



Appendix E: Summary of Pacific 2020 report

Summary

The overall performance of the Pacific island countries in the course of the past two decades has been poor. The region suffers from high unemployment and joblessness, and governments are failing to meet the expectations of their citizens. Several countries suffer from social or political instability, or serious crime. Some face daunting health or environmental challenges. Without an upturn in economic growth, the future for these countries is at best uncertain and at worst bleak. What are the long-term growth prospects for Pacific island countries? And what can be done today to improve these prospects?

Pacific 2020 aims to answer these questions. Based on extensive consultations, it presents a mix of growth opportunities and challenges to stimulate dialogue and debate. It is not an action plan, but a call to action and a resource for Pacific island governments that want to accelerate and better manage growth. It is written for all developing country members of the Pacific Islands Forum, as well as East Timor.

Pacific 2020 is based on the study of nine topics: four crosscutting 'growth factors' – investment (or capital), labour, land and political governance – and five important 'productive sectors' – agriculture, fisheries, forestry, mining and petroleum, and tourism.

Pacific growth, challenges and scenarios

The growth performance of the Pacific islands has been poor.

The region has experienced low or negative growth in income per person. In the period 1990–2004, four of the five Micronesian countries had negative growth and, of the Melanesian countries, only Fiji achieved an average growth of more than 1 per cent a year. In general, the Polynesian countries have done better, but only when compared with the rest of the region. Their growth is well below the average for developing countries, and much less than that achieved by Mauritius, a comparable small island state in another part of the world.

There are signs of hope. Cook Islands, Samoa and Tuvalu have delivered sustained, moderate growth since the mid-1990s or earlier and data since 2003 show improved growth and macroeconomic outcomes for a number of Pacific island countries.

Without a sustained acceleration in growth, the Pacific will be unable to meet its pressing challenges.

The Pacific islands are facing a number of serious challenges. The most immediate and widespread are unemployment and joblessness – leading to poverty, frustration and, potentially, social instability. The region also faces serious and worsening health problems, environmental challenges such as climate change, and rapid urbanisation.

If the Pacific island countries are to meet these challenges, it is essential that their economies grow. Economic growth creates wealth, which can be shared between the private and public sectors, thereby strengthening both. Only growth will create employment, and only growth will create the revenue that the public sector needs to deal with challenges such as the environment and health. Economic growth will not be sufficient to solve all problems facing these countries, but it is necessary. No country has succeeded in reducing poverty without it.

Whether the Pacific achieves higher growth remains to be seen. If not, the countries of the region will collapse or at best ‘muddle on’.

Some commentators foresee a ‘doomsday’ scenario where the Pacific islands region completely fails to meet its mounting challenges. Others foresee ‘muddling on’, where collapse is prevented by the continuation of aid and migration opportunities. Neither of these scenarios is comforting.

Pacific 2020 also highlights a third scenario – rapid growth – in which a range of reforms along the lines outlined in this report is undertaken and where, as a result, economic growth accelerates. This scenario is the only one that enables the Pacific to meet its challenges.

Higher growth is possible.

Pacific island countries have natural disadvantages imposed by their small sizes and remoteness, but these can be overcome and high growth achieved by all except perhaps some of the tiniest. While different countries in the region face different challenges, and some countries have better growth prospects than others, their one commonality is that ultimately their success in generating growth and in meeting their many challenges depends on the decisions their governments make. There are enough success stories in the Pacific and elsewhere to indicate that the countries of the region can prosper, given effective economic management and sound policies.

The reasons for the limited success of past economic reform efforts in the Pacific are now better understood. Reforms need to be persevered with and go beyond stabilisation to

address deeper structural and institutional weaknesses. All of the Pacific 2020 studies and consultations taken together suggest a two-pronged approach to reform: structural policy reforms and sensible public investment where a relatively quick growth impact can be expected (for example, in infrastructure), combined with more attention to the tough, long-term growth constraints (such as political governance and land tenure).

Pacific 2020 common themes

Four themes emerged from the study of the nine Pacific 2020 growth topics as critical for growth. These are governance and institutions, infrastructure, integration and regional cooperation, and implementation.

International indicators show that the Pacific suffers from weak governance. The Pacific 2020 studies revealed that this is holding growth back.

Reform strategies need to give much more attention to institutions than they have to date. Government institutions responsible for delivering law and order and macroeconomic stability should be strengthened, and governments become more transparent. Market institutions need to be allowed to work better, by undertaking reforms that improve infrastructure, reduce regulatory barriers and improve the protection of property rights, especially in relation to land. Strengthening environmental management and educational institutions also emerged as priorities. Strengthening political institutions has to be the top priority because the success of attempts to strengthen other institutions normally depends on the support they receive from politicians.

All of this is, of course, easier said than done, and solutions will have to come from within. The key to progress will be, as Pacific leaders themselves are now articulating, nurturing governance in a Pacific context rather than treating it as a foreign impost.

Infrastructure (transport, telecommunications, power) emerged repeatedly from the Pacific 2020 studies and consultations as a fundamental constraint to growth in the region.

From one point of view, the challenge of improving infrastructure is a subset of the broader problem of improving institutional performance. Yet infrastructure emerged so consistently from the Pacific 2020 studies as a fundamental constraint to growth in the region that it demanded to be highlighted separately.

Infrastructure development in the Pacific island countries lags well behind that in the Caribbean, due not solely to geography but also to poor management. For example, the Pacific island region seems to be missing the mobile telecommunications revolution that is sweeping much of the developing world, bringing large benefits to producers and consumers alike.

Better infrastructure is not just a matter of more public funding; of equal or more importance are infrastructure policies and their implementation.

Integration and regional cooperation are not options for the Pacific island countries, but necessities borne of their small sizes.

It can be especially difficult for small countries to develop effective institutions, so taking a regional approach to institution building makes a lot of sense. The Pacific 2020 studies found that efforts to develop each of the productive sectors would yield better outcomes if regional opportunities were embraced.

The recently approved Pacific Plan embraces not only regional cooperation, but also economic integration. Given the importance of remittances in the Pacific, the challenge of integration extends beyond trade in goods to integration in global labour markets. This is especially important for the microstates that lack domestic economic opportunities and for Melanesia with its rapid population growth. One path to economic integration is through the negotiation of free trade agreements covering goods and services – agreements between Pacific island countries, but more importantly with developed trading partners such as Australia and New Zealand.

Perhaps the single clearest message from Pacific 2020 is that poor implementation is the most serious constraint to successful reform and thus rapid growth.

Many commented that the solutions are known, but not acted on or persevered with. Implementation will improve if reform plans are prioritised and realistic, if monitoring frameworks are in place, and if there is ongoing consultation. But, ultimately, implementation is a function of ownership.

What can be done to improve reform ownership? Reforms should be adopted as a long-term project with economic growth and prosperity as the objective. They should not be thought of as one-time efforts that can be engaged in without sacrifice. Further, Pacific islanders need to have reasonable hope that they will benefit from the reforms. Not only should the benefits of reform be widely shared, but its unwanted consequences should be managed and contained. Finally, successful reforms need ‘drivers of change’ – those who have the political will, show strong leadership and are able to mobilise local resources in a consensual way.

Pacific 2020 key findings: growth factors

Four of the nine Pacific 2020 growth topics are crosscutting ‘growth factors’ that are of importance to economic growth whatever the sector. Three of these are the traditional factors of production: investment (or capital), land and labour. The fourth is political governance, chosen because of its influence on all other aspects of government performance,

which in turn is a critical determinant of both the supply and the productivity of the traditional factors of production.

Private sector investment will drive growth if business costs are reduced.

Ultimately, it is private sector investment that will drive economic growth – not only by adding to the capital stock, but also by increasing entrepreneurial capacity. Several countries have improved their macroeconomic and fiscal performance but this in itself may not be adequate if action is not taken to tackle problems that exacerbate rather than ameliorate the problems of size and isolation. Six reform priorities were identified by the Pacific 2020 process: tackling the underlying problems of political instability, law and order, and corruption; filling the infrastructure deficit; developing financial markets; reforming legal and regulatory systems; reforming state-owned enterprises; and working with the private sector to build dialogue and capacity.

Land tenure reform is a sensitive issue, but one that requires demand-driven, incremental change.

In spite of the difficulties involved in land tenure reform, change is essential, not only to encourage economic growth, but also to promote social stability in the face of increasing demographic pressures and the changing aspirations of Pacific islanders. Given both the importance of customary ownership in the Pacific and the sensitivity of land tenure reforms, a guiding principle for land reform should be to change land tenure only to the extent necessary.

Blending ownership at the group level with long-term lease agreements covering the use of land by individual developers points the way forward. Each country will have to work out its own solution, but the Pacific 2020 process identified four general directions for change: improving the recording of land rights; establishing a cost-effective legal framework for land dealings; establishing land dispute settlement machinery that makes greater use of arbitration and mediation; and improving land administration services.

The fundamental requirement for more employment is faster economic growth, but labour-related reforms and actions are also needed.

Labour markets are relatively flexible in the Pacific island countries but labour productivity can be boosted by a number of employment-related reforms. Better provision of basic health and education services and greater emphasis on effective vocational training will protect and build human capital. Labour market discrimination needs to be combated. Integration with international labour markets will expand employment opportunities and increase remittance flows. Opportunities for self-employment can be boosted by removing regulatory barriers in the informal sector and providing basic business training.

Improving political governance is a long-term challenge, but perhaps the most important one facing the Pacific between now and 2020.

Current political arrangements in the Pacific are not delivering the desired economic outcomes. Pacific island countries have achieved nominal sovereignty, but their effective sovereignty is often in decline as they find it increasingly difficult to deliver basic services, including law and order. Without more effective political leadership, sustained growth will remain elusive. How this can best be achieved is up to individual countries to decide, but the way forward will have to involve actions both on the ‘supply side’ of political governance (strengthening electoral systems, parliaments and oversight institutions) and on the ‘demand side’ (through partnerships with civil society to improve the quality of political governance).

Pacific 2020 key findings: productive sectors

The five productive sectors studied as part of the Pacific 2020 process – agriculture, fisheries, forestry, mining and petroleum, and tourism – provide a wide-ranging coverage of the Pacific island economies.

Agricultural productivity has to increase if living standards are to improve in the Pacific.

Agriculture provides more employment than any other sector in the Pacific island countries. It presents many opportunities for growth, domestically and for export, but is operating well below potential, if not stagnating. Constraints include infrastructure and the other crosscutting issues highlighted in the previous section. Sector-specific priorities that emerged are: improving farmer access to the latest technology and market information through industry-led research and extension, and contracting out extension services; removing distortions such as forcing farmers to sell to particular buyers; and facilitating market access through improved quarantine services.

The management of fisheries needs to improve to allow better use of the region’s massive oceanic and coastal resources.

Fisheries in different settings provide considerable employment and government revenue to the Pacific island countries. Oceanic fisheries are approaching the limits of sustainability and coastal fisheries face environmental risks. These can be managed only if the governance of the sector is improved by, for example, publicly disclosing licensing details. The value of fishery access rights can also be increased through a variety of competitive strategies. Partnerships with the private sector should be strengthened, especially for training. With respect to coastal fishing, the secret to sustainability is greater community involvement along the lines of the Fiji and Samoa models.

Natural logging is in crisis, but there are growth opportunities in forest plantations.

If current practice continues, the major accessible natural forests of the Pacific island region are likely to be logged out by 2020 or earlier. To put forestry on a sustainable footing will require a

fundamental turnaround in sectoral governance arrangements, including better implementation of existing policy and legal requirements. Plantations present a more optimistic scenario. The establishment of large plantations will require issues associated with land tenure to be addressed, but community-level plantation forestry holds considerable potential.

Mining and petroleum have the potential to generate large and increasing revenues for some Pacific island governments but, without good governance, the sector's development will lead to environmental damage, corruption and instability.

Papua New Guinea, Solomon Islands and East Timor have significant mineral and petroleum reserves and other Pacific island countries may find deep seabed mining to be an important future source of revenue. If mineral and petroleum resources are to be turned into positives, mineral revenues will have to be shared equitably and transparently, both between the main stakeholders and across generations. Government policy frameworks and administrations that deal with the extractive industries need to be strengthened.

Tourism is the type of economic activity in which the region can compete globally and into which it needs to diversify to promote employment.

Tourism provides great scope for differentiated or exclusive products, which allow the charging of high prices to cover the costs and risks that small remote islands face. Fiji and Cook Islands provide good examples of what can be achieved. But to date the number of tourists visiting the Pacific islands has grown only slowly. Potential tourists are deterred by poor infrastructure, particularly the high cost of travel. Political and social instability and health and crime risks also diminish the region's allure. Tackling these external constraints has to be the top priority for any Pacific government that wants to boost tourism. Sector-specific imperatives include: developing national tourism policies that promote cross-sectoral coordination and address concerns around tourism relating to the environment and culture; providing training in tourism-related professions; and improving marketing and data.

In conclusion

Can the Pacific island countries prosper by accelerating and sustaining economic growth? There are many constraints, including the land tenure system, limited private sector capacity, high costs and the fragmented political landscape. Yet, the Pacific 2020 process also brought out the huge potential for development that exists across the region. Whether the opportunities for growth are grasped and properly managed will come down to the choices of country decision makers and, ultimately, to whether sustained growth is pursued as a central political objective. Success will mean different things for different countries, but there is certainly a success story to be lived out by every Pacific island country, from the largest to the smallest.