

Chair
External Relations and Defence Committee

PACIFIC ISLAND FORUM COUNTRIES: NZ POLICY ON AID, TRADE AND ECONOMIC DEVELOPMENT: OVERVIEW PAPER

Proposal

This overview paper is intended to provide Ministers with political context and some broader strategic rationale for two papers that will be presented to Cabinet:

- a paper recommending the reintegration of NZAID into MFAT; and
- a second paper relating to our objectives and strategy for New Zealand's substantial (and growing) official development assistance.

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Our trade policy has, in recent years, become increasingly divorced from the realities of these tiny island States.

Background

3 Prior to becoming Government, in a variety of speeches and strategy papers, we identified the need for new thinking in New Zealand's approach to the Pacific.

4 but it is clear the region is going sideways economically, and, in some cases, backwards politically.

5 Australian and NZ troops or police are providing security in three States. We appear to be at an impasse with Fiji on the most fundamental political/constitutional question of all.

6 We had also indicated in Opposition our determination to review the status of our development assistance agency, a 'semi-autonomous' agency within MFAT. Not only was there legitimate reason to be concerned about the coherence of our ODA policy with our foreign and trade policies; the Auditor General had also issued a series of concerns regarding inadequate financial management and confused accountability.

7 Our concerns were not simply about institutional arrangements. We also indicated clearly:

- The need for even more concentration on the Pacific (currently some 53% of our total ODA); and
- The need to go beyond the UN-derived mandate of 'poverty elimination' as the foundation stone for delivering effective development assistance to the Pacific. They need jobs, help with exporting and basic economic development infrastructure.

Alignment with Australia

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Development Assistance

10 We have at our disposal some \$466 million (2008/09) which will rise to \$600 million in 2012/13. Ministers should note that this implies acceptance of the significant increases in aid, but over a slightly longer time frame.

11 However, headline amounts of ODA are one thing. As in Australia, we need to ask some fundamental questions about the efficacy of our official development assistance.

12 We propose to change, at least with respect to the Pacific, the objective of our development assistance from 'poverty elimination' to sustainable economic development. This will involve new approaches to working with weak private sector institutions in the Pacific.

13 Far too much has been channelled into bureaucracies, under the rubric of 'improving governance'. These States are certainly weak. But yet further growth of bureaucracy is not the answer.

14 A recalibration of our ODA will not be easy to achieve and radical departures are out of the question. Many traditional ODA objectives and channels of assistance will continue – the emphasis on improving public health (HIV for example) will, for example, remain.

15 Reintegration of NZAID is an essential step to aligning delivery with objectives and improving financial management and accountability. But the real challenge is typical of all change management. It is cultural: how do we get our people in the field, fully committed as they are to advancing the welfare of the people of the South Pacific, to think in terms of creating private sector led economic development? One model may be helpful: the new generation of Maori business people who are building wealth creation on the back of substantial Maori asset ownership.

Trade Policy

16 We are not ready to take to Cabinet a considered mandate for future trade policy towards the Pacific. However, Ministers should be aware of the strategic direction we have in mind, as they consider the future of development assistance.

17 In every other context, trade policy starts by putting the interests of NZ exporters first and aggressively so. In the Pacific, it is different. Here, our policy approach should start by putting our political/people to people relationships first. In some cases – Tonga, Samoa, Cooks for example – they are part of us. An increasingly ‘purist’ trade policy agenda has emerged over recent years

19 We do have export interests in the region. In 2008 some NZ\$1.26 billion (2.9% of total New Zealand merchandise exports) were earned from exports to the Forum Island countries. There is therefore a bottom line here: neither we nor the Australians could ever accept that our exporters were placed at a relative disadvantage to any other third party’s exporters. In practice, this is easily avoided.

20 A meeting in Auckland is planned for late April of all the Forum Island countries (including Fiji) and the Australian and New Zealand Trade Ministers. This may prepare the ground for a decision by Forum Heads of Government to launch a new comprehensive trade agreement. Cabinet will be presented with a paper seeking a mandate for the Auckland meeting.

Communications Strategy

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Our ideas do not fit comfortably into a ‘left’ v. ‘right’ framework. The direction on trade policy is consistent with long-standing concern of institutions such as Oxfam, who do excellent work in the region.

22 By contrast, most NZ lobbies, often based in Church groups, will be unsure, and probably uncomfortable, with our departure from UN-centric language on 'poverty elimination'. Our interest in promoting private sector led development will be viewed with suspicion.

24 We should be clear about one thing: present policy directions are not advancing the interests of the Pacific region and we should not be deterred by such considerations. Nevertheless, as the two Ministers most directly involved, we will seek to engage in a dialogue with stakeholders.

Recommendations

25 We recommend that Cabinet:

- i) **Note** this report.

Hon Murray McCully
Minister of Foreign Affairs

Hon Tim Groser
Minister of Trade