



## Theme 2: Efficiency, productivity & transformation

Improving the productivity of industry and government, and transforming our economy to become more complex and diverse, can bring considerable and sustainable benefits. The key to securing these benefits is:

- Encouraging the development and adoption of more innovative and productive technologies.
- Improving the efficiency and effectiveness of Government service delivery.
- Building on our comparative advantages and creative industries to diversify our economic base.
- Leveraging off the information and communication technology transformation that the Cook Islands is undergoing.

### What is productivity?

Productivity is commonly defined as a ratio between the volume of outputs and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output.

Common measures of productivity include:

- Labour productivity — Gross Domestic Product (GDP) per unit of labour used (hours for example), which only captures labour productivity; and
- Multi-factor productivity — GDP per unit of labour and capital input used, which captures the contribution of both labour and capital.

Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.

Paul Krugman (1994). [The Age of Diminishing Expectations](#)

## Productivity and innovation

Sustained long-term growth requires improvements in productivity (producing more output for the same amount of, or fewer, inputs), an efficient and effective government sector, and a more complex, diversified economy.

Innovation drives productivity and makes Cook Island's businesses more competitive, profitable and sustainable.

The average annual labour productivity growth in the Cook Islands was 6.1 per cent between 2006 and 2011. This slowed to 2.7 per cent from then to 2016.

Labour force participation rates are relatively high at about 77 per cent for men and 67 per cent for women in 2016.



To capture the benefits of innovation, our economy needs to generate this culture within all sectors including business, services, government, education, not-for-profit and the general community.



Cook Islands team, Global Robotics Championship, Dubai

### Centre of Excellence in Information Technology

#### Vision

- To emerge as a premier capacity building platform in Information and Communication Technologies in the Cook Islands for human advancement.

Investment in technology, research and development is the key to expanding productivity. In the Cook Islands context, opportunities could be explored by building partnerships between education providers and innovation-oriented businesses. A good example is the India—Cook Islands *Centre of Excellence*

*in Information Technology* recently established at the University of the South Pacific Campus in Rarotonga.

Another relevant question in the context of the quality growth approach is how to broaden the traditional economic measures of productivity to account for the efficient use of energy and other natural resources.

### Market structure, competition reform and utility service efficiency

Productivity can also be impacted by market structure. Monopolistic and oligopolistic behaviour, especially in the absence of independent scrutiny, can lead to reduced competition, suppressed efficiency and contribute to higher prices. Low levels of competition also reduce the incentive for, and therefore the levels of, ingenuity, innovation and productivity.

The Cook Islands is currently served by a number of monopolies; telecommunications, electricity and water to name a few. The supermarket sector is also dominated by a few major players. The Government is in the process of

opening the telecommunications market to competition (see below) and at the same time is establishing an independent economic regulator — the Independent Competition and Regulatory Authority. The Authority will initially focus on regulating telecommunications, until its remit is extended to regulate the monopoly provision of electricity and water services.

There is also potential for the Authority to take on a broader Commerce Commission type role in the future. In addition to its utility-related functions, the regulator would take on economy-wide responsibility for competition, pricing and trade practices, as well as a range of other economic regulatory and licensing functions currently carried out by other agencies and boards across Government.

#### Market Structure Typology

- Monopoly — a single firm controls the entire market e.g. telecommunications
- Oligopoly — market structure which is dominated by a small number of firms e.g. supermarkets
- Perfect competition — a large number of small firms compete against each other e.g. cafes and restaurants

## Government efficiency

A key role of the Cook Islands Government is to facilitate economic growth — by managing Government finances, investing in infrastructure, providing public services and establishing legislative and policy frameworks — with growth and jobs driven by private sector investment.

### Why is Government efficiency and effectiveness important?

Improving Government productivity can bring considerable and sustainable benefits.

#### Government makes up a large part of the economy

Government's operating expenditure is estimated at \$170 million in 2019/20, about 31 per cent of GDP. A more efficient and effective Government helps ensure the nation's resources are being used well and are making the greatest contribution to wellbeing.

#### Greater public service efficiency leads to better economic performance

In addition to enhancing individual wellbeing, improved public sector productivity also matters for the private sector. For example, publicly-funded education and training increases the supply of skilled workers and entrepreneurs. Police and court services prevent economic loss from crime and support

An efficient and effective or 'productive' Government, is one that demonstrates:

- strong fiscal management essential for a stable macroeconomic and investment environment;
- efficient and effective provision of public services to ensure the best return on the taxpayer dollar;
- smart investment in critical infrastructure to provide a catalyst for private sector investment; and
- effective legislative and policy frameworks that strike a balance between protecting the community interest and providing businesses with the freedom to innovate and grow.



the fair and timely resolution of business and contractual disputes. Therefore, productivity improvements in public services are likely to contribute to better economic performance.

### Improving the delivery of government services

The Cook Islands Government is committed to working towards greater levels of administrative efficiency and delivery of evidence-based decisions. The Government recently undertook an agency-wide public sector review, with a focus on improving the capacity and

capability of agencies to deliver core services. One of the major challenges is to find creative ways to manage the costs of delivering services in the Pa Enuā. Increasing the use of eGovernment for procurement and on-line government services could be part of the solution.

## Building on our comparative advantages

The Cook Islands has a comparative advantage in tourism — no crowds, natural and unspoilt beauty, strong culture and friendly people. This advantage applies in particular to New Zealand, given our close proximity and close economic and cultural ties, with New Zealand accounting for about two-thirds of our total visitor arrivals. Tourism is driving growth and this is unlikely to change over the next 10 years, nor are the economic risks associated with such heavy reliance on one industry likely to decrease.

More diversified or complex economies are more dynamic and resilient to changing circumstances and shocks. Building on what you are good at — your comparative advantages — is an effective way to diversify. Investment in education, knowledge and innovation, along with policies that foster structural change come into play here.

### Tourism diversification

The tourism market is not homogenous and diversifying into different market segments is one way of reducing overall risk. For example, high value tourists out of season and independent high value travelers looking for unique, remote cultural experiences. The Government is taking some direct measures in this area — the New Zealand airline underwrite between Rarotonga and Sydney and Los Angeles, for example. A private sector example is Air Rarotonga's air and accommodation packages to Mangaia and Mauke.



### Creative industries

Creative industries are driven by individual creativity, ideas, skill and talent. They have the potential to grow and contribute to innovative economies and communities.



Creative industries contribute to the liveability and economic development of the Cook Islands. They can also be a source of innovation that other sectors draw upon, and earn income from, by selling diverse products, services and intellectual property through entertainment, visual and performing arts, cultural collections, fashion, food culture, media, information technology and creative software applications. The Cook Islands is well recognised internationally for its cultural performing arts.

There are significant opportunities to use these features to further develop the Cook Islands creative industries sector and maintain a competitive advantage in business and tourism.

## Harnessing our seabed minerals comparative advantage

The Cook Islands EEZ (Exclusive Economic Zone) contains substantial quantities of mineral-rich manganese nodules at depths of 5,000 metres. The polymetallic nodules contain cobalt, nickel, copper, manganese, titanium, and valuable Rare Earth Elements (REE). These nodules contain precious



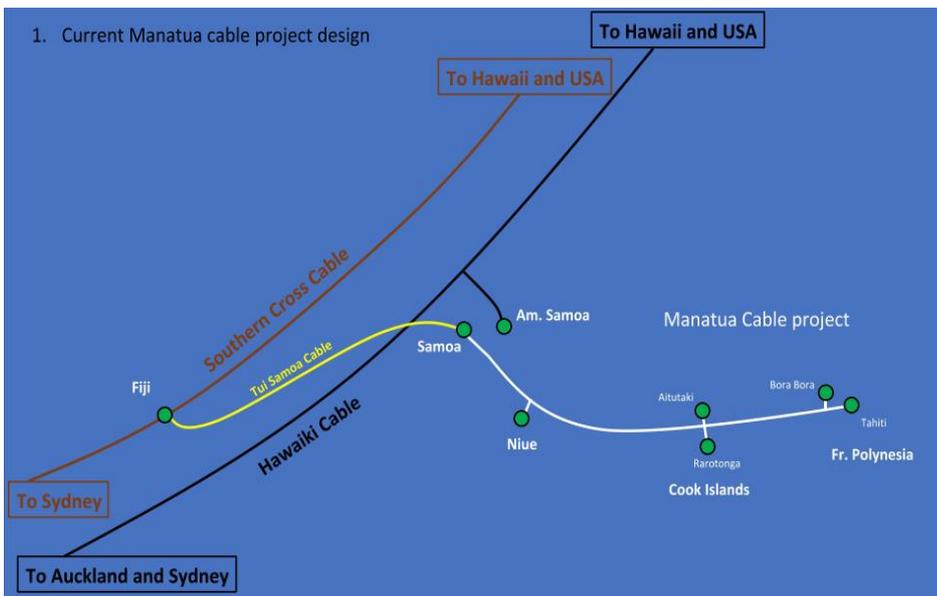
metals that are in high demand in the communications and other industries, and for most smart and green technologies. This resource provides a significant opportunity, not just for direct royalties and taxes, but also for a new marine support industry.

The *Marae Moana Act 2017* provides a robust framework for ocean governance to allow the Cook Islands to both protect our ocean, whilst also allowing our country to utilise its resources in a sustainable and responsible manner. Together with the *Seabed Minerals Act 2019*, which sets up a world-class regulatory

framework for exploration and minerals harvesting, the next phase of licensing and exploration survey work will be undertaken in line with best practice. At the same time, the Government is reviewing our seabed minerals financial regime to ensure that we maximise the financial benefits for Cook Islanders from minerals harvesting.

## ICT transformation

The Cook Islands is undergoing an ICT transformation. The Government is in the process of making two major concurrent changes to the telecommunications sector. The first is the establishment of the Manatua submarine cable, which will link Rarotonga and Aitutaki to the world via Tahiti and Samoa.



The second is the opening of the market, which is currently serviced by a single service provider, to competition.

The new submarine cable is expected to provide affordable, expanded and faster international bandwidth, while a competitive telecommunications market will drive service and price benefits.

The submarine cable and competition reforms will be key enablers, but other actions are of critical importance to ensure that the benefits are realised.

For example, e-health innovation has the potential to address issues of remoteness and lack of access to local health care providers and facilities. The question that arises is; what additional measures are required to ensure that E-health innovation is possible? In Cornwall, United Kingdom, the e-health programme was supported by a challenge fund open to local businesses to enable them to work with health teams and individuals in order to design technology solutions.

#### **Telecommunication Competition Reform 2019**

In May 2019 the draft *Cook Islands Telecommunications Market Competition Policy 2019* (Policy) setting out the Government's approach to opening the market to competition and regulating service providers in an efficient and effective manner was released. In October 2019, the Government released the draft Bills that will give effect to the new regulatory framework:

- Competition and Regulatory Authority Bill 2019 (CRA Bill); and
- Telecommunications Bill 2019 (Telecommunications Bill).

The CRA Bill establishes and sets out the form, function and general powers of the telecommunications industry regulator — the Authority. The Telecommunications Bill sets out the new framework for regulating a competitive telecommunications industry.

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## What is the Economic Development Strategy?

The Economic Development Strategy is a high-level plan to guide sustainable economic growth of the Cook Islands over the next 10 years. The Strategy will:

- cover not just economic but also social and environmental matters, to ensure sustainable growth;
- present a shared vision of what the community wants the Cook Islands economy to look like in 10 years' time;
- ascertain business and other opportunities that are worth investing in;
- identify key problems that we can fix; and
- include an action plan with a list of things that will be done to make sure our economic vision is achieved.

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## Endnotes