



Pacific 2020

▶ CHALLENGES AND OPPORTUNITIES FOR GROWTH

Pacific 2020

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▶ May 2006

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Foreword by the Hon. Alexander Downer, MP Minister for Foreign Affairs, Australia



In 2004, Pacific leaders adopted a vision for the Pacific as ‘a region of peace, harmony, security and economic prosperity, so that all its people can lead free and worthwhile lives’.

The island states of the Pacific, including Papua New Guinea and near neighbour East Timor, face similar, often daunting, challenges that work to thwart this vision. Weak economic growth, rapidly increasing populations, poverty, unplanned urbanisation and swelling ranks of young unemployed are problems that confront most of these nations in varying degrees.

None of these obstacles can be surmounted without sustained economic growth. Through a process of extensive consultation with experts and practitioners from the region and beyond, the Pacific 2020 initiative has identified a range of policy options all directed at producing better growth outcomes.

Pacific 2020 is a process of debate, dialogue and analysis funded and facilitated by Australia as a contribution to overcome the challenges confronting the region. This report synthesises the views of experienced people on policy priorities to stimulate growth. It offers regional decision makers in government, the private sector and the wider community an opportunity to examine and contest policy options that will help them to confront the challenges of the future.

Few, if any, governments, organisations or individuals will agree on the full suite of policy options in this report. Most will find favour; some will be contentious. It is my hope that all will be debated and discussed in the spirit in which they are offered.

While individual policies may – and should be – contested, what is clear from Pacific 2020 is that there is broad agreement on some of the vital ingredients of growth. Good political governance, a dynamic private sector, regional cooperation through the Pacific Plan, integration into global markets and well-managed infrastructure all emerged from the Pacific 2020 process as essential for growth.

Recently, I released a White Paper on Australia’s aid program, which sets the strategic blueprint for its future direction. The White Paper recommitments the Australian aid program to supporting economic growth in the Pacific region and to deepening partnerships. Pacific 2020 is a practical manifestation of these commitments.

The Pacific vision adopted by leaders in 2004 also states that ‘we seek partnerships with our neighbours and beyond to develop our knowledge, to improve our communications and to ensure a sustainable economic existence for all’. Australia believes in the Pacific vision, and stands ready as a partner to see it realised. Pacific 2020 is one part of Australia’s contribution towards it.

Foreword by the Right Hon. Sir Rabbie Namaliu, CSM KCMG MP Minister for Foreign Affairs and Immigration, Papua New Guinea



The Pacific 2020 initiative has the strong support of the Government of Papua New Guinea.

Close to twenty respected citizens from our government sector and private sector have participated in the dialogue that has so far taken place under the initiative, which is being funded by the Australian Government's AusAID. They have been joined by representatives from other island nations.

This report is by no means the end of the initiative. It provides a blueprint for future debate and the exchange of views on the policy areas and other options that are needed to strengthen economic growth in our region for the common good of the people we represent.

As Foreign Minister, and on behalf of the Government of Papua New Guinea – the current chair of the Pacific Islands Forum – I welcome the publication of this report and hope its content and recommendations are given the wide attention they merit.

Foreword by Mr Greg Urwin Secretary General, Pacific Islands Forum Secretariat



I am very pleased to be able to welcome this *Pacific 2020* report coming, as it does, so soon after the launching of the *Pacific Plan for Strengthening Regional Cooperation and Integration*.

Our leaders had identified in the Pacific Plan our regional development priorities, and I am glad to be able to say that the *Pacific 2020* report not only provides strong analytical support for those priorities, but also makes practical suggestions about how they can be implemented.

Of particular significance are those suggestions for possible action at the national level, where implementation needs to take place if the Plan is to succeed. Indeed, I am particularly pleased that the *Pacific 2020* report recognises regionalism, and the Pacific Plan, as a necessary strategy for addressing many of the common issues facing the small Pacific island countries.

This report lays bare, for all to see and to be concerned about, the risks of muddling on, and it does so in a way that complements and strengthens our region's resolve to move forward together in meeting our common challenges. I congratulate all those who have been involved in the production of such a well prepared and insightful report.

Foreword by Dr Jimmie Rodgers Director General, Secretariat of the Pacific Community Member of the Pacific 2020 Steering Committee



Not too often do we have a comprehensive developmental exercise that looks at lessons of the past and the trends and realities of today to forecast possible developmental scenarios and policy options for tomorrow.

The Pacific 2020 initiative, while not claiming to provide all the answers to the increasing challenges facing Pacific island countries in addressing economic growth, does represent what is possibly the first comprehensive piece of work involving more than one hundred and fifty practitioners and experts – mostly from Pacific island governments, private sector and civil society – to seriously assess the specific challenges relating to the most important productive sectors and economic factors affecting growth.

It is important to note that *Pacific 2020* is not a set of policy prescriptions; rather it is a menu of policy options resulting from vigorous analysis and provides an excellent starting point for further analysis, adaptation or adoption – especially for countries that may not have the resources to conduct similar analysis.

The third part of the Pacific Vision, adopted by leaders in 2004, states that ‘we seek a Pacific region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values, and for its defence and promotion of human rights’.

It is my firm belief that the policy options presented in the *Pacific 2020* report proves an important starting point to help Pacific island countries move toward achieving this vision. I commend it for serious study and consideration by Pacific island leaders, government and stakeholders as an important tool they could add to their own work to help take the Pacific region forward in economic growth and sustainable development for a better future.

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Preface

The Pacific 2020 project is an initiative of the Australian Minister for Foreign Affairs, the Hon. Alexander Downer, MP, and was developed and implemented by AusAID, the Australian Agency for International Development. This report, *Pacific 2020: challenges and opportunities for growth*, was produced as part of the Pacific 2020 project in collaboration with numerous individuals and organisations from throughout the Pacific islands region and further afield.

Pacific 2020 has two parts. Part One provides a self-standing overview of the report's context, motivation, key findings and common themes. Part Two provides details on each of the nine growth topics studied as part of the project. Part One is recommended for all readers. Those with particular interests in the specific growth topics are also directed to Part Two.

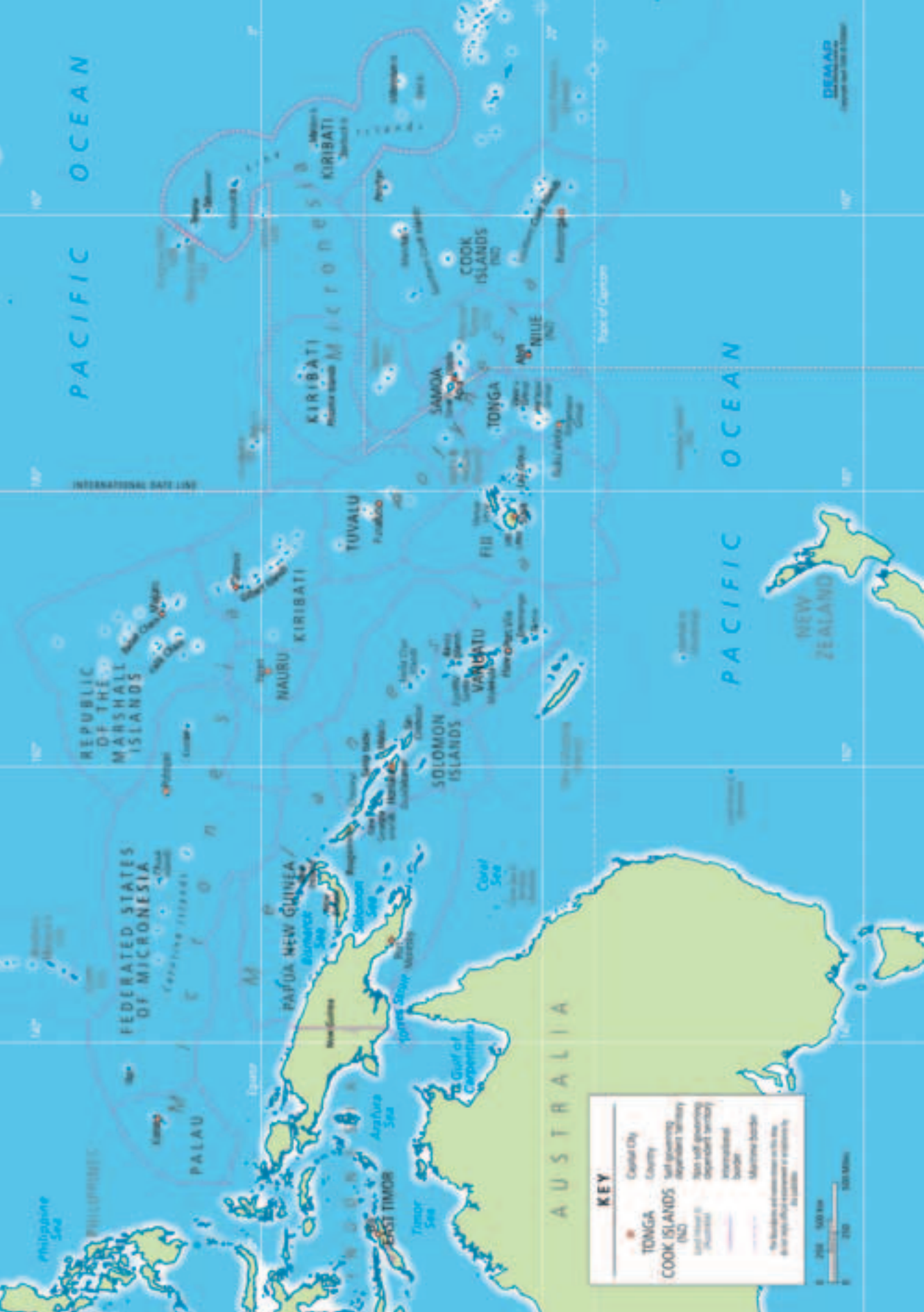
Acknowledgements

Many people and organisations from the Pacific and throughout the world have contributed to the Pacific 2020 project. This project has brought together representatives from many sectors of the regional community, including governments, the private sector, non-government organisations, donors, civil society and academia.

AusAID would like to thank all those individuals who contributed their time and expertise to the development of this report (see Annex A for a full list). We would also like to thank the many organisations who committed time, resources and staff to the project, including the Pacific Islands Forum Secretariat, the Secretariat of the Pacific Community, the World Bank, the Asian Development Bank, the New Zealand Agency for International Development, the Australian Treasury and Pacific island governments.

Abbreviations and acronyms

AIDS	acquired immune deficiency syndrome
AusAID	Australian Agency for International Development
EEZ	exclusive economic zone
FAO	Food and Agriculture Organization of the United Nations
FSM	Federated States of Micronesia
GDP	gross domestic product
MP	member of parliament
HIV	human immunodeficiency virus
OECD	Organisation for Economic Co-operation and Development
PIC	Pacific island country
PNG	Papua New Guinea
RMI	Republic of the Marshall Islands
SPS	sanitary and phytosanitary
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UN	United Nations
US	United States of America
WCPFC	Western and Central Pacific Fisheries Commission



KEY

- Capital City
- Country
- TONGA**
- COOK ISLANDS (NZ)**
- Self-governing dependent territory (Australia)
- Self-governing dependent territory (NZ)
- International border
- Maritime border

The boundaries and names shown on this map do not imply the endorsement or recognition of UN Geographical Names Authority.



PACIFIC OCEAN

PACIFIC OCEAN

DEMLAD

167°

167°

167°

167°

167°

167°

167°

167°

INTERNATIONAL DATE LINE

Line of Custom

REPUBLIC OF THE MARSHALL ISLANDS

FEDERATED STATES OF MICRONESIA

PALAU

PAPUA NEW GUINEA

NAURU KIRIBATI

TUVALU

KIRIBATI

KIRIBATI

VANUATU

SOLOMON ISLANDS

COOK ISLANDS (NZ)

TONGA

SAMOA

AUSTRALIA

NEW ZEALAND

Philippine Sea

Caroline Islands

Arundel Sea

Tasman Sea

Coral Sea

South China Sea

Solomon Sea

Timor Sea

Gulf of Carpentaria

Port Phillip

Bay of Plenty

Bay of Islands

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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.

1

PART ONE

Overview

PART ONE PROVIDES THE CONTEXT,
KEY FINDINGS AND COMMON
THEMES OF PACIFIC 2020.



CHAPTER ONE

Introduction

Leaders believe the Pacific region can, should and will be a region of peace, harmony, security and economic prosperity, so that all its people can lead free and worthwhile lives.

Auckland Declaration of Pacific Islands Forum Leaders, 6 April 2004

Background

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 government services fail to meet public expectations. 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?

By addressing these questions, *Pacific 2020* aims to stimulate dialogue and debate on actions to accelerate, manage and sustain economic growth. It contains a wide-ranging analysis of growth constraints, and a large number of suggested reforms and measures that can be implemented now to help shift the Pacific island countries onto a sustainable growth trajectory. It presents a mix of immediate opportunities and longer term challenges. *Pacific 2020* is not an action plan. Plans for growth will need to be much more country-specific and prioritised than is possible from an exercise such as this. Rather it is a call to action, and a guide and resource for Pacific island governments to help them promote economic growth and prosperity.

This is not the first attempt to provide an overview of long-term growth issues and options for the Pacific. *Pacific 2010*, written in 1993 by a group of Australian National University academics (with AusAID support), also took a long-term view, though with a focus on demography rather than economic policies. Recent publications of the Asian Development Bank (2004b), the World Bank (2005b) and the United Nations Development Programme (1999) have provided comprehensive reviews of the economic and policy challenges facing the Pacific. What sets *Pacific 2020* apart is the consultation process behind it. As summarised in Box 1.1, this involved a broad range of decision makers and experts from across the region.

BOX 1.1 ► PACIFIC 2020: THE PROCESS

Pacific 2020 (the report) is the culmination of an extensive consultation process.

Academic or sectoral expert authors with extensive knowledge of the Pacific prepared a series of short input papers to stimulate debate on the nine Pacific 2020 growth topics: investment, labour, land, political governance, agriculture, fisheries, forestry, mining and petroleum, and tourism.

Using the input papers as a basis for discussion, nine roundtable meetings were held in mid-2005, one for each topic. More than 130 practitioners and experts from regional governments, the private sector and civil society, as well as representatives from aid donors and multilateral institutions, attended the roundtables. Roundtable participants were asked to focus on the main constraints to economic growth in their sector as well as on priority policy options that could best deal with those constraints and promote economic growth.

Drawing on each roundtable discussion, the academic and sectoral experts prepared nine background papers. Additional research was undertaken by AusAID staff and additional background papers were produced by the World Bank (on growth frameworks) and by the Australian Treasury (on regional agreements). The background papers are included at the start of this report's reference list and are available on AusAID's website <www.ausaid.gov.au>.

The Pacific 2020 background analyses, as well as this report itself, were subjected to peer review. A steering committee of AusAID officials and senior representatives from government, the private sector, regional organisations and civil society in the Pacific island countries provided oversight and guidance for the project.

All involved in the Pacific 2020 process are listed in Annex A.

Coverage

Pacific 2020 is written for all developing country members of the Pacific Islands Forum, as well as East Timor because of its proximity to the Pacific and the similarity of many of its development challenges. As a short-hand expression, these 15 countries are generally referred to as the Pacific island countries. The standard subregional groupings of Melanesia, Polynesia and Micronesia are used (see Table 2.1). For convenience, East Timor is grouped with Melanesia.

Pacific 2020 is based on the study of nine growth topics: four crosscutting 'growth factors' and five 'productive sectors'. The report highlights key findings from each of the nine topics and brings out their common themes.

The four growth factors are investment (or capital), labour, land and political governance. The first three are the traditional ‘factors of production’ – those inputs that are essential for growth, whatever the sector. The report goes beyond these three because of the importance of the quality of institutions or governance in a country for long-run economic growth. Since ultimately it is the country’s political system that determines how well other institutions of government function, *Pacific 2020* targets political governance as the fourth growth factor.

The five productive sectors are agriculture, fisheries, forestry, mining and petroleum, and tourism. Between them, they provide a wide-ranging overview of the Pacific island economies. Agriculture still provides livelihoods and social security for most people in the region. In some settings, it is also an important export sector. Mining and forestry draw on the natural resources of the countries. One or the other is important for several of the island countries, and both sectors can generate significant foreign exchange and government revenues. Fisheries in different settings provide employment and government revenue. Tourism is a sector in which Pacific islands can compete in global markets.

Some of these sectors offer abundant growth opportunities. Agriculture, fisheries and tourism clearly fall into this category. However, they all involve important management challenges. The logging of natural forests is currently being carried out in an unsustainable way. Unsustainable practices are also a risk for fisheries. Mining is, by definition, an unsustainable activity. The risk in this case is that the extraction of minerals, without effective governance, will not only cause local environmental damage, but also generate prosperity only in the short run and do nothing to lay the foundations for long-term growth. *Pacific 2020* does not take a simplistic approach to growth. It looks both at generating growth and at managing its impact.

This choice of topics emerged from the consultation process. Although the resulting report is wide-ranging, it does not try to be comprehensive. There are important issues that are not analysed in the report, in part because they are covered elsewhere and in part because the consultation process indicated a preference for a more selective approach. The studies of the nine Pacific 2020 growth topics confirmed the importance of environmental and health issues for the region, but did not cover them in detail.¹ Nor does the report provide a thorough treatment of all governance issues, which could range from law and order to macroeconomic management (Asian Development Bank 2004a; Saitala 1999). But *Pacific 2020* does focus on what is perhaps *the* underlying governance issue and one that certainly has not received enough attention in discussions of growth – namely, political governance.

It is impossible to foresee all of the challenges that will emerge between now and 2020. Many of today’s challenges were unknown at the time the Pacific island countries became independent – HIV/AIDS, to give just one example. The underlying challenge, which

1 On environmental challenges facing the Pacific, see World Bank (2006b). On human development, see United Nations Development Programme (1999) and World Bank (2006c).

Pacific 2020 does address, is to ensure that policy frameworks are robust and economies strong enough to enable the countries to meet whatever challenges the future presents them.

Report structure

The report is divided into two parts. Part One is a self-standing overview. Part Two addresses each of the nine growth topics in more detail. Part One is recommended for general readers and Part Two for those with a more specific interest in particular topics.

Part One is made up of seven chapters. Following this introductory chapter, Chapter 2 sets out the Pacific's disappointing growth record to date. Chapter 3 examines the challenges the Pacific is facing, and the need for higher growth to meet those challenges. Chapter 4 considers whether higher growth can be achieved, and presents three different scenarios for the future. Chapters 5 and 6 contain the analysis and options that will help realise a growth scenario for the Pacific. Chapter 5 provides a short summary of findings on each of the nine Pacific 2020 growth topics, and Chapter 6 presents the four themes that emerged across the nine. Chapter 7 concludes.

The final two chapters of the report make up Part Two. They detail the findings that emerged from the Pacific 2020 process in relation to, first, the four growth factors (Chapter 8) and then the five productive sectors (Chapter 9).



CHAPTER TWO

Pacific growth

This chapter provides the context for Pacific 2020. It first provides some background for those less familiar with the Pacific islands region, and then sets out the disappointing growth record of the Pacific islands to date.

Basic characteristics

The Pacific island countries vary enormously (Table 2.1). Of the countries covered in this report, seven have populations of less than 100 000 and seven have populations of between 100 000 and 1 million. Papua New Guinea stands by itself with a population of 5.8 million, 65 per cent of the combined population of the 15 countries. Population density varies from 480 people per square kilometre in Nauru to only 7 in Niue.

Incomes also vary greatly. Palau and Cook Islands have an average income (gross domestic product) per person of US\$6000² or more, making them upper middle-income developing countries, comparable with countries such as Mexico and Seychelles. Most of the Pacific island countries – Fiji, Federated States of Micronesia, Republic of the Marshall Islands, Nauru, Samoa, Tonga, Tuvalu and Vanuatu – have an average income per person in the range US\$1300–3500, making them lower middle-income developing countries, comparable in income levels with Thailand. Papua New Guinea, Solomon Islands, Kiribati and East Timor, which have an average income per person of US\$700 or less, are much poorer and fall into the category of low-income countries.³ The better-off countries are much more urbanised (Palau and Cook Islands have two-thirds or more of their populations living in urban areas) whereas the poorer countries are very largely rural (three-quarters or more of the populations of East Timor, Papua New Guinea, Solomon Islands and Vanuatu live in rural areas).

2 When comparisons are made, monetary values are quoted in US dollars, the currency in which they appear in the World Development Indicators.

3 Since Pacific island countries get significant resources from remittances and aid, gross national income per person may be a better indicator than gross domestic product per person, which is used here because of its availability for a larger number of countries. For those countries for which data are available for 2004, Kiribati had the highest ratio of gross national income to gross national product, 1.5:1. In East Timor this ratio is 1.4:1, but is increasing sharply due to petroleum tax and royalty payments.

Social indicators also differ greatly (Table 2.1). Adult literacy is high (90 per cent or more) except in the Melanesian countries of Papua New Guinea (57 per cent), Solomon Islands (30 per cent) and Vanuatu (34 per cent) and in East Timor (43 per cent).

All of the Pacific island countries are highly vulnerable to shocks – natural, political and economic. One composite indicator of vulnerability ranks Vanuatu as the most vulnerable of 111 countries rated. Fiji is rated 8th most vulnerable, Solomon Islands 11th, Samoa 20th, Papua New Guinea 30th and Kiribati 59th.⁴

TABLE 2.1 ► BASIC CHARACTERISTICS OF PACIFIC ISLAND COUNTRIES, 2004

	Population	Population density	Urban population	Literacy rate ^a	GDP per person
	'000	people/km ²	% total	% adult population	US\$
Melanesia & East Timor					
Fiji	840	46	52	93	3 098
Papua New Guinea	5 800	13	13	57	695
Solomon Islands	521	18	17	30	513
Vanuatu	213	17	23	34	1 472
East Timor	925	62	8	43	366
Polynesia					
Cook Islands	20	86	70 ^c	94	7 549 ^c
Niue	1.8 ^b	6.9 ^b	33 ^b	95	4 364 ^d
Samoa	181	65	22	99	2 030
Tonga	102	127	34	99	2 087
Tuvalu	11	373	...	95	1 346 ^d
Micronesia					
Kiribati	90	123	49	93	633
Marshall Islands, Rep. of	61	337	67	92	1 803
Micronesia, Fed. States of	108	154	30	95	1 786
Nauru	10 ^b	479 ^b	...	95	3 500 ^d
Palau	21	46	68	91	6 350
Income group					
Low income		80	31	61	536
Middle income		44	53	91	2 305
Upper middle income		20	72	94	5 189

a In 2000–04. **b** In 2001. **c** In 2003. **d** In 2002. ... Not available.

Sources: Asian Development Bank (2005d); World Bank (2006e); Niue Statistics Office.

4 Other Pacific island countries are not rated in this index created by Atkins and Mazzi (1999).

The growth record

Data for the Pacific island countries are not of good quality (H Hughes 2003)⁵, but support a few generalisations about population and economic growth.

- **High population growth** In the period 1990–2004 the Melanesian countries of Solomon Islands, Vanuatu and Papua New Guinea had annual population growth rates in excess of 2.5 per cent (Table 2.2), well above the average for developing countries. Population growth has also been high in much of Micronesia, and very high (exceeding 5 per cent) in recent years in East Timor. It has been low (1 per cent or less) in Cook Islands, Niue, Samoa, Tonga, Fiji and Nauru.⁶
- **Volatile but, on average, low economic growth** Economic growth in the Pacific islands region is volatile. Since 1990, most countries have had years in which they grew by more than 10 per cent and others in which they contracted by more than 4.5 per cent. On average, growth has been low. In the period 1990–2004, out of the 15 countries covered, only Tuvalu and Cook Islands had annual average growth rates in excess of the average for their income group (middle income and upper middle income respectively).
- **Low or negative growth in income per person** The combined result of low economic growth and high population growth has been very low or negative growth in income per person. In the period 1990–2004, only one country (Tuvalu) reached the 2.6–2.7 per cent average growth rate for GDP per person of the low- and middle-income developing countries during this period. Four out of the five Micronesian countries had negative growth and, of the Melanesian countries, only Fiji achieved more than 1 per cent annual average growth. In general, the Polynesian countries, with low population growth, have done better in terms of growth in GDP per person; they all achieved more than 1.5 per cent. However, even their performance is modest, with Tuvalu's 2.7 per cent being the maximum achieved.
- **Worsening performance since the mid-1990s** Since the mid-1990s, economic performance has improved in a few countries, notably Cook Islands, Samoa and Tuvalu (Box 2.1), but worsened in most. In the period 1995–2004, growth in GDP per person was negative for all Micronesian and Melanesian countries except Kiribati and Fiji.

5 This is not only a problem for economic data. To take one example, according to the Asian Development Bank database, adult literacy in Vanuatu is 34 per cent (see Table 2.1). According to the United Nations Development Programme (<http://hdr.undp.org/statistics/data/countries.cfm?c=VUT>), however, adult literacy in Vanuatu is 74 per cent.

6 This is in part because of migration; however, the rate of natural increase is also lower in Polynesia than Melanesia (McMurray and Muagututia 2003).

- **An improvement in the past few years** The data since about 2003 are more positive for the Pacific island countries, with improved economic growth and macroeconomic outcomes, as Box 2.2 details. While this is encouraging, it is due in part to high commodity prices. For most of these countries, growth prospects continue to be very uncertain, and it is far too early to talk about a turnaround.⁷

TABLE 2.2 ► ANNUAL AVERAGE GROWTH RATES IN POPULATION, GDP AND GDP PER PERSON, 1990–2004

	Population	Real GDP	Real GDP per person
	%	%	%
Melanesia & East Timor			
Fiji	1.0	2.6	1.6
Papua New Guinea	2.5	3.6	1.0
Solomon Islands	2.8	0.8	-1.9
Vanuatu	2.7	2.7	0.0
East Timor	1.6	-4.4 ^a	-6.0 ^a
Polynesia			
Cook Islands	0.6 ^b	2.5 ^b	1.8 ^b
Niue	-2.2	...	...
Samoa	0.8	2.4	1.6
Tonga	0.4	2.6	2.2
Tuvalu	1.6 ^c	4.3 ^c	2.7 ^c
Micronesia			
Kiribati	2.2	4.2	2.0
Marshall Islands, Rep. of	1.9	-0.5	-2.3
Micronesia, Fed. States of	2.0	1.3	-0.7
Nauru	0.6 ^c	-4.4 ^c	-5.0 ^c
Palau	2.0	1.2	-0.8
Income group			
Low income	2.0	4.7	2.6
Middle income	1.1	3.8	2.7
Upper middle income	0.9	2.3	1.4

^a In 1998–2004. ^b In 1990–2003. ^c In 1990–2002. ... Not available.

Note: Annualised average growth rates are used here and throughout the report. Real GDP data for Niue are not available.

Sources: Asian Development Bank (2005d); World Bank (2006e).

⁷ As Rodrik (2004a) points out, the challenge of sustaining growth is, in many ways, more difficult than the task of achieving growth ‘... as it requires constructing over the longer term a sound institutional underpinning to endow the economy with resilience to shocks and maintain productive dynamism’.

BOX 2.1 ► COOK ISLANDS, SAMOA AND TUVALU: BUCKING THE TREND

Growth in GDP per person in most Pacific island countries was either negative in the period 1995–2004 and/or lower than it was in the period 1990–2004. Cook Islands, Samoa and Tuvalu are the exceptions to this generalisation; their growth accelerated after the mid-1990s. Cook Islands' GDP per person grew at an average annual rate of 1.8 per cent from 1990 to 2004, but at 3.7 per cent from 1995 to 2004. The corresponding figures for Samoa are 1.6 and 2.1 per cent, and for Tuvalu 2.7 and 3.2 per cent. These 1995–2004 growth rates, while moderate rather than rapid, are nevertheless the highest three for the Pacific island countries over the past decade.

What is the secret of the relative success of these three countries? All have relatively low population growth rates (less than 1 per cent for Cook Islands and Samoa, and 1.6 per cent for Tuvalu). All also have high rates of migration, which keeps unemployment down and results in high levels of remittances. Cook Islands and Samoa have long had good access to the New Zealand labour market. Tuvalu specialises in providing seafarers who work for international shipping companies.

Each country also has its own special features. Growth in Cook Islands has been driven by tourism, which is almost half of its GDP. Tuvalu's small economy is highly aid dependent (the ratio of aid to GDP is 39 per cent). Recently, a number of large public construction projects, the marketing of the 'tv' domain name, and increased returns from granting fishing access rights have led to increased incomes and economic growth. Samoa is the most diversified of the three. It has experienced growth in construction, manufacturing, agriculture, tourism and increased access fees for fishing.

Cook Islands and Samoa have undertaken economic reforms over the past decade, albeit at an uneven pace (Sialoa 2005). Prior to the mid-1990s, both countries faced serious fiscal problems, but since then the two have emphasised fiscal discipline and public sector restructuring. The International Monetary Fund (2005e, p. 19) reports that 'over the last decade, Samoa has transformed itself into one of the best managed economies in the Pacific island region'. Samoa also enjoys political stability, with the same party in power since 1982. Hughes and Gosarevski (2004) write that 'Tuvalu is arguably the best governed territory in the Pacific', and point to the effective management of the Tuvalu aid-financed trust fund.

In summary, it would seem that good governance and the effective use of economic opportunities – mainly aid, migration and tourism – lie at the heart of the relative success of these three Polynesian states.

The long-term stagnation of the Pacific island countries is made clear by Figure 2.1, which shows GDP per person in 1981 and 2004 for several of Pacific countries as well as for Mauritius, another small and vulnerable island, but a fast-growing one. Mauritius, which lies 2400 kilometres off the coast of Africa, now has a population of 1.2 million. In 1981 the average income in Mauritius was lower than in Fiji, and not much higher than in Vanuatu. Today, GDP per person in Mauritius is more than double the average of any Melanesian or Polynesian country. Box 2.3 explores the reasons for Mauritius's success.

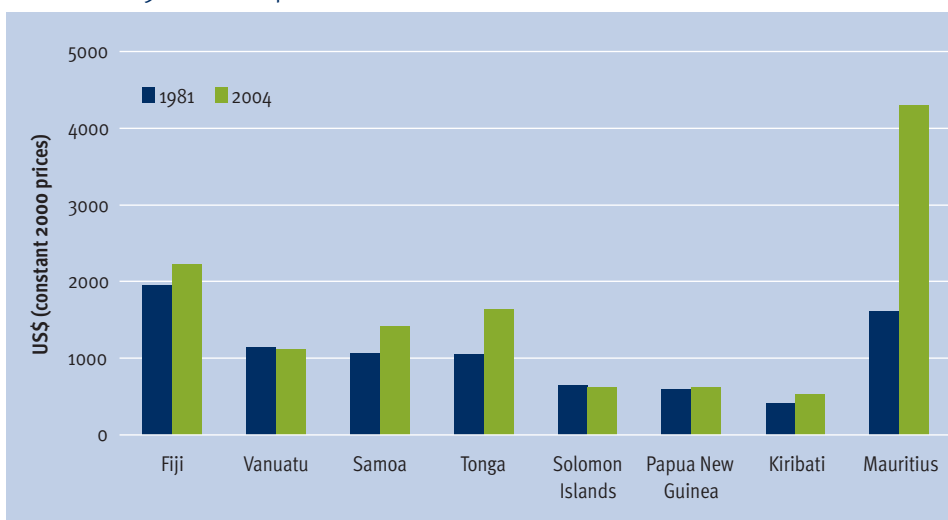
BOX 2.2 ► IMPROVED ECONOMIC PERFORMANCE OF PACIFIC ISLAND COUNTRIES IN RECENT YEARS

Recent years have seen positive macroeconomic and growth performance in a number of Pacific island countries.

- **Cook Islands** grew by 3 per cent in 2004, its sixth consecutive year of growth, led primarily by tourism. Its fiscal position has improved since a crisis in the mid-1990s, and debt is declining.
- **Fiji** has experienced average annual growth of 3.5 per cent since 2000. Some important sectors are in sharp decline (sugar and textiles), and growth of only 1.5 per cent was expected for 2005. Other sectors in Fiji are booming (see Box 4.2), giving some hope for the future, provided political stability can be maintained.
- **Papua New Guinea** has also pulled back from a fiscal crisis and is now running a surplus of over 1 per cent of GDP. The economy started to recover in 2003, and growth is now at 3 per cent. The current account is in surplus due to a booming mining sector.
- **Samoa's** growth accelerated after the mid-1990s, slowed between 2002 and 2004, but then accelerated again. The economy grew by 6.5 per cent in the 12 months to June 2005, led by construction, agriculture and fisheries. While there has been a fiscal stimulus associated with the South Pacific Games, the overall macroeconomic position has been stable.
- **Solomon Islands** has had three consecutive years of growth after an economic collapse. The government budget is in surplus, and debt is declining though still high.
- **Vanuatu's** economy started growing again in 2003 after no growth from 1997, and is now expanding at an annual rate of 2.5–3 per cent. The fiscal position, which was perilous, has improved and the budget shows a small surplus.

Clearly, these are positive developments. At the same time, one should not paint too rosy a picture. Some of these countries are still unstable. Growth of 3–4 per cent is not rapid enough for all of these countries to make a dent in unemployment. External circumstances are currently favourable – in particular, commodity prices are high – and will not always remain so. Other Pacific island countries are not doing as well.

Sources: Asian Development Bank (2005a); International Monetary Fund (2005a, 2005b); Sialaoa (2005); World Bank (2005a).

FIGURE 2.1 ► GDP PER PERSON FOR SELECTED PACIFIC ISLAND COUNTRIES AND MAURITIUS, 1981 AND 2004

Data source: World Bank (2006e).

BOX 2.3 ► MAURITIUS: WHY HAS IT BEEN SO SUCCESSFUL?

Performance in Mauritius has been impressive by any standard.

- In the 1960s, James Meade, Nobel Prize winner, projected that Mauritius's development prospects were poor and that Mauritius was a strong candidate for failure. In 2000, World Bank documents called the Mauritian economic and social performance a miracle.
- Between 1973 and 1999 the real GDP of Mauritius grew 5.9 per cent a year. Incomes increased threefold over a 40-year period.
- Life expectancy at birth increased from 61 years in 1965 to 71 years in 1996; universal primary school enrolment has been achieved; unemployment declined from 20 per cent in 1983 to 3 per cent in the late 1980s (though it has subsequently risen to around 10 per cent).

Mauritius faced unfavourable conditions for growth in terms of geography and commodity dependence. It had a relatively protective import regime, but that was offset by an efficiently run export-processing zone and preferential market access provided by trading partners. The driving factor behind Mauritius's success appears to have been the quality of its domestic institutions. Successive Mauritian governments emphasised the development of a national consensus in favour of the main elements of sound economic management. The export processing zones were well run and were not plagued by corruption, abuses and leakages. Respect for the rule of law and property rights made Mauritius attractive to investors.

Source: Subramanian (2001).



CHAPTER THREE

Pacific challenges

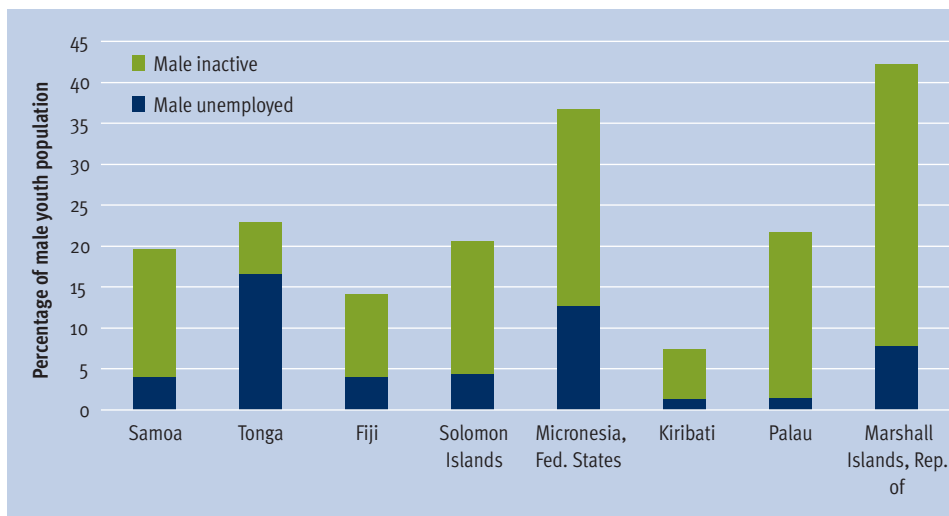
We have a young and fast growing population. This means many mouths to feed and bodies to clothe and take to the clinic. We have only so much land for food gardens and our forests are declining from over-logging. We can choose to prepare for the future, or we can try to go back to the old ways that led to falling prosperity and violence and destruction of the ethnic tensions ... the only way up is for the economy to grow.

Peter Boyers, Solomon Islands Finance Minister, Radio SIBC, 28 November 2005

Why does it matter that the Pacific island countries have been growing slowly, with most countries experiencing little or no growth in income per person and some showing declines? Rather than simply assuming that faster growth would be desirable, this chapter examines the increasing challenges the Pacific is facing, and shows why higher growth is fundamental to the region meeting these challenges. Employment is perhaps the most immediate and widespread challenge and is dealt with here in some detail before some of the other challenges are considered in a more summary manner.

Employment and joblessness

Perhaps the most compelling argument for economic growth in the Pacific island countries is the link to employment. Many of these countries are experiencing low levels of employment, which in turn is leading to poverty, social instability and crime. This lack of employment manifests itself not only in the number of unemployed (those looking for work) but also in the large number that withdraw from the workforce altogether. These are the ‘inactive’ – neither working (whether in the subsistence or cash economy) nor studying. The sum of these two groups (the unemployed and the inactive) is the number of jobless. In most Pacific island countries it is very high. Figure 3.1 illustrates the case of male youth in a number of countries.

FIGURE 3.1 ► MALE YOUTH JOBLESSNESS IN THE PACIFIC REGION

Note: Joblessness is defined as being inactive (outside the workforce and not studying) or unemployed (not working, but seeking employment). The choice of countries reflects data availability.

Data source: World Bank (2006c) based on national census data.

The 1990 census of Papua New Guinea found that 30 per cent of the urban workforce identified itself as unemployed. In 1997 a survey (Levantis 1997a) found that a staggering 70 per cent of self-identified urban unemployed males – equivalent to 15 per cent of the entire urban workforce – were engaged in criminal activity. PNG crime rates increased twentyfold between 1970 and 1990, and its urban crime levels are among the worst in the world (Levantis 1998). While better policing is needed to reduce the reward–risk ratio of criminal activity, more opportunities also need to be presented for legal labour. Levantis reports that in the 27 years to 1995, private sector employment in urban areas of Papua New Guinea grew by only 6.5 per cent in aggregate.

Other Pacific island countries have less of a crime problem, but also suffer from high joblessness. The young unemployed were a factor in the civil unrest in Solomon Islands (Allen 2005). In East Timor in 2001, 20 per cent of the working-age population in the urban centres of Dili and Baucau was unemployed; among urban youths aged 15–24 years, unemployment in 2001 was 43 per cent and has probably since increased (World Bank 2005c). The Polynesian countries benefit from the ‘safety valve’ of migration (Duncan and Chand 2002; Ware 2004), but still have high levels of underemployment.

The employment challenge the Pacific island countries are facing is particularly large because of the rapid population growth some countries are continuing to experience. Population growth rates are slowing (except in East Timor), but remain high outside of Polynesia. The total population of the Pacific was estimated in 2003 to be 8.4 million, up from 2.5 million in

1950 (Bedford 2003).⁸ In the next 50 years, the population of the Pacific will double, due to rapid growth in Melanesia and Micronesia. The Pacific island countries also have very young populations. The proportion aged 0–14 years is in the 30–40 per cent range for most countries – higher for Melanesia and Micronesia than for Polynesia (Table 3.1). Internationally, the presence of a large ‘youth bulge’ is associated with an increased likelihood of civil conflict (Urdal 2004).⁹

TABLE 3.1 ► YOUTH AGED 0–14 YEARS AS A PERCENTAGE OF POPULATION, 2004

	%
Melanesia & East Timor	
Fiji	31
Papua New Guinea	39
Solomon Islands	42
Vanuatu	34
East Timor	38
Polynesia	
Cook Islands	30
Niue	30 ^a
Samoa	33
Tonga	36
Tuvalu	30
Micronesia	
Kiribati	39
Micronesia, Fed. States of	37
Marshall Islands, Rep. of	39
Nauru	37
Palau	27
Other	
Australia	19
Less developed countries	31
Sub-Saharan Africa	43
Asia	28

^a In 2001.

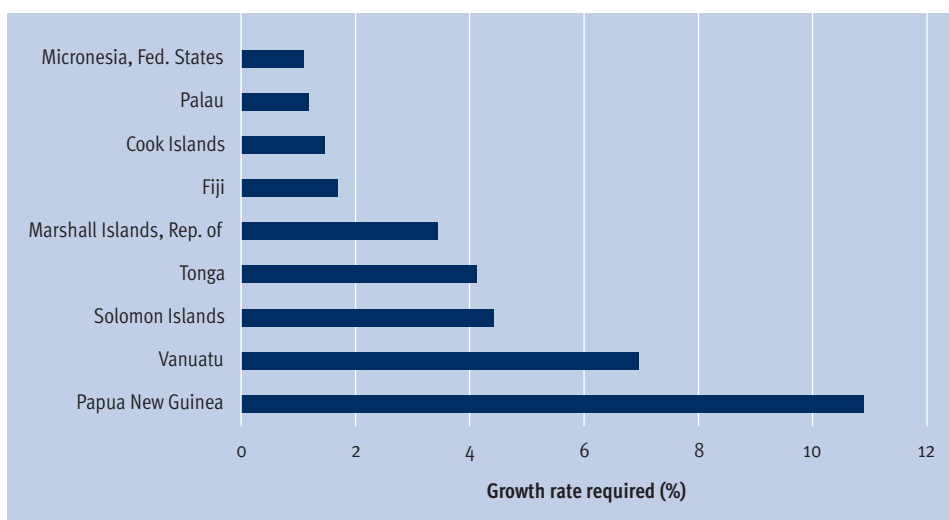
Sources: Niue Statistics Office; US Census Bureau (2006).

8 These totals include figures for New Caledonia, French Polynesia, American Samoa, Guam, Mariana Islands, Tokelau and Wallis et Fortuna, but exclude East Timor.

9 As Helen Ware (2004) has written, ‘instability will continue to threaten Melanesia for as long as economic growth fails to significantly outstrip population growth and thus to provide employment opportunities for a younger generation no longer satisfied with subsistence farming and fishing’.

The rates of joblessness considered so far do not include the underemployed hidden in the agricultural sector (people working in agriculture because there is no work elsewhere). While agricultural growth is important to boost the incomes of rural inhabitants, it may be that, given the underemployment already evident in agriculture, additional jobs will have to come from outside of agriculture. If so, as Figure 3.2 shows, high rates of growth in non-agricultural employment will be needed simply to keep the ratio of employed to working age population constant – 7 per cent for Vanuatu and above 10 per cent in the case of Papua New Guinea. And this is only to prevent joblessness from worsening, not to reduce it from its already high levels.

FIGURE 3.2 ► ANNUAL GROWTH IN NON-AGRICULTURAL EMPLOYMENT REQUIRED BETWEEN 2004 AND 2020 TO PREVENT JOBLESSNESS FROM WORSENING



Note: Assumed that there is no employment growth in agriculture. The choice of countries reflects data availability.

Data sources: Asian Development Bank (2005d); Secretariat of the Pacific Community (2006).

Prospects are even worse if educated youth are interested only in paid employment.¹⁰ Take Kiribati, for example. The Asian Development Bank (2002b) reports that around 1700 students leave school every year, but only 400–500 jobs become available in the formal economy every year.¹¹ Without very rapid growth in output and therefore employment, the prospect is more joblessness and social instability, at least for the Melanesian and Micronesian countries.

¹⁰ Excluding self-employment in the informal sector as well as subsistence agriculture.

¹¹ Quoted in Ware (2004).

Other challenges: health, education, climate change, urbanisation and poverty

Employment has been dealt with at some length because of the immediacy of the challenge, its widespread nature and the frequency with which this issue was raised during the Pacific 2020 consultations. However, there are other challenges that the Pacific island countries will face in the period to 2020.

- **A growing health burden** The traditional communicable diseases, such as malaria and tuberculosis, are thriving in the Pacific. HIV/AIDS is ravaging Papua New Guinea and is a threat elsewhere.¹² But it is non-communicable diseases that now constitute the greatest burden of disease in many Pacific island countries. In some countries diseases such as cancer and diabetes are now at or exceed levels found in developed countries.
- **Unmet educational needs** Some countries still have a large number of out-of-school children. Some still have a rapidly growing number of children to educate. In many Pacific island nations, student performance indicates low levels of literacy and numeracy (World Bank 2006c).
- **Environmental challenges** A recent report of the World Bank (2006b, p. viii) concluded that ‘there is no doubt that disasters in the region are becoming more intense and probably more frequent’. It argues that climate trends for the Pacific point ‘to more extreme conditions and increased climate variability ... Average temperatures are expected to rise by between 1.0 and 3.1°C. Sea level is expected to rise by between 9 and 90 centimetres by the end of the century. Cyclones are expected to increase in intensity by about 5–20 percent’. For the low-lying atolls, the economic cost could be particularly large. Other pressing environmental problems faced by the Pacific islands include waste disposal. In Kiribati, faecal contamination of shellfish because of inadequate sanitation in Tarawa is the cause of outbreaks of diarrhoeal diseases, hepatitis and sometimes cholera (Nukuro 2000).
- **Rapid urbanisation** At current rates of growth, Tarawa’s population will double to 73 000 by 2013, and Port Vila’s will double to 60 000 by 2016.¹³ Higher levels of urbanisation will require increased spending on infrastructure (from roads to solid waste management), and a lack of jobs will lead to a rise in urban crime.
- **Poverty** Despite poor data, there is now a consensus that poverty is a serious problem in the Pacific. It does not result in malnutrition, as it does in sub-Saharan Africa and South Asia (except perhaps in East Timor), but it is reflected in difficulties in meeting basic needs such as adequate shelter and health care. The reality of urban poverty in the region is illustrated by Box 3.1.

12 Latest estimates, quoted in Duncan, Howes and Williams (2005, p. 9), indicate that at current trends 11 per cent of Papua New Guinea’s adult population could be living with HIV/AIDS by 2025.

13 Tarawa is the capital of Kiribati, and Port Vila is the capital of Vanuatu.

BOX 3.1 ► LIFE IN A PNG URBAN SQUATTER SETTLEMENT

Some Pacific countries have seen a large rise in rural–urban migration in recent years for a number of reasons, including lack of employment, limited education opportunities and the need to support the extended family. On the outskirts of many cities in Papua New Guinea, shanty settlements have sprung up to accommodate this increasing rural–urban drift. While often referred to as squatter settlements, many have become permanent. Settlement populations are increasing and conditions are becoming more crowded.

In one such Port Moresby settlement, the population has doubled to almost 2000 in the past two years. In this particular slum, the great majority of working-age residents are unemployed and only a few primary-age children attend school. None of the houses has running water, and only a few have electricity. The nearest health clinic closed after being broken into and trashed twice. Community representatives report that the settlement is rife with crime. Women’s representatives report that women live in fear.

Sources: UNESCAP (1999); visit to the settlement by Australian officials in 2005.

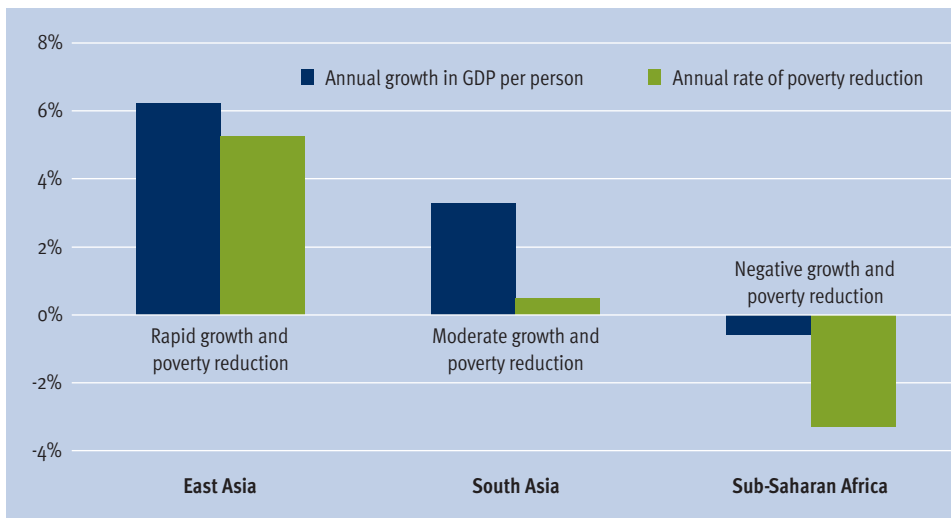
Economic growth will not make all of these challenges disappear. Indeed, growth can exacerbate some problems. For example, new infrastructure can facilitate the spread of disease. But without growth the Pacific island countries will no more be able to deal with their health, education, environmental and urban management challenges than they will be able to solve the problem of joblessness.

Confronting these challenges will require significant government responses – from expenditure on health care to investments in urban infrastructure and waste management to the implementation of environmental adaptation systems. However, in most Pacific island countries, government revenue is already large relative to the size of the economy¹⁴, and additional revenue will flow only from additional economic growth.

International evidence on the link between growth and poverty reduction is also very clear: no country has significantly reduced poverty without rapid economic growth. Figure 3.3 illustrates this for East Asia (which has seen rapid economic growth and poverty reduction), South Asia (moderate economic growth and poverty reduction) and Africa (negative growth and increased poverty).

14 In 2004, government revenue averaged 40.5 per cent of GDP for the Pacific island countries, with a high of 151.6 per cent in Tuvalu and a low of 18.1 per cent in East Timor (Asian Development Bank 2005d).

FIGURE 3.3 ► AVERAGE ANNUAL GROWTH IN GDP PER PERSON AND REDUCTION IN THE POVERTY RATE IN EAST ASIA, SOUTH ASIA AND SUB-SAHARAN AFRICA FROM 1981 TO 2001



Note: Annual rate of poverty reduction is the annualised percentage reduction in the number of people living below the US\$1 a day poverty line.

Data source: Chen and Ravallion (2004).

Thus, the growth rates the Pacific island countries achieve are of fundamental importance. If economic growth continues to follow historical trends, many governments will find themselves increasingly unable to provide employment opportunities for their growing populations, meet mounting health threats, cope with rapid urbanisation, and deal with the potential threats induced by climate change. As put by the Finance Minister of Solomon Islands, in the quote that begins this chapter, the only way up for the Pacific is ‘for the economy to grow’.



CHAPTER FOUR

Pacific scenarios

How will the countries respond to the challenges facing them? Will governments make a break from the past and enable the economic growth needed to thrive in uncertain times, or will things only get worse? Three scenarios can be envisaged: ‘doomsday’, ‘muddling on’ and ‘growth’.¹⁵

Doomsday scenario

Under the doomsday scenario the Pacific island countries fail to meet the challenges confronting them. In 1993, the authors of *Pacific 2010* imagined a Pacific by 2010 in which:

... population growth is careering beyond control: it has doubled to 9 million: malnutrition is spreading and is already endemic in squatter settlements ... there are beggars on the streets of South Pacific towns ... levels of unemployment are high ... deaths from AIDS, heart disease and cancers have greatly increased ... aid donors have turned their attention elsewhere ... crime has increased ... pollution and land degradation has spiralled ... much of the surviving rain forest has been logged ... coastal fisheries have been placed under threat from over fishing ... skills shortages in the labour market yawn wide (Cole 1993, back cover).

Much of what the *Pacific 2010* authors predicted appears to have come true (H Hughes 2005), though not all of it in all countries. More recent ‘doomsday’ commentaries have referred to Solomon Islands in particular as ‘failing’ or ‘failed’ (*Economist*, 13 February 2003), have suggested that other Pacific economies are heading in the same direction, and refer to a Pacific ‘arc of instability’ that could turn into an ‘arc of crisis’ (Dibb 2003; H Hughes 2003).

Muddling-on scenario

Duncan and Gilling (2005, pp. 8, 22) have presented a muddling-on scenario for the region.

Given the continuation of aid and existing migration opportunities, most ... should be able to muddle on, with likely continuation of the deterioration of services and increasing levels

¹⁵ See van Fossen (2005) for an alternative presentation of Pacific futures.

of poverty. With the aging of developed countries, opportunities for off-shore employment for semi-skilled and skilled labour should increase. However, there will be a continued growth of urban areas in PICs and, with the loss of younger people from rural areas, aging of populations in rural areas. Thus the safety net of the village will not be so robust and groups most likely to suffer will be elderly women and children experiencing deteriorating education and health services.

Countries most at risk under this scenario are those with projected population growth rates in the two to 2.5 per cent range: FSM, Kiribati, RMI, Solomon Islands, and Vanuatu.^[16] With their poor capacity to absorb waste, the atoll island countries, Kiribati and RMI, face alarming infectious disease burdens and poverty if populations in their major urban centres continue to grow at recent rates. The land-rich Melanesian countries, Solomon Island and Vanuatu, will be at most risk from political instability and law and order problems due to large numbers of unemployed youth and rents offered by the natural resource sectors. Poor economic growth will exacerbate these problems because the institutions expected to maintain law and order will be starved of funds.

This is a scenario in which the Pacific island countries do not thrive, but nor do they collapse. Neither the doomsday nor the muddling-on scenario presents an inspiring view of the future. But the muddling-on scenario recognises that some countries will probably do better than others and that there are two important supports for the Pacific – foreign aid and workers’ remittances (Table 4.1).

On a per person basis the Pacific islands receive the most aid of any group in the world.¹⁷ It is unlikely that aid volumes will fall in the near future. Migration opportunities, though unevenly spread across the Pacific, are increasing rather than diminishing. Tonga and Samoa are among the top-ten most remittance-dependent economies in the world. For countries such as them, remittances are more important than aid, and remittances and aid together can be as much as 70 per cent of GDP.¹⁸

Growth scenario

Aid and remittances are important sources of revenue for Pacific island governments and households respectively. Managing aid flows effectively and promoting remittances are sensible strategies for any government. But, as the history of the region shows, aid and remittances will not on their own sustain rapid growth. Under the growth scenario, a range of

16 The Duncan and Gilling (2005) study did not encompass Papua New Guinea and East Timor. If it had, it would surely have included them on this list of countries most at risk.

17 There is a debate worldwide about whether aid promotes or hinders growth (see Duncan and Gilling 2005 for a review in the Pacific context). Whatever one’s stance on this debate, the argument here is that aid provides a ‘safety net’ to the island states, preventing their collapse.

18 This is based on remittances as reported in the balance of payments. Actual remittances are believed to be much larger.

TABLE 4.1 ► AID AND REMITTANCES TO PACIFIC ISLAND COUNTRIES, 2003

	Aid per person	Aid as a percentage of GDP	Remittances per person	Remittances as a percentage of GDP
	US\$	%	US\$	%
Melanesia & East Timor				
Fiji	61	2.3	185 ^a	7 ^a
Papua New Guinea	40	6.4	1	0.2
Solomon Islands	132	25.5	4	0.0
Vanuatu	154	11.7	43	3.3
East Timor	172	44.9	...	...
Polynesia				
Cook Islands	263	3.5	...	...
Samoa	186	10.4	253	14.2
Tonga	270	16.3	650	39.2
Tuvalu	520	38.6 ^b	460 ^c	35.9 ^c
Micronesia				
Kiribati	191	31.5	73	12.0
Marshall Islands, Rep. of	991	53.9	11 ^b	0.6 ^b
Micronesia, Fed. States of	923	49.5	19 ^b	1.0 ^b
Nauru	1 242	35.5 ^b	...	...
Palau	1 295	20.6	...	...
Income group				
Low income	14	2.9	16	3.4
Middle income	9	0.5	27	1.4
Upper middle income	10	0.2	47	1.1

a Narube (2005). **b** In 2002. **c** In 2001. ... Not available.

Note: Data for Niue are not available.

Sources: OECD (2006); World Bank (2006e); Asian Development Bank (2005c).

reforms (along the lines outlined in this report, for example) are undertaken and, as a result, economic growth accelerates.

It is of course difficult to say what economic growth rates could be achieved with reform. In the Pacific, as mentioned, Cook Islands, Samoa and Tuvalu have shown the highest sustained GDP growth rates (Box 2.1). But the real success stories among small and/or remote countries come from outside the Pacific. Mauritius has already been mentioned; its GDP grew at a rate of 5.9 per cent a year between 1973 and 1999 (Box 2.3). Other examples of successful, small, island economies include Iceland, Seychelles, Singapore, St Lucia, and Trinidad and Tobago.

If the Pacific island countries grew for a sustained period at Mauritius's rate¹⁹, what sort of difference would it make? Table 4.2 presents projections of GDP per person for these countries under two sets of assumptions:

- ▶ their economies continue to grow for the next 15 years at the average rate they achieved in the past 15 years, and
- ▶ their economies advance at Mauritius's long-term annual average rate of growth (5.9 per cent).

These assumptions about growth in GDP were combined with projections of population growth from the US Census Bureau (2006) to produce the projections for GDP per person for the year 2020.²⁰

The differences in outcomes are striking (Table 4.2). For many of the Micronesian and Melanesian countries, growing at historical and high growth rates is a choice between declining and doubling income per person. For the 10 countries in these two groups, the continuation of historical growth means a decline in income per person for all except Fiji, Kiribati and Papua New Guinea. These three exceptions will see GDP per person increase by only 30, 40 and 20 per cent, respectively, over the next 15 years. For the Polynesian countries, the choice is between slow growth (increasing incomes by a half or less by 2020 if growth continues at historical rates) and rapid (doubling incomes or more by 2020 if high growth is achieved).

Which scenario will eventuate?

Clearly, only the high growth scenario will enable the Pacific island countries to meet the challenges outlined in the previous chapter. But what are the chances of it being realised? Worldwide, there is a debate over the potential of small, isolated nations (Box 4.1).

Consistent with the variety of positions in the international debate, support can be found in the Pacific for all three of the scenarios presented. Those who believe that the doomsday scenario is the most likely to be realised can point to any number of negative developments. The most dramatic of these include the rapid spread of HIV/AIDS in Papua New Guinea, the breakdown of civil order in Solomon Islands, leading to a collapse of output (GDP per person in 2005 was two-thirds of the 1995 level), and the plight of Nauru, which in 1975 had the second highest income per person in the world, but which today is bankrupt.

19 Some countries are aiming for even higher growth. The Governor of the Reserve Bank of Fiji has referred to a national 8 per cent growth target (Narube 2005).

20 Dr Satish Chand of the Australian National University provided the statistical framework for these projections.

TABLE 4.2 ► PROJECTED GDP PER PERSON IN PACIFIC ISLAND COUNTRIES IN 2020

	GDP per person, 2004	GDP per person, assuming historical growth continues ^a	GDP per person, assuming high growth is achieved ^a	Projected population growth
	US\$	US\$	US\$	%
Melanesia & East Timor				
Fiji	3 098	3 994	6 339	1.3
Papua New Guinea	695	820	1 292	2.0
Solomon Islands	513	376	913	2.2
Vanuatu	1 472	1 464	3 014	1.3
East Timor	366	136	685	1.9
Polynesia				
Cook Islands	7 549 ^b	10 094	17 086	0.7
Samoa	2 030	2 630	5 068	0.0
Tonga	2 087	2 952	4 135	1.5
Tuvalu	1 346 ^c	2 045	2 645	1.6
Micronesia				
Kiribati	633	871	1 135	2.2
Marshall Islands, Rep. of	1 803	1 242	3 393	1.9
Micronesia, Fed. States of	1 786	1 587	4 706	-0.3
Nauru	3 500 ^b	1 553	6 797	1.7
Palau	6 350	5 616	13 650	1.0

a In constant 2004 prices. **b** In 2003. **c** In 2002.

Note: Historical growth refers to the annual average GDP growth rate over the period 1990–2004. High growth is assumed to be 5.9 per cent, the annual average growth rate of Mauritius from 1973 to 1999. Data for Niue are not available.

Sources: US Census Bureau (2006); World Bank (2006e); own calculations.

Those who think that the muddling-on scenario is more realistic can point to the robustness of aid flows and the recent growth in remittances (Bedford 2003; Fry 1996; Naidu 2005). They can also note the strength of democracy in the Pacific, and its survival in the face of serious challenges in Papua New Guinea, Fiji and Solomon Islands.

Finally, those who are more optimistic about growth prospects can point to individual success stories. The performances of Cook Islands, Samoa and Tuvalu have already been noted, as has the recent return to growth in a number of other countries (Boxes 2.1 and 2.2). Fiji has shown recent growth in a number of sectors (Box 4.2). Realising the growth scenario will be a matter of sustaining and building on these recent developments. More broadly, it is a source of optimism that the Pacific island countries are still very young nations and can be expected to learn and adapt over time. Asia's economic boom should also have positive spillover effects for them.

Perhaps the biggest source of optimism is the growing consensus in the Pacific island countries that economic growth must increase if their future is to be secured. Since the mid-1990s, the Pacific island countries have been grappling with economic reforms. For example, the Asian Development Bank has assisted eight countries with reform programs focusing on economic and financial management: Cook Islands, Federated States of Micronesia, Republic of the Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.

BOX 4.1 ► DO SMALLNESS AND REMOTENESS MATTER?

There is a continuing debate over the severity of the natural disadvantages small economies face. In most of the literature the definition of smallness is based on population of fewer than 1.5 million.

Based on cross-country regression analysis, some argue that, on the whole, small countries have done no worse than large ones in terms of economic outcomes (Brugligio et al. 2005; Easterly and Kraay 2001; but see Sampson 2005 for a dissenting view). Venables (2004) argues that good management enables small states to find and prosper in the ever-changing niches that present themselves to such economies. Others have countered that smallness does entail extra difficulties and costs for effective management. Winters and Martins (2004) estimated that costs for businesses in areas such as electronics, textiles or tourism are slightly higher in small countries (3–6 per cent). Others have posited that small size makes good governance harder to achieve, since the per person cost of governance is higher, and impartiality harder to achieve in an environment of familiarity (Alesina and Spolaore 2003).

The economic literature also includes a debate on very small countries and microstates. Winters and Martins define a micro-country as one with a population of fewer than 12 000, and a very small country as one with a population of fewer than 200 000. Most of these are island states, often in remote locations. Winters and Martins have argued that this special category of countries faces much greater disadvantages. They estimate that the costs of manufacturing for businesses in electronics, textiles or tourism are much higher for very small states (14–28 per cent) and even higher (36–57 per cent) for microstates. Others point to the variety of experience among even the very small states and argue that poor governance rather than very small size is the main factor behind poor performance (Hughes and Gosarevski 2004).

While the debate continues, there is broad agreement that small economies should avoid exacerbating their natural handicaps and aim to reduce the high economic costs that beset them through domestic policy reform, regional or pooled governance, or outright integration with larger countries.

BOX 4.2 ► FIJI SUCCESS STORIES

Fiji is facing a difficult economic future because its two traditional export earners, sugar and textiles, are in decline. However, new sources of employment and export earnings are emerging to take their place.

- **Mineral water** Since capping its first bottle in 1996, Fiji Water has become one the largest exporters of water to the United States. It now earns F\$70 million (about A\$55 million)²¹ a year in exports for Fiji, the result in part of smart branding that takes advantage of the Pacific's pristine image. A second bottled-water company in Fiji, Island Chill, recently opened a plant and is making inroads into the Australian and New Zealand markets.
- **Tourism** Fiji, the Pacific's most popular tourist destination, has experienced high growth in tourism over the past five years. Visitor numbers exceeded 500 000 for the first time in 2004, 18 per cent more than in the previous year, and income from tourism is now 13 per cent of GDP.
- **Remittances** The Governor of the Fiji Reserve Bank recently noted: 'Personal remittances have surged to F\$300 million in 2004, compared to a mere F\$50 million five years ago. Remittances are now equivalent to 7 percent of GDP ... They have displaced garments and sugar ... to become the second largest source of foreign exchange earnings for Fiji [after tourism].' The Governor concluded: 'Everyone should say thank you to all our peacekeepers, security personnel, nurses, sportspersons and family members abroad for helping us pay for our imports' (Narube 2005).
- **Back-office processing** ANZ Bank has set up a Business Process Offshoring operation in Suva, and new outsourcing centres are being established. NIIT, a leading Indian corporation, is involved in a joint venture providing information technology training. More growth in back-office processing is possible if telecommunication reforms lead to better services and reduced costs.
- **Horticultural exports** Exports of horticultural products from Fiji have increased from less than 5 tonnes in 1996 to 650 tonnes in 2004. It is estimated that such exports could further increase by up to five times before reaching market saturation.

Each of these sectors faces a number of challenges, including infrastructure limitations, land tenure policy, restricted market access and, most importantly, political instability. However, they also show what is possible, not only in Fiji, but in the Pacific island countries more generally.

Sources: Kato (2005); McGregor (2006) Pacific 2020 background paper; Narube (2005).

21 Based on the average exchange rate for the year ended 31 December 2005.

Real progress has been made by some. The 2005 assessment of Vanuatu by the International Monetary Fund (2005a, p. 11) – that it ‘fulfils many of the theoretical requisites for strong economic growth: a relatively sound macroeconomic environment with low public debt, limited inflation, and an open trade regime’ – could not have been made as recently as a few years ago. Samoa and Cook Islands also stand out as having benefited from their reforms (Box 2.1).

But, clearly, not all of the reform programs have been a success; in most countries they have not had the growth payoff expected. There are various reasons for this. First, reforms so far have focused more on stabilisation than on growth-promoting structural reforms. Many Pacific island countries remain expensive and uncertain places in which to do business. Second, reform progress has been uneven, and it is only recently that macroeconomic stabilisation has been achieved. Third, some of the deeper weaknesses that afflict the countries – such as weak political governance and insecure land tenure – have been left untouched and have undermined whatever benefits have accrued from reforms in other areas.

What should Pacific island countries learn from their experiences to date? Certainly, it should be not to give up on reform, just when growth has returned to the Pacific (Box 2.2). A two-pronged approach is needed: 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). This is the approach taken in *Pacific 2020*, as it spells out both immediate opportunities, which can be grasped quickly, and the longer term, bigger challenges.

Given the diversity of the Pacific island countries, it is unlikely that one scenario will be realised by them all. It is more likely that they face differentiated futures. Some countries might thrive, others might muddle on, and others might face a doomsday of collapse. Melanesia faces special challenges because of its fragmentation and lack of access to international labour markets (except for Fiji, which has more skilled labour to export). History has also shown that Melanesia’s rich natural resources, while clearly an opportunity, can lead to instability if property rights continue to be poorly defined and enforced (Duncan and Chand 2002). The microstates also face special challenges to their viability (see Box 4.3). Although sustained rapid growth in domestic output is unlikely for at least some of them, the quality of their economic management will still be critical to their success at exploiting their economic opportunities.²²

While different Pacific island countries face different challenges, ultimately for all of them their success in generating growth and in meeting their many challenges will depend on the decisions their governments make. There are enough success stories among them and elsewhere to indicate that small, remote island countries can prosper if they have effective economic management and sound policies.

22 Several less-developed, very small countries of the world outside the Pacific have achieved viability through one or combination of the following factors: exploiting market niches such as tourism (Maldives, Seychelles, Bermuda, Dominica), migration (Comoros) or close integration with larger countries (Cayman Islands, Bermuda). Most Pacific small island states have similar opportunities.

BOX 4.3 ► THE PACIFIC'S 'SMALL ISLAND STATES'

To the casual observer, all of the Pacific island states, except perhaps Papua New Guinea, would appear to be small. But size is relative and, in the Pacific context, small means very small or 'micro' (see Box 4.1). The Pacific Plan categorises seven states out of the 14 developing countries that are members of the Pacific Islands Forum as small island states: Cook Islands, Kiribati, Nauru, Niue, Republic of the Marshall Islands, Tuvalu and Palau. Some of them are among the smallest countries in the world; Niue has a population of 1800. The largest, Kiribati, has a population of around 90 000. The combined population of the seven small island states (214 800) makes up only 2.4 per cent of the population of the developing countries in the Pacific Islands Forum.

Despite their sizes and lack of resources, most small island states are less impoverished than some of the larger and better resourced Melanesian countries. They rely to differing degrees on migration (in large part through the close association some of them have with New Zealand and the United States), aid, revenue from granting fishing access rights, and tourism.

The handicaps of the small island states severely limit their growth prospects. They face extreme geographic isolation, making transportation costs high and economies of scale impossible to realise. Size and topography make them acutely vulnerable to population pressures, natural disasters and environmental degradation. The land in most of these countries is unsuitable for anything more than subsistence agriculture or copra production.

Is *Pacific 2020* irrelevant for the small island states? Certainly some of the sectoral topics will have little relevance. More broadly, the goal of sustained rapid growth of domestic output may not be feasible for all of them. Knowledgeable observers note that some small island states 'may well face insurmountable obstacles to achieving sustainable growth and remain dependent on aid' (Duncan and Gilling 2005, p. 115). On the other hand, Cook Islands and Tuvalu have been the fastest growing Pacific island countries over the past decade (Box 2.1).

While the growth prospects of these countries vary, none of them is devoid of economic opportunities. Effective management of their economies may not lead to sustained growth in domestic production in all cases. It will, however, make the difference between success and failure in exploiting the opportunities open to them, and thus generating the income needed to meet their underlying challenges of generating jobs, financing health care, etc. This in turn will require that many of the growth challenges that *Pacific 2020* analyses (especially the common themes in Chapter 6) be addressed.



CHAPTER FIVE

Key findings

What will it take to realise a growth scenario for the Pacific island countries? The nine Pacific 2020 growth topics were selected to help find an answer to this question. This chapter presents a summary of the main findings in relation to each of them: the four crosscutting growth factors (investment, labour, land and political governance) and the five productive sectors (agriculture, fisheries, forestry, mining and petroleum, and tourism). More details on each of them can be found in Part Two.

Growth factors

INVESTMENT AND PRIVATE SECTOR DEVELOPMENT

Data on investment in the Pacific region is poor, but investment levels are generally thought to be low. Much of the investment comes from the public sector. This investment is important if well directed (to fill infrastructure gaps, for example), but ultimately it is private sector investment that will drive economic growth – not only by adding to the capital stock, but by increasing entrepreneurial capacity. Thus, when discussing investment, the focus has to be on private sector development. The private sector requires a competent government, but is discouraged by an overbearing one. Governments need to facilitate private investment, not crowd it out by being directly involved in commercial activities or by imposing burdensome regulations or excessive taxation.

Several Pacific island countries have improved their macroeconomic and fiscal performance but this in itself may not be adequate if other barriers to private investment are not tackled. Six priorities for action were identified by the Pacific 2020 process.

Tackling the problems of political instability, law and order, and corruption. Surveys of businesses on the main impediments to investment often put some combination of these underlying problems at the top of the list. More broadly, improving governance and strengthening institutions in the Pacific island countries emerged from the Pacific 2020 process as such an important priority that it is expanded on in Chapter 6 as one of the report's four common themes.

Filling the infrastructure deficit. Transport and telecommunication costs are high in the Pacific island countries. Power and water are unreliable or absent in most rural and some urban areas. Infrastructure reform came through repeatedly as a critical challenge for Pacific investors, from small farmers to foreign developers, and is expanded on in Chapter 6 as one of the report's main themes.

Developing financial markets. Credit is difficult or impossible to obtain for all but the largest businesses. Land tenure reform will be important (see below), but so will the establishment of credit information systems, now under development in Samoa and Fiji. Microfinance has enormous potential in the Pacific island countries, if it is kept out of the public sector.

Reforming legal and regulatory systems. Legal systems are outmoded, and regulatory requirements are often overwhelming. On the World Bank Group's composite 'ease of doing business' indicator the Pacific island countries range from 36th out of 155 countries (Tonga) to 142nd (East Timor), whereas the average ranking for countries in the Organisation for Economic Co-operation and Development is 22 (see Figure 8.2). The Pacific islands can ill afford cumbersome business regulations to add to their intrinsically high-cost structures.

Reforming state-owned enterprises. Governments in the Pacific island countries have not been successful in their ventures into business. Selling off enterprises would provide more opportunities for the private sector, and running those that remain in government hands along more commercial lines would make more efficient use of scarce capital.

Working with the private sector to build dialogue and capacity. More open dialogue is needed between policymakers and private sector operators. The recently created Pacific Islands Private Sector Organization is an encouraging development. Training in partnership with industry organisations to build entrepreneurial skills would also help.

LAND

No subject in the Pacific is more contentious than land tenure. In spite of the difficulties involved in land tenure reform, change is essential, not only to encourage economic growth, but also to promote stability in the face of increasing demographic pressures and the changing aspirations of citizens. The largest two conflicts seen in the Pacific since countries gained independence – the Solomon Islands and Bougainville conflicts – had their roots in land tenure. Without change, current land tenure systems will become increasingly unworkable and irrelevant.

Given the importance of customary ownership to the Pacific island countries and the sensitivity of land tenure reforms, a guiding principle for land reform should be to change land tenure only to the extent necessary. The blending of ownership at the group level with long-term leases covering the rights to use and develop land at the individual level points the way forward. Under this approach, customary groups are protected and individuals are given the security they need for investing in land development.

Change will be successful only if there is strong local support and if the necessary administrative and financial resources are available. The most sensible approach is to try not to do too much at once. The focus should be changes with the highest priority, particularly in highly populated urban areas, resource enclaves and major tourism developments. Reforms should be trialled in pilot projects before they are introduced more generally. Priorities for action include the following.

Improving the recording of land rights. An important part of land tenure reform is to record rights over lands. It is unrealistic to aim to record all customary rights. A more pragmatic approach is to aim to better record the rights of the land developers, including who has granted those rights, how benefits will be shared, and what controls will apply to the development.

Establishing an effective legal framework for land dealings. A legal framework should allow customary landowners and developers to deal directly with each other. Safeguards need to be put in place, not least to prevent exploitation. This is a proper role for government – to establish and oversee the framework for land dealings – with the state playing a regulatory role rather than a more direct, intermediary one.

Establishing dispute settlement machinery. Although one benefit of land tenure reforms should be fewer disputes over land, disputes are bound to arise under any system. Dispute settlement machinery is needed. It might involve special land courts and procedures, and should rely heavily on mediators and arbitrators.

Improving land administration services. Weak land administration is probably the main constraint on land tenure reform. Delays in granting leases and other processes inhibit development and lead to corruption. Extending the involvement of government into sensitive areas, such as the recording of interests and dealings in customary land, will be difficult when the present level of regulatory service provided by governments is so low. Government departments responsible for land and related agencies need to be reformed, and services contracted out where appropriate.

LABOUR

The employment crisis that the Pacific island countries are facing has already been outlined (in Chapter 3) and its implications for social stability noted. Creating more employment will require faster growth – the central focus of this report. Pacific labour markets are already relatively flexible. But there are a number of other employment-related issues on which governments should focus.

Protecting and building human capital. More emphasis needs to be given to technical and vocational training. Not just more but better quality training is needed, clearly linked to demand from industry. Beyond this, access to and the quality of school education systems

need to be improved. As mentioned in Chapter 3, there is also a serious health threat to labour productivity in the Pacific from a range of serious and worsening health problems – from HIV/AIDS and malaria to cancer, heart disease and diabetes.

Combating discrimination. Governments have an interest in ensuring that all citizens can contribute to the economy, regardless of gender, ethnicity or other differences. To this end, they can promote employment policies that support equal opportunity and help to change attitudes that limit the role and opportunities for women and perhaps other groups that are discriminated against in the workplace.

Integrating with international labour markets. The experience of several countries is that exporting labour can be an important strategy for development in the Pacific islands. Migration reduces unemployment and increases incentives for education, while remittances boost incomes and foreign exchange earnings, and provides working capital for domestic trading and other businesses. Governments of the Pacific island countries can promote integration with international labour markets by boosting skill levels that are in short supply both in the Pacific and in developed countries. A greater supply of skilled labour will also directly benefit the local economy. As the Philippines and Vietnam have shown, and as East Timor is attempting to do, governments can also facilitate the movement of labour overseas through bilateral negotiations and licensed migration schemes with richer countries. Governments should also liberalise restrictions on skilled immigrant labour, since the damage to domestic employment opportunities from such restrictions is large.

Boosting opportunities for self-employment. Most people in the Pacific island countries are self-employed in agriculture or other activities in the informal sector. Removing regulatory barriers that hamper the informal sector (for example, by making it difficult for street hawkers to operate) is important. Providing basic business training and information will also help and is best done through the private sector.

POLITICAL GOVERNANCE

The Pacific 2020 consultations revealed a consensus that current political arrangements in the Pacific are not delivering the desired economic outcomes. There is too much corruption and political instability, and too little pursuit of the public good. Without more effective political leadership, sustained growth will remain elusive. How such leadership can best be achieved is up to the countries to decide, but some of the ways forward are clear. The reforms presented below may not have an immediate payback. Improving political governance to strengthen accountability to the broader electorate is a long-term challenge, but perhaps the most important one facing the Pacific island countries between now and 2020.

Strengthening electoral systems, parliaments and oversight institutions. While there is no single ‘model’ electoral system, voting rules that encourage politicians to represent broad majorities rather than narrow minorities will likely assist. So too will the sort of reforms

undertaken recently by Papua New Guinea to counter party fragmentation and frequent party-hopping. Parliaments can be strengthened by educating parliamentarians and assisting parliamentary committees. To combat corruption, oversight institutions need to be adequately resourced and independent of political influence. Regional approaches can be particularly helpful in this regard. There is merit in considering the integration of formal local governance structures with local traditional leadership systems.

Using partnerships with civil society to improve governance. Governments that are serious about improving performance should encourage and empower non-state actors to perform the roles of watchdogs and pressure groups to improve government performance. One of the best ways to do this is to promote transparency and increase the amount of information put into the public domain.

Productive sectors

The importance of the five sectors studied, both individually (although agriculture, forestry and fisheries are grouped) and together, is apparent from Table 5.1. As a proportion of ‘non-government’ output – GDP minus public administration – they account for as much as 74 per cent (in the case of Palau). Annex B to this report contains more information on the importance of these sectors to the Pacific island countries.

The summaries that follow focus mainly on sector-specific issues, but also highlight the crosscutting growth factors that are especially important for the particular sector being considered.

AGRICULTURE

Agriculture provides more employment than any other sector in the Pacific island countries. It employs as much as 80 per cent of the workforce in Papua New Guinea and Solomon Islands. Productivity improvements in the agricultural sector would generate surpluses that would help to shift farmers from subsistence to the cash economy, and would lead to increases in income and savings, which could fuel growth in other sectors. Yet agriculture is operating at well below potential. Available data indicate that, for the Pacific island countries as a group, total agricultural output stagnated over the period 1990–2003. The problem is not a scarcity of opportunities for agriculture. There are both domestic opportunities for supplying urban and tourist markets and export opportunities for traditional tree crops and new horticultural and spice products.

Why are these opportunities not being grasped? Of the crosscutting growth issues summarised in this chapter, infrastructure emerged as a particularly important constraint for agriculture. For example, the establishment of the Highlands Highway in Papua New Guinea in the mid-1960s led to the coffee industry becoming the country’s largest source of rural income

TABLE 5.1 ► RELATIVE IMPORTANCE OF SELECTED SECTORS TO GDP IN PACIFIC ISLAND COUNTRIES, 2002

	Agriculture, forestry and fisheries	Mining	Tourism	Sectors as a percentage of non-govt GDP
	%	%	%	%
Melanesia				
Fiji	15.9	0.9	12.8	37.0
Papua New Guinea	33.1	16.1	6.3	61.7
Solomon Islands	12.1	...	2.9	...
Vanuatu	15.4	neg.	16.6	37.5
Polynesia				
Cook Islands	11.9	neg.	47.0	66.6
Samoa	14.6	neg.	9.5	26.2
Tonga	27.7	0.4	14.7	51.2
Micronesia				
Kiribati	5.8	neg.	14.5	35.6
Marshall Islands, Rep. of	10.4 ^a	0.3 ^a	...	...
Nauru	18.8	2.4	...	...
Palau	4.0	0.2	49.0	74.0

^a In 2001. **neg.** Negligible. ... Not available.

Note: Data for Niue, Federated States of Micronesia and Tuvalu are not available.

Sources: Asian Development Bank (2005d); South Pacific Tourism Organisation (2006a).

(Allen 2001, p. 543). However, in 2004, 30 per cent of the country's coffee yield could not be marketed due to the poor condition of the road network. Three sector-specific priorities for accelerating agricultural growth were also highlighted.

Getting new technologies and more market information to farmers. Limited access to the latest technology and market information is constraining agricultural growth. In many countries, there is little point trying to rehabilitate the traditional, but now often defunct, extension functions of departments responsible for agriculture. The future lies in contracted-out (or, where possible, industry-led) research and extension for export crops, as well as for domestically marketed and subsistence food products.

Removing distortions against agriculture. It is now well recognised that macroeconomic policy settings should not discriminate against agriculture. But microeconomic policies are just as important. Governments should allow markets to flourish, rather than impose monopolistic purchase arrangements on farmers.

Facilitating market access. Quarantine is currently a weak link in the export marketing chain for Pacific island countries. To prosper, the agricultural sector requires an acceptable level of quarantine security for both exports (to gain access to export markets) and imports (to allow safe imports of improved agricultural technologies). This can perhaps best be achieved through a regional approach, as envisaged by the Pacific Plan's Regional Trade Facilitation Programme.

FISHERIES

The Pacific island countries control massive fishery resources. But oceanic fisheries are approaching the limits of sustainability after decades of steady growth in catches, and coastal fisheries are facing environmental risks. Misgovernance in the fisheries sector is manifest in weak management. The main sectoral priorities for oceanic and coastal fisheries as well as aquaculture follow.

Increasing value rather than volume. The recent establishment of the Western and Central Pacific Fisheries Commission makes the timing favourable for some bold, innovative approaches to increasing the benefits from access to fishery resources. The opportunities include granting longer term, more secure, more valuable access rights either to earn higher access fees or to leverage domestic development. Additional opportunities lie in reciprocal access arrangements between Pacific island countries and in dealing with individual boat-owning companies (instead of foreign fleets) and making them compete against each other through tendering and auctioning processes.

Improving transparency in the sector. Regional organisations should take the lead in promoting greater transparency in the sector. Publicly disclosing licensing details would reduce corruption, and help the countries of the region drive better deals.

Strengthening private sector organisations. Stronger private sector organisations would be able to put pressure on governments to perform and could help with negotiating international frameworks. The establishment in 2005 of the Pacific Islands Tuna Industry Association is a welcome development in this regard.

Developing fisheries management and technical skills. A partnership between government and industry to promote training would help to empower workers in the sector to participate more fully and effectively in the fisheries business over the whole range of fishing, marketing and processing activities.

Maintaining the health of coastal fisheries through community involvement by drawing on regional success stories. In the Pacific, there are recognised successes in improving coastal fisheries management. Fiji's legal recognition of community fishing rights is probably the most comprehensive in the world, and Samoa's Community Fisheries Programme has become a global model.

FORESTRY

Forestry raises as many questions about the management of growth as it does about its acceleration. Natural forestry and plantation forestry present governments with very different mixes of opportunities and challenges.

Shifting to sustainable levels of natural forest logging. The four Melanesian countries have important natural forestry sectors, but they are in crisis. Vanuatu and Fiji show that sustainably harvesting natural forests is possible. But natural forest logging in Papua New Guinea and Solomon Islands is unsustainable and bound to decline in the coming years. These countries need to decide whether this decline will be managed. Will governments maximise the long-term revenue and environmental benefits from sustainable logging or, as currently, allow their cheap and quick destruction for short-term gain? To put forestry on a sustainable footing in the Pacific islands region will require a fundamental turnaround in sectoral governance arrangements, including better implementation of existing policy and legal requirements.

Developing plantations. Growth opportunities in forestry will come only from new plantations. Fast-growing, speciality, small-wood plantations offer an economic opportunity. The establishment of large plantations will require issues associated with land tenure to be addressed, but community-level plantation forestry projects, such as those under which trees are allocated to individual households, hold considerable potential. Systems of certification would help exporters gain access to niche markets.

MINING AND PETROLEUM

Papua New Guinea, Solomon Islands and East Timor are the three Pacific island countries with significant mineral and petroleum reserves. Many of the other countries may also find deep seabed mining an important source of revenue in years to come. ‘Striking it rich’ should be a blessing, but all too often it has proved to be a curse. Mineral reserves can provide developing countries with access to large revenue inflows, but, in the absence of good governance, can lead to environmental damage, corruption and instability. Nauru presents a tragic tale of resource dependence gone wrong. The Pacific 2020 process identified three main priorities for maximising the benefits from mineral and petroleum resources and turning mineral developments into positives rather than negatives.

Managing mineral revenues equitably, effectively and transparently. Mineral policy frameworks should clearly identify the ultimate beneficiaries of a country’s mineral resources. These should justify not only the pattern of distribution within the current generation, but also the investment of a portion of the revenues for the benefit of future generations. Where resource revenues are large, a significant portion should be kept for future generations under arrangements that ensure intergenerational equity and safeguard against the risks of corruption and poor political governance. There are no clear principles for dividing revenues between local stakeholders and the citizenry at large, except that the shares should be

transparent and if possible rules-based rather than discretionary. Transparency is essential if mineral revenues are to be effectively managed. East Timor has set a good example by joining the Extractive Industries Transparency Initiative and establishing the Petroleum Fund, which aims to spread the returns from the country's massive petroleum revenue over time.

Developing robust policy frameworks for extractive industries. The experience of Papua New Guinea over the past decade suggests that an unfriendly or unstable fiscal regime will deter foreign investment in the mining and petroleum sector. The recent upturn in exploration spending in Papua New Guinea is due in part to high commodity prices but also to an overhaul of the fiscal regime and the introduction of fiscal stability agreements in 2000. Looking forward, regulations need to be developed to govern deep seabed mining, including the definition of sea boundaries.

Strengthening government administration. Robust policy frameworks require more than good policies; they also require good designers and implementers. Major resource projects cannot move forward without inputs from several government agencies. But government mining agencies are weak and getting weaker. This needs to be reversed with assistance from both donors and private partners.

TOURISM

Many Pacific islands are unlikely to be competitive in basic manufacturing because their remoteness and small sizes lead to significant cost disadvantages (Box 4.1). They need to find 'niche' activities where, in return for differentiated or exclusive products, they can charge the high prices needed to cover their high costs and risks.

Tourism provides an excellent example. A variety of Pacific destinations, in both the smaller and larger countries, can be marketed globally on the basis of their unique features or general attractions. Despite tourism's high growth potential, to date tourist arrivals in the Pacific island countries have grown slowly. From 1999 to 2004, annual arrivals rose from 0.7 million to an estimated 0.9 million. These numbers make Pacific tourism a small business by global standards, even compared with other island destinations. But growth in recent years has improved, and the experience of countries such as Fiji and Cook Islands provide ample demonstration of what can be done in the broader region.

Addressing external constraints. A major obstacle to boosting tourism in the Pacific is weak infrastructure. Getting to the Pacific island countries has to be made easier and cheaper by running aviation along more commercial and competitive lines. Reputations for social and political instability, disease risks and high crime rates also deter tourists. In some countries, land tenure problems need to be addressed if new tourist sites are to be developed. And foreign investment needs to be welcomed. Addressing these external constraints to tourism will give it an enormous boost.

Developing national tourism policies. Governments need to develop and implement coherent tourism policies to ensure cross-sectoral coordination and to provide forums in which sensitive but legitimate concerns such as the impact of tourism on the environment and local culture can be debated.

Providing tourism-related training. Tourism is a relatively labour-intensive industry, and training in a range of tourism-related professions will help to maximise the employment benefits of tourism.

Improving marketing and data. Tourist operators can be left to promote their own services, but governments and industry need to work together to market their individual countries and/or the Pacific as a whole, and to improve the information base for tourism.



CHAPTER SIX

Common themes

The aim of the Pacific 2020 process was not only to study each of the nine growth topics selected, but also to look across them to see what their combined examination revealed. Four themes emerged as critical for growth: governance and institutions, infrastructure, integration and regional cooperation, and implementation.

Governance and institutions

Variable standards of governance have produced at their worst instability, violence, corruption and a breakdown of the democratic process. These problems have exacerbated the generally slow pace of economic growth and, in some cases, led to economic decline. Poor governance has a direct impact on the lives of Pacific people.

Eminent Persons' Group (2004)

A clear message from the Pacific 2020 process is that reform strategies have to give much more attention to institutions than they have to date if they are to be successful in establishing an environment that is conducive to economic growth.

The Pacific 2020 background papers all highlighted the poor performance of institutions as an important barrier to growth. This does not mean that various organisational structures are deficient. Rather, more broadly, it means that the basic 'rules of the game' that affect economic activity in the Pacific are not conducive to growth (North 1991). For example, the background paper on private sector investment (Holden 2005) stated that 'Many foreign investors have been so discouraged by the processes accompanying investment applications that they have simply taken their projects to other parts of the world, or given up altogether'. The fisheries paper (Clark 2006) found that 'weaknesses in national governance are a key constraint to improving the use of the region's fish stocks', and pointed to a range of governance-related constraints, including 'policy instability, slow immigration processes, investment insecurity, administrative blockages, corruption and poor dialogue between government and industry'.

Internationally, there is increasing recognition that institutions determine long-run prospects for economic growth.²³ The quality of institutions is likely to be particularly important in the Pacific

²³ 'There is now widespread agreement among economists studying economic growth that institutional quality holds the key to prevailing patterns of prosperity around the world' (Rodrik 2004b).

island countries, since other typical constraints to growth – lack of savings and foreign exchange shortages – are usually absent because of large aid and remittance flows and resource rents.

Worryingly, however, international governance indicators normally result in the Pacific island countries being scored on the low side. Indeed, some are classified as ‘fragile states’, to use the international development jargon. Table 6.1 shows the ranking of the Pacific island countries in relation to three of the governance indicators calculated by the World Bank: government effectiveness, rule of law and control of corruption. Samoa and Palau are the only two countries that come in the top half of the ranking on all three indicators. The others are below average on at least one indicator, and some on all three.

TABLE 6.1 ► GOVERNANCE INDICATORS FOR PACIFIC ISLAND COUNTRIES, 2004
RANKINGS OUT OF 209 COUNTRIES, FROM BEST (1) TO WORST (209)

	Government effectiveness (209 countries)	Rule of law (208 countries)	Control of corruption (204 countries)
Melanesia & East Timor			
Fiji	141	109	94
Papua New Guinea	177	157	168
Solomon Islands	206	187	193
Vanuatu	144	102	128
East Timor	188	135	106
Polynesia			
Cook Islands	105	71	102
Samoa	86	69	84
Tonga	156	104	140
Tuvalu	159	56	153
Micronesia			
Kiribati	145	86	89
Marshall Islands, Rep. of	132	105	157
Micronesia, Fed. States of	119	81	107
Nauru	197	51	...
Palau	72	52	...
Income group			
Low income	175	164	156
Lower middle income	125	123	117
Upper middle income	77	79	74

... Not available.

Note: Government effectiveness measures the competence of the bureaucracy and the quality of public service delivery. Rule of law measures the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence. Control of corruption measures the exercise of public power for private gain, including both petty and grand corruption and state capture. Data for Niue are not available.

Source: World Bank (2006f).

What sort of institutions need to be strengthened in these countries? The Pacific 2020 process found five answers to this question.

- ▶ Politics matters for growth, and the underlying political institutions need attention because of their influence on all other institutions of the state.
- ▶ Government institutions responsible for delivering law and order and macroeconomic stability need to be strengthened, and governments need to 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.
- ▶ Environmental institutions have an increasingly important role in managing growth in the Pacific island countries because of the serious environmental challenges faced not only by forestry and mining, but also by fisheries, agriculture and tourism.
- ▶ Educational institutions need to be able to ensure better outcomes. A better educated populace is important for strengthening political governance, improving labour productivity and expanding the supply of entrepreneurial skills.

It is easier to recommend that institutions be strengthened than it is to actually strengthen them. It is one thing to know that property rights need to be protected; it is another to know the best way of going about it in a particular country. Progress will be possible only if, as the Prime Minister of Samoa has put it, the concept of governance is ‘nurtured in a Pacific context’ rather than treated ‘as some foreign ideal’ (Tuilaepa 2004).

It can be especially difficult for small countries to develop effective institutions. The alternative approach is to rely on the institutions of other countries. This can be done either by developing regional institutions, which is the approach of the Pacific Plan (see Box 6.3), or by importing institutions from other countries. Both of these approaches have a lot to commend them. The importance of taking a regional approach to institution building arose repeatedly during the Pacific 2020 process, and is further developed in this chapter in the section on integration and regional cooperation.

Infrastructure

Pacific countries generally have lower levels of access to telecommunications, electricity, improved water and sanitation than similar countries with the same level of income such as the Caribbean Islands.

Castalia Ltd (2006, p. 15)

From one point of view, the challenge of improving infrastructure is part of the broader problem of improving institutional performance. Yet infrastructure emerged so consistently from the various Pacific 2020 studies as a fundamental constraint to growth in the region

that it demanded to be identified as a separate priority. For example, the background paper on employment (Hess 2006) noted that the ‘cost of utilities, especially power and telecommunications, has long been a problem for businesses based in the region as has the timeliness and reliability of connections’. Transport infrastructure is particularly important for the geographically dispersed countries of the Pacific. Box 6.1 illustrates the transformative nature of roads in particular with an example from Papua New Guinea.

**BOX 6.1 ► THE CONTRIBUTION OF ROADS TO THE DEVELOPMENT OF PAPUA NEW GUINEA:
A PERSONAL ACCOUNT**

Dr Thomas Webster, a former Provincial Administrator of Western Highlands Province of Papua New Guinea, provides a first-hand account of the impact of roads in the region.

My own home area is a valley with a road leading off the Highlands Highway for about 15 kilometres to the foothills of the mountains to the south. This gravel road was impassable in the mid-1990s. Vehicles were left near the highway and people walked to reach the foothills where the bulk of close to 10 000 people live.

People could not carry coffee bags to the highway, so several coffee estates, which were developed on a cooperative basis by clan groups, went to bush and others ignored their family coffee plots.

Then towards the end of 1997, the provincial government upgraded and sealed 10 kilometres of that road. It transformed the whole community. The usual morning-to-dusk gambling (playing cards) and idling by the road side in small groups were no longer visible. People tended to their gardens and were busy growing and harvesting to take produce to the Mt Hagen market, about 30 kilometres away. Public buses came into the community to pick up and drop off passengers. There was a lot of buying and selling in the local markets as well, with more money circulating.

At the provincial administration level, the impact of road improvements in the province could also be felt. The provincial government’s 3 per cent sales tax collections in 1998 increased to 1 million kina a month from about 600 000 kina a month. Local business flourished and prospered, and everyone benefited.

Now the road to my home has deteriorated due to a lack of maintenance, like most of the roads in Western Highlands Province. People cannot easily access markets because the buses no longer travel in from the Highlands Highway. There has been a slump in the money circulating within the local community and even the business houses in Mt Hagen are feeling the pinch.

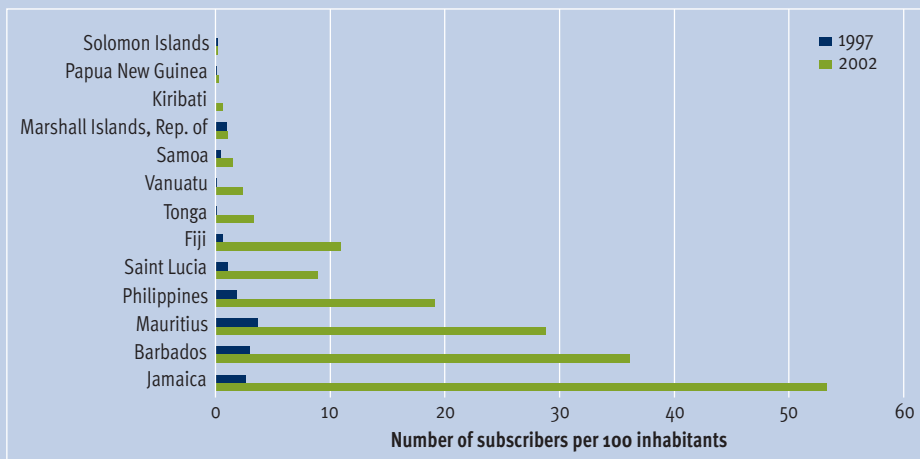
Source: Dr Thomas Webster, National Research Institute, Papua New Guinea.

The infrastructure problems faced by the Pacific island countries and their possible solutions are considered in more detail in the investment section of Chapter 8. At this point, it suffices to note that infrastructure in the Pacific greatly lags that in the Caribbean. The differences are not due solely to geography; they also reflect poor management. In particular, as Box 6.2 shows, the Pacific islands appear to be missing the mobile phone revolution. This example brings home the point that it is not just a matter of funding; of equal or more importance are infrastructure policies.

BOX 6.2 ► MISSING OUT ON THE TELECOM REVOLUTION?

Far from being luxury items, mobile phones have the potential to greatly boost livelihoods and incomes in developing countries by, for example, greatly expanding access to market information. Yet, as the figure below suggests, the telecommunications revolution seems to be passing the Pacific islands by. Mobile coverage is limited and rising slowly compared with other countries.

MOBILE TELEPHONY IN THE PACIFIC (MAINLY LOW AND STAGNANT) AND ELSEWHERE (RISING RAPIDLY)



What has driven the telecommunications revolution in other countries is the introduction of competition. The Pacific has by contrast generally relied on monopolies. Are the Pacific island countries too small to allow competition? The experience of the Caribbean islands suggests otherwise. So do recent developments in Tonga. Within a year of introducing competition for mobile telephone services, the tariff for almost all services dropped by more than 20 per cent and the numbers of mobile subscribers and internet users both doubled.

Source: Castalia Ltd (2006).

Integration and regional cooperation

We now live in a so-called globalised world and our efforts to reduce or adapt to its negative impacts will continue to test our resilience. What is clear is that globalisation, even if it does deal an unfair hand to small island economies, is here to stay. There is not much else to do but accept the challenge and exploit to the full opportunities globalisation offers to our island nations. For example, the globalisation of the financial system means that investors can more easily invest outside their own countries. It is up to our governments to work with our private sectors to attract some of this investment capital to work for our small economies.

Hon. Tuilaepa Aiono Sailele Malielegaoi, MP, Prime Minister of Samoa (Tuilaepa 2004)

Integration and cooperation are not options for the Pacific island countries, but necessities borne of their small sizes. Regional cooperation has a long history in the Pacific, and has recently received a boost through the Pacific Plan (see Box 6.3), which many interpret as a milestone in the region's history. *Pacific 2020* has not sought to duplicate the Pacific Plan, but regional cooperation certainly emerged as a strong theme from the nine roundtables, and this report highlights several areas that lend themselves to regional approaches.

Many of the immediate priorities for regional cooperation highlighted by the Pacific Plan received support from the studies of the nine growth topics, including quarantine, air and shipping transport, partnerships with private sector organisations, technical education, and good governance. Regional approaches can also be used to promote peer review and to lock in reform commitments based on clear cross-country benchmarks. The regional agreement to target reductions in various *Doing Business* indicators is a good example in this regard (see p. 79).

BOX 6.3 ► THE PACIFIC PLAN

The Pacific already has a strong network of regional institutions. By endorsing the Pacific Plan at their 2005 summit in Papua New Guinea, the 16 leaders of the Pacific Islands Forum countries made a powerful commitment to deepening regional approaches.

The Pacific Plan is based on the concept of regionalism: 'countries working together for their joint and individual benefit'. It is built around four themes: economic growth, sustainable development, good governance, and security through regionalism. It provides a comprehensive roadmap of opportunities to enhance regional cooperation, to share experience and expertise and to pursue greater integration. It includes 24 initiatives for implementation over the next three years, and a range of other initiatives for further analysis and/or later implementation.

While a range of benefits are expected, 'regional approaches to overcoming capacity limitations in service delivery at a national level, and increasing economic opportunities through market integration are expected to provide the greatest gains'.

Source: Pacific Islands Forum Secretariat (2005).

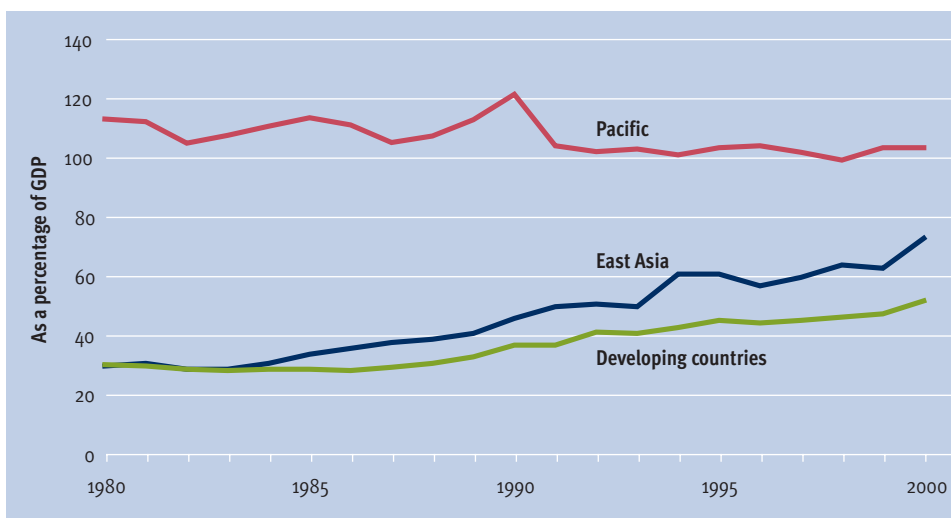
The Pacific Plan is not only about promoting regional approaches to delivering government services, but also about international economic integration. The small sizes of the Pacific island countries mean that they will always rely heavily on imports, and therefore will always need to export.

The region has already demonstrated that it can compete in global markets. The success stories included in the Pacific 2020 background papers include copra and cocoa in Melanesia, coffee in Papua New Guinea and East Timor, squash in Tonga, horticultural products including root crops in Fiji and the Polynesian countries, vanilla in Papua New Guinea and Tonga, tourism in Fiji, Vanuatu and Cook Islands, and oceanic fisheries, especially tuna, across the region.

However, to date, such cases have been the exception rather than the rule. Because the Pacific island countries are small countries, they have high levels of trade relative to output. Yet, unlike the rest of the developing world, and especially its faster growing parts such as East Asia, the ratio of trade to GDP in these countries is stagnant if not falling (Figure 6.1).

Openness is increasing in the Pacific in terms of trade barriers, which are tending to fall as part of the various reform programs implemented in the region (Asian Development Bank 1999b; World Bank 2002). But international experience shows that, while no country has integrated without reducing tariffs, simply reducing tariff barriers is not enough (World Bank 2005d). The ‘behind-the-border’ prerequisites for investment (law and order, infrastructure, etc.) also have to be met.

FIGURE 6.1 ► TRADE IN GOODS AND SERVICES



Data source: World Bank (2006e).

Given the importance of remittances, integration in the Pacific context extends beyond trade in goods to integration into the global labour market. This is particularly important for the microstates, which lack domestic economic opportunities (Box 4.3), and for Melanesia, because of its rapid population growth. (The labour section in Chapter 8 discusses how Pacific island governments can facilitate labour mobility.)

One path to economic integration is through the negotiation of free trade agreements between Pacific island countries, but more importantly with developed trading partners such as Australia and New Zealand. As a number of studies have noted (Scollay 2005; Stoeckel 1999; World Bank 2002), the Pacific island countries are not natural trading partners and integration with larger economies will do more to help growth. Given their heavy reliance on trade in services (including the export of labour and consequent remittance flows) and their need for foreign investment, it is in the interest of Pacific island countries to seek free trade agreements covering goods, services and investment.

In May 2005 the Pacific Islands Forum trade ministers agreed that there was a need to move towards a more comprehensive framework for trade and economic cooperation among Forum member countries. The Pacific Agreement on Closer Economic Relations, initiated by the Pacific Islands Forum leaders in 2001, provides a mechanism for negotiating such a framework. Investigating the potential impacts ‘of a move towards a comprehensive framework for trade (including services) and economic cooperation between Australia, New Zealand, and Forum Island Countries’ is among the Pacific Plan’s priorities.

Implementation

The analysis of the current positions, the determination of future development objectives and the formulation of appropriate strategies and policies which the islands should firmly put in place in pursuit of such objectives are relatively easy to do. Numerous economic analyses and accompanying recommendations for island authorities have been carried out by multilateral financial institutions, United Nations bodies, donor countries, academics and island government agencies. But the weakness has always been and will continue to be in the implementation of required policies.

Savenaca Siwatibau (1994, p. 47)

Perhaps the single clearest message from the Pacific 2020 process is that poor implementation of policies is the most serious constraint to successful reform and thus rapid growth. The most obvious case brought to light was in forestry, where the core problem was summarised in the background paper as the ‘failure to effectively implement policy and enforce existing legal requirements’ (Bond 2006).

Poor implementation is also a problem that afflicts reforms. Often, implementation is slow because reforms are externally imposed. Equally, reform programs can remain

unimplemented because governments know that donors will continue to provide them with aid regardless of performance.

Ultimately, the implementation of growth-promoting policies is a function of government ownership, which in turn requires shared understanding and commitment. This is one very important lesson East Asia can teach to the Pacific, the many differences between the two regions notwithstanding (Box 6.4).

What can be done to deepen reform ownership? First, it needs to be recognised that economic reforms and growth are going to falter if they are thought of as one-shot endeavours that can be engaged in without sacrifice. Starting reforms in one sector eventually implies buttressing them with additional reforms in other sectors. Second, all stakeholders need to have reasonable hope that they will benefit from the reforms. Not only should the benefits of

BOX 6.4 ► CAN THE PACIFIC LEARN FROM EAST ASIA?

Despite East Asia being the fastest growing region in the world since the Second World War, it is sometimes said that it is too different from the Pacific islands region to be of relevance. Certainly, the geographies of the two regions are fundamentally different. But, if in no other regard, the Pacific can learn from the East Asian approach to growth.

Various studies have highlighted the features behind rapid growth in East Asia – export orientation, macroeconomic stability, employment creation, education, and a favourable environment for private investment. They have also noted the central political commitment of East Asian countries to growth. These countries concentrated on sharing the benefits of growth (for example, providing basic education for all), but they ensured that there was growth to be shared by taking a long-term view and adjusting policies that were not working.

One commentator (A Hughes 1998) has aptly summed up the Asia – Pacific island comparison as follows:

Economic management in a democracy depends on building and maintaining a broad consensus as to goals and how to achieve them. In most Pacific islands such consensus has evaporated since the rather clear and popular goal of political independence was achieved. The Asian experience underlines not only the role of effective government, but the importance of being collectively able to look beyond a three or four-year electoral horizon, to base economic strategy on a consensus of political, commercial and community interests, and to sustain policies that forgo current consumption long enough for the benefits to be realised in improved living standards. The Pacific islands' experience tends to support this proposition by default.

Sources: A Hughes (1998); Zaghera and Shvets (2004).

reform be widely shared (the East Asian experience also brings out the importance of this), but its unwanted consequences should be contained. Third, strong and genuine community consultation and participation are needed to promote a shared understanding and ownership (see Box 6.5 for a recent example from the Republic of the Marshall Islands). Fourth, and finally, successful reforms depend on ‘drivers of change’ – those who have the political will, show strong leadership, and are able to mobilise local resources in a consensual way.

BOX 6.5 ► PROMOTING DIALOGUE IN THE REPUBLIC OF THE MARSHALL ISLANDS

The Republic of the Marshall Islands, with support from the Asian Development Bank, has held a series of retreats for members of government and members of the private sector and civil society on what reform means and how to implement it. The first retreats were devoted to increasing the understanding of group members and their ability to communicate. Subsequent meetings have explored various reform options. Although the process requires constant effort and resources, it illustrates what can happen once policymakers, donors and private sector operators begin to move past what to reform and start to concentrate on how to implement reform.

Ownership, however important, is not enough for good implementation. Commentators note that the Pacific is full of ‘good locally-owned policies that have not been implemented’ (Duncan and Gilling 2005, p. 8–29). There are several things that will improve implementation in the Pacific island countries, in addition to greater ownership of and commitment to reforms.

Providing assistance and mentoring to reform champions and implementers will certainly improve implementation. Difficulties in implementation often reflect a lack of capacity. The background paper on mining notes the sharp decline in capacity to manage mining in Papua New Guinea (Filer 2006). Many governments in the region find it difficult to hire skilled staff.

Establishing monitoring frameworks will also assist in implementing reforms. The Pacific Forum Economic Ministers Meeting of 2005 committed the Pacific island countries to halve by 2007 several of the ‘cost of doing business’ indicators. Such an approach enables progress to be monitored, which in turn can keep the pressure on implementation.

Perhaps the biggest boost to implementation will come from the development of realistic and prioritised ‘implementable’ reform agendas.²⁴ The background paper on land notes that the main lesson from previous attempts at land tenure reform is ‘not to be too ambitious’ (Fingleton 2005). And the Pacific 2020 paper on regional agreements notes that the large number of action points embedded in the Pacific Plan ‘raises questions about the domestic capacity of PICs

²⁴ As noted in Chapter 1, *Pacific 2020* is not intended to be an action plan and has certainly not gone through a process to prioritise actions. National growth action plans could draw on *Pacific 2020* findings, but will need to be country-specific and to take into account economic as well as political constraints and opportunities.

to successfully implement them all' (Australian Treasury 2006). Recent international opinion also stresses the importance of prioritising growth-promoting reforms, and tackling the most 'binding constraints' first (Hausmann, Rodrik and Velasco 2005).

While ownership will help with implementation, successful implementation will reinforce commitment to and ownership of reforms. This is especially the case when reform implementation plans target some 'early wins', such as telecommunication deregulation, which could quickly demonstrate the benefits of reform (Box 6.2).

Aid donors have a special responsibility in relation to implementation, since they are often tasked with assisting it. While external technical assistance can play a useful role in helping to introduce reforms and build local capacity, the reforms being attempted must be demand driven and feasible if they are to have any sustained impact. Too many reform efforts are donor led and, perhaps as a result, overly complex and ambitious. Donors must also ensure that they promote reform by rewarding good performance.



CHAPTER SEVEN

Conclusion

It takes time for an economy to respond to new incentives. It takes time for potential emigrants to realise that new opportunities exist at home rather than in countries to which many of their fellow citizens have migrated. It takes time for financial institutions to adapt their lending practices to the realities of reformed debt collection procedures. And it takes time for the beneficial effects of one policy reform to spill over into other areas or sectors of the economy. That the process may be lengthy is not an argument against beginning reform immediately but it is important to bear in mind that patience and perseverance are essential.

Paul Holden (Asian Development Bank 2004b, p. 173)

After two decades of slow growth, the Pacific island countries are ill placed to meet the various challenges now confronting them. Only rapid growth will solve the countries' problems of unemployment and joblessness, which are causing poverty, frustration and, in some cases, social instability. Only growth will generate the income to enable their citizens and governments to confront their serious and worsening health, environmental and urbanisation problems. There are not many choices for the Pacific. The possibility of further collapses (beyond Solomon Islands and Bougainville) is real. Muddling on, dependent on aid and remittances, will not be enough.

Pacific 2020's studies of growth factors and productive sectors have highlighted the constraints and handicaps of the countries in the region and have delivered many sectoral and economy-wide insights. The importance of governance and institutions, infrastructure, integration and regional cooperation, and implementation emerged repeatedly. The summaries provided in Chapters 5 and 6 need not be repeated here. But three final points may be worth stressing.

First, managing economic growth is as important as generating it, since only well-managed growth can be sustained, as the examples of the forestry, mining and tourism sectors illustrate.

Second, both the experience of East Asia (Box 6.4) and the importance of equity to the Pacific islanders suggest that commitment to creating opportunities for all to participate in growth (for example, by providing universal education) will be critical to growth.

Third, for reforms to achieve results, they need to be accompanied by perseverance and patience and to be approached as a long-term project that has only just begun.

Whether the current benign conditions of macroeconomic stability and at least modest growth become the turning point in the history of the Pacific islands and the start of a period of sustained growth remains to be seen, and will ultimately be determined by the countries themselves and their leadership. Success will mean different things for different Pacific island countries, but there is certainly a success story to be lived out by every country, from the largest to the smallest.

2

PART TWO

Growth topics

PART TWO PROVIDES MORE DETAIL ON EACH OF THE NINE PACIFIC 2020 GROWTH TOPICS.

IT DRAWS PRIMARILY ON THE PACIFIC 2020 BACKGROUND PAPERS AND THE ROUNDTABLES AT WHICH THEY WERE DISCUSSED.



CHAPTER EIGHT

Growth factors

This chapter covers four crosscutting ‘growth factors’ of importance to growth whatever the sector. Three of them are the traditional factors of production – investment (or capital), labour and land. The fourth is political governance, an underlying determinant of both the supply and the productivity of the traditional factors of production.

Investment and private sector development

The relationship between the private sector and government has always been a relationship where government wants the private sector to be the engine of growth, create employment and make sure there’s training and all that paraphernalia that investment takes on. From the perspective of the private sector, the business community wants the government to be more transparent, to think long term and to provide a climate for investment to take place.

Mel Togolo, Vice-President, Papua New Guinea Business Council (2003)

Public sector investment is important if well directed (to fill infrastructure gaps, for example). Ultimately, however, it is private sector investment that will drive economic growth in the Pacific island countries – not only by adding to the capital stock, but also by increasing entrepreneurial capacity. Indeed, there is widespread recognition among Pacific island leaders that the increases in prosperity necessary to generate jobs and income opportunities cannot be achieved without a dynamic private sector.

In the mid-1990s, several Pacific island countries began to adopt wide-ranging reform programs. More recently, at the 2004 and 2005 Forum Economic Ministers Meetings, the ministers committed to adopting private sector friendly policies. Macroeconomic stabilisation has made considerable progress, but implementation of structural reforms less so. Infrastructure services are limited and expensive. Recent *Doing Business* indicators of the World Bank Group show the region remains a relatively costly place to do business in terms of such measures as the costs of starting, running and closing a business. In some countries, political instability is at ‘disastrously high levels’ (Duncan and Gilling 2005), and in some law and order issues and widespread disease are inhibitors to investment. The result is that investment levels are disappointing and many entrepreneurs have left to seek opportunities elsewhere.

Private sector development requires a competent government, but is discouraged by an overbearing one. Governments need to facilitate private sector investment, not crowd it out by being directly involved in commercial activities or by imposing burdensome regulations or excessive taxation. Clearly, the details of a reform agenda will be country specific. The broad issues surrounding private sector development, however, are similar in virtually all Pacific island countries.²⁵

TACKLING THE UNDERLYING PROBLEMS OF POLITICAL INSTABILITY, LAW AND ORDER AND CORRUPTION

In mid-2001 Vanuatu's Chamber of Commerce surveyed businesses and asked what they saw as the biggest problems hindering private sector investment in the country. Policy instability and corruption were cited as the top barriers, followed by a lack of confidence in the ability of the legal and judicial institutions to protect investment, particularly land-based investment (Chand 2002). A survey in Papua New Guinea found political instability, the breakdown of law and order, and corruption to be the main constraints on investment cited by business (Manning 2005).

Not addressing these issues is perhaps the reason why reforms adopted so far have not had a more discernable impact on economic growth. There are no easy solutions, but improving the broader environment for investment has to be part of the growth agenda in the Pacific island countries. The discussion of governance and institutions in Chapter 6 and of political governance later in this chapter is relevant in this regard.

STRENGTHENING INFRASTRUCTURE

Government policies in Pacific island countries often exacerbate the already significant disadvantages stemming from their remoteness. Inefficient ports raise the costs of sea transport. Air transport costs are high because many governments own airlines and restrict access by foreign carriers. Internally, governments often own both inter-island shipping and air services, crowding out private operators. Infrequent high-cost service harms the tourism sector as well as agriculture and fishing in the outer islands. Roads are often in very poor condition, making it difficult if not impossible to get goods to markets and information to farmers (Box 6.1).

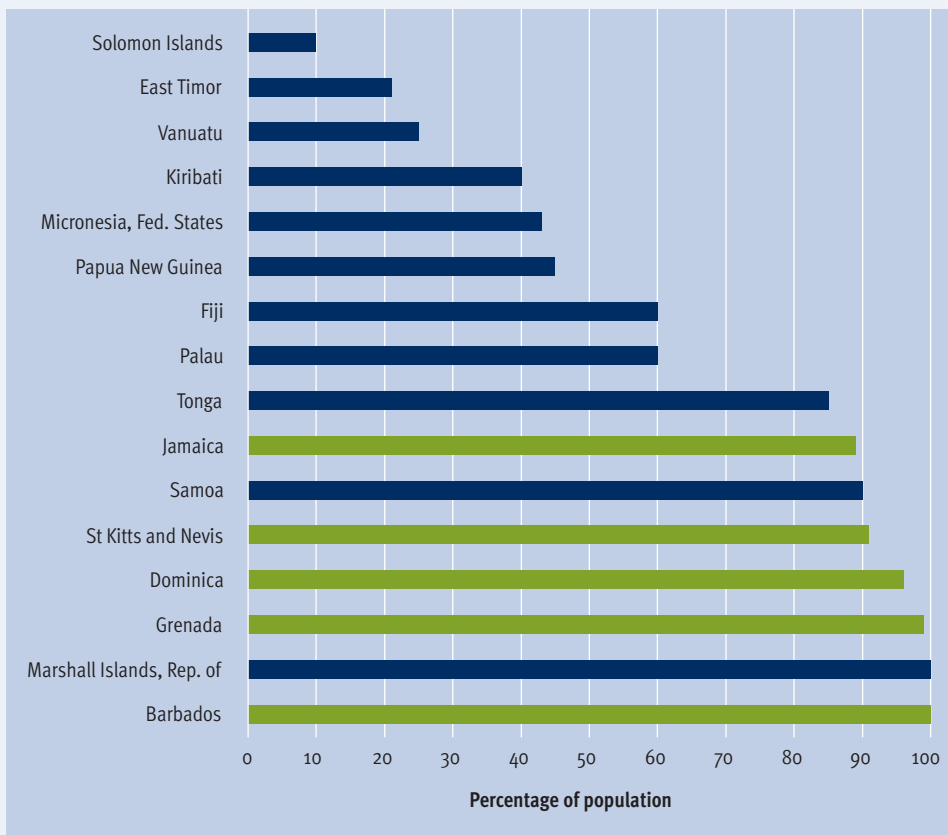
Electricity costs are high and access limited. In most Pacific island countries, less than half of the population has access to electricity (Figure 8.1). Only Tonga, Samoa and the Republic of the Marshall Islands have the high levels of access seen in the Caribbean. Telephone coverage is limited and the mobile phone revolution sweeping the world is yet to penetrate the Pacific because of the monopolistic model of service provision chosen (Box 6.2). Charging high prices to businesses for power and telecommunication services, in order to provide low-cost

25 The Foreign Investment Advisory Service country assessments on impediments to foreign investment, and recent work by the Asian Development Bank (six private sector assessments synthesised in Asian Development Bank 2004b) provide a strong analytical foundation.

services to households and the outer islands, places additional burdens on the private sector. It also raises the costs of doing business with the outside world – an unfortunate outcome for countries whose prosperity depends on their ability to integrate with the global economy.

Improving infrastructure will involve a mix of policy changes. Firms should be allowed to cover their costs. Any subsidies should be carefully targeted and transparent. State-owned enterprises, which are usually sole providers of infrastructure in the Pacific, should be reformed to run along more commercial lines, and more competition should be allowed. With increased competition would come the need for more transparency and better infrastructure regulation. Sharing regulators across infrastructure sectors and indeed across countries would be the most economical way to proceed in this regard.²⁶ Regional benchmarking of performance would also help stimulate reforms.

FIGURE 8.1 ► ACCESS TO ELECTRICITY IN PACIFIC AND CARIBBEAN ISLAND COUNTRIES



Note: The data are for the latest year available. The choice of countries reflects data availability.

Data source: Castalia Ltd (2006, Appendix B).

²⁶ The recently launched East Asia Pacific Infrastructure Regulatory Forum (www.eapirf.org) is currently chaired by Papua New Guinea’s senior regulator.

Infrastructure needs are huge in the Pacific island countries, and too often money is wasted – by governments and donors – by spreading funds too thinly over too many projects, or by neglecting maintenance in favour of new investments. Investments need to be prioritised, which might mean, for example, concentrating funds on restoring *only* the most important roads and wharves to satisfactory condition, and keeping them maintained.

There are already a number of success stories on infrastructure reforms in the Pacific, which point the way forward.

- **Public sector reform** Public sector reform has turned around the finances of the Fiji power company, Fiji Power (Castalia Ltd 2006), and has contributed to the East Timor power company's improvements in revenue (World Bank 2005c). More generally, Samoa provides an example of how to begin to reform state-owned enterprises (Box 8.2).
- **Private sector participation** Ports in Samoa have benefited from adopting a 'landlord' model, in which port services are provided by private companies (Castalia Ltd 2006, p. 7). In Papua New Guinea, mining companies are now participating in the repair and maintenance of the Highlands Highway and other key roads, encouraged by the provision of tax credits. Oil palm companies have been similarly involved in road maintenance in Papua New Guinea's West New Britain. Vanuatu's privately owned electricity and water operator, UNELCO, presents a mixed picture. It performs better than any of the other Pacific utilities on measures of quality and efficiency in water and electricity supply, and recovers all operating and capital costs, but needs to further its reach beyond major urban centres and to reduce its high costs.
- **Competition** In Tonga, in spite of claims that the market was too small to support more than one wireless telephone operator, the introduction of a second company has resulted in a sharp fall in call charges (Box 6.2). In Vanuatu, breaking the Air Vanuatu monopoly has allowed in Pacific Blue, which has led to immediate, positive benefits for tourism (Box 9.10). In Samoa, the introduction of competing internet service providers resulted in the incumbent provider reducing prices by half and overall internet traffic more than doubling (Castalia Ltd 2006, p. 15).

Often the infrastructure focus is exclusively on large-scale undertakings such as telecommunications. But the rates of return on small-scale infrastructure (rural roads, small harbours, schools and clinics) can also be high, and there are sensible ways to involve the private sector and communities in its provision. In Solomon Islands, for example, cost-effective road repairs and the construction of small jetties have been possible on North Malaita through community participation schemes. Cash grants can be used to give communities the power to decide funding priorities and how to implement projects. If the communities themselves provide the services, the funds can be disbursed when specified targets are met. Supervision of such projects can be given to private sector agents.

DEVELOPING FINANCIAL MARKETS

The ratio of private sector credit to gross domestic product is low in all Pacific island countries. Financial sectors are dominated by commercial banks and credit is difficult or impossible to obtain for all but the largest businesses. This is partly a consequence of weak frameworks for pledging assets as collateral, creating constraints on using rural assets to secure long-term loans. In particular, the lack of clearly defined property rights makes it impossible for the vast majority of people to use their main sources of physical wealth (land) as collateral. (For more detail, see the next section in this chapter.)

Agriculture in particular faces a financing and investment crisis because the commercial and, to a large extent, development banks have withdrawn their financial services from rural areas. There has been virtually no mobilisation of rural deposits, denying the sector a major source of investment finance and seriously constraining growth in rural small and medium enterprises.

Microfinance and rural banking have potential in the Pacific island countries. These are activities best suited to the private sector. Some governments have started introducing reforms aimed at encouraging banks to lend to a broader range of investors and smaller enterprises. With support from the Asian Development Bank, Vanuatu, Samoa and the Federated States of Micronesia are moving to a system whereby moveable assets (such as cars and machinery) can be used as collateral. Other countries are planning to follow suit. Further financial market reform can be encouraged by establishing credit information systems to increase the availability of credit information on borrowers, building on the starts made by Fiji and Samoa.

A major commercial bank in Fiji has started a program to attract rural depositors. This has succeeded well beyond expectations and the bank is now considering offering small-scale lending as part of its services. An innovative pilot microfinance scheme by a commercial bank in Vanuatu has been so successful that it is being expanded as a fully fledged bank product and is being studied by other financial institutions in the region as a model that could be emulated. A PNG bank was able to cut its minimum loan threshold by two-thirds by lowering its transaction costs.

Some Pacific island countries have caps on the interest rates charged by financial institutions. Rather than helping borrowers, such ceilings discourage the evolution of financial systems. They penalise borrowers and inhibit the growth of microfinance, where high risk and high transaction costs may require interest rates of 30 per cent or more a year.

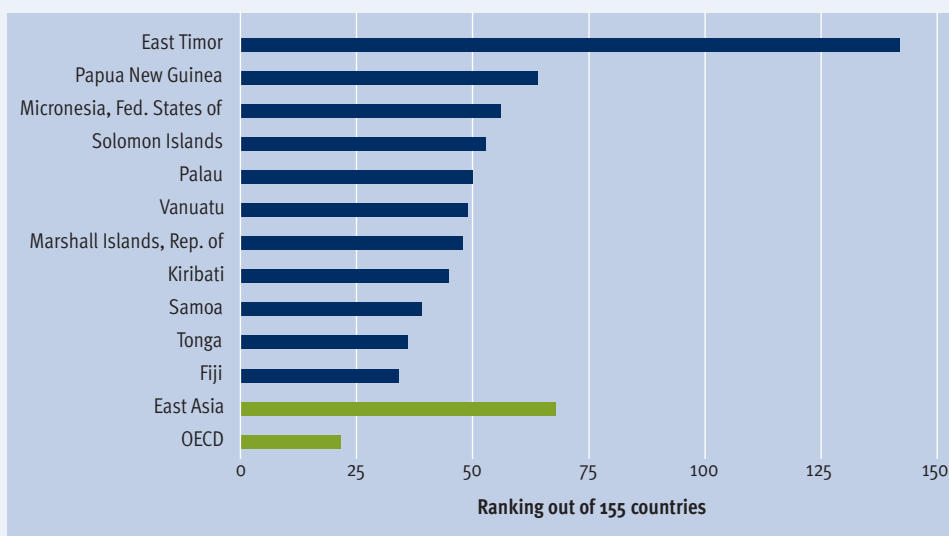
The PNG experience shows that superannuation and provident funds, if restructured to put them onto a sound footing, can provide a significant pool of funds for local financial markets.

REFORMING LEGAL AND REGULATORY SYSTEMS

In the few areas where Pacific island governments have limited regulation and presence, entrepreneurs have responded strongly. Land transportation services have sprung up in several countries providing, for instance, good service at a reasonable cost. But often potential domestic and foreign investors face a bewildering array of legal, regulatory and administrative hurdles to doing business in the Pacific.

The World Bank Group's *Doing Business* indicators show considerable variation both across the Pacific island countries and across indicators (Figure 8.2).²⁷ The cost of doing business is clearly much higher in these countries than in OECD countries. It is not more difficult, on average, than in East Asia, but the Pacific has few of the compensating attractions of East Asia (such as large domestic markets) and can ill afford cumbersome business regulations to add to its intrinsically high regional cost structure. Indeed, failure to be competitive on even one front may be enough to dissuade investors. The Pacific island countries perform particularly badly in relation to the cost of enforcing contracts. On average, the recovery of a debt involves costs equal to 86 per cent of the debt and takes more than 500 days.

FIGURE 8.2 ► EASE OF DOING BUSINESS IN PACIFIC ISLAND COUNTRIES
RANKING OUT OF 155 COUNTRIES



Note: The ease of doing business ranking is determined by taking the average of the percentile rankings of the 10 indicators considered in the *Doing Business* report. OECD and East Asia rankings are averages of country rankings. The choice of countries reflects data availability.

Data source: World Bank and International Finance Corporation (2006).

²⁷ There are data-related concerns in connection with some of these indicators relating to the low frequency of some of the events they are trying to measure in the Pacific island countries.

The Pacific leaders through the Forum Economic Ministers Meeting have committed to halve the cost of doing business in the region.²⁸ Work has commenced in a number of countries (see Box 8.1 on Fiji), though a much faster pace is required if the 2007 deadline is to be met.

REFORMING STATE-OWNED ENTERPRISES

Almost all state-owned enterprises in the Pacific island countries are inefficient, and deliver unreliable and expensive services. In many cases, they are a drain on budgets. Their presence extends beyond infrastructure into agricultural supply stores, hotels, oil processing plants, and internet service providers. Their operation crowds out the private sector, stretches very limited government capacity, diverts government attention from more pressing issues of development policy, and becomes a pressure point for patronage. Government-owned Air Vanuatu has only one plane, but a board of 28, all of whom are entitled to unlimited business class travel.

BOX 8.1 ► PUBLIC–PRIVATE SECTOR DIALOGUE IN FIJI ON REGULATORY REFORMS

Fiji recently initiated an official dialogue between the public and private sectors on regulatory reform. An initial review of the investment approvals process yielded a large number of recommendations for changes to policy and processes. The government decided to set up the Regulatory Reform Task Force to oversee the day-to-day implementation of the reform process. This body is made up of an equal number of representatives from the public and private sectors (five each). The government provides the secretariat to the task force. The World Bank provides technical support to the task force on request.

The Regulatory Reform Task Force is designed to provide a forum for identifying and discussing important regulatory reform issues, develop new programs to address identified bottlenecks in the regulatory environment, decide on the appropriate sequencing of reform initiatives, and monitor the progress of reform implementation.

Since it was established in December 2004, the task force has met seven times. It has started working on a number of issues to improve the business and investment climate in Fiji, including the company registration process, contract enforcement, the transparency of the investment approvals process, and the establishment of a mechanism for obtaining regular feedback from the private sector on the investment approvals process.

While it is too early to know whether it will live up to expectations, the task force has already become a well-established, effective means of public–private sector dialogue. It is envisaged that over time it will play an increasingly important monitoring and advisory role to promote regulatory reform and thereby improve the investment climate.

Source: Koyamaibole and Roberts (2006).

²⁸ Specifically, it was agreed to halve by the 2007 meeting the following 2004 regional indicators: the time taken to start a business, the cost of registration, the time to go through insolvency, and the cost of enforcing contracts.

BOX 8.2 ► PUBLIC SECTOR RESTRUCTURING AND PRIVATISATION IN SAMOA

Samoa has been a leader in public sector restructuring and privatisation in the Pacific. In the late 1990s the government corporatised the Post and Telecommunications Department, and divested its shareholdings in a number of commercial enterprises. In 2001 it passed a Public Bodies (Performance and Accountability) Act. Achievements under this Act include introducing corporate planning disciplines in state-owned enterprises, implementing appropriate performance reporting and monitoring systems for these enterprises and having them adopt accounting policies based on International Accounting Standards.

In 2003 the Samoa Government approved a new policy for state-owned enterprises. It earmarks strategic enterprises that the government wishes to retain in the long term, and identifies candidates for privatisation in the short and medium term. On the basis of this policy, in 2004 the government divested minority shareholdings in three enterprises. In 2005, a 45 per cent share in Polynesian Air was sold to Virgin to create Polynesian Blue. Further divestments of shareholdings in commercial activities are being considered. Also in 2005, the government and business groups together launched, with support from the Asian Development Bank, an initiative to establish an Institute of Directors and undertake other activities geared to improve corporate governance in state-owned enterprises.

Sources: International Monetary Fund (2005e); Asian Development Bank.

Governments need to decide which enterprises they need to keep under their control. Those that are to be retained should be put on a more commercial footing. The others should be sold. Samoa's approach in this area has a lot to commend it (Box 8.2).

WORKING WITH THE PRIVATE SECTOR TO BUILD DIALOGUE AND CAPACITY

At present in the Pacific island countries there is little meeting of minds between government and private sector operators, and little understanding of each other's positions. More open dialogue between policymakers and private sector operators is needed (see Boxes 6.5 and 8.1 for regional examples). The private sector in these countries is often fragile and needs nurturing through, for example, training provided in partnership with industry organisations to build entrepreneurial skills. The recent creation of the Pacific Islands Private Sector Organization is an encouraging development, and the Pacific Plan rightly prioritises collaboration with it.

Land

The commitment of Economic Ministers to address outstanding land issues emphasises the need to reach some form of compromise between traditional and modern tenure systems so that the needs of both indigenous peoples and potential investors are met. It must be recognised that land issues reach beyond the spread of economic portfolios – into social, security and political issues – and so need support at the highest levels if they are to be successfully addressed.

Forum Economics Ministers Meeting, Rarotonga, 2001

(Pacific Islands Forum Secretariat 2001, p. 6)

Customary ownership of land is deeply embedded in Pacific cultures and has provided a safety net that has helped shield the region from poverty. A high proportion of land is held under customary tenure (Table 8.1).

TABLE 8.1 ► LAND TENURE ARRANGEMENTS IN PACIFIC ISLAND COUNTRIES²⁹

	Registered	Land tenure		
		Customary	State	Free
	%	%	%	%
Melanesia				
Fiji	Most	83	8	9
Papua New Guinea	Very little	97	2	1
Solomon Islands	12	95	–	–
Vanuatu	Very little	97	–	–
Polynesia				
Cook Islands	Most	100	<1	0
Samoa	–	81	16	3
Tonga	Most	–	–	–
Tuvalu	Most	–	–	–
Micronesia				
Kiribati	Most	–	66	–
Micronesia, Fed. States of	Very little	100	–	–
Marshall Islands, Rep. of	Little	Most	–	–
Nauru	Most	–	–	–
Palau	>10	–	70	–

Note: In some cases the figures are indicative only and may involve simplification.

Source: Pacific Islands Forum Secretariat (2001).

²⁹ East Timor represents a special case, where land may now be claimed on up to four competing bases: underlying traditional interests, titles issued in both the Portuguese and the Indonesian eras, and long-term occupation (see Fitzpatrick 2001).

BOX 8.3 ► LAND TENURE AND DEVELOPMENT: THE GLOBAL EXPERIENCE

A recent World Bank report reviewed global experience on the links between land and development. It found that secure land tenure increases the incentives for land-related investment and allows for the transfer of property to those who can make productive use of the land. In urban areas security of tenure leads to more stable communities and improved access to basic services. As a major asset for most people, land provides the foundation for economic activity by increasing access to credit markets. Where tenure security is uncertain, conflict over land is likely to increase, particularly in the face of population pressures. Clearly specified property rights have important equity benefits, particularly for women and the poor. In some cases, increased tenure security has led to greater participation in the labour market.

How can security of tenure be improved? The report makes three main points. First, the most appropriate and cost-effective method of increasing security and transferability of land is not necessarily individual title. Recognising customary tenure and finding means to facilitate land exchange through long-term leases can be just as effective in encouraging security. Second, improving security of tenure also requires the existence or creation of institutions to enforce legal rights. Third, property rights need not be static, and can respond to the changing demands for tenure security as countries develop.

Source: World Bank (2003a).

Maintaining customary land systems in their current form will not meet emerging needs, especially given the fast-changing demographics and aspirations of Pacific citizens. Without processes in place to manage the migration of people to urban areas (who then settle on other groups' customary lands), and without mechanisms to ensure landowners participate fairly in the benefits of wealth generated from their customary lands, the sort of devastating conflicts already seen in Solomon Islands and Bougainville may become increasingly commonplace.

International experience teaches us that no country has prospered without systems that protect the property rights of individual investors, but that there is more than one way to secure rights over land (see Box 8.3).

TAKING AN INCREMENTAL APPROACH TO LAND REFORM

Land tenure is a difficult and sensitive issue, but this cannot be an excuse for inaction. The challenge for governments in the Pacific island countries is to steer changes in land tenure arrangements in support of economic growth in such a way that individuals and other investors are able to access the development potential of land, while customary ownership structures remain protected.

The main lesson to be drawn from previous, largely unsuccessful, attempts at land tenure reforms in the Pacific is not to be too ambitious. Land tenure reform needs to be incremental for two reasons. First, such reform is an enormously complex process that affects the lives of all at the most fundamental social, cultural and economic levels, and so necessitates careful balancing of diverse and competing interests. Second, Pacific governments do not have the financial and administrative resources to implement wide-ranging reforms in land tenure.

Consistent with all of the above, the way forward for many Pacific island countries seems to be a blending of ownership at the group level with long-term leases setting out the rights of individual developers to use the land.

How such an approach is best put into action will vary from country to country. Research into existing measures to reform land tenure in countries across the Pacific will be vital for analysing policy options and moving the land tenure debate forward.

A functioning land tenure system requires, in addition to clear decisions over what rights in land can be transferred, policies for recording land rights, rules for determining who is entitled to enter into land deals, arrangements for settling land disputes and a strong land administration. In what follows, various options for meeting each of these requirements are presented.

Strengthening property rights will not be a panacea for the Pacific. Rather, it is one challenge among several in the wider agenda of economic reform. Tonga has had individual registered land rights for many years but still sees very little lending on rural mortgages and low economic growth. Action in the other areas discussed in this report will also be critical. Nevertheless, the long-term future growth of Pacific island countries will depend in part on how well the challenge of reforming land tenure is managed.

RECORDING LAND RIGHTS

One of the characteristics of customary land tenures is that they are not usually written down. Tenure reform thus invariably involves moving towards a system in which rights over land are recorded.

It is not realistic to record all the existing customary rights. A better, more pragmatic, way forward is to ensure that modifications to customary rights are recorded. This would involve recording the rights of the person who will be developing the land, how the benefits of the development will be shared, what controls will apply to that development, and perhaps what residual rights to use the land the customary owner will continue to enjoy. This task of recording development rights and responsibilities over land can be approached in different ways.

Record agreements or register titles, or both. It is possible to design a simple system for recording agreements between parties over the use of land. This would provide documentary evidence of an individual's interest in the land for use by banks or in the event of a dispute.

Although such agreements do not provide a legal guarantee, they have been used successfully in the past to raise loans for development.³⁰ Such agreements are less complex than a system of systematic title registration, which, while representing a more secure form of interest in land that is guaranteed by law, also involves a much more demanding process of investigation, determination and registration. The small Pacific island countries could also have a hybrid system that allows for both, providing for land titling in priority areas where the costs are justified, and land recording in other areas.

Apply a systematic or sporadic process to land registration, or both. As already noted, systematic land registration can be a lengthy and complex operation. It requires skilled personnel (adjudicators, surveyors, etc.) and considerable funds. The alternative is to undertake sporadic land registration, which focuses only on land people apply to register. The drawback with this approach is that it deals with the needs and wishes of only one party, not of all those with interests in the land. Pacific countries may seek to meet demand for stronger land rights by allowing for both systematic and sporadic processes – registration of titles where the process is systematic, but only the lower level recording of land rights where the process is not so guaranteed. This gives the land system more flexibility, allowing systematic registration of high-priority areas and a lower level of registration for other areas.

Should countries make registered titles conclusive? Where the law makes the registered title conclusive evidence, as under the Torrens system, it cannot be overturned. Such a high level of protection should be given only where there is a high degree of confidence in the investigation and determination of land rights. This might apply if a systematic approach to land registration is followed, but not if a sporadic approach to land registration is taken or if only agreements rather than titles are recorded. In these cases documentary evidence will still be useful in establishing land rights, but they will not be definitive.

FACILITATING LAND DEALINGS

Who should be allowed to enter into land transactions? For land tenure reform to succeed, the government must also put in place a legal and administrative environment that allows legal land dealings to take place efficiently and cost effectively. A variety of mechanisms, with a range of strengths and weaknesses, currently exist in the Pacific to regulate the land market (Box 8.4).

The ideal regime would be one that involves simple processes, leading to the informed consent of the landowners, a fair arrangement for sharing benefits, and a reliable basis for investment in the planned development of the land. Key issues include the following.

³⁰ Since the 1960s, simple Clan Land Usage Agreements have been used in Papua New Guinea to secure loans for individuals to develop parts of their customary land.

BOX 8.4 ► MODELS FOR LAND DEALINGS IN THE PACIFIC

In Fiji, the negotiation of land dealings for development through the Native Land Trust Board has allowed most of the available customary land in Fiji to be brought into development. Various aspects of the board's operations have been criticised – its politicisation, high costs, the division of rents, the rent-fixing formula, and the lack of flexibility over lease purposes and terms. Some Fijians feel it may have outlived its usefulness. It has qualified staff and is costly to operate, using up to 25 per cent of land rentals to cover its expenses. Although the system may need to be improved, it provides a valuable model for other countries to consider.

In Papua New Guinea, the lease–lease back system has received attention as a way of giving outsiders a registered title in customary land. Much new oil palm planting has taken place under lease–lease back arrangements. It is a time-consuming system, however, and a roundabout way of achieving a registered title.

In Australia, the Aboriginal Land Councils of the Northern Territory have the role of consulting traditional owners on any proposal relating to use of their land, and negotiating on their behalf. The members of the Land Councils are chosen by the Aboriginal owners and employ a staff of professional advisers. The system works well, but is expensive.

The Cook Islands' Leases Approval Committee was established to deal with the special problems arising where non-resident Cook Islanders lease home sites to the residents of Rarotonga.

In New Zealand, Maori land cannot be alienated without the approval of the Maori Land Court, which carries out various checks on the fairness, etc. of the dealing.

Source: Fingleton (2005) Pacific 2020 background paper.

Allowing direct dealings. To date, the main method for acquiring secure titles for development purposes in the Pacific has been to use government as an intermediary. When the state apparatus is weak, a better alternative would be a system allowing for direct dealings between the two parties – the customary landowners and the developer. Safeguards do need to be put in place, not least to prevent exploitation. This is the proper role for government: to establish and oversee the framework for land dealings and then to register the land and/or lease. In Vanuatu, for example, direct dealings are allowed, but the government must first approve an outsider to negotiate with the customary owners, and requirements are laid down for the negotiations and contents of the eventual agreement.

Balancing the need to protect parties with the need to facilitate genuine dealings that will lead to sustainable growth and benefits is not an easy matter. The key principle is that the controls put in place should be balanced. They should be reasonable, transparent and not cause

unnecessary delays. To minimise the risk of corruption and to ensure commercial realities are recognised, consideration should be given to establishing control mechanisms that have both public and private sector membership. Any approval process should be kept under review and adjusted if it causes problems.

Representing customary owners. Decisions also have to be made about who can represent the customary landowners, and who appoints agents and other intermediaries. In the Pacific island countries, rarely can one person act alone in making an important decision over a group's land. However, questions arise over whether chiefs, 'big-men', clan leaders and senior male members, for example, have the authority to act on behalf of their communities in land decisions. Certainly, there are good arguments on public policy grounds for ensuring decisions over a group's land are democratic, involving all affected members – male and female. The key principle must be that the model is reliable and protects the interests of both the landowners and the investors.

Accessing land for public use. Historically, in the Pacific island countries land needed for public purposes such as schools was acquired from customary owners by government. Many of these early acquisitions have been challenged by the current generation of landowners, and governments are now finding it almost impossible to acquire new land, even for public purposes that clearly benefit the local community.³¹ There are examples of landowners exploiting their position to demand excessive rents, thereby pushing up the costs of wharves, roads and other public infrastructure. A possible solution might be some form of permanent dedication of the land, so that it remains in customary ownership, but must be used for a specified public purpose. A formula providing a controlled flow of benefits to landowners for the use of their land would probably still be required.

ESTABLISHING DISPUTE SETTLEMENT MACHINERY

There is no doubt that land disputes are an impediment to social stability and economic growth in the Pacific. Some have a long history, sometimes dating back to ancient battles for the expansion of tribal territory. More recently, serious disputes have arisen where people have migrated from outer islands or remote districts to settle on urban lands belonging to other people. Disputes also arise between governments and people claiming compensation for state-owned land.

The main ways to reduce the level of land disputation are to facilitate direct dealings, as discussed above, and to ensure that the leases or other agreements provide a reasonable flow of benefits to the landowners over time. Specific provisions can also be helpful in reducing the likelihood of disputes arising, such as provisions for continuing consultation between the parties and for periodic reviews of the terms and conditions of an agreement.³²

31 For example, Chand (2001) cites the difficulty of obtaining land as a barrier to extending Papua New Guinea's road network.

32 One of the immediate causes of the Bougainville conflict was failure to carry out the periodic review provided for in the mining agreement.

But even under the best system, disputes will arise, especially at a time of major demographic change and dislocation which parts of the Pacific are experiencing. Where land disputes do occur, effective mechanisms need to be in place to handle them. This will involve action on a number of fronts.

- In practice it seems that establishing special courts and special settlement procedures is the most practical way of resolving land disputes, primarily because they operate more flexibly than the normal courts. Vanuatu recently introduced a system for land dispute settlement, and Solomon Islands is considering a new system.
- For cost and efficiency purposes, it would seem very sensible for the parties to a deal involving customary land to provide for mediation and arbitration of any disputes, using an independent party agreed to by both sides.
- Pacific island governments need to decide whether and under what conditions lawyers should be able to appear in land dispute settlements. While it may be necessary to exclude lawyers from appearing on behalf of parties to the dispute to make sure that the problems are handled in a more informal and flexible way, lawyers can provide an essential service in protecting their client's interests. Certainly, in cases where a dispute involving government land arises, it is in the public interest that the state be well represented. In Papua New Guinea, claims against the government succeed far too often because government lawyers fail to represent the state's interest.

IMPROVING LAND ADMINISTRATION SERVICES

Improving land tenure arrangements will require not just better policies in the various areas discussed above, but much better administration.

Even though land administration services in the Pacific island countries are confined mainly to administering leases over state-owned land, they are weak. Delays in granting leases and processing simple dealings are rife and cause major problems for the public and investors. Such frustrations lead transactors to use 'influence' or pay money to get simple matters processed. It is difficult to plan for extending the involvement of government, particularly into the much more sensitive areas of registering customary land, recording dealings in customary land, and settling disputes over land, when the present level of government service is low and tainted by corruption.³³

Probably the main constraint on land tenure reform in the Pacific island countries is not the sensitive nature of the issues involved, but the capacity and quality of land administration services. For example, if the results of land dealings (leases, mortgages, etc.) are not entered accurately and efficiently in the land register, it will soon lose its value as a reliable record of the interests in registered land. Examples of the problems faced in various areas of land administration by Papua New Guinea are presented in Box 8.5.

³³ A 2005 PNG land summit 'agreed that people did not have confidence in the administration of the 2 per cent of alienated land. One of the three main recommendations to emerge was for the government to improve records and administrative mechanisms so as to generate confidence before the more than 90% of land currently held under customary land tenure systems could be registered. Otherwise, there is a fear that, once land is registered, they will lose it' (Thomas Webster, National Research Institute, Papua New Guinea, pers. comm., March 2006).

BOX 8.5 ► WEAKNESSES IN LAND ADMINISTRATION IN PAPUA NEW GUINEA

Papua New Guinea's Land Groups Incorporation Act of 1974 provides for the legal recognition of customary groups, and gives them powers to decide the use and management of their land. Each incorporated land group has its own constitution, covering matters such as its membership, governing committee and how decisions are made over its land. While the appropriateness of this policy is debatable, it is clear that the administration of the system is unsatisfactory. Many groups are registered as owners of the same piece of land. And there is only one government officer responsible for supervising more than 10 000 incorporated land groups, as well as incorporating new ones at the rate of about a dozen a day. Clearly, this is an impossible task and it is not surprising that the incorporated land group system is not working well.

Papua New Guinea has a well-structured legal and administrative system for land dispute settlement in place. It too, however, is starved of resources. As a result, most of its vital elements are not operational. Provincial land disputes committees rarely meet, provincial land courts do not sit as required, land court records are not kept, land magistrates are not trained or inspected, and land mediators are reluctant to undertake their duties because they are not paid their small allowances.

Source: Fingleton (2005) Pacific 2020 background paper.

Insufficient funds and a lack of trained staff and technical facilities constrain attempts to improve the level of service to consumers. More emphasis on cost recovery would help to ease the funding constraint. While land taxation may be problematic, when introducing a land registration system it is reasonable to link it to some kind of fee for service – either by imposing a tax on the registered land or by charging a fee for its registration.

The key constraint, however, is one of inefficient administration. To a large extent, success in improving land administration depends on more widespread reform of governance and government institutions (see the discussion in Chapter 6). Issues that are administratively relatively simple, such as staff recruitment and retrenchment, have proven to be major obstacles in the Pacific. Improving efficiency might mean a rationalisation of existing services, including dropping or contracting out some technical operations. Decentralisation to make services more accessible and appropriate to consumer needs is also an important goal, but may not help if the binding constraint is a lack of technical skills. It is important to recognise that land tenure reform requires a wide range of expertise such as adjudication, surveying and registration.

Employment and labour markets

Perhaps the most critical issue confronting Pacific island countries is how to provide all people with a secure, sustainable livelihood that meets their aspirations and counters the growth of poverty. A growing proportion of people in the working age-group need a cash income, yet the formal sector caters for only a minority of workers, and economic and demographic trends suggest that the gap between the demand for and the availability of paid employment will almost certainly grow.

United Nations Development Programme (1999, p. 73)

As discussed in Chapter 3, the Pacific island countries face a serious employment challenge. Their labour markets are characterised by large numbers in the job-seeking age range with low levels of technical skill and by local economies that are not growing in ways that create the forms of employment likely to absorb, let alone inspire, young people.

Unemployment is difficult to measure in subsistence economies, but, as discussed in Chapter 3, available estimates indicate high levels of joblessness, especially in urban areas. Youth unemployment in many of the Pacific island countries is more than double the total unemployment rate (World Bank 2006c).

Why is joblessness so high in these countries? The island countries score quite well in the *Doing Business* indicators for labour market flexibility.³⁴ Some analysts note that the dominance of the public sector pushes up private sector wages, at least for the skilled, and thus reduces employment and/or competitiveness (a ‘Dutch disease’ effect, associated with high aid flows). Others note that the public sector will continue to dominate until the private sector grows.³⁵

The underlying cause of the joblessness problem in the Pacific island countries is slow economic growth, coupled with some of the world’s highest rates of population growth, and so an inability to absorb an increasingly large pool of surplus labour. If this is correct, most of the solutions to unemployment will lie not in the labour market, but in the policies discussed in the previous section to boost investment – including the need to reorient the currently overbearing nature of the public sector.

Nevertheless, the Pacific 2020 process distilled four main sets of employment-related policy challenges: to strengthen human capital, in particular targeted skills; to combat discrimination in the labour market; to enhance labour mobility; and to boost opportunities for self-employment.

34 The average ranking for the Pacific island countries (those in Figure 8.2) is 22 (out of 155 countries). The Federated States of Micronesia, the Republic of the Marshall Islands, Palau and Tonga all come in the top 10, with Palau first, and Tonga second. The Asian Development Bank (1999a, p. 171) confirms that ‘Specific labor market reform issues that arise in other countries, such as government interventions that inhibit the flexibility of labor markets, do not appear to be of major concern’. See Levantis (1997b) on labour market deregulation in Papua New Guinea in the early 1990s, and also Chand (2003).

35 See Asian development Bank (1999a) for a very interesting discussion of this issue.

STRENGTHENING HUMAN CAPITAL, PARTICULARLY SKILLS

Workers are only as productive as their health and education allow them to be. As shown by the World Bank (2006c), while the coverage of key education and health services has expanded in most countries, leading to improvements in social outcomes, progress has been uneven. Pacific island schools suffer from high dropout rates and low student achievement levels.³⁶ The gains realised in health indicators over the past decades are threatened by growing levels of non-communicable diseases such as diabetes and communicable diseases such as HIV/AIDS.

While more positive health and education outcomes are likely to take time to show, labour market skill shortages could be addressed relatively quickly. However, vocational training in Pacific island countries has not been a success story. A recent review by the Asian Development Bank (2005b, p. 1) found that:

... [T]he results of [skills training] programs in the Pacific have been generally disappointing. They have in many cases been driven by supply rather than demand, costly, difficult to implement, and unresponsive to changing labour market demands. Neither have they helped to reduce youth unemployment.

There are exceptions, such as the high-performing regional network of maritime training institutions (Box 8.6). Their close collaboration with industry and their use of internationally accredited curriculum standards point the way forward for the broader vocational training sector in the Pacific.

COMBATING DISCRIMINATION IN THE LABOUR MARKET

Women are heavily involved in the informal sector. In Solomon Islands in the early 1990s, almost a half of all women working in the cash economy were self-employed, and a third of these self-employed women were the sole income earners for their households (Ward and Arias 1995).

While government gender policies will not influence the informal sector directly, there is clearly a role for policy in removing formal barriers and changing attitudes that limit the opportunities for women and any other group discriminated against in the workplace.³⁷ This would encourage the breakdown of both formal and informal barriers to gender equality in labour market participation. The removal of such barriers would be extremely productive, as the traditional gender-based roles in the Pacific have prepared women for employment better than they have prepared men. Many of the roles reserved for women (gardening, livestock,

³⁶ Education indicators show that, while net primary enrolment rates have been high, rates of primary school completion and of transition to secondary school remain a concern.

³⁷ The UN-sponsored campaign (from 16 February to 8 March 2006) to promote women in the media in Fiji is a good example of how to increase women's role in the economy.

BOX 8.6 ► HOW TO DELIVER VOCATIONAL TRAINING: THE PACIFIC NETWORK OF MARITIME TRAINING INSTITUTIONS

The Pacific's network of 12 maritime training institutions is an example of a successful, regionally led vocational training system, which has been able to use its links with industry to develop a curriculum to meet the demand for skilled workers. The training institutions are located in Solomon Islands, Kiribati, Tuvalu, Tonga, the Federated States of Micronesia, Papua New Guinea, Fiji, Samoa, Vanuatu, the Republic of the Marshall Islands and French Polynesia. Through the network, international seafaring has become an important source of employment and income in the region. In 2003, an estimated 4000 Pacific seafarers engaged in international shipping remitted approximately US\$19 million in foreign exchange to their countries.

The success of the institutions is largely attributable to coherent management, close collaboration with industry, and reliance on international standards. They are jointly supported by the Secretariat of the Pacific Community, through its Regional Maritime Programme, and by the Pacific Islands Maritime Association, whose membership includes industry participants such as shipping operators and port authorities, as well as government safety and regulatory authorities. This balance of membership from administrative, regulatory and industry bodies ensures that the centres are simultaneously able to satisfy the requirements of curriculum relevance to industry, accessibility to students, and accreditation of courses by the International Maritime Organisation.

Source: Secretariat of the Pacific Community.

child rearing) involve the sort of thinking that develops economic skills, such as effort–reward calculations, forecasting and planning. By contrast, traditional male roles tend to involve social and political activity focused on status and power rather than productivity.

INTEGRATING WITH INTERNATIONAL LABOUR MARKETS

Worldwide, international migration is growing, and is becoming increasingly important for developing countries. This is nowhere more true than for the Pacific. Migration has always been important for Polynesia, and there are now more ethnic Polynesians living outside the region than in it. Remittances to these countries are much larger than their merchandise exports, and sometimes larger than their aid. Tonga and Samoa are among the top 10 countries in the world in terms of dependence on remittances.

But migration can also be important to larger countries, as Nepal and the Philippines have shown from outside of the region and, in recent years, Fiji from within it (see Box 4.2). As many developed countries are aging and are facing labour shortages, international labour migration is likely to expand.

Migration is often viewed in the Pacific in negative terms, as it arouses fear of a ‘brain drain’ and may exacerbate skill shortages (in both the private sector and government). But recent years have tended to paint a different and much more positive view of migration. There is now more appreciation of the size, value and stability of remittances to the Pacific (Asian Development Bank 2005c), which have had a particularly marked impact on more remote countries such as Kiribati (Borovnik 2003). One obvious step governments can take in association with financial institutions is to review and attempt to reduce the cost of remittance flows. This may be done by improving the financial infrastructure supporting these flows by, for example, reducing delays in cheque clearance, publicising and working to reduce transaction costs, and improving the availability of banking services in rural areas.

Recent evidence also suggests that the prospect of migration increases incentives for education and training (Asian Development Bank 2005c). It is quite possible that the prospect of migration leads to a ‘brain gain’ rather than a drain. Returning migrants bring valuable skills and networks. And, importantly, migration reduces unemployment and, by acting as a safety valve, eases social tensions.

Thus, overall, international migration should be seen as an opportunity rather than a threat. Given the well-documented and much discussed disadvantages many Pacific island countries face in developing export industries (Box 4.1), they should view themselves as having a comparative advantage in exporting labour. The Philippines is a good example of a country that has consciously adopted a policy of promoting labour exports. As that country’s experience suggests, while migration will not in itself make a country rich, it can be a very important income generator and stabiliser. Today over 8 million Filipinos work overseas and send remittances home equal to 14% of GDP (O’Neil 2004, Asis 2006, World Bank 2006d). Vietnam has followed a similar policy, albeit on a much smaller scale (Ishizuka 2001). East Timor is currently planning a pilot Emigrants Worker Program. As these countries have done, other Pacific island governments can also attempt to facilitate the movement of labour through bilateral negotiations and licensed migration schemes with richer countries.

Pacific island country governments should focus on providing their populations with the skills they need not only to fill domestic skill gaps but also to compete in international labour markets. There are already successful examples within the region of Pacific island workers competing in global labour markets – such as the seafarers of Kiribati and Tuvalu. There are a range of opportunities emerging, especially for those with nursing and trades skills.

To take advantage of these opportunities, more attention needs to be given to training. The use of international standards and alliances with international businesses will help to promote mobility. The network of maritime colleges (Box 8.6) is a good example of what is needed. But there are also lots of examples of Pacific island governments not responding to migration developments. For example, despite the exodus of nurses from Fiji to work abroad, the number of places for nursing students in Fiji has not increased, though the number applying to study nursing has, not surprisingly, increased sharply.

The governments of Pacific island countries have limited budgets, and will struggle to expand training networks. Funding primary education is proving to be challenging enough. Cost-recovery mechanisms need to be improved, donor support obtained, and regional approaches adopted, as envisaged under the Pacific Plan. The Australian Government initiative to establish the Australia-Pacific Technical College in the region, with a network of campuses delivering Australian-standard qualifications, is a good example of the way forward in this regard. An internationally accredited Pacific College of Nursing has also been proposed. An economic analysis of this proposal has estimated a benefit:cost ratio of 6:1 (Duncan 2005).

Migration is a two-way process, and governments need to remove regulatory impediments to immigration, which can be significant. There is often a perception that foreign nationals working in local labour markets are taking jobs away from local people, but experience shows that imported skilled workers generate local employment (Asian Development Bank 1999a). Papua New Guinea is currently undertaking a review of visa requirements with a view to streamlining them.

Pacific island countries have largely dealt with shortages in personnel – for example, doctors and teachers – by recruiting foreign professionals through donor-supported programs and retirees. Governments could also experiment with incentives, such as improved working conditions and higher remuneration, to retain staff in remote areas. Other options include providing incentives to attract emigrants back home, such as the return fund and the family incentive scheme in Cook Islands or the ‘homecoming program’ for nurses in the Caribbean.

BOOSTING OPPORTUNITIES FOR SELF-EMPLOYMENT

Subsistence agriculture and informal urban activities constitute the overwhelming bulk of employment in the Pacific island countries. Governments need to recognise that most employment in these countries is self-employment or family employment, and define policies accordingly. Regulatory barriers to the implementation and operation of business activities in the informal and subsistence sectors should be removed. This type of barrier is evident when local authorities decide to ‘clean up the town’ and remove street vendors, thereby limiting a lively segment of micro-business activity.

Establishing educational, training and outreach opportunities to promote entrepreneurial skills can be done both within the school curriculum and for adults, with implementation contracted out to the private sector. Skills to be targeted include entrepreneurship, financial management, and marketing.

Finally, governments can improve the database on the informal sector by, for example, including the informal and subsistence sectors of the economy in national employment and

output statistics if this is not already the case.³⁸ Such a definitional exclusion prevents the economic activity of many of the large proportion of people who engage in the informal sector from being adequately surveyed, and can distort policy debate.

Political governance

... [G]overnance and good governance are terms that may be new to most of us, but the story of governance and the emphasis on good governance are as old as civilisation itself... In the Pacific, there are many incidents of social unrest, political turmoil and breakdowns of law and order that bear justification for the need to substantially improve political governance.

Mose Saitala (1999, pp. 1, 3)

Much analytical and practical effort has been devoted to strengthening various aspects of governance in the Pacific island countries. In particular, economic policies and public sector reform have received a lot of attention from governments and their donor partners. Yet a precursor to sustained improvements in these areas – good political governance – has been a far less visible focus of attention in these countries in discussions of growth.

Political governance relates to the way in which political power or authority is distributed and exercised, and by what processes and institutions. The risk in not seriously addressing political governance is that, unless political dynamics change, no other attempts to fix governance will ‘stick’ and, without good governance, sustained rapid growth will remain elusive.

POLITICAL GOVERNANCE PROBLEMS: CLIENTELISM AND FRAGMENTATION

The Pacific island countries are largely democracies, and it is generally believed that democracy is a system in which the will of the majority is served. But it does not appear that democracy serves these countries as well as it could. Corruption levels are relatively high (Table 6.1). Effective sovereignty is in decline as countries struggle to deliver basic services, including law and order (Asian Development Bank – Commonwealth Secretariat 2005). Shifting parliamentary allegiances mean executive government is often unstable. Politicians often take little interest in economic policy. Many operate under short time horizons, knowing that they are unlikely to last more than a single term in office. In some countries, more than half of sitting members can expect to lose their seats at election time. There are rays of hope. A recent set of national integrity assessments for the Pacific island countries found that corruption was seen to be declining in Samoa (Transparency International 2004). But, overall, economic outcomes from Pacific political processes – including a lack of growth and jobs – have been disappointing.

³⁸ Under the 1993 UN System of National Accounts, subsistence production is to be included in the national accounts, with output for own use to be valued at average market prices. Some Pacific island countries follow this practice (for example, Papua New Guinea); others do not (for example, Solomon Islands).

The fundamental question that any analysis of political governance in the Pacific island countries has to grapple with is: why doesn't democracy serve the majority better? Research carried out in the region and elsewhere suggests two reasons: 'clientelism' and fragmentation. On the former (Keefer 2004), it is often observed in developing countries that political competition is not between competing policies or over claims of which party can better deliver basic services such as health and education or otherwise promote national welfare. Rather, political competition takes place almost exclusively at the micro or local level. Parties are weak; competing policies are absent. Voters are wooed by offers of money, jobs and other help at the individual level. Thus politicians become patrons, their supporters clients, and democracy as clientelism or 'localism' is observed.³⁹

Clientelism is widely seen throughout Africa. For example, Booth (2005, p. 1) writes:

... throughout the region ... political competition is about servicing informal networks, enriching some and providing low-level protection to others. It does not, as a rule, operate to place pressures on incumbent governments to perform in the public interest. This has the effect that policies to achieve public objectives are never produced, or are written at the technocratic level but not given political support and therefore not properly implemented.

Many would also suggest that clientelism is thriving in the Pacific. For example, it has been remarked of one part of Papua New Guinea that:

... people have come to regard government as the major, or only, source of opportunity and finance. Having a friend in national government is seen as necessary for economic success, and election to office in the provincial assembly and parliament is keenly contested (Brown 1989, p. 245).⁴⁰

Unfortunately, clientelism can be self-reinforcing. Once a system becomes dysfunctional, promises to deliver better basic services lack credibility, and thus aspiring politicians have only their favours to fall back on. This analysis suggests one glimmer of hope – providing voters with more information so that they can judge whether national policies are working (for example, whether schools or roads are getting better).

Parts of the Pacific islands region are also characterised by ethnic fragmentation. Numerous studies have shown ethnic fragmentation to be associated with poorer development outcomes (Easterly 2001; Reilly 2004). At the political level, ethnic fragmentation leads to the development of political leadership focused on wealth redistribution ('fighting over the pie') rather than wealth creation ('increasing the size of the pie').

Clientelism and fragmentation reinforce each other's effects. The ethnic group leader becomes the patron and the group members his (or her, but nearly always his) clients. With a large

³⁹ On 'localism', see Morgan (2005) who writes that '... the political cultures of Melanesia lend themselves to patronage politics because of local peoples' needs for approachable political leaders. No Melanesian MP can afford to ignore local demands in favour of national or regional ones ...'.

⁴⁰ Quoted in Reilly and Phillpot (2002).

number of patrons fighting for political spoils, and a disillusioned electorate, ‘anti-incumbency’ and a high turnover among politicians become the order of the day. This shortens the time horizon under which politicians operate, adding to pressures to engage in corrupt behaviour and reducing even further the relevance of national and systemic policies and reforms.

POLITICAL GOVERNANCE SOLUTIONS?

It is one thing to diagnose a problem, but another to provide solutions. Political governance is not an area where there are easy answers or ‘best practices’ waiting to be adopted. Individual Pacific island countries need to decide for themselves what needs to be done to enhance the accountability of political leaders to the broader electorate.⁴¹ Country circumstances matter, and local legitimacy is key. For example, as Larmour (2005, p. 3) notes:

The best model of political governance for a Polynesian country, characterised by common linguistic and cultural heritage and a tradition of deference towards leaders, may be quite different to that which will work in a Melanesian country, where there is huge diversity in languages and cultures, and where leadership is more contested.

While there are no simple answers, there are common strategies. Attempts to improve political governance must try either to strengthen the ‘supply side’ of political governance or to promote the ‘demand’ for good political governance.

STRENGTHENING ELECTORAL SYSTEMS, OVERSIGHT BODIES AND PARLIAMENTS

The integrity of the electoral process and well-functioning parliaments are critical to good political governance. The electoral system should encourage parliamentary members to look beyond their own electorates and to use their offices for the broader good of the nation. In 2000 Papua New Guinea introduced the Organic Law on the Integrity of Political Parties and Candidates. This strengthened the role of parties within the political system relative to individual politicians, with the aim of stabilising the political system, reversing party fragmentation, and reducing party-crossing by elected members of parliament. It is too early to judge its full impact. Observers note increased political stability, but also suggest that experience to date raises questions about the extent to which legislation can solve deeply entrenched governance problems (Baker 2005; Gelu 2005). Papua New Guinea has also introduced a limited preferential voting system, which requires candidates to receive support from a broader base of voters to be elected than does the ‘first-past-the-post’ system that it replaced. This sensible reform is yet to be tested in a general election.

Oversight bodies such as the ombudsman and auditor, the judiciary, police and correctional services are essential elements of the framework of good political governance. The judicial systems of the Pacific island countries have generally functioned freely and fairly, despite difficult circumstances in some cases. Mention should also be made of the Office of the

41 See Huffer (2005) and Huffer and Molisa (1999) for discussions of governance in the Pacific context.

Ombudsman in Papua New Guinea, which for some time has been able to maintain a commendable degree of independence while making its presence felt within government and society as the public's watchdog on the behaviour of political leaders. In general, however, such institutions are in need of substantial strengthening.

Three issues need to be addressed if their performance is to improve. These are their independence from political influence, the adequacy of their resources (staff numbers, skills and operating budgets) to perform their functions effectively, and the support they obtain from the public and, in particular, from the media. Some oversight functions can probably be provided best on a regional basis. The Pacific Plan envisages 'regional support to consolidate commitments to key institutions such as audit and ombudsman offices, leadership codes, anticorruption institutions and departments of attorneys general'.

Reforms in areas typically tackled by economic governance programs, such as strengthening public financial management and ensuring merit-based selection of public officials, may not themselves help to improve political governance, but are important to contain the damage of poor political governance. The problem, of course, is the one already mentioned: without political support, other governance reforms may not succeed.

Educating parliamentarians, strengthening parliamentary committees and, some would argue, reserving seats for women are also strategies that can assist in making parliaments in the Pacific island countries more effective. Since the turnover among parliamentarians is often high the effects of political education interventions are often short lived. The capacity to undertake such education should be institutionalised by strengthening the secretariats or offices of the clerks of parliament. The Pacific Parliamentary Assembly for Population and Development presents a good-practice model in this regard. The assembly has successfully mobilised increasing numbers of parliamentarians from Pacific countries on population issues and related concerns such as HIV/AIDS. Interestingly, the assembly is supported by a secretariat, made up of parliamentary clerks, who, in addition to their official tasks, help to ensure continuity in a context of rapid political turnover.

Regular inductions of newcomers to parliament and updates on key issues of relevance to parliament should be offered on an ongoing basis. Leadership education should be part of this process. Peer pressure among politicians is often found to be useful. There is no better influence than good example, particularly when good behaviour is rewarded. Good politicians should be supported and encouraged to promote good governance among their colleagues.

INTEGRATING MODERN WITH TRADITIONAL COMMUNITY LEADERSHIP

Virtually every Pacific island country has a long tradition of institutionalised community leadership. Community leadership has effectively managed key local governance tasks such as the equitable distribution of community resources, the mobilisation of community effort, the management of land, and the maintenance of local law and order. In some countries,

such as Papua New Guinea, local institutions were virtually ignored when the new system of government was constituted after independence. In other countries, such as Fiji and Samoa, a degree of integration has taken place, which has allowed modern governance systems to build on and integrate existing traditional systems.

Traditional systems may not score highly from a democratic or gender perspective, but, at least in some Pacific island countries, local communities continue to respect and follow local leaders and tradition on issues such as land management and local law and order. Traditional systems are accessible and relatively cost free and, even when they are not formally recognised by the state, often have a greater legitimacy among local people than do formal structures. In any case, resource constraints often do not allow national and provincial governments to effectively reach the vast majority of people living in rural areas and small islands.

There is therefore merit in considering the integration of formal local governance structures with local traditional leadership systems by, for example, integrating local courts with traditional village justice systems. However, it must be admitted that, at least in some countries, traditional systems of governance are in flux, and their influence is slowly being eroded by external pressures such as urbanisation. How best to integrate modern and traditional leadership will therefore vary, both across countries and over time.

STRENGTHENING THE DEMAND SIDE OF REFORM: PARTNERSHIPS WITH CIVIL SOCIETY

Unless the demand for good governance is strengthened, institutional improvements will always be vulnerable to being rolled back.

In a democracy the ballot box is the ultimate expression of demand. But, when elected representatives are ineffective, there are other ways in which civil society can make its voice heard. Civil society organisations and leaders such as academics, business groups, churches, non-government organisations and trade unions can play a critical role in holding government accountable at the local and national levels.

Non-government organisations can contribute to good political governance in a number of very practical ways, such as undertaking periodic sample surveys of service delivery and recording performance against a select number of service indicators. These 'report cards' have become prevalent in South Asia and South-East Asia, and have proven to be an inexpensive, but potentially effective tool for making holders of political office more responsible and accountable. They are often picked up by the media, and can be used to embarrass poorly performing government agencies into lifting their game and to reward good performers with good publicity. The Solomon Islands Development Trust has started publishing annual scorecards of government performance in the press. Transparency International's 2004 corruption scorecards (national integrity studies) of all the Pacific Islands Forum members are a good example of what can be done.

Civil society does not just mean non-government organisations. Academics can potentially have a strong influence, both on politicians and on the electorate through their research, publications and speeches. They can also provide education and training for political leaders. Think tanks can provide analysis that is both independent and influential. The media have an important ‘watch dog’ role to play, giving kudos for good practice and commenting on and publicly condemning malpractice. The Pacific churches have a particularly important role to play in helping to organise civil society opinion and feedback to politicians.

Business interests can be engaged to influence governance more constructively than is often the case. Some commentators note an ‘antipathy towards open markets’ in the Pacific. Business interests need to be engaged, not to protect closed markets, but as part of a strategy to ‘create vested interests in open markets’.⁴² Organised public–private sector discussion of issues such as business sector regulation, impediments to doing business, infrastructure requirements, and taxation systems can help to exert the right sort of pressure on government (see Box 8.1 for an example).

Civil society needs to be strengthened in the Pacific. National governments cannot do this on their own, but they can provide an enabling environment (by allowing tax deductibility for non-government organisations, for example). Governments can also support partnerships with civil society. (The memorandum of understanding between the Government of Vanuatu and the Vanuatu Association of Non-Governmental Organizations is a step in the right direction.) What civil society needs most to be effective is information, and any government that wants to improve standards of governance and service delivery would be well advised to put more information about government performance in the public domain (whether through citizen charters, or publicising budget allocations). Governments could also create forums in which feedback from non-state actors can be received and discussed.

Reforms such as these will not usually have an immediate payback. Improving political governance is a long-term challenge, but perhaps the most important one facing the Pacific island countries between now and 2020.

42 See Duncan and Gilling (2005, p. 8-18) for these quotes and for further discussion of this point.



CHAPTER NINE

Productive sectors

The chapter examines the prospects for and challenges facing five important sectors of the economy: agriculture, fisheries, forestry, mining and petroleum, and tourism.⁴³ The analysis in this chapter focuses mainly on sector-specific issues, but also highlights any of the crosscutting growth factors that are especially important for the particular sector under consideration.

Agriculture

[M]ost people [in the Pacific] still depend on agriculture (including fishing) for their livelihoods. If they are to experience higher incomes, agriculture must be improved.

Brian Hardaker (1988, p. 3)

The larger Pacific island countries are agrarian societies, with agriculture – both subsistence and commercial – being the main source of employment and livelihoods. Agriculture provides a significant proportion of net export earnings for Fiji, Papua New Guinea, Solomon Islands, Tonga and Vanuatu. In East Timor, coffee is the main export earner after oil and gas. With the exception of Nauru, even the smaller countries depend to some extent on agriculture for subsistence, although much less so because of their limited land and the importance of their fishery resources. Some earn cash income from copra. Others earn some income from diversified agricultural exports, such as papaya in Cook Islands and taro in Niue.

Farming systems in the Pacific islands are varied and complex and have proven robust in the face of adversity. Farmers have responded to changed market conditions. In Papua New Guinea and Solomon Islands, for instance, currency depreciations have resulted in sharp increases in the prices of imported food and a large increase in domestic production for both self-consumption and sale.

⁴³ For more on the selection of these five sectors, see Chapter 1.

AGRICULTURAL OPPORTUNITIES AND CHALLENGES

Taking advantage of the many opportunities that the agricultural sector presents in many Pacific island countries will be important both to lift aggregate growth and to enhance rural incomes.

One domestic opportunity stems from the rapid rates of urban population growth, which have created a large and undersupplied market for traditional staples and other food products, including livestock products. Demand for fresh food, betel nut, kava, firewood and other products is also rising in the rural areas of some countries, as incomes from tree crop commodities, royalties and remittances increase.

There is also potential to target the tourism market more effectively. At present in the Pacific islands, most food consumed by tourists is imported. Significant tourism sectors offer a substantial market for locally grown produce, marine products and packaged value-added products.⁴⁴ These products in return can contribute to the value of the tourist's experience.

In terms of export opportunities, the countries of Melanesia remain internationally competitive in producing traditional tree crops.⁴⁵ The same applies to East Timor and its more recently developed coffee industry. In Fiji, after years of disappointment, smallholder horticulture is now the fastest growing part of its agricultural sector (Box 4.2).

There is scope to expand export markets by more effectively targeting the Asian and Pacific island communities in New Zealand, Australia and the west coast of the United States, which offer a significant market for various horticultural products, including root crops. Fiji and the Polynesian countries in particular are in a position to take advantage of these opportunities. The rest of Melanesia and East Timor are currently largely excluded from horticultural markets due to limited airfreight capacity, unfavourable fruit fly status, and the absence of their own people living in target markets.

Indigenous tree nuts have the potential to become for Melanesia what the Brazil nut is for the Amazon or the macadamia nut is for Hawaii. The nangai or ngali nut⁴⁶ is edible, and its oil is used in cosmetics and pharmaceuticals. An AusAID-funded project in Vanuatu, which supports the packaging and marketing of the nut, has demonstrated that limited value adding can produce prices as high as A\$17 000 per tonne. It is estimated that only 5 per cent of all nangai nuts grown in Vanuatu are harvested every year, so the potential value of production is much higher. Solomon Islands has a thriving domestic market for both natural and processed nangai

44 Each year, around 500 000 tourists visit Fiji and stay an average of eight days. If the average tourist consumes three papaya, two mangoes and one pineapple during a stay, the tourist market amounts to some 750 tonnes of papaya, 400 tonnes of mango and 400 tonnes of pineapple. These volumes are substantially larger than those expected to be exported, at least in the medium term.

45 As demonstrated by the remarkable recovery of Solomon Islands' copra and cocoa industries since 2003. With the restoration of peace in Bougainville, a similar recovery in copra and cocoa production has occurred.

46 The scientific name for this nut is *Canarium*.

BOX 9.1 ► THE PALM OIL INDUSTRY IN PAPUA NEW GUINEA

The PNG palm oil industry shows how innovative, market-driven industries can thrive, even in the difficult operating environments of Pacific island countries. From 1980 to 2000, PNG palm oil production grew by 10 per cent a year. It now generates more export revenue for Papua New Guinea (on average, approximately A\$200 million a year) than any other rural product, including coffee and forest products. This has been achieved despite the constraints of poor governance, weak infrastructure and customary land tenure. (No doubt, without these constraints, much faster growth could have been achieved.)

Several factors have underpinned its success.

- The agro-climatic conditions of the main plantation areas of Papua New Guinea confer a natural comparative advantage in palm oil production, because potential yields are higher than those of some of its competitors.
- Although the industry was initiated by the Australian administration in the 1970s, with the support of the World Bank, it has since been managed, operated and financed by the private sector.
- The industry is based on ‘nucleus estates’ that provide opportunities for smallholder production around large company-run plantations. The company plantations provide inputs and financing, and arrange for the purchase of the smallholders’ produce.
- The government mandated but privately funded Oil Palm Industry Corporation and Oil Palm Research Association provide effective research and extension services.
- The industry has also pioneered innovative harvesting arrangements involving local women that have increased the productivity of the oil palm blocks, put more revenue in the hands of women, and reduced social tensions within the local population.

Source: AusAID.

and has started to export nangai products. Many other promising species, though identified, require assistance and research in developing species selection, propagation and marketing.⁴⁷

Unfortunately, all of these opportunities notwithstanding, the agricultural sectors of the Pacific island countries have never developed to anywhere near their full potential. There are success stories, such as palm oil in Papua New Guinea (see Box 9.1). But many of them remain extremely vulnerable. Fiji’s sugar industry has done well, but is now in crisis with the loss of preferential access to the European Union and the non-renewal of many land leases to tenant

⁴⁷ Other indigenous nuts with high export potential include cut-nut (*Barringtonia spp.*), sea almond and okari (*Terminalia spp.*). The Hawaiian macadamia nut industry depended on the injection of substantial equity and risk capital. No such capital has been available for new agribusiness ventures in the Pacific islands. (Note that macadamia nuts are indigenous to Australia and were introduced to Hawaii in the 1880s. Hawaii was the first to produce the nut in commercially exportable quantities.)

farmers. Taro was the lead export product in Samoa until disease decimated the industry. Tonga's economy is highly dependent on squash, which is grown in a largely unsustainable way and sold to a seasonal niche market in Japan.

Overall, the agricultural sectors in the Pacific island countries have performed badly. The data are of poor quality, but suggest low though variable agricultural growth across the region (Table 9.1). Traditional farming systems are under increasing pressure, particularly in Melanesia and East Timor, where population growth rates remain high and available land is limited. Further limiting factors to increased subsistence and commercial crop production include high transportation costs, restrictions on access to overseas markets, a deterioration in the natural resource base, particularly soil fertility, and pest and disease problems.

TABLE 9.1 ► AVERAGE ANNUAL GROWTH IN AGRICULTURE IN PACIFIC ISLAND COUNTRIES FROM 1995 TO 2003

	Growth rate
	%
Melanesia & East Timor	
Fiji	-0.7 ^a
Papua New Guinea	0.1 ^a
Vanuatu	2.0
East Timor	-1.3 ^b
Polynesia	
Cook Islands	8.3
Samoa	-0.5 ^c
Tonga	2.0
Tuvalu	-1.6 ^a
Micronesia	
Kiribati	8.8
Marshall Islands, Rep. of	-8.5 ^d
Nauru	-4.2 ^a
Palau	-2.3

a 1995–2002. **b** 1998–2003. **c** 1995–2004. **d** 1995–2001.

Source: Asian Development Bank (2005d).

What needs to be done to improve agricultural performance? Action is of course needed on the crosscutting issues identified in the previous chapter. Infrastructure emerged as a particularly important constraint for agriculture, but the land and credit markets were also emphasised. Three sector-specific actions also emerged from the Pacific 2020 process as essential for lifting agricultural productivity and accelerating agricultural growth: improving farmer access to technology and information; removing distortions against agriculture; and facilitating market access.

IMPROVING FARMER ACCESS TO TECHNOLOGY AND MARKET INFORMATION

Limited access to appropriate technology and market information is constraining the ability of producers and marketers to make informed decisions on how to increase efficiency, improve the quality of produce, and ensure their products meet consumer demand. Farmers need advice on how to control pests and disease, maintain soil fertility, handle produce after harvest, use food technology and access realistic market information.

The research needs of the significant export commodity industries in the Pacific island countries (such as sugar and palm oil) are relatively well catered for. However, a substantial increase in public funding for research and development institutions may be warranted, since only the larger tree crop export industries in Papua New Guinea and the sugar industry in Fiji have the scale and fund-raising capacity to be self-sustaining in financing research.

Research to enhance household self-sufficiency is a priority and, as a public good, will be undertaken only if it is funded by government or donor. For those countries unable to operate and fund their own research institutions, there are opportunities to establish twinning relationships and links with neighbouring countries, such as Papua New Guinea and Vanuatu, as well as with donors and international research institutions.

The extension and outreach capability of commodity industries has not matched their research capability. The departments of agriculture in the Pacific island countries operate diffuse and often ineffective extension services with weak links to research. The future for agriculture in these countries lies with providing greater scope for industry-led research and extension, planned and undertaken in concert with governments and donor partners.

In some countries, alternative industry-led models are being adopted with encouraging results, although sustainable funding remains a challenge. In Papua New Guinea, for example, extension services are being provided by the privately funded Oil Palm Industry Corporation (Box 9.1). This model could be applicable to the development of other large industries requiring central processing or handling, such as a future major Melanesian indigenous nut export industry or a large Fijian horticultural export industry requiring quarantine treatment.

Other more diffuse agricultural export industries are devising innovative solutions based on contracting out extension services. For example, the Papua New Guinea Coffee Industry Corporation is now contracting out grower outreach services. In Vanuatu, the largest spice exporter uses the Farmer Support Association to provide extension services to its smallholder suppliers. In Papua New Guinea a vanilla exporter has forged a similarly successful partnership with the non-government organisation Didi Meri. Non-government organisations and farmer networks are also active in Solomon Islands providing quality seeds and promoting collaboration. While no one model is applicable to all circumstances, these examples provide guidance to industry policymakers on ways to proceed.

It is in the area of domestically marketed and subsistence food products that research and extension capability is weakest. Farmers need improved planting material and the capacity to manage the pest, disease and soil fertility problems associated with the intensification of land use. The Samoa experience has shown the potential for new fruit species (eg rambutan) and varieties (eg papaya). In some countries there is scope to strengthen existing departments responsible for agriculture to provide these services. In others, however, there is probably little point in trying to rehabilitate the traditional extension functions of these departments. Alternative models need to be pursued, with greater reliance on the private sector. Some examples of actions that can be taken follow.

- Financial and technical support can be provided to smaller non-government initiatives to generate and disseminate information. An example is the village extension worker network established by Papua New Guinea's fresh produce industry (Box 9.2).
- Ensuring that there is competition for the public funds allocated for research and extension among potential implementing agencies can promote efficiency and help to ensure a focus on industry needs rather than the interests of the existing research and extension agencies.
- Regional bodies with agricultural programs, such as the Secretariat of the Pacific Community, can be used to help get technology and market information directly to agricultural communities.

BOX 9.2 ► FINDING NEW MODELS FOR DELIVERING EXTENSION SERVICES: PAPUA NEW GUINEA'S VILLAGE EXTENSION WORKER NETWORK

In Papua New Guinea, extension services for the fresh produce industry have been provided through the Fresh Produce Development Agency, created under the Companies Act, with government and donor funding. The agency has had reasonable success in supplying information to the fresh produce industry and is credited with facilitating the development of the potato industry (McGregor, Lutulele and Wapi 2004). Perhaps its most important achievement has been the establishment of a low-cost, community extension system based on a village extension worker network. The network model could be amenable to the newly emerging PNG spice industry, where lack of information on quality requirements is a major constraint to development. The concept of village extension workers has wide applicability among the Pacific island countries.

Source: Pacific 2020 agriculture roundtable.

REMOVING DISTORTIONS AGAINST AGRICULTURE

As with other sectors examined as part of the Pacific 2020 process, agricultural development depends heavily on an enabling environment. Agriculture is often disadvantaged by exchange rate and trade policies. Microeconomic policy is also important. For example, farmers should have a choice in who they sell to. The importance of policy for sectoral growth is shown by the varied performance of coffee and cocoa across the Pacific (Box 9.3).

BOX 9.3 ► THE IMPACT OF COMPETITION POLICY ON SECTORAL OUTCOMES: THE EXAMPLE OF COFFEE AND COCOA

The coffee and cocoa boards in Papua New Guinea have never had a monopoly on marketing. The boards have instead focused on improving quality standards, stabilising prices, and funding and directing research. The resulting competitive marketing structure has served growers well and remains largely intact today, despite the declining efficiency and performance of the regulatory institutions.

This contrasts with Fiji, Samoa and Vanuatu, all of which opted for parastatal monopolies to market cocoa. The Fiji and Samoa export industries now barely exist and the Vanuatu industry is performing well below its potential.

Source: Pacific 2020 agriculture roundtable.

Policy formulation would benefit from greater engagement with industry and other stakeholders. In Samoa, for instance, collaborative mechanisms established for consultation with industry have led to the joint formulation of policies and supporting programs for rehabilitating the coconut and cocoa industries.

To promote microeconomic reform in agriculture, consideration could be given to establishing a regional, independent consumer and competition watchdog, an advisory body that could set benchmarks and provide neutrality. There would also be advantages in establishing a small regional unit (perhaps within the Forum Secretariat) to provide governments with independent policy analysis and advice and to train national staff in policy analysis. Although its primary purpose would be to advise national governments, it would be highly desirable if industries could also obtain independent policy analysis and advice from this body.⁴⁸

FACILITATING MARKET ACCESS

Effective systems to ensure that produce meets quality and safety standards – sanitary and phytosanitary (SPS) standards, for example – are a weak link in the export marketing chain for Pacific island countries. Exporting countries are faced with the dual challenge of ensuring that their products meet the quarantine safety standards of their export markets, while ensuring that their own quarantine systems are adequate to enable imports of improved varieties and prevent the entry of pests. There are too many examples of growers and exporters suffering significant losses as a result of failures in these systems.

⁴⁸ For example, the Papua New Guinea Government is currently proposing to impose a duty on exports of cocoa beans as an incentive for the establishment of a local processing plant. The Vanuatu Government is also flirting with the possibility of reintroducing monopoly export rights for copra. The affected national industry groups may see it as useful to request such a regional policy advisory body to provide an independent assessment of the implications of these moves.

To prosper, the agricultural sector depends on the timely development of protocol for exports, efficient pest risk assessments for imported plant and animal material, and an acceptable level of quarantine security. There has been insufficient consultation with industry to determine market access priorities, and with quarantine officials from importing countries to determine appropriate standards. Although some countries have benefited from the activities of the Secretariat of the Pacific Community and from the aid-funded projects on institutional strengthening, and other countries have moved to corporatise quarantine functions, more than institutional reorganisation is required.

With the onus now on scientific justification for SPS measures, a successful SPS service must have the necessary technical and managerial capabilities. However, many Pacific island countries will not be able to develop the critical mass of expertise required to provide such functions. This suggests they need to take a regional approach to SPS services to realise economies of scale, as envisaged by the Pacific Plan's Regional Trade Facilitation Programme.

More work is also needed to resolve non-SPS market access barriers, such as securing import approval for new or specialised products. Noni, kava and various indigenous nuts have considerable export potential, but only if market access issues can be resolved. Again, a regional approach might be the most effective.

Fisheries

Most of the Pacific island countries control considerable areas of ocean, with ocean area exceeding landmass by an average of 300 to 1. Oceanic fishing (mainly tuna) is important in different contexts for employment, export earnings and government revenue. The average annual tuna harvest from the Pacific islands region is about 1 million tonnes with a landed value close to US\$1.7 billion – about one-third of all landed tuna worldwide (Petersen 2001).

The importance of fishing for Pacific island countries is indicated in Table 9.2. Several of the countries with the greatest fisheries potential in their waters are those with the lowest income per person, such as Kiribati, Tuvalu and Papua New Guinea (Table 2.1). Some of the Pacific microstates have few economic opportunities other than fishing open to them. Kiribati, for example, gets about 60 per cent of its government revenue from fishing.

Oceanic fisheries are approaching sustainable fishing limits for some species after decades of steady growth in catches. As 2020 approaches, more and more fishery activities will come up against sustainable resources limits due to overfishing, population pressures and environmental degradation.

In the Pacific countries, where most people live in coastal areas, coastal fisheries are important to food security and community living standards. The value of coastal catches for food was estimated at around US\$180 million in the mid-1990s, and the value of coastal fisheries for export products at US\$50–80 million. While there are opportunities to increase the values of

yields from some coastal fisheries, the greater challenge is to maintain yields in the face of increasing local demand and degradation of reef and lagoon systems.

Currently, aquaculture contributes relatively little to the economies of Pacific island countries, except in the case of black pearls. If aquaculture is to expand – and there are some good prospects⁴⁹ – improved national frameworks for sustainable aquaculture and regional cooperation in biosecurity and quarantine will be important. Though this section focuses mainly on oceanic and coastal fisheries, many of the specific policy actions recommended apply equally to aquaculture.

TABLE 9.2 ► THE IMPORTANCE OF FISHING TO PACIFIC ISLAND COUNTRIES, 1999

	Fishing contribution to GDP	Fishery exports as a percentage of exports	Access fees as a percentage of GDP
	%	%	%
Melanesia			
Fiji	2.3	6.0	0.01
Papua New Guinea	0.6	1.8	0.2
Solomon Islands	12.8	20.0 ^a	0.1
Vanuatu	1.0	<1.0	0.1
Polynesia			
Cook Islands	2.8	81.9	0.2
Niue	1.7	0	2.0
Samoa	8.0	61.5	0.1
Tonga	7.1	23.8	0.1
Tuvalu	6.8 ^b	1.2 ^b	42.6
Micronesia			
Kiribati	11.8	16.9	42.8
Marshall Islands, Rep. of	7.4	6.2	5.1
Micronesia, Fed. States of	4.7 ^b	94.7 ^a	6.7
Nauru	2.1	0	6.6
Palau	2.8	73.0 ^c	0.7

a In 1997. **b** In 1998. **c** In 1996.

Note: Different methodologies were used in calculating the data and may include subsistence fishing for some countries. Access fees are fees paid by foreign vessels.

Source: Asian Development Bank (2002c).

⁴⁹ Aquaculture could be expanded through, for example, wider adoption of methods for farming pearls (based on the success of Cook Islands) and seaweed (based on the success of Kiribati), increased subsistence aquaculture, and farming marine organisms for specialist markets such as aquariums and for building overexploited wild stocks.

As in other sectors, misgovernance exacts a heavy toll on fisheries. Policy instability, high taxation, slow immigration processes, investment insecurity, weak public administration, government interference and corruption are currently constraining the development of both oceanic and coastal fisheries. The lack of infrastructure is also a serious concern. Models based on direct public sector involvement in the sector – through ownership, for example – have failed. But there are private-sector-led models to draw on from among the Pacific island countries. For several years Samoa, with its tiny exclusive economic zone and valuable domestic fishing industry, has provided a good example of real benefits flowing to a rewarding policy environment. Progress is also being made, despite some failed initiatives, within countries such as Cook Islands, Fiji, the Republic of the Marshall Islands, Papua New Guinea, Tonga and most recently Niue, not only in the tuna fishery, but also in some inshore fisheries.

Much can be done to enhance the development contribution of the fisheries sector. The Pacific 2020 process revealed five sectoral imperatives, which are now explored in turn: increasing the benefits from access to fishery resources; improving sector transparency; strengthening private sector organisations; developing fisheries management and technical skills; and maintaining the health of coastal fisheries through greater community involvement.

INCREASING THE BENEFITS FROM ACCESS TO FISHERY RESOURCES – VALUE NOT VOLUME

Currently, most of the catch in the waters of the Pacific island countries is made by distant-water foreign vessels fishing under access licences and landing their catches in foreign ports with little or no direct contact with island communities. Access fees return US\$60–70 million to the Pacific island countries each year. Over 95 per cent of this is earned by six countries (in descending order of importance, Kiribati, Federated States of Micronesia, Tuvalu, Papua New Guinea, Republic of the Marshall Islands and Nauru). Several countries have also encouraged development of a domestic fisheries business by using, for example, domestic processing requirements attached to access licences. The current value of catches by tuna vessels based in Pacific island countries is estimated at around US\$300 million a year and is growing, with added value from processing plants in 10 of the countries.

Some will argue that countries should take the benefits from granting access to their fishery resources through the most efficient means (namely, cash payments) and leave the development of the domestic fisheries sector entirely to the market. Others defend a preference for employment opportunities over cash grants because of the urgent need to create jobs, the low levels of efficiency in the public sector, and the volatile nature of the access rents. Whatever one's view on this debate⁵⁰ (and it is clear that, if the latter route is chosen, it has to be done in a way that keeps the public sector out of commercial activities), different countries are likely to continue to take different paths.

50 See Asian Development Bank (1999a) for a good discussion of this issue.

Those countries that have big exclusive economic zones supporting large offshore stocks and that face severe constraints to being involved directly in harvesting those resources will continue to rely on arrangements to license foreign vessels, including vessels from other Pacific island countries. The countries that have better infrastructure and market access, more competitive economies and stronger private sectors are likely to continue to pursue domestic fishery development.⁵¹

The recent establishment of the Western and Central Pacific Fisheries Commission (WCPFC) has greatly changed the outlook for managing and developing tuna resources, and for relations between Pacific island countries and fishing states. The timing seems favourable for some bold, innovative approaches to increasing the benefits from access to fishery resources (see Box 9.4 on the WCPFC and other regional fishing bodies). There is an expectation that limits for conservation will be applied. These will make access to fishery resources more scarce and therefore more valuable. There is also an expectation that control over access to resources by Pacific island countries should be strengthened rather than weakened by the operation of the WCPFC, particularly if it leads to substantial allocations of long-term fishing rights to these countries and to limits to fishing in the high seas.

There will be opportunities for Pacific island countries to use the new situation to grant longer term, more secure, more valuable access rights, either to earn higher access fees or to leverage the domestic development of processing and marketing, or vessel servicing. They can perhaps increase their returns further by collaborating more closely to harmonise fees or provide access to a wider area for a single licence, to process and market produce from the region to world markets, or to tie access to trade opportunities. A further opportunity for increasing benefits lies in getting away from the current practice of licensing whole foreign fleets under access agreements and instead dealing with individual boat-owning companies, making them compete against each other by using, for example, tendering and auctioning processes.

New alliances will be a feature of strategies to increase the benefits from access, both with foreign fleets and among the Pacific island countries themselves. Some Pacific island countries have already taken advantage of opportunities to create alliances relating to access with others in the group. For a long time Fiji has promoted mutually beneficial arrangements with neighbouring states based around processing operations in Fiji and use of its ports and transport services to export markets. More recently, Cook Islands, Niue, Samoa and Vanuatu have been involved in joint fishing and processing activities, and recent fluctuations in the longline fishery in that area underscore the need for domestic vessels to have access to wider areas of fishing grounds to survive. In the tropical subregion, the Federated States of Micronesia, Kiribati, Papua New Guinea and the Republic of the Marshall Islands have been able to secure development gains from the FSM Arrangement that provides mutual access for purse seine vessels⁵² to each other's waters.

51 The Pacific Plan commits countries to in-principle agreement to 'encouragement of effective fisheries development, including value-adding activities'.

52 Purse seining is a commercial fishing method used to capture schooling surface fish whereby an area of water is surrounded by a net that is then 'pursed' at the base to enclose that area from below. It is commonly used in tuna fishing.

BOX 9.4 ► REGIONAL FISHERY INSTITUTIONS

Fishing of the highly migratory tuna species found in the Pacific is now managed by the recently established Western and Central Pacific Fisheries Commission, which has its headquarters in the Federated States of Micronesia. The WCPFC members include not only the Pacific island countries, but also the larger Pacific nations of Australia, Canada, China, Japan, Korea, New Zealand and the Philippines. The European Union is also a member. The United States has signed the convention, but not yet ratified it.

The ocean coverage of the WCPFC accounts for more than 40 per cent of the world's tuna, worth more than US\$2 billion a year. The objective of the WCPFC is the effective management, long-term conservation and sustainable use of the highly migratory fish stocks in the western and central Pacific Ocean.

The WCPFC has the authority to determine the total allowable catch or level of fishing effort and can develop allocation criteria accordingly. (This has not yet been done, but should remain a priority.) It will decide on management of the high seas areas outside the 200-nautical mile exclusive economic zones where the jurisdiction of national governments' ends. Members of the WCPFC will have a responsibility to ensure that the national management of tuna species within their exclusive economic zones is compatible with the overall management objectives of the commission.

The longer established Forum Fisheries Agency and the Secretariat of the Pacific Community assist their Pacific member countries to manage their fisheries. Further, within the Pacific there are a number of regional and subregional treaties, agreements and arrangements to coordinate and harmonise the management of regional fisheries.

In general, the Forum Fisheries Agency and the Secretariat of the Pacific Community are perceived to be effective bodies with respect to the fisheries sector. As the Secretary General of the Forum Secretariat put it recently, 'fisheries is one sector where regional cooperation has worked successfully for us'.

Source: Australian Department of Agriculture, Forestry and Fisheries.

IMPROVING TRANSPARENCY IN THE FISHERIES SECTOR

Recent cases of corruption and continuing expressions of concern from representatives of the fishing industry about the integrity of decisions relating to the granting of licences point to the need for greater transparency in fisheries decision making. These concerns apply in particular to decisions about who should and should not be allocated licences, to the conditions attached to licences, and to decisions on fee levels, especially for foreign vessels.

There is a need to enhance transparency through legal and administrative reforms to codify and formalise licensing processes. Responsibilities for licensing and setting fees and other conditions should be broadened to include agencies such as finance ministries and legal authorities so that the responsibilities do not lie with a single government minister or senior official. Licensing details should also be publicly disclosed so that decisions on to whom licences are granted and on the terms and conditions of licences can be subject to public scrutiny.

There is also too much secrecy at the regional level. Pacific countries would be better served by sharing information, not concealing it from each other, so that all of them are better informed in dealing with foreign fishing partners, and there can be more open dialogue about access arrangements as a basis for more cooperative and collective action. Regional organisations, particularly the Forum Fisheries Agency, are the obvious focus for an effort to improve transparency through information sharing between Pacific countries. This could be a priority under the Pacific Plan initiative to harmonise fisheries legislation and access frameworks.

STRENGTHENING INSTITUTIONAL ARRANGEMENTS AND STAKEHOLDER CONSULTATION IN THE PRIVATE SECTOR

In most Pacific island countries, fisheries management processes have traditionally been concentrated within the fishery administrations. They have generally not provided structured dialogue and consultation with other stakeholders, including the private sector and even other government agencies. Over the past decade, as domestic fishery businesses have developed, there have been greater efforts to engage the private sector by establishing consultative fishery management processes, but in most countries these are still inadequate and, in some cases, virtually non-existent. A recent initiative at the regional level was the establishment in 2005 of the Pacific Islands Tuna Industry Association to represent national tuna industry associations.

Strengthening institutional arrangements among private sector interests, and improving arrangements for dialogue with government will help to improve the national management of fisheries and increase the effectiveness of national delegations in regional and international forums, particularly the WCPFC. For example, enhanced organisation by the private sector itself with government support has enabled vigorous participation of PNG private interests in the WCPFC process, benefiting not only Papua New Guinea but the collective Pacific island stance in that process.

Improvements in this direction require a range of commitments from fishery business interests, governments, donors, and regional and international agencies. The most important of these is the commitment from fishery businesses themselves of the necessary time, energy and cash to form and support appropriate institutional arrangements. But government and donor support is also important.

PROMOTING MENTORING AND PARTNERSHIPS TO DEVELOP ENTREPRENEURS AND BUSINESS MANAGEMENT SKILLS

Weaknesses in private sector capacity are a cross-sectoral constraint on growth in the Pacific island countries. A business–government partnership to strengthen entrepreneurial capacity and build business management and technical skills would help empower citizens to participate more fully and effectively in fishery businesses. There should be a particular focus on mentoring or partnership approaches that aim to develop entrepreneurs and build fisheries management and technical skills.

Strengthening government departments will also be important. The ability of Pacific island countries to generate data about coastal fishery resources will be crucial. Departments responsible for fisheries also need to strengthen their abilities to engage with local communities and implement co-management plans. Further capacity development is required to ensure Pacific island countries engage effectively in the opportunities that the WCPFC presents and to ensure different policy options and their implications are appreciated. A study by the Secretariat of the Pacific Community (2004) found that no member country had the capacity to fully comply with the expected data requirements of the WCPFC.

IMPROVING COASTAL FISHERIES MANAGEMENT THROUGH COMMUNITY INVOLVEMENT

Improvements in coastal fisheries management should aim to maintain the contribution of inshore fisheries to food and nutrition, while carefully exploiting opportunities to increase incomes from domestic or specialist export market opportunities.

There are opportunities for addressing coastal fisheries management problems at three levels – local, national and regional. It is now accepted that real gains can be made only from improving management and increasing capacities at a local level. This would involve preserving and strengthening traditional management systems where possible, and creating or strengthening alternative community-based management systems elsewhere. For community-based fisheries management to be successful, a comprehensive national strategy is required because there will usually be a need to change national laws, policies and institutions.

Across the region, there are recognised successes in improving coastal fisheries management. Fiji's legal recognition of community fishing rights is probably the most comprehensive in the world, and Samoa's Community Fisheries Programme has become a global model (see Box 9.5). Although there is no single solution that fits all countries, much can be gained from sharing experiences and pooling resources, particularly in assessing the status and prospects of reef fisheries, applying legal structures that devolve fisheries management authority, and developing strategies for governments to support traditional resource management and build community capacities for effective management of marine resources. There is particular value

in cooperation to ensure that countries and communities can respond quickly to what are often fast-developing new inshore fishery opportunities such as exporting species for aquariums and live reef fish for food – cooperation both in terms of applying appropriate conservation management strategies and ensuring that resource owners secure fair value for products.

BOX 9.5 ► SAMOA FISHERIES PROJECT

The goal of the AusAID-supported Samoa Fisheries Project was to make a significant contribution to the sustainability of Samoa's inshore and offshore marine resources, and to the continuing development of the nation's village-based and commercial fisheries.

The inshore part of the project addressed sustainability by increasing the involvement of communities in managing their adjacent fisheries and by increasing the ability of government fisheries staff to encourage and assess participating communities.

An extension service was developed to promote the community-based fisheries management program in village-based fisheries. When the project ended, the program included 64 villages with Village Fisheries Management Plans. Of these, 52 have community-owned fish reserves (marine protected areas). A separate extension service, established for the commercial fishery, provided support for the Commercial Fisheries Management Advisory Committee and addressed issues relating to safety at sea and seafood handling.

The economic benefits from the project include increased productivity in both the commercial and subsistence fisheries. Benefits from the community-based fisheries management program include an average increase of 56 per cent in fish catches in communities with their own fisheries management plans compared with villages not in the program.

Source: Pacific 2020 fisheries roundtable.

Forestry

Governance has been particularly poor in the area of forestry with the side effect of promoting corrupt practices and undermining environmental sustainability.

Former Prime Minister of Papua New Guinea, Sir Mekere Morauta (1999)

Forestry raises as many questions about the management of growth as it does about its acceleration. Natural forestry and plantation forestry present governments with very different challenges and opportunities, and are treated separately in the discussion that follows.

ADDRESSING THE NATURAL FORESTRY CRISIS

Many Pacific island countries have a high degree of forest cover (Table 9.3). They hold some of the world's last remaining areas of intact lowland tropical rainforest with globally significant levels of biodiversity. Forest resources are important for the subsistence economies of some of the smaller countries (for example, Federated States of Micronesia, East Timor, Niue and Tonga). Four Pacific island countries – Papua New Guinea, Solomon Islands, Fiji and Vanuatu – support forest industries that are very important to their economies, particularly as a source of foreign exchange.⁵³

TABLE 9.3 ► FOREST COVER IN PACIFIC ISLAND COUNTRIES

Country	Land area	Forest area (estimated 2005)	Forest area 2005 as a percentage of land area
	'000 ha	'000 ha	%
Melanesia & East Timor			
Fiji	1 827	1 000	54.7
Papua New Guinea	45 284	29 437	65.0
Solomon Islands	2 799	2 172	77.6
Vanuatu	1 219	440	36.1
East Timor	1 487	798	53.7
Polynesia			
Cook Islands	23	16	69.5
Samoa	283	171	60.4
Tonga	75	4	5.3
Tuvalu	3	1	33.3
Micronesia			
Kiribati	73	2	4.1
Marshall Islands, Rep. of	18	...	...
Micronesia, Fed. States of	70	63	90.6
Nauru	2	0	0
Palau	46	40	87.6

Note: Table shows all forested areas, including areas not commercially exploitable. Data are for 2005 or, if unavailable, an earlier year. ... Not available.

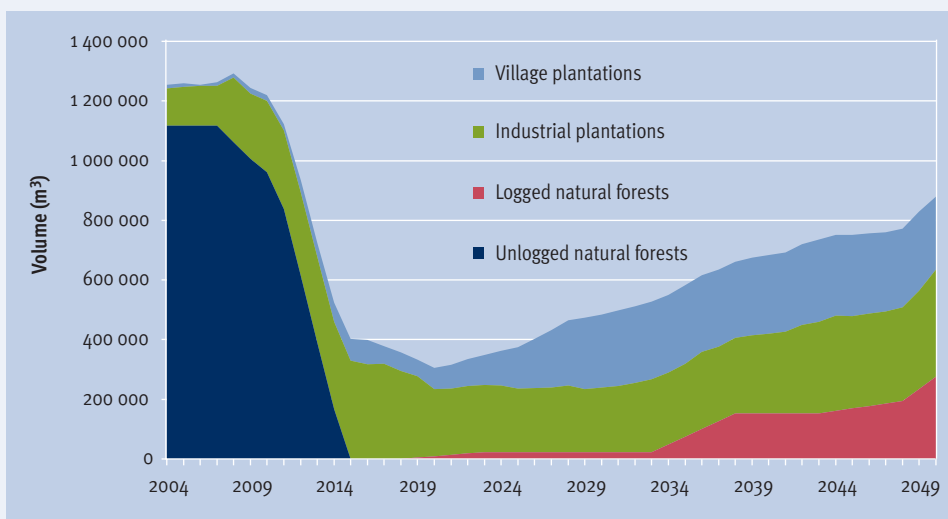
Source: Food and Agriculture Organization (2006).

53 Vanuatu earns this exchange from processed timber exports and taxes, and gains an economic advantage through the value of domestically sourced inputs and employment. Fiji mirrors Vanuatu to a lesser extent. In contrast, logging in Papua New Guinea and Solomon Islands currently has limited links to the rest of the economy.

Governments in the Pacific island countries tend to start from the premise that natural forests are renewable resources. But in Solomon Islands and Papua New Guinea logging continues at two to three times the ‘sustainable yield’ level, and the major natural, accessible forests in both countries are likely to be logged out by 2020 or earlier.

The output from natural forests is thus bound to decline in the coming years. As Figure 9.1 illustrates for Solomon Islands, by 2015 natural forest production could have come to an end and total log production could be at a third of the current level. This will have large, economy-wide implications. In Solomon Islands, exports of whole logs provided 65 per cent of total export earnings in 2004. The only question is whether the inevitable decline will be gradual and managed because of a shift to more sustainable extraction, or whether natural logging will come to an abrupt end because of the disappearance of accessible forests.

FIGURE 9.1 ► PROJECTED LOG PRODUCTION IN SOLOMON ISLANDS TO 2050



Note: The original version of this figure (from the data source below) is based on a projection of annual natural forest logging of 644 800 m³ (the average output for the years 1994–2003). In 2005 the volume cut was 1 118 000 m³. This much higher number has been used to rework the projections for natural forest logging. Other projections are as per the original version.

Data sources: AusAID Solomon Islands Forestry Management Project (2003); own calculations.

While some infrastructure and other services are provided to communities in return for logging rights, much of what is provided is substandard. Even employment opportunities for nationals are limited.⁵⁴ And governments are not gaining as much as they could from

54 There is little domestic processing. While many countries have policies committing to the promotion of downstream processing (particularly sawn wood), implementation has been less successful. ‘Walk about’ sawmills can be seen as a community resource for value-adding processing, but a number of issues need to be resolved. These operations are not necessarily environmentally benign, the production can be extremely wasteful, the distribution of income is not necessarily equitable, and finding and accessing markets in which to trade the resulting products is difficult without considerable assistance.

logging. In Solomon Islands, it is estimated that half the logs exported are exempt from duties. Furthermore, the logging is reducing other opportunities to use the forests. For example, they can be used for non-timber forest production (see the discussion on forest nuts in the section on agriculture) and for environmental services, payments for which are starting to be seen internationally.

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. Vanuatu and Fiji may be showing the way forward (Box 9.6).⁵⁵ Yet prospects for shifting to a more sustainable and economically rational logging regime are poor in Solomon Islands and Papua New Guinea. After all, the forestry crisis is not a new one. In Papua New Guinea the forestry cut was estimated to be at three times the sustainable level as far back as 1993 (Nadarajah 1993). Major attempts to reform that country's forestry sector have failed. In Solomon Islands the 2002 Forests Bill still awaits approval. Powerful vested interests are involved, as are large failings of governance.

BOX 9.6 ► VANUATU AND FIJI: MOVING TOWARDS SUSTAINABLE NATURAL FORESTRY

Vanuatu's National Forest Policy aims to ensure that its forests are managed on a sustainable basis to maximise social and economic benefits for current and future generations. It was prepared over two years and involved widespread consultations. The final document was prepared following a series of workshops on public forest policy held around Vanuatu in April 1997 and was formally endorsed by the Council of Ministers in November 1998. Unlike in several other countries, the implementation of the policy appears to have been effective.

The Fiji Forestry Department, with the support of the Secretariat of the Pacific Community and German donor support, has been working with landowners in the Drawa area, on the south-eastern tip of Vanua Levu (Fiji's second largest island), to develop a commercially viable sustainable management regime for their forests. The ultimate goal is to improve livelihoods and create maximum long-term economic benefits through community-based management, processing and value adding. Based on extensive consultations with the local communities and relevant agencies (government and non-government), a comprehensive forest management plan and a holistic land use plan for non-timber activities have been developed, and a wide range of technical and business training courses have built up the necessary capacity to implement them. The first logs were sold profitably in 2005 and a portion of the profits will go into community development projects in the various villages. It is anticipated that the positive experiences gained from the Drawa model areas will help to institutionalise viable community-based forest management regimes for all native forests in Fiji.

Sources: Pacific 2020 forestry roundtable; Secretariat of the Pacific Community.

55 In addition to the progress highlighted in Box 9.6, two community forest projects in the Pacific, the Nakavu Forest Project in Fiji and the Fasak Eco-Forestry Project in Vanuatu, were listed as examples in the Durst et al. (2005) publication highlighting cases of exemplary forest management in Asia and the Pacific.

DEVELOPING NEW PLANTATIONS

Realistically, growth opportunities in forestry in the Pacific island countries can come only from new plantations.⁵⁶ Tree growing in the tropics is highly labour intensive, requires few tools and very little infrastructure, and provides opportunities for rural employment. It does, however, require a long-term commitment.

While there is obvious potential in the land-abundant Pacific countries for large plantations, land tenure constraints mean that the greatest potential for plantations may be at the community or household level. (The large-scale plantations in Solomon Islands are on alienated land.) Box 9.7 provides an example from Solomon Islands of a community forestry project that has assisted communities to grow high-value trees, which are planted and owned by individual families.

BOX 9.7 ► COMMUNITY PLANTATIONS IN SOLOMON ISLANDS

The community forestry component of the AusAID-supported Solomon Islands Forestry Management Project aims to enhance rural livelihoods through better use of forest resources. It has been one of the most successful aspects of the project to date.

The community forestry component has assisted communities to grow high-value (predominantly teak) trees, which are planted and owned by individual families. It is underpinned by a comprehensive campaign to educate people about new market opportunities for forestry and how communities can gain better outcomes, both financially and socially, from improved logging practices. There is strong demand to develop forestry plantations, which have the potential to significantly and permanently contribute to rural and national income.

Source: Pacific 2020 forestry roundtable.

New plantations would need to focus on a few species in which the Pacific has some comparative advantage in meeting the demands of specialty markets unlikely to be supplied by other countries producing plantation woods. Likely candidates are teak and mahogany because the supply of high-quality furniture timbers from natural forests is in decline, and export markets are increasingly prepared to pay a premium for quality timber from sustainably managed sources.

Other possibilities include specialty woods such as sandalwood and sandalwood hybrids in Vanuatu, Fiji, Cook Islands, Tonga and East Timor (2 hectares of sandalwood aged 15–20 years is currently worth about US\$400 000). Poumuli in Samoa can be grown within a 7–9 year rotation and it produces durable poles with good market potential. To help overcome cash flow

⁵⁶ See Curtin (2005) on the potential of plantation forestry in Papua New Guinea.

problems associated with the long gestation of forest products, the plantation trees could be interplanted with cash crops.

The successful development of plantation forestry will require research support, both in selecting species and in developing silviculture and markets, and certification, which will improve access to niche markets and help to address environmental and sustainability concerns (Box 9.8).

BOX 9.8 ► TIMBER CERTIFICATION

Currently, the markets for the main whole-log exports of the Pacific island countries have little or no requirement for certification. However, market access for high-value forest products is likely to be increasingly predicated on some form of certification in relation to environmental stewardship.

Certification schemes can be developed at the national or community level. Non-government organisations and other agencies are already initiating certification at the community level in a number of countries. Third party mechanisms (group certification) can be used to certify a number of small enterprises that independently would not have the expertise or finance to meet the costs of certification. Responsibility for certification of forest management for timber production can be given to existing forest-based enterprises – for example, ones that are engaged in the production of non-timber forest products or ecotourism.

This is also an area where a regional approach could be helpful. A regional certification body could be used for setting standards or for actual certification. Existing international standards should also be considered for use.

Source: Bond (2006) Pacific 2020 background paper.

Mining and petroleum

In very simple terms, the best-case scenario would be one in which further expansion of investment in both sectors [mining and petroleum] is matched by the development of better policy and management tools in light of past experience. The worst-case scenario would either be one in which higher levels of investment have all sorts of negative outcomes for the countries and people affected by it, or else one in which social, political and environmental risks result in lower levels of investment and a lost opportunity for economic growth.

Colin Filer (2006)

The mining and petroleum sector is not typically considered in examinations of economic growth potential across the Pacific. However, mining affects the development of virtually every Pacific island country in some way and is important for a significant minority (East Timor, Papua New Guinea and Solomon Islands).

Mining and petroleum projects often have a huge impact on both national and local economies. Mining does not usually create a lot of employment, although in Papua New Guinea the small-scale mining employs 60 000 people (including part-timers). But mining is important because of the export earnings and government revenue it gives rise to. Just how important can be seen from the example of East Timor. The government received an estimated US\$244 million in petroleum revenues in 2004–05, compared with GDP for the same year of US\$339 million (International Monetary Fund 2005d).

The costs associated with resource projects can range from a rise in corruption and a breakdown in social order, to environmental devastation and large decommissioning costs, to possible appreciation in the exchange rate leading to a lack of competitiveness. The fundamental challenge for governments in relation to the resources sector is its effective management. If the sector is not well managed it is quite possible that the costs will outweigh the benefits.

Most Pacific islands mine sand and coral for use as construction material. The years to 2020 are likely to see the emergence of deep seabed mining, which will raise a number of governance and development issues and affect a broad range of Pacific island countries.⁵⁷ Papua New Guinea and Fiji are the major mineral-mining countries in the Pacific, and together hold significant reserves of nickel, gold, silver, copper and iron.⁵⁸ Phosphate strip mining was significant in the past, but with poor regard for its impacts. Banaba Island was destroyed and two-thirds of the island of Nauru was left a wasteland. The first mine in Solomon Islands, Gold Ridge, is likely to have a marked impact on the national economy when it is reopened.⁵⁹ Vanuatu has issued several exploration permits, although no mining has yet occurred. Papua New Guinea and East Timor have significant oil and gas resources, and the World Bank sees some potential for offshore oil and gas development in Fiji and Palau.

Papua New Guinea deserves special mention because it has mineral, oil and gas extractive industries. The vast majority of its projects and prospects are located onshore, and it has been dealing with the complex issues and challenges associated with mining for more than 30 years. Mineral and petroleum exports have accounted for more than 50 per cent of the value of Papua New Guinea's exports in almost every year since independence in 1975. Once linkages to the rest of the economy are taken into account, direct and indirect revenues from extractive industries are estimated to account for 40–50 per cent of the national government's total domestic revenues.

57 There have been recent discoveries of cobalt-rich manganese nodules within the exclusive economic zones of Cook Islands and Kiribati, cobalt-rich crust within the Federated States of Micronesia, the Republic of the Marshall Islands, Kiribati and Tuvalu, and gold-bearing sulphide deposits on the sea floors of Fiji, Tonga and Papua New Guinea (Tuqiri 2001).

58 As does New Caledonia, though it is not covered by this report.

59 The Gold Ridge mine commenced production in 1998 following a decade of exploration. It accounted for 30 per cent of Solomon Islands' GDP at the time of its forced closure in 1999, and will make a similar contribution for several years if it is restored to its former operating levels.

The key to sustainable and viable mineral and petroleum development lies in allocating mineral revenues equitably and effectively, developing robust governance frameworks for the extractive industries, and strengthening government administration. Change will not occur in a vacuum, but by increasing engagement between government, industry and aid agencies.

ALLOCATING MINERAL REVENUES EQUITABLY AND EFFECTIVELY

In the Pacific island countries the allocation and management of mineral revenues are fraught with tension. Customary land rights are still firmly entrenched in national policy and practice and therefore the rights of national governments to decide on the distribution of mineral revenues are routinely challenged by landowners. The result is invariably a grossly inequitable distribution of benefits and revenues between different sections of the population. Disputes over the distribution of royalties can be very socially disruptive, and contributed to the secession movement in Bougainville.

To ensure revenues are equitably distributed and protected from manipulation or interference, mineral policy frameworks must clearly identify beneficiaries at all levels and incorporate principles that justify the pattern of distribution within the current generation.

As much attention needs to be given to how mineral rents will be used as to how they will be allocated. The difficulties being experienced with payments to customary land-owning groups suggests that it would be better to provide in-kind royalty payments to these groups through community sustainable development plans, building on successful examples from the region (Koyama 2004). An alternative used in other parts of the world is to make payments directly to individuals.

It also has to be decided how to manage mineral revenues in the face of fluctuating production levels and commodity prices, whether and how to set aside and invest a proportion of the revenues for the benefit of future generations, and how to protect government institutions established for either purpose against political manipulation or interference.

Laws can mandate the saving of mineral revenues for 'a rainy day' or for future generations. East Timor's Petroleum Fund is a good, recent example of this.⁶⁰ But the history of the Mineral Resources Stabilization Fund and the Mineral Resources Development Corporation in Papua New Guinea indicates how institutions established for the stabilisation and investment of mineral revenues can be undone by political interference.⁶¹ Apart from reinforcing the need to improve political governance, this experience suggests that the arrangements put in place

60 For more information on East Timor's Petroleum Fund, go to the government's petroleum website <www.transparency.gov.tl>.

61 The World Bank (2003b) notes: 'A Mineral Resource Stabilization Fund (MRSF) had been set up by law in the mid-1970s with a view to insulating public expenditures from large annual swings resulting from unstable mineral revenues. But subsequent legal amendments permitted the Government of PNG to make large drawdowns from the fund as well as increase its borrowings in the capital markets against the MRSF reserves. Thus, the maintenance of surpluses in the MRSF did not curtail excessive public spending or increases in the money supply. Nor did the MRSF help smooth government revenues over economic cycles, which was one of the purposes of setting it up'.

should be structured for the worst-case scenario to guard against the risks of corruption and political interference. Some argue that laws adopted to govern the operation of such institutions should be constitutional, rather than ordinary ones, to make their amendment more difficult.

Transparency would help promote good governance in the sector, but so far has been conspicuous by its absence. East Timor has again set a good example by becoming the first country to sign up to the Extractive Industries Transparency Initiative, the principles of which are set out in Box 9.9.

DEVELOPING ROBUST POLICY FRAMEWORKS FOR EXTRACTIVE INDUSTRIES

The experience of Papua New Guinea over the past decade suggests that an unfriendly or unstable fiscal regime will deter foreign investment in the mining and petroleum sector (Asian Development Bank 2000). The recent upturn in exploration spending in Papua New Guinea is due in part to high commodity prices but also follows an overhaul of the fiscal regime and the introduction of fiscal stability agreements in 2000.

BOX 9.9 ► CRITERIA FOR GOVERNMENT COMPLIANCE WITH THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

- 1 Regular publication of all material oil, gas and mining payments by companies to governments ('payments') and all material revenues received by governments from oil, gas and mining companies ('revenues') to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
- 2 Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
- 3 Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.
- 4 This approach is extended to all companies including state-owned enterprises.
- 5 Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.
- 6 A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

Source: Extractive Industries Transparency Initiative (<<http://eitransparency.myaaiweb15.com/principlesandcriteria.htm>>).

There are also some critical areas where appropriate regulation is either very weak or non-existent. For example, the result of unregulated river, beach and foreshore extraction of sand, gravel and rock has been substantial environmental degradation and loss of fishery habitats.

Deep seabed mining is an important, long-term opportunity for those countries with viable deposits of seabed minerals. Appropriate policies and legislation need to be put in place. The first challenge is to resolve definitional issues of their exclusive economic zones under the United Nations Convention on the Law of the Sea as several countries have zones that could potentially extend to areas of the continental shelf.⁶²

The results of geological surveys, resource assessment surveys and marine scientific research need to be collated, archived and made available to policy decision makers. Assessments of lagoon and offshore resources also need to be commissioned.

STRENGTHENING SECTORAL ADMINISTRATION

Government mining administrations in the Pacific island countries are typically underskilled, understaffed and underfunded. They are not well equipped to deal with the demands of large mining development projects. For example, staff numbers in the PNG Department of Mining fell by two-thirds over a four-year period when it was the target of a World Bank institutional strengthening project, even while mineral exploration and development expenditures were steadily rising. Major resource projects cannot be developed without significant inputs from several different government agencies – inputs that need to be properly planned, funded and coordinated.

Attracting and retaining the right staff is a challenge for most public services, and particularly so in the Pacific island countries. Innovative approaches are called for. Mining and oil companies are the main capacity builders in their respective industries, and industry experience is an invaluable asset for public servants engaged in promotion or regulation. To avoid a brain drain from the public to the private sectors, it is important to develop innovative training schemes that facilitate more two-way traffic between them. This could be achieved by means of a national or regional cadetship program, established with industry and donor support, which makes a long-term investment in training for both government agencies and the private sector.

Where major resource projects are forecast to last for a long time and to have a significant impact on national economies, as in the case of oil and gas developments in Papua New Guinea and East Timor, there is a case for twinning arrangements between the host governments and the governments of developed countries such as Australia that will allow for expertise and experience to be shared through, for example, personnel exchanges. An alternative way for donors to build public sector capacity in developing countries is to

⁶² This convention provides guiding principles with regard to deep seabed mining and recognises possible extensions of boundary limits over the continental shelf areas over which marine non-living resources occur (Tuqiri 2001).

supplement local salaries to a level that enables the recipient government to recruit its own expatriate expertise, as was the case in Papua New Guinea when Australia provided budgetary support.

Apart from the general need to build management capacity in relevant government agencies, there is a more specific need for governments to be provided with information about the bona fides of potential investors in the extractive sector, and for companies to adopt basic standards of corporate social responsibility in their operations. There is an opportunity for industry peak bodies, regional agencies such as the South Pacific Applied Geoscience Commission and international financial institutions to take the lead in convening a regional workshop or establishing a regional database that would accomplish one or both of these objectives.

A focus on national government capacity should not detract from the need to build capacity at lower levels of government or in communities directly affected by major resource projects if the costs, benefits and revenues have to be managed at these lower levels. Given the difficulty of mobilising donor support for building capacity in areas that may seem to be privileged by their possession of a major resource project, the best way to secure an outcome may be for government policies to provide additional incentives for developers and/or civil society organisations to do the job. Such an approach would have to take into account the different capacity needs that exist at different stages of the resource project cycle, from exploration through to closure and beyond (Jackson 2002).

Tourism

[Pacific] tourism is an activity based firmly on comparative advantage, making use of resources that are abundant and accessible in the Pacific islands (spectacular scenery, clean environment, hospitable cultures and people) ... Both tourism and manufacturing suffer in price competitiveness from the high transport costs associated with remote destinations. But remoteness, contributing to rarity and pristine quality, is also one of tourism's selling points ...

Anthony Hughes (1998, pp. 62, 63)

Nearly all of the island countries – large and small – have potential for tourism. The sector is already of considerable importance to some of them. In 2003 the sector accounted for 47 per cent of GDP in Cook Islands, 17 per cent in Vanuatu, 13 per cent in Fiji and 15 per cent in Kiribati (Table 9.4). Tourist opportunities come in many different forms, from resorts to ecotourism. Destinations, large or small, can be marketed on the basis of general attractions or unique features. The Pacific has plenty of both, from beaches and sunshine to whale watching, pearling, diving, trekking, adventure tourism, and historic and archaeological sites.

TABLE 9.4 ► TOURISM AND TOURIST GROWTH IN PACIFIC ISLAND COUNTRIES

Country	Tourism as a percentage of GDP 2002	Tourism as a percentage of employment 2002	Number of arrivals 2003	Average growth in arrivals 1995–2003
	%	%	no.	%
Melanesia				
Fiji	12.8	9.5	430 800	3.8
Papua New Guinea	6.3	3.2	52 623	6.2
Solomon Islands	2.9	1.6	2 682	-16.9
Vanuatu	16.6	12.0	50 400	1.8
Polynesia				
Cook Islands	47.0	...	78 328	6.2
Niue	13.0	...	2 758	3.1
Samoa	9.5	10.0	92 313	3.9
Tonga	14.7	3.2	40 110	3.9
Tuvalu	3.0	...	1 496	6.2
Micronesia				
Kiribati	14.5	1.7	1 626	-10.2
Total			753 136	3.4

... Not available.

Source: South Pacific Tourism Organisation (2006a, 2006b).

For some Pacific island countries, tourism is one of their few viable sectors. It is labour intensive (relative to other non-agricultural activities)⁶³ and can generate a range of entrepreneurial and employment opportunities (accountants, tour guides, handcraft producers, etc.) for both men and women. Finally, tourism can provide a stimulus to other parts of the economy. For example, furniture manufacturers can provide furniture for hotels.

Tourism is growing in the Pacific, but slowly. Arrivals are increasing by an annual average of 3 per cent. From 1999 to 2004, annual arrivals rose from 700 000 to an estimated 900 000, of which Fiji accounted for 500 000.⁶⁴ But prospects are improving. The South Pacific Tourism Organisation anticipates annual growth in the range 5–8 per cent. There is certainly a lot of room to grow, as the Pacific remains small as a tourist destination by global standards, even in comparison with some islands elsewhere. The Maldives receives more than 600 000 tourists every year. Mauritius receives over 700 000 a year, even though it deliberately focuses on the

63 Although figures do not appear to be available for the Pacific, data for Indonesia, Thailand and the Philippines show that, on an index of 1 for the economy as a whole, tourism has a labour intensity of 0.7–0.9, compared with 0.5–0.7 for all non-agricultural activities (agriculture is in the range of 2–4). See Deloitte & Touche, International Institute for Environment and Overseas Development Institute (1999).

64 Though they are not covered by this report, French Polynesia and New Caledonia are also major tourist destinations, with 212 000 and 100 000 tourist arrivals in 2004 respectively. (See Table 9.4 for the source.)

top end of the market. Bali's tourist arrivals are in excess of a million. Hawaii receives more than 7 million tourists a year. Tourist numbers in the Caribbean are counted in the tens of millions.

Tourism needs to be driven by the private sector. No one would suggest that governments should operate hotels. However, if the industry is to grow, governments are going to have to do much more. Most importantly, they have to address a number of constraints that are external to the sector. They also need to develop national tourism policies, support tourism-related training and improve marketing and data.

ADDRESSING EXTERNAL CONSTRAINTS

As with the other sectors, the crosscutting constraints analysed in the previous chapter emerged as important for tourism. In some countries, land tenure problems need to be addressed if new tourist sites are to be developed. Foreign investment needs to be welcomed. Three external constraints that are particularly important for tourism concern infrastructure, law and order, and health.

No infrastructure policy is more important for tourism than aviation. Air services bring the bulk of the region's tourists and tourism revenue. Getting to the Pacific has to be made easier and cheaper. This can be done by running the sector along more commercial and competitive lines, as articulated by Forum Principles on Regional Transport Services, which were adopted in 2004.⁶⁵ As Box 9.10 relates, recent experience in Vanuatu suggests the benefits for tourism from aviation deregulation can be substantial.

BOX 9.10 ► AIRLINE DEREGULATION BOOSTS TOURISM: THE EXAMPLE OF VANUATU

In 1999, Pacific island aviation ministers agreed in principle to the concept of a single Pacific islands aviation market. Current signatories to the Pacific Islands Air Services Agreement are Cook Islands, Nauru, Samoa, Tonga and Vanuatu. Protecting national carriers is one of the key reasons more countries, in particular Fiji, have not yet signed up to this agreement.

In the interim, some countries are already moving ahead with unilateral liberalisation. Vanuatu ended Air Vanuatu's monopoly in 2003, and Pacific Blue commenced flights from Brisbane to Port Vila in September 2004. By September 2005, Pacific Blue carried over 25 per cent of passengers going to Port Vila and visitor arrivals had increased by 9 per cent in the year ending in September.

With the growth of low-cost carriers – not only Pacific Blue, but also Air New Zealand's Pacific Express and the Samoa and Virgin Blue joint venture, Polynesian Blue – the tourism benefits of deregulating air travel have greatly increased.

Sources: Bureau of Transport and Regional Economics (2006); Vanuatu National Statistics Office.

⁶⁵ For details, go to the Pacific Islands Forum Secretariat website (http://www.forumsec.org.fj/docs/Pacific_RTS/PRTS%20Principles.pdf).

Tourism provides plenty of opportunities for the private sector to provide domestic infrastructure. This is a strategy the Maldives has used, by giving resorts long-term leases and then making them responsible for providing not only power and water, but roads and inter-island sea transport. Where self-provision is not an option, tourism operators need to be made responsible for their water, waste management and other costs, through user-pays mechanisms.

Rampant crime will cripple tourism. Papua New Guinea is well situated for tourists from Australia and Asia, and has many potential tourist attractions. That it attracts only a trickle of tourists is due largely to high crime levels (Levantis 1998). The threat of national-level instability or violence also deters tourists. Following the second coup in Fiji, tourist arrivals fell by 30 per cent.

Health threats will deter all but the most hardy tourists. Solomon Islands' status as the world's most malaria-prone country is one of a number of constraints holding tourism back in that country.

Governments can make no greater contribution to tourism than to provide good infrastructure, and guarantee travellers a good chance of a safe and healthy stay.

BUILDING COORDINATED NATIONAL TOURISM POLICIES

As is evident from the above, developing tourism requires cross-sectoral coordination. There may be trade-offs between tourism and fishing, or tourism and mining. It is also important to explore how all stakeholders involved in the sector can voice their priorities and concerns. At the Pacific 2020 roundtable on tourism participants expressed concerns about the impact of the sector on local culture and behaviours and on the environment, and about risks of sexual exploitation. These are valid concerns and there must be appropriate avenues to air them and to foster consensus on the way forward.

PROVIDING TRAINING FOR TOURISM

Governments need to take an interest in the training of local people to work in tourism sectors. A trained workforce with strong customer orientation is essential to deliver high-quality products and tourist experiences. There is a shortage of skilled staff and trained managers in some parts of the Pacific, and industry training will remain an important issue as the numbers of hotel rooms and tours increase. Governments need to recognise that tourism and hospitality training is an investment that must be supported through technical and vocational training courses and scholarships (see the discussion in the section on labour in Chapter 8). To realise economies of scale, such training could be provided at the regional level.

COLLECTING INFORMATION AND MARKETING DESTINATIONS

While individual operators will promote their own destinations, governments and industry have a joint responsibility for promoting national (or regional) brands and for collecting sectoral information. National and regional marketing is already undertaken, though some consider it underfunded.

A number of measures can be taken to improve the information base for tourism. The information collected by immigration ministries on visitor arrival cards offers a valuable source of time series data on tourists and demographics. Visitor surveys are a valuable planning tool that can yield detailed information on visitor activities, attitudes and expenditure. These are already used by some countries and could be adopted by national tourism offices across the region. Case studies can usefully demonstrate the impact of tourism on individual citizens in their daily lives, and inform awareness campaigns aimed at public officials, schools, tourism operators and the general community.

Studies of how backward linkages can be improved – for example, studies of why hotels are not using domestically produced food – could help to expand and spread the benefits of tourism.



ANNEX A

Contributors to Pacific 2020

This annex acknowledges the people who have been involved in the Pacific 2020 project. The views and policies expressed in the report do not necessarily represent the views of any sponsoring individual and/or organisation involved in the project.

Steering committee

The Pacific 2020 project was directed by a Steering Committee of leading regional figures and senior AusAID officials.

Judith Robinson (Chair)	Assistant Director General, Pacific Branch, AusAID
Brown Bai	Chairman, Rural Industries Council, Papua New Guinea
Helder Da Costa	Programme Manager (Asia), Volunteer Services Abroad
Jacqui De Lacy	(Former) Assistant Director General, Papua New Guinea Branch, AusAID
Taukelina Finikaso	Secretary, Ministry of Home Affairs and Rural Development, Tuvalu
Geoffrey Fox	Principal Adviser, Rural Development, AusAID
James Gilling	Principal Adviser, Aid Effectiveness, AusAID
Iosefa Maiava	Deputy Secretary General, Pacific Islands Forum Secretariat
Hinauri Petana	Chief Executive, Ministry of Finance, Government of Samoa
Jimmie Rodgers	Director General, Secretariat of the Pacific Community
Peter Versegi	Head, Secretariat, Australian White Paper on Aid, AusAID
Eric Bell	Adviser, Economic Management and Poverty Reduction, AusAID

AusAID East Timor Section was also represented at Steering Committee meetings.

Input papers

The following sectoral experts prepared the input papers to stimulate debate in the nine Pacific 2020 growth topics.

Investment and private sector development, Paul Holden, Director, Enterprise Research Institute, Washington DC

Employment and labour markets, Manjula Luthria, Senior Economist, Pacific Islands Operations, World Bank

Land, Spike Boydell, Department of Land, Management and Development, University of the South Pacific

Political governance, Cedric Saldanha, Development Consultant

Agriculture, Andrew MacGregor, Managing Director, Trade and Development Office, Fiji

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Mining and petroleum, Colin Filer, Convenor, Resource Management in Asia-Pacific Program, Research School of Pacific and Asian Studies, Australian National University

Tourism, Alison Allcock, Pacific Tourism Adviser, AusAID

Roundtable meetings

A series of roundtable discussions on each of the growth topics was the primary source of the policy options and broad themes contained in the report. More than 130 practitioners and experts from regional government, the private sector and civil society, as well as representatives from donors and multilateral institutions attended the following roundtables meetings.

INVESTMENT AND PRIVATE SECTOR DEVELOPMENT, 30 JUNE 2005, SYDNEY

Rob Stewart (Chair), Johanne Wright (Facilitator), Naomi Chakwin, Alec Chang, Florence Fenton, Nemezio Fernandes, Geoffrey Fox, Jackson Henry, Paul Holden, Winifred Kamit, Sione Ngongo Kioa, Jerry Kramer, Leota L Lamositele-Sio, James Movick, Russell Muir, Peter Murphy, Frank Yourn

EMPLOYMENT AND LABOUR MARKETS, 20 JULY 2005, CANBERRA

Peter Hooton (Chair), Robyn Renneberg (Facilitator), Larry Adams, Eric Bell, Rebecca Gibb, Aurelio Guterres, Michael Hess, Ephraim Kalsakau, Manjula Luthria, Robert Lyon, Rona Nadile, Ethel Sigimanu, Chris Tinning, Peter Tong, Caroline Tupoulahi-Fusimalohi, Johnson Wabaiat, David When

LAND, 29 JUNE 2005, SYDNEY

Andrew Pope (Chair), Lyla Rogan (Facilitator), Spike Boydell, Tony Burns, Jim Fingleton, Geoffrey Fox, Eric Gorapava, Jackson Henry, Hartmut Holzknecht, Tarcisius Tara Kabutaulaka, Padma Lal, Leota L Lamositele-Sio, Ahohiva Levi, Rod Little, Russel Nari, Alec Rukia, Aleki Sisifa, Semi Tabakanalagi, Tuala Sale Tagalao, Charles Yala

POLITICAL GOVERNANCE, 6 JULY 2005, SYDNEY

Peter Hooton (Chair), Lyla Rogan (Facilitator), Peter Aitsi, Tos Barnett, Mark Bebe, Lionel Gibson, David Hegarty, Rick Hou, Henry Ivarature, Hilda Kari, Langi Kavaliku, David Kavanamur, Milena Pires, Cedric Saldanha, Orovu Sepoe, Chris Tinning, Afamasaga Faamatala Toleafoa, Garry Wiseman

AGRICULTURE, 5 JULY 2005, SYDNEY

Charles Tapp (Chair), Robyn Renneberg (Facilitator), Mike Bourke, Geoffrey Fox, John Harunari, Greg Johnson, KP Kunhamboo Kannan, Sant Kumar, Andrew MacGregor, Michael Manning, Laisene Samuelu, Aleki Sisifa, Ted Sitapai, Morgan Wairiu

FISHERIES, 29 JUNE 2005, BRISBANE

Geoff Dews (Chair), Robyn Renneberg (Facilitator), Jon Barnett, Dennis Bebege, Les Clark, Thomas Gloerfelt-Tarp, Glenn Hurry, Sue Kelly, Tony Lewis, Alistair McIlgorm, Arthur Medson, James Movick, Tau Pasisi, Barney Smith, Feleti Teo, Aliti Vunisea, Paul Wallis

FORESTRY, 28 JUNE 2005, SYDNEY

Judith Robinson (Chair), Johanne Wright (Facilitator), Tos Barnett, Andrew Bond, Sairusi Bulai, Alec Chang, Geoffrey Fox, Russel Haines, Kanawi Pouru, Mugliagatele Reti, Luca Tacconi, Otheniel Tangianau, Randy Thaman, Lex Thomson

MINING AND PETROLEUM, 14 JULY 2005, SYDNEY

Steve Darvill (Chair), Lyla Rogan (Facilitator), Greg Anderson, David Brereton, Peter Cockcroft, John Davies, Colin Filer, Cristino Gusmao, Robert Igara, Graeme Hancock, Del Pangelinan, Bhaskar Rao, Craig Sugden, Ila Temu, Robert Tulip

TOURISM, 21 JULY 2005, SUVA, FIJI

Stephanie Copus-Campbell (Chair), Johanne Wright (Facilitator), Lisiate 'Akolo, Alison Allcock, Spike Boydell, Ross Bray, Chris Flynn, Bill Gavoka, David Harrison, Ross Hopkins, Sealiimalietoa Melepone Isara, David Kera, Philip Malas, Zita Sefo-Martel, Charlie Panakera, John Perrottet, Ramsey Reimers, Christina (Kiki) Stinnett, Sakiusa Tuisolia, Peter Vincent, Timoci Waqaisavou

Background papers

The following authors were commissioned to produce background papers to reflect and develop the issues raised at the roundtable meetings, as well as incorporate comprehensive peer review comments.

Investment and private sector development, Paul Holden, Director, Enterprise Research Institute, Washington DC

Employment and labour markets, Michael Hess, School of Management, University of Tasmania

Land, Jim Fingleton, Development Law Consultant

Political governance, Cedric Saldanha, Development Consultant

Agriculture, Andrew MacGregor, Managing Director, Trade and Development Office, Fiji

Fisheries, Les Clark, Partner, Ray Research, Fisheries Management and Development Specialist

Forestry, Andrew Bond, Forestry and Environment Consultant

Mining and petroleum, Colin Filer, Convenor, Resource Management in Asia-Pacific Program, Research School of Pacific and Asian Studies, Australian National University

Tourism, Alison Allcock, Pacific Tourism Adviser, AusAID

The following additional background papers and commissioned work have also contributed to *Pacific 2020*.

Framework for growth, Manjula Luthria, Senior Economist for the East Asia and Pacific Region, World Bank, and Sanjay Dhar, Lead Economist for the East Asia and Pacific Region, World Bank

Report on regional agreements, Pacific and Assistance Division, Australian Treasury

History of growth, Mahendra Reddy, Senior Lecturer, Development Economics, Development Studies Program, University of the South Pacific

Statistical projections, Satish Chand, Associate Professor, Asia Pacific School of Economics and Government, Australian National University

Pacific 2020 report

The following authors developed the final report.

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Peer review

Pacific 2020 analyses have had a comprehensive peer review, drawing on expertise in the region as well as within donor agencies, international financial institutions and the Australian Government, including experts from: the Asian Development Bank; Association of South Pacific Airlines; Auckland Institute of Studies; Australian Centre for International Agricultural Research; Australian Department of Agriculture, Forestry and Fisheries; Australian Department of Foreign Affairs and Trade; Australian Department of Industry, Tourism and Resources; Australian Fisheries Management Authority; Australian National University; Australian Treasury; Cook Islands Tourism Authority; Enterprise Research Institute; European Commission; Food and Agriculture Organization Sub Regional Office for the Pacific Islands; Foreign and Commonwealth Office of the United Kingdom; International Finance Corporation Foreign Investment Advisory Service; Deutsche Gesellschaft für Technische Zusammenarbeit GmbH; International Fund for Agricultural Development; International Monetary Fund; National Research Institute (Papua New Guinea); New Zealand Agency for International Development; New Zealand Treasury; Office of National Assessments (Australia); Pacific Islands Forum Fisheries Agency; Pacific Islands Forum Secretariat; Placer Dome; Secretariat of the Pacific Community; South Pacific Applied Geoscience Commission; United Nations Economic and Social Commission for Asia and the Pacific, Pacific Operations Center; University of Adelaide; University of the South Pacific; University of Tasmania; University of Western Australia; Victoria University of Wellington; Macquarie University; World Bank.

Pacific 2020 Working Group

The Pacific 2020 process has been supported by a secretariat consisting of AusAID Directors and research and support staff: Peter O'Connor, Mary Sertich, Andrea Cole, Stephen Fisher, Chris Tinning, Rachel Payne, Bronwyn Taylor, Andrew Pope and Christine Groeger.

AusAID posted officers deserve a special mention for their assistance throughout the Pacific 2020 process.

ANNEX B

Importance of the productive sectors to the Pacific island countries

Land area (EEZ) ^a	Population ^b (2004)	Geographic type	Importance of agricultural sector	Importance of forestry sector	Importance of fisheries sector	Importance of tourism sector	Importance of mining and petroleum sector ^c
km ²	'000						
Cook Islands							
180 (1 830 000)	20.3	High islands and atolls.	Important – for subsistence (a significant component of GDP) and as main export earner.	Important – for subsistence and for watershed protection and soil conservation.	Important – for subsistence and domestic longline fishing. Pearl farming is major export earner.	Very important. Tourism is estimated to contribute almost 50 per cent of GDP. About 85 per cent of arrivals are holiday visitors.	No known on-land mineral or petroleum resources. Extensive known deposits of polymetallic (manganese) nodules within EEZ.
Federated States of Micronesia							
702 (3 016 000)	108	High islands and atolls.	Some – small export earnings, some domestic cash income, and some subsistence.	Important – for subsistence and for watershed and coastal protection.	Tuna is main export earner. Fishing grounds for foreign fleets provide significant revenue.	Little or no data on arrivals, duration of stay or expenditure.	No known on-land mineral resources. Cobalt and polymetallic crusts on seamounts within EEZ.
East Timor							
18 900 ...	925	Mountainous, with coastal plain.	Fundamental. Most of the population depends on subsistence agriculture, coffee being the main non-oil export earner.	Important – for subsistence (high reliance on forest products for firewood and building materials). Small export industry. Potential for expansion of smallholder agroforestry.	Important – for subsistence. Income potential from access if poaching can be controlled.	Low but expected to increase as tourism forms part of the reconstruction plan.	Oil and gas, particularly gas, are significant contributors to the economy. Significant offshore (hydrocarbon) and onshore (mineral) potential.
Fiji							
18 376 (1 290 000)	840	High islands and a few minor atolls.	Fundamental – for subsistence (a significant proportion of GDP) and as main employer and net foreign exchange earner.	Important – for export earnings, domestic market and subsistence.	Less important than agriculture, but significant. Pioneer of longlining and tuna canning. Important for subsistence. Aquarium fish exports are becoming big.	Significant. Has relatively good infrastructure and services, but suffered from the coups of 1987 and 2000.	Relatively small contribution to GDP. One operating mine but has significant on-land and offshore (EEZ) potential for minerals and hydrocarbons.

Land area (EEZ) ^a	Population ^b (2004)	Geographic type	Importance of agricultural sector	Importance of forestry sector	Importance of fisheries sector	Importance of tourism sector	Importance of mining and petroleum sector ^c
km ²	'000						
Kiribati							
726 (3 463 800)	89.7	Predominately atolls.	Considerable – for subsistence. Copra important for outer island cash income and some foreign exchange.	Some – for subsistence and for coastal protection.	Reef is fundamental for subsistence. Very high dependence on tuna fishing access fee revenue. Seaweed farming is important for cash earnings on outer islands.	Important. Most tourism activity involves fishing, diving and cruise shipping around Christmas Island. Very small number of tourist arrivals and rooms available but tourism is estimated at almost 14 per cent of GDP.	Phosphate (Guano) deposits mined from Banaba in the 1900s. Operations now closed.
Marshall Islands, Rep. of							
720 (2 131 000)	61.2	Atolls.	Limited. Some subsistence and income earned from copra.	Some – for subsistence and for coastal protection.	Significant – for subsistence and for foreign access revenues. Emphasis on benefiting from servicing foreign fleets, with some domestic commercial operations.	Limited – low levels of awareness of Marshall Islands. Possible oversupply of accommodation.	No mining or petroleum activity. Principally aggregate extraction on coastal margin and reef.
Nauru							
21 (320 000)	10 (2001)	Raised coral island.	Insignificant.	Limited – for subsistence and for rehabilitation of degraded lands.	Limited – reef area now heavily fished for subsistence. Limited domestic commercial prospects. Significant tuna access fee revenue.	Some – for business travel.	Phosphate (Guano) deposits mined from Nauru in the 1900s. Operations now largely closed except for stockpiles.
Niue							
258 (390 000)	1.8 (2001)	Raised coral island.	Significant – for subsistence and some root crop exports.	Some – for subsistence and for biodiversity protection.	Some significance – for subsistence and sport fisheries. Major new onshore tuna processing facility recently opened.	Important. Tourism is estimated to contribute 13 per cent of GDP. Focus is on business travellers and visiting friends and relatives.	No mining or petroleum activity. Minor exploration activity for uranium.

Land area (EEZ) ^a km ²	Population ^b (2004) '000	Geographic type	Importance of agricultural sector	Importance of forestry sector	Importance of fisheries sector	Importance of tourism sector	Importance of mining and petroleum sector ^c
Palau							
475 (592 750)	20.6	High islands and atolls.	Some – market gardening.	Some – for subsistence and for watershed and coastal protection.	Strong – for subsistence and for income from exports of reef fish to Guam and access fees for tuna. Close to Asian markets. Concern about overexploitation.	Significant – contributes an estimated 49 per cent of GDP. Good access to Asian markets.	No mining or petroleum activity.
Papua New Guinea							
461 690 (3 120 000)	5800	High islands and a few small atolls.	Fundamental – for subsistence (a significant component of GDP). Overwhelming source of employment. Provides a significant proportion of net export earnings.	Very important – for export earnings, domestic market and subsistence.	Large by Pacific island standards, but relatively unimportant in national economy compared with land resources. Highly developed fisheries management systems, processing, and productive shelf fisheries.	Modest – most visitors are on business. Holiday market remains soft and has a significant image problem.	Significant contribution to economy from mining (gold, copper) and hydrocarbons (gas and minor petroleum). Significant future potential. Extensive prospects also within EEZ.
Samoa							
2 934 (130 900)	180.9	High islands.	Fundamental. Traditional agriculture is the underlying strength of economy.	Important – for domestic income, subsistence and watershed protection.	Important. Strong subsistence fishery and dynamic small-scale tuna fishing for American Samoa cannery. Small EEZ and limited reef.	Important – particularly visiting friends and relatives. Likely to expand with the establishment of Polynesian Blue and new accommodation.	No mining or petroleum activity.
Solomon Islands							
29 785 (1 340 000)	521	High islands and a few atolls.	Fundamental – for subsistence (a significant component of GDP). Overwhelming source of employment. Provides a substantial proportion of net export earnings.	Very – for export earnings, domestic market and subsistence.	Extremely – for domestic tuna fishing and processing industries plus access fees. Fundamental – for subsistence. Large fishery zone and reef area.	Important. Slowly recovering after the political tensions. Government is now developing supportive tourism policy.	Significant potential. Gold Ridge mine on Guadalcanal is currently closed. Principal prospects are in gold, copper, nickel and offshore hydrocarbons.

Land area (EEZ) ^a	Population ^b (2004)	Geographic type	Importance of agricultural sector	Importance of forestry sector	Importance of fisheries sector	Importance of tourism sector	Importance of mining and petroleum sector ^c
km ²	'000						
Tonga							
696 (700 000)	101.8	High islands and a few small atolls.	Fundamental – agricultural-led economic growth in recent past.	Important – for some exports, subsistence and watershed protection.	Probably less important than agriculture. Important for subsistence. Many commercial development trials, but few fully sustainable.	Very significant – supportive government.	No current activity but potential exists for offshore hydrocarbon deposits and for polymetallic mineral deposits within EEZ (Lau Basin).
Tuvalu							
26 (900 000)	11.2	Atolls.	Some – for subsistence and for cash income from copra.	Some – for subsistence and for coastal protection.	Significant. Highly dependent on income from tuna access fees, and on reef for subsistence. The most fishery-dependent Pacific island country.	Limited. Low numbers of visitors, poor access, possibly as few as 75 rooms available.	No mining or petroleum activity. Possible polymetallic deposits within EEZ.
Vanuatu							
12 189 (680 000)	213.3	High islands and a few small atolls.	Fundamental – for subsistence (a significant component of GDP). Overwhelming source of employment. Provides a substantial proportion of net export earnings.	Important – for export earnings, domestic market and subsistence.	Important – for subsistence. Commercial fisheries relatively limited. Strong potential for domestic tuna development. Significant distant water fishing nation in other oceans through open registry.	Significant. Relatively stable sector and well marketed.	No mining or petroleum activity. Current exploration activity. Potential for both minerals and hydrocarbons on land and within EEZ.

a EEZ based on data from the South Pacific Community and data from chart areas from the South Pacific Applied Geoscience Commission, not official figures (<http://www.spc.int/coastfish/Countries/countries.htm>). **b** Population data from the Asian Development Bank (2005d). **c** Sand and aggregate mining for building purposes occurs throughout the region. However, statistics on production and use are largely unavailable (source: Pacific Plan). ... Not available.

Sources: Agriculture – Andrew McGregor; forestry and fisheries – Secretariat of the Pacific Community; tourism – Allison Allcock; mining and petroleum – South Pacific Applied Geoscience Commission.

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ANNEXES

Children in East Timor

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The countries of the Pacific, including Papua New Guinea and near neighbour East Timor, face daunting challenges. These countries suffer from high unemployment and joblessness. Some suffer from social or political instability, or serious crime. Others face daunting health or environmental challenges. What does the future hold for the Pacific island countries? And what can be done today to improve their prospects?

Pacific 2020 aims to answer these questions. It shows that, without accelerated and sustained economic growth, the region will not be able to confront the challenges of the future. Based on extensive consultation with regional experts, the report highlights constraints to growth, and suggests reform options that will assist Pacific nations onto a sustainable growth path.

Pacific 2020 provides practical policy guidance for the Pacific island countries on realising opportunities and managing challenges in nine critical growth areas:

- ▶ four crosscutting growth factors – private sector investment, land, labour and political governance, and
- ▶ five important sectors of their economies – agriculture, fisheries, forestry, mining and petroleum, and tourism.

Pacific 2020 is a call to action. It aims to stimulate dialogue and debate on growth in the island countries. It is also a resource for the governments of the region, and for all who want to promote sustainable growth and a better future for the Pacific island peoples.



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