Pacific Economic Trends: Four drivers of change

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ADB Developing Member Countries (DMCs) in the Pacific
Economic growth in the Pacific 2013-2015

GDP growth (%)

- 2013 relatively tough year
- Better performance expected in 2014 and 2015
  - Resource export revenues
  - Fiscal stimulus (ODA)
  - Tourism recovery
  - Fisheries revenues
  - Improving global economy
- Influencing growth: PNG LNG exports and post-election Fiji
Pacific Outlook

- Very high Pacific average masks modest growth in smaller economies...

![GDP growth chart]

- “Big 4” economies
- Pacific
- South Pacific
- Small islands
- North Pacific


Forecast

%
Four drivers of growth and long run prospects

- Trends in resource exports and resource depletion
- Efforts in public sector reform
- Tourism and service sector growth
- Evolving aid relationships
Resource exports

- Why a driver?
  - Energy & mineral exports: Primary exports of Timor-Leste, PNG, Solomon Islands, Fiji
  - Forests (Solomon Islands)
  - Fisheries (international common property): Kiribati, Marshall Islands, Tuvalu, Micronesia, Nauru, PNG, and most others

- Assessment of prospects
  - Global demand will continue despite increased exploration and extraction costs, sustainable/renewable extraction
Resource dependence

Papua New Guinea: Mineral exports (% of GDP)

Solomon Islands: Log & mineral exports (% of GDP)

Timor-Leste: Petroleum revenue (% of GDP)

Adjustment to TIM petroleum revenue projections
Using windfall income to restore fiscal buffers

- Timor-Leste Petroleum Fund
- PNG LNG growth
- Vessel day scheme boosting fishing license revenues
- Nauru – RPC windfall
  - primary phosphates almost mined out; secondary reserves last 10 - 20 years
- Opportunity to rebuild trust funds
  - Reduce reliance on ODA
  - Intergenerational equity
Policies to maximize benefits

- Trust funds
- Strengthened public financial management
- Promoting value adding activities
- Cooperative resource management to ensure sustainable extraction
  - Nauru agreement, reforestation, aquaculture
Public sector reforms

- Why a driver?
  - Growth in most economies in the region driven by public sector expenditure
  - Private sector growth constrained by public sector performance
    - Costs of doing business, dependence on state owned enterprises, brain drain

- Assessment of prospects
  - Progress (technical and policy level), perverse incentives, and non-tradables and niches offering opportunities at a small scale
Creating fiscal space to support growth

- Underperforming economies
- PFM reforms to minimize expenditure inefficiencies
- Broadening the revenue base through private sector development
  - SOE reforms to level playing field and foster competition
  - Business environment and regulatory reforms
- Fiscal space to build resilience to external shocks

Subsidies and public wages

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<tr>
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<th>2013</th>
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<tr>
<td>% of total expenditure</td>
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<td>Cook Islands</td>
<td>30</td>
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<td>Vanuatu</td>
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Public sector wage bills

Wages and salaries (% of total expenditures, average 2009-2013)

Public sector employment (% of total)

Larger economies

North Pacific

South Pacific

Small island economies

FY2003 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12

RMI FSM Palau

ADB
- Policies to maximize benefits
  - Medium term budgets and long run fiscal planning
    • Fiscal management modeling
  - Budget transparency
  - SOE reform, privatization, improved utility regulation
  - Human resource development
Tourism and service sector growth

- Why a driver?
  - Area of comparative advantage, rising global demand: Largest sector in Cook Islands, Palau, Fiji, Vanuatu, Samoa, Tonga (potential in others)

- Assessment of prospects
  - Global demand rising rapidly driven by growth from Asia
  - Increasingly diverse markets, travelers seeking new and unique experiences
  - Rising uniqueness of Pacific destinations
Tourism trends

Arrivals growing, but still mostly dependent on Australia and NZ...

... scope to expand arrivals from Asia?
- Policies to maximize benefits
  - Infrastructure development
    - Improved connectivity
    - Public goods component of tourism
  - Complementary developments to avoid enclave tourism
    - Local content, human resource development, cultural and environmental tourism
Evolving aid relationships

- Why a driver?
  - High aid dependence (especially in the smallest island economies)
  - Change in forms of aid and development partners
    - Compacts of Free Association, Timor-Leste,

- Assessment of prospects
  - Continuing geopolitical importance of the region
  - Compensation for global production externality (climate change, sea level rise, increased extreme weather events)
Pacific DMCs
Official development assistance*, by source

US$ million

2003-2012 avg.

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<th>2012</th>
<th>Australia</th>
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- Policies to maximize benefits
  - Development partner coordination
  - Using aid to enhance sovereignty
    • Graduating assistance modes
  - Regional initiatives
  - More efficient bilateral aid relationships
Conclusions

- Pacific more dynamic than often perceived
  - Presentation addresses 4 main drivers, but there are others...
- Global economic developments over the long run creating new opportunities
- Governments need proactive policy stances
- Need better data / analysis to understand Pacific economic transformations
Fa'afetai, Mahalo, Tenkyu, Thank you, Vinaka...

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