



30 May 2013

Members
Foreign Affairs, Defence and Trade Committee

Inquiry into where New Zealand's obligations should lie – Pacific or wider afield

The Foreign Affairs, Defence and Trade Committee has been asked to conduct an inquiry into: "where New Zealand's obligations should lie – Pacific or wider afield". This paper has been prepared to assist the Committee with its examination. The paper identifies issues and proposes possible lines of inquiry for the Committee to consider. The Committee may also wish to raise these matters with the witnesses who have been asked to appear before the Committee to give evidence on this inquiry.

Introduction

The Pacific plays an integral part in New Zealand's foreign affairs due to its proximity to New Zealand and the historical ties between the Pacific and New Zealand. Auckland has the largest Polynesian population of any city in the world and almost seven per cent of New Zealanders identified as being of Pacific ethnicity in 2006. While the Pacific continues to play a key role in New Zealand's international obligations, other countries further afield could also benefit from greater economic and social assistance from New Zealand. This report explores these options further and assesses whether New Zealand has struck the right balance with its international obligations for today and looking ahead to the future.

The Pacific region faces a range of social and economic challenges, including geographic isolation, distance to markets, poor infrastructure, and in some cases weak governance. Much of the region is also vulnerable to natural disasters. In many countries, growth in economic activity has not kept pace with population growth, resulting in an increasingly educated and youthful population without opportunities for formal employment. These challenges are heightened for women.

The Pacific is currently the core geographical focus for the New Zealand Aid Programme, with over half of New Zealand's total aid going to this region. New Zealand has programmes with the Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu. New Zealand also provides support to the Pacific through scholarships, humanitarian assistance, regional programmes and partnerships with state sector, non-governmental and private sector organisations in New Zealand, including in relation to fisheries, biosecurity, customs, and governance assistance.

The New Zealand Defence Force is actively involved in the Pacific, using Navy, Army and Air Force assets to undertake, for example, search and rescue operations, fisheries patrols and assistance projects. The New Zealand Defence Force is also involved in activities in other countries, such as Malaysia, Sinai, Somalia and Singapore.

New Zealand also has special constitutional arrangements with Niue, Tokelau and the Cook Islands, generally in place as a result of historical ties.

Has New Zealand struck the right balance?

The Ministry of Foreign Affairs and Trade (MFAT) has stated that "... our challenge is to develop relationships that provide New Zealand with continuing influence across a range of possible futures".¹ The Pacific is an area with economic potential and significant natural resources, particularly in fisheries, agriculture/horticulture and tourism. New Zealand has the opportunity to assist the Pacific to develop these areas further.

In the Pacific region, MFAT is working to:

- build partnerships with selected developing countries to reduce New Zealand's risk of exposure to security risks in the Pacific
- contribute to economic sustainability by:
 - focusing on partnerships in key areas, which MFAT identifies as tourism, fisheries, agriculture and horticulture, transport, renewable energy and education
 - supporting financial management and policy reform to underpin sustainability
- set and support ambition for stable government across the Pacific region.

The New Zealand Aid Programme's mission is to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable, and prosperous world. It has the following themes:

- investing in economic development
- promoting human development – namely education and health
- improving resilience and responding to disasters
- building safe and secure communities
- improving development outcomes through strategic partnerships with others.

The approach of the New Zealand Aid Programme includes:

- making aid effective – by referring to internationally agreed principles of development effectiveness
- improving efficiency and value for money
- enhancing accountability for results
- integrating cross-cutting issues of environment (notably climate change), gender and human rights
- ensuring consistency of development assistance and foreign policy.

Pacific Islands Forum

The Pacific Islands Forum was established following a meeting in 1971 of the Cook Islands, Fiji, Nauru, Tonga, (Western) Samoa, Australia and New Zealand. The Pacific Islands Forum is now the main regional body for regional leaders to discuss political, economic and developmental issues facing the region, and has 16 member states.

New Zealand and Australia are the largest and most developed countries in the Forum, and are significant aid donors and export markets for exports from the other member states. Australia's foreign aid primarily focuses on the Asia-Pacific region, with programmes also undertaken in Africa, the Middle East, South America and the Caribbean.²

¹ Ministry of Foreign Affairs and Trade. Statement of Intent 2012-2015, p 11.

² Caritas Australia, <http://www.caritas.org.au/act/australian-aid>

In 2009, the Pacific Islands Forum established the Cairns (Forum) Compact on Strengthening Development Coordination in the Pacific (the Compact). Forum leaders established the Compact because of concerns that despite high levels of assistance, the Pacific region was not on track to achieve the Millennium Development Goals.

In 2012, New Zealand's Prime Minister, Hon. John Key, was the Chair of the Forum.

New Zealand's reputation as a good global citizen

New Zealand has a reputation as a good global citizen and has the cultural, economic, and social links that can influence positive change in the Pacific region. It can be argued that by limiting New Zealand's obligations to the Pacific, New Zealand can further develop expertise in Pacific development and speak authoritatively about the Pacific on the international stage.

Oxfam New Zealand suggests that New Zealand's interests should lie in a sustainable and culturally rich Pacific region. It argues that the region faces particular challenges that developed countries such as New Zealand have an opportunity to assist with. Oxfam notes that "[c]limate adaptation financing is essential for developing nations, like those in the Pacific, which are among the most vulnerable to the effects of climate change but least responsible for creating it. Such financing is necessary to address and adapt to threats posed by long-term changes to land and ocean environments".

However, some argue that New Zealand would keep its reputation as a good global citizen even if its focus was not on the Pacific, and it assisted further afield. That is, it is not the assistance by geography that matters, rather the assistance itself.

Should New Zealand provide aid further afield?

Aid should be provided where it is most needed

At the United Nations Millennium Summit in 2000, 189 countries (including New Zealand) agreed to work together to reduce extreme poverty. Eight goals were identified, known as the Millennium Development Goals (MDGs), which build on development targets set in the 1990s. The MDGs are not a poverty elimination agenda, but they attempt to highlight key dimensions of poverty and causes.

Member states of the United Nations agreed to a target that developed countries should spend 0.7 per cent of national Gross National Income (GNI) on overseas aid by 2015. In 2012, New Zealand gave 0.28 per cent of GNI and does not have an agenda to reach the 0.7 per cent target.³

The main argument against New Zealand being increasingly Pacific focused is that aid should be focused where it is most needed, and that there are poorer areas of the world than the Pacific. Rather than suggesting that obligations should not lie with the Pacific, this argument suggests that the primary obligations should be based on need, not geography.

Other commentators argue that our focus should be closer to home, and given New Zealand's own social and economic issues, resources should not be directed overseas.

³ Comparatively, in Australia, the annual aid figure is estimated to reach around \$8–9 billion (0.5 per cent of Gross National Income) by 2016–17.

Development assistance dependency

Commentators argue that high levels of aid in particular countries or regions can have negative effects. It could cause a country's currency to appreciate, affecting exporters or leading to high levels of inflation. There is also the potential for corruption or for a country's economy to be distorted if businesses and political actors focus on extracting rents from aid flows.

Mark McGillivray, Senior Research Fellow at the World Institute for Development Economics Research, argues that official development assistance dependency exists in the Pacific, as it does in sub-Saharan Africa. He highlights that over 93 per cent of the Pacific's total external income flow was in the form of official development assistance during 1991 to 2002.

Security arguments

A stable and secure international environment is important for New Zealand's ability to use its international relationships. As such, contributing to global security efforts, and to the development of the world's poorer nations, is part of most countries' international engagement. Good development outcomes in the Pacific and elsewhere are an element of New Zealand's current foreign policy objectives.

Should New Zealand focus on the Pacific?

Proximity to New Zealand

The proximity to New Zealand is one argument for New Zealand's obligations in the Pacific. This proximity means that New Zealand has a number of mutual interests with the Pacific, such as economic, security and trade interests. The activities in one country's Exclusive Economic Zone can affect surrounding countries' Exclusive Economic Zones. A good example of this is fishing.

The South Pacific waters are fertile fishing grounds. Illegal fishing, pollution, eco-system destruction and over-fishing affect both the environment and the economic well-being of states, for which their Exclusive Economic Zones are important for their economy. It is argued that these Pacific island states need assistance with these issues, which will, in turn, positively impact on the whole region, including New Zealand. The theme of the recent Pacific Islands Forum was protecting oceans and ensuring Pacific countries get maximum value from their fisheries resource.

In 2005, New Zealand instituted a whole-of-government approach to combat these issues. The approach includes operational, policy, advisory and developmental initiatives, and draws on the expertise of the previous Ministry of Fisheries, the New Zealand Defence Force, the New Zealand Aid Programme and the wider Ministry of Foreign Affairs and Trade. In August 2012, the New Zealand Government announced a further commitment of NZ\$50 million over the next three years to support Pacific fisheries and oceans. This funding goes towards vocational training, monitoring and enforcing regulations, and the better sharing of information through sub-regional strategies and agreements.

Commentators have reported that illegal fishing has reduced and regional safeguards are in place to prevent over-fishing or the negative impact on marine eco-systems as a result of these efforts.

Trade and economic relationships

Some commentators suggest that following the Global Financial Crisis, economic power has shifted from the West to the East. The Pacific is considered an emerging market which can provide a number of trade and economic relationships. Currently, New Zealand is actively participating in regional relations, such as the East Asia Summit, Asia-Pacific Economic Co-operation (APEC) and the expanding Trans Pacific Partnership. In addition, MFAT is focusing on active diplomacy in the South Pacific region to support investment through the New Zealand Aid Programme. This focus seeks to strengthen security and governance, and support sustainable economic development.⁴

Some argue that through investing in this area with the Pacific, there is an opportunity to enhance New Zealand's trade and economic relationships. In addition, some state that the shift of economic power towards the Asia-Pacific region is positive for New Zealand as our distance from other markets can reduce New Zealand's ability to develop effective relationships.

Aid can provide opportunities for New Zealand to secure trade agreements in a region that has a number of resources and other economic development opportunities. Free Trade Agreements mean that New Zealand has greater access to Pacific Islands' markets. There is also the option of putting obligations on countries that New Zealand provides assistance to.

Melanesia is a region of considerable population growth which could impact on Australia and New Zealand. For example, New Zealand already takes workers from Melanesia for the Recognised Seasonal Employer Scheme. This policy facilitates the temporary entry of additional workers from overseas to plant, maintain, harvest and pack crops in the horticulture and viticulture industries to meet New Zealand's labour shortages in order to remain competitive globally.⁵ Further assistance may be negotiated in the future as this population grows.

Security arguments

Hillary Clinton, former United States Secretary of State, pointed out at a recent Pacific Islands Forum that China and the United States have competing interests in the Pacific.

Some argue that by supporting those nations close to New Zealand, we are increasing New Zealand's security. Poorer nations can be a target for terrorist activity, and such nations are also more likely to produce illegal immigrants. By helping other countries achieve the MDGs, it is argued that New Zealand can reduce the regional risks and will save money for New Zealand long term. Further, by actively working with Pacific nations to prevent the existence of terrorism or illegal immigration there, the risk for New Zealand is reduced.

New Zealand, like Australia, provides personnel for peacekeeping and stabilisation operations in the Pacific region, such as in the Solomon Islands (2003 to current), Nauru (2004 to 2009) and Tonga (2006).

Risk of fragmentation

For support to be valuable, it needs to be effective. One argument for focusing on the Pacific region, particularly in relation to aid, is the risk of fragmentation. Fragmentation "occurs when one donor subdivides its aid budget over too vast a number of recipients, projects and

⁴ Ministry of Foreign Affairs and Trade. Statement of Intent 2012-2015

⁵ The Department of Labour has Inter-Agency Understandings with the following Pacific states: Kiribati, Samoa, Tuvalu, Tonga, Solomon Islands, and Vanuatu.

programmes, or when a single recipient is the beneficiary of aid from a multitude of different donors”. Fragmentation increases administrative and transactional costs for both donor and recipient. For recipient countries, the risk that programmes will overlap or contradict each other increases with the number of donor countries.

Some commentators argue that New Zealand’s official development assistance is highly fragmented. Currently the New Zealand Government funds about 561 activities delivered through 15 bilateral partners (in the Pacific and Asia), regional programmes in the Pacific, Southeast Asia, Africa, Latin America and the Caribbean, multilateral and regional institutions and New Zealand organisations. As part of reducing this fragmentation, such commentators argue that the focus of bilateral and regional aid should be tightened on the Pacific.

Other considerations

Withdrawing existing support from regions to focus on the Pacific could affect relationships or New Zealand’s perception as a good international citizen. Equally, withdrawing current support to the Pacific to focus elsewhere could negatively affect the Pacific region.

Report to the House

The Committee is required to report its findings on this inquiry to the House. The purpose of your report is first to inform the House and stimulate debate. In doing so your report should reflect both the oral and written evidence the Committee received, the issues the Committee considered in-depth, and the views of the members. From these the Committee should develop conclusions and recommendations to the Government.

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Members may wish to ask:

- What should the primary motivators for New Zealand's obligations be?
- Should New Zealand have a role in the Pacific, and if so, what should that role be?
- What does New Zealand stand to gain by focusing support on the Pacific?
- What does New Zealand stand to gain by focusing support further afield?
- Is it realistic for New Zealand to lead both politically and economically? If so, how?
- Are we providing the right types of support? Do they reflect the aspirations of those countries we are trying to help?
- Should aid provided by New Zealand be aligned to New Zealand's economic interests or the interests of the recipient country?
- What is the more important consideration for New Zealand – focusing obligations by which countries need the most help, or by where New Zealand aid could be the most effective?
- Since there is a risk of high development assistance dependency in the Pacific, should New Zealand lessen its aid focus in the Pacific?
- Should greater assistance be provided in those areas further afield that might pose security risks for New Zealand?

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Suggested key words and phrases:

- Millennium Development Goals
- development
- Pacific Islands Forum
- Pacific aid priorities
- exclusive economic zone
- free trade agreement
- aid obligations
- international commitments
- Cairns Compact
- aid fragmentation
- New Zealand Aid Programme