



Peter Strachan

# Failed states on our doorstep an emerging risk

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Country risk is a key factor for any investor looking at projects in far flung regions of the planet. Australian investors are often looking at projects in Africa, South America and Asian nations like Indonesia and the Philippines, but all too often we forget our near neighbours: Papua New Guinea (PNG), Timor Lesté and the Solomon Islands.

Significant investments are now being made or considered, but there are dangerous demographic trends pointing to social instability over the coming decade in these areas, and act as a cautionary note to investors looking at companies such as Oil Search, Horizon Oil, Kina Petroleum and Newcrest Mining.

## Good news

The good news is that the perilous positions of PNG and Timor can be managed over a 5-10 year period if the right policies are rapidly advanced. Failure to move will increase the risk of failed states emerging on Australia's doorstep with consequent negative impacts on regional investment and security.

A study of the demographic profiles of countries in the world's trouble spots from Egypt to Libya, Syria and Yemen shows that one of the main reasons why these countries have become unstable is that they suffer from rising unemployment and poverty as population continues to expand so that they can no longer feed themselves.

Intergenerational resentment soon sets in and there follows an age-based class struggle by the young and poor against the

old and rich in these nations.

Most people don't care too much about politics while their bellies are full. They can ignore corrupt and brutal leaders as long as the politics doesn't impinge on their daily lives.

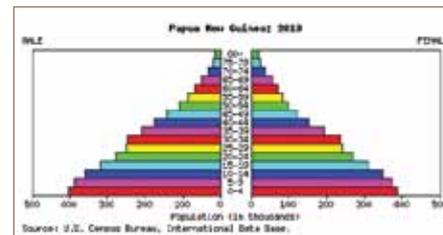
Add to this unstable mix a flat population pyramid, a rapidly growing population and increased competition for food, water and jobs and you soon see what has transpired in the Arab Spring.

## Disturbing

It is disturbing to compare this type of demographic profile to that of Australia's near northern neighbours of PNG and Timor Lesté, where a fertility rate of seven was recorded in 2002.

The example to follow comes from an unexpected quarter. In 1989, Iranian President Rafsanjani oversaw a rapid change in population policy. Realising that the costs of a burgeoning population would far exceed its capacity to provide adequate food, education, housing and employment, Iran's health ministry launched a nationwide campaign offering family planning assistance. Iran's parliament also withdrew food coupons, paid maternity leave and social welfare subsidies after a third child and birth control classes were required before any couple could get married.

These policy initiatives led to a rapid decline in fertility rates from an average of more than six children per woman to less than two children in the space of just 10 years.



PNG is a demographic timebomb.

Iran's population growth rate dropped from an all-time high of 3.2% in 1986 to just 1.2%.

A resulting, inverse or top-shaped Iranian demographic profile, with fewer people in each subsequent five-year cohort since 1985, shows what can be achieved when women have a choice in the matter of their fertility and have access to family planning knowledge and technology.

While the political situation in Australia's neighbours is likely to remain volatile over the coming decade, unless action is taken now to reduce fertility rates, those countries will become failed states before the end of this decade and the costs to Australia in terms of lost trade and investment, security costs and immigration control, will be much more than if we act today.

Australia's foreign aid needs to be heavily weighted towards following Iran's example from the 1990s, both in Australia and in the Pacific. In this way, fertility rates can be reduced below two by 2023.

*\*Strachan is a Stable Population Party of Australia candidate for the Australian Senate in the next Federal election.*

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