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Mired in MIRAB

Thirty-years On, Is MIRAB Still Relevant as a Model for Economic Development. Was it ever?

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Abstract*

Migration, Remittances, Aid and Bureaucracy. How well has the “MIRAB” model served the economic growth and development of the Pacific Island Countries (PICs)? Do the seasonal workers schemes, high levels of per capita international assistance and the protected environments for business serve the economies of the islands, or do they serve other economies, and do they also contribute to hidden and undeclared costs and constraints to those who would invest in the islands? To a lesser or greater extent, the resources of all PIC economies do often seem to serve overseas economies, sometimes to the detriment of their own. This can be observed in domestic labour shortages for traditional agriculture and rural development, leading to declines in these sectors as labour is encouraged to migrate, poor environments for domestic investment and commerce, and in the undermining of incentives for greater domestic dynamism. Is MIRAB therefore a comparative strength or weakness? Whether the MIRAB model has served to simply describe the nature of PIC economies, or whether it has been promoted as a preferred model of PIC development, its impact needs to be better understood, declared and addressed. Despite all the many challenges, many Pacific Island private investors and some governments are, nevertheless, pursuing an alternate, domestic-vested – while at the same time – still international model of growth and development. The majority of the PICs may be “mired in MIRAB” but there is a well-established alternative that some PICs have been pursuing. We look at the evidence and outline the form that this alternative model might take.

*The views expressed in this paper are those of the authors and do not necessarily represent those of the organisations in which they are, or may be, employed.

MIRED IN MIRAB

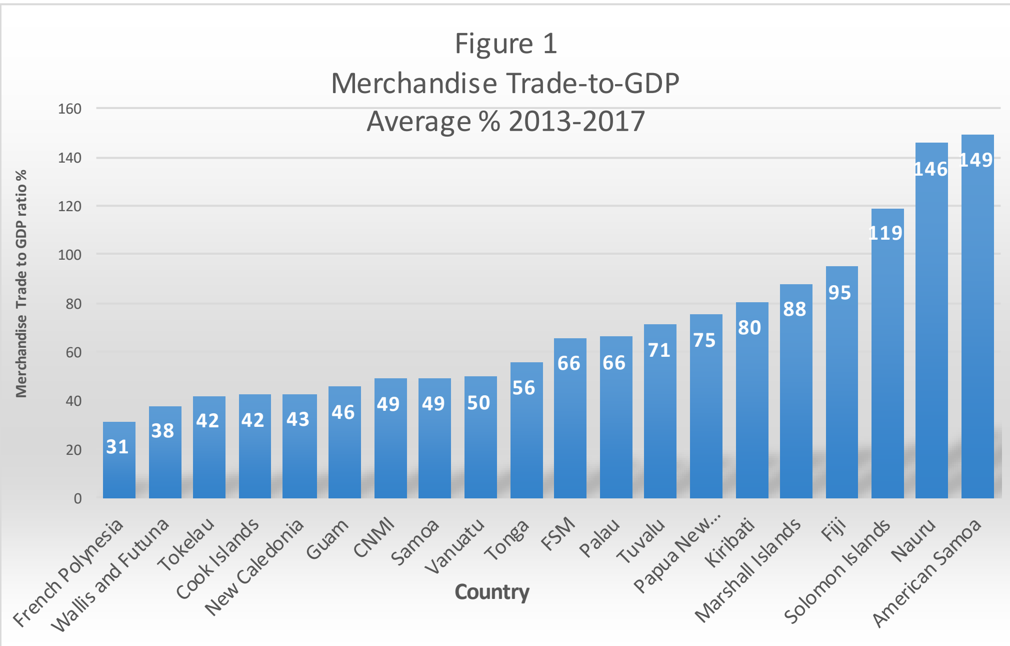
Thirty-years On, Is MIRAB Still Relevant as a Model for Economic Development. Was it ever?

> *"Why does our government always run out of money? Ministers and government officials regularly travel overseas but there is never enough money to pay for medicines and, or schoolbooks at home. All that aid, it's wasted, and those aid officials never see the rural poor or visit the outer islands. Why do our young boys and girls have to leave the country to get a job? Why can't they get a job here? The main road is full of potholes again. More and more regulations, the government puts so many restrictions in the way of business."*

Does this composite quote describe much of life in the Pacific Island Countries (PICs) today? Why is it like this? Could life in the islands be better? And what policies and institutions, what model of growth and development could lead to a better life for the people?

Economic Overview

Although PICs are often perceived to be special cases and isolated from the rest of the world, in reality today they are as fully integrated into the global economy as any other nation. The economies of PICs are very open with the value of their trade in goods and services being high relative to their Gross Domestic Product (GDP); between 2013 and 2017 the trade to GDP ratio was at least 66 percent in ten of the twenty countries for which data was available, see Figure 1[1].



The smaller PICs, which are amongst the most geographically isolated and with the scarcest of resource endowments, are generally also highly dependent on

[1] SPC estimates from national trade and GDP data

external sources of income such as foreign aid, family and migrant-worker remittances, resource rents, notably fishing licence fees, earnings on sovereign wealth or trust fund investments, and receipts from tourism. These externally generated revenues are often the primary drivers of domestic growth. All these growth drivers and revenue sources are directly linked to the performance of the global economy.

Even those countries with agricultural and forestry exports, such as Fiji, Solomon Islands and Vanuatu, as well as those highly dependent on fishing licence fees (notably Federated States of Micronesia, Kiribati, Marshall Islands and Tuvalu) are susceptible to global economic conditions and adverse movements in their terms of trade. In addition, most PICs are still highly dependent on imported fossil fuels as their main source of energy and many have an increasing dependency on imported food. This leaves them vulnerable to the impact of global economic shocks. Changes in aid policies by development partners can also have significant impacts on national budgets, domestic investment and ultimately on household incomes. The frequency and intensity of natural disasters and the adverse impacts of climate change add to these vulnerabilities at both macro and microeconomic, household levels.

The global financial and economic crisis of a decade ago, and the still lingering impacts, highlighted the vulnerability of Pacific countries and their households and families to external shocks. The crisis also highlighted the many ways in which Pacific Island economies are integrated into the global economy. The vulnerabilities of small island states and the adverse global economic conditions that have impacted their economies have contributed to low rates of both economic growth (Table 1) and domestic employment creation.

Table 1

Selected PICs: GDP Growth Rates 2007 - 2018

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average
Cook Islands	-0.2	-3.5	-1.7	2.2	-2.7	4.0	0.5	4.5	4.8	5.5	6.8	7.0	2.3
Fiji Islands	0.4	-7.9	-1.4	3.0	19.5	1.4	4.7	5.6	3.6	2.0	3.0	3.0	3.1
Kiribati	7.5	2.8	-5.5	-1.6	0.5	5.2	5.8	2.4	3.5	1.8	0.3	2.3	2.1
Marshall Islands	3.7	-1.7	-1.7	6.4	1.7	3.7	2.4	-1.0	0.6	1.5	3.6	2.5	1.8
Micronesia	-1.9	-2.2	1.2	3.3	1.0	-1.7	-3.0	-2.4	3.7	3.0	2.4	2.0	0.5
Nauru	-24.9	34.4	8.7	13.6	11.7	10.1	34.2	36.5	2.8	7.2	4.0	–2.4	12.6
Palau	0.0	-5.6	-9.1	1.8	5.1	3.9	-2.1	4.8	11.6	2.2	–3.7	0.5	1.2
Papua New Guinea	7.2	6.6	6.1	7.7	10.7	8.1	5.0	13.3	12.0	2.0	3.0	0.2	6.8
Samoa	0.5	3.2	-6.1	5.7	5.6	0.4	-1.9	1.2	1.6	6.6	2.7	0.9	1.7
Solomon Islands	3.4	6.5	2.8	9.7	7.4	2.3	2.8	2.0	2.9	3.2	3.2	3.0	4.1
Tonga	-4.6	1.9	3.2	3.3	2.9	0.8	-3.1	2.0	3.7	3.1	2.8	0.4	1.4
Tuvalu	4.9	11.6	-2.3	-1.4	-0.6	0.2	1.3	2.2	2.6	3.0	3.2	4.3	2.4
Vanuatu	5.2	6.4	3.3	1.6	1.2	1.8	2.0	2.3	-1.0	3.8	4.4	3.2	2.9

Source: ADB Key Indicators 2019 <https://aric.adb.org/database/economic-financial-indicators>

Migration, Remittances, Aid & Bureaucracy

These economic conditions have, in turn supported a continuing dependence on migration, remittances, rents, aid and bureaucracy.

In the early 1980s two academic economists from the University of Victoria in New Zealand coined the acronym MIRAB to describe the nature of and a preferred model for growth in the PICs. The elements of MIRAB are Migration, Remittances, Aid and Bureaucracy. In a 1986 paper Bertram argued that the main challenge facing the economies of the PICs was the preservation and enhancement of their status as rentier societies[2] that could thereby afford their comparatively high standards of living. Bertram goes on to argue against the prior development focus of the age that is on fostering domestic production. He viewed this as incorrect and that such projects

[2] In current political science and international-relations theory, a rentier state is a state, which derives all, or a substantial portion of its national revenues from the rent of indigenous resources to external clients. Wikipedia

crowded out the potential for greater remittance earnings. He viewed rents as the foundations of the PICs modern economy. But is this really a sustainable model or solution for the long-term viability of the PICs?

The MIRAB concept has inspired other academics to develop the concept, defining new acronyms to further describe the PIC economies. This has included PROFIT (people considerations, resource management, overseas engagement, finance, insurance and taxation and transportation) and SITE (small island tourism economies).[3] However, for the PICs the MIRAB model has certainly lived-on since the 1980s, and if we look around at the nature of the PIC economies today the description certainly still has some relevance. But is this a preferred or sustainable model for economic growth and development in the islands? MIRAB may suit at least some job seekers and recipients of remittances. It may even suit some governments and providers of aid, but is the earning of rents the preferred status for all Pacific Island societies, or in any society? Is there really no alternative to rent seeking, especially where non-renewable or unsustainable resources are being exploited? And how does the dominance of remittances and rents impact the rest of the economy and society?

While the aid and remittance drivers of economic growth (and bureaucracy) are largely externally driven, in contrast PROFIT and SITE-based economies are more likely to have the capacity to generate growth driven and led by the private sector, either from domestically sourced or from foreign investment.

Bertram (2006) classified most of the Pacific Island economies as being MIRAB-based, including Kiribati, Marshall Islands, Federated States of Micronesia, Palau, Samoa, Tonga and Tuvalu. Only Vanuatu was classified as a PROFIT-based economy in the region, however, had it had been included Fiji might have been classified as a combination of PROFIT and SITE. Almost fifteen years later not much has really changed. Admittedly, resource rents from fishing licences have risen quite dramatically for the countries that are Parties to the Nauru Agreement (PNA)[4], but their underlying MIRAB-based economic structures remain relatively unchanged. Only perhaps Palau, which has focused on eco-tourism centred on the Rock Islands, has moved significantly towards a SITE economy. Cook Islands too has emphasised tourism development. But in both these countries remittances have tended to flow outwards, rather than inwards, as more migrant labour has been brought in from overseas to support the tourism sectors.

Moreover, the recent growth in fisheries licence revenues cannot continue indefinitely. There must come a time, perhaps in the not too distant future, when the marginal cost of an extra fishing day will exceed the likely marginal net revenues generated from the day's catch. If the number of days available is capped within sustainable catch limits, licence revenues are likely to level off or perhaps even decline. And for individual countries the impacts of the *El Nino* and *La Nina* weather systems on fish migratory patterns can add to the uncertainty.

Thus the amount of rent that the PNA governments can extract from their fisheries resources is constrained, and indeed ultimately limited, by the willingness of the mainly foreign fishing fleets to pay ever-higher prices for their vessel fishing days.

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[3] For a detailed explanation see: Bertram, G (2006) Introduction: The MIRAB model in the twenty-first century. Asia Pacific Viewpoint, Vol. 47, No. 1 pages 1 – 13.

[4] The Parties to the Nauru Agreement (PNA) are eight Pacific Island countries that control the world's largest sustainable tuna purse seine fishery supplying 50 percent of the world's skipjack tuna.

And this of course will be very much influenced by the perceived sustainability of the stock. The alternative to a primarily rent-seeking fisheries model, is to find innovative ways to derive greater onshore and, or processing benefits from the fisheries resource, as Marshall Islands and Kiribati are doing.

Nevertheless, the evidence suggests – at least at first glance - that the MIRAB structure of PIC economies may have actually served PICs reasonably well. For example, Duncan (2015) found that periods of faster economic growth in PICs were largely driven by changes in the amount of aid received, often resulting from reconstruction expenditure following the impact of external shocks such as cyclones, or domestic civil disturbances, or from increased remittances flowing into the economies. But equally, many of these economies have experienced significant slowing of growth rates when such external flows have declined as a consequence of project completions or reductions in remittances. And where foreign labour and construction companies have been engaged in construction work, the economic multipliers in the domestic economies have been limited. Much less than they would have been if employing domestic labour.

In recent years the Recognised Seasonal Employer Scheme (RSE) of New Zealand and the Seasonal Worker Programme (SWP) in Australia have been important in boosting remittances. In 2018 an estimated 20,000 Pacific islanders were working on these various schemes. Looking ahead the World Bank (2017) in its Pacific Possible[5] report suggests that a further 150,000 temporary workers could be employed annually in twenty years.

First of all, it has to be said that migration has helped to fuel growth and development throughout the world for hundreds if not thousands of years.[6] Also today's level of remittances does help alleviate poverty, finance education and otherwise sustain families, many of whom may have no alternative source of income. This applies throughout the world and not just in the Pacific. The Philippines, Bangladesh and Mexico for example would struggle without remittances. All developing countries benefit from some type of international assistance, whether this is technical or financial assistance. It might come from international organisations such as Interpol, the International Criminal Court of Justice and Medicines sans Frontier or from the Gates Foundation, or from the United Nations system. Closer to home the CROP agencies collectively provide substantial technical assistance and support to PICs. And of course there are bilateral and multilateral donors and financial institutions. Governments are needed everywhere to provide essential services such as justice and security, to protect "the commons" and provide essential public services however they are defined. It also has to be noted that, for the past 40 years, neither PIC governments nor their development partners, which have provided high levels of assistance, have given up on growth and development generated in, and by the island countries and administrations.

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[5] World Bank. 2017. Pacific Possible: long-term economic opportunities and challenges for Pacific Island Countries (English). Pacific possible series. Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/168951503668157320/Pacific-Possible-long-term-economic-opportunities-and-challenges-for-Pacific-Island-Countries

[6] John Kenneth Galbraith wrote a book in 1979 called *The Nature of Mass Poverty* (not one of his better known works). He devoted the entire last chapter to migration. One passage reads: "Migration, we have seen, is the oldest action against poverty. It selects those who most want help. It is good for the country to which they go; it helps to break the equilibrium of poverty in the country from which they come. What is the perversity in the human soul that causes people so to resist so obvious a good?"

So why should anyone, including us, question the value of relying on migration, remittances, aid and bureaucracy? It is a question of nature and degree. Look more closely and the search for rents and remittances has distorted and constrained alternate paths of development. If an economy is solely, or even largely dependent on sources of income and activity that are mainly outside domestic policy influence, is it truly economically independent or is it more akin to a vassal state of foreign economies, businessmen or foreign powers? Is dependence on such sources of income also healthy for an island society? Do all islanders want it this way? And does it have to be this way?

While many a Pacific Islander owned business has profited from retailing to private and government consumers, other Pacific Islander owned businesses produce for export and want to produce more. Yet more may have been crowded-out by foreign investors often riding on the backs of those foreign businesses or countries providing the source of the rents, and often benefitting from tax exemptions and tax holidays not available to domestic investors. Consequently, many Pacific Islander businessmen therefore advocate for a different model, for business – with a level playing field. If foreign-owned businesses are able to secure tax-holidays and other concessions, why should these not be available to domestic investors, especially those with new and innovative ideas that might challenge the established order? Not everyone in any society wants a government job. But migration, remittances, aid and bureaucracy, with the economy “mired in MIRAB”, can negatively impact the alternative model. So let us look at each component in turn.

Migration

Permanent migration has greatly eroded the domestic labour markets of Polynesia in particular through the comparatively easy access of the Cook Islands, Niue, Samoa and Tonga to the labour markets in New Zealand and then Australia, see Box 1. The same is true of labour migration from the Federated States of Micronesia, the Marshall Islands and Palau with their access, under their Compacts of Free Association with the USA, to both the USA and the USA territories of Guam and the Northern Marianas.

Again, while remittances afforded by temporary migration under schemes such as the RSE and the SWP have provided flows of income to often underserved and underdeveloped rural areas and outer islands, it also has to be noted that rural and outer island subsistence farming and fishing have suffered from the shortage of prime-age labour. Recently, for example, the then Minister for Agriculture, Hon. La Mamea Ropati, spoke about progress in the World Bank financed Samoa Agriculture Competitiveness Enhancement Project, saying: “The seasonal employment schemes in New Zealand and Australia have also taken a toll…....many farmers have left the country for job opportunities in New Zealand and Australia because they offer better money. But this has resulted in limited people to work the plantations.”[7]

The scale of temporary migration and the loss of labour to domestic activities are illustrated in Table 2. The number of workers on these two schemes reached almost twenty-thousand in 2017-18, and is set to exceed that in the current year. Just over eighty percent of these temporary workers come from Vanuatu, Samoa and Tonga.

[7] *Samoa Observer 4 March 2013*

It has been estimated that on average workers returning from a period under the RSE scheme save or emit around NZ$5,500 each[8]. Therefore assuming the rate of savings from the SWP would be similar, the two programmes are currently contributing around U$70 million per annum in additional income for those families participating in the schemes. However, we believe that the continued encouragement of external migration has an opportunity cost for domestic economies that is often underestimated, and that can hinder efforts to move away from a MIRAB structure.

Table 2

NZ Recognised Seasonal Employer Scheme and the Australian Seasonal Workers Programme

Number of Participating Workers by Country of Origin

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Fiji	0	0	35	252	545	606
Kiribati	172	141	147	182	313	595
Nauru	10	0	20	37	17	14
Papua New Guinea	57	84	131	110	260	216
Samoa	1,159	1,331	1,423	1,594	1,999	2,405
Solomon Islands	465	500	532	651	680	818
Timor-Leste	21	74	168	224	477	914
Tonga	2,773	3,035	3,742	4,311	4,513	4,689
Tuvalu	56	91	77	69	80	80
Vanuatu	2,948	3,282	4,002	4,924	6,320	7,793
Total	7,661	8,538	10,276	12,353	15,204	18,130

Source: NZ Immigation & ANU DevPolicy Blog

Private businesses and governments in urban settings also complain of an increased turnover of productive unskilled and skilled labour as workers leave for more lucrative, if not necessarily always more attractive work overseas. Initially many Pacific Islanders find the working conditions quite challenging, especially the weather and discipline needed in the horticultural sector. However, research by ANU suggests that many workers do choose to return. In the most recent year (2017-18), 49% of SWP workers had already been to Australia at least once before; in New Zealand where the number of workers has been growing more slowly than in Australia, this figure (in 2016-17) for RSE workers was 72%[9]. There are many attractions, including the adventure of travel, the higher rates of pay for shorter if more intensive periods of work, and the independence of having one's own income.

The marine training schools of Kiribati, Tuvalu and other PICs offer jobs to young males from the outer islands where there are few domestic alternatives. There have also been a number of similar schemes for young women, but these have often not proved very successful[10], primarily for social and cultural reasons. But could there be more jobs at home?

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[8] Development Impacts of Seasonal and Temporary Migration: A Review of Evidence from the Pacific and Southeast Asia; John Gibson, David McKenzie and Halahingano Rohorua, 2013, Asia & the Pacific Policy Studies, ANU Wiley

[9] Howes, Stephen; ANZ seasonal labour programs are not too reliant on return workers: part one, ANU Dev Policy Blog Aug 6, 2018

[10] For example, Kiribati has had schemes to train females for work on cruise ships and, together with Solomon Islands, as care workers in Australia. Neither scheme has been completely successful.

Box 1

Migration & the Population of Samoa

Emigration, particularly to New Zealand, has had a major impact on the population of Samoa. Many young Samoans leave for education and work, or to simply join their families. Others are selected under the Samoan Quota Scheme, which provides for up to 1100 Samoans to be granted residence in New Zealand each year. An analysis of the 1976 and 2011 census data suggests that emigration can amount to around 50 percent of each age cohort by the time members reach their late 30s.

For example, people born between 1972 and 1976 would have been aged between 35 and 39 at the 2011 census. In 1976, there were 24,646 children aged between 0 and 4 living in Samoa. Taking into account the estimated number of natural deaths expected from birth to that age in Samoa, it is estimated that there should have been a population of about 23,300 aged between 35 and 39 at the 2011 census. In fact there were only 10,877 persons recorded in the 35-39 year cohort in the 2011 census, this suggests that around half of the people in the 35 to 39 age cohort had migrated. Proportionate migration estimates can also be seen from subsequent cohorts in the 1981 and 1986 Census suggesting that this is a stable pattern of migration.

Sources: 1976 & 2011 Census of Population, Samoa Bureau of Statistics; from The State of Human Development in the Pacific: A Report on Vulnerability and Exclusion in a Time of Rapid Change, UNDP, Fiji 2014

Not only has temporary migration increased through the RSE and SWP schemes, but the number of permanent migrants has also continued to rise. Although comprehensive data is not available, data for Pacific Islanders in New Zealand is shown in Table 3. This indicates that the number of people recorded as Pacific Islanders increased by one-third between the 2001 and 2013 NZ censuses. Over the period the number of Fijians of all ethnicities increased by almost three-hundred percent while the number of i-Kiribati more than doubled, that of Tuvaluans rose by eighty-percent and the number of Tongans by one-quarter. These four countries also all benefitted from the introduction of the Pacific Access Category Visa that provided a similar avenue of access to NZ as the Samoan quota visa that had been in existence for longer. But for how long are these rates of migration sustainable for the smaller countries, especially Kiribati and Tuvalu; in the latter the annual quota is equivalent to around one-percent of the eligible population?

Table 4

Remittances Received by Selected PICTs

US$million													GDP % 2018	Average		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e		2007-2010	2014-2018	% change
Fiji	183	147	171	176	160	191	204	221	251	269	274	288	5.5%	169	261	54.1
Kiribati	14	14	14	16	17	18	17	17	16	17	17	18	8.9%	15	17	18.7
Marshall Islands	25	23	24	22	22	23	25	26	27	28	28	30	13.0%	24	28	19.1
Micronesia, Fed. Sts.			17	18	19	21	22	23	23	23	23	24	7.3%	18	24	32.9
New Caledonia	491	544	509	492	594	715	724	721	613	621	621	640	7.3%	509	643	26.3
Palau	2	2	2	2	2	2	2	2	2	2	2	2	0.8%	2	2	45.5
Samoa	97	109	119	139	160	178	165	141	131	131	138	142	16.1%	116	136	17.6
Solomon Islands	13	9	13	14	17	21	21	16	19	20	16	17	1.2%	12	18	44.9
Tonga	82	103	82	74	84	91	123	119	150	126	159	165	35.2%	85	144	68.5
Tuvalu	6	6	5	4	5	4	4	4	4	4	4	4	9.0%	5	4	-20.2
Vanuatu	6	9	11	12	22	22	24	28	24	19	24	30	3.9%	9	27	300.0

Source: World Bank and SPC calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. See also WB Migration and Development Brief 28, Appendix A

The increase in Pacific Islanders in Australia has shown an even more dramatic increase. Those claiming Pacific Island ancestry in Australia rose from

112,133 in 2006 to 150,068 in 2011 to 206,673 in 2016, an overall increase of 84.3% over the ten years[11].

Remittances

Chami et. al. (2018) argue that remittances change economies in ways that reduce growth and increase dependence on these funds from abroad. In other words, there is increasing evidence of a remittance trap that causes economies to get stuck on a lower-growth, higher-emigration treadmill.[12] A part of this trap is the use of remittance income to prepare young people to emigrate rather than to invest in businesses at home. Countries that receive remittances may come to rely on exporting labour, rather than commodities produced with this labour. In some countries, governments even encourage the development of institutions that specialize in producing skilled labour for export.

Chami et. al also point out that the demand for all products in the economy increases as remittances grow, thus potentially leading to price increases and higher rates of inflation. This may be seen in our own region in the prices of domestic crops and staples, where supply may have been reduced by decreasing rural labour supplies as young men leave for overseas employment. The foreign exchange from remittances, along with higher prices, makes exports less competitive, with the result that their production declines. Remittances can also affect work incentives and wage expectations, forcing up wage levels and further eroding the competitiveness of exports. This could be referred to as the Dutch disease impact of remittances. Chami et al refer to a resulting vicious circle of emigration, economic stagnation, rising cost of living, and more emigration.

It certainly appears that both remittances and migration overseas have increased in recent years. Table 4 illustrated that the annual average level of remittances for the countries for which data is available, are estimated to have increased by an average of about 40% between 2007-2010 and 2014-2018. Only one country, Tuvalu, recorded a decline in average annual remittances. This is understood to have resulted from the loss of many seafaring jobs during the global economic and financial crisis period. Kiribati, which has traditionally also relied heavily on seafarer remittances, recorded an increase in average annual remittance levels over the period, but only by 18.7%. Countries that have been the most active in joining the RSE and SWP programmes, notably Vanuatu and Tonga, both recorded increases in remittances well above the average.

Suggestions of a remittance trap would appear to contradict the earlier findings of Brown and Connell who conclude, at least for Samoa and Tonga that remittances do not undermine the domestic economy because of the "limited development potential of many countries and their failure to achieve significant, sustainable economic growth"[13]. Conversely, as the World Bank Pacific Possible report has indicated, there are many opportunities for PICs to diversify their economies and create new industries and employment opportunities. The private sector operations of the Asian Development Bank (ADB) and the IFC in the PICs also certainly believe in

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[11] Batley, James; What does the 2016 census reveal about Pacific Island communities in Australia? Dev Policy Blog, Australian National University, September 28, 2017

[12] Ralph Chami, Ekkehard Ernst, Connel Fullenkamp, And Anne Oeking (2018) Is There A Remittance Trap? High Levels Of Remittances Can Spark A Vicious Cycle Of Economic Stagnation And Dependence Finance & Development, September 2018, Vol. 55, No. 3.

[13] Connell, J and Richard P.C. Brown (2005). Remittances in the Pacific An Overview. ADB. Manila

the potential for private sector development in the region.[14] However, this potential can only be realised through government policies and measures that create the right sort of environment conducive for investment.

As we will argue below, the MIRAB nature of PIC economies and their political economy has alternately failed to fully support domestic business opportunities and has otherwise hindered the realization of greater PIC potential.

Aid[15]

The aim of aid is recipient social and economic development. This has unfortunately not always been the result in the PICs despite relatively high levels of aid and grants. Over the ten-year period from 2007 through 2016, aid and grants accounted for an average of 28.8% of total revenues and grants across PICs as illustrated in Table 5. In nine of the thirteen countries covered, aid and grants consistently accounted for more than twenty per cent of total government revenues.

Table 5

Aid & Grants from Development Partners 2007 - 2016

	% of Total Revenue and Grants										Average by Period		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2010	2014-2016	2007-2016
Cook Islands	20.6	15.9	19	13.2	18.9	17.8	19.3	33.7	28.3	28.3	18.5	30.1	21.5
Fiji Islands	0.3	0.9	0.4	0.6	0.4	0.7	0.8	0.9	0.9	0.3	0.5	0.7	0.6
Kiribati	22.6	23.6	34.2	...	...	27.8	27.8	36	24.6	23.6	26.8	28.1	27.5
Marshall Islands	68.5	68	68.5	67.5	65.5	62.5	60.1	55.2	53.7	...	68.4	54.5	63.3
Micronesia	64.8	63.2	67.7	68.3	68.1	65.3	57	43.1	43.8	45.6	65.2	44.2	58.7
Nauru	48.8	55.6	48.4	53.1	...	39.3	33.7	21.9	20.4	18.3	50.9	20.2	37.7
Palau	60.8	54.5	54.8	57.9	52.7	50.7	45.6	44.2	38	38.9	56.7	40.4	49.8
Papua New Guinea	10.3	14.2	13.2	16.8	11	9.7	8.9	7.5	7.5	11.5	12.5	8.9	11.1
Samoa	20.2	16.9	22.5	3.4	21.5	10.6	9.8	14.7	7.7	7.6	19.9	10.0	13.5
Solomon Islands	9.9	13.1	12.7	22.9	15	11.2	18.9	17.7	16.9	13.7	11.9	16.1	15.2
Tonga	13.3	13.3	22.7	20.5	25.5	35.8	20.3	30	35.7	39.9	16.4	35.2	25.7
Tuvalu	25.9	23.6	33.9	29.9	30.7	33	22.9	39.8	14.6	...	27.8	27.2	28.3
Vanuatu	6.3	23.8	26.9	26.5	18.3	13.8	10.2	16.7	33.5	34.2	19.0	28.1	21.0
Source: ADB Key Indicators 2017 & Consultants Estimates											30.3	26.4	28.8

The benefits of aid may not increase as aid increases. Rather, benefits tend to level off as the amount of aid increases, and very high levels may even undermine development rather than supporting it. This could leave the recipient as a whole worse off than it would have been had it received less assistance. Again, there can be too much of a good thing; too much aid undermines the incentives or necessity for governments to address underlying issues and introduce needed structural reforms. If not managed carefully, very high levels of aid can therefore become a curse rather than a benefit. High levels of aid can also pose a special risk in the PICs that have open and competitive elections undermining governance institutions, which then undermine social and economic development and even democratic government itself. This has become known as the “aid curse.”[16]

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[14] https://www.adb.org/sites/default/files/publication/82403/adb-psod-brochure-2018.pdf and https://www.ifc.org/wps/wcm/connect/c1d95900478c004f9520f7752622ff02/IFC+in+the+pacific.pdf?MOD=AJPERES

[15] We are indebted here to earlier, unpublished work by Tim O’Meara (2006) Reference Guide to Policies and Institutions International Best Practice and Specific Recommendations for Development in the Marshall Islands. Economic Policy and Statistics Office. Majuro.

[16] See: Birdsall, Nancy, 2005, "Seven Deadly Sins: Reflections of Donor Failings," Center for Global Development Working Paper No. 50; Chauvet, Lisa, and Paul Collier, 2004, "Development Effectiveness in Fragile States: Spillovers and Turnarounds," Centre for the Study of African Economics, Department of Economics, Oxford University; Collier, Paul, and David Dollar, 1999, "Aid Allocation and Poverty Reduction," Development Research Group, World Bank; Collier, Paul, and Anke Hoeffler, 2005, "Democracy and Resource Rents," Global Poverty Research Group WPS-016.; Easterly, William, 2002, "The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid," Center for Global Development; and Moss, Todd, and G. Pettersson, N. van de Walle, 2006, "An Aid-

Recipients might not pay as much attention to the use of aid as they do to the use of their own taxes. Where governance is weak aid can, and has been used for private gain and for political patronage rather than for public benefit. High levels of international assistance can also support high levels of public employment, inflated public sector wages and salaries and the involvement of government in the production of private goods and services. Again, all this crowds out the private sector and undermines the ability of private businesses to attract skilled workers at wage levels that correspond to their productivity thereby eroding the profitability of private business in the islands.

Bureaucracy

Does more bureaucracy necessarily mean more social services and a better lifestyle for the people of the PICs? Not necessarily. In a review of state performance and capacity in the Pacific, Laking comments that expenditure on health and education in most PICs was high but the outcomes of that spending were variable.[17] Laking refers to poorly targeted spending with a high proportion of budgets devoted to wages and salaries and subsidies to unprofitable public enterprises. Laking also referred to concerns over governance.

Each year all developing member countries (DMCs) of the Asian Development Bank (ADB) as well as the World Bank that receive concessional financing are assessed according to the performance of their policies and institutions. The Pacific DMCs tend to perform poorly. ADB made assessments for 13 DMCs, nine of which were in the Pacific, for the years 2006 to 2015.[18] The assessments revealed that the weakest areas of performance were in policies that covered social inclusion and equity, followed by structural policies, and public sector management and institutions.[19]

The ADB study concluded that over the period assessed there had been “little or no change, despite massive international aid to these countries”. The study suggested that the lack of effective policies and institutions as well as exclusion have contributed to unsustainable development.” The study called for special examination of governance, institutional, political and social issues before investing in infrastructure and technology. As Table 6 illustrates central government expenditure[20] as a percent of GDP is high; in seven countries it has consistently been above forty percent. If public welfare in the PICs is not improving, despite relatively high levels of public expenditure and international assistance, this suggests there is a need to identify and develop an alternate model of development based on greater domestic efforts[21].

Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa," Center for Global Development Working Paper No. 74

17 Laking, R. (2010) State Performance and Capacity in the Pacific. ADB. Manila

18 ADB (2016) Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific The ADB Experience. Manila

19 Ibid., The evaluation of social inclusion and equity looks at gender equality, equity of public resource use, building human resources (i.e., education and health), social protection and labor, and policies and institutions for environmental sustainability. Assessment of structural policies focuses on how the country performs in the areas of trade, financial sector, and business regulatory environment. Examination of public sector management and institutions involves property rights and rules-based governance; quality of budgetary and financial management; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption in the public sector

20 Central government expenditures comprise all non-repayable payments to both current and capital expenses, plus net lending. These amounts are computed as a share of GDP at current prices. Historical data were obtained from official sources, statistical publications, and databases, as well as documents of ADB, the IMF, and the World Bank. For some economies, data for 2017 are estimated from the latest available information. The following record their government finance data by fiscal year: Fiji; the Cook Islands, the Federated States of Micronesia, the Republic of Marshall Islands, Nauru, Palau, Samoa, and Tonga; other countries report by calendar year.

21 MPFD Policy Brief No.75, April 2018, Managing fiscal volatility in the Pacific UNESCAP, Bangkok 2018.

Table 6						
Central government expenditures (% of GDP)						
The Pacific	2013	2014	2015	2016	2017	Average
Cook Islands	34.0	39.9	42.5	37.2	37.7	38.3
Fiji Islands	23.8	28.4	26.2	29.7	26.6	26.9
Kiribati	83.8	118.8	114.6	108.6	141.1	113.4
Marshall Islands	53.7	50.0	57.5	58.9	99.4	63.9
Micronesia	59.2	53.6	55.6	61.4	...	57.5
Nauru	57.4	51.9	72.3	91.6	102.9	75.2
Palau	39.6	39.7	33.7	38.6	...	37.9
PNG	27.6	27.3	22.2	20.0	17.4	22.9
Samoa	33.5	37.8	33.7	34.6	32.6	34.4
Solomon Islands	40.8	40.3	51.5	42.5	42.5	43.5
Timor-Leste	94.8	110.5	96.9	104.6	79.6	97.3
Tonga	26.5	25.7	29.1	28.1	44.9	30.9
Tuvalu	86.6	100.5	131.7	160.5	118.6	119.6
Vanuatu	22.3	22.1	24.1	28.3	32.5	25.9
Source ADB Asian Development Outlook April 2018						
... = data not available.						

Why not business?

Many national development plans have emphasised the importance of economic diversification and the promotion of the private sector, in an effort to move economies away from a primarily MIRAB-base towards either PROFIT or SITE structures. However little material progress or change has been realised, except in a small number of cases, as already mentioned. As Bertram notes, however, MIRAB-type economies have, for many of the smaller PICs, been able to generate slow but reasonably steady rates of economic activity in their domestic economies and may thus represent a reasonably sensible and sustainable growth model.

A similar case could be made for SITE and PROFIT-based economies. They too have generated reasonable rates of economic growth, but have been just as susceptible to global economic volatility experiencing declines in tourism numbers and exports. But we would suggest that with stronger domestic-based economies and more domestic-based private sector investment the impact of global economic volatility can be reduced.

Pacific island business owners that we have spoken to have commented that government policy does not always support domestic business, that government imposes many constraints to new business development, that government does not listen and that sometimes larger, more influential foreign or foreign-owned businesses are favoured.

PIC domestic businesses are indeed disadvantaged by the MIRAB story of wages and other prices set by an economy dominated by rents and aligned with the prices of the overseas economies on which they are dependent. Domestic credit can also be scarce and expensive with PIC financial markets undeveloped, thin, and limited in domestic access. Further, with little capacity or supply of domestic collateral[22] they again tend to serve domestic deposits and capital expatriation for overseas investment. Again, the underperforming nature of some PIC domestic economies supports net outflows of capital as well as labour.

[22] de Soto, H (2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

Weakly implemented or failed PIC government private sector development policies, sometimes even those supported by development partners, have not only been a loss to the public purse but they have more generally often harmed the economy. These programmes often take the form of direct investment or state capitalism, investor concessions, especially for manufacturing and the creation of loss making special economic and special tax zones.[23] Government owned business enterprises or State Owned Enterprises (SOEs) can crowd out private enterprise, undercut private business and distract governments from better policy and institutional support to private sector led growth.

Beyond prices and direct government intervention PIC domestic businesses are also commonly beset by poor regulatory environments, limited public infrastructure and limited public services. The ADB, and the Governments of Australia and New Zealand fund the Pacific Private Sector Development Initiative. This entity has produced at least 15 assessments of the private sector environments in the PICs. These assessments reveal how difficult it can be to do business in the islands[24]. Though subject to some criticisms as to accuracy of measurement, the World Bank's annual assessments of the ease of doing business provide further evidence of the difficult policy and institutional environment for business in the PICs.[25] The environment for private sector led growth in the PICs must bring into question whether some government policy and institutions primarily support either investment and growth or protection and distribution.[26]

Political economy

Laking (2010, footnote 17) points out for many people in the PICs traditional governance based on clan or chiefly authority and the churches is more important than the state as a source of social capital. This can limit the influence of Public Service Commissions and Public Accounts Committees over public service performance. PIC governments are not usually large landowners, relying on traditional authorities to access land for public infrastructure and housing and more. PIC governments are often not as powerful as foreign governments may expect. PIC governments may therefore look to strengthen their position turning to aid, public service employment and the production of private goods and services.

As Chami et al (footnote 12) have pointed out with respect to migration and remittances, the MIRAB rent-earning nature of PIC economies may well be more politically palatable. Migration can ease the pressure on governments for the failure to create employment in the local economy and remittances can lessen the demand on governments to provide public welfare. Remittance inflows can also help increase tax revenues where taxes are based on imports and consumption. High levels of aid and

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[23] Other development partners can be overly prescriptive with their aid, oriented to the supply of technology and finance ignoring the limited capacities and limited powers of government (vis-à-vis family, tradition and churches) and the need to build on demand.

[24] PSDI PIC Private Sector Assessments http://www.adbpsdi.org/p/what-is-psdi.html and http://www.adbpsdi.org/search?q=private+sector+assessments http://www.adbpsdi.org/p/finding-balance-collection-on-scribd.html

[25] 2019 rankings for the Pacific are: Samoa 91, Tonga 92, Vanuatu 95, Fiji 102, PNG 109, Solomon Islands 116, Palau 134, Marshall Islands 151, and the Federated States of Micronesia at 161, out of 191 economies measured. These ranking hide some very low scores for individual readings e.g. Vanuatu 132nd in starting a business and 147th in dealing with construction permits, Tonga 163rd in registering property and Samoa 112th in getting credit: http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

[26] Pollard, S 1995 'Pacific economic policy: to invest or to protect?', Pacific Economic Bulletin, vol. 10 (2), available: https://pdfs.semanticscholar.org/2760/a1a0d23f62e46657693cfaf1b37afac41778.pdf

poor standards of governance and public scrutiny can also support political self-interest to influence elections.

To move away from a MIRAB-based economy could be politically challenging. This would require job creation to replace migration and remittances in a policy and institutional environment that has not primarily been built for the private sector. Lessening aid would diminish the power of governments and reducing the need for bureaucracy would likely lessen the opportunity for politically biased jobs in government. Introducing greater competition in the markets for private goods and services could threaten established vested interests.

Private sector activity would also benefit from better public services including greater access to infrastructure and business services, but again greater private sector activity would likely threaten the status quo. Improved access to leased land would demand careful planning and much explanation (as it has in Samoa and elsewhere). Reforming SOEs would probably mean no more sitting fees for politically appointed Board members, job losses and charging for previously low priced, if not free and poorly supplied public utilities. Does political partiality explain the preference for MIRAB? Any transition would have to be participatory, slow, strategic and politically aware.

There may be some therefore, who would argue that MIRAB has become a reasonable growth policy choice for PICs as the geo-political importance of the Pacific has increased. Non-traditional development partners are playing a more important role in both aid and investment, particularly supporting administrative infrastructure that more traditional partners have been reluctant to support. In some cases, “geo-political rents” are also being offered by those partners seeking to gain access to the region’s resources. But is this really sustainable or desirable. PICs opted for independence to seek their own destinies, to become more “independent” and self-reliant; selling out to the highest bidder for geo-political favours does not really sit well with that philosophy.

What is the alternative?

Over the past 40 plus years since they gained independence, some PIC economies have performed better than others, at least in some sectors and in some years. More recently, the Cook Islands, Fiji, Palau, Samoa and Vanuatu have all benefitted from diversifying and building their tourism industries. The development of fishing bases and, or on-shore facilities in Kiribati and the Marshall Islands have generated economic benefits (and some social disbenefits) beyond basic fish license fees and resource rents. Although in some countries subsistence activities have declined in importance, for some countries commercial agriculture and fisheries have begun to make greater contributions to the domestic economies. However, it can be seen in some countries that commercial agriculture is now increasingly involving foreign labour. If some economies are able to develop in this manner, bringing in foreign labour to replace domestic labour that has migrated, couldn’t others, with under-developed agriculture or other potential industries? Couldn’t they follow-suit and realise similar benefits? All PICs have recorded some sustained domestic development activity at certain times. What are the lessons?

There are proven better approaches to development that are based on understanding demand, on adaptive research, greater flexibility, iterative implementation, consistent focus on better governance, and implementing beyond preaching the Paris Principles of development assistance. However, as we have previously commented, PIC governments have often taken too much upon themselves in regulation and control, to the detriment of developing a more vibrant private sector environment. Too few have consistently sought to engage with other development players, the private sector, churches, NGOs and the community. Traditionally PIC societies have had a historical commitment to government through participation; that is seen in community involvement in decision-making through traditional Meeting Houses (*Falekaupule, Nakamal, Nahs, Maneaba, Maneapa*). A common participatory approach can draw in a stronger focus on transparency and accountability; that is, better governance. However, this approach may require a more humble approach to development than many a leader is want to expose.

As the IMF, ADB and World Bank and the major bilateral donors would probably agree PIC Governments have generally followed internationally recognised best policy with regard to managing the macro-economy through monetary, fiscal and trade policy. However, it is structural policy, microeconomic policy and investment policy that have failed PIC development.

Beyond a more humble, participatory approach focusing on micro and not just macroeconomics, the answer lies in the soil, that is, to improve the environment for business - private investment, commerce, and trade for private sector-led growth. This entails reorienting government to the better performance of public goods and services. It means avoiding protectionism, redirecting probably fewer state investments on putting more emphasis towards returns on investment and community service obligations. There is a need to gradually expand the reach of public utilities, slowly develop public economic infrastructure, ease the rules and regulations that currently constrain business, slowly improve the availability of and access to leased land, examine labour market regulations so that labour can be supplied to meet the needs of businesses (whether local or imported labour), build secured transactions frameworks and accessible credit markets and more (see footnote 18 for further examples). Improved public sector performance is more likely when a larger, growing and dynamic private sector and the community demand it.

The problem is that this alternative approach to development is socially and culturally challenging, politically less immediate and less appealing. The challenge of escaping MIRAB is not so much a matter of what to do, but how.

Conclusion

MIRAB may describe but it does not justify. MIRAB may be an important part of the foundation of the PIC economies but it need not be, nor should it be the whole structure. We have argued that the rents from MIRAB have been largely responsible for undermining the development of an alternative growth model based on a more substantive and committed effort to boost domestic economic activity and to build a sound domestic foundation for long-term sustainable development.

As suggested by the World Bank's Pacific Possible Report all PIC domestic economies and their private sectors have greater potential than has been realized so far. Institutions and policies need to be geared more towards domestic growth opportunities as well as more equitable distribution of benefits. There should also be more forward looking investment rather than economically inefficient protection. The environment for business needs to be improved, and can be improved through participation and engagement. This alternative model has not been as immediately politically palatable as rent seeking. But could this be changing with new paths charted by the Cook Islands, Fiji, Palau and Samoa as well as others?

PICs are rightly very concerned about the long-term impacts of climate change on their future economic, social and environmental sustainability and viability. However, unless greater attention is given to establishing a more solid underpinning in their domestic economic structures, many of the smaller economies may become increasingly depopulated and demographically unbalanced and unsustainable long before climate change renders them uninhabitable. Is this the future that PICs want: gradual decline and decay as resources are exploited for their rents and royalties, as young people migrate in search of remittance-generating opportunities and dependency ratios increase in their home islands?

What is the alternative? As we have argued elsewhere[27], faced with the uncertainties in the global economy and the vulnerabilities of disasters and climate change, we believe there is an urgent need for PIC governments to adopt a more holistic and less MIRAB focused, framework for growth and development. A framework over which PICs retain a greater degree of control and direction. A framework that demonstrates that PIC governments do not wish to remain dependent on aid policy and geo-political machinations. Strong institutions, appropriate policies, good governance and innovative private sector investment are at the heart of this alternative. The World Bank's Pacific Possible has pointed the way.

We believe this framework can be depicted in the form of a "growth tree"[28], think breadfruit for example. Starting at the roots of this "growth tree", there can be no effective investment in economic, social, and sustainable development without civil order, the nourishment that starts at the roots. When civil order is in place, society and investors gain confidence that their rights will be protected, and will start to put-in-place formal and informal contractual arrangements as well as other rules and regulations that help to build confidence and encourage investment both at the individual and corporate levels. In turn, these rules of society support the demand for and application of good governance, and good governance helps society to develop and apply better policy and to build relevant institutions.

With good governance, better policy and institutions in place, private markets and the delivery of better public services will develop. Effective private markets and a performance-oriented public service are, in turn, fundamental requirements for viable private sector and sustainable social and economic investment including development projects that help reduce poverty and enhance well-being.

Firm roots help build a solid trunk and this in turn produces the branches to yield rich seed and fruit – which when ripened can be cast to the earth to produce new growth. Building from the roots to the trunk of the tree are matters for the State. Above this are matters of the private economy and the delivery of public welfare. This suggests that a performing economy and improving welfare delivery very much depend on the quality and stability of the State. The relationships within the growth-tree are not static and the various components all depend on each other.

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[27] Abbott, D. Pollard S (2018) Hardship and Poverty in the Pacific an Update. Pacific Reflections on Aid. Asia Pacific Journal. Australian National University Canberra

[28] ADB (2002) Approaches to Development: A Framework for the Pacific; Duncan, Ron & Pollard Stephen, ERD Working Paper Series No.15, Economics and Research Department, Asian Development Bank, Manilahttp://www.devpolicy.org/approaches-to-development-a-framework-for-the-pacific20120522/

The nature of growth and development is a cyclical one. Preferably, these cycles are virtuous, but they can lead to stagnation or even decay. The quality of the fruit depends on the health of the tree with the latter depending on the quality of its environment, soil, spacing, and watering. All economies, as with plants, are vulnerable to external shocks as the global economic crises attest.

But whatever the initial environment for the “growth tree”, we believe that Pacific governments cannot let the vagaries of international geo-politics and global economic demand dictate the course of their national development and the health of their “trees”. There needs to be more positive and innovative thinking about domestic opportunities and a willingness to break-out of the stifling comfort of MIRAB and look at ways in which domestic economic activity, primarily driven by the domestic private sectors, can be boosted. No more mired in MIRAB.