

# Pacific 2020: Stimulating Growth and Reducing Poverty

## Introduction

*Pacific 2020* will be published in late 2005 and will assess the long term development challenges in the Pacific, PNG and East Timor. Rather than providing a detailed analysis of conventional economic policy prescriptions for this region, the report will highlight policy options for stimulating sustainable, widely shared economic growth in key areas that are currently under-analysed or for which there is no clear policy path. A follow-up conference aimed at generating debate around the policy options raised in the report will be held in March 2006. Participants at the conference will include representatives of regional governments at minister/senior official levels, regional organisations, donors, the private sector and civil society. *Pacific 2020* will encompass East Timor because of its small island status, comparable development challenges with many Pacific island nations and its inclusion as part of the Pacific by global institutions like the World Bank.

## Objectives

1. *Pacific 2020* will examine practical policy options for stimulating sustainable and widely shared economic growth in specific selected areas where there is no clear and practical policy path.
2. The report will be aimed at stimulating policy debate and policy action among decision makers at a national and regional level by means of the *Pacific 2020* conference and other regional forums.

## Guiding Principles

1. *Pacific 2020* will be a short, easily digestible report targeted at, and designed for, decision makers in government, business, civil society and the donor community.
2. *Pacific 2020* will remain practically focused on key policy prescriptions and be forward looking over the next 15 years.
3. *Pacific 2020* will focus on promoting those aspects of sustainable and widely-shared economic growth that have achieved insufficient practical policy attention in the past. In doing so, it will explain clearly why other key areas that affect economic growth have been left out.
4. *Pacific 2020* will complement other relevant initiatives such as the Pacific Plan and the Australian Government White Paper on the Australian Aid Program.

## Pacific 2020 Report

The *Pacific 2020* report will examine the history of growth and development in the region and draw out critical lessons. It will synthesise existing knowledge including constraints to growth and sectors that offer the best promise in terms of achieving sustainable and widely shared economic growth in the Pacific, PNG and East Timor. Central to this, it will examine the role of the private sector in economic growth and those factors that limit the contribution of the private sector to development. The report will be divided into 4 sections.

### Section 1: The Broader Context

The first section will provide an empirical context for the subsequent discussion in the report and focus on the facts of growth and poverty reduction in the Pacific context. This section will consider 3 main issues.

- It will establish a framework by which to understand economic growth.
- It will draw together the more commonly regarded constraints to achieving sustainable and widely shared economic growth in PICs and East Timor, including regional commitments made in the Pacific Plan, and at South Pacific Forum Economic Minister's meetings.

- It will examine the experiences of growth and social development in the region over the last 20 years drawing on comparisons from within and external to the Pacific region as relevant. By examining the positives in the growth record the report will distil key lessons.

Statistical projections on key economic and social indicators to 2020 (including growth, population, poverty, migration, rural-urban demographics, unemployment, and debt levels) will be illustrated in this first section of the report.

Although it is envisaged that this section will reveal moderate economic performance and social indicators in PICs and East Timor over the last two decades, it will also highlight periods of positive growth which we need to understand and draw lessons from.

## Section 2: Constraints to Growth and the Enabling Environment

This section of *Pacific 2020* will reflect more deeply on some of the factors that constrain growth in the region yet have not received sufficient attention in the past, namely land, political governance, labour market and employment issues, and private sector investment. In sections 2 and 3, attention will be given to the central role of the private sector in fostering economic growth and development.

### *Land*

Land title is widely accepted as one of the most intractable problems facing economic development in the Pacific, particularly Melanesia. As the interface between culture and economy, land title is both a crucial and potentially explosive issue. The Asian Development Bank states the problem succinctly as “the issue is how to design a system that unlocks the value of land, while preserving its associated traditional values”<sup>1</sup>. *Pacific 2020* will consider the issue of land tenure in detail and examine interesting models from the region and internationally that may have application for the Pacific Island nations and East Timor.

### *Political governance*

Weak political governance, including the issue of corruption, is a factor that has contributed significantly to the disappointing economic performance of many countries in the Pacific. Good political governance underpins economic growth. Weak political governance can lead to political instability and conflict and hence undermines private sector development, effective public administration processes, and growth. *Pacific 2020* will use the latest research to explore why weak governance and corruption have been persistent problems in the region and will seek new policy prescriptions.

### *Labour markets and employment*

Labour markets and employment are issues that are central to economic growth and pose real constraints for growth in the Pacific region. *Pacific 2020* will consider issues of labour supply, labour mobility and remittances. It will also consider the issues of ‘brain drain’ as a consequence of freer labour mobility, as well as education and training, and the impact of demographics (particularly the “youth bulge”) on labour markets.

### *Private sector investment*

The role of private sector investment in contributing to economic growth and poverty reduction faces particular challenges in the region examined. The region is geographically and culturally diffuse. Many of the smaller island states have a limited natural resources base. With some notable exceptions, many have poor infrastructure, and are susceptible to natural disasters. The political systems in most countries are young, and therefore underdeveloped relative to their closest competitors. All of these characteristics limit the possibility for economies of scale, and build an unusually high level of risk into private investment. *Pacific*

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<sup>1</sup> (ADB 2004, *Swimming Against the Tide: An Assessment of the Private Sector in the Pacific*:91).

2020 will consider ways of addressing these issues through legislative and administrative means, and by examining the dynamics and potential of donor engagement in the region.

### Section 3: The Key Productive Sectors

The third section of *Pacific 2020* will examine the key productive sectors in PICS and East Timor with arguably the greatest potential to drive growth, namely agriculture, forestry, fisheries, mining and petroleum and tourism. The private sector has a catalytic role in economic growth and its involvement in these key sectors (as well as factors that constrain the contribution of the private sector) will be examined.

#### *Agriculture*

The agricultural economy, both subsistence and cash, touches the lives of the vast majority of people living in the Pacific region and has the potential above all other economic sectors to broadly lift incomes and economic growth, particularly in the Melanesian and larger Polynesian states. *Pacific 2020* will canvass the key factors most relevant for rural development in Pacific nations and East Timor, such as rural infrastructure (including roads, telecommunications, ports, agricultural extension services, financial services and secure land tenure) and seek fresh approaches to development in this sector.

#### *Forestry*

Forestry (both commercial and community) is a potentially productive sector in the region, particularly in Melanesia. In the Solomon Islands, the forestry sector provides more than 85 percent of the national government's foreign exchange and around 20 percent of revenue and income for many landowners. The viability of the sector in the Pacific is threatened by illegal logging, poor management, land tenure problems and often poor returns to land owners. *Pacific 2020* will examine the potential for this industry as a substantial contributor to rural economic development in the Pacific and consider new forest industries for the region, including both planted and natural secondary forests.

#### *Fisheries*

Fisheries is the major economic resource common to all Pacific island nations and one which is especially important for the smaller island states of Micronesia and Polynesia. For Pacific nations like Kiribati, FSM, RMI, Tuvalu and Nauru, the vast majority of fisheries revenues come not from locally generated fresh and processed exports but in the form of license fees to overseas companies. The potential for local value adding through both fresh and processed exports is constrained by the absence of public and private infrastructure like ports, roads, reliable power supplies and access to credit. *Pacific 2020* will explore the potential to increase economic returns from fisheries through increasing the share of licenses for Pacific island vessels, providing incentives for distant-water vessels to land catches in Pacific islands for value adding and sustainable aquaculture, downstream processing and reducing illegal fishing through better monitoring.

#### *Mining and petroleum*

Mining and Petroleum contribute substantially to the economies of several countries in this region. Twenty percent of PNG's government revenues are from this sector and in East Timor, petroleum revenues are central to the emerging country's economy. According to the ADB, in East Timor "the key macroeconomic issue to be resolved over the medium term is the management of the considerable petroleum revenues now coming in"<sup>2</sup>. There are several challenges for this sector as a source of economic growth, including sustainability, productivity, over-reliance on mining revenues and the impact of this on other productive

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<sup>2</sup> (Asia Development Outlook 2005: II Economic Trends and Prospects in Developing Asia: Democratic Republic of Timor Leste, 2005).

sectors, as well as its contribution to broad based growth. *Pacific 2020* will examine these issues and others and consider the potential role of donor engagement, and models for improving the management and sustainability of this source of revenue.

#### *Tourism*

Tourism has enormous potential as a source of economic growth in many Pacific nations and for some is already a significant export activity and source of foreign exchange. According to the South Pacific Tourism Organisation (SPTO), tourism is the only sector showing any significant growth in the Pacific and in 2004 was expanding at a faster rate than global growth<sup>3</sup>. Nevertheless, the industry remains underdeveloped on both the supply and demand side in many countries and in the region as a whole. *Pacific 2020* will consider practical options for further stimulating growth in the tourism sector.

#### Cross Cutting Themes

Throughout the report, cross-cutting issues such as the environment, gender, the private sector, human resources development, donor coherence, HIV/AIDS, lessons learned (both positive and negative) and implications for small island states will be considered.

The role of key players in the region, including regional governments, donors and the private sector will also receive attention throughout the report as appropriate.

*Pacific 2020* will recognise the diversity that exists within this region between countries and subregions in terms of cultures, politics and natural frameworks and endowments. As such it will consider countries specifically. The report also recognises, however, that despite this diversity, there are in some cases commonalities. For this reason, where relevant, discussion will be centred at a regional and subregional level.

#### Section 4: Conclusions

The fourth and final section will draw together conclusions reached in each of the previous sections. It will highlight the constraints to growth and potential for growth in the areas examined and draw out the role of key players in the region.

#### **Pacific 2020 Conference**

Policy options proposed in the report will be the subject of broad discussion at the follow-up conference on Pacific growth prospects to be held in Australia in March 2006. The conference will be aimed at representatives from regional governments at ministerial and senior official levels and executive members of regional organisations, donors, the World Bank and Asian Development Bank, the private sector and NGOs. It is hoped that the *Pacific 2020* report generates a greater awareness of the growth agenda for the region and encourages lively, on-going debate around it. A key outcome of the conference includes agreement on policy directions for the way ahead and broad agreement by influential players to action in critical areas.

Pacific Branch, AusAID  
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<sup>3</sup> (SPTO, *Submission to the Pacific Plan Task Force*: 20 October 2004)