Pacific Islands Policy 7

Pacific Island Economies: How Viable Are They?

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Preface

As a person who has spent nearly his entire adult life in Micronesia, I am driven to deal with those problems that especially affect the islands of Micronesia. One of those problem areas is surely economic development. In a previous issue of Pacific Islands Policy, I asked myself and my readers why we have been disappointed in the development expectations we held for the islands (Hezel 2006). Perhaps our hopes were too high, I wondered at the end. But then again, if other Pacific Island nations had succeeded where the northern Pacific nations failed, we could possibly chalk up the failure to build strong economies to the disincentives of excessive aid under the Compact of Free Association.

This led me to wonder just how the other nations in the Pacific were doing in building their economies. Were they able to generate the economic growth needed to provide the basis of self-support despite all the disadvantages under which they labored? In the course of my work, I had access to monographs and economic studies authored by financial institutions, notably the Asian Development Bank. These resources gave a sophisticated profile of one nation or another, but the type of comparative figures I sought were generally not available. Comparisons may be as odious for Pacific economists as they are for other specialists, but I was hoping to find an overview of the independent island nations and a crude sketch of their economies even at the sacrifice of the finer points that economists, like academics in other fields, hold dear.

In the absence of a single work laying out the economies of the Pacific in nontechnical terms, I tried to collect the data needed to construct one. In other words I rashly attempted to do what anyone competent in the field probably would have avoided, no doubt for quite sound reasons. But I've made a life's career of ignoring the dictum "Fools rush in where angels fear to tread," so why not do it one more time? Fortunately, I was assisted by two capable graduate students of Fordham University's International Political Economy and Development Program, Eileen Eley and Donna Mae Odra, who saved me from the worst of the follies I might have stumbled into, even as they ably gathered and analyzed data for inclusion in this monograph. Chris Lightfoot, an old friend who is far more knowledgeable than I in the matter of island economies, generously shared his expertise with me as he has so many times in the past.

Let me issue a word of warning on the data used in this monograph. For the most part, the data are taken from the websites of international financial institutions, especially the World Bank and Asian Development Bank. As small as the Pacific Island nations are, reliable figures are surprisingly hard to come by—nearly impossible for a few of them. Nauru and Tuvalu especially come to mind. My colleagues and I worked with what we could locate for the 13 nations that are represented here. (Niue and Timor-Leste posed too much of a challenge to be included.) We had to be satisfied with approximations at times, and we dealt with the inconsistencies that different data sets entailed. But, bear in mind that in this report I do not present a detailed look at the economy of any one nation; instead, I attempt a broad comparison of the economies of many nations. Hence, precision has been sacrificed for comprehensiveness. Statistics have been assembled with an eye to an overview rather than detailed information on each country today.

This report is an expansion of a presentation given in May 2011 at Georgetown University's Center for Australian and New Zealand Studies, in Washington. I owe a debt of gratitude to Alan

Tidwell, director of the center, for his encouragement and support of that presentation. The good discussion by participants following the presentation offered some helpful corrections even as it convinced me that an expansion of the presentation into print version could stimulate further discussion of the future of Pacific Island economies.

The Central Question

The Pacific is receiving a fair share of attention today from many quarters. Even as the parade of economic consultants continues, others are coming to explore concerns that have more recently claimed the attention of western nations. These concerns cover a broad range, including food security, global warming, elimination of illegal drug traffic in the region, prevention of AIDS or even drug-resistant tuberculosis, protection from spouse abuse, and public-school improvement. These are legitimate interests, but none of them addresses the central concern that vexes each of the island nations of Micronesia, and perhaps the islands elsewhere in the Pacific: How will the country grow its economy to ensure its survival in the future?

Pacific Island nations have received repeated warnings of the risks they run by not implementing the measures needed to grow their economies. These nations, to be sure, face serious limitations due to their size and location, as development economists acknowledge. Their small and often scattered populations, relative lack of natural resources, distance from major markets, and vulnerability to typhoons and other natural disasters all constitute drawbacks for Pacific nations. To this list I would add one important cultural factor: the "subsistence affluence" that the tropical Pacific offers those wishing to live off the land, thereby inhibiting motivation to develop at any cost.[1] The island economy provides a comfortable fallback for Islanders—much more so than most Asian people enjoy—and so the rewards for risking land or engaging in full-time labor must be correspondingly greater.

Yet, development economists warn against the danger of exaggerating the importance of these limitations. These factors are simply "the 'pot' in which alterable ingredients of growth are mixed," an Asian Development Bank (ADB) publication asserts (Duncan et al. 1999, 16). These limitations can be overcome, it is argued, as they have been in the case of Singapore and Switzerland and even tiny Norfolk Island.[2] The premise of development economists and the financial institutions for which they work is this: with the right policies in place and necessary reforms implemented, Pacific Island nations can develop successful economies. Generally, that is understood to mean liberalization of trade and investment, secure property rights, enforceable

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[1] The term subsistence affluence was coined by E.K. Fisk (1982). It refers to the relative ease with which Pacific Islanders can provide for the basic necessities of life due to the munificence of nature. The same bounty, of course, can be regarded by economists as a disincentive for local people to make the tradeoffs required for economic growth.

[2] Norfolk Island, a tiny outlier of Australia with a population of less than 2,000, has been repeatedly touted as an example of how a small island can overcome geographical and size constraints. Its deracinated population (originally from Pitcairn Island) enjoys a per capita income higher than Australia thanks to the export of fruit and the tourist trade that has developed in recent years. Duncan et al (1999, 221-32) offer an appendix on the economic history of this unusual island.

contracts, good governance, and decent infrastructure. If Pacific Island nations emulate what developed countries in the West (and East) have done and what other rapidly developing nations are in the course of doing, they, too, can prosper. Presumably, the climate will attract foreign investors and stimulate the entrepreneurial juices of local people.

Will this formula work in the Pacific? The final judgment has yet to be made, but we can at least survey the region to find out how the island nations are doing at present in the growth of their economies. On the basis of this, we will go on to weigh their economic prospects for the future. Finally, we will briefly consider what implications these forecasts have for the policy decisions of the major Pacific Rim countries—especially Australia, New Zealand, and the United States.

Island Population

Table 1: Population and Population Growth of Pacific Island Nations

Country	Population (2009)	Annualized Population Growth	
		2000–2009	1990–2009
Cook Islands	22,600	2.3	0.9
Fiji	849,200	0.3	0.7
Kiribati	98,000	1.6	1.6
Marshall Islands	54,000	0.6	1.0
Micronesia (FSM)	102,600	(0.4)	0.3
Palau	20,400	0.6	1.5
Papua New Guinea	6,732,200	2.3	2.5
Samoa	178,800	0.1	0.5
Solomon Islands	523,200	2.3	2.6
Tonga	104,000	0.5	0.5
Tuvalu	9,900	0.4	0.5
Vanuatu	234,000	2.1	2.3
Nauru	9,800	(0.2)	0.4
Niue	1,400	n/a	n/a

Sources: World Bank database; Cook Islands data from Statistics Office (www.stats.gov.ck); FSM data from 2010 census; Tuvalu and Nauru data from ADB (2010); Vanuatu data based on 2009 census; Niue data from *The World Factbook* (CIA~~,~~ 2011). Note: Parentheses indicate negative growth.

If any generalization can be made of the Pacific Island nations, it is that their populations tend to be small and scattered. In every case except Nauru and Niue, the population is distributed over a number of islands, and into widely dispersed villages on all but the smallest islands. Five of the nations (Nauru, Tuvalu, Palau, the Cook Islands, and the Marshall Islands) have a population of less than 60,000. Seven more have a population size from 100,000 to 900,000. Papua New

Guinea, the largest by far of the Pacific nations, boasts a population of nearly 7 million—three times the combined population of the rest of the Pacific nations.

The data in Table 1 on population growth during the last 10 years and 20 years speak loudly about the difference between Melanesia and the rest of the Pacific. Only the Solomon Islands, Papua New Guinea, and Vanuatu show a population increase greater than 2 percent annually. (Although the Cook Islands' growth figure for the last 10 years is listed at 2.3 percent, this figure is questionable in view of other information, including the much lower figure, 0.9 percent, for growth over the 20 year period.) Melanesia is hampered by a rapidly growing population—not because its natural birth rate is any higher, but because it lacks the emigration possibilities that nearly all other Pacific nations have.

By way of contrast, all the nations of Polynesia and Micronesia (except for Kiribati) register population growth of less than 1 percent yearly. Clearly these countries have places abroad, notably New Zealand and the United States, to which the unemployed population is permitted to move to find jobs and reside. Table 1 highlights the difference between the fast-growing nations and those whose populations are fairly stable. The latter group benefits in more ways than one. Not only does emigration opportunity take the pressure off nations to expand services for a rapidly growing population, but it also extends the "nation" beyond the borders of the island state and offers assistance through remittances to those who remain at home in the islands.

The Wealth of the Nations

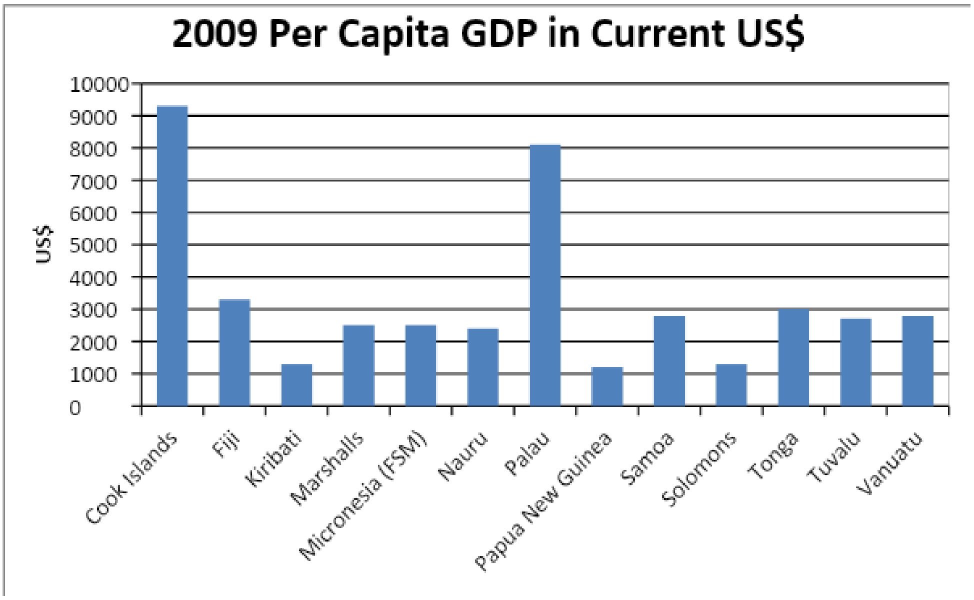
Table 2: GDP and Per Capita GDP

Country	2009 GDP in Current US$ (millions)	2009 Per Capita GDP in Current US$
Cook Islands	209.7	9,300
Fiji	2,824.8	3,300
Kiribati	128.0	1,300
Marshall Islands	152.8	2,500
Micronesia (FSM)	274.2	2,500
Palau	164.7	8,100
Papua New Guinea	7,892.8	1,200
Samoa	496.5	2,800
Solomon Islands	656.8	1,300
Tonga	311.0	3,000
Tuvalu	26.7	2,700
Vanuatu	648.0	2,800
Nauru	23.5	2,400

Sources: World Bank database; Cook Islands, Tuvalu, and Nauru data from ADB (2010).

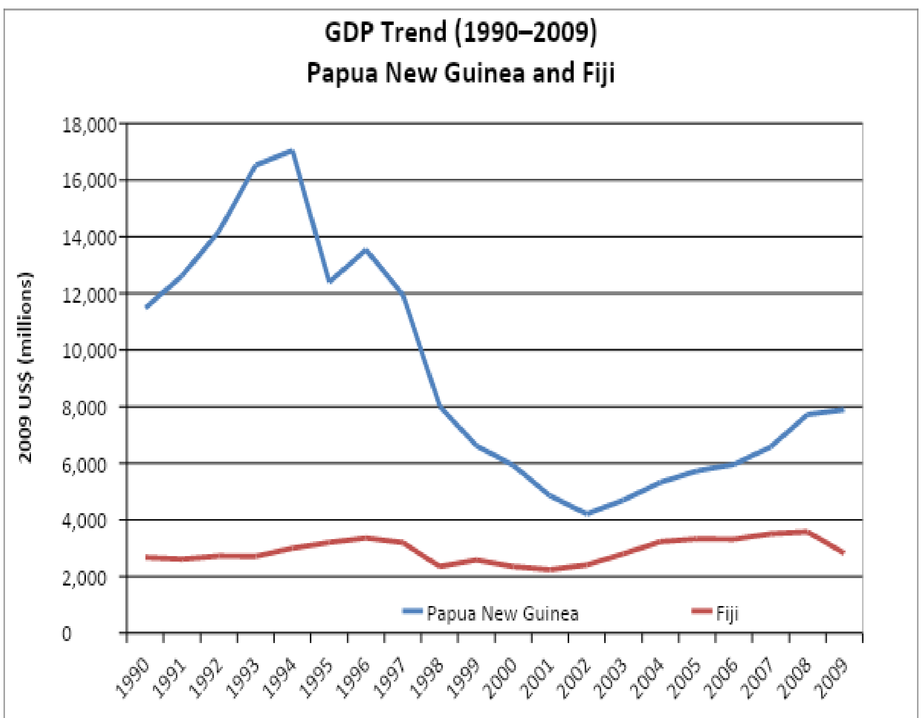
Gross domestic product (GDP) refers to the market value of all goods and services produced within a country. It is often considered a measure of the strength of a country's economy. It includes salaries of all sorts, goods that are traded for money, and even the ramen sold at the village mom-and-pop store. It also includes the value of food that people themselves grow and eat as well as the value of the houses they build of island materials.

Figure 1: Per Capita GDP 1



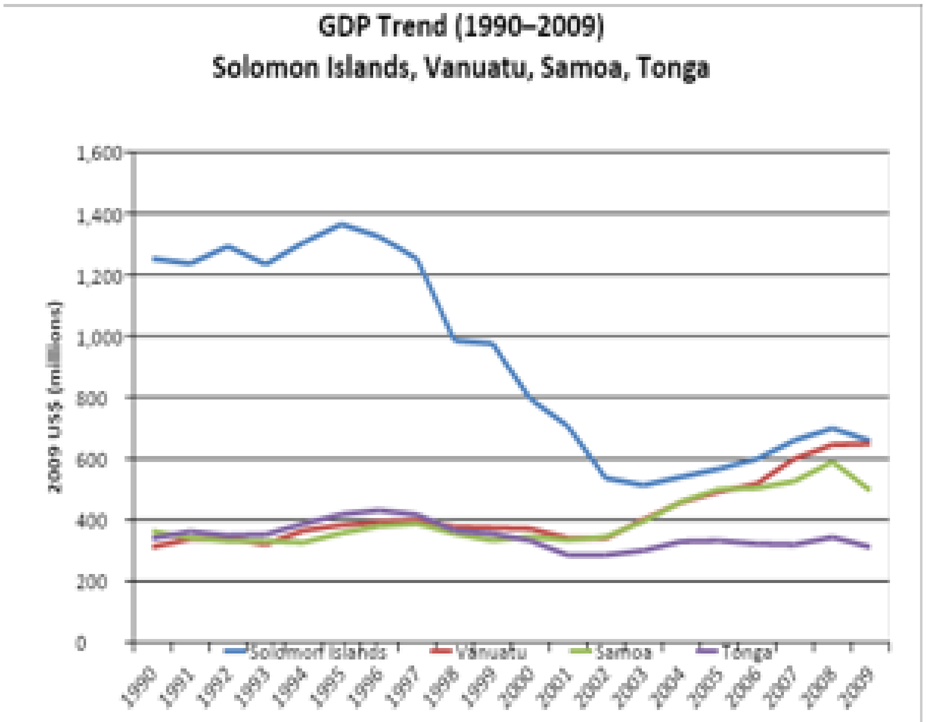
Sources: World Bank database; Cook Islan 1

Figure 2a: GDP Trend (1990–2009) in Papua New



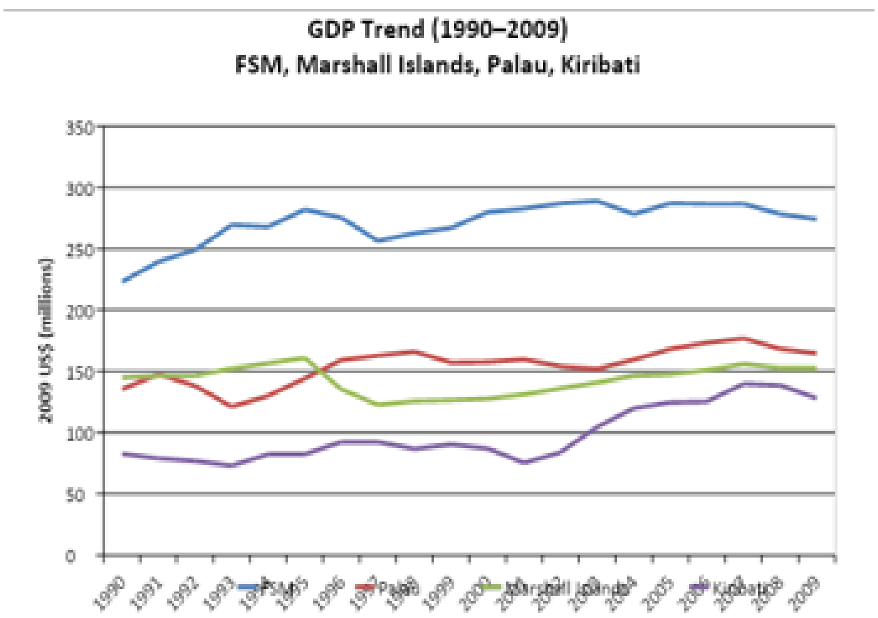
Source: World Bank

Figure 2b: GDP Trend (1990–2009) in Solomon Islands, Vanuatu, Samoa, and



Source: World Bank database.

Figure 2c: GDP Trend (1990–2009) in FSM, Marshall Islands, Palau, and Kiribati



Source: World Bank database.

Per capita GDP, which represents the total GDP divided by the size of the population, is a more telling figure with respect to relative wealth and living standards, but it is not necessarily indicative of the progress toward self-support of the economy. High per capita GDP does not always signal that a nation is on the verge of economic self-reliance, as we will see.

As shown in Table 2 and Figure 1, the difference in per capita GDP among Pacific Island nations is pronounced. The Cook Islands and Palau have by far the highest per capita GDP in the region. Both countries have small populations (around 20,000), are largely urbanized, and have a high rate of employment due to healthy tourist industries and relatively large government staffs. Under such conditions, small means wealthy for a Pacific Island country.

At the bottom of the list are two of the largest nations, Papua New Guinea and the Solomon Islands, with per capita GDP figures of slightly over $1,000. They are nations with high-value exports, but large village populations relatively unaffected by the cash economy. Kiribati, with a per capita GDP of $1,300, is only slightly higher. Earnings there are limited, and much of the population is distributed through the outlying atolls of the country.
The rest of the Pacific Island nations, with per capita GDP figures ranging from $2,400 to $3,300, fall in the great mid-range, which cloaks the significant differences in the strength of their economies.

What we have seen thus far are snapshots of the island nations' economies, but development suggests the importance of a time dimension in the effort to boost GDP. Figures 2a, 2b, and 2c show the variability of GDP during the 20-year period from 1990 to 2009. The greatest fluctuation is seen in Papua New Guinea and the Solomon Islands, where GDP dropped sharply during the mid- and late-1990s. Papua New Guinea witnessed a fearful drop from $17 billion to $4 billion GDP between 1994 and 2002, while the Solomon Islands experienced almost as sharp a decline, from $1.3 billion to $500 million during roughly the same period. In the case of Papua New Guinea, part of the drop-off in exports could be attributed to the civil war that broke out in Bougainville and interrupted mining activities there. The two countries, both large exporters of natural resources, were jolted by the plummet of GDP to just one-fourth or one-third of what it had been a few years earlier. Both are object lessons in the shocks to island economies that can result from falling market prices due to worldwide economic downturns, not to mention the perils of resource depletion. Nauru, whose data are not shown on these graphs, offers the most striking example of an economy that quickly reversed direction when its phosphate, which for years had provided lucrative export earnings, was exhausted. The country went from riches to rags over the same 20-year time period (1990–2009), as it suffered through an annual 9.6 percent decline in GDP during these years (ADB 2009, 4).

On the other hand, Vanuatu nearly doubled its inflation-adjusted GDP in the same 20-year period, while Samoa and Kiribati also showed significant increases from 2002 to the present. The growth in Vanuatu and Samoa could be due to a spike in tourism in both places. The increase in resource-poor Kiribati after 2003 can be explained by the resumption of phosphate mining on Banaba Island in an effort to exploit the last remaining reserves there. The other Pacific Island nations have held steady or shown modest growth, as the charts indicate.

The lessons to be learned here are twofold: there is a path of growth for at least some of the Pacific Island nations, with Vanuatu as the prime example, but island economies are especially vulnerable to economic shocks because of their size and location at the periphery of the modern world. The danger is compounded because of the relatively few products and limited quantities of those products that these nations can offer their trade partners. Everyone is vulnerable in today's global economy, but small is especially vulnerable.

The Conventional Economy: Exports and Trade

The conventional pathway to development seems to depend on the export of goods and services that a nation can sell abroad, thus acquiring the foreign exchange that enables it to pay for what it imports. (Let it be noted that the value of imports everywhere in the Pacific is considerable these days.) Just as nineteenth-century traders from the United States or Britain would ship cargoes of furs to China in exchange for luxury items such as tea, silk, and porcelain, nations continue to sell abroad what they can manufacture or mine. Exports have long been considered the key element in a country's international exchange system, an element that determines whether the country shows profit or loss in its economic dealings with other nations. Profits from exports, in turn, are woven into a local system of trade that provides a tax base to support the government. Hence, a country's exports—manufactured goods even more than natural resources—have always been considered a major part of the formula for development and a measure of national prosperity.

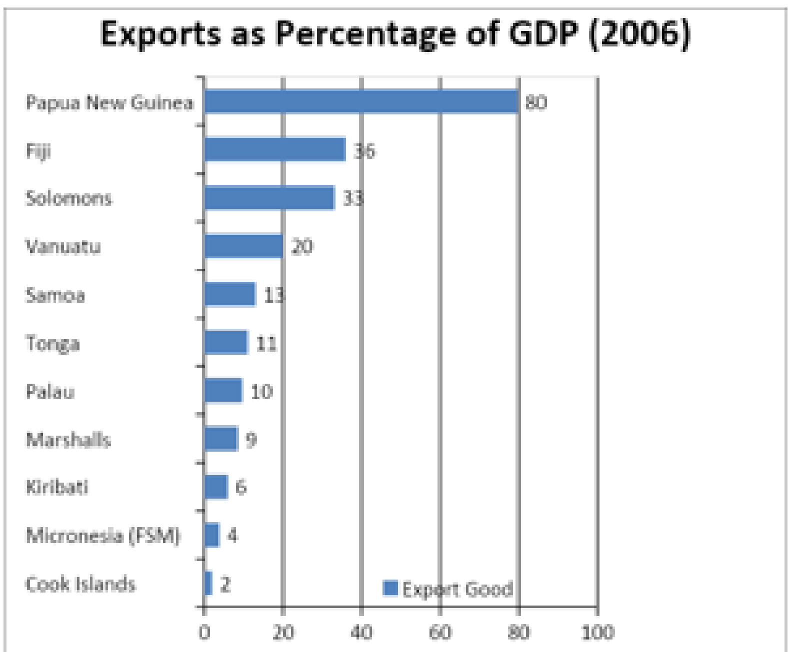
Exports can be measured against the size of the GDP, using the latter as a yardstick. This does not imply that the entire value of exports is registered in the local economy, however. The market value of the gold or copper that a foreign mining company extracts from a Pacific nation may be tallied as an export item, but only a fraction of this figure may impact the island nation. The payment to government and landowners for mining rights, the percentage of the mineral profits allocated to the country, wages paid to local laborers, and purchases from island businesses by those involved with the mining venture—these are better indicators of how much of the total export value of the mineral resources is making its way into the local economy. Much the same is true of fishing vessels licensed by an island nation. Although the market value of their total catch is registered as an export item, the real economic benefits to the island nation might represent no more than a fraction of the listed value of the export.

There are three Pacific Island nations that are major exporters of goods: Papua New Guinea, Fiji, and the Solomon Islands. As Figure 3 shows, exports in Papua New Guinea amount to 80 percent of its GDP, while in Fiji and the Solomons, exports measure about one-third of the GDP. All three are Melanesian countries, benefitting from a larger land mass and a liberal supply of natural resources. The next largest exporter in the region is Vanuatu, also a Melanesian nation, with exports measuring 20 percent of its GDP.

Papua New Guinea, the most populous country in the region by far, is also the most generously endowed with mineral resources. Gold, copper, phosphorus, and natural gas are among its major exports, as is timber; together these resources represent about 80 percent of the country's total exports. Papua New Guinea's exports, in turn, measured just under 80 percent of the national GDP (ADB 2010, data sheet on Papua New Guinea). These export totals, as we have seen, can be deceptive inasmuch as a relatively small share of the commercial value of these exports makes its way into the local economy. The mining, drilling, and logging provide some jobs for local people, but their main impact seems to be in the revenue that the government makes from the sale of these resources. Revenues from mining and natural gas comprised about 36 percent of all government income in 2008. To its credit, Papua New Guinea is now intent on putting money earned from natural gas exports into a special fund that can be tapped in the future.

The Solomon Islands, which registers exports as 33 percent of its total GDP, depends heavily on its logging industry (ADB 2010, fact sheet on Solomon Islands). Timber alone brings in about two-thirds of the nation's export earnings, with agricultural produce and fish providing most of the remainder. Over-exploitation of lumber has already resulted in a decline of exports in the past few years, ADB reports (Ibid). As income from this source falls off, the Solomon Islands has taken up the cultivation of the oil palm (*Elaeis guineensis*) in an attempt to find a substitute for its unsustainable lumber industry.

Figure 3: Exports as Percentage of GDP (2006)



Sources: World Bank database; Cook Islands, Kiribati, FSM, and Marshall Islands data from ADB (2010).

Fiji, with exports totaling 36 percent of its total GDP, is the wealthiest of the three exporting nations in terms of per capita GDP, and it has the most diversified economy. At one time Fiji's economy was founded on the export of sugar, just as Hawai'i's once was. But, with the decline in the export value of sugar—due to new trade agreements that deny Fiji the preferential treatment it was once accorded—other means of earning foreign exchange have emerged. Exports now include gold, fish and marine products, manufactured apparel, powdered kava, and even bottled water (UN Comtrade 2010).

Twenty-five years ago, Nauru could have been added to the list of major exporters in the Pacific.

Today, however, its phosphate supply has been mined, the trust fund established from the proceeds of its exports is diminished because of shocks to the stock market and poor financial management, and the country is impoverished. This is not to suggest that the same need happen to those Melanesian nations still producing goods for exports, although the supplies of some of these—the timber from Papua New Guinea and the Solomon Islands, as well as gold and other minerals in Papua New Guinea and Fiji—will undoubtedly be exhausted in time. What is clear, however, is that only a few nations have been able to benefit from exports, the conventional pathway of economic development, and even those that have relied on their exports do not appear significantly better off for their trade. As noted above, Papua New Guinea and the Solomon Islands show the lowest per capita GDP in the region. Considering the living standard of the population and the strength of government services, Fiji seems to be the only Pacific nation to have prospered because of its exports.

What of the other Pacific Island nations? What is the likelihood that they will develop a healthy export trade? All the other island nations show modest exports of less than 20 percent of GDP—in fact, usually much lower than 20 percent. Vanuatu is an illustrative example. The country has no single major export, but a number of smaller commodities. Organic beef, among other products, is exported to other countries in a niche market. Agriculture, fishing, and forestry account for a substantial share in the country's exports, which altogether measure 20 percent of the total GDP. Overall, Vanuatu's economic future would seem to rest more on its growing tourist trade than its exports.

Nauru, with exports amounting to 17 percent of GDP, has only the residue of its once plentiful phosphate supply as an export. Samoa's exports, registered at 13 percent of GDP, are almost entirely composed of meat products and live animals (pigs and cows). The other Pacific nations have very little to export, with their total exports amounting to about 10 percent of GDP or less. Their exports are generally a mix of fish and agricultural produce since there is little else to offer to foreign markets (UN Comtrade 2010).

Although fish is the most plentiful resource in the area, it is a modest export item nearly everywhere in the Pacific. In those few nations where fish exports register any significant figures, as in FSM and the Solomon Islands, these figures include fish caught by foreign purse-seiners or long-liners registered in the country. Transshipment of fish caught in FSM waters was recorded as an export of $8.8 million in 2002, and the figure was considerably higher a few years earlier (Hezel 2006, 17). Foreign-owned fishing operations, however, do not usually have more than marginal impact on the local economy. Samoa, Tonga, the Cook Islands, and Vanuatu together recorded a total value of only $1 or 2 million a year in fish exports, with their combined total amounting to only $5–6 million during 2007 (UN Comtrade 2010). This assessment of the modest contribution of fish and marine products to the overall exports of Pacific Island countries is consistent with a study commissioned a decade earlier by ADB. It pointed out that in 1999 the overall contribution of fishing (whether the fish was sold as an export item or eaten locally) to the total GDP of these nations did not exceed 13 percent and, in most cases, was much less than 8 percent (Gillette and Lightfoot 2001, 77).

Agriculture is another field in which expectations have far exceeded results. Over the years one commercial crop after another has been introduced to the islands in the hope that a significant export would be created. Even before copra prices began dropping, development planners brought in cacao, ramie, pepper, oil palm, and an array of vegetables and fruits that might appeal to a foreign market. There have been a few successes: sugar was for years the foundation of Fiji's economy, and palm oil accounted for one-third of the value of Vanuatu's exports in 2007 (UN Comtrade 2010). In general, however, agriculture has not proven a promising source of exports relative to the size of the economy. It is easy to understand why this is the case: agricultural products are generally high volume, low value, and expensive to transport to foreign markets.

What besides fish and agricultural produce–and mineral resources for those fortunate enough to have them–can be exported? Manufactured products are almost nonexistent apart from garments in Fiji and automobile parts in Samoa. Seabed mining, long the subject of speculation, now appears to be feasible, but it is unlikely that this alone will make a significant difference in the overall picture. To judge from the present performance of island economies, then, it would appear that, aside from those three or four Melanesian countries blessed with mineral resources and thick forests, exports are a non-starter as the foundation for a Pacific Island economy.

Alternate Pathways to Development

Geoff Bertram, coauthor of a groundbreaking paper on the MIRAB (Migration, Remittances, Aid, and Bureaucracy) economy in the Pacific, has earned a reputation for his inductive analysis of how Pacific economies *do* work rather than how they *should* work (Bertram and Watters 1985). In a recent article, he explains that a number of export ventures were begun with foreign capital in the five small-island nations he studied during the mid-1980s (Bertram 2006, 2). Once the subsidies stopped flowing, however, these export projects (including Cook Islands orange juice and Niuean passion fruit) begun in the name of development died. Meanwhile, island nations looked to alternate ways of generating inflows of money and providing a better standard of living for their people. As early as the mid-1980s, many of the smaller Pacific nations were already utilizing transnational ties to support themselves, even though lip service was paid to the traditional development models with emphasis on generating exports. As Bertram puts it, "all players in the aid and development game engaged (and still engage) in a rhetorical display of allegiance to those earlier models and policies, resulting in a radical disconnection of policy discourse from economic reality." (Bertram 2006, 1-2).

There are three alternate pathways to economic self-reliance that small Pacific nations are exploring today. Besides the original MIRAB proposed by Bertram and coauthor Ray Watters, two others have emerged: PROFIT and SITE, as they have been labeled by other authors (Bertram 2006, 5-6). PROFIT (named for its emphasis on people considerations, resource management, overseas engagement, finance, and transportation) focuses largely on tax havens, offshore banking, and licensing and other services to foreign governments and industries. SITE (small-island tourist economy) relies on the same type of tourist development that has been responsible for economic growth of small islands elsewhere. Whatever the names attached to them, both of these last two pathways (sale of services and tourism) have been used widely by small islands in the Caribbean and are attracting the attention of island nations in the Pacific.

Selling Services

In today's world, services as well as goods can be traded for foreign exchange. The sale of licenses is one example. Tuvalu has profited from the sale of its Internet-domain name (.tv) and fishing rights within its waters. Yet, these particular license sales seem to yield little earnings since Tuvalu's total GDP is only $27 million. FSM has reaped a considerable sum ($12–22 million yearly) from fishing license fees through the past 25 years, much more than it has taken in from the sale of its domain name (.fm). Registration of foreign vessels under a flag of convenience is another option taken by some Pacific countries. The Marshall Islands has been offering this service for years, although the amount brought in by registration fees barely registers on its GDP, and the country's weak enforcement of safety standards is already drawing a reaction from the world community.

Financial services, especially through the establishment of banks registered by foreign investors, is another option. Vanuatu sallied into offshore banking a few years ago before Australia intervened to shut down the banks on the grounds that they might be used for money-laundering. At one time (1998–2001) Palau had ten banks registered in the country until the United States put a stop to it for the same reason. Even if offshore banking is not illegal in itself, it is regarded as a threat by those same Pacific Rim countries that provide much of the funding on which small Pacific nations have come to rely.

Charging rental fees for use of the islands and their waters is another option. The funds that Palau, the Marshalls, and FSM receive from the United States under the provisions of the Compact of Free Association could be viewed as rentals or fees for strategic benefits received by the United States. These benefits include strategic denial, access to airfields and harbors in the islands, and the option to set up military bases when needed. The Compact, which brings Palau, the Marshalls, and FSM far more money each year than all other inflows combined, is the pillar of the economy for these three nations.

Tourism

Tourism, once known as the "invisible export" (although that term could be used for the exported services described above), was the fond hope of all Pacific nations not too many years ago. If these small countries lacked resources or industry, at least they had some of the key ingredients of a tourist destination: an exotic location, balmy weather, and an aura forever associated in the western mind with "paradise." Most of the Pacific nations have established a tourist bureau and made whatever provisions they could for a tourist industry.

As Table 3 shows, the most popular Pacific tourist destinations are Fiji, Cook Islands, Palau, Samoa, and Vanuatu. It should be noted that the figures for visitors shown in this table include tourists and people coming to the islands for business. In each of these nations, yearly visitors exceed 80,000, and the gross value of tourism stands as a significant percentage of national GDP.

Table 3: Visitors and Tourism as Percentage of GDP

Country	Arrivals	Year	Tourism Receipts % to GDP
Cook Islands	106,521	2008	49
Fiji	542,186	2009	14
Kiribati	3,944	2009	2
Marshall Islands	8,000	2006	4
Micronesia (FSM)	19,100	2006	7
Palau	86,375	2006	59
Papua New Guinea	78,000	2006	3
Samoa	116,000	2006	20
Solomon Islands	13,748	2007	3
Tonga	40,000	2006	5
Tuvalu	1,496	2003	n/a
Vanuatu	196,795	2008	21

Sources: Data for 2006 from AusAID (2009, 71); data for other years from statistics on national websites. Tourism-receipts percentage calculated on the basis of World Bank data for the particular year.

In every instance except for Fiji (14 percent), tourism measures at least 20 percent of GDP.[3] Tourism seems to have the largest impact on Palau and the Cook Islands, where tourism was measured as 59 percent and 49 percent respectively of the GDP. Both nations are very small, each with a population of about 20,000, with a per capita GDP far higher than other countries in the Pacific. Furthermore, although tourism is one of the major forces in the economy of both places, the figures on tourism receipts do not tell the whole story, since estimated income might not feed into the economy as much as the numbers suggest. Palau, for instance, has added flights from Taiwan with many of the visitors staying at a foreign-owned hotel on prepackaged tours; all of which offers little spillover into the local economy. Palau's tourism value may have been measured as 59 percent of the nation's GDP, but its real impact on the economy is but a fraction of this.

For the other nations, tourism is at best a minor element in the economy—the equivalent of less than 10 percent GDP. This includes Papua New Guinea with its recorded 78,000 visitors a year. What the rest of the Pacific is learning is that the tourist market to be tapped is not limitless and that the major destinations enjoy a combination of advantages–such as good beaches, frequent flights, good shopping, and security–that cannot be easily replicated. Some Pacific nations—especially low-lying atolls like Kiribati, Marshalls, Nauru, and Tuvalu—have little reasonable prospect of tourism in the future. Meanwhile, other nations like Tonga, FSM, Solomon Islands,

[3] The data presented in Figure 8 are for the most recent year for which reliable visitor figures are available. The assumption is made that in most cases there is no great change between then and now.

and Papua New Guinea have not been able to grow a significant tourist industry despite their best efforts.

Labor Exports: Migration and Remittances

Many of the Pacific nations, especially those in Polynesia, have established ties with metropolitan countries that allow them to migrate and find work abroad. Tonga, Tuvalu, and the Cook Islands, as well as the tiny nation of Niue, have all enjoyed such ties for years. Emigration from these islands has been taking place for decades at a high enough rate to drain off excess population that might otherwise have led to even higher unemployment rates, frustration at the lack of opportunities, and possibly social unrest. The same opportunity for legal migration was extended to Micronesians of FSM, Palau, and the Marshalls through the Compact of Free Association, implemented in 1986. Samoa has sent some of its people to New Zealand and others to the United States, often by way of American Samoa. The emigration of islanders from each of these places, in some cases over the course of 40 years, has resulted in the formation of small ethnic communities in New Zealand and, more recently, in the United States.

Those islanders who have taken up residence overseas have retained strong social bonds with their relatives back home. Many have made visits back home for special family or community events, and they regularly remit money in surprisingly large amounts to their relatives in the islands. In the case of Tonga, one of the largest recipients of money from abroad, remittances have been measured since 1971. Over a 40-year period of time, annual remittances have varied widely, between 13 and 37 percent of the GDP, but the overall trend shows not just lack of decay, but a general increase over the years (World Bank database).

Table 4: Remittances

Country	Remittances (Various sources)		Remittances as % of GDP
	Current US$ (millions)	Year	
Cook Islands	n/a		
Fiji	153.6	2009	5.4
Kiribati	8.8	2009	6.9
Marshall Islands	3.8	2005	2.5
Micronesia (FSM)	16.9	2009	6.2
Palau	n/a		
Papua New Guinea	12.0	2009	0.2
Samoa	124.4	2009	25.1
Solomon Islands	2.4	2009	0.4
Tonga	86.8	2009	27.9
Tuvalu	2.3	2003	11.0
Vanuatu	6.5	2009	1.0
Nauru	n/a		

Sources: Remittance data for most countries from World Bank database. Data for Marshall Islands from Browne and Mineshima (2007). Tuvalu data from Boland and Dollery (2005). Kiribati data from World Bank Data and Research website (http://econ.worldbank.org).

Tonga (with remittances at 28 percent of GDP) and Samoa (25 percent of GDP) are the nations that rely most heavily on remittance flows as a significant part of their domestic economy (see Table 4). Large numbers from both island groups now live in New Zealand and the United States. Fiji, which as a member of the British Commonwealth has several destinations for emigrants, has seen remittances spike in recent years when former soldiers were recruited by security companies to work in Iraq. But this has fallen off lately, from $200 million to $150 million, and remittances in Fiji have dropped to just about 5 percent of GDP (Chris Lightfoot, pers com).

From the mid-1980s when Bertram and Watters introduced their MIRAB model, the reliance on remittances has spread to other nations and become even more important as a factor in island economies than it was back then. FSM and Kiribati are newcomers to the remittance flow—FSM because of the Compact rights to settle in the United States, and Kiribati because of its seamen serving on foreign ships and hundreds of its people being settled in New Zealand in anticipation of the sea-level rise due to global warming. Even Tuvalu and the Marshalls register some remittance flow. Although no formal study has been carried out, a household survey completed in 2006 suggests that Micronesian families may remit about 6 percent of their income (Hezel and Samuel 2006).

Remittances are negligible in Papua New Guinea, Solomon Islands and Vanuatu, as Figure 7 indicates. These Melanesian nations, unlike the rest of the Pacific, are without a labor market since they have no access to a more developed nation to which they can migrate. Consequently, these nations show unusually high population growth, as we have already seen, and must manage their expanding population and financial needs with no remittances. Despite the rich resources that some of these Melanesian countries possess, they are denied one of the alternate pathways of development (migration and remittances) and will have to struggle to provide for a growing population even as they attempt to build a viable economy.

Remittances can be a substantial contribution to the economy, as they already are in Tonga and Samoa and are fast becoming in FSM and Kiribati. The figures for remittances, unlike those for exports and tourism, measure something with a direct impact on the local economy, since most remittances go to families or churches. Even if the remitted money goes not for investment, as economic consultants would much prefer, but for consumption, it provides a share in the cash economy for those families that would otherwise have to do without.

Although there are repeated warnings of the danger of remittance decay over time, remittances in fact have been multigenerational, as seen in the case of Tonga.[4] The remittance flow may need to be sustained by ongoing migration, but there appears to be little chance of serious decline in

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[4] The argument about "decay over time" seems to be grounded in the experience of those who immigrated to the United States a century ago. Circumstances today have changed greatly, however. With vastly improved communications and transportation, Pacific Island emigrants can now maintain close relationships with their families and make regular, return visits home to the islands. This new paradigm allows Pacific Island countries to create an entirely new relationship between emigrants and their origins.

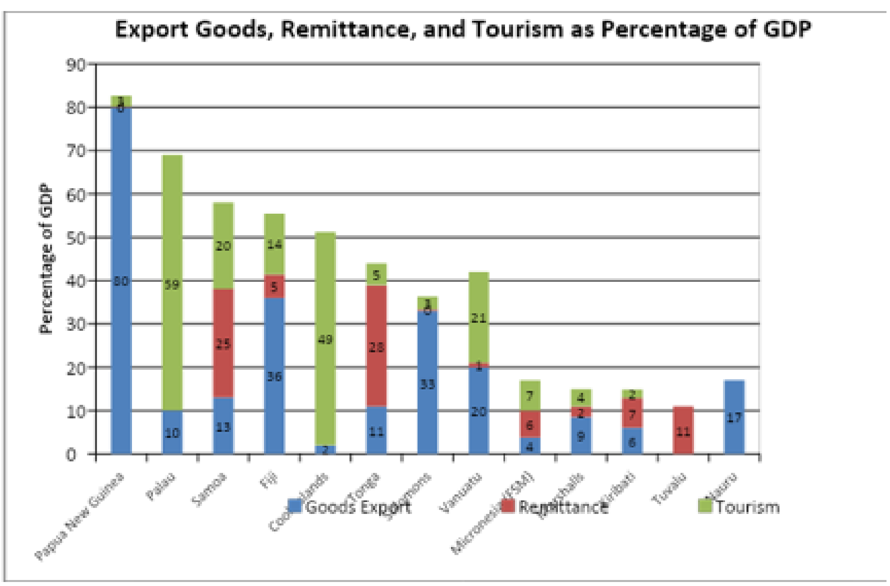
migration anytime soon (Connell and Brown 2005, 23-29). In their increasing reliance on migration, Pacific islands seem to be falling back on the age-old strategy of encouraging people to leave for other places once an island has reached its carrying capacity. In the past, carrying capacity would have meant the number of persons that could be supported through traditional agriculture and fishing; today it might be understood as those who could find wage employment or otherwise make a suitable livelihood there. In Palau, the local population has remained nearly constant since the early 1970s, and recent Marshall Islands and FSM population figures have begun to reflect the same pattern.[5] The result of such a strategy, then and now, is to put a cap to population and limit the stress on the local economy as well as to provide a steady resource stream to assist the island population. The rewards of this strategy today are more than marginal.

Filling the Gaps

Having reviewed in some detail the main pathways that island nations seem to be taking toward economic development, we will now assess the overall strength of these islands' economies as measured against their GDP. Then, we will examine the role that foreign grants play in providing the financial resources that island nations need to support themselves but are unable to generate through their own economies.

Cumulative Strength of the Economies

Figure 4: Export Goods, Remittance, and Tourism as Percentage of GDP



Sources: Same as sources for Figure 3 and Tables 3 and 4.
Note: The figures used in this graph are from various years between 2005 and 2009.

As a rough gauge of the relative strength of the economy, the total receipts from exports, tourism, and remittances can be measured against the size of the GDP for each nation (see Figure 4). Exported services are not included since there are no reliable figures for the dollar value of

[5] For detailed data on emigration patterns in Palau, see Hezel and Levin (1990). For the most recent population figures for FSM, see Federated States of Micronesia (2010).

services provided abroad. It is important to remember that the figures in the graph, especially in the case of exports and tourism, do not show the direct contribution of each to the national economy, but they do indicate where the relative strength of the economy lies, just as they offer a hint of its potential.

The nations with the highest cumulative total are not always among the most well off in the Pacific. Indeed, Papua New Guinea, which has the highest total, is near the bottom of the list in terms of per capita GDP. On the other hand, Palau, the nation with the next highest total, has one of the highest per capita GDPs in the region (although this would not be the case without its high infusion of foreign aid). We have already noted that Pacific nations with the highest export numbers relative to GDP are not necessarily the most prosperous. What is of greater importance, of course, is the degree to which the money from exports enters the local economy, creates jobs, has a multiplier effect, and so translates into benefits for people.

Figure 4 further suggests that there are some nations with no clear economic pathways to development. These especially dependent nations—with low export earnings, struggling tourism, and moderate remittances—lack any substantial source of foreign earnings. Combined, their exports, tourism, and remittances amount to less than 20 percent of GDP. What are the development options for these nations, which include Tuvalu, Kiribati, Nauru, FSM, and the Marshall Islands?

Foreign Grants

In economies as small as those of the Pacific nations, foreign grants can and do make up the difference between actual economic output and what the nation needs to get along. Table 5 shows all foreign grants as a percentage of total government income for each Pacific nation; this indicates the extent to which government spending depends on outside assistance. In the final column of the table, however, foreign grants are shown as a percentage of total GDP, thus suggesting the role they play in the entire economy of these nations.

Reliance on foreign aid varies considerably from one nation to another. Fiji, the most diversified economy and the most successful, receives very little aid (merely 1 percent of total government income), although its government borrowing has become dangerously high in the past three years (Chris Lightfoot, pers. comm.). Papua New Guinea and Solomon Islands, both export-rich but low on the development scale, receive modest levels of aid (13 percent of all government revenue). The nations that have achieved some measure of economic growth (Samoa, Tonga, Cooks and Vanuatu) are receiving aid at a slightly higher level—between 18 and 27 percent of their total government budget.[6]

[6] Foreign aid to Pacific nations appears to have dropped overall in the last 20 years, as can be seen through a comparison of recent figures in Figure 11 here and the figures for the early 1990s cited in Duncan et al. (1999, 9). According to Rao et al (2007, 4), foreign aid throughout the Pacific declined from an average of 19 percent of gross national income to 15 percent during the 1990s.

Table 5: Government Size and Grants

Country	Govt. Revenue (US$, millions)	Grants (US$, millions)	Grants as % to Govt. Revenue	Grants as % to GDP
Cook Islands	84	15	18%	7
Fiji	825	7	1%	0
Kiribati	210	88	42%	69
Marshall Islands	107	68	64%	45
Micronesia (FSM)	150	94	63%	34
Palau	81	39	48%	24
Papua New Guinea	2,461	325	13%	4
Samoa	197	44	22%	9
Solomon Islands	211	27	13%	4
Tonga	105	24	23%	8
Tuvalu	31	20	63%	74
Vanuatu	172	46	27%	7
Nauru	24	n/a		

Sources: Figures for Fiji, Palau, FSM, Marshall Islands, and Tuvalu are for 2008; Kiribati figure are for 2007; all others are for 2009. All figures on government revenue and grants are from ADB (2010). GDP data used for computation figures from World Bank database.

The remaining nations are currently covering a high percentage of their total government budget with the liberal amount of aid they receive: Kiribati (42 percent), Palau (48 percent), FSM (63 percent), Tuvalu (63 percent), Marshall Islands (64 percent), and Nauru (n/a).[7] These are the nations that show the lowest figures for cumulative strength of economy; all except Palau record earnings from exports, tourism, and remittances that together amount to less than 20 percent of their total GDP. With no industrial economy to speak of and a tax base too small to sustain a modern government, these nations must depend on foreign aid to make up the shortfall if they are to provide the government services their citizens need in today's world.

[7] There is no available information for Nauru. While there are not precise figures for the amount of government aid the nation is receiving, it is known that Nauru is heavily dependent on other nations for support after the trust fund established by Britain was exhausted.

Foreign aid is a hotly debated topic in the Pacific, as elsewhere in the world, and its effectiveness is fiercely contested.[8] Donors usually gauge the effectiveness of aid by the extent to which it stimulates industry in the recipient country. Foreign aid may be judged effective when it compensates for the investment capital that foreign investors do not provide, when it is used to implement structural reforms that make a country more business friendly, or when it is spent to improve the infrastructure. In brief, the purpose of foreign aid in the eyes of the donor is to help a country take the steps needed to realize its economic potential. From the perspective of an island nation, however, foreign aid is often looked on more as a means of compensating for the shortfalls in the island economy than of remedying these shortfalls. Pacific leaders may retain some distant hope that somehow their economies will lunge forward despite the constraints under which they labor, but they are too realistic to count on this. Meanwhile, foreign aid most often plugs the holes in government services that would otherwise be unfilled in the absence of a strong economy with a broad tax base.

Prospects for Self-Reliance

Table 6: GDP as Ratio to Cost of Government

Country	Cost of Govt. (US$, millions)	GDP (US$, millions)	Year	GDP to Govt. Cost Ratio	Target GDP (5:1)	Needed Increase (%)
Cook Islands	84	210	2009	2.5	421	100
Fiji	325	3,565	2008	4.3	4,125	16
Kiribati	210	135	2007	0.6	1,050	680
Marshall Islands	107	152	2008	1.4	535	250
Micronesia (FSM)	150	258	2008	1.7	750	200
Palau	81	166	2008	2.0	405	143
Papua New Guinea	2,461	7,893	2009	3.2	12,305	56
Samoa	197	496	2009	2.5	985	100
Solomon Islands	211	657	2009	3.1	1,055	60
Tonga	105	311	2009	3.0	526	70
Tuvalu	31	27	2008	0.9	157	480
Vanuatu	172	648	2009	3.8	860	33

Sources: Figures for Fiji, Palau, FSM, Marshall Islands, and Tuvalu are for 2008; Kiribati figure are for 2007; all others are for 2009. All figures on government revenue and grants are from ADB (2010). GDP data used for computation based on figures from World Bank database.

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[8] Rao et al (2007, 3-4) offer a brief survey of some of the recent literature on the effectiveness of aid in the Pacific.

Lacking the knowledge of the sophisticated tools that macroeconomics can offer for gauging the prospects for self-reliance, let me suggest one crude means of weighing the prospects for self-reliance: the ratio of the strength of the economy, or GDP, to the size of the government. While this might not win strong approval from trained economists, with their insistence on precise metrics, it can afford us a broad rule of thumb for locating the position of an island nation on the scale of self-reliance. Accordingly, it can provide a rough gauge of the economic growth needed for an island nation to reach full self-support. This ratio for the United States is roughly 5:1, although failure of the government to fully collect receivables puts the real ratio at closer to 4:1.[9] The larger the ratio is in an island economy, therefore, the better the prospects for self-support. A larger GDP, of course, would offer the hope of a broader tax base from which the government might draw to support its operations, including the social services it offers its people.

Table 6 shows the ratio between the GDP and yearly government expenditures for the various Pacific nations. Fiji, with its strong economy, has a ratio of 4.3, by far the best of the Pacific nations according to this measure of self-reliance. Vanuatu, Papua New Guinea, Solomon Islands, and Tonga all have a ratio of greater than 3, while both the Cook Islands and Samoa register a ratio of 2.5. At the low end, with ratios of 2 or less are Palau, FSM, Marshall Islands, Tuvalu, and Kiribati. All the nations in this last group have no real industry and are heavily dependent on foreign aid or “rentals” (if we can apply that term for Compact payments to US-affiliated nations).

If we were to use this admittedly rough index, what magnitude of economic growth would be needed for each nation to become fully self-supporting? Here we might use FSM as an example. If FSM were to support a government at its present cost of $150 million, it would have to boost its GDP, currently reported at $258 million, to $750 million. Thus, its economy would have to grow to nearly three times its present size if the country were to be self-reliant. Cutting the cost of government is an option, of course, but to do this would also result in shrinking the current GDP to some extent, inasmuch as government salaries and other expenses are calculated into GDP. Even with the contraction of government, then, the task might be only slightly less difficult.

Fiji, which is just about at the point of self-reliance, would need to boost its economy by only 16 percent, and Vanuatu by 33 percent, if we were to follow this formula. The other two export-rich countries, Papua New Guinea and the Solomons, would be required to increase their economies by over half their present value. Even relatively prosperous nations like the Cook Islands and Samoa would have to double their economies to achieve full self-reliance, while Tonga would have to increase its economy by 70 percent.

For the rest of the Pacific nations, achieving self-reliance would be a far more difficult feat. The US-affiliated nations in Micronesia—Palau, FSM, and the Marshalls—would have to increase their economies by 143 percent, 200 percent, and 250 percent, respectively. The task would be

[9] My economist friends tell me that although this can generally be regarded as the standard, not all economies exhibit the same ratio. In liberal, social-welfare economies, in which government assumes a much larger role, the ratio may be as small as 3:1.

far more daunting for Kiribati and Tuvalu if they had to depend on what each might generate following the normal pathways to development, but both of these countries have trust funds from which they can draw to support their governments.

Even as the Pacific nations struggle to grow their economies, they are also faced by another daunting task—that of providing a government that is both sufficiently funded and effective enough to provide the services required by their populations. For some years now, international organizations have been challenging nations worldwide to meet the Millennium Development Goals, especially in the critical areas of health and education. Often enough, the calls for improved services are taken up by islanders themselves and the organizations that speak on their behalf. Even if there is ample evidence that the effectiveness of island governments can be greatly improved, large-scale cutbacks in government may not be feasible if the range and quality of government services are to be expanded even as inefficiencies are corrected.

Future Options

Before discussing future options for Pacific Island economies, it might be well to summarize the conclusions that have been reached here about the different routes to development in the Pacific.

Exports are a significant factor in the economy of very few Pacific nations: only Papua New Guinea, Solomons, Fiji, and possibly Vanuatu comprise the list. Although high-value exports (minerals and lumber) have boosted export figures in Papua New Guinea and the Solomons, the earnings from exports do not appear to have greatly enriched these nations. Fiji has done much better, thanks to its balanced economy, buttressed by earnings from tourism and remittances. For the rest of the island nations, export of resources or products does not appear to be a realistic route for development, as the data show. Even fish exports are unable to produce significant earnings at present and there is little to suggest that they will in the future.[10]

Providing services for foreign countries (the PROFIT pathway) is littered with obstacles, as island nations have come to understand. Restrictions on potentially profitable services such as offshore banking limit the possibilities, while the revenue gained from license fees for merchant ships and Internet-domain names do not appear to have been as lucrative as at first imagined. Rental fees for use of the islands and their surrounding waters might offer the best hope.

Tourism can be a profitable industry for nations that can take advantage of it, but only a few countries have become popular destinations: Fiji, Vanuatu, the Cook Islands, and Palau. It is not likely that the small atoll nations or even the other high islands will be able to expand tourism very much in the future.

Remittances derived from exported labor have been a large factor in the economy of a few island

[10] With the threat of diminishing tuna resources, the Pacific nations with control over the richer and more extensive fishing waters are discussing the possibility of forming a cartel for tuna-fishing rights. Even if such a cartel resulted in a threefold or fourfold increase in license fees, the overall impact on the GDP would be minor.

nations, especially Samoa and Tonga. The Melanesian nations have had no labor market at all until recently when Australia and New Zealand have introduced seasonal worker schemes that permit limited numbers of Islanders to do needed agricultural work. In still other nations, remittances remain small at present but could be a growing resource in the future for Kiribati, FSM, the Marshalls, and Tuvalu.

Another strategy, one that has not been explored in this report, is for island nations to provide for themselves by drawing upon trust funds established by a patron, usually a former colonial power. This once appeared a promising strategy, especially if the island government maintained the discipline not to overdraw from the fund at the expense of the future. For years, Tuvalu and Kiribati have drawn on their trust funds, both set up by Great Britain, to fund their governments. Despite the generally responsible management of these funds by these island governments, the capital has suffered badly from the global economic downturn in recent years.[11] Trust funds established by the United States for the purpose of offering long-term security for FSM and the Marshalls have suffered the same fate. Consequently, this has become a far less attractive strategy than it was even 10 or 15 years ago.

The conventional pathways for economic development in the Pacific have offered limited success, as might be expected from the long list of constraints under which these nations labor. Of course, small nations have had a history of finding alternate routes to development, as Bertram (2006) points out, and the Pacific Island nations may surprise us yet again. Even so, there is little to inspire confidence that these countries, with the exception of Fiji, will achieve complete economic self-reliance in the foreseeable future.

The economic status of island states described here suggests long-term problems. It may be misleading to think, as many of us do today, of Pacific Island nations as possessing small economic engines that with proper overhaul or fine-tuning can deliver maximum performance and carry each nation where it needs to go.[12] It seems that, notwithstanding the best efforts of all, most Pacific Island nations will require continuing outside financial assistance (not just the one-time, trust-fund solution) to make them viable as modern nation-states. Foreign aid will very likely be essential if these nations are not to revert to their former colonial status as protectorates of some world power.

The world community, then, needs to adjust its views of foreign aid accordingly. Foreign aid

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[11] In the recent global economic crisis, the trust fund established for Kiribati had shrunk in value just as the country's other sources of income were reduced. This spurred Kiribati to make greater withdrawals to meet its costs, and so weakened the reputation for sound financial management that the country had enjoyed for so long (ADB 2010; fact sheet on Kiribati, 3).

[12] In a challenge to conventional thinking on the Pacific, John Gibson (2006) argues that the Pacific Island economies are not underperforming when compared with economies in other parts of the world operating under similar constraints. Surveying recent literature on this subject, Gibson suggests that island economies are hampered more by remoteness than size. He goes on to cite Bertram (2004) in his contention that, when all is said and done, the level of per capita GDP of small-island economies depends more than anything else on the strength of their political ties with a metropolitan patron and the wealth of that patron.

should not be viewed simply as a means of investing in the growth of the economy. (We need only recall how many well-intentioned and well-funded efforts to establish new commercial products have failed). Nor should it be seen as a stopgap measure to keep the government running until the economy expands enough to form a suitably large tax base that will allow the government to become self-supporting. Foreign aid may have to become a long-term fixture in the Pacific if the island governments are to continue to exist. That is, of course, unless they confound us all by successfully charting yet another pathway—this one leading to complete self-reliance.

The new view of foreign aid to the Pacific embraced here is simply an extension of a sense of responsibility that many accept for their own fellow citizens. Just as the state in modern liberal economies has taken on the responsibility of offering some assistance for individuals who cannot provide entirely for their own support—through government-assisted, low-rent housing; basic medical coverage for indigents; food stamps; and other benefits—so the world community is being challenged to do the same for hard-pressed nation states throughout the world. At the start of what has been called "The Century of the Pacific," the Pacific may well become the testing ground for this new vision of foreign aid. As one development strategy after another has come up short over the years, nearly all Pacific nations have been forced to rely on assistance to shore up the basic government services that are needed for their people.

To acknowledge this new view of foreign aid will provoke the same outcries from political conservatives that have been raised continuously within countries like the United States and Australia. Indefinitely extended aid will act as a disincentive for small Pacific countries to continue their struggle to provide for themselves, these critics argue. Foreign aid, they say, will strip these small-island nations of all motivation to develop their own resources.[13] Yet, as we have seen, there are serious limits to the economic development imposed by the geographical, demographic, and cultural constraints. These limits, I am arguing here, do not simply make economic growth more difficult; they are determinative.

Australia, New Zealand, Japan, and the United States, because of their long-term interests in the Pacific, might be looked to for assistance before other countries. These three nations would do well to ponder how the economic needs of the small-island Pacific nations might coincide with their own ongoing interests in the region. They might begin by addressing these key policy questions: Can the high population growth nations of Melanesia be provided with a labor market in the future? Can long-term foreign aid be guaranteed for the smaller island nations of Micronesia? Can modest aid be sustained for those other nations that will require assistance indefinitely?

[13] Helen Hughes (2003) has made a case for this in her well-known paper, while others argue that foreign aid has the same kind of depressing effect on the overall economy as the "Dutch Disease" had in the Netherlands upon the windfall following the discovery of natural gas in its offshore waters; see, for instance, Duncan et al. (1999, 9-11)

The response of these Pacific Rim nations, the largest stakeholders in the future of the Pacific Islands, will weigh more heavily on the economic viability of these societies in the long run than the success of the reforms that are now being urged upon them. As well-conceived as these reforms may be, they will all but certainly be unable to transform the islands, with their limited economic potential, into self-sustaining nations.

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During his years with Micronesian Seminar, Hezel organized dozens of conferences on a variety of public issues and gave personal presentations at dozens of other conferences. He produced over 70 video documentaries for local broadcast, including a seven-hour series on the history of

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A self-taught historian, Hezel's influence on Micronesian studies has been described as formidable. He has published eight books and more than eighty articles on Micronesia, and he is frequently consulted within and beyond Micronesia by government officials, educators, researchers, and development specialists. Hezel has received honorary doctorate degrees from the University of Guam and Fordham University, his alma mater. Most recently, he has been engaged in planning a survey on Micronesians who have emigrated to the United States and Guam. His new book, *Making Sense of Micronesia*, is scheduled to appear early in 2012.