
Papua New Guinea: New Opportunities and Declining Australian Influence?

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Although Papua New Guinea is a 'small state' it increasingly defies traditional predictions about its international relations and attempts to enhance its security. This article begins by outlining Papua New Guinea's new geopolitical, regional and economic opportunities. It then considers the continuing challenges that Papua New Guinea faces which may undermine the benefits of these opportunities. This article concludes by arguing that Papua New Guinea may believe that its increasing opportunities have enhanced its power and influence, which may lead to a decline in Australia's influence, exemplified by the circumstances surrounding the recent Regional Resettlement Arrangement.

On any material measure, concerned with military strength, wealth and geography, Papua New Guinea (PNG) is a "small state".¹ In global terms, PNG has a small population (7.1 million people), a small economy (115th largest in the world by GDP),² a small (2,100 personnel) and ill-equipped military and a relatively small territory (462,840 km², the 55th largest in the world). In 2000 the Commonwealth Secretariat and World Bank Joint Task Force on Small States specifically identified PNG as a small state, and claimed that it accordingly experienced certain "vulnerabilities" that limited its ability to participate in, and benefit from, its international economic, security and political relations.³ Consequently, the Realist approach that dominates contemporary security studies predicts that PNG will have limited power and therefore minimal opportunities to exercise influence or pursue its own interests in its international relations.⁴ Instead, it predicts that PNG will "bandwagon" on a larger power in order to protect itself,⁵ most likely forming a "patron-client" relationship⁶ with its near neighbour, Australia.

¹ Colin Clarke and Tony Payne (eds), *Politics, Security and Development in Small States* (London: Allen & Unwin, 1987); Chrstine Ingebritsen, et al. (eds), *Small States in International Relations* (Seattle: University of Washington Press, 2006).

² World Bank, *World Development Indicators Database*, 17 December 2013, <<http://data.worldbank.org/data-catalog/GDP-ranking-table>> [Accessed 3 April 2014].

³ Commonwealth Secretariat/World Bank, *Small States: Meeting Challenges in the Global Economy* (London: Commonwealth Secretariat, 2000).

⁴ Robert Jervis, 'Cooperation Under the Security Dilemma', *World Politics*, vol. 30 (1978), pp. 167-214.

⁵ Stephen M. Walt, *The Origins of Alliances* (Ithaca, NY: Cornell University Press, 1987); Benjamin Miller and Korina Kagan, 'The Great Powers and Regional Conflicts:

In the decades after PNG's independence, these predictions were largely borne out. PNG is Australia's nearest neighbour and has long been identified as strategically important to Australia.⁷ PNG lies across some of the most significant air and sea approaches that link Australia to vital trading and defence partners in North America and Northeast Asia. Moreover, while there is presently no external power that is likely to use PNG to launch a direct attack on Australia, the Japanese advance during the Second World War graphically illustrated Australia's vulnerability to this scenario. Indeed, writing in 1965, prominent Australian strategic thinker T. B. Millar reflected that, if PNG was in "hostile hands", it would "make attacks on our east coast much easier—Port Moresby, after all, is closer to Sydney than Darwin is".⁸ Consequently, Australia has sought to exercise influence over PNG,⁹ first as a colonial occupier, and later as PNG's largest aid (AUD \$507.2 million in 2013-2014) and military donor (primarily via the Defence Cooperation Program and the Pacific Patrol Boat program), and trade (\$5.7 billion in 2012-2013) and investment (\$18.6 billion in 2012-2013) partner.¹⁰ Australia is also effectively PNG's security guarantor, under the 1987 *Joint Declaration of Principles Guiding Relations Between Australia and Papua New Guinea*,¹¹ as reaffirmed in the 2000 Defence White Paper.¹² Therefore, for much the

Eastern Europe and the Balkans from the Post-Napoleonic Era to the Post-Cold War Era', *International Studies Quarterly*, vol. 41, no. 1 (1997), pp. 51-85.

⁶ Christos Kassimeris, 'The Foreign Policy of Small States', *International Politics*, vol. 46, no. 1 (2009), pp. 84-101, 94.

⁷ Reiterated most recently in the 2013 Defence White Paper, which identified that the "security, stability and cohesion" of the South Pacific sits only behind a "secure Australia" in the hierarchy of Australia's strategic interests. It also echoed earlier defence white papers when it stated that, while the principal task of the ADF is to "deter and defeat attacks on Australia", its second priority is to "contribute to stability and security in the South Pacific and Timor-Leste". Commonwealth of Australia, *Defence White Paper 2013* (Canberra: Department of Defence, 2013), pp. 24-5, 30-1.

⁸ T. B. Millar, *Australia's Defence* (Carlton: Melbourne University Press, 1965), p. 150.

⁹ For example, the 1994 Defence White Paper focused on Papua New Guinea, which it described as Australia's 'most substantial' defence relationship in the region. Commonwealth of Australia, *Defending Australia* (Canberra: Department of Defence, 1994), p. 92. See also Australia's *Strategic Basis* papers between 1953-75, which are reproduced in Stephan Frühling (ed.), *A History of Australian Strategic Policy Since 1945* (Canberra: Defence Publishing Service, 2009), pp. 167-542.

¹⁰ Department of Foreign Affairs and Trade, 'Papua New Guinea', Fact Sheet, <<https://www.dfat.gov.au/geo/png/>> [Accessed 4 April 2014].

¹¹ Department of Foreign Affairs and Trade, *Joint Declaration of Principles Guiding Relations Between Australia and Papua New Guinea*, 1987, as amended by exchange of letters in 1992, <www.dfat.gov.au/geo/png/jdpgr_aust_png.html> [Accessed November 2013].

¹² Commonwealth of Australia, *Defence 2000: Our Future Defence Force* (Canberra: Department of Defence: 2000), p. 44.

period since its independence, PNG has appeared a relatively accepting 'client' of its Australian 'patron'.

This article uses a Constructivist analysis to argue that this situation is changing and that PNG increasingly defies many of the Realist predictions. For Constructivists, meaning is socially constructed, and material measures must be interpreted through the social concepts that define their meaning. Consequently, ideational factors such as beliefs, expectations and interpretations are as important as material measures when thinking about a state's power and influence in its international relations.¹³ Therefore, Constructivism can reveal how the power and influence of small states like PNG is not necessarily determined solely by objective material measures. Using this analysis, this article argues that PNG has geopolitical, regional and economic opportunities which it may believe have enhanced its power and influence. When these material opportunities are combined with this ideational belief, this may lead to a consequent decline in Australia's influence over PNG. In this context, power refers to the ability of state A to make state B do what it would otherwise not do.¹⁴ That is, state A has, or exercises, 'influence', while state B is 'influenced'.¹⁵

This article begins by outlining the geopolitical, regional and economic opportunities available to PNG. It then considers the continuing challenges that PNG faces which may undermine both the material and ideational benefits of these opportunities. This article concludes by arguing that PNG may believe that its increasing opportunities have enhanced its power and influence. When PNG's material opportunities are combined with this ideational belief, it may lead to a decline in Australia's influence, exemplified by the circumstances surrounding the recent Regional Resettlement Arrangement.

Geopolitical Opportunities

Although Australia has long been viewed as exercising a degree of primacy, if not hegemony, in the South Pacific, changes to the broader Asia-Pacific power structure have generated geopolitical opportunities for PNG. Most

¹³ Theo Farrell, 'Constructivist Security Studies: Portrait of a Research Program', *International Studies Review*, vol. 4, no. 1 (2002), pp. 49-72; Nicholas Onuf, 'Constructivism: A User's Manual', in Vendulka Kubalkova, Nicholas Onuf and Paul Kowert (eds), *International Relations in a Constructed World* (London: M.E. Sharpe, 1998); Alexander Wendt, 'Anarchy is what States Make of it: The Social Construction of Power Politics', *International Organization*, vol. 46, no. 2 (1992), pp. 391-425.

¹⁴ Robert Dahl, *Who Governs? Democracy and Power in an American City* (New Haven CT: Yale University Press, 1961).

¹⁵ David A. Baldwin, 'Power and International Relations', in Walter Carlesnaes, Thomas Risse and Beth A. Simmons (eds), *Handbook of International Relations* (London: Sage, 2002), p. 177.

significantly, the “rise” of China¹⁶ has motivated the United States to “pivot” or “rebalance” to the Asia-Pacific.¹⁷ Many Realists claim that the United States is seeking to “balance”, “deter” or “contain” China,¹⁸ although some identify the potential for the United States to build a “concert of powers”¹⁹ or achieve “accommodation” with China.²⁰

This changing power dynamic is being played out on a smaller scale in the South Pacific, where it has been argued that “China’s entrance into the region has accelerated the erosion of the United States as a unipolar power”, and that consequently the United States is engaged in “soft balancing” against China.²¹ While China’s Assistant Minister of Foreign Affairs Cui Tiankai declared in 2012 that China is “here in this region not to seek any particular influence, still less dominance”,²² in 2011, then United States Secretary of State Hillary Clinton admitted her concern that “[w]e are in a competition with China ... China is in there [in PNG] every day in every way trying to figure out how it’s going to come in behind us, come in under us”.²³

Given how marginal the South Pacific is to the international strategic environment there is only a minimal risk that China and the United States will engage in zero-sum competition for military influence in the region.²⁴ However, the United States has increased its number of high-level visits to

¹⁶ David Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007); Robert Ross and Zhu Feng (eds), *Power, Security, and the Future of International Politics* (Ithaca: Cornell University Press, 2008).

¹⁷ ‘Roundtable on Regional Perspectives on U.S. Strategic Rebalancing’, *Asia Policy*, vol. 15 (2013), pp. 2-44; Robert S. Ross, ‘The Problem with the Pivot: Obama’s New Asia Policy is Unnecessary and Counterproductive’, *Foreign Affairs*, vol. 91 (November/December 2012), pp. 70-82.

¹⁸ Thomas J. Christensen, *Worse than a Monolith: Alliance Politics and Problems of Coercive Diplomacy in Asia* (Princeton: Princeton University Press, 2011); Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: Norton, 2011); Kai He and Huiyun Feng, ‘If Not Soft Balancing, Then What? Reconsidering Soft Balancing and U.S. Policy Toward China’, *Security Studies*, vol. 17, no. 2 (2008), pp. 363-95; Lanxin Xiang, ‘China and the “Pivot”’, *Survival: Global Politics and Strategy*, vol. 54, no. 5 (2012), pp. 113-28.

¹⁹ Hugh White, *The China Choice: Why America Should Share Power* (Melbourne: Black Inc., 2012).

²⁰ Amitai Etzioni, ‘Accommodating China’, *Survival: Global Politics and Strategy*, vol. 55, no. 2 (2013), pp. 45-60.

²¹ Marc Lanteigne, ‘Water Dragon? China, Power Shifts and Soft Balancing in the South Pacific’, *Political Science*, vol. 64, no. 1 (2012), pp. 21-38, 23.

²² Quoted in Daniel Flitton, ‘Clinton Stresses US Role in Pacific Security’, *Sydney Morning Herald*, 1 September 2012.

²³ Quoted in Andrew Quinn, ‘Clinton Says China Seeks to Outflank Exxon in Papua New Guinea’, *Reuters*, 2 March 2011.

²⁴ Paul Dibb, ‘The Importance of the Inner Arc to Australian Defence Policy and Planning’, *Security Challenges*, vol. 8, no. 4 (2012), pp. 13-31.

the South Pacific, including PNG, and has engaged more actively in multilateral regional institutions. It has also increased its strategic military deployments, most notably expanding its base in Guam, its 'shiprider' program and the Pacific Partnership.²⁵ The United States has also increased its aid,²⁶ trade and investments (including the Exxon Mobil liquefied natural gas (LNG) project in PNG)²⁷ and opened the USAID Pacific Island Regional Office in PNG and the new regional defence, environmental and labour hub at its embassy in Fiji.²⁸ The United States has also stepped-up its relationships with its traditional allies in the region, Australia and New Zealand.²⁹

While the United States has made large aid and trade pledges to the South Pacific, their approval by Congress and translation into actual expenditure is not guaranteed, particularly given the United States' budgetary restraints. Indeed, the Congressional Research Service has cautioned that:

the depth of the Obama Administration's 'rebalancing' toward the Asia-Pacific region... may be called into question as time goes on. As yet, it does not appear that the Administration has translated its pronouncements into an across-the-government plan to implement the new elements of the strategy.³⁰

Moreover, while Clinton and her Assistant Secretary of State, Kurt Campbell, were strongly committed to the rebalance, there are questions over whether this commitment is shared by the current Secretary of State John Kerry and his team, given that Kerry's attention (and travel schedule) has focused on the Middle East, rather than the Asia-Pacific.³¹ In this regard, although the United States has increased its military engagements in the Micronesian sub-region, it has more marginal interests in PNG and the rest of the South Pacific.

²⁵ Christian La Miere, 'America's Pivot to East Asia: The Naval Dimension', *Survival: Global Politics and Strategy*, vol. 54, no. 3 (2012), pp. 81-94.

²⁶ Edgard Kagan, 'US Engagement with the South Pacific and the Region', public lecture at the Australian National University, Canberra, 25 October 2012.

²⁷ Mark Tokola, 'The Reality of America's Pacific Pivot', speech to the Pacific Islands Society, 28 May 2013.

²⁸ Steven C. McGann and Richard K. Pruett, *A New Strategic Architecture for the Pacific, Pacific Islands Brief* (Honolulu: Pacific Islands Development Program, 2012).

²⁹ Rob Ayson and David Capie, 'Part of the Pivot? The Washington Declaration and US-NZ Relations', *Asia Pacific Bulletin*, no. 172 (July 2012); Bruce Robert Vaughn, *The United States and New Zealand: Perspectives on a Pacific Partnership* (Wellington: Fulbright New Zealand, 2012).

³⁰ Mark E. Manyin, et al., *Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia* (Washington: Congressional Research Service, 2012), p. 10.

³¹ Jenny Hayward-Jones, *Big Enough For All of Us: Geo-strategic Competition in the Pacific Islands* (Sydney: Lowy Institute for International Policy, 2013).

Similarly, although there is a body of 'China threat' literature which claims that the South Pacific could provide a testing ground for China's strategic power against the United States,³² and China has invested in bilateral and multilateral diplomacy, and increased its aid, trade and investment (including the Ramu nickel mine in PNG) in the South Pacific, several commentators argue that the South Pacific is "marginal in China's strategic landscape".³³ More by accident than design, China's influence in the region has been enhanced by the response of Australia and its partners, New Zealand and the United States, to the 2006 coup in Fiji. These powers condemned the coup and adopted sanctions against the Fijian regime, in the expectation that their pressure would encourage a return to democracy. The Fijian regime instead adopted a 'Look North' policy and sought closer engagement with China, other East Asian partners and global emerging powers.³⁴

Therefore, while the existing debate might assume that the United States' increased presence in the South Pacific suggests that it is seeking to balance China, its actions should instead be understood as "reasserting the status quo rather than issuing a strategic challenge to China".³⁵ Similarly, while China is increasing its engagement in the region, "there is not sufficient evidence to suggest that China has a clearly defined and well-coordinated strategy to fill a power vacuum in the Pacific".³⁶ This suggests that neither state is engaged in a concerted strategy to compete for influence in PNG or the broader South Pacific.

Other external powers, such as Japan, Malaysia, Korea, Indonesia, Iran, Cuba, Russia and the United Arab Emirates are also becoming involved in PNG and the South Pacific as aid donors and diplomatic partners, widening the region's choice of aid partners. In particular, Indonesia has sought a

³² Graeme Dobell, 'China and Taiwan in the South Pacific: Diplomatic Chess versus Pacific Political Rugby', *Centre for the Study of the Chinese Southern Diaspora Occasional Paper Number 1* (Canberra: Australian National University, 2007); John Henderson and Benjamin Reilly, 'Dragon in Paradise', *The National Interest*, 1 June 2003; Tamara Shie, 'Rising Chinese Influence in the South Pacific: Beijing's Island Fever', in Anne-Marie Brady (ed.), *Looking North, Looking South: China, Taiwan and the South Pacific* (Singapore: World Scientific Publishing Company, 2010); Susan Windybank, 'The China Syndrome', *Policy Magazine*, 7 July 2005.

³³ Jian Yang, 'China in the South Pacific: Hegemon on the Horizon?', *The Pacific Review*, vol. 22, no. 2 (2009), p. 145; Yongjin Zhang, 'China and the Emerging Regional Order in the South Pacific', *Australian Journal of International Affairs*, vol. 61, no.3 (2007), pp. 367-81.

³⁴ Brij Lal, 'Fiji: Fishing in Troubled Waters', *Security Challenges*, vol. 8, no. 4 (2012), pp. 85-91.

³⁵ Stewart Firth, 'New Developments in the International Relations of the South Pacific', *Journal of Pacific History*, vol. 48, no. 3 (2013), p. 288.

³⁶ Yongjin Zhang, 'A Regional Power by Default', in Terence Wesley-Smith and Edgar A. Porter (eds), *China in Oceania: Reshaping the Pacific?* (New York: Berghahn Books, 2010), p. 50.

closer relationship with PNG, and in 2010 the Indonesian President, Susilo Bambang Yudhoyono, visited PNG to sign a *Defence Cooperation Agreement* and *Letters of Exchange in Agriculture*.³⁷ However, there is no suggestion that these states are engaged in deliberate competition for power in PNG or the region, beyond satisfying their own goals of diplomatic recognition or improved international influence.

A Constructivist analysis highlights that it is not necessarily important whether these external powers are actually competing for influence in PNG or the broader region. Instead, what is important is how PNG and other South Pacific states interpret the behaviour of these external states, since these interpretations can be enough to influence behaviour. In this regard, Papua New Guinean leaders have encouraged an interpretation that there is emergent competition by external powers for influence in the region. Speaking in March 2013, Winnie Anna Kiap, PNG High Commissioner to the United Kingdom, observed that external powers are increasingly competing for influence because “when a vacuum is left [by the withdrawal of the United States and the United Kingdom], another country moves in to fill it”.³⁸ PNG Prime Minister Peter O’Neill has also observed that PNG will take advantage of the interest that these external powers have in PNG and look for economic opportunities in Asia.³⁹

Other South Pacific leaders have similarly encouraged this perception. The Fijian High Commissioner to the United Kingdom, Solo Mara, has observed that: “Washington has ramped up its presence and involvement in response to China’s increasing abilities and influence”, which he interpreted as “Washington’s realization that it must be more involved in the South Pacific or risk losing its influence entirely”.⁴⁰ Former Prime Minister of Fiji, Sitiveni Rabuka, has similarly observed that China is “filling a vacuum” in the region.⁴¹ However, this perception is not absolute, with Henry Puna, Prime Minister of the Cook Islands, observing that: “our engagement with major

³⁷ Solomon Kantha, ‘Papua New Guinea’, *The Contemporary Pacific*, vol. 23, no. 2 (2011), pp. 491-504.

³⁸ Quoted in Mohammed Tahboub, ‘Papua New Guinea High Commissioner to UK—China Filling Pacific Vacuum’, remarks to the Pacific Islands Society, London, 28 March 2013.

³⁹ Peter O’Neill, ‘Papua New Guinea in the Asian Century’, Lowy Institute for International Policy, 29 November 2012, <<http://www.lowyinstitute.org/news-and-media/videos/distinguished-speaker-series-hon-peter-oneill-prime-minister-papua-new-guinea>> [Accessed 1 April 2014].

⁴⁰ Solo Mara, ‘Remarks by Mr Solo Mara, High Commissioner, Republic of Fiji High Commission to the United Kingdom’, remarks to the Pacific Islands Society, London, 5 March 2013.

⁴¹ Quoted in ‘Pacific Urged to Take Steering Wheel in Face of US China Rivalry’, *Radio New Zealand*, 3 July 2013.

powers should not be viewed as the subject of competition, but as representative of shared goals of mutual benefit and reciprocity".⁴²

The interpretation that external powers are competing for influence has opened up geopolitical opportunities for PNG. PNG no longer necessarily needs to identify itself as falling within an uncontested Australian and New Zealand sphere of influence. Instead, PNG may believe that it has more choice as to which external power (or powers) it engages with.⁴³ When this Constructivist interpretation is applied to the Realist approach, it holds that when there is the interpretation (or reality) that a competitive (balance of power) system has emerged, small states like PNG will have more room to manoeuvre, as they will believe that they are able to play competing great powers off against each other.⁴⁴ Indeed, small states might provide a determining factor in an actual balance of power situation, if enough side with one great power over the other.⁴⁵ PNG appears to already be astutely playing-off perceived Chinese and American competition in order to access increased development assistance, concessional loans, military support and international influence. For example, in 2013 it was reported that PNG was considering seeking a large loan from China in order to fund increasing the size of the Papua New Guinea Defence Force (PNGDF) from 2,100 to 10,000 personnel.⁴⁶

Regional Opportunities

The increased choice that has come from these geopolitical opportunities has also opened up regional opportunities for PNG. Since 1971 the dominant regional institution has been the Pacific Islands Forum (PIF, previously named the South Pacific Forum), which comprises all independent and self-governing states, Australia and New Zealand, and is the primary forum for political affairs in the region. In the last decade the Secretariat of the Pacific Community (SPC), which promotes development and cooperation in relation to economic, social and scientific issues, has also become influential. The SPC has a wider membership than the PIF, as it includes former and current colonial powers and their territories. The PIF and SPC have also spawned a series of more specialised agencies and institutions. Australia and New Zealand take a dominant role in both the PIF

⁴² Henry Puna, speech at 'Pacific Day 2013', Center for Strategic & International Studies, Washington, 17 June 2013.

⁴³ Edgar A. Porter and Terence Wesley-Smith, 'Oceania Matters', in Terence Wesley-Smith and Edgar A. Porter (eds), *China in Oceania: Reshaping the Pacific?* (New York: Berghahn Books, 2010).

⁴⁴ Michael Handel, *Weak States in the International System* (London: Frank Cass, 1981).

⁴⁵ Nicola Smith, et al., 'Size Matters: Small States and International Studies', *International Studies Perspectives*, vol. 6 (2005), pp. ii-iii.

⁴⁶ Isaac Nicholas, 'Govt Moves To Rebuild PNGDF', *Post-Courier*, 3 January 2013.

and SPC, in particular through driving the move towards enhanced regional integration, most notably in the form of the PIF's 'Pacific Plan'.⁴⁷

Empowered by their greater choice of international partners, PNG and other South Pacific states increasingly are creating, or strengthening, alternative regional and sub-regional institutions and organisations that exclude Australia, New Zealand and other traditional external partners. These alternative organisations allow PNG to operate outside its traditional partners' spheres of influence, to work with other South Pacific states to pool their resources and to operate as a united group when negotiating with their partners.⁴⁸

This process of creating, or strengthening, alternative regional and sub-regional institutions and organisations has been accelerated by an emboldened Fiji. After Fiji was suspended from the PIF in 2009, it encouraged the growth of the sub-regional Melanesian Spearhead Group (MSG) which includes Fiji, PNG, Solomon Islands, Vanuatu and the FLNKS (*Front de Libération Nationale Kanak et Socialiste*, representing the Kanak population of New Caledonia). The MSG adopted a constitution in 2007 and China financed the creation of the MSG's Secretariat and the building of its headquarters in Vanuatu in 2007. The MSG has developed its activities with Papua New Guinean and Fijian encouragement, including agreeing to a Trade Agreement and a Skilled Movement Scheme (although given the limited economic activities between its members it is unclear how beneficial they will be).⁴⁹ PNG has fast-tracked MSG trade liberalisation, with O'Neill declaring that: "Melanesian countries are the biggest in the Pacific and once we are able to engage more actively together, I think the rest of the Pacific can be able to follow us".⁵⁰ It has been argued that the MSG could "become the principal organ for the vast majority of Pacific Islanders and the portal of choice for new, mainly Asian, interests in the Pacific Islands",⁵¹ or at least a "counterweight" to the PIF.⁵² Indeed, the MSG Eminent Persons Group describes the MSG as a "stepping stone and bridge to Asia's growing economies",⁵³ a role that PNG's geography makes it uniquely well-placed to

⁴⁷ Pacific Islands Forum, *The Pacific Plan for Regional Integration and Cooperation* (Suva: Pacific Islands Forum Secretariat, 2007).

⁴⁸ Robert O. Keohane, 'Lilliputians Dilemmas: Small States in International Politics', *International Organization*, vol. 23, no. 2 (1969) p. 297.

⁴⁹ Nic Maclellan, 'The Region in Review: International Issues and Events, 2012', *The Contemporary Pacific*, vol. 25, no. 2 (2013), pp. 352-68.

⁵⁰ Quoted in 'Peter O'Neill's Pacific Plan: The "PNG Push" into the Region', *Islands Business*, November 2012.

⁵¹ Richard Herr, 'The Security Outlook for Melanesia', *United Service*, vol. 64, no. 2 (2013), p. 12.

⁵² Ron May, *The Melanesian Spearhead Group: Testing Pacific Island Solidarity* (Canberra: Australian Strategic Policy Institute, 2011), p. 7.

⁵³ Eminent Persons Group, *The Case for an Enhanced Melanesian Spearhead Group Sub-regionalism* (Port Vila: Melanesian Spearhead Group, 2013), p. 7.

lead. In this regard, Indonesia and Timor-Leste gained observer status of the MSG's meetings in 2011, and in 2013 Indonesia invited the MSG Secretariat to attend the APEC Ministerial meeting its guest. While Indonesia's efforts may suggest that it recognises the emerging role of the MSG in the region, they might equally be motivated by a desire to pressure MSG members not to support the self-determination of its West Papua region, or that region's application to join the MSG.

In addition, allegedly with funding from China, Russia and some Arab states, in 2010 Fiji held its own 'Engaging the Pacific' meeting as a rival to the PIF. In 2013 this meeting evolved into the Pacific Islands Development Forum (PIDF), which explicitly excludes developed states such as Australia, New Zealand and the United States, but which includes civil society and private sector actors. Furthermore, thirty countries from Europe, Africa, Latin America, North America and Asia attended the meeting as observers.⁵⁴ South Pacific leaders have agreed to establish a PIDF Secretariat in Fiji, possibly with Russian, Chinese or Kuwaiti funding.⁵⁵ Although O'Neill did not attend the PIDF meeting, as the largest South Pacific state PNG is well-placed to capitalise on this development to play a more influential role in regional and international relations in the future.

PNG is also increasingly acting independently in the region. In this regard, it must be recalled that PNG occupies more than 85 per cent of the land in Melanesia, and has perhaps 83 per cent of the people.⁵⁶ Therefore, while PNG is a small state in global terms, it is much larger than its South Pacific neighbours, which may also have enhanced its belief that it is able to exercise growing regional influence. For example, in 2011 PNG funded the creation of a permanent secretariat and headquarters for the Parties to the Nauru Agreement (PNA) Concerning Cooperation in the Management of Fisheries of Common Interest.⁵⁷ The PNA is potentially an alternative to the PIF's Forum Fisheries Agency, and has been able exert influence over that agency on behalf of its members. This move signals PNG's belief that it is the 'big brother' of other PNA signatories, whose interests it has to defend.⁵⁸ By working with other South Pacific states within a multilateral institution, PNG has been able to exert greater control over fisheries management and exercise greater influence when negotiating with external partners.

⁵⁴ Sandra Tarte, 'A New Regional Pacific Voice?', *Pacific Islands Brief*, no. 4, 28 August 2013.

⁵⁵ *Ibid.*

⁵⁶ Herr, 'The Security Outlook for Melanesia'.

⁵⁷ Nic Maclellan, 'The Region in Review: International Issues and Events, 2011', *The Contemporary Pacific*, vol. 24, no. 2 (2012), pp. 360-75.

⁵⁸ Christopher Pala, 'Islands Revoke UK Fisheries Treaty', *Islands Business*, May 2011.

An emboldened PNG is also moving outside Australia's sphere of influence on the international stage. PNG has taken the lead in respect of climate change, cofounding the Coalition for Rainforest Nations, which is lobbying for carbon-credit schemes under the United Nations Collaborative Program on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries.⁵⁹ This development exhibits how a small state like PNG can attempt to use norms, identity and ideas to act as a 'norm entrepreneur' in order to influence regional and international politics.⁶⁰ According to a Constructivist analysis, PNG might be able to mobilise support for particular standards and persuade other states to adopt and conform with new norms.⁶¹

PNG is also the only South Pacific state that is a member of the Asia-Pacific Economic Cooperation (APEC) forum, and it is seeking full membership of the Association of South East Asian Nations (ASEAN), of which it has observer status. In 2010 PNG adopted the *International Obligations Bill*, which provides the legal framework for it to participate in United Nations peacekeeping missions, and in 2011 it became a United Nations Troop Contributing Country. However, these deployments are conducted with a degree of Australian influence, as Australia provides pre-deployment and force preparation training, which has seen Papua New Guinea Defence Personnel deployed to United Nations missions in the South Sudan and Darfur.⁶² PNG, along with Fiji and Vanuatu, has also joined the Non-Aligned Movement, and with Chinese support, the 'Asia' group at the United Nations has been renamed 'Asia and the Pacific Small Island Developing States'. Fiji has also encouraged South Pacific states to form an alternative caucus grouping at the United Nations, the 'Pacific Small Island Developing States' (PSIDS) group, which has effectively replaced the PIF in this role. Fiji took advantage of these developments to secure the chairmanship of the Group of 77 plus China in 2013. Given PNG's much larger size it has the potential to take a similar approach to increase its influence on the international stage.

Economic Opportunities

The growing confidence that PNG has demonstrated in its geopolitical and regional activities has been enhanced by its economic opportunities. Most significantly, the PNG Southern Highlands are home to the massive Exxon-Mobil LNG project. The construction of the project will cost US \$15 billion,

⁵⁹ Nic Maclellan, 'The Region in Review: International Issues and Events, 2010', *The Contemporary Pacific*, vol. 23, no. 2 (2011), pp. 440-54.

⁶⁰ Christine Ingebritsen, 'Norm Entrepreneurs: Scandinavia's Role in World Politics', *Cooperation and Change*, vol. 37, no. 1 (2002), pp. 11-23.

⁶¹ Martha Finnemore and Kathryn Sikkink, 'International Norm Dynamics and Political Change', *International Organization*, vol. 52, no. 4 (1998), pp. 887-917.

⁶² Maclellan, 'The Region in Review: International Issues and Events, 2010'; Maclellan, 'The Region in Review: International Issues and Events, 2011'.

although only 4.5 per cent (around US \$675 million) is expected to directly affect the economy during the construction period.⁶³ The major direct economic impact will occur during production, which is expected to commence in mid-2014. It is predicted that, during the peak production phase, the project will contribute an additional 20 to 25 per cent of GDP per year.⁶⁴ While much of the income generated by the project will be repatriated overseas, in the form of dividends or interest repayments on debt, the income that will remain in PNG will include tax payments, dividend payments to residents, royalty and development levy payments to landowners and provinces, as well as income earned by local employees and contractors. In this regard, the total revenue generated by the project for the government to 2040 is estimated at about US \$31 billion.⁶⁵ There are hopes that these revenues will increase per capita incomes and generate broad-based development.

It is also hoped that the LNG project will have indirect benefits, as spending by people involved in the project or recipients of royalties will generate economic activity. For example, during the construction period, it is anticipated that expatriate employees will spend between 100 to 200 million kina per annum. The project is also expected to lead to significant investment in infrastructure, such as roads and airports, and social development, such as education and health services.⁶⁶ Other indirect impacts are likely to include: increased business activity from local companies that supply goods and services to the project and its employees; increased activity relating to higher government expenditures; and increased domestic activity from activities, such as agriculture, that experience higher aggregate demand and possibly improved access to markets.⁶⁷ The project is also expected to create employment opportunities and encourage future gas-based industry development.

Beyond the LNG project, PNG receives revenue from several other natural resource projects, including the AUD \$1.5 billion Ramu nickel mine, in which Chinese companies have invested. However, while natural resource extraction offers significant economic opportunities to PNG, it is not without costs. Natural resource projects can cause the displacement of communities, generate economic competition and societal conflict and, as illustrated in the case of the civil war that arose from the Panguna copper

⁶³ Department of Treasury, *2011 National Budget* (Waigani: Government of Papua New Guinea, 2010), chapter 11, p. 143.

⁶⁴ *Ibid.*, p. 144.

⁶⁵ *Ibid.*, p. 148.

⁶⁶ ACIL Tasman, *PNG LNG Economic Impact Study* (Melbourne: ACIL Tasman, 2009).

⁶⁷ Department of Treasury, *2011 National Budget*, chapter 11, p. 145.

mine in the Bougainville region, challenge the stability of the state.⁶⁸ PNG also has the potential for deep-sea mining, and in 2011 granted Canadian company Nautilus Minerals Inc the world's first deep-sea mining lease to develop the Solwara I project in the Bismarck Sea.⁶⁹ Yet, this natural resource project is also controversial, with concerns about both its potential environmental impact and the Government of Papua New Guinea's involvement in partially funding the project.

Over the last decade PNG's non-mineral economy, such as manufacturing, financial services and wholesale/retail, has also performed well, which has seen formal employment grow by an average of 6 per cent per year, almost doubling the size of the private sector workforce.⁷⁰ However, while PNG's economy appears to be growing rapidly, as the construction phase of the LNG project comes to a close in 2014 and external conditions become less favourable, the non-mineral economy is slowing. Non-mineral GDP growth fell from 9.1 per cent in 2012 to 5.5 per cent in 2013, and is expected to decline to around 1.3 per cent in 2014.⁷¹ Moreover, although PNG's real GDP grew by 7.7 per cent in 2012 it has "impacted little on basic services and living standards".⁷² Indeed, in 2010 "per capita expenditures for health and infrastructure were still 15 per cent and 30 per cent lower than in the early 1980s, respectively".⁷³ There are estimates that only an average of 2.5 per cent of resource revenues have been spent on health and education, while 5 per cent has been allocated to infrastructure.⁷⁴ Moreover, PNG has responded to the expectation of its future LNG revenues by engaging in a program of potentially unsustainable borrowing. For example, in March 2014 the government resolved to borrow 3 billion kina from UBS bank to purchase a 10.1 per cent stake in Oil Search Ltd. This decision contravened the

⁶⁸ Nicole Haley and Ron May (eds), *Conflict and Resource Development in the Southern Highlands of Papua New Guinea* (Canberra: ANU E Press, 2007); Anthony J. Regan, 'Causes and Course of the Bougainville Conflict', *The Journal of Pacific History*, vol. 33, no. 3 (1998), pp. 269-85.

⁶⁹ Solomon Kantha, 'Papua New Guinea', *The Contemporary Pacific*, vol. 25, no. 2 (2013), pp. 304-415.

⁷⁰ Don Pomb Poyle, Minister for Treasury, *2014 Budget Strategy Paper* (Waigani: Government of Papua New Guinea, 2013).

⁷¹ *Ibid.*

⁷² Mekere Morauta, 'Managing the Boom in Mineral Revenue in Papua New Guinea', *DevPolicy*, 20 January 2012, <<http://www.eastasiaforum.org/2012/01/02/managing-the-boom-in-mineral-revenue-in-papua-new-guinea/>> [Accessed 31 March 2014].

⁷³ Aaron Batten, 'Service Delivery and Resource Revenues in PNG', *DevPolicy*, 29 June 2011, <<http://devpolicy.org/service-delivery-and-resource-revenues-png20110629/>> [Accessed 31 March 2014].

⁷⁴ *Ibid.*

principles of the Sovereign Wealth Fund legislation that had been adopted in 2012, under Australian tutelage.⁷⁵

Continuing Challenges

Therefore, although PNG has several opportunities, there are a number of issues that continue to challenge the state and potentially limit its ability to capitalise on them. These issues have been outlined already in more detail in this journal,⁷⁶ and are expanded on in other contributions to this volume. Briefly, the first challenge relates to the potential for political instability. The 2012 political and constitutional crisis that saw two parallel governments, after the purported replacement of Sir Michael Somare with Peter O'Neill as Prime Minister, has been resolved. However, the potential for similar situations in the future remains. In this regard, once large revenues from its LNG project begin to flow they may potentially exacerbate existing government corruption, patronage and destabilising competition for political office.

The second challenge relates to escalating crime, inter-group fighting and increased (often illegal) migration from Asia, each of which threaten stability, particularly if they affect the LNG and other resource projects on which PNG relies.⁷⁷ Third, the upcoming referendum on Bougainville's future political status (a key element of the 2001 Bougainville Peace Agreement), scheduled to take place between 2015 and 2020, is another potential source of conflict and instability, depending on whether it is held, what the result is and how the Bougainville parties and Government of PNG react.⁷⁸ Developments in Bougainville have also encouraged potentially destabilising secessionist demands in other provinces. East New Britain and New Ireland have already sought autonomy under the *National Power Sharing and National Framework Policy*.⁷⁹

A fourth challenge relates to the possibility of conflict along PNG's border with Indonesia. Although PNG and Indonesia have entered into a *Treaty of Mutual Respect, Friendship and Cooperation*, the potential for incidents along the border is high, as the PNGDF does not have the capacity to patrol the border, which may lead to Indonesian incursions in pursuit of residents of

⁷⁵ Department of Foreign Affairs and Trade, 'Papua New Guinea Country Brief', <https://www.dfat.gov.au/geo/png/png_brief.html> [Accessed 4 April 2014].

⁷⁶ Ron May, 'Papua New Guinea: Issues of External and Internal Security', *Security Challenges*, vol. 8, no. 4 (2012), pp. 47-60.

⁷⁷ May, 'Papua New Guinea: Issues of External and Internal Security'.

⁷⁸ Joanne Wallis, 'Ten Years of Peace: Assessing Bougainville's Progress and Prospects', *The Round Table*, vol. 101 (2012), pp. 29-40.

⁷⁹ Kantha, 'Papua New Guinea' (2011).

its Papua and West Papua provinces seeking either asylum or temporary shelter.⁸⁰

Declining Australian Influence?

Although these continuing challenges may limit the material power and influence that PNG is actually able to harness from its opportunities, PNG appears to have the ideational belief that these opportunities have increased its power and influence. As a result, PNG is likely to be less susceptible to Australian influence. Indeed, the 2013 Australian Defence White Paper acknowledged that “attitudes to our role are changing” in the region, as “the growing reach of Asian nations opens up a wider range of external players for our neighbours to partner with”.⁸¹ Although Australia is PNG’s largest aid donor, investor, trading partner and source of tourism, as well as security guarantor, this “does not buy Australia more than a very limited, and changeable, influence over Papua New Guinea’s security policies”.⁸²

The first example of Australia’s declining influence in PNG was the February 2004 bilateral Enhanced Cooperation Program (ECP). The ECP involved the insertion of 230 Australian police advisers into the Royal Papua New Guinea Constabulary (RPNGC) and Australian public servants seconded into government agencies. Although the ECP was perceived to be improving local security, it was resented by certain political leaders and Australia had to withdraw its police in May 2005, after the constitutionality of arrangements that gave Australian police immunity were successfully challenged. This left PNG with forty-four advisers who continued to work in treasury, finance, planning, transport, customs, and law and justice.

PNG’s reaction to the ECP, as well as the broader South Pacific’s response to Australia’s “new interventionism” in the region,⁸³ motivated a shift in Australia’s approach, signalled in the *Port Moresby Declaration* delivered by then Prime Minister Kevin Rudd on 6 March 2008.⁸⁴ In an effort to distinguish itself from the previous government, the Rudd Government’s Declaration claimed to signal that the government wanted a “new era of cooperation” with PNG and other South Pacific states that respected their independence and worked with them “on the basis of partnership, mutual respect and mutual responsibility”.⁸⁵ Reflecting the new approach, Australia

⁸⁰ May, ‘Papua New Guinea: Issues of External and Internal Security’.

⁸¹ Commonwealth of Australia, *Defence White Paper 2013*, p. 15.

⁸² May, ‘Papua New Guinea: Issues of External and Internal Security’, p. 59.

⁸³ Sinclair Dinnen, *Lending a Fist? Australia’s New Interventionism in the Southwest Pacific*, SSGM Discussion Paper 2004/5 (Canberra: ANU Research School of Pacific and Asian Studies, State, Society and Governance in Melanesia Program, 2004).

⁸⁴ Department of Foreign Affairs and Trade, ‘Port Moresby Declaration’, 2013, <<http://aid.dfat.gov.au/countries/pacific/Pages/Port-Moresby-Declaration.aspx>> [Accessed 24 January 2014].

⁸⁵ *Ibid.*

entered into bilateral *Pacific Partnerships for Development*⁸⁶ with PNG and other South Pacific states. In 2008 the ECP was also renamed the *Strongim Gavman* (Strong Government) Program, which provided for greater consultation with PNG and new arrangements to enable Australian police to serve as advisers. 2008 also saw the inauguration of the PNG-Australia Policing Partnership. This Partnership initially focused on designing programs to improve the performance of the RPNGC, but evolved to include the deployment of fifty Australian police in late 2013. While the Australian police are not empowered to exercise direct policing powers, they accompany RPNGC officers on their patrols and provide assistance with respect to issues such as: community policing; station management and supervision; community liaison; traffic operations; criminal investigations; and dealing with sexual offences.⁸⁷

Australia's declining influence is also evident with respect to trade policy. Since August 2009, Australia has been attempting to finalise negotiations on the PACER-Plus (Pacific Agreement on Closer Economic Relations-Plus) free trade agreement between itself, New Zealand and the independent South Pacific islands. PNG and the other island states have instead prioritised their negotiations with the European Union on an Economic Partnership Agreement to replace the *Lome Convention*, an aid and trade agreement between the European Community and South Pacific, African and Caribbean countries. Although a regional Economic Partnership Agreement has not been agreed, PNG and Fiji have entered into bilateral agreements with the European Union, and PNG has offered to host and fund a new secretariat to convene leaders' meetings under the future regional agreement.⁸⁸

Australia's declining influence is also evident with respect to the visa rules governing the entry of Australians into PNG. Papua New Guineans travelling to Australia have to apply for a visa in advance, which has been a source of tension in the relationship, as Australians could obtain a visa on arrival in PNG. In February 2014, PNG ruled that Australians have to apply for a visa in advance of their travel. Although the decision to implement this change was made by the Papua New Guinea Executive Council in December 2013, the government delayed implementing the change until February, apparently to give Australia the opportunity to rethink its refusal to

⁸⁶ Department of Foreign Affairs and Trade, 'Pacific Partnerships for Development', 2008, <<http://www.aid.dfat.gov.au/countries/pacific/partnership/Pages/default.aspx>> [Accessed 24 January 2014].

⁸⁷ Australian Federal Police, 'Media Release: Australian Federal Police officers arrive to work alongside Royal Papua New Guinea Constabulary', 5 November 2013, <<http://www.afp.gov.au/media-centre/news/afp/2013/november/australian-federal-police-officers-arrive-to-work-alongside-royal-papua-new-guinea-constabulary.aspx?source=rss>> [accessed 24 April 2014].

⁸⁸ Maclellan, 'The Region in Review: International Issues and Events, 2012'.

provide a visa-on-arrival facility for Papua New Guineans travelling to Australia, which it did not.⁸⁹ The fact that PNG felt sufficiently empowered in its relationship with Australia to make this move is another indication of Australia's declining influence.

As Australia's influence over PNG has declined, Australia appears to have gradually realised that it must now approach PNG as a partner, rather than a client, and has recalibrated its approach. The *Port Moresby Declaration* was the first signal of this recalibration. Recent moves that have built on the Declaration include the *Joint Declaration for a New Papua New Guinea—Australia Partnership* signed by the prime ministers of both countries on 10 May 2013, which in turn builds on the 1987 *Joint Declaration of Principles*. According to the Joint Declaration the two states commit to their relationship “as equals to each other as among our most important partners”. Australia has consequently made moves to deepen its economic partnership with PNG. At the 2012 Papua New Guinea-Australia Ministerial Forum, the two governments agreed on the text of an *Australia-Papua New Guinea Economic Cooperation Treaty*, which deals with trade, investment and labour mobility. The Treaty was later signed during Australian Prime Minister Tony Abbott's visit to PNG in March 2014. During that visit it was also announced that the two state's leaders will have annual meetings. Australia and PNG also held the first Defence Ministers' Meeting on 10 December 2013, at which they agreed to establish an annual security dialogue between the two countries and to expand Australia's Defence Cooperation Program with PNG, which is already Australia's largest with any country.⁹⁰

Case Study: the Regional Resettlement Arrangement

The starkest example of Australia's declining influence in PNG are the circumstances surrounding the arrangements to process, and possibly resettle, in PNG people who travel by boat to seek asylum in Australia. It should be noted that the legal, political, social, economic and security challenges raised by these arrangements for PNG are numerous and beyond the scope of this article.⁹¹

⁸⁹ Annmaree O'Keeffe, 'In Visa Stoush, PNG Only Hurts Itself', *Lowy Interpreter*, 27 February 2014, <<http://www.lowyinterpreter.org/post/2014/02/27/In-visa-stoush-PNG-only-hurts-itself.aspx>> [Accessed 27 March 2014].

⁹⁰ Julie Bishop, 'The 22nd Papua New Guinea-Australia Ministerial Forum: Communique', Parliament House, Canberra, 11 December 2013.

⁹¹ They have been comprehensively outlined elsewhere. See: Sue Harris-Rimmer, 'The Top 10 Mistakes in the PNG Solution', *The Drum*, 24 July 2013, <<http://www.abc.net.au/news/2013-07-24/harris-rimmer-the-top-10-mistakes-in-rudds-png-solution/483858>> [Accessed 11 March 2014]; Victoria Stead, 'Rudd's Hard-line Approach Will Be Disastrous', *The Age*, 22 July 2013; Jenny Hayward-Jones, 'Australia's Asylum-seeker Obsession Risks Damaging PNG Relations', *The*

These arrangements have their antecedents in the ‘Pacific Solution’, implemented under the John Howard-led Australian Government in 2001. This policy introduced the processing of asylum seekers in PNG and Nauru (it ended in 2008). In exchange, Australia made no additional development assistance payments to PNG. However, the request by Australia was put to PNG at the same meeting at which the two governments were discussing the provision of AUD \$20 million of Australian assistance for the reform of the PNGDF, which may have had some influence over PNG’s decision to accede to Australia’s request.⁹² Other purported benefits included: improvements to the Lobrum naval base, where asylum seekers were processed; Australian-funded infrastructure improvements to service the processing centre; and the fast-tracking of Australian aid projects.⁹³

The *Regional Resettlement Arrangement between Australia and Papua New Guinea* agreed on 19 July 2013,⁹⁴ represents the shifting dynamics of the relationship. Under the Arrangement any “unauthorised maritime arrival entering Australian water” will be transferred to PNG’s Manus Island Regional Processing Centre for processing and resettlement in PNG “and in any other participating regional, including Pacific Island, states”. Australia undertook to “provide support, through a service provider, to any refugees who are resettled”. Although the Australian media has portrayed the Arrangement as having been imposed on PNG, it has been claimed that O’Neill actually approached Rudd with the proposal, which is a sharp contrast to the approach in 2001.⁹⁵ In another important contrast to 2001, in exchange for processing and resettling asylum seekers, O’Neill demanded—and received—a total re-alignment of Australia’s aid program to support his government’s priorities.⁹⁶ Although the Australian Government had very strong domestic political motivations for acceding to this demand, the fact that PNG felt empowered to make it, and that Australia agreed to it, suggests that Australia’s influence over PNG is declining.

Interpreter, 6 March 2014, <<http://www.lowyinterpreter.org/post/2014/03/06/Australia-asylum-seekers-PNG-relations.aspx>> [Accessed 11 March 2014].

⁹² Senate Select Committee on a Certain Maritime Incident, *A Certain Maritime Incident Majority Report* (Canberra: Parliament of Australia, 2002), para. 10.45-10.46.

⁹³ *Ibid.*, para. 10.54-10.55.

⁹⁴ *A Memorandum of Understanding between the Government of the Independent State of Papua New Guinea and the Government of Australia, relating to the transfer to, and assessment and settlement in, Papua New Guinea of certain persons, and related issues*, was then agreed on 6 August 2013.

⁹⁵ Deni ToKunai, ‘Asylum Deal a Nightmare for PNG and Australia’, *The Interpreter*, 24 July 2013, <<http://www.lowyinterpreter.org/post/2013/07/24/Asylum-deal-a-nightmare-for-PNG-and-Australia.aspx>> [Accessed 21 March 2014].

⁹⁶ ‘PNG PM Calls for Re-alignment of Australian Aid’, *Radio Australia*, 30 November 2012, <<http://www.radioaustralia.net.au/international/radio/program/pacific-beat/png-pm-calls-for-realignment-of-australian-aid/10544688>> [Accessed 1 April 2014].

In accordance with O'Neill's demand, on the same day that the Arrangement was signed, the two countries also agreed on a *Joint Understanding between Australia and Papua New Guinea on further bilateral cooperation on health, education and law and order*. According to the Joint Understanding, Australia agreed to provide an extra AUD \$420 million of development assistance to PNG,⁹⁷ on top of the projected \$507.2 million in development assistance budgeted for PNG in 2013-2014, which includes expenditure on:

- health: rebuilding Lae hospital (\$207 million over four years);
- education: rehabilitating the University of Papua New Guinea (\$62 million over four years);
- justice: deployments to the Department of Corrections and the Royal PNG Constabulary (\$19 million over four years);
- transport: scoping of the Madang-Ramu highway (\$0.8 million over four years); and
- law and order: deployment of fifty Australian Federal Police officers for advisory and mentoring roles (under the PNG-Australia Policing Partnership) (\$132 million).⁹⁸

Australia's capacity to exercise significant influence over how these projects are conducted has been questioned.⁹⁹ For example, Australia had previously provided significant aid to advise the Government of PNG on its plan to create a sovereign wealth fund. While PNG legislated to create the fund in 2012,¹⁰⁰ the government recently announced that, rather than invest the proceeds of the LNG project in the fund, it will use them to make repayments on the loan it obtained from UBS. Another part of Australia's aid program involved funding medical supplies. PNG ignored Australia's condition that it should obtain the medicines from an internationally-certified company, and instead selected a non-certified company, leading Australia to

⁹⁷ Chris Bowen and Penny Wong, *Economic Statement* (Canberra: Commonwealth of Australia, August 2013).

⁹⁸ Bob Carr, 'Australia's International Development Assistance Program 2013-14, Effective Aid: Helping the World's Poor', Statement by Senator the Hon Bob Carr, Minister for Foreign Affairs, 14 May 2013, <<http://aid.dfat.gov.au/Publications/web/australias-international-development-assistance-program-2013-14/Pages/home.aspx>> [Accessed 1 April 2014].

⁹⁹ Stephen Howes, 'There's a Price To Pay for Our Indebtedness to PNG', *The Australian*, 21 March 2014.

¹⁰⁰ Department of Treasury, 'A Sovereign Wealth Fund for all PNG: Information on Sovereign Wealth Fund of Papua New Guinea', <www.treasury.gov.pg/public_debt/files/2013/swf/png.swf_public.info_22_Feb_2013.pdf> [Accessed 4 April 2014].

withdraw its support. Similarly, the Joint Understanding states that Australia will rehabilitate the University of PNG. Australia's further offer to match PNG support to reform the University and others in PNG has been ignored by the Government of PNG.¹⁰¹

More recently, PNG's increased assertiveness in the relationship is evidenced by its approach to resettling refugees. When the Arrangement was agreed in July 2013, Rudd made several announcements indicating his understanding that most people found to be refugees would be resettled in PNG.¹⁰² This belief was shared by Abbott, who declared in February 2014 that the plan that refugees would be resettled in PNG "is still very much available and Prime Minister Peter O'Neill has reassured me repeatedly that the same deal that was on offer to the former government remains on offer".¹⁰³ However, in March 2014 O'Neill contradicted both Rudd and Abbott, as he announced that he believed that a "good majority" of people processed at Manus Island were not "genuine refugees" and that PNG will only resettle "some" of the people whose claims are recognised, as other countries in the region should "carry the same burden as we do".¹⁰⁴ O'Neill recanted that statement in April 2014, and agreed that PNG will resettle all asylum seekers who are found to be refugees,¹⁰⁵ suggesting that Australia retains some influence over PNG. However, the fact that he initially felt empowered to openly contradict two Australian prime ministers suggests a growing degree of confidence in PNG's attitude to its relationship to Australia. Moreover, although O'Neill has a strong majority, there is also no guarantee that his undertaking will be supported by the PNG parliament when the relevant enabling legislation is introduced.

The circumstances surrounding the Arrangement exemplify how PNG has interpreted its increased opportunities as enhancing its power and influence in its relationship with Australia. As a result, PNG now appears to believe that it no longer necessarily needs to comply with the conditions that Australia places on its development assistance, which has seen Australia's massive aid program directed away from Australia's preferred governance and public sector management issues towards the Government of PNG's preferred infrastructure projects.

¹⁰¹ Howes, 'There's a Price To Pay for Our Indebtedness to PNG'.

¹⁰² Bianca Hall and Jonathan Swan, 'Kevin Rudd to Send Asylum Seekers who Arrive by Boat to Papua New Guinea', *Sydney Morning Herald*, 19 July 2013.

¹⁰³ Quoted in Michelle Grattan, 'PNG "Mateship" on Asylum Seekers No Substitute for Rigorous Policy and Decent Conditions', *The Conversation*, 23 March 2014, <<http://theconversation.com/png-mateship-on-asylum-seekers-no-substitute-for-rigorous-policy-and-decent-conditions-24701>> [Accessed 26 March 2014].

¹⁰⁴ Quoted in Michael Gordon, 'Future of Manus Island Asylum Seekers Unclear as Peter O'Neill Says Most Are Not 'Genuine Refugees'', *Sydney Morning Herald*, 21 March 2014.

¹⁰⁵ Sarah Whyte, 'About-turn as PNG will Resettle Refugees and AFP Offers Help', *Sydney Morning Herald*, 4 April 2014.

Conclusion

In conclusion, it appears that PNG has interpreted its geopolitical, regional and economic opportunities as having enhanced both its material and ideational power and influence with respect to Australia, which have led to a consequent decline in Australia's influence. This is not to say that Australia has no influence; Australia remains PNG's largest aid, trade and investment partner, as well as its security guarantor. In the event of future instability or crisis, the depth of the historical relationship means that Australia will be the partner to which PNG first looks. Instead, this article argues that Australia may find itself with less influence over the shape of its future relationship with PNG. This shift would probably be a welcome change for PNG, which is increasingly able to act as a partner of Australia, rather than its client. Given the opportunities available to PNG, and to other South Pacific states, Australia seems to have little choice but to recognise that these states now perceive themselves as an 'arc of opportunity', rather than as an 'arc of instability'.¹⁰⁶

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¹⁰⁶ Joanne Wallis, 'The Pacific: from "Arc of Instability" to "Arc of Responsibility" and then to "Arc of Opportunity"?' *Security Challenges*, vol. 8, no. 4 (2012), pp. 1-12.