New Zealand's economic links with Pacific island countries[1]

Rory McLeod

New Zealand's economic links with Pacific island countries go back to the time—around 1000 AD—when the first Polynesian migrants arrived in New Zealand. Today these links are many and varied, ranging from trade in goods and services to flows of official development aid (ODA), investment and labour.

In respect of such links, New Zealand's interests are directed towards:

- contributing to its own security objectives in the South Pacific region by promoting greater prosperity in the Pacific island countries;
- maximizing its own direct economic benefits from the region by securing gains from trade, investment, etc.; and
- making it easier for the rest of the world to be economically involved in the region as a whole.

The first two objectives are well understood and have formed the basis of New Zealand economic policy in the South Pacific for many years. The third stems from the growing realization that Australia, New Zealand and the island economies are located on the edge of the increasingly dynamic Asia–Pacific region. Asian countries are taking a growing interest in the South Pacific in terms of aid, investment, trade and purchase of services such as tourism and education. At the same time, rapid advances have made the region increasingly open to access by outsiders.

New Zealand, however, has had to recognize that a great deal of internal structural adjustment is required before it can take full advantage of economic developments in the Pacific Rim area. A similar situation would appear to prevail in many Pacific island countries. The recently released World Bank Regional Economic Report shows that growth rates in most of the Pacific island countries surveyed over the last decade have been modest, averaging less than 2 per cent per annum. Increased populations have meant that some Pacific island countries have in fact experienced declines in per capita income over the period. Furthermore, growth rates have been highly uneven and prone to extreme swings.

Development issues and ODA

New Zealand has long been a donor in the South Pacific. Initially, a large proportion of New Zealand ODA to the region was provided for political or humanitarian reasons or to territories where New Zealand had administrative responsibilities. Today, almost all New Zealand's ODA is provided in support of the Pacific island country governments' own efforts to promote increased prosperity in their countries.

Although New Zealand has never been a particularly large donor in the region, its importance in relative terms has declined in recent years as outside donors have become more active. For example, New Zealand ODA accounted for as little as 3.4 per cent of the grand total for the region in 1988 (Table 1).

The importance of New Zealand ODA varies from country to country. Its impact is greatest in Niue and Tokelau where alternative sources of revenue are very limited. In Cook Islands, New Zealand budget support is now less than 15 per cent of government revenues.

New Zealand's effort needs to be seen in the wider context of the role of ODA in the region. The World Bank's view on ODA is that while it has generally played a positive role in the South Pacific (through the provision of

1 This paper is written in a personal capacity and the opinions expressed in it do not necessarily reflect the views of the New Zealand Government.

infrastructure, technical expertise, human resources development, etc.), it can also act as an impediment to development. For example, large inflows of ODA can lead to overvaluation of real exchange rates by raising wages and the prices of non-tradables, thus disadvantaging both export- and import-competing sectors. Large inflows of aid also tend to foster the growth of the public sector at the expense of the private sector, thereby hindering private sector development.

Table 1 **Official development aid to Pacific island countries, 1988** (US$million)

	All countries	New Zealand	New Zealand as per cent of total
Cook Islands	12.0	8.8	73
Fiji	54.4	1.8	3
Kiribati	16.3	1.7	10
Niue	5.3	4.7	89
Papua New Guinea	381.0	2.6	1
Solomon Islands	58.3	1.5	3
Tokelau	3.7	3.4	92
Tonga	18.9	2.8	15
Tuvalu	13.9	1.2	9
Vanuatu	39.3	2.2	6
Western Samoa	31.1	4.0	13
Sub total	634.3	34.8	5
Others[a] and unallocated	804.2	14.6[b]	..
Total	1,438.5	49.4	3

[a]Includes US and French dependent territories.
[b]The New Zealand portion is all unallocated.

Source: Ministry of External Relations and Trade.

New Zealand supports the conclusions of the World Bank and the Pacific Island Forum[2] on the need for improved donor coordination and policy dialogue with Pacific island country governments. Policy dialogue is important as a means of showing that ODA is being delivered into a policy environment capable of yielding a reasonable rate of return. This is particularly relevant given New Zealand's own current budgetary situation.

New Zealand does not see such dialogue as a means of foisting unwanted policies on Pacific island country governments from outside. On the contrary, it is important that Pacific island country governments decide on their own policy frameworks in light of the requirements of individual economies. It is also important that they should be able to defend these policies in discussions with New Zealand and other donors.

Labour market issues

The ease with which labour can move to New Zealand from individual Pacific island countries varies. Cook Islanders, Niueans and Tokelauans are New Zealand citizens and thus have free entry. Other Pacific islanders must, in general, go through normal immigration procedures. There are perhaps more opportunities for people from Fiji, Tonga and Western Samoa under family reunification criteria, because of significant populations already established in New Zealand, and through a special quota for Western Samoans. Special arrangements exist for an agreed number of workers from Kiribati and Tuvalu to obtain employment in New Zealand on a temporary, revolving basis.

Migrants often remit funds to those people left in their countries of origin. Remittances to Tonga and Western Samoa are worth as much as ODA flows in most years. In 1987, remittances from New Zealand alone were estimated at NZ$31 million (twice the value of exports) for Tonga and NZ$37 million (almost the value of exports) for Western Samoa. In addition, remittances are generally channelled direct to the private sector and are the source of most domestic savings.

Trade issues

New Zealand imports from most Pacific island countries are small (Table 2). They have been static or declining, except for Fiji, with imports of apparel and gold accounting for most of the growth. At around NZ$20 million in 1990, imports from Fiji now account for 27 per cent of all imports from the Pacific island countries. This is a significant proportion when it is considered that phosphate from Nauru makes up a further 13 per cent of imports.

New Zealand exports to the South Pacific, at around 3.2 per cent of total exports in 1990, are not particularly significant. Over the decade, these exports have grown less quickly than total exports. Notable exceptions are Fiji (with exports currently worth NZ$158 million) and the French Territories (which combined are worth NZ$115 million). These two markets have grown more quickly than the global average and are now important in their own right. They are distinguished by the fact that their consumers, many of whom are visitors, enjoy a much greater level of affluence than is present in other economies in the South

2 See 'Current economic trends in selected South Pacific countries' in this issue.

Table 2 **New Zealand's trade with Pacific island countries, 1990**

	Value of New Zealand[a] trade (NZ$m)		New Zealand trade as a percentage of		New Zealand's rank in country's[b]	
	Exports to	Imports from	Imports	Exports	Imports	Exports
American Samoa	24	—	..	..	..	..
Cook Islands	24	6	..	..	..	..
Fiji	158	20	17	5	2	4
Polynesia	78	—	..	..	..	..
Nauru	2	13	..	..	..	..
New Caledonia	37	—	..	—	..	—
Papua New Guinea	61	16	4	1	5	13
Solomon Islands	10	1	30	10	2	1
Tonga	24	4	30	30	1	1
Western Samoa	38	8	33	37	1	1
Vanuatu	10	—	3	—	5	—
Other Pacific islands	25	7	..	..	..	..
Total Pacific islands	491	75	..	..	..	..
Total New Zealand trade	15,269	10,646				

Sources: [a] New Zealand, Department of Statistics, Economic Division; [b] IMF, *Direction of Trade Statistics 1990 Yearbook*.

Pacific. Some current and former American territories in Micronesia also hold significant potential for New Zealand exporters in this respect.

New Zealand exporters enjoy a number of advantages in the Pacific. New Zealand's geographic proximity, established business links and the existence of reliable air and sea transport services mean that New Zealand exporters are often competitive in the region where elsewhere they are not.

This is reflected in the composition of New Zealand exports. Around 75 per cent of New Zealand's exports receipts are derived from primary products. This is not the case, however, in South Pacific markets such as Fiji and the French territories. No single product is dominant in these markets but items to show useful totals include processed foods, mineral fuels, textiles, clothing and footwear, mechanical and electrical appliances and boats. The figures outline the importance of such markets to New Zealand's manufacturing sector and their potential to become the same kind of market for New Zealand manufactured exports that New Zealand is for Australia.

On the other side of the coin, New Zealand looms large in the trading profiles of many of the Pacific island countries. Not only is New Zealand the largest trading partner for Polynesian countries such as Tonga and Western Samoa, but it is an important (and growing) trading partner for Fiji and an important source of imports for countries in Melanesia and Micronesia as well. New Zealand continues to be only a small trading partner with the French territories but it would appear that many of the inhabitants of these territories are keen for trade with New Zealand (and other countries of the region) to increase.

South Pacific Regional Trade and Economic Cooperation Agreement

The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) came into force in 1981. Since that time, New Zealand has eliminated all tariff and quantitative restrictions on imports from South Pacific Forum island countries (while Australia has eliminated almost all). With the notable exception of Fiji, SPARTECA has had almost no effect on the level of Pacific island country exports to New Zealand over the last decade. For some Pacific island countries, exports have actually declined over the period. (Australian imports from the Pacific island countries have shown a similar pattern.)

Some have argued that SPARTECA has 'failed' and note that the preference accorded to Pacific island country exports has been eroded as Australia and New Zealand have liberalized their general protection policies. Others have said that modified rules of origin under the agreement would improve the prospects for Pacific island country exports. New Zealand does not accept these arguments. SPARTECA was designed to provide the certainty of free and guaranteed access to the Australian and New Zealand markets for Pacific island country exporters. Although its initial effect was to provide a sheltered market for some products from the Pacific island countries, it was never intended as a preferential agreement. Furthermore, modest changes in the rules of origin would have little or no impact on the level of Pacific island country exports under the agreement.

The World Bank has argued convincingly that the failure of Pacific island country export sectors is clearly rooted in the choice of national policies and has little to do with market constraints. New Zealand has suffered from problems similar to those facing the Pacific island countries and is going through a process of reorienting its trade and protection policies in an attempt to encourage competition in its domestic market so that New Zealand industries will become genuinely internationally competitive.

At present, SPARTECA is an agreement that applies to trade in goods only. Some commentators have suggested that a regional framework is now also required to cover trade in services. The Australia–New Zealand Closer Economic Relations Trade Agreement (CER) provides a useful precedent for this.

Trade in services could be just as, if not more, important to the region as trade in goods. Countries for which services comprise a particularly high proportion of both GDP and exports include Fiji and Vanuatu (Table 3). Looked at from New Zealand's point of view, the region could hold more potential for exports of services than of goods. New Zealand is already a major supplier of civil aviation and transport services and other areas that have potential include television (with TVNZ already quite active in the region) and telecommunications (with Telecom New Zealand developing into a more outward looking organization).

Table 3 **Pacific island country services as a proportion of GDP and exports, 1989** (per cent)

	GDP	Exports of goods and services[a]
Fiji	69	46
Papua New Guinea	39	9
Solomon Islands	44	20
Tonga	43[b]	67
Vanuatu	66[c]	69
Western Samoa	46[d]	68

[a] Excluding interest and similar receipts and official and private transfers.
[b] 1983.
[c] 1987.
[d] 1986.

Source: National statistical department for each country.

Future developments

The opportunities for New Zealand and Australia to benefit from the provision of education for residents of smaller countries have been barely recognized until recently. The provision of this service would benefit the two countries, but it could bring even greater benefits to the growth of the Pacific island countries. New Zealand has long been active in the provision and sale of education services to the South Pacific. A substantial proportion of these have been subsidized under the ODA program and elsewhere, but it is one of the more valuable contributions of ODA to human resource development in the area.

A competitive, inventive and agile civil aviation network is crucial to overcoming, at minimum cost, the remoteness of many South Pacific countries. New Zealand, as the most isolated of all South Pacific countries, has a significant interest in seeing the establishment of such a market driven network. Air services are currently offered from New Zealand to many points in the region under a variety of regulatory regimes that provide a range of results in terms of the price of airfares and levels of customer service.

Shipping is a recent success story in the South Pacific. After years of heavy subsidies, the Pacific Forum Line was corporatized and now runs without support (with the exception of the feeder service to Micronesia). The Auckland–Niue–Rarotonga service is now run by a private company, again without subsidies. These companies are competing with a range of other private companies operating in the region, the largest of which is the French company SOFRANA. Commentators have identified high port costs in Australia and New Zealand and the union imposed monopoly for Australian and New Zealand crewed vessels operating on the Tasman Sea as constraints on running internationally competitive shipping services out of the region. New Zealand is keen to make progress in both these areas and believes that to do so will benefit the region as a whole.

In its early days, Pacific island country tourism was developed by tapping into the Australian and New Zealand markets. Today, however, the fastest growth in tourist numbers to all major destinations in the South Pacific, including New Zealand, comes from such sources as North America and East Asia. Given the high costs of travelling to the region from outside, there is considerable scope for the development of 'multi-destination packages' and of infrastructure that can be shared by the tour operators of the region. These points were made strongly by the New Zealand Tourism

Strategic Marketing Group in its report to the government in 1990.

Conclusion

New Zealand has substantial economic links with the Pacific island countries in such areas as ODA flows and private remittances, movements of labour and trade in goods and services. The importance of these links to individual Pacific island countries varies quite widely. They are particularly important to Polynesian countries in the Eastern Pacific, especially those with which New Zealand continues to have constitutional links.

New Zealand's views on the framework that regulates economic relations with other South Pacific countries reflect national self interest. At the same time, many areas of common interest with other countries of the region can be identified. In most such areas, New Zealand currently favours an open and outward looking approach so that New Zealand and the region as a whole can benefit from developments in the wider Asia–Pacific region. This complements the approach that is being taken in setting policy for New Zealand's domestic economy, which is increasingly open to international competition.

