

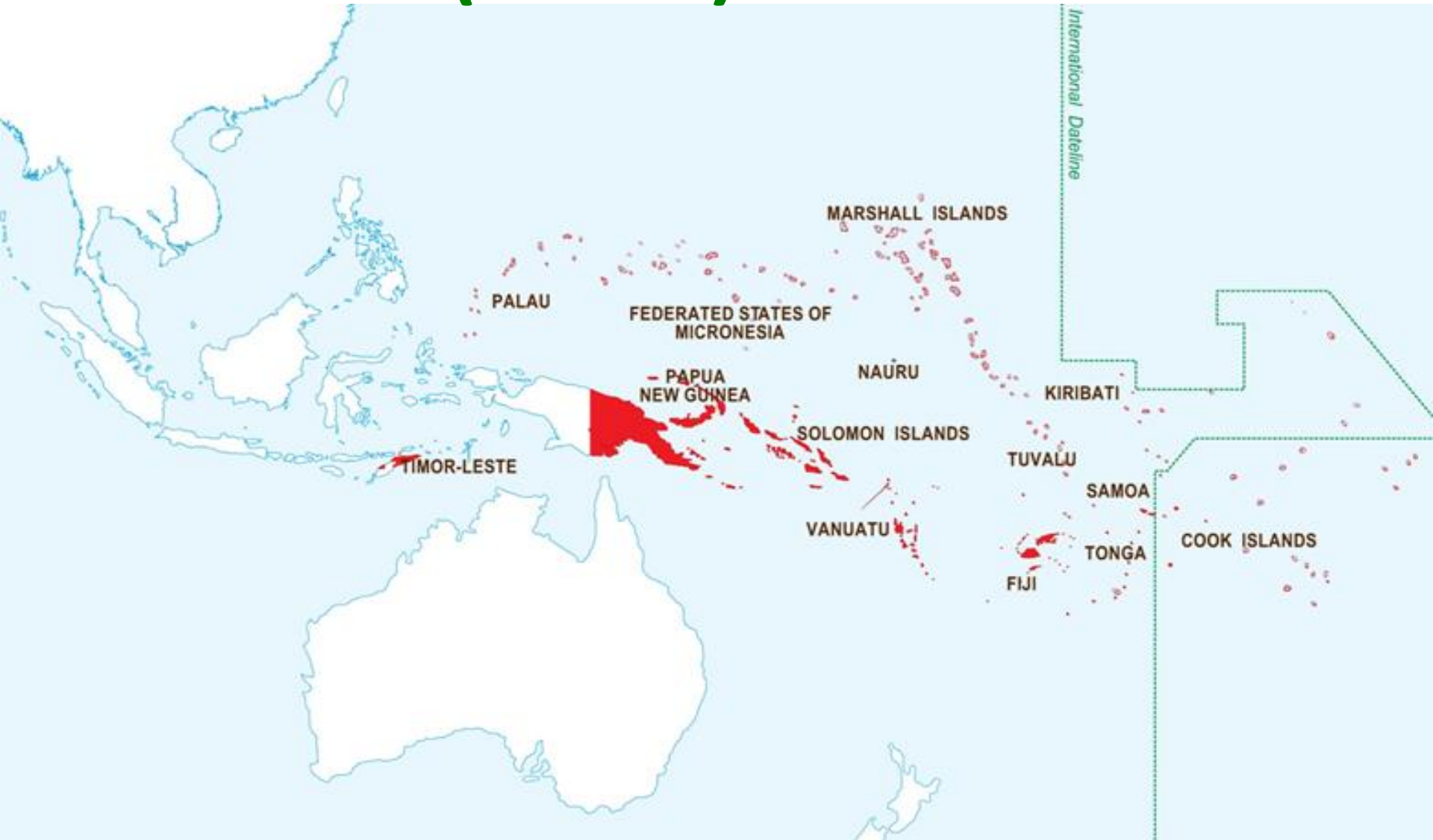


Pacific Economic Trends: Four drivers of change

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and
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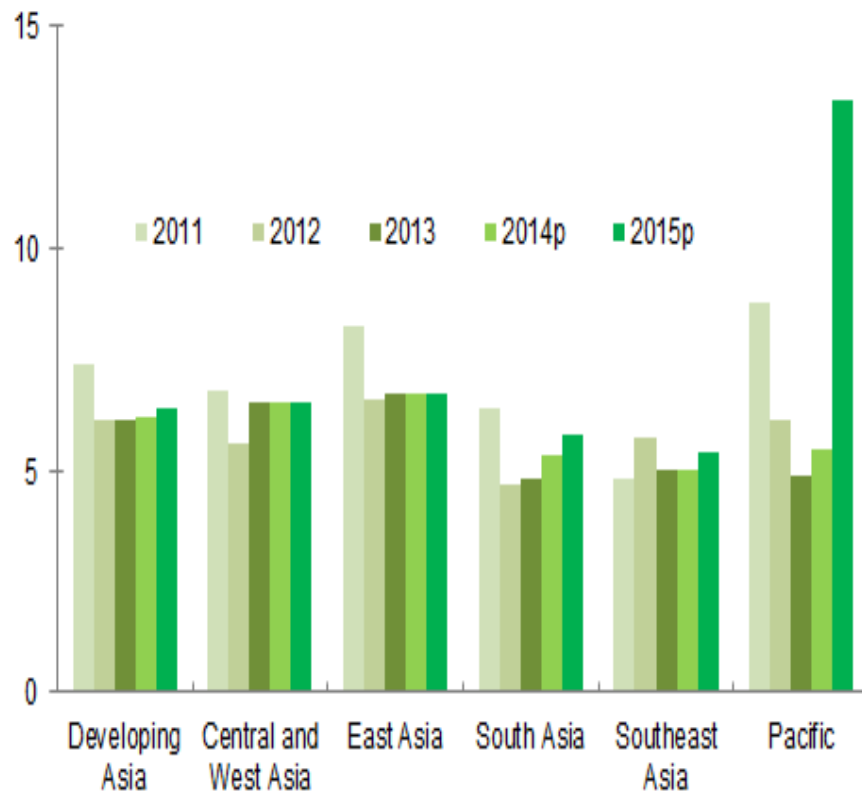
Pacific Department,
Asian Development Bank, Manila

ADB Developing Member Countries (DMCs) in the Pacific



Economic growth in the Pacific 2013-2015

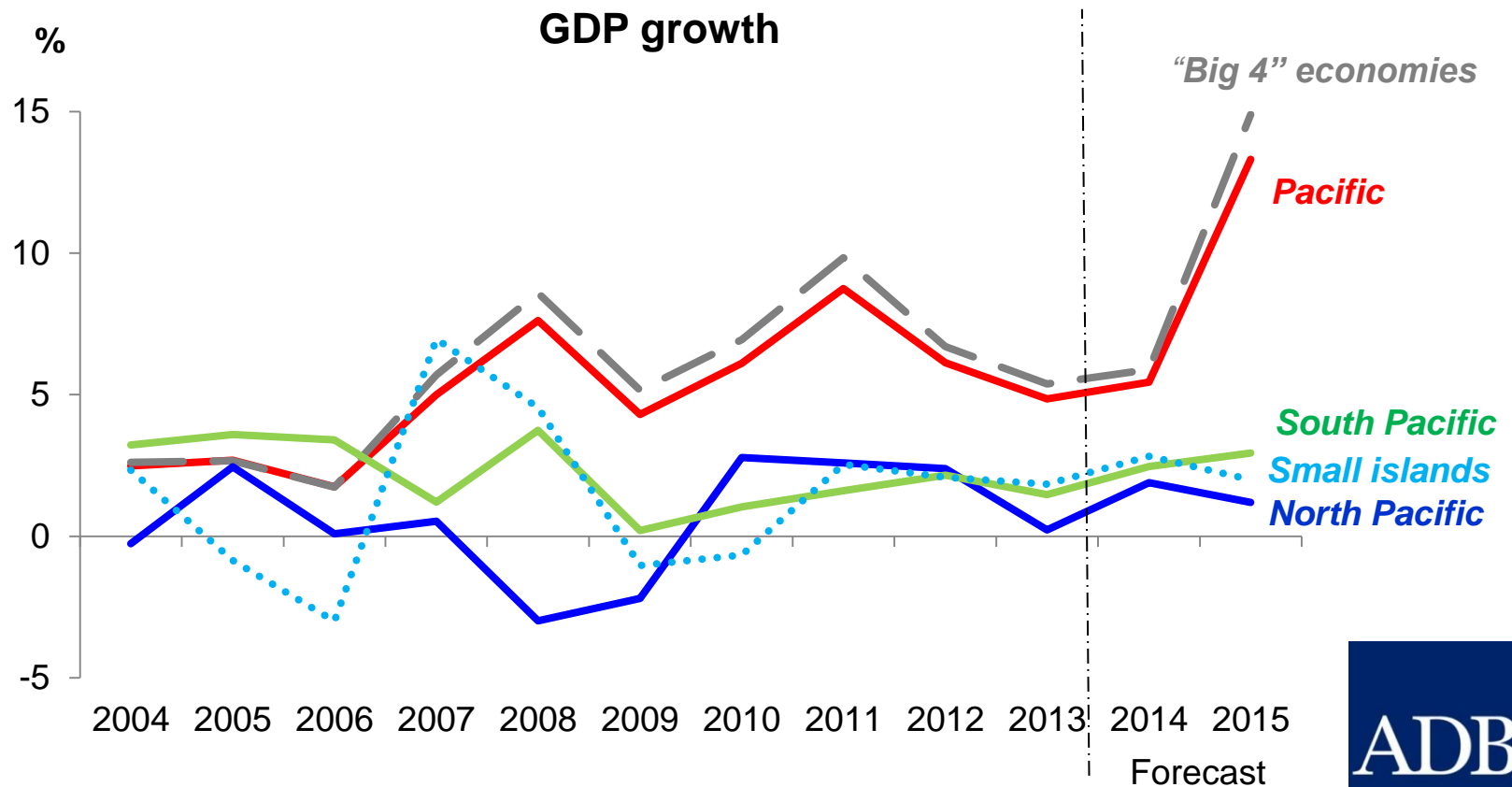
GDP growth (%)



- 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...



Four drivers of growth and long run prospects

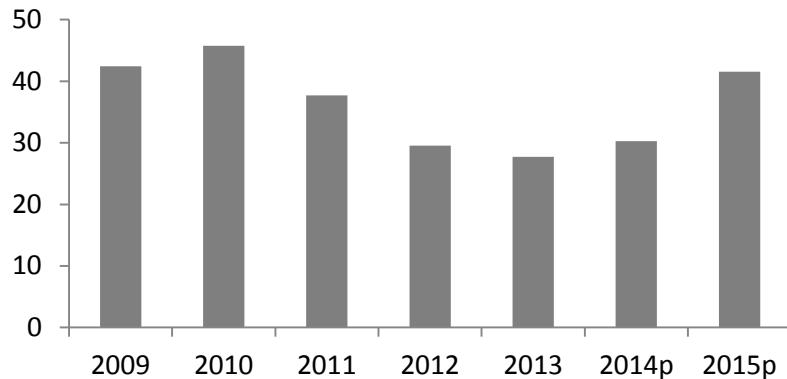
- Trends in resource exports and resource depletion
- Efforts in public sector reform
- Tourism and service sector growth
- Evolving aid relationships

Resource exports

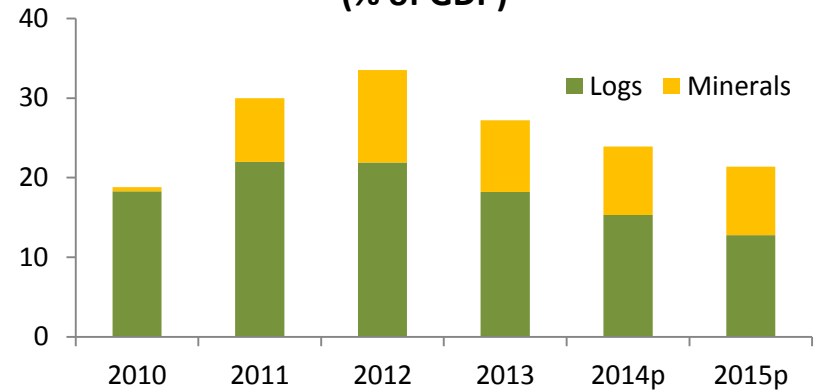
- Why a driver?
 - Energy & mineral exports: Primary exports of Timor-Leste, PNG, Solomon Islands, Fiji
 - Forests (Solomon Islands)
 - Fisheries (international common property): Kiribati, Marshall Islands, Tuvalu, Micronesia, Nauru, PNG, and most others
- Assessment of prospects
 - Global demand will continue despite increased exploration and extraction costs, sustainable/renewable extraction

Resource dependence

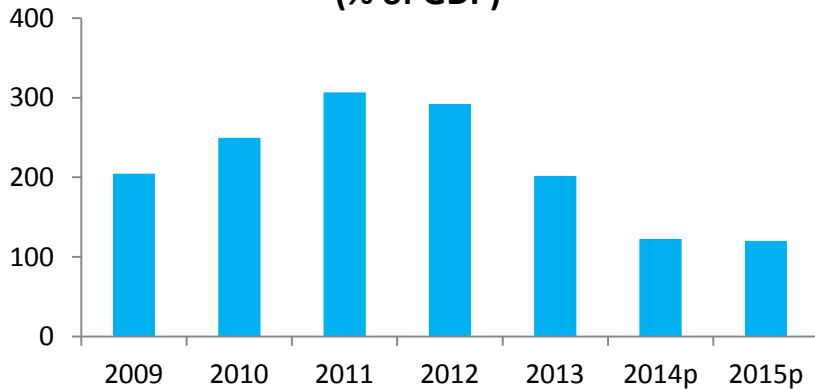
**Papua New Guinea: Mineral exports
(% of GDP)**



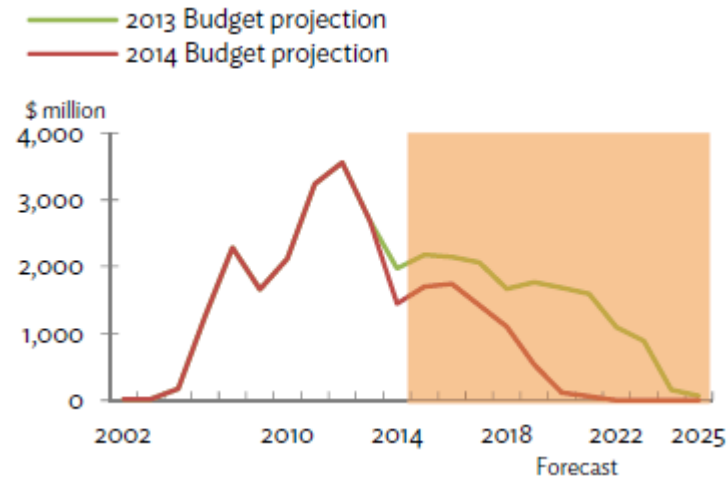
**Solomon Islands: Log & mineral exports
(% of GDP)**



**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



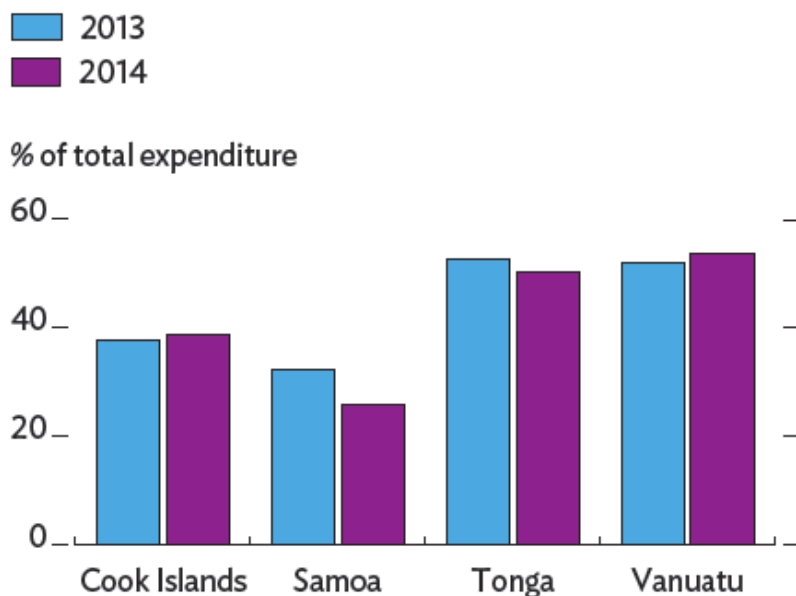
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- Policies to maximize benefits
 - Trust funds
 - Strengthened public financial management
 - Promoting value adding activities
 - Cooperative resource management to ensure sustainable extraction
 - Nauru agreement, reforestation, aquaculture

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

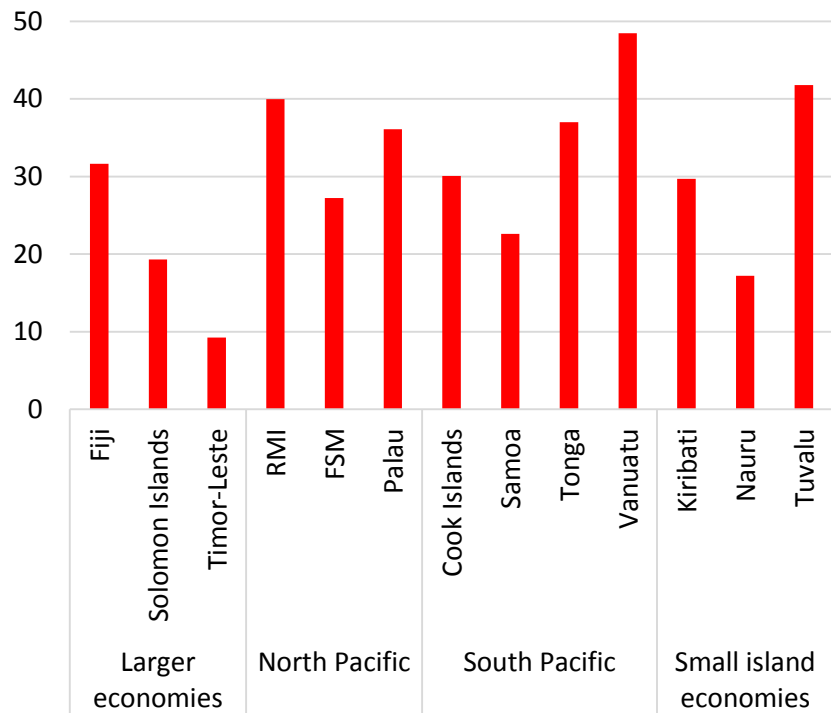
Subsidies and public wages



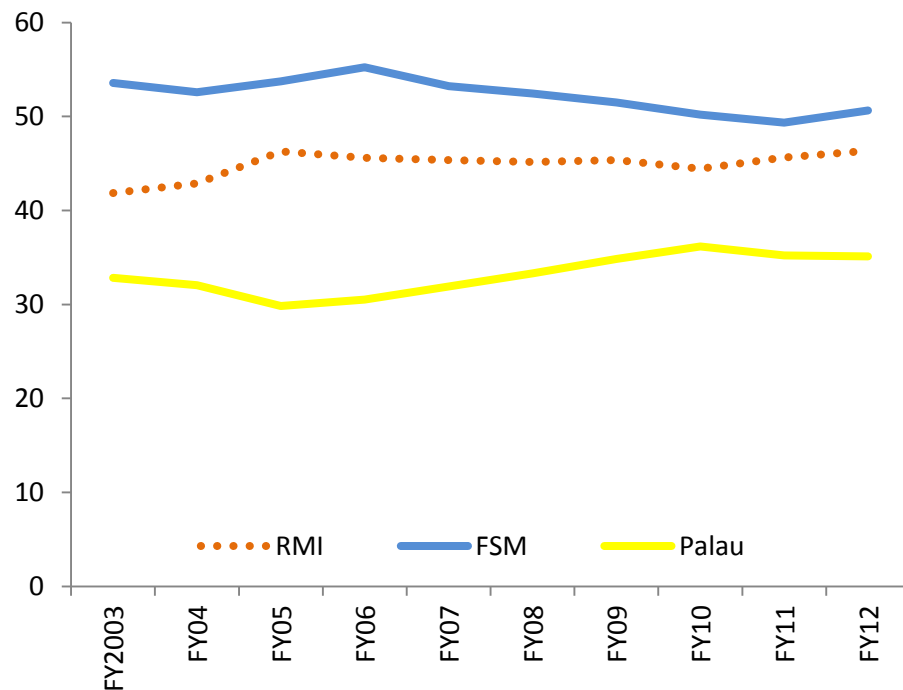
- Underperforming economies
- PFM reforms to minimize expenditure inefficiencies
- Broadening the revenue base through private sector development
 - SOE reforms to level playing field and foster competition
 - Business environment and regulatory reforms
- Fiscal space to build resilience to external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

Public sector wage bills

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



Public sector employment (% of total)



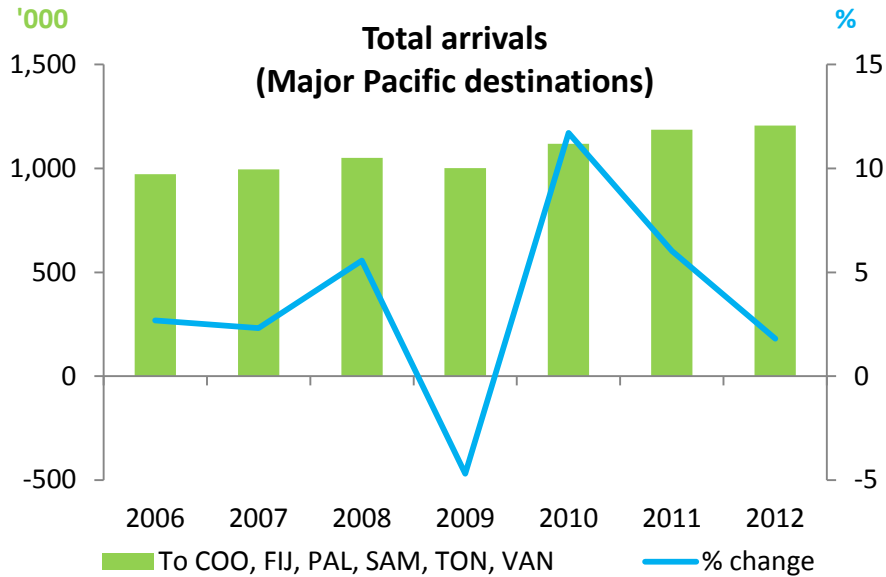


- Policies to maximize benefits
 - Medium term budgets and long run fiscal planning
 - Fiscal management modeling
 - Budget transparency
 - SOE reform, privatization, improved utility regulation
 - Human resource development

Tourism and service sector growth

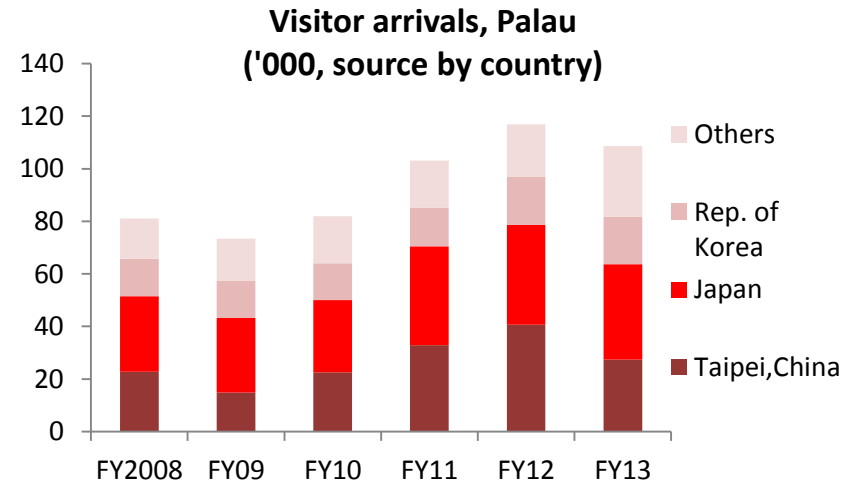
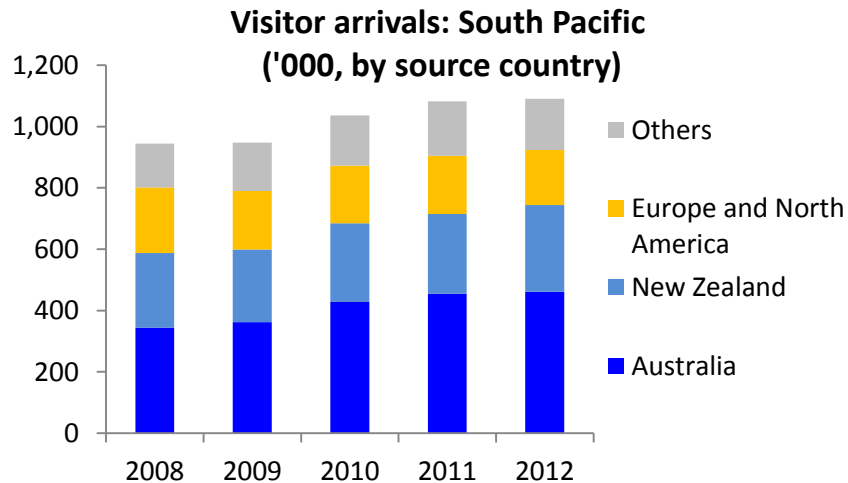
- Why a driver?
 - Area of comparative advantage, rising global demand: Largest sector in Cook Islands, Palau, Fiji, Vanuatu, Samoa, Tonga (potential in others)
- Assessment of prospects
 - Global demand rising rapidly driven by growth from Asia
 - Increasingly diverse markets, travelers seeking new 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?



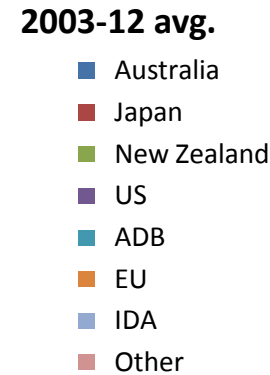
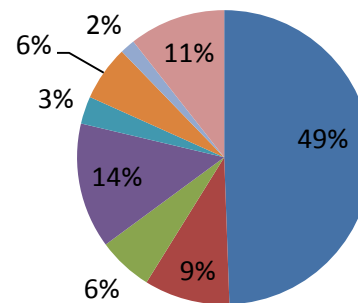
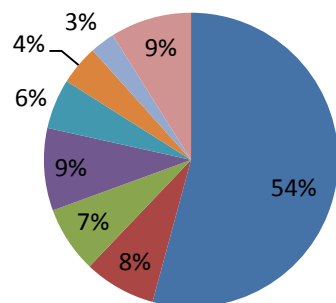
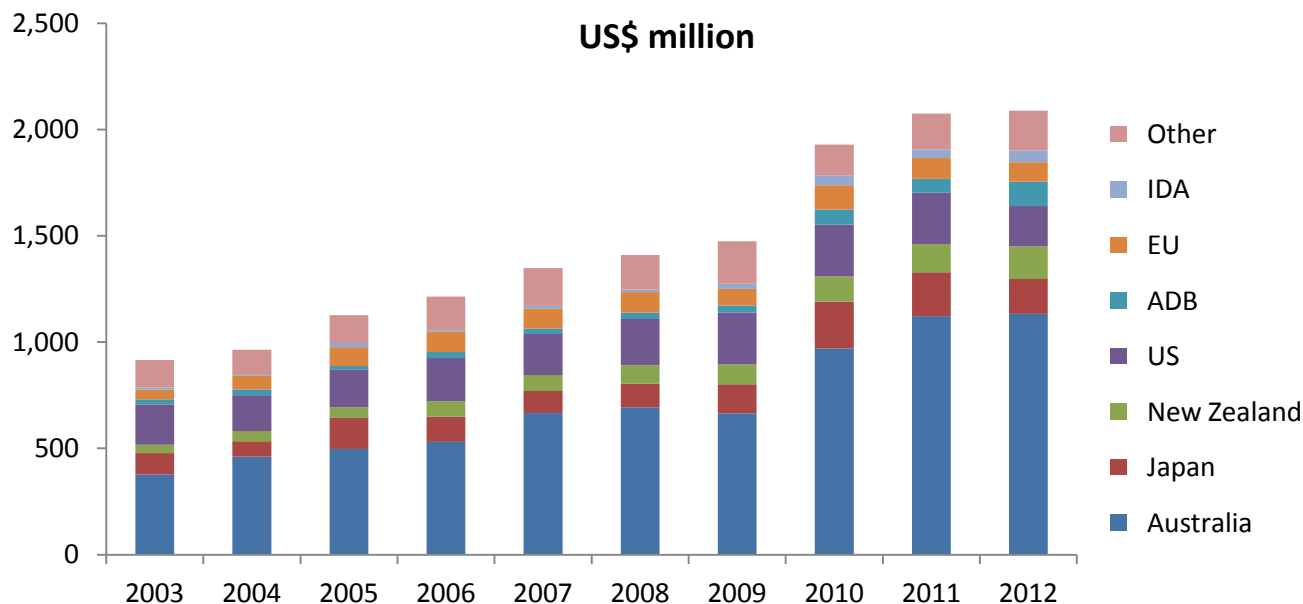
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- Policies to maximize benefits
 - Infrastructure development
 - Improved connectivity
 - Public goods component of tourism
 - Complementary developments to avoid enclave tourism
 - Local content, human resource development, cultural and environmental 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



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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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