



Speech

Address to the National Press Club

Minister for Finance and Treasury

The Hon. Bart Philemon, MP

“Papua New Guinea and Australia: Joined at the Hip and the Heart”

22 March 2006

Introduction

Members of the National Press Club, Distinguished Invited Guests, Ladies and Gentlemen.

Thank you for your kind invitation to address the National Press Club.

In September last year, Papua New Guinea celebrated its 30th Anniversary as an Independent nation. For many of us in Papua New Guinea, it was a time for reflection: on where we are, how far we have come and how far we have to go.

It is also gave me cause to reflect on how the relationship between Papua New Guinea and Australia had evolved, and where it is going.

Since Independence, Papua New Guinea has assumed its place on the world stage, developing close relationships with a number of countries.

That said, Papua New Guinea's relationship with Australia remains our most significant bilateral relationship.

This relationship is not as strong as it should be.

The simple fact is that most people in Australia do not see its relationship with Papua New Guinea as being its most important or significant relationship. I don't say this to be critical of Australia: just to state the reality.

I would like to help redress this balance by sharing my reflections on the nature of the Papua New Guinea and Australia relationship.

It is not a simple relationship: it is a complex and multi-faceted relationship that is not very well understood by either side.

Papua New Guinea and Australia: Joined at the Hip and the Heart

Papua New Guinea and Australia are joined at the hip and the heart.

Papua New Guinea and Australia are virtually joined at the hip.

During the last ice age, the main islands of Papua New Guinea and Australia were connected by a land bridge across what is now the Torres Strait. Quite literally, we were joined at the hip.

We remain, geographically very close. At our closest borders, PNG and Australia are only a few hundred metres apart.

We remain linked physically by the undersea phone cable. We will soon have another physical link with the construction of the Papua New Guinea to Australia gas pipeline.

This leads me to the first defining aspect of the Papua New Guinea-Australia relationship: **we are neighbours**.

As neighbours, for good or ill, we are stuck with each other. We all know how unpleasant a bad neighbour is and how rewarding a good one is. Ensuring that relationship is a good one is a mutual responsibility.

There is another way that Papua New Guinea and Australia are joined at the hip: until Independence in 1975, Papua New Guinea was a colony of Australia.

Shortly after gaining its own independence from Great Britain, Australia assumed control of the then colony of Papua. Australia occupied German New Guinea during World War I, and was granted responsibility for this territory by the League of Nations in 1920.

This brings us to the second defining aspect of the PNG-Australia relationship: the often uneasy relationship between **former colony and administrator**.

In Tok Pisin, this period is referred to as "Taim bilong masta".

It surprises me that many people on both sides of the relationship do not realize how deeply this aspect permeates attitudes on both sides: resulting in ambivalent, often conflicting emotions.

In Papua New Guinea, many of us feel a deep seated urge to prove ourselves capable and independent of Australia, to show that we have moved on from our status as a dependent colony.

Is Australia really so different in its relationship with Great Britain?

Australia's political independence was achieved at a time when it was already economically independent: Australia's per capita income was greater than that of Great Britain in 1901.

Nevertheless, ask yourself why Australians are so keen to win back the Ashes this year?

Today, as in 1975, PNG's per capita income remains well below that of Australia. PNG's political independence was achieved in 1975, but we have not yet achieved economic independence.

To be frank, it is hard for us to have an equal political relationship when the economic relationship is unequal. This has caused tensions in our relationship, and I suspect will continue to do so for the foreseeable future. But I believe that we have to work at the relationship for our mutual benefit.

Papua New Guinea and Australia are also joined at the heart.

We shed blood together in World War II, when Papua New Guinea was the last line of defence for Australia against the advance of the Japanese. The best known image of this is of Papua New Guineans assisting injured Australian soldiers along the Kokoda Track. The Australian soldiers were completely dependent upon our people. The soldiers affectionately referred to their carriers as "Fuzzy Wuzzy Angels". The term Fuzzy Wuzzy Angel was popularized in a poem written by an Australian soldier, Bert Biro and here is part of the poem;

"Many a mother in Australia
When a busy day is done
Sends a prayer to the Almighty
For the keeping of her son...

Now we see those prayers are answered
On the Owen Stanley track...
Slow and careful in bad places
On the awful mountain track,
The look upon their faces
Would make you think Christ was black"

That was not the limit of Papua New Guineans contribution to the war effort. Papua New Guinean soldiers saw active service in World War II and served with distinction.

There are many examples of close personal bonds of friendship between Papua New Guineans and Australians.

Australians have been an enduring presence in Papua New Guinea. Many Papua New Guinean's were nursed by Australians, had Australian teachers, and worked with Australian colleagues. Many Australians have made Papua New Guinea their home, becoming naturalized citizens. Strong personal relationships have been forged in the common struggles that Papua New Guineans and Australians have faced – and continue to face – in building our nation.

It concerns me that Australians' level of personal engagement and knowledge of Papua New Guinea is diminishing rather than growing. As people, I worry that we are growing apart not closer.

I have seen examples of a worrying level of ignorance about Papua New Guinea among Australians. Let me give you an example. I read recently that someone from Australia didn't want to travel to Papua New Guinea because of all the coups!

Of course, Papua New Guinea has not had any military coups since Independence. This may be an isolated example – but I suspect it is part of a broader trend.

However, I fear that this example is indicative of a general decline in the number of Australians with personal experience and knowledge of Papua New Guinea since Independence.

This leads me to another point. Australians are known around the world as great and adventurous travelers. I confess that I don't really understand why the

number of Australians visiting Papua New Guinea is so low: we are so close, and there is so much in Papua New Guinea for tourists to see and explore: beautiful tropical beaches, rich culture, stunning scenery. One of the main policy priorities of our Government is to identify initiatives that will help to unlock what we know is the enormous potential for growth in tourism in Papua New Guinea.

On the other hand, many Papua New Guineans have studied in Australia, and there are many studying in Australia today, including several people from my own Department. These people have continued to maintain and build strong personal relationships between people from our two countries, reinforcing relationships already in place.

Today, Australia's overall influence still looms large in Papua New Guinea, in politics, in academia, in commerce and in sports.

Overall, Australia's influence is pervasive, even in subtle ways. The most eagerly awaited annual event in PNG is the State of Origin rugby league. Even in the more isolated areas it is not uncommon to see someone wearing an Eels or Roosters jersey, or carrying a Broncos' umbrella.

More generally, however, we are bound together by shared aspirations: a safe and stable region, comfort that our children will be healthy and well educated, and opportunities for our people to realize the prosperity that can come from hard work.

Of course, Australia's affection for Papua New Guinea is also seen in the fact that, since Independence, Australia has been – by far – Papua New Guinea's single largest donor.

This brings us to the third defining aspect of the PNG-Australia relationship: donor and aid recipient.

Papua New Guinea is very thankful for this support and recognizes the generosity of the Australian people in helping us to deliver basic services to areas of greatest need.

We would, of course, like to be in a position where we were not dependent on external assistance, to achieve economic independence to go with our political independence. Clearly, we are not yet at that point.

Developments in Papua New Guinea

Let me turn now to examine developments in Papua New Guinea. As I mentioned at the start of my speech, the 30th anniversary of Independence caused many of us to reflect on our achievements, our failures and disappointments and their underlying causes and our prospects for the future.

Today's address provides me with an opportunity to update you on developments in Papua New Guinea and to share with you some of my thoughts about the way forward for Papua New Guinea.

Achievements

Let me first touch on what we have achieved in our short time as a sovereign nation. PNG has enjoyed a stable democracy since its inception. In sum, Papua New Guinea remains one of the persevering democracies in the developing world. We have changed governments a few times but this has been done peaceful and orderly manner according to the laws of the land. Our Constitution has been upheld continuously, our judicial system has remained independent and our media has exercised its right to free speech. Our political system has steadily matured and continues to do so.

To put this in perspective, there are relatively few developing countries in the world that can match this record.

This reflects not only the strength of our institutions and laws, but also our Melanesian approach to problem solving and conflict resolution.

Papua New Guinea has **not** become a failed state – unlike so many other fledgling countries. Our institutions and systems have continued to function. And, our economy has grown, albeit slowly.

I believe that the reforms made by this and the previous government, combined with good financial management, have reversed the downward trend that many observers have related and that PNG is in a strong recovery mode. Balanced assessments of PNG – such as the recent IMF Article IV report – recognize these achievements.

We have had internal differences – this is inevitable in a young nation that is the combination of such a wide range of cultures and groups. We have had our moments – particularly the Bougainville crisis. But we have not been torn apart by civil war or had our Government overthrown by military coup.

We have built good relations with our neighbours. We have a leadership role in the region and are an active member of international organizations and forums. Papua New Guinea is the current chair of the Pacific Islands Forum. Last year we hosted the Melanesian Spearhead Group and in May we host a joint conference of the African-Caribbean-Pacific and European Union. We are full members of the WTO and APEC, and were a contributor to the Regional Assistance Mission to the Solomon Islands (RAMSI).

Since I became Treasurer in 2002, we have seen a turnaround in Papua New Guinea's economic fortunes.

The Government's prudent management of fiscal and monetary policy has ushered in a period of macroeconomic stability. The "land of the unexpected" has become the "land of the expected", at least in terms of economic stability.

Papua New Guinea now has a balanced budget, government debt has fallen from above 70 per cent of GDP to below 50 per cent of GDP, annual inflation is below 2 per cent, economic growth is outpacing population growth, the exchange rate has stabilized, interest rates are low, the current account is in surplus and foreign exchange reserves are at record levels. I ask you “what other developing country has been able to achieve the dramatic turnaround that PNG has been able to do in the past four years?

By creating this stable investment climate, investors are looking at Papua New Guinea with fresh confidence. The most obvious example is the considerable progress on the Papua New Guinea to Australia gas pipeline, expected to get the go ahead shortly. This confidence is also seen in the significant increase in minerals exploration permits – after a period where interest had virtually ground to a halt.

In 2004, InterOil Ltd commenced production at the Napa Napa oil refinery in Port Moresby, a significant fixed capital investment representing a massive vote of confidence in the PNG economy.

Papua New Guinea is proud of these achievements. Indeed, I suggest an African country with this list of achievements would be feted by the international donor community and I would be hanging around with rock stars.

I would like to acknowledge the significant support that Australia has provided to assist us in achieving these outcomes, helping to improve governance, to strengthen our institutions, to build capacity among our people and to deliver basic services to areas of greatest need.

Of course there are many motivations for Australia’s support over the years. In part it is motivated by regional security considerations, by economic and commercial interests and by garnering regional influence. However, much of it is

motivated by a shared sense of geography, history, strong personal relationships and shared aspirations for our people.

Together, we have seen PNG emerge from a colonial state to a fully-fledged sovereign nation of over 5½ million people, with an economy of around US\$5 billion and with a leadership role in the Pacific region.

Failures and Disappointments

I do not want to paint too rosy a picture of how far we have come. We all know that we have not achieved as much as we could have.

The aspirations of our people at Independence have not been met. Indeed living conditions for the majority of people have hardly improved over the past 30 years. Our economy has struggled and our human development indicators have stagnated and in some cases deteriorated.

On education, about 55 per cent of people are illiterate.

On health, people are still dying from easily preventable and treatable diseases:

- 7,300 babies less than one-year old die every year – that is 20 deaths every day;
- 10,200 children from 1 to 4 years old, die each year before reaching their fifth birthday – that is another 28 deaths per day;
- 220,000 children under 5 years of age are not receiving proper nutrition; and
- 3,700 mothers die each year from complications of childbirth – 10 deaths each day.

There are many reasons for this. Resources are limited and management is inefficient. The result is that accessibility to basic health services is inadequate:

- Half of all children are not immunized;
- 60 per cent of pregnant women are not supervised during childbirth; and
- 70 per cent of rural communities do not have access to safe drinking water.

Papua New Guinea also faces a looming crisis in the form of a HIV/AIDS epidemic. HIV/AIDS has spread rapidly through PNG over the past decade, with around 10,000 confirmed cases and some estimates putting the infection rate at between 1 and 2 per cent of the population. HIV/AIDS is a grave risk to our people and we are already starting to see the effects of this on individuals and communities. We recognize the seriousness of this issue, and have acknowledged that it is not just a health issue, but also an economic development issue.

Despite our efforts – again with significant help from Australia – I am fearful that we are not yet making enough of an impact on people's behaviours to stop the further spread of this disease.

Despite the recent improvement, our economic performance since Independence has been disappointing. Economic growth needs to accelerate further if we are to see significant improvement in peoples' lives. At present, too many of our people do not have the basic transport links needed for them to access markets and basic services. For example, last year I opened a District Treasury office in Chimbu province in the Highlands region. While the villagers welcomed us warmly, they also laid a path of peanuts on the ground for us to walk on. Their cry was clear: build us a road, so we can get our produce to the market and improve our lives. Help us to help ourselves.

We know also that law and order is poor. Crime is at unacceptably high levels. Corruption is widespread.

This is clearly not good enough. I know Australians get annoyed about the law and order situation and corruption in PNG. We are reminded of it frequently by our Australian counterparts – often without recognition that these problems also occur, albeit to a lesser degree, in Australia. But I can tell you that it is the ordinary Papua New Guineans who suffer most from these problems.

These people in the community do not have enough money to protect their properties, to provide personal transport or to afford legal support when they are in need. So they are exposed to violent criminals and to conmen and there is very little they can do about it.

The point I am making is that it is not just Australians who are worried about this; ordinary Papua New Guineans have had enough and they are looking to our Government to do something about it.

My message to Australians today is that as much as corruption in Papua New Guinea concerns you, it concerns me more. And we are taking positive action to address it.

Underlying Causes

Before we can really start to deal with our problems we have to acknowledge them and to look at the underlying causes.

Part of our problem is simply lack of resources. PNG has over 5½ million people, widely dispersed in often remote areas without easy access by road, sea and air. Our national budget is just under K5 billion for those 5 ½ million people, the budget of Northern Territory of Australia is more than that for less than 200,000 people. The cost of providing even basic services can be very high. Roads are costly and difficult to build; maintenance costs are high because of the weather and the terrain. Providing basic utilities such as water and electricity is both costly and logistically challenging. Even getting medicines or schoolbooks into

areas can be difficult - sometimes they have to be taken in by canoe or carried in on foot for several days.

And, despite its mineral and petroleum wealth, PNG's revenue base is quite small. We are trying to do many of the things that government does in Australia with a per capita revenue base that is about 1/40th of Australia's. Not surprisingly, many of our functions are under-resourced.

More generally, we do not have the capacity in many areas to manage public administration efficiently. Don't get me wrong. Papua New Guineans are as capable as anyone – we have many Papua New Guineans working in professions requiring a high level of skill and intelligence: doctors, lawyers, pilots and so on in Papua New Guinea and other countries. But our people need to be properly led and managed, given the resources to do their jobs, provided with the right incentives, and be held accountable for what they do. Because our institutions and systems have deteriorated our good young people are not being given an opportunity to develop the skills and experience needed to do their jobs well.

Important as they are, this is still only the surface of the problem.

There are some deeper, more entrenched, problems.

We are where we are today because this is where our leadership has taken us. While we have had, and do have, some very good leaders, I think it is fair to say that our leaders over many years have not looked after the people they were elected to serve.

For many years, we have spent our money poorly, often going into debt to fund poorly-conceived projects, or projects that would benefit a few well-connected politicians and bureaucrats. We allowed the bureaucracy to become bloated and inefficient and for corruption to fester. In the meantime, infrastructure and basic service delivery has been neglected.

This, too, is a symptom of an even deeper problem.

Let me be frank. A large part of the problem lies at the political level. PNG is a grouping of over 800 language groups and regional and ethnic loyalties compete with notions of national interest. PNG's political culture has been very unstable, with fragmented and constantly shifting coalitions often underpinned by self interest and opportunism. Too often, the political system has been used to provide opportunities for higher personal status and increased wealth.

Not surprisingly, these conditions have seen poor policy making and even poorer policy implementation. State institutions have weakened and systems and procedures of public administration have withered. These conditions have allowed corruption to flourish at all levels. Reduced resources and capacity failings have seen service delivery deteriorate.

Spending, contracts, jobs and a range of political and bureaucratic facilitation are likely to be provided to wantoks, even where it conflicts with the national interest. Corruption is facilitated by these relationships. Of course, this occurs to some extent in Australia as well, but its scope and pervasive nature in PNG – and our lower revenue base - means that it is a much bigger issue for us. This entrenched political culture – where rent seeking and self interest ensures good returns for the elite at the expense of those in the villages – means that many of our efforts at reform are vigorously resisted.

These outcomes are as much a dilemma for Australia as they are for Papua New Guinea. Australia's role as a regional leader, a former colonial administrator and a dominant commercial partner mean that there are expectations, both in Australia and elsewhere, that Australia has some responsibility for helping Papua New Guinea develop into a stable and prosperous nation. There are clearly risks for Australia if this does not occur.

In a world where we are all concerned with the illegal movement of people, weapons, drugs and money, and with the threat of terrorism, it is important for Australia that PNG is able to manage its borders, its internal security, and to secure economic and financial security for its people.

How Australia goes about providing this assistance is tricky. PNG is a proudly sovereign state. We are responsible for finding our own way forward.

Given some of the aspects of the relationship and our history, if not handled sensitively – if, for example, Australia is overly intrusive - Australia's intervention could well be counterproductive.

Let me be frank. There are some people in PNG who take the view that if Australia is insisting that we do something (even if it is in our own interests), that, in order to demonstrate our independence, PNG should do the opposite. While that is not my view, it should be of concern to Australia that this view has a level of popular support in PNG.

Over time, AusAID and other development partners have tried a range of different mechanisms to support PNG, while maintaining an appropriate distance from political processes and decision making.

At first money was provided directly through the budget, and later through particular programs and projects.

We have enjoyed sizeable financial support for development projects, for capacity building, and for improving governance. However, with over \$A10 billion provided in aid funds over the past 30 years it is difficult to argue that this support has been effective. If measured in terms of development indicators, it clearly has not been. Development has been elusive, despite AusAID's best efforts and our own strong desire to see development occur.

I am not necessarily being critical of the way in which aid has been provided. It is easy to make these judgments in hindsight, but it is much harder to know what the right aid approach might have been. We have to be practical and keep trying different models to see what works best.

I think a big part of the answer is that aid cannot be really effective if the recipient government does not properly harness its own resources. A good aid program can complement the good things that government does, but it cannot work in the face of poor leadership and management.

That is why a lot of my time is consumed on getting not only our Budget balanced, but also in redirecting funds to the higher priority areas that will improve people's lives. There has always been strong support for spending more money in priority areas. The hard bit is getting agreement to say no to desirable, but lower priority, spending to ensure the additional spending does not blow the budget.

Looking Forward

Some of the comments that I have made have been disheartening.

However, I am not a pessimist about my country. I do not accept the doomsday scenarios of some Australian commentators, nor do I find them helpful to achieving better development outcomes. By not giving credit where it is due, such unbalanced assessments carry little weight within PNG, even in those areas where there are legitimate concerns.

I believe that we have the potential for significant social and economic development. There have been some positive developments recently that give me some hope that this potential will be realized.

At the political level, over the past few years we have introduced a number of political reforms that have given us much-needed political stability. The current government is likely to be the first government in our history to go its full term.

Political stability has provided more policy stability. During the past few years our budgets have been framed around medium term strategies – the medium term fiscal strategy, the medium term development strategy and the medium term debt strategy.

These have been very successful and the results speak for themselves. The fiscal position has been in surplus and debt has fallen. Growth has resumed, employment has picked up, and investment has increased. Inflation and interest rates have fallen sharply, and the exchange rate has stabilised.

This is a good start, but of course, it is not enough. There is no point in getting the fiscal and economic settings right, if we cannot deliver services to the people.

Accordingly, you will see that we have embarked on an ambitious program to improve service delivery to rural areas. Money freed up by better economic management has funded the District Treasury Rollout, and the broader District Services Improvement Program and District Road Improvement Program are all targeted initiatives to get basic service delivery back out to the districts. By basic services I mean basic health, education, police, postal, banking and phone services, and district roads – a nucleus of core services that will have a tangible effect on ordinary people's lives.

I have travelled to many of these areas over the past year or so, opening up these centres. I cannot begin to describe to you the response we get from people in the districts when we arrive. They have been starved of government attention for so long that even these small symbols of government interest and support draws forth a wonderful response. People come from everywhere – often in their thousands – to see some tangible sign of progress at last.

Simple things like having a post office, an aid post, a phone, and a rudimentary banking service can make a great difference in these people's lives.

We know that we need to increase the level of resources to priority areas. In the 2005 Budget I announced that a Rightsizing review would be carried out to review the functions, structure and resourcing of government agencies to ensure priority functions are properly resourced and non-priority functions are not funded.

The Rightsizing report calls for a more streamlined public service concentrating on delivering the core functions of government efficiently and effectively. The report details specific agencies, programs and activities where funding should be reduced or eliminated altogether and identifies core areas of Government where funding should be increased.

We know that implementation of the Rightsizing recommendations will be difficult and will be resisted at many levels where some peoples own interests are at risk. Nevertheless, we are determined to improve service delivery to the people by rightsizing public administration.

With funds now available, the main challenge we have is to ensure these programs do not fail due to poor implementation. The Ministerial Budget Committee is taking a more active role in ensuring programs such as the District Services Improvement Program are properly implemented.

The other challenge we face is to reduce misappropriation and wastage of resources through poor financial controls.

There is now much more oversight of the use of public funds and the risks for individuals who misuse public funds are increasing.

- Financial controllers have been placed in large spending agencies;

- Internal audit committees have been set up;
- The audit office is being very vigilant in its examinations of public spending, and
- The Public Accounts Committee is being increasingly effective in identifying areas of poor or inappropriate use of public funds

More generally, the key to making these initiatives sustainable is in building the capacity of the institutions which support them – the core departments such as Treasury and Finance which facilitate and coordinate the rollout and the line agencies that provide the services.

I would like to say that the Enhanced Co-operation Program has been very successful in this regard. While we have been negotiating over the policing component of the ECP, the people in the non-policing component – particularly the economic and public sector reform team – have been quietly going about their business, building capacity in the key agencies and providing good quality policy advice and implementation.

I have 15 ECP deployees in Treasury and Finance – the two departments that I have direct responsibility for – and 5 more in the Internal Revenue Commission and I can tell you they are doing a great job.

This is the sort of help we need – not people regularly telling us how wayward we are and what we should be doing, but experienced skilled officers working side-by-side with our National officers, understanding the political pressures, working within weak institutions and systems, coping with resource constraints, managing capacity limitations, and trying to deal with the same challenges that our National officers do every day. These people are building capacity and getting the job done.

The difficulties around the rollout of the full ECP program, particularly the police component, reflect the general difficulties Australia faces in helping PNG deal with its problems. For the three decades since Independence, Australia has adopted a 'hands off' approach, providing financial support, but honouring its commitment to let PNG chart its own course. A 'hands-on' approach risks accusations that Australia is trying to reassert control over PNG.

I don't know where the middle ground is. It is certainly not with Australia wielding 'wadi' or the big stick which is probably the Australian equivalent. That just provides more ammunition for those people in PNG who are already resistant to Australia's involvement in PNG and who are looking for arguments to bolster their case. And it is certainly not with PNG reacting excessively to every small slight, whether real or imagined.

As partners, we need to understand each other, be pragmatic, and do whatever it takes to improve the lot of our people. As usual, this means sitting down together and talking about things and figuring out how best we can work together to deal with them.

I look forward to Australia's continued support for Papua New Guinea, for your friendship and for your understanding as we make our way at home, in the region and in the world.

Thank you.