

# Chapter 2

## Economic performance

### Economic growth

2.1 Although economic growth in the Pacific has improved over recent years, historically it has been lacklustre recording rises of two to three per cent per year.<sup>1</sup> The *Pacific Economic Survey 08* reported that 'after negligible growth in the early years of the decade, growth in regional gross domestic product (GDP) increased to 3.5 per cent in 2004'.<sup>2</sup> Growth averaged 2.8 per cent between 2005 and 2007 and was forecast to reach 4.8 per cent for 2008.<sup>3</sup> This chapter examines the economic performance of Pacific island countries—their productivity and growth and what this means for their economic future and the lives of their people.

2.2 The economic performance of individual Pacific island countries varies greatly, with most showing highly fluctuating growth rates in GDP. Fiji had a real GDP growth rate of 3.4 per cent in 2006, which fell to negative 6.6 per cent in 2007. On the other hand, PNG had a 2.6 per cent growth rate in 2006, which climbed to 6.7 per cent in 2007.<sup>4</sup> In 2000, Solomon Islands' real GDP growth rate was negative 14.2 per cent, increasing to 8.0 per cent in 2004 and 10.3 per cent in 2007.<sup>5</sup> Currently, PNG and Solomon Islands lead the way with their recent accelerated growth rates. Samoa has also performed well, with AusAID describing its economic performance and forecasts as 'quite a standout'.<sup>6</sup> The *Pacific Economic Survey 08* noted:

It is striking that the Melanesian countries of PNG, Vanuatu and Solomon Islands (which make up more than 70 per cent of the Pacific's population) are now growing at around 6 per cent, a rate which, if sustained, can make a serious dent in poverty and improve human development indicators.<sup>7</sup>

- 
- 1 See for example, Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', UN University, World Institute for Development Economics Research, Research Paper no. 2007/24, May 2007, p. 1. See also, UN Development System, Fiji and Samoa, *UN Development Assistance Framework for the Pacific Subregion 2008–2012*, May 2007, p. 10; and Mr Satish Chand, *Submission 2*.
  - 2 AusAID, *Pacific Economic Survey connecting the region*, 2008, p. xii.
  - 3 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 112.
  - 4 Fiji has experienced weak economic growth and faces some major obstacles to improve its economic performance. Its real GDP contracted sharply in 2006–07. See for example, World Bank, *East Asia: Testing Times Ahead*, East Asia and Pacific Update, April 2008, p. 44.
  - 5 See table 2.1 on following page which was taken from *Economic and Social Survey of Asia and the Pacific 2009, Addressing Triple Threats to Development*, Table 1, p. 174, <http://www.unescap.org/pdd/publications/survey2009/download/Survey2009.pdf>.
  - 6 *Committee Hansard*, 20 November 2008, p. 27.
  - 7 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. xv.

2.3 The statistics on economic productivity and growth rates over the past decade contained in the table below show the patchy performance of most Pacific island countries and the region as a whole.

**Table 2.1: Real GDP growth rates in selected Pacific island countries (per cent)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Pacific island economies</b>	-4.0	3.3	8.0	-0.3	2.0	1.9	2.7	3.7	2.7	3.0	2.4	4.8
Cook Islands	-2.4	-0.8	2.7	13.9	4.9	2.6	8.2	4.3	0.2	1.4	0.4	...
Fiji	-2.2	1.3	8.8	-1.6	1.9	3.2	0.9	5.5	0.6	3.4	-6.6	1.2
Marshall Islands	-5.2	-3.6	-2.9	5.1	2.7	3.8	3.5	5.6	1.7	1.3	2.3	1.2
Kiribati	8.8	15.8	8.2	-0.1	1.5	5.3	-1.1	-1.7	1.6	-5.2	0.5	3.7
Micronesia (Federated States of)	-10.6	5.5	-2.1	4.7	0.1	0.9	2.9	-3.3	-0.6	-2.3	-3.6	-1.0
Nauru									14.5	6.3	-27.3	1.0
Palau	2.3	2.0	-5.4	0.3	1.3	-3.5	-1.3	4.9	5.9	5.5	3.0	2.5
Papua New Guinea	-6.3	4.7	1.9	-2.5	-0.1	-0.2	2.2	2.7	3.7	2.6	6.7	7.3
Samoa	0.8	2.4	3.1	7.1	8.1	1.8	3.1	3.4	5.2	2.6	6.1	3.3
Solomon Islands	-1.7	3.2	-1.6	-14.2	-8.2	-2.8	6.5	8.0	5.0	6.1	10.3	7.0
Tonga	-3.2	3.5	2.3	5.4	7.2	1.4	3.4	1.1	-3.3	4.4	-0.3	1.0
Tuvalu	3.5	14.9	3.0	3.0	5.9	1.3	4.0	4.0	2.0	1.0	2.0	1.2
Vanuatu	8.6	4.3	-3.2	2.7	-2.6	-7.4	3.2	5.5	6.5	7.2	6.6	5.7
<b>Developed ESCAP economies</b>	1.6	-1.4	0.3	2.9	0.4	0.7	1.6	2.8	2.0	2.1	2.6	-0.4
Australia	4.0	5.1	4.4	3.4	2.1	4.2	3.0	3.8	2.8	2.7	4.2	2.4
Japan	1.6	-2.1	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-0.7
New Zealand	2.9	0.8	4.7	3.8	2.4	4.7	4.4	4.4	2.7	2.7	3.0	-0.8

The table is based on tables in Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009, Addressing Triple Threats to Development*, Table 1, p. 174, <http://www.unescap.org/pdd/publications/survey2009/download/Survey2009.pdf>.

### ***GDP per capita***

2.4 GDP is a measure of production and used widely as an indicator of economic activity. It tracks the production activity of resident producer units within a given period. Increases in population, however, have a significant effect on productivity measurements in Pacific island countries when determined on a per capita basis.<sup>8</sup>

8 Committee Hansard, 20 November 2008, pp. 8 and 10.

Thus, although statistics indicate a general improvement in productivity in Pacific island countries, their economic performance over an extended period of time is less impressive when measured by GDP on a per capita basis.<sup>9</sup>

**Table 2.2: Pacific island countries—Growth rate of GDP per capita, 2005–2010**

Growth rate of per capital GDP (per cent per year)							
	2005	2006	2007	2008	2009	2010	Per capita GNP US\$, 2007
Fiji	0.2	2.8	-7.1	0.7	-1.2	-0.5	3,800
Kiribati	-0.7	-6.9	-1.3	-0.8	-0.8	-	1,170
Nauru	-12.7	8.8	-28.4	-1.1	-0.5	-0.5	-
Papua New Guinea	0.8	-1.7	4.3	5.0	1.9	1.4	850
Samoa	3.5	1.5	5.1	-0.1	-1.4	-0.5	2,430
Solomon Islands	2.1	3.2	7.3	3.5	-0.4	-0.9	730
Tonga	2.0	0.5	-3.8	0.8	-2.4	-1.0	2,320
Tuvalu	1.5	0.5	1.5	1.2	0.7	0.6	-
Vanuatu	3.9	4.6	4.2	3.6	1.0	-1.7	1,840

The table is based on table A2 in Asian Development *Outlook 2009, Rebalancing Asia's growth*, Asian Development Bank, April 2009, p. 297.

2.5 Mr Dan Devlin, Treasury, explained that the GDP per capita figures are aggregates and 'an average of how it works out if all of the income were divided equally between all of the citizens of the country'.<sup>10</sup> Mr John Burch, Treasury, noted that, from 1998 and on a per capita basis, many of the Pacific island countries have been 'pretty much just standing still', with a number performing 'very badly when you look back far enough'. He cited Solomon Islands where, in spite of recent growth, 'they are nowhere near where they were at the end of the 1990s in per capita terms'.<sup>11</sup>

9 Rob Stewart, 'An economic survey of developing countries in the Pacific region', *Economic Roundup Spring 2006*, the Australian Treasury, [http://www.treasury.gov.au/documents/1190/PDF/08\\_pacific.pdf](http://www.treasury.gov.au/documents/1190/PDF/08_pacific.pdf) (accessed 20 October 2008). Anis Chowdhury, described the growth performance of most small island economies as 'dismal'. Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1. The Port Moresby Declaration stated that economic growth across the Pacific islands nations, 'generally lags behind other developing regions'. Prime Minister of Australia, 'Port Moresby Declaration', Media release, 6 March 2008.

10 *Committee Hansard*, 20 November 2008, p. 8.

11 *Committee Hansard*, 20 November 2008, p. 10.

### ***Growth in context***

2.6 Other factors also influence the interpretation of GDP numbers. Mr Thomas Mahony, Treasury, drew the committee's attention to the large informal component of Pacific island countries' economies which is not counted in GDP. He noted:

For instance, in Vanuatu you have 70 per cent of the economy that is informal; it is subsistence agriculture and things of that nature. When you see growth in the formal economy in GDP it does not necessarily reflect on the welfare outcomes of the entire population. In fact, it only reflects on the outcomes of those in the formal economy.<sup>12</sup>

2.7 Furthermore, Treasury observed that, while there had been strong GDP growth rates in a number of Pacific island countries, many started from a low base. AusAID gave the example of PNG where, although economic growth had picked up, even if it were to increase growth 'to (a fast) eight per cent per year', it would take two decades to achieve Samoa's current GDP per person.<sup>13</sup> Treasury and AusAID agreed that Pacific island countries must sustain solid economic growth rates if economic gains are to be realised.

2.8 Economic growth rates in the region, including the accelerated growth rates in PNG and Solomon Islands, should also be considered in a broader context. Even those countries that have recently demonstrated sound economic growth do not necessarily compare favourably with other developing countries outside the region. Indeed, some have been 'well below the average for developing countries'. According to the *Pacific Economic Survey 08*:

The world economy has enjoyed strong growth in recent years of around 5 per cent. East Asia is growing at 9 per cent and South Asia at 8 per cent. Both sub-Saharan Africa and the Caribbean region show better performance than the Pacific in recent years, although this gap is narrowing.<sup>14</sup>

2.9 Treasury similarly noted that in aggregate, the growth rates of Pacific island countries do not compare well with many other developing countries. Mr Neil Motteram, Treasury, suggested that it is 'comparable with sub-Saharan Africa and so forth, so the outcomes are not as strong as we would like'.<sup>15</sup>

2.10 Many Pacific island countries rely on external sources of income, including remittances and foreign aid, to support their economies.

---

12 *Committee Hansard*, 20 November 2008, p. 10.

13 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 1.

14 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. 7. See also AusAID *Submission 65*, p. 3.

15 *Committee Hansard*, 20 November 2008, p. 8.

## Remittances

2.11 Remittances are funds or goods sent home to relatives or communities by migrants working abroad and are an important source of income for many Pacific island countries. The *Pacific Economic Survey 08* noted that since 2000, remittances to Pacific island countries had grown rapidly, 'with annualised average growth of 36 per cent to reach US\$425 million in 2005'. According to AusAID, remittances are currently worth more than US\$500 million per annum and if the trend continues they are likely to exceed the value of aid flows to the region by 2009.<sup>16</sup> Four countries, Fiji, Kiribati, Samoa and Tonga, account for 90 per cent of Pacific remittances, with Tonga and Samoa among the leading recipients of remittances in relation to GDP for all developing countries.<sup>17</sup> The remittances are in the order of 30 per cent to 35 per cent of GDP in Tonga, 20 per cent in Samoa and 5 per cent in Fiji, Kiribati and Tuvalu.<sup>18</sup>

2.12 For some of these Pacific island countries, remittances contribute substantially to their revenue base and, because of their heavy reliance on imports (mostly of food and fuel) and narrow export base, are an important buffer against economic shocks.<sup>19</sup> Remittances also help to address their unemployment problems. For example, Tonga has more of its people living abroad than at home and the large inflows of remittances sustain the economy.<sup>20</sup> The President of the Tongan Free Wesleyan Church noted that without contributions from Tongans abroad, many local community projects would not 'get off the ground'.<sup>21</sup>

---

16 *Submission 65*, p. 3.

17 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. xiii. See also Asian Development Bank, *Asian Development Outlook 2008*, p. 248; DFAT website, country information, <http://www.dfat.gov.au/geo/tuvalu/index.html> (accessed 15 October 2008); and Christopher Browne and Aiko Mineshima, *Remittances in the Pacific Region*, IMF Working Paper WP/07/35, February 2007, p. 3.

18 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, p. 18 (fn 13). See also Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008). Figures contained in AusAID's *09 Pacific Economic Survey: engaging with the world*, Canberra, September 2009, p.8, show a rise in officially recorded remittance flows for Tonga, Samoa and Kiribati that are equivalent to 39 per cent, 23 per cent and nine per cent respectively.

19 IMF Country Report No. 08/261, Tonga: 2008 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion, July 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08261.pdf> (accessed 9 October 2008).

20 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 118.

21 Media release, <http://www.pmo.gov.to/index.php/President-pays-tribute-to-the-love-and-generosity-of-Tongans-abroad.html> (accessed 31 July 2009).

**Table 2.3: Pacific island countries: Indicators of remittances 1997–2005 (per cent of GDP)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiji	2.0	2.0	1.4	2.7	5.0	5.4	5.5	6.6	6.6
Kiribati	14.0	14.0	15.7	11.8	11.3	11.0	17.4	16.6	15.0
Papua New Guinea	-0.7	0.3	-0.2	-0.3	-1.4	0.7	1.0	0.9	0.8
Samoa	16.8	16.9	18.5	18.5	20.4	20.2	21.3	24.5	25.5
Solomon Islands	1.3	0.1	0.1	0.2	1.1	0.4	0.5	0.8	0.9
Tonga	23.2	21.9	25.5	32.4	37.1	36.9	43.7	42.7	39.3
Vanuatu	-3.4	-5.7	-4.3	-3.8	1.8	-3.7	-3.6	-3.2	-2.3

Christopher Browne and Aiko Mineshima, *Remittances in the Pacific Region*, IMF Working Paper WP/07/35, February 2007, p. 12.

## Overseas aid

2.13 Although Pacific island countries receive a high level of official development assistance (ODA), it varies greatly between countries. Some are among the highest aid recipients in the developing world. According to AusAID, net aid from all donor sources to the Pacific rose from US\$750 million in 1997 to about US\$1.1 billion in 2006, but 'has barely risen in per capita terms over this period'.<sup>22</sup> Solomon Islands is a notable exception. Since the inception of RAMSI, Solomon Islands has been a primary recipient of ODA which more than doubled between 2003 and 2004 and has risen sharply since then. In 2005, ODA to Solomon Islands was over 50 per cent of its Gross National Income (GNI) and in 2006 stood at 47.8 per cent.<sup>23</sup>

2.14 Aid to PNG fell sharply in the late 1990s, but has risen gradually in recent years.<sup>24</sup> Although PNG receives a much larger proportion of ODA for the region, assistance represents only around seven per cent of its GNI. ODA accounts for approximately 60 per cent of Tuvalu's GNI; 44 per cent of Nauru's; 13 per cent of Vanuatu's; and 11 per cent of Samoa's GNI. Tonga (8.8 per cent) and Fiji (2 per cent)

22 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 2.

23 GNI (gross national income) is gross domestic product (GDP) plus net receipts of primary income (employee compensation and investment income) from abroad. World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20399244~menuPK:1504474~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html> (accessed 19 October 2009).

24 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 2.

are at the lower end of the scale.<sup>25</sup> For a small Pacific island country such as Nauru, overseas aid is vital to its economic viability. An ADB report noted that, 'In the absence of Australian and other donor assistance, Nauru would by now (2007) have been in a state of total economic collapse'.<sup>26</sup>

2.15 A number of important factors must be taken into account when considering the economic performance of Pacific island countries including the large informal component of their economies, their growth rate in the context of other developing countries and, for some, their heavy reliance on remittances and overseas aid. A further complicating factor is the changing global economic circumstances.

### **Global economic turmoil**

2.16 This report was produced at a time of great uncertainty in the world economy as the effects of the global financial woes, which emanated from the United States, were unfolding and spreading to other countries. Toward the end of 2008, many western countries had entered or were teetering on the verge of economic recession. This trend continued into 2009.

2.17 A policy brief by the ADB suggested that Pacific island countries would be largely shielded from the most immediate effects of the crisis. It found the region's banking system:

...reasonably well placed to weather the crisis, mainly because it raises most of its own funds from within the region. The generally sound health of the banking system provides further reassurance.<sup>27</sup>

2.18 The study noted, however, that the global economic situation would 'depress demand in several Asia Pacific countries and lower commodity prices' which would concern the region. It identified areas likely to be affected adversely:

- the value of offshore investments held by trust funds and superannuation funds—as at October 2008, the Federated States of Micronesia, Kiribati, Palau, Marshall Islands and Tuvalu were facing 'a 20% to 30% fall in local currency of their trust funds' (these funds are discussed in chapter 14);
- export income, which was likely to decline as world commodity prices eased—AusAID noted in February 2009 that Solomon Islands was 'facing a

---

25 UN Economic and Social Commission for Asia and the Pacific, *Statistical Yearbook for Asia and the Pacific 2008*, Table 20.4, p. 145.

26 Asian Development Bank, *Country Economic Report, Nauru*, November 2007, executive summary.

27 Asian Development Bank, *Navigating the Global Storm: A policy brief on the Global Financial Crisis*, Pacific Studies Series, 2008, Foreword. Mr Francis Yourn, Australia Papua New Guinea Business Council, informed the committee that 'those countries that have a significant domestic subsistence economy are, to some extent, cushioned from the worst effects of the global economic crisis'. *Committee Hansard*, 25 March 2009, p. 57.

major fiscal squeeze around the fall off of logging revenues which would be exacerbated through the crisis',<sup>28</sup>

- tourism, which was predicted to experience a downturn as economic growth slowed in key source economies;
- flow of remittances, which, as noted earlier, is important to Samoa, Tonga and to a lesser extent Fiji, Kiribati and Tuvalu—ESCAP noted that while remittances would be under pressure, they were expected to show resilience to economic changes;<sup>29</sup> and
- levels of overseas development aid with the prospects of cut backs as donors looked to their own domestic financial and economic problems.<sup>30</sup>

2.19 Although most witnesses agreed that it was too early to determine the effect that the financial downturn would have on Pacific island economies, some could also foresee difficulties for Pacific island countries similar to those identified by the ADB.<sup>31</sup>

2.20 By the end of March 2009, the anticipated effects were beginning to show. Ms Jennifer Hayward-Jones, Lowy Institute, noted that the value of trust funds had fallen; the drop in demand for commodities had affected the economies of PNG and Solomon Islands; tourism had slowed; remittances had started to shrink; the availability of capital had decreased; and foreign direct investment was scarce.<sup>32</sup> Even so, Mr Garry Tunstall, ANZ Bank, was of the view that because Pacific island countries are less connected to the global economy, they would 'fare somewhat better'. He agreed with the general view that they would not escape the current global downturn with lower exports, tourism and remittances weighing on activity in 2009 and the possibility that aid flows may be affected.<sup>33</sup> Mr Francis Yourn, Australia Papua New Guinea Business Council, informed the committee that foreign investment

---

28 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, Foreword; and *Committee Hansard*, 12 March 2009, p. 29.

29 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, Foreword; and UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 15.

30 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, p. 20.

31 In Treasury's view, the banking system had a fair degree of protection because it was not fully engaged in the global system, but that Pacific island countries may suffer as the economies of countries with which they do business experience slower economic activity. For example, Mr Devlin noted that as the decline in global growth becomes more evident, 'it is the trade and tourism exposed economies of the Pacific that are potentially affected'. The fall in commodity and fuel price would also have some effect. *Committee Hansard*, 20 November 2008, p. 11.

32 *Committee Hansard*, 24 March 2009, p. 3.

33 *Committee Hansard*, 24 March 2009, p. 52.



had slowed 'right down to very low levels' and that the refurbishment of properties and anything that requires capital was being deferred.<sup>34</sup>

2.21 Before the global economic downturn set in, the economic forecast for some Pacific island countries looked promising. In PNG, GDP growth was expected to remain above 6 per cent; while Solomon Islands' growth was expected to moderate to 6 per cent during 2008.<sup>35</sup> Vanuatu had enjoyed consecutive years of strong growth, which, although projected to ease, was anticipated to be around 5.7 per cent in 2008.<sup>36</sup> The table below, however, shows a progressive and noticeable downgrading of economic growth predictions for 2009 as the effects of the economic global crisis began to take hold.

**Table 2.4: GDP growth projections for selected Pacific island countries starting with projections from April 2008**

	2009 (as at April 2008) *	2009 (as at September 2008)**	2009 (as at March 2009)	2010 (as at March 2009)
Fiji	1.6	1.4	-0.5	0.2
Papua New Guinea	4.6	5.1	4.0	3.5
Samoa	3.0	2.5	-1.0	-0.01
Solomon Islands	2.5	4.0	2.2	1.7
Tonga	2.0	2.0	-2.0	-0.6
Vanuatu	4.3	2.9	3.5	0.8

Sources: Asian Development Bank, *Asian Development Outlook 2009, Rebalancing Asia's growth*, Table A1, p. 296.

\* Asian Development Bank, *Asian Development Outlook 2008, Workers in Asia*, Table A1.

\*\* Asian Development Bank, *Asian Development Outlook 2008 Update*, Table A1, p. 209.

2.22 To this stage the committee has relied on statistics, mainly GDP, to gauge and understand the economic health of Pacific island countries. The following section examines economic productivity in a broader context.

34 *Committee Hansard*, 25 March 2009, p. 59.

35 Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008).

36 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 116; Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008).

## Human development

2.23 When compiling statistics on economic growth rates, it is essential to remember that the welfare of a country's people depends on many factors besides the goods and services consumed. The Australian Bureau of Statistics noted that while national accounting statistics, such as GDP, are an important measure of economic growth, there is 'no single indicator which can describe all aspects of the well-being of a country's citizens'. It argued that there are significant aspects of the 'quality of life' that 'cannot be comprehended in a system of economic accounts'.<sup>37</sup> The Hon Natan Teewee, MP, Kiribati, highlighted this point in a statement to the IMF. On behalf of a number of smaller Pacific island countries, he said that they view economic growth 'not so much in terms of increase in GDP numbers, but more in terms of providing a better life for our people, now and in the future'.<sup>38</sup> Also, as noted previously, GDP does not adequately reflect the informal economy which represents a significant component of economic activity in Pacific island countries. Mr Devlin, Treasury, stated that because of inequality, some of the very positive growth rates do not necessarily result in a reduction in poverty.<sup>39</sup> DFAT maintained that in most cases 'socio-economic indicators remain a concern and economic growth is lagging well behind other developing countries'.<sup>40</sup>

2.24 The Human Development Report 2007/2008 showed that from a total of 177 countries, with Iceland holding the highest rating at number 1, the Pacific island countries occupied the following positions on the scale of human development:

Tonga	55
Samoa	77
Fiji	92
Vanuatu	120
Solomon Islands	129
Papua New Guinea	145 <sup>41</sup>

2.25 The remaining Pacific island countries were not included in the table. Australia rated at no 3 (0.962) and New Zealand at 19 (0.943). The ratings were based

---

37 Australian Bureau of Statistics, *A Guide to the Australian National Accounts*, ABS Catalogue No. 5235.0, 1994, p. 19.

38 IMF, Statement by the Hon. Natan Teewe, MP, Governor of the Fund and the Bank for Kiribati, on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Samoa, Solomon Islands and Vanuatu, at the Joint Annual Discussion, Press Release no. 31, 13 October 2008.

39 *Committee Hansard*, 20 November 2008, p. 8.

40 *Submission 68*, p. 4.

41 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237, [http://hdr.undp.org/en/media/HDR\\_20072008\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf)

on a score out of 1.000. The following table gives an indication of the trend over time for a few Pacific island countries.<sup>42</sup>

**Table 2.5: Human Development indicators for selected Pacific island countries<sup>43</sup>**

Country	1975	1980	1985	1990	1995	2000	2005
Tonga							0.819
Samoa			0.709	0.721	0.740	0.765	0.785
Fiji	0.665	0.688	0.702		0.743	0.747	0.762
Vanuatu							0.674
Solomon Islands							0.602
Papua New Guinea	0.431	0.462	0.481	0.495	0.532	0.544	0.530

2.26 The scores represent performance in three basic dimensions of human development—a long and healthy life; access to knowledge; and a decent standard of living.<sup>44</sup> Since 2000, PNG has lost ground with its overall human development score declining from 0.544 to 0.530. Recently released figures from the Human Development Report for 2009 showed that Pacific island countries still rank poorly on the index. From a total of 182 countries, Samoa was placed at 94; Tonga, 99; Fiji, 108; Vanuatu, 126; Solomon Islands, 135; and PNG, 148.<sup>45</sup>

2.27 Clearly, there is substantial variation between Pacific island countries in their performance on this scale of human development. The Centre for Independent Studies noted that within the Pacific, two groups of islands are evident:

One group, including Samoa, Tonga, French Polynesia, New Caledonia, Cook Islands and Guam, have grown modestly. They have decent levels of

42 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237, [http://hdr.undp.org/en/media/HDR\\_20072008\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf)

43 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237.

44 These dimensions are measured by life expectancy at birth, adult literacy and combined gross enrolment in primary, secondary and tertiary level education, and gross domestic product per capita in Purchasing Power Parity US dollars respectively.

45 UN Development Program, *Human Development Report 2009: Overcoming barriers: Human mobility and development*, Table G, pp. 167–170. The Report advised that trend analysis should not be based on data from different editions of the report. Refer to Table G from the 2009 report for the most recent figures to date.

education and health and decent employment outcomes as a result. Good education systems have enabled many to emigrate abroad to pursue work or further education. The islands also experience higher levels of social stability.

A second group of countries, including PNG, Fiji, Solomon Islands and Vanuatu have stagnated at best. In these islands, education is poor, health treatment sparse and employment outcomes appalling. Unfortunately for the region, this second, slow-growth group of islands represents 80% of the regions population. It will be here that the future stability and prosperity of the region is determined.<sup>46</sup>

2.28 The Millennium Development Goals (MDGs) are used as a key indicator of human development. In both its August 2008 and 2009 reports on development in the Pacific, AusAID found the region was 'seriously off-track' in achieving its MDGs.<sup>47</sup> These development objectives encompass universally accepted human values and rights including freedom from hunger and the right to basic education and health. AusAID used the number of people living in extreme poverty, which has increased markedly in the Pacific region over the last decade, as an indicator of the faltering progress being made. It found:

While poverty data are sparse and unreliable, it is estimated that at least three million people live in extreme poverty: the overwhelming majority are Papua New Guinean. The incidence of poverty is highest in PNG and Kiribati.<sup>48</sup>

2.29 A number of other witnesses agreed with the overall assessment that some Pacific island countries were falling behind in achieving their MDGs and used PNG as an example.<sup>49</sup> Indeed, PNG stands out as an example of a country with a rising GDP but whose performance in human development is not only failing to keep pace with this growth but in some instances is slipping further behind. At the moment, PNG is enjoying the benefits from an unprecedented surge in demand for mineral resources. A

---

46 *Submission 11*, p. 2.

47 AusAID, *Tracking Development and Governance in the Pacific*, August 2009, p. 1.

48 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 4. See also The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 26. See also Mr Bruce Davis, Director-General, AusAID, who said 'the trends in the region are not looking good—they are going the wrong way'. *Committee Hansard*, 12 March 2009, p. 7.

49 See for example, Richard Rowe, DFAT, *Committee Hansard*, 21 November 2008, p. 2. Mr Motteram stated: 'Papua New Guinea is one with a large amount of economic growth and poor Millennium Development Goal outcomes; there are a lot of capacity constraints within that economy to actually distribute the benefits of the growth'. *Committee Hansard*, 20 November 2008, p. 9. See also The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 26.

---

2007 World Bank Report observed, however, that at the governmental and more generally at the civil society level there is an emerging consensus in PNG that 'human development outcomes are far less than satisfactory'. It stated that 'service provision in many parts of the country is collapsing despite the significant level of both government and development partner financing of the human development sectors'.<sup>50</sup> For example, about 53 per cent of PNG children are enrolled in primary school, and of those starting school, only 45 per cent complete basic education. Education is discussed in chapter 10.

2.30 Thus, even with assistance from remittances and ODA and those benefiting from revenue windfalls from increased sales of commodities, it would seem that a number of Pacific island countries are falling far short in achieving the performance necessary to place them on a sure and certain economic growth trajectory.

## **Conclusion**

2.31 Pacific island countries have a generally poor record on economic performance, with the growth rate of GDP following, in many cases, an erratic path. Recent performances, however, demonstrate that faster growth is possible.<sup>51</sup> But even some of the countries whose GDP has shown a marked and steady improvement are not producing results that indicate that the economy and population as a whole are benefiting from it.

2.32 The following chapter looks at the structural impediments to economic growth in Pacific island countries—their size, geography and exposure to natural hazards. These are the physical disadvantages that cannot be changed and that create major challenges for the people of Pacific island countries to develop their economies.

---

50 World Bank, *Strategic Directions for Human Development in Papua New Guinea*, The International Bank for Reconstruction and Development/World Bank, 2007, p. 1.

51 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 5.

