Inclusive Growth, Poverty and Inequality in Pacific Island Countries

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What is Inclusive Growth?

• Not all growth periods are inclusive.

• How can growth be classified as inclusive? How do we separate inclusive growth from those that are not?

• Klasen (2010) provides two criteria:

  ✓ “Nondiscriminatory” growth.

  ✓ “Disadvantage-reducing” growth.
What is Inclusive Growth?

• Thus inclusive growth is not quite the same as pro-poor growth.

• Inclusive growth extends beyond people below the poverty line.

• Inclusive growth is more broad: growth which benefit all segments of society, including the poor, the near-poor, middle income groups, and even the rich.

• Inclusive growth can easily be extended to non-income dimensions of well-being: inclusive development (McKinley, 2010; Rauniyar and Kanbur, 2010)
Measuring Inclusive Growth

• McKinley (2010) proposes four indicators:

  ➢ Growth, productive employment and economic infrastructure

  ➢ Income poverty and equity, including gender equity

  ➢ Human capabilities

  ➢ Social protection
Pacific Island Countries: Some Facts

• Growth in the Pacific Island Countries (PICs) has been weak over the last decade.

• Integration of with Australia, New Zealand, and emerging Asia has increased over the last two decades.

• Stronger linkages with Australia and New Zealand are well established.

• Linkages with emerging Asia, including China, have also grown substantially, especially over the last 10 years.
Pacific Island Countries: Some Facts

• Most PICs are heavily dependent on tourism and agricultural sectors.

• Structural changes during the last decade: decline in agricultural and industry sectors and increasing importance of the services sector in some countries.

• Inflation is always a concern in PICs; largely driven by changes in external food and energy prices (UN ESCAP, 2013).
Pacific Island Countries: Poverty

- Percent Proportion of Population below Basic Needs Poverty Line (BNPL)
Pacific Island Countries: Gini Index

- Gini Index

![Bar chart showing Gini Index for various Pacific Island Countries]
Pacific Island Countries: GDP Growth

- Annual Growth Rate of GDP (%)

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Pacific Island Countries: GDP Growth

- Employment to Population Ratio (%)
Benchmarking the Constraints

• Constraints to Participating in Agricultural Growth:

✓ Limited market access because of high transaction costs
✓ Weak property rights for land
✓ Weak incentives for production for poor farmers
✓ Low levels of technology for use by poor farmers to enhance productivity
✓ Risk associated with agriculture
Benchmarking the Constraints

• Constraints to Participating in Non Agricultural Growth:

  ✓ Poor investment climate
  ✓ Rising skill requirements of non agricultural employment
  ✓ Labour market regulations
  ✓ Lack of access to infrastructure
Macroeconomic Policies

• Macroeconomic Policies for Inclusive Development:

  ✓ Greater emphasis on the quality and composition of public expenditure

  ✓ Higher investment in health, education and social security

  ✓ Higher public investment in environment

  ✓ Inclusive finance
Inclusive Growth: The Case of Fiji


![Bar chart showing poverty incidence in Fiji from 1977 to 2002/2003 for rural, urban, and national levels.](chart)
Inclusive Growth: The Case of Fiji

• Policy Simulation: Will trade liberalization contribute to poverty reduction?

✓ Use a CGE model of the Fiji economy with a microsimulation model to investigate the impact of tariff elimination on poverty.

✓ The CGE model is used to simulate changes in trade policy at the macroeconomic level, which are then passed on to the microsimulation model.

✓ The theoretical structure of the CGE model closely follows the Australian ORANI model (Dixon, et al. 1987).
Inclusive Growth: The Case of Fiji

• **Percentage of Households in Poverty: Pre and Post Trade Liberalization**

![Bar chart showing percentage of households in poverty pre and post trade liberalization for Indigenous Fijians (rural and urban) and Non-Indigenous Fijians (rural and urban).]
Inclusive Growth: The Case of Fiji

- Per cent of Population in Poverty based on BNPL of F$33 PAE per week by Division: Pre and Post Trade Liberalization