

## Paradise well and truly lost

### **Nauru: Greed, phosphate and gross incompetence in a tropical setting: the history of Nauru really is stranger than fiction**

It sits, a tiny eight-square-mile speck, way out in the vast and lonely reaches of the Pacific, halfway between Hawaii and Australia. In 1798 a passing British captain, the first Westerner to see it, dubbed it Pleasant Island. That old name sounds cruelly ironic now. Seen from the air, Nauru resembles an enormous moth-eaten fedora: a ghastly grey mound of rock surrounded by a narrow green brim of vegetation. On the ground, this unlovely impression is confirmed. Strip-mining has turned Nauru into a barren, jagged wasteland. The once-dense tropical vegetation has been cleared. The exposed rock reflects the heat of the equatorial sun and drives away rain.

Unlike many small, remote Pacific islands, Nauru possesses a valuable commodity, phosphate, a sought-after fertiliser ingredient. A high-grade supply was discovered in 1900. For a brief, heady moment in the 1970s, Nauruans were, astonishingly, among the richest people on earth. Now they are poverty-stricken, unhealthy and look set to be clobbered by international trade sanctions. The story of Nauru's descent from prosperity to penury is one of the most cautionary tales of modern development.

Many of Nauru's problems can be traced back to the 19<sup>th</sup> century. In the 1870s, civil war between the island's 12 tribes reduced the population by 40%, largely thanks to firearms introduced by passing whalers. Then, starting with the Germans in 1888, the island was colonised not by one country but by five, in quick succession. The Germans brought with them lethal European diseases, which dealt another heavy blow to the indigenous population. Their rule was at best neglectful, as was that of the trustees from Britain, Australia and New Zealand who succeeded them at the end of the first world war. The Japanese, who occupied the island for three years during the second world war, were even worse. Their solution to the island's endemic leprosy was to load all the sufferers on to a boat and sink it. By the end of the war, what with air raids, deportation and massacres, there were fewer than 600 Nauruans left on the island.

Phosphate mining, however, continued apace under rulers of any kind. The stuff is not easy to get at. It lies between conical pillars of fossilised coral up to five metres high, and cannot be mined without leaving an uneven, unfarmable, impassable forest of white stone pinnacles. According to the outrageous terms of the monopoly which the colonial powers granted themselves, Nauruan landowners were paid just half a penny for every ton of phosphate extracted. Ominously enough, the first consignment sank in a storm off Australia in 1906. Undaunted, the colonial rulers introduced foreign labour to speed the plunder of the island. Today, out of a total population of 12,000, some 4,000 are foreigners. Australians serve as managers, doctors and engineers, Chinese run the restaurants and shops, while other Pacific islanders do the dirty work in the mines. That

was all very well for much of the 20<sup>th</sup> century, when the money was flowing in and Nauruans saw no need to work for a living. But nowadays few Nauruans are capable of doing these jobs. Only a third of children go to secondary school.

Foreigners continued to govern Nauru until 1968. By then some two-thirds of the phosphate was already gone-with all the destruction that entailed. In a terrible indictment of its own stewardship, the government of Australia declared Nauru uninhabitable and offered to resettle the population on a deserted island off the coast of Queensland. The Nauruans, determined to win control of their own affairs, opted instead for independence. In a final act of exploitation before bowing out, Australia, New Zealand and Britain forced Nauru to borrow against its future earnings from mining to buy out their shared phosphate company.

Nevertheless, Nauru's problems seemed surmountable. Indeed, the future looked bright. The government planned to set aside a portion of its revenues from mining to rehabilitate the land. Another portion would go towards public services and economic development, and yet another would be invested to provide for future generations. Nauru bustled with optimism and activity. A second, elaborate cantilever was installed to vault the phosphate over the sharp, bone-breaking reef which encircles Nauru and on to boats anchored offshore. A plant to treat the phosphate before export was also built. The islanders, no longer bound by colonial loyalties, began selling to new buyers, such as Japan and South Korea. All this helped push up revenues to \$123m by 1981 around \$17,500 for each islanders.

The government lavished much of this money on ordinary Nauruans, on a scale that has since proved unsustainable. There are no taxes of any kind in Nauru. The government employs 95% of those Nauruans who work. Schooling and medical care are free. If Nauruans need treatment that neither of the two hospitals on the island can provide, the government pays to fly them to Australia instead-though AUSAid, an Australian aid agency, recently warned that Melbourne hospitals would turn away Nauruan patients unless the country's medical bills are settled. Students who want to go to university are also sent to Australia on the government's tab. Electricity, telephones and housing are all subsidised.

### **Going pear-shaped**

With their government salaries and low living costs, Nauruans have enjoyed a way of life that, to other Pacific islanders, might seem enviable. Office hours are flexible. A much-used golf course fills some of the last green spaces on the island. A government station broadcasts three television channels for the islanders' enjoyment, though technicians often seem to lose interest in the programmes halfway through.

Yet the most popular pastime seems to be idly driving the 20-minute circuit around the island, drinking imported Victoria Bitter beer and tossing the empty cans out of the window. More active types lift weights or train frigate birds – although the pelican-like creatures are no longer coached to regurgitate the fish they catch for the islanders. Far easier to stop off at Capelle's, the island's biggest general store, where three times

more shelf-space is given over to biscuits than to fruit and vegetables. Greasy fried rice at one of the many hole-in-the-wall Chinese restaurants is another staple.

No wonder Nauru has become something of a case study for research on obesity and diabetes. The government does not keep precise enough statistics to be entirely sure, but Nauru appears to have one of the world's fattest populations, and certainly one of the most diabetic: around 50% of Nauruans suffer from the disease. It stems from their sedentary life-style and fatty diet, coupled with genes more suited to warding off starvation. Male life expectancy has fallen to just 55 years, some 20 years less than relatively nearby New Zealand.

Earlier this year, in an effort to set a healthy example, the island's president, Rene Harris, began a weekly walk around the kilometre-long airport runway. But this has failed to attract anything like the crowds that thronged to a recent "Big Is Beautiful" beauty pageant. Injury followed insult when, soon after his first walk, Mr Harris had to be flown to Australia for emergency medical treatment.

### **Unsound investments**

In the decades following independence, Nauru still had money to burn, even after the government had indulged its citizens' leisurely lifestyle. Surplus revenue was invested in property around the Pacific rim, stakes in different businesses and all manner of financial schemes. Although the government has always been cagey about its finances, outsiders valued its investments at over \$1 billion as recently as the early 1990s. Since then, however, the value of those investments has plummeted to something nearer \$130m. Even that estimate may be on the high side, as it includes many mortgaged properties and excludes an unknown amount of other borrowing.

Unscrupulous foreigners have played a large part in Nauru's post-independence catastrophe. A series of shysters and con-artists persuaded Nauruans to fritter away their money. One Australian financial adviser persuaded Nauru to shell out \$2m for a musical he had written about the life of Leonardo da Vinci, which folded after four weeks on the London stage. Another conned the government into spending \$60m on "prime bank-notes", a sort of derivative that turned out to be just as dodgy as it sounds. Much of the money was eventually recovered, but only after lengthy court cases spanning several continents.

Nauruans, too, wasted their fair share. Many investments were made for reasons other than economic merit. The island, whose remoteness in the middle of the Pacific is impossible to exaggerate, makes an improbable air-travel hub. Yet the government backed Air Nauru, which for a while boasted a fleet of five 737s. (It is now down to one.) It did not help that former presidents used to commandeer the airline's planes for holidays, leaving paying customers stranded on the tarmac. Similarly, a cruise ship based in Nauru did more for the people who worked on it than for the country's bottom line. Prime pieces of property have languished, undeveloped, for decades. The government of Fiji recently repossessed a hotel in its capital that Nauru had bought years ago and then left to rot. Another hotel, in the Marshall Islands, has been under

construction for more than 20 years. Over A\$50m (US\$36.6m) was spent on a site in Melbourne that Nauru later sold for less than A\$20m.

In 1993, the man brought in to run the Nauru Phosphate Royalties Trust, the government's main investment vehicle, resigned after just two months, complaining that it was on the brink of insolvency through mismanagement. The root cause of the trust's difficulties, though, has been the government's failure to own up to Nauru's reduced circumstances. Phosphate production peaked in the 1980s, and has since fallen by two-thirds. The price of phosphate has also dropped, greatly reducing Nauru's revenues. To cover the shortfall, the government has simply run up enormous debts for years and passed the bill to the trust. In 2000 the deficit reached 18% of GDP, according to the Asian Development Bank. The government found it could not pay civil servants' wages, and had to limit withdrawals from the state-owned Bank of Nauru.

Eventually Nauru's leaders had to do something about their increasingly dire financial situation. In 1998, they persuaded the ADB to lend the country \$5m to help overhaul the sieve-like public sector. Since 1999, as part of the deal, the government has sacked roughly a third of its civil servants. But Nauru's government (like most others) would rather do almost anything than cut its own budget. So it has resorted to several desperate money-raising ventures, including that old stand-by of cash-strapped third-world governments, befriending Taiwan. A sun-bleached Taiwanese flag flaps wanly outside the run-down colonial villa that serves as the island's only embassy. In return for this dubious honour, Taiwan has lent Nauru money at bargain rates.

Suing colonial governments for the destruction wrought by mining has also proved a handy source of revenue. In 1989, Nauru brought a case against Australia at the International Court of Justice in The Hague despite the fact that, since independence, it had been as responsible for its own misfortunes as any foreign government. In 1993, Australia settled out of court for \$72m.

### **Bring money, no questions asked**

But Nauru's biggest money-spinner by far is offshore banking. For as little as \$25,000, anyone can set up a bank in Nauru, without ever setting foot on the island. Some 400 people have done so; all are registered to the same post-office box at a tiny cabana in Nauru. There is next to no regulation. Unlike other tax havens, which oblige banks to record transactions but keep the details from the prying eyes of foreign officials, banks incorporated in Nauru are not required to keep records at all. Tracing shady transactions or the crooks who conducted them is all but impossible. As if that were not enough, Nauru also sells citizenship a useful last resort for evading extradition.

The Russian Mafia could not have devised a better system for itself. According to the Russian central bank, some \$70 billion vanished into Nauruan accounts in 1998, never to be seen again. Nor is Russia the only concerned party. In 2000, a taskforce of the Group of Seven rich nations identified Nauru as one of 15 countries deemed uncooperative in its fight against money laundering. By October, only Nauru had not managed to pacify the G7. The government had introduced anti-laundering legislation

in August, but the taskforce dismissed it as inadequate. It is hard to see how Nauru could manage a more sophisticated system, yet the G7 are still threatening to impose severe financial sanctions. As it is, big western banks will no longer handle transactions involving Nauru. The island's days as a banking haven are numbered.

That knowledge may have driven Nauru to its most extraordinary moneymaking scheme yet: to hire itself out as a detention camp for would-be immigrants to Australia. The original announcement, in September 2001, that Nauru would take in 283 refugees intercepted off Australia while their claims for asylum were assessed, made sense for both countries. The Australian government, which did not want these people, was able to preserve its policy that only "genuine" refugees could land on its shores, while Nauru earned A\$20m in the form of eight months' worth of free fuel, two new electrical generators, ten scholarships for Nauruan students at Australian universities and a promise to pay off the island's accumulated medical bills. The commotion surrounding the event also brought lots of high-spending diplomats, journalists, immigration officials and contractors to the island. Delighted islanders greeted the refugees with songs and flowers.

The refugees, however, were less than delighted to end up on a barren rock in the middle of the Pacific, several thousand miles from their intended destination. Many refused to leave the Australian naval vessel that had brought them to Nauru. Scuffles broke out when soldiers tried to frog-march them ashore. Some islanders worried that their more disgruntled guests might raise a ruckus to draw attention to their plight. Their misgivings were redoubled when their government accepted a second boatload of 237 refugees, and then a third of 262. At least one former president has warned against accepting any more. In any event, Nauru faces competition as a processing centre from other poor Pacific nations beholden to Australia, such as Papua New Guinea and Kiribati, Nauru's closest neighbour, 400 miles away.

Meanwhile, evidence of Nauru's decay grows more and more alarming. The government has been forced to ration electricity and water between visits of the ship that brings fuel for the island's desalination and power plant. The petrol supply regularly runs out. Several times this year, the Australian aviation authority, which regulates Air Nauru, grounded its one and only plane for fear of the frequent power and communications blackouts at Nauru's airport. A further humiliation came when the international Weightlifting Federation, the governing body of the island's favourite sport, cancelled plans to hold the world championships in Nauru earlier this year, moving them first to Guam and then to Turkey instead.

The citizens of Nauru, to their credit, have not taken all this lying down. A disgruntled populace has forced no fewer than ten changes of government since 1995. Rare visits from international dignitaries have been disrupted by placard wielding protesters, demanding to know where their money has gone. It is a melancholy sign of the islanders' desperation that the idea of simply buying another island and starting afresh is once again under discussion. But who in his right mind would let the Nauruans get their hands on another island?