Pacific island economies hit by global slump

John Braddock
17 August 2016

Countries in the Pacific region will see economic growth sharply decline from 7.0 percent, recorded last year, to an average of 3.9 percent in 2016, according to the Asian Development Bank (ADB).

In its Pacific Economic Monitor of July 2016, the ADB attempted to put a positive gloss on the figures, claiming the region was unlikely to be "significantly affected by heightened uncertainty in the global economy." Some Pacific economies improved slightly last year, it said, reflecting stronger than expected performance in tourism, fisheries and construction.

However, international growth forecasts for 2016 have been lowered to 3.1 percent, indicating a turn towards stagnation and slump, highlighted by slowdowns in China and Britain and poor growth figures in the US.

The ADB's Pacific Department director Xianbin Yao warned of "risks" in the global economic outlook and continued "challenges" for the Asia-Pacific region's larger resource-export dependent economies, due to low commodity prices. The World Bank previously noted that in the wake of the 2008 global crash, the Pacific's low-income countries were among those hit by shocks from slower world export growth, reduced remittances and lower export prices.

In the Pacific, projections for GDP growth in 2016 range from 1.5 percent in the Marshall Islands to 6.2 percent in the Cook Islands. The regional powers, Australia and New Zealand, face stagnant growth. Australia's growth, affected by the demise of its mining boom, is expected to remain at 2.5 percent, while New Zealand's is predicted to slow to 2.0 percent, led by stagnation in dairying.

Growth in the Pacific's two largest economies, Papua New Guinea (PNG) and Fiji, is forecast to decline steeply. PNG's will plummet from 15 percent in 2015 to 4.3 percent in 2016 and Fiji's from 4 percent to 2.4 percent. The falls reflect the collapse of commodity prices hitting PNG and the impact of Cyclone Winston on Fiji.

According to the UN's Economic and Social Survey of Asia and the Pacific (2016), the Pacific's growth last year was largely driven by production of liquefied natural gas in PNG, which accounted for 60 percent of the region's output. This masked "much slower economic expansion and even contraction in other countries," the report stated.

PNG's growth rate is forecast to drop further to 2.4 percent in 2017. One economist referred to a "frightening" fall of 20 percent in government revenues in the past year. Combined budget deficits of 24 percent of gross domestic product (GDP) over the past three years are the largest for any three-year period in PNG's 40-year history.

PNG's public debt is set to increase this year to 32.2 percent of GDP, surpassing the legal limit of 30 percent under the country's Fiscal Responsibility Act. The government has imposed austerity measures similar in scope to those in Greece, slashing health and education budgets and exacerbating the social crisis facing the working class and rural poor.

Fiji's economic outlook has weakened as a result of the damage and lost production from Cyclone Winston, which hit in February, causing estimated damage and losses equivalent to over 30 percent of GDP. The agriculture sector was severely affected by the cyclone, followed by a second in April, which destroyed crops across the country's north and west.

The ADB predicted that sugar production, a mainstay of Fiji's agriculture, will be 31 percent lower this year due to the cyclone damage and an El Niño-induced drought, which led to poor planting conditions in 2015. Fiji's fiscal deficit is projected to increase to the equivalent of 4.7 percent of GDP.

The ADB also downgraded growth forecasts for Solomon Islands for 2016 and 2017, to 2.7 percent and

2.5 percent respectively.

Vanuatu's economy was expected to benefit from reconstruction projects following last year's devastating Cyclone Pam. The country is still recovering from the effects of the cyclone, however. The cost in lost tourism revenue alone was $AUD40 million, equivalent to 4 percent of GDP. Tourism accounts for between 40 and 65 percent of GDP and creates a third of all employment. On August 3, Virgin Australia followed Air New Zealand's January announcement that it will indefinitely halt flights in and out of Vanuatu over concerns about the poor state of Port Vila's runway.

The Pacific's impoverished countries have recorded low and uneven growth rates in recent years. Between 2008 and 2013, only Nauru, PNG and Tuvalu saw annual GDP per capita growth higher than 3 percent. Nauru's was due primarily to Canberra's multi-million dollar funding for Australia's refugee internment camp. GDP per capita decreased in both Kiribati and Palau.

Poverty and unemployment remain entrenched. According to census results, in Tonga only 52 percent of the working-age population is "economically active." In Kiribati, more than 30 percent of the labour force is unemployed, while almost 60 percent of those deemed to be working in Vanuatu are engaged in subsistence agriculture. Samoa is facing the closure of the Yazaki car component plant in 2017. Yazaki supplies parts to General Motors Holden and Toyota in Australia, both of which are in the process of shutting down. The company is Samoa's largest private sector employer, with 1,000 workers.

The economies of the fragile Pacific micro-states depend on mineral extraction, agriculture and cheap labour, including remittances from overseas workers. Rural populations rely on subsistence agriculture and lack access to safe drinking water, sanitation, reliable sources of energy, education and health care. Diseases associated with poverty and poor diet, including obesity, heart disease and diabetes, are rife. Pacific countries are among the most vulnerable countries in the world to climate change and natural disasters.

The imperialist powers, including Britain, France, Germany, the US, Japan, Australia and New Zealand, have exploited and fought over the region for a century. Post-World War II "independence" came late and has been characterised by ongoing underdevelopment and the entrenchment of narrow, corrupt ruling elites. Pacific governments have come under increasing pressure from international financial institutions to carry out pro-market "reforms" at the expense of their populations.

Representing the giant US fishing companies, Washington gave notice in January it would withdraw from the 27-year-old South Pacific Tuna Treaty, its most important commercial, aid and trade pact within the region. The US reneged on its 2016 contract with the umbrella Forum Fishing Agency after a sharp fall in skipjack tuna prices.

Had the treaty lapsed, it would have had devastating economic and social consequences for jobs, livelihoods and government revenues in most Pacific states. A new six-year deal, designed to contain costs for US fishing fleets accessing the Pacific's vast exclusive economic zones, was signed in June but is still awaiting ratification by the US and the 16 Pacific island governments.