

## **The Pacific Islands: New Priorities for a New Development Era**

---

**Robert Picciotto<sup>1</sup>**

**Abstract:** *The Pacific Island Countries (PICs) face the most daunting development challenge in the world: they are extraordinarily isolated, very small, and saddled with fragmented markets, inadequate infrastructure, fragile ecosystems, and exceptionally high vulnerability to climate change. While political crises, civil strife and violence have been narrowly contained, the PICs face severe human security problems that threaten future political stability in the region: ‘youth bulges’, limited employment opportunities, inadequate natural resource management, rising inequality and pervasive gender inequities. Economic and social performance has been disappointing and dependency on aid and migration remains extraordinarily high. Access to clean water, sanitation, health, and education services is still limited and much remains to be done to tap productive employment opportunities in mining, agriculture, fisheries, and tourism. Bold and coherent development programmes should be forged to make satisfactory progress towards the post-2015 Sustainable Development Goals. All PICs have framed their own distinctive strategies within this framework. Looking ahead, various development cooperation models have been proposed to help the PICs achieve their vision, e.g. by Hugues (**Washington Consensus**), Bertram/Watters (**MIRAB**),*

---

<sup>1</sup> Robert Picciotto is senior independent evaluation adviser to the Ministry of Foreign Affairs and Trade of New Zealand. He is a former World Bank Vice President for Corporate Planning and Budgeting and served as Director General of its Independent Evaluation Group (1992- 2002). The views expressed in this article are his own.

*Robert Picciotto*

*McElroy (SITE) or Baldacchino (PROFIT). This article proposes an alternative model that respects the PICs' own priorities and places special emphasis on transformational development policy directions: Community Resilience, Enterprise Development, and Information Technology (CREDIT).*

**Keywords:** *aid dependency, climate change, development models, human security, policy coherence, sustainability,*

## **1. Introduction**

The Pacific Island Countries (PICs) face daunting development challenges in the post-2015 era. No other region in the world faces so many development constraints or evokes so many contrasting opinions about economic and social policy directions as the PICs. It is time to take stock, examine lessons learnt and explore promising development pathways.

The seventeen Sustainable Development Goals (SDGs) outline a comprehensive set of interconnected goals, targets, and indicators for global development in the 2015-2030 era<sup>2</sup>. Unlike the Millennium Development Goals (MDGs) that the SDGs have supplanted, the SDGs were generated through a highly participatory process – the most elaborate in United Nations history.

Taking advantage of their voting strength the Pacific Island Countries (PICs) successfully promoted climate change mitigation and adaptation and sustainable use of ocean resources as priority global objectives. These as well as other global goals are highly relevant to the PICs. To be sure, the SDGs are far too numerous and unwieldy to guide decision-making at country level since selective use of scarce resources is imperative and it

---

<sup>2</sup> <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

would be unrealistic to expect the small developing states of the Region to track progress against all 169 targets.

This said, the SDGs provide a legitimate normative framework within which PIC decision makers have shaped their own country-led development priorities in ways that fit their distinctive country circumstances and aspirations. In parallel, at the regional level, the Pacific Sustainable Development Goals (SDGs) Taskforce of the Pacific Islands Forum<sup>3</sup> has shaped a ‘Pacific SDG Roadmap’ that will support joint actions towards implementing the SDGs in the PICs<sup>4</sup>.

The Road Map (United Nations, 2017) emphasizes social development, disaster risk reduction, climate change mitigation/adaptation, natural resource management, improved transport/information connectivity and energy development. It also stresses partnership opportunities in support of data collection/reporting, statistical capacity building, technology promotion, development finance and policy cohesion.

## **2. The context**

At the country level, the fourteen developing member countries of the Pacific Islands Forum face an extraordinarily demanding set of development obstacles. These small, tropical countries comprise more than 4,300 atolls

---

<sup>3</sup> The Pacific Islands Forum is an inter-governmental organization set up in 1971. It aims to enhance cooperation among the independent countries of the Pacific Ocean. It includes Australia and New Zealand as full members. In September 2011, the U.S. territories of American Samoa, Guam and the Northern Mariana Islands were granted observer status and in September 2016 the French territories of French Polynesia and New Caledonia became full members.

<sup>4</sup> The Regional Roadmap was discussed at the Pacific Regional SDGs Multi-Stakeholder Consultation and Dialogue that took place in February 2017. It was endorsed at the 48th Pacific Islands Forum meeting, held in Samoa, in September 2017 and implementation was discussed in Samoa in November 2017 by the Pacific Islands Forum Secretariat (PIFS) as well as country and UN leaders.

and islands covering a land area of half a million square kilometres scattered across a huge expanse of ocean (180 million square kilometres)<sup>5</sup>. Remote, and densely populated they are home to 10.6 million people. Except for Nauru and Niue, each PIC covers many islands and atolls<sup>6</sup>.

While the PICs were settled some 40,000 years ago, Europeans were late comers. They began arriving in the early 16th century. Significant migration of traders, whalers, and missionaries took place in the late 18th century. Descendants of these immigrants still make up significant segments of the population on the islands today. In the 19<sup>th</sup> and 20<sup>th</sup> centuries major inflows of Indian and Chinese labour contributed to the diverse ethnic fabric of PIC societies. By now, European governments have withdrawn, the decolonization process is complete.

All fourteen PICs are free and self-governing democracies<sup>7</sup> but traditional ways of doing politics persist and do not always fit comfortably with western democratic tenets. Integrating formal democratic practices into traditional governance systems in cultures that privilege respect for elders, kinship values and group solidarity is work in progress. While the region has

---

<sup>5</sup> The ratio of ocean to land area varies from 7 (PNG) to 34,615 (Tuvalu)

<sup>6</sup> The number of islands per country varies considerably. At the top of the range the Marshall Islands lead the way with 1,152 islands and 30 atolls; the Salomon Islands consist of 6 major islands and 992 small islands; Micronesia includes 607 islands; PNG embraces 600 islands; Fiji populations are scattered over 332 islands; Palau over 300 islands and Tonga over 169 islands. At the bottom of the range, Vanuatu consists of 84 islands; Kiribati of 33 islands; the Cook Islands of 15 islands and atolls; Samoa of 6 islands and Tuvalu of 9 atolls.

<sup>7</sup> Samoa achieved independence in 1962; Nauru in 1968; Tonga in 1970; PNG in 1975; Solomon Islands and Tuvalu in 1978; Marshall Islands and Micronesia in 1986 and Palau in 1994. The Cook Islands and Niue achieved autonomy as states freely associated with New Zealand in 1965 and 1974 respectively.

witnessed rising rates of criminality and experienced political crises civil strife and violent conflict have been contained through regional action<sup>8</sup>.

### **Diversity and commonality**

Extraordinary diversity characterizes the PICs where about 1,200 distinct languages are spoken<sup>9</sup>. Populations vary from 2,000 (Niue) to 8.2 million (PNG) and the GDP capita ranges from \$1,700 (Kiribati) to \$16,300 (Palau). Because of the distances involved contact between islands within and across PICs has been very limited so that tapping economies of scale remains out of reach.

Inevitably development has proceeded at different rates throughout the region. Out of nine PICs ranked in the UN Human Development Index, two are classified in the low category (PNG and Solomon Islands); three in the middle category (Kiribati; Vanuatu; Micronesia) and four in the high category (Samoa; Tonga; Fiji and Palau).

Despite these differences, the PICs face similar hurdles in their pursuit of economic and social progress. Their isolated and far flung geographical locations and their small and narrowly-based economies add to the handicaps

---

<sup>8</sup> The Biketawa Declaration endorsed by the Forum in the year 2000 enables regional involvement in crisis resolution and peacebuilding. It allows military and police forces as well as civilian personnel of Forum states, chiefly Australia and New Zealand, to participate in regional peacekeeping and stabilization operations in Solomon Islands(2003), Nauru (2004-2009) and Tonga (2006).

<sup>9</sup> Austronesian peoples who speak the Oceanian languages, number about 2.3 million. They occupy Polynesia, Micronesia, and most of the smaller islands of Melanesia. Papuan peoples, who speak the Papuan languages, number about 7 million and reside on the island of New Guinea and a few of the smaller islands of Melanesia located off the northeast coast of New Guinea.

imposed by weak institutions, inadequate infrastructure, fragile ecosystems and unmatched vulnerability to external shocks and natural disasters.

### **Performance**

Relative to the Millennium Development Goals (MDGs), regional performance has been mediocre (Annex 2). Ten of the PICs did not achieve most of the MDGs. Only two countries (Cook Islands and Niue) managed to reach the first Millennium Development Goal of cutting severe human hardship by half between 1990 and 2015. Six countries failed to achieve the goal (Micronesia, Kiribati, Marshall Islands, Nauru, PNG, Tuvalu) while the other six (Fiji, Palau, Samoa, Solomon Islands, Tonga, Vanuatu) recorded mixed outcomes.

This said, extreme poverty, starvation and destitution are rare in the Pacific.

Measured by the proportion of the population living in hardship (i.e. below the national basic needs line) three fourths of the region's poor or 2 million people live in Papua New Guinea. The remaining countries account for roughly 600,000 of the poor, of which half are in Fiji. This means that over 20% of people in most PICs live in hardship and that the incidence of poverty is highest in Papua New Guinea, where 40% of the population lives in hardship.

While seven PICs (Cook Islands, Fiji, Nauru, Niue, Palau, Samoa, and Tonga) achieved universal primary education – the second millennium development goal – two countries in the region failed to achieve the target (Kiribati and PNG) and the rest recorded mixed outcomes. All the PICs except Kiribati, Papua New Guinea and Solomon Islands achieved gender parity in primary and secondary education. On the other hand, progress towards empowering women has seriously lagged (MDG 3) almost across the board.

Except for Kiribati, Nauru, Vanuatu, PNG, and Solomon Islands all PICs achieved MDG4 – the reduction of child mortality. Two failed to achieve MDG5 – the improved maternal health goal (FSM and PNG). Achievements on combating HIV/AIDS, malaria, and tuberculosis (MDG6) and ensuring environmental sustainability (MDG7) was mixed across the board. These sobering results suggest that intensified social development efforts are required in the post-2015 era.

### **Multiple constraints**

A unique combination of smallness, remoteness and vulnerability to natural disasters helps explain why the ocean-locked PICs have not prospered. They are geographically disadvantaged in ways that create a wedge between production costs and world prices for traded goods. To be sure, smallness is not always an economic curse as Singapore and tiny Norfolk have demonstrated but in combination with remoteness and vulnerability to natural disasters (let alone weak institutions, poor infrastructure, and limited skills) smallness and isolation have proved to be serious obstacles to economic progress.

Specifically, small size means narrow markets; constrained import substitution possibilities; limited competition; inability to tap scale economies; dependence on a limited range of export products and vulnerability to commodity price cycles. Smallness also induces relatively high shares of government expenditure to GNP and brain drain. Finally, as urbanization takes hold, land available for cultivation becomes scarcer and scarcer.

Remoteness and ‘sea-lockedness’ induce costly dependence on imports: the more remote the country the higher the transportation costs. Equally for exports, remote locations imply disadvantages akin to heavy taxation. The World Bank estimates that the islands rank 207 out of 218 countries on

population and income weighted distance measures. The average Pacific Island is the 197th most remote country in the world.

Per unit transport costs are especially high given the fragmented cargoes associated with small economies. Absent frequent and reliable transport services, large stocks are needed with all the costs and losses associated with warehousing. Time delays and unreliability of service are equally damaging to import and export trade.

Over and above these drawbacks, high exposure to natural disasters (cyclones, earthquakes, landslides, tsunamis, flooding, etc.) contribute to economic instability<sup>10</sup>. Natural disasters devastate the farming sector, destroy settlements, damage infrastructure, disrupt communications and inflict death, injury, suffering and social dislocation. They also accelerate environmental degradation and resource depletion. In per capita terms the damage caused by natural disasters is amplified by smallness while remoteness contributes to high rehabilitation costs.

### **Sustainability threats**

While indigenous knowledge and traditional subsistence lifestyles used to protect the islands' natural environment, population growth, urbanization and rising incomes have imposed intense pressure on ecosystems. They are by now among the most endangered in the world. In five PICs (Kiribati; Micronesia; Palau; Tuvalu; Solomon Islands) the adverse effects of sea level rise constitute a clear and present danger.

---

<sup>10</sup> The region is one of the most natural disaster-prone regions on earth. Population pressure and climate change will increase vulnerability to floods, droughts, tropical cyclones, earthquakes, volcanic eruptions, and tsunamis. Since 1950, natural disasters have affected approximately 9.2 million people causing about 10,000 deaths and costing around US\$3.2 billion.



Vulnerable coastal and marine environments, spreading pollution and limited facilities for waste disposal are pervasive throughout the region. Water resources vary among extremes, with annual water availability in Papua New Guinea around 120 000 m<sup>3</sup> per person versus exclusive reliance on rainwater harvesting and desalination in parts of Tuvalu and Nauru.

Biological diversity is under threat. Currently coastal areas are badly damaged by inappropriate infrastructure development, poor waste water management and pollution. Marine resources exploitation has been poorly managed. Coral reefs are at risk – a major environmental concern since they shelter marine species and protect shorelines.

Traditional resource sharing and self-subsistence remain important but mutual support systems and gift-giving networks do not always reach those in deepest hardship. New forms of social isolation and hardship have emerged. As people moved away from isolated areas and coalesced in cities traditional social networks weakened with deleterious consequences for the mitigation of risks to livelihoods.

Lack of employment opportunities combined with escalating popular expectations has strained the social fabric. Limited respect for state institutions and weak civil society organizations have not compensated for eroding family values. Given growing income gaps between urban centres, villages, and islands, and in the face of deficient health and education services, the PICs now face significant human security risks.

Social alienation has mounted as plantations displaced small holders and as entrepreneurs displaced artisans. In parallel, mass tourism has undermined and trivialized local cultures. Fifty percent of the people are under the age of 25. Since employment opportunities are scarce this "youth bulge" risks exacerbating violence and crime in states where police and legal systems are weak and governance dysfunctions are pervasive.

Melanesian societies, fractured among numerous ethnic and linguistic groups, have proved especially vulnerable given the ‘resource curse’ associated with their heavy reliance on minerals, timber, and offshore fisheries for their livelihood. Economic volatility has amplified these human security risks.

Most PICs have experienced either declining or marginal to negative economic growth rates in the last decade. Price shocks regularly affect commodity imports and exports. The triple global crisis (financial, food and fuel) of the late 2000s has severely affected the PICs’ economies. The impact was particularly acute for resource poor and import-dependent PICs. Natural disasters also curbed growth, e.g. 2015–16 was one of the most disastrous [South Pacific cyclone season](#) on record with a total of 50 deaths and over \$1.4 billion in damage.

Although international comparisons suggest that Pacific levels of inequality are not at the high end of the international range, increased social disparities are evident in the wake of urbanization and modernization. As measured by the Gini coefficient, inequality is highest in the Solomon Islands, Papua New Guinea, and Fiji. Within most countries, inequality in rural areas is equal to or higher than inequality in urban areas (Fiji is the prominent exception).

### **Coping mechanisms**

Aid and remittances have sustained the PIC economies. On the other hand, foreign direct investment has been limited.

#### *Aid*

Development assistance has helped keep the PICs’ economies afloat. Overseas development assistance (ODA) to the Region has been extraordinarily high. As a share of GDP, aid varies from a low of 2-4% (Fiji,

PNG) to 63% for Tuvalu and over 100% for Niue in 2014. The median is 18%. Aid dependency is likely to persist even if new development pathways are discovered and innovative partnerships are forged – but it can and should be reduced.

Aid currently amounts to \$469 per capita, compared to \$64 for Caribbean small states and \$54 for Sub-Saharan Africa. This high level of concessional financial assistance has been instrumental in the alleviation of poverty, the upgrading of social services and the maintenance of adequate living standards. But capacity constraints have hindered aid effectiveness as has limited compliance with Paris Declaration principles. A new aid architecture may be needed to minimize proliferation and fragmentation and to promote coherence.

### *Remittances*

Migration of Pacific Islanders toward centres of economic activity in developed countries, another important coping mechanism, has also gone some way towards reducing the geographic disadvantages of the PICs. Faced with the handicaps of smallness and remoteness, migration to developed countries has acted as a safety valve so that only PNG, Kiribati, and Vanuatu have experienced significant population growth.

Migration has induced costly export of skilled manpower. But it has taken some of the pressure off the need to expand food production and social services and the resulting diasporas have connected PICs to prosperous nations in beneficial ways while generating large flows of remittances. These have helped to alleviate poverty, reduce income disparities, and support PICs' balance of payments.

The IMF estimates that Tonga received US\$90 million in remittances in 2005, almost 40% of its GDP. In the same year, Samoa received \$106 million from its migrants, a quarter of its GDP while Kiribati secured \$11million,

*Robert Picciotto*

15% of its GNP and Fiji received \$184 million, 7% of its GDP - more than it received from tourism. By contrast Papua New Guinea, Solomon Islands, Vanuatu, Micronesia, Palau and the Marshall Islands, have had modest access to remittance income.

The close historical ties that link PICs to metropolitan countries have long allowed significant migration out of Tonga, Tuvalu, the Cook Islands, and Niue. Similar opportunities were offered to FSM, Palau, and the Marshall Islands in 1986. Samoa has also benefited from migration to New Zealand and the United States. Expanding labour mobility especially from PNG, Solomon Islands, Vanuatu, Kiribati, and Tuvalu would help contain unemployment and increase remittances. It would also enhance welfare in advanced Pacific economies that increasingly need migrants to fill gaps in their domestic labour markets.

The World Bank estimates that increased labour mobility could more than double income growth rates in the PICs by 2040 and generate 50% more remittances. This would require expansion of seasonal worker programs in Australia and New Zealand and expansion of employment permit systems in other developed Pacific Rim countries.

A special focus of the export of health workers targeted on the booming need for residential care for the elderly in partner countries would be beneficial to the PICs and help fill a growing labour market gap in receiving countries. This also means that PICs should invest in quality education and training to minimize the effects of brain drain and expand the supply of young people with post-school qualifications.

*Foreign Direct Investment*

Harnessing foreign direct investment (FDI) to increase productive employment has been a missed opportunity. In this respect, the PICs have lagged considerably behind the small island developing states of the

Caribbean, Africa, and Asia. This is due in part to unattractive enabling policy frameworks and frequent failures to comply with sound environmental sustainability norms, especially in the mining sector.

Careful matching of external flows to development objectives is essential, e.g. investments related to information technology, renewable energy and climate change mitigation and adaptation should have priority. This may require the design of public private partnerships relying on multiple sources of innovative financing, both domestic and foreign.

*Land based mining* has dominated the economy of PNG and it has contributed to economic growth in some of the other PICs, but it has also induced economic instability, resource depletion and economic volatility<sup>11</sup>. It has also created serious environmental and social problems, including poor disposal of mine wastes, erosion problems, pollution of rivers and loss of natural habitat.

Improved technologies and global demand for gold and rare earths have created strong investor interest in *deep sea mining*<sup>12</sup>. Even more than for land-based mining numerous environmental risks will need to be identified

---

<sup>11</sup> Major economic downturns were recorded in PNG and the Solomon Islands between 1994 and 2002. Similarly, Nauru suffered a major GNP decline in the 1990-2009 period as its phosphate resources were depleted and ultimately exhausted.

<sup>12</sup> The Pacific region is endowed with three kinds of deep sea minerals: (i) hydro-thermal vents (Fiji, PNG, Solomon Islands, Tonga and Vanuatu); (ii) polymetallic manganese nodules (Cook Islands, Kiribati, Niue and Tuvalu); (iii) cobalt manganese crusts (Kiribati, Marshall Islands, Federated States of Micronesia, Niue, Palau, Samoa and Tuvalu). Fiji, Papua New Guinea, Solomon Islands, Tonga, and Vanuatu have granted deep sea mining exploration permits, and the Cook Islands is part-way through a minerals exploration tender process. PNG is the only PIC to have granted a license to mine – for the recovery of copper and gold.

*Robert Picciotto*

and managed – destruction of ocean floor habitats; sediment; pollution through accidental spills and leakages; impact on fisheries; etc.

Sound management of deep sea mining in a fiscally, environmentally, and socially responsible manner in line with the precautionary principle is imperative. It will require a sophisticated regulatory regime and highly specialized technical expertise. Strong resistance by international and local environmental groups can be expected.

### **Unfinished social development business**

Much development business has been left unfinished from the MDG era. Performance has fallen short in: (i) health; (ii) education; (iii) disaster preparedness; and (iv) gender. Accelerating the momentum of past social development efforts and filling gaps in existing programmes would pay rich dividends in the post-2015 period.

Regarding *health*, Pacific Island countries (PICs) should sustain efforts to improve child and maternal health and, at the same time, face up to the scourge of noncommunicable diseases (NCDs) which have become the leading cause of death in the region, ranging from an estimated 60 percent of deaths in Solomon Islands to 77 percent of deaths in Fiji. Over half (54 percent) of all male deaths and nearly half (48 percent) of all female deaths were premature in Nauru.

Demographic and behavioural factors, including tobacco use, physical inactivity, and unhealthy diets explain most of NCD deaths. Health expenditure is already absorbing a very high – and growing – share of government expenditure. Sustaining public expenditure in health will be challenging so that scarce resources should be allocated to prevention as a matter of priority. Stricter controls and higher taxes on tobacco and alcohol; information campaigns to reduce food and drink products that are high in sugar, salt, and fat content should be launched.

In *education*, PICs have made progress towards universal primary education and some advances have been made in early childhood care, life skills and continuous learning. But up to 5-10% of primary school children are still not enrolled; inequities in access remain widespread and high repetition and drop-out rates are widespread. Student achievement in literacy and numeracy is exceedingly poor and quality education is held back by poor management, lack of coordination, untrained teachers, low relevance of curricula, lack of linkages the labour market, etc.

More than ever, better *disaster preparedness* is needed. Given climate change tropical cyclones are expected to increase in intensity and to move closer to the equator. Higher ocean temperature and ice sheet melt will raise sea levels and increase the severity of storm surges. A major environmental refugee crisis cannot be ruled out. Warning systems should be strengthened. Preventive and adaptive measures should be taken. This will require investments in agriculture, coastal protection, flood protection and water resources management as well as compliance with stricter building standards.

Last (but not least) the *status of women* in the Pacific Islands, a cross-cutting development priority, constitutes an immense challenge. PNG [has a gender inequality index of 0.617](#) and Tonga 0.462, in contrast to the most gender equal nation, [Norway, at 0.065](#). Several gender issues cut across all PICs:

(i) *low levels of political representation*: the region has the lowest level of female political representation in the world at 3%, compared with the global average of 20%. This is ultimately due to widespread beliefs that women are not capable of making decisions or that it is culturally inappropriate for them to do so;

(ii) *poor working conditions*: women are poorly represented in formal employment and market pressures have relegated women to “temporary” low earning occupations without relieving them of domestic responsibilities;

(iii) *violence against women*: domestic violence is endemic and the biggest constraint to addressing it is the widely prevailing attitude that it is a private issue;

(iv) *increased risk of HIV/AIDS and other sexually transmitted diseases*: this seems to be correlated to an increase in alcohol- and drugs-related issues, as well as the rise in prostitution especially where sea port activities related to fishing fleets are prevalent;

(v) *poor access to land and property rights*: the loss of customary rights when women had equal or different rights with men to land and natural resources have been stripped away since colonial times with a consequent loss of status and economic independence

### **Tapping productive opportunities**

What other development opportunities should be tapped to increase productive employment and economic prospects? *Agriculture* remains a reliable source of livelihood for the rural population as well as a significant export earner. But land tenure arrangements, traditional production methods, weak agricultural supporting services require policy reforms and capacity building.

With the withdrawal of preferential market access arrangements, PICs’ agricultural exports have lost market shares. As tariffs in most areas of the world have fallen the benefits of whatever preferential access the PICs have enjoyed have eroded and the PICs have not always been able to address non-tariff obstacles to trade. Promotion of smallholder agriculture through diversification of farming systems and emphasis on sustainable use is still of



high priority. Tree crops should especially be encouraged since they are dietary staples and provide raw material for small industries.

*Forests* are crucial for environmental sustainability, survival of indigenous peoples and the containment of climate change. They deliver much needed environmental services (carbon storage, soil and water protection, tourism, etc.). Yet the rainforests of Papua New Guinea (PNG) and the Solomon Islands have been exploited at an unsustainable rate primarily through illegal commercial logging: PNG is now the world's top exporter of tropical timber. The expansion of monoculture and commercial livestock has also contributed to deforestation and the gradual disappearance of time-tested agroforestry systems. Research based, sustainable social forestry has considerable potential and should be promoted.

Pacific *fisheries* comprise oceanic fisheries, coastal fisheries (inshore and reef) and aquaculture. They are an important source of food, employment, and fiscal revenues for PICs. The western and central Pacific purse seine fishery represents the largest tuna fishery in the world. The catch – approximately 1.2 million tonnes per year – is a key driver of growth in the Pacific, having an estimated landed value of USD2.8b per annum of which some 11% contributes to PICs' economies. The migratory nature of tuna calls for regional cooperation since development in one country can affect stocks in another<sup>13</sup>.

Coastal production has not increased significantly since the turn of the century which confirms that coastal fisheries resources may be fully or over-exploited. By contrast foreign-based offshore fishing has increased rapidly to the point when sustainable limits are being reached<sup>14</sup>. Access fees have

---

<sup>13</sup> Public revenues from tuna fisheries have contributed 36% of GDP in Tuvalu, 32% in Kiribati and 10% in FSM.

<sup>14</sup> According to the Chair of the Pacific Islands Forum Fisheries Committee, overfishing on bigeye and yellowfin tuna stocks is already occurring, and urgent action is required to maintain stocks above globally-accepted standards for sustainable limits

been raised and represent a significant share of public revenues. But the purse seine vessels are causing serious pollution through waste dumped overboard, oil spillages and leakages and abandoned fishing gear. By-catch in the purse seine and longline tuna fisheries includes sharks, turtles, and sea birds (some of which are endangered). The contribution of aquaculture, including species black pearls, seaweed, is presently small and could be substantially increased.

*Tourism* is another important foreign exchange earner. It already plays an important role in PICs economies. Total tourism spending for 2013 amounted to US\$1.4 billion, averaging out at just over \$1,000 per visitor. The tourism sector provides an opportunity for transformative economic growth in the region provided it is developed through sustainable practices. Pristine natural environments and rich cultural heritages constitute precious resources that are worth preserving.

Tourism development should be carried out at a prudent pace to sustain the quality of the visitor experience and respect local communities' needs and concerns. There is significant room for expansion in the number of visitors as well as the length of their stays. But this often requires major investments in airports, runways, wharves, and cruise facilities. PICs should also work together towards better air links, visa facilitation and pooling of regional airline resources aimed at multi-country destination tourism.

### **Rival policy stances**

The above overview adds up to a formidable set of development challenges and a long list of development priorities. Hard choices must be made given scarce financial and administrative resources. Past policy mixes have not generated rapid, equitable and sustainable growth. What explains this mediocre development record?

Development economists and the international institutions to which PICs belong assert that orthodox economic management precepts are entirely relevant to the PICs. These principles applied selectively have allowed a wide range of developing countries, large and small, to reduce poverty and overcome aid dependency by hooking up to the mighty engine of the global economy. The standard policy package includes commitment to open trade, liberal investment regimes, prudent fiscal policies, improved infrastructure, efficient social services along with secure property rights and good governance,

Thus, Helen Hughes, an eminent Australian economist has argued that PICs' economies have been held back by excessive aid, protectionist trade policies, inefficient state enterprises, bloated public sectors, communal land ownership, re-distributive statist policies, excessive regulation, unsound fiscal policies, neglect of labour intensive industries and excessive reliance on extractive industries captured by corrupt elites (Hughes, 2003).

There is some merit in Hughes' observations but a strict *laissez faire* regime grounded in Washington Consensus principles would not fit PICs' unique circumstances. Furthermore, the successful developing countries evoked by Hughes (Botswana, Mauritius, Thailand, and Malaysia) were cautious reformers while Mauritius benefited from privileged access to EU sugar markets and EU/US textile and clothing markets and Haiti did not benefit from becoming one of the most open economies in the world as recommended by the international financial institutions.

Hooking up to the mighty engine of the global economy through export oriented policies largely explains the rise of large, successful, emerging market economies. They did not suffer the severe geographical disadvantages of the small, sea-locked, isolated PICs. Nor did PICs' frequent compliance with the mainstream development consensus under pressure from international institutions do much to improve their development performance.

In any event, the individualistic premises of the neo-liberal approach do not fit easily with the circumstances or cultural traditions of most PICs. Only home-grown development models have a chance of success. An alternative policy stance according to Geoff Bertram and Ray Watters (1985) has gained prominence: the MIRAB model. It was revisited since its original design (Bertram, 1999 and 2004). It reiterates that migration, remittances, aid, and bureaucracy are the locomotives to which PIC economies are harnessed.

According to Bertram, the MIRAB constellation has delivered better results and higher living standards for PICs communities than could have been sustained by other development models. It follows that keeping the aid flowing, the migrants moving, the remittances networks functioning, and the bureaucrats operating is more promising than seeking to replicate ideal development models that do not fit PIC circumstances.

Other models have been proposed. Since MIRAB neglects the potential of tourism as a leading sector J. McElroy identified small, tourist-dependent islands as a special case and put forward SITE (Small Islands Tourism Economies) as a complementary approach that uses weather, smallness, and remoteness as strategic assets best exploited by strategies that glamorise local cultures and landscapes, protect privacy and minimize transaction costs for visitors. But while smallness does not always matter, remoteness from major markets is a serious handicap especially for countries that do not facilitate access (inconvenient or costly air connections, demanding visa requirements, etc.)

### **Alternative pathways**

Godfrey Baldacchino's model is more comprehensive. It makes use of PICs' jurisdictional and diplomatic resources to maximize connectivity and to secure a wide range of privileges by nurturing PICs' links to the metropole and playing various partners against one other. It combines P (people

considerations); R (resource management); O (overseas engagement); FI (finance); and T (transportation).

Thus, PROFIT does not forsake manufacturing opportunities or expansion of the services sector, including tourism. But it recognizes the constraints imposed by the lack of a hinterland and concur with the MIRAB premise that migration provides a partial substitute that can be mobilized through partnerships with developed countries. More generally, PROFIT implies acting strategically in all international dealings; adopting flexible immigration and migration policies; giving priority to improved transport and communications links and conducting expert negotiations regarding foreign use of natural resources.

Evidently no single policy model fits the complex realities of individual PICs. Each PIC is a special case. Giving emphasis to structural factors without taking account of each PICs' distinct historical, cultural, political, and environmental circumstances is problematic. Whatever model or admixture of models is chosen it is self-evident that better governance and stronger accountability for results by island governments and their partners would make a difference.

Equally, the past is not necessarily prologue and exploration of alternate pathways to prosperity should have its place as PICs weigh their country led development options in the post 2015 era. Specifically, three avenues towards reduced aid and migration dependency should help drive PICs economies forward. They are outlined below and together evoke an alternative development model: CREDIT where CR stands for community resilience, ED for enterprise development, and IT for information Technology.

### **Community Resilience**

*Robert Picciotto*

Resilience is built from the ground up by strengthening the linkages among community members and by emphasizing social cohesion, preparedness, and capacity building. Catastrophic events – both natural and man-made – affect all PICs. “Bouncing back” requires a local capacity to survive, adapt, and thrive. How can PIC communities emerge stronger from the stresses associated with disasters and/or economic shocks?

Channelling the energies of traditional local organizations towards social development holds the key to community resilience. This usually means adopting a ceremonial, revered and time-tested approach to negotiations, discussions, and dialogue prior to any collective action. Story-telling, sharing of experience and amplifying peoples’ voice characterize the Pacific Way.

Whereas traditional community development approaches focus on local deficits and rely on aid agencies for resources, asset-based community development builds on existing strengths within the community. Solutions to community problems are sought within the community. Everyone is expected to contribute. Closer links within the community are nurtured. Leaders listen to, seek inputs from, and involve all community members in agreed actions.

Intermediate institutions (neighbourhood associations, non-governmental organizations, faith based institutions, etc.) are usually best equipped to contribute to social capital formation and deliver social services. This implies: (i) enhancing knowledge of local vulnerabilities; (ii) leadership training; (iii) empowerment of group members; (iv) engaging local communities in the design of national development programmes and (v) embedding risk management considerations within such programmes<sup>15</sup>.

---

<sup>15</sup> The United Nations Development Programme has helped PICs create ‘resilient development officer’ posts to mainstream climate and disaster risk into development and to establish partnerships with women & social welfare functions to facilitate gender and

## **Enterprise development**

In development economies of scale do matter, and the cost of distance limits trade. Open trade has favoured exporters of raw materials and only a small share of the revenues secured from such exports (mostly originating from mining by foreign owned firms) has made its way into the local economies. Equally foreign owned fishing operations have had a marginal impact on local economies except for the fiscal contributions related to access fees. Forest logging for export displays a similar picture.

This said, Fiji was able diversify its economy through apparel manufacturing and agricultural industries. Looking ahead, technological change and increased labour costs in Pacific Rim countries may provide fresh opportunities for light manufacturing in PICs able to contain labour costs and invest in vocational training.

Current economic policies in most PICs have not helped entrepreneurs. Excessive regulation of private sector activity; tariff and non-tariff barriers; inefficient regulation of transportation communication services and poor macroeconomic management have impeded private enterprise and restricted engagement with the rest of the world through foreign direct investment.

Ten PICs were included in a World Bank survey of the cost of doing business in 190 countries<sup>16</sup>. Five of them were ranked in the first half of the league table (Samoa-67; Tonga-69; Vanuatu-76; Fiji-81; Solomon Islands-87) and the other half were ranked in the second half (Palau-113; PNG-133; Kiribati-134; Marshall Islands-139; Micronesia-145).

---

social inclusion.

<sup>16</sup> <http://www.doingbusiness.org/rankings>

Short lived experiences in the Cook Islands (orange juice) and Niau (passion fruit) may suggest that adding value to PICs' natural resources would require subsidies. Based on the infant industry argument and in contravention of orthodox economic principles, should subsidies and protection be considered over the medium term to facilitate the establishment of agricultural industries that would also benefit smallholders and facilitate agricultural diversification?

Furthermore, does the unbundling of manufacturing processes associated with globalization open a window to PICs for manufactures of low bulk components for products assembled by multinational enterprises equipped with the requisite capital and knowhow? If so, what would be the implications for foreign investment regimes, education programmes and vocational training in the PICs and should development cooperation redirect its efforts towards crowding in foreign direct investment by multinational firms?

Social enterprises that trade goods and services to achieve social, environmental, economic, and cultural outcomes are consistent with Pacific values which emphasize respect for nature, local action, and community solidarity. Strengthened relationships between Pacific social enterprises and impact investors would channel much needed resources to local businesses and create income earning opportunities.

From this perspective, it would make sense for the PICs and their development partners to encourage social impact investing—an idea that is taking hold internationally and that is already being promoted in the Pacific by the Global Impact Investing Network and Social Value International. Impact investment enables investors to create positive social or environmental impact as well as a financial return, and measures both.



Innovative funding of market led social interventions brings together charitable foundations, ethical investors, and social entrepreneurs. For example, ethical investors vitally concerned with results could seek the comfort of accurate social reporting by investing in derivatives labelled *Pacific Impact Bonds*.

### **Information Technology**

For PICs, comparative advantage theory points the way towards policies that privilege trade in services rather than goods given exiguous local markets and prohibitively costly travel to foreign markets. Registration of foreign vessels, sale of internet domain names and banking services have generated modest income for some PICs.

The creation of jurisdictions within Samoa, Vanuatu, the Marshall Islands, and the Cook Islands has allowed wealthy foreign individuals and corporations to minimize their tax payments. Following crackdowns on such practices by the international community this is no longer perceived as a legitimate pathway for the PICs given the frequent use of offshore financial centres for money laundering, fraud, political corruption, drug and arms shipments and terrorism.

On the other hand, it should be possible for PICs to take advantage of the reduced costs of communications associated with the IT revolution to emulate other developing countries and specialize in providing cost efficient back office services, call centres, etc. to developed countries' organizations and firms.

Already the past decade has seen an extraordinary increase in access to mobile phone services in the region. The percentage of cell phones in Pacific households rose from 49% in 2007 to 93% in 2014. The cost of mobile calls declined by one third between 2005 and 2014. International internet bandwidth jumped over 1500% between 2007 and 2014.

The momentum needs to be sustained through strengthening of government and regulatory agencies to ensure that access to communications

technology remains competitive, fairly-priced, and accessible to all as well as investments in submarine cables, promotion of e-government and applications designed to boost tourism and exports, small industries, and innovative job creation.

### **3. Conclusions**

The PICs raise complex and diverse development issues that cannot be addressed effectively through standard policy packages. A new vision is needed to make responsible use of land and sea resources, tap the benefits of the new information technologies, unleash the creativity of entrepreneurs, and mobilize foreign capital through social impact investing.

Focusing on weaknesses rather than opportunities is self-defeating. Community resilience, enterprise development and information technology should be emphasized in all development programmes. In parallel, the PICs' development cooperation partners should sustain aid flows and give more emphasis to policy coherence for development in trade, migration, foreign direct investment, and climate change

But it is also important to draw pertinent lessons from experience:

- Disaster preparedness should be drastically up-graded and community resilience promoted
- In the mining, forestry and fisheries sectors environmental and social concerns should be heeded through effective regulation and transparent governance
- Agriculture needs urgent attention: it is operating well below potential
- Tourism should be developed in environmentally and community friendly ways
- Ballooning health sector costs should be contained through priority to prevention

- Urgent actions are required to improve relevance, quality and access to education and training services
- Gender inequities should be reduced decisively

RP/rp

## References

- Bertram, Geoffrey and Watters, Ray (1985), *The MIRAB Economy and South. Pacific Microstates*, Pacific Viewpoint, Vol. 26, No. 3 (1985)
- Geoffrey Bertram (1999), *The MIRAB Model Twelve Years On*, Contemporary Pacific, Vol. 11, No. 1
- Bertram, Geoffrey (2004), *The MIRAB Model in the 21<sup>st</sup> Century*, 1-7 November. Islands of the World, 8<sup>th</sup> International Conference, Changing Islands, Changing Worlds, Taiwan ([https://www.researchgate.net/publication/228585357\\_The\\_Mirab\\_Model\\_in\\_The\\_21st\\_Century](https://www.researchgate.net/publication/228585357_The_Mirab_Model_in_The_21st_Century))
- Hughes, Helen (2003), *Aid Has Failed the Pacific*, Centre for Independent Studies, Sydney
- McElroy, Jerry (2004), *Small Island Tourist Economies Across the Life-Cycle*, Paper presented to the conference “Beyond MIRAB: The Political Economy of Small Island States in the 21st Century”, Wellington, February.
- United Nations (2017), Economic and Social Commission for Asia and the Pacific, *Regional Road Map for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific*. (<http://www.unescap.org/sites/default/files/publications/SDGs-Regional-Roadmap.pdf>)