

PERSPECTIVES

**THE PACIFIC ISLANDS AND THE WORLD:
THE GLOBAL ECONOMIC CRISIS**

OUTCOMES REPORT

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The Lowy Institute for International Policy is an independent international policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia’s international policy and to contribute to the wider international debate.
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The Pacific Islands and the World: The Global Economic Crisis

Outcomes report

Executive Summary

The Lowy Institute for International Policy hosted a conference in Brisbane on 2 and 3 August on the impact of the economic crisis in the Pacific Islands region. The conference was the first occasion prime ministers, ministers, senior officials from international and regional organisations, private sector, civil society and media representatives had met in advance of the Pacific Islands Forum Leaders' summit.

The aim of the conference was to strengthen international interest in the Pacific Islands region's place in the world and to reinforce understanding in the region of the wider issues of the global debate on the economic crisis. The seriousness of the economic crisis and its consequences for developing economies underscores the need for the Pacific Islands region, often left out of the international debate, to have a means of accessing and contributing to the debate on the economic crisis in 2009.

The region as a whole has weathered the global economic crisis better than many other developing countries to date but the impact of the global recession is still significant. Some countries are witnessing declines in revenue due to lower demand for exports, falls in remittances and falls in the value of trust funds and facing difficulties in accessing credit.

Tourism in some countries, however, remains relatively strong and continues to make a positive contribution to economic growth. Tourist demand has the strong potential to boost community-based businesses.

The Pacific has fallen behind Asian countries in its progress in achieving the Millennium Development Goals (MDGs) and is not on track to achieve them by 2015. The global economic crisis has put the region's progress in achieving the MDGs further at risk. The region needs better targeted aid, investment in infrastructure in rural areas and more efforts to support and enable the private sector.

Traditional economies are a vital source of resilience in times of crisis. More attention should be paid to supporting and strengthening the traditional economy and indigenous systems of social protection by incorporating them into government and donor planning.

The important role of women in business, particularly in the informal sector, should be recognised and supported as women increasingly bear the responsibility of earning income for their families.

The effects of the food and fuel crisis are still being felt in the Pacific and are a longer-term challenge for the region. The combination of food and energy insecurity, the global economic crisis and climate change are very significant policy challenges and require creative responses.

The impact of the global economic crisis on the region has highlighted the importance of shoring up financing for investment into people, basic services and infrastructure and to invest resources wisely to make countries resistant and resilient to future crises.

As the centre of the global economy moves to the Asia-Pacific region, Asia matters more to the Pacific region. Economic recovery in Asia would help recovery in the Pacific.

The global economic crisis offers an opportunity to change the way things are done in the region. Good governance and good leadership remains important. Pacific Island governments have to renew efforts to pool resources and reform regional institutions to create more efficiency and strengthen capacities of each country.

It is time to develop better economic models, develop new partnerships, particularly between government and private sector and to build new trading relationships.

Acknowledgments

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Introduction

The last eighteen months has been one of the most challenging periods in the history of the Pacific Islands region. The food and fuel price surges of 2008, the impact of the global economic crisis, a high number of natural disasters, difficulties in maintaining infrastructure, and the negative effects of climate change have posed very complex challenges.

Although the Pacific Islands region is relatively isolated from major global trade and investment flows, it is vulnerable to external shocks. The global economic crisis lessened the region's capacity to respond to the more serious challenges of food security and climate change. The region needs to look beyond the current crisis at its inherent vulnerabilities. Today's leaders have to make hard decisions to prepare the growing population of the region to deal with future crises.

The countries of Melanesia have more resources to meet current and future challenges. Papua New Guinea, along with East Timor, is able to sustain growth through commodity export earnings. The countries of Polynesia and Micronesia have serious vulnerabilities and needed to develop better mechanisms to address these. Investment in the tourism industry and infrastructure would help some countries. For others, access to the Australian and New Zealand labour markets is more valuable.

Developments in Asia now matter to the Pacific region as the centre of the global economy moves to the Asia-Pacific region. Economic recovery in Asia would help recovery in the Pacific.

The impact of the global economic crisis

The third wave of the global economic crisis is now hitting developing countries in the form of declining remittances, less commercial lending, less foreign investment and more stresses on official development assistance. The crisis is likely to drive more than 100 million people worldwide into poverty.

Pacific Island economies have witnessed a slowing of growth, influenced by a decline in export earnings and a decline in remittances from overseas workers. The effects of the global recession in Australia, New Zealand and China have had a flow-on effect to the Pacific.

The impact of the crisis has been felt in different ways in the region. Countries dependent on remittances such as Tonga and Samoa have noticed a negative impact following worsening economic conditions in countries where their citizens work. Countries where macro-economic management is under pressure, such as Fiji and Solomon Islands, are suffering a greater impact from the economic crisis. Countries which enacted reforms to assist their tourism industries, including Samoa and Vanuatu, are witnessing the benefits of sustained growth in tourism. Papua New Guinea has been helped by the strength of its commodities boom and by investment being made in the anticipation of the launch of a multi-billion dollar liquefied natural gas project.

Pacific Island countries have not been able to use the fiscal and monetary policy tools available to Asian countries to deal with the global recession. Without additional assistance from the international community, the region will struggle to weather the crisis. The region needs more targeted aid, investment in infrastructure and greater efforts to enable and support private sector participation in the economy. Governments should continue their efforts to strengthen public sector capacity and reform the regulatory environment, to keep pace with best international practice and absorb the lessons of the global financial crisis.

The role of the private sector

The conference pointed to an urgent need for the development of better enabling environments for private sector development in the region. Good macro-economic management alone is not sufficient to stimulate economic growth. The private sector is seen to be the real engine of economic growth.

Private sector development is critical for future growth. To enable this, governments need to simplify the rules associated with starting businesses and give communities opportunities they need to earn income in their villages. Greater engagement between the private sector, governments, community-based organisations and regional organisations is essential if private sector investment is to help build sustainable businesses.

Microfinance facilities are becoming much more important in the region and are of particular benefit to women.

The Asian Development Bank and World Bank are investing in private sector development and bilateral donors also have programs encouraging the development of small business

enterprises. The dominance of state-owned enterprises in the region has long been a barrier to private investment but this is beginning to change.

Private sector development is critical to enable Pacific Island traditional economies to work, by providing infrastructure and other services to rural populations. The private sector needs to be included in broader economic planning processes. The private sector is keen to engage more with governments and communities alike to build community businesses. Stronger public-private partnerships are now becoming more important and more necessary to build and sustain inclusive growth.

Tourism

Tourism in the region, with the possible exception of Fiji, is holding up relatively well through the global recession. The tourism industry has a significant footprint in the region and there are increasing opportunities for the development of community-based businesses to serve demand from tourists.

Sustainable tourism offers new opportunities in areas that could support tourists and more importantly could encourage inclusive growth in the region.

Trade and PACER Plus negotiations

The centre of the global economy is shifting to the Asia-Pacific and major markets are moving closer to the Pacific Islands region. The region needs to become a part of the global marketplace. Trade could help countries drive both their recovery from crises and future development. But the opening of markets will not guarantee better outcomes for Pacific Island countries. Pacific Island economies need to develop more competitiveness to achieve the real benefits of trade.

The launch of PACER Plus negotiations offers significant opportunities for Pacific Island economies to accelerate their growth. PACER Plus is a unique free trade agreement which would offer capacity-building and development tools. Some participants argued the negotiations represent the next step for regional integration.

It is important the region's private sector be closely involved in the negotiations as the private sector is responsible for trade.

The important role of women in business, particularly in the informal sector in the region, should be recognised and supported as women increasingly bear the responsibility of earning income for their families.

The inclusion of labour mobility in PACER Plus trade negotiations should be considered seriously. Labour mobility plays an important role in the economic stability of several countries in the region which do not have commodities to trade. It is important, however, to manage the scaling up of labour mobility carefully to avert negative social impacts.

Investment

Foreign investment in the region has the potential to be transformative. Papua New Guinea anticipates a significant increase to GDP from a liquefied natural gas project due to commence delivering in 2013.

Governments in the region should make better use of the technical expertise available from development partners when making decisions on significant investments, to ensure they are provided with the highest quality advice to translate the benefits of investment to the wider population.

Millennium Development Goals

The Pacific Islands region remains highly unlikely to achieve the Millennium Development Goals by 2015. A new publication by AusAID, *Tracking Development and Governance in the Pacific 2009*, was launched at the conference. The report showed that poverty is rising, growth is insufficient, not enough children complete schooling and basic health challenges are significant.

The report also highlighted some positive news in relation to the MDGs. The region is undertaking world-leading work on malaria eradication. There is good progress in some countries in primary education completion rates. Most countries are investing more of their own resources in education and health. Donors recognise the need to invest heavily in women and children.

The impact of the global economic crisis is already being felt in lower government revenue from import duties, royalties, trust funds and remittances. This translates into less government funding being available to deliver basic health and education services. As

education is considered a principal driver of economic growth, it is vital that funding for education be protected and increased.

Pacific Island countries called for more consultation and coordination with donors that focused on achieving the most urgent MDGs.

Development assistance

While a Pacific-tailored response to the economic crisis seems to be necessary, the differentiated effect of the crisis on the region requires a differentiated response. Some countries need balance of payments support. Others need support with health and education service provision.

Pacific Island governments called for donors to increase their support through the difficult times of the global recession and to direct more of their aid in direct budget support to enable governments which are suffering from declining revenue to function effectively.

Donors, including Australia, New Zealand and the European Union, spoke of the need for more creative development solutions. Donors have recently announced increases in their assistance to the Pacific Islands region and recapitalisation of international financial institutions. The European Union has developed an instrument – the EU Vulnerability Flex – to assist developing countries with no access to International Monetary Fund assistance.

Donors are keen to engage with partners in the region about better ways to respond to the global economic crisis, food security challenges and the effects of climate change.

The fragmentation of aid in the region is a significant obstacle to getting the most out of development assistance. The number of development partners has expanded and increasing donor inputs are placing additional stresses on the governments of the region. The effectiveness of development assistance to help Pacific Island countries respond to crises should be improved through greater coordination amongst donors and consultation with the regional partners, in line with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

It is important to share, discuss and measure outcomes. Development assistance should strengthen national systems, accelerate innovation and importantly develop better statistics so that countries and donors can measure outcomes. Monitoring of development assistance

should be carried out through the lifetime of aid projects to ensure the projects remain appropriate and deliver on promised outcomes.

The human development index used by the United Nations is a more useful measurement than GDP alone to measure development progress in the region.

There is a desperate need for more donor coordination, communication and dialogue. The Pacific Quadrilateral Development Partners – Australia, New Zealand, the World Bank and Asian Development Bank – have committed to coordinate responses to financing and structural reform requirements in the region, to ensure the stability of regional economies. The partners will also coordinate with other development partners – the European Union, the IMF and the United Nations Development Program.

Development assistance should act as a lever and catalyst for other forms of assistance and to leverage private sector investment. Aid can be used to mitigate risks for the private sector and encourage greater private sector growth.

Civil society organisations and churches are well placed to help reduce poverty. Civil society partnerships with governments have the potential to accelerate progress in achieving the MDGs.

The private sector and civil society should be eligible to receive development assistance to enhance their capacity to contribute to national development outcomes.

The increasing burden on women in the region is a difficult challenge that must be taken into consideration in development planning. As men move to urban areas in search of employment, there are more pressures on women in the rural areas to earn income to support their extended families. Women make an enormous contribution to business and deserve more support.

Traditional economies

Traditional economies and subsistence agriculture are vital sources of resilience in times of crisis. Much of the region has a dual society – the traditional and the modern. The traditional economy is more relevant to the majority of the populations of Melanesian countries than the cash economy. More attention needs to be paid to supporting and strengthening the traditional

economy and indigenous systems of social protection by incorporating them into government and donor planning.

A productive and sustainable agricultural sector in the region has to be supported by modern infrastructure, including good roads, ports and airports, which would enable domestic and international trade. Modern education and health systems are also required to serve communities participating in the traditional rather than cash economy.

Traditional resilience should be cultivated to contribute to national and regional responses to the significant global challenges of food security and climate change. More substantial research and policy advice on integrating traditional economies with modern economic growth would be valuable to help government and donor planning. Governments and donors should also increase their focus on social capital in addition to financial capital.

It would also be useful for Pacific Island countries to share their experiences on resilience with other developing economies of similar size, particularly in Asia

Regionalism

Regional integration and cooperation is vital in the Pacific Islands region, which is remote from the rest of the world and in which it is difficult to achieve economies of scale. Conference participants called for a greater focus on pooling resources within the region to create more efficiency and strengthen capacities of each country.

Regional cooperation has the potential to deliver benefits through joint fuel purchasing, sharing technical expertise on investments, tourism and fisheries management. Some participants argued for more focused regional activities in tackling corruption in Pacific Island countries.

The Pacific Islands Forum, the Secretariat of the Pacific Community and other regional institutions have to be reformed, resourced and supported to deliver better services to individual countries in the region.

Climate change

The effects of climate change would be destructive in the Pacific. Humanitarian and security implications from climate change are now being realised. The region's susceptibility to

natural disasters has increased. Climate change threatens to undermine the region's development and also threatens the very viability of parts of some countries. Climate change could also worsen existing food and water security problems.

The region needs to present a united front in calling for ambitious cuts to greenhouse gas emissions at climate change negotiations in Copenhagen at the end of 2009.

The global economic crisis is likely to weaken the capacity of countries in the region to prepare for the effects of climate change and when the economic crisis ends, the problems of climate change remain. The challenges facing the region from the global economic crisis, food security and climate change all demand that the region build its resilience to respond to these crises so it can prosper in the future.

Annexure

Speakers at the conference (in order of speaking) were:

The Hon. Simon Crean MP, Minister for Trade, Australia

Dr Justin Yifu Lin, Chief Economist and Senior Vice-President, World Bank

The Hon. Murray McCully, Minister of Foreign Affairs, New Zealand

Stefano Manservigi, Director-General for Development and Relations with African, Caribbean and Pacific States, European Commission

Jim Adams, Vice-President, East Asia and Pacific Region, World Bank

Ann Sherry AO, Chief Executive Officer, Carnival Australia

Dr Jong-Wha Lee, Chief Economist, Asian Development Bank

Patricia Francis, Executive Director, International Trade Centre

The Hon. Dr Feleti Vaka'uta Sevele, Prime Minister, Kingdom of Tonga

Ajay Chhibber, Assistant Secretary General, Assistant Administrator and Director for Asia and the Pacific, United Nations Development Program

Jean-Luc Metzker, Head of Regional Delegation, International Committee of the Red Cross, Fiji

Ralph Regenvanu, Member of Parliament, Vanuatu

Dr Jimmie Rodgers, Director-General, Secretariat of the Pacific Community

Tuiloma Neroni Slade, Secretary-General, Pacific Islands Forum

The Hon. Paul Tiensten MP, Minister for National Planning and District Development, Papua New Guinea

The Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Australia

The Hon. Misa Telefoni Retzlaff, Deputy Prime Minister and Minister for Trade, Commerce, Industry and Labour, Samoa

Senator the Hon. Penny Wong, Minister for Climate Change and Water, Australia

The conference was chaired in turn by:

Dr Michael Wesley, Executive Director, The Lowy Institute for International Policy

The Hon. Duncan Kerr SC MP, Parliamentary Secretary for Pacific Island Affairs, Australia

Martine Letts, Deputy Director, The Lowy Institute for International Policy

Ratu Isoa Gavidi, Patron, Fiji Australia Business Council, Fiji

Transcripts of individual presentations and a podcast of the entire proceedings of the conference are available at www.lowyinstitute.org.

ABOUT THE AUTHOR

Jenny Hayward-Jones is Program Director of The Myer Foundation Melanesia Program at the Lowy Institute. Prior to joining the Lowy Institute Jenny was an officer in the Department of Foreign Affairs and Trade for thirteen years, serving in the Australian missions in Vanuatu and Turkey, where she was Deputy Head of Mission from 2004 to 2007. She worked as Policy Adviser to the Special Coordinator of the Regional Assistance Mission to Solomon Islands from its inception in July 2003 and in 2004 and was a member of the election monitoring team in Solomon Islands in 2001. Jenny holds a BA (Hons) in political science from Macquarie University and a Masters degree in International Relations from Monash University; her Masters thesis focused on governance and political change in Vanuatu.

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