CHAPTER 4

THE MIRAB HYPOTHESIS

4.1 Introduction

In this chapter, the MIRAB hypothesis is summarised and discussed, with reference to any differences or similarities it may have with other findings or models concerning aspects of the development process in South Pacific microstates. Historically, the MIRAB acronym first appeared in 1984, in an article by Watters (Watters 1984). The MIRAB hypothesis, as it came to be known, was the subject of subsequent seminal articles by Bertram and Watters (Bertram and Watters 1985; Bertram 1986; Bertram and Watters 1986), based, in part, on research carried out by these authors for a New Zealand government-commissioned study of New Zealand policy towards the Cook Islands, Niue, Tokelau, Kiribati and Tuvalu[1]. The MIRAB framework, which Bertram and Watters[2] devised to explain the economic reality of these five countries, represented an original and insightful contribution to the long-standing debate on the development of small island economies in general, and South Pacific microstates in particular. In the next section, the various components of the hypothesis are examined in turn.

4.2 The MIRAB hypothesis

As the name implies, this hypothesis rests upon the combined effects of migration, remittances, aid, and bureaucracy on the economies concerned. While each of these elements is not peculiar to microstates, or to the South Pacific, Bertram and Watters suggested that, as a group, they have come to assume a central role within these islands' mode of production. In contrast to larger economies where such variables as aid and migration may be viewed as peripheral, if important, to the development process, they are now seen to dominate this process in the five microstates under consideration. The fundamental MIRAB proposition is that the old export-oriented 'colonial order'

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[1] Henceforth referred to collectively as 'MIRAB countries', 'MIRAB economies', or 'MIRAB group'.

[2] These two authors are occasionally referred to as 'MIRAB proponents' in this thesis.

has been replaced, in these countries, by a new rent-driven economic order. The rent income[3] in question consists of unusually high levels of foreign aid, and remittances from migrants. It is augmented, in some cases, by earnings from philatelic sales and fishing licences. Both aid and remittances have proven a very strong and durable link between the recipient and the source country, the latter often a metropolitan power with which the MIRAB economy has strong economic and/or political connections.

Thus, the traditional link between domestic output and societal welfare has been superseded by a situation in which disposable income and consumption possibilities are largely exogenously determined. Under these circumstances, the allocation of scarce resources in order to maximise output no longer constitutes the central economic problem confronting these 'rentier' societies. More rationally and beneficially, it is argued (e.g. Bertram 1986, 1993), these countries should direct their efforts towards the preservation and enhancement of their claim on the various forms of rent, as a means of maintaining and improving their living standards.

Clearly, this view of the development prospects of these microstates is not one which is in harmony with the development paradigm which typically underlies the pronouncements of island governments and aid donors. Officially at least, both groups continue to favour the ultimate goals of self-reliance and independent development. The popularity of these targets is most apparent in National Development Plans. For instance, Kiribati's Sixth Plan included 'progress towards collective self-reliance and economic independence' (Kiribati 1988, p. 19) among its national goals and objectives. Elsewhere, the plan read:

> A long way still remains before we can substantially decrease dependence on development assistance. It remains, however, a long-term objective to decrease our dependency on such assistance. (Kiribati 1988, p. 6)

In a magazine interview, the Prime Minister of Tuvalu similarly asserted:

> One of the major policies of my government is to make the country economically independent. We would like to obtain a greater degree of self-reliance where we would like to channel and utilise our own resources moneywise for developmental projects. (*Islands Business* Nov. 1989, p. 65)

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[3] The term 'rent' or 'rent income' is used interchangeably in this thesis to refer to income not directly associated with any productive activity on the part of the recipient, and accruing to a country simply by virtue of its identity or location (Ogden 1989, p. 368).

These objectives are founded on the view that careful and judicious use of scarce resources will be able to expand productive activities, and hence provide employment opportunities for rural and urban dwellers alike. This optimism is reflected in the following statements of objectives:

> Our principal aspiration is to make Kiribati more viable in the short run, working towards economic self-sufficiency and social fulfilment in the long run. This can only be achieved by utilising external resources optimally, by tapping the scarce domestic resources available, and by containing aspirations. (Kiribati 1988, p. 16)

> Increasing diversification of the economy in production leading to greater self-reliance and generation of cash employment (Kiribati 1992, p. 18).

According to Bertram, such plan rhetoric may create problems:

> Provided that it is understood that the reason for writing the plan is to provide attractive window dressing to fit the prejudices of potential aid donors or their electorates, no harm need follow. If, however, island governments and their populations take seriously the plan's pronouncements in favor of self-reliance, the consequences can be serious. Not only are expectations of rising self-reliance in this sense likely to be disappointed, but the pursuit of unattainable goals can involve the squandering of resources, degradation of local environments, and subversion of local cultures. (1993, p. 248)

This is a view subscribed to by other authors (e.g. Chambers 1984, cited in Pollard 1989, pp. 68-9), who point out that islanders themselves are often unaware of how much development is possible, or even of what development entails. In the view of MIRAB proponents, the type of transformation called for by development plans, towards a modern capitalist economy based on productive activities, is simply unattainable. Rather, the only transition which these economies have experienced, is that between a traditional mode of production (with a few enclave export activities) and a 'rentier' status, in which the structure of economic incentives hinders domestic productive activities. An overview of each element of this MIRAB process is now provided.

4.2.1 Migration

Migration is a widespread and persistent phenomenon in the South Pacific region. According to Connell (1990, p. 1), it is both of an internal and external nature, but it has 'increasingly been a movement *away* [emphasis added], especially from the smaller states'. In some of these smaller states (e.g. American Samoa, Niue, Wallis and Futuna Islands), more islanders now live overseas than in their own countries. In common with emigration occurring in other parts of the world (e.g. from Mexico to the United States), international migration in the South Pacific usually stems from economic motives. This is true also of emigration originating in MIRAB countries. Through their political links with New Zealand, Niue, Tokelau and the Cook Islands enjoy unrestricted access to that country, a factor which has greatly encouraged emigration from these islands (see 5.2.4 and 5.3.3.1). In the case of Kiribati and Tuvalu, the lack of unrestricted outlet has kept overseas migration to much lower levels, but has not prevented it.

Even when the volume of emigration from a MIRAB country is large, it is not usually accompanied by the severance of cultural and economic links with the home country. Cultural links, firstly, are maintained through the incorporation of migrants into an existing expatriate community in the metropolitan country. These links are also reinforced by frequent visits 'back home'. Economic links are in the form of monetary or in-kind remittances from migrants. Thus, a special kind of dual economy emerges, one whose traditional and modern sectors exist in separate countries, but are part of a single economic entity, nonetheless. For instance, in Bertram's words:

> The "modern" capitalist sector of the Cook Islands economy, for example, is located in New Zealand, not in the Islands — and a large proportion of the active labor force of Cook Islanders is employed in that sector. (1986, p. 820)

Perforce, this economic dualism is reflected in the geographical dispersion of family ('kin') groups, as their members are allocated to that sector where the value of their labour is greatest. This kind of international division of labour has been termed 'trans-national corporation of kin' by Bertram and Watters (1985, p. 511). The idea conveyed by this concept is that, like a multinational corporation, islander groups spanning different countries strive to maximise their 'shareholders' equity' through such techniques as financial transfers, asset and income concealment, transfer pricing, and the exchange of services in-kind (Bertram 1993).

Thus, the 'trans-national corporation of kin' concept implies that emigration is not necessarily an unwelcome feature of MIRAB economies, but that it may well represent a rational and efficient allocation of labour, destined to maximise income and consumption opportunities for the family group as a whole. This proposition is demonstrated formally by Poirine (1995), in the context of a two-person, two-period model: in that framework, the intertemporal utility of *both* individuals is maximised when the non-migrant finances the establishment costs of the migrant, and is repayed with interest at a later stage.

4.2.2 Remittances

In those countries with links to a large overseas islander community, the flow of migrant remittances is an important feature of the economy, both from a microeconomic and a macroeconomic point of view. Thus, according to Bertram and Watters:

> The flow of remittances from overseas-resident members of Island households is a major source both of cash incomes in the village economy, and of import capacity in the balance of payments for each of our five case studies except Niue. (1985, p. 504)

From a microeconomic perspective, remittances allow consumption possibilities hitherto unattainable by the recipient. The significance of remittances in this role may be gauged from Loomis' (1990, p. 75) finding that, in one of the poorer Cook Islands in 1985, cash remittances were as high as 12 per cent of average household income from other sources. He also found that the largest share of cash remittances (40 per cent) was devoted to food purchases, while consumption as a whole amounted to 64 per cent of the total (ibid., p. 76). To a lesser extent, remittance inflows may also promote investment in the MIRAB economy: according to Loomis, 25 per cent of cash remittances were spent on 'productive' activities associated with small business, planting and fishing, while a further 6 per cent were saved (loc. cit.).

From a macroeconomic perspective, the importance of remittances for some countries is reflected in the fact that this form of overseas income can sometimes exceed proceeds from commodity exports (see 5.2.2). Connell's summary of the benefits of remittances in some South Pacific countries is also applicable to some MIRAB economies:

> In the Polynesian states especially, remittances have become crucial to welfare, have significantly raised and maintained living standards and eased national balance of payments problems, despite their contribution to inflation, whilst also contributing to employment, mainly in the construction and services sectors. (1990, p. 9).

However, he also contends that remittances have encouraged demand for imported consumer goods, and that little of this income has been invested. This is a view supported by Ahlburg (1991, p. 35), but disputed by Brown (1994)[4].

The migration-remittances phenomenon in the South Pacific has been the subject of detailed studies by economists, geographers and demographers (e.g. Loomis 1990; Ahlburg 1991; Brown 1994; Poirine 1995). While a review of such literature is beyond the scope of this thesis, it is worth noting that its recurring themes are the motivations for remitting, the determinants of the 'remittance effort' and the social and economic impact of remittances 'back home'. Studies cited by Bertram and Watters (1985, pp. 498-9) and Brown (1994) reveal that the migration-remittances nexus postulated by the MIRAB hypothesis is experienced in other parts of the world. A quote by Brown (ibid., p. 348) from a study on Mexican migrants is particularly revealing:

> The village has, in effect, become a rest, recreation and retirement centre for the current successful migrants, and a reproduction centre for future migrants. Although many individuals gain by this process, the village economy remains frozen in its traditional low-productivity system (Mines 1981, p. 159).

If the word 'village' is replaced with the word 'island' in this quote, the similarity of concerns with the MIRAB hypothesis becomes apparent.

4.2.3 Foreign aid

As was mentioned in chapter 1, MIRAB countries are the recipients of very large amounts of foreign aid, relative to the size of their economies and that of their populations. Indeed, with the exception of the Cook Islands, these countries are arguably the most aided countries in the most aided region of the developing world (see tables 1.1 and 1.2). Reasons behind the magnitude of the aid flows to MIRAB and non-MIRAB countries of the South Pacific are not immediately discernable. Traditional factors of high aid intensity, such as small land areas and populations, isolation, and resource scarcity are by no means exclusive characteristics of South Pacific countries. Nor can this intensity be explained by the necessity to relieve severe economic difficulties or human suffering of the kind that affects other parts of the world. Even if they were to receive no foreign

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4 While these two studies deal primarily with non-MIRAB countries (Tonga and Western Samoa), they imply that their views on the use of remittances are equally valid for other remittance-receiving South Pacific countries.

aid at all, countries in the SPR would still enjoy a comparatively high standard of living, because their geographical location makes for a generally benign and bountiful environment. Thus, their traditional mode of production has been famously described by Fisk (e.g. 1981, p. 4) as 'subsistence affluence', meaning that 'the land and sea resources available to the village mode of production are sufficient to guarantee the basic needs of the population' (Bertram and Watters 1985, p. 511). In other words, most people in the SPR are guaranteed a minimum standard of living as long as they are directly or indirectly involved in traditional agricultural and fishing activities. Admittedly, this reliance on their environment means that the islanders are vulnerable to climactic fluctuations and natural disasters, but not more so than other small island countries, on the whole[5].

Why, then, is aid so abundant? The answer may lie with the motivations of the donors rather than the needs of the recipient. Some authors (e.g. Maizels and Nissanke 1984; Knapman 1986) have suggested that the allocation of bilateral aid between countries is best explained by donors' interests, so that 'any close correspondence between aid flows and requirements is likely to be purely coincidental' (Knapman 1986, p. 140). It may be argued that, in their dealings with South Pacific countries, developed nations had always had their own interests, be they economic or strategic, as their prime concern. Thus, for many Pacific nations, overseas capital inflows did not start with aid, but originated with the establishment, by colonial powers, of export enclaves, sea and air ports, and public administrations in the islands. In the words of Ward (1989, p. 239), 'trade followed the flag'. The now-exhausted phosphate diggings on Kiribati's island of Banaba, to cite just one example, bear witness to this 'export-led' colonial order. For critics of aid, the transformation of foreign capital inflows from private to official ones after independence has not been accompanied by a concurrent change in the self-serving objectives of developed countries. Maizels and Nissanke (1984) have shown that the altruistic pronouncements of aid donors often serve to conceal less admissible aims such as the promotion of export markets, or the securing of imports. They also found political and strategic considerations to be an important motive for the provision of bilateral aid. Even though the strategic importance of the South Pacific region has probably decreased with the end of the Cold War, this region is still characterised by competing spheres of influence. Aid is a favourite tool of the competing nations,

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5 A list of disaster prone countries, constructed by the United Nations and reproduced in Briguglio (1995, p. 1630), lists five small Caribbean island countries, but only three South Pacific countries (Fiji, Tonga, Vanuatu).

as reflected in Connell's (1991a, p. 269) observations that aid is much more visible in the dependent territories of foreign powers[6], and that these powers have on occasions resorted to the withdrawal of aid in response to adverse political decisions by the recipients (e.g. post-coup Fiji, where departed donors were quickly replaced by less regarding countries). The links between the provision of bilateral aid and the real or potential advantages thus conferred on the donor, have led to Poirine (1995, p. 46) to suggest that 'aid is trade'. That is, aid is the visible payment for invisible 'geostrategic export services' to the donor country. When an island country has a comparative advantage in the production of such services (because of its location, say), it can reap the same benefits from specialisation and trade as if it were exporting more conventional goods or services. By entering into a form of political association with a foreign power (i.e. exporting strategic services), the island country can gain the means (aid) of expanding its consumption possibility frontier.

The MIRAB interpretation assigns both self-seeking and altruistic motives to aid donors. First, donors benefit from the bargaining power and political control that aid, especially annual budgetary grants, confer on client states (Bertram 1986, p. 821). The reasons why such control is seen as beneficial are as follows (Bertram 1993, p. 254):

- island states have 'existence value' in the eye of metropolitan powers, either because of their role as boundary markers in a geopolitical contest, or because of the 'public good' quality of their environment and culture;
- metropolitan countries can benefit from tourism flows associated with the islands; and
- island populations act as a reservoir of labour for the larger economies.

Second, donors may be under an obligation to provide aid. In one case, that of Niue, the continued provision of generous levels of aid after self-determination was even written into the constitution. More commonly, the obligation is entirely a moral one, inherited from the colonial period. Because of a shared history and continuing links, the ex-colonial power is in a position of responsibility, *vis-à-vis* its client states, which it cannot easily relinquish, lest it be accused of neglect. Thus, Bertram and Watters (1985) assert, MIRAB countries find themselves in possession of a type of rent-producing asset, which these

[6] Poirine (1995) reports the startling statistic that the 189,000 inhabitants of French Polynesia received as much French development aid in 1989 as did the combined population of China, India, Egypt, and Algeria.

authors have termed 'aid entitlement'. The rent associated with this asset, foreign aid, represents the islands' rewards from the implicit contract they have entered into with larger societies (Bertram 1993, p. 253).

One important characteristic of the 'aid entitlement' asset, as envisaged by MIRAB proponents, is that it is largely renewable. That is, island governments have become adept at 'playing' aid donors against each other to ensure that any goodwill they enjoy is not allowed to wane (Bertram 1986; 1993). This strategy is also apparent in island governments' periodic re-assertion of their right to set their own goals, economic and political, thus making sure that donors can never take their cooperation for granted (Bertram and Watters 1985). The ability to attract aid and remittances has been deemed by Connell (1988, p. 86) to be the real comparative advantage of island microstates.

Within the MIRAB hypothesis, 'the role of aid differs substantially from textbook stereotypes' (Bertram and Watters 1985, p. 499), in that external assistance tends to provide 'a straightforward supplement to local income and consumption, and accounts for a large proportion of both' (loc. cit.). This view of aid applies not only to consumption aid (i.e. budget supplements), but also to project aid. According to Bertram:

> [aid-financed] infrastructure projects, while undeniably raising living standards in the islands, cannot realistically be expected to yield any measurable commercial rate of return in terms of rising export production or industrial investment, the common yardsticks of "development performance" used by aid donors. (1993, p. 249)

Thus, these MIRAB proponents conclude (Bertram and Watters 1985; Bertram 1993) that attaching the term 'development' to any form of aid is unwarranted. Similar misgivings regarding the role of foreign aid in South Pacific microstates pre-date the formulation of the MIRAB hypothesis. Fisk (1980), for instance, noted that foreign aid to Niue by 'artificially' raising living standards, cash incomes, and aspirations, made it even less likely that independent development would ever be achieved.

4.2.4 Bureaucracy

Given the volume of aid accruing to MIRAB economies, it is not altogether surprising to find that the public sector is the real 'growth sector' of these microstates. As was mentioned in chapter 2, this sector dominates the formal economy, both in terms of output and employment (see tables 2.5 and 2.7). The link between large inflows of foreign aid and public sector expansion in the South Pacific has often been noted (e.g. World Bank 1991, p. 79). Indeed, the undesirable effects of such a link are one of the main arguments aid critics oppose to the provision of development assistance (e.g. Bauer et al. 1991, pp. 9-11).

In MIRAB countries, as in other South Pacific countries, public sector expansion can be traced to pre-independence days, and the establishment of colonial administrations in charge of providing islanders with health, education and communications services. According to Bertram and Watters (1985, p. 508), 'expanding government sectors were the natural result — a process which can be described as "welfare-state colonialism." ' Upon decolonisation, most MIRAB countries inherited a fully-fledged public service, the financing of which required continued assistance by the departing powers. In most cases, the size of the public sector continued to grow, as new departments were added, and commercial activities were undertaken.

The MIRAB hypothesis assigns a less-than-neutral role to this hypertrophied public sector. In particular, the increase in government expenditure is seen as the main reason for the surge in imports, and hence the deterioration in the trade balance, experienced by these countries over several decades (Bertram and Watters 1985, p. 508). The link, according to Bertram (1986), is that the bulk of government budgets is spent on wages and salaries which, directly and indirectly through multiplier effects, raise the level of private consumption and, hence, of imports. Indeed, the influence of public sector wages is felt even further afield, for two reasons:

- in the village sector, non-participants in the cash economy are nonetheless recipients of some cash income, through kin-group redistribution (Bertram and Watters 1985, pp. 500-1); and
- in the private sector of the formal economy, wages are often set with reference to those of public sector employees (e.g. AIDAB 1992a; 1993).

Thus, directly and indirectly, the public sector is responsible for much of the growth of living standards experienced in MIRAB economies in the postwar era. However, this 'leading sector' status is clearly predicated on the provision of aid, even if 'the large inflows of oda tend to reinforce the illusion of the recipient governments (and their bureaucracies) as the source of development.' (Ogden 1989, p. 368).

4.2.5 Dutch Disease

In the five economies under consideration, the economic effects of aid, remittances and other forms of rent income have been likened, by MIRAB proponents, to those of the Dutch Disease (Bertram and Watters 1985; Bertram 1986; Ogden 1989). As was mentioned in chapter 3 (see 3.3.5), this is the generic name given to a series of economic phenomena resulting in the crowding-out of tradable goods production by large foreign exchange inflows. In the context of MIRAB economies, the availability of rent income leads to the crowding-out of marginal productive activities, particularly of agriculture (Bertram and Watters 1985, p. 512). The reason for this crowding-out is that the availability of alternative sources of cash income (public sector employment, remittances, overseas employment) renders 'normal' incentives to expand local productive activities inoperative (loc. cit.). Specifically, the link between rent income and the lowering of productive incentives may assume the following forms:

(i) remittances, both from abroad and the urban centres, can result in a lowering of the amount of output and employment in the agricultural sector (e.g. Fairbairn 1993);
(ii) the decline in agriculture is reinforced by rising perceptions, among parents and children alike, that 'white-collar' jobs carry more prestige, security, and rewards (e.g. Connell 1991a, p. 255);
(iii) the existence of sources of rent income in the village sector raises the reservation wage of labour, which in turn affects the profitability of the private sector (Fairbairn 1993);
(iv) the profitability of the private sector is further affected by the standard-setting nature of public sector wages (World Bank 1991, p. 79), and by the scarcity of economically viable projects (Knapman 1986, p. 148);
(v) because the presence of aid reduces the range of investment opportunities, incremental income is more likely to be allocated to consumption or to saving in overseas bank accounts (Bertram and Watters 1985, p. 512); and
(vi) the real exchange rate is 'held up' by foreign resources inflows, effectively discouraging the expansion of the tradable goods sector (Bertram and Watters 1985, p. 509). Since MIRAB countries are part of wider currency zones, nominal exchange rate management is not available as a corrective policy in this area.

As MIRAB proponents have pointed out, none of these phenomena arises from a lack of entrepreneurship, flexibility, or diligence on the part of the islanders; on the contrary, they are the result of economic responsiveness and flexibility of household units in open economy situations (Bertram and Watters 1985, p. 512). Poirine (1995, p. 75) agrees, stating that:

> The "dutch disease" effect of aid on island territories and associated states ... is not pathological, but logical and even optimal.

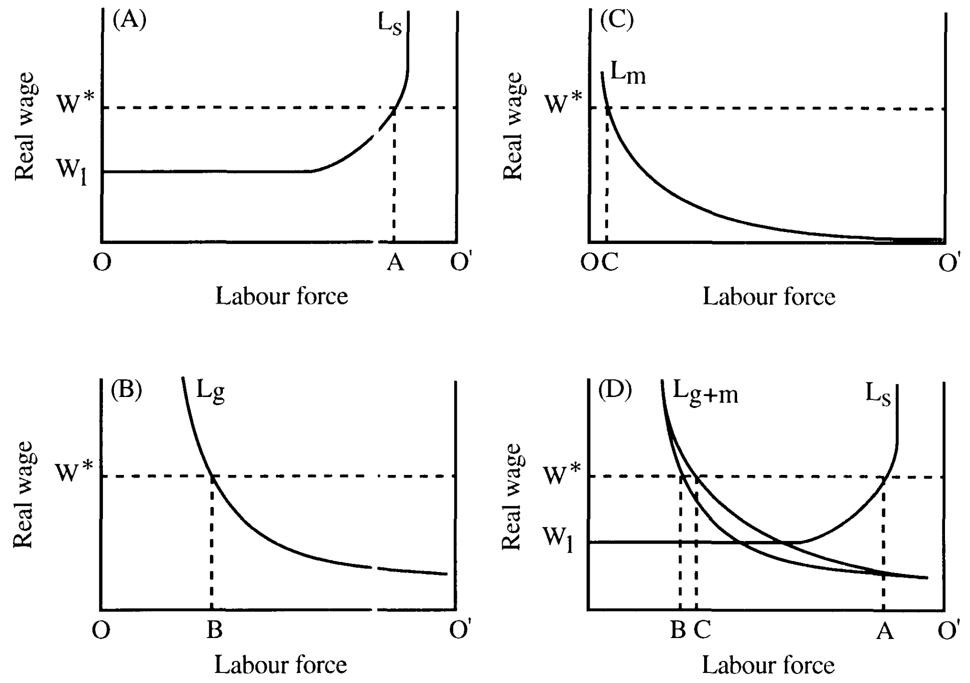
One important implication of the Dutch Disease consequences of the MIRAB transformation, is that far from providing a neutral supplement to incomes derived from productive activities, rent income is an active factor in the disappearance of such incomes, leaving the country even more dependent on international goodwill.

4.2.6 Bertram's MIRAB model

Bertram has proposed a stylised, diagrammatical model of a typical MIRAB economy (1986, p. 816), reproduced in figure 4.1 below. In all four panels of this diagram, the length of the horizontal axis is the same and measures the total amount of labour time available to the economy. In all panels also, the real wage level is measured along the vertical axes. Panels A, B, and C illustrate the demand for labour functions of the village, government, and modern sectors respectively. Panel D combines all other panels, thus illustrating the total demand and supply of labour at various real wage rates. In panel A, the L_s curve may be interpreted as the supply of non-village labour (viewed from origin O) or, alternatively, as the absorption of labour by the village sector (viewed from O'). As the real wage increases over and above the 'subsistence wage' (W_1), more and more labour is drawn away from the traditional sector. If the wage rate in the other sectors is set on a par with the 'world wage' W* for instance, then OA labour is supplied to these sectors, while O'A remains employed in the village sector. The world wage, which constitutes a de facto minimum wage, given the possibility of emigration, is assumed to be higher than the subsistence wage and independent of the volume of emigration.

Curve L_g in panel B depicts the demand for labour by the public sector at different real wage rates. If it is assumed the governmental wage bill always exhausts an exogenously determined amount of budgetary aid, then the L_g curve is unit-elastic. At the exogenous W* wage rate, this sector is able to afford the services of OB public servant-hours for instance.

Figure 4.1 **Bertram's model of the MIRAB economy**



Source: Bertram 1986, p. 816.

In contrast, the demand for labour by the capitalist sector, in panel C, is governed by the diminishing marginal productivity of labour. The L_m curve shows, realistically, that given the artificially high minimum wage rate, only a small quantity of labour (OC) can be profitably employed by this sector.

In panel D finally, the L_g and L_m curves are added horizontally to form the L_{g+m} curve, measuring the total demand for labour by the non-village sector. By superimposing the L_s curve from panel A, the labour market equilibrium is obtained. Thus, it can be seen that, given an exogenous real wage rate of W*, sectoral employment is OC and O'A in the non-village and village sectors respectively. This leaves a pool of overseas-employed labour equal to CA.

The dual economy model described above lends itself to comparative static analysis. For instance, it is possible to show that 'any natural increase in total population will tend to be exported so long as outlets are open, but that migration will not result in actual depopulation of the island (since local labour absorption OB + BC + O'A remains the same)' (Bertram 1986, p. 817). Conversely, an increase in the world real wage would reduce the amount of domestic employment. Among other interesting simulations, it may be noted that emigration would be reduced by an increase in budgetary aid (through a rightward shift in L_g) and increased by the decline of the subsistence mode of production (through a rightward shift in L_s).

Overall, the evolution of the system described above will rest upon a combination of four factors (Bertram 1986, p. 817):

(i) the level of world wage W*;
(ii) the size of income from abroad, notably rent income;
(iii) the sectoral distribution of income from abroad; and
(iv) the vitality or otherwise of the village mode of production.

At present, the settings for each of these are such that the MIRAB transformation is seen as inevitable by some. However, Bertram suggests, these settings could be adjusted to some extent, to promote a 'target society' favoured by island and/or donor governments (1986, p. 817).

4.3 Alternatives and criticisms

Development prospects of South Pacific microstates are generally considered by observers to be bleak. Pollard, in a survey of published research, states that 'the literature tends to be generally pessimistic about the economic nature and progress of the Pacific atoll countries' (1989, p. 67). A typical expression of this pessimism is given by Fisk, who writes, in relation to Niue and the Cook Islands:

> Economically, the problems of these countries appear to be insoluble. The aspirations of their people cannot be reconciled with the resources available to them, without at least long term dependence on foreign aid, and the sacrifice of cultural values. (1981, p. 11)

In this respect, at least, the MIRAB hypothesis does not depart from the common wisdom regarding the future of very small countries in this region of the world. However, not all economists share the MIRAB proponents' conclusion that growth based on productive activities is impossible, and that the maximisation of rent incomes represents the best course of action for these economies.

An influential appraisal of the capacity for sustained growth of small island economies is provided by Fairbairn and Tisdell (1983). They use a classical one-sector growth model and assume a Malthusian population growth process[7] to show, initially, that above-subsistence consumption levels in such an economy can only be a temporary phenomenon. This is due to the fact that such levels (afforded, for instance, by exports of a food surplus) will inevitably lead, in their model, to population growth and, thus, to the ultimate disappearance of any surplus. They show, secondly, how a specialised exporter could, following adverse terms of trade movements, or the exhaustion of the exportable commodity, be forced into a drastic reduction of not only its consumption levels, but more painfully, its population. They conclude from their analysis that a combination of continuous technological progress and population control could prevent the stagnation of income per head at subsistence levels in such an economy. In addition, they recommend the diversification of exports, the productive use of aid, and the dampening of consumption aspirations as measures conducive to sustained income growth. In contrast to the MIRAB hypothesis, therefore, Fairbairn and Tisdell's analysis does not rule out the possibility of domestically generated growth in income per head under certain conditions. Elsewhere, Tisdell (1990, p. 153) argues that the Fairbairn and Tisdell (1983) model serves to emphasise the risks for small island economies of specialisation in international trade, and that, as a consequence, such economies might consider minimising dependence on such trade by, for instance, increasing their subsistence activity levels.

The risks of excessive reliance on the rest of the world are also noted by Pollard (1988, p. 47). He expresses the view that, while useful as a counterweight to production-led development models, the MIRAB model is both incomplete and an overstatement of the rentier nature of some economies. He points to the potential dangers of exclusive reliance on rental incomes originating externally which, by definition, are beyond the control of the recipient. He contends, also, that the potential rewards from 'homegrown' development are greater, if somewhat riskier, than those of subsidised consumption, due to the spread and demonstration effects of such form of development. Finally, he takes the pragmatic view that, by accident or design, the 'capitalist road' is the one that atoll economies have been travelling in recent years, and that island and donor governments are unlikely to admit to an endless flow of aid (ibid., pp. 41-3).

Pollard's (1988, p. 38) survey of the literature reveals alternatives to the dependent development strategy viewed as inevitable by the MIRAB model. He

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7 The population grows when real income per head rises above customary subsistence and falls when it is below it.

groups them under: (i) subsistence sector promotion; (ii) self-reliance; (iii) state capitalism; and (iv) subsidisation of the village sector, all of which embody some degree of optimism regarding the ability of microstates to expand their production possibility frontier. This leads him to recommend a 'combined' strategy for these economies, which would include such simultaneous goals as rent income maximisation, culture preservation, resource development and population control (1988, p. 49).

The MIRAB hypothesis has also been criticised on more specific grounds than discussed so far. Some criticisms are purely semantic, such as Munro's (1990a, p. 39) suggestion that the acronym MURAB (*M*igration, *U*rbanisation, *R*emittances, *A*id, *B*ureaucracy) would describe more accurately the conditions of those countries where internal migration to urban centres is significant[8]. A more cogent criticism of the MIRAB acronym is that formulated by Tisdell (1990, p. 137), who observes that, with no emigration outlets and relatively small amounts of overseas employment, Kiribati and Tuvalu should be termed AB (*A*id, *B*ureaucracy) economies only. In doing so, however, he overlooks the fact that remittances can be sizeable even when emigration is restricted. In Tuvalu, remittances are several times larger than proceeds from commodity exports (see table 5.1). In Kiribati, remittances have exceeded commodity exports in some years (Kiribati 1992). Secondly, overseas employment can influence the domestic labour market even when actual numbers are low: for instance, wages paid to overseas workers can constitute a benchmark for domestic wages (Bertram 1986, p. 811). Finally, as Bertram and Watters (1985, p. 504) have pointed out, Kiribati and Tuvalu are deeply affected by the migration-remittances process occurring at the island-to-island level. On the whole, therefore, their decision to include Kiribati and Tuvalu in the MIRAB group appears to be warranted.

A second strand of criticism has centred on Bertram and Watter's coinage of the term 'trans-national corporations of kin', to refer to the family networks linking islanders at home and in the metropolitan country. In Munro's opinion, this term 'cannot be made to fit the circumstances of the MIRAB economies and could well be dispensed with' (1990b, p. 64). He gives three reasons for this assertion (ibid., pp. 64-5):

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[8] Another acronym, MIRAGE (*Mi*gration, *R*emittances, *A*id, *G*overnment *E*mployment), proposed by Brookfield (quoted in Bertram and Watters 1985, p. 497), is simply designed to reflect humorously on the unreal quality of the self-sustaining growth objective.

- unlike multinational corporations, islander networks are concerned with reciprocity within the group and contributing to the common island weal;
- kinship obligations are over-ridden on occasion by the demands of community solidarity and a wider social contract; and
- islander networks spanning countries are simply an extension of those that span islands: they are not, therefore, exclusively transnational.

Replying to Munro, Watters (1990) and Bertram (1993) readily acknowledge these points, but contend that the 'corporation' analogy still provides useful insights into the motivations and operations of islander networks. This is a view subscribed to by Poirine (1995), who likens remittances to repayments on an informal loan made by the 'parent company' (non-migrants) to its foreign 'subsidiaries' (migrants).

Somewhat ironically in the light of Munro's criticism, another attack on the term 'corporation of kin', by James (1993, p. 360), takes an entirely opposite stand, arguing that 'kin-group' behaviour is fast disappearing in MIRAB-like societies, and being replaced by 'atomistic' or individualistic behaviour.

4.4 Conclusion

Concerning the MIRAB hypothesis, Connell writes that 'no concept has been more denigrated by Pacific Island politicians and planners' (1991a, p. 275). Bertram and Watters had themselves pre-empted such opposition, explaining that:

> ... there are diplomatic advantages to be gained by island governments persisting with the rhetoric of autonomous "development" and insisting on their rights, as self-governing entities, to determine their own goals. They may thus for some time find it advantageous to refuse to recognise the MIRAB model and its implications. (1985, p. 516)

For this reason, and also for reasons lying with the motives of donor governments, it is difficult to imagine the goal of perpetual rents ever replacing that of growth through modernisation in the pantheon of Pacific development planners and aid agencies. Official dogmas notwithstanding, the conclusion that, in this region of the world, a particular class of economies exists, which falls outside traditional development planning models, appears a fairly robust one, in the light of the evidence presented by Bertram and Watters. Whether recent economic history adds to this evidence is examined in the next chapter.

CHAPTER 5

EMPIRICAL EVIDENCE OF A MIRAB PROCESS IN SOME SOUTH PACIFIC MICROSTATES

5.1 Introduction

In this chapter, recent economic and demographic data for the five countries under consideration are presented and analysed, in an attempt to ascertain the persistence of a MIRAB process. In the next section, empirical evidence originally put forward by Bertram and Watters (1985) is updated as far as the availability of data permits. This is done with a view to gauging the extent to which the MIRAB symptoms first described by these authors in 1985, were still present in the late 1980s and early 1990s. Building upon these 'broad brush' observations, more detailed analyses of the various MIRAB components are presented in the third section. In section four, finally, the continued validity of the MIRAB hypothesis as an analytical framework for the study of the five countries concerned is assessed on the basis of the evidence examined in the preceding sections.

5.2 Overview of recent data

5.2.1 Introduction

As described in the previous chapter, evidence of a MIRAB process is necessarily very diverse. It can, for instance, be detected within the external accounts of a country (e.g. through aid and remittances inflows), in the sectoral composition of GDP and employment (e.g. through the size of the public sector), or in the direction of net population movements. This diversity implies that the question of the existence of a MIRAB process must be approached from many directions at once, if a comprehensive answer is to be reached.

This is the approach which Bertram and Watters adopted in their 1985 article. In it, they sought to present a broad range of demographic and economic data in support of their proposal for the recognition of a distinct MIRAB class of

South Pacific countries. These data can be aggregated into three major categories: the balance of payments, public sector finance, and migration. Within each category, various time-series were presented in tabular and diagrammatical form. In this section, the main tables appearing in Bertram and Watters (1985) and Bertram (1986) are updated and re-examined in order to assess the extent to which phenomena described up until the early 1980s continued over most of that decade.

5.2.2 Balance of payments

Undoubtedly, the central tenet of the MIRAB hypothesis is that a large proportion of a country's income and consumption levels is financed by rent incomes emanating from a metropolitan economy. Such rent incomes as foreign aid and overseas workers' remittances are normally readily observed within balance of payments statistics. From these statistics, therefore, it is possible to assess whether rent income has continued to figure prominently, and whether this type of income has increased its importance. In other words, it is possible to determine whether the MIRAB transformation of the economy has accelerated or abated.

The weight of the evidence presented by Bertram and Watters (1985) clearly lent support to the 'rentier economy' appellation. For instance, aid flows overshadowed commodity export proceeds in all countries at the beginning of the 1980s. In some countries, these proceeds were also exceeded by migrant remittances. These authors' evidence is presented and updated in table 5.1. While data inadequacy means that several cells in this table can only be filled by extrapolation of previous period figures, other information pertaining to the 1984-89 period (1983-89 in Tuvalu) may be interpreted more confidently. By comparing this period with the one preceding it, the general trends affecting the balance of payments in the five countries during the 1980s can be detected. They are summarised as follows:

- a worsening of the balance of merchandise trade, except in the case of Niue. Thus, the 'jaws effect' described by Bertram and Watters (1985) appears to have accentuated in recent times;
- an increase in the real amount of overseas aid to all countries, except Niue;
- the real value of remittances has increased in Kiribati, Tuvalu and Niue,

Table 5.1 **Some balance of payments estimates**
(annual averages, constant 1982 $'000)

	Commodity - Exports	Commodity + Imports	Philatelic + and Tourism	Aid +	Remit- tances	= Residual Balance
Cook Islands						
1970-74	8,638	20,524	..	12,694	3,371	4,179
1975-79	5,413	32,345	6,000	12,798	3,923	-4,211
1980-83	5,199	27,346	8,530	10,295	4,000	678
1984-89	4,896	34,647	8,974 [a]	11,453	2,841 [b]	-6,483
Niue						
1970-74	608	3,172	..	4,700	50?	2,186
1975-79	483	4,302	150	6,106	100?	2,537
1980-83	568	3,984	300	5,353	300	2,537
1984-89	105	2,708	234 [c]	5,034	310 [d]	2,975
Kiribati						
1970-74	31,213	15,739	..	..	..	..
1975-79	35,581	18,712	1000?	4,000	1,000	22,069
1980-83	3,446	14,879	1,000	11,000	2,000	2,567
1984-89	4,673	17,507	1,303 [e]	14,172	2,624 [f]	5,265
Tokelau						
1970-74	85	363 *	nil	270 †	8	‡
1975-79	104	410 *	40	236 †	30?	‡
1980-83	63	490 *	100	227 †	100?	‡
1984-89	156 [g]	1,745 [g]	..	2,584	100 [h]	..
Tuvalu						
1979-82	124	3,021	1,500	3,500	600	2,703
1983-89	151	3,467	546 [i]	4,847 [j]	701 [k]	3,769

[a] Gross tourism receipts only. [b] Estimated remittances (Mataio 1991). [c] Extrapolated from 1980-83 figures on the basis of visitor arrivals. [c] Extrapolated from 1980-83 figures on the basis of average yearly emigration. [e] Tourism only: extrapolated from 1980-83 figures on the basis of visitor arrivals. [f] Gross remittance receipts: 1985-89 yearly average. [g] 1988 figure. [h] 1989-90 figure. [i] Sum of 219 (philatelic exports) and 327 (half of the Trade, Hotels and Restaurants sector average yearly output). [j] Excluding the United Kingdom's contribution to the Tuvalu Trust Fund in 1988. [k] 1986-89 average only. * Store goods only. † Calculated as a residual. ‡ See note †.

Notes: Values for the Cook Islands, Niue and Tokelau in NZ$, deflated using the New Zealand Consumer Price Index (Statistics New Zealand 1995). Values for Kiribati and Tuvalu in A$, deflated using the Australian Retail Price Index (Australian Bureau of Statistics).
In countries where stamp exports are known, their value has been subtracted from commodity exports.

Sources: All but last row for each country reproduced from Bertram and Watters 1985, p. 505. Last row for each country contains author's estimates based on SPD; SPC; Mataio 1991; AIDAB 1992a; Kiribati 1992; Bertram 1993, pers comm.; Ioane 1994.

decreased in the Cook Islands, and remained constant in Tokelau. In Niue and Tokelau, remittances have exceeded commodity export earnings; and

- except in Niue, the combined value of philatelic exports and tourism has increased. With the exception of Kiribati, these proceeds are always greater than those from commodity exports.

Taken together, these trends point to a lack of uniformity among the MIRAB group, at least in the area of external accounts. However, with the possible exception of Niue, the continuation of the MIRAB transformation during the 1980s seems clear from the indicators presented. This phenomenon is most obvious in the case of Kiribati, for which all the balance of payments symptoms of a MIRAB process are encountered, namely increases in the merchandise trade deficit, in the real levels of aid and philatelic/tourism revenue, and in remittances. In a second group of countries, Tuvalu, Tokelau and the Cook Islands, all these symptoms but one are present, which also suggests a continuing MIRAB transformation in these economies. Finally, Niue seems furthest removed from expectations, with the only MIRAB symptom being an increase in the real value of remittances. However, it should be kept in mind that both remittances and philately/tourism values for this country were obtained by extrapolation, which prevents strong conclusions from being reached. A further qualification should be introduced by noting that the reduction in the trade deficit observed during 1984-89 was achieved in spite of a significant reduction in commodity exports. Such reduction, due to the collapse of various export ventures such as coconut cream processing and football manufacturing, is entirely consistent with expectations of tradable goods sector contraction based on the Dutch Disease component of the MIRAB hypothesis. Ultimately, therefore, it does not appear possible to reject the suggestion that Niue is also in the grip of an accelerating MIRAB transformation.

5.2.3 Public sector finance

The growth of the public sector in both pre- and post-independence days, or 'parasitic over-expansion of government bureaucracies' as Bertram (1986, p. 820) has termed it, is generally seen as the direct result of the availability of rent income, especially of aid. While the means of public sector expansion originated outside MIRAB countries, the effects of this expansion were felt domestically, in such phenomena as urbanisation, increasing cash employment, and rising consumer aspirations. A large civil service appeared to be a necessity if a rapidly growing urban population was to be provided with the range of services which they had come to expect. Unavoidably in the light of these ambitious goals, spending by the government became more and more dissociated from its domestic revenue-raising capabilities. This divergence was amply evidenced by one of Bertram's (1986) tables, reproduced and updated in table 5.2.

The following observations can be made upon comparing the data for the 1980-83 and the 1984-89 periods:

- the gap between total government spending and locally-raised revenue has endured in all countries, showing that foreign savings continue to be needed to remedy the shortfall in public sector revenue;
- in the Cook Islands and Kiribati, the gap is relatively small, equal to one quarter and one third of public expenditure respectively, and is decreasing;
- in the other countries, the gap is much larger, from 85 per cent in Tokelau, to approximately 75 per cent in Niue and 50 per cent in Tuvalu; and
- in that second group, the gap is increasing in all countries except Tuvalu.

The single most important change reflected in the table is that experienced by Kiribati, whose revenue gap was almost halved between 1980-83 and 1984-89. This reduction was achieved partly through a rise in revenue, partly through a fall in total spending. These results are a reflection of the conservative fiscal approach adopted by the government since 1987 (AIDAB 1992a), and of the increasing contribution made by the Revenue Equalisation Reserve Fund (see 5.3.1.2) to the budget. To a smaller extent, a similar situation applies in Tuvalu, where drawdowns from the Tuvalu Trust Fund (see 5.3.1.2) have contributed to government revenue since 1988. However, in that country, the observed reduction in the revenue gap has been achieved through lower expenditure alone. In both Kiribati and Tuvalu, the move towards fiscal prudence has been motivated by the termination of budgetary aid from the United Kingdom. Although it does not have a great impact on the figures in table 5.2, the 1989 implementation of the phasing-down of New Zealand budgetary aid to the Cook Islands should also put pressure on that country to reduce its gap further in future years.

While it must be kept in mind that trends in per capita government finance may have been partly determined by population changes, the reduction

Table 5.2 **Per capita government finance data**
(annual averages, constant 1982 $)

	Cook Islands		Niue		Tokelau		Kiribati*		Tuvalu	
Period	Total Spending	Local Revenue	Total Spending	Local Revenue	Total Spending	Local Revenue	Total Spending	Local Revenue	Total Spending	Local Revenue
1920-29	99 †	54 †	46	47	19 ‡	31 ‡	38 §	48 §	n.a.	n.a.
		55		*102*		*163*		*126*		
1930-39	117	76	117	114	..	..	51	50 ◊	n.a.	n.a.
		65		*97*				*98*		
1940-49	190	98	137	81	..	..	142 ¶	94 ¶	n.a.	n.a.
		52		*59*				*66*		
1950-59	519	258	548	252	125	30	127	115	n.a.	n.a.
		50		*46*		*24*		*91*		
1960-69	859	399	1,261	576	271	41	233	207	n.a.	n.a.
		46		*46*		*15*		*89*		
1970-79	938	483	2,318	1,060	1,120	84	401	441	587 **	244 **
		51		*46*		*7*		*110*		*42*
1980-83	1,070	676	2,694	924	1,683	282	387	145	826	353
		63		*34*		*17*		*37*		*43*
1984-89	1,423	1,078	2,523	646	1,485 a	216 a	274	187	581	284
		76		*26*		*15*		*68*		*49*

a 1984-86 average only. * Including Ellice Islands (Tuvalu) to 1975. † 1927-29. ‡ 1926 only. § 1925-29. ◊ 1930-36. ¶ 1947-49. **1976-79.

Notes: Values for the Cook Islands, Niue and Tokelau in NZ$, deflated using the New Zealand Consumer Price Index (Statistics New Zealand 1995). Values for Kiribati and Tuvalu in A$, deflated using the Australian Retail Price Index (ABS).

Values in italics measure the percentage of local revenue to total spending.

Sources: All but last row for each country reproduced from Bertram 1986, p. 812. Last row for each country contains author's estimates based on SPD; World Bank 1991; AIDAB 1992a; Sinclair 1993; Bertram 1993, pers. comm.

in the revenue gap in three out of five MIRAB countries is nonetheless worth noting. In these countries, which also have the smallest gaps, such reduction does augur well for their governments' stated goal of increased self-reliance. This is not to deny, however, that the remaining gaps may be large in absolute terms, and that further progress may therefore be slow. In Tokelau and Niue, the fact that the gap is extremely large and increasing must raise doubts in regard to the ability of these countries to make significant progress towards self-reliance.

5.2.4 Migration

Population movements away from MIRAB countries, mostly towards metropolitan countries, were interpreted by Bertram and Watters (1985) as a sign that 'transnational corporations of kin' were allocating labour between a 'modern' sector abroad and a traditional sector at home. The evidence presented by these authors showed that, for those countries with unrestricted access to an overseas labour market (i.e. the Cook Islands, Niue and Tokelau *vis-à-vis* New Zealand), this 'internationalisation' process was well-advanced, to the point where, in 1981, more Niueans lived in New Zealand than in their home country. Conversely, in Kiribati and Tuvalu, where no such emigration outlet is available, they observed that limited overseas employment opportunities had resulted in a much smaller number of migrants. Bertram and Watters' original evidence is reproduced and updated in table 5.3.

The dichotomy noted by Bertram and Watters with respect to the size and growth of overseas populations was still observable in the second half of the 1980s and early 1990s. In the three countries enjoying unrestricted access to New Zealand, the number of nationals living outside their home country grew between 1981 and 1991, both in absolute and relative terms. During that decade, Tokelau joined Niue in having more nationals living in New Zealand than in their home country. The Cook Islands have not reached such a stage of internationalisation[1]. Moreover, the number of Cook Islanders residing in New Zealand fell between 1986 and 1991 (albeit by a small amount), while the population of the Cook Islands increased.

In contrast to the general trend observed in the New Zealand-linked countries, the number of Kiribati and Tuvalu nationals working and living

[1] This remains true even if the 2,309 Cook Islanders living in Australia in 1991 (ABS, pers. comm.) are added to the 15,143 living in New Zealand (see table 5.3).

Table 5.3 **Islands-born population by place of residence**

	Cook Islands			Niue			Tokelau			Kiribati				Tuvalu			
Year	In Cook Islands	In New Zealand	Total	In Niue	In New Zealand	Total	In Tokelau	In New Zealand	Total	Year	In Kiribati	Overseas	Total	Year	In Tuvalu	Overseas	Total
1936	11,943	157	12,100	4,105	54	4,159	1,170	0	1,170	1931	..	..	..	1931	3,994	95	4,089
		1			*1*			*0*								*2*	
1945	13,574	393	13,967	4,253	222	4,475	1,388	0	1,388	1947	31,513	..	..	1947	4,487	579	5,066
		3			*5*			*0*								*11*	
1951	14,757	999	15,756	4,553	330	4,883	1,571	10	1,581	1963	43,336	..	..	1963	5,444	1,319	6,763
		6			*7*			*1*								*20*	
1956	17,054	1,992	19,046	4,707	753	5,460	1,619	7	1,626	1968	47,682	1,404	49,086	1968	5,782	1,683	7,465
		10			*14*			*0*				*3*				*23*	
1961	18,378	3,374	21,752	4,868	1,414	6,282	1,860	23	1,883	1973	51,784	1,765	53,549	1973	5,887	1,807	7,694
		16			*23*			*1*				*3*				*23*	
1966	19,251	5,838	25,089	5,194	2,014	7,208	1,900	248	2,148	1979	56,213	2,299	58,512	1979	7,349	1,303	8,652
		23			*28*			*12*				*4*				*15*	
1971	21,317	7,389	28,706	4,990	2,912	7,902	1,655	950	2,605	1985	64,044	2,228	66,272	1985	..	..	..
		26			*37*			*36*				*3*					
1976	18,112	12,156	30,268	3,843	4,379	8,222	1,575	1,212	2,787	1987	66,792	1,570 [b]	68,362	1987	..	..	..
		40			*53*			*43*				*2*					
1981	17,695	13,848	31,543	3,278	5,091	8,369	1,572	1,281	2,853					1992	8,229	950 [c]	9,179
		44			*61*			*45*								*10*	
1986	17,600	15,183	32,783	2,757	5,783	8,540	1,690	1,509 [a]	3,199								
		46			*68*			*47*									
1991	18,617	15,143	33,760	2,239	6,058	8,297	1,577	1,824	3,401								
		45			*73*			*54*									

[a] Extrapolation based upon the number of adults of Tokelauan ethnicity living in New Zealand in 1981 and 1986 (Wessen 1992). [b] Lower bound estimate based on 1,070 seamen and 500 workers employed in Nauru (AIDAB 1992a). [c] Lower bound estimate based on 750 workers employed in Nauru (Tuvalu 1992) and 200 seamen employed on fishing vessels (AIDAB 1993).

Note: Values in italics measure the percentage of nationals living overseas to the total number of nationals.

Sources: All years until 1981 (1979 for Kiribati and Tuvalu) reproduced from Bertram 1986, p. 813. Subsequent years for each country are author's estimates based on SPC; SPD; Tuvalu 1992; Wessen 1992; AIDAB 1992a, 1993; Larner and Bedford 1993; Tonganibeia 1993; Statistics New Zealand 1995, pers. comm.

overseas has declined since 1979, as has the size of this migrant workforce in relation to the total population.

The implications for emigration of unrestricted access to an overseas labour market are apparent from the figures contained in table 5.3. When such access is available, islanders have taken advantage of this opportunity in large numbers. Conversely, when no outlet is available, emigration is restricted to much smaller numbers, usually consisting of workers unaccompanied by relatives. This second kind of emigration, mainly temporary in nature is now threatened by the closure of Nauru's phosphate mining operations. Thus, it is probable that return migration is going to result in a further decline of migrant workforces in Kiribati and Tuvalu[2] in the near future.

As seems clear from the trends described above, the situation in regard to emigration appears little different, in recent times, from that on which Bertram and Watters based part of their MIRAB hypothesis. From this observation, it may be concluded that the validity of the hypothesis is confirmed by the updating of the relevant statistics. However, as was mentioned in chapter 4, the appropriateness of the MIRAB acronym in relation to Kiribati and Tuvalu has been subjected to some criticism (e.g. Tisdell 1990, ch. 10). The occurrence of return migration in those two countries indicates that they may not be characterised by emigration for much longer. On the other hand, new emigration outlets may emerge to replace disappearing ones. The emigration experience of Tonga and Western Samoa shows that the existence of unrestricted emigration outlets is not a prerequisite for the existence of large overseas communities (Ahlburg 1991). A large proportion of the emigration from these two countries is achieved by 'overstaying' in another country, a technique which could, in time, be adopted by I-Kiribati and Tuvaluans. In addition, legal emigration could become significant if the governments of Kiribati and Tuvalu are successful in their negotiations with prospective migrant-receiving countries, such as Australia and New Zealand[3]. Thus, it may be too early to rule out the continuing importance of emigration in Kiribati and Tuvalu. All that can be stated with any certainty is that observed trends in international emigration do not support 'standard' MIRAB expectations of a large and growing overseas-employed workforce. There is, however, little doubt that, should an outlet appear in future,

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[2] Tuvalu has already experienced such return migration twice: in 1976, civil servants were repatriated from the Gilbert Islands and, in 1979, phosphate workers were repatriated following the closure of Ocean Island (Banaba) in Kiribati.

[3] At the moment, legal emigration to these two countries is very small. For instance, there were only 438 I-Kiribati and 69 Tuvaluans living in Australia in 1991 (ABS, pers. comm.).

international emigration could become as significant as in other MIRAB countries or other South Pacific microstates.

5.2.5 Conclusion

The overall picture emerging from the update of the evidence submitted by Bertram and Watters (1985) is somewhat fragmented and inconclusive. In part, this problem can be attributed to the unavailability of data, or to their speculative quality. In part also, this problem stems from the contradictory nature of the results presented above. Undoubtedly, most of these clearly accord with expectations based on the MIRAB hypothesis. Such phenomena as a worsening trade deficit, an increase in aid levels, the persistence of emigration, and a growing gap between public revenue and expenditure were noted in relation to several countries in recent years. It is not possible, however, to find all the symptoms of a MIRAB transformation represented in any particular country. The two most significant departures from expectations were a reduction in the gap between government expenditure and government revenue in three countries, and the absence of any significant international emigration in two countries. Less significantly given the quality of the data, it was found that the possibility of a decline in rent income in Niue could not be discarded. Whether these departures warrant the rejection of an hypothesis which, by nature, is based on stylised facts cannot be answered singly on the basis of the broad averages presented so far. A more comprehensive and detailed approach is therefore required. In the next section, the main elements of the MIRAB hypothesis, such as rent income, the public sector and emigration are examined in turn.

5.3 Detailed analysis of the MIRAB elements

5.3.1 Foreign aid and rent income

As may be surmised from looking at table 5.1, Bertram and Watters (1985) appear to consider tourism receipts a form of rent income, since they include them in the same category as philatelic revenue[4]. Yet, it is debatable whether tourism should be regarded in the same light as remittances or aid, since this activity can be likened to an export good, the production of which requires a non-

[4] Their treatment of tourism receipts is however, not stated explicitly in their article.

negligible amount of capital and current expenditure. Thus, it is not justified to say that tourism revenue accrues to an island country solely because of its geographical location or its pre-existing culture. An unspoilt environment and welcoming people are necessary but by no means sufficient elements of a thriving tourist industry. Hotels are also needed, the construction of which may be as financially burdensome as any other form of investment, as the recent difficulties experienced by the Cook Islands have demonstrated (Smellie 1996).

If anything, a stronger case can be made for including revenue from the provision of tax-haven or off-shore finance facilities in the definition of rent. In Nauru, for instance, the selling of 'brass plaque' bank licences is a profitable activity which requires little real infrastructure or inputs (North 1995). In the Cook Islands, the government revenue derived from the off-shore banking sector (A$1.2 million in 1990: Mataio 1991) is directly attributable to this country's taxation status *vis-à-vis* New Zealand, rather than to any genuinely 'productive' activity.

In the final analysis, the paucity of data does not permit either tourism or financial services to be included in any detailed examination of the amount of rent accruing to all MIRAB countries. For this reason, revenue accruing from these activities is ignored in the remainder of this chapter.

5.3.1.1 Foreign aid

Comparatively large foreign aid inflows are a feature of all MIRAB countries. As can be seen from table 5.4, these countries received more aid per head of population than any independent South Pacific country in 1992. These

Table 5.4 **Aid per capita in 1992** (A$)

Country	Value	Country	Value
Tokelau [a]	2,844	Vanuatu	354
Niue	2,131	Tonga	324
Cook Islands	1,300	Solomons	183
Tuvalu	1,269	PNG	148
Kiribati	493	Fiji	117
Western Samoa	404	Fed. States of Micronesia	93

[a] 1990 value.
Source: NCDS, *Pacific Economic Bulletin*, various issues.

high per capita values notwithstanding, real aid flows[5] to the MIRAB countries were generally stagnating or declining in the 1979-1992 period, except in Tokelau (see figure 5.1). The same stagnation or decline was in evidence in terms of per capita real aid figures for Kiribati, Tuvalu[6] and the Cook Islands (see figure 5.2). However, in Niue and Tokelau, aid per capita experienced pronounced fluctuations during the 1979-92 period. A comparison of country ranking in terms of total and per capital real aid flows reveals that, while the largest countries (in terms of population, i.e. Kiribati and the Cook Islands) usually received the most aid, the smallest countries (i.e. Tokelau and Niue) consistently received the largest amount of aid per head of population. Thus, the oft-documented 'small country bias' of aid provision (e.g. Ahlburg 1986, p. 16) appears to be in operation within the MIRAB group itself. According to Pollard (1989, p. 77), diseconomies of small scale, resulting in over-equipment and over-staffing, are behind the occurrence of the bias in atoll countries of the South Pacific.

The magnitude of the aid flows to the MIRAB economies can also be appreciated in comparison to other major macroeconomic aggregates: in figures 5.3 to 5.5, aid is expressed as a percentage of GDP, commodity imports and commodity exports, to the extent allowed by incomplete national datasets.

As is immediately apparent from these three diagrams, the 'weight' of aid in the five economies under study is considerable, and can reach, on occasions, extreme levels. The major trends reflected in the diagrams may be summarised thus:

- except in the Cook Islands and Kiribati, the value of aid has often exceeded that of GDP;
- in the three countries for which sufficient data are available, the aid to GDP ratio has been either on a decreasing (Cook Islands, Tuvalu) or constant (Kiribati) trend. In Tokelau and Niue, no clear trend can be detected due to incomplete time-series;

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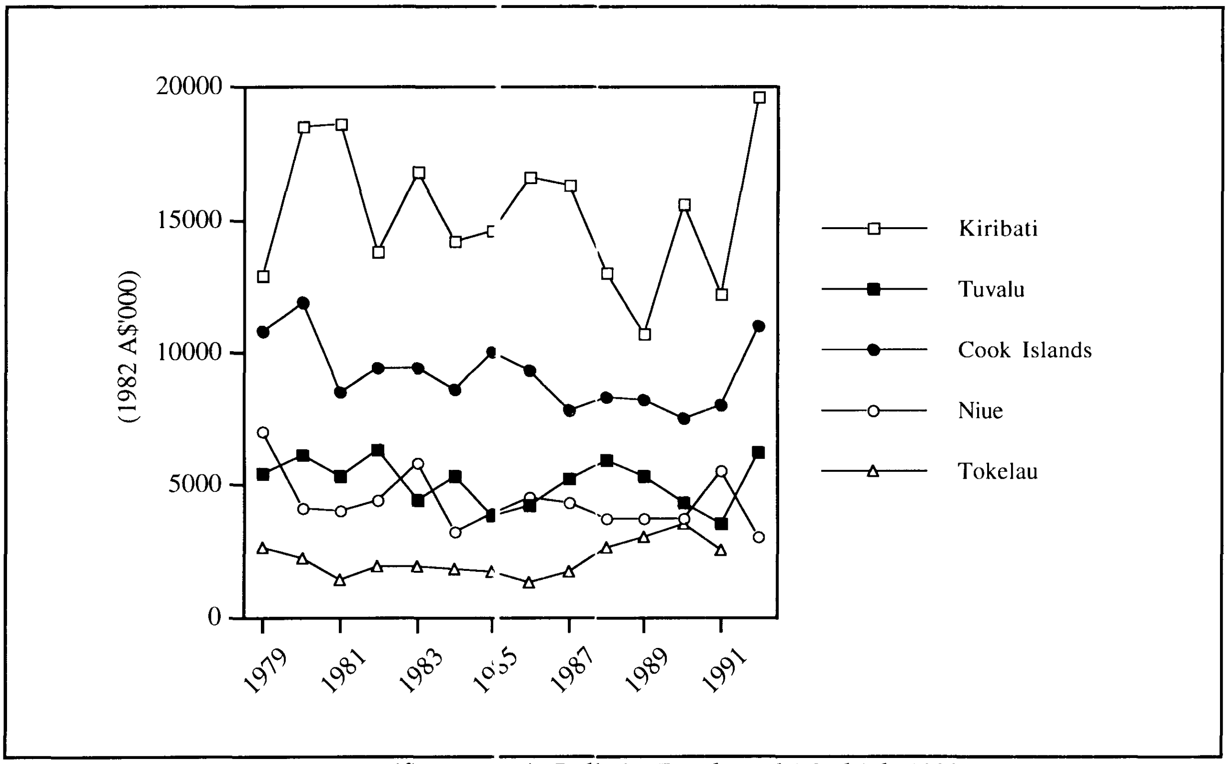
[5] Following Bertram and Watters (1985), the current value of total aid and per capita aid was deflated by the Australian RPI in Kiribati and Tuvalu, and by the New Zealand CPI in Tokelau, Niue and the Cook Islands. Subsequently, NZ$ values were converted into A$ values using average yearly exchange rates (IMF, *International Financial Statistics Yearbook*). The use of overseas price indices as deflators is justified by the fact that inflation in MIRAB countries is primarily imported from Australia or New Zealand (Fairbairn 1994).

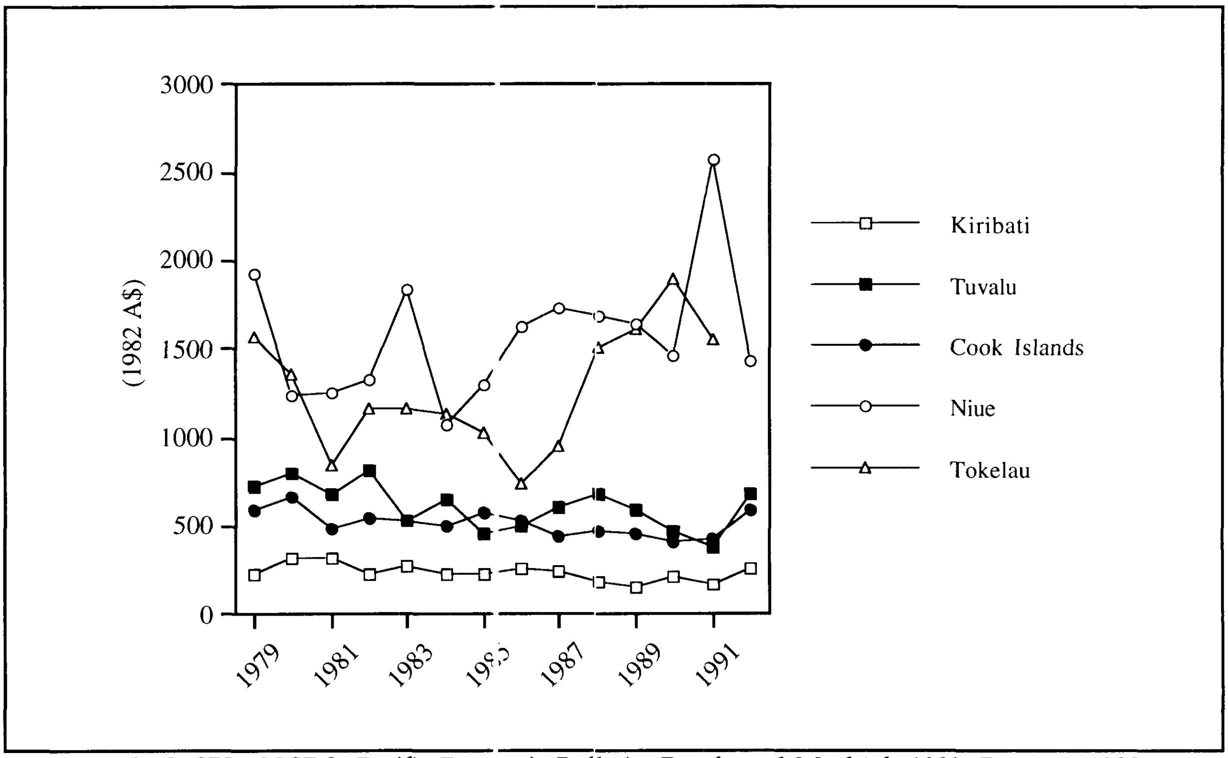
[6] Throughout this thesis, the aid figures for Tuvalu exclude the 1988 contribution to the Tuvalu Trust Fund made by the United Kingdom, which has been mistakenly added to official aid statistics for that year (see e.g. note attached to table A5 in AIDAB 1993, p. 50).

Figure 5.1 **Real aid flows to MIRAB countries**
(1979-92, 1982 A$'000)



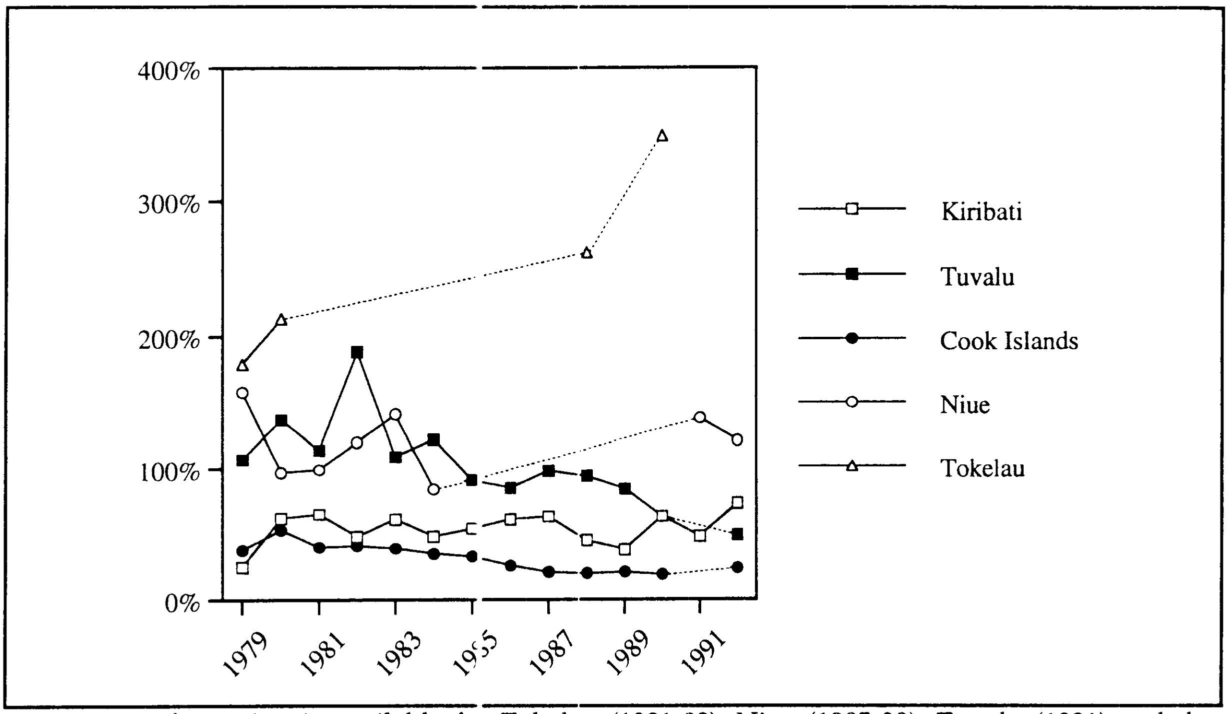
Sources: SPC; SPD; NCDS, *Pacific Economic Bulletin*; Booth and Muthiah 1992.

Figure 5.2 **Real per capita aid flows to MIRAB countries**
(1979-92, 1982 A$)



Sources: SPC; SPD; NCDS, *Pacific Economic Bulletin*; Booth and Muthiah 1992; Bertram 1993, pers. comm.; Ioane 1994.

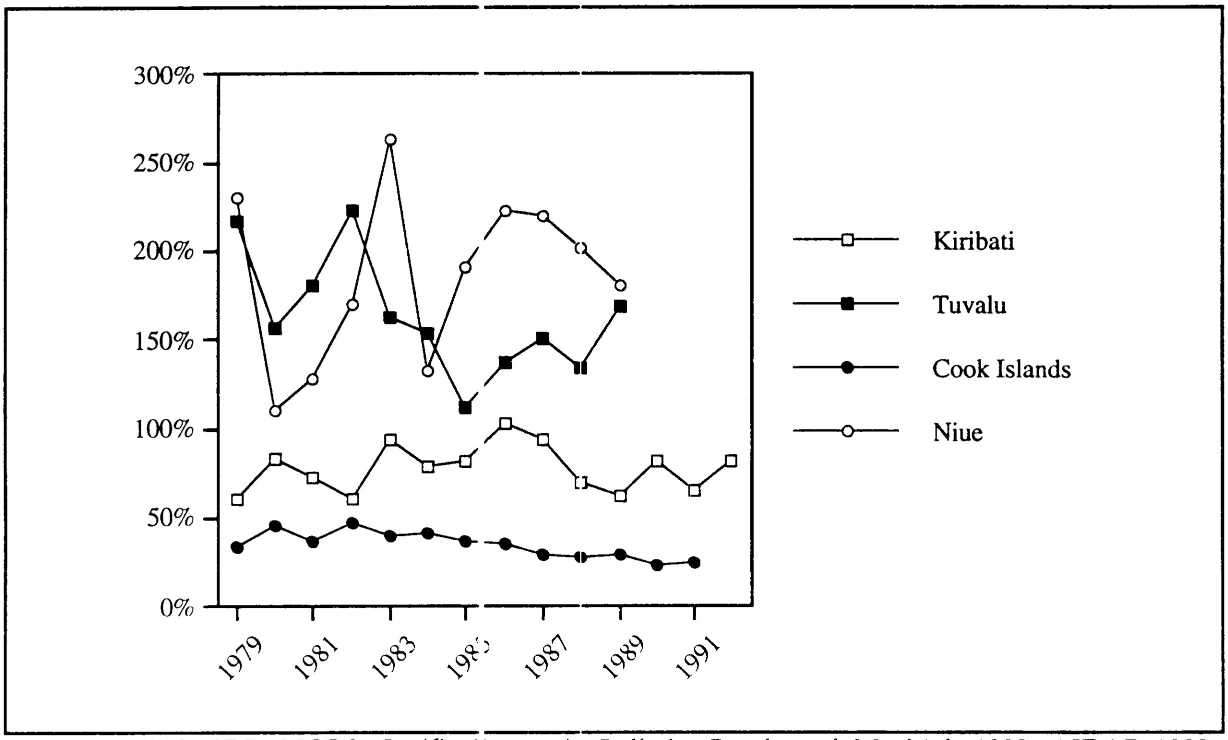
Figure 5.3 **Aid as a percentage of GDP in MIRAB economies** (1979-92)



Note: No information is available for Tokelau (1981-88), Niue (1985-90), Tuvalu (1991) and the Cook Islands (1991).

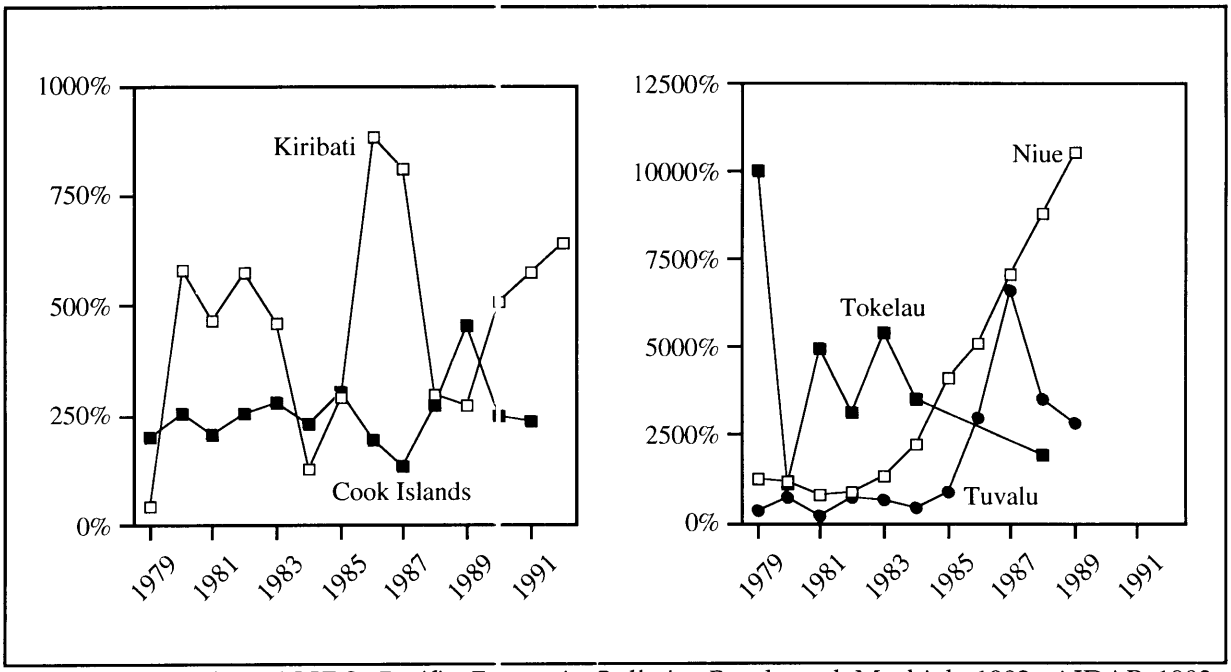
Sources: SPC; SPD; NCDS, *Pacific Economic Bulletin*; Mataio 1991; Booth and Muthiah 1992; CIA 1995; Poirine 1995 (Appendix).

Figure 5.4 **Aid as a percentage of merchandise imports in four MIRAB countries** (1979-92)



Sources: SPC; SPD; NCDS, *Pacific Economic Bulletin*; Booth and Muthiah 1992; AIDAB 1993; Bertram 1993, pers. comm.

Figure 5.5 **Aid as a percentage of commodity exports in MIRAB countries** (1979-92)



Sources: SPC; SPD; NCDS, *Pacific Economic Bulletin*; Booth and Muthiah 1992; AIDAB 1993; Bertram 1993, pers. comm.

- the ratio of aid to commodity imports is decreasing in the Cook Islands, stable in Kiribati, and highly variable in Niue and Tuvalu (no reliable data are available for Tokelau); and
- with the exception of Kiribati in 1979 (the last year of phosphate exploitation at Banaba), aid flows have always surpassed commodity export proceeds in the recent past. In Niue, Tuvalu and Tokelau, the value of aid flows massively eclipses that of merchandise exports, by a factor of 35 to 1 on average.

Irrespective of which yardstick is used to measure it, therefore, the magnitude of the aid flows accruing to MIRAB economies is apparent. In most countries, the importance of aid does not appear to be waning, even though it is subject to marked fluctuations. A possible exception to this generalisation is the Cook Islands, where aid has been generally declining in real per capita terms, and as a proportion of both GDP and commodity imports. No such decline is apparent in relation to the aid-commodity exports ratio. However, it is very likely that, if exports of services were also taken into account, a decline in the aid–exports ratio would become visible. This is because of the growing importance of tourism and financial services exports in that country. Unfortunately, no time series data are available regarding these exports.

Whether the decline of aid in relation to other economic aggregates signals a lessening of its economic role in the Cook Islands remains uncertain, ultimately. At the very least, it may be a reflection of a weakening of the MIRAB transformation of that economy in recent times.

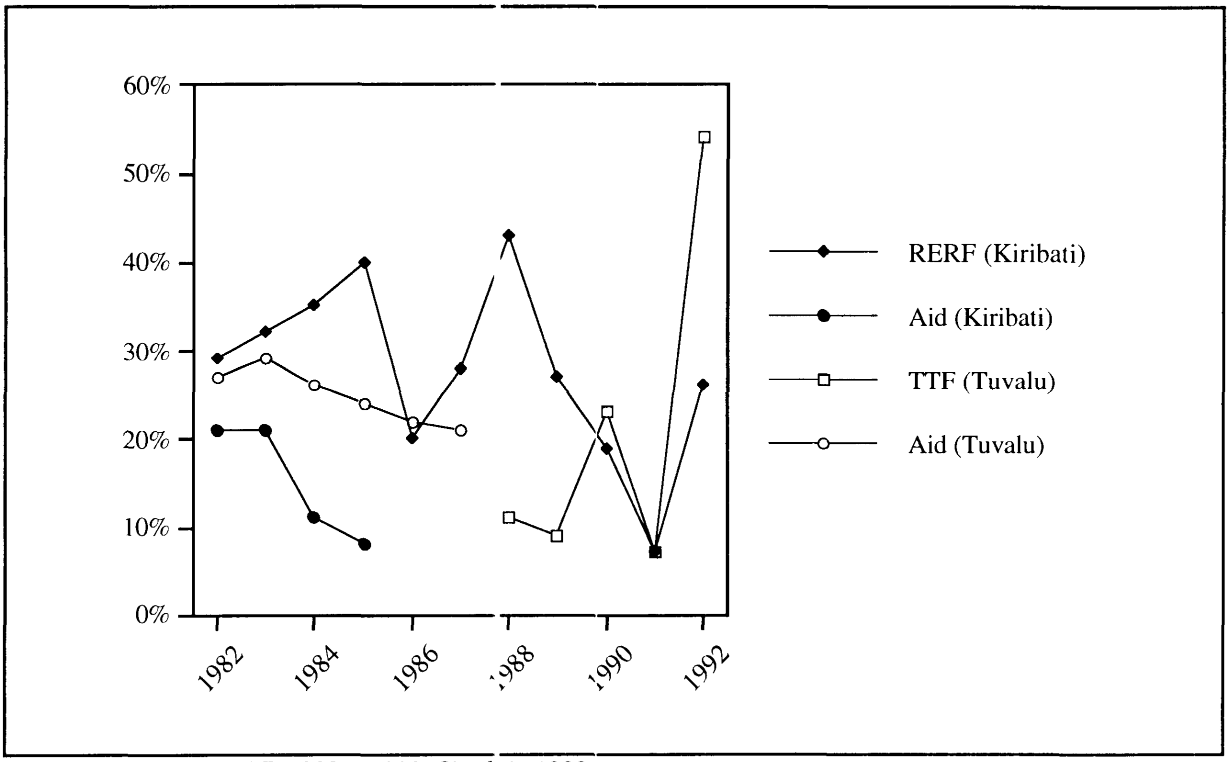
5.3.1.2 Trust funds

In recent years, overseas trust funds have emerged as an important source of rent income in two MIRAB economies, Kiribati and Tuvalu. With the termination of budgetary support aid from the United Kingdom in the second half of the 1980s, these countries have come to rely on revenue from these funds to finance part of their recurrent expenditure. In Kiribati, the Revenue Equalisation Reserve Fund (RERF) was established by the colonial administration in 1956, with the proceeds of phosphate royalties (AIDAB 1992a). In similar fashion to overseas investments undertaken by Nauru, the RERF was established to cushion government finances against the loss of revenue once phosphate deposits were exhausted. There has only been very little contribution to the fund by aid donors.

In contrast, the Tuvalu Trust Fund (TTF) was established almost entirely with donors' funds in 1987, the main contributors being the UK, New Zealand and Australia. Subsequent contributions were made by these and other donors (Japan, South Korea). Funds from both the RERF and the TTF are invested in securities ranging from foreign bonds to equity and property, and are managed by foreign stockbroking firms. Both funds have prospered considerably since their creation, although the return on investment of the RERF only became satisfactory after 1976. In 1991, the RERF was valued at A$266 million, following an average yearly real growth rate of 1.66 per cent since 1982 (AIDAB 1992a). The value of the TTF stood at A$36 million in 1991, implying a real annual rate of increase of 6 per cent since its creation (AIDAB 1993). In that time, the annual rate of return on TTF funds has averaged 19 per cent.

The strong recent performance of both funds has enabled the two governments concerned to use drawdowns from them on a regular basis to supplement domestic revenue, while preserving or augmenting the real worth of these assets. The extent to which Kiribati and Tuvalu have relied on their trust funds in recent years is reflected in figure 5.6. Expressed as a proportion of total recurrent revenue (tax and non-tax), drawdowns have ranged from a low of

Figure 5.6 **Trust funds drawdowns and budgetary aid as a percentage of total recurrent government revenue in Kiribati and Tuvalu** (1982-92)



Sources: SPD; AIDAB 1992a, 1993; Sinclair 1993.

7 per cent in both countries, to a high of 43 per cent in Kiribati and 54 per cent in Tuvalu. By contrast, budgetary aid never provided more than 30 per cent of the recurrent budget revenue. Greater reliance on drawdowns than on budgetary aid does not necessarily signal a greater dependence on rent income by the government. In Kiribati, reliance upon the RERF was always greater than that on budgetary grants in the early 1980s, so that the termination of this form of assistance has actually reduced dependence on rent income, overall. In Tuvalu, reliance on drawdowns has been lower that on budgetary aid, on average. However, the very large drawdown made in 1992 may be an indication of the government's desire to make greater use of this source of finance in future.

Its rent income nature notwithstanding, trust fund income offers a number of advantages over budgetary aid for both countries concerned. They are:

- *predictability*: within certain limits, it is possible for public planners to know in advance what the return will be on their investments and, consequently, what resources will be available to the budget;
- *sustainability*: unlike budgetary grants which must be renegotiated at regular intervals, the income stream from overseas funds is likely to

continue as long as sound management practices are enforced. In Kiribati, drawdowns are limited to a level compatible with the growth of the fund in real terms, preferably on a per capita basis (AIDAB 1992a). Less stringent guidelines apply in Tuvalu, where the goal is to maintain the real value of the fund (AIDAB 1993); and

- *independence*: with trust funds policy the responsibility of island governments, the use of this investment income rests entirely with them. As such, they are able to escape the inevitable pressures that accompany the granting of budgetary aid.

These advantages have convinced Bertram that:

> From the recipients' point of view the arguments for endowing [MIRAB] countries with a portfolio of reasonably secure income-yielding overseas investments, rather than annual recurrent grants, are strong and attractive ... (1986, p. 820)

He adds, however, that donors are unlikely to relinquish easily the degree of political control conferred by the provision of yearly grants to client states (ibid., pp. 820-21). Developments occurring after the time of Bertram's writing, such as the creation of the TTF and the phasing-down of budgetary aid to the Cook Islands, have shown his view to be unduly pessimistic.

5.3.1.3 Fishing royalties and philately

In 1985, Kiribati's decision to lease fishing rights to the Soviet Union drew the world's attention to the vast maritime area falling within this small country's Exclusive Economic Zone (EEZ). Access to a large body of water is, quite possibly, the only economic advantage that comes with a geographic dispersion equivalent to the width of the continental United States! With the exception of Niue, all other MIRAB countries experience great degrees of dispersion, and hence have, since 1982, jurisdiction over great tracts of ocean and seabed. Most observers agree that the exploitation of these marine resources, in particular fish stocks, provides South Pacific microstates with their best prospect for sustainable growth (e.g. Connell 1991a; World Bank 1991; AIDAB 1992a, 1993). However, the cost of operations, the lack of expertise, and the distance to markets have considerably restricted the scale of operations by MIRAB countries themselves. As a result, most of the fishing undertaken in these countries' EEZs is conducted under licence by foreign fishing fleets belonging to China, Taiwan, Japan, Korea, and the United States. A 1987 multilateral treaty between the latter country and the South Pacific Forum Fisheries Agency has provided Forum members[7] with greater certainty regarding the fees received from the exploitation of their tuna stocks. According to Waugh (1987), the collection of rent by South Pacific states has the potential to yield greater economic benefits than the development of a domestic fishing industry. This is because island countries have a comparative advantage in the ownership of fish resources which pass through their EEZs, and have a comparative disadvantage in the harvesting and processing of these resources (ibid., p. 12). However, the obstacles faced by South Pacific countries in policing agreements and apprehending poachers mean that they receive, at present, only a fraction of the value of the fish caught in their waters (3 per cent according to Bilney 1994, p. 8). In Kiribati and Tuvalu, for which fishing royalties figures are available, licence fees have provided a significant, if not particularly stable, source of rent income in recent years (see table 5.5). However, not all

Table 5.5 **Fishing royalties and philatelic revenue in Kiribati and Tuvalu** (1980-1991, 1982 A$'000)

Year	Kiribati		Tuvalu		
	Fishing	Philately [a]	Fishing	Philately [c]	% [d]
1980	..	855	44	739	90%
1981	..	610	51	2,329	99%
1982	..	1,225	166	651	76%
1983	894	100	184	413	59%
1984	1,683	0	136	580	48%
1985	2,545 [b]	0	424	305	71%
1986	2,827 [b]	0	164	121	88%
1987	1,491	0	235	64	82%
1988	1,428	0	245	163	97%
1989	1,728	0	152	80	43%
1990	2,180	0	245	..	..
1991	6,151	0	..	..	..

[a] Profits only are shown. [b] Licensing agreement with the Soviet Union (lapsed in 1987). [c] Turnover. [d] Philatelic exports as a percentage of total commodity exports.

Note: In order to facilitate the comparison of philatelic and fishing licence revenue with aid inflows, current values have been deflated by the Australian RPI (ABS).

Sources: Kiribati 1988, 1992; AIDAB 1992a, 1993; Bertram 1993, pers. comm.

[7] Including all MIRAB countries except Tokelau.

MIRAB countries benefit to the same extent from licensing. Lane (1994, p. 43) has reported that a 1993 fishing agreement between Niue and foreign countries would yield an annual fee of A$57,000, equivalent to about 1 per cent of the flow of aid received by Niue in the previous year. In Tokelau, the *total* value of the catch in EEZ waters was only A$0.7 million in 1991-92 (Ioane 1994), or about 14 per cent of the aid received in 1991.

As also illustrated in table 5.5, the sale of stamps to overseas collectors and dealers has at times provided some MIRAB economies with substantial revenue. Stamp exports also take place in Niue and Tokelau while, in the Cook Islands and Tokelau, an equivalent trade centres on the sale of souvenir coins (no data are available for these three countries). The 1980s have witnessed a marked decline in the profitability of such niche activities, however. In Kiribati, the government-run Philatelic Bureau has been recording losses since 1984, due to falling sales and rapidly rising costs. In Tuvalu, the trend in sales has been a downward one since 1981. According to Treadgold (1988, p. 186), 'the international sale of stamps has become a means by which a small country with limited human and physical resource endowments can substantially augment its overseas earnings and public revenue.' However, he adds that 'sustained success required skilful management' and that 'it is a matter of nice judgement to avoid flooding the market with new issues' (loc. cit.). He notes that, in the case of Norfolk Island, philatelists' perceptions of over-supply were responsible for downturns in sales (ibid., p. 190). This is one of the reasons invoked to explain the long-standing lack of profitability of the Kiribati Philatelic Bureau (Kiribati 1988; 1992). In addition, a downturn in philatelic sales worldwide and unusually high operating costs appear to have been responsible for the Bureau's losses. In Tuvalu, reasons given for the downturn in exports are a weak world demand and increased competition (AIDAB 1993).

5.3.2 Public sector

The prominent position of the public sector in the formal sector of MIRAB economies has been illustrated in chapter 2 (see tables 2.5 and 2.7). In chapter 4, Bertram and Watters' (1985) explanation of this prominence, and of its relationship with aid, was presented and discussed. In practice, the present weight of the public sector is often the result of the concurrent growth, since independence, of the civil service and the public enterprises sector. In MIRAB economies, it is common for the latter to cover a very large range of commercial activities, in addition to the provision of basic services. In Kiribati for instance, the government is, or was until recently, involved in such diverse pursuits as air and sea transport, philately, radio and newspaper, electricity, oil, water, public works, and housing (Kiribati 1992). A similar situation prevails in Tuvalu, where government activities also include commercial fishing and hotel management (Tuvalu 1992). In the Cook Islands, the government is also involved in the country's tourism industry (Mataio 1991) and the supply of liquor (SPD).

The large number of statutory enterprises operating in MIRAB economies has usually placed a heavy subsidy burden on the government budget (see 6.4.2). In an attempt to alleviate this burden, the governments of Kiribati and Tuvalu have adopted the privatisation and commercialisation of these enterprises as a major microeconomic reform objective (Kiribati 1992; Tuvalu 1992). Apart from strengthening government finances, it is hoped that these policies will foster a more dynamic private sector (AIDAB 1992a, p. 37). The logic underlying this hope rests upon the widespread belief that, at present, the public sector is crowding-out the private sector. The World Bank, for instance, lists the domination of public enterprises in key commercial sectors as one of the disincentives to new domestic and foreign private investment in South Pacific economies (1991, p. 45). This view is similar to Otter's (1994, p. 35), who notes that government agencies and public enterprises have usually acted as monopolies, thus dominating certain industries and crowding-out private enterprises. According to others (e.g. Knapman 1986), economically viable projects are rare, so that inflows of aid lead to capital saturation by the public sector. This appears to be confirmed in the case of Tuvalu where, according to AIDAB (1993, p. 22), the under-development of the private sector can be partly ascribed to the 'pre-emption by the government of many business opportunities normally carried out by the private sector'.

Certainly, the crowding-out hypothesis seems to be confirmed by the sectoral origin of gross capital formation in some MIRAB economies. In the two countries for which data are available, the public sector share of this form of investment is consistently very high. In Kiribati, it averaged 93 per cent between 1979 and 1986 (AIDAB 1992a, p. 47), while, in Tuvalu, it averaged 72 per cent between 1986 and 1990 (AIDAB 1993, p. 53). However, the prominence of public sector investment is not necessarily proof that crowding-out is occurring. A lack of private entrepreneurship and managerial skills are often invoked as factors behind the ubiquity of the public sector in MIRAB countries (e.g. AIDAB 1992a;

1993). In addition, Fairbairn (1992, p. 6) mentions socio-cultural factors as an impediment to private sector development. These problems suggest a causality running from private sector shortcomings to public sector expansion, in contradiction of the crowding-out hypothesis. Put another way, a reduction in public sector investment would not lead to a resurgence in private sector investment, because the latter is hampered by structural deficiencies.

Crowding-out is not, however, the only way for the public sector to hinder the dynamism of the private sector. According to Fairbairn (1992, p. 5), inappropriate government policies in the legal administrative and macroeconomic areas have frustrated private sector initiatives in many Pacific island countries. In addition, such policies as over-regulation of the business environment, excessive government intervention in the economy, unsustainable policy approaches in relation to fiscal, monetary, exchange rate and wage policies have been endemic (loc. cit.). He also contends that many government support services (e.g. transport and communications) required by a thriving private sector are overly weak in the countries concerned (ibid., p. 6).

Finally, increasing job opportunities in the public sector have thrown into relief the inherently risky nature of self-employment, and thus reduced the attractiveness of business ventures. An increasing preference for wage employment, particularly as a civil servant, is a phenomenon documented in relation to both MIRAB countries (e.g. Niue: Matheson 1986, pp. 100-2) and other South Pacific microstates (e.g. Micronesia: Connell 1991b, p. 99). In the case of Tuvalu, the expansion in the number of public sector positions has been such[8] that public employment has been interpreted by Munro (1990, p. 39) as a variant of 'social security' or 'welfare'. In Tokelau, Wessen (1992, p. 98) notes that copra producers were acutely aware of the alternative offered by public service jobs, the salaries for which had risen by a cumulative 41 per cent in 1979-80. Indeed, the case of Tokelau will provide an interesting opportunity to examine the economy-wide effects of public sector employment in years to come. Until 1993-94, most of this country's public service was located in Apia, Western Samoa, for practical reasons. These public servants have now been repatriated to Tokelau in preparation for the act of self-determination. The creation of a fully-fledged public service in such a small country is likely to have profound repercussions on the occupational preferences of its inhabitants. There are already indications that public sector employment is very much sought after, to the extent that a

[8] The number of public servants almost doubled between 1978 and 1992 (AIDAB 1993, pp. 18-19).

special tax on civil servants' salaries has been instituted in an attempt to redistribute wealth (Ioane 1994).

Overall, it appears that, in MIRAB countries, the expansion in public sector employment has been the result of the simultaneous growth in the supply of, and the demand for, government positions. The result of this process, largely founded on aid, has been variously described by Bertram (1986) as 'state capitalism', 'state-employment-led model', and 'parasitic over-expansion of government bureaucracies'.

5.3.3 Overseas employment

5.3.3.1 Migration

As mentioned in chapter 4, the related phenomena of overseas emigration and remittances are a significant component of the MIRAB model. However, far from being restricted to the five countries under study, the importance of emigration and remittances has been recognised and studied in a great variety of contexts in the South Pacific, ranging from large countries (e.g. Vanuatu: Haberkorn 1989) to island microstates comparable to MIRAB countries (e.g. Tonga and Western Samoa: Ahlburg 1991; Brown 1994). This second strand of literature, in particular, provides a number of insights which are applicable to MIRAB countries.

Data on population movements originating from the MIRAB countries range from scarce to non-existent. In some cases, emigration can only be inferred by comparing known rates of natural population increase and actual population growth, or by observing the excess of arrivals over departures. Both methods are clearly imperfect, so that the estimates they produce should be regarded as no more than order-of-magnitude ones. These estimates, together with more reliable figures, are presented in table 5.6, showing net yearly emigration for the 1980-92 period.

The twofold migration experience of MIRAB countries, already noted in 5.2.4, is apparent from the contents of this table. In those countries which maintain political links with New Zealand (Cook Islands, Niue, Tokelau), net emigration has occurred in most years during the 1980s and early 1990s. In contrast, Kiribati and Tuvalu have actually gained immigration over that period.

Table 5.6 **Net yearly emigration** (1980-92)

Year	Kiribati [a]	Tuvalu [b]	Niue	Tokelau [c]	Cook Islands
1980	152	- 77	339	27	..
1981	- 316	- 33	70	55	..
1982	170	- 32	114	- 1	1,002
1983	- 149	- 459	185	42	205
1984	- 90	98	236	12	- 409
1985	- 113	49	66	27	214
1986	- 280	- 69	255	- 63	711
1987	- 431	- 11	432	19	587
1988	- 589	- 135	306	29	720
1989	..	- 101	- 199	- 71	2,090
1990	..	- 117	..	31	- 1,223
1991	..	83	..	..	- 1,289
1992	..	..	..	..	2,745
Total	*- 1,646*	*- 802*	*1,804*	*107*	*5,353*
% [d]	*-3*	*-11*	*50*	*7*	*31*

[a] Excess of arrivals over departures (residents only). [b] Estimate based on a natural population increase rate of 9 per 1000. [c] Estimate based on a natural population increase rate of 17 per 1000. [d] Accumulated net migration as a percentage of population in 1979 (1981 in the Cook Islands).
Note: A positive value indicates net emigration.
Sources: SPD; author's estimates.

Undoubtedly, the difference in access to overseas labour markets enjoyed by both groups of countries lies behind these figures.

In the three New Zealand-linked countries, emigration has been on an increasing trend overall, although not without marked fluctuations and trend reversals in some years. The magnitude of emigration from these countries may be gauged in relation to total population numbers at the beginning of the period. On the basis of this criterion, the strongest emigration took place in Niue which, in the space of one decade, lost half of its initial population. The equivalent statistic was almost a third in the Cook Islands, which translated into the largest departing numbers. Tokelau was ranked third on both criteria, having experienced only low relative and absolute levels of emigration. Significantly, indications are that Tokelau's population has now stabilised, with natural increases being offset by emigration (Ioane 1994). Conversely, in Niue, continuing population decline is viewed with concern by the government (Lane 1994). Matheson (1986) has found that most emigration in that country was motivated by perceptions of income inequalities between public sector employees and non-wage workers. He also found that return migration was not generally considered attractive by migrants.

No information is available regarding the age and sex distribution of migrants from the three New Zealand-linked countries. Ahlburg (1991, p. 11) observed that, in Tonga, emigration was comprised of males and females in approximately the same numbers, and that it affected primarily the 25-34 (males) and 20-29 (females) age groups. These findings, if applicable to some of the MIRAB countries, suggest that both the age structure—and hence the dependency ratio—and the productive capacity of these countries have been affected by sustained emigration.

In Kiribati and Tuvalu, overseas employment has not led to large-scale emigration. The numbers involved are small, ranging from 10 per cent of formal employment in Kiribati (AIDAB 1992a) to 18 per cent of the total labour force in Tuvalu (AIDAB 1993). In their vast majority, overseas workers are employed in phosphate mining operations in Nauru, and the crewing of foreign fishing or merchant vessels (German, South Korean, Japanese, Micronesian). The nature of this form of emigration is temporary and, therefore, does not lead to the emergence of 'transnational corporations of kin'. The net positive immigration experienced by these two countries in recent years is linked principally to the progressive repatriation of mine workers from Nauru, whose phosphate deposits are predicted to run out sometime during the mid-1990s.

5.3.3.2 Remittances

While remittances are generally recognised as being of great economic importance to the MIRAB economies, estimates of their value are notoriously imprecise. Part of the problem lies in the diversity of forms remittances can take, from monetary transfers, to gifts of goods or services. A second problem is inherent to the use of surveys to estimate those remittances escaping official channels. A third problem arises in relation to the valuation of the goods and services remitted. In his study of remittances accruing to the Cook Islands, Loomis (1990) found that previously published remittance figures were consistently over-estimated, sometimes by a considerable amount. In most South

Pacific remittance-receiving countries, the same uncertainty reigns (Ahlburg 1991), which requires the estimates presented below to be interpreted with great caution.

Given the clear dichotomy which exists within the MIRAB group in the area of emigration, it is initially surprising to observe that such division is not reflected in migrant remittances As is revealed by table 5.7, it is Kiribati which has attracted the largest amount of remittances in recent years. The Cook Islands, the second largest recipient, now only average about half of Kiribati's inflows. The gap between these two countries is even more significant if it is remembered that the Cook Islanders living overseas outnumber I-Kiribati abroad by a ratio of seven to one (see table 5.3). Thus, it appears that the remittance 'effort' (propensity to remit and amounts remitted) is much greater in Kiribati (1982 A$1,122 per migrant in 1985), than in the Cook Islands (1982 A$178 in 1986). While the lack of data precludes similar calculations for the other countries, it

Table 5.7 **Remittances** (1980-90, 1982 A$'000)

Year	Kiribati	Tuvalu	Cook Islands [b]	Tokelau	Niue
1980	1,587 [a]	600 [c]	2,466	100 [c]	290
1981	1,776 [a]	600 [c]	2,701	100 [c]	248
1982	2,400 [a]	600 [c]	2,636	100 [c]	238
1983	2,184 [a]	..	2,700	100 [c]	..
1984	1,831 [a]	..	2,040	..	..
1985	2,500	..	2,057	..	..
1986	3,091	488	2,707	..	..
1987	3,425	922	2,611	..	..
1988	3,356	739	1,931	..	..
1989	3,375	656	1,638	75 [d]	..
1990	3,232	653	1,581	..	..

[a] Only includes remittances by seamen, not by Nauru workers or others. [b] Estimated by Mataio as double the amount received in postal money orders. [c] Based on Bertram and Watters' (1985) annual averages. [d] 1989/90 figure (Ioane 1994).

Note: Figures for Niue, Tokelau, and the Cook Islands deflated by the New Zealand CPI (Statistics New Zealand) and converted to A$ using the average yearly exchange rate (IMF, *International Financial Statistics*). Figures for Kiribati and Tuvalu deflated by the Australian RPI (Australian Bureau of Statistics).

Sources: Bertram and Watters 1985; Matheson 1986; Kiribati 1988, 1992; Mataio 1991; Tuvalu 1992; Ioane 1994.

seems probable that the remittance effort in Tuvalu is close to that of Kiribati's, while Tokelau's and Niue's resembles the Cook Islands'.

The determinants of the remittance effort in the South Pacific have been investigated in a number of studies (e.g. Matheson 1986; Loomis 1990; Ahlburg 1991; Fairbairn 1993). According to a survey of the literature by Ahlburg (1991, pp. 7-8), the main finding is that, on the whole, remittances flows tend to decline as economic and social ties with the homeland are progressively severed. Since such a severance only occurs over time, this process has been termed 'remittance decay' (Brown and Foster 1994). Apart from the duration of stay, other factors thought to affect remittances flows negatively were the number of relatives accompanying the migrant, the absence of return prospects, and the lack of remaining assets on the island (Ahlburg 1991). On the basis of these determinants, the greater remittance effort of Kiribati and Tuvalu nationals is expected, given the characteristics of emigration in these two countries (temporary, involving mainly workers unaccompanied by relatives). However, the validity of these determinants has been rejected by Loomis (1990) and, more recently, by an ILO-sponsored study of migration and remittances in Tonga and Western Samoa (Brown 1994; Brown and Foster 1994). On these issues, Brown and Foster write that:

> Cross-sectional data from this survey provide strong support for the view that remittance levels do not decline with length of absence away from the migrant's home country and a significant motivating factor for migrants to remit is the accumulation of assets and investments in the home country. (1994, p. 28)

and that:

> The evidence shows little sign of remittance decay, which in other studies may have been confused with the effect of slowing income growth in New Zealand. (loc. cit.)

Partial evidence in support of this second point is provided by Ahlburg (1991, pp. 62-3), who found a significant negative correlation between remittances to Tonga and the unemployment rate in New Zealand, during 1987-90. However, regressions attempted by this author for other time periods and countries did not yield any robust relationships.

Rather than the intensity of the remittance effort directed at a particular country, however, the economic importance of remittances is determined by their total value relative to the size of the recipient economy. This importance, as represented by the ratio of remittance receipts to GDP, is illustrated in table 5.8, for various MIRAB and non-MIRAB countries in 1989.

As is clear from the data presented in that table, the economic weight of remittances is far from uniform across MIRAB countries. It is significant to note that the two MIRAB countries which were observed as having the strongest remittance effort—Kiribati and Tuvalu—are also the ones with the highest remittances to GDP ratio. This ratio is marginally lower in Tokelau while, in the Cook Islands, it is very small. This last observation must, however, be qualified in the light of Loomis' finding that only half of remittances to the Cook Islands are in the form of money order transfers (1990, p. 64). Conversely, the nature of emigration in Kiribati and Tuvalu suggests that most remittances received these countries would follow official channels.

Table 5.8 **Official remittances as a percentage of GDP in selected countries** (1989)

Country	Remittances/GDP	Country	Remittances/GDP
Kiribati	12%	Tonga [b]	32%
Tuvalu	10%	Western Samoa	34%
Cook Islands	2%	Turkey	7%
Tokelau [a]	9%	Pakistan	6%

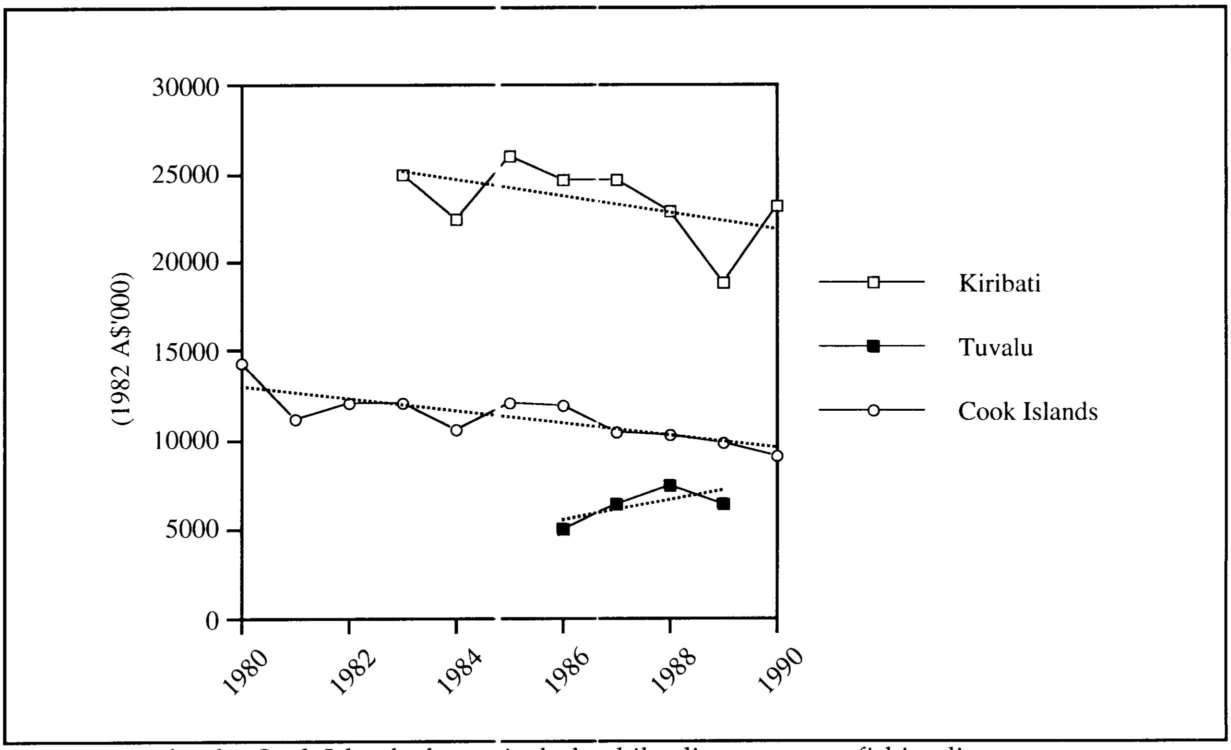
[a] 1989-90 remittances (deflated to 1988 NZ$ by the New Zealand CPI) as a percentage of 1988 GDP. [b] 1989-90 figure.
Note: 'Official remittances' refers to transfers recorded by banks or post offices.
Sources: SPC; SPD; Ahlburg 1991; AIDAB 1991, 1994; Mataio 1991; Kiribati 1992; Tuvalu 1992; Ioane 1994; CIA 1995.

The second important observation based on table 5.8 is that the economic importance of remittances in MIRAB countries is considerably smaller than in other labour-exporting South Pacific economies. The fact that remittances to Tonga and Western Samoa amount to about a third of these countries' GDP is a clear indication that the emigration-remittances phenomenon is far from specific to the five countries under study. Moreover, this finding can be interpreted as evidence that the MIRAB countries as not as dependent on rent income as MIRAB proponents have suggested. As the figures for Turkey and Pakistan indicate, MIRAB countries are not much more remittance-dependent than traditional labour-exporting developing countries.

5.3.4 Total rent income

Ultimately, the validity of the MIRAB hypothesis rests crucially upon the amount of rent income received, in absolute terms, and relative to domestically generated income. In an attempt to ascertain the importance of total rent income[9] in recent years, its evolution is presented below, both in real value terms and as a percentage of GDP (see figures 5.7 and 5.8). Because of incomplete or non-existent data, only three countries are represented, over different time periods.

Figure 5.7 **Total rent income in Kiribati, Tuvalu, and the Cook Islands** (1982 A$'000)



Notes: Data for the Cook Islands do not include philatelic revenue or fishing licences.
Broken lines indicate OLS trends.
Figures for Tokelau, Niue and the Cook Islands deflated by the New Zealand CPI (Statistics New Zealand) and converted into A$ using the yearly average exchange rate (IMF, *International Financial Statistics*). Figures for Kiribati and Tuvalu deflated by the Australian RPI (Australian Bureau of Statistics).

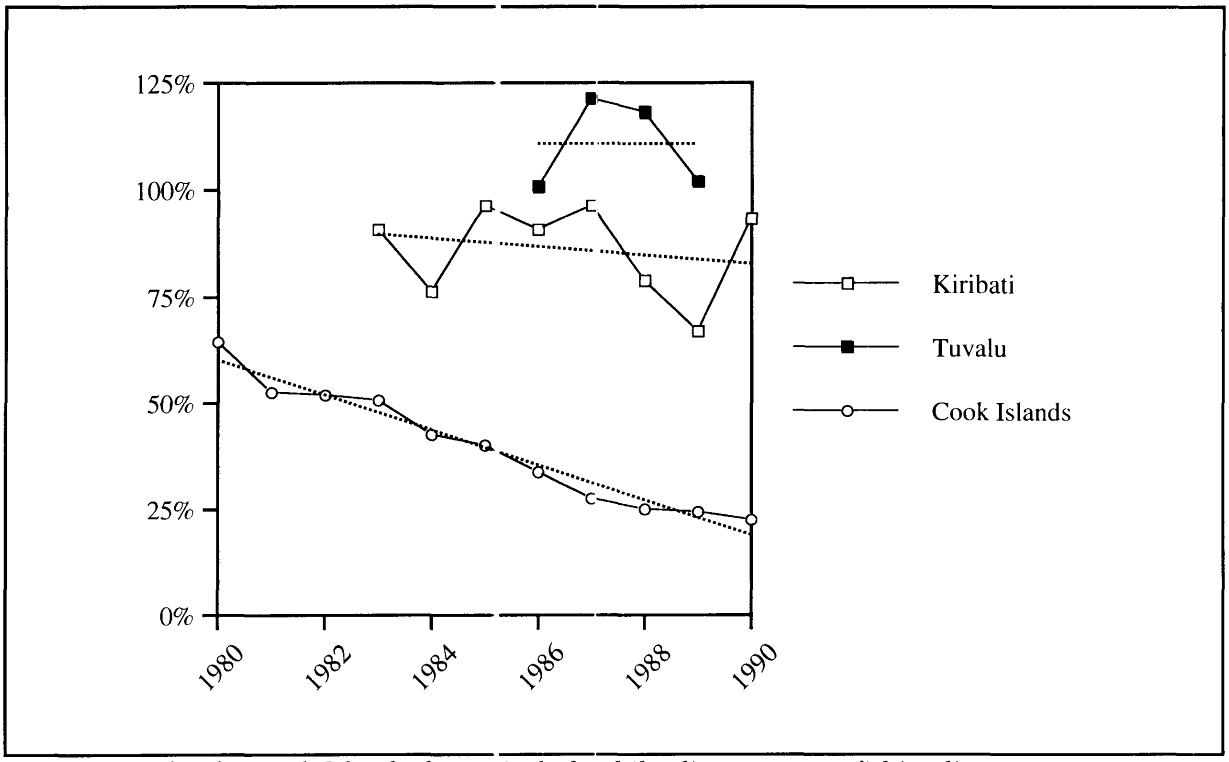
Sources: SPD; SPC; Kiribati 1988, 1992; Mataio 1991; AIDAB 1992a, 1993; Tuvalu 1992; Sinclair 1993.

The most significant result to emerge from figures 5.7 and 5.8 is the declining importance of rent income in the Cook Islands. When measured in

[9] Defined as the sum of foreign aid, trust fund drawdowns, remittances, philatelic revenue, and fishing licences.

both absolute and relative terms, this form of income has followed a steadily declining trend from 1980 to 1990. A comparison of the decrease in real terms and as a percentage of GDP reveals that rent income was falling at a time when the economy was growing. This seems to indicate that this country's economy is not wholly 'rent-driven' and that domestic sources of growth were operational

Figure 5.8 **Total rent income as a percentage of GDP in Kiribati, Tuvalu and the Cook Islands** (1980-89)



Notes: Data for the Cook Islands do not include philatelic revenue or fishing licences.
Broken lines indicate OLS trends.

Sources: SPD; SPC; NCDS, *Pacific Economic Bulletin*; Kiribati 1988, 1992; Mataio 1991; AIDAB 1992a, 1993; Tuvalu 1992; Sinclair 1993.

during the 1980s. At the end of that decade, rent income amounted to a fairly low 20 per cent of GDP.

In Kiribati, where the total amount of rent income is the highest of any country, the trend has been a downward one from 1983 to 1990, even if a 1989 through is discarded. However, in contrast to the Cook Islands, the size of rent income relative to GDP has not declined markedly during that period, although it has fluctuated significantly.

In Tuvalu, finally, the size of rent income flows relative to that of the economy is the greatest of the three countries considered. Insofar as a trend can be inferred from just four observations, it appears to have been one of stagnation between 1986 and 1989. At the end of that period, rent income equalled 102 per cent of GDP, after having reached a maximum of 121 per cent in 1987.

From the data presented above, it seems clear that MIRAB countries have followed different paths in terms of rent income dependency. Specifically, it appears that the level of dependence has fallen in the Cook Islands, while it remained approximately constant in Tuvalu and Kiribati. In contrast to Kiribati, however, the total amount of rent income received by Tuvalu has increased in recent years, and remains at a very high level in relation to GDP. This is broadly consistent with Watters' (1990, p. 67) remark that 'Tuvalu has advanced a good deal further in a MIRAB direction than Kiribati as indicated by the greater reliance placed on off-shore sources of income.' In the final analysis, however, the shortage of data pertaining to Tuvalu, and the absence of data pertaining to Niue and Tokelau, does not allow a definite conclusion to be reached regarding the level of reliance on rent income in the MIRAB group as a whole.

In future, changes in the total level of rent income received by various countries are likely to conceal diverging movements in the various categories of income. Regarding foreign aid, doubts have been expressed concerning donors' ability to maintain existing real levels (AIDAB 1992a, p. 10; 1993, p. 39). In fact, there have been indications, in recent times, that some aid donors are even considering reductions in their nominal contribution[10]. Prospects for trust funds income are brighter, given the strong performance of both the TTF and RERF in recent years. On present rates of return, these funds have the capacity to become major sources of rent income, especially if governments are successful in raising added capital. According to Brown and Foster (1994, p. 29), there is scope for significant increases in remittance flows to all South Pacific countries, provided adequate financial incentives (e.g. competitive real interest rates) are offered by their governments. In Kiribati and Tuvalu, the remittance outlook hinges crucially upon the emergence of new overseas employment outlets, given the impending closure of the Nauru mines. Among other sources of rent income, fishing rights afforded to most MIRAB countries by their large EEZs have the potential to increase significantly. The realisation of this potential, however, will depend upon their willingness to seek, and capacity to enforce, agreements with other fishing nations (AIDAB 1992a, pp. 25-6). Finally, hitherto unrecognised forms of rent may emerge, such as revenue from the granting of satellite orbiting

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[10] Bertram (1993, p. 254) mentions the New Zealand government's wish to decrease its aid grant to Niue. In a newspaper report, the United Kingdom is said to be considering cutbacks to its aid to Kiribati (*The Australian*, 1-2 Apr. 1995).

slots—as Tonga has already done (*The Australian* 10 Mar. 1995)—or of waste-dumping rights (Watters 1990, p. 68; Connell 1991b, p. 116).

5.4 Conclusion

From its inception, the MIRAB hypothesis represented an ambitious attempt at describing the network of social and economic inter-relationships driving some South Pacific microstates. Its authors' preference for a systemic approach over a partial or country-specific one resulted in the use of unavoidable generalisations and stylised facts. This particularity must be borne in mind when attempting to gauge the continued validity of the MIRAB hypothesis. A host of influences, historical, geographical, and political, ensure that this hypothesis can only provide a broad analytical framework, to be adjusted on the basis of realities 'on the ground'. The question arises, nonetheless, of whether this framework retains its explanatory value once country specificities have been accounted for, and once recent data are used. The evidence presented in this chapter, unavoidably fragmented and speculative in many instances, supports an answer in the affirmative overall. Most symptoms of the MIRAB transformation which Bertram and Watters detected for the period ending in the early 1980s, have endured to a significant extent to the end of that decade and beyond. There are, however, significant departures from expected trends in specific countries. In Kiribati, the gap between government revenue and expenditure has shrunk markedly in recent years. In that country, and in Tuvalu, the size of the overseas-employed workforce is decreasing. Undoubtedly, the country found to have made the most progress in a contra-MIRAB direction was the Cook Islands. In that country, there are strong indications that the importance of rent income in general, and aid in particular is decreasing. At the end of the 1990s, the former stood at less than 20 per cent of that country's GDP, significantly less than in other MIRAB countries. Moreover, in that country, the pace of emigration appears to have slowed down somewhat in recent years. While it too early to decide if the trends detected in the Cook Islands signal a reversal of the MIRAB transformation or simply its abatement, this country's economy warrants continuing scrutiny. In the other MIRAB countries, the MIRAB process, if not necessarily accelerating, is continuing broadly along the course charted by the earlier studies. This is not to say that no policies have been adopted which could result ultimately in greater independence: most notable among them are the drive for self-reliance in terms of the recurrent budget, and moves to streamline the public sector. These policies remain, however, peripheral to the flows of rent that drive these island nations.