

# Border Management in the Pacific Region

DRAFT

## *Introduction*

Globalisation has led to increased flows of people, goods and services, capital, technology and information across the borders of Pacific Island countries. The terrorist attacks in New York on 11 September 2001 heightened concerns about the security of cross-border transactions everywhere and led directly to the introduction of more complex and rigorous security requirements, most of which were mandatory on all member states of the United Nations. Forum Island Countries (FICs) are encountering difficulties in their attempts to adopt and implement the new international requirements, mainly because of their lack of trained personnel and financial resources. The international security agenda, which continues to evolve, is likely to make new demands and public health issues may become urgent at any time. FICs also face pressures to liberalise their trade regimes and to improve their bio-security surveillance regimes.

This paper presents some ways of thinking about borders and the implications of recent developments for FICs and regional metropolitan countries. It discusses the extent to which more effective and efficient Pacific Island border regimes could potentially increase both the security and the prosperity of the whole region and some of the obstacles that may make this difficult to achieve.

A central issue is the extent to which, and the areas in which, an explicitly regional approach might be better for everyone. At the heart of the discussion in this paper is the view that many of the objectives pursued by national governments in the region – fighting terrorism and transnational crime, monitoring public health and bio-security risks, cooperating on migration issues and so forth – can be recast as objectives which have the characteristics of regional public (or merit) goods. Thinking about border management issues in this way has some obvious advantages: it may suggest additional ways in which useful synergies can be obtained and duplication and waste reduced. But it also presents one major challenge: by definition, theory suggests that the allocation of resources for the production of regional public goods should be made by a regional government expressing the “voice” of the region’s people. In the absence of a regional government, governments must work together as equals to agree upon alternative modalities for making their collective choices about the regional public goods they will provide and how and by whom these will be provided. The three main ways in which countries in the Pacific region can

contribute to this collaborative effort include (i) the harmonisation of their policies, laws and regulations; (ii) joint production of goods and services; or (iii) the direct provision of resources through bilateral or regional aid programmes.

The *Pacific Plan* agreed by Forum Leaders in October 2005, now represents the formal expression of the scope and nature of the agreements reached by the region's leaders to work collaboratively on (among other things) a number of border management issues. This paper outlines the progress achieved to date in harmonizing the legal and regulatory frameworks governing border management issues, in the provision of assistance (either bilaterally or through regional agencies) to strengthen FIC border management regimes and in delivering jointly produced outcomes. Drawing upon recent public management literature on policy coordination and "joined-up government", it suggests some criteria for evaluating the performance of regional coordinating agencies in adding value to regional coordination efforts, whether through harmonization or joint production, and outlines a menu of techniques that could be used - if the region so wished - to achieve further progress in the longer term.

Context, however, is always important. For a clearer understanding of the issues involved, it is necessary to: (i) describe some of the complexities and ambiguities involved in defining the border; (ii) identify the official actors with a primary responsibility for managing borders within the region and the other stakeholders with an interest in the way the border is managed; (iii) briefly describe the current objectives of border management regimes; (iv) discuss the economic and social implications of border interventions and (v) outline the nature of the threats and risks currently challenging the integrity of borders within the region.

### *Defining the border*

Customs officers define the border as any place at, or within, the 12-mile limit where the state exercises statutory authority. But this definition is not as clear-cut as it might have been some years ago. The new administrative arrangements for Advanced Passenger Information and Advanced Passenger Processing (API/APP), part of the new "layered systems" approach to enhancing border security, seem to be pushing the borders out beyond this. Indeed, it appears that no country in the Pacific region has a single border. In all countries of the region there are different borders for different purposes. The New Zealand border that defines its sovereign territory includes the Cook Islands, Niue and the Tokelaus. But its border for customs and biosecurity purposes excludes these islands. One border demarcates the twelve mile maritime limit and a quite different border defines the country's 200 mile Exclusive Economic Zone. The United Nations Convention on the Law of the Sea defined two other zones within which states have limited rights. The contiguous zone - from the edge of the territorial sea to

24 nautical miles from the coastal baselines – is not sovereign territory but states have limited authority here to enable them to better manage certain sovereign rights within their territory. And in cases where the continental shelf extends beyond the EEZ, states can exercise sovereign rights to explore and exploit the natural resources of the seabed and subsoil. (Ladley and White, 2006) Pre- importation rulings and advance passenger processing can be arranged from anywhere in the world. FIC foreign exchange controls are effectively implemented in New York, London and Frankfurt. Tax rules which differentiate between the tax treatments accorded to income earned in different countries add a further dimension of complexity. National border controls may be challenged at any point in the country that can be accessed directly from abroad e.g. at any inland airport accessed by international flights, at an Automated Teller Machine or at a computer linked by wireless to the internet. The vision of the border as a unique physical barrier no longer represents its reality.

The internet, in particular, poses a serious challenge to traditional border structures. Many of the goods and services available via the internet - such as auction and gambling services, computer programmes and downloaded music - can be imported without ever passing through an official border. In this environment, for example, it will be very difficult to maintain separate national censorship regimes. Either censorship regimes will have to be internationalized or countries may have to accept in effect that they must mutually recognize each other's censorship standards. Developments in cyberspace may also make it increasingly difficult to ensure compliance with international commitments relating to trade in intellectual property.

Commonly, there are also internal borders, especially for biosecurity purposes. In Samoa, for example, the bio-security authorities have established an internal "sanitary cordon" between Upolu and Savaii to prevent the spread of coconut beetle and, recently in New Zealand, there was a bio-security barrier to the movement of bees between the North and South Islands to prevent the spread of the veroa mite. Internal borders are sometimes created for security purposes; Papua New Guinea has created internal security borders from time to time to prevent entry to Bougainville or to areas adjacent to the land border with Indonesia.

Borders can also be categorized in terms of their relative "hardness". Some borders are permeable because movement is negotiable e.g. movement of people with visas, while others are intended to be very hard and non-negotiable e.g. biosecurity borders. Some borders do not appear to be seriously enforced and others may be enforced more strongly on one side of the border than on the other. Cultural factors and history may have a strong influence on attitudes to national borders and the extent to which they are enforced (Hau'ofa, 1993).

Arguably, the link between national borders and nationality – the permanent population – is now becoming more tenuous when a large proportion of the population of some FICs (such as Samoa and Tonga) already resides outside their national borders.

All this underlines both the particularity and the complexity of border management issues and the need for great care in generalizing from particular examples. It is important to bear in mind some of the conditions facing border management agencies in the region. By definition all the FICs are islands, with sea borders and most have lengthy coastlines. Many are extensive archipelagos, with populations that are sparse and unevenly spread. Most have large exclusive economic zones. They are distant from other countries and from each other. None are rich in human or physical resources for border supervision and control, and the cost of a great deal of the hardware required to do the job properly is relatively high.

It is also worth remembering that there are always two sides to a border. Managing a national border is necessarily a collaborative process that cannot be conducted effectively or efficiently by one national administration alone: it requires at least bilateral collaboration on a wide range of issues – and regional collaboration may be an even more sensible approach in many areas.

### ***Border management stakeholders***

A bureaucracy of considerable proportions has been built up to manage each country's border policies and interventions and for the exchange of information and coordination of policies within the region. In some countries, at least, this has created strong vested interests that are very resistant to change, especially in smaller economies with limited opportunities for alternative employment.

For the most part, border agencies in the region are single purpose agencies – customs, police, the armed services (where these exist), quarantine (frequently a part of the Ministry of Agriculture) and immigration. There is a growing trend, however, for Customs agencies to assume responsibility for the “front desk” function at the border. In Fiji, the government has amalgamated the two main revenue agencies in a combined service – Fiji Islands Revenue and Customs Agency – which also exercises authority at the border on behalf of the migration authorities. It has generally proved more difficult, in practice, to substitute customs officials for bio-security officials, who still usually have a separate presence at the border. Although a commendable degree of cooperation has been built up in some countries between the staff of different agencies, such as Customs and Quarantine, coordination between agencies is still a significant

problem within some countries of the region. A recent initiative promoted the idea of establishing Combined Law Agency Groups in FICs to promote closer coordination between law enforcement agencies in each country, and this mechanism is improving internal coordination in New Zealand and in some FICs.

There is also a small but growing regional bureaucracy established to promote networking, the exchange of information and, where possible, the intra-regional coordination of some security aspects of border management activities. These have been established at three broad levels: diplomatic, regional and bilateral.

Regional discussions on security issues are conducted within the Forum Regional Security Committee, which is a committee of the Forum that meets twice a year and reports to Forum Foreign Ministers (and, through them, to Forum Leaders). The meetings of this committee are attended by national representatives from Forum member states. Officials from the regional coordinating bodies – the Pacific Islands Law Enforcement Unit of the Forum Secretariat, the Pacific Islands Chiefs of Police, the Oceania Customs Organisation and the Pacific Immigration Directors Conference, together with a representative from the Maritime Division of the Communities of the South Pacific and an aviation security official from the Forum Secretariat, are also present at these meetings.

The Forum Secretariat's Law Enforcement Unit provides the Forum Regional Security Committee and the Forum Secretariat with an overview on regional security issues as well as providing a small pool of advisers on security issues who are available to all FICs. The separate regional bodies which bring together Police Chiefs, Customs and Immigration officials respectively, are staffed by small secretariats. They promote the exchange of information and experiences and coordinate, where appropriate, regional approaches to common problems (such as training programmes) in their respective areas of expertise. The Maritime Division of the SPC administers the SPC's Maritime Programme, which covers a broad range of maritime issues including maritime border issues, and the Pacific Aviation Safety Office helps FICs to implement ICAO safety and security requirements in their domestic jurisdictions. The Pacific Islands Law Officers Meeting also contributes in the areas of its expertise.

The international community is also an important stakeholder. The United Nations has established the essential responsibilities of its member states to counter terrorism and the relevant Security Council resolutions are binding upon United Nations members. Other international agencies such as ICAO, IMO, WCO, WTO and WHO (in respect of advice on action to prevent health pandemics) are important bodies which largely shape the codes, procedures and standards to which FICs – like others – must conform. The Financial Action Task

Force (FATF) created by the G7 has set international standards for combating money laundering and terrorist financing which are recognised by the international community and incumbent on all of its members, including the FICs. A number of FICs have accordingly established Financial Intelligence Units, staffed by a mix of agencies, usually including the Police and the Reserve Bank.

Individual metropolitan governments – both those within the region and some outside the region – are also important stakeholders. Some of these have taken a number of bilateral initiatives to encourage greater coordination of activities in the region. One particularly relevant Australian Government initiative is the Pacific Transnational Crime Coordinating Committee with associated Transnational Crime Units in Fiji, Samoa, PNG, Tonga, Vanuatu and Solomon Islands. Apart from the assistance in various forms provided by Australia and New Zealand, some extra-regional players are also providing border management assistance. Japan, for example, is funding an assistance scheme for the training of law enforcement officers and the United States and the European Union are also providing assistance, as are other international bodies such as ICAO and the UN's Counter-Terrorism Committee Executive Directorate.

Private sector organizations such as national associations of customs agents, national Chambers of Commerce and the Pacific Islands Maritime Association, and individual businesses, such as airlines and shipping companies, are also important stakeholders who must be involved closely in national and regional efforts to improve the way in which national borders and the security of the supply chain are managed. And finally, the ordinary citizen who wishes to visit family overseas or widen his horizons through travel, or remit funds overseas, or send a parcel or email, or take a pocketful of pearls or a fine mat, or travel to the United States out of Pagopago rather than Apia, also has a stake in the way the border is managed and a strong interest in outcomes.

### *The objectives of border management*

A well functioning state takes border management very seriously. The most important reason for this is that maintaining its legal persona as a sovereign state depends upon it. The Montevideo Convention on the Rights and Duties of States (1933) identified the four criteria that characterize a sovereign state: (a) a permanent population; (b) a defined territory; (c) a government; and (d) the capacity to enter into relations with other states. Territoriality is an essential ingredient of sovereignty and citizenship derives from residence within a state's borders. A state's border defines its territory, enfolds its permanent population and is the primary point at which the state's agents interrelate with the citizens

of other states and demonstrate their State's ability to govern. The activity of border management is an expression of the state's sovereignty.

A second, related reason is that effective border management reassures other states that their citizens travelling through, or residing in, its country will be safe; that the terms of contracts for trade and services entered into by their citizens will be observed and enforced impartially; and that the country can be relied upon to observe all the border-related obligations it has accepted under the international conventions and agreements it has signed and ratified. A reputation as a "good international citizen" may be intangible, but it is also invaluable: it reflects the trust and confidence of other states in your standards of governance.

The third reason is that citizens expect the state to protect them from harm, whether that harm arises from domestic sources or from abroad. An inability to protect its citizens can undermine a government's legitimacy in the eyes of its own citizens. Fundamentally, citizens want to be protected from acts of violence against their person and damage to their property; so they expect that the border will be managed in such a way as to protect them from terrorism and lawlessness directed from abroad and from the importation of harmful pathogens. The desire for property protection may extend to wanting the state to protect its citizens from the loss of rights to trade-related intellectual property; and - more contentiously - from 'unfair' competitive practices (such as migrant labour willing to work for low wages, and dumped or subsidised imports).

Effective and efficient border management is also needed to facilitate trade in goods and services and travel by people for legitimate purposes, such as for business, family reunions or tourism. Finally, many states still depend heavily upon the revenue from taxes imposed at the border and want to ensure that this tax base is not impaired or eroded.

Within any one country some of these objectives may conflict with each other. For example, there is a tension between the immediate importance of maintaining revenues from tariffs and the argument that lower tariffs and the removal of quantitative restrictions will increase economic growth in the longer term. Other objectives may be inconsistent with other national policies. For example, migration criteria might limit the availability of skilled or unskilled labour needed for key domestic industries.

Between countries, objectives may also conflict. There are periodic disagreements between individual FICs over trade issues (Vanuatu's ban on the importation of ships biscuits from Fiji being the most recent) and arguments about the need for such stringent bio-security measures on, for example the export of salmon from

Papua New Guinea to Australia or on the trade in kava into Australia (under threat, apparently, because of the effects this might have on indigenous communities). There are also disagreements between New Zealand and some FICs relating to the treatment of fruit to ensure that fruit fly is not imported into New Zealand. For some countries in the region, migration and labour market policies are designed to attract inflows of skilled labour; for other countries, labour market policy is all about stemming the outflow of skilled labour.

To some extent, these differences reflect different national perceptions of risk. Risk depends upon what a country has to lose. Countries with highly developed and valuable agricultural sectors, for example, have much more to lose from any serious breach of their bio-security regime than countries with agricultural sectors that contribute relatively little to national welfare.

And some objectives may not be as firmly adhered to as others. Sometimes, indeed, there is a difference between the officially stated national objectives and the objectives really supported by officials, traders and individuals. The historical reluctance (until quite recently) to levy customs duties on trade between American and (Western) Samoa; and the tolerance of informal migration between Indonesia and PNG are two examples that come to mind.

In short, border policies and managerial arrangements are shaped by a variety of influences and the relative importance of each of these changes from time to time. Border management objectives do not always seem to evolve in an entirely rational way but that is not entirely surprising: after all, border management objectives reflect the outcome of attempts by national authorities to mediate between politically powerful domestic pressures and almost equally strong external pressures.

### *The economic, social and political implications of border interventions*

Borders intersect the economic and social space of the region, sometimes in apparently haphazard ways that may hinder or block access by people of the region to many of the important assets they need to earn their livelihoods and/or maintain the human networks needed for social and economic support. In some cases, this may leave people seriously discontented and unwilling to acknowledge the border or comply with border controls.

The rationality and legitimacy of some national borders have simply never been accepted by people in some FICs. The borders between Papua New Guinea and Indonesia, between Bougainville and Solomon Islands, and between American and (Western) Samoa are all the result of historical agreements between colonial powers over which the indigenous peoples affected had little say (Hau'ofa, 1993).

And the new border between Tuvalu and Kiribati created at the time of their independence was an arrangement that not all citizens of the former Gilbert and Ellice Islands agreed with. Disagreements of this nature can make border enforcement much more difficult.

The assets to which people in general and entrepreneurs in particular, need access include capital, labour, foreign exchange, information, goods and services (such as transport and risk management products). To remain internationally competitive, assets should be available at, or close to, international prices. Border interventions can increase the cost of business by driving a wedge between international prices and local prices. They can also increase business risk by creating uncertainty about the ability of entrepreneurs to obtain the assets they need at the time they are needed. Border regulations may also unduly restrict travel for legitimate purposes and disrupt family life.

On the other hand, effective borders can enhance the security of individuals and of property, minimize the entry of undesirable plants and animals that could threaten local eco-systems or livelihoods, maintain the integrity of the tax system and, more arguably, protect local businesses and jobs from 'unfair' competition.

In practice, most particular government interventions at the border will create both winners and losers.

Each country explicitly or implicitly attempts to structure its interventions so as to obtain net national benefits from the totality of its border management arrangements. But decision making is heavily influenced by the national political process and the resulting outcome is frequently biased in favour of domestic producers and manufacturers, for example, (who stand to benefit most from particular border interventions and who are usually the most well organized) and against consumers (who are widely dispersed, less well organized and who do not individually appreciate the full extent of the losses imposed upon them collectively by the border interventions that discriminate against them). This kind of bias typically leads to systemic inertia: it creates strong incentives to maintain the status quo.

But to what extent does the totality of all such arrangements in the individual countries of the Pacific region contribute to, or detract from, the economic and social performance of the region as a whole? Or, to put the same point in a different way, do many of these border interventions detract from potential regional output because individual nation states are using partial analysis in the calculation of net national benefits?

This is a key question in thinking about the consequences of government interventions at the border. Would the region be better off without some of these impediments to the free flow of goods, services, people and capital? Typically, border interventions increase transaction costs, lessen the intensity of competition, reduce the scope for gaining economies of scale and increase uncertainty and business risk. There is also an argument that more open economies gain less easily quantifiable but very real benefits from the propagation of ideas and values across borders – including democratic values and practices.

More cooperative approaches to the detection of criminal or terrorist activities within the region and to joint monitoring of public and animal health may provide benefits to the region over and above those that could be obtained by states operating alone. This may yield some unexpected synergies. For example, it is likely that counter-terrorism measures, to the extent that they lessened the incidence of corrupt practices and strengthened revenue collections, would help to improve governance and fiscal stability in FICs.

There can also be important political implications. Any country's failures in border management may have consequences for its neighbours. In a globalised and (post 9/11) more anxious world, the word neighbour has become less spatially restricted. Countries assess their vulnerability by the vulnerability of the weakest link in the global supply chains that link with their markets. The consequences for any country of being deemed not to comply with the relevant international standards are potentially severe, and include the disruption of its trade. All members of the Pacific Islands Forum, including Australia and New Zealand, have a common interest in not being seen as a region in which conformance with international standards and obligations at the border is lax.

### *Risks and threats to the integrity of FIC borders in the new international environment*

The Pacific region faces a range of threats and risks created by its openness to the external environment. Some are familiar and well known e.g. threats to government revenues from “normal” smuggling activities and long established risks to the region's biosecurity from traditional diseases and pathogens. Others are relatively new and, perhaps, unexpected. The most serious is a growing and serious threat from transnational organized crime groups, whose activities – including the importation and/or production of drugs, illegal gambling, arms smuggling, counterfeiting and corruption - constitute a serious assault on good governance within the region. Illegal migration within the region is a growing concern for many FIC governments and the region remains very exposed to money-laundering activities and financial fraud. The region also remains

vulnerable to potential penetration by terrorist groups (even if the risk is not high). Wildlife trafficking is not an immediate problem but could expand rapidly as an alternative source of illicit income when the region's fisheries and logging resources are depleted. There are serious risks surrounding the potential for the introduction of new infectious diseases such as the H5N1 strain of avian flu, which could present a serious threat to human health and to the economy, while bio-security agencies must be on constant alert for any signs of a range of animal and plant diseases that could impact adversely upon the productive base and bio-diversity of the region. Bio-security risks have increased markedly in recent years because of the rapid increase in trade and travel volumes and pathways. Many of these risks and threats are inter-related in subtle and complex ways. For example, while corruption is not a new phenomenon in the region, it has become a much more insidious and dangerous threat when linked to the wider activities of transnational organised criminal groups that are undermining the financial stability of some states even as they attempt to suborn the ruling class in an effort to expand their political influence.

#### *The threat from transnational organized crime*

In a recent Strategic Assessment prepared for Forum Leaders, the Forum Regional Security Committee has outlined the reasons for its view that the Pacific region faces a significant current threat to the security of its citizens and the stability of its governments from transnational organized crime. It argues that the factors driving the enormous legitimate commercial gains from globalization have been paralleled by an equally unprecedented expansion of illegitimate activities by criminal groups operating across international borders. (The information in this section draws extensively from the Strategic Assessment prepared for the Forum Regional Security Committee.)

The United Nations Office on Drugs and Crime has identified the following traits that characterize transnational organized crime groups:

- They are likely to be active in three or more countries with material gain/money as their primary motivation;
- They engage in multiple activities;
- They often work in cooperation with other criminal gangs;
- They engage in the extensive use of violence;
- Corruption is essential to their activities;
- They exert or seek political influence; and
- They seek to penetrate the legitimate economy.

The transnational organized crime groups operating within FICs largely originate from Asia and, in particular, from China. The activities of Chinese transnational criminal groups were not observed within FICs before the mid

1990s. Since then, they have spread rapidly throughout the major island groups of the region. There are a large number of illegal Chinese economic immigrants in many FICs. In 2003, the PNG Government estimated that there were about 10,000 illegal Chinese immigrants in Papua New Guinea and the Forum Secretariat estimates that there are another 10,000 illegal immigrants in other FICs, many of whom are Chinese.

Drug related crime is the mainstay of transnational organized crime. There is evidence that the region is being used for the production, storage and trans-shipment of illicit drugs. First, the region is being used as a transit route between Asia and Central and South America. The “clean” reputation hitherto attaching to most FICs enhances their attractiveness as transit points and the region’s expanding transportation links to Asia and the Americas are providing a richer schedule of transport options for drug running operations. Second, the trans-shipment of drugs such as cocaine, heroin and amphetamine type substances (ATS) through FICs to Australia, New Zealand and North America has been identified by the Forum’s Police advisers as a significant criminal threat to the region. Third, there is ample evidence that organized criminal groups are trying to develop large-scale methamphetamine production facilities (clandestine laboratories) within the region on the model of the large facility discovered in Suva in 2004. There are continued efforts to import large volumes of methamphetamine precursor agents into certain FICs. For example, in 2000 in Papua New Guinea - a country with no known legal pharmaceutical manufacturing industry - a Port Moresby-based businessman and two foreign partners tried to import 8,000 kg of ephedrine from India and 4,000 kg of pseudoephedrine from China. In July 2005, the Minister of Health in Papua New Guinea awarded a company with no known connection to the licit pharmaceutical industry, the exclusive rights for 10 years to import large quantities of ATS precursors. There have been continual cases of drugs being detected at FIC borders, including seizures of large quantities (20-30 kgs) which indicate large-scale drug trafficking. The volume of narcotics found vastly exceeds regional demand, which further reinforces the view that the region is being used for trans-shipment.

People smuggling, human trafficking and illegal migration is the second major area of criminal activity. This is closely associated with identity fraud: passports are provided to people to disguise their true identity thereby hiding their previous criminal history, which, if known to the authorities, would have precluded their entry to the region. The creation of forged or altered identity documents such as birth certificates, marriage certificates, and employment and education reports (including the results of language tests) is increasing. Given the ease with which high quality supporting documentation can be produced on widely available technology, this must also be a source of growing concern.

About 40 per cent of all the 703 border refusals by FICs in 2003-05 were either because it was established that the applicants were impostors or because they were holding false or altered documents. Notwithstanding the best efforts of the FIC border agencies, the number of illegal or unauthorized migrants living within FICs has increased rapidly in recent years.

The majority of illegal residents are visitors who have overstayed their visitor visas or who have “jumped ship”. As security at airports has been tightened, it appears there has been a growing resort to the use of vessels, particularly fishing vessels, as the favoured route for illegal entry. In PNG and the Solomon Islands, anecdotal evidence suggests that ships used for the transportation of logs may also be used to smuggle illegal migrants. These ships load cargo from purpose built access points, often in remote locations and without port security. In some instances, the ships have not been cleared by immigration, customs or quarantine at either port of entry or for the outward journey. Suspicious vessels have also been reported in the outer islands of other FICs, but it is not known if illegal migrants were landed. There does not appear to be a high level of human trafficking in the region but there is some evidence suggesting a degree of trafficking for employment in the garment and sex industries.

Migration officials are a particular target of transnational organized crime groups, which have been successful in corrupting migration officials in some FICs. Increasingly, third country nationals (i.e. from outside the region) have been targeting FICs to obtain residence and some are succeeding. As the numbers of third-country nationals within FICs increase, migration officials are pressured to admit even more of those third-country nationals. The risk of an even greater influx of illegal migrants in future is increasing markedly in FICs.

Gambling is a classic organized crime activity, and it can generate very large flows of unregulated (and untaxed) cash. The PNG MP, John Hickey, has estimated that the illegal Horse Race machines introduced into Papua New Guinea in 2000 are generating about PGK 80 million per annum with an estimated PGK 30 million being paid to machine owners, PGK 10 million to site owners and about PGK 12 million per annum to corrupt officials to protect their operations. A Police investigation has established links between PNG organized crime figures and 15 named senior police. Police Minister Bire Kimisopa noted that “Chinese mafia have bought off officials throughout the system ... are operating illegal businesses, they are siphoning money out, corrupting government officials, colluding with [corrupt] police...” With the disposable cash available to machine operators, they are buying into other criminal activities.

Tobacco smuggling by transnational crime groups is a threat to both FIC government revenues and to the health of FIC smokers. The established cigarette

manufacturers in Fiji, Tonga and Samoa cannot compete against the counterfeit products that are now being imported, so the counterfeit products are increasing their market share. This is causing a significant and growing loss of government revenue. Counterfeit cigarettes are also a major health hazard. The Head of Camden Trading Standards stated in a 2003 BBC news report: "These counterfeit cigarettes had 75 percent more tar, 28 percent more nicotine and about 63 percent more carbon monoxide. That's twice the amount of cancer causing agents found in most other cigarettes."

The theft of fish through under-reporting of catches is systematic and vast. Greenpeace has conservatively estimated that tuna catches were being under-reported by between 5-15 percent (which represents more than the value of all the licence fees paid to Pacific Islands). CITES violations remain an ongoing problem. Wildlife trafficking is known to be occurring in the region. The Forum Secretariat has made the assessment that so long as logging and fishing remain as lucrative as they are at present, transnational organized criminal groups will probably not move into wildlife trafficking as a major activity. On the other hand, when these industries start to decline as the resource is depleted, the logistics structure will already be in place to quickly ramp up wildlife trafficking.

Transnational organized criminal groups are using violence and extortion to reinforce their influence and maintain discipline within their own ranks. They have been implicated in a number of violent deaths in Fiji and Vanuatu since 2003 and they have also been implicated in extorting money from businesses in both Papua New Guinea and Solomon Islands. It is clear that firearms smuggling into and within the region is occurring (including the smuggling of semi-automatics). Arms are easily and cheaply available in Asia where the fishing boats are based. Any increase in demand for modern firearms can be met easily and quickly by smuggling via that transport pathway.

Finally, money laundering is an integral part of any income generating criminal activity. Most FICs, however, are poorly equipped to identify and prosecute money laundering offences and, to date, only two prosecutions have been recorded.

The ultimate adverse impact of transnational organized crime is upon governance in the region. Transnational organised crime undermines government revenues, encourages corruption – particularly of senior officials and politicians so as to extend its political influence – and ultimately seeks to seize effective (if covert) control of the state it is targeting. The aim is to establish a safe base for its personnel and for planning the further international expansion of its activities.

### *The threat from terrorism*

There is not thought to be an immediate threat to FICs from terrorism. There is a possibility, however, that the weaknesses in border management already exposed by transnational criminal groups could attract terrorists to the region because they perceive it to be a relatively safe base for planning terrorist activities to be executed within the region (including in Australia and New Zealand) or as a staging post through which to facilitate travel of their operatives to North America or Asia (for the same reasons that attracted transnational organized crime groups to use the region as a staging post for their activities). In this sense the region is vulnerable to terrorism – although there is no evidence that this vulnerability has as yet been exploited by terrorist groups.

### *Risks to public health*

There have been two major external threats to public health since 2003. Between March and July 2003 an outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia created a higher threat level at regional borders. Some FICs, especially those nearer to Asia, such as Palau and FSM, took the threat very seriously, requiring brief medical inspections (including temperature taking) of all visitors crossing the border. Subsequently, outbreaks of avian influenza (bird flu) in Asia during 2004 and 2005 have heightened the concern of international health agencies about the likelihood of an influenza pandemic occurring. Particular concern focuses on the H5N1 strain of avian flu, which has caused serious illness and/or death, and which could spread rapidly around the world if the virus mixed with a human strain of flu or changed in some other way so that it could be passed easily from person to person. There is also concern, albeit at a somewhat lower level, about migrants importing diseases - such as tuberculosis and HIV/AIDS - that have hitherto been relatively rare or virtually eliminated in most countries of the region,. Most FICs, as in New Zealand, rely on voluntary self-reporting by travellers and on reports from doctors who encounter these conditions in their practices to monitor these risks. Health Departments in the region are usually charged with the responsibility of preparing plans to cope with a potential pandemic. At present, this includes stockpiling anti-viral medicine to help reduce the impact of a pandemic. As at the end of 2005 in New Zealand, for example, there was enough anti-viral medicine for about 20 percent of the population. Few, if any, FICs have matched this level of preparedness.

### *Bio-security risks*

Invasive species can have a catastrophic effect on oceanic islands when endemic species can behave naively to unfamiliar new species (Loope and Helwig, 2003) For example, the invasive neotropical tree *miconia calvescens* rapidly establishes

canopy dominance, reducing endemic trees to the verge of extinction and imposes heavy containment costs on the localities where it becomes established. (Introduced to Tahiti in 1937, it now completely covers 25 percent of that island and has become established in a further 40 percent of the island.) In Guam, the brown tree snake has attained a population density of 4,000 to 12,000 per square kilometre and has eliminated nine out of eleven native bird species. An epidemic of taro leaf blight in Samoa in the early 1990s reduced taro production to near zero. The spread of imported invasive ants and scale insects has led to forest death in some islands in Kiribati and Samoa where these two species interact in a form of “ant-insect mutualism”: the ants protect the scale insects from their original native predators (red land crabs) allowing the scale insects to produce larger quantities of honeydew which in turn create sooty molds which envelop almost the entire leaf area of the forest canopy. The Red Imported Fire Ant (RIFA) is a serious risk to the entire region; it was introduced into Queensland in 2001 (where the authorities are still trying to eradicate it) and another colony was more recently discovered – and eradicated – in Auckland. It is a serious threat to public health and safety, industry, biodiversity, water quality, the economy and quality of life. Its aggressive nature and powerful sting have caused the deaths of at least 83 people, injury to tens of thousands of people annually, and injury and death of wildlife, livestock and pets. It has also caused millions of dollars in damage to electrical and communications systems, and other electrical equipment. Its broad diet, which includes plants and animals, has caused substantial agricultural damage and declines in biodiversity. RIFA is likely to be extremely damaging to Pacific islands if allowed to establish there. Once established it is very difficult and costly to eradicate and extremely expensive to control.

These are examples of some of the risks. The rapid growth in trade volumes and traveller numbers entering and travelling within the region is increasing the risk of introducing damaging organisms into the region. These could impact adversely upon agricultural and marine production, waterways, native fauna and flora, bio-diversity and lifestyle. While there has been a marked increase in bio-security activities – surveillance, interception and eradication – the public appear to have an unrealistic expectation about what can be achieved. Zero biosecurity risk simply cannot be attained. A GEF-funded project prepared for SPREP in 2002 provided information on eighty invasive species of plants and animals either established, or threatening the Pacific Islands (excluding Australia and New Zealand) (Green, 2002). The actual number of invasive species identified as existing within the Pacific islands region is much more extensive. The eighty identified in the SPREP study represent only the more significant ones. Biosecurity strategies depend crucially upon scientifically-based risk assessments and risk management.

New Zealand pays relatively little attention to its (usually inadvertent) exports of invasive organisms. The New Zealand Ecological Society has pointed out that the New Zealand bio-security authority fines passengers who bring seeds into New Zealand, but does nothing about the sale of known invasive species of plants to departing passengers (NZ Ecological Society, 2002). New Zealand also acts as a trans-shipment port for other countries' exotic organisms now established here, such as *Vespula* wasps. (New Zealand is also exporting the brush-tailed possum as pets to Japan.) A more balanced approach to biosecurity – monitoring exports as well as imports – would be a valuable contribution to strengthening regional biosecurity.

*Threats to the security of trade and to revenue collection at the border*

Customs revenue fraud is one of the biggest threats to the region. The scale of revenue fraud in some countries, such as Solomon Islands, is judged to have been so great in the late 1990s that it was a major factor undermining the financial viability of the State. Some FICs, such as Papua New Guinea and the Solomon Islands, have very extensive borders extending across large expanses of ocean – and, in Papua New Guinea's case, a large land border with Indonesia across largely under-populated jungle – which are intrinsically difficult to patrol and protect. This provides opportunities for smuggling on a commercial scale, entailing a significant loss of revenue.

Revenue is also lost in the other usual ways e.g. through undervaluation and under invoicing of imported goods. It is difficult to combat this type of fraud unless customs staff have been well trained and have access to supportive IT based valuation data. Transfer pricing by transnational companies is suspected to be another source of revenue loss (although this represents a loss of income tax rather than of customs or excise duty). Again this is very difficult to detect and counter without appropriate legislation in place and highly trained staff to enforce the transfer pricing provisions of the income tax laws. Further revenue is being lost through the practice of trans-shipping fish at sea – so that no value is added in-country on which any tax can be levied or royalties received.

FICs may suffer significant welfare losses, however, from a more subtle and less obvious source: the failure to facilitate trade effectively can add unnecessarily to the cost structure of FIC economies, weaken government revenues and reduce export income. Inefficient cargo clearing arrangements that result in lost documentation, lost cargo, or long delays in releasing goods from the wharves or bond stores make “just-in-time” goods delivery impossible and create additional and costly business risks for entrepreneurs. The recent focus on ensuring the security of the entire supply chain from raw material inputs to final consumer has significantly increased trade security costs.

### *Responses to the risk of terrorism*

The terrorist attacks on September 11, 2001 abruptly changed the priorities of border agencies and added to their burdens. Since that time, led by the United States, the international community has acted to increase its collaboration to counter international terrorism, as well as trans-national organised crime, including by mandatory measures. In this connection, border security measures have been increased. Among other things, this means there are now much stronger limitations to the extent that individual nation states can choose not to implement international codes and standards in areas where there may be adverse consequences for the security and welfare of the citizens of other states. Today, the failure by any state to meet its international obligations in respect of border management could attract strong sanctions from the international community.

Three major United Nations Security Council Resolutions have provided the framework for the world's response to terrorism. The first, Security Council Resolution 1267, was adopted in October 1999 (subsequently modified and strengthened by six additional UN resolutions between 2000 and 2005). It implemented sanctions against Al-Qaida, the Taliban and associated individuals and entities by requiring all states to freeze their assets and prevent the direct or indirect supply, sale and transfer of arms and military equipment to any individual or entity associated with these organisations or individuals. The enforcement of this Resolution is overseen by a committee of the Security Council with assistance from an Analytical Support and Monitoring Team, which is composed of independent experts appointed by the Secretary-General, with expertise in counter-terrorism, financing of terrorism, arms embargoes, travel bans and related legal issues.

The second, Security Council Resolution 1373 (adopted on 23 September 2001) required Member States to take a number of additional measures to prevent terrorist activities, to criminalize various forms of terrorist actions and to deny funding and safe haven to terrorists. It also provided for a more extensive exchange of information on terrorist groups. This Resolution established the *Counter-Terrorism Committee* (CTC) to monitor Member States' implementation of the Resolution. More recently, in 2005, the Security Council established the Counter-Terrorism Committee Executive Directorate (CTED) which has allowed the Committee to expand its activities to include visits to Member States to provide advice and capacity building technical assistance. The CTC has also published a *Directory of Best Practices*, which draws together in one place the best practices, codes and standards of international and regional organisations to

assist States in the implementation of the UN Resolutions. Much of this advice relates to the ways in which border management could be improved.

The third, Security Council Resolution 1540, was adopted in April 2004 and decreed that all states must act to prevent terrorists and non-state actors from developing or acquiring weapons of mass destruction. A separate Security Council Committee (the *1540 Committee*) supervises the implementation of this Resolution.

All these Resolutions were adopted under Chapter VII of the United Nations Charter which makes their implementation mandatory upon all Member States.

Three agencies, in particular, have assumed a major role in developing counter-terrorism standards and codes for application at the border; these are the International Maritime Organisation (IMO), the International Civil Aviation Organisation (ICAO) and the World Customs Organisation (WCO).

The International Ship and Port Facility Security Code (ISPS) has been developed by IMO in response to the perceived threats to ships and port facilities in the wake of the 9/11 attacks in New York. The Code has been attached to the IMO Convention on the Safety of Life at Sea and thus is mandatory for the 148 contracting parties to that convention. It became effective on 1 July 2004. It adopts a risk management approach: it provides a consistent and standardised framework for evaluating risk at different levels of security and the corresponding security measures required to address the identified risks. The basic approach of the Code is to provide lagged and redundant defences against smuggling, terrorism, piracy and stowaways, etc. To maintain the integrity of security between ports, the Code also introduces new requirements for ship owners such as the fitting of transponders, identification numbers visible from the air, ship security alert systems and an on-board system that maintains a permanent record of the ships history. The bulk of the activity sparked by the adoption of ISPS, however, centres upon the formulation and implementation of port security assessment plans. The cost of remedying the security vulnerabilities exposed by ISPS assessments has proved to be very expensive in many countries. A failure by any country to comply with the ISPS Code in respect of either ships or port facilities means that non-compliant ships will not be issued with International Ship Security Certificates and ports will be deemed to be non-compliant. Ships visiting non-compliant ports will incur such additional costs when they next visit a compliant port that shipping lines will be most reluctant to service non-compliant ports.

In an analogous fashion, the International Civil Aviation Organization (ICAO) adopted an Aviation Security Plan of Action in 2002 to strengthen aviation

security worldwide. The central element was regular, mandatory, systematic and harmonised audits to enable evaluation of aviation security in place in all 188 member states of ICAO in order to identify and correct deficiencies in the implementation of ICAO security related standards. It also included tightening-up a number of the organisation's security provisions and a follow-up program to assist states to remedy any deficiencies in their aviation security capabilities. Like all other countries, FICs are required to ensure that they have the ability to X-ray all hold-stowed baggage on all departing international flights.

The World Customs Organisation (WCO) has assumed responsibility, within its own area of competence, for enhancing security against terrorist activities. In 2002 it adopted a Resolution on Supply Chain Security and Trade Facilitation. Subsequently, a WCO task force established and developed a package of complementary measures, including:

- An amended WCO data model and a list of 27 essential elements for the identification of high risk consignments;
- Customs guidelines for Advanced Cargo Information (ACI Guidelines) to enable the (pre-arrival) transmission of customs data (now called the "Integrated Supply Chain Management Guidelines");
- WCO High Level Guidelines for Co-operative Arrangements between Members and private industry to increase supply chain security and facilitate the flow of international trade; and
- A new International Convention on Mutual Administrative Assistance in Customs matters to assist members in developing a legal basis to enable the advance electronic transmission of customs data.

The United States has also exercised its considerable influence in shaping the world response to terrorist attacks. Its pre-eminent position in the world economy provides a lot of leverage in imposing conditions upon its importers. With about seven million cargo containers arriving by ship at US seaports each year, the detailed physical inspection of every individual container would have brought much of international trade to a virtual standstill. So to strengthen its border security post 9/11, the United States adopted a "multi-layered" border protection strategy and invited other countries to adopt the same approach. The new strategy relied upon: (i) intelligence and automated information to identify and target the higher-risk containers; (ii) a cooperative approach with other governments and the private sector to improve the security of the international supply chain; and (iii) cutting-edge technology to provide a final assurance against the importation of prohibited items.

The main elements of this approach include the pre-screening and inspection of all cargo before it arrives in the US. An automated targeting system enables US Customs to collect and analyse cargo shipping data, to distinguish and select

high-risk shipments for further review and examination. A 24-hour rule specifies that manifest information must be provided 24 hours before each container is loaded onto the vessel which allows US Customs the opportunity to deny the loading of high-risk cargo while the vessel is still overseas. Under its Container Security Initiative (CSI), US Customs - in conjunction with the host government's customs service - inspects high-risk cargo at foreign ports before the cargo is released for loading onto vessels destined for the US. As part of the agreement to participate in the CSI, the Customs Services and Ports in partner countries must agree to establishing risk management systems to identify potentially high risk containers, and to automating that system; commit to sharing that data and other critical intelligence and risk management information with the U.S.; conduct a thorough port assessment to ascertain vulnerable links in a port's infrastructure and commit to resolve those vulnerabilities; and commit to maintaining integrity programmes to maintain these standards, including the introduction of a container sealing programme using smart, tamper-evident containers. (It is expected that some 50 ports covering 82 percent of maritime containerised cargo shipped to the United States will be involved in these arrangements by the end of 2006.)

The Customs Trade Partnership against Terrorism (C-TPAT) has created a public-private and international partnership with just under 6,000 businesses (and the list is being steadily extended), including most of the largest U.S. importers, aimed at improving the security of the entire supply chain and container security. Under this arrangement, the US Customs and Border Protection Agency reviews the security practices of not only the company shipping the goods, but also the companies that provided them with any goods or services.

Cutting-edge inspection and surveillance technologies at the port of entry provide the final layer of protection. The equipment involved includes radiation portal monitors that provide the authorities with a passive and non-intrusive means to screen trucks, cargo containers, rail cars, passenger vehicles and other conveyances for radiation emanating from nuclear devices, dirty bombs, special nuclear materials, natural sources and isotopes commonly used in medicine and industry; personal radiation detectors; radiation isotope identifiers; large-scale gamma-ray/x-ray imaging systems used to detect whether there are anomalies between the reflected images and the cargo listed on the manifest; "itemizers" that incorporate a trace particle detection device capable of identifying both explosives and narcotics; portable contraband detectors that can locate density anomalies concealed inside tyres, dashboards, fenders, cargo container walls and doors, and other types of homogenous opaque surfaces or objects; and an integrated automated fingerprint identification system. (Dogs are also still used: they appear to maintain a comparative advantage in the detection of narcotics,

bulk currency, human beings, explosives, agricultural pests and chemical weapons.) The U.S. Customs and Border Protection Agency has even more esoteric equipment in the form of unmanned aerial vehicles, ground based sensors and remote video surveillance systems, radar systems, various types of aircraft and boats, geographic information systems and an integrated surveillance intelligence system to provide greater security between ports of entry.

The financial costs associated with this level of increased security for US ports alone have been enormous. Funding for port security in the US in FY 2001 was \$259 million. In FY2005 it was approximately \$1.6 billion.

### *Impact of these developments on national border regimes in the Pacific*

Meeting the expectations of the international community for enhanced border security is proving very difficult for most FICs. Parliaments within the region face a legislative overload, Ministers are being confronted with requests for expenditure on items of equipment for which no budgetary resources are available, staff working at the border are being asked to adapt and learn at very short notice how to operate complex new systems and technologies, and all feel pressured by the threat of sanctions from the international community (especially the United States) if they do not conform quickly. As at June 2006, no FIC Parliament had succeeded in passing all the laws required to implement the UN's counter-terrorism resolutions (for example, putting into their domestic law the ability to publish a list of prohibited organisations) though all had made a start and some had almost completed the process.

The extent of the progress achieved to date within the region is a function of three factors:

- The existing capacity of the border management regime in each country (the adequacy of staff numbers and financial resources, the skill sets of current staff, the availability of electricity and equipment, etc.);
- The range and complexity of the new tasks being imposed on border agencies in the Pacific region; and
- The nature and scope of the assistance being provided to them and the conditions and priorities that are attached to it.

#### *(i) Brief review of the existing capacity of FIC border agencies*

It will simply not be possible for any FICs to adopt all the high-tech approaches pioneered by the United States and European Union. For example, at two of the major border-crossing points between Papua New Guinea and Indonesia (one on the northern coast west of Vanimo and one on the southern coast near Weam)

there is no electricity supply with which to power computerised systems. In this situation even the simplest of real time identity checks against the country's own migration and police records is not possible (let alone access to international data bases). It is unlikely to be economic to station large portal X-rays capable of monitoring the contents of containers in all the ports and airports of many small FICs. Other more esoteric equipment such as isotope detectors may never be acquired on the reasonable grounds that the assessment of risks simply does not justify this type of response. But a non-negotiable core of the new international requirements will still have to be met by FICs – such as the obligations imposed by the UN Security Council Resolutions, the provisions of the ISPS port security and ICAO aviation security codes and the United States government requirements for the pre-screening of cargo bound for that country. Similarly, API/APP procedures have to be introduced for all FIC-originating flights to the United States and, eventually, for most international flights.

As part of its Regional Trade Facilitation Programme, the Oceania Customs Organization Secretariat conducted a survey of FIC customs administrations to evaluate their progress in implementing the integrity measures outlined in the Revised Arusha Declaration. It covered aspects of administrative practice such as leadership; the adequacy of the regulatory framework; transparency; automation processes; the uptake of reforms and modern processes; audit and investigation techniques; the adoption of a code of conduct; adequate staff remuneration, employment, and rotation practices; staff training and development; etc. The results, collated in December 2005, showed that on average most customs administrations had been able to implement no more than about 40 percent of the required measures under each category. The overall conclusion from the survey was that the full implementation of the integrity measures was currently beyond the capabilities of FIC customs administrations, partly because of the lack of resources but also because of a lack of commitment from governments and the low priority most FIC governments attach to these reforms. (These results, of course, are now over a year old and considerable progress has no doubt been achieved since then.)

It is clear, nonetheless, that most FICs at present are seriously under-resourced. There is insufficient equipment, especially for hold baggage screening and for the X-ray of containers; few FICs have infra-red detection technology; apart from Samoa, no FICs have adequate information processing systems at the border and not all FICs have border points with an uninterrupted power supply.

Police administrations are in a broadly similar situation with problems in many FICs of poor training and management oversight; a low level of skills, particularly in investigative techniques; low morale; and inadequate remuneration. The administration of justice encompasses much more than the

Police; training and other forms of technical assistance are required by judges and prosecutors, reserve bank officials, the staff of Financial Intelligence Units, parliamentary counsel responsible for drafting legislation, and the Ministers responsible for sponsoring legislation through Parliaments. Assistance is also needed to educate the wider public. Both bilaterally, and through regional organizations such as the Pacific Islands Chiefs of Police Secretariat, considerable resources have been devoted to training and other forms of technical assistance. The Australian Government has sponsored the Pacific Transnational Crime Centre in Suva and the associated Transnational Crime Units in six FICs together with the dedicated secure email system (SPLEXNET) that links these bodies. Financial Intelligence Units have been established in nine FICs - Cook Islands, Fiji, Marshall Islands, Niue, Palau, Samoa, Solomon Islands, Tonga, and Vanuatu. Fiji expects to join the Egmont Group (an international grouping of Financial Intelligence Units) in 2007, which is evidence that it is operating to the demanding standards required for membership of that group.

Migration agencies are in some respects the 'Cinderella' organizations in most FICs. At one point recently, for example, Papua New Guinea had only five migration officers to monitor and secure its extensive border against illegal migration - a patently inadequate level of staffing. The migration portfolio in FICs is often held by Ministers bundled together with several other more 'interesting' portfolios, which is one reason why migration is accorded a low priority. As a result, migration officials tend to be poorly supported and resourced. The legislation is often deficient, meaning that it is difficult to refuse entry to undesirable immigrants and even more difficult to have someone removed from the country. Generally, they are poorly equipped and are not supported by robust systems. The one exception to this general picture is Samoa where the Australian Government has just completed a four-year institutional strengthening project. The Pacific Immigration Directors' Secretariat within the Forum Secretariat has been providing FICs with what advice and technical assistance it can but it itself is staffed by only two or three officers so its efforts are inevitably incommensurate with the size of the task.

It is a particular problem for all the border agencies that they are a constant target for criminal networks trying to suborn their staff. Because it is imperative that the details of investigations must not be revealed to, or be influenced by, criminal networks, it sometimes becomes necessary to exclude the staff of agencies whose integrity has become questionable from participation in ongoing operations. This can create a lot of tensions between staff of different agencies in particular countries and make it difficult to design organizational arrangements along textbook lines. It means, for example, that organizational representation on Transnational Crime Units may differ from country to country. Groups on which agencies might expect to be represented, such as the Combined Law Agency

Groups which are currently being established in many FICs, may have to be bypassed on operational matters if there is a suspicion that information provided is not being kept secure. While this may be unavoidable in particular cases, it weakens inter-agency collaboration when it occurs.

Security at FIC ports and airports is being upgraded with assistance from the staff of the SPC managed Regional Maritime Programme and the Pacific Aviation Safety Organization. The Regional Maritime Programme, based in Suva, originally focused on building the capacity of FICs to meet international safety and training standards to achieve “white list” status under the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW-95). More recently it has expanded its services to help FICs meet the new international security standards in both the shipping and port sectors, including the reforms required by the ISPS Code. There is a close link between the ISPS requirements and maintaining “white list” status under STCW-95. Loss of ISPS Code certification would mean that any vessel trading internationally calling at a non-compliant port may subsequently be denied access to ports in other countries (or incur disproportionate costs to regain the right to access), while ships registered in non-compliant FICs may face trading restrictions. To ensure that countries are able to maintain ISPS compliance, the training and certification of Ship Security Officers, Port Facility Security Officers and Maritime Security Auditors is essential. Loss of “white list” status would mean that seafarers would not be able to obtain employment on regional or international ships. FICs wanting to meet their international obligations and maintain their “white list” status must ensure that their maritime administrations and ports have verifiable systems in place and that their maritime training institutions are accredited as recognized training providers. This is another reason why it is important for FICs to meet the provisions of the ISPS Code.

The Regional Maritime Programme provides training to seafarers, maritime training institution staff and senior managers in FICs. Much of the training to training institute staff and administrators centers on the ISPS Code and the other requirements of the new international security regime. The Programme also undertakes compliance audits on FIC maritime management systems (in relation to safety, security, quality and the environment) in order to assess the effectiveness of those systems and compliance with maritime, regulations, standards and conventions. The aim is the development of a maritime management system in all FICs that is externally auditable. Progress is being made with this work.

The Pacific Aviation Safety Organisation is run as a “club” for the benefit of its FIC members.<sup>1</sup> It is currently based in Vanuatu. It is responsible for overseeing regional aviation safety oversight for its membership – overseeing airport and airline operational safety and security standards and ensuring they are met in its member countries. The core responsibilities encompass flying operations, airworthiness, security, airports and personnel licensing for these disciplines. Initially PASO focused on safety issues and personnel licensing and only recently added aviation security to its list of responsibilities. It is now beginning to focus much more strongly on aviation security and accreditation systems. It provides advice to national aviation authorities together with compliance audits and inspections to ensure that ICAO standards are met. It has also developed some model aviation legislation (based on New Zealand legislation). All FICs have adopted New Zealand aviation rules, except for Fiji, which uses UK rules. It is funded by membership subscriptions (which cover core activities), in-kind assistance from the Government of Vanuatu and from fees for its services (the airlines pay for the audits). Australian and New Zealand assistance has also been offered to help individual FICs to implement ICAO standards. Again, satisfactory progress appears to have been made in meeting aviation security obligations under these arrangements.

In all these agencies and areas of concern – such as port and airport security – the events of 11 September 2001 have forced a significant change in the focus and intensity of their activities to take account of the concerns of the international community. It has also required them to accept a number of additional tasks – some imposed for security reasons but others reflecting other changes in the international environment (such as the increased level of threat to bio-security).

*(ii) The burden of additional tasks*

Border agencies are being given additional tasks which are adding to the complexity of their job. Even before the events of 11 September 2001, the degree of difficulty in managing the border, and the levels of skill required, had been increasing each year as FICs negotiated international, regional or sub-regional trade agreements entailing multiple columns in their tariff schedules; as many of the FICs introduced VAT (which has major implications for border management); and as they began to enforce other international conventions to which they acceded (such as CITES, WCO conventions, and/or the new WTO/SPS agreement). In most FICs, customs officers also have a responsibility to intercept imports of prohibited or restricted goods such as illicit drugs, weapons, pornography, unsafe products, wildlife protected under CITES and goods which breach the intellectual property rights of other parties. As

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<sup>1</sup> The current members are Australia, Cook Islands, Fiji, Kiribati, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.

globalisation proceeds apace there is likely to be additional competitive pressure on local industries that may lead to demands in the larger and more developed FICs for the imposition of the anti-subsidy and anti-dumping provisions of the WTO and local legislation. This is another complex and information intensive activity that can only be implemented by well trained staff with ready access to modern communications and information systems.

In addition, there is now a growing demand in many countries for checks on departing passengers to check compliance with laws relating to the export of heritage goods, weapons, defence goods, plants, wildlife or any other goods requiring an export permit.

The new anti-terrorism requirements, such as the provision of advanced cargo information and cargo pre-inspections, Advanced Passenger Information and Advanced Passenger Processing and the screening of hold-stowed baggage all impose additional burdens upon border agencies (albeit shared, in some cases, with shipping and airline owners).

The provision of adequate trade and conformance services in FICs presents another set of challenges to FIC border agencies. There are a lot of institutional arrangements in developed countries designed to facilitate trade, particularly by setting standards of various kinds for goods and services to assure wholesalers, retailers and consumers that they are receiving products that are safe, fit for purpose, and that conform to the description of the products ordered (to ensure, for example, that goods are of the correct weight, size or volume specified in the purchase contract). FICs have a dual interest in ensuring that products traded across their borders conform to international standards: it is important that FIC exporters have access to up to date information on international standards to ensure that they comply with international requirements and it is important in protecting the government's revenue base to be sure that duties and excises are being assessed on the true weight or quantitative unit of goods as specified in the customs clearance documentation.

There is a complex network of international and national agencies each with its own role in providing standards and conformance services (e.g. the ISO, OIML and BIPM). The main elements involved include standard setting (with standards usually incorporated into legislation - or subsidiary legislation such as regulations); conformance assessment (the process of accreditation of certification bodies and the certification process relating to (a) testing and inspection; and (b) management systems - such as ISO 9000 series); and finally compliance testing of (a) products; the management and quality control systems used in the production process; and (c) metrology (testing the accuracy of measures of weight, length, time, etc).

Standard and conformance capacity among FICs varies from country to country but, on the whole, most FICs have little or no capacity to provide these services. (Forum Secretariat, 2001). While there may be some limited consumer protection legislation there is little trade standard legislation; what exists is usually very old and is unlikely to be enforced. The FICs do not have standard setting bodies and rely heavily on unilateral recognition of the standards used in developed countries such as Australia or New Zealand or the United States. There are some in-country laboratories and research facilities that could be used for compliance testing but the experience to-date has been very disappointing. The low volume of demand for testing makes a lot of this work uneconomic. The SPC is already providing extensive standards and conformance services in the region (especially in the animal and plant protection areas) and had suggested a centralization of services in a regional facility. A Forum-funded study in 2001, however, argued that it was not realistic to develop laboratory facilities in any FIC and that testing and inspection laboratory certification services should be provided by existing organisations in Australia, New Zealand and the United States. Neither did it recommend the establishment of Laboratory Accreditation Organisations within the FICs because these services were already available in Australia, New Zealand and the United States. It argued that the establishment of a Laboratory Accreditation organisation in, say, Fiji and Papua New Guinea would have limited capability, would not be fully utilized, would not eliminate the need for accreditation from Australia, New Zealand or the United States and would create an ongoing overhead for the country and other FICs. For similar reasons it also argued against the establishment of accreditation bodies in FICs to certify management systems. The only area in which it thought FICs should maintain domestic capability was in basic metrology for Length, Mass and Volume, with a slightly higher level of capability in Fiji and Papua New Guinea (to allow them to calibrate the Reference sets in other FICs on a competitive commercial basis with Australia and New Zealand). The only other regional arrangements recommended were the maintenance of SPC's existing plant and animal material testing services and the maintenance of a regional laboratory register which could be maintained on the internet.

The most significant constraints on the trade of FICs arise from biosecurity requirements. Customs requirements can increase the time and costs associated with international trade but quarantine requirements can block trade completely. The Sanitary and Phytosanitary Agreement (SPS) negotiated under the aegis of the WTO introduced a rules based system for determining access to the markets of other countries for exports of animal and plant products, including food. The organisations responsible for the development of the rules are:

- The Organization International des Epizooties (OIE) in the case of trade in animals and animal products;

- The International Plant Protection Convention (IPPC) provides an agreed framework to facilitate trade in plants and plant products; the standards are developed through the Interim Commission for Phytosanitary Measures (ICPM);
- The Joint WHO/FAO Codex Alimentarius Commission in the case of food products.

A FIC wanting to gain access to another country's market for a particular product must provide, as part of the application, details of all the pests and diseases of that product in its own country. This will require specific pest and disease surveys of the growing areas and surrounding areas. If specific pests or diseases of concern are identified, further research and scientific trials may be required to establish the effectiveness of any proposed treatment. The Codex rules also cover aspects of food safety including chemical residue levels and labelling. If all the preliminary hurdles are successfully cleared and trade is permitted, it becomes just as critical to maintain the pest and disease status of the exporting country - which requires an effective and internationally credible animal and plant pest and disease surveillance regime in the exporting country.

The standards developed by the OIE, ICPM and Codex require access to a range of advanced scientific expertise that is in extremely short supply within FICs. (Indeed, a Forum financed quarantine facilitation study in 2000 estimated that the number of staff among FICs with the skills required for this work - in entomology, plant pathology and marine science - had declined over the previous decade because of retention problems.) The skill shortages also extend to the ability to conduct Hazard Analysis and Critical Point Control analysis (HACCP). The ability to provide food safety assurances based upon HACCP is effectively a mandatory requirement for the export of processed food products to developed countries.

Historically, many FIC quarantine services acquired a narrow cargo/passenger processing focus which is quite insufficient for contemporary needs. The objectives today are to: (i) facilitate trade; (ii) maintain food security; (iii) maintain environmental assets, including bio-diversity, which can be of critical importance for the tourism industry; and (iv) minimise incursions of exotic pests and diseases. The link between trade standards and human health is also of growing importance these days. In the 1990s, outbreaks of cholera in Pohnpei lead many countries to refuse entry to all fresh foods originating there. Current concerns about avian flu focus specifically upon the link between animal health and the risk to human health.

Achieving a wider set of bio-security objectives will call for a more complex organisation of agricultural, marine and scientific staff (Landos, 2000).

Agriculture and Aquaculture Departments (where these exist) must take responsibility for the ongoing surveillance required to maintain each FICs current bio-security status. The body of scientific expertise required to assist with applications for risk assessments and treatment assessments may need to be provided regionally through a network of a few permanent science officers based in regional organisations and staff in other research based organisations, such as universities and research institutes within the region, to which such work can be contracted out.

*(iii) Bilateral and regional assistance to FIC border agencies*

Many FICs are currently receiving technical assistance in the form of staff training and donated equipment provided in the main through bilateral aid programmes to help them with these tasks and useful progress has been made in many areas following this approach. There is a question, however, about whether this will continue to be the best way in which to approach these problems.

*Arguments for focusing upon regional approaches*

The increased pressure for major system changes, with the associated costs of expensive new equipment and staff training for small and isolated countries with limited budgets, raises a fundamental question about how best to organise the implementation of these new requirements. Various approaches are being tried so it may be useful to consider the underlying arguments. The proponents of a regional approach to border management suggest that this could, potentially, offer a number of advantages:

- It would help achieve more fully coordinated action by ensuring that activities are coordinated both vertically (between countries in the region and with international organisations such as the UN, IMO, ICAO, WCO and WTO) and horizontally (across all other relevant programmes impinging upon border management activities).
- It could help to eliminate inconsistencies and tensions between different policies and activities;
- It would facilitate a better use of scarce resources;
- It would improve the flow of ideas and cooperation between different regional stakeholders in each policy area to produce synergies and smarter ways of working; and
- It would allow a more integrated or seamless set of services in particular areas.

This is essentially a call for a more collaborative approach to the management of borders in the region, bearing in mind the point that the management of any

particular border is best approached as a collaborative venture between the parties on each side of the border.

The architects of the Forum's Pacific Plan considered three different concepts of regionalism (regional cooperation, regional provision of goods and services, and regional integration of markets) and gave a lot of thought to the criteria they should use in the allocation of governmental functions to the international, regional or national level (Pacific Plan, 2005). They used three main tests for deciding whether a regional approach would be useful in any given area:

- A preliminary market test (if the market is providing services well, involvement by national governments and/or regional bodies should be minimal);
- A subsidiarity test (public policy making and its implementation should be allocated to the smallest jurisdiction with the competence to achieve it); and
- A sovereignty test (only the management of services should be shifted to regional bodies; policy making must be retained by countries).

A market test, in effect, helps to determine whether any particular goods or services are in fact public goods - simply because the market (for no other good reason) has failed to supply them.

Subsidiarity is the idea that central authorities should have only subsidiary functions i.e. perform only those tasks that cannot be performed effectively or efficiently at a more intermediate or lower level. (See Guerin, 2002 for a more comprehensive discussion.) Within an integrated economic entity (such as a federal state or economic union) this involves maintaining a "level playing field" for business activities (which means the basic ground rules for business - business laws, regulations and national-level taxes - should be similar for all businesses across the same economic jurisdiction) while simultaneously allowing a variety of preferences in other areas such as the relative richness (and hence costliness) of local (or state) facilities such as public schools, libraries, recreational and cultural opportunities and the relative attractiveness of the environment. The allocation of functions to either regional or national jurisdictions depends upon a number of factors including: (i) minimising transaction costs; (ii) the scope for internalising externalities; and (iii) the availability of the information needed for decision making and the cost of obtaining it. Transaction costs are influenced by economies of scale. In the presence of economies of scale, the production of public goods should be shifted to the more cost-efficient jurisdiction. There may also be spatial externalities ("spillovers") between local jurisdictions. Here the principle of fiscal equivalence (drawn from the theory of fiscal federalism) advocates achieving a match between those who receive the benefits of a collective good and those who pay for it.

Clearly, there are significant economies of scale in the operation of much of the high cost equipment and systems used for border management and there are significant spatial externalities in public health and bio-security. (Spatial externalities are a major factor impacting upon the management of ecological systems.) These are all sound theoretical reasons for treating border management as an important regional issue.

There is a degree of acceptance in the Pacific that border management lends itself to a regional approach. At the Pacific Forum meeting in Papua New Guinea in 2005, Forum Leaders recognised that border management was a major regional issue requiring a coordinated whole of region approach from all Pacific border management agencies. The Pacific Plan endorsed by Leaders at the same Pacific Islands Forum Meeting in October 2005 identified a number of border management issues as regional priorities for immediate implementation (i.e. between 2006 and 2008). These included the implementation of the Pacific Islands Regional Security Technical Cooperation Strategy in border security, which encompasses regional approaches to dealing with transnational crime, bio-security, and mentoring for national financial intelligence units; strengthening of law enforcement training, coordination and attachments; and the development and implementation of strategies and associated legislation for maritime and aviation security and surveillance. Other regional priorities with implications for border management also identified for immediate implementation include the expansion of trade in goods under SPARTECA and PACER; the integration of trade in services within PICTA and the EPA; the timely and effective implementation of the Regional Trade Facilitation Programme; and the implementation of the Forum Principles on Regional Transport Services including development of the Pacific Aviation Safety Office.

It may also be worth noting, that following on from the Forum Leaders' decisions on priorities, the Forum Regional Security Committee recently recommended the establishment of a Working Group on Border Management Issues and developed a strategic framework for the work of this body. The strategic framework that they have proposed covers security, law enforcement, public health, facilitating the movement of people and goods, immigration, and revenue collection. These proposals have yet to be approved.

In the light of the decisions already taken by Forum Leaders, it seems reasonable to conclude that, although there may be differences of view about how this list is weighted and how the objectives on it might be achieved, there is now effectively a consensus within the region that the following comprise regional public (or merit) goods: security from terrorism and lawless groups; institutions and systems which facilitate regional trade in goods and services; a smoothly

functioning payments system for intra-regional transfers; the safety and security of travel within the region for legitimate purposes; maintaining the integrity of border tax collections; arrangements to monitor the public health status of those travelling within the region; bio-security surveillance within the region; and the avoidance of environmental degradation where this impinges upon other states.

### *Managing regional public goods in the absence of a regional government*

Managing regional public goods in the absence of a regional government poses some challenges. It requires governments to work together as equals through arrangements that respect the autonomy of the parties - even though they may be far from equal in terms of the resources available to each of them. Delivering public goods of the kinds identified above is likely to entail one or more of the following techniques: (i) improving institutional arrangements within the region (e.g. the legislative and regulatory frameworks governing trade, travel, security and bio-security within the region); (ii) aligning national policies on topics that affect all of them (e.g. on the disposal of harmful substances in the oceans) or (iii) producing regional goods and services (such as jointly produced training programmes for police, customs or migration officers or joint patrols along a troubled border). Up to this point in time, the main approach has relied upon (i) harmonisation with international codes and standards and (ii) bilateral assistance to help FICs obtain the equipment and training they require. Given the urgency of the need, the emphasis upon bilateral assistance to help FICs meet their international obligations was necessary. For the longer-term development of the region, however, it may be more sensible to look towards a greater focus upon harmonisation at a regional level and the joint production of some border management outputs and outcomes (or in some cases the co-production of outputs and outcomes with NGOs or the private sector as, for example, with farmers' organisations or individual growers to strengthen bio-security surveillance in FICs).

Harmonisation is often considered the first and easiest step on the road to greater regional and, ultimately, global integration. The term refers to the harmonisation or equivalence of standards, regulatory requirements and conformity procedures and bi-lateral cooperation with trading partners in developing technical regulations, standards harmonisation and regulatory reform (Guerin, 2001). The economic arguments for harmonisation as summarised by Guerin are:

- The development and administration of different national systems is more costly for governments and the costs of meeting multiple sets of regulatory requirements discourages trading within the region and thus weakens the intensity of competition within countries of the region;
- It makes regulation more effective by extending its reach and reducing cross-jurisdictional leakage; and

- It helps achieve critical mass in research and development and the size of markets, thus allowing more scope for economies of scale.

The best examples of harmonisation can be seen within the Australia-New Zealand Closer Economic Relationship e.g. the harmonisation of securities law and other aspects of commercial law. Within the Pacific, the passage of model legislation in each national Parliament to implement the requirements of the UN Security Council anti-terrorism Resolutions is a form of harmonisation – in this case on an international scale. The standardisation of New Zealand and Australian food standards involves both the harmonisation of each country's overarching food standards laws (in each authorising the establishment of the Australia New Zealand Food Standards Authority) and the subsequent joint production of individual food standards by the authority acting on behalf of the individual Australian States and the two national governments.

The public management literature can help throw some light on best practice in joint-production. A lot of the literature about the attempts by OECD governments to achieve 'joined-up government' is dealing with almost exactly the same problem (Pollitt, 2003). Adapting the lessons already learnt by OECD governments at the national level to take account of the differences one must introduce when applying these approaches at a trans-national level, it is possible to identify a menu of techniques that governments acting collectively can select from to encourage the adoption of a regional perspective, to encourage greater policy convergence within the region and to work more effectively together. These include for example (moving progressively from the simpler to the more complex and more formal approaches):

- Arranging for joint research and information gathering, so that a common data base for policymaking is developed and owned by the regional group rather than by just one of the participants.
- Developing common IT systems so that everyone is contributing to the same database. (This does not mean using the same software – which may be more trouble than it is worth.)
- Exchanging key staff.
- Joint training and development of staff
- Organising effective systems for the early consultation of key stakeholders (rather than the 'too little, too late' approach).
- Appointing a trusted 'process manager' whose job is to manage creatively relations between the principal participants, so as to maximise productive interactions.
- Agreeing a formal regional partnership document which includes procedural rules specifying when mutual consultation is required and how it should be conducted. This should also set out the distribution of

- responsibilities. It may also need to include provisions relating to veto points and risk sharing.
- Developing common budgets that can only be accessed ('unlocked') when all the key stakeholders agree.
  - Organising "one-stop shops" or "one-window delivery" of services.
  - Appointing joint teams at operational levels.
  - Creating a top-level coordinating body/steering group.
  - Appointing one (or possibly more) "champions" for each major strategy at the political level. (This may appear to be problematic within a regional arrangement - but it seems essential to ensure that someone with political "clout" is charged with responsibility for clearing any implementation 'roadblocks' at a political level.)

How does the region rate in terms of harmonising laws and regulations or in using these techniques of joint-production to promote regional approaches?

The picture is mixed. Taken as a whole (and leaving the relationship between Australia and New Zealand to one side), there is a significant amount of cooperation within the region on border management issues but these rely much more upon the exchange of information and the coordination of national activities than upon regional harmonisation or joint-production. There has been some progress on harmonisation of standards and conformance services but in terms of joint-production the region has climbed only the first few steps of the "ladder of progressive steps". The Oceania Customs Organisation has successfully organized some jointly-produced research with a common data-base and several agencies are engaged in what are, in effect, jointly produced training programmes. Staff exchanges are being used more frequently and consultation processes are becoming more effective. There are still some problem areas, however, and in at least one area, critical information is still being withheld from regional security officials - suggesting that there is a problem in the management of the flow of essential information. There is no evidence of any move towards the joint- production of services involving the use of individual country assets, such as coordinating the schedule and operational areas of patrols by patrol boats in the region, although it would be sensible - from a regional perspective - to do so. There would appear to be ample scope in future for the joint production of research and the development of regionally agreed contingency plans in areas such as biosecurity and public health, and for the joint production of services in the trade conformance area e.g. for the services of regional testing laboratories. These are all areas where greater regional harmonisation of laws and regulations and joint-production of regional outputs and outcomes may be a better way to proceed (rather than continuing to rely so much upon bilateral assistance programmes) both because of the potential for economic benefits and in order to help promote a greater sense of regional cohesion, a sense of

empowerment for FICs and hence, a greater willingness to accept responsibility for the ongoing implementation of improved management systems and the effectiveness of their own border regimes. The trade-off, of course, may be some limited loss of sovereignty. But it would be reasonable to suppose that FICs would be willing to accept this cost if it is outweighed by the benefits.

Regional cooperation will be greater, the more countries in the region harmonise their legislation and regulations. Efforts at the regional level to encourage FICs to adopt model legislation have also had mixed success. While many FICs have made solid progress towards adopting the legislation required to implement the provisions of the various anti-terrorism UN Security Council Resolutions, a few are making much slower progress. Similarly, full compliance with FATF recommendations requires states within the region to pass legislation establishing Financial Intelligence Units and providing them with the legislative authority needed to combat money laundering and financial crime. Again, only nine FICs to date have established Financial Intelligence Units and of these, only the Unit in Fiji is at the stage of development where it has been accepted for membership of the Egmont Group. The IMO and ICAO requirements to address the risks created by terrorist threats to ports and airports, aircraft and shipping also require supporting laws and regulations which have not yet been enacted in all FICs.

In most of these cases, model legislation has been prepared and passed to the authorities in each FIC to use as a basis for national legislation. Model legislation cannot always be adopted in the form offered by international or bilateral partners, however, because every country has to ensure that the legislation will be consistent and conformable with all its other national laws. As a result of this, some customised redrafting is likely to be required in most countries. There is a shortage of skilled parliamentary council to do this work and it is often also difficult to get the necessary legislative time in a national parliament - which is a question of national priorities. Unfortunately, unless very well drafted, customised legislation can create inconsistencies between the legislation of different countries and these inconsistencies - or worse, no legislation at all - can create loopholes that criminal groups will exploit. In the customs area, not all countries have adopted the Harmonised Tariff Convention or are preparing to adopt the WCO Valuation Convention. This increases the transaction costs of traders having to deal with more than one set of tariff classifications, as well as adding to the cost and complexity of designing training programmes for customs staff in different FICs.

### *Strengthening regional 'centres' to provide more effective regional services*

In discussing the provision of regional services, there is an important distinction to be drawn between the role of national agencies operating within a regional framework and the coordinating agencies at the 'centre'. If a regional body (whether it be the Forum Secretariat or the SPC or a unified regional body as recommended by the Hughes Report) is to become "home" for an increasing number of regional coordinating 'centres' in future, it is important that officials at the 'centres' understand the ways in which 'centres' can add value to regional operations. Based on private sector experience, the United Kingdom Cabinet Office concluded that such centres can add value in five main ways (encapsulated as "value propositions") (U.K. Cabinet Office, 2000) :

- Build - assisting operating units to acquire critical mass and power;
- Stretch - raising the effectiveness and efficiency and (where appropriate) the profitability of operating units;
- Link - creating and coordinating links across operating units and contributing participants;
- Leverage - exploiting the assets of the operation by finding new ways to use existing assets (such as knowledge); and
- Develop - expanding the scope of a programme by suggesting additional fields of activity into which operations could usefully and effectively be extended.

This is a useful framework for staff in regional 'centres' to bear in mind as they consider the ways in which they can assist with the organisational development of the national border agencies they are assisting. There are some problems with current arrangements at the 'centre'. For example, there are no arrangements at the regional level for managing (as opposed to coordinating) the collection and analysis of security information across all the agencies involved in border management. In particular, there is no one with the authority to enforce compliance in the provision of information. There is at present a contentious issue involving the Forum Fisheries Agency and the Forum's Law Enforcement Unit. The Forum Fishing Agency, as part of its fishing fleet monitoring activities, requires licensed fishing boats to install and use transponders which reveal each fishing vessels whereabouts on a continuing basis to the FFA (via a satellite download station in Australia). This information would be useful to the Law Enforcement Unit and the security agencies in individual FICs who are trying to identify the movement of unidentified shipping through and around their islands. The Forum Fisheries Agency will not make the tracking information available, however, on the grounds that it is commercially sensitive information. It is very difficult to manage this sort of issue when information is being collected from a range of autonomous regional agencies. Some of the proposals of the Hughes Report, if adopted, might make it easier to manage this sort of

problem. Alternatively, the region may need to consider establishing a “one-stop shop” to manage all the information, and the analysis of that information, impacting on border security.

There is also an issue about the best use of existing resources. The way in which the many patrol boats gifted to FICs by Australia under its Pacific Patrol Boat Programme are used is an example. Some regional security advisers take the view that at present these expensive assets are not being used effectively; they argue that a more cooperative approach to the planning and execution of maritime patrolling would be beneficial to the region’s security. Current regional arrangements, however, do not appear to provide any clear mechanism for advancing this proposal.

The regional secretariats are bodies in which practitioners from member states can meet to share experiences, arrange for their home agencies to liaise in the provision of information, discuss opportunities for the coordination of activities and consider requests for technical assistance. Quite a lot of technical assistance is provided bilaterally by Australia, New Zealand, Japan, EU and the United States and the regional secretariats have already accepted a role in helping to coordinate this assistance. Given the amount of assistance that may be required by FICs in the near future to comply with the border management requirements of the international community, the managerial burden imposed by this role could grow rapidly. This may require an expansion in the capacity of the secretariats to manage their increased workload and to add value in the ways encapsulated in the UK Cabinet Office’s five value propositions for coordinating centres (build, stretch, link, leverage and develop).

## **Conclusions**

Border management is a highly technical activity and from the time of their independence most FICs have faced difficulties of one sort or another in maintaining the integrity of their borders. Before the events of 11 September 2001, the degree of difficulty in managing the border, and the levels of skill required, had been increasing each year as FICs negotiated international, regional or sub-regional trade agreements entailing multiple columns in their tariff schedules; as many of the FICs introduced VAT (which has major implications for border management); and as they began to enforce other international conventions to which they acceded (such as CITES, WCO conventions, and/or the new WTO/SPS agreement).

The terrorist attacks in September 2001 dramatically refocused the priorities of border managers. Realizing that the security of the supply chain is only as secure as the weakest link, the international community has imposed mandatory

security regimes in respect of trade, travel and financial flows with sanctions for non-compliance. The stronger emphasis on counter-terrorism has also strengthened the focus on transnational organised criminal groups – which was in any case a matter of growing concern in the Pacific. Public health and biosecurity threats at the border have also increased considerably – in part because of the increase in the volume of trade and travel and number of pathways.

All this has increased the burden on FIC border agencies and FICs are struggling to keep up. There is an increasing requirement for very expensive technology to monitor the movement of people, of goods and to monitor biosecurity risks. As a consequence, the costs of border management are rising rapidly and FICs are finding it prohibitively expensive to meet best international standards.

Three main border management issues confront the FICs. First, they must reorient their priorities away from the fish and rice issues with which FIC governments are traditionally preoccupied; while FICs at the highest political levels have already acknowledged their responsibility to respond to the serious and justified concerns of the international community, this change in priorities must now be reflected in departmental practices and budgetary allocations. Second, they must acquire, as quickly as possible, the equipment and skilled staff needed to implement the new international standards and practices. Third, they must decide upon the best way in which to organise their border regimes.

Progress is already being achieved in most FICs in implementing the new and more rigorous international standards. This has been achieved mainly through consultation and the exchange of information organised by the regional secretariats and with technical and material assistance supplied bilaterally by donors as well as through legislative changes to harmonise individual FIC laws with model international legislation. In the short run this has proved to be a reasonably successful approach to an urgent situation.

In the longer-term, however, a more cooperative and explicitly regional approach to border management might provide advantages to all the parties involved. Many of the objectives sought by governments can be readily redefined as regional goods. Harmonisation of standards and conformance procedures, and the joint production of regional outputs and outcomes would achieve economies of scale in the use of high cost assets, and critical mass in training and staffing, resulting in economies for governments and lower transaction costs for traders albeit at the cost of some limited loss of sovereignty. Such an approach, based as it is upon stronger collaboration between FICs, may also be instrumental in strengthening regional collaboration. The adoption of the Pacific Plan may signal faster progress in future on some of these issues.

### THREE POLICY ISSUES THAT INFLUENCE THE DESIGN OF BORDER MANAGEMENT REGIMES

There are three policy issues that can have a significant impact on border management arrangements. These deserve some thought in any discussion of border management regimes because policy settings in these areas influence both the design of many major border interventions (e.g. tariff levels, the relative “hardness” of bio-security regulations surrounding the importation of tropical products, migration quotas) and the extent to which these interventions achieve credibility with all relevant stakeholders and are respected, thereby reducing compliance costs.

#### *1. The development model for FICs that border interventions are designed to support*

Small island states pay a price for their smallness and isolation. In a world where no economies of scale existed, the costs of production would be the same in every location – so location wouldn’t matter. But in the real world, economies of scale do exist and location matters very much. The small market size of the FICs (except, perhaps, Papua New Guinea) reduces the scope for specialisation and for achieving economies of scale. This raises the cost structure of these economies relative to the cost structure of countries with larger domestic markets, and significantly reduces their ability to compete internationally.

Nonetheless, economists have traditionally argued that domestic market size does not matter so long as small economies are integrated into global markets and production networks. The successes of small economies such as Singapore, Mauritius and, in the Pacific, Norfolk Island, are often cited as exemplars. In practice, over the last decade or so, most FICs have been attempting to integrate more closely into global markets in the areas where this seemed feasible. The garment industry in Fiji, for example, entered into cut, make and trim production arrangements with Australian firms who supplied textiles and controlled marketing arrangements. And the operations of many hotel franchises in the Pacific region are firmly embedded into regional tourist circuits.

A recent study by the World Bank, however, has shed additional light on the disadvantages of smallness (World Bank, 2006). The studies suggest that there are strong ‘border effects’, mainly representing increased transaction costs, arising from the effects, not only of distance, but also of other less quantifiable impacts of isolation such as lack of knowledge about markets and institutional arrangements in other countries, a failure to develop effective business networks across borders, and cultural differences that reduce levels of trust between

potential business partners who live in different countries. Crossing a border, the World Bank argues, is the economic equivalent of adding thousands of miles to the distance between cities.

Would an alternative development paradigm help FICs out of this predicament? Developmental (or structuralist) economists, such as Robert Hunter Wade and Sanjaya Lall, argue that developing countries need to diversify their economies rather than specialise in line with their comparative advantage. The objective, they argue, is to produce a dense set of input-output linkages between different sectors of the national economy and a structure of demand which depends more upon domestic demand than upon export demand (Wade, 2005). The intensification of competition at different levels of the economy establishes a cycle of “cumulative causation” which drives growth. To achieve this, however, developing countries need “space” free from WTO disciplines for enterprises to master new technologies and skills without incurring enormous and unpredictable losses. In this sort of environment developing countries can coordinate learning across enterprises and activities and acquire dynamic efficiency. Robert Hunter Wade concedes, however, that:

“There are a number of small and non-growing countries which, even if untrammelled by international rules, could not hope in the foreseeable future to do more than provide a low-wage platform for rich-country outsourcing and whose domestic markets are too small to offer more than very limited possibilities for import replacement.” (Wade, 2005)

The developmental/structuralist paradigm then holds out little promise or hope to the small developing islands of the Pacific region. What hope, what promises can the alternative neo-classical prescription of “global integration” offer?

It has become very clear that the benefits of globalisation have been spread very unevenly among developing countries pursuing a ‘global integration’ strategy: some places seem to benefit much more than others. What are the implications of this phenomenon for the Pacific region? This requires a deeper understanding of the economic forces at work when investment and industrial location decisions are made and which tend to lead to decisions that persistently favour some places – “sticky locations” - over others.

Path dependency – history’s gift to some locations - is a potent factor in many cases. New investment follows old investment in the same locality – in some cases because it is substantially replacement or extension investment, in other cases because the old location retains strong historic advantages, such as a stock of skilled labour or complementary industrial facilities. (For example, Port Taranaki was preferred to Marsden Point as the planned site for a national

imported LPG terminal in New Zealand essentially because Taranaki already possessed a skilled labour force of gas fitters – inherited from the prior investment in the Kapuni gas field.) Economies of scale and scope can also be important: this tends to favour populous locations. (In New Zealand, most consumer durables production facilities migrated to Auckland in the 1960s and 1970s in order to reduce average distribution costs.)

The copious literature explaining the factors promoting industrial clusters and industrial agglomeration points to additional factors: vertical linkages (strengthening and thickening value-added chains) and horizontal externalities (derived from complementary products and services, the use of similar specialized inputs, technologies or institutions – such as a shared labour market for high skilled labour – and learning across firms). The drive for greater just-in-time production may also be a contributing factor in some cases.

Wade, among others, points to more subtle factors centering upon the operation of global value-added chains i.e. the sequence of operations that go to make final products, including R&D, design, procurement, manufacturing, assembly, distribution, advertising, sales, and after-sales service. He argues that these global value-added chains have become spatially disarticulated and the lion's share of the value added has migrated to the two ends of the network – to R&D and design, at one end, and to distribution, marketing and after-sales service, at the other. These are the activities that attract increasing returns. Activities within the value chain that are more subject to diminishing returns have been shifting to low-wage zones, while those more subject to increasing returns tend to stay at home in a 'high-wage zone'. This phenomenon can be observed within the Pacific region. As mentioned earlier, garment and fashion designers in Australia and New Zealand sub-contracted the low-wage activities of cut, make and trim to factories in the Pacific Islands while retaining a tight grip on the design and marketing functions; and a car assembly firm outsourced the diminishing returns activity of wire-harnessing to a factory in Samoa.

The effect of this trend is a world more sharply divided into a high-wage zone and a low-wage zone. The effect is reinforced by further microeconomic factors:

- The wages cost of sophisticated capital intensive industries relative to other costs, is very low, so firms are willing to pay high wages to keep the highly skilled labour needed to operate this machinery.
- The capability of a firm relative to its rivals depends not only on the skills of its workers but also on the collective, firm-level knowledge and social organisation of its employees. Much of this is tacit and informal, transferred mainly through face-to-face relationships – not transferred easily to people at a distance.

- Firm immobility is reinforced by the fact that, for many products and services, quality and value go up not continuously but in steps. Getting to higher steps may require big investments, critical masses, targeted assistance from public entities, and long-term supply contracts with multinational corporations seeking local suppliers.
- At the next round, the greater wealth and variety of economic activities in the high wage zone (not to mention the institutions that manage conflict and encourage risk-taking, such as the legal system and social insurance) mean that the high-wage zone can more readily absorb the shocks from innovation and bankruptcies, as activity shifts from products and processes with more intense competition to those with less competition close to the innovation end.

The last point is the most cogent. High value-added activities are generally the product of complex and knowledge-rich processes requiring complex contracting arrangements. These will only be conducted in countries with advanced property rights systems and strong institutions capable of safeguarding intellectual property and enforcing complex contracts.

For all these reasons it is clear that the bulk of the high wage jobs in the region will continue to be located in the region's metropolitan countries - Australia, New Zealand, Canada and the United States. FICs will not obtain any significant number of high wage jobs from participating in a regional 'global integration strategy'. If the citizens of FICs are to have any hope of participating in the region's relatively high wage zone they must be free to migrate.

Migration is an age-old livelihood strategy (and, of course, the strategy adopted by the forefathers of most New Zealanders and Australians). In the Pacific, the necessity of adopting such a strategy is the inevitable consequence of small markets, economies of scale, imperfect competition and the distance of FICs from major markets. Indeed, it was a core assumption of most early models of economic development that the migration of relatively low-productivity and low-paid workers in rural areas to more productive and higher paid work in urbanised areas would drive the development process (see, for example, W. A. Lewis, 1954). The point here is that policies by metropolitan countries that are seen to be maintaining such a very visible disparity between high-wage and low-wage zones while not allowing access by any (or relatively few) low-wage people to the high-wage economies will be considered to be unfair and is certain to arouse political and social discontent in the low-wage countries of the region.

A global (or regional) integration strategy is incomplete if it does not allow at least some scope for migration from low wage zones to high wage zones - and hence the associated flow of remittances that can be expected to flow back to

FICs. Aid cannot substitute adequately for trade and, for similar reasons, it is not an adequate substitute for migration. Realistic and reasonable migration policies are required if border controls are to receive the support from all the communities in the region needed to make them effective with low compliance costs.

## *2. Replacing foregone trade tax revenue*

Closer economic integration within the region carries with it some serious implications for the fiscal position of FICs. Greater trade liberalisation implies a loss of trade tax revenues which, in some FICs, are a major component of total tax revenue. In Kiribati, trade taxes account for 64 percent of all tax revenue; in Vanuatu they account for 57 percent and they account for about a third of total tax revenue in Fiji, Samoa, Tonga and Marshall Islands. The issue is how this permanent loss of tax revenue is to be recovered.

The fiscal impact of tariff reductions depends upon how the level and coverage of tariffs changes. It also depends on the price elasticity of demand for imports and the price elasticity of supply of import substitutes. If imports are sufficiently price elastic, there may be a revenue gain. And if protectionist motives have been dominant, or customs administration poor, tariffs may be above their revenue-maximising levels. The sign and magnitude of the actual revenue impact will also depend upon the timing and sequencing of the trade policy reforms undertaken and each country's initial conditions.

The very early steps in trade reform, especially in a country which has been following an import substituting industrialisation policy (as Fiji was in the first decade after its independence) – usually involving the reduction of prohibitively high tariffs, tariffication of quotas, elimination of exemptions and raising low tariff rates to move towards a more uniform tariff – may well lead to an increase in trade tax revenues (Ebril et al, 1999). But there is a point at which further liberalisation begins to reduce revenue. This is the point at which most FICs find themselves today.

The obvious and recommended strategy is to strengthen domestic indirect taxes – excise taxes plus a consumption tax. It has been shown that for a small economy a strategy of increasing domestic consumption taxes slightly less than one-for-one with tariff cuts has the attractive properties of leaving consumers better off (because the consumer price falls), preserving the production efficiency gain from the tariff reform, and increasing the government's revenue (since consumption is a wider tax base than imports) (Kean and Ligthart, 2001).

A study prepared for the Forum Secretariat (Filmer and Lawson, 1999) suggested that there should be few problems in replacing the revenue foregone from any of the proposed Pacific free trade agreements then being considered, including those that envisaged the inclusion of the major metropolitan countries. Filmer and Lawson argued that (a) the size of the problem had been overestimated in earlier reports (such as the Scollay Report); and (b) the revenue shortfall could be readily made up by converting some of the key import taxes into excise taxes that would apply both to imports and any domestic production – all imports including any originating from FICs would have to pay the excise tax. They acknowledged that constitutional problems would have to be overcome in some FICs before their proposed solution could be introduced; that it would require improved customs procedures to correctly identify the origins of imports; and they identified three FICs (Kiribati, Tonga and Tuvalu) as facing particularly severe problems which would not be immediately remedied by their proposals. It also appeared to assume that VAT rates could be “fine-tuned” to gather the precise amounts of revenue required. While this is theoretically possible it is questionable whether the political culture within FICs would accept VAT rates at anything other than the usual rates of 10 or 12.5 percent.

In practice in many developing countries, the practical difficulties of collecting domestic revenue mean that the theoretically projected result cannot always be attained. Evidence collected by the IMF shows that middle income countries have recovered between 45-60 cents for each dollar of lost trade tax revenue from other sources. Low-income countries, however, have recovered, at best, no more than about 30 cents of each lost dollar (IMF, June 2005). There is conflicting evidence on the issue of whether the presence of a VAT has made it easier to cope with the revenue effects of reducing tariffs. Some studies suggest that countries which already have a VAT do better than those without a VAT; other writers are not so sure that the evidence supports this conclusion (Baunsgaard and Keen, 2005).

Baunsgaard and Keen argue that the extent to which a country optimally replaces lost trade tax revenues from other sources seems to depend on two considerations:

“The first is the costliness of raising revenue from alternative sources: what matters here is not so much the ease of collecting customs revenue, but the difficulty of collecting anything else. The second consideration is the rapidity with which the marginal value of public expenditure increases as the level of expenditure falls: intuitively, the impact effect of the loss of trade tax revenue is a reduction in public expenditure – and the greater the increase in the marginal value of public expenditure to which

this leads, the greater is the tendency to recover revenue from other sources." (Baunsgaard and Keen, 2005)

This 'incentive' effect doesn't seem to operate very strongly in developing countries. Overall, the empirical evidence shows that total revenue has fallen in most developing countries following trade liberalisation. But this is not inevitable. High income countries have in most cases recovered their losses and a few low income countries have coped well (Malawi, Pakistan, Zambia, Benin, Cote d'Ivoire and the Gambia). The evidence shows that the countries that succeeded in recovering lost trade tax revenues were those that also strengthened their income tax regimes. It is also possible in the successful cases that indirect effects operating through higher levels of openness and income consequent upon trade reform have more than offset the direct loss of revenue. Recent advice from the OECD to African countries has been unambiguous: they should recover foregone trade tax revenue by: (i) increasing domestic commodity taxes; (ii) introducing and/or increasing VAT; and (iii) strengthening overall tax administration and modernising customs procedures with capacity building assistance from aid donors (Fukasaku, 2003).

A different study (Tanzi, 1989) shows that the exchange rate can also be a significant factor in accounting for lost revenue: an overvaluation of the exchange rate has a direct effect on tax revenue by suppressing the import and export bases measured in domestic currency terms. This reduces collections of international trade taxes and sales and excise taxes. Overvaluation also has indirect effects by reducing the incentive to produce goods for export, encouraging capital flight and currency substitution, weakening the balance of payments, encouraging black markets and encouraging trade restrictions. Tanzi concludes that even in highly indebted countries, where it is generally assumed that devaluation weakens the fiscal balance through its effect on debt service, higher revenues may offset increases in debt service so that the overall effect of devaluation is largely an empirical question. It all depends upon how the economy reacts to a more realistic exchange rate setting.

All this suggests that the region needs to give a lot more thought to the strategies they need to adopt to deal with the fiscal impact of further trade liberalisation. Countries like Vanuatu that do not yet have an income tax will face the greatest pressure. But even countries that have both an income tax and a VAT may need a major review of current tax rates. This will require very skilful political management to avoid further social unrest in FICs that have already faced significant restructuring. They are all likely to need a lot of technical assistance to ensure that revenue losses resulting from any further trade liberalisation are made good from other sources. As most developed countries know only too well, maintaining the tax base is a constant struggle.

### *3. The impact of anti-corruption policies on border management*

Corruption is an issue that cuts across all border management activities. Corruption has become endemic in some FICs and Ministers and officials responsible for border management have become a major target for criminals attempting to bypass border controls. Almost by definition, this is a particular focus for transnational criminal groups. Corruption is not just a border management problem, of course, but corruption at the border is a major pillar of the infrastructure supporting the viability and strength of corrupt networks in the Pacific and, hence, a major issue for border management. The Chinese transnational criminal networks, also referred to as *guanxi* networks, did not introduce corruption to the Pacific (see Crocombe, 2001, Chapter 9 for a fuller discussion of the origins and impact of corruption in the Pacific). But they are now major players in this activity.

There is a symbiotic relationship between corruption and *guanxi* networks in weak states (Schramm and Taube, 2005). *Guanxi* networks developed in China over a period of several centuries when a weak central government was unable to provide the level of security needed by people to pursue their livelihood strategies. Legal arrangements provided only partial coverage of economic arrangements and court judgments were too arbitrary. *Guanxi* networks provided an alternative and superior institutional framework for secure economic transactions. Largely suppressed during the years immediately following the Communist Chinese assumption of government in 1949, *guanxi* networks began to re-emerge in China as the economy began to open up from 1979.

'*Guanxi*' is a relationship or social connection based on mutual interest and benefits. *Guanxi* networks are extended by the offering and acceptance of gifts, which over time create a relationship of trust. By accepting a gift or service, the involved person commits himself to perform an undefined reciprocal service at an unspecified time in the future. Thus an implicit contract is concluded, the fulfillment of which is linked to the particular network. The establishment of these contracts creates obligations that constitute a mutual dependency within the networks.

"In an uncertain environment, *guanxi* networks provide a transaction cost minimizing solution: the mutual exchange of services and the acceptance of abstract debt obligations is the principle integrating force within a *guanxi* network. It can be understood as a mutual investment in social capital which constitutes the framework of a system of order that co-

ordinates the interaction between the network members.” (Schramme and Taube, 2005)

The expenses necessary for club membership (gift giving, mutual exchange of favours, etc) have to be understood as an investment in social capital which, upon joining, takes the characteristic of sunk costs. In the language of institutional economics, this is a credible commitment. Thereafter, as participants play out an infinitely repeated game with a set of people they know, subsequent transactions are very low cost. The high fixed costs of membership enable minimal transaction costs for subsequent transactions. The response to opportunism is the withdrawal of goodwill or exclusion from the club – which will involve a massive increase in costs for future transactions.

In these ways, guanxi networks achieve two major objectives of economic governance – minimizing transaction costs and encouraging the voluntary self-enforcement of contracts.

“They constitute hyper-stable systems of order, equipped with high institutional inertia, that make their substitution by alternative systems of order – like formal legal systems – extremely difficult.” (Schramm and Taube, 2005)

There is a natural ‘fit’ between guanxi networks and the structures and social systems of traditional Pacific societies, especially in Melanesia, where the writ of formal government does not extend far beyond the boundaries of the principal cities. The governance of economic transactions is particularly weak in many Melanesian countries. While a government might exert itself to track down a murderer or any one else threatening public order, individuals will face great difficulty (and great expense) in seeking redress for perceived economic injustices. Instead, when their livelihoods are threatened, people turn for support to traditional systems and practices involving patronage networks through which favours are given and received on the basis of personal relationships and mutual obligations (Schoeffel, 1996). This is a governance framework that Pacific islanders understand very well.

This raises a serious issue of path dependency for development economists. When traditional approaches to the governance of economic transactions, in particular, are so deeply embedded in a society, it becomes very difficult to demonstrate how an alternative model really works. The economic costs are simply too high. An economic actor with a short-term orientation will persist in using the currently established system of order until the opportunity costs of maintaining the existing system surpass the costs of constructing a new system. The low variable costs of using guanxi networks and the high fixed costs make

the system very resistant to changing to a competing system once the initial investment has been made in the social capital it is based on.

The current approach to the reform of governance (and the fight against corruption) in the Pacific region is essentially a 'top-down' approach. It focuses upon the reform of the key institutions of governance such as the framework of law, financial management systems, auditing systems, tendering procedures, Ombudsman offices, the judiciary and courts system, police and the behaviour of the bureaucracy. The basic rationale underpinning this approach is the view that if corruption is caused by the absence of effective institutions, then re-building institutions to make them more capable and effective will reduce the incidence of corrupt transactions. Some recent research, however, suggests that while this may be necessary it may not be sufficient to supplant practices that are so deeply embedded in a society.

A "bottom-up" approach to combating corruption is likely to be more effective in the long-term. A recent study examines the complex relationships between trust and corruption (Uslaner, 2005). Trust in this context is a value expressing the belief that others are part of your moral community and that this is what creates the basis for cooperation with strangers. Societies with more generalized trust and less corruption have better governance, stronger economic growth, spend more on redistribution, and have greater respect for the rule of law. The issue is: where do you start? Will a reduction in corruption lead to increasing trust? Or must levels of generalized trust increase before there can be lasting relief from corruption? The conclusions of the study are pessimistic.

"To reduce corruption you need to increase trust. Trust changes slowly in most countries. Trust depends upon an egalitarian distribution of wealth in a society, and economic inequality is almost as stubbornly stable as trust... You can't increase trust by removing dishonest leaders and replacing them with a new set of elites... Culture, including the culture of corruption, changes slowly, if at all." (Uslaner, 2005)

The empirical research shows that as societies become less corrupt they do not become more trusting. Yet, as countries become more trusting they become less corrupt. The causal connection is from trust to corruption, not the other way around. In this case, the argument goes, reducing the incidence of corruption will not by itself secure better governance or stronger economic performance. Indeed, a campaign to reduce corruption in a country with low levels of generalized trust will only succeed if it is accompanied by a massive expansion in laws, codes, rules and regulations, all of which will add to transaction costs. What is needed is a set of measures to increase the generalized level of trust in society. One of the most effective ways of doing this is to improve the equity of income distribution

within society. This, it seems, is the acid test in demonstrating that the ruling elite regard the poor and disadvantaged as belonging to the same moral community as them.

### *Fairness and social cohesion in the Pacific region*

This directly leads to the issue of fairness in policy prescriptions. Common sense and all the experimental evidence shows that fairness matters to people and systematically increases their propensity for cooperation and reduces their propensity for conflict (Gorringer, 2001). Gorringer's other conclusions were:

- If social cohesion is defined as rising with society's propensity for cooperation and falling with its propensity for conflict, then more fairness will increase social cohesion.
- If transaction costs are defined as the costs of achieving and maintaining cooperation, the costs of avoiding and mitigating conflict and the costs of the remaining conflict, then more fairness will reduce transaction costs and increase economic growth.
- People are more likely to cooperate when the gains from cooperation are larger, and through this mechanism economic growth increases social cohesion.

Gorringer also argued that institutions can improve matters by (among other things), raising the payoffs from cooperation and lowering those from conflict, and by improving the fairness of processes and outcomes. It follows that a regional approach to border management, if it is to be successful as an instrument for increasing economic growth, should aim at increasing regional cohesion through policies and programmes that increase fairness and enlarge the payoffs to cooperation.

This approach should colour all the policy analyses of regional issues – including the analyses of trade and migration policies. In areas such as these, the metropolitan countries need to demonstrate through their policy choices that they, together with all the peoples of the Pacific Islands, remain parts of the same moral community. Needless to say, such an approach will more quickly increase generalized trust and lead more directly to a reduction in the incidence of corruption.

### *Conclusions*

The strategy of 'global integration' is the only feasible strategy for FICs – but the payoffs to FICs are likely to be meagre, which could be perceived as an unfair and inadequate payoff for regional cooperation, unless their citizens are allowed some access to the labour markets of metropolitan countries in the region.

Looking to the future, FICs are likely to face additional pressures to reduce tariffs (and it may well be in their own best interests to do so). However, any significant reductions will further reduce tax revenues and thus exacerbate the fiscal problems already facing many FICs, unless they conduct a major tax reform to replace the revenues foregone. This will necessarily involve a redistribution of the tax burden which will be a testing problem in political economy for most FICs and another potential source of social unrest.

The single greatest problem confronting border management in the region is the marked increase in the activities of trans-national organised criminal groups and the corruption of border officials that they target. This amounts to a serious attack on good governance. The most appropriate response to corruption should include both a “top-down” effort to make the institutions of governance more effective and capable and a “bottom-up” effort to increase generalised trust. A regional approach to border management, if it is to be successful as an instrument for increasing economic growth, should aim at increasing social cohesion in the region through policies and programmes that increase fairness and enlarge the payoffs to cooperation.

Borders will continue to be important to FICs in the foreseeable future for fiscal reasons, if for no other. As countries that import a large proportion of their consumption and investment requirements and that employ VAT as a major revenue instrument, revenue collections at the border will continue to be of critical importance to fiscal stability. There is no prospect in the foreseeable future of seeing national borders being replaced by regional border governance arrangements and a common regional border. This would require a much greater degree of social cohesion within the region and a much higher degree of trust in the fairness of the overall economic relationship between FICs and the region’s metropolitan countries.

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