SECTION ONE: ECONOMIC ISSUES

CHAPTER TWO

Economic and social overview

Introduction

2.1   Economic security is very much a concern of the countries in the region. Given the extent to which economic security is linked to both internal political stability and the global economy, a number of countries in the region have an acute awareness of their fragility and vulnerability. Much of the evidence presented to the Committee raised concerns for the current state of many of the economies of the Pacific and many submissions argued that countries such as Papua New Guinea (PNG), Nauru and the Solomon Islands are confronting a worse economic and social outlook in 2003 than they were at independence.

2.2   Based on these concerns, the Committee sought to compile an economic and social profile of PNG and the Pacific, ideally across a time series of the last 20 years with the aim of monitoring the progress or decline in economic and social indicators and benchmarking that progress (or failure) against development assistance policies. The Committee acknowledges that development assistance will not in isolation create development. However, the Committee sought to gain an overview of the economic and social picture of the region in the context of development assistance programs. Unfortunately, as is shown below, this profile is limited due to the lack of available information across this region and the differing information that is available.

An economic and social profile of Pacific states

2.3   The range and quality of statistical information from and about countries in this region varies greatly. Both the South Pacific Community (SPC)[1] and United Nations Development Program (UNDP)[2] cite problems with collecting and estimating economic and social statistics for countries in this region. Where possible, these agencies have brought together the available resources of the various statistical offices of the region and have produced regional reports. Although these provide a regional view they are not benchmarked against other parts of the world. Also, some of the statistics are often fairly dated and there is little in the way of time series data. For

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[1]   The adoption of the Millennium Declaration—implications for national statistical systems in the Pacific region *Paper prepared by Garth Parry, SPC Statistician* http://www.spc.org.nc/statsen/English/PacStats/MDGs.html.

[2]   Pacific Human Development Report, UNDP, Suva, 1999.

instance the UNDP's Pacific Human Development Report dates back to 1999 and much of the data it uses predates this.

2.4   Differing methodologies, the lack of consistent and up–to–date data and incomplete registration of vital events (births and deaths) all have an impact on the quality of the statistics.

2.5   For example, a basic economic indicator such as Gross Domestic Product (GDP) is compromised in this region because of the large contribution of subsistence activity to the overall economy. This is not something the system of national accounts was really designed to measure. In this instance the UNDP states that the most reliable source for this data are estimates calculated by agencies such as the World Bank and the Asian Development Bank.

2.6   Another example from the social indicator perspective is that of adult literacy. Adult literacy is considered a basic indicator of the level of education within a population. The UNDP reports that the most recent survey of adult literacy was conducted in the Solomon Islands in 1991.

United Nations Development Programme

2.7   The United Nations Development Programme (UNDP) has been collecting data from around the world since the 1970s with intention of monitoring progress in human development. It is specifically interested in social and economic indicators that highlight progress towards a higher level of human development.

2.8   In an attempt to better observe the level of development the UNDP created an index of human development. This Human Development Index (HDI) is a composite index of what the UNDP considers to be the key indicators of a developed society and economy. The index covers three broad areas: the health of a nation measured by the longevity of its citizens; how well educated the population is; and finally the level of income enjoyed by the population. The index that it creates from these indicators produces a value between 0 and 1.

2.9   Its latest report came out in 2003 where it published the HDI for the year 2001. In its latest report at the top of the HDI table was Norway with an HDI count of 0.944. Sierra Leone came out as the least developed country in the table with an HDI count of 0.275.

2.10   As well as providing an HDI table for the current year, the UNDP also provides a time series of the HDI and some of the other indicators it publishes.

Human development index for the Pacific

2.11   The UNDP does not collect and publish data for all of the Pacific island nations. In 2003 it covered the countries of Fiji, Papua New Guinea (PNG), Samoa, Solomon Islands and Vanuatu. In terms of providing a comparative time series the list of countries is further limited to Fiji, PNG and Samoa.

2.12   The Pacific Island countries covered by the 2003 HDR received a human development index (HDI) value that placed them within the range of countries classified as being of medium human development (medium development human development countries falling in a range of 0.501 (Togo) and 0.798 (Antigua and Barbuda). Of the Pacific countries covered Samoa had the highest HDI (0.775) and PNG the lowest (0.548).

2.13   For those countries where the data was available the UNDP has calculated HDIs going back to 1975 (Fiji and PNG) and 1985 (Samoa). All of these countries showed an improvement in their HDI values over the period covered by the data. PNG achieved the biggest improvement. Its HDI improved by over 28 per cent between 1975 and 2000.

Human Development Index -
Pacific Islands -
2000
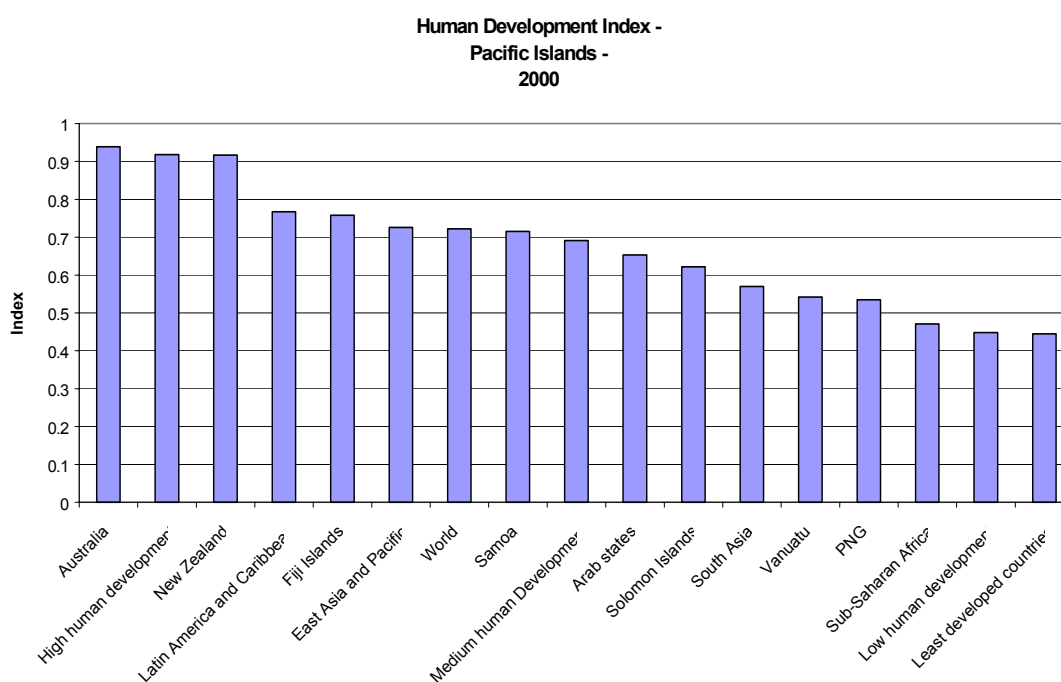
Source: Human Development Report, 2002

Human Development Index—Comparisons

	HDI Trends						1975–2000
	1975	1980	1985	1990	1995	2000	% increase
Cook Islands	n.a	n.a	n.a	n.a	n.a		n.a
Fiji Islands	0.660	0.683	0.697	0.723	0.743	0.758	14.8
FSM	n.a	n.a	n.a	n.a	n.a		n.a
Kiribati	n.a	n.a	n.a	n.a	n.a		n.a
Marshall Islands	n.a	n.a	n.a	n.a	n.a		n.a
Nauru	n.a	n.a	n.a	n.a	n.a		n.a
Niue	n.a	n.a	n.a	n.a	n.a		n.a
Palau	n.a	n.a	n.a	n.a	n.a		n.a
PNG	0.420	0.441	0.462	0.479	0.519	0.535	27.4
Samoa	n.a	n.a	0.650	0.666	0.689	0.715	10
Solomon Islands	n.a	n.a	n.a	n.a	n.a		n.a
Tokelau	n.a	n.a	n.a	n.a	n.a		n.a
Tonga	n.a	n.a	n.a	n.a	n.a		n.a
Tuvalu	n.a	n.a	n.a	n.a	n.a		n.a
Vanuatu	n.a	n.a	n.a	n.a	n.a		n.a
Australia	0.844	0.861	0.873	0.888	0.917	0.939	11.3
New Zealand	0.849	0.855	0.866	0.875	0.902	0.917	8.0

Source: Human Development Report, various, UNDP.

1999 Pacific Human Development Report

2.14   In 1999 the Suva office of the UNDP produced a report specifically for the Pacific Island nations. This report produced a series of indicators and HDI values for countries not usually covered by the annual HDR. The report covered the countries of the Cook Islands, Fiji, Federated States of Micronesia FMS), Kiribati, Marshall Islands, Nauru, Niue, Palau, PNG, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

2.15   However, it should be noted that the HDIs in this report are not comparable with the HDIs in the annual HDR. This is because of differences in the source statistics used in the reports.

2.16   For instance in the annual HDR, the UNDP uses estimates of GDP based on $US in Purchase Power Parity (PPP) terms. These PPPs, or international dollars, are the preferred method for calculating the size economies in the international context.[3] However, the UNDP did not have access to PPP data for most of the countries in its Pacific survey, so it has calculated the size of each economy using nominal $US dollar exchange rates.

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3   PPPs take out the exchange rate variablities between economies thus calculating their size from
     a common price base. This means that the GDP for each economy is calculated on the basis that
     the goods they produce have equivalent value no matter what the nominal local $US exchange
     rate may be.

2.17   As a result, the Pacific HDR can be used for intraregional comparisons but should not be used for comparing the countries in region with the rest of the world.

2.18   What the data in this report reveals is that the level of development across the region is very varied. At the top end of the scale were the Cook Islands and Palau. These two countries HDI values of 0.822 and 0.861 respectively. At the other end of the scale in this report are PNG and Solomon Islands. They received HDI values of 0.314 and 0.371 respectively.

**HDI -
Pacific Island Nations -
1999 (Pacific HDR estimates)**
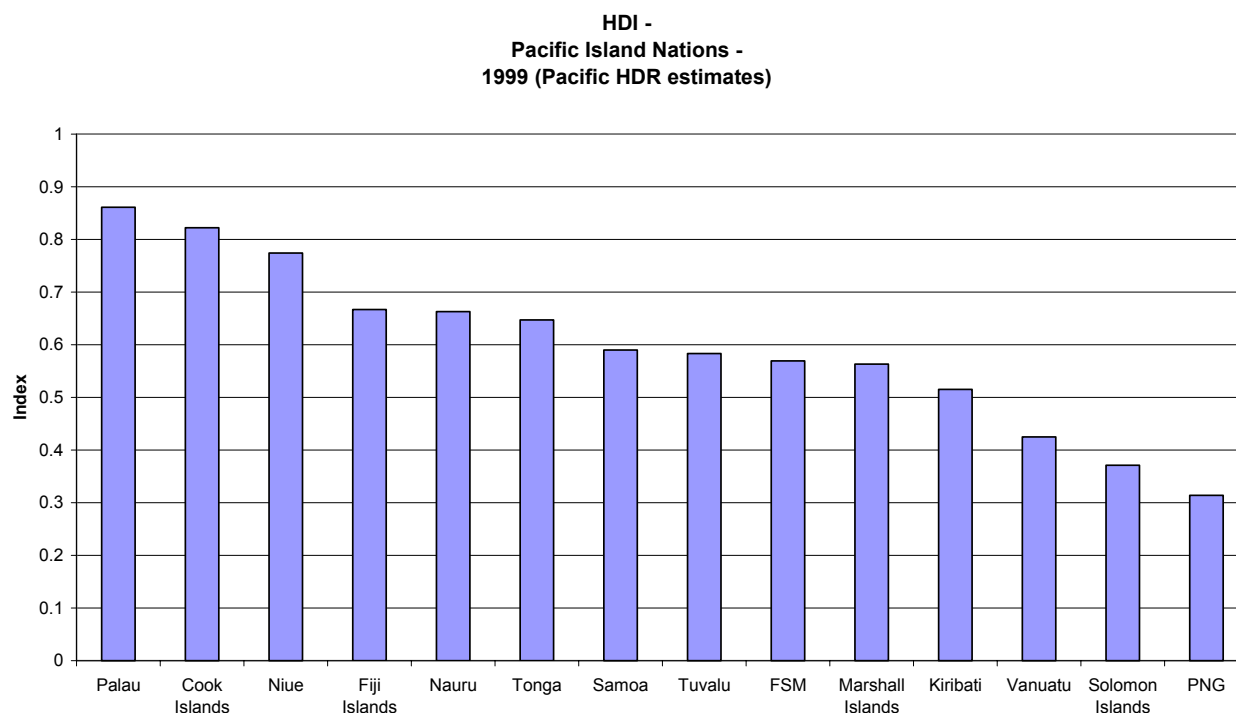
Source: Pacific Human Development Report, 1999, UNDP

United Nations Conference on Trade and Development (UNCTAD)

2.19   The focus of UNCTAD is the development of policies and providing assistance with the economic development and integration into the world economy of developing nations. In this capacity, it collects and estimates a wide range of statistics for developing countries. As a result it has a databank that is a valuable source of statistical information on the countries in the Pacific region. In many instances, it has also produced regional estimates that can be used to place the individual country's profile into the regional and global context.

2.20   In its annual statistical handbook, the UNCTAD publishes a wide range of statistics. From those statistics, the Committee has selected a few key indicators of economic and social development. Where possible the Committee has sought to benchmark the Pacific Island nations against international averages of developed and developing nations.

2.21   In its report, UNCTAD classifies the countries in this region under the heading Oceania. This includes the Cook Islands, Fiji, French Polynesia, Kiribati,

Marshall Islands, Federated States of Micronesia (FSM), Nauru, New Caledonia, Niue, Northern Mariana Islands, Palau, Papua New Guinea (PNG), Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu and Wallis and Futuna Islands.

2.22   For those indicators where UNCTAD does not provide international averages for indicators, the Committee has benchmarked the Pacific Island nations against other tropical island nations in other parts of the world. The Committee has used Australia and New Zealand as the developed world benchmark for these indicators.

Population size and growth

2.23   The Pacific island nations are amongst some of the smallest in the world. They range in size between Tokelau (1 500) and PNG (4 790 770). Only the Holy See and a few Caribbean island nations have populations this small. In total the region (as defined by UNCTAD) makes up just 0.13 per cent of the world population. The table below presents data on some of the world's smallest nations.

Population (thousands)

	2000
Cook Islands	20
Palau (former Pacific Islands)	19
Turks and Caicos Islands	17
Wallis and Futuna Islands	14
Nauru	12
Anguilla	11
Tuvalu	10
Saint Pierre and Miquelon	7
Saint Helena	6
Montserrat	4
Falkland Islands (Malvinas)	2
Niue	2
Holy See	1
Tokelau	1

Source: UNCTAD

2.24   As with the population size, population growth rates vary greatly across the region. As a whole, the region grew at an annual average rate of 2.2 per cent a year between 1995 and 2000. This made the region the second fastest growing region in the world. The only other region with a faster growth rate was Africa (2.5 per cent). However, this growth was not shared evenly across the region. Tokelau's population fell by average of 12.9 per cent and the Northern Mariana Islands grew by 4.7 per cent.

 Fastest and slowest growing popualtions

	Annual average % change 1995-2000
Rwanda	8.9
Liberia	7.3
Andorra	4.8
Northern Mariana Islands	4.7
Yemen	4.3
Turks and Caicos Islands	4.0
Gaza Strip	3.9
Aruba	3.8
British Virgin Islands	3.7
French Guiana	3.6
Somalia	3.6
American Samoa	3.6
Saint Kitts and Nevis	-1.0
Bulgaria	-1.1
Estonia	-1.3
East Timor	-2.6
Tokelau	-12.9
Montserrat	-16.7

Source: UNCTAD

Economic structure

2.25   As stated earlier, there are significant problems with estimating the size and nature of the economies in this region using established methodologies. However, the major international agencies like the World Bank and UNCTAD have attempted to produce estimates at the regional and country level.

2.26   From the chart below, it can be seen that the typical profile for a modern developed economy is one founded on services (68 per cent) and industry (30 per cent).

2.27   Typically wealth creation in a developing economy is reliant on the exploitation of natural resources through agriculture, mining and tourism. A typical developing economy has more emphasis on agriculture (12 per cent) and industry

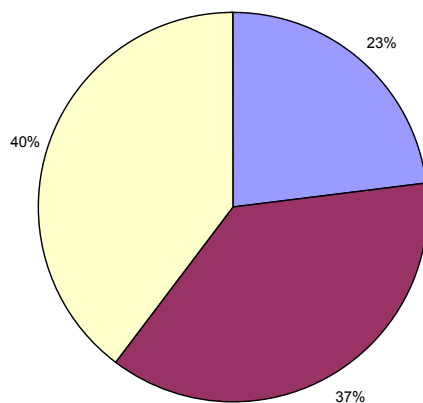**GDP by Economic Activity - developed countries - 2000**

2%

30%

68%

Source: UNCTAD

☐ Economic activity - Agriculture   ■ Economic activity - Industry   ☐ Economic activity - Services
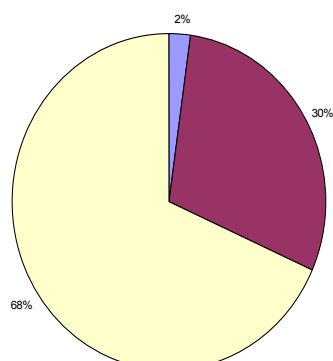
(which includes mining) (36 per cent). Services only make up just over half of the economy (52 per cent).

2.28   The regional structure of the Pacific island nations (referred to as Oceania developing by UNCTAD) is very much like that of a developing nation.

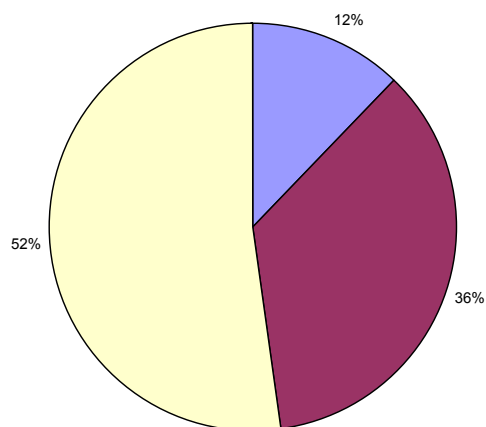**GDP by Economic Activity -
Devloping countries Oceania - 2000**

23%

40%

37%

Source: UNCTAD

| ■ Economic activity - Agriculture | ■ Economic activity - Industry | □ Economic activity - Services |

2.29   At the regional level the Oceania region is closest in profile to that of Africa.

GDP by economic activity - Developing Countries - 2000

12%

52%

36%

Source: UNCTAD

| ■ Economic activity - Agriculture | ■ Economic activity - Industry | □ Economic activity - Services |

**GDP by Economic Activity -
Developing Countries -
Africa -
2000**

Source: UNCTAD

| ☐ Economic activity - Agriculture | ■ Economic activity - Industry | ☐ Economic activity - Services |
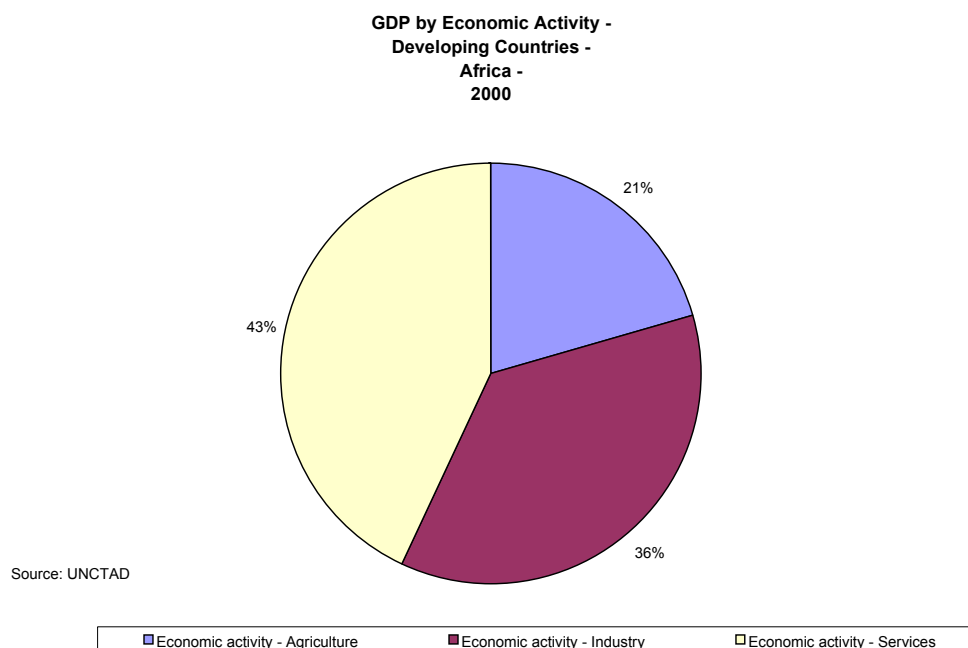
2.30   Although UNCTAD estimates a regional breakdown of the economy, it only provides a breakdown by country for some of the larger economies in the region. Across the region there are some similarities, but also a certain amount of variety.

2.31   Some of the economies are very reliant on agriculture and mining and some on agriculture and tourism. The World Bank also points out that many of the economies in the region have large public sectors. This is the result of their relatively small size, isolation and some cases limited opportunities for private enterprise.[4] For example, in Kiribati and Vanuatu government expenditure accounts for 54.1 per cent and 62.4 per cent of GDP respectively.

2.32   In PNG 25.9 per cent of economic activity occurs in the agricultural sector and 43.6 per cent in industry. This is a reflection of the country's reliance on mining and agriculture for its economic wealth.

2.33   Kiribati has an economy founded on agriculture and tourism. This is reflected in the statistics where agriculture makes up 20.1 per cent of the economy and services 73.2 per cent.

Economic growth

2.34   UNCTAD provides a time series of real average annual growth rates based on 1995 prices that go back to the 1970s. From this, the growth rates of the Pacific island nations can be compared with other countries and country groups.

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4   Report No. 20370—EAP, PACIFIC REGIONAL STRATEGY, May 2000, World Bank, Papua New Guinea and Pacific Islands Country Unit, East Asia and Pacific Regional Office.

- **1980–1985**—UNCTAD has calculated an annual average growth rate for Fiji, Kiribati, New Caledonia, PNG, Samoa, Solomon Islands and Vanuatu. In addition, it has estimated an annual average growth rate for the region as a whole. During the early 1980s, the annual average growth rate for the region as a whole was only 1.2 per cent. At that time, the global average was 2.6 and the average for developing countries was 3.0 per cent. However, the average for the region masks the high growth rates for Vanuatu (6.2 per cent) and Kiribati (6.4 per cent).

- **1985–1990**—UNCTAD provided statistics Fiji, Kiribati, Marshall Islands, New Caledonia, PNG, Samoa, Solomon Islands, Tonga and Vanuatu. During this period, the average growth for the world was 3.6 per cent, for developing countries 4.5 per cent and for the developing Oceania 5.6 per cent. Of the groups of developing countries, only the Asia region grew at a faster rate (7.0 per cent). Across the region New Caledonia (12.6 per cent) was the fastest growing country and Tonga the slowest (0.3 per cent). Indeed during this period New Caledonia recorded a faster growth rate than any other economy covered by the UNCTAD survey.

Annual average growth rates 1985 -1990
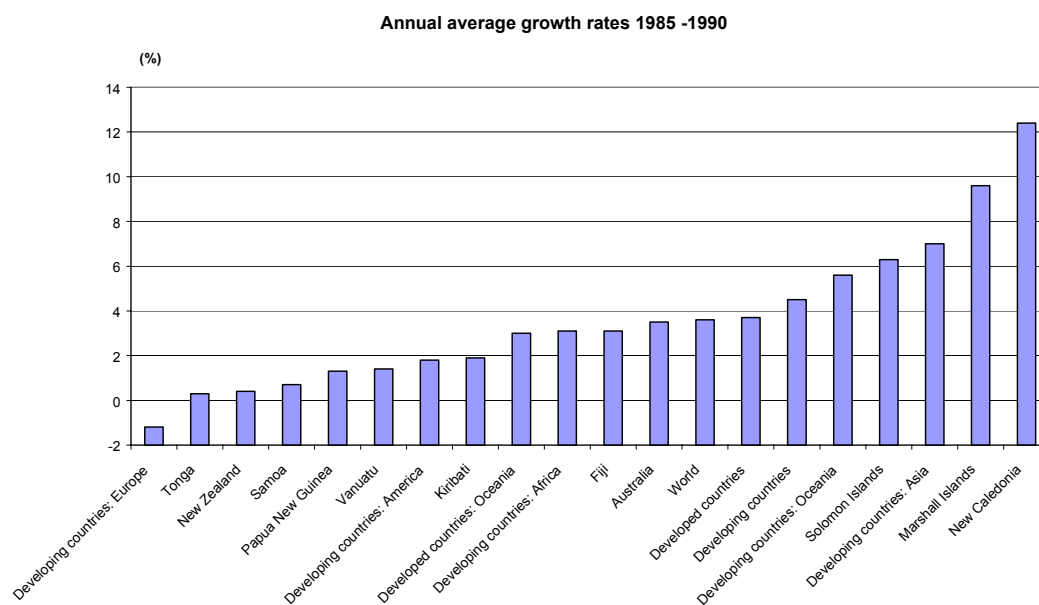
Source: UNCTAD

- **1990–1995**—As a group, Oceania grew at a faster rate than the global economy and other groups of developing countries. Only Asia's developing economies grew at a faster rate than the Oceania region. In this period, PNG was best performing economy in the region. It recorded an annual average growth rate of 9.8 per cent, which was one of the fastest in the world at the time. At the other end of the scale, Samoa's economy stagnated. It recorded an annual average growth rate of zero during this period.

Annual average growth rates 1990 -1995
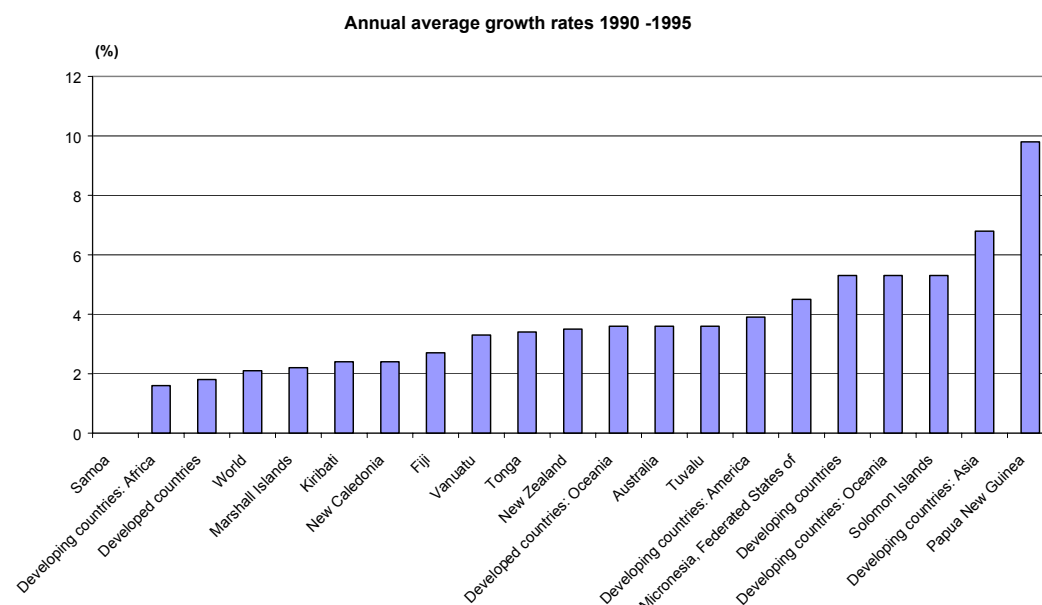
Source: UNCTAD

| Average annual growth rates	1990-1995
World	2.1
Developed countries	1.8
Developing countries	5.3
Developed countries: Oceania	3.6
Australia	3.6
New Zealand	3.5
Developing countries: America	3.9
Developing countries: Africa	1.6
Developing countries: Asia	6.8
Developing countries: Oceania	5.3
Fiji	2.7
Kiribati	2.4
Marshall Islands	2.2
Micronesia, Federated States of	4.5
New Caledonia	2.4
Papua New Guinea	9.8
Samoa	0.0
Solomon Islands	5.3
Tonga	3.4
Tuvalu	3.6
Vanuatu	3.3

Source: UNCTAD

- **1995–2000**—Growth for the region was poor during this period. As a whole the region recorded annual average growth of 0.1 per cent. This was well below the world rate of 3 per cent.

Annual average growth rates	1995-2000
World	3
Developed countries	2.9
Developing countries	3.9
Developed countries: Asia	1.2
Developed countries: Oceania	4.0
Australia	4.3
New Zealand	2.2
Developing countries: America	2.8
Developing countries: Africa	4.0
Developing countries: Asia	4.5
Developing countries: Oceania	0.1
Fiji	0.3
Kiribati	2.4
Marshall Islands	-3.8
Micronesia, Federated States of	-0.7
New Caledonia	0.2
Papua New Guinea	-0.1
Samoa	4.4
Solomon Islands	-1.9
Tonga	2.7
Tuvalu	7.1
Vanuatu	1.4
Developing countries: Europe	3.1

Source: UNCTAD

- Only Tuvalu and Samoa recorded any real growth. They had growth rates of 7.1 and 4.4 per cent respectively. Many of the other countries in the region either stagnated or recorded a period of negative growth.

Average annual growth rates
1995-2000
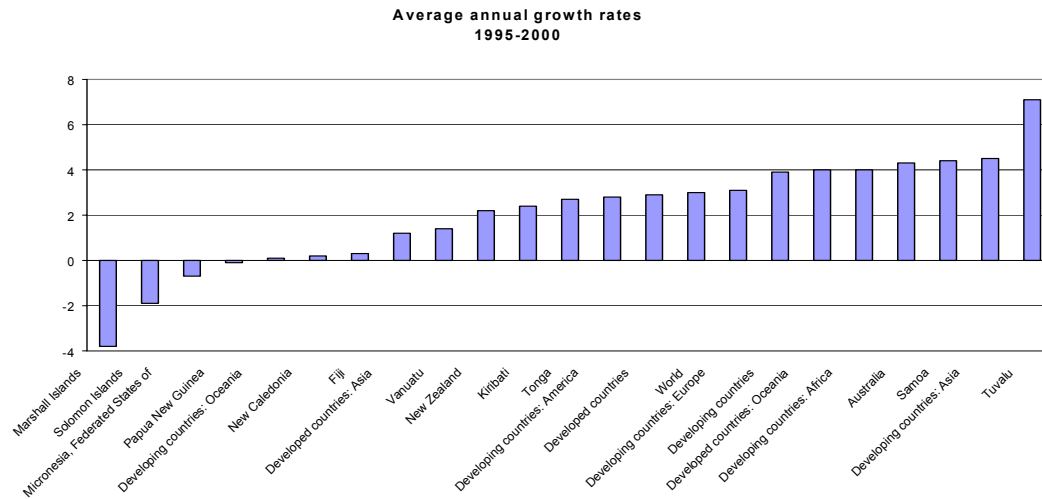
Source: UNCTAD

Conclusion

2.35   Over the last twenty years, the region has experienced a roller coaster of economic growth. The first few years saw a period of below average growth and then from 1985 to 1995 a period of much faster growth. However, in the last few years growth has stagnated in the region with many countries experiencing negative growth rates.

Social data

2.36   The social data presented below is derived from the UNCTAD database. UNCTAD does not present time series data for the following social indicators nor does it group this data by region or level development. From the wide range of data that UNCTAD provides, the Committee has selected a number of key indicators.

Health statistics

2.37   Important indicators of development are statistics such as average life expectancy and infant mortality. Developed countries typically have high average life expectancy rates and low infant mortality rates.

- **Life expectancy at birth—**Currently Australia has one of the highest life expectancy rates in the world. Average life expectancy at birth is given as 78.7 years for Australia in the UNCTAD data. By comparison the majority of

**Life expectancy at birth
(years)
1995-2000**

Source: UNCTAD

Infant mortality rate per 1000 live births

Source: UNCTAD
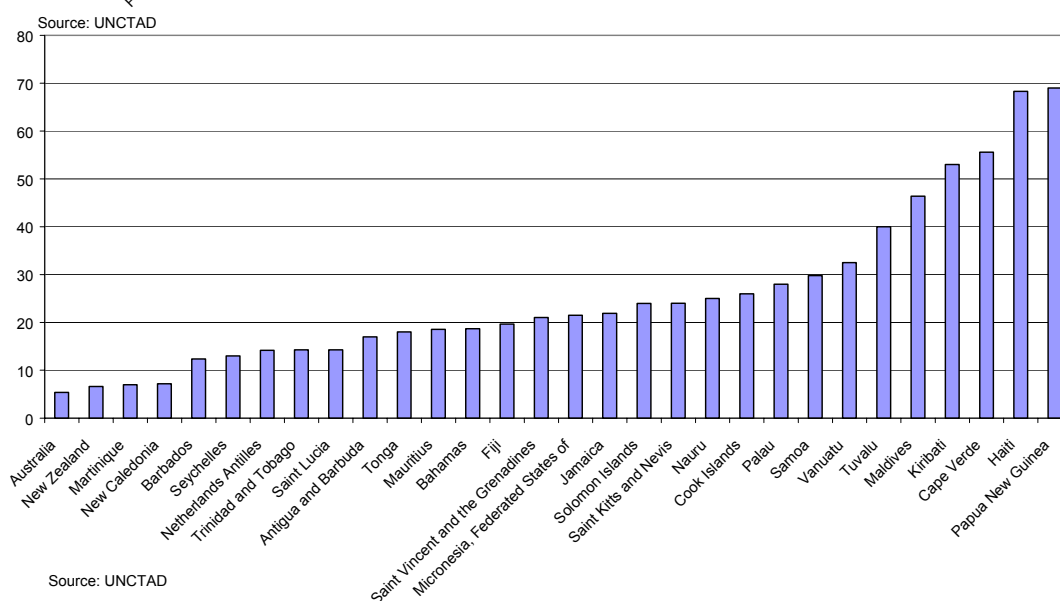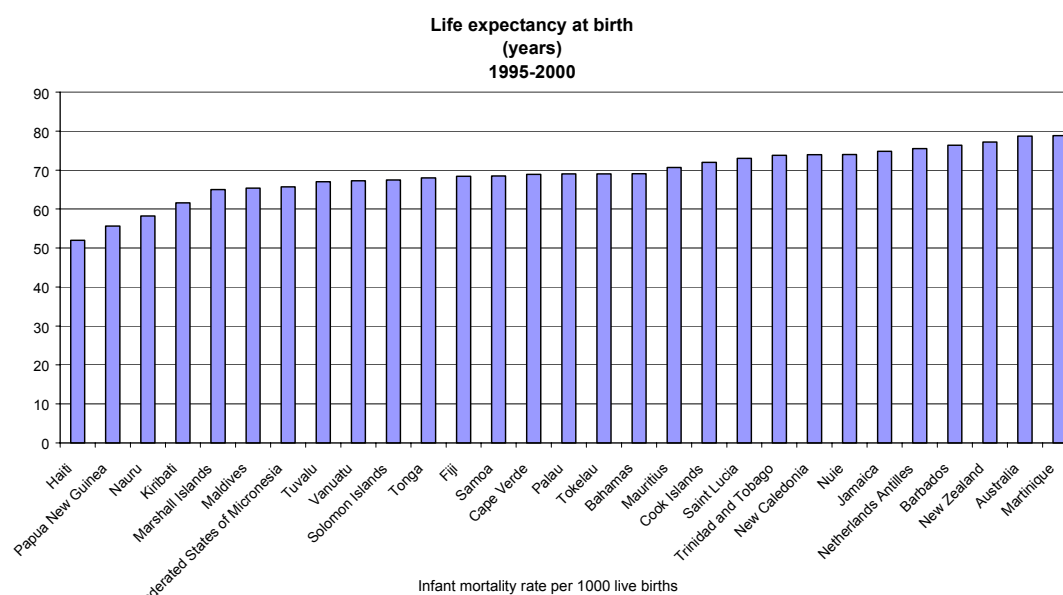
Pacific Island nations have very low rates of life expectancy. Average life expectancy of the population in PNG is a very poor 55.6 years, a rate not experienced in Australia since the early part of the 20th Century.

- **Infant mortality**—As with life expectancy, the infant mortality rates in the Pacific islands are very poor. In Australia, the rate of infant deaths to 1 000 live births is 5.4. PNG is at the other end of the scale with a rate of 69 per 1 000 live births. However, this is a better record than Africa. In many African countries, the rates often exceed 100 deaths per 1 000 live births.
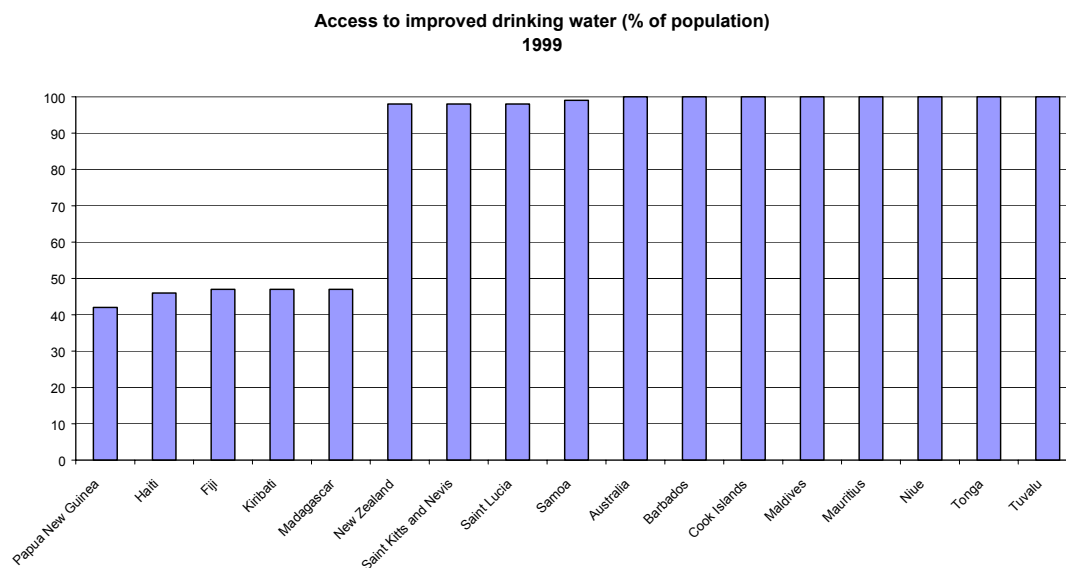
Public health

2.38   Two major indicators of public health, which also have a direct bearing on the health indicators listed above, are access to clean water and adequate sanitation facilities.

- **Clean water**—Access to clean water varies across the region. In some countries, such as PNG, less than half the population has this facility and, in others, such as the Cook Islands, the whole population has access to clean water. PNG, Kiribati and Fiji all fall into the category of less than half the population having access to clean water, a distinction they share with many African countries such as Rwanda.

	Access to improved drinking water (% of 1999 population)
Afghanistan	13
Ethiopia	24
Chad	27
Sierra Leone	28
Cambodia	30
Mauritania	37
Angola	38
Oman	39
Rwanda	41
Papua New Guinea	42
Equatorial Guinea	43
Dem. Rep. of the Congo	45
Eritrea	46
Haiti	46
Fiji	47
Kiribati	47
Madagascar	47
Guinea	48
Guinea-Bissau	49
Kenya	49
Uganda	50

Source: UNCTAD

**Access to improved drinking water (% of population)
1999**

Source: UNCTAD

- **Sanitation**—In terms of the proportion of the population with adequate access to sanitation facilities the Solomon Islands (34 per cent) and Fiji (43 per cent) lag behind many countries in the region. Some countries in the region such as the Cook Islands have 100 per cent coverage.

Access to adequate sanitation facilities (% of population)
1999
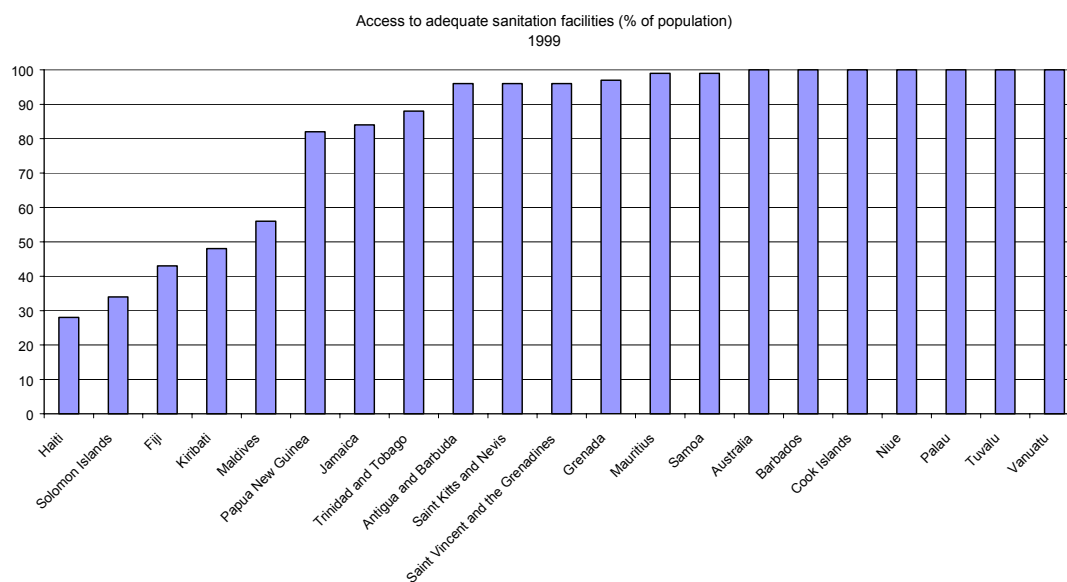
Source: UNCTAD

Education

2.39   In terms of international comparisons, the data is very limited for the region in the area of educational indicators. The following tables provide data on two key indicators where the data exists for countries in the region.

Development Indicators - Education

	Illiteracy rate (% of 2000 population)
Bahamas	4.6
Fiji	7.1
Haiti	50.2
Jamaica	13.1
Martinique	2.6
Mauritius	15.5
Morocco	51.1
Netherlands Antilles	3.5
Papua New Guinea	36.1
Samoa	0.4
Trinidad and Tobago	1.7

Source: UNCTAD

- **Illiteracy rate**—UNCTAD has very little data on this indicator for the region. However, what it does have shows that PNG has high rates of illiteracy when compared with other countries and Samoa very low rates. From the data presented in the Pacific HDR, this dichotomy of literacy occurs throughout the region. Some countries have high levels of illiteracy and others relatively low.

Development Indicators - Education

|	Education, primary: Gross enrolment 1998 ratio
Papua New Guinea	84.9
Barbados	87.2
Bahamas	93.2
Morocco	97.0
Jamaica	97.7
Trinidad and Tobago	101.6
Samoa	101.7
Mauritius	107.7
Fiji	112.1
Vanuatu	113.4
Netherlands Antilles	116.7
Haiti	151.6

Source: UNCTAD

- **Primary school enrolment**—the primary school gross education enrolment ratio is the percentage of the population attending primary school as a proportion of the school age population. Of the countries listed, PNG has the lowest enrolment rate at 84.9 per cent. Samoa is very balanced with a ratio of 101.7. Fiji and Vanuatu have high rates. The higher rates probably indicate that there are a lot of non–primary school age students attending these schools.

Telecommunications indicators

2.40   Access to telephones, computers and the internet are regarded as key indicators of a modern economy and society. In the tables below, Australia and New Zealand are again listed as the developed world benchmarks for the indicators presented. In all cases these two countries have high rates of access to these facilities.

- **Telephones**—outside of Africa countries in the Pacific region have some the lowest rates of access to telephones in the world. To put this into perspective in Australia there are 52 main telephone lines per 100 inhabitants. In PNG this figure is a low 1.3. In some African countries this can fall below 1.

**Main telephone lines per 100 inhabitants
2001**
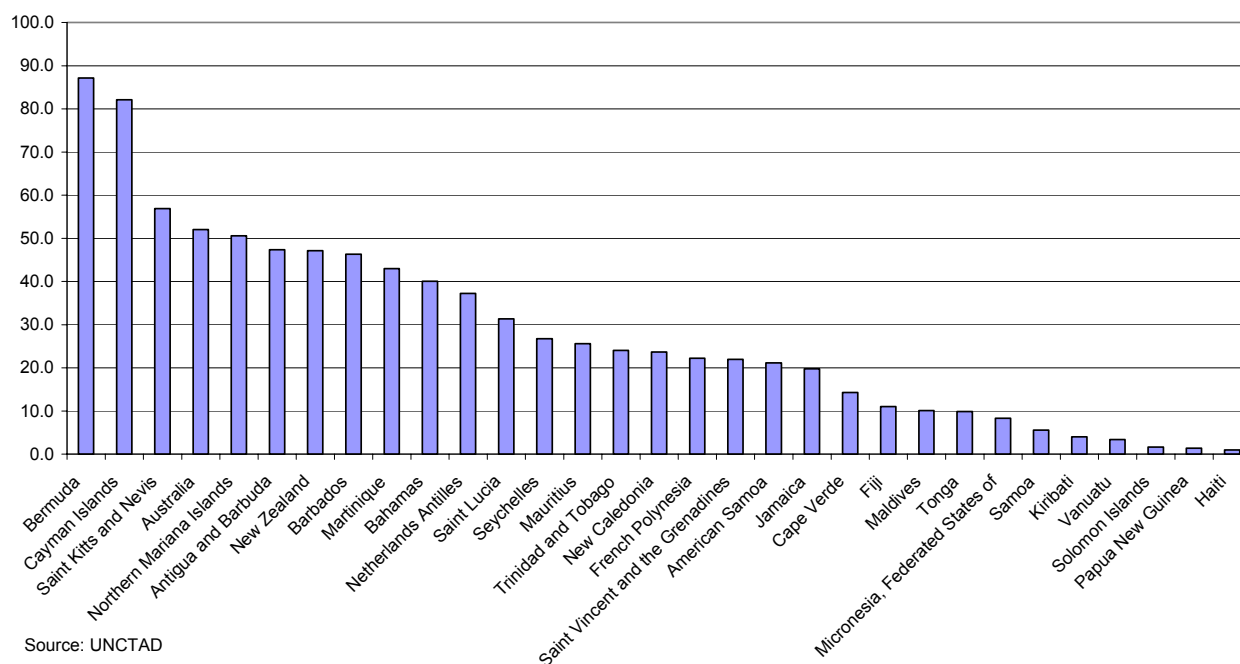
Source: UNCTAD

- **Computers**—the data on access to computers is limited to a few countries in the region. These countries have very low rates of access when compared with developed countries like Australia (517 computers per 1 000 of the population) and New Zealand (394 per 1 000 of the population). They also have low rates of access when compared some other tropical island nations.

    PNG has the highest rate of access with 60 computers per 1 000 of the population. This compares with Bermuda (505) and Mauritius (111). The islands

do, however, have higher rates of access than many other developing countries around the world. For instance India only has a rate of five and China ten computers per 1 000 of the population.

- **Internet access**—internet access as measured as internet users per 1 000 of inhabitants. This follows a similar pattern to the indicator for computer access.

Personal computers per 1000 inhabitants
2001
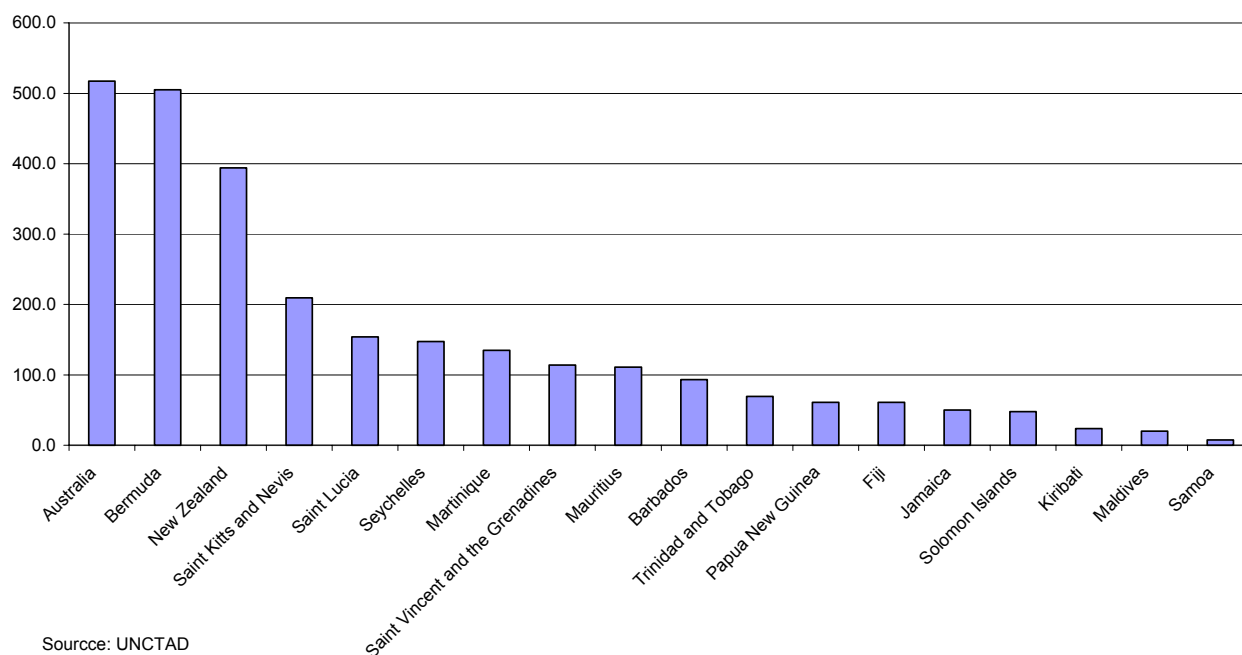
Sourcce: UNCTAD

## *Social statistics time series data*

Available time series data for the indicators listed above is limited. However, the World Bank collects and publishes some data for some of the indicators included in the previous section.

- **Life expectancy**—for the countries the time series shows a general trend towards longer life expectancy.

Average Life expectancy
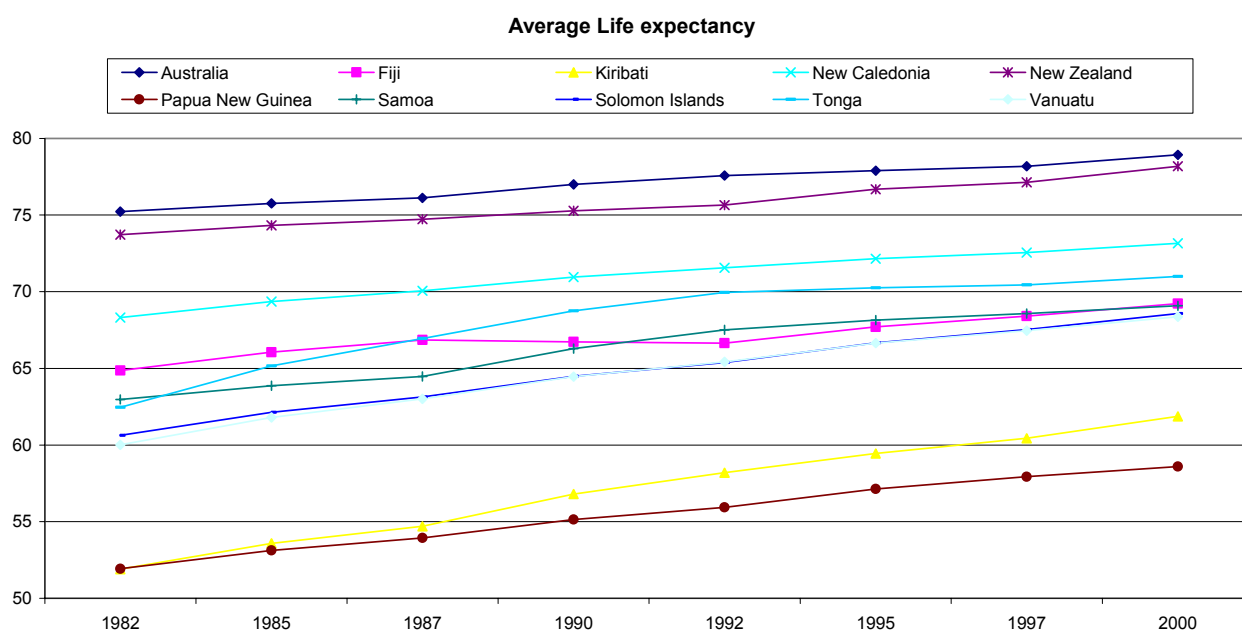
Source: World Development Indicators, World Bank

Infant mortality—the general trend in the countries where the data is available has been for improved rates of infant mortality.

Infant mortality rates
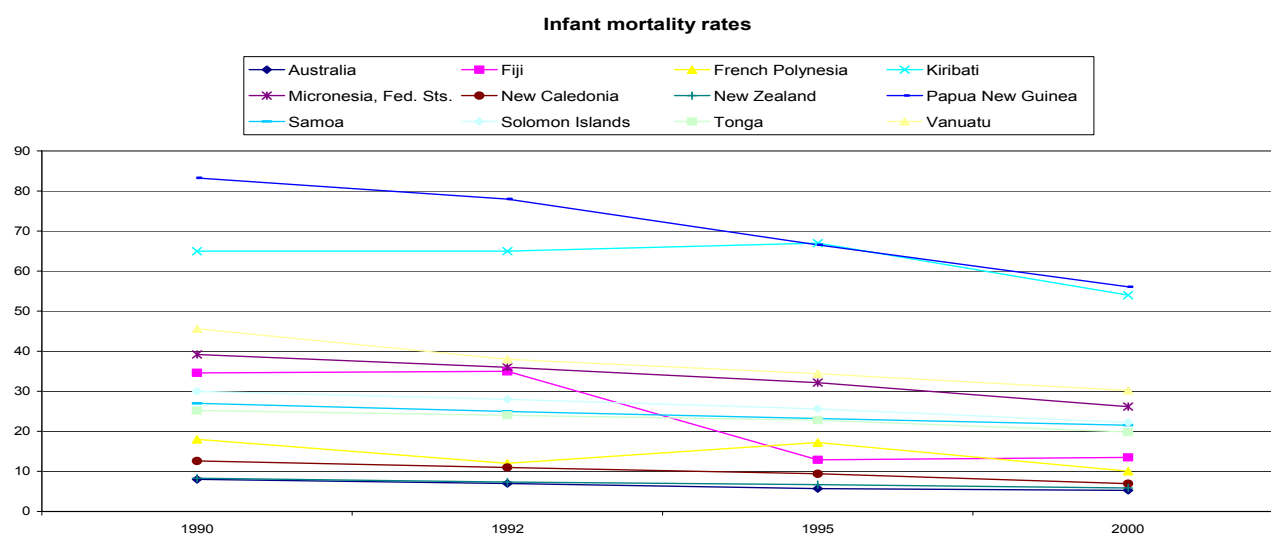
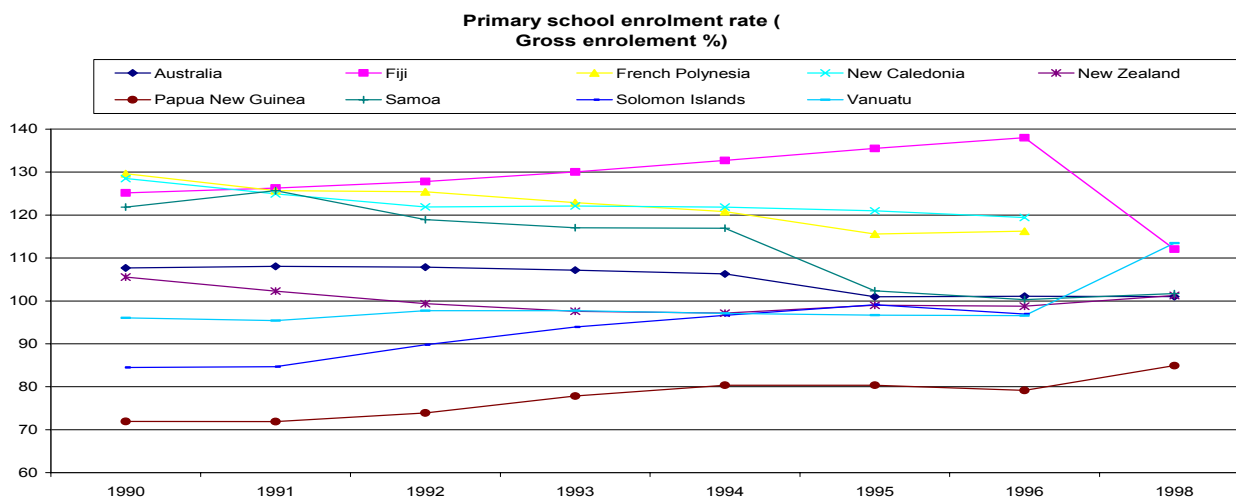Source: World Development Indicators, World Bank

- **Illiteracy**—the data here is limited to three countries, PNG, Fiji and Samoa. All three countries have recorded a marked improvement in illiteracy rates over time.

Illiteracy rate (% adult popualtion 15 years +)
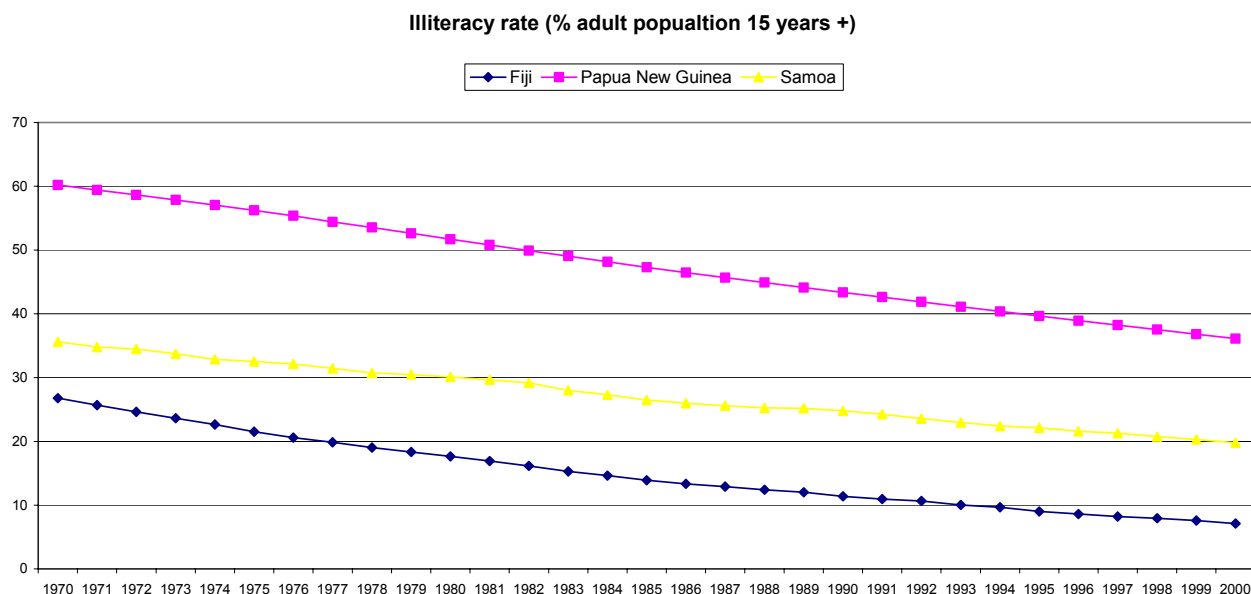
Source: World Development Indicators World Bank

- **Primary school enrolment**—with a few exceptions most countries primary school gross enrolment rates have been converging towards 100 per cent.

  The major exceptions have been Fiji and Vanuatu. Fiji's rate was growing away from the 100 per cent for much of the period covered by the chart. However, at the end of the period it made a dramatic reversal towards 100 per cent mark. At the other extreme notice Vanuatu. For several years its rate moved ever closer to the 100 per cent and then at the very end shot over the mark leaving it at 113 per cent.

**Primary school enrolment rate (
Gross enrolement %)**

Source: World Development indicators, World Bank

Conclusion

2.41   From the statistics, it can be seen that this region is one of variety and diversity. The level of development across the region has been varied with some countries such as the Cook Islands comparing well with other parts of the developing world and others such as PNG doing poorly.

2.42   The Committee was somewhat concerned about the level of detailed information available for these statistics. The Committee acknowledges differences in the information across organisations depending on the calculations used but the actual lack of available data is of concern. The Committee also acknowledges that resources and capacities are limited in many Pacific island countries and that it may be difficult to collect information from rural and remote areas. However, the Committee considers it to be in the interests of Australia to be fully aware of the economic and social picture of the region and that the gathering of this information is vital to the future development of all aspects of Australia's policy in the region.

Recommendation 3

The Committee recommends that the Australian Government investigate ways in which it can assist the governments of the region, possibly through the Pacific Islands Forum to facilitate the collection of a standard set of relevant economic and social statistics.