Chapter 27

Pacific Island Economies

Geoff Bertram

Introduction

Pacific island economies are small and isolated, but for the most part they are not poor by the usual standards of world poverty. Environmentally deprived areas of Papua New Guinea are a partial exception (Booth 1995 p.208, World Bank 1999, Allen et al 2005). Provision of basic needs has seldom been under threat for the indigenous populations of the islands, and living standards across much of the region continue to be underwritten by official transfers and private remittances, while rising earnings from tourism (Milne 2005, Taylor et al 2006) and fisheries (Gillett et al 2001) have transformed several of the region's economies. There is considerable geographic mobility of individuals, which makes migration a central issue for economic policy and ensures that most of the region's labor markets are open, with wages in the islands indexed (at a discount) to wage rates obtainable in the outside world. It is limited migration outlets, rather than natural resource constraints, that locate Papua New Guinea and the Solomon Islands at the bottom of the human development scale in the region (UNDP 1999: 16-19).

Smallness brings with it relative insignificance on the global scale. In 2005 Melanesia, Micronesia and Polynesia excluding Papua New Guinea and Hawaii had a combined population of 3.2 million, only 0.05% of the world population of 6,515 million. Adding in those two larger entities brings the total to 9.9 million, still only 0.15% of the world total (United Nations 2005 Tables 1, 3 and 5). Including New Zealand as part of the island Pacific adds another 4 million people.

Almost all of the Pacific islands have at some stage in the past century been colonies, associated territories, or integrated parts of larger industrialized countries. A significant number continue to operate as sub-national jurisdictions. Hawai'i, Guam, Northern Marianas, and American Samoa are fully under US rule; New Caledonia, French Polynesia, and Wallis and Futuna are parts of France; Easter Island and the Galapagos are included within Chile and Ecuador respectively; Tokelau remains part of New Zealand despite continual pressure from Wellington to force "decolonization".

A number of other entities are politically associated, more or less closely, with metropolitan patrons. These ongoing linkages provide institutional resources of great value to the island economies: reliable aid flows, opportunities for migration and maintenance of

diasporas, and concessional access to services and markets available from the metropolitan economies (Bertram 2004, 2006). Rallu and Ahlberg (elsewhere in this volume) observe that "territories" have significantly longer life expectancy than independent island states, due partly to far better medical facilities.

Trade flows, capital flows, asset ownership, official languages, government structures and currencies in use have been determined over the past century by the existence of eight main spheres of influence - British, French, US, Australian, New Zealand, Chilean, Japanese and German, the last two of which became absorbed by the others during and after the two world wars of the century. A revival of Japanese influence, in the context of rapidly increasing linkages between the island Pacific and the East Asian economies in general, was evident in the early 1990s. Since then rivalry between Mainland China and Taiwan for influence in the region has brought a rapidly increasing role for Chinese aid and trade, along with rising political tensions.

The ongoing importance of close links between individual island economies and their out-of-region metropolitan patrons – mainly former colonial powers - is evident in Table 27.1, which provides basic background data.

Of the 26 entities apart from New Zealand listed in Table 27.1, only nine (Papua New Guinea, Samoa, Fiji, Kiribati, Solomon Islands, Tonga, Vanuatu, Nauru and Tuvalu) are independent nation states, only six (Papua New Guinea, Samoa, Fiji, Solomon Islands, Tonga, and Vanuatu) have their own currencies, and only nine (Papua New Guinea, Samoa, Fiji, Solomon Islands, Tonga, Vanuatu, Marshall Islands, Federated States of Micronesia, and Kiribati) are members of the World Bank and IMF. This accounts for the weak representation of the region in most major international databases, a gap only partly filled by the Asian Development Bank and the PRISM online statistical network.

The internationalization of markets for goods, service and factors of production over the past three or four decades was less of a change for Pacific islanders than for the inhabitants of most of the world's developing countries, because of the Pacific's pre-existing freedom of trade and capital flows, and its long history of labor migration both within the region and to metropolitan economies.

Table 27.1 Background Data on Twenty-Seven Pacific Economies c2005

Territory	Population c.2005	Political classification	Currency	Per capita GNI/GDP US$, purchasing-power-parity
US Pacific				
Hawaii	1,285,498	Integrated	US$	50,322
Guam	169,000	Integrated	US$	15,000
Northern Marianas	69,221	Integrated	US$	12,500
FSM	107,008	Associated	US$	2,390
Palau	19,907	Associated	US$	7,990
Marshall Islands	50,848	Associated	US$	2,900
American Samoa	66,000	Integrated	US$	5,800
Total	1,767,482			
French Pacific				
French Polynesia	255,000	Integrated	Pacific franc	16,070
New Caledonia	230,789	Integrated	Pacific franc	14,020
Wallis and Futuna	14,944	Integrated	Pacific franc	3,800
Total	500,733			
Australian Pacific				
Papua New Guinea	5,190,786	Sovereign	Kina	740
Kiribati	92,533	Sovereign	Australian $	1,240
Solomon Islands	471,000	Sovereign	Solomons $	690
Vanuatu	186,678	Sovereign	Vatu	1,690
Nauru	9,919	Sovereign	Australian $	5,828
Tuvalu	9,561	Sovereign	Australian $	2,516
Norfolk Island	2,523	Integrated	Australian $	
Total	5,963,000			

Table 27.1 *continued* Background Data on Twenty-Seven Pacific Economies c2005

New Zealand Pacific				
New Zealand	3,820,749	Sovereign	NZ$	26,750
Samoa	183,000	Sovereign	Tala	2,270
Cook Islands	20,000	Associated	NZ$	9,100
Niue	1,788	Associated	NZ$	5,800
Tokelau	1,537	Integrated	NZ$	1,000
Pitcairn Island	66	Integrated	NZ$	n.a.
Total	4,027,140			
Independent Central Pacific				
Fiji	842,000	Sovereign	Fiji $	3,720
Tonga	101,134	Sovereign	Pa'anga	2,250
Total	943,134			
South American Pacific				
Easter Island	3,791	Integrated	Chilean peso	n.a.
Galapagos Islands	30,000	Integrated	US$	2,989
Total	33,791			
Grand Total	13,235,280			
Excluding Hawaii, New Zealand, PNG	2,938,247			

Sources: Population from United Nations 2005 (Hawaii fromUS Bureau of Census). Income data from World Bank ‘World Development Indicators’, CIA World Factbook, Asian Development Bank Key Indicators of Member Countries, and Taylor et al 2006.

Industrialization and export-led growth are the exception, not the rule, in the region. Repeated attempts by aid donors and local governments to trigger such growth have produced boom-bust cycles of investment, but not sustainable industrial economies. The past half century's economic development in most of the island Pacific has been founded upon the modern infrastructure installed prior to and during decolonization, and the growth and maintenance of living standards has been import-led, funded from a diverse range of sources. It has been the quest for means to finance rising imports without incurring unsustainable indebtedness that has dictated the various economies' structural evolution, including the establishment of large diasporas of migrant workers.

Output, Trade, and the Balance of Payments

Prosperity versus Independence

The usual benchmark statistics used to rank economies in the world scene are Gross Domestic Product (GDP) per head[1], the Gross National Income (GNI)[2] measure now promoted by the World Bank, and the United Nations' Human Development Index (HDI)[3]. Of the 177 countries in the Human Development Index database at http://hdr.undp.org/en/statistics/ only six (or seven including New Zealand) are Pacific island economies, although a 1999 study (UNDP 1999) calculated HDIs for 14 Pacific countries on a cross-section basis for that one year. Coverage of the region's GDP and GNI in the World Development Indicators database is better but still incomplete. For only some of the Pacific Island economies are reliable output or income data available on a consistent basis over time. In any case, for many of the smaller ones the statistical concepts underlying GDP and GNI are less applicable than for large developing economies because of the importance of sources of income (remittances, aid and other transfers) which are not counted, and the extent to which modern-sector economic activity has moved offshore to the neighbouring metropolitan economies. Nevertheless, the data on GDP and the balance of payments do have a story to tell.

---

1 GDP is the market value of output produced within a country or territorial unit in a period (usually a year).

2 GNI (formerly GNP) is a country's GDP plus income received from assets owned abroad, minus income paid to overseas investors in the local economy. In the Pacific, major sources of income from abroad are remittances and aid, which keep people's disposable incomes in many island economies above GDP per capita. These two sources of income are excluded from GNI as well as from GDP.

3 The HDI combines GDP with measures of life expectancy, literacy, and educational attainment.

Table 27.2 Per Capita GDP/GNI by Political Status 2005: US Dollars

	All	Excl PNG	Excl PNG and Hawai'i
Sovereign nations*	1,193	2,433	2,433
In free association	3,782	3,782	3,782
Integrated	35,793	35,793	13,466
Region average	9,052	19,282	5,673

* Excluding New Zealand.

Source: Table 27.1.

The first outstanding stylized fact to emerge is that with the exception of New Zealand (a rich country which is better classified as part of the metropolitan Pacific Rim economy), the GDP per head of island economies listed in Table 27.1 is inversely related to their degree of political independence. Table 27.2 shows that the collective per capita GDP per head of fully sovereign island territories is only 3% that of politically integrated territories. Exclusion of sovereign Papua New Guinea raises this only to 7%. Exclusion also of Hawaii, the largest and highest-income non-sovereign territory, raises the figure to 18%. Only tiny Tokelau, fully integrated with very low estimated GDP per head, breaks the pattern.

Armstrong *et* al (1998), Bertram (2004), and Sampson (2005 p.7) find strong statistical evidence that non-sovereign status is positive for the level of per capita GDP. Sampson found, however, no significant effect of sovereignty status on the growth rate, and a negative effect on growth of being a small state, after controlling for sovereignty. Higher incomes, in other words, are explained by past, not current, economic growth.

While the data in Table 27.2 show a correlation between political integration and late-twentieth-century relative prosperity, they do not prove causality: has political integration led to relative economic prosperity, or is it just that poorer territories were more likely to be decolonized? The cases of French Polynesia and Federated States of Micronesia - both extremely resource-poor but with relatively high incomes because of official transfer payments - provide support for the first hypothesis. Kiribati, decolonized by Britain in the year its phosphate resource was exhausted, gives some credibility to the second. Papua New Guinea, with rich mineral resources but very low incomes and failing growth as a sovereign nation state, lends some credence to the idea that the transition from colony status to sovereign independence places a drag on economic development (Connell 1997, Manning 2005). The difficulties encountered at the beginning of the twenty-first century by the sovereign nation states Nauru and the Solomon Islands (Connell 2006a, 2006b) point the same way.

Provisionally, it seems reasonable to regard political connections as more a source than a consequence of economic welfare. This proposition, that in the Pacific relative wealth flows from "dependency", and relative hardship from independence, has seemed paradoxical to many social scientists familiar with the larger developing economies of Latin America and Asia. It is nevertheless a feature of small island economies not only in the Pacific but also in the Caribbean, Atlantic and Indian oceans (Baldacchino and Milne 2000; Bertram and Poirine 2007).

Slow Growth

A second main stylized fact about Pacific island economies is that across the region, economic growth as measured by GDP during the past three decades has been slow and often outpaced by population growth, so that per capita incomes have been flat or even falling slightly according to the official statistics.

Data on the growth rates of output and incomes in Pacific Island economies are patchy and unreliable, but generally indicate slow growth rates relative to other regions of the world and a tendency for growth rates to have fallen since the 1970s. Fichera (2005 Table 6.2 p.46) reports annual growth rates of real GDP for nine Pacific small-island economies 1995-2004 as only 1.7% 1995-2004, falling to 1.6% p.a. in the last three years of the period. Allowing for population growth, this implies stagnation of per capita domestic output.

Faal (2007 p.16) reports Papua New Guinea's growth of real GDP falling from 5.5% 1960-75 to 2.3% 1975-2004 and less than 1% 1996-2004, and estimates that per capita GDP in 2004 was below the level of the early 1970s (2007 p.20 Figure 3). Sugden and Tevi (2004) trace decades of weak growth performance in Vanuatu.

Sampson (2005) in a major cross-country statistical study of 177 countries, including 8 small-island Pacific economies, found that being located in the Pacific had a significant negative effect on growth in the period 1995-2003. This was replicated by Gibson (2007), who found evidence that while remoteness *per se* may have contributed to slow growth, and while there is some evidence of regional contagion effects (whereby an economy with slow-growing neighbours will itself grow more slowly than would otherwise be the case), an important growth-inhibiting factor seems also to have been the prevalence of market power[4] in the transport and communications sectors, reflected in higher airfares and costs of money transfers, communications, and freight, relative to other regions of the world economy. Money transfer costs were the focus of an earlier study by Gibson *et al* (2006), who found

4 Market power is the degree of monopoly in a market, reflected in the ability of suppliers to charge prices that include a large markup on cost, securing larger profits than could be gained under competitive conditions.

that remitting money from New Zealand to Tonga cost between 19% and 31% of the amount sent, which was "between 2.5 and 3 times as expensive as transfers from the United States to Mexico, and approximately twice as expensive on average as bank transfers to a wide variety of countries from the United States and United Kingdom including countries with similar volumes of remittances as Tonga" (2006: 121). Such evidence of high margins indicates a substantial deadweight burden of market power potentially holding back economic growth based on remittance finance.

The region-wide pattern of slow output growth is common across a wide variety of income levels, political regimes and trade orientations. It represents a significant slowdown compared with the rapid material progress of the region up until the early 1980s, and is attributable directly to the end of a period in which government was a strongly-growing "leading sector" for the island economies.

From the Second World War until the late 1970s, with the international political spotlight focused on issues of development and decolonization, the dominant metropolitan powers (particularly the United States, Britain, France and New Zealand) financed and organized the project of extending to their island dependencies many of the attributes of their own welfare states, especially in the fields of education, health, and public works. However once the dependent territories had been raised to levels of material welfare consistent with the desire of the metropolitan governments to emerge with credibility from the decolonization era, the impetus of state expansion slackened (except in French Polynesia where the nuclear testing program resulted in a continuing economic boom through the 1980s – Poirine 1994a). Decolonization was usually followed by a drop or levelling-off in the level of ongoing aid funding provided by former metropolitan powers, and a corresponding loss of the previous momentum of public-sector expenditure.

The era of government-led growth left a valuable legacy of physical infrastructure (roads, ports, energy and telecommunications systems, public buildings, education and health), and economies with employment heavily concentrated in the externally-financed public sector. However, as public expenditure leveled off, there was no subsequent takeoff of private-sector-led growth in GDP except in Fiji where sugar, tourism and manufacturing provided high-linkage export sectors. In most island economies, private investment has remained concentrated in non-traded goods and services such as commerce, construction, transport, communications and financial services. Because local markets are small, the growth potential of these sectors is limited, and hence investment opportunities are limited.

Low growth of GDP is not due to any lack of finance for investment. The Pacific islands do not have a "savings gap"; on the contrary, a common theme in the literature on island finance is the existence of excess liquidity due to the shortage of bankable projects (Nagai 1996). It is lack of profitable investment opportunities, due partly to small scale and

geographical isolation, that limits the possibilities for orthodox textbook growth models based on large-country experience.

A third stylized fact is the lack of economic integration, as usually understood, among the Pacific island economies. Trade statistics show the Pacific to be the least-integrated region in the world, with trade between the island states amounting to less than 2% of their total exports (McGregor et al 1992 pp.20-21). Each island economy trades mainly with bilateral partners outside the region, with former or actual metropolitan patrons the preferred trading partners. Only in non-tradeable economic activities - government, education, scientific research, transport, communications - is there a tendency towards integration among the island states.

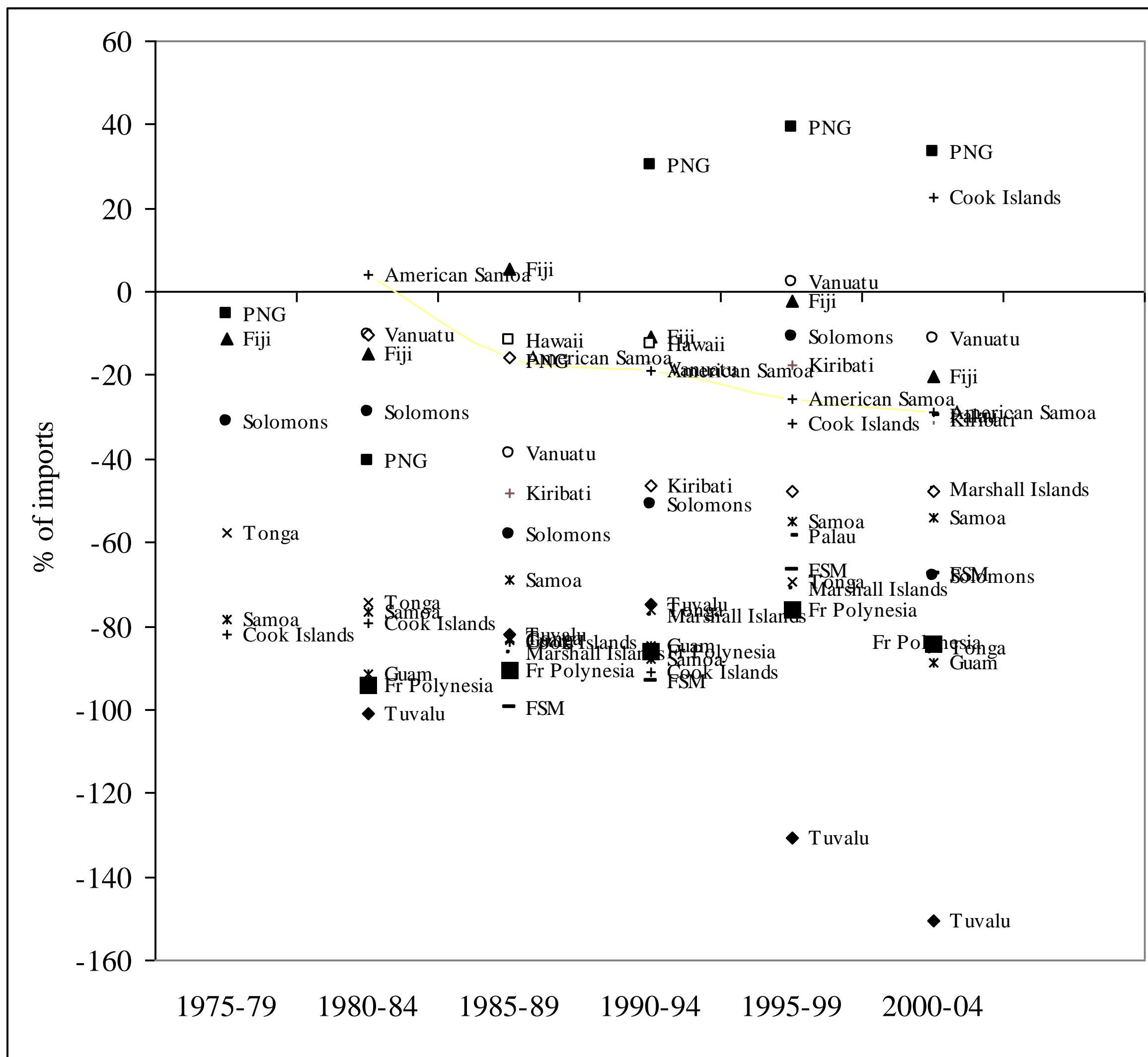
Financing Imports

A fourth major feature of the region is its unusual combination of very large trade deficits with a generally healthy current account on the balance of payments. Figure 27.1 plots for seventeen Pacific Island economies the balance of trade in goods and services over the three decades to 2004. This balance, sometimes termed the "commercial balance", is calculated by adding together all of a territory's foreign-exchange earnings from the sale of exported goods and services including tourism, transport and communications; and then subtracting all foreign-exchange payments for imported goods and services, including services such as transport and insurance which enter into the cost of imported goods. This gives a measure of the extent to which the sale of local output on world markets enables an economy to pay for its import needs.

For purposes of cross-country comparison, the data for each economy have been averaged for each five-year period between 1975 and 2004, and expressed as a percentage of merchandise imports (that is, imports of goods, excluding services purchased overseas). Only minerals-rich Papua New Guinea has consistently shown a positive commercial balance over the past fifteen years. The remainder show deficits ranging from around 10-20% of imports (Hawaii, Solomons, American Samoa, Fiji) to 80% or more (Tuvalu, French Polynesia, Federated States of Micronesia).

Because of the very open nature of these economies, the trade deficits are large relative to GDP. Across the six countries surveyed in detail by the World Bank in 1991 (Fiji, Papua New Guinea, Vanuatu, Kiribati, Western Samoa and Tonga - World Bank 1991: 12), exports averaged 55% of GDP and imports averaged 67%, so that their collective commercial deficit was 12% of GDP - a very high ratio by international standards.

Figure 27.1
Goods and Services Balances of Seventeen Pacific Territories



Some possible classifications suggest themselves in Figure 27.1. Melanesia and Hawaii, with larger land masses and populations, have relatively "strong" commercial balances (small trade deficits). Small-island Polynesia and Micronesia have conspicuously large deficits, with the exception of the Cook Islands since 2000, where a tourism boom (included in services exports) has triggered a transition out of MIRAB[5] status. Many of the Polynesian and Micronesian microstates shown in Figure 27.1 have commercial deficits between 50% and 150% of imports, which means that more than half the imports to those

---

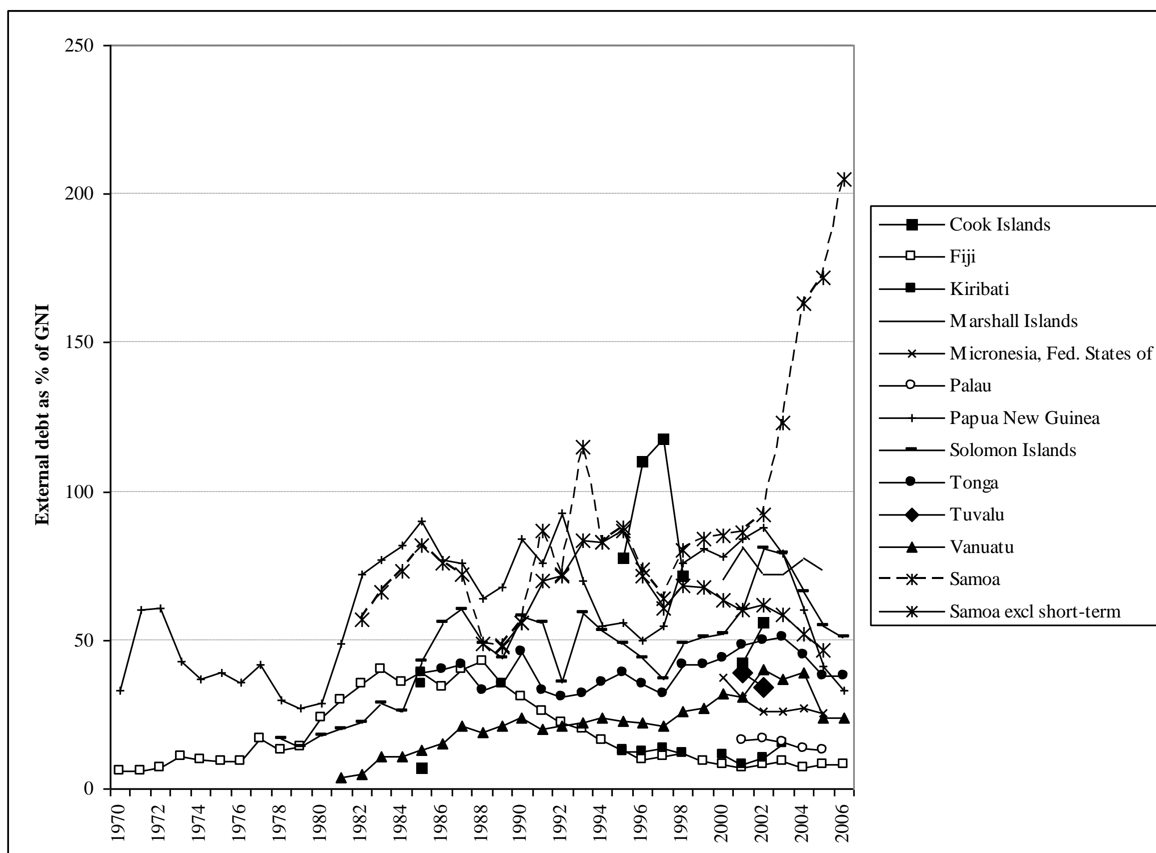
5 An acronym for economies that are driven by migrant remittances and aid flows spend by a large public sector (bureaucracy). The term was coined by Bertram and Watters (1985).

economies are financed either by current transfers (repatriated overseas earnings, private remittances and official aid) or by capital inflow (borrowing plus direct foreign investment).

These two possible means of financing trade deficits have radically different implications for economic sustainability. Economies with trade deficits financed by capital inflows face rising overseas indebtedness over time, but Pacific Island economies have kept their overseas debt at modest and declining levels. A 1996 World Bank study (World Bank 1996 pp.240-241) classified the degree of indebtedness of 210 economies, including thirteen Pacific Island economies. No Pacific Island states were among the 53 "severely indebted low and middle income" economies. Only two (Samoa and Papua New Guinea) appeared among the 31 "moderately indebted" countries. The other eleven Pacific economies covered were ranked "less indebted" or had no classifiable external debt. As Figure 27.2 shows, the level of public overseas indebtedness in Pacific small-island economies for which data are readily available was generally below half of GNI at 2005-2006, following a decade-long downward trend. (The total debt figure for Samoa since 2000 has been inflated by short-term debt associated with the country's Offshore Finance Center; excluding this, Samoa's external debt matches the trend in the other countries of the region).

It is, therefore, not capital inflow that has funded the large trade deficits seen in Figure 27.1. It is current-account transfer payments into the island economies. These transfers come from three main sources. First is the payment of interest and dividends on financial assets held overseas - income from overseas investments such as Kiribati's Revenue Equalisation Reserve Fund and Tuvalu's Trust Fund. Second is the flow of remittances sent home by migrants living and working in metropolitan economies such as Australia, New Zealand, USA and Canada, or employed as seamen by international shipping lines (Kiribati and Tuvalu) and as peacekeeping troops by the UN (Fiji). Third is official aid provided in the form of "unrequited transfers" for which no repayment is required, so that island governments' budgets can be funded with no need for large-scale borrowing.

Figure 27.2
External Indebtedness of Twelve Pacific Island Economies



Sources: World Bank *World Development Indicators* and Asian Development Bank *Key Indicators of Developing Asian and Pacific Countries*, various years.

Table 27.3 demonstrates the various ways in which Pacific island economies maintain strong current accounts in their balance of payments despite having generally large commercial deficits. Only two of the twelve countries in Table 27.3 have strong trade balances. Fiji, as already seen in Figure 27.1, is an economy which does not have a significant trade deficit, and so pays its way on the basis of export earnings. Papua New Guinea is the largest single aid recipient in the region, reflecting its very low income and large population; but aid funding is only about 10% of export earnings and serves mainly to offset the outflow of dividends, interest, and repatriated earnings. (Private remittances flow out from Papua New Guinea because of the large number of expatriates employed there. The small number of Papuan migrants overseas means that remittances in the other direction are small.)

Table 27.3 Financing of the Current Account in Thirteen Pacific Island Economies: US$ million annual averages

Country	Exports: goods & services	Imports: goods & services	Commercial balance	Interest, dividends, etc.	Remittances	Official transfers	Current account balance
American Samoa							
1985-89	292.33	337.67	-45.33	na	na	na	na
1990-93	331.5	390	-58.5	na	na	na	na
1995-99	353.70	473.14	-119.44	na	na	na	na
2000-05	391.44	549.68	-158.24	na	na	na	na
Cook Islands:							
1985-89	20.43	29.66	-9.23	na	na	na	na
1990-92	25.85	50.37	-24.52	na	na	na	na
1995-99	59.08	55.84	3.24	na	1.33	8.07	3.24
2000-04	92.54	79.80	12.75	na	1.30	5.07	12.75
Federated States of Micronesia:							
1985-89	16.83	83.74	-66.91	a	6.53	113.75	53.36
1990-94	43.32	154.14	-110.82	a	2.4	114.93	8.42
1995-99	56.12	148.14	-92.02	a	1.80	86.18	-4.50
2000-04	54.38	176.70	-122.33	7.50	-0.63	101.10	-15.70
Fiji:							
1985-89	581.46	565.78	15.68	-25.22	-10.42	24.04	4.04
1990-94	905.08	922.84	-17.76	-13.7	8.28	34.32	11.14
1995-99	1,113.42	1,129.40	-15.98	-69.18	12.78	92.50	-36.10
2000-04	1,100.44	1,300.63	-200.18				-133.92
Kiribati:							
1985-89	20.42	41.41	-20.99	7.43[a]	2.1	19.67	8.21
1990-94	29.18	62.76	-33.58	19.94[b]	7.08	25.38	14.48
1995-99	12.16	57.75	-45.59	30.26[b]	10.90	17.97	3.83
2000-04	11.60	70.19	-58.59	33.22[b]	13.95	17.38	-4.64

Table 27.3 *continued*

Marshall Islands:							
1985-89	22.26	57.96	-35.7	a	6.01	52.8	23.1
1990-94	35.14	78.61	-43.46	a	5.68	64.12	26.34
1995-99	38.52	80.04	-41.52	a	0.54	42.14	1.16
2000-04	60.00	96.46	-36.46	a	-10.42	51.44	8.38
Palau							
1995-99	66.20	144.90	-78.70				
2000-04	66.20	115.51	-49.31	5.48	-19.74	22.12	-14.91
Papua New Guinea:							
1985-89	1303.74	1494.34	-190.6	-150.3	-5.96	100.18	110.88
1990-94	2256.36	1867.98	388.38	-305.22	-10.95	4.70	76.35
1995-99	2,555.39	1,867.39	688.00	-351.64	-5.96	100.18	110.88
2000-04	2,285.60	1,926.53	359.07	-311.07	-10.95	4.70	76.35
Solomon Islands:							
1985-89	92.6	137.34	-44.74	-7.18	-0.54	26.77	-25.69
1990-92	116.09	167.25	-51.16	-8.06	3.06	35.4	-20.77
1995-99	213.86	234.23	-20.36	-8.75	-8.77	34.35	2.92
2000-04	94.19	153.55	-59.37	-2.57	-3.91	49.88	-46.45
Tonga:							
1985-89	24.99	57.05	-32.07	3.23	21.57	5.65	-1.61
1990-93	33.26	74.33	-41.07	3.25	30.7	6.95	-0.17
1995-99					35.60		-10.80
2000-04	39.92	113.54	-73.62	6.79	55.50	4.70	-8.13
Tuvalu:							
1985-89	4.35	7.86	-3.52		c	3.53	0.02
1990-93	6.55	10.54	-3.99		c	6.17	2.18
1995-99	5.44	15.76	-10.32	10.41	-0.90	6.51	0.35
2000-04	4.44	23.41	-18.96	15.10	-0.91	6.53	-1.57

Table 27.3 *continued*

Vanuatu:							
1985-89	51.1	84.82	-33.72	-0.45	6.84	25.81	-1.52
1990-94	86.43	100.11	-13.68	-24.52	11.16	15.58	-11.26
1995-99	128.84	127.40	1.44	-15.31	-37.25	31.15	-21.43
2000-04	141.58	151.81	-10.24	-9.74	-19.52	23.72	-26.96
Samoa:							
1985-89	32.85	71.01	-38.16	0.08	32.41	12.92	7.25
1990-94	42.6	113.03	-70.43	2.61	33.37	13.78	-21.36
1995-99	76.40	129.39	-53.00	1.72	35.38	24.49	6.41
2000-04	106.74	197.33	-90.59	-16.52	56.56	16.90	-17.04

a Reserve Equalisation Reserve Fund income.

b RERF income plus fishery royalties.

c All transfers included in aid column.

Sources: IMF *Balance of Payments Yearbook* and *International Financial Statistics*; United Nations *Statistical Yearbook 1994*; Asian Development Bank *Key Indicators of Developing Asian and Pacific Countries*; UNCTAD *Handbook of International Trade Statistics*; country statistical office websites.

The Federated States of Micronesia, the Marshall Islands, Tuvalu, and the Solomon Islands all have heavy commercial deficits financed by large official transfers. French Polynesia (not included in Table 27.3) also funds its commercial deficit in this way. These economies can be described as aid-driven. In contrast Tonga and Western Samoa rely mainly on private remittances to fund their trade deficits; in both these economies remittance flows are on a par with export earnings, and aid provides a top-up. These economies can be described as driven by migration and remittances.

A third funding pattern is that of Kiribati with its large inflow of dividends and interest from offshore financial assets (the Revenue Equalisation Reserve Fund, RERF) and fishery royalties (Purfield 2005). (Nauru until the 1990s had an even stronger role for investment income in its current account and received only a trickle of aid; the loss of its reserve assets through mismanagement and exhaustion of all but the smallest residual phosphate deposits has converted this former high-income enclave into an impoverished 'failed state' (Connell 2006a).) These economies can be described as rent-driven.

Island Economies and Economic Development Theory

The theoretical literature on so-called "microstates" and their economic status has burgeoned in recent years (Baldacchino and Milne 2000, Bertram 2006, Bertram and Poirine 2007, Briguglio et al 2005, McElroy and Pearce 2006, Sampson 2005, Winters and Martin 2004). The debate can be traced back to the end of the 1950s, when the newly-established field of development economics turned its attention to the issue of whether the size of a nation state influenced its economic development. Two books of collected papers from that period (Robinson 1960, Benedict 1967) set the framework for most work until the 1980s, and presented a puzzle that still lies at the heart of the microstate literature. This can be stated in the following terms.

Modernization theories predict that small size should be a handicap for growth and development. A recent careful theoretical analysis by Winters and Martins (2004) considers the consequences of small scale for an economy's ability to sustain a successful export trade on the basis of comparative advantage, and strongly suggests that at least some small island economies will prove non-viable (Winters 2005 p.101) Yet the world's very smallest autonomous political units are not located at the bottom of the development ladder, nor is there any robust statistical evidence that small size correlates with low standards of living (Milner and Westaway 1993; Armstrong and Read 2000, 2002, 2006; Baldacchino and Milne 2000).

Theoretical interpretation of these empirical regularities is clearly important for policymaking purposes. By the early 1990s the literature on growth, trade and migration in the Pacific Islands could be characterized in terms of the emergence of two competing

paradigms (Hayes 1991). The dominant mainstream paradigm regarded the observed economic success of island microstates as an anomaly (Briguglio et al 2005) and prescribed a "big push" to promote investment, output and commodity exports; otherwise, the paradigm suggests, in the long run the theoretical disadvantages of smallness and isolation must assert themselves.

MIRAB, SITE and PROFIT Economies

An alternative paradigm is built around the idea that the mainstream theory should be revised to recognize the validity of multiple possible paths to develop and secure material welfare, with island economies serving as exemplars of a wide range of options (Bertram and Poirine 2007). This paradigm originally took shape in the MIRAB model of Bertram and Watters (1985), but has since extended to include small island tourism economies ("SITES" - see McElroy 2006) and a wide-ranging set of small states and sub-national jurisdictions exercising what Baldacchino and Milne (2000) have termed the "resourcefulness of jurisdiction", leading to the emergence of a category of small island economies classed as "PROFITs" (Bertram 2006, Baldacchino 2006). The charts in Figures 27.2 and 27.3 highlight the ability of small island economies to sustain living standards significantly above GDP per capita, often by taking advantage of their special circumstances to generate non-traditional income flows.

In MIRAB, SITE and PROFIT economies the indigenous population maximise their material well-being by means of globalization and a willingness to seize opportunities as they arise. Subsistence production from land, most of which remains unalienated under customary tenure, puts a floor under living standards by providing for basic needs, and possibly also for some modest cash sales of produce to urban or export markets. However, it is the release of family members and family savings from village agriculture and fishing, and their outward movement not merely to other sectors, but to other islands and other countries, that opens one way to securing higher incomes and wealth. Another is the allocation of effort and ingenuity to negotiating deals, and designing legal and regulatory regimes, to cash in on the willingness of rich-country inhabitants and governments to pay for access to geographic and/or institutional attributes of small islands. Where aid flows are secured, employment in the government sector puts cash into the hands of all households with members engaged in such employment. In the 1990s the public sector accounted for 70% of paid employment in Kiribati, 69% in Tuvalu, 48% in the Solomon Islands and 46% in FSM (Gillett et al 2001: 22).

The scale of migrant remittances into the small-island Pacific is substantial, possibly of the order of US$350-400 million annually across 3 million people, though the distribution is very uneven. Browne (2006) estimates total remittance inflows of US$336 million into Fiji. Kiribati, Micronesia, Samoa and Tonga during 2004, offset only slightly by $12 million

of outflows from Marshall Islands and Palau. Tonga, Samoa, Kiribati, and Vanuatu all appear in the IMF's list of the 20 countries with the highest remittances-to-GDP ratios in the 2005 *World Economic Survey*.

Luthria et al (2006: 51-52) estimate that one-third of households in Fiji, and 60% in Tonga, had at least one overseas migrant. 43% of Fijian households and 90% of Tongan households were reported to be in receipt of remittances. Remittance flows into Fiji in 2004 were estimated as US$130 million, and growing extremely rapidly (they were reported as little more than $30 million in 2002). Surveyed households in Tonga received $3,067 each per year in 2004, and Fijian households US$1,328 per year (Luthria et al 2006: 61). Econometric analysis of the survey data indicated that remittances contributed positively to savings in both economies, more so in Fiji than in Tonga (Luthria et al 2006: 78); and that remittances had a major effect in reducing income disparities, with the lowest-income quintile of the population securing dramatic increases in disposable incomes (over 600% in Tonga, 82% in Fiji – Luthria et al 2006: 84).

Offsetting the very large remittance inflow to Fiji has been a reverse flow of emigrant capital transfers out of Fiji following each of the coups. Gani (2005) estimated that following the first political crisis in 1987, about US$40 million annually flowed out over the subsequent twelve years.

In Tuvalu, Boland and Dollery (2007: 112) have assembled remittance data from 1986 to 2003 showing a consistent annual inflow of about Australian $4 million. Since 1996 remittances have been running at more than 15% of GDP, with a peak of 24% in 1998.

Outside the New Zealand sphere of influence where it was formulated (Tokelau, Niue, pre-1995 Cook Islands) the MIRAB model has been applied to French Polynesia (Poirine 1994b, 1995; Blanchet 1996) the Federated States of Micronesia (Cameron 1991; Gaffaney 1995; Hezel and Levin 1996), the other small US-associated former Pacific Trust Territories, Tonga and Western Samoa, Chile's Pacific outpost of Easter Island (Rapanui), outlying islands of Papua New Guinea and the Solomon Islands (Hayes 1993; Friesen 1993), Tuvalu and Kiribati. Boland and Dollery (2006, 2007) argue that Tuvalu has become a fully-fledged MIRAB economy, with remittances (largely from seafarers, but with likely future increases from the growing migrant diaspora in New Zealand) accounting for over 15% of GDP since 1996 and large (though very volatile) rental incomes garnered by the government from fishing and telecommunications licences, philatelic sales, and an investment passport scheme.

The rise of tourism earnings (effectively rents on local landscapes and climate) in economies such as Cook Islands, Samoa, Vanuatu and Easter Island – expanding on earlier development in French Polynesia, Hawai'i, Guam, and the Northern Marianas – has recently

made tourism a leading sector in several economies, for which the acronym SITEs has been coined by McElroy (2006). Tourism has proved an escape route from MIRAB status for the Cook Islands (Milne 2005) and Norfolk Island (Treadgold 1999).

The more diffuse PROFIT economies (Baldacchino 2006) rely upon institutional innovation to generate rent incomes. Using jurisdictional autonomy (often as sub-national rather than sovereign jurisdictions), small island authorities have experimented with offshore financial centers (Vanuatu and Samoa) and rents from the country's internet domain and postage stamps (Tuvalu – see Connell 2003). They have introduced institutional changes and regional agreements to increase their share of tuna-fishery revenues (Gillett et al 2001). In several cases they have commanded "geostrategic rents" (Poirine 1998) from hosting military bases. In the early 2000s Nauru provided a detention center for illegal migrants intercepted by Australia.

Limitations of tradeable goods production

The 'industrialization' approach to Pacific island development lays heavy emphasis on export promotion and private investment, both of which have poor track records in the region over the past half-century with the exceptions of New Zealand and Fiji and possibly, more recently, clothing manufacturing based on migrant Asian workers in the Northern Marianas.

The most important sector producing tradeable goods over the past two decades has been tuna fishing and canning. This sector is 90% dominated by operators from outside the region, and the activity takes place offshore, which means that only a fraction of the industry's value added appears in GDP statistics because most of the revenues from sale of the product on world markets do not accrue directly to the island economies. Gillett et al (2001: ix-xi) report that the value of the tuna catch in the Pacific Islands region increased from about $375 million in 1982 to $1.2 billion in 1993 and $1.9 billion in 1998, equivalent to 11 percent of the combined GDP of all the countries in the region, but benefits to the island economies were limited to royalties, wages, and some local expenditures by the fleets. Governments in the region were estimated to have received $60.3 million in access fees for foreign fishing activity in 1999, just over 3% of the catch value. Petersen (2006) similarly estimated royalties as 3-4% of the catch value. These revenues were very unevenly distributed across countries relative to their home economies. Parris and Grafton (2006:271 Table 1) show the Federated States of Micronesia, Kiribati, the Marshall Islands and the Solomon Islands as having the largest ratios of fishery rents to GNI. Turning to wages, in 2000 10,000 Pacific Islanders were directly employed on fishing vessels – mainly in Kiribati, Solomon Islands, and PNG (Gillett et al 2001: 20 Table 6) - and total employment directly and indirectly supported by the fishing industry was estimated at 29,000-43,000, between

8% and 11% of total wage employment in the region (Gillett et al 2001: 19). This made fisheries the largest private-sector employer in several island economies.

By 2000 the region had enjoyed most of the limited economic growth potential from tuna fishing. Conservation of stocks places a limit on further increases in catches; forward linkages into processing and canning are fully developed and the cannery sector is mature with five large plants. There may remain scope to increase the fiscal contribution from access rental payments by hard bargaining, but there is no prospect that tuna fisheries can provide any further impulse for accelerated industrial growth. Other candidates to fill the role in an orthodox growth model are not to be found. This leaves the way open for the sort of non-orthodox growth and development strategies canvassed by the alternative, bottom-up paradigm of small-island economic development.

For larger island states, development success hinges on success in tradeable-goods production, because the small-state strategies of the MIRAB, SITE and PROFIT models run into political resistance above a certain scale. To sustain living standards above subsistence, large island economies require either strong per-capita export performance or the sort of financial transfers associated with sub-national status. Those which lack the opportunity to become politically integrated have, of necessity, been forced to attempt an orthodox transition from staple exports to modernisation. This is the situation for much of Melanesia, given neighbouring Australia's lack of interest in political integration and constraints on per-capita aid availability. Only Fiji has been successful in making the transition; the other independent Melanesian states (Vanuatu, Papua New Guinea and the Solomon Islands) have struggled to establish any sustainable economic dynamic and remain dependent on export sectors with limited backward and forward linkages. New Caledonia, in contrast, exhibits the material benefits of its political integration with France (note its GDP per capita figure in Table 27.1 compared with the rest of Melanesia). The largest Polynesian island economy, Hawai'i, enjoys US living standards.

New Zealand

New Zealand and Hawai'i are different in size and character from the small-island Pacific. Both are high-income post-industrial economies which host migrant diasporas and are the source of transfer payments to the smaller, less developed islands. Their relative prosperity, and historically strong growth performance, have gone together with the establishment of large "settler" populations ethnically and culturally transplanted from outside the Pacific. They have highly skilled labor forces and an autonomous capitalist dynamic.

By the last decade of the nineteenth century, New Zealand was already among the world's top three or four economies in terms of real income per head, a status from which it

has since slipped, but to which it was originally driven by a particular combination of circumstances among which two deserve special mention.

First was the high degree of political integration with Great Britain, of which New Zealand was at that time still a colony. The special political access that New Zealand enjoyed in British government circles remained formidably effective through the Great Depression of the 1930s (when at the 1932 Ottawa Conference New Zealand secured imperial preference for its agricultural exports at the expense of South American export economies) and on into the 1970s. At that point the political linkage failed in the face of Britain's entry to Europe, and a pronounced slowdown in New Zealand's growth performance has been evident in the subsequent four decades.

Second, as part of the high-income legacy of colonialism in settler colonies, a very open and fluid labor market caused real wage rates in New Zealand to be indexed to rates initially in Britain and in the other "settler capitalisms" of Australia, South Africa, Chile, Uruguay, Argentina, and the west coast of the United States (Denoon 1983). (The same process probably applied to Hawai‘i, which is not included in Denoon's study.) After British migration to New Zealand slowed down after the 1960s, a close migration nexus continued to bind together the New Zealand and Australian labor markets, with large numbers of New Zealand–born workers resident in Australia on a long-term basis. This extreme openness of the labor market renders closed-economy modernization models as inapplicable to New Zealand economic history as they are today to most other Pacific Island economies.

The lesson of New Zealand is not, therefore, that growth can be induced by independence, but rather that economic prosperity can be secured under conditions of dependence, and that a transition to greater autonomy may involve some economic loss. Hawai'i's experience points in the same direction.

Migrant Diasporas

Economic development is conventionally defined in terms of the output produced by the resident population of a territory. For many Pacific Islanders, however, development means capitalising on economic opportunities across a wider international arena. The migrant can access income-earning opportunities, investment opportunities, and educational and lifestyle opportunities that are not available in the home territory, and which could be provided there only at unwarranted cost. Wherever they are not restrained by legal barriers, Pacific islanders are geographically mobile in pursuit of economic opportunity.

A feature of many of the small island economies, especially those of Polynesia, therefore, is that a significant proportion of their home-born population reside and work

away from their home islands. Correspondingly, an important feature of the economies of larger regional economies such as New Zealand and Hawaii is the presence of large communities of migrants who retain strong ties with their home communities. Other Pacific Rim economies such as Australia, California and British Columbia also have substantial Pacific Islander communities living and working there.

Table 27.4 shows the geographic distribution of 600,000 people born in the island Pacific (excluding New Zealand) who were recorded in censuses as living in a country other than their place of birth at the year 2000. (The table shows in addition the New Zealand first-generation diaspora (mainly in Australia) which comprised another 529,000 individuals.) Since the data is only for place of birth and omits second-generation descendants of migrants who, despite having been born in the host country, identify themselves as part of the diaspora of their family's country of origin, the figures are lower-bound.

Of the 23 places of birth in Table 27.4, three have over half their locally-born population living abroad, and nine have over one-third. USA, New Zealand, Australia and Canada are the main host economies, and there is also evidence of considerable movement within the Pacific island region.

Hayes (1991 pp.3-9) assembled figures from a range of sources to construct an estimate of the geographic distribution of several Polynesian ethnic groups about 1986. Of his total 500,000 ethnic Polynesians excluding the indigenous peoples of New Zealand, Hawaii, and French Polynesia, nearly 40% were resident in the three main metropolitan destinations New Zealand, Australia and the United States (including Hawaii). The proportion of these ethnic Polynesians resident outside their homelands in 1986 ranged from 22% for Tongans to 78% for Niueans. By 2000 (Table 27.4) the Tongan ratio had risen to 34% while the Niuean ratio remained at 77%.

Ahlburg and Levin (1990 Chapter 1) found that of 83,000 islands-born migrants living in the United States in 1980, about 27,500 were from Polynesia. The other two significant migrant communities were Guamians (36,782) and Fijians (mainly Indo-Fijians) (7,538). Relative to the home populations, thus, over one-third of Guam's indigenous population was living in the metropolitan United States in the early 1980s. The corresponding figure in Table 27.4 is 29%, but as already noted this place-of-birth data understates the true diaspora. Fiji-born migrants in the US, New Zealand, Australia and Canada totalled over 33,000 in 1980; by 2000 this number had grown to 124,000 (Table 27.4).

Table 27.4 Pacific Island First-Generation Migrant Diasporas

	Diaspora 000	Home resident 000	Total 000	Diaspora %	Resident in (000):					
					USA	NZL	AUS	CAN	Other Pacific islands	Other
American Samoa	40.7	57.0	97.7	42	33.3	0.4	0.2	0.0	2.4	4.5
Cook Islands	22.7	19.0	41.7	54	0.1	15.2	4.7	0.0	0.2	2.3
Fiji	143.1	810.7	953.8	15	31.5	25.7	44.3	22.8	3.8	15.0
French Polynesia	3.5	236.1	239.6	1	0.0	0.5	0.3		2.3	0.4
Guam	89.6	155.4	245.0	37	71.7	0.0	0.1	0.1	2.6	15.0
Kiribati	3.7	90.7	94.4	4	1.0	0.5	0.4	0.0	1.2	0.5
Marshall Islands	11.5	52.8	64.3	18	7.3	0.0	0.0	0.0	0.6	3.5
Micronesia, Federated States of	24.6	107.1	131.7	19	7.5	0.0	0.0	0.0	10.0	7.1
Nauru	1.0	12.0	13.0	8	0.1	0.2	0.5	0.0	0.1	0.2
New Caledonia	1.8	213.2	215.0	1	0.0	0.2	1.1	0.0	0.4	0.2
New Zealand	528.6	3,857.8	4,386.4	12	26.4		355.8	9.9	7.0	129.5
Niue	6.6	2.0	8.6	77	0.1	5.3	0.5	0.0	0.1	0.7
Norfolk Island	0.4	1.9	2.3	16	0.0	0.1	0.2	0.0	0.0	0.0
Northern Mariana Islands	10.7	76.0	86.7	12	4.2	0.0	0.0	0.0	2.5	4.0
Palau	12.8	19.7	32.5	39	2.3	0.0	0.0	0.0	2.7	7.8

Table 27.4 *continued*

Papua New Guinea	51.0	5,298.9	5,349.9	1	1.8	1.2	23.6	0.4	16.4	7.6
Samoa	105.8	177.5	283.2	37	17.5	47.1	13.3	0.1	19.3	8.5
Solomon Islands	4.2	418.7	423.0	1	0.2	0.5	1.3	0.0	1.4	0.8
Tokelau	2.4	1.4	3.9	63	0.1	1.7	0.3	0.0	0.2	0.2
Tonga	50.7	100.2	150.9	34	18.0	18.1	7.7	0.1	2.0	4.8
Tuvalu	1.8	10.0	11.8	15	0.0	1.0	0.1	0.0	0.2	0.4
Vanuatu	4.2	191.5	195.6	2	0.1	0.3	0.9	0.0	1.6	1.3
Wallis and Futuna	7.0	15.0	22.0	32	0.0	0.0	0.0	0.0	6.2	0.7
			0.0							
Totals	1,128.3	11,924.6	13,052.9	9	223.3	118.1	455.2	33.6	83.1	215.0

Source:http://www.migrationdrc.org/research/typesofmigration/Global_Migrant_Origin_Database_Version_4.xls

Ahlburg (1996 pp.8-10) notes that in the 1990s the Federated States of Micronesia, Guam, Palau and the Northern Marianas all became major host countries for in-migrants from Asia while the migration of Micronesians themselves continued, resulting in an increasingly complex and dynamic demographic picture in that part of the Pacific. Within Micronesia, large-scale migration movements from smaller to larger islands have reproduced internally the wider pattern of movement; Hezel and Levin (1996 p.95) estimated 6,330 citizens of the Federated States of Micronesia residing in Guam in 1994, and a further 2,420 in the Northern Marianas - a total of nearly 10% of the FSM population. The figures for 2000 were 6,983 in Guam and 2,697 in Northern Marianas.

The diaspora of each islander community remains important as a source of remittance income and of potential employment opportunities for the home residents. Migrants have colonized selected economic sectors and residential neighbourhoods of major Pacific Rim cities such as Auckland, Sydney and Los Angeles, and as their numbers have grown the links between standards of living in those metropolitan economies and the feasible expectations of island residents have been reinforced and multiplied, effectively indexing many of the economic parameters of the islands to the economies of their larger patrons.

The typical Pacific migrant does not become separated from the home community simply by virtue of migration. On the contrary, migrants exhibit strong tendencies to retain close ties with their home kin groups and to maintain patterns of return visiting and remittances in cash and kind, which continue to bind them to their places of origin and to enable kin groups to live and earn on the international, rather than the national, stage.

Economic development for islander communities, thus, is not restricted to economic development of island territories. Economic research on these globalized communities really began with Marcus (1981), but has progressed rapidly since (Loomis 1990, Ahlburg and Levin 1990, Ahlburg 1995, Brown 1995, Brown and Foster 1995, Brown 1997). One outstanding point to emerge is the sustainability of migrant remittances. Many writers have predicted that remittance effort by migrants should tend to decline over time as ties to the home community wither away; but the evidence from the Pacific Islands does not support this prediction. As Connell and Brown (1995 pp.17-18) remark,

> what is striking in every case, and well-documented in the case of Tongans and Cook Islanders overseas, is just how long and at what levels remittances are maintained, with only slight evidence of the anticipated decay. From their econometric analysis of recent cross-sectional data from a survey among Tongan migrants in Brisbane, Walker and Brown found that while the propensity to remit was negatively related to the age of the migrant, it was positively related to the migrant's length of absence from home.

Macroeconomic Management

To evaluate problems of macroeconomic management in small island economies one must begin from a model of the very small open economy with free capital mobility, a fixed exchange rate, and an open labor market. The goals which government can pursue within this framework are limited. On the demand side, fiscal policy and remittance flows set the level of domestic activity and incomes, with the money supply adjusting passively. Fiscal crowding-out mechanisms are not operative, since the interest rate is externally fixed and the domestic price level is set by the purchasing power of the externally-issued or pegged currency. Crowding-out occurs through the real-exchange-rate-driven profit squeeze on tradeable goods production.

Limited Dualism

As in most developing countries, the central microeconomic issues in the Pacific islands arise out of the interplay between small-scale local production and consumption systems and the forces of the wider market. The dualism that has characterized twentieth-century developing economies in Latin America, Africa and Asia is, however, muted in the Pacific (except for Papua New Guinea, where the gap between primitive and modern remains stark and large segments of the precapitalist economy remain relatively little modified).

In most of the Pacific, the modern and neotraditional economies are integrated rather than separate, and tend to become more rather than less integrated over time. Modern activities involve fully monetized transactions in the context of formal markets for labor and goods, together with the deployment of relatively advanced technology. Neotraditional activities include non-monetary transactions mediated by networks of social relationships, and deployment of economic resources on the basis of a combination of market and non-market calculations. Again with the exception of PNG, the technological level of the two sectors is not diverging over time. Village fishing is done from motorboats with nylon lines and nets; people and goods are transported in the village sector by motorbikes, cars and bicycles; radio and television penetration of the village sector is high. Most importantly, and associated with high literacy rates in most island economies, intersectoral labor mobility is high and most kin groups have individual members at each end of the modern-neotraditional spectrum.

One result of this interpenetration of the two poles of the developing economy is that the modern sector in most Pacific Island states has a distinctive flavour attributable to the incomplete proletarianization of the labor force. Wage workers have other dimensions to their economic lives as members of village-based kin groups, with access to land and a variety of life opportunities. Possibilities for exploiting a captive labor force are limited

both externally by migration opportunities (especially in Polynesia and Micronesia) and internally by the scope for involution offered by the neotraditional village economy. The fluidity of the labor market, indeed, is probably the defining characteristic of Pacific island economies which most clearly sets them apart from their continental counterparts.

Fundamental to this flexibility is the persistence of "traditional" land tenure, with most cultivable land retained in family ownership and used for subsistence agriculture (including production of foodstuffs for exchange). Commercial plantation agriculture, mainly for copra and sugar, has existed in the region since the late nineteenth century, but has never become a sufficiently dominant rural sector to dissolve the integrity of smallholder subsistence cultivation. On the contrary, outside Hawaii, both copra and sugar production have tended to slide back towards small-scale cultivation due to an apparent lack of scale economies under Pacific island conditions.

The high degree of labor market flexibility puts a perennial squeeze on the rate of profit in capitalist enterprises. Hemmed in from above by fixed or semi-fixed nominal exchange rates and high transport costs, the private sector capitalist can obtain no relief from below by downward pressure on the real wage, because labor costs are indexed to opportunity costs of labor at the involution and migration thresholds. Not surprisingly, private sector entrepreneurship encounters substantial obstacles within the island economies (see, for example, the case studies in Fairbairn 1988) and succeeds best when it modifies capitalist rationality to fit the demands of customary practices and traditions (Fairbairn 1988 p.273). The most talented entrepreneurs from Pacific island communities are drawn out to the metropolitan economies around the rim of the Pacific where there are wider opportunities for profitable enterprise and investment. Vancouver, Los Angeles, Auckland and Sydney contain a growing number of successful Pacific-islander-owned businesses - a pattern foreshadowed in Marcus' (1981) study of the outward movement of Tongan economic activity.

Conclusion

This chapter has traversed a range of economic issues that define a substantial research agenda for economists working in the Pacific region. The rapidly improving statistical coverage of Pacific Islanders' economic activities, due both to major database development by international agencies and to a growing body of census material and questionnaire research on the migrant communities, has opened the way for a new round of empirically-grounded theoretical work on the characteristics and history of economic development in these globalized, flexible, and much-underestimated economic systems.

Bibliography

Ahlburg, D. 1991. *Remittances and their impact: a study of Tonga and Western Samoa.* Pacific policy papers No 7, Center for Development Studies. Canberra: Australian National University.

---- 1995. Remittances and income distribution in Tonga. *Population research and policy review*.

---- 1996. *Demographic and social change in the island nations of the Pacific: Asia-Pacific population research report No 7.* Honolulu: East-West Center.

Ahlburg, D. and Levin, M.J. 1990. *The Northeast passage: a study of Pacific islander migration to American Samoa and the United States*. Pacific research monograph No 23, Australian National University, Canberra.

Aldrich, R. 1993. *France and the South Pacific since 1940.* Honolulu: University of Hawaii Press.

Allen, B., Bourke, R.M., and Gibson, J., 2005. Poor rural places in Papua New Guinea. *Asia Pacific viewpoint* 46(2): 201-217.

Armstrong, H.W. and Read, R., 2000. Comparing the economic performance of dependent territories and sovereign micro-states. *Economic development and cultural change* 48: 285-306.

Armstrong, H.W. and Read, R., 2002. The phantom of liberty? Economic growth and the vulnerability of small states. *Journal of international development* 14(3): 435-458.

Armstrong, H.W. and Read, R., 2006. Geographical ‘handicaps’ and small states: some implications for the Pacific from a global perspective. *Asia Pacific viewpoint* 47(1): 79-92.

Armstrong, H., De Kervenoael, R. J., Li, X. and Read, R (1998). A Comparison of the Economic Performance of Different Microstates and Between Microstates and Larger Countries. *World Development* 26(4):639-656.

Asian Development Bank, 1994. *Key indicators of developing Asian and Pacific countries 1994 Vol.25.* Manila: Asian Development Bank.

Asian Development Bank Office of Pacific Operations 1995. *Cook Islands: economic performance, issues and strategies*. Manila: Asian Development Bank.

Baldacchino, G., 2006. Innovative development strategies from non-sovereign island jurisdictions? A global review of economic policy and governance practices. *World development* 34(5): 852-867.

Baldacchino, G. and Milne, D. (eds), 2000. *Lessons from the political economy of small islands: the resourcefulness of jurisdiction.* Basingstoke: Macmillan.

Benedict, B. (ed.) 1967. *Problems of smaller territories*. London: Athlone Press.

Bertram, G. 1986. "Sustainable development" in Pacific micro-economies. *World development* 14 (7):809-822.

---- 1987. The political economy of decolonization and nationhood in small Pacific societies. In Hooper, A. et al (eds), *Class and culture in the South Pacific*. Suva: Institute of Pacific Studies.

----, 1993. Sustainability, aid, and material welfare in small South Pacific island economies, 1900-1990. *World development* 21(2):247-258.

----, 1998. The MIRAB model twelve years on. *The Contemporary Pacific* 11(1):105-138.

----, 2004. On the convergence of small island economies with their metropolitan patrons. *World Development* 32(2): 343-364.

----, 2006. Introduction: the MIRAB model in the twenty-first century. *Asia Pacific Viewpoint*, 47(1): 1-14.
Bertram, G. and Poirine, B., 2007. Island Political Economy. Chapter 10 in Baldacchino, G. (ed.) *A World of Islands*. Charlottetown: Institute of Island Studies, University of Prince Edward Island, pp.325-377.
Bertram, G. and Watters, R.F., 1985. The MIRAB economy in South Pacific microstates.*Pacific viewpoint* 26(3):
Bertram, G. and Watters, R.F., 1986. The MIRAB process: some earlier analysis and context. *Pacific viewpoint* 27(1):47-57.
Blanchet, G., 1985. *L'Économie de la Polynésie Française de 1960 à 1980*. Tahiti: ORSTOM Travaux et Documents 195.
----, 1996. Quel avenir pour la Polynésie Française? *Journal de la Société des Océanistes* 102(1):31-46.
Boland, S. and Dollery, B., 2006. The value and viability of sovereignty conferred rights in MIRAB economies: the case of Tuvalu. *Pacific Economic Bulletin* 21(2): 140-154.
Boland, S. and Dollery, B, 2007. The economic significance of migration and remittances in Tuvalu. *Pacific Economic Bulletin* 22(1): 102-114.
Booth, A., 1995. Development challenges in a poor Pacific economy: the case of Papua New Guinea. *Pacific affairs* 68(2):207-230.
Borovnik, M, 2006. Working overseas: seafarers' remittances and their distribution in Kiribati. *Asia Pacific viewpoint* 47(1): 151-162.
Briguglio, L., 1995. Small island developing states and their economic vulnerabilities. *World development* 23(9):1615-1632.
Briguglio, L., Cordina, G., Farugia, N. and Vella, S., 2005. Conceptualising and Measuring Economic Resilience. In Chand, S. (ed) *Pacific islands regional integration and governance*. Canberra: ANU Press.
Brookfield, H.C., 1972. *Colonialism, development and independence: the case of Melanesian islands in the South Pacific*. Cambridge: Cambridge University Press.
Brown, R.P.C., 1994. Migrants" remittances, savings and investment in the South Pacific. *International labor review* 133(3):1-19.
----, 1995. Hidden foreign exchange flows: estimating unofficial remittances to Tonga and Western Samoa. *Asian and Pacific migration journal* 4(1):35-54.
----, 1997. Estimating remittance functions for Pacific Island migrants. *World development* 24(4).
Brown, R.P.C. , Foster, J., and Connell, J., 1995. Remittances, savings, and policy formation in Pacific Island states. *Asian Pacific migration journal* 4(1):169-185.
Browne, C., 2006. Remittances and migration. Chapter 5 in Browne, C., *Pacific island economies*. Washington DC: International Monetary Fund.
Browne, C. and Scott, D., 1989. *Economic development in seven Pacific island countries*. Washington DC: International Monetary Fund.
Cameron, J., 1991. Economic development options for the Federated States of Micronesia at independence. *Pacific studies* 14(4):35-70.
Campbell, I.C., 1992. An historical perspective on aid and dependency in Tonga. *Pacific studies* 15(3):59-75.
Connell, J., 1987. *Migration, employment and development in the South Pacific*. Noumea: South Pacific Commission.

----, 1988. *Sovereignty and survival: island microstates in the Third World*. Sydney: University of Sydney research monograph 3.
----, 1997. *Papua New Guinea: the struggle for development.* London: Routledge.
----, 2003. Losing ground? Tuvalu, the greenhouse effect and the garbage can. *Asia Pacific viewpoint* 44(2): 90-107.
----, 2006a. Nauru: the first Pacific failed state? *The Round Table* 95: 47–63.
----, 2006b. 'Saving the Solomons': a new geopolitics in the 'arc of instability'? *Geographical Research* 44 (2): 111–122.
Connell, J. and Brown, R.P.C., 1995. Migration and remittances in the South Pacific: towards new perspectives. *Asian and Pacific migration journal* 4(1):1-34.
Connell, J. and Brown, R.P.C., 2005. *Migration and remittances: a Pacific perspective.* Manila: Asian Development Bank.
D'Arcy, P., 2006. The role of the tuna fishery in the economy of Federated States of Micronesia. *Pacific Economic Bulletin* 21(3): 75-97.
Denoon, D., 1983, *Settler capitalism: the dynamics of dependent development in the Southern Hemisphere*, Clarendon Press, Oxford.
Faal, E., 2007. Growth, investment and productivity in Papua New Guinea. *Pacific Economic Bulletin* 22(1):16-38.
Fairbairn, T.I.J.(ed.), 1988. *Island entrepreneurs: problems and performances in the Pacific*. Honolulu: East-West Center.
Fairbairn, T.I.J. and Worrell, D., 1996. *South Pacific and Caribbean island economies*. Brisbane: Foundation for Development Cooperation.
Fichera, V, 2005. The Pacific Islands and the East Caribbean Currency Union: A Comparative Review. In Browne, C., *Pacific Island Economies*. Washington DC: International Monetary Fund.
Fleming, E., Hardaker, J.B. and Delforce, J., 1991. Smallholder agricultural economy at the crossroads: policy priorities for sustained agricultural development in South Pacific Island nations. *Journal de la Société des Océanistes* 92-93(1&2):119-126.
Fleming, E.M. and Hardaker, J.B., 1995. *Pacific 2010: strategies for Polynesian agricultural development*. Canberra: Australian National University National Center for Development Studies.
Flinn, J., 1992. *Diplomas and thatch houses: asserting tradition in a changing Micronesia.* Ann Arbor: University of Michigan Press.
Foster, J., 1995. The relationship between remittances and savings in Small Pacific island states: some econometric evidence. *Asia Pacific migration journal* 4(1):117-138.
Fraenkel, J., 2006. Beynd MIRAB: do aid and remittances crowd out export growth in Pacific micreconomies? *Asia Pacific viewpoint* 47(1): 15-30.
Friberg, E., Schaefer, K. and Holen, L., 2006. US economic assistance to two Micronesian nations: aid impact, dependency, and migration. *Asia Pacific viewpoint* 47(1): 123-134.
Friesen, W., 1993. Melanesian economy on the periphery: migration and village economy in Choiseul. *Pacific viewpoint* 34(2):193-214.
Gaffaney, T.J., 1995. Linking colonization and decolonization: the case of Micronesia. *Pacific studies* 18(2):23-59.
Gani, A., 2005. Fiji's emigrant transfers and potential macroeconomic effects. *Pacific Economic Bulletin* 20(2).

Gibson, J., 2007. Is remoteness a cause of slow growth in the Pacific? A spatial-econometric analysis. *Pacific Economic Bulletin* 22(1): 93-101.
Gibson, J., McKenzie, D.J. and Rohorua, H., 2006. How cost-elastic are remittances? Estimates from Tongan migrants in New Zealand. *Pacific Economic Bulletin* 21(1): 112-128.
Gillett, R., McCoy, M., Rodwell, L. and Tamate, J., 2001. *Tuna: A Key Economic Resource in the Pacific Islands.* Manila: Asian Development Bank.
Hardaker, J.B. (ed.) 1975.*The subsistence sector in the South Pacific*. Suva: University of the South Pacific.
Hardaker, J.B. and Fleming, E.M., 1994. *Pacific 2010: strategies for Melanesian agriculture for 2010: tough choices*. Canberra: Australian National University National Center for Development Studies.
Hayes, G., 1991. Migration, metascience, and development policy in island Polynesia. *The contemporary Pacific* 3(1):1-58.
----, 1992. Polynesian migration and the demographic transition: a missing dimension of recent theoretical models. *Pacific viewpoint* 33(1):1-35.
----, 1993. "MIRAB" processes and development on small Pacific islands: a case study from the southern Massim, Papua New Guinea. *Pacific viewpoint* 34(2):153-178.
Hezel, F.X. and Levin, M.J., 1996. New trends in Micronesian migration: migration to Guam and the Marianas, 1900-1993. *Pacific studies* 19(1):91-114.
Hezel, F.X. and McGrath, T.B., 1989. The great flight northward: FSM migration to Guam and the Northern Mariana Islands. *Pacific studies* 13(1):47-64.
Hooper, A., Britton, S., Crocombe, R., Huntsman, J. and Macpherson, C. (eds) 1987. *Class and culture in the South Pacific*. Suva: University of the South Pacific.
----, 1993. The MIRAB transition in Fakaofo, Tokelau. *Pacific viewpoint* 4(2):241-264.
James, K., 1991. Migration and remittances: a Tongan village perspective. *Pacific viewpoint* 32(1):1-23.
James, K., 1993. The rhetoric and reality of change and development in small Pacific communities. *Pacific viewpoint* 34(2):135-152.
Kakazu, H., 1994. *Sustainable development of small island economies*. Boulder Co: Westview Press.
Kim, I., Sidgwick, E., and Duprat, M-H, 1995. *Kiribati: recent economic developments*. Washington DC: IMF staff country report 95/117.
Laplagne, P., Treadgold, M. and Baldry, J., 2001. A model of aid impact in some South Pacific microstates', *World Development*, 29(2):365–83
Lee, H., 2004. 'Second-generation' Tongan transnationalism: hope for the future?. *Asia Pacific viewpoint* 45(2): 235-254.
Lewis, W.A., 1954. Economic development with unlimited supplies of labor. *The Manchester school.*
Loomis, T., 1990. Cook Island remittances: volumes, determinants and uses. In *Migration and development in the South Pacific*, ed. John Connell. Pacific Research Monograph No 24, Center for Development Studies. Canberra: Australian National University.
Luthria, M., Duncan, R., Brown, R., Mares, P. and Maclellan, N., 2006. *At home and away: expanding job opportunities for Pacific islanders through labor mobility.* Sydney: World Bank.

Manning, M., 2005. Papua New Guinea thirty years on. *Pacific Economic Bulletin* 20(1): 145-158.

Marcus, G., 1981. Power on the extreme periphery: the perspective of Tongan elites in the modern world system. *Pacific viewpoint* 22(1):48-64.

Marsters, E., Lewis, N. and Friesen, W., 2006. Pacific flows: the fluidity of remittances in the Cook Islands. *Asia Pacific viewpoint* 47(1): 31-44.

Mayo, L.W., 1988. U.S. administration and prospects for economic self-sufficiency: a comparison of Guam and select areas of Micronesia. *Pacific studies* 11(2):53-75.

McElroy, J., 2006. Small island tourist economies across the life cycle. *Asia Pacific viewpoint* 47(1): 61-78.

McElroy, J. and Pearce, K.B., 2006. The advantages of political affiliation: dependent and independent small-island profiles. *The round table* 95(386): 529-539.

McElroy, J. and Sanborn, K., 2005. The propensity for dependence in small Caribbean and Pacific islands. *Bank of Valleta Review* 31(spring): 1-16.

McGregor, A., Sturton, M. and Halapua, S., 1992. *Private sector development: policies and programs for the Pacific islands*. Honolulu: East-West Center, University of Hawaii.

Milne, S., 1992. Tourism and development in South Pacific microstates. *Annals of tourism research* 19: 191-212.

----, 2005. *The Economic Impact of Tourism in SPTO Member Countries: Final Report prepared for South Pacific Tourism Organisation*, August, http://csrs2.aut.ac.nz/NZTRI/nztrinew/documents/Pacific_Economic_Impact_Report.pdf.

Milner, C. and Westaway, T., 1993. Country size and the medium-term growth process: some cross-country evidence. *World development* 21(2):203-211.

Nagai, S., 1996. Background paper on monetary control instruments in the South Pacific. IMF Staff country report 96/76. Washington DC: International Monetary Fund.

Ogden, M.R., 1989. The paradox of Pacific development. *Development policy review* 7:361-373.

Parris, H. and Grafton, R.Q., 2006. Can tuna promote sustainable development in the Pacific? *Journal of Environment and Development* 15(3): 269-196.

Peterson, E.H., 2006. *Institutional Economics and Fisheries Management*. Cheltenham: Edward Elgar.

Poirine, B., 1992. *Tahiti: du melting pot a l'explosion?* Paris: Editions L'Harmattan.

----, 1994a. *Tahiti: la fin du paradis?* Tahiti: Imprimeries STP Multipress.

----, 1994b. Rent, emigration and unemployment in small islands: the MIRAB model and the French overseas departments and territories. *World development* 22(12):1997-2010.

----, 1995. *Les petites économies insulaires: théories et stratégies de développement*. Paris: Editions l'Harmattan.

----, 1996. La contribution de la substitution d'importation à la croissance dans les Dom-Tom. *Revue française d'economie* 11(4):167-190.

----, 1998. Should we hate or love MIRAB? *The Contemporary* Pacific 10(1): 65-105.

Purfield, C. 2005. *Managing Revenue Volatility in a Small Island Economy: The Case of Kiribati*, IMF Working Paper 05/154.

Rapaport, M. 1995. Pearl farming in the Tuamotus: atoll development and its consequences. *Pacific studies* 18(3):1-26.

Robinson, E.A.G. (ed) 1960. *Economic consequences of the size of nations*. London: Macmillan.
Rostow, W.W., 1960. *The stages of economic growth: a non-Communist manifesto.* Cambridge: Cambridge University Press.
Sampson, T., 2005. *Notes on the economic performance of small states 1995–2003*, Working Paper No. 2, Asian Development Bank-Commonwealth Secretariat Joint Report to the Pacific Islands Forum Secretariat. Suva: Forum Secretariat. (http://www.adb.org/Documents/Reports/Pacific-Regionalism/vol3/wp02.pdf)
Shand, R.T. (ed.) 1980. *The island economies of the Pacific and Indian Oceans: anatomy of development*. Development Studies Center monograph No 23. Canberra: Australian National University.
Streeten, P., 1993. The special problems of small countries. *World development* 21(2):197-202.
Sugden, A. and Tevi, O., 2004. Vanuatu's search for growth. *Pacific Economic Bulletin* 19(3).
Taylor, J.E., Hardner, J. and Stewart, M., 2006. Ecotourism and Economic Growth in the Galapagos: An Island Economy-wide Analysis. *Department of Agricultural & Resource Economics, UCD. ARE Working Papers*. Paper 06-001. http://repositories.cdlib.org/are/arewp/06-001
Tisdell, C. and Fairbairn, T.I.J., 1984. Subsistence economies and unsustainable development and trade: some simple theory. *Journal of development studies* 20(2): 227-241.
Treadgold, M.L.,1999. Breaking out of the MIRAB mould: historical evidence from Norfolk Island. *Asia Pacific viewpoint* 40(3): 235-249.
United Nations 1995. *UN statistical yearbook 1994.* New York: United Nations.
---- 2005 *Demographic yearbook 2005.* New York: United Nations.
United Nations Development Program, 1999, *Pacific Human Development Report – creating opportunities*. Suva: UNDP.
Walker, A.M. and Brown, R.P.C., 1995. From consumption to savings? interpreting Tongan and Western Samoan survey data on remittances. *Asian and Pacific migration journal* 4(1):89-116.
Winters, L.A., 2005. Small economies in a globalizing world: the policy challenges ahead. *Pacific Economic Bulletin* 20(3): 94-102.
----, L.A. and Martins, P., 2004. When comparative advantage is not enough: business costs in small remote economies. *World Trade Review* 3(3):347–83.
World Bank, 1991. *Pacific Island economies: towards higher growth in the 1990s*. Washington DC: World Bank.
----, 1996. *World development report 1996*. New York: Oxford University Press.
----, 1999. *Papua New Guinea: poverty and access to public services.* Washington DC: World Bank.