

‘Pacific Futures’: The World Bank challenges conventional thinking on the Pacific island region



by Stephen Howes and Jonathan Pryke

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Yesterday Ferid Belhaj, World Bank Director for PNG, Timor-Leste and Pacific Islands and Vivek Suri, World Bank Lead Economist for the same region came to the ANU to present the new World Bank publication [Pacific Futures](#).

Stephen Howes and Jonathan Pryke summarise the report and presentation below.

The starting point for *Pacific Futures* is the recognition that the Pacific island region is different and should not be expected to follow a conventional growth path.

“Geographical factors limit Pacific Island Countries’ [PICs] capacity to follow the path taken by rapidly growing states.” Many countries in the region are simply too small and remote to follow the conventional development path to success through industrialization and exports.

This is not to say that the PICs have no advantages. The Bank identifies three:

- 1. Natural resource wealth and niche opportunities (including specialised tourism).** Low business costs are not a prerequisite for attracting investment when an economic rent can be earned from the exploitation of natural resources (including unique scenery) and the negative impacts of high costs of distance are less relevant. This is reflected in PICs historical heavy reliance on fisheries, minerals, forestry and tourism.
- 2. Remittances from their population living abroad.** With a scarcity of local employment opportunities, workers have demonstrated flexibility in moving to where jobs are located.
- 3. Aid.** PICs have been successful in leveraging their historical ties, strategic

locations, and close diplomatic relations with larger economies to access sustained and durable transfers of aid.

What are the implications of a natural resource/migration/aid-based strategy to development? *Pacific Futures* argues for a four-pronged approach:

1. Integrating to reduce the economic costs of distance

- Increased labour mobility
- Better transport and communication links
- Harmonising regulatory frameworks and services

2. Integrating to reduce the costs of providing public services

- Options for regional approaches include shared telecommunications and competition regulation, specialist financial management capacities (such as audit and tax assessment), and specialized health and education facilities.

3. Maximising gains from natural resource industries

- Extensive policy and regulatory reform, and institutional strengthening, are required to ensure better outcomes in PICs from natural resources.

4. Mainstreaming and maximising the benefits of aid.

- Providing sustainable donor financing for the establishment and operation of shared institutions.
- Increasing the use of budget support.
- Increasing the role of the private sector in delivering aid-financed goods and services.
- Using sustained capacity support rather than short-term capacity building in highly specialised areas with broad development impacts (for example, audit, taxation policy, or mining regulation).
- Ensuring climate change adaptation funds can be accessed and are well-utilised.

Not all of this analysis is new: some academics have long argued that remittances and aid were critical for island economies. Moreover, the Pacific island region is extremely diverse, and the Bank itself notes that its analysis applies much more to the smaller countries in the region than the larger. Overall, however, there is no

doubt that *Pacific Futures* not only challenges conventional wisdom about the Pacific, but in some cases turns it on its head.

What the Bank will do with its new ideas remains to be seen. The publication itself is labelled a draft “Discussion Note.” And Regional Director Ferid Belhaj stressed at the seminar the importance of consultation and experimentation. But Belhaj also suggested that now was the time to move from analysis to action, stating “we want to move from concept to reality, from concept to concrete steps.”

How Australia responds to these new ideas from the World Bank will be a lot more important than what the Bank itself does. We are after all the dominant power in the region. Are we prepared to accept that aid will be a permanent feature of the Pacific? (“Overall, international assistance of various kinds is likely to remain an enduring feature of Pacific Island economies for the foreseeable future.”) Will we open up our labour market to the Pacific? (To remove “barriers to increased flows of short and eventually, longer-term or permanent migrant workers to large markets”.) And are we willing to share our institutions with neighbours willing to adopt them? (“In some cases, more effective regional integration may arise from negotiating the expansion of larger country institutions to cover PIC economies.”)

The release of *Pacific Futures* by the World Bank is an important milestone. It deserves to be widely read and debated throughout the region.

Pacific Futures is available [here](#).

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