

Chapter 7

Conclusion

Cook Islands' relatively high living standards are achieved through a private sector-led growth model, driven mostly by tourism. The nation's fiscal position significantly improved from the debt crisis in the mid-1990s. From 2007, the Government became well placed to fund development projects, particularly infrastructure in the main centers of Rarotonga and Aitutaki to support environmentally sustainable growth. However, Cook Islands still suffers from rising global commodity prices, declining population, and inherent vulnerability to external shocks.

Major gaps in living standards and economic prospects exist between the outer islands and the main centers. Considerable public resources in outer islands development have achieved little, a challenge for the Government's development agenda. The disadvantaged would benefit from better targeting of the welfare system. Education plays an important role in building the skills needed for the economy, particularly through expanded vocational training. Some signs indicate that the damaging attitudes of the mid-1990s remain, and there is an underlying need to maintain the large gains made in governance.

The Cook Islands community demands higher service standards, larger incomes, and more opportunities. Aspirations appear to be rooted in reaching New Zealand standards while, at the same time, preserving the modernized

Summary of Key Points

Community aspirations are rising and can be met only with strong economic growth

Cook Islands lifestyle of Rarotonga and the more traditional lifestyle of the outer islands.

Continued economic growth is required to meet these aspirations, but it is not assured. Recent economic success can be attributed to the opening of the economy following the economic reform and a hands-off approach to the private sector. The future is likely to be more demanding of economic managers, and there are already some signs that the economy may be losing its international competitiveness. Public policy and the public sector will need to become more sophisticated to meet the emerging challenges if ecologically sustainable and equitable development is to be secured.

**Growth will
require more
foreign labor
and capital**

In broad terms, economic growth is a function of its factors of production—land, labor, and capital—and how well these factors are used. The departure of resident labor availing itself of open access to New Zealand means the economy inevitably reaches a point where it can grow only by replacing its departing labor with imported labor. This point has been reached. Open access to New Zealand now goes together with rising dependence on foreign labor if growth is to continue. Continued growth will also go together with rising dependence on foreign capital. This is provided via the banking system and by foreign direct investment, which also provides access to ideas, marketing networks, and competitive pressures that raise productivity.

There may be some resistance to rising foreign input and the changes it brings to the Cook Islands' community. Economic policy needs to (i) become more sophisticated to manage these pressures, (ii) remain vigilant in maintaining the international competitiveness of the economy if growth is to continue, (iii) address some unnecessary regulation of competition, (iv) break down monopoly power, (v) handle the extra public debt that will be incurred in relieving infrastructure constraints, and (iv) answer a recent tendency toward protectionism.

At the same time, public policy will be faced with the (i) rising dependency of the outer islands as their populations and economies continue to decline, (ii) social and financial costs of worsening rates of noncommunicable diseases, (iii) political system's need of reform, and (iv) risks to the natural environment imposed by recent growth and gaps in environmental protection.

Steps have been taken to ready the public sector to meet these challenges, most notably through finalizing the National Sustainable Development Plan (NSDP) 2006–2011. Ongoing efforts to raise the standard of governance, most notably through more accountability and transparency in the public sector, would do much to complement these efforts.

This report advocates the adoption of rigorous but realistic benchmark indicators that would guide the NSDP into a path of long-term sustainable development within a sound macroeconomic context. Based on the improved fiscal governance, the Government is in a position to establish a basis for environmentally sustainable growth by investing in robust infrastructure and to review macroeconomic benchmark indicators developed under the Manila Agreement for fiscal prudence that would be able to guide decision making to ensure that decisions create the desired growth and development results.

Other social, political, and environmental issues are pressing—all calling for a higher standard of governance

ADB advocates fiscal responsibility benchmarked to a set of sound indicators.