

# Chapter 1

## Introduction

**T**he Asian Development Bank (ADB) coordinates the preparation of periodic assessments of economic and social conditions in its Pacific developing member countries (DMCs) as part of its Pacific Studies series. The last update for the Cook Islands was prepared for 2001. This *2008 Social and Economic Report* updates the series as part of a broader effort by ADB in partnership with Pacific DMCs to focus on the endemic constraints on improvements to public and private sector productivity in the region. This broader effort supports the in-country participatory formulation of policies and institutions that work in favor of poverty reduction, as well as the local formulation of strategies to win over any stakeholders that may not immediately accept reform.

The purposes of this report are to (i) provide an underlying assessment of development constraints and opportunities; (ii) prepare medium-term macroeconomic management and fiscal target indicators; (iii) present a private sector assessment and advise on establishing an enabling environment for a competitive private sector; (iv) present a review of pro-poor service delivery; and (v) provide a basis for policy consultations to facilitate the achievement of pro-poor policy outcomes and to help the people and governments reach critical decisions on adopting and implementing appropriate policies. The report is intended to help guide both public policy formulation in the Cook Islands and the preparation of donor strategies, including ADB's 2008–2012 Country Partnership Strategy.

**This report  
examines  
constraints on  
development  
to guide policy  
formulation**

**The small islands of the Cook Islands are spread over a large area**

The Cook Islands is made up of 15 small islands distributed over 2 million square kilometers (km<sup>2</sup>) of the South Pacific Ocean. About 70% of the population of 20,000 lives in the largest island of Rarotonga, which has a land area of 67 km<sup>2</sup>. Rarotonga is the capital and the country's dominant driver of economic growth. Around 20% of the population lives in the Southern Group of outer islands within 300 km of Rarotonga. The remote Northern Group of outer islands, more than 1,250 km from the capital, is made up of atolls and sand cays with little arable land. These islands benefit instead from large, productive lagoons that support pearl farming and are the main base for the country's fishing industry.

**Living standards are high**

The Cook Islands economy has grown strongly since the mid-1990s, and the current gross domestic product (GDP) per head of more than \$10,000 is the highest among independent island countries of the Pacific. Social indicators are also favorable, with the Cook Islands achieving the highest human development index (HDI) rating among the region's independent nations. Life expectancy is high at 71 years; infant mortality is low at 15–20 per 1,000 live births; immunization rates reach almost 100%; secondary school enrollment rates exceed 90%; adult literacy is high; and most Millennium Development Goals have been met or will be met by 2015.

These achievements reflect a long history of heavy government investment in health, education, and welfare buttressed by a good natural resource base and the benefits of close integration with New Zealand. A substantial improvement in the quality of economic and public sector management since the financial crisis of the mid-1990s has also underpinned the improvement in living standards. For understandable reasons, the Cook Islands now looks to New Zealand to set its benchmarks for service standards, opportunities, and incomes.

**The policy and institutional environment is positive**

The favorable development environment was affirmed in ADB's most recent country performance assessment. This assessment is conducted for a DMC to determine the quality of its policy and institutional framework for

promoting poverty reduction, sustainable growth, and the effective use of concessional assistance. A country's performance is assessed based on the (i) coherence of its macroeconomic and structural policies, (ii) quality of its governance and public sector management, (iii) degree to which its policies and institutions promote equity and inclusion, and (iv) portfolio performance. In the 2005 assessment, the Cook Islands received the highest ranking among Pacific DMCs, scoring 19.3. This was substantially above the average score of 12.4 for all ADB DMCs and the Pacific average of 12.1. The countries nearest to the ranking of the Cook Islands were Samoa with a score of 18.4, Viet Nam with 17.4, Bhutan with 17.3, Maldives with 15.4, and Mongolia with 14.2.<sup>2</sup>

Development is occurring in the face of a long-term decline in resident population. Cook Islands residents hold New Zealand citizenship and can freely access the New Zealand and Australian job markets and the New Zealand health, education, and social security systems. This access has provided Cook Islanders an important opportunity to raise their living standards and a valuable safety net to call on in downturns. More than three times as many Cook Islanders live overseas than in the Cook Islands.

The decline in the resident population and the strong economic growth have combined to require a rising number of foreign workers. Meanwhile, an open environment for foreign investment, which has been one catalyst of recent growth, has seen more foreign investors establish themselves in the country. The rising foreign presence is critical to growth, but some community members are concerned about its follow-on effects, including the potential erosion of traditional Cook Islands' identity.

**As the  
Cook Islands'  
population  
falls, foreign  
presence  
increases**

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2 Asian Development Bank (ADB). 2006a. The latest country performance assessment for the Cook Islands was undertaken in 2007 but the results has not been made public during the publication of this book.

**Infrastructure upgrades are needed**

Economic growth has boosted government revenue, and combined with tight fiscal management, this has reduced the government's debt to low levels. The Government now has the financial capacity to fund public infrastructure projects that have been put under pressure by an expanding economy and demands for higher standards of service.

How best to structure public policy and finances to see the community through the challenges it now faces remains unclear. Directions for public policy are provided in the recently completed national sustainable development plan, but the effectiveness of the plan is yet to be established. Importantly, the support needed to implement the plan may not have been in place. The leadership needed at this important phase of development is diffused by political instability, and it is unclear if the public sector is sufficiently results-oriented to meet the tests now facing the Cook Islands.

**This report examines challenges, describes the economic setting, and considers social services and the disadvantaged**

This report examines the options for managing these challenges. The overall theme of the report is “equity in development.” Key aspects of equity are explored, including equity between Rarotonga and the outer islands, equitable support for vulnerable members of the community, and equity between native Cook Islanders and foreigners.

Chapter 2 describes the economic setting, looking at the drivers of growth, how investment has been funded, and the critical role played by the private sector. Implications for employment, unemployment, and the experience of the outer islands are also described.

An overview of the delivery of social services is provided in Chapter 3. Chapter 4 examines the social services, discussing the factors that determine the effectiveness and quality of the various services and how they can better reach disadvantaged segments of the Cook Islands population.

Private sector development is examined in Chapter 5, with an emphasis on what determines the competitiveness of the economy and what can be done to maintain it. The chapter closes with an overview of sensible priorities and strategies for supporting the private sector.

The discussion then turns in Chapter 6 to managing the public sector for results. The chapter discusses how to (i) provide the needed upgrade of public infrastructure, (ii) raise the quality of public expenditure and the performance of public enterprises, and (iii) maintain fiscal sustainability. The chapter also discusses the importance of the unfinished agenda of political reform. Chapter 7 presents the conclusions of the report.

The appendices present background information and underpin the analysis of the report. These include an examination of developments in the population and its changing mix and the outlook. Profiles of each of the outer islands are also provided. Apart from Aitutaki, the outer islands receive few visitors, and it can be difficult for outsiders to appreciate the needs of individual islands. Yet, this appreciation is critical to understanding the pattern of disadvantage in the Cook Islands and those most at risk. The appendices also present economic data and a summary of the participation and consultation process followed in preparing this report.

**Private sector  
development  
and public  
sector  
management  
are discussed**

**Outer Islands  
are profiled**