

## Nik Soni on Vanuatu

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Vanuatu has been a stand-out economic performer among Pacific Island economies since the mid-2000s. But recently it has entered a period of political instability with several changes of political leadership in the last year, and growth has slowed. In this interview with Stephen Howes, Nik Soni, Chairman of the Pacific Institute of Public Policy, offers his candid reflections on recent political and economic developments on the country that has been his home for the last decade and more.

*Nik, we wrote an article a couple of years ago saying that Vanuatu was doing pretty well, and that maybe it was the sort of model for other, especially Melanesian countries, with rapid economic growth over several years. So what has happened since then? Have things come unstuck in Vanuatu, or is this just an inevitable bump along the road?*

I think it's a bump along the road, but it's a big bump. I think the challenge in all of these countries is to continue to reform. Now it's very easy to reform when you're facing some sort of constraint. It could be a financial constraint. It could be a natural disaster. We had it slightly easy in Vanuatu when our reforms began ten years ago because we came on the back of an enormous financial crisis which gave us space to do a lot of things.

On reflection it has been a wonderful success story. A decade of 5 or 6% growth is unprecedented. The problem is that success brings its own challenges and corporate knowledge fades very quickly. When you've been growing so rapidly for ten years it's very hard to convince politicians that it won't continue.

The other thing is that in a political cycle everyone always wants change, so you end up going around in circles. I think that's what Vanuatu is going through now. There's a new breed of politicians and civil servants who are questioning why.

But there is also one key failure of the reforms that's come back to haunt everybody, and that's the failure in education.

I think we, and the donors, got the economic reforms right. I also think institutional reforms were done well, but I think basically we never got right the very long term issues, health and education. If you don't get education right it does come back to haunt you. If you are failing to educate people to a decent standard you can't complain when the civil servants themselves don't want to continue with reforms if the issues are too complex for some of them to understand.

So you can't be too harsh on either the government or on the individuals involved. A ten-year run is a good run. If you want a longer term improvement that's really got to be done through strengthening education.

And, while there are challenges, there are also things which will keep Vanuatu together. It's got a good middle class now, which will drive reforms, it still has abundant resources and it's still a very open economy.

*I know it's a complex story but we hear very little about Vanuatu. How would you summarize some of the political developments or instability over the last year or so?*

This is just my own view. I don't think it's a view that's shared by anybody else but with the crisis ten years ago things got so complicated and so bad that a group of young people mainly in their twenties got together. They were from all walks of the political spectrum but they were able to work together and they were the key drivers of reform. It worked because they were willing to put aside their political differences and work towards a greater goal.

But I think with the success of the reforms that group never really managed to reinvigorate themselves and as a result in the recent political changes there is now a new group of people in charge.

You get that in every country. I've seen that if you get a long stretch of power, people just don't see what's coming. The group that has come in obviously wants to do everything that is the exact opposite of the people who have just been removed. It's a difficult thing to watch but it's a normal process.

*Have there actually been changes in policies or what you might think of as reform reversals?*

There were lots of threats of reversals but there haven't been any major reversals in actual policy yet. Obviously when the [Australian-financed] legal adviser got expelled that was an unfortunate situation. There's been a lot of pressure on the regulators and stuff like that but I think the fundamental support for reform is still there.

So I know that from the outside world it's a bleak picture but if you look at the facts it's different. The Ministry of Finance has still got a good level of control and that's because the Ministry is an institution. It wasn't just one person as people were saying. It actually was an institution capable of holding its own.

It's a complicated situation. The frustration I guess for people who watch it long term is that success builds on success and there was the prospect of another ten-year boom but that's now diminished somewhat because a lot of investments have been held back.

*So what has happened to the economy?*

Vanuatu is still growing at around 2% or 3%. So it's not doing badly. It's just not doing as well as it could. The concern is whether there can continue to be a stable policy government. The binding constraint on growth was telecoms, but that was resolved, and then finance, but then that was resolved. The new binding constraints are things like the wharf and the airport. There were large investment programs developed to tackle these, but Vanuatu will need the help of donors and unfortunately the donor community is now a little bit skeptical about the government.

A lot of people have been looking for Vanuatu to fail and so they exaggerate its failures. What is disappointing about Vanuatu is not that it is doing badly but that it is not reaching its full potential.

It is very reminiscent of around 2000 and 2001. There are a lot of things that can still be done but they'll require a lot of hard effort. I think for the last two or three years it's been an easy ride for everyone, it's been easy for the donors and it's been easy for the government and we're now back to more usual development pattern where it is going to be hard and it's going to be about reestablishing relationships.

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