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Economic Prospects for Small Island Economies, Particularly in the South Pacific, in a Globalising World

ABSTRACT

After pointing out that small island economies are diverse in their economic situations and in their ability to benefit from globalisation, this article examines the actual situation of South Pacific island countries. It takes into account their size and its diversity; variations in their involvement in international trade; their geographic, ethnic and cultural differences; their international political associations; and differences in their degree of economic development. All of these factors, as well as their common attributes, influence the prospects of small Pacific Island countries for benefiting from economic globalisation. The question of whether the MIRAB characterisation of South Pacific Island Economies continues to be relevant is explored given that there has been increasing global support for the notion that nations should mainly rely on economic liberalisation, privatisation and globalisation for their economic development and become less aid dependent. Furthermore, the extent to which economic globalisation can be embraced to further the sustainable development of Pacific island countries is discussed.

Economic Prospects for Small Island Economies, Particularly in the South Pacific, in a Globalising World

1. Introduction

Small island nations are extremely varied in their nature and location and this means that their prospects for gaining from globalisation can be very different. For example, island nations, such as Singapore and semi-independent Hong Kong, are much better placed than small Pacific island nations, such as Tuvalu and Niue, to benefit from economic globalisation. Singapore is well placed in relation to the Asian market and is an important hub in trade and communication routes, and Hong Kong has close connections with the Chinese mainland. By contrast, Tuvalu and Niue have poor and expensive international transport connections and are not appended to or near any major economies.

Remote small island nations or economies, such as those in the South Pacific and nearby ones, suffer considerable economic disadvantages that cannot be eliminated by most processes involved in globalisation, even though some globalisation processes can be of economic benefit to them.

This may be one of the reasons why small island nations are singled out for special mention in the Millennium Development Goals (MDGs) of the United Nations. Under Goal 8, the development of global partnership for development, Target 14 is said to be "to address the special needs of landlocked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the 22nd special session of the General Assembly" (World Bank, 2004, p.xxii).

Remote small island economies experience very high costs in the transport of goods. Their costs of importing and exporting goods are further increased because of extended periods required for storing their imports and exports because of the infrequency of their shipping and air transport. Scale economies also are often lost in international transport because smaller sized vessels are more economic than the large vessels which ply between major economies. Furthermore, market competition is frequently lacking in international transport to remote island communities so that monopoly charges may apply to such transport. Economies of scale in relation to the volume of trade often result in it being uneconomic for more than one carrier (or a couple at most) to service an international transport route for such small nations.

Within these economies themselves, there also tends to be business concentration in the economic distribution of imports and also in many of their industries. Dimou (2007 forthcoming) has documented this in relation to the distribution retail goods in Reunion Island in the Indian Ocean. Once again the small markets involved in relation to scale economies provide barriers to entry of all but a few firms. A similar position can arise in relation to exports so that local sellers are faced with a monopsony, or a near monopsony, in selling their produce to exporting firms. Natural market conditions result in a high degree of imperfect competition in these small economies, and economic globalisation is powerless to overcome such barriers to international trade.

The ability of small island nations to benefit from economic globalisation (or be injured by it) can vary considerably depending upon their nature. Therefore, this article will provide information on the heterogeneity of South Pacific island economies, outline their international connections and highlight their global economic dependence. It will indicate implications for them of growing globalisation, will examine their conception as MIRAB economies, and will consider changes in the relevance of this concept with growing globalisation. In turn, this will lead on to a discussion of the implications of growing globalisation for the sustainable development of these economies.

2. The Heterogeneity of South Pacific Island Economies and Neighbouring Island Economies.

2.1 Diversity of Size

Table 1 indicates that South Pacific Island nations differ greatly in their land area, levels of population, population density, and size of their economies as measured by the magnitude of their GDP. The land mass of the island economies or nations listed range from those with extremely small areas such as Tokelau, Nauru and Tuvalu, to those with substantial areas, such as Papua New Guinea (PNG) which has the largest land area, followed by the Solomon Islands, New Caledonia and not far behind, Fiji. Population densities vary from relatively low levels in Niue , New Caledonia, PNG and the Solomon Islands to very high levels, as in Nauru, Tuvalu and the Marshall Islands.

Table 1: Basic socioeconomic attributes of South Pacific Island countries for 2005 unless otherwise indicated.

Country	Land Mass (sq km)	Population	Pop Density (per sq km)	GDP (US$m)	GDP/capita (US$m)
American Samoa	199	57794 (2006 est)	290.4	n/a	n/a
Cook Islands	240	12388	51.6	183.2	8567
Fiji	18300	905949	49.5	3000	3514
French Polynesia	4000	252900 (2005)	63.2	3800 (2002)	15697 (2002)
Kiribati	811	103092 (2005)	127.1	63 (2004)	690 (2004)
Marshall Islands	181	59071 (2005)	326.4	113.2 (2003)	1925 (2003)
Micronesia Federation	702	108000 (2004)	153.8	214.5 (2004)	1986 (2004)
Nauru	21	13048 (2005)	621.3	46 (2003)	3555 (2003)
New Caledonia	18500	20000	10.8	n/a	n/a
Niue	260	2166 (2005)	8.3	10 (2003)	6008 (2003)
Palau	458	20891	45.6	144.7	6925
Papua New Guinea	463000	5900000	12.7	4000	666
Samoa	2944	20000	67.9	336	1832
Solomon Islands	28900	500000	17.3	288	598
Tokelau	10	1392 (2006 est)	139.2	n/a	n/a
Tonga	748	112422	150.3	219	2142
Tuvalu	26	11636 (2005)	447.5	15 (2002)	1374 (2002)
Vanuatu	12200	20000	16.4	332	1530

Sources: Asian Development Bank, Country Reports, Key Indicators (www.adb.org), accessed July 2006.
Department of Foreign Affairs and Trade, Canberra, Australia, Country Information. (www.dfat.gov.au/geo/), accessed July 2006

The size of market of the selected economies as indicated by the size of their GDP varies from extremely low levels as in Niue and Tuvalu to sizeable levels as in the case of PNG, French Polynesia and Fiji. If the level of GDP per capita of the selected entities is used a s a pointer to spending power of individuals, this is also found to be highly variable. Figures for the Solomon Islands and PNG are very low. That for American Samoa is about 10 times higher than in the Solomon Islands and PNG, for the Cook Islands around 13 times higher and for French Polynesia about 24 times higher.

2.2 Involvement in international trade and exchange – substantial variation

Again, South Pacific Island Nations and their near neighbouring island countries are found to be very diverse in terms of their involvement in international exchange. (See Table 2). Their exports as a percentage of their GDP range from levels as low as 0.9% in the case of Tuvalu and 1.1% in the case of Niue to levels as high as 47.8% and 35.1% for PNG and the Solomon Islands respectively. Fiji has an intermediate value of 23.3%. The majority of countries listed in Table 2 have an export to GDP ratio of less than 10%.

Table 2: Exports, imports, trade balances and current account balances of Pacific Island countries as a percentage of their GDP for the years indicated.

Country	**Goods Exports %GDP**	**Goods Imports %GDP**	**Trade Balance %GDP**	**Current a/c balance %GDP**
Cook Islands	4.5 (2003)	46.7 (2003)	-44.6 (2003)	9.4 (2004)
Fiji	23.3 (2004)	41.9 (2004)	-18.5 (2004)	-1.3 (2004)
Kiribati	9.7 (2003)	98.9 (2003)	-89.2 (2003)	-17.2 (2003)
Marshall Is.	8.4 (2001)	61 (2001)	-52.6 (2001)	14.5 (2001)
Micronesia	8.8 (2002)	45.3 (2002)	-36.4 (2002)	4.6 (2002)
Nauru	7.9 (2003)	71 (2002)	-42.1 (2002)	-20.5 (2002)
Palau	10 (2002)	78.8 (2002)	-68.8 (2002)	-17.2 (2004)
PNG	47.8 (2002)	31.4 (2002)	16.4 (2002)	2.1 (2004)
Samoa	3.2 (2004)	45 (2004)	-41.9 (2004)	2.9 (2004)
Solomon Is.	35.1 (2003)	33.1 (2003)	2 (2003)	12.8 (2004)
Tonga	10.4 (2003)	44.1 (2003)	-33.6 (2003)	4 (2004)
Tuvalu	0.9 (2002)	65.1 (1995)	-62.9 (1995)	4.7 (1995)
Vanuatu	9.6 (2003)	33 (2003)	-23.4 (2003)	-9.5 (2004)

Sources: Asian Development Bank, Country Reports, Key Indicators (www.adb.org), accessed July 2006. Department of Foreign Affairs and Trade, Canberra, Australia, Country Information. (www.dfat.gov.au/geo/), accessed July 2006.

Low export to GDP ratios are indicative of serious obstacles to international trade of which the high level of transport costs is one of the most serious problems for many of those economies. It can also be observed from the figures in Tables 1 and 2 that there is not a close positive correlation between the export to GDP ratios of these countries and the level of their GDP per head. For example, both PNG and the Solomon Islands have high export ratios but very low levels of GDP per capita. Thus greater involvement in the global economy via greater export intensity is not in itself the key to higher levels of income in these Pacific island countries.

For nearly all of these Pacific Island countries, their imports are well in excess of their exports (see Table 2). In some cases, this adds to their international transport costs because shipping often lacks back freight.

The trade deficits of Pacific island countries are financed in a variety of ways. Sources of finance include remittances from Pacific islanders living and working abroad, inbound tourism, foreign aid, and in some cases, royalties paid by distant water fishing nations for rights to catch fish (mainly tuna) in their exclusive economic zones; and for some, returns on their capital funds invested abroad are important. The relative importance of these sources of finance vary by country. For example, Tuvalu and Kiribati depend heavily on returns from their capital funds invested mainly abroad and from remittances from their merchant sailors working on foreign vessels. The capital funds of the micro-states of Kiribati and Tuvalu were established when they became independent of their former colonial powers, the UK and Australia. Tuvalu has added to these capital funds by savings from the royalties it obtains from other nations from their fishing in its waters.

For most Pacific island countries, free trade in physical goods provides them with little economic gain because of the high transport costs and the natural imperfection of their local markets in the exchange of imported and exported goods. In some cases, free trade regimes, promoted by the WTO, have even brought economic disadvantage. For example, under the Lomé Convention and successive agreements, such as the Couteneau Agreement, Fiji had favoured access to the sugar market of the European Union (EU) and was able to sell its sugar at a price above the global free trade price. In 2005, a WTO tribunal found that the EU's protection of its sugar market breached WTO rules. As a result, Fiji will obtain a less favourable price for its sugar exported to the EU. Consequently, Fijian Indians renting sugar cane land from Indigenous Fijians could find it difficult to continue to pay existing levels of rents. Lower sugar prices and uncertainty about prices may depress land rents in Fiji and increase social tensions between Fijian Indians and Indigenous Fijians (Prasad and Tisdell, 2006 forthcoming).

This is not to say that Pacific islanders have not received any benefits from being a part of the world economy, but rather that freer international trade in goods is unlikely to have been very beneficial to them. On the other hand, if globalisation extends to include access to overseas labour markets for Pacific islanders, it can bring substantial benefits to Pacific islanders by enabling many of them to earn higher incomes by working abroad and assisting financially those remaining at home by sending remittances to them.

2.3 Geographic, ethnic and cultural differences

Pacific island countries display considerable geographic, ethnic, and cultural diversity. These variations can influence their compositive economic performance and their ability to benefit from economic globalisation.

Differences in the physical geography of South Pacific island countries results in considerable variation in their natural resource endowments and consequently, in their scope for international trade and exchange. These endowments influence the composition of their exports, even though the exports of virtually all consist mainly of primary products.

Some countries consist of coral atolls, such as Kiribati and Tuvalu and others are mainly volcanic, such as Fiji, Samoa and Tonga. PNG is partly volcanic and partly continental, the Solomon Islands is mainly volcanic and the New Caledonia is principally continental. Some countries have mixed landforms, consisting of some coral atoll islands and some volcanic ones, as in the case of the Solomon Islands. Coral atoll countries have poor land resources. In these countries, agriculture is difficult and rich mineral resources are lacking; their main economic wealth is contained in their surrounding marine oceans. In the case of atoll countries in the Pacific, their exclusive economic marine zones can be very large if they consist of scattered atolls as is the case for Kiribati and Tuvalu.

While on the one hand, this dispersion of their land provides these countries with enhanced opportunities to earn rents form distant water fishing nations operating in their waters, this fragmentation of their land area adds to transport difficulties within these countries and reduces their ability to achieve economies of scale, for example, in the provision of public utilities. This is less of a problem for more compact countries such as Samoa, Tonga and Fiji than for very dispersed ones such as Kiribati and Tuvalu.

Most small Pacific island countries are very vulnerable to natural disasters such as cyclones, exotic pests and tidal waves. Whereas in a large country, e.g. Australia, such natural disasters are likely to leave a large part of it untouched, in small countries, all the country, or most of it, may be devastated and consequently, few internal resources may remain available to respond to the disaster.

This, together with the other geographic and economic disadvantages of South Pacific island countries, suggest that they may not be an attractive destination for foreign private direct investment. Easing of international capital flows may provide a greater stimulus for outflows of private capital from these countries than for inflows (Tisdell 2005). This net outflow is likely to be increased in times when ethnic tensions create political uncertainty, as has happened in Fiji and the Solomon Islands, and in countries where law , order and governance are problematic, as in PNG. Because of the risks involved, private investors are likely to seek a risk premium for investing in such countries.

Considerable cultural and ethnic diversity exists between small South Pacific island countries. The populations of some are mainly Melanesian e.g. PNG and the Solomon Islands; others are Polynesian such as Samoa, Tonga and Tuvalu and some others, are mainly Micronesian such as Kirabiti. In the case of Fiji, nearly half of its population consists of the descendants of Indians. Their culture is quite different to that of Indigenous Fijians. Cultural differences and historical experiences seem to influence the extent to which these countries are able to achieve good governance, as judged from a Western perspective. Whereas, Polynesian society is relatively stratified socially, with chiefly titles being inherited, in Melanesian society, political leadership is fluid and is based on the ‘Big Man’ concept. Political leaders become leaders by their own social efforts and in return for support by their followers, must deliver goods and favours to them. This may encourage corrupt practices, if judgement is based on Western social values.

The first loyalty of indigenous Pacific islanders is usually to their own tribal group rather than to the ‘constructed’ nation to which they belong. Communal systems of land ownership and control add to divisions and as do limits the ownership of land by those not belonging to local island communities. This discourages foreign direct investment in economic activities, such as tourism projects, requiring the use of native land.

Furthermore, ethnic tensions are an obstacle to the smooth economic development of some Pacific island countries. Examples include Fiji, where almost half the population is Indo-Fijian and where changes in political control have resulted in coups by Indigenous Fijians (see Prasad and Tisdell, 2006), and the Solomon Islands where conflict between Malatians and non-Malatians in Honiara or Guadacanal has spasmodically resulted in rioting.

Poor governance, problems involving land rights and political instability tend to encourage private capital outflows and reduce foreign direct investment in the countries concerned. This means that the often touted benefit of globalisation for encouraging greater foreign direct investment fails to materialize for those economies.

On the other hand, one can understand why many islanders, who depend heavily on subsistence incomes, guard their land ownership and sea rights. Many Pacific islanders may favour a communal economic approach to living because sharing by members of the extended family and tribal groups provides social security (Tisdell, 1990, Ch.9). Such an approach is likely to be especially favoured in remote communities where outside help can be difficult to obtain.

2.4 International political associations

The international political affiliations of Pacific island countries have largely been determined by their previous historical connections. All have been subject to colonial rule. They may be divided into these groups:

1. Former British, including Australia and New Zealand colonies, such as Fiji, PNG, the Solomon Islands, Samoa, Tonga, Kiribati and Tuvalu;
2. Countries affiliated with the USA such as the Marshall Island, Palau, American Samoa, and
3. Those belonging to France: French Polynesia and New Caledonia.

Vanuatu maintains a weak connection with France in view of the fact that Vanuatu was jointly administered by the UK and France.

These connections are important in influencing foreign aid and the perceived financial social responsibilities of countries like Australia and New Zealand, and of France in meeting their obligations towards small Pacific island countries.

2.5 Differences in the extent of economic development of Pacific island countries

The way in which one judges the extent of the economic development of a country depends to a considerable extend on value judgements. Westerners may judge this for example, by the extent to which a nation's economy relies on market exchange and the extent to which it is a monetary economy. Using this approach, many Pacific island economies are lacking in economic development because a large proportion of their production is used for subsistence and they are not involved to a significant extent in market exchange. Even in the case of Fiji, which has a relatively well developed exchange economy, many of its commodities for consumption are self-provided by households, particularly on the outer islands. In the Solomon Islands, the subsistence sector is relatively more important than in Fiji.

Many islanders do not require cash to obtain most of their regular consumption items, but it is needed to purchase consumer durables and some products only supplied by the cash economy. Cash for these purposes may come from remittances of family members working abroad, remittances from family members working in the government bureaucracy or in business, or from occasional sales of produce such as coconuts, kava roots, for cash. The cash earnings of one family member is usually shared amongst many family members.

On the one hand, the heavy dependence of many Pacific islanders on subsistence income suggests that the exchange economy and international exchange are not very important for their welfare. On the other hand, the cash income of Pacific islanders, even if small, enables them to buy commodities for which there are no subsistence substitutes, or only poor ones. Thus, the relative value to Pacific islanders of cash income may be much greater than its proportion of their total income.

3. The MIRAB Paradigm of Pacific Island Economies and Globalisation Processes

In the 1980s, Bertram and Watters (1985, 1986) characterised South Pacific micro-states as MIRAB economics. That is as economies relying on overseas migration (MI) which in turn generates remittances (R) for their residents and foreign aid (A) used to support their government bureaucracies (B) (see also Bertram, 1985, McKee and Tisdell, 1990, Ch.7, Tisdell, 1990, Ch.10). The representation of Bertram and Watters was particularly apt for small Pacific island countries associated with New Zealand because of the relative freedom of entry of their residents to New Zealand. This included countries such as Samoa and Tonga. It was less relevant to those South Pacific countries, the residents of which lacked easy out migration to more developed countries in the Pacific Rim. This, for example, included countries such as Fiji, Kiribati, Solomon Islands and Tuvalu and PNG. However, even for many of these countries, such as Kiribati and Tuvalu, remittances were important. In the case of the two countries last mentioned, remittances from their merchant seamen working on overseas vessels were important. Furthermore, remittances have increased in importance for Fiji as many Indo-Fijians are migrating abroad.

With growing globalisation, the migration and remittance component of the MIRAB model has increased in relative importance for many South Pacific island countries. However, excluding the French possessions in the Pacific such as French Polynesia, the extent of overseas aid for South Pacific island states has fallen. Furthermore, aid has become more conditional in Australia's case on the recipients promoting good governance. Thus, Australia has intervened directly in the Solomon Islands to secure law and order and in PNG, Australia is involved in reform of PNG's police force with a view to eliminating corruption.

Reduced foreign aid for South Pacific countries is in fact based upon a renewed faith in the power of economic liberalism and market forces to bring about economic development in a global setting (Tisdell et al., 2004). This view is fostered by the Washington consensus that economic growth is likely to be most rapid when the government sector is small and the management of economies is left mainly to free market forces, including global market forces. Bodies such as the IMF and the World Bank have consistently subscribed to this view in recent times.

However, this view has its limitations, particularly as far as small island Pacific countries are concerned. Market transaction costs reduce the economic value of market extension for these economies. This is especially so because they are vulnerable to natural monopolies in their own markets. Often the Washington consensus is supported by the assertion that government expenditure and investment crowds out private investment. However, there is scant evidence that public investment is a strong substitute for private investment. In particular, public investment in infrastructure can be highly complementary with private investment.

Some economic advisors to Pacific island countries have led them to believe that by carrying out market reforms and having a lean public sector, they will encourage foreign direct investments and stimulate economic growth. However, there is little evidence to support this point of view. For example, although Fiji has carried out many economic reforms and established a more open economy, it has experienced falling levels of investment in proportion to its GDP in recent times. In Fiji, both public investment and private investment as a percentage of GDP have fallen in the period 1980-2000 (Tisdell, 2005; Prasad and Tisdell, 2006 forthcoming). While a part of the reason has been the political uncertainty generated by coups in Fiji, it is possible that returns on capital have been higher overseas than in Fiji. With fewer restrictions on capital movements, investable funds have moved away from Fiji in response to higher returns on capital overseas.

The MIRAB model is furthermore becoming less relevant to Pacific island countries because foreign aid to these countries is falling. Thus there is less aid to support the government bureaucracies of small Pacific island nations. However, many of their governments have introduced value added taxes (VAT or GST). This provides their government indirectly with income from remittances from overseas when these are spent by recipients on commodities in these economies.

Although aid in the form of grants is becoming less common, many Pacific island countries still have substantial development loans. Even when such loans are given on concessional terms, they do impose a long-term economic obligation upon borrowers. If the returns on the investments made with the loans are insufficiently high, they create an economic burden for borrowers. It is an open question whether government bureaucrats pursue their own self-interest in negotiating such loans. An agency problem exists (McGuigan et al., 2002, pp.16-17). This is because on the one hand, such loans usually expand the size of government bureaucracies (government bureaucrats can indirectly be significant beneficiaries) but on the other hand, these loans have to be repaid from taxes collected from the general public.

The level of external debt as a percentage of their Gross National Product (GNI) or GDP (depending on available data) are shown for South Pacific island countries in Table 3. These figures range from a low of 5.6% of GDP in the case of Kiribati to a high of 138% of GNI in the case of Samoa. Almost half the countries listed have an external debt exceeding half of their GNI or GDP. Some of the countries with the lowest per capita levels of income, such as PNG and the Solomon Islands, are in the most indebted group.

Table 3: External debt of Pacific Island countries as a percentage of their GNI or GDP for the years indicated.

Country	Year	%GNI
Cook Islands	2002	55.6
Fiji	2003	13.5
Kiribati	2001	5.6*
Marshall Islands	2001	77.6*
Micronesia	2002	24.2*
Palau	2002	26.9*
PNG	2003	89.9
Samoa	2003	138
Solomon Islands	2002	75.3
Tonga	2003	52.1
Tuvalu	2002	33.4*
Vanuatu	2003	33.9

Note: * percentage of GDP
Source: Asian Development Bank, Country Reports, Key Indicators (www.adb.org), accessed July 2006.

Given the high degree of external indebtedness of some Pacific island countries, they run the risk of not being able to service their loans if their earnings from abroad suddenly decline. For some it is also possible that servicing their external debt could eventually become a barrier to their long-term economic development. Loans are not grants or gifts. In this era of liberalisation, privatisation and globalisation, grants are becoming rarer. Consequently, it is becoming less relevant to typify Pacific island economies as aid economies, the French territories excepted.

4. Globalisation and the Sustainable Development of South Pacific Island Countries.

A major question is whether the resources of the Pacific island countries are adequate to enable them to reach the same or similar level of per capita income as more developed countries. There is no reason to believe that this is the case. On average, income potentials and economic opportunities seem to be less in these economies than in more developed countries. The residents of these countries have strong economic incentives for emigration, especially if they are highly qualified and skilled residents. The governments of these small island countries would like to have greater opportunities for their people to work abroad. Amongst other things, remittances from those working abroad provide economic support for their mother countries. Emigration and remittances are to some extent an alternative to foreign aid intended to raise the incomes of South Pacific countries by investment and economic development (see Tisdell, 1990, Ch.10).

However, aid may be an inefficient economic alternative to migration because the return on aid monies invested in many of these small island economies may be low, or even negative. Furthermore, economic globalisation involving more liberal commodity and capital markets but not extending to free international movements of labour also seems insufficient to bring about substantial economic growth in many of these economies. However, the Australian Coalition Government in power in 2006 opposes easier migration to Australia from the South Pacific island countries arguing that they should develop their own countries. For many, the latter appears to be a 'tall order' and they are disadvantaged because economic globalisation is partial. It is interesting to note that even the World Bank (2004, p.11) has become supportive of easier international mobility of labour.

It should also be noted that with more liberal economic markets and changing dynamic conditions, some regions of the world and regions within nations decline and others grow. Thus growing urbanisation is occurring in many Pacific island countries and outer islands and areas of some countries are having falling populations (McKee and Tisdell, 1990). With easier international labour movements, it is possible that the level of population of some Pacific island countries could fall as a result of migration. Nevertheless, it is normal in larger countries for the populations in some regions to decline and to increase in others. Why should Pacific islanders find it economic to stay in the country where they were born?

Many Pacific island countries have dual economies comprised of a subsistence or semi-subsistence sector and of a commercial market sector. Their commercial sector is not very diversified and could become less so with growing globalisation. This is because, in view of the law of comparative economic advantage, free trade fosters specialisation in production and international exchange by countries. While this can promote economic efficiency, lack of economic diversification, adds to economic risk. (Tisdell and Fairbairn, 1984).

Another important issue is whether South Pacific islanders should abandon subsistence activities and adopt completely a commercial market economic system. Most Western economists might think such a transition is socially desirable. However, institutional barriers, such as tribal control of land ownership, hamper such a transition. Furthermore, taking into account market transaction costs and the economic security of villagers such a transition is unlikely to be universally desirable (see for example Fisk and Shand, 1970; Tisdell and Fairbairn, 1984; Tisdell, 1990, Ch.9). Transition is even less desirable if it is forced by foreign bodies, such as Bretton Woods institutions, rather than allowed to evolve naturally. The latter is in fact the more liberal approach.

The economic wealth of South Pacific island countries lies mainly in their natural resources, and those are their main sources for earning foreign exchange. The ways in which these resources are exploited have important implications for the sustainability of their economies. Some Pacific island nations have depended or now depend on, exploitation of non-renewable mineral resources to a large extent, and most have large degree of dependence on living natural resources, such as fisheries. These resources are renewable but can also be depleted if over utilised. With a huge market demand for such resources in a global economy, there is always a risk that these resources will be exploited at a higher and faster rate than is desirable. For example, the forests of the Solomon Islands and PNG have experienced timber harvesting on an unsustainable basis and there is a risk of tuna stocks being over exploited in the Pacific by distant water fishing nations. In the past, countries such as Nauru and Kiribati have had their only important mineral deposit, phosphate, completely mined out. Although British authorities provided some compensatory funds after the event to the countries concerned, Nauru now faces considerable economic difficulties because of unwise investment of these funds. Problems faced by Nauru have been, for example, highlighted by McDaniel and Gowdy (2000, Ch.2). Kiribati has fared better in that regard.

Mineral exploitation in the Pacific islands has been a controversial matter. In the Solomon Islands, opposition to a copper mine by villagers resulted in civil war, and BHP's Ok Tedi mine in PNG cause considerable environmental damage along the Fly River (Tisdell, 1997) and was forced to close down. As outlined by Tisdell, (1990,Ch.2), institutional mechanisms of globalisation 'desensitize' investors to local concerns and issues, for example, shareholders in multinational companies.

Again, there is a high risk that some Pacific island atoll countries will be obliterated by global warming and the predicted rise in sea levels. Tuvalu and Kiribati are at particular risk. This can be viewed as a side-effect of global economic growth and is associated with increased emissions of greenhouse gasses.

5. Concluding Comments

South Pacific island countries are diverse geographically in their cultures and in their ethnic composition. On the other hand, they have a number of common features: all have small internal markets; all experience substantial transaction costs in accessing world markets; all are vulnerable to natural hazards and in varying degrees, to market-related hazards; and in all cases, structural conditions hinder the establishment of relatively competitive markets. Their ability to gain from economic globalisation is limited. Their main avenue to gain from economic globalisation would appear to be by easier international labour movements, but liberalisation of such movements has been slower than for goods and capital.

While, in the past, many of the South Pacific island economies have been well characterised as MIRAB economies, the aid component of this characterisation appears to have become of reduced importance, except for the French Pacific territories (French Polynesia and New Caledonia). This reduction in aid is a consequence of the globally dominant view, reflected in the Washington Consensus, that economic liberalism, privatisation and globalisation are the keys to overcoming economic disadvantage. However, this policy prescription, particularly in the case of small island countries in the Pacific, is not a panacea if international movements of labour are significantly restricted.[1]

6. Notes

1. More information about the least developed island countries in the Pacific can be found in Economics and Social Commission for Asia and the Pacific (2006 Part II) and in Tisdell (2000a,b,c,d,e).

7. Acknowledgements

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