

Introduction

Nine in every 10 Pacific islanders live in the independent countries of the region — Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. The remaining tenth — almost a million people in all — live in the territories and freely associated states, where formal connections with a metropolitan state offer access to its resources and opportunities. In different ways, and with different levels of devolution of power to local governments, eight of the Pacific island entities in the Pacific community are territories of external states, and a further five Pacific island entities are freely associated with an external state.

Table 1: Pacific Islands Territories

Territory	External State
American Samoa	USA
Commonwealth of the Northern Mariana Islands	USA
Guam	USA
New Caledonia	France
French Polynesia	France
Territory of the Wallis and Futuna Islands	France
Tokelau	New Zealand
Pitcairn Island	United Kingdom

Since the 1980s, we have known that the benefits of decolonisation in small island states are more cultural than economic, and that in the Pacific Islands, independent countries have poorer development outcomes than those that remain territories or continue to have a constitutional link to a metropolitan state (Poirine 1998; Armstrong and Read 2000; Bertram 2004.) As

Table 2: Pacific Islands Freely Associated Entities

Entity	External State
Federated States of Micronesia	USA
Republic of the Marshall Islands	USA
Republic of Palau	USA
Cook Islands	New Zealand
Niue	New Zealand

Geoff Bertram points out, a large body of evidence now supports the view that there is ‘a negative association between sovereign independence and present-day per-capita income, indicating that while decolonization may have brought political and psychological gains, it retarded rather than advanced the material prosperity of the decolonized populations. The reasons are straightforward: small island jurisdictions which are sub-national (that is, retain constitutional links to metropolitan powers) get more financial assistance per head, better access for migrant labour, and a wide range of jurisdiction-related opportunities to capitalize on non-sovereign status’ (Bertram 2007, 239–40).

In a study that compared 16 dependent with 19 independent island entities in the Caribbean and the Pacific across 25 socioeconomic and demographic indicators, Jerome L. McElroy and Katherine Sanborn showed that the dependent entities had much stronger economic performance, with much lower unemployment, higher life expectancy, lower infant mortality and ‘greater progress along the demographic transition from high to low birth and death rates that all modernizing societies pass through’. They concluded that the ‘economic linkages afforded by dependent status are significant.



They include: preferential trade, migration and citizenship arrangements, access to metropolitan capital markets and specialized labour expertise, the subsidized provision of key transport and communications infrastructure essential for the success of the two primary engines of insular economic growth—tourism and offshore finance ...’ (McElroy and Sanborn 2005, 9–10).

This paper revisits this discussion. It confirms that the disparities between living standards in dependent and independent Pacific countries remain as large as ever — indeed that they are probably growing. It examines the situation not only of the territories but also of the freely associated states, whose political status lies somewhere between dependence and sovereign independence. In particular, the paper asks: what can the independent Pacific learn from the dependent and freely associated Pacific? How might the favourable economic circumstances that accompany all cases of dependency and some cases of free association be reproduced elsewhere in the region? What are the policy implications for the Australian Government’s Pacific policy?

Origins of Political Status

The territories

France acquired **New Caledonia** (pop. 265,639 in 2012) and **French Polynesia** (pop. 274,217 in 2012) as colonies in the nineteenth century. France declared protectorates over **Wallis and Futuna Islands** (pop. 13,445 in 2008) in the 1880s, annexed them in 1913 and has administered them as a French territory ever since. And although changes in New Caledonia and French Polynesia since the 1990s have created a significant degree of self-government, especially in New Caledonia, the relationship with France remains territorial in character. Five French overseas entities — Guadeloupe, Martinique, French Guyana, La Réunion, and Mayotte — are ‘*départements*’ governed as if they were parts of mainland France, which is divided administratively into 96 *départements*. The remainder, including those in the Pacific, are all French overseas territories of one kind or another, with differing degrees of devolution to local governments. All permanent residents of French Polynesia, New

Caledonia and Wallis and Futuna became French citizens under the 1946 Constitution of the French Fourth Republic. Many residents of New Caledonia are simultaneously New Caledonian citizens under a unique arrangement for that territory.

American Samoa (pop. 55,519 in 2010) has no status of its own in international law, but has its own constitution and elected legislature, and controls immigration and border matters. American Samoa has a representative in Washington — currently Eni Faleomavaega — the only Samoan in the US Congress. He serves on committees and sponsors legislation but has no voting power. Executive authority is in the hands of the governor. The American Samoans are US nationals rather than US citizens. Originally, the people of overseas possessions of the United States such as Guam, the Philippines, Puerto Rico and the US Virgin Islands were also US nationals, not US citizens, but the only US nationals today are the American Samoans. They are free to carry a US passport and to live and work in the United States, but are barred from voting or holding office in the USA outside American Samoa.

Guam (pop. 159,358 in 2010) has been a US territory since 1898, and has no status of its own in international law. The Guamanians elect their own governor and legislature, and send a non-voting representative to the US Congress. They are US citizens and may enter and work in any part of the USA. Like American Samoa, it is an ‘unincorporated territory’ — meaning that it is not eligible to proceed to statehood as, for example, Alaska and Hawai‘i were able to do.

The Northern Mariana Islands (pop. 53,883 in 2010) passed from Japan to the USA during World War II, and benefited from the considerable US defence spending that followed. Foreseeing generous US subsidisation, they opted for a form of US territorial status in 1976, and their islands officially became a Commonwealth of the USA in 1986. According to the US State Department, the term ‘commonwealth’ ‘broadly describes an area that is self-governing under a constitution of its adoption and whose right of self-government will not be unilaterally withdrawn by Congress’ (US Department of State 2013, 2). The people of the Northern Marianas became US citizens in 1986 and are free to enter

and work in any part of the USA. Their first representative in the US Congress was elected in 2008. The governor holds executive power and there is a bicameral elected legislature.

Tokelau (pop. 1,411 in 2011), a British protectorate from 1889, formally passed to New Zealand sovereignty in 1948, when its people became New Zealand citizens. Tokelau is in many respects self-governing. Tokelau is one of five Pacific island groups still listed as ‘a non-self-governing territory’ by the UN Special Committee on Decolonization, and New Zealand reports to the UN each year on its administration. (The other four are American Samoa, Guam, New Caledonia, and Pitcairn Island.) Tokelau is in many respects self-governing. The General Fono (Council), to which authority is given by the village councils of the three atolls of Atafu, Nukunonu, and Fakaofu, handles national issues including shipping, fisheries, and external relations — meaning relations with New Zealand and with regional organisations such as Te Vaka Moana, the Polynesian fisheries grouping. When the General Fono is not sitting, authority is exercised by the Council for the Ongoing Government. The Tokelau people have voted in two referenda on whether to enter free association with New Zealand. The referendum question in 2006 and again in 2007 was ‘That Tokelau become a self-governing State in free association with New Zealand on the basis of the Constitution and the Treaty’ but on neither occasion did the vote reach the necessary two-thirds majority — a requirement imposed by the Tokelauans themselves. As a result, Tokelau remains a dependent territory of New Zealand.

Pitcairn Island (pop. 50 in 2013) is a British Overseas Territory, originally settled by mutineers of the *Bounty* in 1790. It became a British colony in 1838.

The freely associated states

The Cook Islands (pop. 10,777 in 2012) and **Niue** (pop. 1,446 in 2011) are freely associated with New Zealand. The key importance of free association for the Cook Islanders and Niueans is that it guarantees them the two benefits they most want from the relationship — the right to live and work in the metropolitan state, and an assured flow of development assistance.

Free association in this case is a unique arrangement between different parts of the same country, endowing the Cook Islands and Niue with a large measure of self-government and autonomous capacity but not removing them from a ‘single constitutional entity’ known as the Realm of New Zealand (Quentin-Baxter 2008, 614). Everything else about free association between New Zealand and its associated states flows from this fundamental fact, which, above all, determines that the people of those states are New Zealand citizens like any other. At the same time, the Cook Islands and Niue remain distinct Pacific ‘nations’, with their own languages, cultural practices and sense of national identity. For more than a century, the Cook Islands and Niue have been New Zealand sovereign territory, just as Norfolk Island or the Torres Strait Islands are Australian sovereign territory. Britain declared a protectorate over the Cook Islands in 1888 in cooperation with its colony in New Zealand, which, with London’s approval, proceeded to annex the island group in 1901 as an extension of its territory in the Pacific (Gilson 1980, 96–109). Demands for local government led to the formation in 1947 of a Legislative Council, which was reorganised as a largely elected Legislative Assembly in 1957, and in the 1960s Cook Island leaders called for internal self-government with the proviso that Cook Islanders should keep their New Zealand citizenship under any new constitutional arrangement.

Niue followed a similar historical path. Declared a British protectorate in 1900, Niue was annexed by New Zealand in 1901 and administered as part of New Zealand until 1974. Like the Cook Islanders, the Niueans retained their New Zealand citizenship. Section 6 of the Cook Islands Constitution Act 1964 and Section 5 of the Niue Constitution Act 1974 both provide that ‘Nothing in this Act or in the Constitution shall affect the status of any person as a British subject or New Zealand citizen by virtue of the British Nationality and New Zealand Citizenship Act 1948’ (New Zealand Government 194; New Zealand Government 1974).

The Micronesian islands that now form the **Republic of the Marshall Islands** or RMI (pop. 54,200 in 2013), the **Federated States of Micronesia** or FSM (pop. 103,000 in 2013) and the **Repub-**

lic of Palau (pop. 17,800 in 2013)¹ were not under American administration until the last years of World War II. Germany governed the Marshall Islands from 1885 to 1914 and the eastern and western Caroline Islands (modern FSM and Palau) from 1900 to 1914. When World War I broke out, Germany's Pacific territories north of the equator fell to Japan, while those south of the equator such as Nauru fell to the British Empire. As a consequence, Japan occupied all the former German Micronesian territories with the exception of Nauru from the end of 1914 and ruled them as a colony (from 1920 League of Nations Mandated Territory) until it was driven out by the Americans in 1944. After World War II, the former Japanese islands became part of the UN trusteeship system. Alone among the world's eleven UN trust territories, they were a strategic trust, giving the administering authority the right to conduct military experiments such as nuclear tests. This strategic trusteeship was not dissolved by the UN Security Council until after the end of the Cold War in 1990.

Free association north of the equator is different from free association south of the equator. The transition to free association by the Cook Islands and Niue was largely uncontentious. The move to free association status by the three Micronesian states, by contrast, took place over many years and through many rounds of negotiations, beginning in 1969. The Compacts of Free Association were comprehensive and lengthy legal documents covering every conceivable aspect of future relations between the USA and the Micronesian states, and at every point in the negotiations the US Department of Defence and the US Congress wanted proof that the USA was not surrendering strategic advantages. After successful plebiscites, the Compacts of Free Association with the RMI and FSM became law in 1986. They were reviewed after the first compact period of 15 years, and amended compacts for both countries have operated since 2004. These will expire in 2023.

Completing the compact with Palau was delayed for more than a decade by its dispute with the USA over its 1979 nuclear-free constitution, which was unacceptable to the Americans. The Palauans participated in nine plebiscites

between 1983 and 1992 before voting to amend their constitution so as to qualify Palau for free association status. As a result, Palau did not achieve free association until 1994, and its first 15-year compact period of funding was from 1995 to 2009. In accordance with Section 432 of the compact, which requires a re-appraisal after 15, 30 and 40 years, Palau and the USA conducted a review and agreed on an amended compact in 2010. The amended Palau compact still awaits action by the US Congress in order to pass into law. In the meantime, continued funding is reaching Palau in the form of annual appropriations.

Both sides in Micronesia emerged from the years of negotiations over free association with what they most wanted. The Micronesians obtained free access of their citizens to the USA and aid guaranteed over lengthy periods. The USA obtained guarantees of strategic monopoly and military use of a vast area of the northern Pacific:

- All three Micronesian states conceded strategic denial of their islands in perpetuity to any power other than the USA. The RMI permitted the Americans to continue testing missiles at the Kwajalein missile range for an initial period of 30 years, and Palau guaranteed American military use of certain defence sites for 50 years.
- The Americans guaranteed aid payments over initial periods of 15 years, which could then be renegotiated (in 2001 for the RMI and FSM and in 2009 for Palau).
- The Americans gave the Micronesians a unique, but not permanent, immigration status that allows them to live and work in the USA.

The key difference between the Pacific's two kinds of free association relates to citizenship. The Cook Islanders and Niueans share citizenship with other New Zealanders. The people of the RMI, FSM and Palau were UN Trust Territory citizens from 1947 to 1990, and when the trust ended, they became citizens of their own countries with special immigration privileges under the compacts. The people of the RMI, FSM and Palau are not American citizens, and their free entry to the USA, far from being a right, is a product of negotiation, contingent upon compact conditions that are subject to

Table 3: Membership of international organisations

Country	International Monetary Fund	World Bank	Asian Development Bank	United Nations	Pacific Islands Forum
Cook Islands	No	No	Yes	No	Yes
Niue	No	No	No	No	Yes
Republic of the Marshall Islands	Yes	Yes	Yes	Yes	Yes
Federated States of Micronesia	Yes	Yes	Yes	Yes	Yes
Palau	Yes	Yes	Yes	Yes	Yes

change in the future. Far from having to be inferred, the terms of the compact relationship with each state are spelled out in exhaustive detail in compact agreements and revised compact agreements that were negotiated over periods of years. The RMI, FSM and Palau were seen by negotiating parties on both sides as small states entering independence under conditions freely entered into — that is, the Compacts of Free Association. They conduct their own foreign affairs and are members of the UN.

Termination of free association in both cases would depend on mutual agreement — an unstated but inevitable requirement in the New Zealand case, and spelled out explicitly in the American compacts with the three Micronesian freely associated states.

Participation by the freely associated states in international affairs

The Cook Islands and Niue are states in international law with the capacity to conduct their own foreign relations. Internationally, there are reservations about their sovereignty, and as a result they have less international capacity than Palau, RMI and FSM.

The governments of the RMI and FSM ‘have the capacity to conduct foreign affairs and shall do so in their own name and right, except as otherwise provided in this Compact’ and ‘have the capacity to enter into, in their own name and right, treaties and other international agreements with governments and regional and international organizations’ (Compact of Free Association, Section 212(a) and (c)). Similar language applies in the Palau compact, and

it has enabled all three states to become members of the UN. As might be expected, the Micronesian freely associated states use their foreign policy freedom to support the USA. Palau supports the USA in the UN more than any other country at 96.5 per cent of votes, and the FSM is next, with 94 per cent. The RMI’s support is at 81 per cent (*Island Times* 2011).

Development Outcomes

The territories

The people of the Pacific territories are more fortunate than their counterparts in the independent Pacific in a number of ways. They live in territorial extensions of advanced states and therefore metropolitan standards of efficiency in service delivery tend to apply. GDP per capita is markedly higher in the territories than elsewhere in the region.

The people of the territories have access to labour markets beyond their borders by virtue of having metropolitan citizenship. Those of Guam and the Northern Marianas are American citizens and the American Samoans are American nationals. All of them are free to work and live in any part of the USA, and many have done so. The economic boom in New Caledonia is leading to migration *between* the French territories in the Pacific. French Polynesia is an exception among Polynesian countries in not having a large proportion of its population living abroad. A small number move take up opportunities offered in New Caledonia, but few move to mainland France. New Caledonia is not losing population by migration but gaining it as people move there from the other two French ter-

Table 4: Estimates of GDP per capita in the American and French territories, 2013²

Territory	GDP per capita (US\$)
Guam	28,232
Northern Marianas	13,288
American Samoa	12,662
New Caledonia	38,973
French Polynesia	24,669
Wallis and Futuna	13,220

ritories, especially from Wallis and Futuna, more than half of whose people live outside their home islands (Hayes 2010). The World Bank Database shows that over the 2007–11 period, net annual emigration from French Polynesia was around 400, while net annual immigration into New Caledonia was over 6,000.

The French territories spend far more per capita on health care than do the freely associated states. In New Caledonia in 2008 it was \$US3,399, and a similar figure applies in French Polynesia. The World Health Organization (WHO) reports a ‘well-functioning mother and child health programme’ in New Caledonia with high rates of vaccination coverage, including for Hepatitis B. As in other Pacific countries, there are periodic outbreaks of dengue fever, with about 40,000 people infected in 2009, but the major disease burden resembles that of an advanced Western country — cancer, heart disease, diabetes, and kidney disease. The WHO’s assessment of French Polynesia is that it has reached ‘a high level of health and socioeconomic development’ with a rise in non-communicable diseases and a fall in the incidence of communicable ones. Almost the entire population has access to quality health care, while infant mortality and maternal mortality rates are low. As in Western countries, heart disease and cancer are the major causes of death in French Polynesia (WHO 2011a).

The size of the French territorial budgets has more in common with those of advanced industrialised countries than with those of its Pacific neighbours. New Caledonia’s 2012 budget provided for expenditure of XPF188 billion (Pacific

French francs) or AUD\$1.9 billion for a population of about 256,000. This amounted to AUD\$7,515 per capita — a level of government expenditure far above that of any independent Pacific island country and somewhat greater than for the New Zealand freely associated states. The Cook Islands budget provided for expenditure of NZ\$112,690,000 in the 2012–13 budget or AUD\$86,771,300, which was about AUD\$5,784 per capita (Cook Islands 2011, 29). In addition to the territorial budgets, there is considerable expenditure on public servants who are employed by government departments in France. Not until 2012, for example, were secondary school teachers paid from the New Caledonia budget rather than from the budget of the French Republic itself.

Total government revenue, including public transfers (primarily from France) is equivalent to some 40 per cent of GDP in New Caledonia and around 45 per cent in French Polynesia. In both cases, grants comprise some 64 per cent of total government revenue (Lagadec and Ris 2010; Poirine 2010). In other words, the French territories are massively subsidised from Paris, and on a scale that dwarfs development assistance to the independent Pacific. If the level of French subsidies to its Pacific territories were to be replicated for Solomon Islands, which has a similar population of around 550,000, development assistance there would multiply 13 times, from less than AUD\$300 million a year to AUD\$4 billion.

The freely associated states

Development outcomes in the five freely associated states are more diverse than in the territories. The three with the smallest populations — the Cook Islands, Niue, and Palau — have standards of living that compare favourably with the developed world, but development in the other two — RMI and FSM — is more like that in the independent Pacific.

The Cook Islands and Niue receive official development assistance, which comes from a variety of donor states and international organisations. About a third of the Cook Islands’ aid comes from non-New Zealand sources. The harmonised aid program funded by New Zealand and Australia is the country’s largest source of assistance but it also receives multilateral aid through membership of the Pacific Islands Forum, and from the Asian Devel-

opment Bank, as well as UN agencies, Japan, and the European Union. A similar pattern of aid flows applies to Niue. The consequence is to relieve New Zealand of the full cost of aid to these freely associated states. US funding under the Compacts of Free Association financially underpins the Micronesian freely associated states, which also receive aid from elsewhere, including Australia. US federal funding accounts for 14 per cent of GDP in Palau, 41 per cent in RMI and 55 per cent in FSM (O'Connor and Casey 2011, ES-2).

Like the people of the territories, those of the freely associated states have access to labour markets beyond their borders, and the right to migrate to certain metropolitan states. About 56,000 'compact' migrants from the RMI, FSM, and Palau were living in the USA by 2011 — about a quarter of the total population of the Micronesian freely associated states. Of these, about 30,000 were living in Guam and Hawai'i. The Cook Islanders and Niueans, as New Zealand citizens, can migrate to Australia as well as New Zealand. About 63,000 Cook Islanders were living in Australia and New Zealand in 2006, and 15,000 in the Cook Islands. The equivalent figures for Niueans were 23,000 and 1,600.

The US Census of 2010 showed an estimated 22,400 Marshallese to be living in the USA. Nine mainland US states had compact migrant populations of more than 1,000 in 2011 (GAO 2011a). One of them is Arkansas, which has attracted a large number of Marshallese to work in the chicken industry. There were 4,324 Marshallese living in the state in 2010, and another 4,000 are estimated to live in Costa Mesa, California (Riklon et al. 2010). RMI maintains a consulate in Springdale, Arkansas, and runs a Citizens Orientation Program there for newly arrived Marshallese migrants in order to 'ease and lessen the burden of culture shock to our citizens, but more importantly, to enable our citizens to assimilate into their new homes in the United States as contributing members of that society'. (Zedkaia 2010). As in the Cook Islands and Niue, the continuing migration of Micronesians to the USA is seen by some, probably a minority, as undermining development at home in the islands. Palau, the most successful of the compact economies, loses people

Table 5: Estimates of GDP per capita in the freely associated states, 2013³

Freely Associated State	GDP per capita US\$
Cook Islands	15,447
Palau	11,164
Niue	10,358
RMI	3,910
FSM	2,205

to the USA, but also has more than 6,000 foreign workers in a total population of about 21,000.

The three best-performing freely associated states have health outcomes and life expectancy that are superior to those of the independent Pacific. Cook Islanders, for example, have a life expectancy of 80 years. The Cook Islands has an impressive health record. The maternal mortality rate is low, and was zero in the decade 1996–2005. The immunisation rate is 100 per cent. Under the Cook Islands Health Specialist Visits Programme, the Ministry of Health funds medical specialists from Australia, New Zealand and elsewhere to provide services not available in the public hospitals in Rarotonga and Aitutaki or the clinics health centres on the outer islands (NZ AID 2011). Niue has good health outcomes. The WHO reports that 'in general, health indicators for Niue are good' with communicable diseases largely contained, 100 per cent vaccination coverage and good maternal and child health care (WHO 2011b). Palau has made progress in improving the health of its citizens. According to a 2012 report on MDGs, Palau devotes 'by far the highest proportion' of its health expenditure to preventive and public health of any country in the Asia Pacific region (UNESCAP, ADB & UNDP 2011, 60). The WHO reports great progress in improving maternal health in Palau.

The health situation in the worst-performing freely associated states — RMI and FSM — is less positive. 'Health indicators vary across Micronesia', according to a 2010 Hawai'i study that focused on the RMI and FSM,

but in general are quite poor with high rates of chronic and infectious disease. Infant mor-

tality and life expectancy are poor when compared to US standards. Tuberculosis, Hepatitis B, and Syphilis are endemic in Micronesia. Outbreaks of Cholera and Dengue fever are not uncommon. Hansen's disease [leprosy] is still commonly diagnosed. Malnutrition and Vitamin A deficiency remain serious problems in many of the outlying areas ... Obesity is a significant problem affecting half of all men and women. Type 2 Diabetes rates are alarming affecting half of the people over 50 years of age (Riklon et al. 2010, 7).

On the other hand, the people of the RMI and the FSM can freely enter the USA and seek better health there, and many do. More than a hundred FAS Micronesians are on dialysis in Hawai'i, for example, and 130–160 are receiving chemotherapy. Sick people in the RMI and FSM have options that sick people in independent Pacific countries do not usually have.

Standards of service delivery differ from country to country. The Cook Islands, Palau and Niue do very well; the RMI and the FSM, especially the FSM, do worse but still better than, say, Papua New Guinea or Solomon Islands. For example, the Cook Islands, Palau and Niue show 95 per cent or more of births attended by skilled medical personnel and the figure is between 85 per cent and 90 per cent in the FSM. This compares with a minority of births in PNG.

Explaining Development Outcomes

The territories are all characterised by economic and administrative integration — in varying degrees — with advanced states. This integration gives the Pacific territories a flow of resources and a strong administrative capacity which does much to explain their comparative well-being. The best outcomes in the Pacific Islands for the MDGs, health, education, standard of living, financial accountability and human security are in the American and French territories. Large subsidies, coupled with the authority and standard-setting capacity of national governments in Washington and Paris, ensure that political instability in the territories, if it occurs, has little impact on government administration that is highly efficient by Pacific standards.

What about the freely associated states? They too are characterised by levels of economic and administrative integration not found in the independent Pacific. The US government, for example, provides all three Micronesian states with 'compact-authorized' services whereby the relevant US government agency extends its services to the Micronesian states. There are compact-authorized services for weather, aviation, and the post. The US Postal Service, for example, conveys mail between the US and the freely associated states; the Federal Aviation Administration provides en-route air traffic control from the US, together with technical assistance; and the National Weather Service reimburses the Micronesian states for conducting weather observations. US Federal Discretionary Programs substantially augment compact funding (GAO 2006, 58). Discretionary funding amounted to about a third of all US funding of Palau 1995–2009, and is expected to account for half of it during the second compact period to 2024 (GAO 2011b, 17.)

The amended compacts, which provide for funding of US\$3.5 billion to the RMI and FSM from 2004 to 2023, involve considerable US government supervision of fiscal transfers and island budgets. US government agencies closely monitor and oversee the spending of compact funds in the freely associated states. A fiscal procedures agreement is meant to ensure that accountability and conditions in compact spending match those that apply to US federal grants to the states. An office for monitoring compact assistance, based in Honolulu, tracks compact spending in the islands, and joint economic management committees consisting of high level officials from both sides, make decisions about compact spending. These are known as JEMCO (Joint Economic Management Committee) in the FSM and JEMFAC (Joint Economic Management and Fiscal Accountability Committee) in the RMI.

On the other hand, US policy towards the freely associated states is to remove the financial burden they place on the US government and create self-sustaining island economies. Compact funding is specifically designed to remove the dependence of the freely associated states on

US assistance. The amended compacts for RMI and FSM include a mechanism by which annual decreases in US grant funding are paired with equivalent increases in US contributions to trust funds: ‘The decrement in grant funding is deposited into the FSM’s and the RMI’s trust funds. The RMI’s annual decrement of \$500,000 began in 2004, and the FSM’s annual decrement of US\$800,000 began in 2007.’ (GAO 2006, 4). The American intention is to end compact funding for RMI and FSM by 2023, and for Palau by 2024 in the expectation that trust funds and locally generated revenue will pay for the island governments after that. As the American Ambassador to RMI, Martha L. Campbell, said in speech at the College of the Marshall Islands in 2010: ‘I can say with all certainty at this point in time that there is no intention on the part of anyone anywhere in government of the U.S. to extend Compact funding past 2023’ (Campbell 2010).

For the Cook Islands and Niue, free association ‘involves a commitment by the New Zealand Government to continue its financial support of the associated State’ (Quentin-Baxter 2008, 615), and since 1974 this support has been channelled through the aid budget. Some official observers refer to the Cook Islands, Niue and Tokelau as the ‘Realm responsibilities’. Those who devised free association saw it as an arrangement reached between different groups of New Zealanders, and one that might evolve over time in the same way that New Zealand’s relationship with the UK had evolved earlier, with increasing autonomy for the Cook Islanders.

After the territories, the Cook Islands and Palau emerge as the most successful economies in the Pacific, due for the most part to their tourism industries. The Cook Islands records a surplus on current account — \$NZ85 million in 2010, despite a trade deficit of \$NZ105 million — and Palau has imported thousands of workers (Neves 2012). The RMI and FSM have few sources of income from abroad apart from aid and fisheries licences. According to expert testimony to Congress in 2008, ‘The FSM’s budget is characterized by limited tax revenue and a growing wage bill, and the two private sector industries identified as

having growth potential — fisheries and tourism — face significant barriers to expansion because of the FSM’s remote geographic location, inadequate infrastructure and poor business environment’ (GAO 2008, 2). A similar pattern applies to RMI. The highest net migration rate from any of these countries and territories is recorded in the poorest one — the FSM — where it was -21 per thousand in 2010. Palau, by contrast, had a positive net migration rate of 0.86 per thousand, and the RMI -5.3 per thousand. In other words, people leave to find a better life but stay if development is taking place, or else, as is happening in Palau, they leave but are replaced by others in a successful economy.

Findings

First, subsidisation of one kind or another characterises all Pacific Island economies, whether territorial, freely associated, or independent. Indeed the most striking feature of modern political economies in the region is the unevenness of that subsidisation — massive in the territories and smallest, despite the aid dependency of the Pacific, in the independent Pacific countries.

Second, the high degree of economic and administrative integration found in Pacific territories guarantees development and brings them into the ranks of the advanced world, even though stark inequalities, political divisions, and hopes for independence remain in some territories, such as New Caledonia.

Third, the lesser degree of economic and administrative integration of the kind found in the freely associated states does not guarantee development, but may play a part in delivering it where conditions favour investment, such as the Cook Islands and Palau. Free association, when combined with tourism and economic growth (Cook Islands, Palau), or massive subvention (Niue) produces a highly favourable effect on improving people’s standards of living and opportunities as measured by the MDGs.

Fourth, free association combined with little economic growth, as in RMI and FSM, merely averts the worst MDG outcomes. Yet if we make individuals and families, rather than states, the ‘subject’ of development, free association, even in FSM and RMI, offers people the opportunity to do better for themselves somewhere else. The

number who have done so suggests that, measured in terms of individual life chances rather than national economic statistics, it has development potential. A 2012 survey of Marshallese living in Springdale, Arkansas, found half were satisfied with their employment prospects even in the midst of a recession, and that 63 per cent had health insurance compared with 38 per cent for an equivalent population of Latino migrants. Some said they had moved to Arkansas because it offered educational opportunities. While the Marshallese of Springdale face many challenges, their children will enjoy opportunities in education and employment that they would not have had at home in the Pacific (Jimeno and Rafael 2013). Free association has made those opportunities possible.

Conclusion

Development assistance to independent Pacific states is here to stay. Donors such as Australia, New Zealand, Japan, and the USA will continue to see aid as contributing to regional stability. China has graduated from minor to major donor: at the 2013 China–Pacific Island Countries Economic Development and Cooperation Forum in Guangzhou, Vice Premier Wang Yang offered US\$1 billion in concessional loans for infrastructure development to Pacific countries that recognise the People's Republic — Fiji, Cook Islands, Micronesia, Niue, Papua New Guinea, Samoa, and Vanuatu (RNZI 2013). And with the coming of new players such as the United Arab Emirates and Russia, more donors are offering assistance to the Pacific than ever before. In any case, the idea that small island states can rapidly progress to rapid economic growth simply by adopting free market policies seems discredited, even if particular initiatives work, such as opening up mobile phone markets.⁴ As Francis Hezel has pointed out, 'It may be misleading to think ... of Pacific Island nations as possessing small economic engines that with proper overhaul or fine-tuning, can deliver maximum performance and carry each nation where it needs to go'. Development assistance might well be 'a long term fixture' of the relationship between advanced countries and Pacific states (Hezel 2012, 27).

Under these conditions, what lessons might we draw from the disparities of Pacific development for the effective use of aid? What are the policy implications for major donors such as Australia?

The implications are of two types: the first apply to Papua New Guinea, Fiji, Samoa, and Tonga, as well as Solomon Islands and Vanuatu, and concern access to Australia's labour market. In most respects, Papua New Guinea cannot be compared with Pacific territories and freely associated states. Papua New Guinea has the largest population in the Pacific by far (7.4 million), the highest economic growth rate, the lowest development performance, and the greatest inflow of development assistance in absolute terms. But Papua New Guinea would nevertheless benefit from a sizeable expansion of Australia's seasonal labour scheme, and from new and different forms of labour mobility to Australia.

The same applies to Fiji, Samoa, and Tonga — the most successful countries of the independent Pacific Islands region. The foundations of effective states and bureaucracies there were stronger at independence than elsewhere in the region, and notably stronger than in western Melanesia, and the years since independence have done little to change that difference. On the UN Human Development Index for 2013, Fiji, Tonga, and Samoa rank almost together as countries with what the UN calls 'medium human development'. Through temporary and permanent migration, these countries have benefited from years of access to the labour markets of the advanced world in New Zealand, Australia, Canada, and elsewhere. Here again, Australia could nevertheless do more to encourage labour mobility.

Solomon Islands is at present emerging from a decade of development intervention under the Regional Assistance Mission (RAMSI), and is making the transition to conventional, bilateral relationships with donors. RAMSI itself remains in diminished form as a mission to strengthen the Solomon Islands police force. Under RAMSI, Solomon Islands has experienced the enhanced flows of aid and administrative expertise that characterise Pacific territories and freely associated states, while, for the most part, lacking a key

element of their relationship with the outside world — access to overseas labour markets and remittance flows. Here too, and in Vanuatu, which is benefiting considerably from its labour access to New Zealand, Australia should consider increased access to its labour market as a non-aid way of assisting development.

The second kind type of implication for Australia's policy applies to relations with the smallest independent island states in Micronesia and Polynesia — Nauru, Kiribati, and Tuvalu (combined population about 120,000). The American free association model preserves the sovereignty of Palau, the RMI, and FSM by basing the relationship on treaties freely entered into between sovereign states. The Micronesian states have no constitutional relationship to the USA and are members in their own right of the UN. This kind of 'sovereign free association' suggests a way forward for Australia's relations with the smallest island states. Australia could enter into relationships that resembled free association with these countries on the basis of bilateral treaties without compromising their sovereign status or capacity to participate in the international system and without affecting their eligibility to obtain ODA from other sources.

The distinguishing characteristics of any such relationship between Australia and Pacific states, whatever it was called, would be some degree of labour mobility allowing Islanders access to the Australian labour market, guarantees of long-term development assistance, and enhanced administrative integration of the kind that has already taken place in Solomon Islands and Nauru, with Australia working with Island states to supply certain treaty-authorized services of the kind the USA performs in Micronesia. When Pacific Islanders can earn money for themselves in Australia or New Zealand, island economies grow and the need for aid diminishes. When island bureaucracies work better, instability is less likely and regional security more assured. From the island point of view, being able to work in Australia is highly attractive. And with the prospect of rising sea levels rendering atoll states such as Kiribati and Tuvalu less and less habitable in future decades,

Australia will eventually need a policy answer to an emerging problem of climate refugees in its own neighbourhood.

Author Notes

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Endnotes

- 1 These are the estimates given by the Secretariat of the Pacific Community in its National Minimum Development Indicators at <<http://www.spc.int/nmdi/MdiSummary2.aspx?minorGroup=1>>, viewed 16/12/13.
- 2 These estimates are drawn from a variety of sources and are intended to be indicative only.
- 3 These estimates are drawn from a variety of sources and are intended to be indicative only.
- 4 For a view that Pacific countries could do much more to open up to the private sector and would benefit from doing so, see Adams, J. 2013. Harold Mitchell Development Policy Annual Lecture: The Challenges of Aid Dependency and Economic Reform: Africa and the Pacific. *Crawford School Research Paper* no. 32. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2357288##>, viewed 9/12/13.

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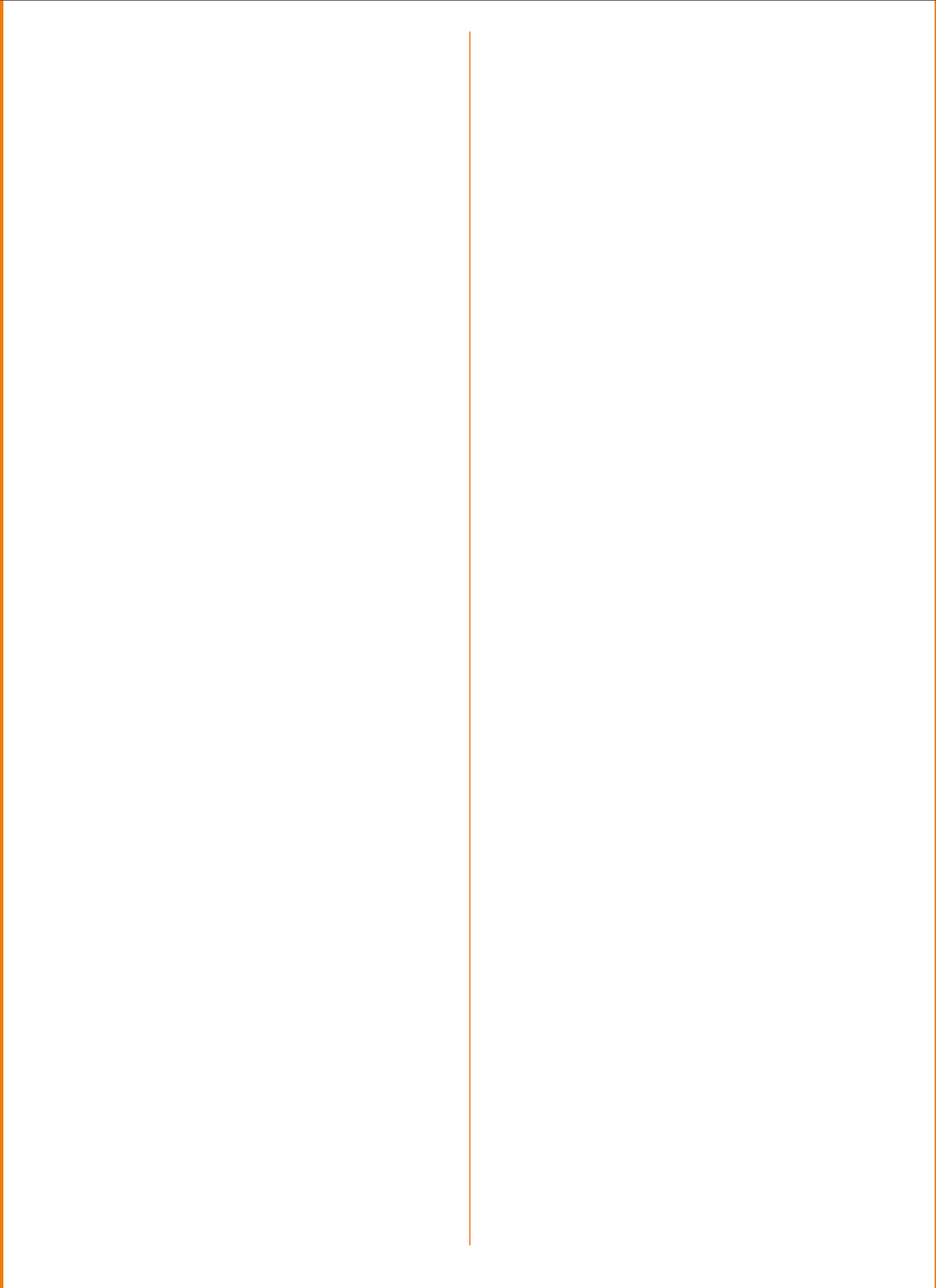
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