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## Neo-Liberalism and the Disciplining of Pacific Island States—the Dual Challenges of a Global Economic Creed and a Changed Geopolitical Order

Claire Slatter

### Claire Slatter: Personal Journey

I graduated from the University of the South Pacific (USP) in 1973, then spent a year at the University of Papua New Guinea doing a master's qualifying course and tutoring part-time in political studies. I was inspired by many academics I met there, including Sione Latukefu, Ruth Latukefu, John Ballard and David Hegarty, all of whom subsequently joined The Australian National University (ANU). In 1984, I applied for and was offered a scholarship to do an MA in politics at ANU and was privileged to have John Ballard as my principal supervisor. I returned to Fiji in late 1986 and joined the Department of History/Politics, where I began an academic career teaching politics. In 1997, I commenced PhD studies at Massey University under a USP staff training award. I retained informal links with ANU over the years, mostly through Greg Fry, who became and remains a close friend; William Sutherland, a fellow Fijian and close friend who joined Department of Political and Social Change at ANU; and, after 2004, Stewart Firth, whom I was fortunate to have as Head of Department at USP for six years. Largely through these connections, I was invited to ANU conferences now and again, including a workshop organised by Jan Jindy Pettman in 2001.

My research on externally driven economic and governance reforms in the Pacific region, which formed the subject of my PhD thesis, engaged me in critiquing some of the research emanating from ANU in the early 1990s, specifically the Pacific 2010 doomsday reports from the National Centre for Development Studies and polemical papers by the late Professor Helen Hughes.

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## Introduction

Post–Cold War development and aid discourses on Pacific Island states reflect an ideological struggle for the hearts and minds of political leaders and policymakers in Pacific Island states and their traditional benefactors in Australasia by free-market policy advocates based in or linked to academia. A pronounced feature of these discourses, which advocate structural adjustment policies, or what is euphemistically termed ‘reform’ in the Pacific region, has been their employment of positive and negative imagery, ridicule and praise in analysing Pacific Island states, economies and societies. Seemingly complimentary references to Pacific Islander ‘risk-loving, enterprising, seafaring forebears, whose voyages opened the vast South Pacific, and who developed a distinct material culture and civilization in remote, resource poor islands’, like praise for how well Islanders who have more recently ventured into the outside world have adapted to ‘an extended individualistic order’, encourage enterprise and risk-taking in the uncharted economic seas of a deregulated global economy and a journeying away from all that Pacific Islanders have known, and held dear (Kasper et al.1991:70).<sup>1</sup> At the same time, derogatory references in the discourses to Pacific Island states’ economic dependency on aid, and ridicule of their standing as micro-political entities in the world of larger nation-states, deter smaller island governments from questioning, much less resisting, the new economic wisdom of ‘reform’,

1 References to voyages and voyaging appear in Kasper et al. 1991; Hughes 1998; and the World Bank 2002.

while eroding the notion and value of national sovereignty (Kasper et al. 1988, 1991; Hughes 2003). In these discourses, enterprising citizens—as individuals or as owners/shareholders of corporate bodies—rather than states, are presented as the primary agents of economic development, and the growth prospects of islands, as opposed to the viability of nation-states and national economies, appear as the principal concern.

Consensus among multilateral and bilateral donors in the region on what the Pacific Island states' best economic policy options are has seen the prioritisation of reform in donor aid programming since the mid-1990s. The ideological foundation on which structural adjustment policies are based is neoliberalism, a philosophy that hinges on beliefs in free enterprise, deregulated economies and labour markets, private ownership, individual property rights, small government, reduced taxes, a market-friendly state, and global trade liberalisation, or the opening up of the world's markets, labour pools and resource bases to all economic competitors on theoretically equal terms. Many of the most ardent advocates of neoliberalism are linked to economic policy think tanks that exist for the primary purpose of influencing political leaders and policymakers through strategic dissemination of their publications. The one-size-fits-all economic model that they advocate is the same as that promoted by multilateral lending institutions and bilateral donors through structural adjustment policies, and there are indeed close interconnections between the advocacy work of neoliberal think tanks and the policies of multilateral agencies and bilateral donors.

In the past 15 years, free-market advocates within Australian and New Zealand academia have been producing analyses of Pacific Island economies and states, some of them commissioned or otherwise supported by their governments, or written for multilateral institutions such as the World Bank and the Asian Development Bank (ADB). The use of ridicule and praise in several of these reports reflects the evident ideological project in which their authors are engaged and the far from value-free scientific basis on which their analyses and prescriptions rest. Selling market fundamentalism, like other variants of extremism, entails securing conversions through the combined strategies of castigation and shaming for wrongdoing on the one hand, and promising a better life after repentance and return to the right path on the other. The subjection of Pacific Island states to neoliberal demagoguery and donor-driven economic and trade liberalisation constitutes what might be called a disciplining of island states in the post-Cold War, unipolar world of

corporate-driven globalisation where free-market ideas appear to reign supreme. With the justification and cover for new forms of economic and political domination provided by the United States' 'war against terrorism', and the continuing influence of neoliberal thinking, so-called 'failed' and 'non-viable' Pacific Island states could find themselves even more deprived of their sovereignty in the years ahead.

This chapter focuses on the fostering of neoliberal economic ideas in the Pacific from the 1990s, the routes through which they have gained entry to and acquired credence in the region, the economic policy changes that derive from them, and the changed geopolitical context, global compacts and treaties that are the hallmarks of the new global economic order underpinned by neoliberalism. Attention is drawn to how neoliberal ideas and their proponents have been shaping thinking within the Pacific, and about the Pacific and its future, especially since the 1990s, and to some of the implications of fully embracing these ideas and the policies they inspire.

## Academic Pushers of Neoliberalism in the Pacific

Neoliberal economic policies were first advocated in the Pacific region by Australian economists based at The Australian National University (ANU). In 1988, barely a year after the first military coup in Fiji, a book entitled *Fiji—Opportunity from Adversity* (Kasper et al. 1988) proposed a three-part reform that seemed designed to make Fiji a Hong Kong in the middle of the Pacific. Published by the Centre for Independent Studies (CIS), a think tank promoting free markets, individual liberty, 'democratic government under the rule of law', and a 'free civil society', the research on which it was based was initiated by the National Centre for Development Studies (NCDS) at ANU and was funded by the Australian International Development Assistance Bureau (AIDAB), now known as AusAID. It was a collaboration that illustrated well the close links between neoliberal think tanks, universities, and government aid bureaus.<sup>2</sup> The book's chief recommendations were: constitutional guarantee of civic and economic

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2 The CIS then had offices in New South Wales and Auckland. From the mid-1980s to the early 1990s, many of its members were also members of the powerful New Zealand Business Roundtable, whose proposals, according to Kelsey (1993:135–36), were indistinguishable from those of Labor and National governments from 1984, when New Zealand's economic reform program began to be implemented.

rights to all Fijian citizens to restore confidence and security; rapid deregulation of labour, capital and produce markets; and comprehensive privatisation to reduce the size of the government and invigorate activities stifled by bureaucratic and union controls. The authors viewed the break in Australia–Fiji aid relations, as a consequence of the 1987 coups, as a timely opportunity for Australia to re-evaluate its aid strategy given changes in general thinking on economic and development policy around the world and the new ‘hard-nosed philosophy’ that was spreading in donor countries (Kasper et al. 1988:xii). They advised the Australian Government against providing unconditional aid to post-coup Fiji, saying it would be tantamount to ‘an outright subsidy to a growing class of politicians, military and bureaucrats’, who were accountable to neither Australian nor Fijian taxpayers. The key requirements for economic growth, they argued, were not aid but ‘economic and social policies and the attitude of the population to work, learning, and capital formation’. They proposed the introduction of conditionality in Australian aid and advocated directing more aid through ‘private channels’ (specifically, voluntary agencies and private companies), and a more openly self-interested approach to using Australian aid.<sup>3</sup> This was the first clearly articulated neoliberal economic policy guide proposed to a Pacific state.

A second CIS publication on aid and development policy in the Pacific blamed aid for inhibiting economic advance and judged it unnecessary, since capital required for development could be secured through foreign direct (private) investment (Kasper et al. 1991).<sup>4</sup> Transfers of wealth from Pacific Islanders living and working abroad to their families in the Islands were seen as inducing increases in public sector wages and salaries, exerting upward pressure on national wages and exacerbating difficulties in a number of Pacific Island countries (e.g. by raising agricultural wages

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3 For example, inducing (private) Australian health clinics and hospitals to set up branches in Fiji and encouraging pre-retirement Australian health personnel to undertake two- or three-year contracts there; reducing assistance to the University of the South Pacific and providing a larger number of scholarships to Fijian citizens to study in Australia; using aid to provide Australian supervision and technical advisors in private schools and training schemes; and supporting the establishment of ‘cheap community colleges’ to help improve racial balance in economic life (Kasper et al. 1988:146).

4 The volume brought together papers presented at a session on development in the South Pacific from a Pacific Regional Meeting in Christchurch in November 1989 sponsored by the Mont Pelerin Society, a highly influential, private think tank founded in Switzerland in 1947 by European and American intellectuals strongly opposed to socialism, central planning and the regulatory state, and dedicated to promoting the ideas of economic liberalism. The moving force behind the formation of the society was Austrian-born British economist Fredrich Von Hayek, and one of its 39 original founders was Milton Friedman. Kasper and other members of the CIS were members of the society in 1997, as was Ruth Richardson, former National Government Finance Minister of New Zealand.

in Tonga, Samoa and Cook Islands and making it increasingly difficult to secure agricultural labour). Traditional systems (such as the absence of a tradition of genuine private property), favourable natural endowments (which provide basic necessities with little effort, encouraging a work ethic that does not link work effort with survival), a benign or non-traumatic colonial experience, and continuing postcolonial patronage through aid (which subsidised Pacific economies and maintained a level of 'subsistence affluence' and inappropriately large national governments modelled on those of larger states and run as personal fiefdoms by traditional or new elites) were together seen as inherent constraints to economic development.

Pacific Island states were said to be 'unfamiliar with genuine poverty' and were enjoying middle-income status by World Bank definition (with French Polynesia and New Caledonia 'exceeding New Zealand's modest living standards'), which could not be maintained by local production and productivity without perpetual aid. Fundamental problems were predicted and 'peaceful social evolution, cohesion, prosperity and stability' were seen as attainable only through the 'openness, vertical mobility, and scope for individual rivalry and self-realisation' that markets, civil rights and equality before the law could provide (Kasper et al. 1991:64). Changes in Pacific ways were considered necessary, namely 'more work, more systematic work, more savings, and a longer-term planning horizon', and the costs to cherished culture and values in embracing the 'growth and performance-oriented economic lifestyle' would be minimal.

In the first instance of deriding Pacific Island states, Kiribati was ridiculed for seeking to 'play a grand international role' by hosting a regional ministerial meeting in 1989 at enormous cost to Australian taxpayers, who footed the bill for a navy ship, which was dispatched to provide accommodation for participants. And 'most of the best-educated Pacific Islanders' were disparaged as 'professional aid seekers who increasingly regard foreign aid as a right and threaten to make political mischief if they don't get it' (Kasper et al. 1991:79). Pacific leaders were evidently expected to be shamed by these deprecatory remarks into accepting the 'wisdom' of economic restructuring, and to trust that Western technology, management and economic modes of behaviour could be adopted in the Pacific, as they had been in Asia 'without giving up one's Chinese, Malay, Korean, Japanese or Indian identity' (ibid.).

The CIS's analyses of Pacific economies predated the World Bank's Pacific reports of 1991 and 1993, which together provided donors with authoritative texts for pushing 'reform' in Pacific Island states. Yet, there were obvious echoes of the CIS authors' perspectives and arguments in the World Bank reports.

## Making Structural Adjustment Policies the New Development Framework in the Pacific

In its first report on the state of Pacific Island economies, the World Bank highlighted the 'sluggish' economic growth performance of Pacific Island states compared with the 'more dynamic island economies of the Caribbean (5 per cent) and the Indian Ocean (7 per cent)', and despite their receipt of 'some of the highest inflows of per capita development assistance' (World Bank 1991:1, 3). Inward-looking economic strategies, such as protection of local industries, state enterprises and over-regulation, were blamed for this. A number of trade-centred 'dynamic growth strategies' were proposed as remedies: abandoning inward-looking, import-substitution policies and promoting private sector investment and export production; shifting away from producing primary commodities toward production of processed products for export; concentrating on a few specialised areas in which they had 'a clear comparative advantage'; and introducing greater flexibility in wages. Developing entrepreneurial capacity and expanding private sector participation in investment and economic activity were especially emphasised as the key to economic growth, and the primary challenge for Pacific Island economies in the 1990s, according to the World Bank, was providing a policy environment to facilitate private investment (World Bank 1991:iv).

Among the recommended macroeconomic policies were fiscal adjustment to reduce fiscal deficits to more manageable levels, appropriate wage and exchange rate policies to maintain external competitiveness and keep wages in line with economy-wide productivity, restructuring the tax system to broaden the tax base, lower direct taxes, eliminate trade-inhibiting taxes, and a shift towards an indirect tax system that 'does not discriminate across productive sectors' (World Bank 1991:iii). Tariff reform, to reduce high tariff levels and remove protective arrangements, was recommended as an essential part of tax reform. Corporate taxes were recommended 'at rates conducive to private investment and growth' (World Bank 1991:iv).

Recommended public sector management policies included reducing the administrative budget (particularly public sector wages and salaries, which were considered to have grown excessively and had inflated wages throughout the economy), improvement of physical infrastructure and introduction of a program of privatisation, particularly for commodity marketing boards and other enterprises that ‘crowd out private investment’ or that ‘could be more efficiently managed by the private sector’. Additionally, the report proposed the abandonment of five-year planning and the adoption of a new approach to national planning—one that ‘emphasises macro-economic assessment and the preparation of broad development strategies’ (World Bank 1991:viii).

With expanded export production, economic and labour market deregulation, privatisation or corporatisation of state-owned enterprises, and a strengthened private sector as its main policy prescriptions for Pacific Island economies, the World Bank showed little consideration for the peculiar limitations of small economies suffering distinct disadvantages in respect of resource bases, physical infrastructure, human resources and geographical location. The policy package offered to its Pacific member countries was little different from those offered by the bank to other countries, with vastly different economies.

The second World Bank report on Pacific economies appeared more mindful of the peculiar specificities of its Pacific member countries and even claimed that its objective was ‘not to impose some model derived elsewhere, but to adapt approaches’ (World Bank 1993). While more holistic in its coverage, with comprehensive chapters on human resource development and environmental issues, its economic analysis and policy prescriptions differed little in substance from those advanced in the earlier report. Public sector reform, efficiency in the use of foreign aid and the crucial role of the private sector were reiterated as the keys to attaining sustainable economic growth, with high-growth economies of East Asia, the Maldives and Barbados cited as models for Pacific emulation. The ‘Pacific Paradox’ was coined to describe the conundrum posed by the absence of growth in average real per capita income in the past decade despite favourable natural and human resource endowment, high levels of aid and reasonably prudent economic management (World Bank 1993:ix, 1). A ‘development partnership’ between the state and the private sector was advocated as the key to achieving economic growth (World Bank 1993:37). The bank recommended more effective economic engagement with the rest of the world, enhancing international



competitiveness, broadening trade and investment links, especially with the East Asian growth centres, and reforming the public sector by restructuring, consolidating, privatising, downsizing and lowering public sector wages, which were deemed to be ‘well in excess of average national incomes’ (World Bank 1993:ix–x).

## Neoliberal Development Studies

One of the first agencies to draw on the World Bank’s first Pacific report as an authoritative text was NCDS. This was not surprising, as its director in the early 1990s, Professor Helen Hughes, had worked for many years at the World Bank. In a series of research papers funded by AIDAB and published under the theme Pacific 2010, the NCDS aimed to alert Pacific governments and those who delivered aid to the Pacific region of a doomsday scenario that, in the opinion of the project’s lead scholars, awaited the Pacific states unless they met the challenge of facing up to their looming economic and social problems. In assuming this role in the 2010 project, the NCDS revealed itself as an institution committed to advocacy in support of neoliberal economic policies, a project to which its postgraduate training program targeting future policymakers in developing countries, especially in the Asia-Pacific region, was also geared.

The first Pacific 2010 publication was introduced by comments from NCDS’s Islands/Australia Programme Director and former Fiji colonial government officer Rodney Cole, who called Pacific Island states ‘adroit players of the aid game’, which had ensured for themselves ‘a strong and regular flow of largesse, first from former colonial powers, but now, at the beginning of the ’90s, from the world at large’ (Cole 1993:vi). According to Cole, the inhabitants of South Pacific Island states now ‘want[ed] more out of life than subsistence affluence’, and Pacific Island leaders ‘and their financial mentors’ faced enormous difficulties in meeting the wants and needs of their ‘rapidly expanding populations’. The publication’s lead article provided a futuristic portrayal by *The Australian Financial Review* journalist Rowan Callick.<sup>5</sup> Intended by the project’s leaders to present ‘a more colourful picture, a grim and challenging picture, but one that is nevertheless disturbingly close to the drier portrait available from the data’, Callick’s ‘doomsday scenario’ of the Pacific in the year 2010

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5 See Rowan Callick’s ‘A Doomsday Scenario’ in Cole 1993.

was based on population projections of NCDS's demographers, who predicted a doubling of the region's population to 9 million in just more than 15 years (Callick 1993:1). Callick's wild imagining of the Pacific in 2010 was evidently calculated to shock Pacific leaders (who might not have found the picture painted by the demographers 'easy to read') into taking steps to avoid what he portrayed as an otherwise inevitable nightmare: beggars on the streets of every South Pacific town, endemic malnutrition, a rising incidence of AIDS deaths, lagoons declared unfit for human activity and public water supplies unsafe for drinking, labour a major export from the region, modern and traditional narcotics major sources of foreign currency, gangs of youth extorting their own form of 'tax', and (an evident horror for Callick) 'a greater number of Asian workers arriving ... [with] mosques ... now found in almost every island capital' (Callick 1993:5). Underlining the need for reform, Callick wrote:

Pacific Islanders lack sufficient savings to develop their region in pace with their aspirations and dreams, as opposed to their nightmares. Most forecasts assume a static or declining level of direct aid, concessional loans and even commercial capital available to the region, as other priorities take precedence. The South Pacific, it is said in such quarters, has had a good enough run, and now is its chance to stand on its own two feet (1993:7).

In Callick's view, regional policymakers needed to accelerate the

conceptual shift ... from a traditional emphasis on the importance of *distribution* of wealth (where a chief or big man gains stature from his gifts and from the generosity of his feasts) to an emphasis on *production*, on building (amassing), managing, and re-investing that wealth (ibid.).

He wrote:

A new type of generosity is thus required—one *that may mean standing by to make room for people with special talents, especially to do business profitably*. This shift can only take place through an example being set by the South Pacific leaders themselves—politicians, senior officials and traditional chiefs (ibid.).

Assuring Pacific leaders that 'the appropriate domestic policies, implemented wholeheartedly by island nations—not just governments, but communities as a whole ... with the support of a friendly external environment [could] turn the grim trends around', Callick highlighted policies that he said were required urgently to be put in place: population policies to reduce national growth rates, national environmental policies

based on national audits of existing environmental problems confronting each nation, and economic adjustment (Callick 1993:8–9). He then itemised the required economic reforms: tighter budgetary discipline; measures to enhance competitiveness; corporatisation and privatisation; reform of the financial sector; adjustment of exchange rates; altering the way wages are determined; and reorganisation of government priorities so that a greater proportion of the budget is spent on education, health and infrastructure (Callick 1993:10–11).

[A] greater sense of international interdependence will have to emerge, perhaps starting within the South Pacific Forum. The success stories, economically and politically, will be those emphasizing openness and links—trade, investment, even the movement of skilled workers, foreigners and nationals, in and out of the country—rather than those emphasizing a defiant independence. A greater focus within the region on free trade would help to frame the right mentality (*ibid.*).

In the only substantive analysis in the book, education professor and economist Ken Gannicott discussed the likely higher costs of education within the seven countries in the next 20 years, showing three different scenarios of the financial burden for each country of providing primary and secondary education under conditions of moderate enrolment increases and ‘low GDP’, more rapid enrolment increases and low GDP, and more rapid increases in enrolment and ‘high GDP’ (Cole 1993:18–24).<sup>6</sup> Gannicott went on to prescribe ‘what needs to be done’: a population policy, a lowering of school unit costs by World Bank recommended strategies such as cost recovery in higher education, reallocation of expenditure within the education sector and decentralised management, and higher economic growth through structural economic reforms (Cole 1993:26–27). Accepting without question the bank’s projections ‘of the faster [economic] growth that would be possible from structural and policy reform in the region’, Gannicott’s tables aimed to show that ‘if the economy grows at the much faster rates considered feasible if structural economic reforms are carried out ... [educational objectives] can be achieved [at a lower] per cent of GDP’ (Cole 1993:21, 27).

Gannicott also addressed labour force growth and employment, highlighting the particularly difficult times that lay ahead for Kiribati, Papua New Guinea, Solomon Islands and Vanuatu, with high rates of

<sup>6</sup> See Ken Gannicott’s ‘Population, Development and Growth’ in Cole 1993.

increase of the labour force, the generally ‘poor record’ of Pacific Island countries in creating employment and the fact that much of the wage employment in the Pacific region (about 40 per cent) had been in the public sector (Cole 1993:30–31). He reiterated the exaggerated employment projections of the World Bank’s high GDP scenario (with structural reforms) for Papua New Guinea—‘formal sector employment could grow from 214,000 in 1990 to 327,000 in 2000’ (World Bank 1991a:30, cited by Gannicott in Cole 1993:32)—and cited extensively from the World Bank’s 1991 report, *Towards Higher Growth in the Pacific Islands Economies*, reproducing its arguments that incomes were too high in the Pacific, that they were sustained not by domestic savings but by remittances and official transfers, that the large inflows of aid had fostered growth in the government sector at the expense of the private sector, and that high wages in the government had ‘disincentive effects’ on other sectors in the labour market, notably agriculture (Cole 1993:39).

Gannicott’s concluding proposals could have been lifted verbatim from the World Bank report: develop policies to promote a climate for private investment by removing ‘distortions in exchange rates, wages, and tax and trade policies’ as well as ‘regulatory hurdles to private activity’; channel more aid to the private sector to support the development of private sector employment opportunities; improve efficiency in the public service and improve its capacity ‘to support private sector development’ through public expenditure restructuring, tax reform, public pricing policy and reduced public sector involvement in services that the private sector can provide more efficiently; and provide cost-effective education.

## Intervening in Pacific Islands States through the South Pacific Forum

Greg Fry (1997) has written of how the Pacific 2010 publication gave ‘intellectual authority’ to the then newly elected Australian Labor Government’s new aid policy for the South Pacific, enunciated later in the same year by Gordon Bilney, minister for the newly established portfolio of Pacific Island Affairs. According to Fry, Bilney’s address signalled that Australia’s new Pacific policy would be focused not on the earlier Cold War preoccupation with ‘regional security’, but on ‘radically transform[ing] the regional economic order’ to bring it into line with Australia’s own reform agenda and generally prevailing policy trends (Fry 1997). Fry’s prophetic

assessment was that the new policy approach would involve ‘an intended level of intervention in Pacific Island societies and states not contemplated since the colonial period’, and that its purpose would be ‘to transform not only the development model and to reform government procedures, but also to effect change in cultural structures and traditional practices such as customary land tenure’ (Fry 1997:292).

The selected target for the launch of this new policy thrust towards a regional agenda of economic restructuring, informed by World Bank and NCDS thinking, was the South Pacific Forum (now called the Pacific Islands Forum), which met in Brisbane that year. In the words of Sutherland, the Brisbane meeting of the forum marked a ‘turning point’ in its history (2000:465). Three decisions directly relating to a regional agenda of economic restructuring were made by Pacific leaders at that forum. First, after agreement that the private sector ‘had an important role to play in the reforms now being undertaken in the region and needed to be strengthened to enable it to lead the next stage of growth’, the Forum Secretariat was directed ‘to undertake a greater facilitating role in providing policy advice to member governments in these areas’ (South Pacific Forum Secretariat 1994). Second, it was agreed that annual Forum Finance Ministers’ Meetings be held to consider appropriate aspects of economic reform and Australia’s offer to fund the first such meeting at the Forum Secretariat the next year was accepted. Third, it was agreed to encourage the participation in Forum Economic Ministers’ Meetings of representatives from the international financial institutions—that is, the World Bank, the International Monetary Fund, and the ADB. Two further decisions made at the Leaders’ Retreat that followed the Brisbane forum, from proposals put by the Australian Government, were to ‘reform the [Pacific Islands] Forum process to ensure greater effectiveness’ and to restructure its Secretariat (Sutherland 2000:465).<sup>7</sup> The latter process, according to Sutherland, was already under way, but clarification of its purpose would not have gone astray. The decisions were aimed at creating optimum conditions for achieving focused discussion on specific issues (highlighted by a theme), securing prior political agreement on specific reforms and on a program for implementation, and narrowing the responsibilities of the Forum Secretariat to the core business of supporting and facilitating the agenda of economic restructuring.

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7 The Pacific Islands Forum was then known as the South Pacific Forum.

The forum has been an effective avenue for the transmission of neoliberal economic ideas and thinking to Pacific Island leaders by external agents, and, as the members of the forum with the most resources and the considerable leverage of their donor status, the Australian and New Zealand governments have been in a strong position to influence agendas, frame debates and propose policy decisions. By 1994, when the broad outlines of a regional restructuring agenda began to emerge with distinct coherence within the South Pacific Forum, Australia and New Zealand were themselves heavily committed to economic restructuring within their own countries, and were intent on exporting their economic policies to the Pacific region.<sup>8</sup> The proposed restructuring of the Forum Secretariat was a crucial step in a multilateral, donor-driven process aimed at achieving the twin objectives of economic restructuring and governance reform, and the administrative and program restructuring that occurred between 1994 and 1995 effectively narrowed the Forum Secretariat's functions to providing technical and administrative support for the region-wide implementation of economic policy reforms.<sup>9</sup> Indeed, after 1995, the facilitation and oversight of economic, financial and trade reforms in the region became the core business of the Forum Secretariat. From convening and servicing annual meetings of Pacific Island finance and trade ministers, attaining collective, time-bound commitments from them to implement reform targets, and establishing monitoring mechanisms to ensure these commitments were met, to advancing trade liberalisation through the mechanisms of regional trade agreements, the Forum Secretariat's role has been central to implementing the externally driven program of economic, financial and trade reforms aimed at achieving region-wide economic, financial and trade liberalisation.

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8 Neoliberal ideas, termed 'economic rationalism' in Australia, began to take hold under Bob Hawke's Labor Government in the 1980s and early 1990s; more radical commitment to structural adjustment emerged under the government of Paul Keating from 1993–95 (Fry 1997:317). New Zealand's experiment with structural adjustment began in 1984, with the application of 'Rogernomics' (the neoliberal economic policies of Treasurer Roger Douglas) under the Labour governments of David Lange and Mike Moore. It was continued, with even greater vigour, by successive National Party governments.

9 The restructuring of the Forum Secretariat followed a review and regional consultation exercise by three consultants: Savenaca Siwatibau, then Director of the ESCAP-Pacific Operations Centre based in Vanuatu and a strong advocate of economic restructuring in the Pacific Island states; Bruce Davis, an Australian national, former Deputy Secretary-General of the Forum Secretariat, and, at this time, a senior officer within AusAID; and Makarita Baaro, a sociology graduate of the University of the South Pacific and then Secretary for Foreign Affairs in Kiribati. Their report is not a public document, but the reorganised Forum Secretariat that resulted from their review indicates the evident intention to streamline the Secretariat's functions and narrow its scope and program to support reform.

At the 26th South Pacific Forum meeting in Madang in 1995, and at the Leaders' Retreat that followed it, discussions were guided by the theme Securing Development Beyond 2000, and a plan of action and a vision statement were adopted (South Pacific Forum 1995). A comprehensive list of national economic policy measures and regionally based activities were endorsed by the Pacific leaders as key to securing development beyond 2000, and, not surprisingly, it read like a checklist for neoliberal policy measures:

- securing the potential benefits of globalisation by enhancing competitiveness through promoting price stability (low inflation)
- avoiding artificial distortions to the prices of domestic resources (land, labour, and capital)
- reducing trade taxes and import duties, which adversely affect export competitiveness
- removing implicit and explicit barriers to foreign direct investment
- adopting and implementing the investment principles agreed to by APEC members as a signal to potential investors of the region's serious intentions to promote and encourage foreign direct investment
- working towards implementation of trade reform measures as requested by GATT/WTO, including by replacing non-tariff barriers with tariffs and setting timeframes for minimising tariff levels
- promoting trade within and outside the region by standardising administrative procedures in areas of customs and quarantine, labelling and packaging, export and import controls, exchange controls and technical standards
- improving public sector efficiency and cost effectiveness through the rationalisation of public services, policy coherence and commitment to the principle of good governance (South Pacific Forum 1995:16).

By 1995, there was an evident convergence in World Bank and South Pacific Forum thinking. Sutherland reported that by the time the World Bank published its third report on its Pacific member countries in 1995, 'the task of convincing the islands to undertake reforms had been achieved' and the 'pleadings and urgings' of its earlier reports had given way to 'specific, sector-focused advice and even a statement of "Priorities for Regional Actions" in the 1995 report' (Sutherland 2000:462). By the second half of 1998, he said the regional reform agenda was reportedly 'well and truly in place' (Sutherland 2000:468).

Between 1995 and 1998, program lending by the ADB in support of ‘economic, public sector and governance reforms’ assumed a significant proportion of the bank’s lending in the Pacific (Knapman and Saldanha 1999:1), a change in ‘operational focus’ that saw the ADB funding policy reform implementation in six Pacific Island states—Cook Islands, Federated States of Micronesia (FSM), Marshall Islands, Samoa, Solomon Islands and Vanuatu. By 1998, no less than 11 other donor agencies were funding or had assisted public sector reform projects in one or more of the following seven countries of the region—Cook Islands, FSM, Fiji, Marshall Islands, Vanuatu, Samoa and Tonga (AusAID and NZMFAT 1998:1).<sup>10</sup>

From 1995 onwards, regular meetings of forum finance ministers—from 1997, Forum Economic Ministers’ Meetings—effectively charted the course for the systematic implementation of structural adjustment in the region. Pacific Islands Forum meetings from 1995 were clearly being provided with direction and leadership by this grouping of finance (and, after 1997, economic) ministers. The institution of this strategic political mechanism involving the political heads of national treasuries was an effective mechanism in advancing the regional reform agenda. Meetings of finance ministers functioned as a sub-council of the forum, carrying out advance planning of national economic and trade policies for implementation across the region. Later, through reporting mechanisms that were adopted, they monitored policy implementation. The institution of Finance Ministers Meetings effectively moved national economic planning and decision-making beyond the domain and purview of national constituencies. And the inclusion of representatives of international financial institutions in the annual meetings of Forum Finance (and Economic) Ministers from 1995, at the suggestion of the Australian Government, placed donor agencies and international financial institutions in a strategically advantageous position to influence economic policy decisions and to follow up policy advice with financial and technical assistance to facilitate national implementation of policy reform. More importantly, it facilitated the development of an integrated, multilateral approach to restructuring Pacific economies and states. The high level of coordination and collaboration in designing and implementing economic

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10 These included the IMF, the Pacific Financial Technical Advisory Centre, WHO, UNDP, the European Union, AusAID, the New Zealand Ministry of Foreign Affairs and Trade, the Japanese Development Agency, French Aid Agencies, USAID and other US agencies, and ESCAP-Pacific Operations Centre.



restructuring in the Pacific Island states achieved between 1995 and 1998 was grounded in what the ADB described as a consensus among donors in respect to development assistance to the Pacific Island states (Knapman and Saldanha 1999:9).

## Ensuring Participation and Ownership— the ADB Approach to Reform

The political neutrality and considerable financial and technical resources of the ADB favoured it as the lead designer/coordinator and financier of economic restructuring within the island states of the Pacific, as evinced in the following explanatory note provided in the report of a joint Australian and New Zealand government review of the ADB's role in regional reform, undertaken in 1998:

Bilateral donors are unable to respond in the same way [as the ADB] because of historical links with Pacific Governments or inability to mobilise sufficient resources and the broad range of expertise required to address financial management, macro economic policies, public service restructuring, debt, legislative and governance issues as well as the social impact of reforms (AusAID and NZMFAT 1998:1).

A shift in the ADB's strategic focus for October 1995 to accommodate the lead role it was to assume for macroeconomic policy reform in the Pacific Islands states appears to be the outcome of Australian and New Zealand government intervention. Both governments, out of a concern to 'foster a high level of coordination and collaboration', had commissioned a joint review of the ADB's technical assistance programs in 11 Pacific Island countries in 1995 (*ibid.*). This followed the creation of an Office of Pacific Operations within ADB's Manila headquarters in January 1995. The subsequent shift from 'sector and project lending' to 'support for macro-economic stabilisation and structural adjustment, and public sector and governance reform' (Knapman and Saldanha 1999:1) saw the ADB take on the role of supporting government policy reform efforts through the provision of Public Sector Reform Programme loans and chairing new consultative group processes in the Marshall Islands, the FSM and Cook Islands (AusAID and NZMFAT 1998:38). By 1999, the ADB was designing and underwriting restructuring programs in no less than seven Pacific Island states with the support of bilateral donors—

namely, New Zealand (in Cook Islands and Samoa), the United States (in FSM and Marshall Islands), Australia (Solomon Islands), France and the EU (Vanuatu and Solomon Islands).

The ADB's view of what it has been doing appears disinterested and technocratic, its interventions presented as necessary responses to restore macroeconomic stability in Pacific Developing Member Countries facing fiscal crises. In the words of Knapman and Saldanha, the response to crisis by Pacific Island states and donors usually followed a pattern:

The first step of government has been to appeal to external funding agencies for initial and urgent fiscal support to tide over the crisis. Such agencies, including the Bank, have taken the opportunity to engage the government in examining the root causes of the fiscal crisis, viz. economic policy and management, poor governance and an out of control public sector. In most cases this process has culminated in the preparation of a reform framework that includes a conditionality matrix covering the key factors that need to be addressed (in the case of Cook Islands, RMI, FSM, Vanuatu) or a more informal meeting (as in the case of the Solomon Islands) at which the government and external funding agencies have agreed on the framework for reform and related external support (1999:6).

The ADB puts an emphasis on achieving what it calls 'participation and ownership', usually through national summit meetings (Cook Islands, Vanuatu, FSM and Fiji). These have played a critical role, according to Knapman and Saldanha, in engendering national consensus on the need for reform, thereby enabling governments to 'proceed with reform agendas that would otherwise have been unpalatable to the general population'. Summits, they said, presented opportunities (in Cook Islands, FSM and Vanuatu) for representatives of the people to not only 'express their unhappiness with the state of governance', but to 'vent their frustrations with continued misgovernment' (Knapman and Saldanha 1999:13). These exercises of setting governments up to receive strong public criticism and of giving 'representatives of the people' an understanding that they were being consulted and listened to helped soften up governments and national constituencies for reform. In Knapman and Saldanha's words, 'the messages offered were accepted and provided a strong basis for developing and ensuring public acceptability of the reform programmes' (1999:13). Equally as significant as summit meetings for engendering ownership and participation is having a 'champion or group of champions

of the reform process'. In all six Pacific countries, they reported, 'the top political leadership' championed the reform, thereby engendering 'strong political and public commitment' (Knapman and Saldanha 1999:9).

## The Forum Secretariat and the Push for Regional Trade Liberalisation

Structural adjustment policies are now widely recognised as paving the way for a global regime of free trade, a 'borderless world' in which free access to the resources and markets of the globe will theoretically be enjoyed equally by all competitors, irrespective of where they are located. As Gita Sen of feminist network DAWN<sup>11</sup> has put it, structural adjustment policies were evidently the 'battering ram' for trade liberalisation. The strategy of achieving global trade liberalisation incrementally through the imposition of structural adjustment policies and bilateral and multilateral treaty processes or social contracts between or among states, with resulting agreements emerging as enforceable global trade laws under the multilateral trading system of the World Trade Organization (WTO) reflects the current geopolitical order, dominated by advanced capitalist states and the transnational corporations that run their economies. As the growing conflict between developed and developing states within the WTO at the past three Ministerial Conferences amply signals, the global architecture of free trade is being framed in the interests of the economies of developed states and the corporate interests that dominate them, to the detriment of developing countries. In this context, what Pacific Island states have to gain from the end point of reform or structural adjustment, which is to say global free trade, is open to contention. Yet, Pacific Island states continue to pursue liberalisation policies as if there were no alternative, a response that has resulted from the apparent conversion of key political leaders and policymakers in the region to neoliberal economic ideas, and from the role played by the Forum Secretariat in advancing the agenda of trade liberalisation.

From 1999, the Forum Secretariat worked to secure Pacific Island states' compliance with WTO trade principles and rules through the modality of two regional free trade agreements. One of these, the Pacific Island

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11 Development Alternatives with Women for a New Era, a global feminist network that analyses global policies and issues that impact poor women in the developing world.

Countries Trade Agreement (PICTA), was portrayed as the realisation of a regional dream and the answer to the Pacific's economic woes; the other, the Pacific Agreement on Closer Economic Relations (PACER), as a benign 'umbrella agreement' aimed at 'keep[ing] the Forum family together'. Region-wide political support for PICTA was mustered on the basis of the idea that regional (as opposed to external) interests underlay the agreement and would be served by it. The bullying by Australia and New Zealand within the Pacific Islands Forum that led to the establishment of PACER, and its implications for the Pacific Island economies, remained a closely guarded secret until a study of the origins, content and implications of the PACER, commissioned by the Pacific Network on Globalisation, exposed them (Kelsey 2004). The Forum Secretariat's fast-tracking of the free trade agreements from conceptualisation to ratification was a feat accomplished by skilful marketing of PICTA, engagement of free trade advocates as consultants/advisors, speedy drafting of the agreements by New Zealand consultants, and successful lobbying of Pacific Island governments for their signature and ratification.

Although PACER was not supposed to come on stream until after PICTA had been in force for eight years, PACER was more speedily ratified than PICTA (by the requisite six Pacific Island states plus Australia and New Zealand), and so came into force in October 2002, ahead of PICTA.<sup>12</sup> This development, which was anticipated by the Pacific Network on Globalisation (PANG) in its critique of the Forsyth and Plange social impact study, threw into question the 'stepping stone' that PICTA was supposed to represent and the two consultants' blithe assurances that PICTA's impacts would be minimal (PANG 2002).<sup>13</sup> As a member of PANG wrote in February 2002:

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12 Moreover, an in-built provision in PACER (Article 6) triggers 'mandatory consultations or free trade negotiations with Australia and New Zealand' if any forum island country that is a party to PACER enters into negotiations for a new free trade arrangement with either 'an outside developed country' or a developing country with 'a per capita GDP higher than that of New Zealand'. If the forum island countries as a group begin free trade negotiations with any outside country, consultations with Australia and New Zealand have to be held. The provisions of Article 6 were expected to trigger negotiations on PACER as early as September 2002, when EU-ACP (Africa, Caribbean, Pacific group) negotiations for Economic Partnership Agreements under the Cotonou Agreement were expected to begin (PANG 2002:10-11).

13 The Forsyth and Plange study, commissioned by the Forum Secretariat, relied on the findings of Scollay (1998) that the impacts of PICTA would be minimal, and that the benefits would outweigh the costs.

The Social Impact Assessment on PICTA is being cleverly used to give the impression that since PICTA will have minimal impact on Pacific Island countries, PACER will also have minimal impact. A used car salesman could not have done a better job ... the money spent on ... the PICTA study is money down the drain ... what Pacific Island countries need to see is a Social Impact Study on PACER.

In July 2003, University of the South Pacific economist Dr Wadan Narsey confirmed that once the free trade pact with Australia and New Zealand came into effect it would be 'catastrophic for local businesses'. 'I would estimate that over 80 per cent of local businesses here in Fiji would fold,' he was quoted as saying, adding:

I think governments have not thought through the consequences of joining a free trade area ... We hear all this talk of ... efficiency and economies of scale. But the reality is, small companies will be forced out once the big players come to town ... Governments have not worked out an alternative plan on how to re-employ people if factories close and people are left without jobs (Narsey, cited in Tavita 2003).

Narsey's study on the implications of including alcohol and tobacco in PICTA, commissioned by the Forum Secretariat, concluded that once PACER was operational and duties against Australian and New Zealand exports were removed, British American Tobacco, which owned all tobacco production in the Pacific, would likely concentrate production in just one forum island country.<sup>14</sup> Parent companies of foreign-owned beer factories in the smaller Pacific Island countries will likely also take advantage of economies of scale and market access to concentrate on marketing their highest-selling products, with Fiji, Papua New Guinea and possibly Samoa benefiting at the expense of Vanuatu, Tonga, Palau and Cook Islands in the short term. Once Australia and New Zealand are included in the free trade area, all Pacific beer consumption is likely to be supplied from Australia. Narsey suggested that this could be the scenario for other manufacturing industries and cautioned Pacific Island governments against encouraging firms to expand to take advantage of PICTA if the benefits to be derived from doing so are to be lost once PACER kicks in.

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<sup>14</sup> The forum study has not been released but its findings are summarised in Narsey (2004).

The negative implications of trade liberalisation for the Pacific Island states go beyond expected contractions and closures in the manufacturing sector. Aside from the loss of revenue from tariff cuts, and the increased indirect tax that will likely be imposed to compensate governments for this revenue loss, the push to open up services under the General Agreement on Trade in Services (GATS) has seen formal requests being made by the EU for the opening of land for purchase by non-citizens in Melanesia and the elimination of work permit restrictions on foreign companies. The GATS holds serious implications for public health and education systems in the Pacific (reduced subsidy, lowered quality and lower access), as do any future WTO agreements on the so-called 'Singapore issues' of government procurement, investment and competition policy.

## The Challenges of Neoliberalism

Despite growing doubts about the benefits to be derived by Pacific Island economies from trade liberalisation, advocacy for trade liberalisation continues unabated in the region. And neoliberal analyses of Pacific states and societies continue to influence the way the Pacific and its future are perceived by donor governments, and the interventionist strategies being pursued in the region.

A recent article offering a 'roadmap for rapid growth and development in the Pacific' argues that 'the best way to support the Pacific is through continuing trade liberalisation to reward the steps necessary to increase exports from the Pacific and thus create incomes and growth' (Hughes 2004b:1). Published by the CIS and titled *The Pacific is Viable!*, the paper is the second on the Pacific written by former NCDS Director Helen Hughes and published by the CIS in the past two years. In addition to restating her arguments on the negative effects of aid and resource rents, and the absolute necessity of abandoning communal land ownership in favour of individual property rights, Hughes continues her ridicule of smaller island states and advocacy for their integration into a federation to avoid costly national and bureaucratic structures and 'inappropriately elevated international representation' (Hughes 2003).<sup>15</sup> Not surprisingly, given Prime Minister John Howard's known support for the work of the

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15 Hughes's earlier article, published in 2003 and titled *Aid Has Failed the Pacific*, elicited much criticism within the region and in Australia and New Zealand, and many of the critical responses to the paper are available on the Internet.

CIS, the federation idea has found favour with the Australian Government, which has advanced a proposal for a Pacific economic community with a single (Australian) currency and a regional central bank, together with a regional legal and administrative structure to respond to law and order breakdowns.<sup>16</sup> The prospects for the Pacific Island states joining such a community, dominated politically and economically (under PACER) by Australia, are hardly advantageous. Australia's recent intervention in the Solomon Islands, justified by the Australian Strategic Policy Institute (ASPI), another neoliberal think tank, on the grounds of the 'failed state' thesis, has already been shown to be about more than restoring law and order and security. And the presence of Regional Assistance Mission to Solomon Islands (RAMSI) has ensured an orderly return to the implementation of structural adjustment policies in the Solomon Islands. Many speculate that direct intervention by Australia in Papua New Guinea will follow. In July 2004, the CIS published a report on Papua New Guinea by Hughes that offered a free-market blueprint for more aggressive Australian intervention in that country (Hughes 2004a). The report was released as 230 Australian officials and police were preparing to take over key posts in the PNG police force, courts, finance and planning ministries, customs, and civil aviation. In other Pacific countries, large numbers of Australian and New Zealand consultants on contracts financed by bilateral aid programs already occupy positions within key ministries and state agencies, advising, supervising or drafting legislation for reform implementation.

In an evident downplaying of sovereignty, Hughes's argument that Norfolk Island, which without aid has a per capita income nearly twice that of Australia, is a model for emulation (Hughes 2003:4) is restated in her more recent article. The inclusion of Norfolk Island in a comparative table on Pacific Island states and territories, and the use of the term 'islands' as referents, rather than states or countries (as in 'All Pacific islands could be viable at high standards of living within a generation if they adopted policies that matched their endowments' and, 'The policy measures needed to make every Pacific island viable are well known') reflect the neoliberal bias against states as political entities with regulatory and other powers that can be used against the interests of free enterprise. The conceptualisation instead of islands as economic entities, presumably run

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16 Howard paid tribute to the CIS at its 20th anniversary dinner in 1996 in Sydney, as recorded on the CIS's website, [www.cis.org.au](http://www.cis.org.au).

by free market technocrats, suggests island populations not of citizens with rights, but simply of producers and consumers, or buyers and sellers—in other words, societies defined and governed by the market. This raises a number of fundamental questions about the future being envisaged for us by neoliberals such as Hughes. First, is the emphasis on islands as opposed to states in Hughes's neoliberal discourse calculated to prepare Pacific Island states for an even more reduced role in future years? If so, how will Pacific citizens in such societies exact accountability from those who make economic and social policies that severely impact their lives? And what meaning will we attach to elections, or to the implicit social contract between democratic states and citizens, that obliges states to protect the interests of all their citizens, and that assure them of a broad range of rights and entitlements, not least those enshrined in longstanding protective laws? And how are Pacific Islanders, dispossessed of the communally held land that is the basis of their semi-subsistence livelihoods, expected to respond to a rash of land sales to wealthy foreigners and corporations? The aggressive marketing of neoliberalism and its core values of individual advancement, private wealth accumulation and open access to resources strikes at the heart of things that have long been enshrined in law, cultural value systems and social practice in the Pacific Islands. The time is long overdue for critical investigation and public debate on the long-term implications of following a course set by outside navigators whose final destination is not of our choosing.

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