Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010

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Check against Delivery

Vanuatu

Statement by

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Vanuatu Permanent Mission to the United Nations

Mr.Chairman
Honourable Ministers
Ladies and Gentlemen

My Government welcomes the mid-term review on the implementation of the Brussels Program of Action (BPoA) for Least Developed Countries (LDC's) for the decade 2001-2010. The BPoA provides goals and targets along with action-oriented commitments in seven critical areas following a commitment from world leaders to promote development in the LDCs. Throughout this year, various preparatory meetings and consultations have been held ultimately culminating in this high level meeting today. At the half-way mark implementation of the BPOA has been moderate. Our resolve in implementing measures needed to address the peculiar issues of LDCs, of which five are located in the Pacific Ocean, have continued to be hampered by several key challenges. I refer here in particular to the case of Vanuatu.

Vanuatu's performance on the implementation of the BPOA is a mixed one with some progress in the implementation and achievement of agreed commitments and goals while some are still yet to be realized. Already, it is obvious that some of these will not be achieved within the agreed timeframe. Nevertheless, Vanuatu will continue to pursue them over the medium to long term.

The Vanuatu economy is dualistic in nature with a rural population of 80% engaged in the informal subsistence sector and the remaining 20% being engaged in the formal sector. Vanuatu has an economy which is small in terms of size, resources, market and national output. The smallness implies that its ability to compete internationally in the goods and services market is limited and the prospect of achieving high economic growth is unforeseeable in the near future.

The major contributing sectors to GDP are the agriculture sector and the services sector with the services sector making the largest contribution of 73% of total GDP. Agriculture however, continues to be the mainstay of the economy as the services sector relies amongst other things, heavily on the agriculture sector and the simple fact that 80% of the population survive via engagement in this sector.

The role of ODA and its impacts on GDP growth in Vanuatu are also fundamental and will continue to remain critical in order for Vanuatu to simultaneously address its development priorities advance progress in the pursuit of the achievement of the BPoA initiatives. In this regard, my Government therefore wishes to raise its concern in relation to the Committee for Development Policy's (CDP) recommendation on Vanuatu's LDC graduation eligibility status. The recommendation for graduation eligibility is one we consider to be premature.

Measuring ones eligibility status based on the major criteria of the Gross National Income(GNI), Human Asset Index (HAI) and the Economic Vulnerability Index (EVI) and making a recommendation based on the achievement of the GNI and HAI indices despite a very high EVI, especially for Vanuatu is highly inappropriate, as the GM factor is influenced directly by the EVI and hence brings into question the sustainability of the above threshold GNI. This is particularly true for countries like Vanuatu, which, simply because of its geographical location on the Pacific rim of fire remains highly vulnerable to natural disasters such as earthquakes, tsunamis, landslides and hurricanes, to mention but a few that occur on a regular basis in my country; each of which could destroy the nation's economic mainstay and driver, the agriculture sector, in but a few hours or days.

In depth analyses of the last eight years of economic performance shows a mere <u>0.69%</u> average real GDP growth, an economic growth rate far below the 7% target stipulated in the Brussels Program of Action. Therefore to recommend that Vanuatu be eligible for graduation from LDC status does not hold as even though it may allegedly satisfy the first two criteria it does not satisfy the vulnerability criteria simply because these vulnerabilities are "acts of god " and cannot be controlled nor predicted with any degree of reasonable certainty.

Furthermore, the basis of the GDP per capita ratio supposedly measures the wealth of the nation but this in itself is prone to errors given the inaccuracies that exist first in the data collection mechanisms and hence the data itself, mean that this measurement cannot be pronounced with any reasonable degree of certainty. In addition to this, the uses of bi-variate statistics to derive an end result do not give an entirely accurate picture given that it does not explore the relationship in detail between the cause and effect factors of each of the two variables.

GDP per capita for instance, is simply GDP by total population and assumes that each and every member of the population derives the same benefits as all the rest. As we all know this is not true, in most countries in the world including developed nations, approximately 20% of the population contribute to paying 70-80% of the taxes and the more often than not this same 20% of the population derive 80% of all the benefits and incomes. This clearly indicates that within any given population there are income disparities and hence this means that to assume the GDP per capita measures the wealth of the nations is not a fair representation of the actual distribution of the wealth, and to further base ones recommendations on this one fact alone does not do justice to the nation that is requesting consideration of its views.

In the Vanuatu context, the agriculture sector contribution to the national GDP is a much fairer representation of rural incomes. Hence, dividing total income earned from agriculture sector by the rural population gives income per rural capita, in 2005, at US$263 which is very low as well as very volatile due to the vulnerable profile of the country.

The use GNI as a measure of a nation's general economic welfare fails to highlight the problem of high income inequality which persists between the urban and rural dwellers as well as between highly paid expatriates and lowly paid ni-Vanuatu living in the urban areas. Therefore, my Government strongly believes that by using an indicator like the GNI per capita conceals the hardship and difficulties which prevails in the rural communities which one cannot see through reading numbers. The impact of any decision on Vanuatu's LDC status will surely be felt greatly by the majority of the population whose everyday lives are dependent on the subsistence agriculture. Additionally, though the services sector contributes the highest to the GDP (76%), it experiences high leakages as all service providers are foreign owned which result in high profits made being repatriated overseas with little investment of retained earnings into the domestic economy.

The GNI factor does indicate the level of income available to the country, however given the above undeniable facts, it is clear that there are income distribution problems which could either be structural or policy based inefficiencies, and hence we recommend that even if the country does meet the precondition(s) for graduation, it would be more appropriate to also analyze the distribution of these measures of status and identify policy or structural inefficiencies and to recommend remedial causes of actions to assist the country, with a specific time frame for undertaking these reforms/adjustment programs so that when the country does graduate, it is able to sustain the conditions which triggered the changes in status. One must also look at what is driving and sustaining the GDP growth rates and thus a better reflection of the sustainability of the GNI. More specifically, whether or not the growth is driven by domestic production, consumption and export growth or whether the growth is triggered by external factors such as aid and FDI these leave the country highly open to "shocks" caused by externalities.

Mr. Chairman,

Vanuatu's comparative advantage in terms of trade hinges mainly on few low valued primary sector commodities such as copra, cocoa, beef and kava which have continued to show a progressive decline. On the other hand, Vanuatu depends highly on higher valued imports, most of which are manufactured items resulting in rising trade deficits in the recent years.
Factors that contributed to this decline in the terms of trade include;

- effects of natural disasters mainly cyclones,
- volatility in world market prices; this uncertainty in commodity prices often leads to discouragement and low productivity.
- price fixing by VCMB despite movements in world commodity prices, and
- European ban on kava

Overall, Vanuatu's exports have been very unstable due to effects of natural disasters and external economic shocks. The smallness of the economy implies that there is limitation to the country's ability to insulate itself from these economic shocks.

The Human Asset Index (HAI) also looks only at the statistics but does not actually look into issues of the quality of the education being provided. Simply looking at statistics of secondary school enrolment and completion rates does not provide a real measure of the asset element as one needs to look at the quality of the asset more than the actual quantity of the asset in order to have a much better comprehension of the potential productivity of that particular human asset(s). Again, here the statistics are also inaccurate as the various reports that have been issued by international institutions (including this one) are inconsistent in their statements with respect to the level of literacy as they range from 33% to 99%. Once again, forming conclusions based on mere statistics may be at best informative but certainly not conclusive.

Issues of remoteness, instability in agricultural production capacities due to natural disasters and international price fluctuations, instability exports of goods and services, market access and statistical data inaccuracies and so forth are other areas which I could expound further on, however I believe that the message has been heard. Given the issues aforementioned, the Government of Vanuatu strongly feels that Vanuatu is not yet ready to graduate from its LDC status. Therefore, it is recommended that Vanuatu be immediately removed from the list of countries eligible for graduation.

In conclusion, I wish to bring to your attention the fact that while the CDP does have the mandate to make these recommendations, as the change in ones status also poses questions and or raises issues of potential fundamental changes/adjustments that may be required to a nations policies, the allocation of a five minute time frame within which to plead one's case before the plenary wholly inappropriate. It is perhaps and a matter that requires some consideration and attention as I do not think that this is a reflection or an implication of the importance that this institution places on the UDC issue.

I thank you for you attention.