



The Pacific Speed of Growth

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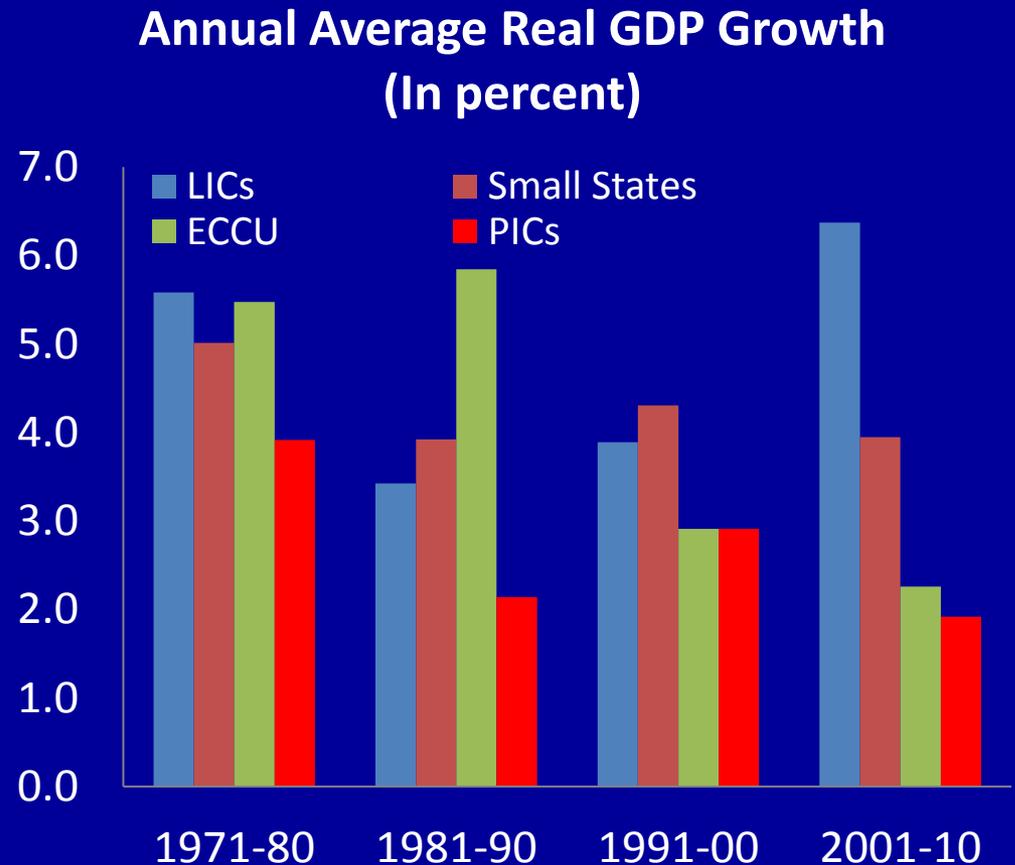
USP

Questions

- What determines growth in PICs?
- Why did PIC growth slow during the 2000s?

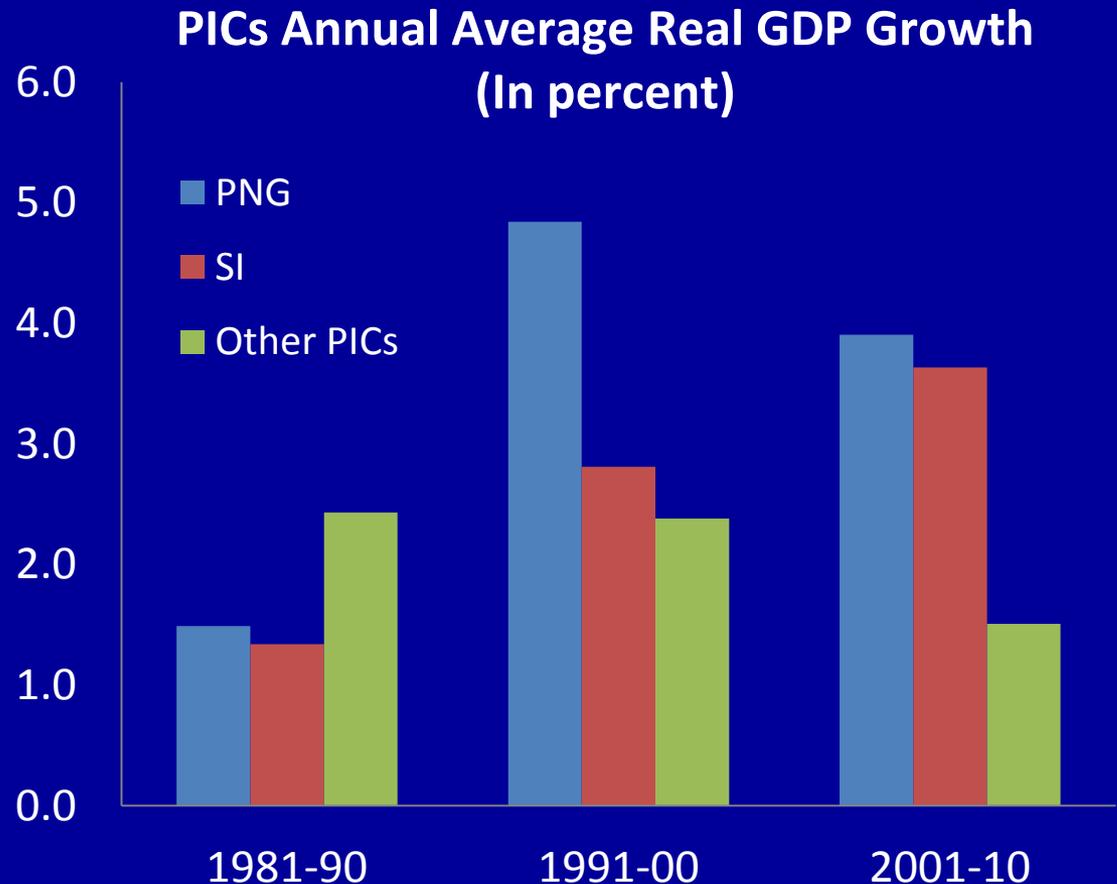
Growth has been slow and become slower

- Global crisis hit
PICs hard
- Seven PICs below
pre-crisis income
- This is the slowest
decade
- Growth has fallen
behind others

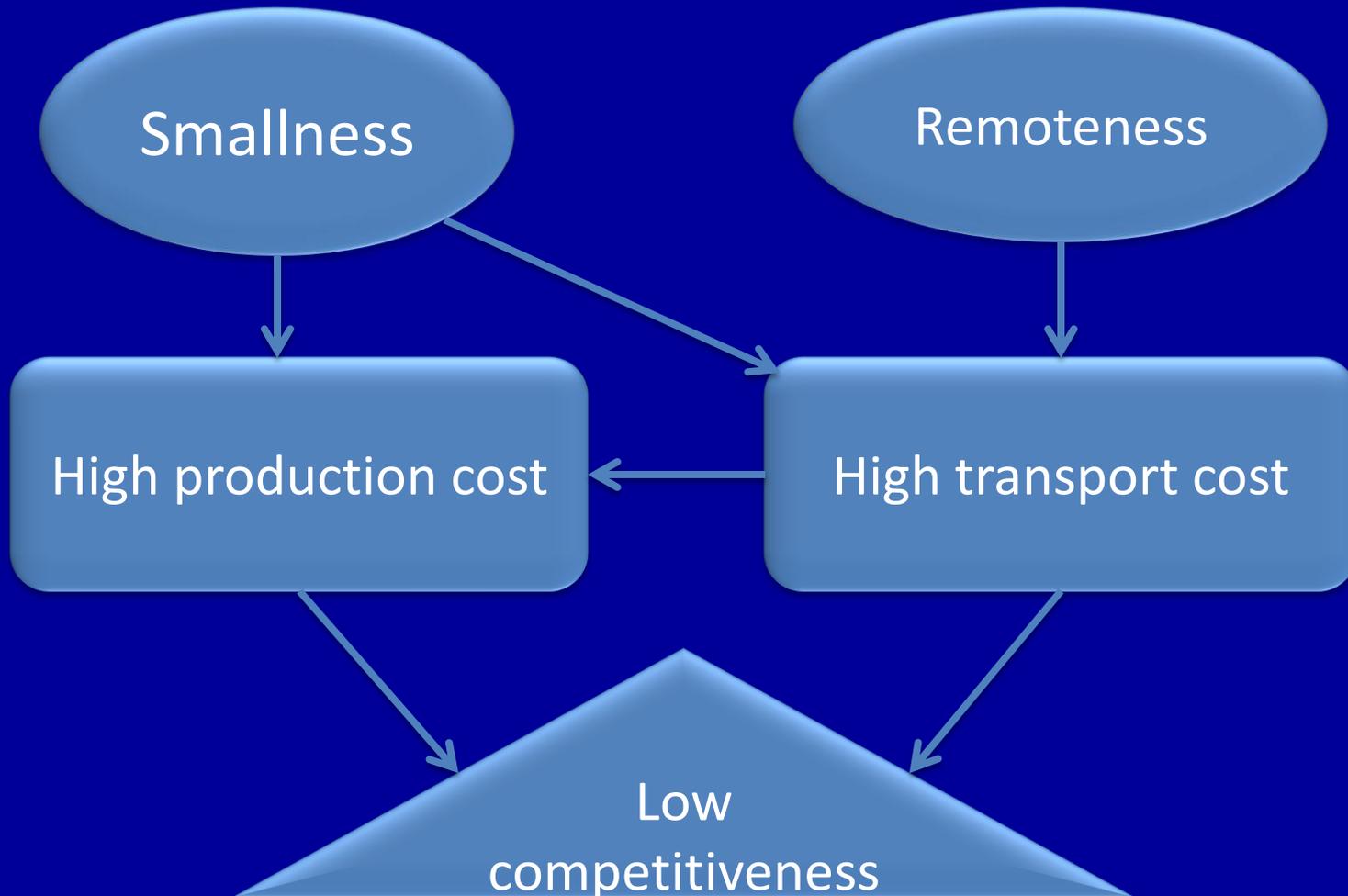


PICs have diverged

- PNG and SI. Have surged ahead
- Other PICs have slowed
- Growth has become less volatile



Growth constraints: theory



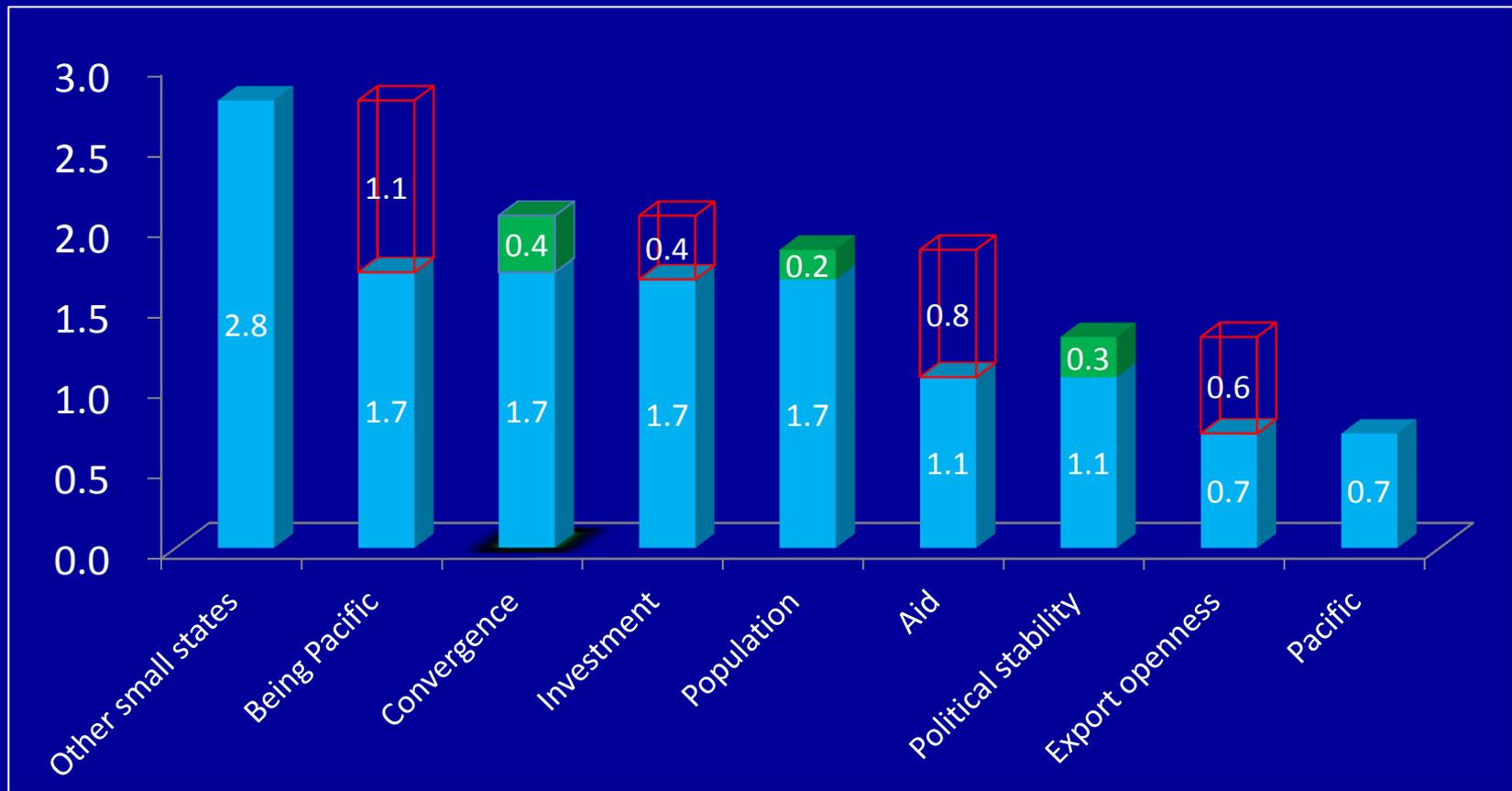
Expanded growth Convergence Model

(Sample: Cross-sectional, 45 small states, 1992-2008)

- Per capita GDP growth is a function of:
 - Initial income level (per capita GDP in 1992) +
 - Investment (in percent of GDP) –
 - Population growth –
 - Aid (in percent GNI) ±
 - Political stability +
 - Openness +
 - Growth volatility –
 - Remoteness –
 - Regional dummies Pacific –
 - Others Many are tested, but insignificant

The Pacific Speed: Geography and policies do matter

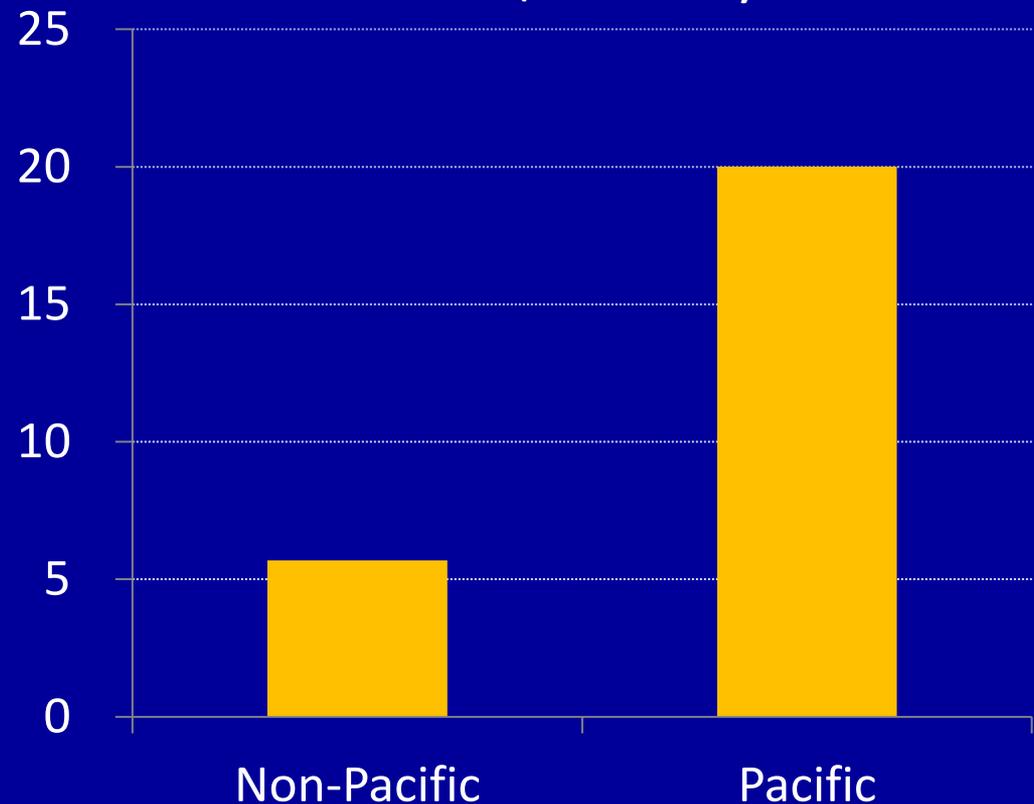
(Average annual p.c. GDP growth, in percent)



The Role of Aid in Small States

- Helps raise living standards
- much aid is for poverty reduction rather than growth
- Possible to increase growth in the long run, e.g., human capital

Aid as Percent of Gross National Income
(1992-2008)



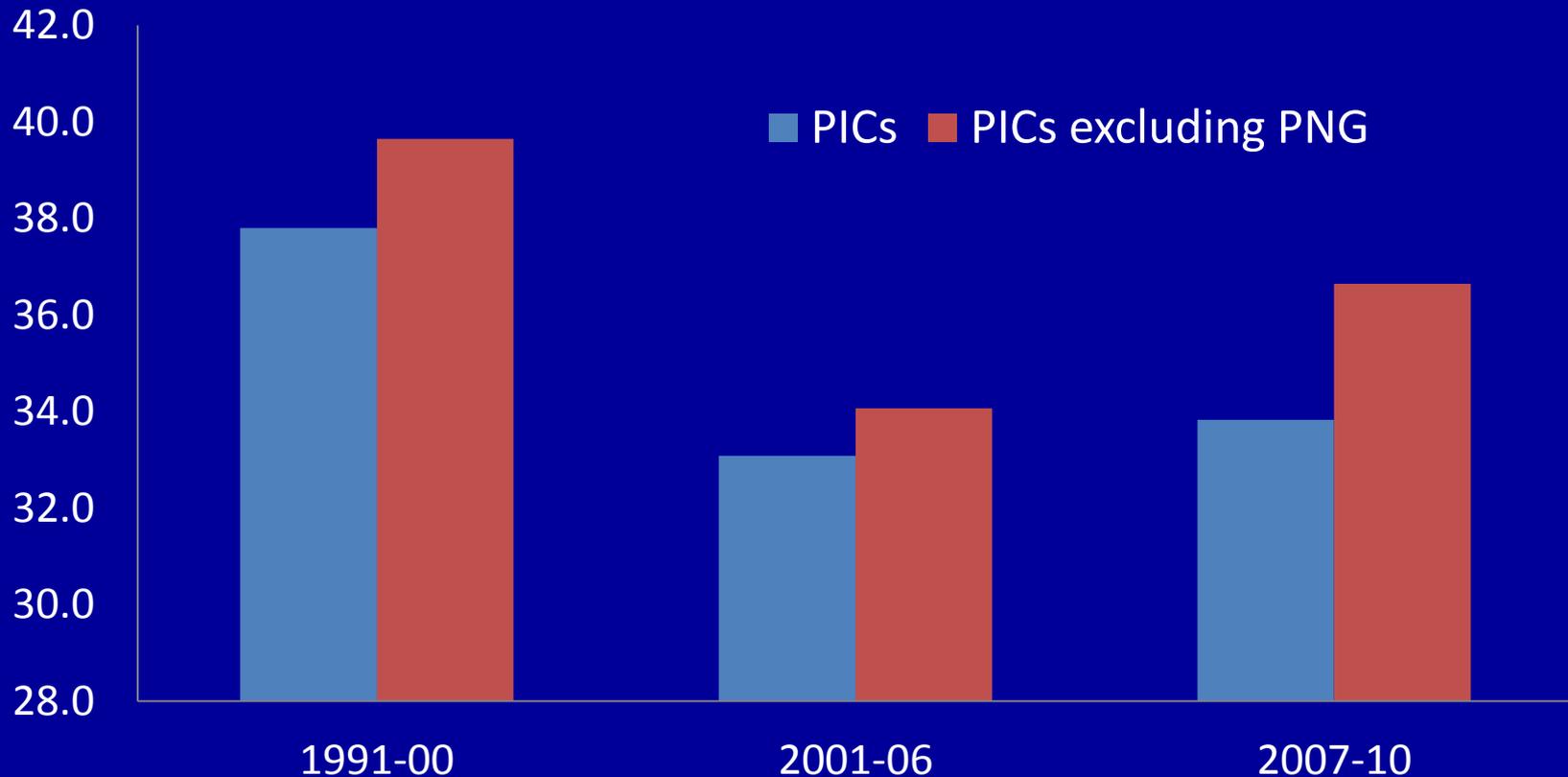
Why has growth slowed?

(Change in determinants over time)

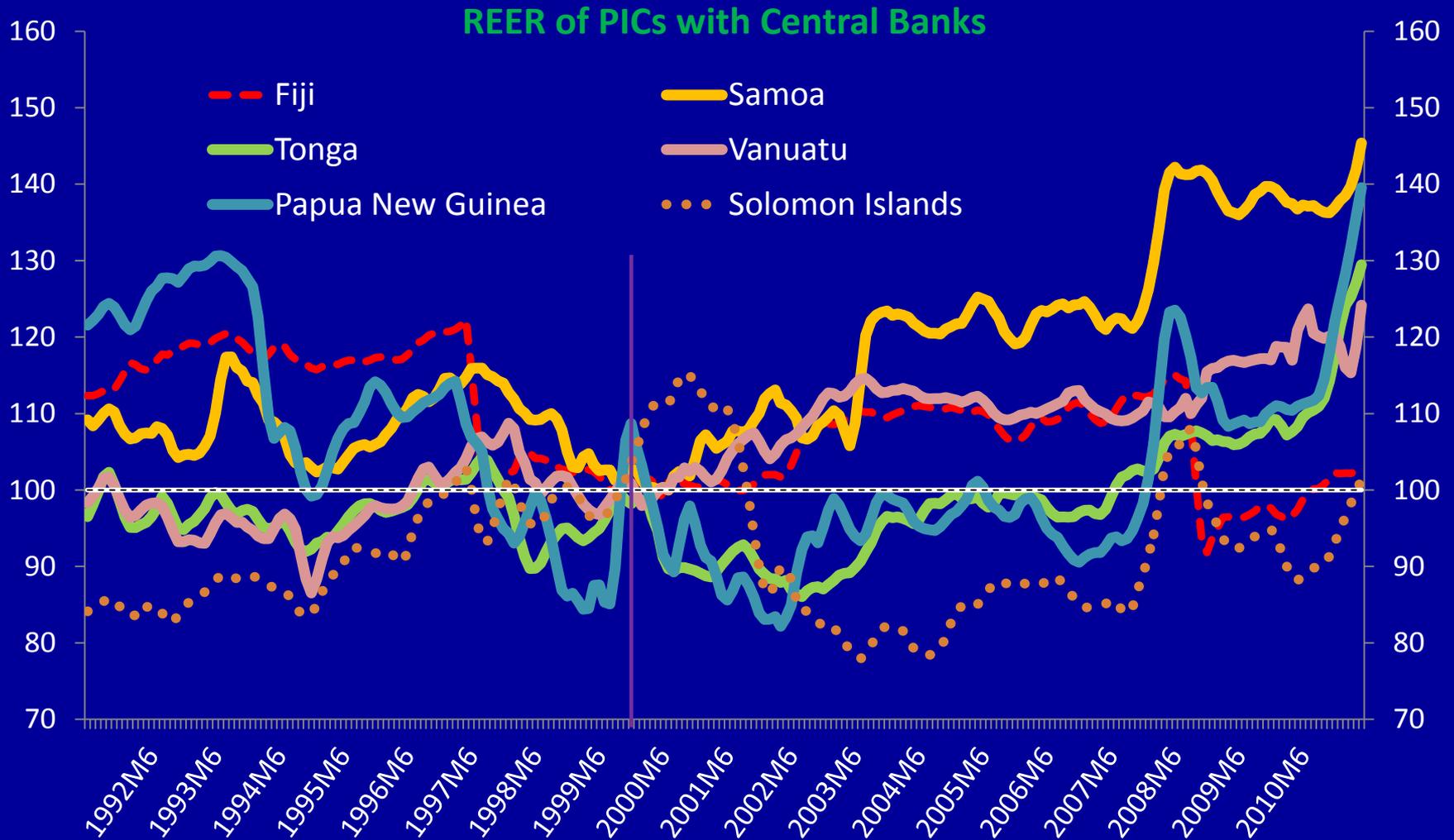
Determinant:	Change
Initial income level	Little
Investment	Little
Population growth	Little
Aid	?
Political stability	?
Export openness	↓
Growth volatility	↓
Remoteness	No
Regional dummies	No

Export openness has fallen

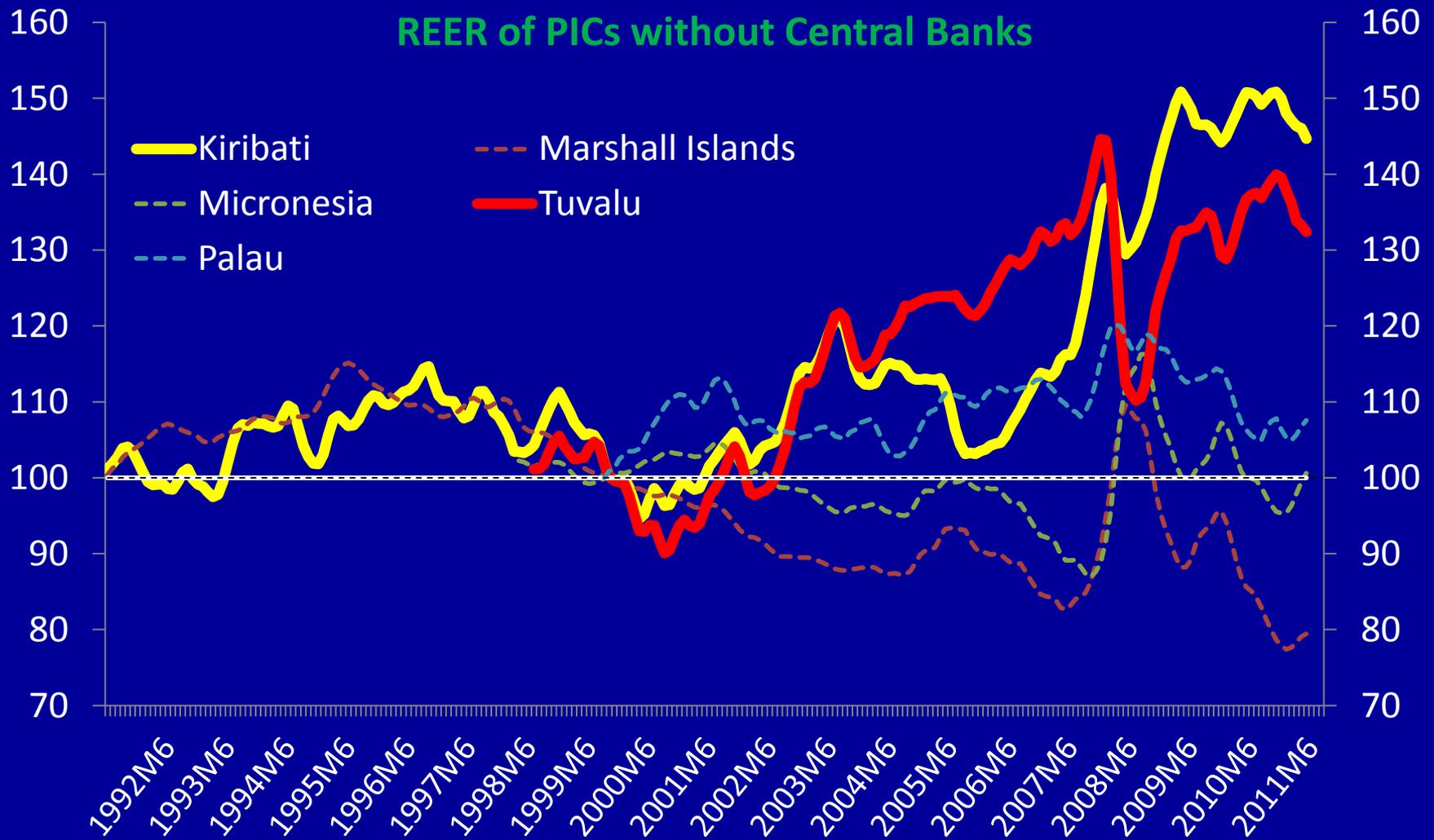
Goods and Services Exports (In percent of GDP)



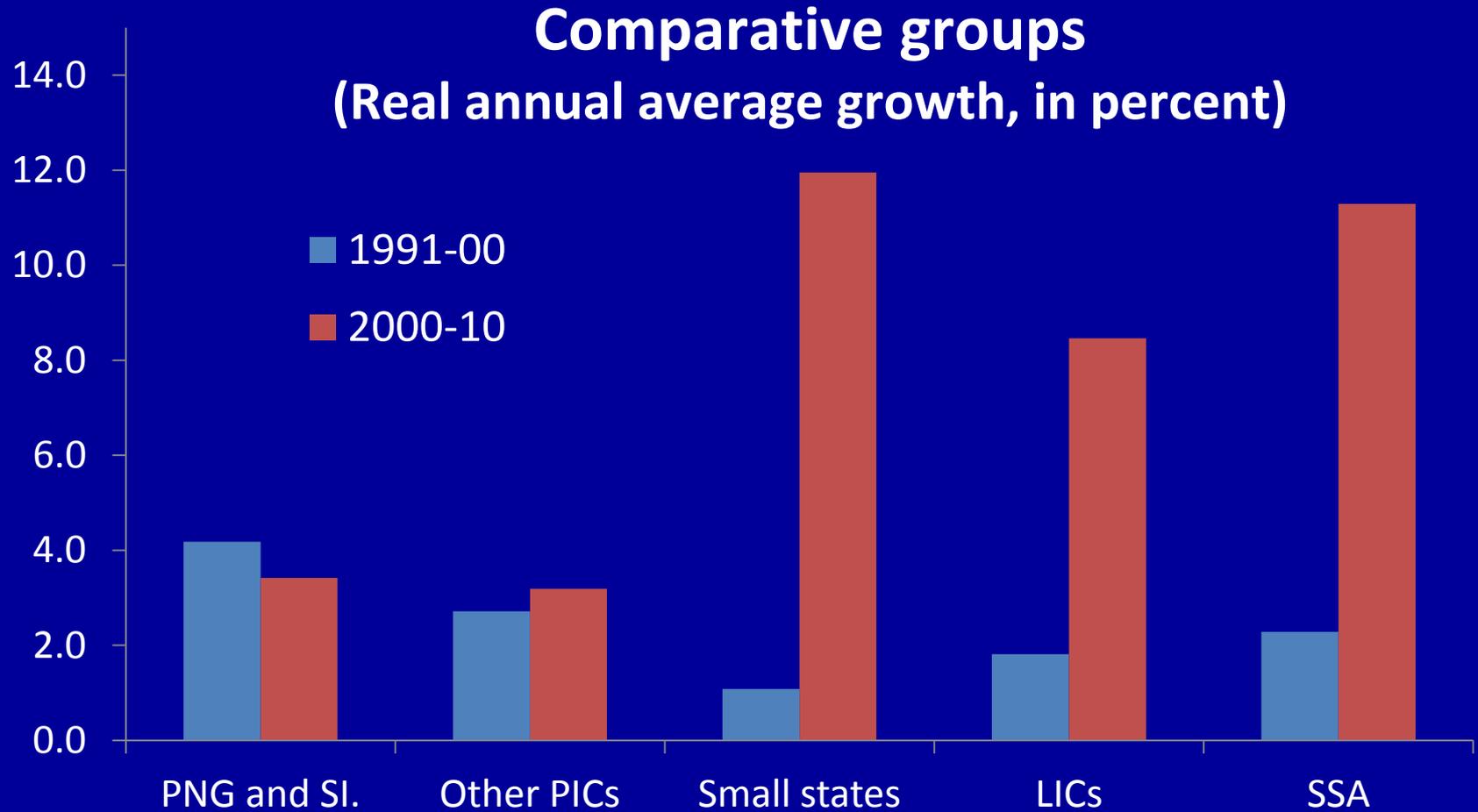
Exchange rates have become overvalued? (1)



Exchange rates have become overvalued? (2)



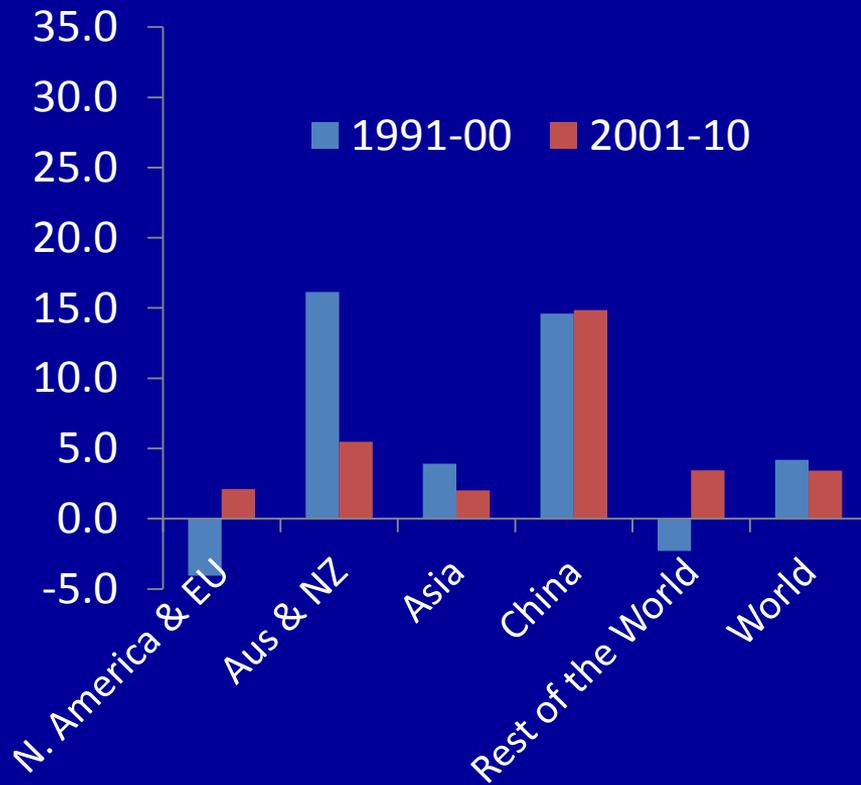
What do exports show?



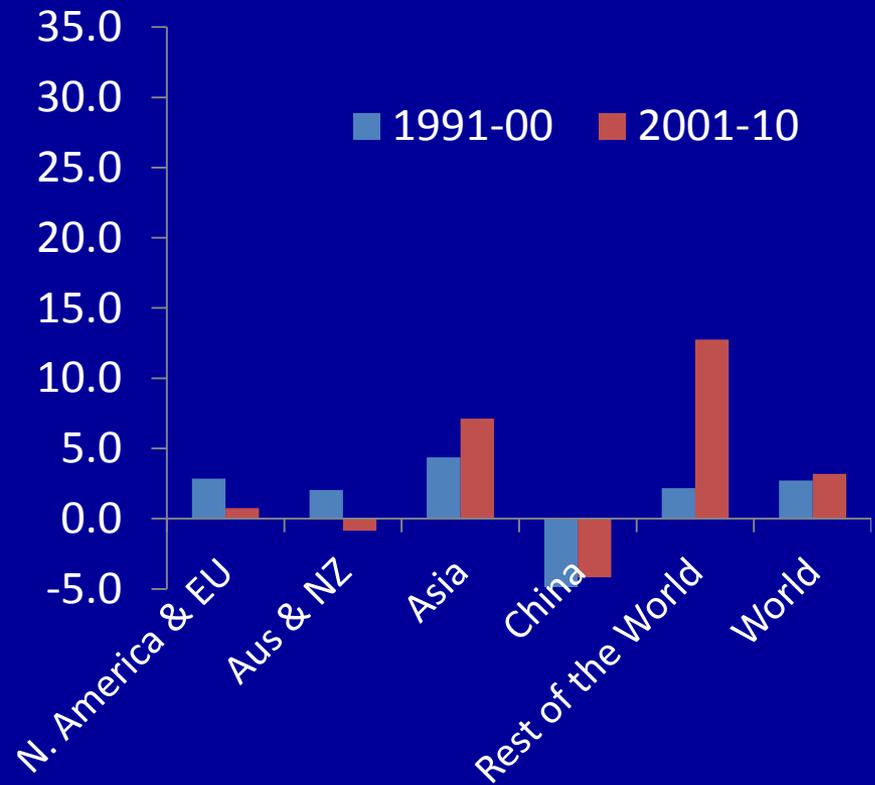
Export growth by destination

(Real annual average growth, in percent)

PNG and Solomon Islands



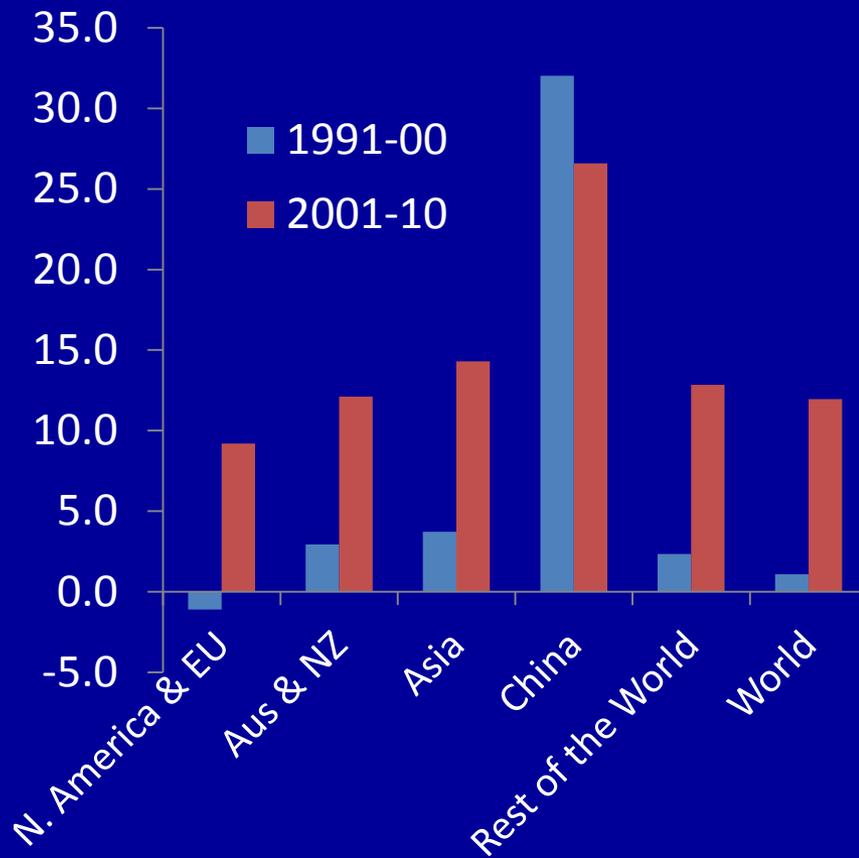
Other PICs



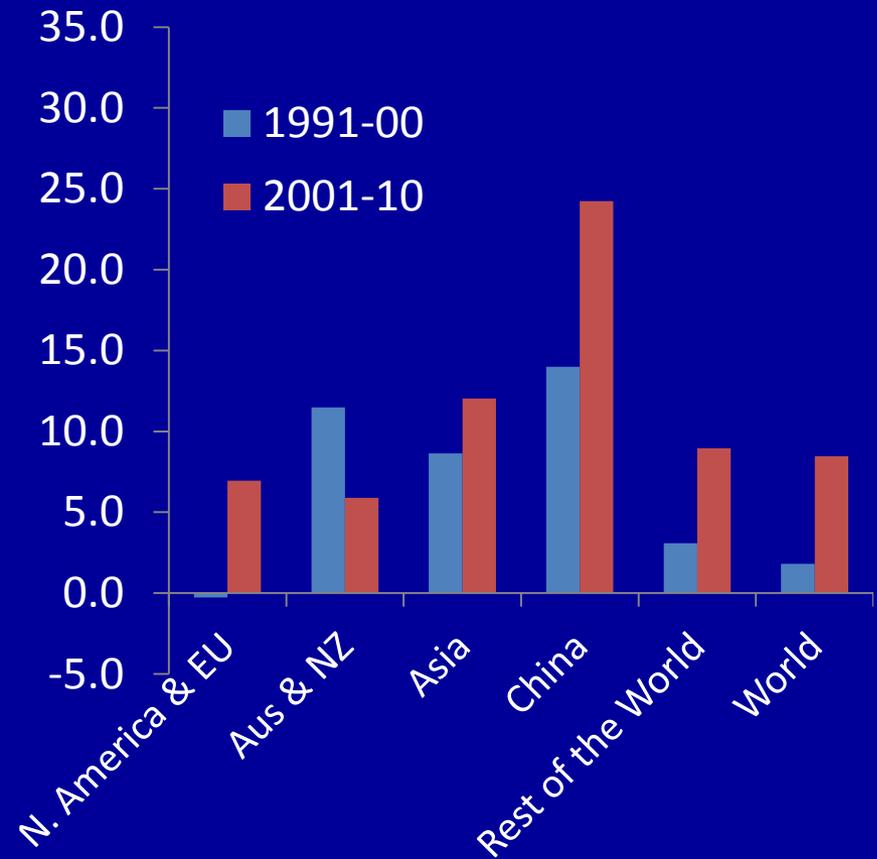
Other groups have surged

(Real annual average growth, in percent)

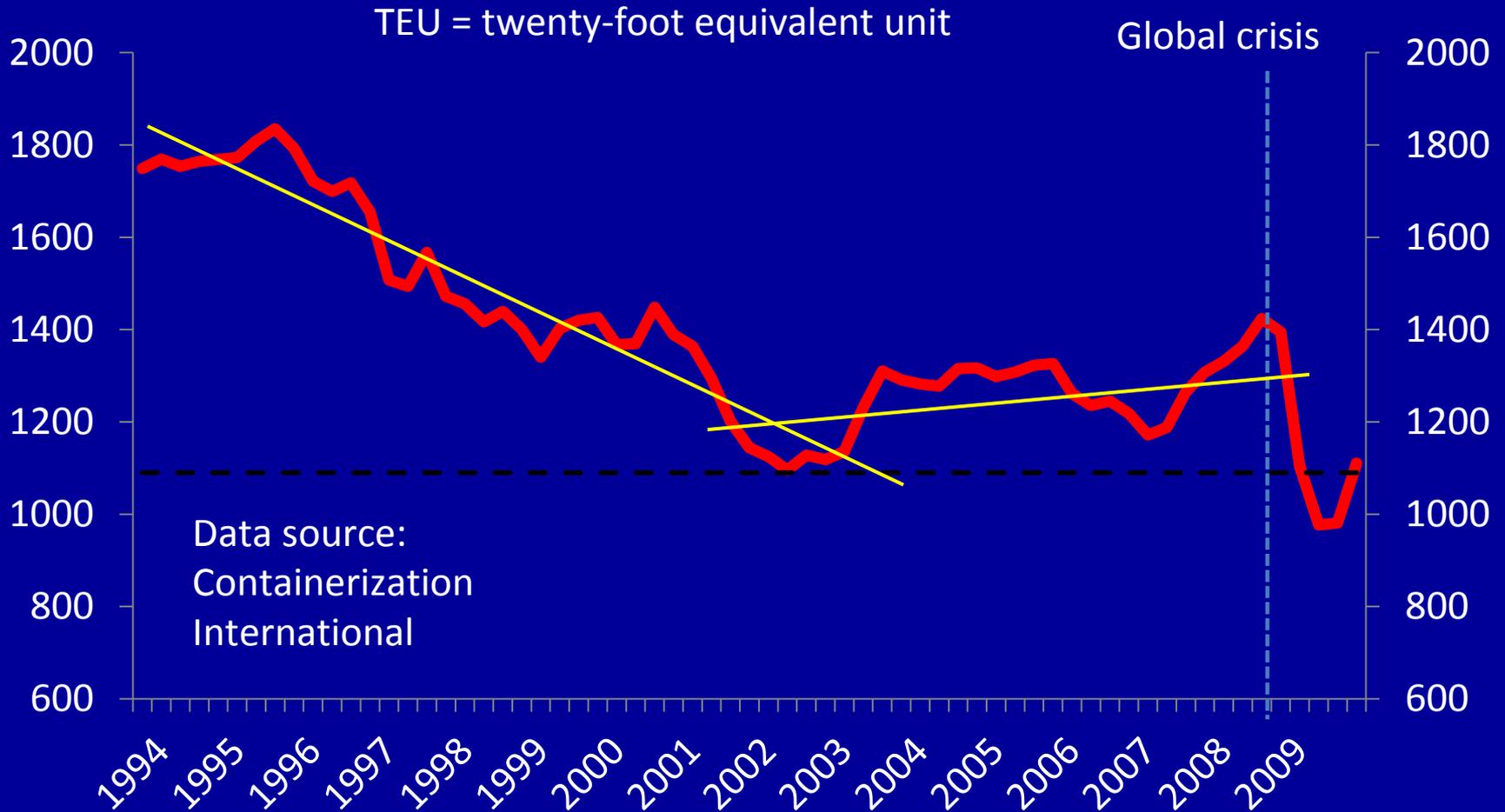
Small States



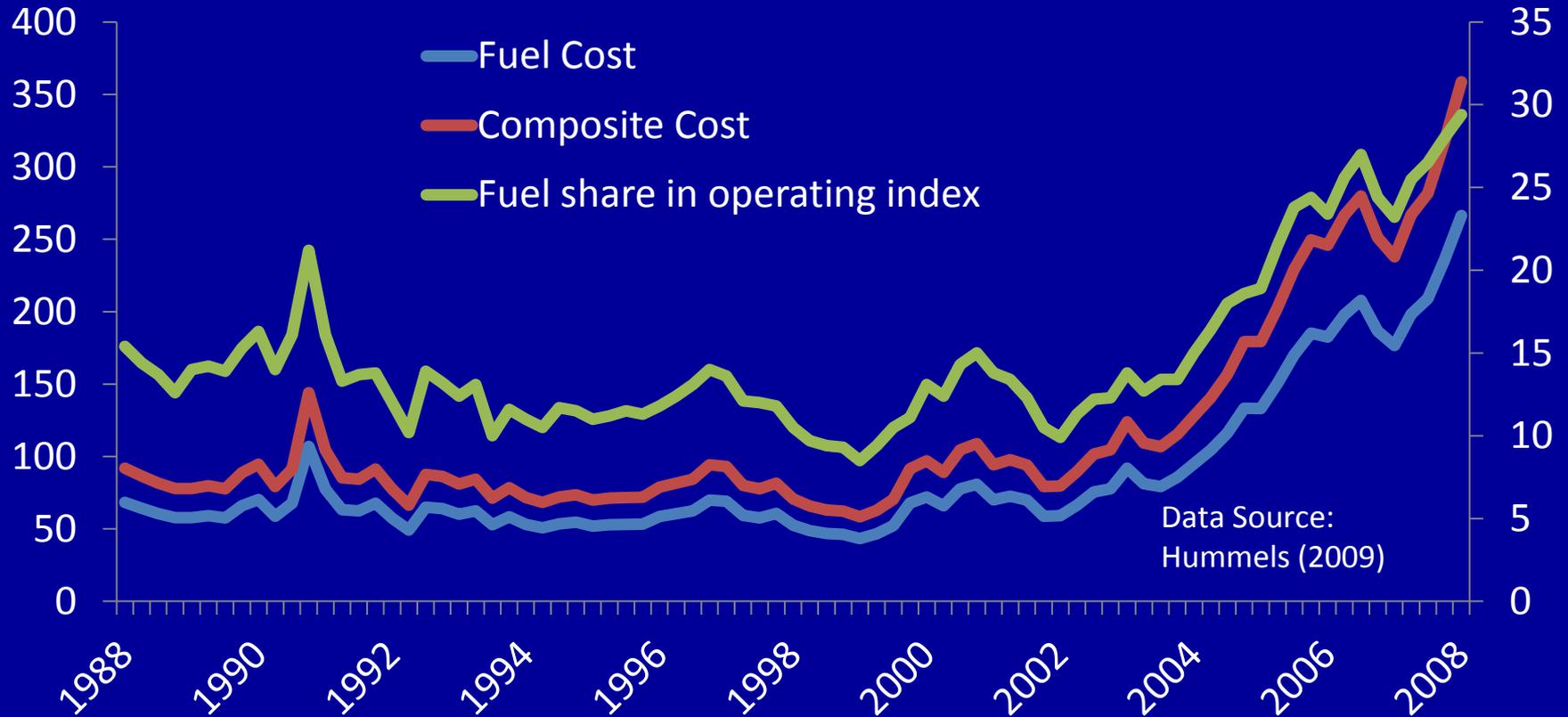
Low-income countries



International containerized freight (US\$/TEU, deflated by US GDP deflator)



Trends in airline costs (index)



Policy implications (1)

- **Speed limits:** realistic expectations and prudence.
- **Macroeconomic policy consistency:** ensure competitiveness as well as stability.
- **Structural policies:** raise efficiency and supply response; competitive exchange rates may not be feasible or enough.

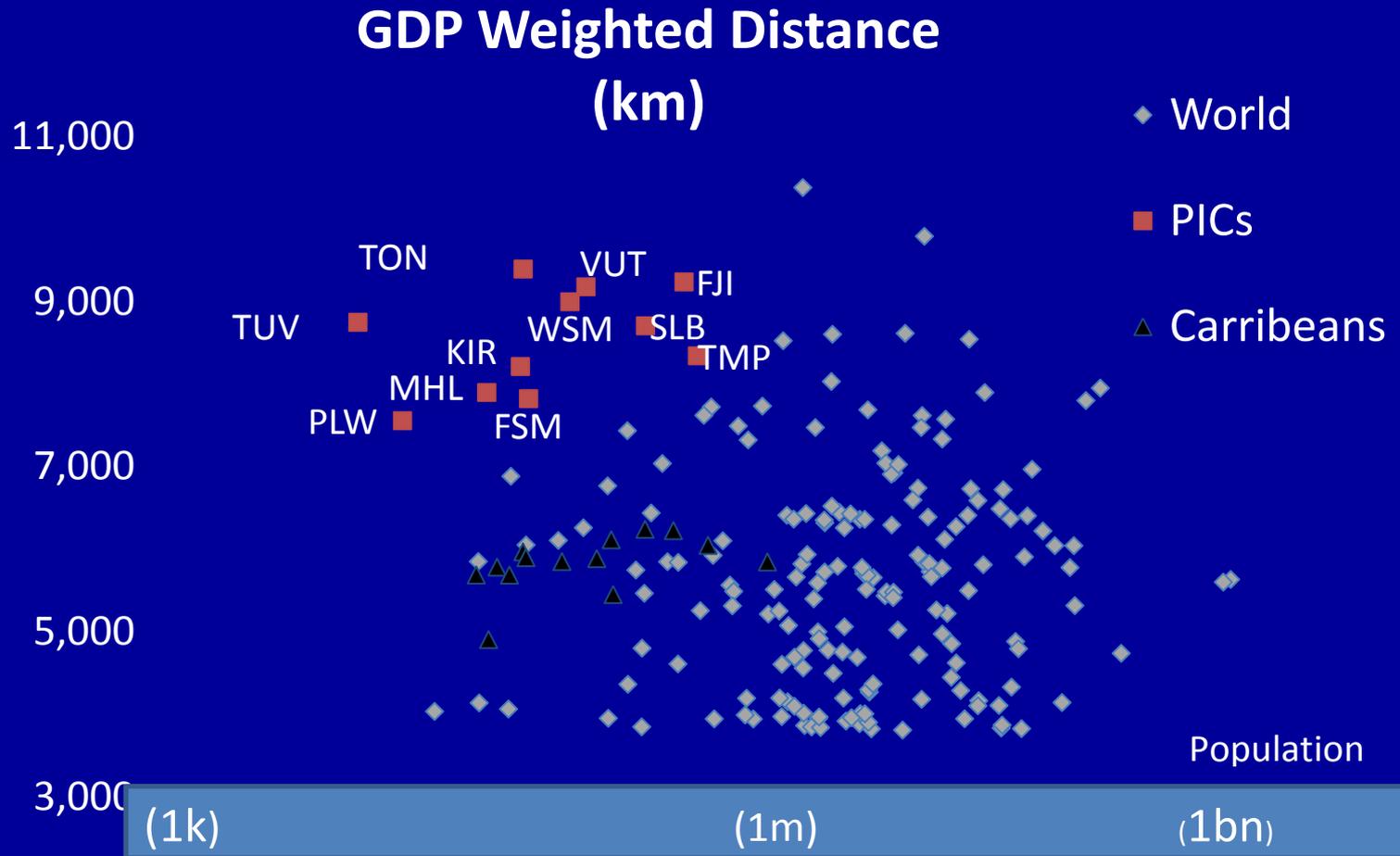
Policy implications (2)

- **Supporting private sector:** encourage investment and exploit comparative advantage in resource-based industries.
- **Trade policy:** look north while deepening integration with traditional markets, especially with respect to labor services.
- **Transport/communication:** regional approaches/ integration to reduce cost and increase competition?



Thank You

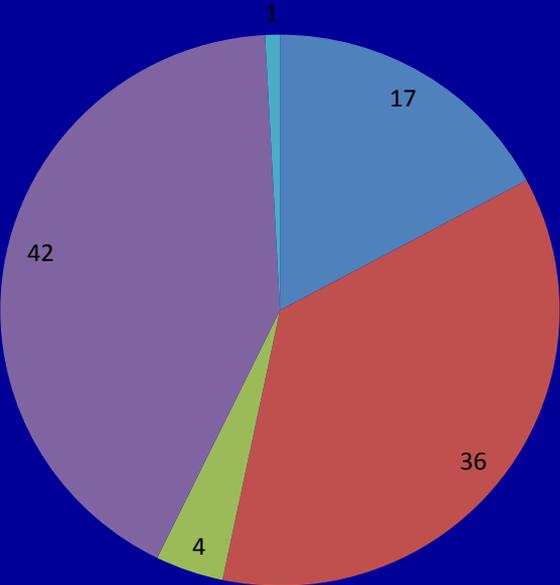
PICs are small and remote



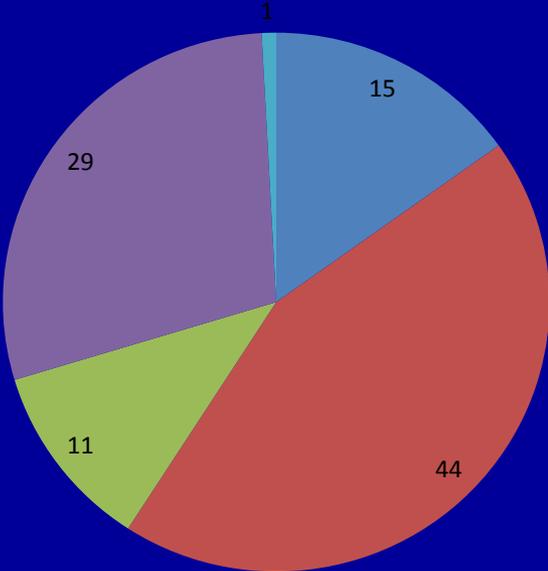
What do exports show? (1)

PNG and Solomon Islands

1992-2000



2001-2010

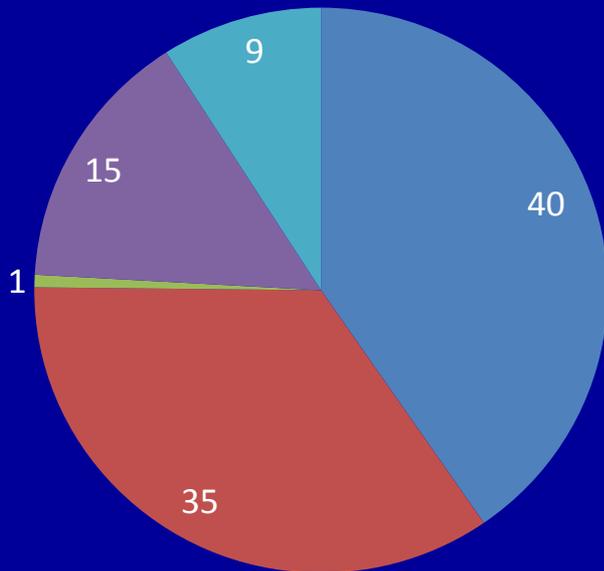


- N America + EU
- Aus & NZ
- China
- Rest of Asia
- Rest of the World

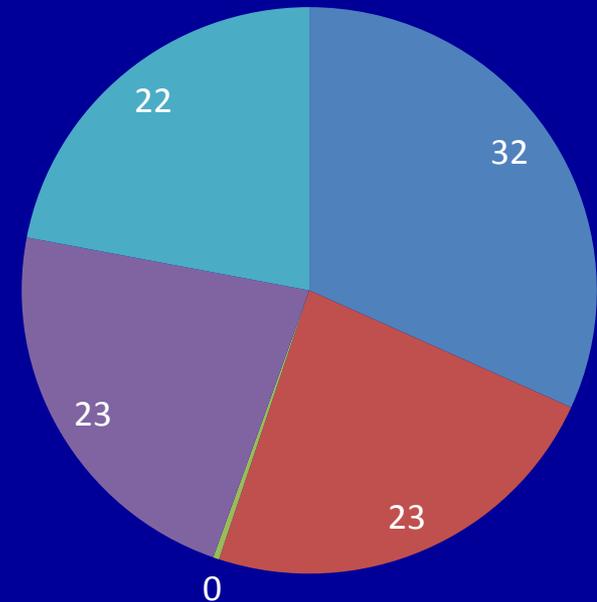
What do exports show? (2)

Other PICs

1992-2000



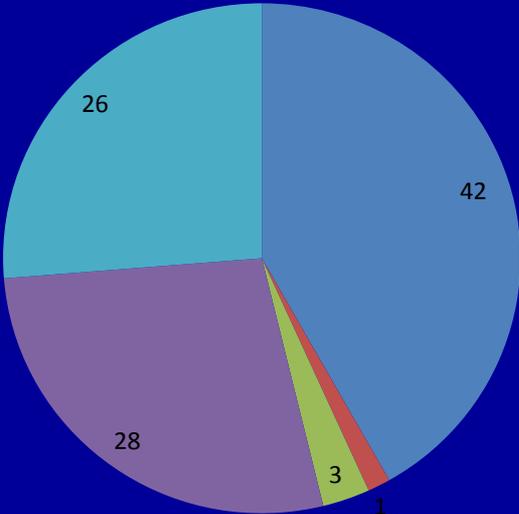
2001-2010



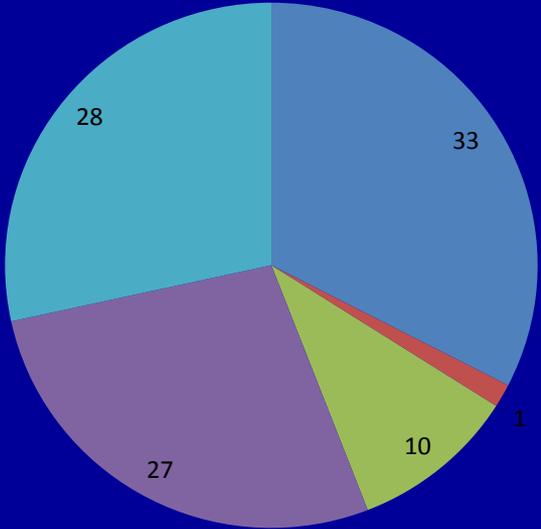
What do exports show? (3)

Small States

1992-2000

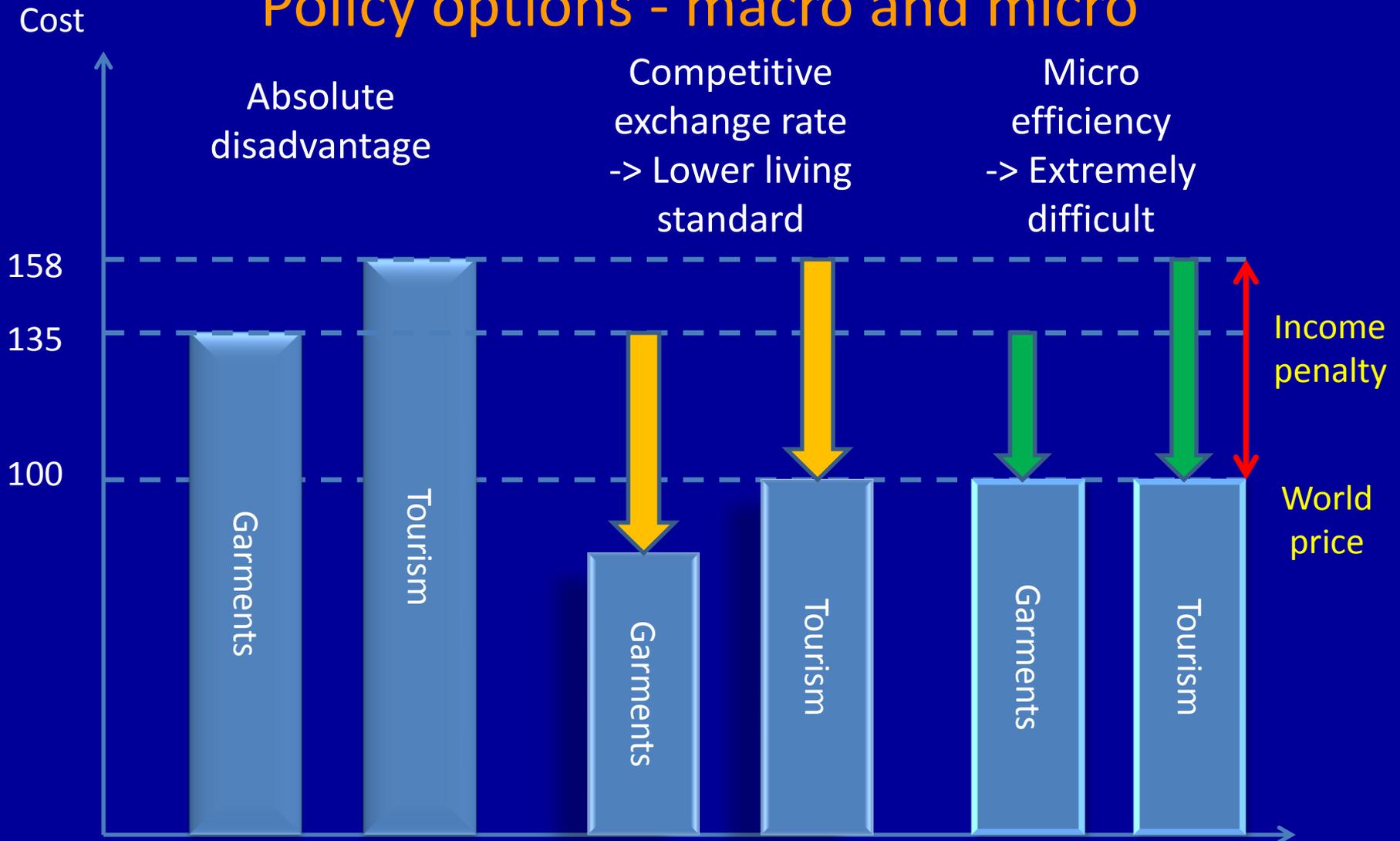


2001-2010



- N America + EU
- Aus & NZ
- China
- Rest of Asia
- Rest of the World

Increasing competitiveness: Policy options - macro and micro



Growth Constraints: Empirics

Sample: 45 countries (averages over 1992-2008 subject to data availability)

Africa (14)	America (12)	Europe (4)	Pacific (9)	Asia (6)
Botswana	Antigua and Barbuda	Estonia	Fiji	Bahrain
Cape Verde	Bahamas, The	Malta	Kiribati	Bhutan
Comoros	Barbados	Montenegro	Micronesia, F.S.	Brunei
Djibouti	Belize	San Marino	Palau	Maldives
Equatorial Guinea	Bermuda		PNG	Qatar
Gabon	Dominica		Samoa	Timor-Leste
Gambia, The	Grenada		Solomon Islands	
Guinea-Bissau	Guyana		Tonga	
Lesotho	St. Kitts and Nevis		Vanuatu	
Mauritius	St. Lucia			
Namibia	St. Vincent and the Grenadines			
Sao Tome & Principe	Suriname			
Seychelles				
Swaziland				