

Two Essays on Aid and Remittances

Bernard Poirine, Pacific Studies Monograph no. 19, Centre for South Pacific Studies, University of New South Wales, 1995, ISBN 0 7334 0424 3, ISSN 1035-6894, 80pp.

In many countries of the South Pacific, migrants' remittances play an important social and economic role. Several theories are available to explain the motivations behind these transfers, be they in kind or monetary. In the first of his two essays, Poirine sets out to demonstrate formally how one such theory—remittances as an informal loan between family members—is capable of explaining much of the empirical findings in that area. According to this theory, remittance flows represent overlapping waves of lending and repayment between relatives in the home and the host countries. For instance, an implicit loan is made to a 'youth' seeking better education and, hence, employment opportunities overseas. As an 'adult', this person repays the initial loan by remitting to the home country. He or she may also lend to other youths wishing to migrate. Using intertemporal welfare analysis, the author is able to show the existence of gains accruing to both the lender and the borrower, from entering into an informal 'one-off' loan agreement. Specifically, these gains are in the form of higher intertemporal levels of utility for each party. This result presupposes, however, that the implicit interest rate is higher than the market lending rate, but lower than the market borrowing rate.

Extending the analysis to encompass two generations of migrants leads to essentially the same result, namely the welfare superiority, in certain circumstances, of human resources investment (lending to migrants) over agricultural investment.

On the basis of his geometric models, Poirine convincingly demonstrates the

rationale behind several characteristics of remittances in the South Pacific, in terms of their uses, their amount, their time-profile, and their sensitivity to economic factors such as interest rates. Thus, the oft-reported propensity to spend remittances on consumption and housing rather than on farm investment, is shown to be the by-product of a rational decision to 'prepare' a child for emigration while purchasing those commodities the production of which is forgone in the process (staple food). As a consequence, 'farm investment is crowded out by human capital investment in education and emigration' (p. 14). In the area of the time-profile of remittances, Tongan and Western Samoan migrants data appeared to be consistent with model-based predictions of an M-shaped remittance function, rather than with the 'remittance decay hypothesis'. Based on the determinants of this function, Poirine is able to specify the conditions which would result in the maximisation of aggregate remittances received by a country. Not surprisingly, this outcome rests crucially on the percentage of migrants within the total population, and on the demographic characteristics of this sub-group.

While Poirine's first essay requires prior familiarity with remittance issues, and some proficiency with welfare analysis techniques, it is a welcome attempt at giving an economic grounding to some of the stylised facts in this field of research. In this, it succeeds to a very large extent. His results and recommendations should give policymakers in remittance-dependent countries considerable food for thought.

Poirine's second essay on foreign aid is also an exercise in providing a formal basis to some of the well-known facts in this area of development economics. Using standard international trade theory geometry, his aim is to demonstrate that *aid is trade*, that is, far from being a

disinterested transfer, bilateral assistance to developing countries is simply the visible payment for an invisible export, geostrategic services. This explains, according to the author, why islands associated with developed countries receive more aid per capita than independent islands, which in turn receive more aid than independent continental states. He cites, as a case in point, the fact that American Samoa receives five times the amount of aid per capita accruing to Western Samoa. As with standard international trade theory, both parties to the transaction stand to gain from some degree of specialisation and exchange. In Poirine's analysis, the island state produces more geostrategic services (even though they are of no intrinsic value to islanders), and the donor country more other goods (agricultural products) than if each were operating in autarky. However, given that the island country's exports of strategic services go unnoticed in its balance-of-payments accounts, that country appears to be in the grip of a Dutch Disease phenomenon, that is, it has a large trade deficit, traditional exports are falling, and labour is being reallocated to 'non-productive' sectors, such as civil or military administration. These trends, the author suggests, are nothing more than by-products of the rational exploitation of the country's comparative advantage. Moreover, competition among donors ensures that the gains derived from exporting geostrategic services are largely sustainable over the long run.

Poirine provides a cogent contribution to the long-standing 'donor interest' versus 'recipient need' debate. His starting point, the 'pecking order' underlying aid allocation amongst developing countries, is a well-documented aid fact, and his empirical section offers no surprises in that area. Nonetheless, his theoretical treatment of aid as trade is both original and convincing, allowing useful insights into the ways recipients may adjust to aid

flows. A weakness of the analysis lies in the fact that it fails to address or even mention the possibility that the allocation of aid may be dictated by considerations other than strategic value. Some of the alternatives found in the literature are the indirect subsidisation of firms in the donor country, historical legacy, or the securing of abundant, low-wage labour. Thus, Poirine's interpretation is not the only one possible, even though it may well constitute the most frequent rationale underlying the provision of bilateral aid.

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South Pacific and Caribbean Economies: a comparative study

Te'o I.J. Fairbairn and DeLisle Worrell, The Foundation for Development Cooperation Ltd, 1996, ISBN 0 9586728 0 6, 137pp.

The decade of the 1990s has been a time of poor economic performance on the part of the majority of the island states of the Pacific region. As a consequence considerable time and money has been devoted to research to determine why, despite substantial flows of development assistance, there has been virtually no improvement in the lot of the island people in both social and economic terms. This research has been driven, for the most part, by donors concerned that their aid dollars are failing to achieve their ambitions in terms of higher standards for the island communities. Sensibly the research has been carried out at arm's length, with the donors, particularly Australia, funding a range of agencies including international and regional organisations (South Pacific Forum and the South Pacific Commission) as well as academic institutions such as the East-West Centre's Pacific Islands Development

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Program and the Australian National University's National Centre for Development Studies.

The result of this research, all of which has been of an applied nature, is that there is now a very clear idea of what makes the island states 'tick' or fail to 'tick', which is more to the point. There has been no shortage of advice to island leaders as to what they might or might not do to hasten their modest, open economies along the path of progress as seen through largely western economic eyes. The fact that the leaders have failed or appear to have failed to heed this advice is obviously an issue which must puzzle the donor community and, as a result, new ways are sought to challenge the islanders to perform. One of these ways is to draw attention to the manner in which island communities in other parts of the world, with roughly similar geographic location and natural resources, have been able to achieve economic growth. Two regions readily present themselves for comparative purposes, the island states of the Caribbean and Indian Ocean. While it would seem that three of the Indian Ocean states (Mauritius, Maldives and Seychelles) might have offered a more realistic basis for comparison with the Pacific states in the study (Fiji, Kiribati, Vanuatu and Western Samoa), four from the Caribbean (Barbados, Dominica, St Lucia and St Vincent and the Grenadines) were selected as the focus.

The major task of the study was to identify and analyse the reasons for the generally higher rates of economic growth in the Caribbean and to make recommendations based on the Caribbean experience that might help the Pacific states achieve sustainable development. In the opening chapters the study reviews the economic performance of both regions, noting those advantages enjoyed by the Caribbean which have fostered more effective growth and then considers the part played by

regional institutions and the role of government in the two regions. Chapters on macroeconomic policy, human resource development and the private sector highlight the greater sophistication of the general policy framework in the Caribbean states and the advantages of proximity to the markets of North America. Concluding chapters on land issues, culture, savings and investment, regionalism and problems of competitiveness in exports serve to underline the essential difference between the regions, but at the same time offer an insight as to how the Pacific might benefit from greater attention to the way these matters are addressed elsewhere.

It is upon the rather brief concluding section on 'Recommendations for Pacific island governments' that the main interest of the reader of this study should be directed; here might be some useful clues as to how the Pacific might emulate the performance of their more sophisticated Caribbean neighbours. The following are consultants' recommendations to island governments with brief comment.

- maintain macroeconomic policies that ensure economic stability. The efficiency of the public administration should be improved.

There can be no argument with this recommendation and indeed island leaders at the two most recent meetings of Forum countries endorsed policies directed at economic reform as a basis for investment and growth particularly through trading activities. Issues such as public sector reform and the creation of employment for increasing numbers of school leavers are regarded as important, but moving beyond the rhetoric has so far proved difficult.

- take measures to stimulate the growth of the indigenous private sector.

The Caribbean has a number of financial institutions that seek to foster the private sector on both a regional and

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national level. Some of their practices might be capable of adaptation by national development financial institutions, but generally in the Pacific it is the paucity of good projects rather than shortage of capital that appears to inhibit indigenous enterprise.

- establish working mechanisms for private sector collaboration on economic strategy.

Caribbean governments appear to confine themselves to providing infrastructure and stable macroeconomic policies, with the addition of institutional support, as a means of promoting growth. Pacific island governments, hitherto closely involved, are now seeking to downsize their role in traditionally private sector activities: Fiji does organise regular economic summits to encourage wide-ranging debate on national policy issues.

- establish high-powered investment promotion and marketing facilities.

Despite efforts by regional institutions the Pacific does not yet have the type of facilities offered by the CARICOM Export Development Project nor the Eastern Caribbean States Export Development Agency. Regional strategies that include trade and investment promotion and which facilitate access to finance and human resources would benefit the Pacific states.

- revisit the idea of a regional financial institution.

The Caribbean has had success in promoting the operations of such institutions, while in the Pacific past efforts have come to nought, partly due to reluctance of donors to provide the necessary capital and partly, it is expected, because of the considerable difference between individual Pacific nations in a range of fields. However efforts continue in the Pacific even now, sponsored by multilateral agencies such as the Commonwealth Corporation and the

International Financial Corporation, to develop regional financial agencies.

- take steps to set up a regional examinations council.

Experience in the Caribbean has demonstrated the benefits of a regional body capable of setting standards in curricula, examinations and teaching materials. This proposal is worthy of careful consideration in a region where national sentiments hold strong sway.

- investigate the possibility of a regional drug service

The bulk purchase of medical supplies and pharmaceuticals should certainly result in cost savings but distance and adequate transport facilities might create difficulties.

- establish a regional information centre in the South Pacific Forum.

Distance and differing standards will make for difficulty in promoting this recommendation. However a valuable start has been made in the field of statistics by way of data bases established by the South Pacific Commission and the National Centre for Development Studies in Canberra.

- establish links between corresponding organisations in the Caribbean and the Pacific.

Contacts between universities and tourism interests have begun but distance and cost of personal contact must detract from too great a physical relationship.

- re-examine the feasibility and benefits of an economic union.

While there are many advantages to be gained by cooperation between Pacific island states in areas covered by the earlier recommendations of the consultants, the creation of a workable economic union seems unlikely in the foreseeable future for reasons, not only of economic disparity

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but also based on history, political and social situations.

Perhaps not unexpectedly the study breaks little new ground in offering the Pacific states a better way of achieving more rapid economic and social progress. It does however serve as a useful bridge between the two regions and should go a long way to dispel the idea common in some minds that perhaps, in some way or other, the Pacific has been deprived of opportunities for progress through isolation and the remaining vestiges of earlier colonial government. Regionalism has its benefits, as the Caribbean can demonstrate, but this requires trust and a willingness to collaborate with common aims in view, two objectives often difficult to achieve given the diversity of Pacific countries. *South Pacific and Caribbean Economies: a comparative study* is well presented, well indexed and referenced and is a welcome addition to the growing list of publications seeking to identify new ways of achieving economic progress in the Pacific. If the recommendations are to be given the serious consideration they warrant, the study will need to be carefully evaluated by island leaders but it is a sad fact that time and more pressing domestic issues are likely to intervene to the disadvantage of those it seeks to benefit.

Rodney Cole

Sociocultural Issues and Economic Development in the Pacific Islands

Penelope Schoeffel, Asian Development Bank Pacific Studies Series, Asian Development Bank, Manila, 1996, ISBN 971 561 081 1, 179pp.

This report, which presents the principal findings of an Asian Development Bank study—Analysis of Sociocultural Characteristics of Economic Systems of Pacific Developing Member Countries

(PDMCs)—begins with a confession of failure (at least, of partial failure) in its Preface.

The accumulated experience of the ADB and other donors since the late 1970s indicates that institutional and sociocultural issues are the main causes of limited project success in PDMCs (p.xi).

It ends, if the Foreword by the Chief of the Bank's Office of Pacific Operations may be taken to summarise the policy conclusions drawn from the report, with a welcome recognition that there is no single cure-all which can be prescribed for all island states to ensure their long-term health and future prosperity.

The Bank's PDMCs present a unique development challenge. They differ from the Bank's other developing country members in nearly every physical and economic respect and require development strategies adapted to their special circumstances (p.ix).

Asian Development Bank consultant and author of the study, Penelope Schoeffel, who has worked as 'a socioeconomic consultant in the Pacific island region over the past 20 years', begins from that recognition and adduces graphic socio-economic indices of human development which sharply distinguish Pacific island countries from other small island states with which there has been a growing tendency to compare their poorer economic performance.

Comparison of the Bank's PDMCs with small island states in other regions of the world is of limited value to understanding the particular development circumstances of the Pacific islands region... Although small and isolated, these countries have very different histories to the island states of the Caribbean and Indian Ocean...In

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these respects the historical experience of the Pacific islands, and the present situation of some of these islands, is more comparable to countries of sub-Saharan Africa (p.1).

Although the comparison is not further developed, it jolts the reader into thinking not of the tourist image of tropical paradise in the South Pacific but rather more of television images of human and environmental degradation. And while tropical conditions may provide more hospitable conditions for living than arid deserts, and may have contributed to the romantic oxymoron often applied to Pacific island countries of 'subsistence affluence', they also tend to obscure the stark reality of levels of human development that are among the lowest in the world.

For example, Papua New Guinea has among the world's highest maternal mortality rates at 900 per 100,000 live births; higher than Nepal and Bangladesh (p.xii).

In order to ensure that the great diversity of islands in the Pacific is not lost through regional generalisation, Schoeffel identifies three distinct cultural sub-regions, Melanesia, Polynesia and Micronesia, and presents, in Chapter 1, a very informative and helpful analysis of their comparative human development indices measuring major socioeconomic factors—population and population growth rate, GDP, adult literacy, mean schooling, life expectancy, infant mortality, emigration, urban migration, poverty, education and human resource development, health, nutrition and the status of women. A very uneven picture emerges of human development indices for different sectors within a single country and clearly demonstrates the inappropriateness of attempts to bracket even individual members of sub-regions too closely together for the sake of bureaucratic or planning convenience.

Having established some baselines, the study proceeds to focus on four areas of common interest and concern to national governments throughout the region and donors alike: land tenure; agriculture, fisheries and forestry; business and credit and governance and institutional issues. It concludes with a final section—Issues for Donors—which is tantamount to selected recommendations for donors to reflect on. The complexities of customary land tenure are well known and trouble contemporary island governments, resource companies, plantation owners and ambitious indigenous entrepreneurs as much today as in colonial times in how to obtain secure access to land for long-term productive investment. Despite signs of a creeping acquisition of exclusive rights to common property through group acquiescence in continuous use by individuals or families, the difficulties of land registration and traditional usufructuary rights to customary land still bedevil macroeconomic policy approaches to rational economic management of this basic national resource. Land remains so inextricably embedded in fundamental sociocultural value-systems that its untrammelled economic utilisation must await progress in other processes of sociopolitical transformation underway in island communities.

Sociocultural factors also inhibit the use of land as an asset in the development of indigenous private enterprise. Given the prevailing emphasis donors place on developing the private sector in island economies, the chapter on business and credit administers a timely antidote to unrealistic expectations of easy success. Schoeffel documents the difficulties traditional living patterns (of immediate consumption of perishable produce and distribution through sociocultural institutions such as gift-giving and reciprocal exchanges) create for activities based on accumulation and profit-making.

Indeed, suspicion and even resentment of wholesale and retail mark-ups, including the value-adding of secondary processing, together with no appreciation of downstream costs, seriously impede the development of sensible commercial arrangements between producers and the modern market.

Schoeffel points to 'institutional weakness' and the 'need for human resource development' as often exercising greater constraints on development than shortage of financial and other material resources (p.127). Building state capacity therefore requires long-term commitment by donors to education and training and human resource development, with the clear recognition that powerful socio-cultural factors and shallow experience of social organisation by law and regulation combine to retard the process in most Pacific island countries.

Lastly, there is one complaint that needs to be registered—a regrettable carelessness in editing and proofing the final copy. A serious weakness of reliance on computer spellchecks is their inability to distinguish forms of words correct in themselves but grammatically incorrect in context. There are also some problems with incorrect usage of words ('principal' for 'principle', p.42; 'effect' for 'affect', p.135) and bad arithmetic (p.30).

The study is otherwise an excellent work and a valuable reference for consultants and officials of both donor agencies and recipient governments to use in planning future development assistance projects and long-term development strategies.

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The 1992 PNG Election: change and continuity in electoral politics

Saffu, Yaw (ed.) Political and Social Change Monograph 23, Research School of Pacific and Asian Studies, The Australian National University, Canberra, 1996, ISBN 0 7315 2318 0, A\$30

Papua New Guinea's experience with elections since 1964 has done little to alter electoral behaviour or affect political development for the better. Despite rapid social change since the first election the continuity of parochial issues hold firm or have become ingrained in the country's electoral culture (continuity). After thirty years, elections in Papua New Guinea continue to be characterised by the existence of weak political parties, electoral strategies which are greatly influenced by clan affiliations and how clans are mobilised, and the pragmatic and materialistic expectations of voters.

In this analysis of the 1992 election, Yaw Saffu reiterates and emphasises the finding of earlier studies that continuity remains the focal feature of elections in Papua New Guinea. In other words, electoral politics in Papua New Guinea have not changed significantly since 1964. Rather, electoral politics may have decayed, as witnessed by the increased incidence of electoral violence and the commercialisation of electoral votes.

In other areas of political development the picture for Papua New Guinea is unimpressive and discouraging. Electoral politics, through the existence of weak and ineffective state institutions, have rendered little to facilitate political development. Esoteric and local issues which are linked intricately to local and cultural groupings dominate elections. National issues, as in national elections in Australia and New Zealand and other liberal democracies, and which attract nationwide debate and upon which

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electoral choice is determined, 'remain(s) something of a misnomer, despite the obvious national attributes of the exercise'. Local issues remain supreme but offer little for national integration.

Saffu offers four explanations for the absence of national issues at elections. These include the absence of differing political party ideologies; the lack of time or resources to invest in policy development; the reluctance of candidates who are sponsored by political parties to undertake and discuss national matters because national issues are irrelevant at the local level; and the high number of independent candidates—a factor which prevents national issues emerging.

The absence of cohesive and strong political parties to influence, guide and dominate elections has thwarted electoral assessments and evaluations on political parties to individual candidates. Such evaluations centre on the candidates' personal character, kinship and ethnic associations. A consequence of this is the endemically high re-election failure rate of Members of Parliament (MP). In 1992 the re-election failure rate of MPs was 60 per cent, an increase of 10 per cent from the 1987 election. Electoral accountability is far off the mark because governments and political parties have not been and are not held accountable. It is difficult to establish accountability because, despite their existence, the linkages to public policy outcomes is excruciatingly difficult to establish.

Furthermore, the remarkable increase in citizen participation (voter turnout rate in 1992 was 81.2 per cent) in the election of 'political administrators' defeats popular participation because of the voters' kinship obligations to participate in elections. Consequently, the increasingly low proportion of votes that victorious candidates receive as a result of localised parochial sentiments often undermines the legitimacy of the winning candidate as the

representative. This holds more for the Highlands and National Capital District than for the Islands region.

A disheartening feature of political development in terms of gender participation is the appallingly low percentage of women candidates. In 1982 there was one woman in the National Parliament. Since then no woman candidate has been successful. Electoral politics remains unequivocally patriarchal and male-dominated. In fact, female MPs appear to have joined the classification listings of rare and endangered species, perhaps temporarily extinct.

The male-dominated National Parliament nevertheless is youthful even by South Pacific standards. Electoral data from the Electoral Commission show that in 1992 61 per cent of all candidates who declared their age were below the age of 40 years. Fifty-six per cent were within the age group 30–39 years. More than half of these candidates had never received any political grounding before contesting the election.

The book is edited by Professor Yaw Saffu of the Department of Political and Administrative Studies at the University of Papua New Guinea. It is a collection of 11 papers written by several well-known academics, researchers on Papua New Guinea's political affairs and two politicians, Nahau Rooney and Stephen Pokawin. The latter joined the rank and file of the politicians at the National Parliament in June 1996 after a colourful and spectacular political career at the provincial government level.

The rest of the papers are written by academics, researchers and scholars. Two of these papers are written by Papua New Guineans (Orovu Sepoe and Joe Ketan) who are pursuing their doctoral studies abroad.

Appended in the book is the complete result of the 1992 national election. This

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information includes the names of the candidates for both open and regional electorates and are ranked in order of highest polling candidates to the lowest, the percentage of votes each contesting candidate polled and the names of the sponsoring political party. Important information such as the performances of political parties and independent candidates who are identified by region and by province is also appended. For academics this book is invaluable. For intending candidates, the articles do not cover all electorates, but nevertheless the book as a whole provides useful material to devise electoral strategies and an idea of the proportion of votes required to win in an election—Papua New Guinea style.

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Readers please note

In the review of *The Solomon Islands Economy: achieving sustainable economic development* which appeared in *Pacific Economic Bulletin* 10(2), the quote on page 92 should read

...Expansionary fiscal policy has fuelled domestic demand, creating both inflation and balance of payments pressures.
