were little more than pragmatic and piecemeal, and overridden by a languishing of commitment, partly attributable to the diminished priority of the region. For example, Bill Hayden, the Minister for Foreign Affairs appointed to office in 1983, did not visit the region until 1986. This disinterest was underscored by a decrease in the real value of Pacific Island aid, and contributed to what one analyst referred to as treating diplomatic relations with the Island states with "benign neglect" (Solarz 1989).

Neglect was matched by a measure of contempt for the political authority of the Island states. The US, in particular, took umbrage with the Island states' moves to formulate regionally-based policies, such as the declarations of sovereignty over fisheries and of a nuclear-free South Pacific zone in 1985.<sup>6</sup> Such actions further weakened the standing of Australia among its Pacific neighbours because Australia had endeavoured to broker a nuclear-free treaty which would not conflict with US naval operations. Continuing US support for France's nuclear program and its foundations in colonial rule reinforced the disenchantment with the *pax Americana* (Firth 1987; Fry 1993: 230-2). Indeed, the whole edifice of *pax Americana* appeared to be in disarray.

therefore, for Australia and New Zealand to maintain defence forces capable of meeting this responsibility (Hoadly 1988: 15; Alley 1988: 45; Durrell-Young: 363-6).

<sup>6</sup> The US's negative reaction to the short-lived Fiji Labour Government, which had endorsed the nuclear-free sentiments of the South Pacific Forum, reinforced the deterioration in inter-state relations.

The ANZUS agreement was placed in question following the determination of the New Zealand Labour Government, elected in July 1984, to refuse the right of entry to ports of naval vessels that were nuclear-powered or capable of deploying nuclear weapons. The growing commercial and investment interests of Japan in the South Pacific added another uncertain element to this unsettled order.<sup>7</sup> "ANZUS in crisis" seemed to capture the mood of the period (Bercovitch 1988; Ravenhill 1989).

The neglect was clearly a product of the metropolitan states' difficulty in accommodating the political maturation of the Island states. Expressions of an independent political will did not sit comfortably with either the colonial mentality that still tended to shape attitudes towards, and ways of dealing with, the Pacific Island nations or with the regional order that Australia was endeavouring to fashion (Fry 1993).

The neglect was also understandable in terms of the serious economic problems that Australia and the other older metropolitan states were experiencing. Some measure of this could be gleaned from the inquiry into Australia's overseas aid program, the *Jackson Report* (1984). While identifying the different rationale for Australia's aid program - humanitarian, strategic, economic and diplomatic - the report stressed the economic advantages that the donor nation should be looking to reap (Jackson Report 1984: 3). The report recommended that the largest single component of Australia's aid program, budget support for Papua New Guinea, be steadily reduced, that PNG be encouraged to become more self-reliant and that assistance increasingly be substituted by project aid that could be tied and shaped to yield more direct economic benefits for Australia. The sentiments of the report were widely supported within the parliament and among the business community. It signalled a radical

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7 On the one hand, Australia believed that the Island states were ill-equipped to protect their interests against the Japanese. This was partly based on the experience of the extensive logging contracts won by Japanese companies in Papua New Guinea and the monopolisation of fishing rights, and partly on the realisation that Japanese official aid was generally tied to developing commercial opportunities for Japanese businesses. No doubt, there was a harbouring of concern that Australian interests would be displaced and a continuing reluctance to recognise Japan as a regional power (Amarshi, et.al., 1979: 73, 76-7, Ch.7; Wolfers 1990: 74-5).

departure in the orientation of Australia's South Pacific interests (Joint Committee on Foreign Affairs and Defence 1985).

The precarious institutional basis of the *American lake* became more manifest with the emergence from the early 1980s of a new generation of leaders within the Island polities who began to express a more independent will. They sought to open up new sources of assistance and formed political alliances that did not fit neatly into the Western alliance defined order. Australian protests against Vanuatu's decision to entertain relations with Libya affronted the Island state, which responded by suspending the defence cooperation scheme initiated by Australia. The first really worrying signs of what this could mean for the Western alliance came when the Soviet Union moved to establish diplomatic and commercial relations with some of the Island states in the mid-1980s. This raised the distinct possibility of a super-power rivalry injecting a different political complexion into the region and destabilising the rather tatty order that had been stitched together.

With the institutional order of *pax Americana* seemingly in jeopardy, the mid-1980s marked a turning point in the Australian state's vision of its place in the South West Pacific. The defence establishment and security analysts talked up the Soviet threat. This acted as a catalyst for reinvigorating Australia's commitment to the region with strategic considerations dominating the interventions of the Defence Department and subsequently of the Department of Foreign Affairs.

The immediate reaction of Australia to this ostensible political crisis was to revitalise its aid program. Pacific Island aid was increased and preferential trade agreements struck to provide an impetus for developing local export-oriented manufacturing enterprises under SPARTECA. The US managed to set aside its earlier objections to acknowledging the rights of Island states to negotiate fishing rights, signing an agreement with the Pacific Forum Fisheries Agency in October 1986 to permit American tuna fishers right of access. Japan was also pressured by the United States to elevate its profile in the region.

The more measured response emerged within the Defence Department based on a proposal to provide the Island states with the means for policing access to Island fisheries, thereby enhancing opportunities for

reaping economic advantages from developing marine resources. A proposal for setting up a patrol boat surveillance network was first placed on the agenda in the early 1980s. The primary objective was promoted as development assistance, although the proposal was held up as providing a measure of support for Australian manufacturing industry. The proposal remained on the drawing board, opposed by the Fraser government as well as by Foreign Affairs, but was taken up in 1983 without too much enthusiasm as an element in the Labor government's industry assistance package. It seems to have been driven by Kim Beazley, the Minister for Defence. It was motivated by his interest in involving Defence personnel in extra-territorial duties and by a desire to boost the local economy in which the vessels would be constructed (providing some direct electoral advantages for the Minister) and was promoted with little consultation within the government. There was comparatively little consultation with Pacific Island governments over the design or operation of the patrol boats and inadequate assistance provided to the Island states to fund their deployment (*The Age* 20 May 1986; David Jenkins, *Sydney Morning Herald* 24 June 1989).

This scenario changed almost immediately with the Soviet scare. The Labor government dropped its earlier reticence to adequately fund the provision, capabilities and deployment of patrol boats. The scheme was extended, with Australia subsequently providing patrol boats to the Federated States of Micronesia, and developed into a broadly-based surveillance system complemented by the addition of an RAAF plane to support operations which was to fly under the Forum Fisheries Agency flag.<sup>8</sup>

The rapid development of the patrol boat surveillance scheme formed the fulcrum around which the Defence Department was able to seize the

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8 The South Pacific Forum Fisheries Agency was established in 1979, the product of increasing regional cooperation. The Agency initially acted as a vehicle for collecting data on fisheries. It began to provide some technical and then legal assistance to individual Island states negotiating fishing licences from 1983, and commenced forming regional-based agreements in the mid-1980s. The promise of RAAF air support was significant because for the first time the Forum Fisheries Agency would have the capacity to exercise regionally-wide monitoring of maritime resources.

initiative in shaping and reinvigorating Australia's role in the South Pacific. It also set the direction and form of this role and did so with very little consultation with other departments (David Jenkins, *Sydney Morning Herald* 24 June 1989). Although the patrol boat scheme was represented as a means of underwriting the enhancement of the Island states' capacity to become more economically self-reliant, Australia's security concerns were the paramount driving force.<sup>9</sup> This became more obvious with the reviews of Australian defence and security concerns, in *The Review of Australia's Defence Capabilities* (1986) and *The Defence White Paper* (1987). The regional security challenges confronting Australia were to be viewed not so much in terms of tensions arising from any super-power rivalry but rather from "low-level contingencies". Dealing with such contingencies required the construction of a defence capability based on effective intelligence surveillance systems, air and naval forces that could secure Australian territorial waters and air and sea routes, and mobile ground forces able to respond quickly to incursions. The reports affirmed Australia's standing as the architect and principal instrument for implementing the ANZUS charter in the South West Pacific, and Australia's responsibility for assisting in the management of the maritime resources and national sovereignty of the Island nations.

The defence establishment defined Australia's role in the South West Pacific as being organised around the projection of a reinvigorated strategic presence based on a greater degree of defence self-reliance. It was linked to the need to build up the capacity of local industry so that it was capable of meeting some of the hardware requirements of the defence forces. The development of economically-viable defence support industries was one of the principle focuses of the Dibb Report on *Australia's Defence Capabilities*.<sup>10</sup> This vision of self-reliance had

9 Thus, while the RAAF Orion P3 was to fly under the flag of the Forum Fisheries Agency, the colours of the Orion P3 were never changed and it remained under the direct control of the Defence Department. Further, while its deployment was principally concerned with monitoring the movements of foreign fishing vessels in the South Pacific, surveillance operations were not restricted to this function.

10 The New Zealand Labour Government had also undertaken a review of defence policy. *The Defence White Paper* similarly stressed an emphasis on self-reliance and the refocusing of its security concerns almost wholly on the South Pacific. It also signalled New Zealand's continuing commitment to the Western alliance

shaped the evolution of the patrol boat scheme and, in the context of the Labor Government demonstrating an ever greater commitment to the internationalisation of the Australian economy and the development of a more export-oriented manufacturing sector, it was evident that defence policy was being refashioned to complement and underwrite this objective.

While the place of strategic considerations was given a new momentum, there was a subtle but significant shift in the emphasis of policy. It was a shift that stressed the necessity to draw economic advantage from the enhanced strategic profile. Some analysts pointed to the inauguration of a "new Australian militarism", but it was clear that this was being more systematically framed within an agenda more acutely defined in terms of underwriting Accumulation (Cheeseman & Kettle 1990). New militarism became linked with a push to develop export markets in military hardware. Fiscal austerity undermined the force of the new militarism, and the fact that defence expenditure did not grow in line with the Dibb Report's recommendations meant that the magnitude of the stimulus to the local defence manufacturing industry was much smaller than had been envisaged.<sup>11</sup> Achieving self-reliance and building economically viable and internationally competitive defence manufacturing industries required a more concerted focus on developing overseas markets (Cheeseman 1990; Kettle 1989).<sup>12</sup>

and the desirability of much closer coordination of defence capabilities with Australia (Ministry of Defence, 1987).

11 Some critics of the Labor government argued that the failure to fully fund the recommendations of the Dibb Report undermined the capability of Australian defence forces to meet the various "low-level contingencies" identified in the Dibb Report. See comments by Chief of Naval Staff, Vice-Admiral Mike Hudson, *Sydney Morning Herald* 3 December 1986; Rear-Admiral Andrew Robertson, *The Australian* 7-8 March 1987; *Australian Financial Review* 13 December 1988, 4 May 1989, 5 April 1990, 2 May 1990; Babbage 1990: 201ff.

12 This became a key element in defence cooperation with New Zealand. New Zealand armed forces were reequipped with Australian-made military rifles. Agreement on the sale of Australian-made frigates to New Zealand proved most politically contentious, and the ostensible gains that Australia was to reap were set back when the New Zealand government, in an effort to placate the considerable public opposition to the purchase of frigates, cut back on its order and secured agreement to permit New Zealand manufacturers to source some of the vital

### Towards a New Strategic Order: 'Constructive Commitment'

The defence establishment had injected a new purpose into how the interests of the Australian state in the South Pacific could be advanced. This momentum was maintained and the direction challenged with a reinvigorated and restructured Department of Foreign Affairs that sought to assume the initiative in defining Australia's place in the South Pacific. The Department began to formulate the most considered reassessment of Australia's place in the South West Pacific in the post-colonial era. The culmination of this process, formalised in the Ministerial Statement on *Australia's Regional Security*, defined Australia's place more self-consciously as a Pacific nation and, as the preeminent metropolitan state in the region, a Pacific nation required to show leadership in facilitating the development of, and working with, the sovereign states of the Pacific Islands.<sup>13</sup>

This reassessment of Australia as a Pacific nation, in which strategic concerns were subsumed within diplomatic concerns, was premised on policy framed largely by the defence establishment within the context of a particular geo-political order. The shift can be read as a classic example of inter-department rivalry setting agendas and how the lack of substance in the rhetoric of super-power rivalry undermined the force of the defence establishment's authority in influencing Australia's Pacific policy.<sup>14</sup> Yet

hardware components (*Sydney Morning Herald* 16 February 1989, 3 March 1989, 17 July 1989).

13 Gareth Evans announced the charting of this diplomatic initiative to an address at the Foreign Correspondents' Association in September 1988. For one report celebrating this new commitment see *The Australian* 24-25 September 1988. *The Ministerial Statement* of December 1989 is reproduced in Fry (1991).

14 Despite the pivotal role of the Department of Foreign Affairs in establishing its imprimatur over the direction of Australia's Pacific policy and the government's endorsement of this, the Defence Department remained reluctant to involve DFAT in the formulation of policy issues touching on some quite sensitive issues. The most striking illustration of this concerned the Defence Department's provision of 4 Iriquois helicopters to Papua New Guinea. Under the terms of the defence cooperation program their deployment was a matter for the Papua New Guinea government to determine. When it became evident that the helicopters would be deployed in operations against Bougainville secessionist forces, DFAT intervened

this policy reformulation was not simply a matter of the changing balance of forces linked to the ending of the Cold War order (Fry 1993). Australia's continuing place in the region was bound up with its role in contributing to securing the integrity and political stability of the Island states.

However, while strategic concerns may have set this reassessment in motion and while the revitalised Department of Foreign Affairs reinforced the momentum in the development of Australia's Pacific policy, it was also evident that economic considerations were becoming more paramount, defining the agenda. The discernible shifts in the concerns occupying Australia's South Pacific *oeuvre* and in the focus of policies designed to secure Australia's regional interests were increasingly defined in terms that would ensure they more closely meshed with strategies to invigorate capital accumulation. More particularly, under the new Minister, Gareth Evans, diplomatic endeavour was redefined to accord more closely with the advancement of Australia's global economic interests and ambitions.

*Australia's Regional Security* outlined in reasonable detail the basis of how the Department of Foreign Affairs and Trade saw Australia's diplomatic and strategic relations developing with the South Pacific. The enhanced commitment was encapsulated in the notion of a strategy of *constructive commitment*. This articulated an emphasis upon economic development and the maintenance of partnerships with Pacific Island countries as the necessary foundation for securing regional security interests. The Minister stressed that Australia was the most appropriate metropolitan power to assume the mantle for promoting and representing the Islands' interests. Australia was the largest economic power; Australia was the largest donor of bilateral aid to the region; and, Australian private enterprises had large investments in the Pacific. This economic supremacy represented the foundation upon which a new regional order could be constructed.

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to limit the activities the craft could engage in. Agreement was reached that they could be deployed for patrol and surveillance purposes and for evaluation functions but not as gunships. There was considerable diplomatic discord when this condition was ignored (*The Age* 29 June 1989; *The Australian* 8-9 July 1989).

A distinctive feature of the articulation of this new interest in the South Pacific was the declaration that Australia should be regarded "as an integral part of the region" and that Australia would play a pivotal role in promoting regional order through leadership (*The Backgrounder*, 23 September 1988).<sup>15</sup> The basis of this initiative would be political and diplomatic leadership, with a reduced emphasis upon the defence element, as this was held to prepare a better foundation for enhancing economic and social development. To give material force to the rhetoric, Evans announced substantial increases in aid packages and guaranteed that the real value of Australia's commitment would be maintained into the future (*Hansard* 8 September 1988; AIDAB 1989: 34ff).

The Minister also sought to emphasise the partnership pretensions of Australia as a regional power: a power that had "the physical capability to project decisive force anywhere in the South West Pacific" while stressing the "need to establish in our own minds and in those of our neighbours that we can be counted on for help without becoming politically intrusive, [that] we are not the region's policeman" (1988).<sup>16</sup> This was signalling ways in which defence and diplomatic interests had to be developed in conjunction with one another, and that there had to be a meeting of ways between the two principal departments engaged in the representation of Australian interests in the South West Pacific.<sup>17</sup>

The idea of building partnerships with the Island states was the first noteworthy articulation of Australia's desire to formalise a post-colonial order. Establishing bilateral relations was regarded as an integral element in the process, as was respecting the right of the Island states to formulate their own policies with respect to internal affairs and their "right to establish diplomatic and commercial relations with countries from

15 Evans also indicated that Australia's leadership would help establish Australia's standing internationally.

16 *Australia's Regional Security* was also significant in so far as it sought to define "the circumstances in which Australia would intervene militarily in the Islands." The government's failure to provide adequate resources to fully fund the implementation of the Dibb Report meant that this was little more than a rhetorical gesture.

17 This, in effect, embraced a position that had been advanced in the Dibb Report, that it made little sense for Defence to go it alone and that policy should seek to encapsulate the various spheres of the state.

outside the region". The idea of partnership was also formed in the context of promoting regional cooperation and a sense of regional purpose and integrity. In the words of the Minister, these two objectives should be organised around promoting and sharing "perceptions of the region's strategic and security interests" and developing a "regional approach to situations, internal and external". Australia was to be regarded as the cog in this new order.<sup>18</sup>

Australian pretensions as a super-power in the region were not confined to the South West Pacific proper. Diplomatic representation was extended to the former American territories in the northern Pacific, with the Federated States of Micronesia and the Marshall Islands (Senator Evans, *Hansard*, 7 December 1987). Once diplomatic relations were established, the Department set about extending the range of aid and defence-support services that were a feature of relations with other Island states (*Australian Financial Review* 2 February 1989; *Sydney Morning Herald* 15 July 1989).

The formula for a *constructive commitment* went a long way towards setting a new agenda for how Australia might enhance its authority in the Pacific region. It is evident that this presented something of a challenge to the established position of the defence establishment. There were obvious tensions resulting from the inter-departmental rivalry, and this wasn't simply a matter of the personal rivalry between the two ministers concerned. There was some meeting of ways, and the Defence Department was forced to refocus its concerns. The way in which these concerns were ultimately reconciled, and the factor which ultimately underwrote the Australian state's efforts to reduce its role in the South West Pacific, revolved around the state's efforts to restructure the Australian economy.<sup>19</sup>

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- 18 Australia planned to set itself up as a clearing house for security and economic intelligence in the region, following recommendations from the Committee on Regional Security Information Exchange. Originally this was organised to preempt the influence of Libya in the region. But as this "threat" subsided, so the focus of attention shifted to the gathering of economic intelligence for the Pacific Forum countries (*Sydney Morning Herald* 15 September 1988).
- 19 The formulation of the *constructive commitment* platform was not without its obvious shortcomings, some of which have been noted in the collection of essays

The common element increasingly binding together the DFAT and the Defence Department was the demands placed on them to project their influence so as to enhance the objective of internationalising the Australian economy and to ensure that some of the costs associated with the expanded commitment to the Pacific were recouped. The clearest demonstration of this shift was the change in the character of Australian developmental aid. In the post-*constructive commitment* era, aid became much more closely linked to advancing Australian commercial and industrial interests. There was an increasing resort to tied aid programs.<sup>20</sup> There was greater emphasis upon ensuring that Australia benefited economically from its development cooperation program. The two most explicit dimensions of this were the enhancement of commercial relations, and especially the development of Australian exports, and the fostering of private investment in Island development.

DFAT was forthright in expressing this shift in policy, observing that aid should promote "stable and growing export market opportunities for Australian companies" and provide "further export opportunities for Australian companies" (DFAT 1990: Appendix D). The Department pointed to some of the new opportunities being thrown open for Australian business, and estimated that, through conscious planning, almost 90 per cent of assistance provided in 1987-1988 resulted in direct purchases of Australian goods and services (DFAT 1990: 55).<sup>21</sup> This reorientation of aid can also be evidenced in the 1988 resuscitation of the Joint Venture Scheme, first established in 1978, designed to provide

edited by Fry (1991). Perhaps the most significant was that the statement failed to understand what 'mutuality' of interests really means in the development of diplomatic and political relations between the metropolitan state and the Island states. Also, the whole conception of 'the region' was decidedly ambiguous.

20 This was partly influenced by the increasing significance of Japanese aid to the region which tended to tie aid to the advancement of Japanese business interests (AIDAB 1987). It was a policy that had been signalled in the Jackson Report but only formalised in the early 1990s.

21 The Australian International Development Assistance Bureau advised that an integral feature of aid programs, such as those that linked projects to particular concerns like ecologically sustainable development, was that they drew upon Australian expertise (AIDAB 1990: 5-7, 34, 52).

assistance to facilitate the establishment of private enterprise ventures.<sup>22</sup> In short, aid became more linked with the direct returns to be gained for the Australian economy and Australian enterprise. The aid program in the Pacific, and elsewhere for that matter, was defined increasingly in terms of the desire to reinvigorate Australian industry as well as a platform for promoting the internationalisation of Australian enterprise. DFAT had become more consciously and explicitly a vehicle for underwriting a more internationally-oriented accumulation process, providing a direct means for supporting the internationalisation of Australian capital. As one AIDAB report neatly summed up this preoccupation, *Australia's overseas aid program [was] helping Australian industry too.*<sup>23</sup> (The handing over of managerial responsibility for AIDAB - now Ausaid - to the Trade section of DFAT highlighted the extent of the shift in developmental aid policy.<sup>24</sup>)

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- 22 There was a substantial increase in funding for such assistance - a fivefold increase between 1986 and 1991 (DFAT 1990: Table 10). One project that received considerable support was Vanuatu's efforts to establish a national airline, an endeavour that was built around Ansett leasing a fully-staffed aircraft, and thereby helping to set in place Ansett Australia's efforts to develop a regional presence. Another project helped finance the Westpac participation in the establishment of the Bank of Kiribati (*Sydney Morning Herald* 22 September 1998; *Pacific Islands Monthly* October 1988). State enterprise also benefited from this support. An aid programme valued at some \$2.6 million was announced to finance the establishment of regional and domestic satellite services in the South Pacific by OTC (*Pacific Islands Monthly* October 1988, February 1990, December 1990; *Australian Financial Review* 13 March 1990, 2 April 1990).
- 23 In fact, the shift in thinking on aid merely reflected an appreciation of the success of Japanese aid programs in enhancing business opportunities. This was an issue that had been canvassed in the Jackson Report.
- 24 Interestingly enough, this refocusing was also being effected in the US aid program (See AIDAB 1990c: 10; personal communications, Mr Jon Huntsman Jr, US Deputy Assistant Secretary of Commerce for East Asia and the Pacific, 16 March 1991.)

## Geo-Economic Determinations: the Asian Ascendancy and Pacific Demise?

The notion of a *constructive commitment* represented a considerable maturation of thinking within the Australian state on its place in the South West Pacific. However, it formed part of a critical reformulation of foreign affairs policy generally. By the time this reformulation was formally articulated, in the *Ministerial Statement* of December 1989, *Australia's Regional Security*, the status of the South West Pacific in Australia's global *oeuvre* had slipped considerably. *Australia's Regional Security* represented the culmination of debates on redefining Australia's place in the international community, as part of the Pacific community of nations. As this refocussing of foreign policy began to embrace South East Asia and East Asia, so the focus of concern shifted considerably. The formula for charting Australia's place in the Asia-Pacific region increasingly focused on reorienting Australia towards Asia, and on developing a framework for securing a more dominant Australian role and presence among its immediate Asian neighbours in South East Asia. Less developed, these countries provided what appeared to be the opportunity for securing the basis of Australia's more systematically linked and comprehensive Asian attachment. As *Australia's Regional Security* evolved, so the Pacific became eclipsed in Foreign Affairs' "grand strategy".

The most distinctive feature of this change was the way in which *Australia's Regional Security* sought to marry a *constructive commitment* with Pacific Island nations to a *comprehensive engagement with South East Asia*. *Comprehensive engagement with South East Asia* was clearly a much more fully developed program than *constructive commitment*. *Constructive commitment* was based on "a more diverse and substantive array of linkages", and the corollary amounted to a dramatic downgrading of Australia's interest in the South Pacific. The shift in thinking within the Australian state amounted to an overshadowing of the pivotal place of the South West Pacific in DFAT thinking. *Australia's Regional Security*, in effect, anticipated the publication of the 1989 Garnaut Report, *The Northeast Asian Ascendancy*. Ironically, the articulation of the notion of *constructive commitment*, when situated in the broader context of

Australia's place in the global political economy, signalled an interest that was not going to be developed any further.

The extent of the retreat was inadvertently captured in the report prepared by the Joint Committee on Foreign Affairs and Defence, *Australia's Relations with the South Pacific*, released in 1989. The Committee was set up largely in response to the fear that the region was regarding Australia with increasing disdain, and was given the task of assessing the gravity of the situation and considering how to best improve Australia's standing in the South West Pacific.

*Australia's Relations with the South Pacific* has to be read as a complement to the formulation of the *constructive commitment* charter. But it presents a somewhat different impression of the place of Australia in the region. In particular, it signals the role of Australia as a metropolitan state whose responsibility is to mediate relations between the Island states and the other major metropolitan powers. It provides a more explicit and honest representation of Australia as a metropolitan state removed, distinct and different from its immediate neighbours and certainly not "an integral part of the region". Australia was to be regarded as a metropolitan state organised to help constitute a hierarchy of relations upon which the Western order would be secured: "Australia will always stand apart from the other Pacific island countries, but hopefully will form a bridge between the super-powers and the small Pacific states" (Joint Committee on Foreign Affairs, Defence and Trade 1989: xliv).

The report represented the political profile of Australia in the region in a way in which the articulation of a *constructive commitment* deliberately sought to avoid. But the incorporation of the concept of *constructive commitment* in the larger policy position of DFAT, *Australia's Regional Security*, signalled that the concerns addressed by the Senate Joint Committee on Foreign Affairs, Defence and Trade were no longer of paramount importance to a state seeking to embrace the *Asian ascendancy*. The diplomatic and political components of the Garnaut Report, outlined almost wholly in terms of their economic import, make this abundantly clear. Asia, and the effort that had to be made to integrate the Australian economy with the economies of Asia, was defining the diplomatic and strategic agenda by the 1990s. The idea of

Asia-Pacific Economic Cooperation, floated in a speech prepared for the Prime Minister in 1988, provided the institutional fulcrum around which this agenda would be carried.

There was a fundamental paradox in this shift in Australia's diplomatic, strategic and economic focus. On the one hand, the articulation of the idea of a *constructive commitment* became largely a rhetorical vehicle for asserting an ongoing commitment that had less and less substance. On the other, Australian leadership was pivotal in countering the Island states' lack of confidence in the metropolitan state's commitment to the future strategic and economic order in the South Pacific and this locked Australia into expanded funding obligations. Furthermore, this paradox was amplified by the Labor government's preoccupation with an austerity drive that was also propelling its preoccupation with the competitiveness of Australian enterprise and with promoting the internationalisation of the Australian economy. The preoccupation with geo-political considerations had given way to geo-economic determinations concentrated on East and South East Asia, eclipsing the importance of the South West Pacific in Australia's global vision. Yet Australia continued to carry the expense of its recent ambitions to assert its place as a responsible South Pacific metropolitan state.<sup>25</sup>

### **The End of the Cold War and the Transformation in the Role of the Metropolitan State**

Some Pacific analysts have located the roots of this shift in the ending of the Cold War. However, as Fry has argued, the political machinations moved by the security concerns of the Western alliance did not figure prominently in how the Island states viewed their place in the global

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25 One small incongruity in this overall thrust towards promoting links with East Asia and South East Asia was that the South Pacific remained an important field for Australian investment, albeit a small one. New gold mining ventures and the possibility of rich oil and gas fields captured the imagination of many Australian investors. There was also some renewed interest in other business opportunities in the region, especially in banking, with Westpac and the ANZ extending their interests, and in the tourist trade, with Qantas investing in the industry as one stage in that enterprise's efforts to develop a more international profile.

polity. Certainly, the end of the Cold War immediately diminished any substantial interest among metropolitan states in the South Pacific as an arena for global security concerns. The 1993 *Strategic Review*, the first articulation of Australia's post-Cold War defence posture, spelt this out clearly: no security risks could be envisaged and this was not expected to change. The longstanding rationale for Australia's preoccupation with its place in the South West Pacific was removed. It was clear that Australia's commitment, and especially as this was manifest as a financial commitment, was going to be subject to serious reevaluation. The pressures for a dramatic refashioning of Australia's role as a metropolitan state were set in place.

Strategic concerns were not removed from the political agenda. The question of regional order assumed a different dimension with increasing concerns raised with political order within the Island states, especially in light of the coup in Fiji, the Bougainville Resistance Army's struggle for independence, and political instabilities and economic uncertainties in other Island states. This prompted a reorientation in Australia's strategic commitment. Australia, reflecting a new political maturity in its dealings with the independent Island states, expressed a reluctance to become too directly embroiled in settling such problems. Regionally-based means of resolving such problems were now advocated. This reiterated the desirability of promoting regionalism as a vehicle for organising mechanisms and institutions among the South Pacific Forum countries so that more of the responsibility for dealing with problems and issues could be assumed by the Island states themselves in conjunction with one another.

Australia also impressed upon the Island states the desirability of them assuming greater responsibility for managing domestic affairs. This was made explicit in the *Strategic Review 1993*, the first assessment of Australian strategic interests in the post-Cold War era, when it declared an ongoing commitment to supporting stability in the South West Pacific but doing "so in a manner that assists their (*viz.*, the Island states) ability to look after their own strategic interests" (29). It was precisely the concerns arising from such situations as that in Papua New Guinea that reinforced this emphasis on the desirability of the Island states looking after "their own strategic interests".

This is not to say that Australia was not involved in more direct efforts to shape the ways in which political disturbances might be settled within the Island states. Australian aid provided for the specific purpose of improving the training and capabilities of local defence forces was expanded considerably and this assistance also provided support for enhancing the capabilities of local police forces. The increase in resources devoted to the training and equipping of Island police and defence forces signalled the desire to promote the maintenance of "national integrity and law and order" (Loosley 1996). There was also increasing concern with ensuring the security of Australian interests in what appeared to be increasingly unstable political climates, and this reflected a dramatic reorientation of what constituted Australia's strategic interests in the region. This was clearly spelt out in the *Strategic Review*: in retaining "a strong interest in the stability of the South-West Pacific", the discernible problems in the region were defined wholly in terms of internal sources of tension, in terms of "serious social and political problems" that presented challenges to the maintenance of territorial integrity and had "implications for the safety of Australian nationals and commercial interests" (*Strategic Review 1993*: 13).

This change in the character of Australia's strategic concerns reflected a keener awareness of the desirability of securing a range of economic objectives. This was also reflected in the broader change in the focus and purpose of Australia's aid program, especially in terms of ensuring that aid would be of material benefit to the Australian economy and Australian businesses. But once this policy has been adopted not only was there a link between a more project-specific aid program and the associated material benefits that should flow to Australia, there also developed a concerted effort to reduce the magnitude of the general grants-in-aid, to in effect economise on the aid program to the South West Pacific. In 1993, Australian Ministers met with their Papua New Guinea counterparts to indicate their desire to implement the process of curtailing budget aid almost immediately. Agreement was reached on the terms of the process and the 1993/94 Budget marked the turning point with the annual grants-in-aid diminish from that point on. A dramatic turnaround in the extent of the Australian state's financial commitment to the future of the South West Pacific Island states had been effected

precisely at the same moment as aid commitments to South East Asia and IndoChina were being expanded.

Each of these developments signalled a formal redefining of the status of Australia as a metropolitan state. The establishment of the office of the Minister for Development Cooperation and Pacific Island Affairs as a portfolio within Foreign Affairs, following the re-election of Labor in March 1993, further entrenched this. Celebrated by the Foreign Affairs Minister as a clear illustration of the "Australian government's enduring commitment to its relationships in the South Pacific region", the setting up of a junior portfolio is more appropriately to be regarded as reflecting a change in the institutional make-up of one sphere of the state to effect the marginalisation of Pacific concerns within DFAT.

A crucial ingredient in the rethinking of Australia's role in the regional political economy, and its capacity to contain its financial obligations in the South Pacific, was the extent to which other states and international economic institutions could be drawn in to provide a measure of economic support to the Island states. Japan was an obvious candidate, and Australia, through the efforts of AIDAB, went some way to try to develop mechanisms for coordinating with Japan the delivery of aid to the South West Pacific (*Pacific Defence Reporter* April 1987; *Australian Financial Review* 29 October 1990). Australia considered the Asian Development Bank (ADB) as perhaps the most important international economic institution in the position to assume increasing responsibility for providing developmental assistance.

However, the very factors that were reshaping Australia's commitment to the South Pacific were also redefining the importance that other metropolitan states and international economic institutions were placing on the South Pacific. The ADB was also increasingly preoccupied with assisting the Asian ascendancy and began to concentrate its resources on development programmes in South East Asia and Indochina to the exclusion of South Pacific economies. Australia viewed this with serious apprehension and Australian officials met with the President of the Bank to impress upon him that if this pattern of neglect was maintained it would promote further instability and a threat to Australian security and investments in the region (*Australian Financial Review* 4 May 1994). Matters were made worse as the piecemeal aid programs provided by the

older metropolitan powers began to be dismantled. The US announced in early 1994 that it would commence winding back its aid program to South Pacific nations with a view to ending all aid by the end of 1995 (*Sydney Morning Herald* 8 April 1994).<sup>26</sup> Britain had also joined in this retreat from a commitment to supporting development programs, slashing aid programs to its former colonies (*The Australian* 1-2 April 1995).

There was, in effect, a sudden rush by the metropolitan states and major developmental assistance institutions to drop any economic responsibility for the future of the South West Pacific. This placed the Australian state in an awkward predicament. It had set in train the means by which it could diminish its commitment, yet its capacity to do so was undermined by the haste with which the older metropolitan powers were deserting long-held commitments to the region. The collapse of any signs of a multilateral order among the major metropolitan powers, the beggar-thy-neighbour approach to development assistance for the South Pacific, left Australia carrying the can. It appeared that Australia, and to a lesser extent New Zealand, would be left as the sole institutional remnant of the Western alliance at the very time that the Australian state was seeking to avoid the primary responsibility for securing the existence of the South Pacific Island states in the global political economy. In its preoccupation

26 The US was, however, locked into making an annual payment to the Pacific Forum's Fishing Agency in return for the right of American tuna fishers to fish in the South Pacific.

An earlier initiative, formulated in order to repair some of the damage done to US-Pacific relations by the decision to proceed with plans to ship chemical weapons to Johnston Atoll, signalled the impending shift in US aid program. In October 1990, President Bush called a "Pacific Island Summit" in Hawaii, where he declared the US's ongoing commitment to the South Pacific - "an area of great (and continuing) strategic importance" - and announced his intention to establish a Joint Commercial Commission with the Pacific Forum countries to promote trade links. The key focus of US endeavours to enhance its profile in the region was to "be based upon the principle that private initiative and market-oriented economic policies offer the best method of achieving greater economic development" (Press Release, U.S. Consulate, 15 March 1991).

Once again, the reputation of Australia among the Forum countries was impaired by a Prime Minister eager to sell the merits of the American decision to proceed with the Johnston Atoll high incinerator as a productive island venture (*SMH* 24 February 1990, 15 March 1990, 20 April 1990). Interestingly the US did not consult their closest ally before announcing the Pacific Island Summit.

with forging an accumulation agenda defined in terms of Asia the economic cost of securing the place of the Island states in this order could no longer be readily justified. The investment in securing Australia's authority in the South Pacific was now considered too costly an exercise and one which bore too little fruit.

### **Historical Paradoxes - Containing the Role of the Metropolitan State and Radical State Interventionism**

It was in this context that Australia set in place the intervention of the IMF and World Bank. Endorsing IMF intervention provided the means for Australia to extricate itself from a continuing and costly responsibility. In the speech prepared for the Foreign Correspondents' Association lunch, held in Sydney in June 1994, the Minister for Pacific Island Affairs argued that it was now time for the Pacific Island states to face up to the challenges of the 1990s (Bilney 1994).<sup>27</sup> It was now time for them to embrace sustainable development or face "bust". Past development policies had been disappointing; they had failed. In a message that was to be reiterated by Kim Beazley in his role as the Minister of Finance, the Minister for Pacific Island Affairs pointed to how Australia itself had made the hard decisions to make major changes to effect the restructuring of its economy, and that the Pacific Islands ought to follow this example. This would have to entail better management of resources, controlling population growth, improving "human resource development, promoting trade and investment - for "(t)here is now effectively no realistic alternative to competition and the pursuit of comparative advantage, no matter how daunting these concepts may appear" - and for greater contributions from the private sector. The

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27 The reformulation of the Labor Government's Pacific policy had been charted by A.N.U.'s National Centre for Development Studies, some aspects of which are presented in the edited collection *Pacific 2010: Challenging the Future* (Cole 1993). Pacific 2010 is a poorly researched and argued diatribe that sets about justifying the need for economic restructuring and promoting market liberalisation among the Pacific Islands (Fry 1995; Hayes; 1995; Pirie 1995). That the Labor Government commissioned the report and sought to uncritically absorb its sentiments is testimony to its blind adherence to neo-liberal economic orthodoxy.

public sector had to be wound back, "some old social and economic habits and attitudes might have to be abandoned" and "the time has come to look a bit more closely at traditional land use patterns". In delivering a speech that combined some sensible observations - insofar as the necessity for a greater degree of coordination of resource management in a more environmentally sensible manner was desirable - with a not very constructively thought-through mimicking of IMF-speak, the Minister signalled that Australia did not want to impose its will on the Pacific Island nation states. Yet, in the same breath, he announced that Australia was no longer prepared to provide assistance to Island states not willing to urgently address their own problems (Mary-Louise O'Callaghan, *Sydney Morning Herald* 16 June 1994)<sup>28</sup>

The speech set the scene for the annual South Pacific Forum meeting that was to be held in Brisbane, chaired by the Australian Prime Minister, the following August. Some constructive mechanisms for the better management of the Islands' natural resources were advanced - such as a common code covering all logging companies and multi-lateral contracts to replace *ad hoc* fishing agreements with a view to strengthening the Islands' bargaining hand with Japan, Korea and Taiwan (*Australian Financial Review* 3 August 1994). The Forum also endorsed the Australian proposal for a meeting of Pacific Island Finance Ministers with representatives from the IMF and World Bank. A preliminary meeting of Finance Ministers endorsed the agreements on managing logging and fisheries made at the Pacific Forum meeting, ratified a proposal for some rationalisation in the region's ten airlines, and agreed on the need to impose stringent expenditure controls and implement major public sector reforms (*Sydney Morning Herald* 23 September 1994). In the lead up to the formal meeting with IMF and World Bank officials, the Minister for Pacific Island Affairs and the Secretary of DFAT impressed upon the Island states that "crunch time" had arrived (*AFR* 31 October 1994, 23 February 1995, 24 February 1995, 7 March

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28 O'Callaghan, and the editorial that followed in *The Sydney Morning Herald*, presented one of the only thoughtful critical responses to the speech. Echoing the neo-liberal mantra, *The Australian Financial Review's* Pacific correspondent, Rowan Callick, pointed to some of the speech's shortcomings, but then went on to argued that it did not go far enough down the path of demanding the liberalisation of trade relations (*Australian Financial Review* 27 June 1994).

1995). The Australian-sponsored meeting, held in February of 1995, heard the World Bank's Director for East Asia and the Pacific list the usual demands made by the IMF and World Bank as necessary components in any development assistance: "Not just less government but better government...Much stricter financial discipline, with more spending on human resources and infrastructure, and less on bureaucracy...A domestic commitment to open trading and competitiveness to match international trends...Placing social programs in local hands, and using churches to deliver them...Rationalising regional institutions..." (*Australian Financial Review* 22 February 1995; *IMF Newsletter*, February-March 1995) The Labor Government's economic liberalisation agenda was about to be formally imposed on the the South Pacific Islands.

Papua New Guinea proved to be the first testing ground for the implementation of the Australian-initiated, IMF/World Bank orchestrated program of enforced economic and political restructuring of the Island nation states.<sup>29</sup> In early 1995, Papua New Guinea met officials from the IMF and World Bank to discuss that country's budgetary problems and what the Bank referred to as an "emergency". The Bank called for radical changes in government policy, including the selling off of government assets, and policies that would ensure that labour became more internationally competitive (*Australian Financial Review* 9 December 1995, 23 January 1995, 31 January 1995, 7 April 1995, 24 February 1995, 18 May 1995). The PNG Government's response was dramatic. It announced a budget that would slash the deficit in half, tighten financial administration, and a retrenchment program that would remove 4,500 public sector jobs (the package to be financed by the World Bank), deflate wages, as well as the sale of a range of state holdings and the floating of shares in the government-owned Mineral

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29 It is important to recognise, however, that Australia has not singled out Papua New Guinea as a special case. Towards the end of 1995 the government withdrew \$2.2 million in forestry development aid to the Solomon Islands after the Solomon Islands government proceeded with what was regarded as an unsustainable forestering venture. Interestingly, Westpac and ANZ appear to have adopted the initiative in promoting financial sensibility in the Cook Islands. The two banks placed restrictions on the movement of NZ dollars out of the Cook Islands (*The Australian* 21-22 January 1995).

Resources Development Corporation (the vehicle through which Papua New Guinea had secured partnership holdings in all major mining ventures) (*Australian Financial Review* 8 March 1995, 22 March 1995).<sup>30</sup> With considerable uncertainty as to whether this program of austerity and winding back of state assets would be deemed sufficient, and therefore some uncertainty hanging over the future of structural assistance, the value of the kina plummeted 30 per cent. It was in this context that the PNG Prime Minister and his Finance Minister rushed to Cairns for a secret meeting with the Australian Prime Minister, desperately seeking short-term assistance. The secret dash would be to no avail as the Australian position had been clearly forecaste (*Australian Financial Review* 22 April 1995, 28 April 1995, 3 May 1995). Australia agreed to provide a standby facility, but it was conditional on Papua New Guinea signing the IMF-World Bank deal (*Australian Financial Review* 3 May 1995, 22 May 1995).<sup>31</sup>

Australia had made it clear that it was not prepared to remain the only sizeable metropolitan power prepared to underwrite Papua New Guinea's economic programme and the economic policies of other Pacific Island

30 Interestingly enough, the International Labour Organisation has now weighed into the picture by recommending a review of PNG's minimum wage structures (*PNG Post-Courier* 14 October 1996).

31 The stalemate placed the future of the \$1.1 billion Lihir gold project in some uncertainty because the float was reliant upon the debt component being underwritten by the Australian government's Export Finance and Insurance Corporation, and this was held up by the Australian government's decision to make the availability of funds conditional on the IMF/World Bank restructuring package being settled (*Australian Financial Review* 7 June 1995). This was somewhat ironic given that there was considerable confidence in the future prospects of the Lihir goldmining venture. Applications for stock indicated that there would be a substantial oversubscription. Australia stood to benefit considerably because the EFIC insurance package was conditional on \$250 million being spent on Australian goods and services, and the lion's share of construction, contract mining and management was to be carried out by Australian enterprises.

To complicate matters further, Papua New Guinea had received a favourable response from Taiwan for financial assistance, which was conditional on PNG's full diplomatic recognition of Taiwan, and the fear was that this would have provided a means by which Papua New Guinea could avoid the tough reforms being demanded of it (*Sydney Morning Herald* 31 May 1995; *Australian Financial Review* 7 June 1995)

states. The Island states had to lay the foundations for a much more extensive and more intensive development of commodity production. They had to become much more self-sufficient components in the international political economy. They were also being called upon to pursue the contradictory path of winding back the state sector at the same time as ensuring better governance, in order to avoid the unsustainable practices that had characterised the timber and fishing industries and to ensure the security of investments and expatriates in the Island economies.<sup>32</sup> The metropolitan state, in seeking to extricate itself from an ongoing substantial economic commitment, was laying the foundations for the radical restructuring of the Island nation states. This imposition was the direct corollary of the Australian state's concerted effort to radically transform the institutional character and the structure of the Australian political economy.

The changes that the Australian state, in conjunction with the IMF and the World Bank, has demanded of the Pacific Island states represent a dramatic change in the projection of the authority of Australia as a metropolitan state. It is an extraordinary paradox that as the state seeks to redefine its place in the international polity, it has assumed a more aggressively interventionist stance than at any other time in the post-colonial era. In many respects this resolve on the part of the state to extricate itself from a responsibility that was a crucial element in its own formation reflects the common purpose within the different spheres of the Australian state in pursuing the development of Australia's integration into the Asian political economy.

The changing focus of Australia's strategic concerns in the South West Pacific has been a crucial catalyst in injecting an impetus into the state's endeavours to underwrite the restructuring of the Australian political economy. This is the stark culmination of a process of restructuring that commenced with the end of the long boom, indeed had its origins in the

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32 Moreover, the Island states were expected to exercise a political authority that would ensure both territorial and economic integrity, as a necessary foundation for guaranteeing the security of investments, while at the same time Australia was arguing the case for regionalism as a means of setting up state-like institutions to administer those enterprises that it deemed beyond the capacity of the individual Island states.

gradual collapse of the classical imperialist era in the post-WWII period. The post-war restructuring of the international economy removed much of the incentive for metropolitan capital's engagement in tropical agricultural enterprise in the South West Pacific. Political independence brought few immediate changes to inter-state relations, largely because the lack of economic development locked the metropolitan states into providing continuing support and because of the continuing conviction in the significance of the South Pacific as a security zone. With metropolitan capital displaying comparatively little interest in the region, outside mining and to a lesser extent banking and finance, and with a wavering of the preoccupation with securing the South West Pacific, the forces driving state engagement with the Island states began to evaporate. The Australian state's preoccupation with cementing Australia's place in East and South East Asia served to underscore and consolidate this strategic shift.

However, it is the form of this strategic shift that is of critical significance. In the first instance, the reorientation of Australia's place in the global polity and global political economy has been bound up with struggles within the state as the different departments sought to position themselves to define the nature and direction of this shift. This positioning was initially focused on the efforts of different departments to assert their authority over how Australia, as the preeminent metropolitan state, should be projected into the Pacific. Yet, these rivalries fell prisoner to the overarching preoccupation of the state with the revitalisation of capital accumulation and internationalisation of the Australian economy. This subordinated the agendas set by the defence establishment and Foreign Affairs and Trade to a policy framework that has become defined almost wholly in terms of economic contingencies. This preoccupation with how to underwrite capital accumulation in Australia has increasingly shaped the strategic imperatives for reconstructing Australian authority in the South Pacific.

Secondly, the particular way in which Australian authority has been projected became more and more defined by Australia's broader ambitions to assert its standing as a metropolitan state in the context of the process of capital internationalising and the state's efforts to restructure and globalise the Australian economy. The more these

objectives were subordinated to securing Australia's place within Asia, the more the state sought to downgrade Australia's commitment to and wind back its aid programme in the South West Pacific. The state's role in facilitating these processes of restructuring and globalisation has impelled it to assume a more interventionist role in defining the character of development of the Island states. The endorsement of policies to effect the radical transformation of the institutional character of capitalism in the region is but a reflection of the state's endeavour to free itself from the economic burden of its metropolitan state status while ensuring that opportunities for metropolitan capital within the region are not foreclosed. In its determination to underwrite capital accumulation, the Australian state is asserting its authority in the South Pacific in an unparalleled way to effect the radical transformation in the character and form of Island economics as well as in state structures.

#### Postscript

The continuing tensions in Australia's double-edged commitment to the Island states was dramatically illustrated in March 1997 when the Papua New Guinea Government's plan to employ a contingent of private mercenaries, Sandline International, to effect an end to the Bougainville Island imbroglio became public. In the face of considerable public pressure, the Australian Government made absolutely clear that it would not countenance the deployment of mercenaries. This was driven home with the seizure of weapons and equipment being transhipped through Australia and the threat to withdraw civil aid and defence assistance if the PNG Government proceeded with plans to deploy the Sandline mercenaries. The PNG Prime Minister Sir Julius Chan sought to reap some political mileage from this display of metropolitan state authority by representing the Australian actions as an attack on national sovereignty. Interestingly, the Sandline affair may well have unveiled a more ambitious agenda by Chan to radically redefine PNG-Australian relations. Resort to the deployment of mercenaries provided a means of taking the initiative in effecting an end to the Bougainville Resistance Army's opposition to PNG rule, a step that ran counter to Australian policy which emphasised the necessity for a peaceful settlement and for reopening the Bougainville copper mine. The PNG initiative linked the

deployment Sandline with the opening of the Bougainville copper mine and the acquisition of a majority shareholding in the mine. This was held up as one means of countering the loss of national economic autonomy consequent upon the shift in Australian aid from Budget support to project aid (Geoffrey Barker *Australian Financial Review* 7 March 1997, 11 March 1997).

Much of the heat was taken out of Australian-Papua New Guinea relations when PNG Defence Forces arrested and expelled the mercenaries, although the role Australia should assume remained somewhat ambiguous as Australian troops were put on full alert. Subsequently, some effort has been made to reconcile relations. Australia has not resiled from the promise made at the time to support the peace effort by providing additional defence assistance, although this has merely served to highlight the poor state of defence cooperation between Australia and Papua New Guinea. Just as importantly, however, the diplomatic and military debacle has served to consolidate the pressure on Papua New Guinea, and the Island states more generally, to radically reform their economies (Rowan Callick *Australian Financial Review* 21 March 1997; John Millett, *Australian Financial Review* 4 April 1997). The IMF has since questioned the Island states' commitment to the reform agenda, criticising their failure to reduce the size of the public sector and enhance opportunities for private investment, to reform taxation systems, to liberalise trade, increase flexibility in land use, and to effect other structural reforms that would create a more favourable environment for foreign investment (IMF 1997: 241-3). The pressure to draw the Island states into capitalism's global restructuring has not moderated.

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