

2008 PACIFIC SURVEY

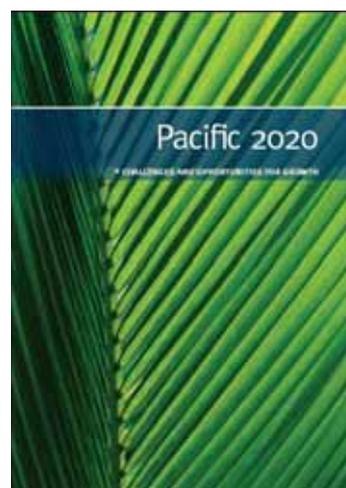
CONNECTING THE REGION

AusAID is building on the success of Pacific 2020 by producing an annual Pacific Survey.

Pacific 2020 provided a framework for analysing and debating the challenges and opportunities for growth in the Pacific and East Timor. The key message is that faster growth is possible.

An annual Survey will keep the issues current and focus the agenda. It will provide a round-up of developments in the region and deepen the analysis on growth by examining selected thematic issues each year.

AusAID's initial commitment will be to produce five annual Surveys (2008 – 2012).



This note introduces the concept of the Survey, outlines the issues to be covered and describes the management arrangements for producing the Survey. An earlier draft of this concept note was discussed by a Steering Group of eminent individuals from the Pacific region in May 2007 and was peer reviewed with other Australian Government agencies. This revised concept note reflects feedback from this process.

I. BACKGROUND

1. **There is strong agreement that economic growth is central to poverty reduction.** Unfortunately the growth performance of Pacific Island Countries has been weak and without a sustained acceleration of growth, the region will be unable to meet its pressing challenges. The strong message from Pacific 2020 is that higher growth is possible and there is broad agreement on the policy reforms necessary to support and sustain that growth.

2. **Pacific 2020 filled a gap in the market by providing a regional survey, but will quickly become outdated.** There is no comprehensive economic survey of the Pacific. The ANZ Bank produces regular macro-economic updates, while the World Bank and the Asian Development Bank provide some coverage of Pacific issues in their Asia-Pacific surveys. For example, the ADB produces comprehensive Pacific Island Economic Reports but these are at a country level and are not annual. The Pacific Economic Bulletin also provides regular country, but not regional surveys.

3. **The purpose of the Pacific Survey is to improve the debate around growth in the region** by strengthening the evidence base, sharing knowledge and providing a vehicle for policy dialogue. The 2008 Pacific Survey will analyse growth and policy performance in 2006 and 2007, identify key issues facing policy-makers and discuss the economic prospects

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for the region in 2008. Like the Pacific 2020 report, the analysis will include East Timor, reflecting the challenges they face as a small isolated nation and the economic concerns they share with other Pacific island countries.

4. **The target audience for the Survey is primarily policy makers** as well as those with an interest in growth policy and Pacific performance. By targeting a broad audience, the Survey is intended to complement the work of regional organisations and meetings, such as the Forum Economic Ministers Meeting, that focus largely on ministers and officials.

5. **This isn't going to be just another report.** The aim is to provide accessible and timely analysis for reforms that will help ordinary people. It aims to build on solid analysis, popularise debate, encourage peer review (through creative comparisons of performance) and focus the agenda for policy makers. Ultimately, we want to produce a "must-read" report that becomes essential reading for all those with an interest in the future of the Pacific.

II. PROPOSED ELEMENTS OF THE SURVEY

6. The Survey will comprise two main elements:

- *Analysis of Pacific performance* (one chapter, and a statistical annex) – Growth analysis will be at a regional rather than country level, but will draw on country lessons and experience. The aim will be to provide information and analysis that is as up-to-date as possible. This chapter will be prepared by AusAID and based on consultation across the region.
- *Research on thematic issues* (two chapters) – It would be neither possible nor desirable to repeat annually the wide-ranging analysis undertaken in Pacific 2020. Rather, each annual Survey will focus on a couple of topical and policy-relevant growth issues.

A. Analysis of Pacific Performance

7. **The world economy looks set for continued strong growth.** Performance in emerging Asia remains excellent and Africa has sustained 5 per cent growth in recent years. Moreover, the outlook has never been better: according to the World Bank extreme poverty could be eliminated in Asia by 2030 and be significantly reduced in Africa. Already, the total number of people living on less than a dollar a day has fallen below one billion.

8. **Overall, the Pacific is missing out on the global boom.** Pacific economies grew by 3.1 per cent in 2006, just above the rate of population growth and not much different from historical performance levels (Annex 1). Solomon Islands showed good growth but it is unclear yet how much of this goes beyond post-collapse bounce-back and aid inflows. PNG's growth of 3.7 per cent in 2006 is disappointing in the context of the current commodity boom. 2007 is expected to be somewhat better with forecast growth for the region at 4.7 per cent. This reflects slightly higher growth in PNG (up to 4.5 per cent) and, due to the re-entry of the UN and an expansion of oil production, a massive expansion in East Timor (32.1 per cent growth). No growth is projected for Tonga in 2007, and the Fijian economy is projected to contract following the impact of the December 2006 coup.

9. **Some countries, however, are doing better.** The recent performance of countries such as Samoa, Palau and Vanuatu bears out the Pacific 2020 conclusion that faster growth is possible. (See Annex 1). The sharing of lessons learnt can often be a key driver of change. The report will therefore provide creative comparisons of performance across the region, highlighting the key reform lessons and the impact of maturing reforms.

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10. **Part of the story will be to look at the impact of dramatic increase in recent years of commodity prices.** Perhaps of most significance for the Pacific has been the 3-fold increase in world oil prices since the early 2000s. Since the beginning of the decade, copper prices have increased four-fold, and nickel prices have increased 8-fold. There have also been large increases in palm oil, copra oil and sugar prices. These increases have had profound impact on the Pacific economies. Most island countries have seen sharp increases in energy imports. Papua New Guinea and East Timor, on the other hand are experiencing enormous boosts to national income and government revenue. The Survey will explore the implications for policy-makers of these changes.

11. **The Pacific Performance chapter will be in three parts:**

- *Growth performance* – The analysis of economic growth in the region will focus on 2006 and 2007 and will cover three sub-regions: Melanesia and East Timor, Micronesia and Polynesia.
- *Key issues* – What factors influenced growth in 2006 and 2007? These may change over the coming months, but key issues could include: i) good macroeconomic fundamentals, ii) high commodity prices, iii) progress in deregulation (e.g. aviation and telecoms), and iv) social unrest and political uncertainty in some countries.
- *Prospects* – Drawing on forecasts from the International Financial Institutions and countries themselves, the region's outlook for 2008 and 2009 will be examined. A discussion of longer-term prospects for the Pacific will invariably raise issues of climate change. The most recent assessment by the International Panel on Climate Change (IPCC) highlighted the special vulnerability of small island states, including to changed rainfall patterns and temperature increases, the potential for an increase in extreme weather events, and, in the longer term, rising sea levels.

B. Research on Thematic Issues: Connecting the Region

12. Pacific islands are among the remotest places on the planet. Our consultation has highlighted a critical need to address the challenges this raises. *Connecting the Region* will be the theme of the first Survey. The aim is to identify potential reforms that can deliver rapid and sustained benefits for ordinary people.

- Modern communication technologies offer the potential to bring people closer together, reducing the disadvantage of distance.
- Meanwhile, transport reform offers an opportunity to significantly reduce the costs of linking to markets, be it exporting goods or bringing in tourists.

13. Two chapters will look at how to connect people and international markets: one focusing on communication and the other (air and sea) transport. Each chapter will look at patterns and trends over the past few years, contrasting and comparing performance, and the policy lessons for expanding services, reducing costs and maximizing the impact on economic growth.

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Telecommunications

14. Telecommunications has shrunk the world, reducing costs and bringing people closer together. Mobile phones have the potential to accelerate growth in poor countries through improved linkages to markets, and the internet can deliver essential knowledge. Many countries are already seeing the benefits of reforms to support liberalisation and competition, which have driven the rapid expansion in telecom infrastructure. Privatisation and technological advances have boosted foreign direct investment:

- In developing countries, access to phones tripled (to 4 per 10 people) between 2000 and 2005. Meanwhile, there was a 4-fold increase in the number of internet users
- Africa has seen the world's most rapid growth in mobile phone use, more than tripling in the last five years. One in ten people now have a phone.
- Research from the London Business School estimates that an increase of 10 mobile phones per 100 people can raise economic growth by 0.6 per cent a year.

15. Pacific 2020 characterised the Pacific as missing out on the telecom revolution, but things may now be changing. In 2004, there were less than half a million phone subscribers in the Pacific as a whole. Three years later, the number is almost certainly much higher, PNG Telikom alone claims 500,000 mobile subscribers. Some countries have liberalised their telecommunications sectors. Samoa has experienced a five-fold increase in subscribers since the entry of Digicel last November. Several others have similar plans, including the largest market PNG, which expects to attract nearly 1 billion kina in foreign direct investment over the next five years.

16. A potentially rapidly changing sector raises several issues.

- *How fast is the telecommunications sector expanding and what more could countries do?* This will look at recent progress in introducing competition, encouraging private investors getting the regulatory issues (such as interconnectivity) right, dealing with political opposition to reform, and the impact of these reforms.
- *How much growth is possible?* If the Pacific could match other developing countries' growth experience, then nearly 1.5 million people could be connected by the end of the decade, including over 1 million mobile phone users. (One estimate is that penetration could reach 50 per cent over a three to five year period.) The Survey will consider whether such growth is plausible in the Pacific, taking account of differences between countries and sub-regions.
- *How can countries maximise the impact on growth?* This will consider how mobile phones can be used to create employment and expand pro-poor services, and the legal and regulatory policies needed to support this. Examples from other countries include: selling phone cards, renting mobile phones, phone banking (e.g. funds transfer and loan payments) and accessing information (e.g. prices).

Reducing Transport Costs

17. Aviation and shipping are vital services in the Pacific: providing critical links between markets. It is therefore a key sector for reducing the cost of doing business and encouraging trade and tourism growth. The analysis will focus on a few market-based reforms – such as encouraging low cost carriers and concessioning ports - that can address some of the binding constraints to growth and deliver some quick-wins. It is timely to share

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the lessons of aviation and shipping reform in the region and to identify and encourage further competition.

18. The chapter will focus on three questions:

- What are the direct and indirect costs of the aviation and shipping sectors?
- What are the market structures and how are they evolving? What has been the impact of recent market-based reforms?
- What are the key opportunities for expanding efficient services?

19. Rather than consider the two sectors separately, the chapter will consider these questions in three cross cutting areas: i) ports and airports, ii) flights and freight, and iii) reaching remote areas.

20. The section will draw on existing work on this sector in the Pacific, including the Pacific Regional Transport Analysis report prepared by the Centre for Asia Pacific Aviation and published by the ADB in December 2006. This ADB report is very thorough but may be too detailed to have a significant impact on regional policy makers. The ADB report includes case studies on a number of Pacific islands but not PNG and East Timor.

Ports and Airports

21. According to the ADB report on aviation, **there has been inadequate investment in aviation infrastructure, particularly regulatory support and airports**¹. A key challenge is to ensure aviation infrastructure, including airports and regulatory systems, is capable of supporting service improvement and development. For example, the transport of airfreight is hampered by the limited length of the runways at some Pacific airports. Pavement strength is also an issue which restricts the landing weight-load of aircraft.

22. Another ADB report on shipping looked at ports.² **The bulk of ports are publicly owned, although there are some private facilities dedicated to bulk exports.** There has been a trend towards private provision of stevedoring services. Although stevedoring charges are cheap by international standards, cargo handling productivity is low and this can mean delays for importers and exporters.

23. **The Survey will look at recent reforms** in the provision of port and airport services, focusing on examples of where contestability and private sector involvements have had an impact. In particular, the Survey will look at how governments can encourage more and better investment in ports and airports.

Flights and Freight

24. **The Pacific 2020 report identifies regular and competitively priced flights as essential to the growth of tourism in the Pacific.** While air and sea freight costs and capacity affect the competitiveness of a range of Pacific exports. Passenger airfares are also part of the cost of doing business in the region.

25. **In the aviation sector, some reforms have occurred in recent years.** However, barriers to competition remain while governments in several countries continue to subsidise inefficient

¹ Asian Development Bank (2006) Pacific Regional Transport Analysis, Report by Centre for Asia Pacific Aviation.

² Asian Development Bank (2007) Pacific Regional Transport Analysis, Report by Meyrick and Associates.

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national airlines. Some countries – such as Vanuatu and Samoa – have moved ahead to liberalise their air services arrangements to allow for entry of low-cost carriers. As a result, these countries saw significant expansions in visitor numbers as a result of reduced costs of air travel.

26. In the shipping sector, reforms are less obvious. Direct involvement in the provision of shipping services has been costly and failed to produce efficient and reliable services, although the Pacific Forum Line (PFL) is a partial exception. Regulation of entry continues to be a feature of the regional market, for example the Micronesian Shipping Commission. However, there has been a move away from direct services to hubbing - e.g. Auckland (for South Pacific) and Guam (for Micronesia).

Reaching Remote Areas

27. A key challenge for policy-makers is how to ensure the provision of aviation and shipping services to remote communities. Often this has involved direct public provision, but there are other options such as targeted subsidies. This section will look at the issues and challenges and suggest some solutions based on international experience.

IV. MANAGEMENT ARRANGEMENTS

A. Steering Group and Peer Review

28. A Steering Group of leading regional figures and senior AusAID officials is directing the 2008 Pacific Survey. A Working Group – comprising staff from the Pacific Growth Section and the Economics Thematic Group – is supporting the Pacific Survey process, acting as secretariat to the Steering Group, and will draft the report under their guidance. Consultants are being engaged to prepare background papers. There will also be an extensive peer review of the Survey involving other Australian Government departments, donors, and leading academics and experts on the region.

29. This proposed approach builds on the successful process adopted for Pacific 2020. The Survey is drawing on the Steering Group, the peer reviewers and our staff's extensive knowledge of the Pacific. AusAID will tap into a broad range of expertise within the Australian government and across the region.

30. Key points made by the Steering Group are:

- The Survey will need to be concise and readable with a focus on policy implementation.
- The Survey should promote learning from the experience of other countries. The results of maturing reform processes should be followed up.
- Statistics do not necessarily reflect community perceptions of economic development. The Survey should link reforms to basic questions of livelihoods and employment.
- AusAID should be mindful of differences in economic opportunities between countries and groups of countries. Expectations should be realistic about what is possible in small island states.
- Promotion of the Survey should begin early with discussions between Australian officials and relevant counterparts in government and other sectors well before the

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Survey is completed. Steering Group members are willing to help in the process of engaging with in-country counterparts.

- In a year with elections in many countries, promotion of the Survey could target political candidates as well as current representatives. It will be important to engage civil society organisations that can help hold governments to account. The younger generation of emerging leaders is also a potential target audience. Local media can be used to spread key messages from the Survey beyond government.
- The Survey should be promoted through a series of events in the region. The Pacific Islands Forum Secretariat can play an important role in hosting events to promote the Survey.

B. Consultation

31. **The preparation of the report will be an opportunity for discussion** with policy-makers and other stakeholders on the issues and challenges relating to growth – including the telecommunications, aviation and shipping sectors.

- AusAID will consult with policy-makers in-country on growth policy issues and prospects.
- Consultants preparing the background papers will meet with policy-makers and sector experts as part of their research.
- Formal peer-review and informal contact during the period of report preparation will enable access to expertise in other Australian government departments, as well as in universities, other donor organisations and elsewhere.

C. Communication

32. **Dissemination of the report will be as important as the report's production.** It is hoped that the 2008 Pacific Survey will become a “must read”: essential reading for all working on Pacific economic development issues, from politicians to bureaucrats to academics to NGOs. Achieving this aim requires two things: a compelling story and good communication.

33. The communication strategy will include the following elements:

- *Pre-publication activities.* The focus will be on raising awareness of this new product and will include developing a website to promote the concept and invite feedback.
- *Wide reporting of the launch of the report.* A regional launch - planned in early 2008 - should attract regional coverage. Further details will be made available via our website nearer the time.
- *Wide dissemination of the report* at the time of the launch to leading financial and economic journalists in Australia and the region.
- *Workshops.* There will be a series of Australian and regional workshops – some in conjunction with PEB, some organised by AusAID. These workshops will also provide opportunities for media interviews.

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D. Timetable

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Dissemination										
Launch										
Publication										
Final report										
Discussion of findings										
Research and analysis										

34. AusAID plans to launch the report in early 2008.

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ANNEX 1: PACIFIC PERFORMANCE: SOME GOOD PERFORMERS, BUT STILL MISSING THE GLOBAL BOOM

	Gross Domestic Product (per cent change)			Inflation (per cent)		Current Account Balance (per cent of GDP)	
	2005	2006	2007	2006	2007	2006	2007
Melanesia and East Timor							
Papua New Guinea	3.3	3.7	4.5	3.1	3.0	14.2	7.9
Fiji	0.5	3.4	-2.3	2.5	3.0	-24.4	-12.6
East Timor	2.3	-1.6	32.1	4.2	5.0	123.5	167.3
Solomon Islands	5.0	5.3	5.0	8.2	8.0	-15.8	-15.9
Vanuatu	6.1	5.5	4.7	1.6	2.5	-8.8	-7.7
Polynesia							
Cook Islands	2.2	1.8	3.2	3.3	2.8	15.2	14.9
Samoa	5.2	4.6	3.1	3.8	3.6	-6.5	-5.2
Tonga	2.3	1.9	0.0	7.2	10.0	-4.2	-3.4
Tuvalu	2.0	3.0	2.5	3.8	3.0	...	...
Micronesia							
Kiribati	3.6	0.9	...	1.5	2.5	4.7	...
Marshall Islands, Rep. of	1.1	3.0	3.5	4.3	2.4	4.8	...
Micronesia, Fed. States of	1.5	-0.7	1.0	3.0	3.0	...	...
Nauru	...	...	...	...	...	...	...
Palau	5.5	5.7	5.5	4.4	3.9	2.5	...
Comparators							
Pacific	2.5	3.1	4.5	3.3	3.5	-2.0	-1.2
Emerging Asia	...	8.9	8.4	3.7	3.7	5.42	5.7
Caribbean	...	8.3	5.4	8.0	5.7	2.1	1.7
Africa	...	5.5	6.3	9.5	10.7	2.2	0.1

Source: ADB Asian Development Outlook (2007), IMF World Economic Outlook (2007), IMF Regional Economic Outlook (2006)

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ANNEX 2: DOING BUSINESS: EASY TO EXPORT?

	Trading across borders (rank)	Time to export (Days)	Cost to export (US\$ per container)
Kiribati	31	11	1,300
Solomon Islands	34	15	805
Micronesia	40	...	...
PNG	52	30	584
Samoa	62	15	1,120
Palau	66	20	860
Marshall Islands	90	...	...
Vanuatu	120	12	1,565
Comparators			
New Zealand	12	8	355
Australia	23	9	795

Source: World Bank Doing Business

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ANNEX 3: CONTRIBUTORS TO THE PACIFIC SURVEY

Steering Committee Composition

A Steering Group of leading regional figures from government, the private sector and civil society and senior AusAID officials will direct the Pacific Survey.

Judith Robinson (Chair)	Assistant Director General, Pacific Group
Stephen Howes	Chief Economist, AusAID
Makurita Baaro	Consultant and former Cabinet Secretary, Kiribati
Brown Bai	Chairman, Rural Industries Council, PNG
Peter Forau	Deputy Secretary General, Pacific Islands Forum Secretariat
Joao Cancio C. Freitas	Manager Australian Development Scholarships, and former Director Centre for Applied Research and Policy Studies, Dili Institute of Technology, East Timor
Rhoda Moses	Interim Executive Officer, Leadership Papua New Guinea Inc.
Odo Tevi	Governor, Reserve Bank of Vanuatu
Mishka Tuifua	Managing Director Westpac Bank of Tonga and Chair Tonga Public Service Commission
Ratu Sakiusa Tuisolia	Consultant, businessman and former CEO of Airports Fiji Ltd.

Other individuals may be invited to join the Steering Group for at a later stage to ensure appropriate country and sector representation.

Steering Group meetings are also attended by members of the AusAID working group and representatives from the East Timor and PNG programs.

Peer Review

The Pacific Survey will have comprehensive peer review, drawing on expertise in the region as well as within donor agencies, the IFIs and the Australian Government.

An earlier draft of this Concept Note was subject to a peer review by relevant AusAID advisers and staff and by representatives of the Department of Foreign Affairs and Trade and Treasury.