**“What We Really Need from You**:

**Rhetoric and Reality in External Relations”**

Presentation at “What We Can Learn” symposium

Suva, Fiji, Nov 2012

***Standing Back to Back***

Pacific Island nations are lined up in a circle facing outwards, their backs to one another. It’s not that they despise one another. Islanders, of all people, know how to enjoy a party and entertain one another. Pacific Island representatives will meet regularly at the Pacific Forum or other associations to discuss matters on the agenda. But don’t expect the representatives of these nations to share intimate details of their struggles to deal with internal problems. Whatever may be accomplished at these meetings, Pacific nations don’t look to one another to help them solve their national issues. What can they do to help one another, after all, when each of them faces the same problem, one that can only be resolved with the assistance of richer and larger nations? Hence, their friendly disregard for one another as they position themselves, back to back, looking outside their circle.

The central question for all Island nations is how to provide the income needed to keep their household running. Their posture toward the larger and wealthier foreign nations with a stake in the Pacific can be described something like this: “Let us deal with the internal workings of our own government–the distribution of power and delivery of services. We’re independent, after all. We will listen politely as you recommend reforms–and we admit that we might even learn something from what you say–but this is not what we look to you for. We need your support to solve the dilemma of financing a small polity that is struggling mightily to support itself. We need your good will and your financial assistance to become fiscally viable. We look to you to help us achieve the economic miracle needed to make our political independence stick.”

To achieve this end Island nations will sign on to PICTA or anything else that offers the opportunity to win the good will of richer and mightier powers. They will sign on to regional trade agreements, even if there’s nothing to trade with other Island nations. Likewise, they will ratify the documents on trafficking (in drugs, human beings, or anything else) that have become such a major issue in recent years. These issues are surely far from the top of the priority list for PICs, but they may be instruments for winning the good will of those who will save them from fiscal implosion.

Much the same could be said about the stance of the island nations towards international institutions, whether banks like ADB or global organizations like the UN. The assistance that UN agencies offer small countries in dealing with problems like population control, environmental change and responses to disaster may be good-hearted but wrong-headed at times, as when they insist on plastering tsunami refuge signs around an island that is not even vulnerable because of its geological formation, or when they urge drug control measures on a society that is not known for its illegal “highs.” However irrelevant some of their programs may be, these institutions offer tangible benefits that PICs are bound to find irresistible: namely, jobs and access to international funds.

***The Problem***

Pacific Island nations suffer economically from the same geographical disadvantages that endear them to the larger and richer countries of the world: they are small and remote. Epeli Hau’ofa famously maintained that the islands weren’t all that small, if you thought of them as a network crisscrossing most of the Pacific. Or, more to the point in today’s world, if you consider them as just the core of an Exclusive Economic Zone that extends 100 miles outwards in each direction. But even if the islands still appear small, size might not be as significant a burden as it is sometimes represented. After all, “Small is Beautiful,” the title of the 1973 book by E. F. Schumacher, captured the spirit of the age at the very time that independence was sweeping the Pacific.

The Pacific Island nations were certainly small and personal when, brimming with hope, they took their leave of their former colonial overlords during the 1960s and 1970s. They had their government systems–their constitutions, their parliaments, their courts–all of which operated in a fascinating blend of Western theory infused by Island practice. All that remained was for the Island nations to prove to themselves and the world that they could become modern nation-states.

The problem for each of them was the same: how to support the new nation. It was not a problem of providing the staples of life for its population; islands had been doing that for centuries. Not even the problem of generating a modest surplus that could be parlayed into tribute to the ranking chiefs; that, too, had been done for ages. The problem was generating a surplus that was ample enough to pay the salaries of teachers, policemen and other civil servants–and to do this in cash. The public recognition and titles that had rewarded service and spurred on productivity in traditional society was no longer effective.

“Small is beautiful”–true enough unless you’re trying to design a modern economy for a Pacific Island society. In that case, more often than not, as the new Pacific Island nations were to learn, “small is broke.”

What has set the agenda in Pacific Island nations’ relations with the outside world? I think it’s safe to say that first and foremost is the need to pay the bills to keep the government running. Simply put, the agenda is driven by the need to obtain assistance in building an economy or, failing this, to secure the grants needed to supplement the revenues that the country is hard pressed to raise. Why should it be anything else? What other issue commands the attention of Island countries like national survival?

***Building an Economy***

If the Island nations had any doubts about their economic viability because of their small size, donor nations and international financial institutions would assure them that size is not a major consideration in economy building. They would point to the wonders some of the smaller nations like Switzerland and Singapore have achieved, and suggest that the Island nations simply redouble their efforts to reform their foreign investment policy and limit government size.

So the Pacific countries forged ahead, using the models for economic development provided by the Western world, just as they had utilized Western legal instruments during the prelude to independence and afterwards. Since the conventional pathway to building an economy is expansion of trade, Island nations began the search for exports, either natural resources or manufactured goods, that could be traded abroad and bring in foreign exchange.

The search for exports was something less than a grand success. The Melanesian countries, favored by larger land areas and mineral resources, were at the high end of the spectrum. Papua New Guinea’s exports now measure 80 percent of its total economy, while in Fiji and the Solomon Islands exports amount to about one-third of the GDP (Hezel 2012). Yet, Nauru, once a major exporter of phosphate and one of the richest countries in the Pacific, is a cautionary tale of the dangers of resource depletion. With its phosphate all but exhausted, Nauru has become so desperate that the government approached Australia to negotiate fees for taking refugees off Australia’s hands and harboring them on Nauru.

No other Pacific nation even approaches this level of export production; in all others, exports measure 13 percent or less of their GDP (Hezel 2012). During the 1980s and 1990s Tonga was dutifully planting squash that could be exported to Japan. Other nations, acting on the advice of consultants, experimented with other small cash crops. Niue planted passionfruit with aid money and the Cook Islands produced orange juice, but both projects were discontinued when the subsidies dried up (Bertram 2006: 2). Even before nationhood, most island groups had struggled to find cash crops that could generate export income. In the Trust Territory of the Pacific, agricultural specialists tried cacao, ramie, and dozens of other products. Not only did these fail, but eventually even copra, the one dependable source of ready cash for families, faded as world market prices dropped. This leaves most islands without any viable export crop, the exceptions being sugar in Fiji and palm oil in the Solomon Islands and Papua New Guinea.

If a large export could not be found, perhaps one could try to market something small but relatively valuable–a niche product, in other words. There were a spate of these: Pohnpei pepper, noni (with its health claims), tropical fish and marine life for the aquarium, and cultivated pearls. In most cases, however, the reality never quite lived up to the promise.

Fish would have seemed a natural export item since it is the most plentiful resource in the area. During the 1990s, the Federated States of Micronesia, flush with investment money from its Compact funds from the US, decided to capture a greater share of the value of fish exports than the conventional 5 percent. So it invested $79 million over a ten-year period to establish a fishing industry of its own. It was money wasted: the local fishing industry never developed, the companies went bankrupt, and even the jobs that were created for a time were soon lost (Jacobs 2002).

At about this same time, the Marshall Islands was experimenting with its own nascent fishing industry. Two fishing fleets were operating in Majuro, one Chinese and the other local. The Marshallese invariably out-fished the Chinese, boat for boat, on any given day. But at the end of the month the total catch tallied by the Chinese fleet was always higher than the local one because Chinese boats logged far more days at sea than the Marshallese.

Overall, fish exports do not constitute a significant part of the overall economy of any Island nation. Most countries bring in only a few million a year, if that, through fish exports. A study commissioned by Asian Development Bank a decade ago reported that the overall contribution of fishing to the total GDP of the Island nations–whether the fish was exported or consumed locally–did not exceed 13 percent and, in most cases, was much less than 8 percent (Gillette & Lightfoot 2001: 77). Rather than attempting to do their own fishing, Pacific nations have gradually adopted the strategy of charging other countries for the right to fish in their waters. In fact, eight of these countries have established a cartel to ensure that prices for fishing rights do not drop as a result of competition among Pacific Island nations for subscriptions from other countries.

Here, we might note, Island nations are beginning to change their posture a bit: they are obliged to work jointly on the terms of these fishing agreements in order to enhance the benefits of all. The sale of fishing rights might not save the economies of these nations, but it is forcing them to engage seriously with one another before turning back to the larger nations who hope to use their resources.

***Shift in Strategy: Licenses and Leases***

There has been a more general shift in Island strategy toward economic development: Instead of trying to do everything yourself, why not simply provide access to those who can utilize the resources? This touches more than tuna licensing agreements with other countries. There are all sorts of other licenses offered for sale. Tuvalu and FSM have been offering their domain names (.tv and .fm) for a price; the Marshall Islands has gone into the business of registering foreign vessels; and a few nations have explored the same type of financial services that have made the Cayman Islands a byword for off-shore banking.

Vanuatu sallied into offshore banking some years ago, but Australia soon intervened to shut down some of the banks and insist on the regulation of those that remained open for fear that they might be used for money-laundering. Palau once had ten banks registered in the country until the United States put a stop to it for the same reason. But Nauru might have held the Pacific record, with 400 Russian banks registered there. 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.

Rental fees for the use of the islands and their waters is another possibility. 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 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 Marshall Islands and FSM far more money each year than all other inflows combined, has become the pillar of the economy for these three nations.

All of this might seem to fall short of the development ideals proposed by economic consultants and international organizations. But most Island nations seem to realize by this time that conventional doctrine is not going to bring them to their goal of self-sustenance. Pacific countries might continue to chant the mantra of this doctrine in public gatherings, but they have been forced to follow other avenues that they hope might lead to foreign exchange and jobs for their people.

***Exported Labor***

If Pacific Island nations do not have goods to export, they can at least export labor. Those island nations that enjoy established ties with metropolitan countries have done just that. Tonga, Tuvalu, the Cook Islands, the tiny nation of Niue, along with FSM, Palau and the Marshall Islands have been sending their excess population abroad in search of jobs and other benefits.

Tonga and Samoa, each with remittances of over 25 percent of their GDP, are the nations that rely most heavily on remittance flows as a significant part of their economy. Fiji brings in $150 million a year in remittances, although they amount to only 5 percent of its GDP (Hezel 2012). In Tuvalu and Kiribati remittances seem to be on the increase, while FSM and the Marshalls are newcomers to the remittance flow.

But the success of these nations is a function of the open door policy established with a metropolitan country to permit migration that will relieve population pressure and provide needed jobs abroad. For years New Zealand has been doing this in spades for Samoa, Tonga, Niue and the Cook Islands–and more recently for Kiribati also. The US is providing its former wards from Micronesia with an open ticket to live and work in the US just in case sufficient jobs are not available in the islands (and they are not). It is the Melanesian nations of PNG, the Solomon Islands and Vanuatu–virtually the only countries in the Pacific that are showing population growth rates higher than 1 percent yearly–that have no access to a more developed nation to which they can migrate.

Australia, long reluctant to adopt an open immigration policy towards PNG, its former ward, has recently made some initial halfway measures to correct this by adopting the seasonal worker scheme that Canada and other nations have employed. There will be increased pressure on Australia in the years to come to open its doors to migrants, especially in view of the fact that Melanesia is the one area in the Pacific without migration options at present.

***Foreign Aid***

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. Foreign aid accounted for 15 percent of the average GDP of the Pacific Island nations in the year 2000 (Rao et al 2007: 4). 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.

United States, of course, is the funding source for the northern Pacific–FSM, Palau and the Marshalls. The Compact of Free Association offers these independent nations yearly funding in exchange for concessions to the US in the name of security, thus allowing them a means of paying the bills–at least for the duration of the Compact agreement.

Australia and New Zealand are both valued sources of support for struggling South Pacific economies: Cook Islands, Samoa, Tonga, Kiribati and Tuvalu, as well as the Melanesian countries of PNG, Solomons and Vanuatu. Japan, too, has provided aid for the Pacific, although usually in the form of infrastructure development.

China stands as the promising new source of aid for Island nations, as it bargains with the promise of foreign assistance in return for Island support in the international community. Pacific nations well understand that in today’s geopolitical world China and Taiwan can be played off against one another to raise the ante. Over the past decade the North Pacific has seen bidding wars and shifting alliances. Palau, the Marshall Islands and Kiribati have reversed direction away from China and towards Taiwan, since the latter has more ready cash if not deeper pockets.

Donor nations often complain that their aid is used to support a government that is unnecessarily large and seems more concerned with creating jobs than providing more efficient services. From the point of view of the Island nation, however, this could be viewed as a sound long-term development strategy. How else could the nation provide a modicum of jobs for those who otherwise could not find them in a stunted private sector? How else ensure a stable residual population in a country with a static economy that is watching large numbers of its people leave for other destinations? Hence, donor nations should not be surprised to find that foreign aid is more often seen as a means of compensating for economic shortfalls than of remedying these shortfalls.

This lesson will not be lost on the territories in the Pacific that have not achieved independence, especially those under France and the US. They, too, are economically vulnerable, as the recent business decline in the Northern Marianas, Guam and American Samoa has demonstrated. Their own experience and the struggles of their independent Pacific neighbors will tend to mute discussion of forsaking the protection offered them by their affiliation with a large and wealthy nation in order to strike out on their own.

***Exploiting Disadvantages***

The past few years have seen Pacific nations take a new approach toward making up their economic shortfalls. Rather than simply rely on one or two donor nations, they are increasingly turning toward the international community for assistance. In an age that produces resolutions on global warning nearly every week, Island nations are requesting the UN that compensation be awarded small and vulnerable island states for damage done by rising sea levels.

Last month, the Foreign Minister of Tuvalu called on the UN to grant special treatment to “small island developing states.” This might include measures that could offer advantages, including funding, for the island states that fit into this category.

The very smallness and vulnerability of the Islands is invoked as an argument for consideration by the international community. To take this approach, Island nations would be forced to work closely with one another in presenting their case to the international agencies and the world community. They would be required to act as they did in forging the fishing cartel a few years ago: that is, collaborate in promoting their mutual interests.

Does this mean that the posture of Pacific nations, with backs to one another, has changed? To some degree it has. Island nations still negotiate with aid donors individually and will do so for the foreseeable future, but the new opportunities for international assistance will bond them to a degree that has been unimaginable up to now. To the extent that they present themselves as powerless members of a threatened group–by virtue of sea level rise, declining tuna stocks, or the limitations imposed by their small size–they will be forced to engage with one another to forge a common position. We can expect, then, that they will be turning toward one another ever more frequently in years to come.

Francis X. Hezel, SJ

***Sources***

Bertram, Geoff. 2006. “The MIRAB Model in the Twenty-First Century.” *Asia Pacific Viewpoint* 47 (1): 1-13.

Gillette, Robert, and Chris Lightfoot. 2001. *The Contribution of Fisheries to the Economies of Pacific Island Countries.* Manila: Asian Development Bank.

Hezel, Francis X. 2012. *Pacific Island Nations: How Viable Are Their Economies?* Pacific Islands Policy, no. 7. Honolulu: East-West Center.

Jacobs, Matt. “Spoiled Tuna: A Fishing Industry Gone Bad.” 2002. *Micronesian Counselor* Pohnpei: Micronesian Seminar.

Rao, Bhaskara, Kanhaiya Lal Sharma, Rup Singh, and Nalini Lata. 2007. *A Survey of Growth and Development Issues of the Pacific Islands.* Wider Research Paper, no. 2007/34. United Nations University, World Institute for Development Economics Research, Helsinki, Finland.