In Search of a Pacific Model of Growth

June 16-17, 2014
Pacific Update, ANU

Yongzheng Yang
International Monetary Fund
Outline

• PICs’ growth performance
• Why has growth in most PICs been slow?
• What can be done to increase growth?
• Concluding remarks
PICs: Long-term growth performance

Annual Average Real GDP Growth (In percent)

- LICs
- Small States
- ECCU
- PICs

<table>
<thead>
<tr>
<th>Period</th>
<th>LICs</th>
<th>Small States</th>
<th>ECCU</th>
<th>PICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-80</td>
<td>5.5</td>
<td>4.3</td>
<td>6.0</td>
<td>3.8</td>
</tr>
<tr>
<td>1981-90</td>
<td>4.8</td>
<td>3.9</td>
<td>5.7</td>
<td>3.4</td>
</tr>
<tr>
<td>1991-00</td>
<td>4.2</td>
<td>3.6</td>
<td>5.4</td>
<td>3.3</td>
</tr>
<tr>
<td>2001-10</td>
<td>6.8</td>
<td>4.2</td>
<td>5.2</td>
<td>3.5</td>
</tr>
<tr>
<td>2011-13</td>
<td>5.6</td>
<td>3.1</td>
<td>4.5</td>
<td>3.2</td>
</tr>
</tbody>
</table>
PICs: Long-term growth performance: resource-rich versus non resource-rich

Annual Average Real GDP Growth (In percent)

- PNG
- SI
- Other PICs

1971-80: PNG - 3%, SI - 5%, Other PICs - 2%
1981-90: PNG - 2%, SI - 1%, Other PICs - 1%
1991-00: PNG - 7%, SI - 3%, Other PICs - 2%
2001-10: PNG - 4%, SI - 4%, Other PICs - 2%
2011-13: PNG - 7%, SI - 6%, Other PICs - 2%
Real exchange rate developments

REER of PICs with Central Banks

- Fiji
- Tonga
- Papua New Guinea
- Samoa
- Vanuatu
- Solomon Islands
Comparative Advantages: A Pacific Pyramid

- Natural resources
- Agriculture
- Tourism
- Manufacturing
- Services

Real Exchange Rate

Less competitive

More competitive
Pacific Pyramid: Improving competitiveness

- Services
- Manufacturing
- Agriculture
- Tourism
- Natural resources

Real Exchange Rate

- ✔ Macroeconomic policies
- ✔ Technology - productivity

More Competitive

Less Competitive
China’s travel departures have grown exponentially

(In millions)
Maldives: Chinese tourist arrivals
(In thousands)
Pacific Pyramid: Exploit synergies

- Services
- Manufacturing
- Agriculture
- Tourism
- Natural resources

Real Exchange Rate

- More Competitive
- Less Competitive

☑ macro policies
☑ Technology - productivity

Build linkages
Key Messages

• PICs are facing more difficult growth challenges in an era of regionalism.
• A competitive exchange rate is critical to expand PICs’ small and narrow export base.
• PICs should more strategically target key growth sources—tourism, agriculture, fisheries, labor service exports.
• A viable growth model must involve deeper integration with traditional trading partners and strengthen economic ties with Asia.
Thank You
Spares
Income growth and poverty reduction

Income growth for the poorest 40%, (in percent)
PICs are small and remote
Constraints on PICs’ Growth

• Geographical disadvantages that have been accentuated by recent regionalism.
• Slow reforms in areas that are vital in overcoming geographical disadvantages.
• Structural weaknesses hampering domestic supply response.
• Weak competitiveness resulting from macroeconomic policy and slow productivity improvement
Openness Comparisons, 1995-12
(Goods and Services Trade - In percent of GDP)
Trade Balance - Goods and Services, 2003-12
(In percent of GDP)

Source: IMF APD LISC Database and staff estimates
PICs: Models for growth

- **MIRAB**: migration-remittances-aid-bureaucracy.
- **SITE**: small island tourist economies.
- **PROFIT**: P (people considerations); R (resource management); O (overseas engagement); FI (finance, insurance and taxation); and T (transportation).
Sources of Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>PNG &amp; Solomon Islands</th>
<th>Other PICs</th>
<th>N America + EU</th>
<th>Aus &amp; NZ</th>
<th>China</th>
<th>Rest of Asia</th>
<th>Rest of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-2000</td>
<td>9.9</td>
<td>54.4</td>
<td>1.4</td>
<td>32.7</td>
<td>1.5</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>2001-2010</td>
<td>7.4</td>
<td>49.7</td>
<td>7.8</td>
<td>32.9</td>
<td>2.3</td>
<td>7.4</td>
<td>49.7</td>
</tr>
<tr>
<td>2011-12</td>
<td>11.1</td>
<td>40.1</td>
<td>11.1</td>
<td>39.6</td>
<td>7.7</td>
<td>11.1</td>
<td>40.1</td>
</tr>
</tbody>
</table>

Source: IMF Direction of Trade Statistics
Growth of Agriculture, Fishing and Forestry Sector in PICs
(Average percentage changes)

Sources: National Accounts Estimates Database, UN and IMF staff estimates
REER of PICs with Central Banks
Is Free Trade Agreement the Way to Go?

- Relatively low volumes—small markets
- Low trade complementarity—low demand
- Uneven export capacity—potential trade tensions

**Intra-PICTA Trade**
(In percent of GDP - 2010-11 Average)
Trade Agreements in the Pacific

- PICTA most inclusive agreement but small
- PACER Plus more potential in agriculture and labor services
- Both likely lead to trade diversion
PICs: Import Performance

PICs: Real Imports Growth
(In percent)

- Resource Exporters
- Small PICs
- Other PICs

Years:
- 2001-05
- 2006-10
- 2011-12
Tourism in the Pacific

Pacific Islands Tourism Receipts
(In percent of GDP, 2005-11 average)