Australia-Papua New Guinea relations, 1980-1990: independence and change

Dorke de Gedare

University of Wollongong

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AUSTRALIA-PAPUA NEW GUINEA RELATIONS, 1980-1990: INDEPENDENCE AND CHANGE

By

DORKE de GEDARE

BA, BA(Honours) (UPNG), Grad. Dip. (Defence Studies) (ANU)

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DISCLAIMER

This thesis contains material which has not been previously submitted or accepted for any other degree or diploma in any University. To the best of my knowledge, the thesis contains material that has not been written or published by another person except that to which reference is made.

Dorke de Gedare
PREFACE AND ACKNOWLEDGEMENTS

After acceding to political independence in 1975, Papua New Guinea's (PNG) overall relations with Australia were generally described as dependent. The relationship was described as dependent because PNG's reliance upon Australia for economic input (trade, aid and investment), education and as the major source of skilled manpower recruitment was substantial. Consequently, PNG's conduct of bilateral relations with Australia were constrained - this socio-economic dependence also restricted PNG from pursuing relations with others independent of Australia particularly, between 1975-1979. But socio-economic and skilled manpower recruitment were not the only reasons contributing toward a dependent relationship with Australia. Other factors such as, firstly, the inexperience of the PNG foreign affairs officials and politicians and their getting to know how to conduct the bilateral relations also helped to make the dependent relationship much deeper than it appeared. Secondly, PNG's proximity to Australia implied substantial and continuing interest amongst Australia's military-strategic and political planners, thereby increasing Australia's influence.

The dependent situation did not emerge suddenly at PNG's political independence in 1975. The foundations were already set during the period of Australian colonial rule, particularly beginning in 1962 following the United Nations Visiting Mission (1962) and the World Bank Mission (1964).

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However, PNG's dependence upon Australia was not necessarily, as argued by other writers, a consequence of an official policy per se, but stems from the desire of the colonial Administration (and the Australian Federal Government) to help develop PNG toward economic self-sufficiency in preparation toward eventual political independence. Economic self-sufficiency for the Territory of Papua and New Guinea was to be achieved under policies recommended and espoused by the World Bank and the colonial Administration such as for example, increased foreign participation to boost economic activity within the territory which incidentally led to the development of linkages between foreign investors in the territory and business interests overseas.

In spite of these linkages between domestic and foreign business interests and the fact that aid relations continued to be the focus of the relationship, PNG's relations with Australia in the 1980s were thought to have "become relatively, but not absolutely, less important to PNG". The relative decline in importance of relations with Australia occurred because PNG began to diversify its trading partners toward South East Asia and North East Asia including Japan and Germany (West) with Japan becoming an important export destination (though Australia retained its status as the major origin of PNG's imports). Japan also became a substantial aid donor and increasingly Asia was replacing Australia as an important area of recruitment of skilled personnel. These developments led to greater independence by PNG in the conduct of its relations with Australia. But other issues such as the projected cessation of Australian budget support by the year 2000, and its gradual replacement by project and program aid, point to the potential erosion of PNG's independence. How has the shift from budget support to tied aid impinged upon policy independence? is a question which is answered in the course of the dissertation.

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3 Papua New Guinea Foreign Affairs Review (PNGFAR), vol. 1 no. 2, 1982 (special issue)
The analysis of the conduct of PNG's bilateral relations with Australia considered against the background described above can lead to two possible conclusions: firstly, that foreign policy directions as enunciated - universalism and active and selective engagement - were responsible for increasing policy independence in the conduct of bilateral relations with Australia, and secondly that the manifestation of PNG's policy independence from Australia was a consequence of its economic diversification (in trade, aid and investment) and the desire by PNG to be in control of its own destiny. The successive universalist and selective and active engagement foreign policy directions had differing impacts on the conduct of external relations. Universalism was intended to accommodate existing global divisions, whilst selective and active engagement was intended to define in clear terms PNG's basic orientations. In my view, PNG's policy independence reflects economic diversification as the principal source of independence because, without "real" independence (particularly economic), PNG would and could not be able to sustain a continuous and consistent level of independence over a longer period of time, which I am suggesting PNG has done since 1980.

However, as I argue in the introduction, PNG's policy independence can also be attributed to other explanations such as for example, the power of the weak (many competing diverse interests and Australia's more broader regional and global interests), political decolonisation and coinciding interests. I intend in this dissertation to show how these explanations are relevant in defining PNG's policy independence.

I wish to acknowledge a number of people who helped me in the course of writing this dissertation. Firstly, my supervisor, Professor Wolfers of the History and Politics Department, Wollongong University who went out of his way to secure me a scholarship and subsequent extensions and his constant encouragement and continued faith in me; he spent long hours commenting on several unorganised drafts. Secondly, I wish to thank Dr Anthony Ashbolt of History and Politics Department, Wollongong University for taking the time to comment on my final draft. Thirdly, Ms Ellen Aua of
the Attorney General's Library, Port Moresby for furnishing me with certain documents which I could not have obtained without her help. Finally, my wife Casy and son Gedare who endured my neglect of family duties throughout the length of my studies, and encouraged me to persevere.

Nevertheless, I take sole responsibility for all misinterpretations or mistakes encountered in this dissertation.

Dorke de Gedare
University of PNG, 1994.
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ABC</td>
<td>Australian Broadcasting Commission</td>
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<tr>
<td>ACFOA</td>
<td>Australian Council for Overseas Aid</td>
</tr>
<tr>
<td>ACP</td>
<td>Africa, Caribbean and Pacific</td>
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<tr>
<td>ADF</td>
<td>Australian Defence Force</td>
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<tr>
<td>AFAR</td>
<td>Australian Foreign Affairs Record</td>
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<tr>
<td>AGPS</td>
<td>Australian Government Publishing Service</td>
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<tr>
<td>AIDAB</td>
<td>Australian International Development Assistance Bureau</td>
</tr>
<tr>
<td>ANU</td>
<td>Australian National University</td>
</tr>
<tr>
<td>ANZUS</td>
<td>Australia, New Zealand and United States treaty</td>
</tr>
<tr>
<td>ASAG</td>
<td>Australian Staffing Assistance Group</td>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>BPNG</td>
<td>Bank of Papua New Guinea</td>
</tr>
<tr>
<td>BRP</td>
<td>Budget Related Papers</td>
</tr>
<tr>
<td>CPC</td>
<td>Constitutional Planning Committee</td>
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<tr>
<td>DCP</td>
<td>Defence Co-operation Program</td>
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<tr>
<td>DCT</td>
<td>Development Co-operation Treaty</td>
</tr>
<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community (EU: European Union)</td>
</tr>
<tr>
<td>EEZ</td>
<td>Exclusive Economic Zone</td>
</tr>
<tr>
<td>ETMs</td>
<td>Elaborately Transformed Manufactures</td>
</tr>
<tr>
<td>FSM</td>
<td>Federated States of Micronesia</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>JCFAD</td>
<td>Joint Committee on Foreign Affairs and Defence</td>
</tr>
<tr>
<td>JCFADT</td>
<td>Joint Committee for Foreign Affairs, Defence and Trade</td>
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<tr>
<td>JDP</td>
<td>Joint Declaration of Principles</td>
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<tr>
<td>LGC</td>
<td>Local Government Council</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>OECD</td>
<td>Organisation of Economic Co-operation and Development</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OPM</td>
<td>Organisasi Papua Merdeka</td>
</tr>
<tr>
<td>PATCRA</td>
<td>Papua New Guinea and Australia Trade and Commercial Relations Agreement</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
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<tr>
<td>PNGDB</td>
<td>Papua New Guinea Development Bank</td>
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<tr>
<td>PNGDF</td>
<td>Papua New Guinea Defence Force</td>
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<tr>
<td>PNGFAR</td>
<td>Papua New Guinea Foreign Affairs Review</td>
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<tr>
<td>RPNGC</td>
<td>Royal Papua New Guinea Constabulary</td>
</tr>
<tr>
<td>SPC</td>
<td>South Pacific Commission</td>
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<tr>
<td>SPEC</td>
<td>South Pacific Bureau for Economic Co-operation</td>
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<tr>
<td>SPF</td>
<td>South Pacific Forum</td>
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<tr>
<td>SSCFAD</td>
<td>Senate Standing Committee on Foreign Affairs and Defence</td>
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<tr>
<td>UNITAR</td>
<td>United Nations Institute for Training and Research</td>
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<td>UN</td>
<td>United Nations</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USSR</td>
<td>Union of Socialist Soviet Republic</td>
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INTRODUCTION

THE THESIS

This dissertation analyses bilateral relations between Australia and PNG. The central thesis (of the dissertation) is that, in spite of the high level of dependence by PNG upon Australia for aid, as a major source of imports, for capital investment and education and manpower recruitment and training, PNG has been able to pursue an independent external policy in conducting its bilateral relations with Australia.

In examining the relationship between economic dependence and policy independence in the Australia-PNG bilateral relationship, the dissertation considers two important questions:

(a) How have relations changed between 1980 (five years after PNG gained political independence in 1975)? and 1990; and

(b) Why have relations changed?

The answers to these questions explain the apparent contradiction between the high level of economic dependence and external policy independence of PNG vis-à-vis Australia.

THE TIMEFRAME

The dissertation discusses the development of PNG's relations with Australia between 1980 and 1990. This period was chosen because of a number of important developments which contributed to the emergence, development and maintenance of policy independence in the conduct of bilateral relations with Australia. The development of policy independence in PNG in some instances either coincided with Australia's own national interests or was facilitated by factors such as the first major change of post-independence Government in 1980, when Sir Julius Chan replaced Mr. Michael Somare as Prime Minister, the introduction of "active and selective engagement" as the basis of a new foreign policy direction in 1981 (and subsequent re-endorsement up
to the present) replacing universalism (1975-1980) (see chapter 2); the emergence of major changes in the composition of Australian overseas aid, spurred by Australian taxpayers' concern for accountability, official reports and parliamentary inquiries1 and changes forced upon the Australian Government by economic realities imposed by international economic recessions and other factors, which led to a shift in emphasis of future aid toward tied aid (project and program) in 1986 (discussed in detail in chapter 5); the formalisation of the relationship through the signing of the Joint Declaration of Principles (JDP) in 1987 and subsequent arrangements (for example, the Development Co-operation Treaty (DCT) in 1989 and The Security Co-operation Principles) thereafter.

The focus on the 1980s does not mean that the immediate post-independence era (1975-1980) will be neglected. The earlier period will not be neglected because the foundations for the changes manifested in the eighties were set in motion during the immediate post-independence era which are discussed in chapter 2. Political independence in 1975 was the major catalyst of change in bilateral relations between Australia and PNG, because legally that was when PNG attained sole responsibility for its domestic and external affairs. But very little of this newly attained political independence was exploited by PNG between 1975 and 1980 because PNG lacked the resources to do so, resources such as finance and experienced, skilled manpower. Also, being newly independent, PNG foreign affairs officials and politicians were still feeling their way: they were in the process of acquainting and familiarising themselves about how to conduct external relations2. As the foreign service officials developed expertise in the conduct of external relations coupled with the declining novelty of independence,

1 The two parliamentary inquiries that had major impact upon the change in direction and the composition of aid were the Crawford Report, 1981 and the Joint Committee on Foreign Affairs, Defence and Trade, Australia's Overseas Aid Program (Jackson Report), Canberra: AGPS, 1985.
2 E. Wolfers, "Foreign relations and foreign policy making in the South Pacific: independence and beyond", paper delivered to the conference on Post-independence Relationships in the Pacific Island States held by the Pacific Islands Political Studies Association in Apia, Western Samoa, 23rd-25th May 1988: 3.
the normal development of foreign relations began to emerge and stabilise. I use the
term normal development to describe the process of foreign policy separation between
the coloniser and the colonised and the transfer of responsibility for determining foreign
policy issues and objectives from the coloniser to the new state as diverging "national
interests" were identified. As in other cases, the normal development of relations led to
disagreements and conflicts between states as each tried to pursue its own particular
national interests. The emerging disagreements and diplomatic conflict encountered
between the former colony's and the coloniser's foreign policy interests were considered
by the metropolitan country to be discontinuous and consequently misinterpreted and
misunderstood\(^3\). The disagreements and diplomatic conflict were misinterpreted and
misunderstood because the newly-independent state's interests diverged from the former
coloniser's and other major powers', while the colonisers naively did not expect the newly
independent state interests to be drastically different from their own interests.

THEORETICAL FRAMEWORK OF ANALYSIS

As a newly independent state, the Government of PNG embarked upon the
process of establishing a separate national identity amongst the community of nations.
The establishment of a separate identity entailed the formulation and implementation of a
distinct and independent foreign policy\(^4\), because the development and the conduct of
external relations is an accepted symbol and a normal outcome of independence and
sovereign statehood. However, in the case of Australia and PNG, writers like Amarshi
et. al.\(^5\) have argued that PNG, being heavily dependent economically on Australia has
little independence in the conduct of its foreign relations. The above authors' conclusions are supported by the evidence of data in almost all facets of the relationship - development aid, investment capital, trade and commerce, education and training,

\(^3\) Ibid.
recruitment of skilled manpower: PNG was and continues to be heavily dependent on Australia. Even with this statistical evidence, PNG has however been able to conduct an independent foreign policy with Australia. What are the reasons for such policy independence? I shall attempt to answer this question in the latter sections of the dissertation. Before venturing further, let's define the term dependence.

Dependence has several definitions and explanations: (critique of) dualism; development of core and periphery; unequal exchange; and the emergence and the consequent subordinate role of dependent national bourgeoisie. Dependence however, is said to be a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which it is subjected. This leads to a situation in the dependent countries whereby they are placed in a backward position in relation to, and under the exploitation of the dominant countries.

Dos Santos' definition of dependence explicitly contends that the development of dependent countries is determined and constrained by the interests of other more powerful and developed states to such an extent that almost every socio-political and economic aspect is subordinated to the dominant countries. Paul Baran argues along similar lines insisting that

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economic development in the underdeveloped countries is profoundly inimical to the dominant interests in the advanced capitalist countries\textsuperscript{13}.

Even though Baran suggests influence rather than dependence, it is reasonable to maintain that, that influence is backed by economic power and is the base upon which the conditions are created for dependence to become manifest.

In spite of the differences, both Dos Santos and Paul Baran agree in general that the development of the weaker country is usually determined by stronger more powerful states' (and lending agencies', such as the World Bank's) economic and other interests\textsuperscript{14}. They both imply that the weaker countries do not (necessarily) choose to be subordinate. If developments in the weaker states are conditioned by powerful countries (and lending agencies), then economic dependence is merely a manifestation of the process of economic subordination. Consequently, it is an expected development for foreign policy to become subordinated to the economic interests of the more powerful country\textsuperscript{15}.

Statistics and other data presented in chapters 4 (commerce and investment), 5 (official development assistance) and 6 (defence co-operation) attest to the fact that PNG's relationship with Australia is a dependent one. Dependency\textsuperscript{16} thus, has been the (logical) framework for the discussion of the relationship between Australia and PNG, suggesting that most policies (domestic and external) are influenced by Australia. In fact, a review of publications and parliamentary inquiries into Australia-PNG bilateral relations further attests to this conclusion.


\textsuperscript{14} E. Wolfers, "PNG's politics and their implications for Australia", in E. Wolfers (ed.), \textit{Australia's Northern Neighbours: Independent or Dependent}, Melbourne: Thomas Nelson (Australia) Ltd., 1976: 2.

\textsuperscript{15} See an account of Pacific island states dependence upon imported energy in Hamnett \textit{et al.}, "Unbalanced books:....", 1981.

In order to understand the explanations discussed below of why PNG has shown independence in the pursuit of its bilateral relations with Australia and foreign policy in general, it is important to identify the position of PNG in the hierarchy of states in the international global pecking order. PNG is a small state in terms of its economy, geography, demography and military establishment (manpower, technology and readiness) and the availability of educated, skilled manpower. A United Nations Institute for Training and Research (UNITAR) study into small states (micro or mini) and their problems utilised the definition which appeared in the Introduction to the United Nations General Secretary's Annual Report 1966-1967 when it referred to small states as entities which are exceptionally small in area, population and human and economic resources. PNG under the UN definition has a small land area and lacks skilled human resources but has a population of almost 4 million and is resource rich. Most writers (and UNITAR is no exception) emphasise the primary importance of population as a determinant of a country's status as either small, medium or big. By UNITAR's population criterion, which suggests a maximum population ceiling of 1 million, PNG is left outside the small (micro or mini) category. David Vital in his study of small states submits that state status can be categorised into great, middle and small powers, using population as the major criterion, but differing minimum and maximum ceilings for developed and developing states: for the economically advanced small states, population ceiling is placed between 10-15 million, and for the small developing states population ceiling is determined between 20-30 million. Furthermore, for Robert Keohane, small states are categorised as system-ineffectual because states in this

19 The other categories identified by Keohane includes (a) system determining; (b) system-influencing; and (c) system-affecting. These categories are similar to the traditional usages of great, secondary, middle and small powers (R. Keohane, "Lilliputians' dilemmas: small states in international politics", International Organisation, vol. 23, 1969: p. 296).
category cannot individually generate significant impact upon the international system, except as members of a larger group\textsuperscript{20}. If population is to be the determining factor, PNG cannot be considered a small state under Vital's categorisation because PNG has a population of almost 4 million which is outside of the designated population of 20-30 million maximum required for small developing countries. By UNITAR's classification PNG would not be a small state too (as UNITAR defines a state a micro- or ministate if population does not exceed the maximum of 1 million). Keohane's classification of PNG as a system-ineffectual state is the most relevant of the potential definitions discussed above. It is true that PNG on its own cannot, and is unlikely to, have significant impact upon the international system because PNG's interests are not global, but are regional and local and can be satisfied locally (unlike say, the United States which has global interests). Even though PNG's impact upon the international system is negligible, its impact upon bilateral relations with Australia and at local and regional levels is quite significant.

The classifications above of small states implicitly acknowledge the centrality of power as an important factor in the determination of a state position in the international system. What is power? Power has a variety of definitions. Power has three common aspects which are, control over resources, control over actors and control over outcomes\textsuperscript{21}. The control over resources, actors and outcomes highlights "what a state possesses and what a state does"\textsuperscript{22}. Morgenthau suggests that "when we speak of power, we mean man's control over the minds and actions of other men"\textsuperscript{23}. But not all exercise of power is observable - what does not and what does appear on the agenda for discussion also is defined as an exercise of power\textsuperscript{24}. A definition of power which has

\textsuperscript{22} J. Ray, Global Politics..., 1992: 188.
the advantage of being widely applicable, thereby lessening the potential for long-drawn-out debates is that

Power is the ability to prevail in conflict (war) and overcome obstacles (non-compliance).

I shall adopt this definition in this thesis.

The ability to prevail and to overcome others depends upon a state's ability to direct available resources toward controlling necessary efforts and effects upon the target in order to change its behaviour. But a change in the targets' behaviour may not be necessarily a result of the exercise of power - the change may occur because it is in the interests of the target state to change for itself.

After considering the characteristics and definitions of small states and power discussed above, it is clear that individual small states cannot significantly influence system-wide forces which affect them. If the foregoing is correct, then why and how have PNG (and other small states in similar situations) been able to affect and influence bilateral relations?

There are several possible explanations which are described as (a) the power of the weak; (b) continuing decolonisation and normalisation; and (c) the coincidence of socio-political, economic and military strategic interests. These explanations are discussed below.

Power of the Weak

The concept of the power of the weak attempts to explain the manifestation of independence by small states in their relations with bigger and powerful states. Arnold Wolfers in 1962 suggested the concept "power of the weak" to explain why

small states like Cuba and Albania gained advantage over their superpower neighbours. Wolfers observes that power of the weak stems from the relationships among the great powers themselves. Even for them power is a scarce commodity which they need to husband with care. This means placing priorities on its use. Therefore, whenever two great powers are locked in serious conflict they can spare little if any of their coercive strength to deal with minor offenders and to impose their will on them over issues that have no direct bearing on the major struggle in which they are involved as equals.

The relaxing of control over weaker states by the major powers emanates from the preoccupation with the immediate conflict with other powerful states, creating the circumstances and expanding opportunities for the exercise of independence by small states. In this instance, independence is not a result of the small state's ability to act independently, but the result of a major powers' rationalisation and direction of resource allocation and outlays to areas of concern whose eventual outcomes will affect their interests significantly, either detrimentally or beneficially to their position (as major powers) in the global pecking order.

Power of the weak also manifests itself as a "paradox of unrealised power" which contends that the ostensibly more powerful states somehow fail to translate their power resources into actual power.

The inability to translate power resources into actual power by major states limits the range, scope and comprehensiveness of their power on targeted states. The lack of effect over target state's behaviour will be determined by the control over and expenditure of resources by the major power toward the attainment of the desired effect. Consequently, small states can act in this environment with a certain degree of policy independence.

The non-translation of power resources into the actual exercise of actual power can be attributed to three factors: (a) the loss-of strength gradient, that is, the targeted

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26 Ibid.: 111-112.
party has third party help of similar strength (North Korea was backed by China against the United States during the Korean war and Vietnam was propped up by the USSR against the USA during the Vietnam war), compounded by the tyranny of distance of the conflict making the projection of power more difficult; (b) lack of the resolve to win brought about by the fact that the reasons are fudged or less important then they might appear (again exemplified by the Vietnam War); and (c) the existence of a wide range of foreign policy objectives competing for resources may restrict optimal amounts for distribution to each objective. The scarcity of resources leads to prioritisation, consequently, forcing some objectives to be either scrapped or under-funded\(^{28}\). The three factors have over the centuries been responsible for imbuing in small states an ambition to be independent of major powers' influence and/or dominance, and a recognition that their ambitions can, in practice be attained.

**Decolonisation**

Decolonisation is commonly defined

as a change in sovereignty, in which a [colonising] state recognises the [political] independence of people formerly under its rule and their right to a government formed according to procedures determined by them. A new state acting under its own volition, free from the direct control of foreign actors, comes into existence as part of the international community\(^{29}\).

Decolonisation directly involves

the severance or transformation of the link between it [new state] and its administering authority [colonising state] and the creation of an autonomous system of government\(^{30}\).

Decolonisation does not only stand for a process whereby a former colony gains political independence ending formal direct rule, but also includes a variety of other
forms such as incorporation and free association\textsuperscript{31}. Most colonies, though, opt for political independence because independence gives the new states responsibility for their own government, domestic policy and external relations. Independence also means that the newly constituted state is the only legitimate authority within the geographically prescribed boundary of the said entity.

However, the problem of a clear definition of decolonisation emerges from the ambiguity of the term sovereignty. Sovereignty implies "complete and total control" or supreme authority within a defined territory and its domestic affairs and a reasonable degree of independence in the conduct of its external affairs\textsuperscript{32}. Sovereignty defined above does not describe the situations of most small Pacific Island states, even though their statehood is assured by formal constitutional arrangements. For many such states, sovereignty is, in many ways, no more than symbolic and does not correlate with, or and translate into, political, economic and strategic matters\textsuperscript{33}. For example, Cook Islands, Federated States of Micronesia and Niue have gained political independence but final responsibility for significant aspects of their defence and security - hence foreign affairs - remain the responsibilities of their former rulers (respectively, New Zealand, the United States of America and New Zealand). In Eastern Europe, a variety of countries were regarded as sovereign independent states by the international community, but their policies in most respects were determined by Moscow. With the crumbling of the former USSR and its empire, Soviet control over them has disappeared. This process might be considered as their "decolonisation". In the light of the disengagement of the USSR from Eastern Europe, decolonisation would in a broader sense also include the increased [domestic and external policy] independence of peoples never subjected directly to such rule\textsuperscript{34}. In other words, decolonisation broadly includes freedom from both direct and indirect political, economic, military-strategic and cultural domination.

\textsuperscript{31} Ibid.
\textsuperscript{34} J. Kruger, \textit{The Oxford Companion...}, 1993: 217.
Although all independent states (big and small) are equal under international law, differences in the practice of sovereignty exist. The difference between small and big powers is that sovereignty for bigger, developed states is not just a matter of international law or constitutional rhetoric but is in part based upon their ability to sustain themselves economically, politically and militarily whilst for small states' sovereignty is mostly symbolic.

Sovereignty for the small island states in the Pacific is largely symbolic. Though politically independent, their independence is restrained by the realities of smallness, remoteness and limited resources. The factors of smallness, remoteness and limited resources mean that aspirations for employment, better social services, clean water, education and better standards of living remain unfulfilled, thereby leading to social problems (law and order) and political instability. Aspirations are usually met through assistance from foreign sources. For example, PNG an independent country continues to receive Australian economic aid, which increases the capacity of the economy to meet the expectations of its citizens, thereby contributing toward a unified and stable state. The use of economic aid as leverage to obtain acquiescence from PNG by Australia remains a real possibility.

**Coinciding Interests**

Coinciding foreign policy interests between international actors is another source of policy independence for small states. Coinciding interests produces co-operation. For example, the stability of PNG as a viable unified state is in the best security interests of both Australia and the Government of PNG. Australia helps maintain the status quo through its aid program.

36 Ibid.: 118.
Co-operation between and amongst small states is a very effective instrument in affecting and influencing major powers' decisions\(^{37}\). Co-operation by and between small states is and can be achieved through the use of multilateral global and regional organisations, as is the case in the Pacific\(^{38}\). The signing of a fisheries agreement between the United States of America and the member states of the Forum Fisheries Agency is an example of how collaborative action can be of benefit to smaller states in extracting recognition of their rights, as well as material resources, from a reluctant, much more powerful state.

The manifestation of small state policy independence from major powers can be - and has been - attributed to the explanations of (1) power of the weak; (2) decolonisation; and (3) coinciding interests. But (1), the power of the weak does not fully explain the Australia-PNG relationship because there has been very little super power competition in the region. PNG’s policy independence however, can be said to emerge from the fact that Australia’s interests are many and more wide-ranging than PNG’s. All of these interests compete for limited resources, with the result that some interests and initiatives are more vigorously pursued than others, whilst others may be shelved until resources became available. (2), the explanation of coinciding interests as enhancing the "independence" of the small state does occur as opposition to small state by the larger, developed (major) state do not arise: as the two states' major policies, interests, and initiatives coincide. Coinciding interests improve the opportunities for the attainment of major powers' national interests without undue acrimony. (3), decolonisation, if defined in terms of political independence, also invests in a small state sovereignty (even in its various limited forms), effectively giving that state under international law the right to have sole responsibility for its domestic and external affairs. This gives a state (even a small one) a chance to act independently.


\(^{38}\) P. Boyce and R. Herr, "Microstate diplomacy in the South Pacific", *Australian Outlook*, vol. 28 no. 1, 1974: 27.
In this dissertation, power of the weak exercised as a consequence of wide-ranging interests, decolonisation as political independence and coinciding interests manifested by parallel external policies will be used to explain policy independence of PNG.

ORGANISATION

The dissertation is organised into seven chapters including the introduction and conclusion, each chapter dealing with a specific aspect of the bilateral relationship. The dissertation does not discuss the totality of the relationship, that is, both private and public - the dissertation is only concerned with the public aspect of the relationship. Of the public aspect, the dissertation will only discuss issues relating to the emergence of policy independence in the bilateral relationship with Australia.

The Introduction presents the thesis and a framework of analysis. This chapter tries to develop a framework which is used to explain the policy independence of PNG in (its conduct of) bilateral relations with Australia. Though, investment, commerce and aid (both economic and defence related) data suggest that policy independence should be minimal, PNG's policy independence in the (pursuit of) its bilateral relations contradicts this evidence. I suggest that the explanations lie in the power of the weak, decolonisation and coinciding interests, which present PNG with opportunities to manifest independence.

Chapter one presents a general historical overview of the development of relations between Australia and PNG. It attempts to put post-colonial developments into perspective by discussing colonial policies and administration. I will not try to trace the colonisation process from annexation to independence, but I will discuss only those developments which I believe are relevant to the development of PNG's policy independence, particularly the period between 1960 and 1979. I will also discuss the preparation of a foreign office in 1973/4, marking the transfer of de facto (not legal) control of PNG's relations with Australia and other countries and international entities
following the appointment of the Minister for Defence, Foreign Affairs and Trade\textsuperscript{39}. In February 1975, responsibility for external relations was transferred to the Minister for Defence, Foreign Affairs and Trade in PNG, some seven months before formal, legal independence.

The second chapter considers Australia-PNG relations in the overall context of PNG's foreign policy. The purpose of this chapter is to see if PNG's foreign policy has been a result of this independence or if these foreign policy directions have been responsible for the facilitation of independence in PNG's interaction with Australia.

Commerce and investment are discussed in chapter three. The contentions in this section will be two-fold: firstly, that PNG's diversification program away from Australia has been responsible for increasing PNG independence, and secondly - a somewhat contradictory development - that the diversification is a manifestation of the continuous development of policy independence. I shall attempt to show that, whilst PNG is economically dependent on Australia, such dependence did not unnecessarily restrain PNG in its bilateral relations.

Official development assistance is the concern of chapter four. It was the centrepiece of bilateral relations from independence until the Joint Declaration of Principles was signed in 1987. The gradually decreasing level of budget support and a shift to project and program aid since 1986 have been viewed differently by both Australia and PNG. From PNG's viewpoint, budget support reductions entail a significant decline in policy independence, with a shift to project and program aid, which increases Australia's influence over PNG's development policies. From Australia's view, the shift to project and program aid is necessary to improve accountability. I will attempt in this chapter to determine the significance and impact of the shift.

Chapter five discusses security issues and defence co-operation between the two countries. This chapter will attempt to make a case that, for PNG, security encompasses non-military aspects, such as law and order problems arising from lack of economic

\textsuperscript{39} E. Wolfers, "Foreign relations and foreign policy making...", 1988: 6.
development. Resource (mineral) development related issues and conflicts over land and compensation and in Bougainville have become important and prime areas of concern. As a consequence, Australian defence aid has come to embrace not only strictly military related projects but also included aid to police (training and accommodation), law and order (court training), civic projects (engineering and construction), and building the administrative capability and capacity of the security forces. This leads to the development of a certain degree of self reliance and independence in setting domestic and external security policy directions.

In the concluding chapter, six, I shall attempt to suggest that the sources of small state independence identified above do not necessarily imply that all small states manifest similar levels of independence. Some small states may be more independent than others, for example, Switzerland wields more political clout than say PNG globally because of the nature of the services it supplies to the world. In the case of PNG and Australia, I shall argue that other factors such as Australia's desire for a politically stable neighbour, gives PNG added leverage for policy independence.

Finally a word of caution. I do not intend in the dissertation to discuss PNG's bilateral relations with other countries. If these other bilateral relations are mentioned, they will only be mentioned in the context of the dissertation's main concerns. The dissertation is not a study of the whole of PNG's foreign policy; it is focused on PNG's relations with Australia.
Papua New Guinea acceded to political independence on 16 September 1975 after 69 years in Papua and 61 years in New Guinea of Australian colonial rule. My intention in this chapter is not to trace the process of annexation and colonisation, but to discuss and identify developments that may have contributed to the emergence of policy independence in PNG, for example, the establishment of a foreign office in 1973. Contrary to existing literature which describes PNG's policy process as dependent on Australia, I will argue that Australia did attempt to develop conditions for the emergence of (foreign) policy independence in an independent PNG.

AUSTRALIAN COLONIAL POLICY AUDIT

The deficiencies of post-Worl War II Australian administration and colonial policies in the Territory of Papua and New Guinea were highlighted by a United Nations Visiting Mission in 1962 and a subsequent economic report submitted by the World Bank Mission (IBRD) to the territory in 1963.

The 1962 United Nations Visiting Mission

The 1962 United Nations Visiting Mission to Nauru and New Guinea was led by a prominent English, civil servant, Sir Hugh Foot. Though the report acknowledged and commended Australia on the developments achieved up to 1962, the UN Mission still argued that development was slow when compared to the rate of decolonisation in
Africa. The report described existing Australian policy as inadequate, and recommended accelerated progress in all spheres of the society.\(^1\)

The report stated

First, it is essential to be ahead and not behind the rapidly awakening and increasingly insistent desire of the people for material progress. Secondly, it is necessary to equip the people, with higher education to take a leading share and not merely a subordinate part, in the management of their own affairs. Thirdly, the whole territory must be drawn together and given the means for free political expression by the creation of a representative parliament. We are convinced that there should be no delay whatever in pressing on to achieve these three purposes. Then the way will be cleared for increasing the pace and momentum of progress towards the declared object of national self-determination.\(^2\)

In an attempt to speed up the process of decolonisation, the 1962 UN Visiting Mission recommended: (1) a full economic survey to be undertaken by the World Bank in 1963; (2) a new program for the establishment of a national university and higher education in the territory; and (3) an immediate plan for the election of a representative parliament, all of which should be effected no later then the end of December, 1963. The only recommendation carried out by 1963 was the full economic survey, whilst the other two - a fully representative parliament and the establishment of a university and the development of tertiary education - were implemented in 1964 and 1966 respectively. The impact of the three recommendations upon the preparation of PNG for eventual political independence will be discussed below.


\(^{3}\) *Ibid.*: 16.
The 1963 World Bank Report

The 1963 World Bank Mission's visit to PNG, commissioned by the Australian Government was a direct response to the recommendation made by the United Nations Visiting Mission to Nauru and New Guinea in 1962. The Bank was expressly directed to make a full survey of the territory's economic potential and to make recommendations to assist the Australian Government in planning a development program to stimulate and expand the economy.

The aim of the survey by the World Bank was to find areas of the economy where indigenes might participate in order for the territory to become economically self-reliant and so ready for early self-government. To this end, the World Bank recommended the expansion of production of cash crops such as copra, coffee, cocoa and rubber. To attain economic self-sufficiency and eventual political independence, a program of economic development over a five year period was proposed between 1964/1965 and 1968/1969. Effectively, political development was linked to economic development, that is, political development would only be pursued after a self-sustaining economic base had been established within the territory. In years, when political independence was discussed, this stance was adopted by the Leader of the Opposition and the United Party, Sir Tei Abal, in opposing immediate independence or independence in the "near future".

Increased economic activity and greater indigenous participation meant subsequent increases in indigenous income and wealth, the broadening of the tax base, the disproportionate gap between government expenditures and revenues in the territory narrowing and the widening deficit in the balance of payments (met by Australian Government grants) reduced. This economic program was aimed at attaining self-reliance and independence.

5 *Papua and New Guinea House of Assembly Hansard, 27th November 1973.*
Issuing from the UN and the World Bank reports, the colonial administration developed the first five-year plan for 1968/1969 to 1972/1973. The plan was an economic guide intended to increase cash cropping and livestock production, investigate the possibility of more profitable exploitation of natural resources, and expand the commercial infrastructure of the economy\textsuperscript{7}. The plan incorporated the recommendations for increased indigenous participation by providing incentives like capital financing, however, as discussed below, it was not very successful. Increasing indigenous participation was basically an instance of trickle-down during the 1960s, but then became government policy in the lead-up to eventual political independence in 1975. The second five year plan began in 1973/1974 and ended in 1977/1978. The second five year plan was concerned primarily with distribution, to which the Somare-led Government gave official sanction by the enunciation of an 8 point plan in 1973\textsuperscript{8}. The


\textsuperscript{8} The 8 point plan was intended to facilitate distribution to Papua New Guineans by

\begin{itemize}
\item[(1)] a rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups and in the proportion of personal and property income that goes to Papua New Guineans;
\item[(2)] more equal distribution of economic benefits, including movements towards equalisation of income among people and towards equalisation of services, among different areas of the country;
\item[(3)] decentralisation of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade and more spending channelled to local and area bodies;
\item[(4)] an emphasis on small-scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of activity;
\item[(5)] a more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production;
\item[(6)] an increasing capacity for meeting Government spending needs from locally raised revenue;
\item[(7)] a rapid increase in the equal and active participation of women in all forms of economic and social activity; and
\item[(8)] government control and investment in those sectors of the economy where control is necessary to achieve the desired kind of development (\textit{Papua New Guinea House of Assembly Debates, February 1973}).
\end{itemize}
first five year plan had tangible and attainable objectives and goals by which the success of Australia's commitment could be measured, but the second five year plan was less tangible, and the measurement of success was difficult to measure. Because the first five year plan was an Australian plan, it put pressure on Australia to lift its performance as it would reflect negatively upon their commitment to developing PNG toward eventual independence if the objectives were not attained within the defined time-frame.

ECONOMIC DEVELOPMENT

The World Bank recommendations and the first five year plan produced by the colonial Administration made economic development the primary focus. The economy was viewed by the World Bank and the colonial Administration as a revenue base upon which other non-income generating sectors (particularly socio-welfare and political) development depended. The first five year development plan (1967/1968 to 1972/1973) was to be financed domestically and by increasing Commonwealth grants to the Territory. But, there were several drawbacks impeding the success of this strategy. Real expenditures prior to the first five year plan were well above territorial revenue collected and Commonwealth grants combined. For example, by 1960, gross domestic product was recorded at 42 million pounds, based upon external financial assistance and non-indigenous enterprise\(^9\) amounting to a little more than one third of approved budget expenditures\(^10\). The plan's expected per annum expenditure, projected at about A$0.2 million pounds during the next five years (also expected to increase annually by about 5 percent resulting from inflation and other unexpected costs), was well out of the reach of the Territory's revenue. The expected annual expenditure exceeded total Administration

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9 D. Bettison et. al., *The Independence of Papua-New Guinea: What are the Pre-requisites*, four lectures presented under the auspices of the Public Lectures Committee of the ANU, Angus and Robertson Ltd.: Sydney, 1962: 28.
expenditure by about one third, A$33.46 million pounds in 1962/63. The difficulty was further compounded by low internal revenue raising capacity, averaging around A$42,495,200 per annum over the five year period (1964/65 - 1968/69) - still almost the same as that recorded for 1960. The other problem hindering economic development was the land tenure system, which excludes private ownership and more importantly, secure, bankable individual title. All land is communally owned making land acquisition extremely difficult. The availability of fertile land also played a part in undermining economic development as only 3 percent of the land was arable. However, the major impediment to the success of the plan was the financing aspect. The lack of internal revenue capacity of the Territory led the colonial Administration to look elsewhere to identify potential sources to fund the economic plans, including foreign investment, domestic financing and increasing Commonwealth grants.

**Foreign Investment**

The World Bank solution to remedying the shortage of capital to finance PNG's economic development was to recommend the increase of foreign participation and investment in the territory's economy. The Commonwealth Government of Australia concurred when the then Minister for External Territories Mr. C. E. Barnes in 1965 asserted that PNG could not attain economic self-reliance on its own, but only through a conscious program of dependence in the short-term on foreigners for financing the plan. But not everybody accepted the first colonial Administration's five year plan and foreign financing with open arms. Dr. Ron Crocombe, then Executive Officer of ANU's

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Research Unit in Port Moresby, described it as "token" saying "that while the plan talked at great length of indigenous 'participation', it in effect arranged for increasing expatriate domination of the [territory's] economy"\textsuperscript{14}. Though it was directed toward economic self-reliance and a short term measure, the plan nevertheless laid the foundations for foreign dominance in the Territory's economy. The World Bank's and the Australian Commonwealth Government's policy of encouraging foreign investment to participate in the economic development of PNG underlined the general weakness and lack of economic development within the territory, particularly the inability and the difficulty of raising internal capital.

The increased inflow of foreign investment capital immediately after the 1963 World Bank report significantly boosted economic activity in the territory, indicated by the increase in total acreage planted by both indigenes and non-indigenes of the major tree crops (coconuts, coffee, cocoa and rubber) from 725,083 in 1964 to 839,617 acres in 1967, averaging about 279,872 per year\textsuperscript{15} (Commonwealth Bureau of Census and Statistics, various years).


\textsuperscript{15} \textit{Ibid.}
Table 1: Aggregate Acreage Planted for Major Cash Crops for Selected Years

<table>
<thead>
<tr>
<th></th>
<th>Indigenous</th>
<th>Non-indigenous</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coconuts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>242,346</td>
<td>267,578</td>
<td>509,121</td>
</tr>
<tr>
<td>1965 to 1967</td>
<td>1,063,135</td>
<td>795,557</td>
<td>1,858,692</td>
</tr>
<tr>
<td>1968 to 1970</td>
<td>621,418</td>
<td>490,114</td>
<td>1,111,532</td>
</tr>
<tr>
<td>1971 to 1973</td>
<td>137,469(a)</td>
<td>325,035</td>
<td>462,504</td>
</tr>
<tr>
<td>Cocoa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>29,430</td>
<td>112,404</td>
<td>141,834</td>
</tr>
<tr>
<td>1965 to 1967</td>
<td>107,345</td>
<td>365,354</td>
<td>472,679</td>
</tr>
<tr>
<td>1968 to 1970</td>
<td>76,400</td>
<td>237,048</td>
<td>313,448</td>
</tr>
<tr>
<td>1971 to 1973</td>
<td>19,475(a)</td>
<td>171,631</td>
<td>191,106</td>
</tr>
<tr>
<td>Coffee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>30,049</td>
<td>10,851</td>
<td>40,900</td>
</tr>
<tr>
<td>1965 to 1967</td>
<td>123,240</td>
<td>40,008</td>
<td>163,248</td>
</tr>
<tr>
<td>1968 to 1970</td>
<td>91,738</td>
<td>26,845</td>
<td>118,583</td>
</tr>
<tr>
<td>1971 to 1973</td>
<td>22,201(a)</td>
<td>19,536</td>
<td>41,737</td>
</tr>
<tr>
<td>Rubber</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>631</td>
<td>33,797</td>
<td>34,428</td>
</tr>
<tr>
<td>1965 to 1967</td>
<td>5,204</td>
<td>105,777</td>
<td>110,981</td>
</tr>
<tr>
<td>1968 to 1970</td>
<td>7,336</td>
<td>63,366</td>
<td>70,702</td>
</tr>
<tr>
<td>1971 to 1973</td>
<td>1,960(a)</td>
<td>40,716</td>
<td>42,676</td>
</tr>
</tbody>
</table>

(a) Indigenous acreage planted figures not available for 1972 and 1973

The breakdown of total acreage planted between indigenes and non-indigenes for the same years (between 1965 and 1967) was 1,121,931 and 1,306,696 acres respectively. Total acreage planted annually gradually increased, peaking in 1968 at the start of the first five year plan. After 1968, new acreage planted declined. The decline occurred because areas designated for planting had either been completed or new projected areas for plantings had been suspended. However, by 1973, this exercise saw an estimated proportion of land area under foreign ownership exceed 70 percent in cocoa and rubber and 40 percent in copra\(^1\). This means that whilst indigenes accounted for

\(^1\) Figures compiled from Commonwealth Bureau of Census and Statistics, *Official Yearbook of Australia* (various years).

60 percent of area under coconut production, indigenes accounted for only 30 percent of area under cultivation of cocoa and rubber.

Increasing economic activity was also reflected in the value of exports from the territory. In 1964/65 total value of exports was A$43,312,000 but by 1972/73 it had reached A$229,614,000\textsuperscript{18}. The dominant export commodities (coconuts, coffee, cocoa and rubber) comprised about 80 percent of total exports between 1964 and 1970, falling in 1970/71 to 78 percent and thence declining to 22 percent in 1973/74 as a proportion of real value. The decline in export value of cash crops coincided with the Bougainville Copper Mine coming on stream (i.e. the decline was relative to growth in copper, gold and silver exports).

**Domestic Financing**

A variety of commercial financing institutions provided financial assistance to indigenous businessmen, including the Papua New Guinea Development Bank (PNGDB) which was established in the late 1960s, and co-operative societies, many of which dated back to the 1950s. Peter Hastings' study of the PNGDB suggests that indigenous businessmen did not benefit sufficiently from its loans to change the basic structure of the economy at all quickly.

Table 2: PNG Development Bank Loans (1967 Estimates)\textsuperscript{19}

<table>
<thead>
<tr>
<th></th>
<th>Number of Applicants</th>
<th>Amount (A$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Guineans</td>
<td>125</td>
<td>122,914</td>
</tr>
<tr>
<td>Mixed Racial Partnerships and Applicants</td>
<td>12</td>
<td>615,481</td>
</tr>
<tr>
<td>Expats/Non-indigenous</td>
<td>66</td>
<td>1,207,041</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>203</strong></td>
<td><strong>1,945,436</strong></td>
</tr>
</tbody>
</table>

The estimates suggest that 54 percent of Papuan and New Guinean applicants accounted for only 6.3 percent of total loans in monetary value. Expatriate applicants, comprising 32 percent of total applicants, accounted for the bulk of the total bank loans at 62 percent, while 5.9 percent of mixed racial partnerships and applicants accounted for 31.6 percent of the total volume of loans. A House of Assembly statement in June 1969 confirmed the estimates, recording that from July 1967 to the end of May 1969, 870 indigenes had received loans totalling A$1.3 million (at an average of A$1,494 per applicant), while 230 expatriates and non-indigenous (including mixed race or Chinese) received A$8.3 million (an average of A$36,086 per applicant)\textsuperscript{20}. The above suggests that indigenous participation as recommended by the World Bank was barely helped by the establishment of the PNGDB.

A different picture emerges in a study by Scott MacWilliam of the same financial institution over an 8 year period between 1967 and 1975. In his study, Scott MacWilliam found that, out of the total loans of A$49 million; A$21.5 million went to Papuans and New Guineans, that is, 44 percent\textsuperscript{21}. The increasing percentage of loans to indigenes recorded by MacWilliam may have been spurred on by Papua New Guinean sentiments of economic nationalism, particularly between 1967 and 1975. Nationalism defined as business ownership and hence economic control was given official

\textsuperscript{19} These figures are from P. Hastings, \textit{New Guinea: Problems and Prospects}, Victoria: Cheshire, 1969: 94.
\textsuperscript{20} \textit{Ibid.}: 95.
Government approval with the enunciation of the "8 Point Plan" which called for the transfer of businesses to nationals. Nationalism was later used as a basis for the distribution of plantations under the Plantations Redistribution Act. Under this scheme, of the 1,200 plantations in the Territory, only 81 (7 percent) had been purchased under the plan between 1974 and March 1981. The pressures to nationalise had a negative effect on the plantation economy: firstly, there was a decline in plantation production because of the lack of indigenous experience and proper management, and, secondly, the uncertainties created by the impending changes in ownership and disagreements over compensation led to plantations being run down, and, thirdly, most of the plantations were reaching their end of life and needed replanting. Nationalism, backed by public pressure for increased participation in economic development was thus incorporated as an official policy to mobilise the population to support political independence, and as an avenue through which economic control could be taken away from foreign ownership before independence actually came in 1975.

*Australian Commonwealth Grants and Internal Revenue*

Total Australian grants to PNG before independence, in the 1963/64 financial year reached A$61,098,000, about five sevenths of total government expenditure, from A$38,196,000 in 1960/61 to A$44,446,000 in 1961/62 and A$49,782,000 in 1962/63. In 1964/65, Commonwealth grants increased to A$67,998,000, and by 1973/74 the government grant element had reached A$177,076,000. However, the increase in total annual grants from the 1970/1971 financial years onwards also included grants under the Colombo Plan.

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Table 3: Annual Australian Commonwealth Grants to the Territory of PNG and Internal Revenue before Independence, 1963-1974 (A$)\textsuperscript{25}.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Grant Amount</th>
<th>Internal Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964/65</td>
<td>67,998,000</td>
<td>27,929,000</td>
</tr>
<tr>
<td>1965/66</td>
<td>75,167,000</td>
<td>35,320,000</td>
</tr>
<tr>
<td>1966/67</td>
<td>83,784,000</td>
<td>44,190,000</td>
</tr>
<tr>
<td>1967/68</td>
<td>91,645,000</td>
<td>49,900,000</td>
</tr>
<tr>
<td>1968/69</td>
<td>98,853,000</td>
<td>55,137,000</td>
</tr>
<tr>
<td>1969/70</td>
<td>102,466,000</td>
<td>72,442,000</td>
</tr>
<tr>
<td>1970/71</td>
<td>121,968,000(a)</td>
<td>83,666,000</td>
</tr>
<tr>
<td>1971/72</td>
<td>136,536,000(a)</td>
<td>95,253,000</td>
</tr>
<tr>
<td>1972/73</td>
<td>144,302,000(a)</td>
<td>93,062,000</td>
</tr>
<tr>
<td>1973/74</td>
<td>177,076,000(a)(b)</td>
<td>136,368,000</td>
</tr>
</tbody>
</table>

\textsuperscript{a} As from 1970/71, the following additional amounts which were not part of the PNG budget were provided by the Australian Government: for Australian Staffing Assistance (salaries and allowances) in 1970/71 A$31.5 million was provided, in 1971/72, A$38.3 million and in 1972/73 A$43.3 million. Also A$0.8 million was provided for termination and retirement benefits, and A$1.1 million for emergency food relief in the Highlands in 1971/72. In 1973/74, A$49.9 million was provided for Australian Staffing Assistance, and A$17.0 million for termination and retirement benefits.

\textsuperscript{b} Assistance under the Colombo Plan and United Nations Special Program are included.

Internal revenue increased from A$29,000,000 in 1964/65 to about A$158,166,000 in 1974\textsuperscript{26}. Since internal revenue and Commonwealth grants were, totally, insufficient before 1963/64 to finance the projected expenditures recommended by the World Bank and the colonial Administration's first five year program, increasing Commonwealth Government grants became an important instrument in financing the five year program and the eventual 5 year plans from 1967/1968 onwards. Increases in Commonwealth grants had begun in the 1950s which continued right up to and after independence in 1975. Whilst Commonwealth grants were increasing and internal

\textsuperscript{25} All these figures are collated from the Commonwealth Bureau of Census and Statistics, \textit{Official Yearbook...}, various years; Commonwealth of Australia Federal Parliament, \textit{Budget Speeches}, various years.

revenue also increased, in comparison internal revenue still remained less than the total annual Commonwealth grants to the Territory.

By percentage of participation, investment and control by Australian based commercial interests in the Territory's economy accounted for 85 percent of retail trade by value of turnover\(^ {27}\), because most of the foreign investors and investment originated in Australia. Even so, indigenes producers dominated coffee production, whilst non-indigenes were prominent in coconut, cocoa and rubber production. Even though indigenes acreage gradually increased in coconut plantings, non-indigenes produced greater amounts of copra (including other tree crops such as coffee, cocoa and rubber), belying the fact that acreage planted favoured indigenous. The monetary value of non-indigenous owned tree crops plantation (coffee, cocoa and coconut products) production accounted for A$57.3 million or 70 percent of the total A$76.8 million agricultural exports for the 1971-1972 period. Of the 70 percent total of non-indigenous production, Australian owned plantations contributed about A$24 million or approximately 33 percent of total non-indigenous output\(^ {28}\).

**MANPOWER AND TRAINING**

In 1963 there was a 95,000 labour force, whose wages were paid in both cash and kind in the public and private sectors. Indigenous labour accounted for 76,800 (women 1,600), comprising about 81 percent of the total potential active labour force (which was much higher), and 13 percent of the estimated adult male population of 600,000\(^ {29}\). The distribution of indigenous labour in the various economic and social-welfare sectors, was determined by the level of skills required for participation. The bulk of the indigenes were employed in the agriculture (plantations) and the forestry sectors, which required few or no skills at all, for example in coffee cherry picking, copra


\(^{28}\) Ibid.: 265, 266.

making and drying, plantation cleaning and logging. About 3.5 percent were employed in the manufacturing sector, still not as skilled technicians but as packers and sorters, and about 30 percent in government service as junior civil servants. After more than 50 years of colonial rule, limited progress was made in training indigenes in professional categories like teaching, nursing, agricultural officers, clerks, police and prison officials between 1960 and 1969. For example, by 1968 there were 507 indigenous trained teachers from both government and mission colleges. The indigenous numbers increased to about 4,725 teachers in 1970 out of a total of 5,429 teachers (of the indigenes, 4,615 were at primary and 110 at high school levels). By the year of independence in 1975, nationals teaching at community schools accounted for 7,400 out of a total of 7,475, but the number of nationals teaching at high schools was less impressive, rising only by 302 (up from 110 in 1970 to 412 in 1975).

Managerial and professional jobs in the private and public sectors were filled by expatriates. Statistics available confirm that, at least, expatriates accounted for 95 percent of professional and managerial manpower, and 75 percent of technical, sub-professional and middle-level managerial personnel. By 1972, only 553 indigenes had graduated from universities and been recruited into the civil service. By comparison, during the same year (1972) the number of expatriates recorded in both the private and public sector was 7,000.

The high numbers of skilled and experienced expatriates in managerial, technical and policy oriented jobs meant foreigners wielded a lot more influence in economic and overall government policy than indigenous officers leading up to and immediately after

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33 Ibid.
independence. Expatriate influence upon economic and general government policy was largely due to expatriate seniority, experience, know-how and placement as advisers to key individuals in politics and the bureaucracy, or in some instances as a result of seeking public office through the political process and via other specific interest groups and lobbies. The few indigenes recruited into the civil service were given little help and few opportunities to participate in policy-making as opposed to routine administration. The lack of managerial knowledge and expertise among the then civil servants in PNG reflects the colonial Administration's pre-occupation with training regarding conventional law and order administration rather than the management of social and economic development.

EDUCATION

There was a marked change in the colonial Administration's attitude toward indigenous education after the UN Visiting Mission of 1962. The United Nations Visiting Mission strongly recommended the introduction of education which would qualify indigenes for tertiary studies. The new enthusiasm and vigour shown by the colonial Administration toward indigenous education was translated into reality with the expansion of primary and high schools (both international and national). In 1960, primary 'T' and primary 'A' schools had a total enrolment of 92,029 pupils, with about 2,170 pupils in high schools. By 1970, the number of students at primary 'T' and primary 'A' schools had increased to about 215,258, whilst secondary pupil numbers had increased to 22,888. The increase in numbers of students was directly related to the increase in the number of places available as new schools were established. However,

the majority of student numbers in both primary 'A' and international high schools were non-indigenes with about 1,000 indigenes in 1973 (they were banned from attending international high schools), and thus these schools did not contribute much to the advancement of indigenous education.

Substantial increases were attained in the numbers of indigenous students enrolled at both the primary and secondary levels between 1960 and 1970. Enrolments at primary schools increased by about 119,740 whilst secondary enrolments recorded an increase of 15,865.

**Table 4: PNG School Statistics(a) 1960, 1970**

<table>
<thead>
<tr>
<th>Type of school(b)</th>
<th>1960(c)</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Institution</td>
<td>Students</td>
</tr>
<tr>
<td>Community</td>
<td>1,141</td>
<td>88,679</td>
</tr>
<tr>
<td>Prov. High</td>
<td>39</td>
<td>2,064</td>
</tr>
<tr>
<td>Int'l Prim.</td>
<td>46</td>
<td>3,350</td>
</tr>
<tr>
<td>Int'l High</td>
<td>--</td>
<td>116</td>
</tr>
<tr>
<td>Vocational</td>
<td>11</td>
<td>577</td>
</tr>
<tr>
<td>Tech. col.</td>
<td></td>
<td>676</td>
</tr>
<tr>
<td>Teacher trng.</td>
<td>26</td>
<td>814</td>
</tr>
<tr>
<td>University</td>
<td>00</td>
<td>000</td>
</tr>
</tbody>
</table>

a. Data are not strictly comparable due to changing school structures  
b. Current terminology  
c. Data for 1960 are not fully reliable due to inconsistency in records

With regard to post-secondary education, the United Nations Visiting Mission recommended to the Australian Government the establishment of a national university to redress the shortcoming in tertiary education. The University of PNG opened its doors in 1966 with an initial student intake of 37. The Institute of Higher Technical Education

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38 *Papua and New Guinea House of Assembly Debates, March 1973.*  
was also initially established in Port Moresby, but later moved to Lae, becoming the PNG University of Technology in 1967. The first students graduated from the University of PNG in 1970. By 1972 the number of students enrolled at university (including the University of Technology in Lae) numbered around 772. Though the number of teacher training colleges had dropped by 14 to 12 by 1970, the number of teacher trainees increased by 662 between 1960 and 1970. The biggest increase in the number of post-secondary colleges was evidenced in the technical colleges rising by about 59 between 1960 and 1970 with total student enrolments also increasing by about 899. The number of vocational trainees increased also by about 2,563 students.

The places available for indigenes to pursue western education increased dramatically between 1960 and 1970. When there was no university education in the Territory prior to 1966, only a very few indigenes had access to such education in Australia.

POLITICAL DEVELOPMENT

Unlike its preoccupation with the economy, the colonial Administration showed little enthusiasm for nurturing indigenous participation in, and knowledge of the political process. The Administration pursued a contradictory policy: whilst the Administration encouraged and helped in the establishment of local government councils, the administration also simultaneously discouraged the inhabitants from participating in certain political activities such as forming political parties and becoming independent of the administration in decision-making. The colonial Administration justified this contradictory policy by arguing that political development and change should only occur in accordance with the wishes of the people\textsuperscript{40}: in other words, political development would not be encouraged if it did not conform to the preceding. This policy was viewed

by the colonial administration as appropriate to, and was in fact in line with, the immediate policy concentration on economic development as a necessary pre-condition and objective before political development could be encouraged\textsuperscript{41}. The economy-centred policy assumed that political stability could only be sustained in a newly independent state upon a well founded and strongly developed self-sufficient economic base.

The economy-centred policy was a major element in the colonial Administration's argument for deferring the overall objective of eventual self-rule by conscientiously fostering a very gradualist approach to political development throughout the 1950s and the 1960s\textsuperscript{42}. Hastings confirms this view when he records that the primary aim of Australian policy in New Guinea had been to prevent the emergence of the desire for political independence; and to prevent it for the best of gradualist reasons even if they should ultimately prove the most misplaced\textsuperscript{43}.

\textit{Local Government Councils (LGCs)}

In spite of the official Administration policy of discouraging certain aspects of political organisation, participation and activities, political development in the form of LGCs at the village level did emerge. Local Government Councils were established under the 1949 Native Village Council Ordinance. The first LGCs were established after late 1949. By the early 1960s, there was a total of 89 LGCs covering a population of almost 1 million.

The colonial Administration was quite supportive in the establishment of local level administrative structures - in fact, the Administration promoted their establishment in the first place. Wolfers concurs with such a view by recording that

\textsuperscript{41} E. Wolfers, "PNG's politics and their implications for Australia"..., 1976: 118.
\textsuperscript{43} P. Hastings, \textit{New Guinea}..., 1969: 156.
political activities [were] systematically ignored or more usually opposed by government officers. Councils and even trade unions [were] established with the assistance, and subject to the supervision of government officers and actively discouraged or legally prevented from taking part in politics. Because LGCs were usually established by the colonial Administration and existed under their direct control, it is not surprising to note that the LGCs remained under the administration's direct supervision.

The LGCs had two important purposes:

(a) to provide a link between villagers and the administration and attempt to enforce western law, and (a) to learn and understand western democratic process.

Not all indigenous had high regard for LGCs, however. Some indigenes viewed LGCs as nothing more than (the) extensions of the central administration, and thus, subservient to Administration directives.

First House of Assembly Elections, 1964

The 1962 United Nations Mission led by Sir Hugh Foot, recommended the establishment of a 100 member truly representative parliament by the end of 1964, but the size of the 1964 House of Assembly was adopted from recommendations made by a Select Committee of the Legislative Council. Thus, when the first elected House of Assembly came into being in 1964, replacing the existing Legislative Council, the House of Assembly comprised a clear majority of elected members - 44 members of any race elected by universal adult suffrage, 10 non-native members elected on the same basis and 10 official members appointed by the Governor General of Australia on the nomination of the Administrator. The 10 official members were appointed under the Papua and

46 E. Wolfers and P. Loveday, Parties and Parliaments..., 1976: 5.
47 World Bank, The Economic Development of the Territory..., 1965: 5.
New Guinea Act 1949-1950\textsuperscript{48}. However, indigenous members remained ineffective participants because most of the debates were conducted in English and most of them spoke only Tok Pisin or Hiri Motu (apart from their respective vernacular languages).

Prior to the 1968 elections for the Second House of Assembly, two important developments took place. Firstly, in 1965 John Guise successfully moved in the House of Assembly for the establishment of a Select Committee to look at proposals to guide constitutional development for the territory\textsuperscript{49}. This committee was chaired by Guise and toured the territory seeking the public's proposals. Secondly, at about the same time, an Under-Secretary system was established so that selected indigene members could gain experience in the running and operations of the government. The Under-Secretaries were selected and appointed by the Administrator.

\textit{Second House of Assembly Elections, 1968}

Elections for the Second House of Assembly were held in 1968. The 1968 elections saw a decline in the number of official members and an increase in the number of members elected by adult suffrage. There were 10 official members after the 1968 general elections which included the Deputy Administrator, Secretary of Department of Administrator, Secretary of Finance and Secretary for Law and a few others appointed by the Administrator\textsuperscript{50}.

The 1968 elections saw an increase in the to number of members - to include 15 regional and 69 open electorate members - creating an 84 member House of Assembly.

\textsuperscript{48} The Papua and New Guinea Act 1949-1950 provided for a Legislative Council to be appointed by the Administrator, comprising a total of 29 members namely (a) Administrator; (b) 16 official members; (c) 3 non-official qualified elected members as specified under ordinance; (d) 3 non-official members representing the Christian churches within the Territory; (e) 3 non-official native members; and (f) 3 other non-official members.

\textsuperscript{49} Ibid.: 179.

\textsuperscript{50} Papua and New Guinea House of Assembly Debates, July 1973.
Though the establishment and the development of political parties had been discouraged by the colonial Administration, six political parties contested the 1968 elections. Of these parties, Pangu Pati led by Michael Somare, was the most important. John Guise was elected by this House as the first indigene speaker.

Between the 1968 and the 1972 general elections, the most contentious issue debated in the Territory related to the timing of self-government and eventual political independence. There were differences over timing between the lowland, coastal and island members on the one hand and highlanders on the other. The first groups' (lowland, coastal and islanders) views ranged from support for immediate self-government to self-government by 1980, whilst the Highlanders, represented by the United Party which included expatriate business (plantations) interests wanted to delay self-government indefinitely. The major reason for delaying self-government given by the Highlanders (elucidated by such Highland Parliamentarians as Anton Parao) was because of the fear of dominance by better educated coastal and island elite. Despite their protestations, a new flag was adopted in 1971 and, following the Constitutional Development Committee's Report, the name of Papua and New Guinea was changed to Papua New Guinea with the amendment of the Papua and New Guinea Act 1949-1950 in 1973.

In Australia also, lines were drawn between the Labor Opposition and the Liberal-Country Party coalition Government. The Labor leader, Gough Whitlam, in his visit to the Territory in 1969 announced the dates for self-government and independence as 1972 and 1976 if the Labor Party won the next Australian elections.

51 J. Waiko, A Short History..., 1993: 180.
Third House of Assembly Elections, 1972

During the 1972 general elections a total of 611 candidates contested the various seats - 553 for open electorates and 58 for regional seats. The three major parties contesting the elections were Pangu Pati, United Party and the People's Progress Party. After the elections, a coalition government was formed with Pangu and the People's Progress Party as the senior partners. Since the coalition favoured early self-government, one of its first duties was to set the dates and timetable. After a vote in the Assembly, December 1973 was set as the date for self-government.

After the Labor Party won the Australian general elections in 1972, the Labor Government proposed political independence for PNG in two years time. The PNG Chief Minister, Michael Somare insisted PNG should be responsible for setting the independence date. But independence was delayed because firstly, there was disagreement within the Coalition Government over the timing of independence. Secondly, the delaying arose from the disagreement between the members of the Constitutional Planning Committee (CPC) formed in 1972 to prepare a "home grown" constitution and the Somare Government. The CPC "was set the objective of recommending a constitution for full self-government with a view to eventual independence". Somare wanted independence in 1974, but the CPC disagreed saying independence should only be attained after the completion of their final report. By July 1973, a Joint Communiqué by Michael Somare and the External Territories Minister of Australia stated that December 1973 would be the date for formal self-government and February 1974 was designated as the date for the final CPC report and draft constitution.

53 J. Waiko, A Short History... , 1993: 182.
54 The vote results were along regional lines. Of the 52 who voted "yes" were Islands 13; Momase 20; Papua 12; and Highlands 7. The "no" vote comprised Islands 2; Momase 6; Papua 3 and Highlands 23. Abstentions were Islands 2; Momase 2; Papua 3; and Highlands 6 (J. Waiko, A Short History of PNG, Melbourne: Oxford University Press, 1993: 183).
which was to be adopted in April 1974 by a special session of Parliament\textsuperscript{56}. In the September 1973 House of Assembly sitting, a compromise date was set for the introduction of the "home grown" constitution around May/June 1974 to complete the self-government process\textsuperscript{57}. The constitution was adopted on 15th August 1975, almost a year after the comprise dates of May/June 1974. In spite of the above disagreements, 16 September 1975 was chosen months earlier as the date for the independence of PNG.

ESTABLISHMENT OF THE PNG FOREIGN OFFICE

In conjunction with socio-economic and political developments, Australia also set in motion a train of events that led to the establishment of a foreign office. Preparing former colonies like PNG for eventual political independence was no easy task. Difficulties arose from disagreement over the questions of what is and what is not preparation and how much is required for reasonable skills of governance to be transferred. The length of time required to obtain maximum outcomes from the (preparation) process are difficult to determine. These difficulties were further compounded by the inability of the colonising power to set a clear timetable (such as an independence date) for the transfer of political power to the colony.

Preparation implies a rationally planned process of movement through a number of stages toward an objective of higher level of development, though preparation can also be viewed as a process to establish and attain independence by instilling efficiency. Bernard Schaffer has argued that British Governments interpreted their trusteeship

as a preparation for efficiency or viability as much as for independence and that the two ends can be contradictory\textsuperscript{58}.

Further still, according to British usage,

\textsuperscript{56} Papua and New Guinea House of Assembly Debates, July 1973.
\textsuperscript{57} Papua and New Guinea House of Assembly Debates, September 1973.
\textsuperscript{58} B. B. Schaffer, "The concept of preparation: some questions about the transfer of systems of government", World Politics, vol. 18 no. 1, 1965: 49.
preparation is concerned with the creation and translation of institutions and transfer of power toward eventual independence\textsuperscript{59}. Preparation in practice however, does not normally include the creation and establishment of institutions which differ from institutions found in the coloniser's home government - in fact preparation usually involves a transfer or copying of institutions. Institutions (both socio-political and economic) established in former colonial territories do not generally differ at all markedly from institutions found in the colonising country. The "creation" is basically a translation and transfer of institutions known to the colonising power - in other words, institutions transferred are only those the coloniser is familiar with. Hence, in British usage, preparation only concerns transfer of existing institutions and not their creation.

The preparation of Papua and New Guinea was not as purposefully planned as it might have been because the timetable for political independence was not clear until 1972/73. Preparation was concerned more with translation and transfer of institutions than with the creation of institutions suitable to the societal structures of PNG (a process familiar with British colonisation). This was contrary to what External Territories Minister Barnes had said in 1965, that the basic purpose of Australia's work in the Territory was the creation of free institutions on a lasting basis\textsuperscript{60}. Loosely translated, what he meant was that, what was good for Australia was good for PNG\textsuperscript{61}.

Did preparation extend to the establishment of a foreign office? Peter Boyce in his "Preparing a foreign office for Papua-New Guinea" which appeared in the \textit{Australian Journal of Public Administration} in 1973 shows how preparation for the establishment of a PNG foreign office occurred. He shows that preparing a foreign affairs machinery presupposes a vision of what constitutes an efficient or viable foreign policy for the new state...Preparation must

\textsuperscript{59} Ibid.

\textsuperscript{60} C. Barnes, "Report of IBRD Mission on the economic development of Papua and New Guinea", statement tabled in the House of Representatives on Wednesday, 5th May 1965: 10.

\textsuperscript{61} R. Ward and J. Ballard, "In their own image: Australia's impact on PNG and lessons for future aid", \textit{Australian Outlook}, vol. 30 no. 3, 1976: 441.
include the intellectual and administrative capacity to understand and select foreign policy alternatives.\(^\text{62}\)

Preparation for the establishment of a foreign office involved the transfer of institutions but also the recruitment of well educated and trained personnel to staff the foreign office. Well educated and trained staff leads to improved understanding of the international political environment and its implications for domestic politics. This eventually makes it more likely that foreign policy decisions will be made in accordance with national interests.

Peter Boyce identifies the steps required in preparing for the creation of a foreign office as including

(a) early decision by the coloniser on the date of transfer of power; (b) creation of a foreign office division or branch within the Prime Minister's department; (c) recruitment of personnel; (d) provision of training overseas; (e) early designation of Foreign Minister and overseas travel by politicians; and (f) setting of guidelines for future foreign policy direction.\(^\text{63}\)

By 1972, PNG did set a general timeframe for independence, which was to be at least after 1 year of self-government, that is, after 1973.

Even before the dates were set for self-government and eventual independence, an International Affairs Branch was established in the Department of the Administrator in 1971, headed by an Australian Foreign Affairs official on secondment. By 1973, the branch had five locally based expatriates and one indigene (protocol), with twelve indigenes undergoing training which included attachments to Australian embassies and high commissions. In 1972, a Department of Foreign Relations and Trade was established headed by Minister John Poe. After Poe's appointment as Minister of Foreign Relations and Trade, the department was restructured in that Foreign Relations and Defence were brought under the one Ministry (Ministry of Defence and Foreign Affairs) under Sir Albert Maori Kiki.


\(^{63}\) Ibid.
There were ministerial tours of countries beginning in 1973 - Sir Maori Kiki visited Indonesia, Malaysia, Japan, Singapore and New Zealand whilst other cabinet members visited other countries and almost all members had visited Australia.

In July 1973, the Chief Minister Michael Somare, in a press conference in Melbourne announced that

independent P-NG would be a neutralist power, a member of the Commonwealth and, if possible, a bridge between South East Asia and the Pacific. She would...expect to become a member of the South Pacific Forum. P-NG would not be interested in a formal defence treaty with any power64.

The above announcement by Michael Somare highlighted PNG's priority in opening foreign missions in Jakarta, New York, Canberra, Tokyo, London and Brussels.

It seems clear from the above that preparation for the establishment of a foreign office in PNG was set in motion well before eventual independence in 1975. It is evident that Australia did make attempts to develop for PNG a foreign office, independent enough to pursue PNG's national interests confidently abroad.

CONCLUSION

Developments in PNG were given impetus by the United Nations Visiting Mission of 1962 and the 1963 World Bank reports respectively. Without these two reports, the preparation of PNG for political independence from Australia would not have occurred as soon as it did, as the colonial policy had precisely been gradualist.

The preparation process included policies such as economic development for indigenous self-sufficiency, the establishment of a foreign office, political development, education and manpower training. Though, retrospectively, the developments were too little too late, Australia did attempt to foster independence for PNG, which was the basis upon which foreign policy making in, by and for PNG began.

64 Ibid: 343.
CHAPTER 2

AUSTRALIA-PNG RELATIONS IN THE CONTEXT OF PNG's FOREIGN POLICY

In this chapter I shall be discussing Australia-PNG relations in the overall context of PNG's foreign policy. PNG's foreign policy has consistently emphasised relations with Australia as of utmost importance to PNG, because Australia has been, and still remains, a major source of economic aid, imported consumer goods and investment capital. Australia and PNG also share long-standing ties, a common border and security interests augmented by the presence of skilled Australian personnel in PNG and educational links. My intention in this chapter is to attempt to identify whether foreign policy per se or the continuing diversification of PNG's relations away from Australia is responsible for the emergence of PNG's policy independence in its bilateral relations with Australia.

FOREIGN POLICY AND NATIONAL INTERESTS

Inter-state relations are directed by states (in this case, Australia and PNG) toward the pursuit and eventual attainment of (their) national interests either by cooperation or through competition. The lack of internal self-sufficiency necessarily leads to the pursuit of these (national) interests externally. Each country's national interests are pursued through its foreign policy\(^1\).

National Interests

The concept national interest is very contentious, shrouded with ambiguity, defying any adequate, globally acceptable definition. Difficulties also abound in identifying a common set of national interests amongst the various competing political and interest groups within a given democratic state. In an authoritarian regime, the competition evident in democracies is, by definition, severely limited or does not exist, but can nevertheless be competing perspectives amongst the ruling elite vying for translation into what might be called national interests. Competition in identifying what constitutes national interest in a democratic state is made easier by the fact that democratically elected representatives who form the government take the responsibility for defining such interests in their capacities as representatives of their electorate.

National interests can be divided into several categories. They are military-strategic, commercial and trade, the protection of independent statehood (territorial integrity and sovereignty) and economic well-being. For some countries, ethnic conflict (former Yugoslavia, Rwanda, Somalia, etc...), and the breakdown in law and order resulting from economic ills (as in contemporary PNG) which can lead to internal political instability, are major difficulties. Whilst for other states a military confrontation would be of immediate concern (South Korea versus North Korea). The prospect of becoming submerged as water level rises as a result of global warming is a threat to the national interests of the low lying island atolls in the Pacific. From these examples, it can be said that national interests relate to factors which either enhance or reduce an independent state's ability to survive, and thus demand immediate attention followed by appropriate action.

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Notwithstanding the preceding categorisation, national interests do not remain constant in importance and priority because circumstances and those in positions to define national interests change. For example, in times of conflict between states, a direct military confrontation would be perceived to be of immediate concern to the stability and independence of the state, therefore acquiring the status as the most important national interest at that point of heightened conflict. But, if a military threat wanes or loses credibility because the source of the threat has diminished and or disappeared, it is likely to be eventually downgraded to a lower priority. Other issues may emerge as immediate priorities, a consequence brought about by the altered nature of the source of threat to the survival of the state. Evidently, then, national interests are those which are deemed by governments to be important factors in enhancing the chances of the state's ability to survive and maintain its sovereignty, territorial integrity and statehood as well as its capability in providing public welfare services. Particular national interests acquire priority because their attainment or lack thereof may improve or threaten the existence of an independent state or even destroy the culture (as religion has sometimes done), societal structures (the introduction of new forms of social organisations) and the economy (establishment of new modes of production and labour relations).

In line with the categories discussed in the foregoing paragraph, Evans and Grant have identified Australia's national interests as being significantly concerned with external factors, such as geopolitical or strategic, economic and trade factors, and the national interest in being, and being seen to be, a good international citizen. PNG's perceptions of PNG's national interests are more internal and inward looking, namely the maintenance of a unified PNG by guarding against potential political disintegration into many smaller societies. Thus, for PNG, security perceptions conceived solely in conventional military terms are marginal when compared with the need to defuse

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internal, non-military threats. Hence, inter-ethnic tensions, law and order and resource oriented disputes have become the primary security concerns for PNG, reflecting the definition of security (in non-military terms) as defined by Pacific island states. Consequently, policies pursued by PNG will normally diverge from Australia's because the terms in which threats - and interests - are defined and protected/furthered reflect different national origins. It is, therefore, a natural progression that diverging policy instruments will bestow a certain degree of policy independence on PNG's conduct of bilateral relations with Australia.

**Foreign Policy**

Foreign policy is to an extent the primary activity of independent states. However, non-state actors' (the Red Cross, the United Nations, political parties, multinational companies, etc,...) also engage in activities externally across state boundaries, which do not involve state to state interactions.

Foreign policy, like domestic policy, advances, protects, attains and consistently maintains a state's national interest(s), which are generally identified as sovereignty and independence, economic well-being, cultural and territorial integrity against external

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encroachments or other interests such as interests of foreign business cronies: all are important factors because they determine the status of a state in relation to other states within the global community. Status less than political independence, established and accepted as such under international law, inhibits the conduct of formal interactions with other states as equals (for example, Taiwan). Political independence alone does not guarantee that all interactions between independent states are based upon equality - some are stronger than others, commensurate with the availability of resources at their disposal even though, according to international law, all states, both small and the powerful, are equal. The availability of resources means that some states may have more power than others, which is then translated into a degree of independence and initiative in foreign policy or dependency and a reactive approach to foreign policy. But the notion of sovereignty suggests "the idea that there is a final and absolute authority in the political community" in relation to a state means that there is "no final and absolute authority exist[ing] elsewhere". Sovereignty then bestows upon an independent state (big or small) the authority to pursue independent external policy. Independence, however, is constrained for all formally independent states by the nature of the interdependent relations that have become prevalent as a consequence of all countries' inability to provide sufficiently on their own for their national needs.

National interests such as political independence, economic well-being, military preparedness, imperialism, etc..., the objectives of foreign policy, however, are never pursued uniformly by each competing state. Some newly independent states regard the retaining of ties with former colonisers as unacceptable (for example, Guinea and France after independence), while others maintain such ties in a variety of forms as a matter of necessity, a decision prompted by economic realities. The choice between political independence and lack of economic independence (the inability to finance development

projects and programs domestically) is a major reason for British Caribbean colonies' vigorous arguments for remaining British dependencies rather than acceding to political independence\(^9\). Even under limited forms of decolonisation, countries continue to seek to be independent of the major powers, but this wish is unrealistic because foreign policy and defence matters remain the responsibility of the major (former colonial) power.

**CONSTRAINTS ON PNG's FOREIGN POLICY**

The conduct of PNG's bilateral relations with Australia are constrained by several important factors, some of which are common while others are not. Firstly, Australia and PNG share a common history - one a coloniser and the other the colonised. Their common history has meant, that over the years of interaction, certain interests have become coincident, for example, an interest in investment security. Investment from Australia could be negatively affected by increasing lawlessness in PNG leading toward loss of profit for the investor and the host. But history is not the only reason why PNG's foreign policy gives a significant emphasis to Australia-PNG relations. Elsewhere, there has been conflict between former colonies and colonisers in the post-colonial period, for example between Guinea and France. Secondly, both Australia and PNG share common military-strategic concerns as a result of their geographical proximity. The close proximity leads to a high Australian security interest\(^10\). More significantly, PNG is and has been an important factor in Australia's own military-strategic calculations\(^11\). However, common military-strategic interests are no longer as important as they were during the Cold War because of changes in the regional military and political situation. For example, the current Keating Government's look north policy, which resembles the

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policy the PNG Government has also been pursuing for some time, looks at developing wide ranging relations with countries of South East and North East Asia. Thirdly, substantial Australian economic interests in PNG are another important factor. These economic interests are vulnerable to actions arising from nationalistic aspirations in PNG, occasionally degenerating into inter- and intra-tribal conflict or landowners versus the national government, threatening future investment in PNG. Conflicts are usually a consequence of landowners' desires for greater access to participation in and equity in the benefits arising from the development and exploitation of PNG's natural resources (particularly in the mining and forestry sectors)\(^\text{12}\). Fourthly, PNG is a major beneficiary of Australia's overseas aid and if that aid were changed too fast or withdrawn suddenly, development would be adversely affected\(^\text{13}\). The material benefits and the living standards of the population could not be consistently and continuously sustained by the PNG Government at current levels without Australian support. Fifthly, PNG is substantially dependent upon Australia for its overall national development and national cohesion\(^\text{14}\). In a House of Assembly debate in 1974, it was confirmed that Australia's aid support assurance to PNG [was] directed toward a united PNG\(^\text{15}\). National cohesion at independence meant retaining PNG as a single state rather than allowing it to disintegrate into a collection of small states, though this did not deter the North Solomons Province from unilaterally declaring independence from PNG in 1975. The condition attached to continuing Australian support was that PNG should remain unified. Thus, if PNG disintegrated into smaller units, Australia would cease its support. It is therefore correct to make a case that continuing injection of Australian development aid, capital


\(^{13}\) AIDAB, *Australia's Development Co-operation with PNG,* a supplementary submission to the JCFADT inquiry into Australia's relations with PNG, IDI no. 9, Canberra: AGPS, 1990: 2.

\(^{14}\) Ibid.

\(^{15}\) *Papua and New Guinea House of Assembly Debates,* 1974.
investments to exploit and develop natural resources and security has contributed to the continued maintenance of a unified PNG. Sixthly, the financial and skilled manpower resources available to the PNG Department of Foreign Affairs and Trade are significantly limited, minimising the range of options and activities (diplomatic and political) it can undertake and pursue successfully. PNG is thus forced to be selective in the types of activities and objectives it is able to pursue as priority and in which countries to establish resident diplomatic missions. The lack of resources means PNG foregoes the establishment of diplomatic missions in most countries, but still does maintain diplomatic relations with those not hosting PNG's diplomatic missions by other forms of diplomatic representations. Seventhly, Australia-PNG relations impact on relations between each of the two countries and Indonesia. For example, in a leaked document in 1984 the Australian Government encouraged PNG to take action wherever possible to suppress anti-Indonesian activity in the border region, a proposal of which the then Foreign Minister, Rabbie Namaliu disapproved. Minister Namaliu stressed that PNG would not accept any foreign government involving PNG in their own disputes, and criticised Australia for meddling in PNG's domestic affairs. Finally, the Australian media has been responsible for diplomatic altercations between Australia and PNG. For example, Australian journalists have flouted PNG's laws, exemplified by the ABC journalists' interview of OPM members in PNG in 1984. The media sought to justify the non-compliance of foreign journalists with PNG laws by reference to the media's right to freedom of information and the obligation to disseminate news and information - including in this case the right to violate sovereign state laws. The PNG Government reacted with expulsions and the revocation of entry and work permits, for example, in relation to the resident ABC journalist Sean Dorney in the same year. Though the damage to the relationship between Australia and PNG generated by the media is

18 Ibid.
minimal, the media's impact on the relationship cannot be discounted; the Australian media's reporting of events and developments in Indonesia and Malaysia has led to diplomatic rows between Australia on the one hand and Indonesia and Malaysia on the other. Incidentally, the common interests and issues discussed above bestows policy independence upon PNG, because both countries' interests coincide. Moreover, the potential for PNG to compromise and/or sacrifice its policy independence in order to maintain and placate Australian displeasure exists. I suspect that policy independence is tolerated and maintained by the major power (in this case Australia), only as long as the relationship does not jeopardise the great power's regional and global objectives.

The development of an independent PNG foreign policy with regard to Australia is dependent upon the degree to which the constraints discussed above are overcome. More money, more skilled personnel, less interference by Australia in PNG's policy direction and more sensitive Australian media will lead to a situation whereby PNG's relations with Australia will become more independent.

PNG's FOREIGN POLICY AND RELATIONS WITH AUSTRALIA

PNG has enunciated two fundamental foreign policy approaches since independence. The first approach, "universalism", was embodied in a series of statements between 1973 and 1975 made by the Chief Minister (and eventual Prime Minister) Mr. Michael Somare and the Minister for Foreign Affairs, Defence and Trade, Sir Albert Maori Kiki. The universalist approach will be considered as Phase I beginning in 1975 and ending in 1981. The second approach "active and selective engagement" is considered as Phase II. The latter approach is embodied in a White Paper which was tabled in the PNG National Parliament by the Minister for Foreign Affairs and Trade in 1981, and has been re-endorsed up to the present by every incoming government. This section will consider the two foreign policy approaches, their differences and similarities if any, and discuss their place in the continuing development of bilateral relations between Australia and PNG.
Phase I: Universalism, 1975-1981

At independence, PNG’s pioneer foreign policy direction was defined as "universalism". Universalism, implied PNG extending good neighbourliness and friendship to all countries without discriminating between various creeds, ideologies or forms of governments - being simply "friends to all and enemies to none"\(^{19}\) with the exception of racist regimes such as Rhodesia and South Africa. To achieve this objective, PNG pursued a strategy of establishing formal diplomatic relations with as many countries as possible - countries of liberal democratic and state socialist orientations. Establishing diplomatic relations was made cheaper, and hence more realistic, through multiaccreditation, consular offices, appointment of honorary counsels and membership in international organisations (regional, global and commodity based)\(^{20}\).

As the establishment of resident diplomatic missions was financially expensive, they were consequently only established in states of great importance to PNG's socio-economic, political and security development. The significant determinants in the establishment of diplomatic missions abroad were, firstly, PNG's political orientations, which were singularly pro-western, as a result of its colonial past, and, secondly, the need to minimise costs, and, thirdly, the realisation that not all states' national interests significantly impacted upon PNG's, which meant that permanent foreign missions were/are not required. The same reasons have also inhibited other countries from establishing diplomatic missions in PNG (though they often maintain formal diplomatic relations).

In spite of the internationalist intent of universalism, the policy explicitly emphasised the priority of relations with PNG's traditional partners: Australia, the South


Pacific, South East Asia and Western Europe. The special status conferred upon Australia, the South Pacific, South East Asia and Western Europe was based upon the fact that they were PNG's major sources of ODA (Australia), trade and commerce (Australia, Western Europe and Japan), investment (Australia and Japan), security (Australia and Indonesia) and proximity (Australia and South East Asia) and cultural identity (South Pacific). PNG's western orientation was shown in the first years of independence with the opening of resident diplomatic missions in Canberra, London, Washington, New York, Brussels, Tokyo, Wellington and Djakarta. These were necessary because PNG's commodity markets and sources of aid were located in the West particularly in Australia, Japan and the EEC. The Djakarta mission was essential because of the shared international border and potential threat to both countries' internal security arising from the activities of the Organisasi Papua Mederka (OPM) along the border. OPM fighters cross the border into PNG to get away from Indonesian military pursuit, which has led to occasional clashes between Indonesia and PNG military patrols. Approaches for the establishment of resident diplomatic missions in Port Moresby from China and the former USSR were politely turned down until 1980, when a Chinese mission was established in Port Moresby. The basic explanation in refusing to accept Chinese and USSR embassies in PNG was because the Australian (Commonwealth) Government and its security organisations advised PNG against hosting resident diplomatic missions of both China and USSR. The major argument was that the PNG Government and its security agencies were incapable of monitoring the activities of China and USSR missions.

Universalism was also intended to establish PNG's position within the then bipolar world by implicitly proposing a middle path between the two competing power blocs (West and East), implying that "we (PNG) [did] not want our friends to choose our enemies for us." Universalism expressed PNG's determination to remain non-

22 M. Somare cited in G. Goodman and F. Moos (ed.), *The US, Japan in the Western*
commital to neither side: a decision very much driven by an implicit assumption that this stance would help PNG to draw economic, political and security benefits from both sides of the divide, but was unsuccessful because nothing was done to develop relations with the USSR. Consequently, the middle path was never effective in drawing economic benefits because, PNG by its geographical location, was not of strategic importance to any major powers.

Universalism bestowed upon PNG a certain degree of neutrality which helped it to explain why it would not allow itself to be sucked into the potentially explosive power rivalry and ideological struggle between the two opposing blocs by signing any military agreements or alliances\textsuperscript{23}, though PNG had no real choice because there was no option - no one wanted to enter into any sort of security treaty with PNG. It may be correct to suggest that Australia's reluctance to enter into formal military alliance with PNG had influenced the PNG Minister for Foreign Affairs, Defence and Trade to strong opposition to a military treaty with Australia at independence. The salient imperative from PNG's perspective was to establish a framework in which PNG could attempt to take an independent foreign policy line without being labelled either as socialist or communist by its former coloniser and other pro-western and anti-Communist states in the region, and to allay socialist/communist states' sceptical view of PNG as a western stooge or lackey.

The lack of resources (financial, personnel and know-how) of the PNG Foreign Affairs and Trade Department dictated that PNG could establish resident missions only in countries and regions of significance determined by economics, trade and security, or in the case of the Fiji mission due to close ethnic identity and as the headquarters of regional organisations like the SPEC\textsuperscript{24}, and, in the case of the United Nations, PNG's desire to co-operate with other countries to promote peace, security and international

justice\textsuperscript{25}, or simply to ensure PNG's interests were not overlooked there. It is also possible that universalism was intentionally defined broadly by the leaders of PNG to send a message to the world that PNG's independence did not depend upon Australia's own economic, political and military-strategic interests, but that PNG was willing to break away from its historical place in the western orbit and to search elsewhere for support in the pursuit of its development and security objectives\textsuperscript{26}.

The restraints on PNG's external relations originating from Australian (and western) economic and military-strategic interests, PNG's own resource limitations and traditional and immediate regional concerns meant that relations with other countries in other regions were not thoroughly pursued.

As the first five years of independence came to a close and the inadequacies of universalism became apparent, a government committee was set up in 1979 to search for a new policy direction. The Foreign Minister tabled in the PNG National Parliament a new foreign policy direction in November 1981 to guide PNG into the 80s and beyond.

\textit{Phase II: Active and Selective Engagement, 1981 and since Re-endorsed}

The second Government Foreign Policy approach was tabled in Parliament in November 1981. The new foreign policy in every respect was less ambitious than its predecessor. The new direction was defined as "active and selective engagement". The principles incorporated within active and selective engagement consolidated and continued the practice under universalism, that is, a continued emphasis placed upon relations with Australia, South Pacific, Western Europe, South East Asia and Japan.

However, it must be noted that active and selective engagement was not meant to be a foreign policy per se, but was intended (many of its proposals and recommendations) as a general guide for future planning as resources became available\(^{27}\). It was an approach flexible enough to accommodate the continuing changes in government and various foreign policy preferences of future foreign ministers. Active and selective engagement was not a rigid, inflexible policy.

Active and selective engagement was premised upon the fact that the relations PNG pursued should be of benefit to the country and its citizens, (and so was universalism). In other words, it chose the approach for the PNG Government to acknowledge that diplomatic relations with certain countries and regions could not be considered priority unless their potential to impact upon or to advance PNG's own interests were considerable.

To give substance to the development of relations with countries that shared common interests with PNG a broad three-pronged diplomatic strategy was devised:

\[
\text{a) consolidation and extension of existing relations; b) independent and constructive co-operation with the governments of neighbouring countries; and c) further diversification and development of relations with the governments of other countries with which we [PNG] share[s] significant interests, and of countries with a substantial capacity to affect our interests}^{28}.\]

\[\text{Consolidation and Extension of Existing Relations}\]

The first element of the three-pronged diplomatic strategy was concerned with rounding out the aspects of formal diplomacy - by filling gaps, extending contacts and making existing contacts more effective, then going on to deal with those relationships with other countries which have developed beyond their formal beginnings\(^{29}\).

\(^{27}\) PNGFAR, "Foreign policy: PNG", vol. 1 no. 4, 1982 (special issue): 9
\(^{28}\) Ibid.: 20.
\(^{29}\) Ibid.: 24.
Consolidation and extension of relations was to be pursued by establishing formal diplomatic relations with those countries where substantial contact - formal and informal exists. The consolidation and extension of existing relations covered not only those countries which did not have PNG diplomatic missions located in their capitals, but also those which did. Regional emphasis was centred in the Pacific and South East Asia. In the South Pacific, PNG did not have any formal relations with Nauru, Tonga, Western Samoa and Federated States of Micronesia. The Federated States of Micronesia are still part of the Trust Territories of Pacific Islands (TTPI) - so not eligible for full, formal relations. PNG's relations with these states were conducted through regional organisations such as the South Pacific Commission (SPC) and South Pacific Forum (SPF) and the diplomatic missions in Fiji and Solomon Islands. PNG's relations with Indonesia were conducted through a formal diplomatic mission whilst relations with other South East Asian countries were pursued through ASEAN.

Economic interests were to be pursued with countries that produced commodities similar to those produced by PNG - copper (Peru, Zambia and Zaire), coffee (Brazil, Colombia, Ivory Coast, Uganda and El Salvador) and cocoa (Ghana, Nigeria, Ivory Coast, Brazil, Cameroon, Sao Tome and Principe). But nothing was done bilaterally with many of these countries. Nevertheless, PNG pursued relations both informally and formally through regional (ASEAN, ACP, SPC and SPF), global (UN and World Bank) and specific commodity (related) organisations such as the International Cocoa Organisation, International Coffee Organisation and the International Council of Copper Exporting Countries (from which PNG has since withdrawn).

**Independent and Constructive Neighbourly Co-operation**

The independent and constructive neighbourly co-operation aspect of the three-pronged diplomatic strategy is concerned with PNG's immediate neighbours - Australia,
Indonesia, Solomon Islands and the Federated States of Micronesia (FSM). The relations with these neighbouring countries are of primary concern to PNG as each have involved PNG in "detailed negotiations over the definition of our national boundaries and arrangements for boundary crossers". But these relations are not confined to common borders only, the relations include commercial, cultural, educational, aid and security-strategic issues too. The cultural, political, economic and military-strategic diversity of neighbouring countries implies that the cultivation and development of relations will also differ from case to case.

(1) Australia

The diversification of PNG's external relations to a certain extent has tended to make the relationship between Australia and PNG become relatively, but not absolutely, less important to PNG, but with exceptions by mutual agreement in certain areas such as aid relations. It is however, more important now to maintain and consolidate relations with Australia because diversification has been viewed in Australia as an excuse by which Australian aid commitment can be decreased. In light of this sentiment, if PNG should make approaches to other potential donors, these approaches should be made on the understanding that priority to existing relations should be maintained because other donors' terms and conditions tend to be less liberal than Australian aid.

Several Agreements have been reached between the two countries covering areas of mutual concern such as trade, security, investment, taxation, aviation, extradition, education and training and aid. A border treaty covering the Torres Straits outlining the sovereignty and maritime boundaries between the two countries was negotiated in 1978 which came into force 7 years later on the 15th of February, 1985.

30 Ibid.: 40.
31 Ibid.: 39.
32 The term "Agreement" is used here to include arrangements, memorandams of understanding, joint statements and treaties, even though all these varying agreements have differing levels of legality, based upon political arrangements and agreements.
The treaty sets out sovereignty over islands and territorial seas, guidelines for resource exploitation (seabed mining and fisheries), navigation, movement and conducting of traditional border crossers and activities, health, migration and the management of designated protected areas. The smooth execution of the Treaty is vested in the Torres Straits Treaty Joint Advisory Committee (Article 19) comprising -

- 2 national representatives from each country
- 1 Government of Queensland representative
- 1 Fly River Provincial Government Representative
- 3 traditional inhabitants

The Advisory Council has alternating chairmanship.

This treaty is responsible for the smooth administration of the border, even though, there has been very little conflict. Reports and recommendations of the Advisory Council are submitted to the Foreign Ministers of both countries.

(2) Indonesia

Relations between Indonesia and PNG have developed, both directly and through PNG's attendance at ASEAN meetings as an observer. The Basic Agreement...on Border Arrangements was signed in 1973 (and re-negotiated in 1979) between Indonesia and PNG, followed by the opening of formal diplomatic relations with an exchange of Ambassadors at independence. The Basic Agreement...on Border Arrangements provides for the -

relative freedom of movement to "traditional" boundary crossers, provided that they do not settle permanently on the other side. They have also agreed to allow free navigation by nationals or citizens of both countries through the Fly River Bulge, and to consult and cooperate in respect of major natural resource projects, including Ok Tedi. The Border Agreement can also be seen as an instrument through and by which illegal activities (particularly OPM related) can be curtailed and/or controlled. To

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33 PNGFAR, "Foreign Policy...", 1982: 42.
supplement the Border Arrangements, an Agreement concerning Technical Co-operation was reached in 1979, under which technical exchanges have been conducted. In the 1980s the relationship was further expanded and strengthened beyond border issues by the signing of a Treaty of Mutual Respect, Friendship and Co-operation in 1986, and in 1987 by PNG acceding to the ASEAN Treaty of Amity and Co-operation.

(3) Solomon Islands

Relations with the Pacific Islands including Solomon Islands are pursued and developed in two ways

(1) through participation in regional gatherings; and (2) through direct government to government dealings.34

Bilateral diplomacy (direct government to government contact) has not been utilised much by Pacific island countries, mainly because of the lack of diplomatic resources. Consequently, multilateral diplomacy has had greater importance in PNG's development, consolidation and maintenance of relations with its Pacific neighbours. Multilateral diplomacy has been conducted through regional organisations such as the South Pacific Commission (SPC) and the South Pacific Forum (SPF) and their subsidiaries.

Relations with the FSM are pursued through multilateral organisations like the SPC, the SPF and the Forum Fisheries Agency, particularly when dealing with fishery exploitation within the 200 mile EEZ, and through the accreditation of a roving ambassador.

34 Ibid.: 36.
Diversification and Development of Relations

The third element of the three-pronged diplomatic strategy was necessitated by the acknowledgement and acceptance by the PNG Government that PNG was incapable, even with a modest defence force, of successfully defending the country, in the event of armed attack\(^ {35}\). The PNG Government noted that no foreign government had any designs for military aggression toward PNG. The only likely threats to PNG were considered to be governments and political movements which might seek to exploit opportunities such as those created by the law and order situation and ethnic aspirations in order to pursue their own interests in PNG. No foreign government has offered to guarantee the independence and security of PNG\(^ {36}\). In these circumstances, establishment of relations with countries sharing international boundaries was a necessary step toward securing a "security umbrella" - with diplomacy vigorously touted as the first and effective line of defence in the protection of PNG's sovereignty and independence.

The 1981 foreign policy approach indicated the PNG Government's desire to effectively exploit and manage scarce resources to fully attain for PNG maximum benefits (whether economic, military-strategic, manpower development, etc,...). Clearly identifiable foreign policy objectives restrained PNG from being wasteful in the pursuit of marginal and nominal relations which were unlikely to improve its well-being significantly. The effectiveness of the three-pronged diplomatic strategy eventually was manifested in the selective establishment of new foreign resident missions abroad. There was pressure exerted upon the Department of Foreign Affairs to be realistic when planning new foreign missions or formulating foreign policy. The three-pronged strategy gave lower priority to less relevant and unimportant issues on the policy agenda.

Since the adoption of active and selective engagement in 1981, minor adjustments in foreign policy have been made by the various incoming governments.

\(^{35}\) Ibid.: 46.
\(^{36}\) Ibid.
These minor adjustments did not vary much from the overall thrust of active and selective engagement. In 1983, during a speech to the 38th United Nations General Assembly session, then Prime Minister Somare outlined new foreign policy initiatives under the title "purposeful direction" which insisted upon the premise that, without being strident or aggressive, we are pushing for progress toward international equity (access to economic benefits, health, education, good water, food, etc,...) and order. Somare in his speech asserted that order can be achieved in relations between sovereign states and that an economically and socially equitable world wide order can be attained \(^{37}\). This equitable and ordered world can be achieved through the use of international organisations like the United Nations. Five years later in 1988, then Prime Minister Paias Wingti in a speech to the PNG National Parliament in outlining new foreign policy directions stressed two important elements as "continuity and change" \(^{38}\). Though emphasis shifted with every new administration, commitment was maintained in the pursuit of the three-pronged diplomatic strategy, occasionally requiring adjustments as outlined above, imposed by the general economic conditions, and the changing domestic and international political environment.

**UNIVERSALISM AND ACTIVE AND SELECTIVE ENGAGEMENT**

There was very little if any difference in practice between the two foreign policy approaches. Active and selective engagement was less ambitious because it did not aspire to be the answer to all PNG's foreign policy needs. Active and selective engagement was practical - its objectives were within reach of PNG's capabilities, as was underlined by the criteria for selecting priority areas for implementation set down in the three-pronged diplomatic strategy.

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\(^{37}\) M. Somare, an address on the 13th of October to the 38th Session of the UN General Assembly on PNG's approach to its relations with the rest of the world was described as "Purposeful Direction", *PNGFAR*, vol. 8 no. 4, 1983: 5.

\(^{38}\) P. Wingti, "Foreign policy of independent commitment to international co-operation", a major foreign policy statement for the next five years made to the National Parliament of PNG on his election as the Prime Minister, *PNGFAR*, vol. 8 no. 1, 1988: 5.
Universalism did not deny the special place of Australia, the South Pacific, South East Asia, Japan and the EEC in PNG's foreign relations. The South Pacific, Australia, South East Asia, Japan and the EEC were given priority in PNG's foreign diplomatic relations, basically because of the prominence of aid, trade and commerce, security, history, cultural affinity, education, and skilled and technical manpower recruitment factors.

Active and selective engagement in many ways laid the foundations for the diversification of socio-economic, military and aid relations, as defined by independent and constructive neighbourly co-operation and diversification of PNG's relations, leading to a relative reduction of economic dependence upon Australia. As PNG's relations diversified, bilateral relations with Australia could no longer to be taken for granted by both parties, resulting in more formal arrangements such as the JDP.

CONCLUSION

The universalism and active and selective engagement foreign policy directions could be said, firstly, to have helped increase the level of policy independence of PNG in the areas of politics, economic planning, and particularly in the formulation and implementation of both domestic and external policy. This was made possible by the formalisation of the conduct of the relationship, which also made it more predictable. Diversification of sources of aid, skilled manpower, trade and investment might be regarded as a manifestation of growing policy independence rather than the result of foreign policy direction per se. I suggest that policy independence is not necessarily a product of PNG's particular foreign policy direction, but an indication of the success of PNG's diversification exercise. Active and selective engagement is an expression of the changes that occurred.
CHAPTER 3

COMMERCE AND INVESTMENT

This chapter discusses the importance of economics in the bilateral relationship between Australia and PNG. The relationship between Australia and PNG has been described as a dependent one by Amarshi, Good and Mortimer in 1976 and at other times by other writers too, particularly if the data regarding the level of aid PNG receives from Australia (for a detailed discussion on Australian aid see chapter 5) is taken into consideration. However, even if economic, including aid, suggests the economic dependence by PNG on Australia, they do not detract from the actual policy independence that PNG has displayed in its conduct of bilateral relations with Australia. Nevertheless, the question of how much impact commerce and investment (from and) with Australia have had on the independence of PNG's bilateral relations with Australia deserves detailed discussion.

AUSTRALIA AND PNG COMMERCIAL FRAMEWORK

PNG's economy is extremely dependent upon primary production: agriculture, mining, forestry and fisheries. The primary sector contributes an average of more than 80 percent of PNG's exports per annum. PNG's manufacturing sector has played a very minor part in PNG's economic development. It has even been suggested that PNG's primary sector-dominated economy was structured that way by Australia so that exports from PNG did not compete but complemented Australia's own economic development.

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Australia has remained an important trading partner since independence. Trade has been consistently in Australia's favour over the period under consideration (1980-1990) (see tables 5 and 6), but during the 1990s, trade has slowly moved toward equilibrium. Commercial relations between the two countries are conducted under the PNG and Australia Trade and Commercial Relations Agreement (PATCRA) first signed in 1976 and since renegotiated in 1991 and the Joint Declaration Principles (JDP).

**Papua New Guinea and Australia Trade and Commercial Relations Agreement**

The Agreement has two important aspects: it firstly incorporates existing trade relations, and, secondly, sets in place new arrangements for the development and the conduct of the continuously evolving commercial relations between the two states, by attempting to establish a "free trade area".

Prior to PNG's independence in 1975, certain products originating in PNG enjoyed duty-free entry into Australia under the Customs Tariff (PNG) Act of 1926. However, the list covered only unprocessed agricultural and a variety of other primary products. The decisions taken by the Australian Government on products for duty-free entry were decided in such a way that Australia's own domestic agriculture and primary industries were not disadvantaged. In line with this policy, the Australian Commonwealth Government encouraged the production of tea and coffee so that it would become independent of South America and India, but at the same time did not favour and encourage the production of sugarcane and pineapples as they would compete with Australia's home industries.

Gradually over the years, the categories of

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3 Article 3 of PATCRA  
products listed for duty-free entry into Australia were expanded to include non-primary and non-agricultural products.

PNG did not reciprocate Australia's preferential treatment of its products. This non-reciprocity was off-set by PNG's liberal tariff policies and also by treating Australia as a most-favoured-nation (itself a form of preference), resulting in about 70 percent of Australian products being admitted under very minimal import duties or duty-free. Sawyerr taking up this strain of argument drew attention to the fact that -

a substantial proportion of trade between the parties has always been duty- and restriction-free, ranging from 95.2 percent to 99.6 percent regarding PNG exports to Australia; and from 79.6 percent to 78.5 percent in the reverse direction, in the 1974-78 period. But the duty- and restriction-free entry of PNG products into Australia and vice-versa were to do with the liberal tariff policy of PNG and her colonial relations with Australia rather than with any Free Trade Area idea.

PATCRA, I shall argue, was put in place to help PNG during the immediate post-independence period by making available a ready and accessible market for its products so that PNG would be able to fund domestic socio-economic programs. And secondly, PATCRA served Australian business interests by preserving Australia's position as PNG's number one trading partner, particularly as a source of imports.

PATCRA formalised the entry of unprocessed PNG products duty-free into Australia. But products that pose some degree of threat and competition to Australian industries, for example, sugarcane and processed forest products, were unilaterally subjected to restrictions by Australia. The results of Australia's protection of its own domestic producers and industries coincidentally undermined economic development in PNG.

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9 Ibid.: 268.
**Joint Declaration of Principles**

The JDP which was signed in 1987 between Australia and PNG emphasised both countries' continuing commitment of trade relations and investment. Article 13 (c) that - trade between the two countries will be on at least most favoured nation terms and as free of both tariff and other restrictive regulations of commerce as may be consistent with both countries' domestic requirements and international commitments. 

The JDP echoed that which had been incorporated earlier in other arrangements such as for example, the PATCRA. The JDP changed the way bilateral relations between Australia and PNG were conducted, that is, all aspects of the relationship, including commerce and investment would no longer be considered discretely, but as an integrated whole. The JDP also relegated the aid aspect of the relationship to the same level as other aspects: aid was no longer central to the bilateral relationship.

**IMPORTS**

The total value of PNG's import bill rose from K684.2 million in 1980 to K1,142.9 million in 1990. Several major product categories dominated PNG's import bill consistently, and in some instances rose over the last decade (1980 - 1990). Product categories that dominated the total import share of PNG's market in order of kina value are machinery and transport equipment, food and meat, chemicals, mineral fuels and beverages and tobacco.

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12 Article 13(c), *Joint Declaration of Principles Guiding Relations Between Papua New Guinea and Australia*, signed in 1987.
Table 5: PNG's Major Categories of Imports (Kina value millions)\textsuperscript{13}

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>133.2</td>
<td>8.7</td>
<td>117.9</td>
<td>36.6</td>
<td>91.6</td>
<td>206.3</td>
<td>684.2</td>
</tr>
<tr>
<td>1981</td>
<td>136.7</td>
<td>8.4</td>
<td>158.0</td>
<td>45.0</td>
<td>105.1</td>
<td>215.1</td>
<td>738.1</td>
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<tr>
<td>1982</td>
<td>138.7</td>
<td>8.4</td>
<td>146.1</td>
<td>39.3</td>
<td>118.9</td>
<td>230.4</td>
<td>751.7</td>
</tr>
<tr>
<td>1983</td>
<td>135.4</td>
<td>8.2</td>
<td>167.3</td>
<td>60.5</td>
<td>128.5</td>
<td>222.5</td>
<td>821.7</td>
</tr>
<tr>
<td>1984</td>
<td>154.8</td>
<td>11.2</td>
<td>156.3</td>
<td>68.2</td>
<td>140.1</td>
<td>243.5</td>
<td>866.8</td>
</tr>
<tr>
<td>1985</td>
<td>153.5</td>
<td>9.6</td>
<td>153.8</td>
<td>65.8</td>
<td>132.4</td>
<td>248.4</td>
<td>874.8</td>
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<tr>
<td>1986</td>
<td>162.7</td>
<td>8.5</td>
<td>93.4</td>
<td>81.7</td>
<td>149.1</td>
<td>309.5</td>
<td>902.1</td>
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<tr>
<td>1987</td>
<td>171.5</td>
<td>11.9</td>
<td>112.0</td>
<td>84.6</td>
<td>181.6</td>
<td>339.6</td>
<td>996.0</td>
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<td>1988</td>
<td>181.8</td>
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<td>84.4</td>
<td>206.7</td>
<td>424.6</td>
<td>1,199.0</td>
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<tr>
<td>1989</td>
<td>190.9</td>
<td>15.0</td>
<td>63.7</td>
<td>78.6</td>
<td>253.3</td>
<td>525.0</td>
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<td>1990</td>
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<td>80.1</td>
<td>81.6</td>
<td>223.0</td>
<td>423.0</td>
<td>1,142.9</td>
</tr>
</tbody>
</table>

Key: 1 = Food; 2 = Beverages and tobacco; 3 = Mineral fuels; 4 = Chemicals; 5 = Manufactured goods; 6 = Machinery; and 7 = Total imports.

\textit{Food}

Food imports increased their monetary value from K133.2 million in 1980 to K194.6 million in 1990. Increase over the decade is computed at K61.4 million, averaging annually about K6.14 million. The increases over the years were gradual rather than dramatic. If considered as a percentage of the total import value, the increase amounts to a small decline from 19 to 17 percent. The increase in the monetary value of food imports occurred despite the fact that about 85 percent of the population lives in the rural areas of PNG and relies primarily upon subsistence food production. However, there is growing evidence that most of the subsistence farmers (who produce primarily for household consumption) are turning towards the consumption of imported food such as rice and tinned meat and fish from South East and North East Asia. Because

imported food costs money, surplus food that is produced from subsistence activity is sold at local markets for cash. Consequently, changing consumption patterns have led to a situation where cash crop production is replacing food production as a major household subsistence activity to enable the growers to access imported food for consumption.

Greater expectations of cash income from cash crop production and subsequent wealth accumulation by producers, when compared to subsistence food production, has led to the appropriation of more limited fertile land for the cultivation of cash crops such as coffee, cocoa, tea, coconuts and rubber. The limited availability of fertile land for economic activity is also compounded by issues of land tenure, because most land is communally owned and alienated land is very expensive. An Asia-Pacific Economic Group report in 1991 found that:

70 percent of [land] is considered unsuitable for agriculture because of topography, drainage or infertility, but the remaining 30 percent is used only at low levels of intensity. The problem [faced by foreign and major local investors] is that only 3 percent of the land is covered by modern, transferable title: 97 percent continues to be held on a customary basis.

Hence, land required for major economic ventures is lacking whilst there is substantial land left for subsistence production of food, though the latter is in short supply in some areas particularly in the Highlands and the Gazelle Peninsula. Because not much effort and land has been mobilised toward commercial food production, PNG has to import food stuff like rice and canned fish to meet the demand. In spite of the land-related difficulties discussed above, meat (beef, pork and poultry) and sugar production have met with limited success (success in terms of production) under heavy protection, but still in insufficient quantities to satisfy domestic demands in PNG. The inability to meet domestic demand may be because most such products are produced for export, as is the case with Ramu Sugar. On the other hand, it could be related to poor quality of local

produce, for example, rice in 1979 when import quotas were instituted. Though, technically, PNG has the potential to meet its food requirements, it has not done so. Why? If one looks at the national budget appropriations, the resource share to agriculture has been maintained at between 6-10 percent in 1984-1987, while actual expenditures have tended to fall in real terms. Hence, political rhetoric about priority going to agriculture is not reflected in resource allocation when compared to other sectors.

**Machinery and Transport Equipment and Mineral Fuels and Industrial Chemicals**

Machinery, transport equipment, industrial chemicals and mineral fuel categories also figure prominently in PNG's total import bills. The share of machinery and transport equipment out of total imports rose from 30 percent in 1980 to 37 percent in 1990, while the mineral fuels percentage dropped from 17 to 7 percent for the same years, and chemicals' share remained about the same at between 5 and 7 percent. The increases in the imports of machinery and transport equipment, mineral fuels and chemicals do not signify a wide demand for capital goods across all sectors of the economy, but are confined to a single sector, mining: the number of mines (in operation) since the Bougainville mine began production in 1971 include - Ok Tedi (1984), Wau (ceased operations in 1991), Misima (1989), Porgera (1992) and the Hides Gas Project (1992). Lihir and others are yet to commence production.

On an annual average between 1980 - 1990, Australia accounted for 45.2 percent of total imports into PNG. Australia's proportion of total imports slightly decreased from 41 percent in 1980 to 40 percent in 1985 and then increased to 47 percent in 1990. Australia has not only been able to maintain its import market share in PNG,

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17 BPNG, *Quarterly Economic Bulletin*, various years; see also table 2.
but was also able to increase it, in spite of the growing competition for PNG's import market from other sources in South East Asia, North East Asia, Japan, the United States, New Zealand and the United Kingdom.

Table 6: Major Sources of PNG’s Imports (Kina millions)\(^{18}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>279.2</td>
<td>123.5</td>
<td>27.6</td>
<td>104.4</td>
<td>28.7</td>
<td>44.1</td>
</tr>
<tr>
<td>1981</td>
<td>278.3</td>
<td>125.4</td>
<td>38.0</td>
<td>136.1</td>
<td>31.7</td>
<td>62.4</td>
</tr>
<tr>
<td>1982</td>
<td>309.5</td>
<td>107.9</td>
<td>40.7</td>
<td>110.3</td>
<td>34.0</td>
<td>64.2</td>
</tr>
<tr>
<td>1983</td>
<td>322.5</td>
<td>125.3</td>
<td>40.6</td>
<td>109.2</td>
<td>31.5</td>
<td>80.8</td>
</tr>
<tr>
<td>1984</td>
<td>344.8</td>
<td>135.9</td>
<td>45.8</td>
<td>102.7</td>
<td>30.7</td>
<td>89.6</td>
</tr>
<tr>
<td>1985</td>
<td>351.5</td>
<td>152.1</td>
<td>48.7</td>
<td>89.8</td>
<td>26.4</td>
<td>86.6</td>
</tr>
<tr>
<td>1986</td>
<td>364.5</td>
<td>159.9</td>
<td>40.3</td>
<td>56.3</td>
<td>30.7</td>
<td>85.3</td>
</tr>
<tr>
<td>1987</td>
<td>431.7</td>
<td>185.5</td>
<td>37.6</td>
<td>66.1</td>
<td>28.3</td>
<td>80.6</td>
</tr>
<tr>
<td>1988</td>
<td>507.4</td>
<td>204.4</td>
<td>40.0</td>
<td>64.8</td>
<td>31.9</td>
<td>104.6</td>
</tr>
<tr>
<td>1989</td>
<td>525.2</td>
<td>200.4</td>
<td>41.6</td>
<td>88.0</td>
<td>37.6</td>
<td>145.0</td>
</tr>
<tr>
<td>1990</td>
<td>534.4</td>
<td>152.2</td>
<td>38.5</td>
<td>97.2</td>
<td>26.8</td>
<td>109.9</td>
</tr>
</tbody>
</table>

Key: 1 = Australia; 2 = Japan; 3 = New Zealand; 4 = Singapore; 5 = United Kingdom; 6 = United States of America

Australia's import market share has been maintained at fairly constant levels (40-plus percent) by steadily increasing exports of manufactures called "elaborately transformed manufactures" (ETMs). ETMs include autos and parts, computer software and hardware, food and beverages, textiles, communication equipment, paper products, iron and steel and aluminium goods\(^{19}\). Since 1989 PNG has imported about A$807.0 million of ETMs, making it the fourth largest market for Australian ETMs\(^{20}\). These figures highlight the importance of the PNG market for specialised Australian products.

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EXPORTS

PNG's major exports by total value comprise natural resources and agricultural commodities, such as minerals, agricultural cash crops (coffee, cocoa, copra and copra oil, tea and rubber in descending order), forestry and marine products.

Agriculture

Agriculture's share of PNG's overseas exports as a share of total exports percentage has been overtaken by fast rising mineral exports. The declines of agricultural exports can also be said to arise from declining production resulting from low commodity prices. The rise in mineral exports can be clearly seen by looking at the percentage of exports attributed to agriculture. Agriculture accounted for 59 percent of exports in 1970, but declined to 34.4 percent in 1980, slightly increased to 35.7 percent in 1985 and then dramatically nose-dived to a mere 17.3 percent in 1990\(^2\). In spite of the fact that overall agricultural cash crop production has declined, coffee and cocoa continue to maintain their share of total agricultural exports, followed by copra and copra oil, palm oil, tea and rubber\(^2\).

Mining

The mining sector contribution to the total value of exports rose from a 1980 percentage of 46.7, to 52.9 percent in 1985 reaching 69.0 percent in 1990. The

Bougainville mine alone contributed 45 percent of PNG’s export income and 17 percent of government revenue in 1988\textsuperscript{23} before the closure. The closure of the Bougainville mine in 1989 reduced PNG’s ability to raise revenue, consequently forcing the PNG Government to request additional Australian aid. The cessation of exports from the Bougainville mine has been offset by exports from Ok Tedi, Porgera, Hides gas project, Kutubu oil and Misima.

\textit{Forestry and Fisheries}

Forestry related production has expanded from a low of 2.7 percent in 1970 to 6.6 percent in 1980, 7.3 percent in 1985 and 6.4 percent in 1990 of the value of total exports\textsuperscript{24}. Marine products, particularly fish products, have also been increasing their export share.

PNG’s exports to Australia have been quite small when compared with its exports to other countries. PNG’s exports to Australia amounted to only a quarter in value of Australia’s exports to PNG. In spite of this fact, Australia still ranks as the third most important destination for PNG’s exports. Australia accounts for almost 10.5 percent of total value of exports per annum. The major export destinations for PNG commodities other than Australia are Japan and West Germany, averaging over the 10 year period (1980-1990) about 36.1 and 27.7 percent respectively of PNG’s total exports.

Consequently, Australia was a major beneficiary of bilateral trade relations. Attempts have been made at redressing the trade imbalance via a number of trade and economic oriented arrangements (for example, renegotiation of PATCRA, the Investment Promotion and Protection Agreement, and the Double Tax Agreement). But some critics such as Akilagpa Sawyerr in 1982, argued that economic agreements like

\textsuperscript{23} \textit{The Economist}, 16 December 1989: 80.
PATCRA only strengthened Australia's position in retaining its favourable balance of trade with PNG. This development invariably leads to dependence.

**DIVERSIFICATION OF TRADE**

There has been a significant diversification away from Australia of PNG's trade relations. Sources of exports have diversified to include Japan, South Korea, Spain, West Germany, United Kingdom and the United States of America. Japan has become PNG's number one destination for exports followed by West Germany. Even though, export destinations for PNG's commodities have diversified, Australia has maintained its position as the number one source of imports on the basis of annual average, followed by Japan (18 percent), Singapore (11.5 percent) and the United States (10.9 percent) of total imports into PNG between 1980 and 1990.

*Table 7: PNG's Destination for Exports (Kina millions)*

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>55.9</td>
<td>252.5</td>
<td>25.1</td>
<td>27.6</td>
<td>21.3</td>
<td>173.6</td>
<td>---</td>
<td>641.6</td>
</tr>
<tr>
<td>1981</td>
<td>53.0</td>
<td>241.1</td>
<td>28.8</td>
<td>27.6</td>
<td>18.5</td>
<td>130.4</td>
<td>---</td>
<td>559.5</td>
</tr>
<tr>
<td>1982</td>
<td>45.9</td>
<td>186.7</td>
<td>27.5</td>
<td>31.9</td>
<td>10.1</td>
<td>148.0</td>
<td>---</td>
<td>549.5</td>
</tr>
<tr>
<td>1983</td>
<td>50.5</td>
<td>235.9</td>
<td>27.8</td>
<td>38.5</td>
<td>14.4</td>
<td>171.8</td>
<td>---</td>
<td>668.4</td>
</tr>
<tr>
<td>1984</td>
<td>64.6</td>
<td>226.3</td>
<td>27.1</td>
<td>87.0</td>
<td>20.6</td>
<td>164.5</td>
<td>---</td>
<td>771.7</td>
</tr>
<tr>
<td>1985</td>
<td>91.4</td>
<td>199.0</td>
<td>41.3</td>
<td>66.0</td>
<td>34.6</td>
<td>264.5</td>
<td>---</td>
<td>883.3</td>
</tr>
<tr>
<td>1986</td>
<td>149.2</td>
<td>256.7</td>
<td>21.3</td>
<td>45.2</td>
<td>32.7</td>
<td>345.5</td>
<td>61.1</td>
<td>1,003.2</td>
</tr>
<tr>
<td>1987</td>
<td>84.8</td>
<td>301.2</td>
<td>32.9</td>
<td>50.4</td>
<td>22.1</td>
<td>288.4</td>
<td>170.4</td>
<td>1,123.2</td>
</tr>
<tr>
<td>1988</td>
<td>83.1</td>
<td>495.5</td>
<td>37.5</td>
<td>63.8</td>
<td>34.2</td>
<td>266.0</td>
<td>84.1</td>
<td>1,256.1</td>
</tr>
<tr>
<td>1989</td>
<td>131.7</td>
<td>447.0</td>
<td>12.2</td>
<td>56.6</td>
<td>24.0</td>
<td>292.4</td>
<td>85.8</td>
<td>1,111.6</td>
</tr>
<tr>
<td>1990</td>
<td>131.1</td>
<td>333.5</td>
<td>---</td>
<td>28.6</td>
<td>51.6</td>
<td>191.5</td>
<td>113.5</td>
<td>1,201.5</td>
</tr>
</tbody>
</table>

Key: 1 = Australia; 2 = Japan; 3 = Spain; 4 = United Kingdom; 5 = United States of America; 6 = West Germany; 7 = South Korea; 8 = Total exports.

The relative displacement of Australia as PNG's major source of imports began in the early 1980s. The displacement is alluded to in reports that Australia's exports to PNG had shrunk before 1988 by about 10 percent - down from 50 percent to 40 percent, which represented a decline in monetary terms of about A$125 million\(^{26}\). Total Australian exports between 1980 and 1990 to PNG fluctuated between the range of 37 percent in 1981 and 47 percent in 1990 as a percentage of total imports. These fluctuations did not, however, undermine the basic market share for Australian exports in PNG.

A variety of explanations for the fluctuations alluded to above have been advanced. Firstly, competition from cheaper products from New Zealand (meat, dairy products and fruits), Japan and South Korea (electrical, machinery and road transport equipment), South East Asia, Hong Kong and China (garments and food, particularly rice). Secondly, fluctuations in total percentage of Australia's exports can also be considered to be a result of the PNG Government's desire to pursue a strategy of import-substitution of products such as poultry, pork, fruit and vegetables, flour, smallgoods, beverages, canned meat, sugar, soap and garments. For these industries to survive against international competition, the PNG Government provides protection by imposing import barriers and restrictions. The industries eligible for government protection (through import barriers and restrictions) are those identified in 1982 as major components of Australia's total exports to PNG, constituted about A$184 million (18.4 percent) out of a total value of A$1,000 million\(^{27}\). The PNG Government's desire to diversify its international trade away from Australia and to seek alternative sources of ODA, investment capital and skilled labour has also contributed to import fluctuations. For example, ODA (as argued in chapter 5) generates business opportunities for the donors' industries if that ODA is tied. Most, ODA apart from Australian budgetary

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\(^{26}\) Overseas Trading, vol. 37 no. 11, 1985: 20; B. Hayden (Foreign Minister), text of a speech to the Joint Australia-PNG Business Co-operation Committees seminar in Port Moresby, 7th November 1985: 1.

support is conditional, that is, it hardly leaves the shores of the donor country, because it must be spent on the donors goods and services. Australia has been disadvantaged as a consequence, in part because a major part of Australian ODA to PNG has been untied or unconditional - in principle, this untied aid did not have to be spent on Australian goods and services (though chapter 5 provides evidence that much of that aid has in fact, been spent on Australian goods and services, and increasingly Australian ODA is becoming more tied). Also, as the composition of foreign residents changes, including the entrepreneurial class, tastes change: new residents will remain loyal to their ethnic background and tastes, meaning that Australia loses business. It is therefore plausible to conclude on the one hand that Australia's position as the centre of PNG's commercial interests will be maintained if aid becomes increasingly tied, thereby increasing Australia's exports. On the other hand, Australia's position as the major source of PNG's economic activity, may be weakened with PNG's diversification exercise away from Australia for imports, investment, ODA and skilled manpower, and if import-substitution policy becomes successful.

INVESTMENT

Australian ownership and control of the PNG economy (excluding forestry and fisheries) is not accidental. The predominance of Australian ownership and control of the Territory's economy was a direct result of colonial policies regarding business incorporation in the Territory. Specific pro-Australian provisions were enacted to safeguard Australia's position in PNG. Provisions such as the New Guinea Corporations Act actively prohibited non-British subjects from incorporating companies unless two thirds of the members were British subjects. The Act automatically excluded indigenes and non-British citizens. The indigenous people were not regarded as British subjects. It was a pro-British (particularly pro-Australian) Act explicitly intended to

preserve the Territory for British and Australian economic and commercial interests. The Act was supplemented by other prohibitive measures such as licensing laws relating to retail sales of alcohol, public transport and coffee buying\textsuperscript{29} that reduced indigenous participation. Consequently, Australian private capital became the most significant source of investment in and to PNG. Investment data available for the period between 1970 and 1979, confirms the advantage Australia enjoyed: out of the total Australian investment stock in all countries of A$1,440 million, PNG accounted for A$420 million\textsuperscript{30}. Despite the substantial Australian investment stock already in PNG, the flow of new investment to the Territory from Australia started declining after peaking at the 1973 figure of A$285 million to A$229 million in 1975 "due to the sale of the proportion of the shareholding in BCL to the PNG Government"\textsuperscript{31}. The flow of new investment continued to decline from A$51 million in 1975/76 to A$26 million in 1976/77, finally falling to A$25 million in 1977/78\textsuperscript{32}. The total decline of new investment flow to PNG from Australia between 1975/76 and 1977/78 was A$26 million. The declines in existing investment stock and flow of investment into the country were related to the period of uncertainty at independence fanned by local and national governments' intentions to nationalise foreign owned businesses and localise employees in order to gain control of economic affairs and the uncertainty generated by the prophets of doom focasting chaos, which caused the business community to disinvest and put new investment on hold\textsuperscript{33}. As the business community realised nothing dramatic was going to happen after a smooth transition of power to indigenes and the new Government went about allaying fears of nationalisation, investment flow into PNG picked up again. The confidence shown by the business community regarding investment in PNG is confirmed

\textsuperscript{29} Ibid.

\textsuperscript{30} Australia-PNG Investment Promotion Conference Report, 1979: 4.


\textsuperscript{33} P. Barchan (Australian Trade Commissioner, Port Moresby), "Competitors threaten Australia's strength as supplier to PNG", Overseas Trading, vol. 30 no. 2, 1978: 56.
today by total Australian investment stock being reputed to be in the vicinity of A$1.8 billion\textsuperscript{34}.

The table below, however, shows that investment stock in PNG did not remain steady, but was quite erratic. It rose by A$507 million between 1980/81 and 1983/84, declining by A$160 million in 1985/86, and hovered for the last years of the 1980s between a low of A$1,437 and a high of A$1,725 million. It is obvious that some investment stock in PNG had been either sold to other private investors (both national and foreign), other than Australian investors or simply shut down. There was also some movement of investment out of PNG during 1980/81 and 1985/86 which was computed at around A$30 million and A$107 million respectively\textsuperscript{35}.

\textit{Table 8: Levels of Existing Australian Investment Stock and Income in PNG (A$ millions)}\textsuperscript{36}

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Stock</th>
<th>Investment Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>509</td>
<td>62</td>
</tr>
<tr>
<td>1981/82</td>
<td>878</td>
<td>49</td>
</tr>
<tr>
<td>1982/83</td>
<td>850</td>
<td>47</td>
</tr>
<tr>
<td>1983/84</td>
<td>1,016</td>
<td>108</td>
</tr>
<tr>
<td>1984/85</td>
<td>994</td>
<td>53</td>
</tr>
<tr>
<td>1985/86</td>
<td>856</td>
<td>141</td>
</tr>
<tr>
<td>1986/87</td>
<td>1,437</td>
<td>61</td>
</tr>
<tr>
<td>1987/88</td>
<td>1,725</td>
<td>3</td>
</tr>
<tr>
<td>1988/89</td>
<td>1,494</td>
<td>n.y.a</td>
</tr>
<tr>
<td>1989/90</td>
<td>1,556</td>
<td>n.y.a</td>
</tr>
</tbody>
</table>

A significant proportion of foreign capital investment is concentrated in primary production (agriculture) and the exploitation and extraction of natural resources (particularly mining). There is very limited investment in food production and

\textsuperscript{34} G. Evans, "Australia and PNG...", 1990: 7.
manufacturing. In the mining and the service\textsuperscript{37} sectors, Australian companies are major investors (for the mining sector, see table 9). The huge amounts of capital required to develop large mines cannot be met internally. Their developments is financed externally. This means that ownership is significantly foreign (see table 9). Consequently, profits in most instances are repatriated out of PNG by foreign individuals and organisations by virtue of ownership (or shareholding).

In spite of the high levels of investment, income has not been necessarily enough to compensate for the high levels of capital costs. Table 8 above records income much lower than total investment.

\textsuperscript{37} Australian companies like Steamships, W. R. Carpenters and Burns Philp dominated the retail sub-sector (until the 1990s when Australian interests were bought up by other foreign interests). In the banking and insurance industry, Australian firms like, the ANZ Banking Group, Wespac Banking Group and Queensland Insurance are dominant.
Table 9: Principal Gold Mining/Exploitation Sites and Developers, PNG

<table>
<thead>
<tr>
<th>Mine</th>
<th>Start-up</th>
<th>Ownership %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bougainville</td>
<td>1972</td>
<td>CRA(a) 54</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PNG Government 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public 26</td>
</tr>
<tr>
<td>Ok Tedi</td>
<td>1984</td>
<td>BHP 30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AMOCO 30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BRD Cons. 30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PNG Government 10</td>
</tr>
<tr>
<td>Wau</td>
<td>1985(b)</td>
<td>Renison 100</td>
</tr>
<tr>
<td>Misima</td>
<td>1989</td>
<td>Placer 80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PNG Government 20</td>
</tr>
<tr>
<td>Porgera</td>
<td>1992</td>
<td>Placer 25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MIM 25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Renison 25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PNG Government 25</td>
</tr>
<tr>
<td>Mt. Kare(c)</td>
<td></td>
<td>CRA(a) 100</td>
</tr>
<tr>
<td>Hides Gas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lihir(d)</td>
<td></td>
<td>RTZ 80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Niugini 20</td>
</tr>
</tbody>
</table>

Notes:

(a) CRA is a 49 percent-owned affiliate of RTZ.
(b) Wau first began operation in 1933, but has ceased production in 1990.
(c) CRA has been forced out and replaced by a national company.
(d) Not yet in production, and by then the PNG Government will probably buy 30 percent.

The PNG Government's concentration on fostering the development of the agriculture and mining sectors, coincidentally suggests that the Government gives less attention to food production and the manufacturing sector. Mines are seen by the PNG Government as "useful not for direct benefits they bring but for the financial support they can provide for progress towards other national goals"39. Though the PNG Government's lack of political will and planning contributes towards the stagnation of the manufacturing sector, thereby undermining its potential for improving the monetary value of primary products, investors have also been constrained because they (investors) think it is unprofitable. Manufacturing is believed to be unprofitable because of extremely high labour costs compared to other developing countries, expensive transport infrastructure, a small, fragmented domestic market and other expensive overheads such as security expenses (law and order).

The investment capital required by PNG in the development of its natural resources is dependent upon Australian private business interests and what these interests hope to gain monetarily, and or whether the investment environment in terms of law and order, tax, growth potential, etc....is conducive. Australian Government interests relating to both domestic and external socio-political and military-strategic interests also (will in the future) continue to have a significant influence upon the direction (types of sectors - primary, mining and service) and the level of investment entering into PNG. Since most of the investment originates from the private sector, economic considerations tend to be paramount. The Australian Government would be expected to intervene only in protecting economic interests from possible expropriation, as evidenced in the way it has negotiated various economic-related, bilateral agreements such as PATCRA, the JDP and the Investment Promotion and Protection Agreement.

CONCLUSION

Australia's position as PNG's number one trading partner is increasingly coming under threat from Japan (exports and imports), USA and Germany (exports), New Zealand and countries of South East and North East Asia (imports). Nevertheless, the position of Australia as PNG's major source of imports remains, because of the fact that a substantial component of exports to PNG from Australia comprise capital equipment, food products and increasingly ETMs. Australia faces competition from the above countries only in garments, food and fuel exports.

Investment in the mining sector will remain the domain of Australian interests for the foreseeable future. The immediate challenge to Australian dominance originates from Malaysia, Japan, Taiwan and Indonesia in the forestry, fisheries and agricultural sectors. Increasingly, Malaysia is a major player in the forest industry, while Japan and Taiwan are concentrating upon fisheries and agriculture. The dominant roles of Asian countries in the exploitation of PNG's resources complements the PNG Government's initiative to move away from Australia as its source of capital investment, with a long term view to reduce its economic dependence on Australia.

Diversification of commerce and investment has generated two contradictory developments. Firstly, diversification has reduced PNG's dependence upon a single source of imports, aid and investment, and in turn minimised opportunities for the major partner to influence the minor partner's foreign policy. Effectively, then, diversification has improved the conditions in which PNG can exercise foreign policy independence. Secondly, diversification might just give rise to another form of dependency. In other words, rather than becoming independent economically, PNG might develop another relationship similar to the one that has existed and still exists between it and Australia. PNG's independence would again be compromised.

Even though, diversification is necessary in attaining foreign policy independence, if implemented for its own sake, PNG could simply become more dependent on others - and hence loss a substantial degree of policy independence.
CHAPTER 4

THE AID RELATIONSHIP

The aid relationship is a major component of the wider overall relationship between Australia and PNG. Even after 16 years of PNG's political independence in 1975, Australia continued (and still continues) to provide substantial levels of aid, though at gradually declining 'real' value, and with the proportion of direct grants declining as the proportion of project and program aid increase. I will be arguing that, despite the substantial aid dependence by PNG on Australia, this dependence did not hinder PNG's ability to pursue a bilateral relationship with Australia which can be regarded as independent.

DEFINITIONS

There are a variety of ways of defining aid. The United Nations (UN) defines it as only those transfers (grants and short- and long-term loans) made at concessional rates\(^1\). Loans taken out at market rates do not qualify as aid. The Organisation of Economic Co-operation and Development defines official development assistance (ODA) to include those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

a) It is administered with the promotion of the economic development and welfare of developing countries as its main objective, and

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b) It is concessional in character and contains a grant element of at least 25 percent\(^2\)

The Organisation of Economic Co-operation and Development definition of aid has changed very little over the years\(^3\).

Aid also has been considered to cover virtually all aspects of economic relations between developed and developing countries - aid not only includes grants and loans but, investment and trade as well\(^4\). Investment and trade generally improve the environment for increased economic activities, which, in turn, generate revenue that may be utilised to finance the overall socio-welfare, and economic projects and programs. The chances of achieving projected overall development policies, projects and programs of the recipient in pursuing better health services, increased opportunities for education and manpower training, development of an efficient transport infrastructure, etc...are likely to be improved because finance capital will become readily available. Still, other definitions of ODA regard official government-to-government transfers of resources as the only transfer of resources worthy to be legitimately called aid. These transfers comprise budgetary grants, food aid, skilled manpower, scholarships and technical assistance.

For the purpose of this chapter, I will adopt the AIDAB definition of aid as only flows which qualify as "ODA", that is, grants or loans to developing countries and territories and to multilateral institutions which (a) are undertaken by the official sector, (b) have the promotion of economic development and welfare as main objectives, and (c) are


\(^3\) The 1990 definition of ODA has changed little from the definition of ODA rendered in 1969 by the OECD to include all aid flows (grants and loans) to developing countries provided by governments which are administered with, as their main motive, the promotion of economic development and welfare of recipient countries, and which are intended to be concessional in character (OECD, Australia’s international development assistance, a report prepared by the Secretariat of the OECD in consultation with Australian authorities, 1969: 11).

made at concessional financial terms (if a loan, at least 35 percent is grant element\textsuperscript{5}.

Australian aid to PNG comprises budgetary support, project and program aid, educational and manpower training scholarships and the defence co-operation program. Australian commercial interests and investment in PNG are substantial but, I will not consider these as aid as they do not come under the definition tendered above as their grant element is less than 35 percent (being commercial, they include no grant element at all).

RATIONAL AND OBJECTIVES OF AUSTRALIAN AID

The major objective of Australian aid is to facilitate social and economic development and to alleviate poverty\textsuperscript{6}. However, the objective is never static, it changes a little from year to year. The use of the term Development in this context is adopted from the Jackson Report which defined it

as the way in which the quality of human life and society is improved and is integrally linked to both growth and equity\textsuperscript{7}.

The achievement of economic and socio-political development is deemed necessary by the Australian Government for the establishment of a secure regional and international environment in which national interests can be pursued. But the development objective is never pursued discretely from other similarly important motivations, such as altruism and humanitarianism, trade and commerce, domestic and foreign policy, military-strategic and political objectives\textsuperscript{8}. Philip Eldridge suggests that

from its [aid] inception in the early 1950s, Australian aid policy has sought to serve several objectives, notably strategic, diplomatic, trade,

\textsuperscript{7} \textit{The Jackson Report...}, 1984: 59.
\textsuperscript{8} See \textit{Ibid.}: 3.
employment of Australian expertise and institutional resources as well as humanitarian purpose\(^9\).

These sentiments were explicitly outlined by the Australian Foreign Minister, Gareth Evans, in 1989 in a speech to the Australian Committee For Overseas Aid in which he summed up succinctly Australia's own motives for giving aid. He argued that -

our aid expenditure is both altruistic and in our own interests, and is capable of being looked at from both these perspectives. All Australia's aid, to qualify for that description under international accounting rules, has to be altruistic: alleviating poverty and distress and promoting development. But equally, all Australian aid can be seen as promoting one or more very direct and very real Australian interests - whether those interests be traditional geopolitical and strategic foreign policy interests, trade and economic interests or simply Australian's reputational interests in being seen to be a good international citizen\(^{10}\).

The above view had earlier been recorded in the Jackson Report\(^{11}\), where development was viewed as one of several objectives targeted by aid, and by Connell\(^{12}\). The moral factor was again highlighted in a public opinion survey of the Australian public regarding foreign aid by Jonathan Kelley in 1988, in which the majority of respondents strongly supported the view -

that providing foreign aid is a moral duty...In the public mind, foreign aid is seen basically as welfare for foreigners - charity for the poor in other lands\(^{13}\).

Hence aid is not discerned by the survey participants as an instrument to advance Australia's domestic commercial, security and foreign policy objectives. Further still, aid, the survey results concluded, should not be provided in order to enhance Australia's

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international standing or even to support Australia's allies to maintain and develop security alliances. Consequently, foreign aid was viewed by a majority of Australians recorded in Kelley's survey was viewed as a "moral duty and not a decision [to be] determined by pragmatism and self-interest". The implicit assumption underlying this moral determinant of aid donation is that it lessens the degree to which Australia can influence PNG's external policy. Moral arguments can be responsible for the emergence of policy independence in this instance.

BENEFITS OF OFFICIAL DEVELOPMENT ASSISTANCE

Economic

In recent times, it has become commonly accepted that aid in a majority of instances also benefits the donor. In some instances, the benefits accruing to the donor are greater than benefits to the aid recipient. The benefits to the donor are long-term, and include the generation of new market opportunities and development of a partnership between government and private sector in implementing projects through the provision of direct services and goods. New markets are created because the nature of tied aid is such that it is spent on procurement of goods and services from industries and businesses of donor countries.

In considering Australian ODA to developing countries, Australian industry benefits in three ways, namely by

(a) promoting growth and stability in developing countries, thus promoting the expansion of important markets for Australian goods and services; (b) helping to develop new export markets; and (c) generating purchases of Australian goods and services.

15 *The Jackson Report*, 1984: 33; AIDAB, *Australia’s Overseas Aid Program: Helping...
Australian aid acts as a vehicle in the establishment and expansion of new markets for a variety of Australian industries, firms and producers. The markets are an incidence of the introduction, establishment and the maintenance of new consumption patterns/tastes for imports of Australian non-durables and durables. The benefits accruing from ODA for Australia's own firms are further enhanced by official shifts of aid from budgetary support to project and program aid (at least in the case of PNG) coupled with procurement 'tying'. Industry compliance to procurement tying is obtained by the donor government's (in this case Australian Government) insistence on a minimum 20 percent direct purchases of goods and services from Australian industries and businesses under the procurement regulations and preference arrangements\textsuperscript{16}. Australian industries and companies are explicitly assured a minimum 20 percent of the benefits from aid. Because of the above, employment opportunities are also created.

The above assumptions were substantiated in an AIDAB publication in 1990 for the 1987-88 financial year suggesting that about 80 percent of total country programs\textsuperscript{17}, expenditure (exceeding the minimum by 60 percent), excluding budget support to PNG, was spent directly on Australian goods and services\textsuperscript{18}. Australian industries and institutions recorded the highest financial returns at 100 percent for student subsidy, food aid, commodity assistance and co-financing. Consequently, these forms of aid contribute toward the generation of economic activity in which domestic Australian firms and industries participate.

The same AIDAB publication also records that in the 1987/88 fiscal year Australian aid generated direct returns to Australian commercial interests for purchases


\textsuperscript{17} Expenditures under the general umbrella of country programs include projects, student subsidy, food aid, training, commodity assistance support program/development import grant scheme, co-financing and staffing assistance (AIDAB, \textit{Australia's Overseas Aid Program: Helping Australian Industry too}, IDI no. 10, Canberra: AGPS, 1990: 10.

\textsuperscript{18} Ibid.
of goods and services to the value of 87 percent of total aid expenditure in the major areas\(^{19}\). Budget support to PNG with no conditions attached provided a return of 75 percent to Australian industry, underlining that even budget support is not immune from returning to its origins\(^{20}\).

Hence, the notion that aid donors are not the beneficiaries in the aid relationship should be viewed with caution, because the evidence above suggests aid donors are indeed significant beneficiaries.

**Security**

Conventional military-strategic policies such as improving the capability of defence forces by donating bigger and better equipment, enlarging the armed forces and entering into military alliances with major powers have sometimes been found to be inadequate on their own in fostering national security.

The Dibb *Review of Australia's Defence Capabilities* in 1986 suggested Australian foreign policy, aid programs and defence policy should be co-ordinated carefully with other regional states so as to discourage unwelcome military access (by states such as Libya, former USSR, China, etc.) in the South Pacific\(^{21}\).

Development assistance (other than military assistance) has been and is intended to continue to be used to improve Australia's security at minimum cost. Australia's limited resources undermine its capacity to defend and guarantee the security of its neighbours. National military-strategic interests cannot be attained by purely conventional military means. Moreover, the divide based upon ideologies which

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\(^{19}\) *Ibid.*: 13, The major areas of expenditure include country programs, PNG budget support, global programs and corporate services.


spawned the Cold War is gone, replaced by adherence to the rule of international law and co-operation through international organisations (particularly the United Nations).

Though the majority of Australians still hold to the belief that aid is a moral duty, the evidence suggests that morality in most cases plays second fiddle to other, higher national interests, namely independence and sovereignty. In regions and areas where it would be awkward for other motives to be highlighted, morality becomes an important concept in justifying ODA distribution. In the case of PNG however, Australian aid is not decided by morality but by issues of security and economic factors. This view is justified by the figures cited in the foregoing discussion.

TYPES OF AID

Australian aid to PNG is disbursed in several forms as discussed below. The first of these comprises **budget support grants**. Budget support has been a major component of the aid relationship between Australia and PNG. Budget support is unconditional and comprises transfers of financial resources directly into the PNG national budget. **Project aid** has been the least significant in monetary value. Project aid by definition is specifically ear-marked for the funding of specific projects. The resources (technical or financial) allocated for these projects cannot be diverted to other than the originally identified projects except by agreement. **Program aid** emerged from the JCFADT inquiry into the relations between Australia and PNG in 1991. Program aid is particularly geared toward

- direct funding of a sector, such as education or the police to achieve designated outcomes.

The Australian Federal Government equates program aid with sectoral assistance. Program aid is geared toward high priority areas identified by the recipient in

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22 See Table 10 for the amounts of aid under various programs.
consultation with the donor. The objectives may be to improve sectoral capabilities and efficiency in the delivery of goods and service. Substantial parts of the program are undertaken by the recipient, with the donor implementing some aspects of the program when and if requested.

AID AGREEMENTS

The aid relationship between Australia and PNG has been conducted under several formal agreements. A total of five aid related agreements or arrangements have been reached between the two countries since formal severance of colonial relations in 1975 and 1990. Not all agreements were adhered to; there were occasions when they were unilaterally broken by either one or both contracting parties.

Budget support for 1979/80, 1985/86 and 1990/91 accounted for $232.0, $302.8 and $275.0 million respectively. Significantly, the increase recorded in the 1985/86 and 1986/87 financial years were due to the supplementary grants made by Australia on the request of the PNG Government to compensate for the downturn in foreign earnings resulting from the international economic recession. The project component of aid, excluding payments for retirement of public servants from the administration and Australian Staffing Assistance Group (ASAG), increased from a low of $1.7 million in 1980/81 to $4.1 million in 1985/86, reaching $31.7 million in 1990/91. Retirement and ASAG payments were made to Australian citizens whose employment within the PNG Government service ended in retirement or to support Australian civil servants still employed by the PNG Government. If the above aid expenses on retirement and ASAG are excluded ($153.4 million between 1979/80 and 1990/91), Australian ODA to PNG would amount to $3,366.5 million between 1979/80 and 1990/91. The decreases of budget support according to the agreement reached between the two countries in the latter part of the 1980s were partly off-set by increases in both project and program related aid activities. Even though, the increases in project and program aid partly offset the gradually declining budget support, total Australian aid did continue to decline in real
value after allowance for inflation was made and other factors like economic recession. Under the revised aid formula, Australian budget support to PNG will cease by the year 2000.

Table 10: Australian ODA to PNG, 1979/80 to 1990/91 (Actual A$ millions)\textsuperscript{25}

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Support</th>
<th>Program Activities</th>
<th>Retirement ASAG</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979/80</td>
<td>223.0</td>
<td>2.5</td>
<td>13.1</td>
<td>238.6</td>
</tr>
<tr>
<td>1980/81</td>
<td>232.0</td>
<td>1.7</td>
<td>11.2</td>
<td>244.9</td>
</tr>
<tr>
<td>1981/82</td>
<td>241.3</td>
<td>2.2</td>
<td>10.3</td>
<td>253.8</td>
</tr>
<tr>
<td>1982/83</td>
<td>252.8</td>
<td>2.5</td>
<td>9.6</td>
<td>264.9</td>
</tr>
<tr>
<td>1983/84</td>
<td>288.1</td>
<td>5.9</td>
<td>11.6</td>
<td>305.6</td>
</tr>
<tr>
<td>1984/85</td>
<td>299.0</td>
<td>3.1</td>
<td>12.0</td>
<td>314.1</td>
</tr>
<tr>
<td>1985/86</td>
<td>302.8</td>
<td>4.1</td>
<td>12.4</td>
<td>319.3</td>
</tr>
<tr>
<td>1986/87</td>
<td>304.5</td>
<td>7.7</td>
<td>13.1</td>
<td>325.3</td>
</tr>
<tr>
<td>1987/88</td>
<td>275.0</td>
<td>9.9</td>
<td>14.4</td>
<td>299.3</td>
</tr>
<tr>
<td>1988/89</td>
<td>275.0</td>
<td>14.4</td>
<td>14.5</td>
<td>303.9</td>
</tr>
<tr>
<td>1989/90</td>
<td>275.0</td>
<td>37.3</td>
<td>15.1</td>
<td>327.4</td>
</tr>
<tr>
<td>1990/91</td>
<td>275.0</td>
<td>31.7</td>
<td>16.1</td>
<td>322.8</td>
</tr>
<tr>
<td>Total</td>
<td>3,243.5</td>
<td>123.0</td>
<td>153.4</td>
<td>3,519.4</td>
</tr>
</tbody>
</table>

Not all parties on the PNG side are happy with the set target date to phase out budget support by the year 2000 when it will be completely replaced with project and program related aid. Sir Julius Chan has expressed strong reservations against such developments. Sir Julius' reservations are related to issues of control and independence over aid expenditure and project selection for funding.

\textsuperscript{25} All the ODA figures are from \textit{Australia's Overseas Aid Program}, Budget Related Papers, for the years between 1979/80 and 1990/91; \textit{Budget Statements}, for the years between 1979/80 and 1990/91.
1974/75 to 1980/81

The first bilateral aid agreement was reached in 1974 prior to PNG's political independence in 1975. Australia agreed to provide PNG with a total aid package of A$500 million for the 1974/75 to 1975/76 financial years.

At the end of the first aid agreement (of 1974/75) in 1976, the Prime Minister of Australian Mr. Malcolm Fraser in a letter to the Prime Minister of PNG Mr. Somare agreed to the first of three five year aid arrangements, worth A$1,060 million for 1976/77 to 1980/81. Under the 1976 aid agreement, Australia provided $180.0 million per annum, including annual supplements to account for inflation and other factors in grants-in-aid throughout the duration of the agreement. Supplementary payments for 1979/80 and 1980/81 were set at $43.0 and $52.0 million respectively.

1981/82 to 1990/91

The second five year agreement amounting to a total of A$1,326 million for 1981/82 to 1985/86 financial years was agreed to in an exchange of letters in 1980 between the Australian Deputy Prime Minister Mr. Doug Anthony and the Prime Minister of PNG Sir Julius Chan. The 1980 five year agreement essentially heralded a gradual shift in aid relations between the two parties. First, the 1980 agreement signalled PNG's maturity in its dealings with Australia as an independent state and also highlighted the constantly declining proportion of Australian aid in PNG's budget. Secondly, the agreement also recognised and acknowledged PNG's continuing preference for budget support type aid. The preference for budget support by the Government of PNG over project and program aid was based on the belief that such aid allowed PNG to exert...

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maximum control in the expenditure of aid through its domestic budgetary process (as a policy instrument). As a result of this preference (for budget support), the PNG Government had more influence in the determination of the direction of the national development path toward the fostering of economic and foreign policy independence from Australia. The eventual attainment of economic and hence, policy independence was and is an important long-term objective for the Government of PNG and its citizens.

There was one other important development which also emerged out of the 1980 agreement. Both Australia and PNG agreed to an annual decrease in the 'real' value of the budget support component by 5 percent during the duration of the agreement, and increasing project and technical aid by about the same proportion. This was the first time a formula was set in place to determine annual grants to PNG.  

However, during the second year of the 1980 aid agreement (1981/82 to 1985/86), the world was hit by an international economic recession. The recession imposed severe economic difficulties upon PNG as a producer of minerals and agricultural commodities, culminating in low demand for primary consumer goods, subsequently lowering commodity prices and eventually diminishing PNG's foreign exchange earning ability. The above circumstances prompted the PNG government to request additional aid as well as a reduction in the existing 5 percent rate of agreed decline in budget aid per annum. Responding to the request in 1983, after due consideration, the Australian Government agreed to additional assistance of A$92 million for the remaining three years of the agreement - adding an extra A$30.7 million per annum on top of the existing A$265 million (totalling about A$295.7 million per annum during the remaining three years of the agreement). The 1980 reduction formula for budget support was revised from 5 percent to 1 percent, 2 percent and 3 percent in the remaining years of the agreement respectively, increasing by 1 percent per annum. In spite of the extra aid and the revision in the annual rate of decrease in the 'real' value of

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the grant-in-aid, the Australian Prime Minister Mr. Robert Hawke took advantage of the opportunity to re-confirm Australia's commitment to pursuing the continuing reduction in real terms of budget aid, but at predetermined and manageable levels (as agreed to in the revised decreases). The reductions were only put on hold because of the bleak international economic climate.

At about the same time, voices for greater Australian control particularly over support grant aid expenditure, began emerging both in Australia and PNG. These dissenting voices argued that PNG over the years had performed well below the ASEAN states' growth average of about 3 percent (1980 to 1987) per annum and that socio-economic development was still dismal 16 years and A$4,409.3 million later. The argument was then advanced to the conclusion that the stagnation in the development of PNG's socio-economy occurred because budgetary support had not been appropriately spent. The dissenting voices callin for a significant shift of aid emphasis from budget support to project and program aid were given impetus by two Australian Federal Government commissioned committee inquiry reports. The PNG Government, in recognising the above sentiments in a submission to the 1984 Federal Parliamentary inquiry into the Australian overseas aid program, strongly reaffirmed PNG's desire to see a continuous decline in aid in pursuit of self-reliance. The PNG Government, however, argued that reductions should be worked out in advance and included in the aid arrangements framework to minimise uncertainty in PNG's budget planning.

The Jackson report specifically concluded that development in PNG had been lagging behind countries in the South East Asian region despite substantial Australian aid. The Jackson report also asserted that, in order to facilitate growth, more attention should be focused upon long-term development issues such as the development of

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trained manpower which was still an acute problem after sixteen years of independence. The Jackson Report finally recommended that

(a) there should be a gradual, predictable decline in budget support (5 percent a year in real terms); (b) additional bilateral aid to PNG should be provided on the same terms as Australian aid to other countries; and (c) an overall ceiling should be placed on total Australian aid to PNG to ensure a decline of at least 3 percent a year.

The Jackson Report recommended that the decrease in the 'real' value of budget support to PNG should be five percent, two percent higher than the figure agreed to for the last year of the second five year agreement. It also recommended that the decrease in the overall ceiling of Australian aid to PNG should be by about three percent per year. The most drastic recommendation was that aid to PNG should attract terms and conditions similar to aid disbursed to other countries. These conditions include more tied aid, both project and program.

The influence of the Jackson Report's recommendations on the changes introduced during the negotiations of the third 5 year aid agreement was very substantial. The third five year agreement memorandum of understanding (MOU) was signed in 1985 for 1986/87 to 1990/91. The MOU continued the reduction of budget support aid according to the formula revised in mid 1983 at about 3 percent per annum (for the final year of the second five year aid agreement). The revised formula entrenched the progressive decline of budget support, but off-set it by corresponding increases in both project and program components of the aid arrangements. The Reports which led to the second and third agreements (by Crawford and Jackson) implicitly asserted that PNG failed in the administration and the implementation of Australian ODA, particularly direct grants, and therefore more Australian control was desirable. The conclusions reached in the Jackson Report confirmed that budget support had not been spent to obtain the

33 Ibid.
maximum benefit for PNG by the Government of PNG, and thus it was necessary to consider other forms of aid.

Again in 1986, adverse economic circumstances forced Australia to reneg on its aid agreement with PNG. Significantly, Australia reduced its global total aid budget allocation by about 12.4 percent in real terms. This decision was taken to curb the level of real government spending and reduce pressures on Australia's external account.\(^{35}\)

The austerity measures flowed on to individual country aid programs, resulting in the corresponding reductions in PNG's total aid by A$10 million in the 1986/87 financial year. The continuing economic woes made it necessary for the Australian Government after consultation to review the 1985 MOU, which was replaced by a new arrangement which provided A$275 million in aid for the remaining 1987/88 and 1988/89 financial years, including A$12 million and A$15 million in project aid for the two years as well.\(^{36}\)

The uncertainties created by the sudden changes, particularly in the amounts of budget support in arrangements between the two countries were responsible for the emergence in PNG of an initiative for the establishment of some form of an official or formal arrangement to give some stability to the fluctuating aid relationship. Out of this exercise emerged the Joint Declaration of Principles (JDP), which was signed in 1987 and the subsequent Development Co-operation Treaty (DCT), which was reached in 1989. Both these arrangements were designed to set up a formal framework in the conduct of aid and other bilateral relations between Australia and PNG. But the JDP and DCT were preceded by an earlier proposal submitted by PNG to govern the relations under an -

integrated development package consisting of trade, aid, investment and other co-operative measures including a move to diversify sources of aid by fast-tracking its participation in the World Bank Consultative Group process.\(^{37}\)

\(^{35}\) AIDAB, Australia’s Development Co-operation with PNG..., 1989: 8.

\(^{36}\) Ibid.: 9.

\(^{37}\) Ibid.
The integrated development package was dropped because the Australian Government was opposed to it, and the signing of JDP undermined its prospective significance. The JDP was used by the Australian Government as an alternative to the integrated development package - in other words, Australia’s acceptance of the JDP was on condition that the PNG Government should not pursue the integrated development package. Both the JDP and the DCT cushioned and minimised the potentially disruptive effects of sudden future changes in aid arrangements on the policy and development process in PNG.

SHIFTING SANDS: BUDGET SUPPORT TO PROJECT AND PROGRAM AID

The Jackson Report recommended that both countries should strongly consider a gradual shift away from direct budget support to project and program aid. In fact, The Jackson Report argued that by the year 2005 (now set at 2000) budget support should be totally phased out and replaced by project or program aid. A number of arguments for and against the shift in aid will be discussed below.

Arguments for the shift are:

Accountability

The most important argument supporting the shift from budget support to project and program aid is that of accountability to the donor by the recipient regarding the expenditure (of direct budgetary grants). Because budget support is unconditional and very little if any influence is exerted by the donor, on most occasions it is difficult to monitor how grant aid is used for the attainment of long-term development objectives of PNG. What has emerged from a variety of inquiries and hearings on Australia-PNG relations is that the impact of budget support on PNG's overall development has been quite difficult to identify specifically. The studies and the various Parliamentary inquiries
show also that GDP growth from 1970 to 1990 has been estimated at 1.9 percent, which is lower than for other developing countries in the region. Other indicators such as life expectancy, mortality rates and primary school enrolments of school age children have undergone very little change in the 29 years between 1970 and the latest figures available for 1989, if compared again with other developing countries.

*Table 11: PNG Social Indicators for the Years 1970 and 1989*

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Primary school enrol</td>
<td>52%</td>
<td>64%</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Infant mortality per 1000 age&lt;1 year</td>
<td>125</td>
<td>103</td>
</tr>
</tbody>
</table>

Social discontent (crimes like burglary and break-ins) and a general de-authorisation of central authority particularly in the urban slums of major towns and rural areas are indicative of the general inability of the central government to deliver goods and services. Social disenchantment and de-authorisation both occur because the majority of the intended recipients of aid do not benefit from it.

**Corruption and Misappropriation**

Corruption and misappropriation have also been mentioned as important reasons for the shift from budget support arrangement to project and program aid. By definition, corruption entails the use of public monies for personal gain, while misappropriation may

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include the use of resources for other than their intended purpose. The JCFADT inquiry into Australia-PNG relations in 1991 was presented with a number of submissions alleging that direct grants have been used for other than the stated purposes, and that some of the budget support had been used for personal enrichment and political patronage. One of the most popular cases which has been advanced in support for the shift in aid type has been the argument that the now (in) famous "slush funds" (development funds as PNG politicians would rather have them known) given to each member of Parliament are, in effect, funded by Australian budget support or from internal revenue. The slush fund, it has been argued, has been used to maintain electorates' allegiance to incumbent politicians through the buying of votes by gifts and projects. On most occasions, the economic viability of projects supported from such funds does not meet funding criteria, and the benefits accruing to the wider community are very minimal indeed. However, even though the arguments have merit, there is no proof to suggest that Australian direct grant aid to PNG has funded these excesses.

The counter arguments against project and program aid include:

**Independence and Sovereignty**

The first argument relates to control and sovereignty or independence, which was highlighted during the debate in the Papua and New Guinea House of Assembly in 1974. From an Australian perspective, lack of control over budget support opens up opportunities for corruption and misappropriation as discussed above. To curtail corruption and misappropriation, Australia would prefer to be involved in the expenditure of its aid. The Australian Government here see its involvement and participation in the implementation of project and program aid as a desirable means through which it could exert influence and control over the expenditure of aid. However, the PNG Government argues that project and program aid would increase

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40 *Papua and New Guinea House of Assembly Debates, 1974.*
Australian influence in the decision-making process of development policy formulation, project and program identification and implementation. This can leave the PNG Government open to accusations of being under the control of external powers (particularly Australia and other aid donors) by its citizens.

**Management Intensiveness**

Both project and program assistance are very management demanding. In the implementation of project assistance, the donor has a hands-on approach thereby increasing the project's viability and prospects for success. Implementation of program assistance, on the other hand, rests squarely upon the shoulders of the recipient. Since recipient countries lack skilled manpower resources (a reason why aid is given in the first place), implementation can be slow and inadequate. During an address at the Lae Colloquium in September 1991, Dr. Neal Blewett stressed that

I do recognise that it is harder, at least at the start, to absorb project than budget support aid. Projects require skills, especially training in planning, on the part of both the donors and recipients, and until those skills are built up, it can be difficult to realise the benefits of project aid activities. But project aid, once a start is made in implementing it, can create a virtuous circle - the more people trained in project activities, the more assistance can be assembled and so on

That may be so, but skilled manpower in PNG is very scarce and manpower turnover is very high. High staff turnover is related to either promotion (upwards) or shifts from one government agency and organisation (horizontal) to another, thus robbing particular programs of skilled personnel and continuity.

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Project Selection

Another contentious issue relates to decision-making in project selection. In most instances, the donor takes a prominent role, consequently lessening the control of the recipient over the use of funds\(^{42}\). The recipient argues that project and program type aid bestow upon the donor a lot of control over decisions relating to selection of projects and programs, which may not necessarily be consistent with the recipient's national development policies and objectives\(^{43}\). The project identification process consequently impinges upon the independence of the recipient government.

The issues discussed above all hint at one central theme in the aid relationship and that is accountability, which subsequently leads to the question of control and hence political independence and sovereignty. Though accountability is being pursued and addressed under PNG's existing domestic framework by the Public Accounts Committee, Ombudsman Commission and the Judiciary, sentiment in Australia suggests that these institutions, hindered by lack of skilled personnel, money and evidence do not sufficiently address the issues. Incidentally, Australia has been given sufficient avenues for continuous surveillance of development assistance, such as academics contracted to produce annual analyses of PNG's economy, which are then incorporated into AIDAB's policy formulation and implementation process, and also by soliciting firm commitments from the Government of PNG to expend aid on fundamental economic reforms as a condition for increased development assistance\(^{44}\). The DFAT Annual Report 1989/90 also explicitly record that the planning and delivery of most Australia's bilateral aid involves country papers and annual high level consultations with recipients\(^{45}\). The degree to which PNG is likely to give up its independence and sovereignty by opening its

\(^{42}\) Ibid.: 142.

\(^{43}\) See Papua and New Guinea House of Assembly Debates, 1974.


books to external powers for inspection and how far Australia would want to make PNG accountable will depend upon their mutual willingness to compromise (or not).

CONCLUSION

The policy independence of PNG between 1980 and 1990 can be attributed to one important factor. Policy independence has its base in the fact that a major component of Australian aid had been and continues to be unconditional budget support directly transferred into PNG's national budgetary planning process. If policy independence correlates with the level of budget support, then the salient shift toward project and program aid is likely to undermine PNG's policy independence.

Policy independence has also been improved by the use of Australian development assistance to increase economic activity, and thus the ability to finance development programs internally.
The purpose of this chapter is to determine whether PNG's security perceptions and policies are the result of independent action or whether they are just a reflection of Australia's own security perceptions and interests. I will attempt to discuss these concerns by considering the differences in the definitions of security, security arrangements and the type of defence co-operation in place, and what defence co-operation in general is aimed at attaining.

CONCEPTS

In this section I will attempt to define the term security, because this exercise will help me to decide whether - and if so, how much - Australia has exerted control or influence over PNG's policy process. Security is not a precise term. Nevertheless, a number of authors (especially academics) have advanced an array of definitions which, though imprecise, have attempted to define security. The reason for the definitional imprecision is largely due to the fact that security deals with a wide variety of risks which are difficult to identify and define - the definitions advanced underplay the relative dimension of security because security as an absolute condition is emphasised. Absolute security is an impossible condition to attain.

Security has been defined as the ability of a state to defend its core values if challenged either by avoiding war or by victory in war. Security is also relative freedom from war, attained through traditional defence policy and non-military actions.

3 I. Bellany, "Towards a theory of international security", Political Studies, vol. 29 no. 1,
to enhance the survival of the political entity and creating the national and international conditions in which national interests can be pursued and maintained against potential and existing adversaries. Though all the above have certain merits, I will be using the definition put forward by John E. Mroz that "security is the relative freedom from harmful threats". Mroz's definition avoids absolutist bias and is usefully comprehensive.

SECURITY PERCEPTIONS

Pacific Island States and PNG

Security issues and threats to island states, including PNG, transcend conventional military-dominant definitions. Military threat scenarios have been and occasionally are projected by external and internal officials, journalists and scholars. Security for Pacific Island Countries including PNG primarily mean political and economic security or security with a small "s" as defined by two authors. Hence, for


Pacific Island countries, socio-economic and environmental factors are the real issues that have the ability to undermine a state’s security - inter-ethnic cleavages and rivalry (PNG); racial (Fiji); economic vulnerability to natural disasters and low commodity prices (compounded by mono-commodity export economies); global warming which will increase water levels threatening to drown low atoll island states; narcotics and natural disasters\(^9\). Consequently, it is no coincidence, than the security and defence policies of Pacific Island Countries are very broad ranging and multi-dimensional.

**Australia**

Australia's security threats, to a large extent are military-dominant. Australian Defence Department assessments pinpoint the Indonesian Archipelago, together with PNG as an important factor in any offensive military strategy against Australia\(^10\). Threats may have a variety of purposes: firstly, to settle excess population on Australia's wide open spaces; secondly, to access Australia's natural resources and food; thirdly, to exert pressure on Australia to modify its policies or actions to the advantage of the aggressor over issues such as Australia's island territories and off-shore natural resources and business interests overseas\(^11\). However, these threat scenarios appear to have been exaggerated because the threats are now (and have been for some time) become less credible. The force required to mount and maintain a threat to Australia over a long

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period of time would have to be extremely large (in equipment, manpower, technology and political will), which the countries in the region lack.

From the above discussion, it can be deduced that Pacific Island countries and Australia have diverging perceptions as to the most likely sources of threats. There is thus, a need for both parties to come to a common agreement on how these diverging threat perceptions could be moulded into a regional policy mutually beneficial to all parties. In acknowledgement of this divergence, then Foreign Minister Mr. Bill Hayden in 1984 stressed the need to develop a security community within the region when he said

[d]evelopments in Asia [and the Pacific] are going to determine the future of Australia...[If] we encourage, when we can, stability, harmony, co-operation...then we are going to get much greater security for our nation than any piece of paper can guarantee\(^\text{12}\).

In 1989, Mr. Bill Hayden's sentiments were echoed by Foreign Minister Gareth Evans in his ministerial statement that Australia's security strategy involves the building of not only co-operative military relations but a multi-dimensional strategy (including the use of diplomatic, socio-political and economic resources) with states of the Asia-Pacific region\(^\text{13}\). This statement by Evans accepted the existence of differences in security perceptions within the Asia-Pacific region, and also noted that different threats required different policy responses.

AUSTRALIA-PNG SECURITY ARRANGEMENTS

PNG's modern defence relations with Australia predate independence, when a Papuan Infantry Battalion with a further two battalions in the mandated territory were


raised during the Second World War in 1940 and fought alongside Australian troops. The units were disbanded in 1946. Between 1956 and 1962 the Pacific Islands Regiment was reformed, laying the foundations for the modern Army, which at independence became the PNGDF\textsuperscript{14}. The units were integral parts of the ADF. It was not until 1975 that the separation between the newly formed PNGDF and ADF was made.

PNG is considered by the Australian Defence, security and Foreign Affairs community as of immediate strategic importance to Australian security. PNG's importance to Australia's security lies in its geographic proximity to Australia as stated in a variety of submissions to inquiries into Australia and PNG relations over the years\textsuperscript{15}. The security importance of PNG to Australia was even used by Queensland in the late nineteenth century to force Great Britain into officially annexing Southern New Guinea, and even cited by Mench as a reason why PNG could become a springboard for aggressive states and eventually threaten Australia\textsuperscript{16}. Thus, Australia in its consideration of an effective coherent security plan must include PNG in its military-strategic calculations.

The importance of a secure PNG to Australia is also due to political and economic considerations\textsuperscript{17}. Firstly, Australia has considerable economic interests and investment in PNG, in 1990 valued at about A$1.4 billion\textsuperscript{18}. Australian business made about A$1 billion in profit from their commercial activities in PNG. Secondly, instability also endangers the lives of Australian citizens in PNG\textsuperscript{19}. During the Bougainville crises, the Australian Government had drawn up contingency plans to evacuate its citizens involving ADF personnel and equipment, but did not need to implement them\textsuperscript{20}.

\textsuperscript{16} P. Mench, \textit{The Role of the PNGDF...}, 1975: 3.
\textsuperscript{17} JCFADT, \textit{Australia's Relations with PNG...}, 1991: 158.
\textsuperscript{18} G. Evans, "Australia and PNG...", 1990: 7.
\textsuperscript{19} JCFADT, \textit{Australia's Relations with PNG...}, 1991: 158.
\textsuperscript{20} E. Wolfers, "The regional security environment: South Pacific", in G. Fry (ed.),
No formal defence treaty exists between Australia and PNG. However, their defence relations before political independence in 1975 were conducted under ANZUS where -

an armed attack on any party is deemed to include an armed attack... on the island territories under its jurisdiction in the Pacific\textsuperscript{21}.

PNG's security was linked to ANZUS by virtue of its status as Australia's dependent territory. In the event that PNG was attacked, Australia and its ANZUS partners would consult with a view to coming to PNG's aid. Under the ANZUS arrangements, military aid in times of external attacks was not guaranteed. Still, if communist states were involved in the conflict, the ANZUS alliance would have come to PNG's aid. Military aid would not necessarily have been invoked by the treaty articles, but by the national military strategic interests of the participant signatories to the ANZUS treaty.

After PNG acceded to political independence in 1975, its security was no longer guaranteed under ANZUS. Nevertheless PNG did enter into a variety of defence arrangements with Australia under which defence relations have been conducted. These will be discussed below.

\textit{Joint Statement, 1977}

In a joint statement on the Defence Relationship between Australia and PNG by the Prime Ministers of Australia Mr. Malcolm Fraser and PNG Mr. Michael Somare in 1977 both acknowledged

their governments' desire to contribute to the strengthening of peace and stability in their common region. They declared that it was both


governments' intentions to consult at the request of either, about matters affecting their common security interests and about other aspects of their defence relationship.22

The Joint Statement refers to common security interests, but as discussed earlier in this chapter, the two countries' perceptions differ - Australia's are militarily and externally based whilst PNG's are non-military and have internal origins. Proceeding out of the Joint Statement were a series of other subsidiary agreements in 1977: a status of forces agreement covering the status of military personnel domiciled in the other state; a Consultative arrangement covering the placement and use of loan personnel in politically sensitive positions; a Supply Support Agreement, formalising arrangements for giving PNG access to material procurement through the Australian Defence Department; and a Statement of Understanding covering common security interests.23 Yet the formalisation of defence relations did not guarantee PNG unconditional aid in times of need. This view was accepted in 1982 when the Government of PNG declared that no other government or country (not even Australia) has offered to underwrite PNG's security and no one was and is likely to do so in the future.24

**Joint Declaration of Principles (JDP)**

The closest thing to a formal security arrangement is enshrined in the JDP signed in 1987:

* Recognising that each government has primary responsible for its own security, the two governments undertake to continue to maintain and develop their respective defence capabilities.

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24 *Foreign Policy* cited by E. Wolfers, "The changing context and contents of bilateral relations...", 1990: 16.
* Conscious of their unique historical links and shared strategic interests the two governments will continue to engage in defence cooperation through consultation and in such areas, as agreed exchanges, consultations, combined projects, military training and combined exercises as would be decided by them from time to time.

* The two governments reaffirm the existing agreement and arrangements between the two countries covering the status of services personnel from either country present in the other, the provision of supply support and consultations on politically sensitive situations in which Australian personnel might be involved.

* The two governments will consult at the request of either, about matters affecting their common security interests. In the event of external armed attack threatening the national sovereignty of either country, such consultation would be conducted for the purpose of each government deciding what measures should be taken jointly or separately in relation to the attack.

The JDP formalised the already existing defence relations between the two states and also clarified the general expectations of behaviour of the two parties in the event of armed attacks. However, like its predecessors, the JDP does not guarantee immediate help from Australia or vice-versa in the event of external attack. In spite of this, then Defence Secretary Stephen Mokis considered the undertakings in the JDP as providing an effective guarantee of Australian commitment, and indeed argued further that PNG considers Australia as a security guarantor in the event of uncertainty and threats26.

Military aid in the event of external attack would only be rendered after consultations between the two at the request of the threatened partner have taken place. Even after consultations, it does not necessarily follow that help will be automatically forthcoming. Both parties will have to decide what if any, joint actions will be undertaken. The process discussed above implicitly ensures that no party will be forced or dragged into a situation contrary or otherwise detrimental to its national interests.

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**Agreed Statement on Security Co-operation Between Australia and PNG, 1991**

The Agreed Statement on Security Co-operation was signed by the Prime Minister of Australia Mr. Bob Hawke and the Prime Minister of PNG Mr. Rabbie Namaliu on 2 of September 1991. The aim of the Agreed Statement was to identify priorities for bilateral co-operation in the future which were determined through and by constant reviews of PNG's security needs and the impact of Australia's security assistance programs on PNG's security and needs. Out of the various security reviews, a number of principal findings were given prominence:

* Internal security needs are to be given the highest priority by PNG, which requires security if development is to proceed and development if security is to be maintained

* PNG requires a comprehensive, integrated and planned approach to its overall security requirements which, while recognising the need for external defence, reflects the higher priority to be given to internal security, including law and order

* Security co-operation between Australia and PNG must be developed in ways which reflect these changing priorities.²⁷

In order to fulfil the above principal findings, areas of security co-operation were identified to which both the Governments of Australia and PNG were committed. Both governments concluded that the ongoing DCP should be as wide-ranging as possible, explicitly designed to strengthen national self-reliance. Co-operation includes the training of security personnel in maintaining internal security (including law and order), development of infrastructure and facilities for law enforcement agencies and exchange of personnel between the security agencies of the two countries.²⁸ Co-operation under the DCP was supplemented by the PNG Government's introduction of the integrated security plan which was recommended by the National Crime Summit in 1991.

²⁸ Ibid.
The co-operation alluded to in the Agreed Statement is based upon other arrangements reached earlier, such as the JDP which provide points of reference for future security co-operation between the two countries. The points of reference include mutual respect for each other's sovereignty, the principle that exchanges and co-operation will be strictly determined by the fact that security is a national responsibility and the nation's resources capacity, and that bilateral co-operation should not undermine the development of security relations with other countries. The Agreed Statement complements the defence related clauses enshrined within the JDP of 1987, the Status of Forces Agreement (1977), the Defence Supply Support (1977) and other related agreements. Still, the Agreed Statement did not guarantee PNG's security, as co-operation would only be available under the limited conditions enshrined in the JDP - basically that help in times of military confrontation would not be automatic, but would be very much dependent upon each country's national socio-economic, political and military-strategic interests.

DEFENCE CO-OPERATION PROGRAM (DCP)

The changes between 1980 and 1990 with regards to shared perceptions of sources of likely threats, so that they include non-military sources as well as other than the conventional military threat, have impacted upon security policies both at home and abroad. Security policies and responses include economic assistance, co-operation and collaboration, diplomacy and defence co-operation. Australia has accepted the change shift and has, accordingly, made attempts to tailor its aid to foster a stable socio-economic and political environment in PNG and the wider Asia-Pacific region. In search of security, Australia employs two interrelated policy instruments: the first

involves the provision of economic and official development assistance to improve the economy and the stability of socio-political and economic structures and institutions, and the second involves the provision of military assistance via the DCP. The role of economic and development assistance in the pursuit of PNG's overall development and security has been discussed in chapter 5. It suffices to state here that socio-economic related development assistance has contributed substantially toward a relatively stable PNG, also indirectly fulfilling Australia's own security objectives by promoting economic and social development; reducing political disaffection caused by economic deprivation; creating commercial opportunities for Australian companies; and encouraging perceptions of Australia as a generous, practical and technologically competent neighbour\(^{30}\).

The DCP originally was confined to improving military capability by providing personnel training, loan personnel, capital expenditures and equipment. But its activities have expended to include the provision of non-military aid such as road construction. Aid assistance provided under the DCP can be classified into three types: joint projects, services advisory assistance (mainly reimbursement) to the ADF for salaries and allowances, and training on attachments and PNGDF personnel study visits to Australia\(^{31}\). The breadth of the assistance provided highlights the multi-dimensional character of security needs in PNG, and security relations with Australia.

**Objectives of the Defence Co-operation Program**

The objectives of the DCP enunciated by the SSCFAD inquiry into *Australia's DCP with neighbouring countries* in 1984 were echoed by the Department of Defence in its *Defence Report 1988-1989* as being to

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promote Australia's security...and to facilitate co-operative defence activities with countries in these regions\textsuperscript{32}.

The DCP is not meant to be the foundation for military alliances and does not endorse recipient governments' domestic policies on, for example, human rights. Defence Department submissions to the 1984 Parliamentary inquiry also suggested that the DCP was "intended to promote the national independence of participating countries and that DCP was also a practical expression of [Australia's] interest in regional security"\textsuperscript{33}. The Foreign Affairs Department submission to the same inquiry identified non-military purposes as legitimate objectives of DCP in order to -

\begin{enumerate}
\item to round out and advance bilateral relations in which defence links form a part of the friendly and co-operative association with other countries;
\item to promote political stability and economic growth in the region through civil aid projects where they take place under the program;
\item to foster friendly attitudes towards Australia on a popular level\textsuperscript{34}.
\end{enumerate}

The objectives of the DCP submitted to the 1984 inquiry differed between the Departments of Defence and Foreign Affairs and Trade: for the Defence Department, the DCP was predominantly to enhance security by improving the capability of the defence establishment, whilst the Department of Foreign Affairs and Trade viewed it as a component of Australia's overall overseas development aid. Though these views have merged so that non-military programs are funded under the DCP, their implementation remains the responsibility of the Defence Department, which continues to resist pressure from the Department of Foreign Affairs and Trade pressure to take control of non-military projects funded under the DCP.

In spite of the DCP's foray into non-military programs and projects, without doubt, its foremost role remains the development of military capabilities of countries within the Asia-Pacific regions. This aspect of the DCP may not be applicable to the

\begin{flushright}
\textsuperscript{33} SSCFAD, \textit{Australia's Defence Co-operation with its Neighbours...}, 1984: 5.
\textsuperscript{34} \textit{Ibid.}: 6.
\end{flushright}
countries of the South Pacific, because most of the threats they face have non-military origins (natural disasters, inter-ethnic rivalry, etc...) and conventional military threats remain very remote. As island states will attest, standing armies are not a necessary condition for independence - most island states are already politically independent and do not have standing armies. The wide-ranging view of security has been given prominence by changes in official Australian policy statements and documents acknowledging a major shift of emphasis in recent years in relation to projects and programs funded under DCP to the South Pacific, for example so that the DCP is used to improve maritime surveillance under the Pacific Patrol Boat Program in order to protect Pacific Island countries' 200 mile Exclusive Economic Zones from illegal poachers35.

Assistance Under the Defence Co-operation Program

Between the 1979/80 and 1990/91 financial years, Australia has given PNG about A$466.1 million in total aid under the DCP36. The total financial assistance comprises about 7 percent of the total gross Australian aid to PNG over the same period. Since the inception of DCP, PNG has been the major recipient (see Table2).

35 JCFADT, *Australia's Relations with the South Pacific*..., 1989: 156.
36 *BRP* for various years between 1979/80 and 1990/91.
Table 12: Australia's Defence Co-operation with its Asia-Pacific Neighbours, 1980/81 to 1990/91 (A$ million)\textsuperscript{37}.

<table>
<thead>
<tr>
<th>Year</th>
<th>PNG</th>
<th>ASEAN</th>
<th>South Pacific</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979/80</td>
<td>14.2</td>
<td>13.2</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>1980/81</td>
<td>15.2</td>
<td>17.0</td>
<td>5.6</td>
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<tr>
<td>1981/82</td>
<td>16.7</td>
<td>13.8</td>
<td>9.2</td>
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<tr>
<td>1982/83</td>
<td>17.3</td>
<td>16.7</td>
<td>10.3</td>
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</tr>
<tr>
<td>1983/84</td>
<td>16.4</td>
<td>16.2</td>
<td>12.9</td>
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</tr>
<tr>
<td>1984/85</td>
<td>16.0</td>
<td>16.9</td>
<td>12.4</td>
<td></td>
</tr>
<tr>
<td>1985/86</td>
<td>19.1</td>
<td>22.3</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>1986/87</td>
<td>21.7</td>
<td>19.5</td>
<td>13.1</td>
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<tr>
<td>1987/88</td>
<td>24.2</td>
<td>16.1</td>
<td>16.5</td>
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<td>1988/89</td>
<td>27.4</td>
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<tr>
<td>1989/90</td>
<td>24.2</td>
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</tr>
<tr>
<td>1990/91</td>
<td>27.4</td>
<td>15.6</td>
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</tbody>
</table>

For the financial years 1979/80, 1985/86 and 1990/91 allocations to PNG under the DCP were 25 percent, 38 percent and 45 percent respectively of the total annual Australian defence co-operation budget. This shows that Australian defence aid to PNG has been increasing as a proportion of the overall Australian DCP during the decade under consideration. The increases in defence aid to PNG also coincided with the frequent callout of troops in aid of civilian authority to restore law and order and the beginning of the Bougainville crises in 1988/89. Internal security rather than external threat considerations have been responsible for the increases. The increase in the actual amount of defence aid reflects its diversification to include the funding of non-military programs and projects personnel development of both the police and defence forces with a view to improving management and administrative capabilities.

The major expense has been related to the attachment and secondment of ADF personnel to the PNGDF and the RPNGC services. In the 1983/84 financial year, that expense accounted for over half of DCP expenditure at A$9.9 million out of a total allocation of A$17.1 million\textsuperscript{38}. In the 1989/90 allocation, payments for attachments and

\textsuperscript{37} All these figures have been collected from the Australian Federal Government, \textit{Budget Statements} between 1981/83 and 1986/87; \textit{BRP Defence Portfolio Explanatory Notes} for 1988/89 and 1989/90, 1988, 1989 and 1990.

secondments increased to A$12.3 million, even though the number of ADF members in PNG had decreased from a high of 160 in 1982 to about 89 in 1989/90\(^\text{39}\). Equipment, infrastructure and technical development projects have increased from a low of A$6.2 million to A$21.9 million in 1989/90. The increase in infrastructure, equipment and technical costs relate to the relocation of Air Transport Squadron from Lae to Port Moresby (at a total relocation cost of A$18.0 million) for a first appropriation of A$7.0 million, Lombrum Wharf construction of A$1.9 million, Rotary Wing capability assistance of A$4.9 million, joint engineering project management of A$1.0 million and the continuing Pacific Patrol Boat Assistance of A$4.7 million\(^\text{40}\). Training, exercise and, at attachments remain approximately the same A$3 million, in the same financial year.

However, the shift from military oriented programs and projects to include non-military security related issues, is a slow one. There has now been acceptance that issues relating to fisheries and environment are the most significant threats to small island states' security because, without money being generated from their exploitation, the island countries cannot be successful in maintaining their statehood. Consequently, the DCP is now being directed toward fostering and maintaining respect for island states' sovereignty by improving their economic capacity, thereby minimising interference by foreign states in their domestic affairs.

**ISSUES OF CONTENTION**

Several contentious issues regarding the nature and effects of defence-related aid were highlighted during the SSCFAD inquiry in 1984\(^\text{41}\). The relevance or irrelevance of these issues and their impact upon the DCP between Australia and PNG will be discussed below:


\(^{41}\) *SSCFAD, Australia's Defence Co-operation with its Neighbours* ..., 1984: 53-66.
(1) The notion that defence co-operation determines the participant's national independence.

The promotion of "national independence of participating countries" as an objective of DCP is misleading because, as is evident throughout the world there are states (particularly small states) which do not owe their independence to any kind of DCP and related activities. The implication of the notion that national independence is directly a result of DCP is that the possession of military capabilities is necessary for national independence. However, the notion that national independence is being due to the DCP is incorrect, because countries in the South Pacific, such as Tuvalu, Kiribati, Nauru, Cook Islands and the Federated States of Micronesia, do not base their national independence upon the possession of military capabilities.

(2) Australia's regional strategic interests mean that the DCP is used to support regimes with bad human rights records.

Australian military assistance has been driven by regional military-strategic considerations, with minimum regard to distinguishing between recipient countries which violate human rights and those that have good human rights records. The relationship between human rights and the DCP were highlighted in 1989 with regard to military aid to PNG by Australia. It was alleged by human rights activists that Australia was arming the PNG troops in its war against Bougainville rebels - the equipment donated (helicopters) were used in the suppression of citizens.\[42\]

(3) The DCP should not be involved in civil projects as it duplicates what AIDAB does.

The issue was raised because military aid to fund civil projects was seen as a duplication of AIDAB's functions. Limited resources (manpower, finance and time) were wasted on the same. In other words, if civil projects are to be implemented,

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AIDAB should be the executing agency rather than the Defence Department, in order to limit wastage and duplication.

(4) The DCP encourages the "lock-in" of recipients into Australian equipment

There is evidence to suggest that the DCP does in fact develop markets for Australian military exports. The lock-in did occur, for example, with Nomad planes to Indonesia and PNG. In the South Pacific, a similar lock-in through the Patrol Boats given under the Pacific Patrol Boat Program, which require Australian made spare parts and training.

(5) The DCP provokes long-term budgetary problems among recipients

This is a genuine problem for most Pacific Island States. Evidence has emerged that island countries that have received Patrol Boats from Australia have been unable to keep them running continuously, because of high maintenance and operational costs. This problem has been overcome by annual Australian financial help for fuel and operational costs under the DCP. Even PNG has to rely on Australia for its helicopter pilots, maintenance of helicopters and patrol boats.

CONCLUSION

Military assistance to PNG from Australia has been generally in the form of projects and programs, including equipment (Nomads, patrol boats, training, joint exercises, etc...) and skilled personnel and exchanges. As argued elsewhere (in chapter 5 where Development Assistance was discussed), project aid increases the opportunities for donor influence in determining the projects and programs to be funded, especially regarding purchases of equipment and training. In fact, in 1989, when Australia gave PNG the helicopters, the Australian Government expressly directed the PNG
Government not to use the helicopters as gunships - an example of donor determined use of equipment. However, the SSCFAD inquiry in 1984 found that all recipients have maintained policy independence from Australia because of the fact that the DCP is not viewed by Australia as geared toward establishing alliance commitments.43

Despite occasional exceptions, Australia has generally lacked control over the expenditure of military assistance, because Australia is not able to exert control, but the programs and projects requested for funding by the PNG Government significantly coincide with national and regional definitions of security, and PNG's military-strategic interests.

CHAPTER 6

CONCLUSION: INDEPENDENCE AND CHANGE

Policy independence is not necessarily constrained by a country being in a dependent relationship with a developed (or militarily strong) state for trade, investment, aid, security, education and manpower recruitment and training. Opportunities will arise for the exercise of policy independence for the smaller state. These opportunities, as I have suggested, will originate from other sources, such as power of the weak, decolonisation and normalisation of bilateral relations, and coinciding (national) interests.

Policy independence originating from the concept of the power of the weak suggests that small states gain independence because of (a) major powers' preoccupation with immediate conflicts, and their giving less attention to marginal issues; and (b) the paradox of unrealised power. The unrealised power paradox suggests that the power potential of the major states is not actualised because (i) the targeted party has third party help with similar levels of power potential; (ii) there is a lack of resolve to win (no major motivation for example, such as protection of family and country); and (iii) a wide range of foreign policy objectives competing for scarce resources, which implies that some objectives will become lower in priority because of their negligible impact upon the interests of the larger, more powerful state.

The second explanation for policy independence relates to the concept of decolonisation. Policy independence attributed to decolonisation emerges from the formal attainment of political independence, which involves the severing of colonial relations and the transfer of power (both political and administrative) and the function of conducting external affairs to the newly established post-colonial government. It also involves a continuing process, because political independence and the severing of formal colonial relations do not by definition, bring to an end the former coloniser's influence over the newly independent state. The colonisers continue to influence a former
colony's policy by way of economic, military-strategic, cultural and educational leverage, consequently rendering external policy subordinate to the interests of colonial powers. But, as economic self-sufficiency is achieved (either by diversification or growth), opportunities for independence emerge which may be taken advantage of by the smaller state.

The final explanation of policy independence can be said to emerge from coinciding interests. At this level, coincidence of foreign policy objectives, in relation to military-strategic, environmental and economic (resource exploitation) factors, for example, fosters a desire for co-operation. It also implies that the states recognise limitations on their ability to attain shared objectives on their own, thus leading to joint action, based on acknowledgement of their individual incapabilities compounded by an inherent lack of resources. If certain policy objectives coincide and the policy suggested by the small state is parallel or similar to the major state's, disagreement and conflict are by definition, likely to be absent. Consequently, the lack or absence of disagreement and conflict may lead to the conclusion that policy independence is evident. But the conclusion may, of course not be as true as it seems. Independence can sometimes be traced to the fact that smaller countries generally are involved at lower levels of diplomacy with local issues that do not threaten or conflict with major powers' interests - hence difference may be real, but conflict may be absent.

The above explanations provide us with answers to questions raised in the dissertation regarding relations between Australia and PNG. Considering that PNG is economically dependent on Australia (particularly for aid, imports and investment), I can only conclude that policy independence is likely to be minimal. However, if the same relationship is considered in the light of power of the weak, decolonisation and coinciding interests, it is possible to make a case that PNG's independence has its origins in such factors.

Though PNG is of importance to Australia, PNG's western political orientations and pro-western outlook meant Australia did not have to spend resources or maintain a hands-on approach to keep PNG within the western sphere of influence. This situation,
I would argue, inadvertently provided an opportunity for policy independence in PNG. The impact of decolonisation and normalisation has also been suggested as another explanation of the manifestation of PNG's independence. Firstly, in acceding to independence in 1975, PNG assumed responsibility for its own external policy function. Secondly, though PNG was politically independent, its foreign policy continued to be subordinate to Australia, reflecting particularly its substantial economic dependence. But with the diversification of trade, aid and investment away from Australia, PNG has become less and less reliant on a single source, thereby increasing opportunities for independent action. Finally, as PNG foreign affairs officials and leaders have become more experienced and more confident in pursuing successfully PNG's national interests, and as new leaders have emerged with very little attachment to the former coloniser, foreign policy became more independent. However, it is also the case that policy independence has occurred because the interests and objectives of both states coincide. If there were divergence, then the possibility of Australian influence would be high. In fact, the last source of policy independence is very much dependent upon the identification - and pursuit - of common interests.

PNG's policy independence in relation to Australia is therefore, not necessarily related to economic diversification, because PNG is still substantially dependent upon Australia for aid, as a source of imports and investment. Policy independence is, moreover, likely to become less evident as budget support ceases in the year 2000 and is replaced completely by project and program aid. Inevitably, the implementation of such aid will have greater donor input. But, even with this development, I would still expect PNG to maintain and display considerable policy independence. This will be possible because the explanations of policy independence as due to the power of the weak, decolonisation and coinciding interests will still apply. Their relevance does not depend upon economic factors but on the nature of relations and interests both states pursue.
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