

## **The Impact of Globalization on Small Island Developing Economies: A PNG Perspective**

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### **Abstract**

This article provides a critical examination into the impact of economic globalization in Papua New Guinea's political economy as one of the small developing economies in the Pacific region. The study employed an international political economic analysis applying a neo-liberalism approach of the neo-classical liberalism of classical economic liberalism school of thought. Study was premised on the question: to what extent does globalization affect small island economies in the Pacific region? From the analysis it can be concluded that economic globalization has both positive and negative impacts on the economy. Therefore in order to maximize opportunities and minimize consequences brought about by globalization, state's intervention is absolutely necessary.

**Key words:** globalization, economic globalization, neo-liberalism, economic security, and economic liberalization

### **Introduction**

This study is a critical examination of the impact of globalization, especially economic globalization, on small developing economies in the Pacific Island countries using Papua New Guinea (PNG) as a case study. Recently globalization has emerged as one of the most debatable issues in international relations scholarship in the region. PNG as a geo-strategic Melanesian state within the Pacific region is one of the smallest and most vulnerable economies in regional geopolitics and is not immune to the impact of globalization. As PNG is going through this process of economic reform in the Platinum Age it is widely believed that it stands the chance of benefiting through further regional economic integration.

However evidence suggests otherwise; that although globalization poses a positive impact within the region it is argued that PNG is not immune to its negative impacts. Through the lens of neo-liberalism, its implications form the fundamental premise of the argument that its geo-political configuration in size and remoteness compounded with a lack of capacity make it more vulnerable to imperialism hegemony, thus posing potential or possible threats to economic security. It is clear that as economic globalization intensifies and deepens the scope of economic and trade liberalization, PNG may possibly observe a massive economic growth through free access to global markets and economic reforms such as privatization, whilst simultaneously risking a high magnitude

of exploitation of multipolar hegemony, illicit trade and human capital brain drain.

The study supports the hypothesis that 'globalization affects small and vulnerable economies in the Pacific region. Although globalization brought in a colossal window of opportunities through economic liberalization to small island economies, Pacific Island nations are not immune to its negative impacts'. The hypothesis therefore is premised on this fundamental question: *To what extent does globalization affect small island economies in the Pacific region?*

International political economic discourse on the impact of globalization has evolved after the end of Cold War. Most scholars of International Political Economics focus much of their work on developed countries. It is only recently that similar interest in developing countries has gain momentum (Binh, 2001:10). However it appears that most of these studies were concentrated in South America, Africa, recently Asia and lately, a few in the Pacific. Peter Lamour (1998), Abigal Makim (2002) Stephen Howes and Nikunj Soni (2001) and others have at least provided some critical analytical discourse in the Pacific but were more generally heterogeneous in nature. Robertson qualifies this statement that 'one consequence, of course is that many academics focus on Australia's hegemonic role in the Pacific'. This creates a huge gap in academic discourse in the study of International Political Economics of Pacific Island countries (Robertson, 2007:3).

Thus, there is a need to adequately research into this new and exciting field of study. Hence the purpose of this study is threefold: to fill in the literature gap, provide a platform for future research and provide policy options for policy makers.

### **Statement of the problem**

The impact of globalization on small developing economies in the Pacific region is inevitable. As globalization deepens and intensifies the scope of economies, vulnerable small economies will be affected, whilst at the same time benefiting from its immense benefits.

### **Aims and objectives**

The aim of this research is to critically examine the impact of globalization, in particular economic globalization, on small developing island economies of Pacific Island countries, focusing on economic security through the lens of neo-liberalism. The framework of this research is premised on these following main objectives:

- To identify positive and negative effects of economic globalization
- To identify future trends in globalization and security in PNG
- To provide effective strategic policies or direction on how best to maximize and minimize the impact of globalization in the economy

## **Methodology**

The study employed an international political economic analysis applying a neoliberalism approach of the neo-classical liberalism of classical economic liberalism school of thought. Methods employed to collate data involved a desktop analysis through literature review and internet search. Relevant literatures relating to globalization in developing countries, Pacific Island countries and PNG were approached using internet and library. Sources were journals, books, newspapers, reports and scholarly articles.

## **Study sampling or unit**

Since economic globalization is a multi-faceted concept within globalization epistemology, which transcends multidiscipline effects three cases were understudied: privatization, trade and labour migration. In privatization, the focus is on telecommunications, whilst trade focused on regional agreements /unfair trade regimes and illicit trade. Labour migration is centered on brain drain, poor labour standards and spread of preventable disease. The aim therefore is to do a post mortem of its effects on economic security of the state.

## **Theoretical approaches and key concepts**

The study is an International Political Economics perspective on the discourse of the impact of globalization premised on the neo-liberalism school of economics. The epistemology of neo-liberalism provides a lens through which the ontology of globalization can be enquired, explored and exploited. Although Marxism seeks to epitomize this analogy, neo-liberalism seems to be the alternative model of international political economy in approaching the scholarly debate of globalization, because of its connotation with the notion of globalization, in particular economic globalization.

Neo-liberalism and globalization are considered to be intertwined. However, they are each distinctive in nature and scope. Perhaps 'one of the signal triumphs of neo-liberalism as a contemporary ideology has been the appropriation of "globalization" as a process denoting the universal, boundless and irreversible spread of market imperatives in the reproduction of states and societies across the world' (Wikipedia, 2009:1).

Since globalization is a general concept, I wish to narrow it down to economic globalization in order to synchronize its interrelationship with neo-liberalism and globalization, hence a focused study. The aim of this part therefore, is to provide an overview of neo-liberalism and further define economic globalization and economic security concepts as they underpin the theoretical framework of this research and analysis. A brief overview will synthesize the clusters of theoretical paradigms.

### **Neo-liberalism**

Neo-liberalism is rooted in neo-classical liberalism of classical economic liberalism. It was founded in 1938 by the distinguished German sociologist and economist, Alexander Rustow, one of the fathers of social market economy. It is a redefinition of classical liberalism, influenced by the neoclassical theories of school of development economics (Wikipedia, 2009:2).

Neo-liberalism is distinguished from international relations and economics. In international relations, it refers to a school of thought, which believes that nation-states are, or at least should be, concerned first and foremost with absolute gains rather than relative gains to other nation-states. It can be misunderstood with its economical ideology, although both used some common methodology such as game theory.

In its general paradigmology, neo-liberalism as a school of thought in international political economics refers to an attempt by the state to transfer part of the control of the economy from the public to the private sector, with a strong belief that it will produce a more efficient government and improve the economic indicators of the nation. This ideology was further consolidated by the ten points of John Williamson's 'Washington Consensus':

1. Fiscal policy discipline
2. Redirection of public spending from subsidies, especially indiscriminate subsidies toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment
3. Tax reform – broadening the tax base and adopting moderate marginal tax rates
4. Interest rates that are market determined and positive (but moderate) in real terms
5. Competitive exchange rates
6. Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by law and relatively uniform tariffs
7. Liberalization of inward foreign direct investment
8. Privatization of state enterprises
9. Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions
10. Legal security for property rights.

Over the decades, many countries have adopted a neo-liberalism approach in their political economic system, such as Carl Bildt's economic reform in Scandinavian countries (Wikipedia, 2009:3).

## **Economic globalization**

There are many definitions of globalization. These definitions vary contextually, but all of which attempt to constitute its meaning. However, Stewart Firth's (2005) definition seems to be appropriate:

Globalization in its broadest sense describes a shrinking of the globe. People, cultures, fashions, companies and economies increasingly connect to one another across national borders and vast distances that previously separated them.

For the purpose of this study in economic globalization Firth's definition will be used.

*Globalization* will mean intensified economic transactions across national borders in the form of trade, investment, migration and labour mobility. This is the kind of globalization created by the neo-liberal economic policies adopted by governments and international organizations over the last quarter century, and it comes in the form of free trade rather than protection and subsidization, privatization rather than public ownership, smaller rather than larger public sectors, taxing consumption more than income, and putting out the welcome mat to foreign investors – in short, fashioning open national economies that are integrated more fully than ever into the global economy'

(Firth, 2005: 1)

Economic globalization and neo-liberalism are intertwined and thus have a common relationship within the field of economics and international political economy. In international political economy it is generally defined as a 'history of increasing trade between nations based on stable institutions that allow individuals and firms in different nations to exchange goods with minimal friction' (Binh, 2001:11).

## **Economic security**

The traditional concept of economic security has been eroded by globalization. As globalization intensified, its meaning is redefined. Economic security is an important policy of any states. Economic instruments have been used as a toolkit of statecraft, as a means to influence other states and their policies (Hirschman, 1980; Baldwin, 1995; in Miles Kahler, 2005). Economic security in a traditional view, according to Kahler (2005:25), is a security from manipulation by other governments that wielded these instruments. Insecurity in this sense was vulnerability to other states. More so, dependence to other states was their vulnerability, especially developing countries. The erosion of traditional economic security as a result of globalization associated with new security risks and challenges to national security and wellbeing has compelled its redefinition.

As economic globalization opened up economies, insecurity and vulnerability is also changing its landscape. Economic integration and interdependence means vulnerable economies in developing countries have to open up their economies to the outside world. However, the more intense the process is, economic shocks and volatile environments associated with illicit border trade, terror attacks (September 9/11 Terror attack on US) and the spread of curable diseases (SARS), are calculated (Kahler, 2005:27).

### **How PNG perceives globalization**

Globalization is neither a new nor an old concept in PNG. It existed during pre-historical ontology dating back to when the conventional economic barter trading system was established. However, the terminology itself was not widely used in PNG. In most cases the terminology of globalization is often misconstrued by most people with modernization and or internationalization, and associated terminologies such as regionalism or integration as demonstrated in academic journals. Only a few modern thinkers attempt to contextualize it in the current post-modernism of academic discourse. The fact that globalization is a phenomenon that is here to stay is perceived by most people as 'foreignerism' terminology in their everyday usage.

Globalization literature was eminent in western scholastic regimes, but only recently in Pacific Island countries and PNG. A literature post-mortem of globalization suggests PNG could be one of the last frontiers in conceiving its epistemology. Few scholars and readers in PNG have made attempts to define globalization. Two examples are my scholarly article, 'The role of state in development in the context of globalization' (Hualupmomi, 2008a) and 'Melanesia in a global community' (Laki, 2001).

In his article, Hualupmomi provided a post-mortem of the impact of globalization focusing on globalization and development. He adopted World System Theory by Wallenstein, to define globalization in the PNG context as the process of going to a more interconnected world or the process of making world economy dominated by capitalist models. More precisely globalization refers to increasing global connectivity, integration and interdependence in the economic, social, technological, cultural, political, and ecological spheres (Hualupmomi 2008a).

Laki on the other spectrum described how Melanesia, which includes PNG, could integrate itself into the global economy through the process or wave of globalization. Others have attempted to advocate this phenomenon for public consumerism and awareness. One such person is the Prime Minister of Papua New Guinea, Sir Michael Somare, who declared that the effects of climate change were a result of globalization (*The National*, March 2009:2).

The impact of globalization appears to have been taking precedence slowly in the wider spectrum of academia. New emerging cross-cutting issues such as global warming, financial crises, curable diseases, trans-national crimes, have evolved applying new modern sophisticated technologies in illicit activities.

These events have dramatically awakened policy makers, scholars and the public to be self-conscious of the modernization agenda rapidly driven by science and technology.

Scholars in PNG, having realized the increasing significance of globalization, have redirected much of their focus of study into understanding its dynamics to provide constructive policy platforms for the state to deal with it. The journey of enquiring and exploring globalization orthodoxy has just begun and will become a fundamental theme in national development.

### **Impacts of globalization on economic security**

Economic reforms began soon after the financial crises in 1920s and 70s and the collapse of the Bretton Woods System in the late 1990s (Dammasch, 2007). These chronological events significantly compel global powers to strategically reform the global economy in order to strengthen the system and prevent further crises. As a result a new strategic approach called the 'Washington Consensus' was developed. Interestingly, economic liberalization, one that is premised on neo-liberalism, was the driving theme in this new modernized global economy. Among the key strategies were privatization and trade liberalization. This strategic package was ultimately aimed at developing countries to enhance economic security. PNG adopted the economic reform in the late mid 1997, for example, the land reform under the banner of the Structural Adjustment Program. The land reform, however, was rescinded as a result of university students' unrest in 2001. Although these strategies played an important role in transforming the economy, there appears to be some positive and negative implications.

The Washington Consensus Package contains numerous salient strategies in economic reform ([wikipedia.org/wiki/Washington\\_Consensus](http://wikipedia.org/wiki/Washington_Consensus)). However, for this study's sake I wish to limit my focus on three main key areas: privatization, trade relations and labour migration. emphases are stressed entirely on its impact, especially factors that contribute towards economic security.

### **Privatization**

Privatization or corporatization of all state-owned enterprises is a neo-liberalistic approach adopted by the Mekere-Pundari political regime in 2000 to restructure the PNG economy on the fringe of its collapse. In 2003, the Somare regime implemented the policy. As a result the telecommunication industry, water board, PNG Banking Corporation, Air Nuigini, ELCOM, PNG Harbours Board, POSF and 30 other small businesses were privatized. The rationale behind this strategic policy shift was to promote efficiency, effectiveness and greater competitiveness in the new globalized knowledge-based market economy. Boeha (2001) articulated well that the rationale behind this privatization was alluded to be part of the trade globalization, liberalization and structural adjustment package to increase exports and stimulate economic growth in PNG.

However, Boeha (2001) argues that the aim was to recover loans accumulated by PNG over the past 20 years. Foreign reserves were low at some K250 million, which is insufficient to service imports. Inflation went on a high note and the budget deficit was beyond control with a year end of 5 per cent GDP, whilst at the same time the Bank of PNG was ineffective as a result of political influence and interference in the public sector. The state-owned enterprises performed poorly and did not achieve the intended goals of the state. Dr Boeha noted that state-owned enterprises were a liability on government and owed business houses K200 million. The state-owned enterprises had failed to achieve social and financial returns of government capital investment. There was evidence of mismanagement and corruption. Tax payers' money was misused and hence was poorly managed and become unprofitable (Boeha, 2001:3) almost culminating in their collapse. This volatile environment prompted state intervention and economic reform.

PNG was technically rated as bankrupt and therefore the World Bank and International Monetary Fund were reluctant to negotiate for loans. Hence the only option was to accept economic reform as a condition from international financial institutions. This strategic economic policy shift, one would argue, has significantly transformed the economy at least to a moderate level. The economic benefits accrued were overwhelming as currently being enjoyed, for instance, recent AusAID statistics (2008) show that PNG in the last five years has seen an improvement in the economy with a growth rate of 4.1 per cent.

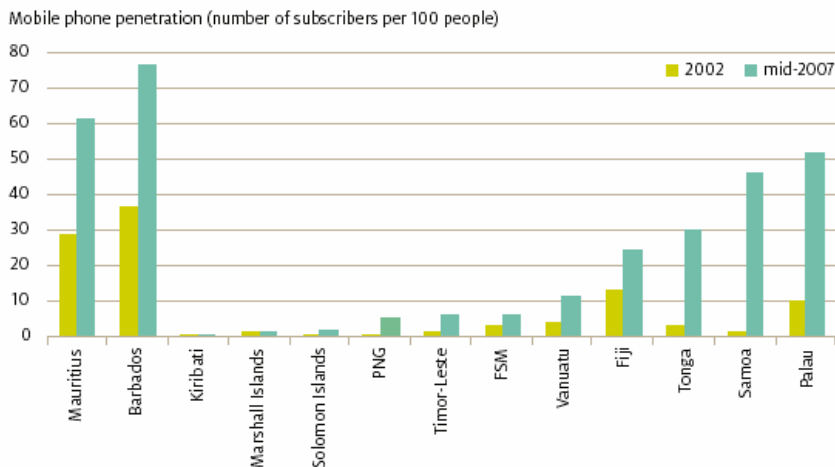
However, due to space limitations to explore privatization of all state-owned enterprises, I wish to illustrate telecommunication as a clear-cut case. In the telecommunication industry, the privatization of Postal and Telecommunication (PTC) into two new corporate entities, PNG Post and PNG Telikom, was a significant step undertaken by the state. In the absence of no control or political influence by the state, it makes them more vibrant and competitive. PNG Post is responsible for all postal services, whilst PNG Telikom is responsible for telecommunication services. As a result of the privatization of telecommunication in PNG there was more effective and efficient service delivery. Both entities were able to venture into business options to ensure competitiveness and sustainability. In general, both were able to monetize and recoup losses from the previous regime.

The state recently introduced an Information Communication Technology (ICT) policy, which strategically allowed for competition in telecommunication and the arrival of multi-national corporations. As a result, a new mobile company, Digicel, came into operation providing good competition for PNG Telikom. Services have become more affordable and efficient for general consumption. Rural communities can now access information, for instance, for market access to sell their products. Quality phones were sold at much cheaper prices than previously. Privatisation of telecommunications has been a success story for PNG.



The introduction of competition in mid-2007 led to a sharp increase in coverage and a doubling of mobile phone subscribers in a short period (see Figure 1, 2002-2007). The PNG Government has estimated that expanding mobile phone services in PNG — from Telikom and Digicel — has contributed around 0.7 percentage points to GDP growth in 2007. Research on privatization summarized in Guriev and Megginson (in Yala & Duncan, 2006) shows that substantial benefits accrue to lower income groups especially.

**Figure 1: Mobile phone penetration 2002-2007**



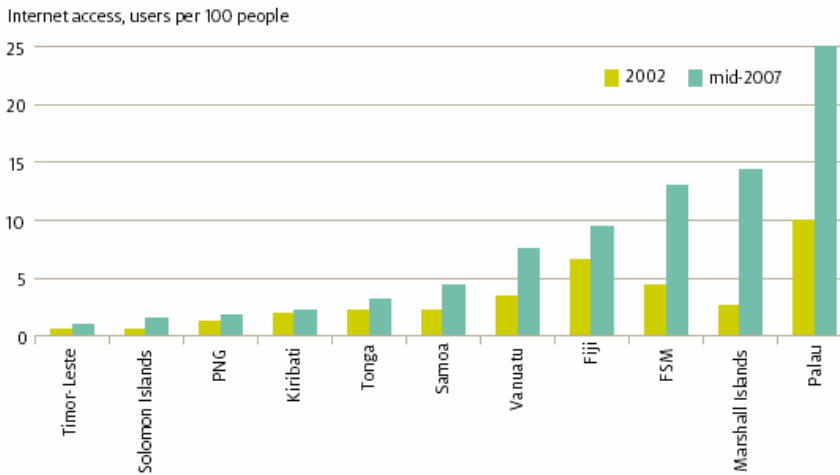
Source: Pacific Economic Survey, 2008:p. xviii

More so, Information and Communication Technology was also liberalized as a result of new policy. Access to the Internet has become more widely available at a moderate price due to competition (Figures 2 and 3). Economically, this new conducive environment created by the state encourages inward foreign direct investment and revenue generation, which stimulates economic growth.

### Implications

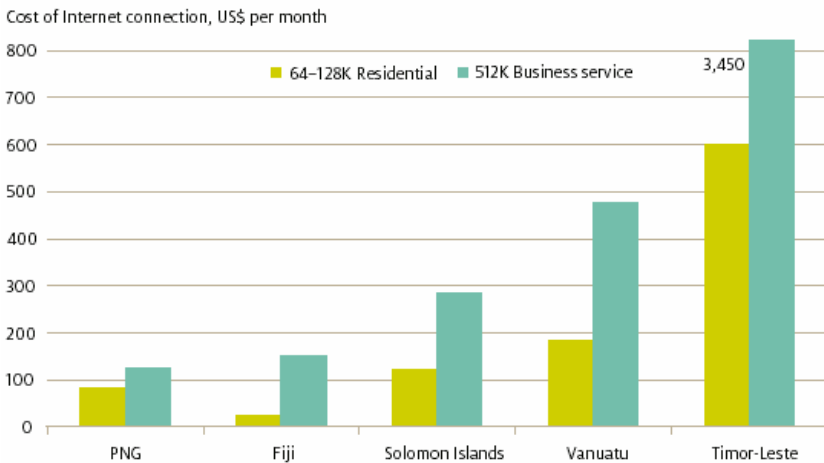
Although, the privatization of state owned enterprises is economically efficient, the effects are daunting. One of the most potential security risks associated with this reform is the arrival of giant multi-national companies which have the potential of killing home grown infant business organizations, a popular Marxist view of capitalist market economy. Evidence shows that in 2008 Telikom almost went into bankruptcy when competing with the giant Digicel which had the monetary power to devise effective and efficient strategies for competition. In addition, multi-national companies have the potential to infiltrate weak economies like PNG to influence policy and decisions of the state to expand their regimes.

**Figure 2: Access to the Internet – increasing from a low base**



Source: World Bank: 2008a

**Figure 3: Internet is cheaper in Pacific Island countries with competition (Fiji and PNG)**



Source: World Bank: 2008a

The other potential threat is the use of most sophisticated new innovative digital technological devices for criminal activities. It appears that criminals have now devised innovative strategic approaches to manipulate ICT in PNG to maximize their interests. Mobile phones or the internet can be used to plan and execute criminal activities often referred to as e-crime or cyber crime. Both of these can also be used to detect security codes and access confidential information deemed as classified national security. Hualupmomi (2008b) in his

article 'Is regional security viable?' noted that e-crime is a new evolving potential security threat in PNG. This trend is a serious national economic security concern, which has the potential to affect the national economy (Makim, 2002:2).

## **Trade**

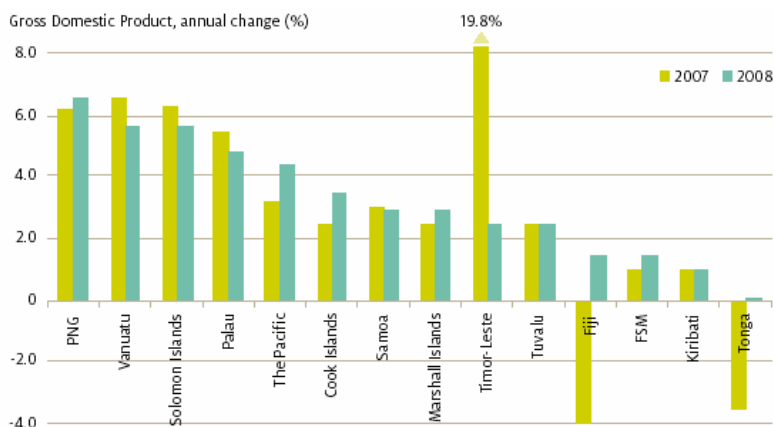
With economic liberalization in the 1990s, Pacific Island countries began opening up their economies through greater regional integration. This triggers the emergence of several economic blocs such as the Pacific Islands Forum, the Melanesian Spearhead Group and other smaller subsets. Economic and trade relations were further expanded and intensified through agreement pacts such as Pacific Island Countries Trade Agreement (PICTA), Pacific Agreement on Closer Economic Relations (PACER) and PNG and Australia Trade and Commercial Relations Agreement (PATCRA).

As economic globalization further deepens and intensifies the scope of regional economic and trade, Pacific Island countries began exploring beyond the regional bloc. Asian and European markets were sought. Simultaneously, several other pacts were signed by the island members such as Asia-Pacific Economic Cooperation (APEC), the European Union (EU) and others. This paves way for free trade zones to access markets in the global economy.

Imperatively, in an increasingly globalized capitalist economy, the regional economic integration provides the most strategic economic corridors for PNG to enhance economic and trade relations. PNG was a party in many pacts of economic cooperation. The advantages and benefits accrued by regional integration are exceptional. For instance, the Pacific Island Countries Trade Agreement is expected to lead to more jobs and lower import prices in the long term, as well as encouraging greater trade and investment and overall economic development. Other advantages expected to result from the free trade area are specialization and greater efficiency in Pacific economies.

For the Pacific economies, 'the principal benefits of the Pacific Agreement on Closer Economic Relations are expected to be derived from improved financial and technical assistance, as well as trade facilitation. For the developed economies of Australia and New Zealand, PACER grants an assurance that they will not be disadvantaged in Pacific Island markets if trade' (Inman, *ANZ Pacific Report*, 2003:4). This supports functionalism theory that globalization fosters unprecedented trade and financial liberalization and reduced poverty, whilst and at the same time increasing inequality. This forms the fundamental premise of my argument.

Since its open trade policy, PNG was able to see real economic growth in trade and services at 0.9 per cent in 2007 and was ranked 149th out of 160 countries largely due to declining exports of 3.4 per cent. Interestingly, looking at regional prospects the region's fastest growth is forecasted to be in PNG, at 6.6 per cent (Figure 4).

**Figure 4: Gross Domestic Product, annual change (%)**

Source: Pacific Economic Survey, 2008: xiv

PNG was able to access different niche markets and compete in the region, Europe and Asia. Papua New Guinea's manufacturers' exports enjoy a favourable preferential access to international markets.

Papua New Guinea's main destination markets are Australia (about a third of all exports in 2005), Japan, and China. Imports, which are primarily obtained from Australia (over 50 per cent) and Singapore, consist of such products as machinery and transport equipment, manufactured goods, food, fuels and chemicals.

(Papua New Guinea: A Trade Brief, 2008:1).

Unnecessary trade bottlenecks (protectionism) were removed such as tariffs, embargoes, custom duties, etc, thus creating a flexible favourable trading environment. For instance,

...its exports face a rest of the world weighted average applied tariff of a low 0.4 per cent and 79.8 per cent of its exports qualified for MFN zero duty status, reflecting very low barriers for its products, of which non-agricultural commodities make up the largest share.

(Papua New Guinea: A Trade Brief, 2008:1).

Moreover, new technological development facilitates foreign investment, enable capital transfers and ideas across borders which stimulate and accelerate economic growth. The Trade Brief on PNG indicates that PNG was rated 5th out of 125 countries on the 2007 Trade (Most Favoured Nation-MFN) Tariff Restrictiveness Index (TTRI) simply because it is much more open than that of an average East Asia and Pacific or low income country, both with respect to manufactured goods and to agriculture.

## Implications

With the impact of rapid economic globalization being driven by science and technology PNG is not immune to its consequences. PNG is one of the emerging developing economies in the Pacific that has the economic potential to advance in the global economy. However, its geographical location, poor infrastructural development and lack of technical capacity makes it more vulnerable in the process of economic globalization. These features impede economic development.

It appears that although PNG benefits from economic globalization, it is argued that it may lose a lot as a result of further integration. In terms of trade, PNG has been subsumed into structuralism or Gramscism hegemonic arrangements, especially with big powers such as Australia, New Zealand, the EU and Asia. Jane Kelsey (in Robertson, 2007:3) reconfirmed an 'us and them' attitude within the Forum. Her report, 'Big brothers behaving badly', rounded on Australia (and New Zealand) for bullying Pacific Island states during negotiations in 1999.

Moreover, PNG does not have the technical capacity to develop and produce quality products or outputs to compete in the knowledge-based economy largely driven by science and technology. This means Marxist peripheral states such as PNG will be seen as a yoyo of 'big boys' as argued by Amin that:

The Third World is becoming increasingly marginal in the world system, whether as a supplier of raw materials or as a market for exports from the centres and for the investment of capital'. He further argued that 'the industrialization of the periphery does not put an end to capitalist rise to the phenomenon of the control of technology, international finance, and of course media (and through them political control).

Amin, in South Commission Report, 1993:54

It seems that PNG is being forced into the trade agreements by major big players. Trade seems to be unfair in the current (post-colonialism) regime. Policies and decisions seem to be either directly or indirectly serve the interest of the 'big powers'. This undoubtedly exemplifies the neorealist view on the existence of conventional strategic foreign policy of neo-colonialism approach in PNG and Pacific as a whole. Robertson (2007) echoes William Sutherland point of donor pressure for stronger compliance from Pacific Islands. Their reform agenda in the 1990s has now become a push for regional integration and stronger compliance regimes. This was well articulated by Firth (2005:3) to consolidate the common argument that 'Australia has in fact established a kind of patron-client regionalism'.

For instance, in the 40<sup>th</sup> Pacific Islands Forum leaders meeting held in Cairns (5-6 August 2009) Pacific leaders announced that negotiations for a new trade agreement between Australia, New Zealand and the Pacific island countries (PACER-Plus) would be launched 'forthwith'. Most commentators argued that

this was a rush decision by Australia and New Zealand to push their own agenda. However, Pacific Island Forum members felt they were not ready for the trade agreement (Trade Justice Now! An update from the Pacific Network on Globalization July/August 2, 2009:1). According to populist view this would remind PNG of being theoretically subsumed into a conventional carrot and stick diplomacy. This line of thinking indicates that PNG is not ready and must it ensure that it gets a good proportion of any further trade liberalization. The implication of not mastering the equation in the level playing field would suggest selling its economic sovereignty thus fuelling poverty. A win-win situation is absolutely necessary to maintain a balance of power.

In addition, illicit trade is affecting the economy as far as national economic security is concern. There is increasing illicit trade in gun and drugs along PNG's borders. It was noted that a huge volume of drugs (marijuana/cannabis) grown in PNG were traded for guns along the PNG-Indonesia border, PNG-Tasman border and PNG-Solomon Islands border by imagined non-state actors. This supports a liberalist view that non-state actors exist to advance their interest thereby undermining state legitimacy.

Jeff Waters wrote that 'Australia's Torres Strait is ripe for smugglers' (*The National, Weekender*, Border Security 22, 2009:6). Also in 'A Special Report in Papua New Guinea: From Arrows to Assault Weapons' in the Southern Highlands, Gary Baki, Deputy Police Commissioner of PNG Royal Police Constabulary, also admitted that 'we don't have the ability to control our land borders'. The survey report (Alpers, 1999:58) found that firearms from Vietnam and the Philippines were being imported to the Southern Highlands without the vetting of the PNG Police, Defence Force or National Intelligence Organization. The illicit guns bought and hidden in the Southern Highlands Province have the potential to build up a mercenary-like military to revolt against the state if their demands are not meet. History has shown that this particular hub in PNG is a regular war-torn area causing civil crises and economic instability.

In addition to firearms, counterfeit and contraband products are transported from the Asian region to PNG markets. Illicit tobacco activities compete with existing tobacco selling entities; consequently evading tax, which supports the economy through tax revenue. Recently, Barry Wilson, the Manger for British American Tobacco (PNG) Ltd, reported in his annual report that counterfeit and contraband products had affected the company's annul profit and caused the loss of K4 billion (\$US1.5 billion). He noted that 'in 2008, about 330 billion cigarettes were illegally traded, which equates to 6 per cent of total world wide consumption. About K53.7 billion (\$US20 billion) was lost in tobacco taxes worldwide as a result of competition from counterfeit and contraband products'. The primary sources of illicit trade were from Indonesia and Myanmar (Burma) and others from China and Korea (*The National* 29 October, 2009:15). It sad to note that the negative aspects of trade globalization may hinder the current economic boom experienced by PNG and will continue to marginalize and cause inequality if they are not addressed adequately by the state.

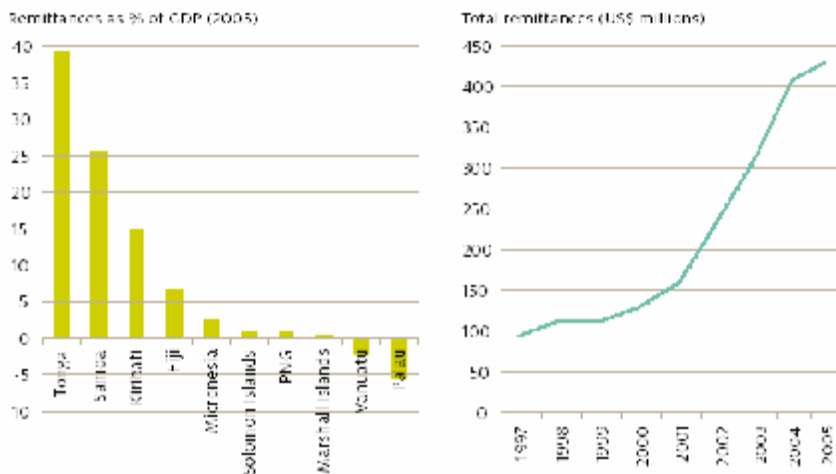
## Labour migration

Labour migration is one of the national security concerns for PNG, especially in the process of economic globalization. As regional economies are liberalized there will be massive increase in movement of human capital across borders – knowledge transfer. This paradigm shift in labour movement has both positive and negative implications for PNG's economy.

Available literature indicates that economic liberalization triggers economic growth through transfer of human capital across borders. Currently PNG is experiencing an economic boom and will be consolidated with two big LNG projects coming on stream. The PNG LNG projects are predicted by some economic analysts to recruit a sum of 6000 human capital to bolster its development. It is anticipated that quality intelligent human capital would be recruited both in PNG and offshore to add value to the economy.

Trade liberalization provides a window of opportunity for PNG nationals to work offshore adding economic value to foreign economy, whilst at the same time contributing to the national economy through remittances. For instance, Pacific statistics indicate that there is rapid increase in the volume of remittances but are unevenly spread. PNG was noted to have seen a minor increase in remittance (Figure 5).

**Figure 5: Remittance volumes are growing rapidly but unevenly spread across the Pacific**



Source: Browne and Mineshima (2007)

Human capital has been included by the World Trade Organization in General Agreement on Tariffs Trade (GATT). Therefore, human capital through the transfer of ideas across borders is a general service under which an economical value is derived from the host.

## **Implication**

A common assumption extrapolated from existing literature is that there is a possibility of non-traditional trans-national security issues such as human smuggling or illegal immigrants systematically occurring in PNG, which has the potential to affect the economy. Retired PNGDF Colonel, Reginald Renagi, a specialist in strategic studies, once warned that trans-national crime is an emerging non-traditional security, which has the potential of distorting the normal economic pattern of growth in PNG if there is no state intervention (Renagi, 2008:10).

Illegal transfer of human capital across borders to PNG also has the potential of causing civil crises and spreading preventable disease such as HIV/AIDS and SARS. Robertson (2007:4) notes that as far as human security is concerned 'AIDS has the potential to reduce PNG's labour force by 40 per cent and its GDP annual growth by 7.5 per cent by 2020' which will be a serious blow to economic security.

Human smuggling and illegal immigrants have recently come under the spotlight in PNG. There are instances of illegal immigrants having entered PNG simply because the state lacks effective deterrence measures, and has a weak and vulnerable security system. Evidence shows that Asian immigrants are rapidly migrating illegally to PNG through either graft means or illegal border crossing. Many of them were brought for prostitution or cheap labour. Moreover, illegal migrants seem to be occupying national economic space of doing business. There is an increasing number of businesses owned by Asians in PNG. It appears that these businesses exploit human and natural resources.

These conditions have the potential to trigger civil unrest and impair economic growth. In May 2009, there was a riot against Asian businesses. Business houses were looted by civilians. As a result businesses were closed and this affected the economy at the time (May Riot, *The National*, 25 October, 2009:2-3). Nevertheless, it appears that PNG is losing massive foreign tax revenue. Foreign business remits to its own countries simply because there is a weak tax control regime in PNG. There is clear evasion of taxation by foreign businesses operating in PNG. Small Pacific Islands are vulnerable and considered by some security experts as one of the 'safe heavens' for tax evasions, thanks to rapid developments in transportation and communication technologies (Hualupmomi, 2008c:4).

The other issue is the implication posed by 'brain drain'. It appears that PNG is slowly losing some of its top highly trained human capital to work offshore (Tagis, 2008:3). However, 'few people migrate to the rich world from its most heavily populated sub-region, PNG, Solomon Islands or Vanuatu. The most important reason is that fewer people in these countries possess the education or skills to qualify for entry into the metropolitan countries of the Pacific Rim, or, for that matter, the military training that would fit them for employment in the privatized security industry' (Firth, 2005:7).



Economics of human capital is vital to economic growth. A pool of intelligent and competent human capital produces high capital returns, which in turn fosters economic growth. A loss to human capital is a loss to economic gain or returns. No statistics are available on exactly how many PNG nationals work abroad.

### **Strategic approach: maximizing and minimizing economic globalization**

As noted earlier, economic globalization brings positive opportunities and negative consequences to PNG, it is compellingly convinced that in order to maximize opportunities and minimize consequences of economic globalization the state should consider Samir Amin's theoretical assumption that the 'central feature of this new period is already visible: the attempt to reconstruct the unification of the world through and on a 'market' (capitalist) base' (Amin, 1993:131-132).

Laki (2001:25) echoed the similar sentiments that ... 'those countries which capitalize on globalization will prosper, while those that do not, will falter. This new order is based on a capitalist market economy, and involves business opportunities or actually having capital to invest'. He argued that where there is failure of state to accumulate savings anarchy and failed statehood is most likely to occur. Therefore with this far-reaching globalization, three options are theoretically possible:

- a) take up the challenge of capitalist as it is, while trying to better the national position by joining in the same of international competition
- b) act to change the world system in a direction favorable to a 'better' (and even 'fair') globalized development
- c) stand aloof from such a world system (de-linking)

(Amin, 1993:132)

Perhaps, in order to synergize and harmonize Amin's theoretical assumption, following are the suggested strategies to managed economic globalization in PNG.

### **Specific sectoral policy interventions**

- Develop an effective and robust migration law to control and regulate illegal migration
- Strengthen customs law
- Strengthen business law on foreign investment
- Prioritize research on economic globalization to adequately advice the government
- Establish a dedicated Research Centre for Globalization Economics and Security
- Strengthen national security system through capacity building and establishing multi-cooperative strategic alliances and network
- Strengthen ICT Policy to control e-crime or cyber crime

### **Role of State and market**

- Orderly and stable management of the economy through consistent fiscal, monetary, trade, and exchange rate policies to create a favorable environment for investment and growth, and a Tax Reform which is a broad based elastic tax system which encourages savings and enhances states effectiveness. Developing a taxation law to control tax evasion is paramount.
- Planning and regulating market – state intervention in the market to remove market inefficiencies – state must have administrative efficiency to be responsive to changes
- The state must act as an entrepreneur – must have a corporatised paradigm shift mindset in adopting new modern management in public sector to ensure efficiency and effectiveness in service delivery

### **Human capital and research science and technology**

- Prioritized human capital investment in specific areas
- Prioritized investment in science and technology through research and development industrial and trade policies
- Emphasis on development of mass market, strengthening industry links, more efficient use of resources, use energy and imported inputs, and enhance international competitiveness to increase exports and manufactured goods
- Publicly supported research and development on small-scale, labour intensive industries and rural enterprises processing local materials – help link industrialization of agriculture and reduce urban disparities
- Indiscriminate and excessive protection and subsidies must be removed in order to promote efficiency and technological dynamism
- Measure should be taken to avoid the concentration of economic activities in large urban centres and to promote their dispersal
- Take full advantage of export opportunities, open to service sectors.
- Efficient industries can help a great deal to enhance the competitiveness of agriculture and industry.

(adapted from Amin 1993:14)

### **Conclusion**

It can be concluded that economic globalization brings in positive and negative implications to PNG's economy. Evidence suggests that benefits accrue to globalization are significant, which have the potential of stimulating and accelerating economic growth. Whilst PNG notes the benefits of economic reform evidence also suggests otherwise that negative implications remains to be an economic security concern for the state. Therefore it is strongly argued that in order for PNG to maximize these opportunities and minimize the consequences brought about by economic globalization effective strategies must be developed or adopted.

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