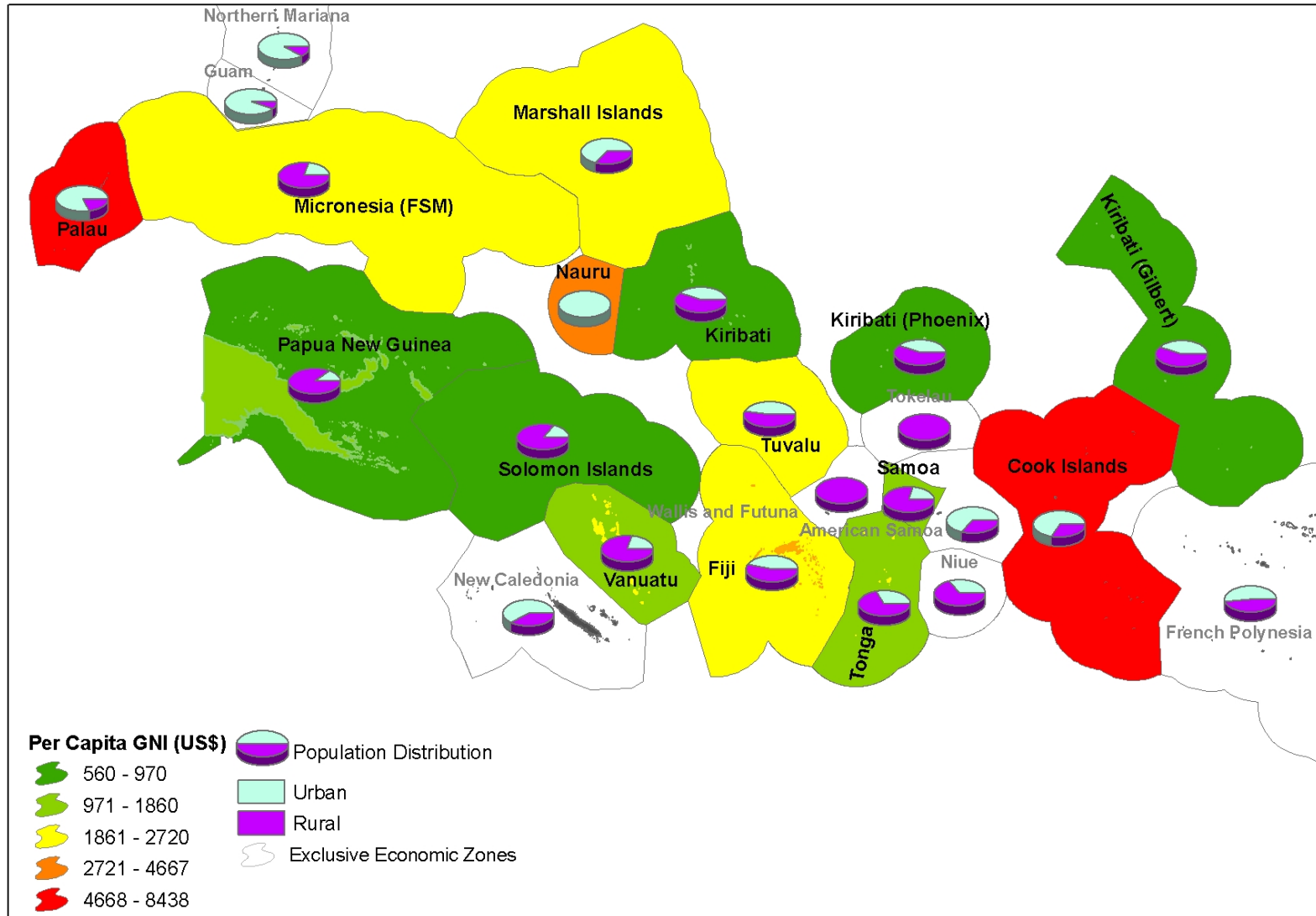


Why don't Pacific Island Economies Grow Faster?

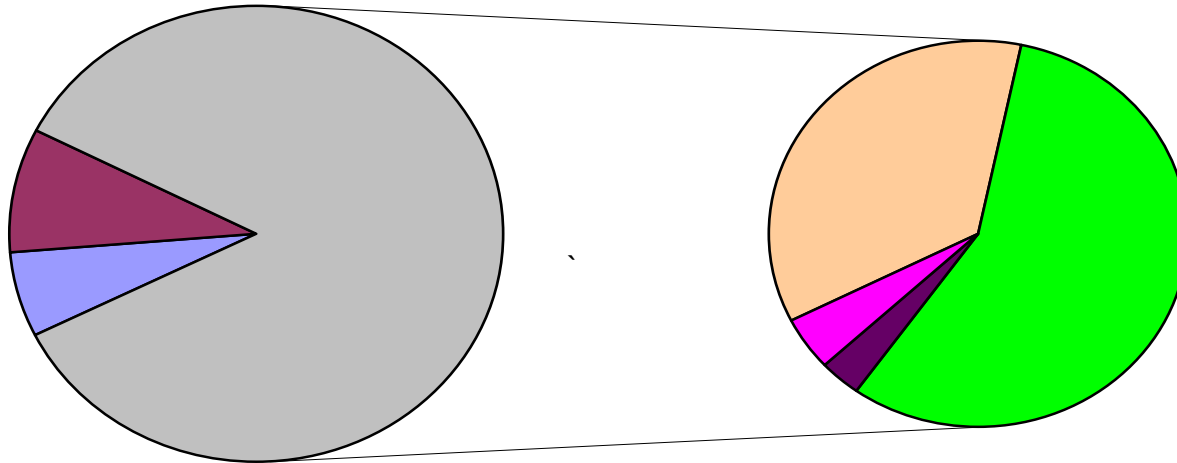


Issues

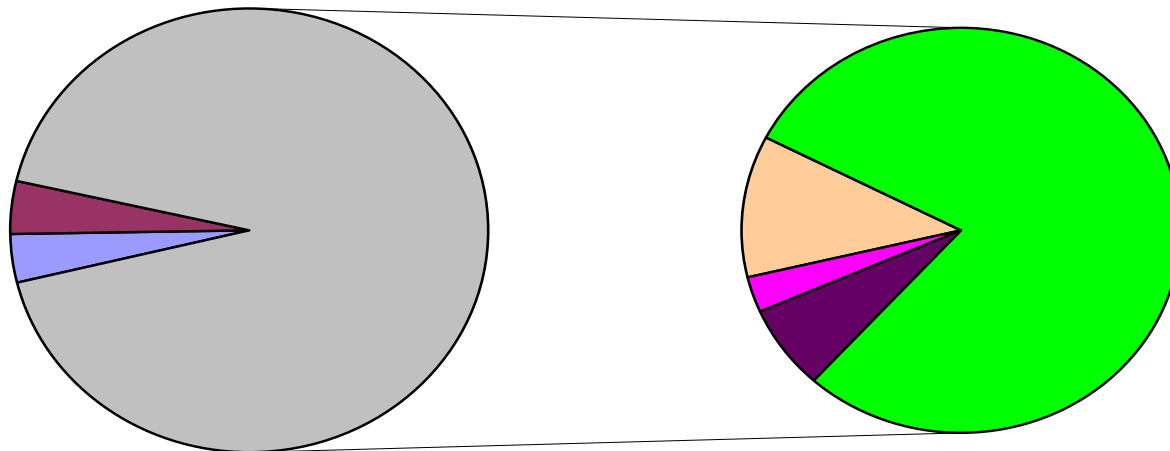
- Growth has been disappointing to many commentators but effect of weak governance on economic growth may be overstated
- Barriers: remoteness, spillovers within the region have tended to be negative
- Need for regional solutions
- Pacific peoples in Islands/Aotearoa are actively managing local/global economy
- Our NZ perception of the region is changing (but regional demographic changes may be even faster)

The Region Reconsidered

Total GDP (US\$ ca 2004)

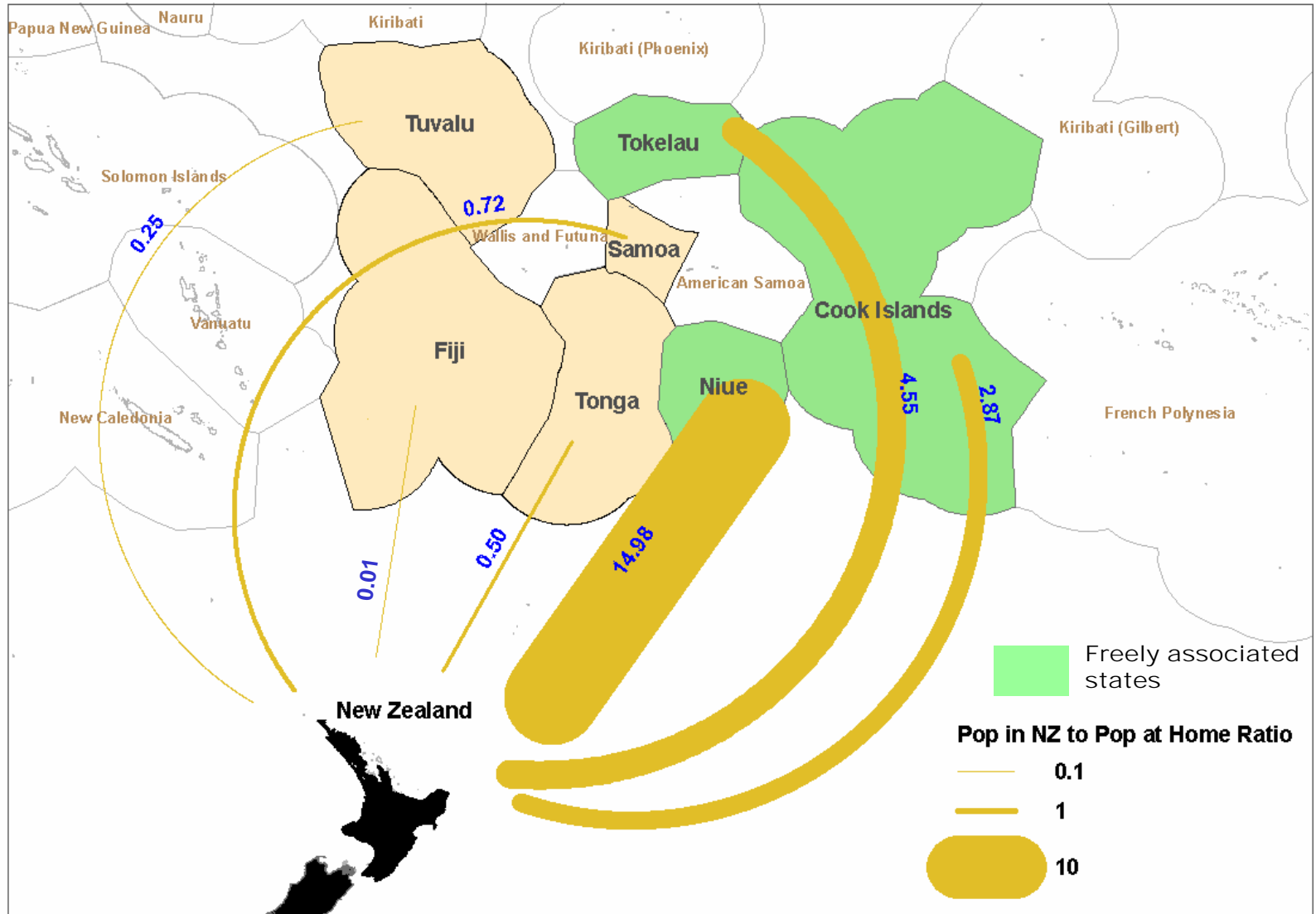


Population (ca 2005)

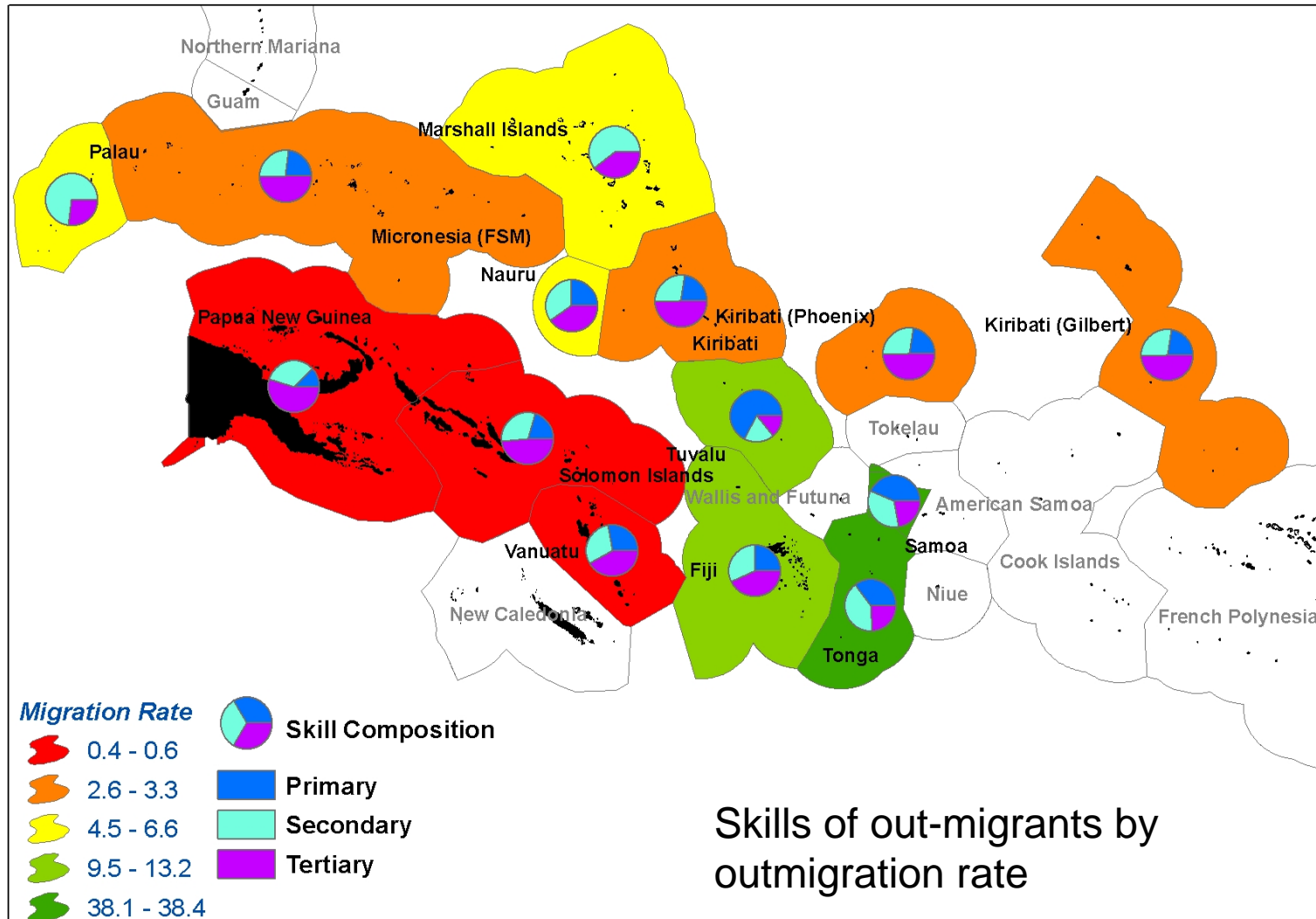


■ Micronesia ■ Polynesia ■ Fiji ■ PNG ■ Solomon Is. ■ Vanuatu

Varying degree of population sharing reflects negotiated agreements



Mobility barriers affect skill selectivity (and host country perceptions)



Pessimistic external assessments of weaknesses in Pacific Economies

- Pacific states seem to have grown more slowly than countries in any other region of the world over 1995-2003
 - (Sampson, Bank of PNG), after controlling for OECD membership and oil exporting
- Several external commentators highlight weak institutions, bad policy settings, excessive aid inflows and especially governance failures
 - Vigorous advocacy for change coming especially from experts such as Helen Hughes

Re-evaluating weaknesses in Pacific Economies

- How bad is governance? Does it matter?
- Five out of six governance indicators (control of corruption is exception) are no different in the Pacific than the rest of world, after controlling for geography and other initial conditions
- Governance indicators contribute between zero to one-fifth of explanatory power for any unexplained lower growth in the Pacific
 - Range reflects different treatments for geography and location
- Comparisons with governance and growth in other countries are problematic
 - Few other countries in the world so small and isolated
 - The most plausible comparators (East Timor, NZ and Seychelles) have also had slow growth

The importance of location and remoteness

- Pacific economies amongst the most remote from centres of world GDP
 - Becoming (potentially) less remote over time, and this is more important to growth than the initial remoteness
 - Should have done better in recent past than they did
- Have smaller population, more volatile growth rates and greater language diversity, all of which harm growth
- Globally, growth of any given country depends strongly (0.5) on growth in the neighbourhood
 - favours regional solutions

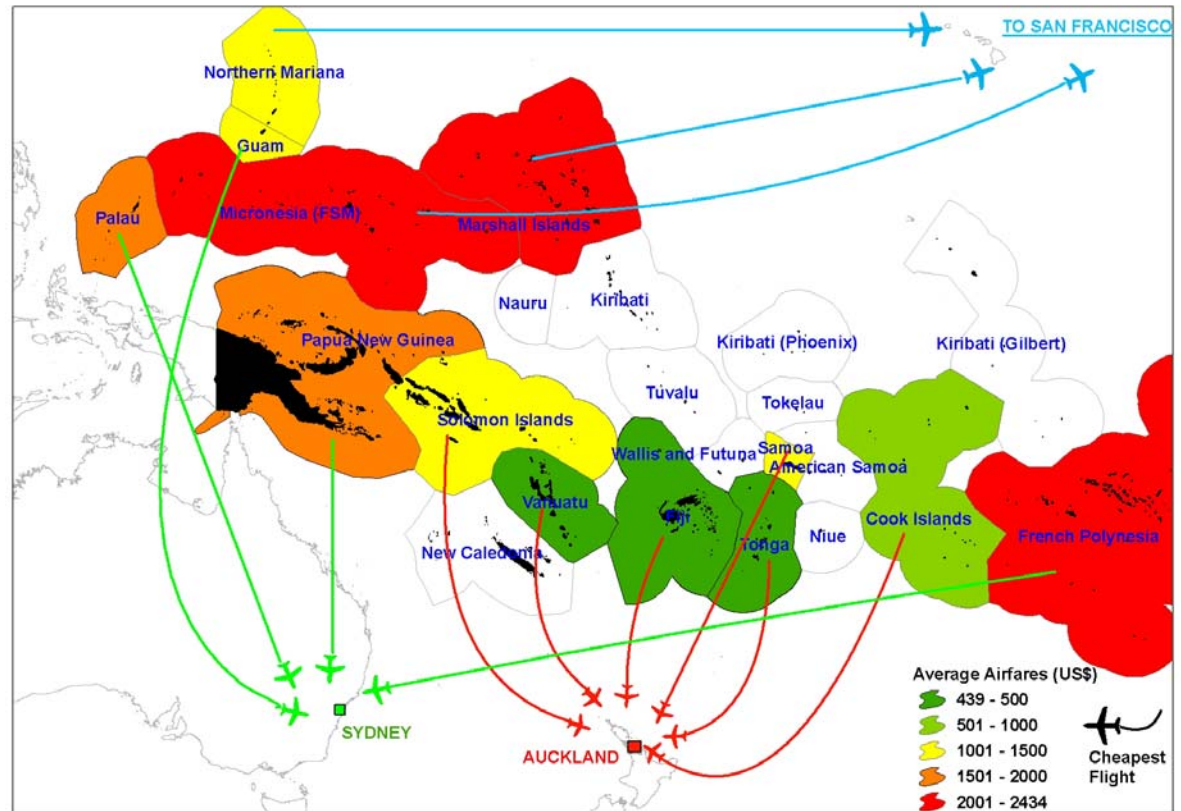
How Remote?

Island Group	2003 GDP-weighted distance (km)	GDP-weighted distance rank (2003)	Population-weighted distance rank (2003)	GDP-weighted distance rank (1988)
Micronesia	10377	176	146	179
Polynesia	11942	207	201	208
Melanesia	11972	207	170	208
Pacific Islands (mean)	11456	197	176	199
Caribbean (mean)	8103	100	176	98

Remoteness measures based on airfares show the Pacific is even more remote

Average of US\$1290 from Pacific vs \$545 from Caribbean

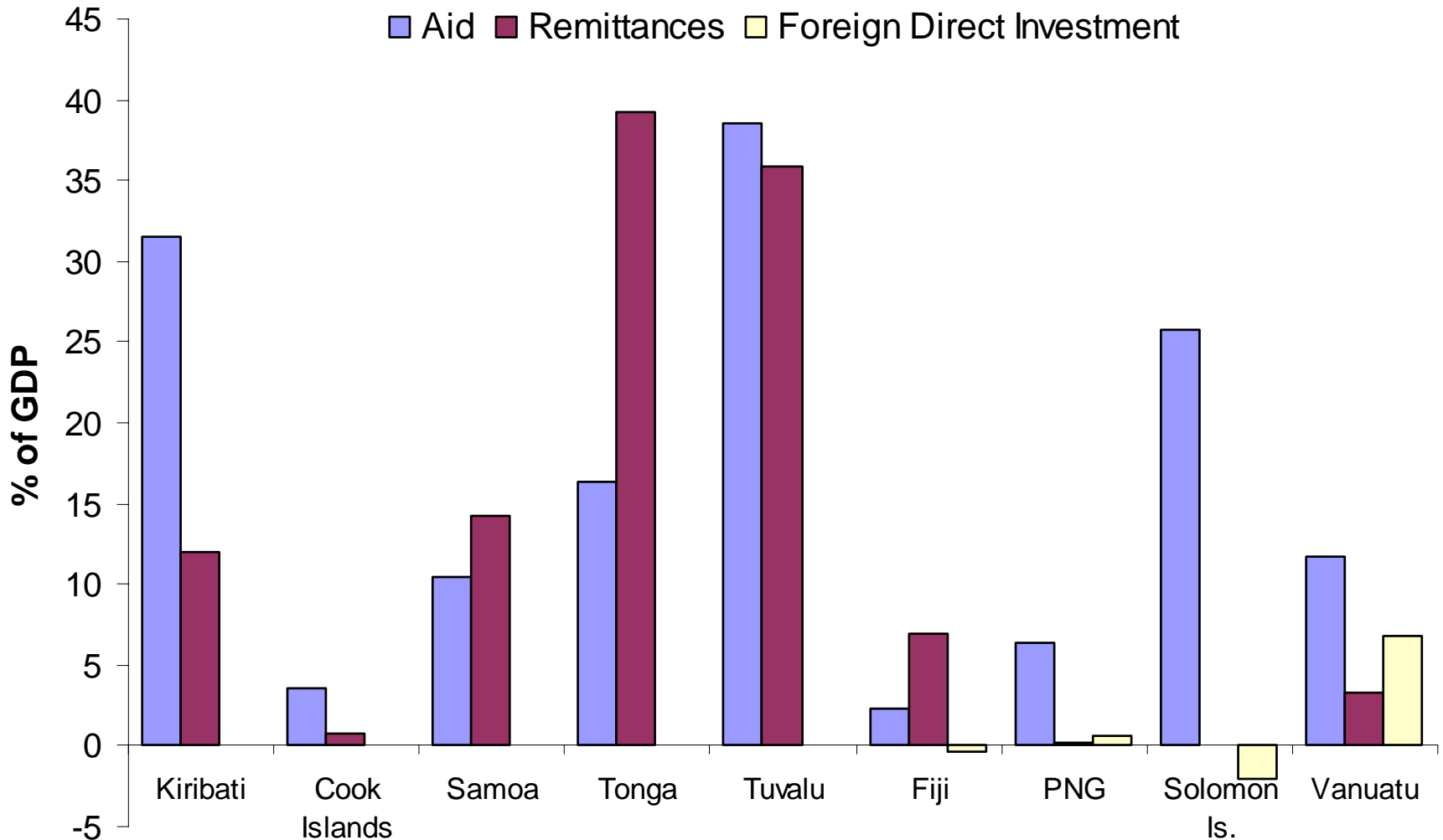
➔ Potential market access measures may understate remoteness



Apparent weakness also reflects limited understandings

- **Recognize millennia of Pacific adaptations to changing sea levels, climate change, new visitors/neighbours, resources and technologies**
- **undercounted “informal” or “household” economy**
 - **agriculture and fisheries - a fundamental feature of the region.**
 - **Transformed wealth items (ie mats, tapa) part of international commodities, the uncounted important part of “remittances” to islanders abroad**
 - **policy prescriptions aiming to increase traded sectors should not undercut production which is less well counted**
 - **improvement in some respects (rising GDP levels) could damage others (standards of living stagnate or decline).**
- **Indigenous wealth items/currencies**
 - **Mediate between indigenous/world currencies**
 - **Protection and adjustment between local/global**
- **Important NOT to add burden on wealth systems/safety nets**

Families or Governments: Who holds together the Pacific?



Remittances and Transfers

Don't Let Policymakers Off the Hook

- Remittances (and transfers between households within country) are very common
- Much more complex than just an indigenous social welfare system
 - Reflect reciprocal and inter-generational obligations
 - Transactions are productive, innovative and dynamic and may respond more quickly than governments and international agencies
 - May respond to or even nullify effects of formal sector interventions that do not account for transfers/remittances
- May have little or no effect on long-term distribution of income and patterns of poverty
 - still need good policy and deft interventions

TONGAN CEREMONIAL ECONOMY

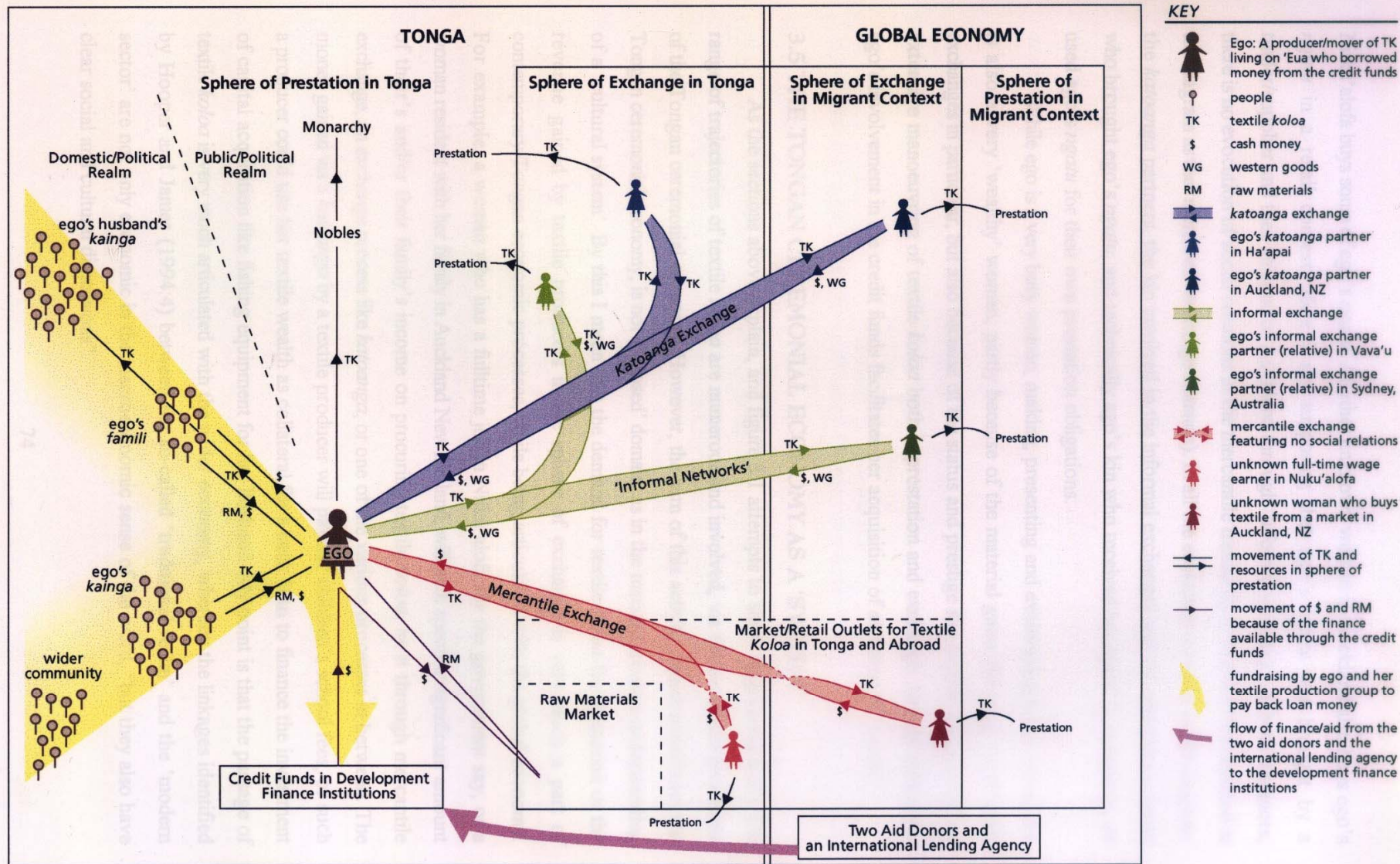
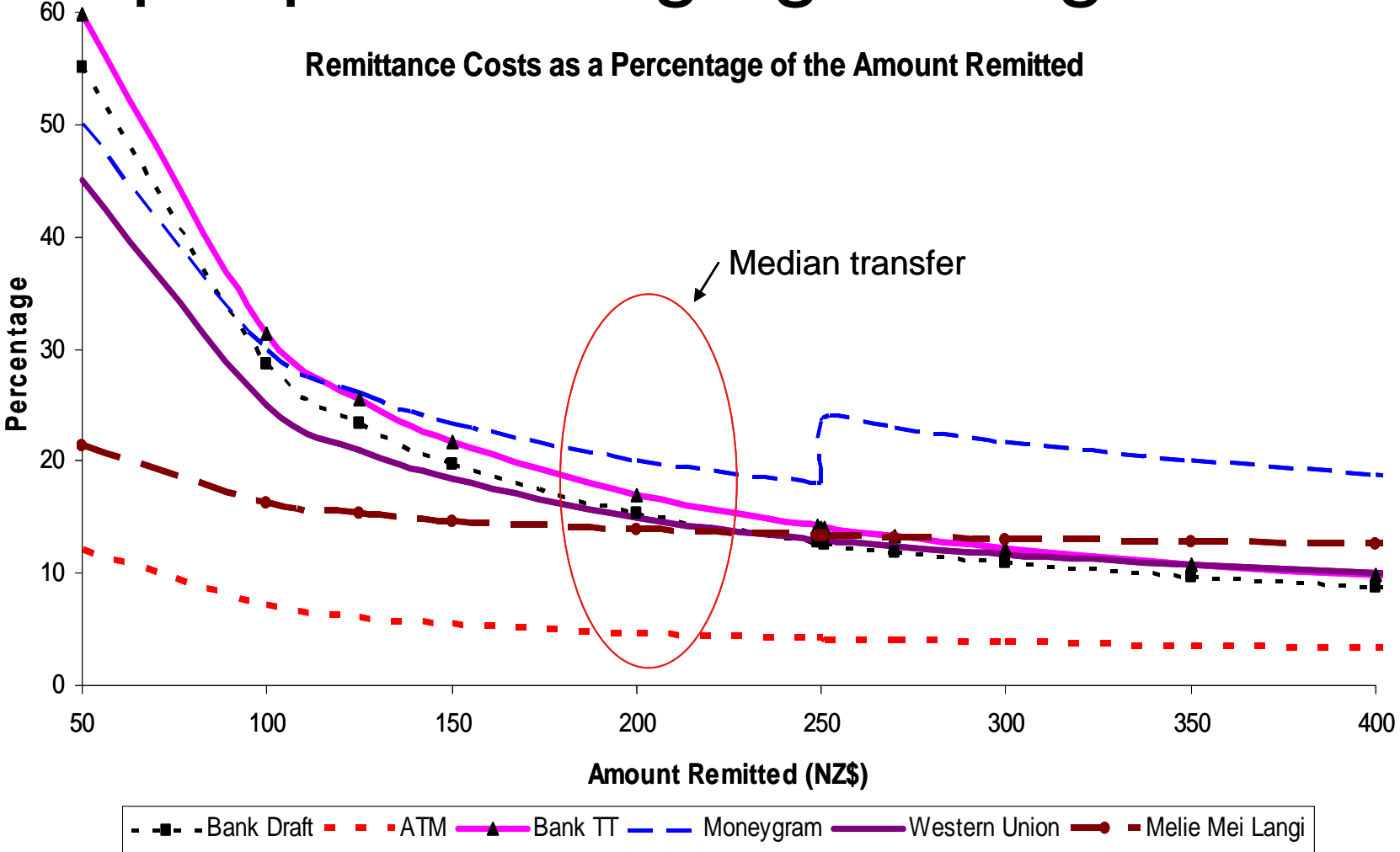


Figure 3.1: The Tongan Ceremonial Economy from Ego's Point of View: Ego is a Producer/Mover of Textile *Koloa* and Who Borrowed Money from the Credit Funds.

Unnecessary frictions to Pacific people managing local/global



What to do next?

- How do/can NZ policies support the region and mediate relationships
- How adaptive are the myriad institutions that balance here and there
- How can we maximise interventions here, there and in between
- Pacific peoples in Islands/Aotearoa are actively managing local/global economy