

# Chapter 3

## Structural impediments to economic growth

3.1 Pacific island countries are a diverse collection of sovereign states with notably different characteristics. Each has its own unique history, terrain, ecology, natural endowments and political, social and economic structures. Despite their differences, they share a large geographical area and face similar constraints in achieving sustainable development.<sup>1</sup> This chapter explores the major structural impediments to economic growth in Pacific island countries, including size, natural resources, remoteness and susceptibility to natural hazards.

### Population

3.2 For many decades, international bodies have recognised that small countries, such as the Pacific island countries, face particular difficulties in developing a sustainable and growing economy.<sup>2</sup> Indeed, economists have long recognised that these small states are among the most economically vulnerable and disadvantaged countries in the world.<sup>3</sup>

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- 1 See for example, Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1. Resolution adopted by the General Assembly [on the report of the Second Committee (A/53/609/Add.3)], A/RES/53/189, 12 February 1999. See also David Carnet, Stewart Prest and Yiagadeesen Samy, 'Assessing Small Island Developing State fragility, a chapter prepared for the volume on Economic vulnerability and Resilience of Small States', Lino Briguglio and Eliawony J. Kisanga (eds), <http://www.carleton.ca/cifp/app/serve.php/1020.pdf> (accessed 20 October 2008); Mark McGillivray, Wim Naudé and Amelia Santos-Paulino, World Institute for Development Economics Research, UN University, 'Achieving growth in the Pacific Islands: an introduction', *Pacific Economic Bulletin*, vol 23, no. 2, 2008, p. 97. [http://peb.anu.edu.au/pdf/PEB23-2-FOCUSMcGillivray\\_NauDe\\_Santos-Paulino.pdf](http://peb.anu.edu.au/pdf/PEB23-2-FOCUSMcGillivray_NauDe_Santos-Paulino.pdf) (accessed 14 October 2008); See for example, Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', World Institute for Development Economics Research, UN University, Research Paper no. 2007/24, May 2007, p. 1.
  - 2 See for example, Patrick Imam, 'Rapid Current Account adjustments: Are Microstates Different?', IMF Working Paper, WP /08/233, September 2008, p. 1; Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1; Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008); and 'Conclusions of the international workshop on economic vulnerability and resilience of small states', Island of Gozo, Malta, 1–3 March 2004, [http://www.crm.org/documents/press\\_releases\\_2004/gozo%20declaration%20final.pdf](http://www.crm.org/documents/press_releases_2004/gozo%20declaration%20final.pdf) (accessed 20 October 2008).
  - 3 See for example, Neil Motteram, Treasury, *Committee Hansard*, 20 November 2008, p. 5.

3.3 Although population sizes vary in Pacific island countries, they nonetheless are relatively small. PNG dwarfs the other countries with a population of 6,331,000; Fiji has a population of 839,000, Solomon Islands, 496,000; Vanuatu, 226,000; Samoa, 187,000; Tonga, 100,000; and Kiribati, 95,000. At the other end of the scale, the Cook Islands has a population of 13,000; Tuvalu, 11,000; Nauru, 10,000; and Niue, only 2,000.<sup>4</sup>

3.4 These small populations limit domestic demand for products and services, which means that local industries do not have the opportunities to benefit from economies of scale.<sup>5</sup> Thus, with their comparatively higher per capita cost of producing a good or service, Pacific island countries are not well placed to compete against larger economies that produce greater volumes of goods and services at lower prices.<sup>6</sup> It also means that Pacific island countries have less resources to devote to research and development and the employment of up-to-date technologies, which are expensive but vital to a modern economy. Because of their small populations, Pacific island countries also have problems broadening their economic base. For example, a recent IMF working paper suggested that 'a small population, coupled with a limited domestic market, makes it difficult to diversify into manufacturing activities'.<sup>7</sup>

3.5 With their small populations, Pacific island countries also experience difficulties developing the human capacity necessary to support and sustain a growing, competitive economy. If they are to sustain economic growth and compete effectively in a global market, they need to have capable economic, financial and project managers, accountants, entrepreneurs, engineers, scientists, technicians, tradespeople and skilled labourers. They also need trained personnel in specialised areas such as quarantine, food safety and animal and plant health as well as trade negotiators.<sup>8</sup> Throughout this report, the committee refers to human capacity constraints in all sectors of the economies of Pacific island countries.

3.6 Their size and low-key presence on the international stage also affects their ability to secure investment. The Governor of the Reserve Bank of Fiji acknowledged

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4 Statistics taken from UN Economic and Social Commission for Asia and the Pacific, *2008 Statistical Yearbook for Asia and the Pacific*, p. 8, <http://www.unescap.org/stat/data/syb2008/index.asp>

5 Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

6 Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development /World Bank, 2008, p. 8, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

7 IMF Country Report No. 08/93, Papua New Guinea: Selected Issues and Statistical Appendix, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

8 Department of Agriculture, Fisheries and Forestry, *Submission 42*, p. 7.

that attracting foreign investment was not easy for small nations like Fiji facing strong competition from more developed countries endeavouring 'to entice the same investment dollar that we are chasing'. He stated, 'We are the "small fish" in a very big sea' which 'makes our task even harder'.<sup>9</sup>

## Land mass

3.7 Pacific island countries are not only small in population but also in land mass, with many comprising numerous small islands often spread over a wide expanse of ocean.<sup>10</sup> PNG covers almost 463,000 square kilometres; the Solomon Islands over 28,000; Fiji, 18,270; Vanuatu, 12,200; and Samoa almost 3,000. Kiribati, which consists of 33 islands scattered north and south of the Equator, is only 811 square kilometres; Tonga, 650; Tuvalu, 26; and Nauru a bare 21 square kilometres.<sup>11</sup> To place these sizes in context, PNG is just less than half the size of South Australia (984,318 square kilometres) while Nauru is approximately 0.1 times the size of the Australian Capital Territory (2,395 square kilometres).

## Natural endowments

3.8 In large measure, the economic development opportunities for Pacific island countries rest on the natural resources at their disposal.<sup>12</sup> But, with few natural endowments, many Pacific island countries do not have the scope to develop industry and grow employment beyond the tourism sector, fisheries and small scale agriculture.<sup>13</sup> Although a number of the smaller countries, such as the Cook Islands, Tonga and Samoa, have some fertile land, they rely significantly on their marine resources. A recent analysis found that limited resources can prevent Pacific island countries from achieving the "'critical mass" of inputs to make a production operation economically viable'. It gave the following example:

...a small island may not have the capacity to bear enough fruit crops to produce the quantity required to justify a fruit juice bottling operation.

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- 9 Reserve Bank of Fiji, Keynote address at the National Micro, Small and Medium Enterprise (MSME) Forum by Governor of Reserve Bank of Fiji, Mr Savenaca Narube, Raffles Tradewinds Convention Centre, Lami, Suva, Thursday, 22 May 2008, p. 4.
- 10 See UN General Assembly, 'Report of the Global conference on Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, p. 6, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008). See also CSIRO, *Submission 50*, p. 5.
- 11 Statistics taken from Secretariat of the Pacific Community website, [http://www.spc.int/sdp/index.php?option=com\\_docman&task=cat\\_view&gid=28&Itemid=42](http://www.spc.int/sdp/index.php?option=com_docman&task=cat_view&gid=28&Itemid=42) (accessed 14 October 2008); and CIA, *The World Fact book*, <https://www.cia.gov/library/publications/the-world-factbook/print/bp.html> (accessed 19 June 2008).
- 12 See *Submission 42*, p. 5.
- 13 Department of Agriculture, Fisheries and Forestry, *Submission 42*, pp. 4–5 and Australia Pacific Islands Business Council, *Submission 60*, p. 4.

Resource limitations in the FICs [Forum island countries] are compounded by scarce supply of qualified workers and technological inputs that contribute to value-added production. Limitations on market expansion contribute to a reliance of FICs on the export of primary goods or the prevalence of cottage industry as opposed to developing value added through full scale industrial production.<sup>14</sup>

3.9 As another example, Professor Ron Duncan noted that most Pacific developing member countries do not have 'a high absorption capacity for waste'. Thus, environmental considerations will always limit manufacturing.<sup>15</sup>

3.10 As a consequence, exports tend to be confined to a small range of goods and commodities while imports of food and energy are important. Because they have less diversified economies and specialise in fewer activities, fluctuations in export and import prices can have a significant effect on their economies. For example, Tonga's export base is narrow and it depends substantially on imports, mostly food and fuel, which makes 'the trade balance highly vulnerable to major external price shocks'.<sup>16</sup> Vanuatu, with relatively few commodity exports, also has limited opportunities to grow its economic base.

3.11 The smaller island countries, including Kiribati, Palau and Tuvalu, which are made up of low-lying coral atolls and lack substantial renewable resources, have even less scope to diversify their economies and are extremely susceptible to economic shocks. Tokelau and Tuvalu in particular have poor soils and scarce water supplies.<sup>17</sup> For example, Tuvalu consists of nine low lying and narrow coral atolls with no streams or rivers, and groundwater is not potable.<sup>18</sup>

3.12 Kiribati also has few natural resources which limit its opportunities to expand its production base. The country relies 'heavily on licence fees from distant water fishing nations' and remittances from its citizens employed abroad, mainly as seamen.<sup>19</sup> The small island of Nauru has a 'reasonably fertile ring of soil containing

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14 Nathan Associates Inc., *Pacific Regional Trade and Economic Cooperation Joint Baseline and Gap Analysis* submitted to Pacific Islands Forum Secretariat, December 2007, p. 11.

15 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Trade Issues* Series, 2008, p. 20.

16 International Monetary Fund, 'Tonga: 2008 Article IV Consultation—Staff Report; Staff Supplement'; and Public Information Notice on the Executive Board Discussion, IMF Country Report No. 08/261, July 2008, p. 4.

17 *Report of the 3<sup>rd</sup> Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

18 CIA, *The World Factbook*, <https://cia.gov/library/publications/the-world-factbook/print/tv.html> (accessed 19 June 2008).

19 Department of Foreign Affairs, website, country information, <http://www.dfat.gov.au/geo/kiribati/index.html> (accessed 15 October 2008).

coconut palms, pandanus trees, and indigenous hardwoods which encloses a phosphate centre'. It has a narrow economic base, with phosphate production the only significant domestic economic activity.<sup>20</sup> But, once dependent on its phosphate reserves for income, Nauru has near exhausted all its land-based resources. According to the ADB, the intensive mining since 1906 using strip-mining methods has left 'the central 90% of Nauru a wasteland that threatens the country's limited remaining land resources'.<sup>21</sup> It concluded:

There is, however, no obvious alternative to phosphate mining as a means of creating gross domestic product (GDP). National income will be heavily reliant on external sources. Pelagic fish are abundant in Nauru's EEZ, and revenues can be expected from fishing licenses issued to several deepwater fishing nations. But this is inherently volatile revenue that is difficult to predict.<sup>22</sup>

3.13 Lacking natural geographic advantages, these island countries have few opportunities for import substitution or export diversification and need to import most essential goods. Indeed, Mr Reginald Hodgson, Australia Pacific Islands Business Council, noted that some of the tiny atoll islands with virtually no natural resources are 'never going to create a sustainable group of industries'.<sup>23</sup> The majority of the resources of the Pacific island countries, particularly those of these small islands and atolls, are found in their vast maritime zones with few other opportunities for sustainable economic development. They are also highly dependent on aid.<sup>24</sup> The Australia Pacific Island Business Council advised the committee that some of these countries 'are unlikely to ever achieve a level of economic growth and business development which would make them economically independent of development assistance'.<sup>25</sup>

#### *Pacific island countries with rich natural resources*

3.14 A few Pacific island countries, however, are endowed with rich natural resources. They tend to be larger, have rich volcanic soils, running water and some

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20 See for example, Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 8, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

21 Asian Development Bank, Country Information, <http://www.adb.org/nauru/country-info.asp?p=ctrynav> (accessed 26 September 2008).

22 Asian Development Bank, Country Information, <http://www.adb.org/nauru/country-info.asp?p=ctrynav> (accessed 26 September 2008).

23 *Committee Hansard*, 25 March 2009, p. 56.

24 See for example, UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, [http://www.unescap.org/survey2008/download/01\\_Survey\\_2008.pdf](http://www.unescap.org/survey2008/download/01_Survey_2008.pdf) (accessed 1 October 2008), p. 73.

25 *Submission 60*, p. 2.

exploitable mineral reserves. For example, PNG has an export-centred, capital-intensive minerals sector which is a key driver of economic development. Its accelerated economic growth in large measure stems from the 'flow-through of high prices for export commodities, which allowed for a rise in both government and household spending, and stimulated investment'.<sup>26</sup> A recent survey found:

Mineral revenues in 2007 were more than five times higher than in 2002, driving a near doubling of total government receipts and facilitating an increase in total expenditure and net lending of more than 80 per cent.<sup>27</sup>

3.15 Solomon Islands similarly enjoys the economic benefits deriving from its natural resources. In large part, its recent strong economic performance was achieved through the logging industry which increased production by 25 per cent. Unfortunately, accordingly to the ADB, 'years of unsustainable logging and the anticipated depletion of natural forests by 2013 are projected to force a decline in logging rates from 2009'.<sup>28</sup> The bank forecasts that GDP growth will reach 8.0 per cent, with log exports expected to increase by over 10 per cent in 2008, fish by nearly 30 per cent, palm oil production by 40 per cent and copra by 30 per cent.<sup>29</sup>

3.16 Fiji, one of the largest and most developed economies in the region, is rich in forest, mineral and fish resources. The ADB noted that 70 per cent of the labour force depends on subsistence agriculture, tourism, sugar, clothing, copra, gold, silver, lumber and cottage industries.

3.17 But even Pacific island countries rich in mineral resources, forests, and fertile soils have an export base that is narrow and dominated by primary products and natural resources. They remain highly dependent on subsistence agriculture and fishing.<sup>30</sup> For example, the IMF observed:

The range of Papua New Guinea's exports is limited and has been relatively unchanged over the years. Exports consist mainly of commodities,

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26 Asian Development Bank, *Asian Development Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/PNG.asp> (accessed 20 April 2009).

27 Bob Warner and Eric Omuru, 'PNG commodity prices—an opportunity not to be missed', *Pacific Economic Bulletin*, vol. 23, no. 1, 2008, p. 2.

28 Asian Development Bank, *Asian Development Outlook 2008*, p. 255.

29 Asian Development Bank, *Asian Development Outlook 2008 Update*, p. 140.

30 See for example, Rob Stewart, 'An Economic survey of developing countries in the Pacific region', *Economic Roundup Spring 2006*, the Australian Treasury, p. 94. See also UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, [http://www.unescap.org/survey2008/download/01\\_Survey\\_2008.pdf](http://www.unescap.org/survey2008/download/01_Survey_2008.pdf) (accessed 1 October 2008), p. 72. It reported that, 'imports of goods to Pacific countries often exceed exports because of their small and narrowly based economies'.

including minerals and fuel, wood products, and agricultural products. Other areas, such as manufactured products, contribute little.<sup>31</sup>

### Proximity to major markets

3.18 The remoteness of Pacific island countries is also an inherent obstacle to economic growth as it renders the import and export of goods and services more difficult and costly, further compounding the problems created by their size and natural resources.<sup>32</sup> A report of the UN Secretary-General noted that 70 per cent of the populations of Pacific small island developing states do not have access to modern energy services and that, as a group, they pay between 200 and 300 per cent 'above global market prices for fossil fuel'. It noted that physical dispersion makes access to markets for trade more expensive.<sup>33</sup>

3.19 The aviation industry highlights the problems for economic development caused by isolation and small populations. Pacific island countries require safe, secure and reliable aviation services for their economic wellbeing and growth.<sup>34</sup> Qantas informed the committee, however, that due in part to thin passenger and cargo traffic volumes, which restrict demand for air travel in any one state (with the exception of PNG):

Regional air travel remains expensive in local terms, with schedules infrequent and often unreliable.<sup>35</sup>

3.20 The Department of Infrastructure, Transport, Regional Development and Local Government noted the recent entry of low-cost carriers, which had led to some reduction in airfares and increases in passenger traffic. It concluded, however, that:

...the sector continues to face challenges typical of remote and regional services, including servicing a number of non-commercially viable routes to smaller states.<sup>36</sup>

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31 IMF Country Report No. 08/93, Papua New Guinea: Selected Issues and Statistical Appendix, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

32 Asian Development Bank, Country Information, <http://www.adb.org/Kiribati/country-info.asp> (accessed 26 September 2008). See the Lowy Institute, *Submission 14*, p. 2; and Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

33 UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraph 30.

34 *Submission 43*, p. 2.

35 *Submission 41*, p. 4.

36 *Submission 43*, p. 2.

3.21 As noted already, Pacific island countries struggle to compete for attention in overseas markets. They are in a contest with states that are larger, have much greater political and economic clout and are better resourced. The remoteness of Pacific island countries magnifies their difficulties and adds to the enormous challenges of establishing their presence in a globalised world.<sup>37</sup> One commentator observed that smaller states are often 'just specs in a vast ocean, making their way in the current tide of global economic development'. She was of the view that:

As the world's major economies move towards greater trade and economic integration, many smaller, less developed economies are at risk of being left behind.<sup>38</sup>

3.22 Clearly, Pacific island countries, with their low bargaining position and higher fixed costs of production, especially for the transportation of goods or materials, are at a distinct disadvantage compared to other larger states that enjoy economies of scale and are closer to major markets.

### **Natural disasters and climate change**

3.23 Many Pacific island countries are subjected to periodic disruption to economic activity and in some cases widespread devastation from natural disasters.<sup>39</sup> Their small size, remoteness and lack of diversity in their economic base make them particularly vulnerable to the effects of weather extremes, including cyclones, earthquakes, floods and droughts.<sup>40</sup> Agriculture, fishing, tourism and mining, the mainstay sectors of their economies, are particularly disrupted by natural disasters. Cyclones, which are especially damaging to low-lying atoll islets, are the most prominent and wide-spread natural disaster in the Pacific.

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37 See for example, Chakriya Bowman, 'The Pacific Island Nations: Towards shared Representation, Managing the Challenges of WTO Participation: Case Study 33', World Trade Organisation, [http://www.wto.org/english/res\\_e/booksp\\_e/casestudies\\_e/case33\\_e.htm](http://www.wto.org/english/res_e/booksp_e/casestudies_e/case33_e.htm) (accessed 25 September 2008).

38 Chakriya Bowman, 'The Pacific Island Nations: Towards shared Representation, Managing the Challenges of WTO Participation: Case Study 33', World Trade Organisation, [http://www.wto.org/english/res\\_e/booksp\\_e/casestudies\\_e/case33\\_e.htm](http://www.wto.org/english/res_e/booksp_e/casestudies_e/case33_e.htm) (accessed 25 September 2008). See also *Submission* 29, p. 5.

39 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; and Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

40 See for example, Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan 31 August–5 September 2000.



3.24 According to a 2006 study by the World Bank, since 1950 natural disasters have affected more than 3.4 million people and caused 1,747 reported fatalities in the Pacific islands region, excluding PNG. It recorded:

Cyclones accounted for 76 per cent of the reported disasters from 1950–2004, followed by earthquakes, droughts and floods. The average cyclone damage during this period was US\$75.7 million in real 2004 value. Droughts affected the highest number of people per event, while tsunamis caused the highest number of fatalities per event.<sup>41</sup>

3.25 A recent UN study noted that these extreme weather events impose serious constraints on development in the islands, so much so that some Pacific island countries seem to be in a 'constant mode of recovery'.<sup>42</sup> Fiji and Vanuatu reported the highest number of disasters between 1950–2004 (38 and 37 respectively).<sup>43</sup> Samoa is also highly susceptible to devastating storms and droughts.<sup>44</sup>

**Table 3.1: Estimated economic and social impact of disasters in selected Pacific island countries (1950-2004)**

Country	No. Disasters reported	Total reported losses in 2004 (US\$m)	Average population affected (%)		Average impact on GDP (%)	
			In disaster years	In all years	In disaster years	In all years
<b>Fiji</b>	38	\$1,174.6	10.8	5.1	7.7	2.7
<b>Samoa</b>	12	\$743.4	42.2	6.1	45.6	6.6
<b>Vanuatu</b>	37	\$384.4	15.5	4.5	30.0	4.4
<b>Tonga</b>	16	\$171.1	42.0	5.3	14.2	1.8
<b>Guam</b>	11	\$3,056.3	3.7	0.5	N/a	N/a

Sources: EM-DAT: the OFDA/CRED International Disaster Database for 1950-2004 data, adjusted by SOPAC (2005) for 1994-2005 data. GDP and population estimates from World Development Indicators, IMF and US Census Bureau. All economic data are converted to 2004 values.<sup>45</sup>

41 World Bank, *Not if but when, adapting to natural hazards in the Pacific Islands Region*, A policy note, 2006, p. 1.

42 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 3.

43 World Bank, *Not if but when, adapting to natural hazards in the Pacific Islands Region*, A policy note, 2006, p. 1.

44 Asian Development Bank, Samoa, Country Information, <http://www.adb.org/Samoa/country-info.asp> (accessed 26 September 2008).

45 Contained in World Bank, *Not if but when: Adapting to natural hazards in the Pacific Islands region, a policy note*, 2006, p. 2.

### ***Recent disasters***

3.26 Recent natural disasters include Cyclone Heta in January 2004 and the subsequent drought that ruined Samoa's agriculture.<sup>46</sup> Only weeks later, the category 3 Cyclone Ivy struck the island chain of Vanuatu causing significant damage to crops and houses. During a month of intense cyclone activity in 2005, the Cook Islands encountered a sequence of tropical cyclones—Cyclone Meena, Cyclone Nancy, Cyclone Olaf and Cyclone Percy.

3.27 On 2 April 2007, an earthquake and tsunami hit Western Solomon Islands affecting 36,500 people, with 52 people confirmed dead and about 6,300 houses damaged or destroyed across 304 communities.<sup>47</sup> Cyclone Gene, which hit Fiji in January 2008, damaged agriculture, including sugar, and lowered tourism earnings, causing an estimated \$5 million in damages excluding the cost to rural water supply.<sup>48</sup> In December 2008, tens of thousands of people along the northern coast of PNG were displaced by a combination of king tides, high seas and two tropical depressions in the Pacific.<sup>49</sup> A month later, parts of Fiji were inundated by flood water causing extensive damage. According to Mr Francis Youn, Australia Fiji Business Council, Fiji suffered 'a \$100 million hit' on its economy from these floods.<sup>50</sup> More recently, the tsunami that struck Samoa and Tonga claimed over 140 lives, injured many more and devastated villages along the south-east coast of Samoa, destroying 20 of them completely.<sup>51</sup>

### ***Climate change***

3.28 In 1994, the Global Conference on the Sustainable Development of Small Island Developing States raised the alarm about the particular vulnerability of Pacific island countries in the face of climate variability and sea level rise. It noted:

As their population, agricultural land and infrastructure tend to be concentrated in the coastal zone, any rise in sea level will have significant

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46 The Pacific Islands Forum Secretariat noted that the reconstruction costs after this cyclone hit Niue were estimated at over NZ\$20 million which was more than double its GDP in 2000. *Submission 69*, p. 16.

47 Queensland Government, Environment Protection Agency, 'Fact Sheet Solomon Islands tsunami', updated 16 May 2007; and AusAID, Solomon Islands, <http://www.ausaid.gov.au/country/country.cfm?CountryID=16&Region=SouthPacific> (accessed 6 January 2009).

48 Asian Development Bank, *Asian Development Outlook 2008*, p. 237. Also Pacific Islands Forum Secretariat, *Submission 69*, p. 16.

49 UN Office for the Coordination of Humanitarian Affairs, Regional Office for Asia and the Pacific, 'Papua New Guinea: Tens of thousands displaced by coastal flooding', *Humanitarian News*, 12 December 2008.

50 *Committee Hansard*, 25 March 2009, p. 57.

51 UN News service, 'Over 3,000 Samoans left homeless by deadly Pacific tsunami', <http://www.un.org/apps/news/printnews.asp?nid=32443> (accessed 8 October 2009).

and profound effects on their economies and living conditions; the very survival of certain low-lying countries will be threatened.<sup>52</sup>

3.29 Since that time, numerous other studies have continued to highlight the danger posed to the economies of Pacific island countries by rising sea levels. Dr Ben Saul, Director, Sydney Centre for International Law, informed the committee that:

Shoreline erosion, coastal flooding, increasing salinity and the vulnerability of small islands to rising sea levels and increased severe weather events compromise their continued habitability, impacting upon agricultural viability, vital infrastructure and services, tourism (including coral reefs), the stability of governance, and human settlement.<sup>53</sup>

3.30 Along similar lines, the CSIRO advised the committee that:

Pacific island nations are likely to experience particularly negative climate change consequences with considerable economic impact. Likely impacts include temperature rise, rainfall decline, more extreme weather events, water resource stress (especially for small islands dependent on freshwater lenses), fishery and marine damage, and agricultural pressure.<sup>54</sup>

3.31 The small coral islands, especially the atoll states (Cook Islands, Kiribati, Tuvalu, Federated States of Micronesia, the Marshall Islands, Niue and Nauru), are particularly susceptible to changes in sea levels.<sup>55</sup> In 2000, a major ministerial conference found that these island states are among the most vulnerable places on Earth to the adverse impacts of climate change and sea level rise.<sup>56</sup> Higher sea levels already threaten Tuvalu's underground water table. According to Dr Saul, whole-nation displacement is imminent for Kiribati and Tuvalu, largely as a result of rising sea levels.<sup>57</sup>

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52 See UN General Assembly, 'Report of the Global Conference on Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, p. 9, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008).

53 *Submission 1*, p. 4.

54 *Submission 50*, p. 3.

55 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan 31 August–5 September 2000. See also Asian Development Bank, *Asian Development Outlook 2008*, p. 248. See also Pacific Islands Forum Secretariat, *Submission 69*, p. 3 which stated that the 'very existence of several atoll economies is threatened by higher sea levels'.

56 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan 31 August–5 September 2000. See also, P.P. Wong, E. Marone, P. Lana, M. Fortes, D. Moro, J. Agard and L. Vicente, 'Island systems' in R. Hassan, R. Scholes and N. Ash, editors, 'Ecosystems and Human Well-Being: Current State and Trends: Findings of the Condition and Trends Group' *The Millennium Ecosystem Assessment*, Vol. 1, Washington, D.C., Island Press, 2005, p. 675.

57 *Submission 1*, p. 4.

3.32 In October 2007, Mr Ludwig Scotty, President of Nauru, stated that climate change was 'a daunting and overwhelming threat to the economic, environmental and social well being of island communities'.<sup>58</sup> As noted by the Department of Climate Change, the likely effects of climate change have 'the potential to exacerbate existing challenges in Pacific Island countries particularly in pursuit of sustainable development'.<sup>59</sup>

### ***Overcoming impediments to economic growth***

3.33 Pacific island countries face a number of distinct disadvantages in developing their economies—small populations and land mass, limited natural resources, remoteness, including distance from major markets and suppliers, and exposure to natural disasters. These inherent physical and geographical limitations cannot be changed and often produce conditions or circumstances that inhibit the ability of Pacific island countries to develop their economies. These include:

- domestic markets with little potential to achieve economies of scale in both the production and delivery of goods and services—higher per capita costs of production;
- limited human resources from which to build capacity in key economic sectors—air controllers, engineers, scientists, trade negotiators, public servants, skilled trades people;
- limited range of natural resources and a high dependence on subsistence agriculture and fishing, leading to a concentration in exports and reliance on imports especially of strategic products such as energy and staple foods, leaving Pacific island countries exposed to the vagaries of the global market
  - even Pacific island countries richly endowed with mineral resources and fertile soils have a narrow export base dominated by primary products, again highlighting the problem of susceptibility to external market fluctuations and natural disasters;
- difficulty diversifying into areas such as manufacturing;
- a small presence on the global stage—Pacific island countries are competing against states that are larger, have much greater political and economic clout and are better resourced; their low bargaining position and higher fixed costs of production places them at a distinct disadvantage when compared to more developed states, closer to major markets;
- additional costs and barriers to delivering goods and services to distant markets that undermine competitiveness in global markets; and

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58 Statement on climate change, delivered on behalf of the Pacific Islands Forum by His Excellency Mr Ludwig Scotty, MP, President of the Republic of Nauru, Post Forum Dialogue Plenary, Nuku'alofa, Tonga, 18 October 2007.

59 *Submission 71*, p. 2.

- damage to the economy from natural disasters (particularly cyclones) and the effects of climate change.

3.34 The constraining factors of size, limited natural resources, isolation and natural disasters are beyond the control of Pacific island countries. The circumstances that flow from these structural impediments, however, are not fixed. Thus, although difficult, it may be possible for Pacific island countries to diversify their production base, expand their export markets, minimise dependency on imports, build human capacity and become more resilient to the damaging effects of natural disasters.<sup>60</sup> Indeed, a number of submitters pointed to the poor or lacklustre economic performance of Pacific island countries and suggested that they are not fulfilling their potential. For example, Treasury noted that some Pacific island countries have mineral resources and fishing resources and that there are opportunities for growth in tourism, agriculture and human capital.<sup>61</sup> It noted that the issue is how to 'unlock that potential'.<sup>62</sup>

3.35 AusAID was also of the view that Pacific island countries have economic opportunities which, 'if exploited responsibly and with a long-term view and the support of the international community, can lead to increased growth and better development outcomes'.<sup>63</sup> The Pacific Islands Forum Secretariat also noted that 'faster economic growth is possible in the region'.<sup>64</sup> The Hon Natan Teewe MP, Kiribati, told an IMF gathering that to achieve economic growth, Pacific island countries 'have to take advantage of our disadvantages'.<sup>65</sup>

3.36 For example, education is vital to unlocking the region's economic potential and is a factor over which Pacific island countries have control. At the moment, however, the low level of educational attainment is retarding economic growth not promoting it. This matter is considered in chapter 10.

## Conclusion

3.37 At this stage of the report, the committee has considered the major structural challenges facing Pacific island countries, such as their size, remoteness and

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60 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, [http://www.unescap.org/survey2008/download/01\\_Survey\\_2008.pdf](http://www.unescap.org/survey2008/download/01_Survey_2008.pdf) (accessed 1 October 2008), p. 74.

61 *Committee Hansard*, 20 November 2008, pp. 4–5.

62 *Committee Hansard*, 20 November 2008, p. 5.

63 *Submission 65*, p. 2.

64 *Submission 69*, p. 2.

65 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.

susceptibility to natural disasters. These characteristics cannot be changed but they may be managed in ways that ameliorate adverse consequences for their economies. The committee in the following part of the report considers measures that Pacific island countries are taking, and could take, to improve their economic performance in the face of these physical and structural impediments. It also looks at the assistance that Australia provides to the region.

## **Part II**

### **Sustainable development and commercial opportunities**

Although Pacific island countries cannot change the physical circumstances of their size, natural resources, remoteness and susceptibility to natural disasters, they can make themselves more resilient to the adverse effects that often flow from these inherent impediments. In order to achieve and sustain economic growth, they must find ways to make better use of their natural resources, develop their skill base, keep the costs of production to a minimum, attract investment, expand their overseas markets, and moderate the devastating effects of cyclones, floods, droughts and other weather extremes.

In Part II of this report, the committee examines the ways in which Pacific island countries are taking 'advantage of their disadvantages'.

The committee starts by examining the responses of Pacific island countries to the main challenges they face in ensuring that their natural resources are managed effectively and competently. The emphasis is on food security, sustainable development and unlocking economic potential. It considers the measures taken by Pacific island countries to develop and, at the same time, protect their natural resources. The committee looks at agriculture, fisheries, forestry and mining including the policies and practices that affect sustainable development and economic growth. It also considers the growing concerns about the effects of climate change on the livelihoods of the people of the Pacific island countries.

The committee then turns to broader management issues. Its main focus is on the economic and financial management in Pacific island countries, and the role of government and its institutions in providing and delivering services essential to economic growth. The key areas under consideration are economic infrastructure, education, training and employment, governance, the regulatory environment for business, land tenure and access to finance.

Alongside this examination, the committee outlines the measures that Australia is taking to assist Pacific island countries address their economic and development problems.

