Economic trends in the PICs

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Outline

- The broad economic trends
- Sectoral outlook
- Reforms and their record to date
- Role of Govt Vs Market in development
- Trade, aid and labour mobility
- Conclusion
PICs in Australasia
### Basic statistics on PICs

<table>
<thead>
<tr>
<th>Country</th>
<th>Population ('000s)</th>
<th>Land Area (sq. km)</th>
<th>per-capita GDP ($US)</th>
<th>GDP Growth (90-00)</th>
<th>Debt/GDP</th>
<th>Aid per capita 2000 ($US)</th>
<th>Interest Rate</th>
<th>EFIC Rating</th>
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The broad macro-trends

- Macro aggregates: GDP, Deficits, Debt (Tfunds), & interest rates
- Fresh policy initiatives
  - SOEs in Kiribati
  - Copra subsidy + mini oil refinery in PNG & Vanuatu (oil from Libya!)
  - Affirmative Actions for Indigenous Fijians.
- Additional issues: Population trends, youth employment, migration, poverty
Sectoral outlook

- Sugar, TCF, OFC - overdue for rationalisation
- Cocoa, Coffee, Copra, Oil Palm & Gold (minerals), depends on movements in international prices (fn of external factors) & investor climate (r)
- Kava - SPS Agreement - see Article 5, c.7
- Forestry & Fisheries - rent dissipation and sustainable management of the resources
- Manufacturing, Tourism & other traded services - most promising provided PICs remain competitive in the global marketplace (re: security, skills, technology, etc)
Failure in raising pace of development

- Those of commission include high cost SOEs such as Ilimo Poultry, Rewa Dairy & FSC, Vanuatu Abattoir Ltd, Hotels (Cook Islands and Nauru), CMBs etc. that put undue pressure on the budget and on public debt.

- Those of omission include deteriorating transport and communications infrastructure (PNG), L&O, access to basic services such as primary health and education, siphoning-off of scarce resources (skills) from the rest of the economy, etc.

Government failure to specialise in areas of comparative advantage (i.e. pure public goods provision re: small governments).
Lethargic Private Sector - Why?

- Often cited factors
  - small markets, frequent natural disasters,
  - isolation from sources of supply and potential markets

- Policies not conducive to growth
  - Extensive regulatory controls as for wages, exchange rates, operation of informal sector, etc.
  - High risks re: poor property rights on land, debt contracts (Tanna truck); political & policy instability; indiscipline of disciplinary forces.
  - Prices of inputs of production high, often due to SOEs such as those for utilities, credit, transport, etc.
Why the *status quo*?

- Hard to withdraw concessions (handouts) once provided, e.g. recent copra subsidy in Vanuatu.
- Incentives to maintain strong exchange rates to support the vocal urban middle class, e.g. Trukai rice and kaukau/rice in PNG
- Wages kept high at a cost of unemployment to keep the employed happy
- Strong deficit bias given short time horizons of political leadership, common-pool problem, e.g. Yap vs Chuk. FSM: MRDC landowner
Some facts on reforms

F1: Reforms underway in nearly every PIC - Has Net Wealth increased in the process?

F2: Most reforms are comprehensive in that they include trade liberalisation (VAT), corporatisation and privatisation, public sector downsizing, etc.

F3: Minimal access to safety nets in the face of potentially massive displacement of labour (welfare impact via family and kinship ties)

F4: Varying degrees of success with reforms - Samoa & CI perhaps most successful, Fiji, Vanuatu, PNG perhaps with a mixed record, and Solomon Islands (and Nauru) with the least success.

SEVERAL LESSONS FROM ABOVE - Consider L-mobility
Trade and labour mobility

- Need for better integration of product and factor markets via common standards and relaxation of regulatory barriers to movement of goods and labour (re deep integration as pre-federation)

- Political sensitivities: import neutrality - false given CER (EC) and regional spillovers; social security - TFNs; brain/body drain (Niue, CI) vs discipline

- Aid or remittance if choice at the margin? Eg for Bangladesh, in 2001 foreign aid = 2.9% of GDP, remittances = 4 while exports = 13.7 of FOREX

- Poverty impact: remittances + access to resources

- Circular migration to create pressures for better gov.
Conclusion

- Governments to specialise in areas of comparative advantage given resource constraints
- Labour markets made more fluid in the region to enable the real sector to adjust to shocks and provide the mechanism to reward policymaking in the interest of the wider community
- Better integrate the PIC region as a whole within the one architecture for trade for Australasia (standards, exchange rate, etc.).