Pacific Island Economies: Aiming for Sustainable Economic Development in the Midst of Growing Uncertainties

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Presentation

- Introduction – Sustainability and Uncertainty set the conditions for FDI in PICs and everywhere (small economies are severely disadvantaged)
- The fundamental of Pacific Island Economies
- Migration – Permanent, Temporary Migration
- Remittances – How does it contribute to the PIC economies?
- FDIs in the Pacific Island Economies
- Some Concluding Remarks
Introduction:

Uncertainties – Global Shocks
After Covid-19 pandemic, War in Europe is taking a toll. Food and energy Prices are hitting us hard.

Right now Russia-Ukraine war is having a significant effect on us. The pandemic shut us off almost completely.

- So PICs are not cushioned in any way from Global Shocks.
- So PICs need to be prepare against all forms of disaster.

• The problem is PICs have no control over global shocks and more so, we are far less capable of responding against shocks.
• Even responding appropriately against domestic or regional shocks is not possible!
Our smallness and our oceanic isolation is the reason for this vulnerability.

For instance when Tonga was hit by the volcanic eruptions, the country was almost totally helpless. Cyclones have the same effect.

Fiji or Samoa as the neighbouring countries could hardly extend any help.

Tonga relied entirely on assistance from Australia and New Zealand. There is nothing wrong with relying on Australia and New Zealand, these are our kind neighbours but the fact is PICs are completely unprepared against such disasters.

Have we taken any precautions for the future? The answer is no …… our policymakers have just forgotten about it.
For Most PICs when cyclones hit, significant parts of the economy gets dysfunctional. Sometimes, 50% of the economy is disrupted and sometimes 90%.

Therefore, our ability to absorb shocks is far less compared to bigger countries.

Disasters happen everywhere but our smallness makes us unique and thoroughly disadvantaged.

We largely depend on external assistance when disasters occur. Our capacities to deal with disasters is very weak.
The point is, we are vulnerable and that defines our economic status and character.

Therefore we rely heavily on our development partners for our economic existence and disaster management.

This is what defines our economic fundamentals!!

**Economic Fundamentals of PIC**

i) Narrow Resource Base – few niche sectors

ii) High production and Transport Costs

iii) Lack of Technology – Low Productivity

iv) Fragile infrastructure – Far more costly to maintain

v) Outward Migration of Labour

vi) Small Domestic Market – lack of economic scale

vii) Hesitant Foreign Investors - FDI

viii) Risk prune – cost of recovery is much higher
Due to uncertainties Investments remain weak so growth prospects remain weak.

While recovery from Covid-19 pandemic has been good, the prospect for higher growth in the medium to long term is minimal.

Much of the reason for low growth rates is the weak fundamentals of the PIC economies.

See Data on Chart next slide.
Economic Growth among PICs

Asian Development Bank Projections

GDP Growth
- Vanuatu: 1.0% (2023p), 4.2% (2024p)
- Marshall Islands: 1.5% (2023p), 2.0% (2024p)
- Nauru: 1.8% (2023p), 2.2% (2024p)
- Kiribati: 2.3% (2023p), 2.8% (2024p)
- Papua New Guinea: 2.4% (2023p), 2.6% (2024p)
- Tonga: 2.5% (2023p), 3.2% (2024p)
- Tuvalu: 2.0% (2023p), 2.5% (2024p)
- Solomon Islands: 2.0% (2023p), 3.0% (2024p)
- Palau: 2.5% (2023p), 3.8% (2024p), 6.5% (2024p)
- FSM: 0.5% (2023p), 4.1% (2024p)
- Samoa: 2.5% (2023p), 4.8% (2024p)
- Fiji: 3.0% (2023p), 6.3% (2024p)
- Cook Islands: 9.1% (2023p), 11.2% (2024p)

Change in real GDP (%)

- Blue line: Pacific subregion
- Orange line: Pacific islands

Graph showing projections for the years 2019 to 2024.
The low economic growth is part of the reason for high outward migration.

Unemployment and lack of economic opportunities remain significant despite.
Migration and Remittances

MIRAB Economy (Migration, Remittances, Aid and Bureaucracy)

Regional share of international migrants, mid 2020

Migrants as a share of the population in each region, mid 2020

- **World**: 280,598,105
- **Oceania**: 9,380,653 (3.3%)
- **Africa**: 9,380,653 (9%)
- **Americas**: 25,389,464 (26.2%)
- **Europe**: 86,706,068 (30.9%)
- **Asia**: 85,618,502 (30.5%)
In Oceania, more than 1 in 5 people are migrants.

22%

While only a small share of the world’s international migrants live in Oceania, they constitute a substantial percentage of its population.

Oceania has the largest proportion of migrant (Diaspora) population.
The up-side to migration is remittances – it is steadily increasing
Remittances continues to growth among Key PICs

For Melanesian countries the remittances are far smaller.
Some Observations:

1) Remittance is Good;
2) Remittances increase our import bill due to consumption
3) Outward Migration is not good – bad for the domestic Economy
4) Diaspora is good – for social and political development
5) Return Migration is good – new ideas and FDI comes into the country
6) Return Migration can be bad when people return from host country due to lack of jobs – Tonga is one example where crime increased due to return migrants.

But the fact is when the productive workers of a country migrate the prospect for growth is severely compromised.
FDI has not shown much increase.

For Fiji it has been sporadic – lots of return migrants are willing to invest but business environment remains poor.

Doing Business remains costly – approval processes remains time consuming
What needs to be done?

▪ New Skill Training is required to fill the huge gap that exists;
▪ A massive multi-skilling is needed;
▪ Policy Incentives for new technologies are necessary;
▪ Labour laws need to be reformed;
▪ Labour productivity needs to improve by many folds;
▪ Infrastructure, particularly roads need immediate attention – Rural roads continue to be in bad shape;
▪ Its time to think of new solutions – Business as usual will not work.
▪ Change of mindset is necessary
▪ Non-tourism sectors need added incentives – Primary Agriculture and Agri-processing; BPO and other services such as Health and Education need more incentives;
What needs to be done?

- Economies of Scale is needed to make small enterprises more competitive - Cluster Building and Co-operatives could be a viable solution.
- More Finance through Banks should be made available to farmers and small businesses – FDB has not been effective;
- Access to Global funding to build resilience and enhance economic capacity;
- More International Trade – More bilateral Agreements
Thank You for listening, Vinaka and Dhanyabaad