

The Pacific Economic Governance Agencies'
Seminar Series (*PEGASeS*)

**UN-ESCAP Economic and Social Survey of Asia
and the Pacific 2010:
Pacific Performance and Challenges**

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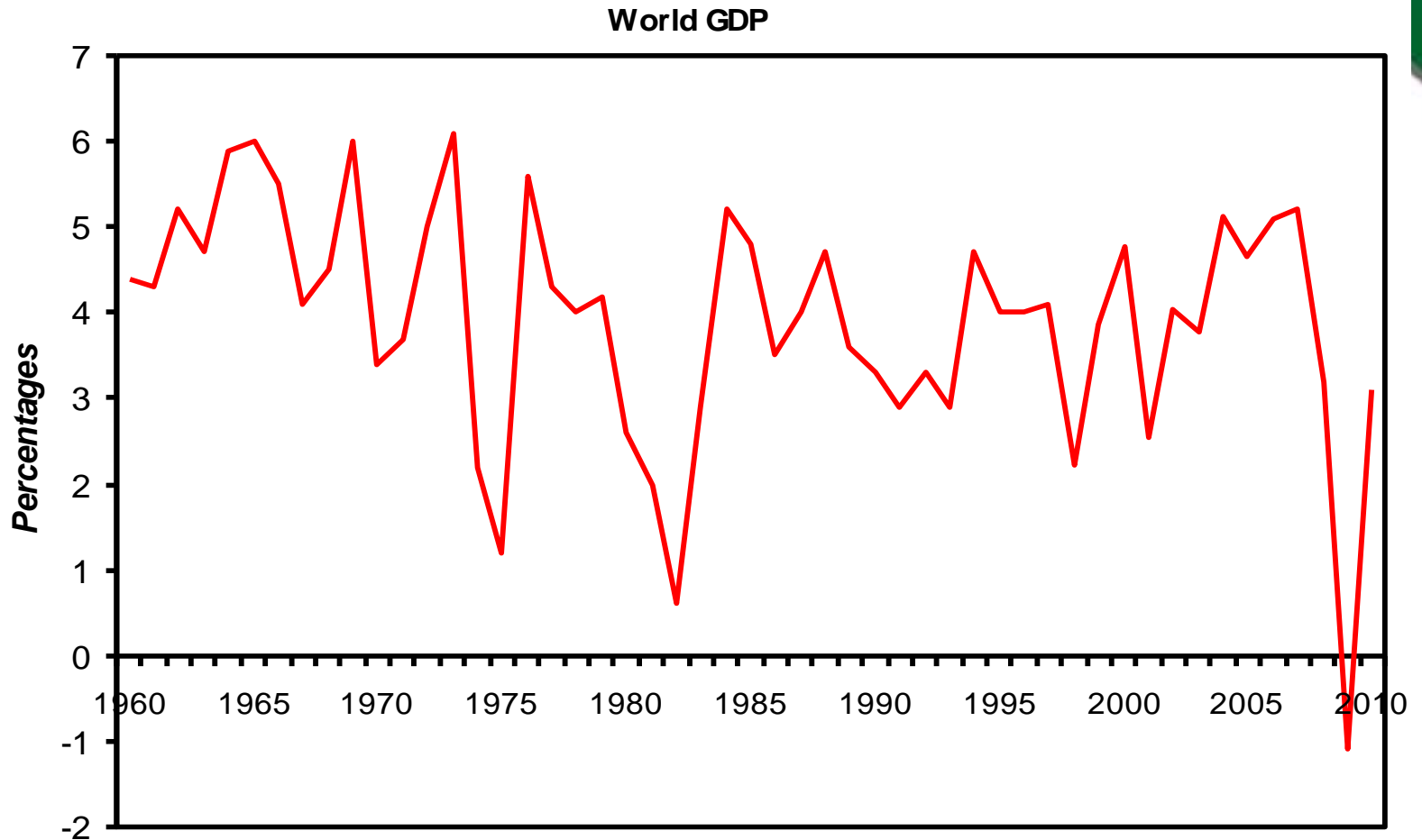
United Nations Economic and Social Commission for Asia
and the Pacific

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**ECONOMIC
AND
SOCIAL
SURVEY
OF
ASIA
AND
THE PACIFIC
2010**

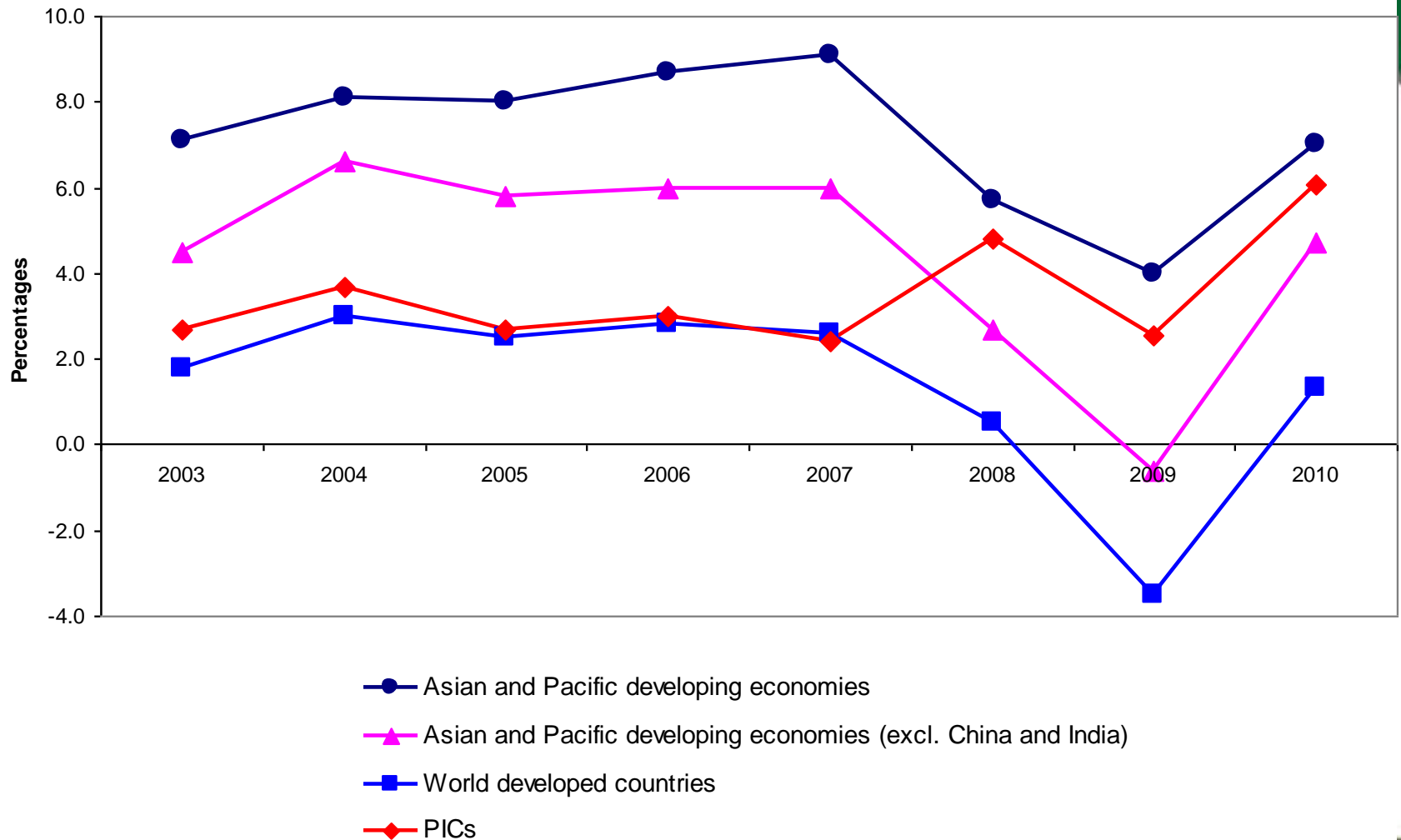
**SUSTAINING
RECOVERY AND DYNAMISM
FOR INCLUSIVE DEVELOPMENT**

A deep crisis with world economy contracting for the first time in modern history



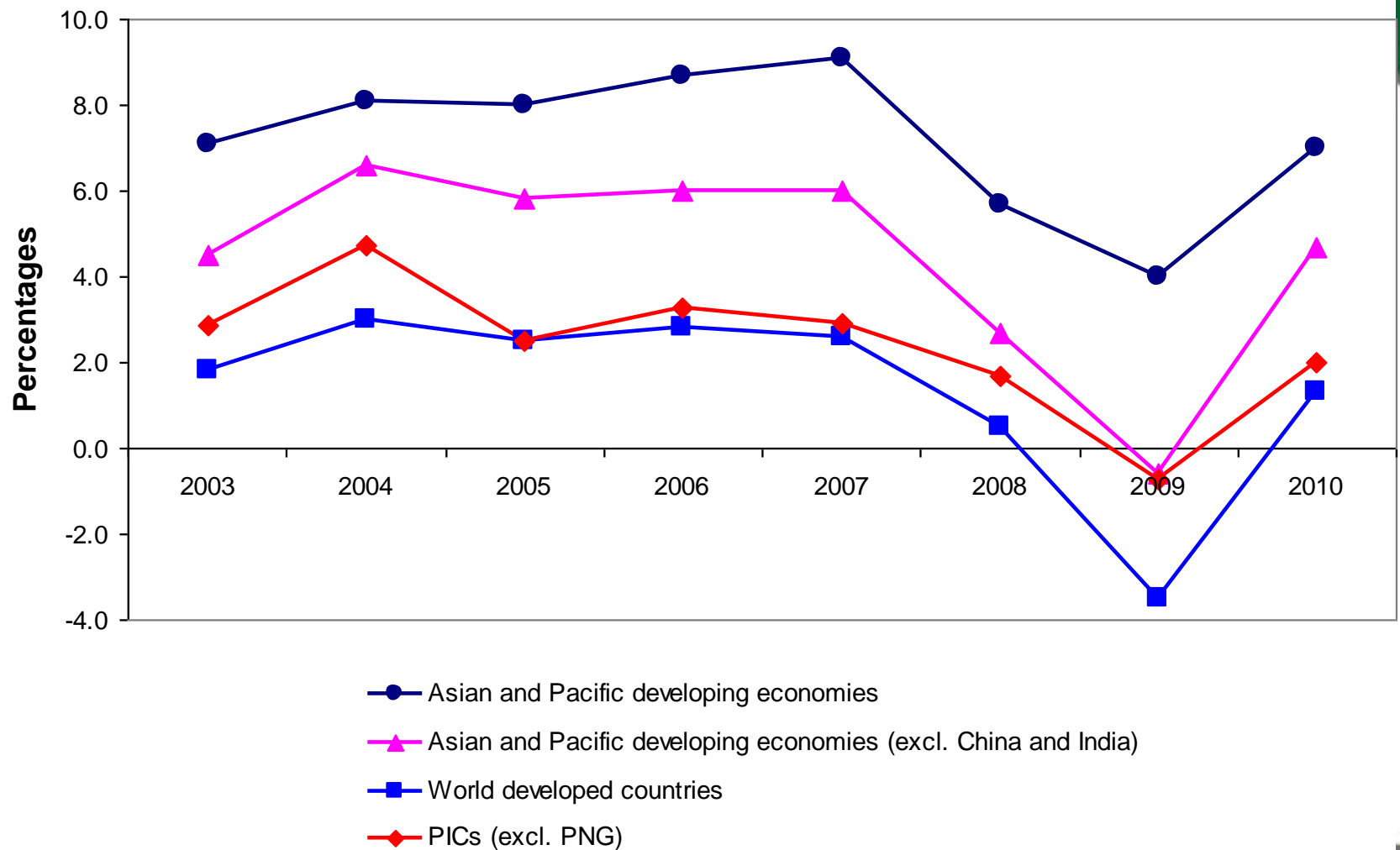
A synchronized crisis...

Economic growth in Asia-Pacific led by China and India.



A synchronized crisis...

Economic growth in Asia-Pacific led by China and India.



Outlook for PICs – economic growth

	2008	2009	2010
Australia	2.3	1.2	2.4
Cook Islands	-1.2	-0.1	0.8
Fiji	-0.1	-2.5	1.9
Kiribati	3.4	1.5	0.8
Marshall Islands (the)	-2.0	0.5	0.5
Micronesia (Federated States of)	-1.0	0.5	0.5
Nauru	1.0	1.0	2.0
New Zealand	-0.5	-0.5	1.8
Palau	-1.0	-3.0	-1.0
Papua New Guinea	6.7	4.5	8.5
Samoa	-4.9	-0.8	0.5
Solomon Islands	6.9	0.4	2.4
Tonga	1.2	0.4	0.4
Tuvalu	1.5	1.0	1.6
Vanuatu	6.6	3.0	4.6
Developing ESCAP economies	5.7	4.0	7.0

Impact of GEC on Pacific countries

- **A varying degree of impact on PICs:**
 - ▶ recession in Fiji, Samoa, Cook Islands and Palau
 - ▶ deceleration in PNG and Vanuatu
 - ▶ stagnation in remaining PICs.
- Reduction in export demand of main trading partners affecting growth
- Reduction in arrivals from Australia, NZ and other developed countries affecting the local tourism industry
- Commodity price fluctuations with renewed signs of food and fuel crisis benefiting some (Aus, PNG) while hurting others
 - Falling remittances through falling employment - Samoa and Tonga the most vulnerable
 - Loss of value in off-shore trust funds for some countries (Kiribati, Marshall Islands, FSM, Palau, and Tuvalu) – although the asset prices have started to bounce back.

Varied growth among commodity exporters

-	2008	2009	2010
Papua New Guinea	6.7	4.5	8.5

- Papua New Guinea – commodity boom
 - healthy foreign exchange reserves and domestic bank liquidity resulting from the commodity boom years
 - In 2009 economy was supported by Government spending on infrastructure as well as lending to the private sector
 - Further support came from gold, which has remained at a record high in reaction to economic uncertainty
 - positive outcome of the commodity boom has been the gains in formal employment in recent years.

Solomon Islands

	2008	2009	2010
Solomon Islands	6.9	0.4	2.4

- Strong growth in 2006-8
- 2009 saw log exports plunge by 40% as demand from China collapsed
- Logging at pre-2009 levels is some 5 times the sustainable rate
- Exports could continue to decline from 2010 as islands are logged out. There could be virtually no logging by 2014.

- *Hit hard:*
 - *tourism- and remittance-dependent economies*

Fiji

	2008	2009	2010
Fiji	-0.1	-2.5	1.9

- 2009 performance dominated by:
 - Severe flooding resulting, in part, in lower tourism arrivals and reduced earnings from sugar exports.
- Sugar also affected by decline in EU preferential price and continuing poor performance of the sugar mills
- EU sugar price declined by 36% over the 3 years to October 2009
- 20% devaluation in April 2009 partly offset the EU sugar price decline and restored competitiveness in the tourism sector.

Palau

	2008	2009	2010
Palau	-1.0	-3.0	-1.0

- 2008 saw a 10.1% fall in tourist arrivals
- In 2009, tourist arrivals fell a further 11.1%
 - closure of a charter flight operator from Taiwan;
 - declines in tourists from crisis-struck countries notably Japan and Republic of Korea.

Vanuatu

	2008	2009	2010
Vanuatu	6.6	3.0	4.6

- Vanuatu weathered the global economic downturn thanks to strong growth in tourism
- Services sector, dominated by tourism but also including real estate and offshore financial services, is around 77% of GDP
- Strong tourism growth is attributed to reform of the air transport and telecommunications sectors, and diversion from other PICs.

Samoa and Tonga

-	<u>2008</u>	<u>2009</u>	<u>2010</u>
Samoa	-4.9	-0.8	0.5
Tonga	1.2	0.4	0.4

- Highly reliant on remittances, also struck by devastating tsunami in Sept 2009
- Main factors affecting growth have been:
 - lower remittances
 - job losses at the automobile wire harness factory
 - Losses in tourism from the tsunami, but rehab is positively affecting growth
- Tonga – still struggling to recover from sharp fall in commerce and tourism in 2006. Reconstruction of Nuku'alofa will provide a much needed stimulus.

Dependence on public sector in small atoll countries

- Kiribati – public sector contributes half of GDP and 2/3 of paid employment. Half of national income from external sources – fishing licence fees, remittances, ODA, and revenue from offshore investment
- Tuvalu – similar economic structure; fiscal strain due to sharp falls in value of the Trust Fund but mitigated by Australia and NZ assistance
- RMI and FSM. Little growth in 2009 and 2010; heavy dependence on US Compact grants (worth 25% of GDP in FSM, and 64% of revenue and grants in RMI).

Outlook for PICs - inflation

	2008	2009	2010
Australia	4.4	1.8	2.5
Cook Islands	7.8	6.5	6.3
Fiji	7.7	3.7	3.4
Kiribati	18.6	6.6	5.9
Marshall Islands (the)	17.5	9.6	5.9
Micronesia (Federated States of)	6.8	2.9	7.4
Nauru	4.5	1.8	2.3
New Zealand	4.0	2.1	2.0
Palau	12.0	5.2	6.7
Papua New Guinea	10.6	6.9	7.1
Samoa	11.5	6.1	6.9
Solomon Islands	17.2	8.0	7.0
Tonga	10.4	1.6	1.9
Tuvalu	5.3	3.8	3.5
Vanuatu	4.8	4.5	5.0

External sector affected by volatilities in commodity prices, tourism and remittances

Current Account as % GDP	2007	2008	2009
Australia	-6.3	-4.4	-3.8
Fiji	-14.0	-18.6	-8.7
Kiribati	-1.0	-0.9	-3.1
New Zealand	-8.1	-8.9	-6.1
Papua New Guinea	1.8	2.8	-6.7
Samoa	-8.4	-12.4	-16.4
Solomon Islands	-12.4	-18.7	-11.1
Tonga	-8.5	-9.0	-6.5
Vanuatu	-5.9	-7.4	-6.0

Challenges

- The global economic crisis has presented a huge challenge to PIC governments and their people.

Policy responses in the Pacific

- The room for fiscal stimulus in PICs is very limited due to inadequate capacity to borrow funds and limited government revenues:
 - ▶ Samoa's fiscal stimulus package focused on infrastructure, relying on donor grants. Tsunami increased the need for financial resources
 - ▶ Fiji's reduction in government revenue in 1st half 2009 led to a cutback in expenditure. Access to donor funding and borrowing difficult
 - ▶ Tonga's infrastructure expenditure funded by concessional loans from China and donor funding
- Monetary policy tools have been used in Fiji, Solomon Islands, Samoa and Vanuatu. Countries which use the US dollar (Palau, the Marshall Islands, the Federated States of Micronesia) or Australian dollar (Kiribati, Nauru and Tuvalu) as legal tender are not able to run an independent monetary policy:
 - ▶ Interest rate setting is not an efficient monetary tool due to underdeveloped money markets which make demand for credit unresponsive
 - ▶ Instead, expansion of money supply used in Fiji, Samoa, Solomon Islands, and Vanuatu
 - ▶ Commercial banks have been encouraged to lend in Fiji and Solomon Islands.

Policy responses in the Pacific (cont'd)

- **Targeted assistance for the vulnerable:**
 - ▶ Fiji - removal of duties and VAT on key consumer goods, increased income tax threshold, subsidies for bus operators, free bus tickets for school children
 - ▶ Tonga – removal of import duties on some food items and on fuel for domestic shipping and air transport
 - ▶ PNG – reduced tax on fuel to provide relief from higher prices
- **Competitive devaluation:**
 - ▶ Fiji devalued its currency by 20% in April 2009 which helped its export and tourism and increased the value of foreign remittances in local currency, but also led to higher inflation
- **PACIFIC COUNTRIES HAVE LIMITED POLICY TOOLS TO TACKLE THE EXOGENOUS ECONOMIC SHOCKS**

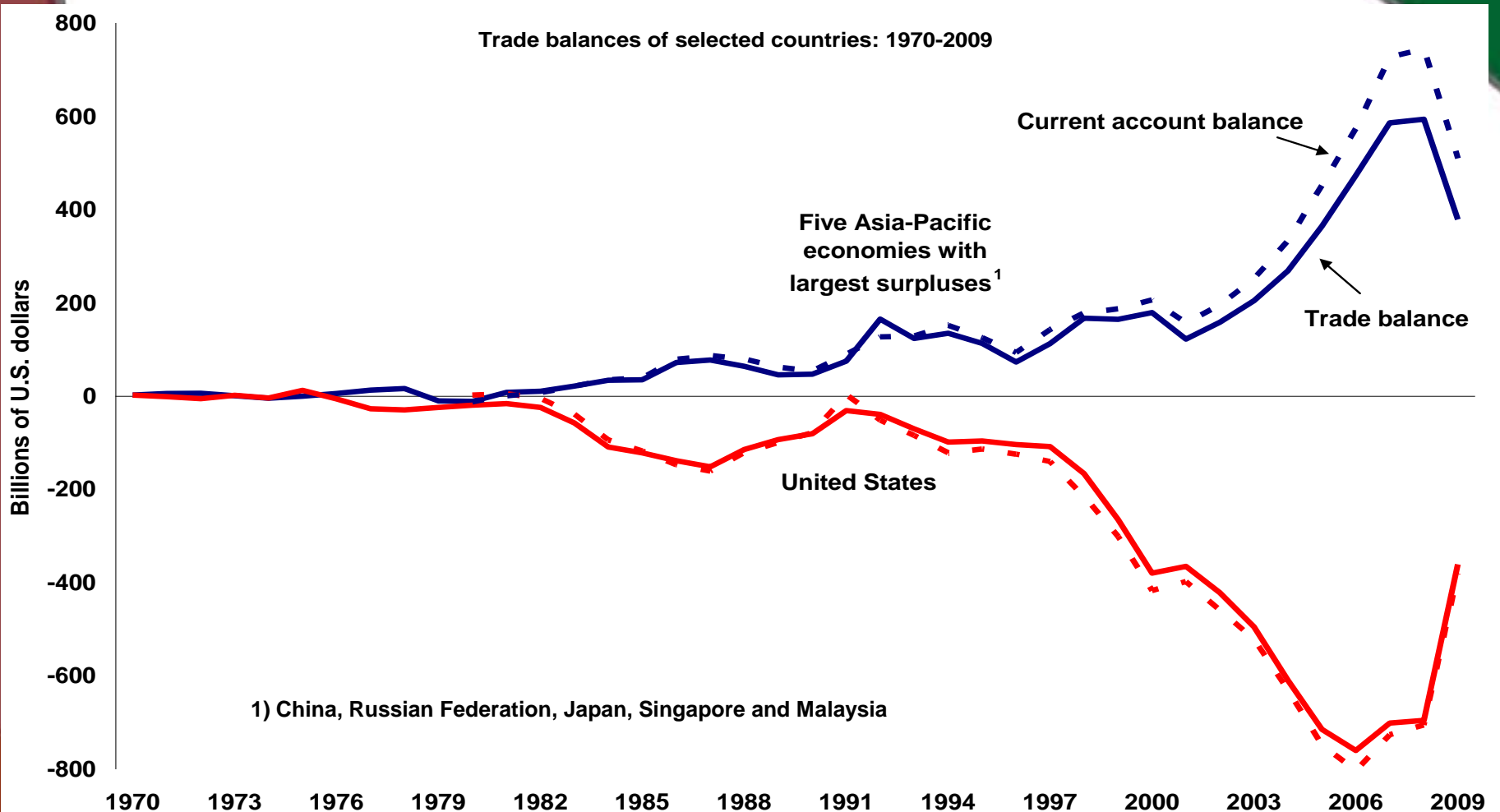
Downside risks for GDP growth

- Renewed food and fuel crisis: rising commodity prices may put upward pressure on inflation, while rising import bills may run down foreign exchange reserves
- The risk of premature withdrawal of fiscal stimulus and consequent “double dip” in rich economies may hit the region hard
- Rise of protectionist pressures in recession hit developed countries
- Continued vulnerability of PICs to frequent natural disasters and climate change.

The crisis exposed underlying global and regional structural imbalances that built up over decades

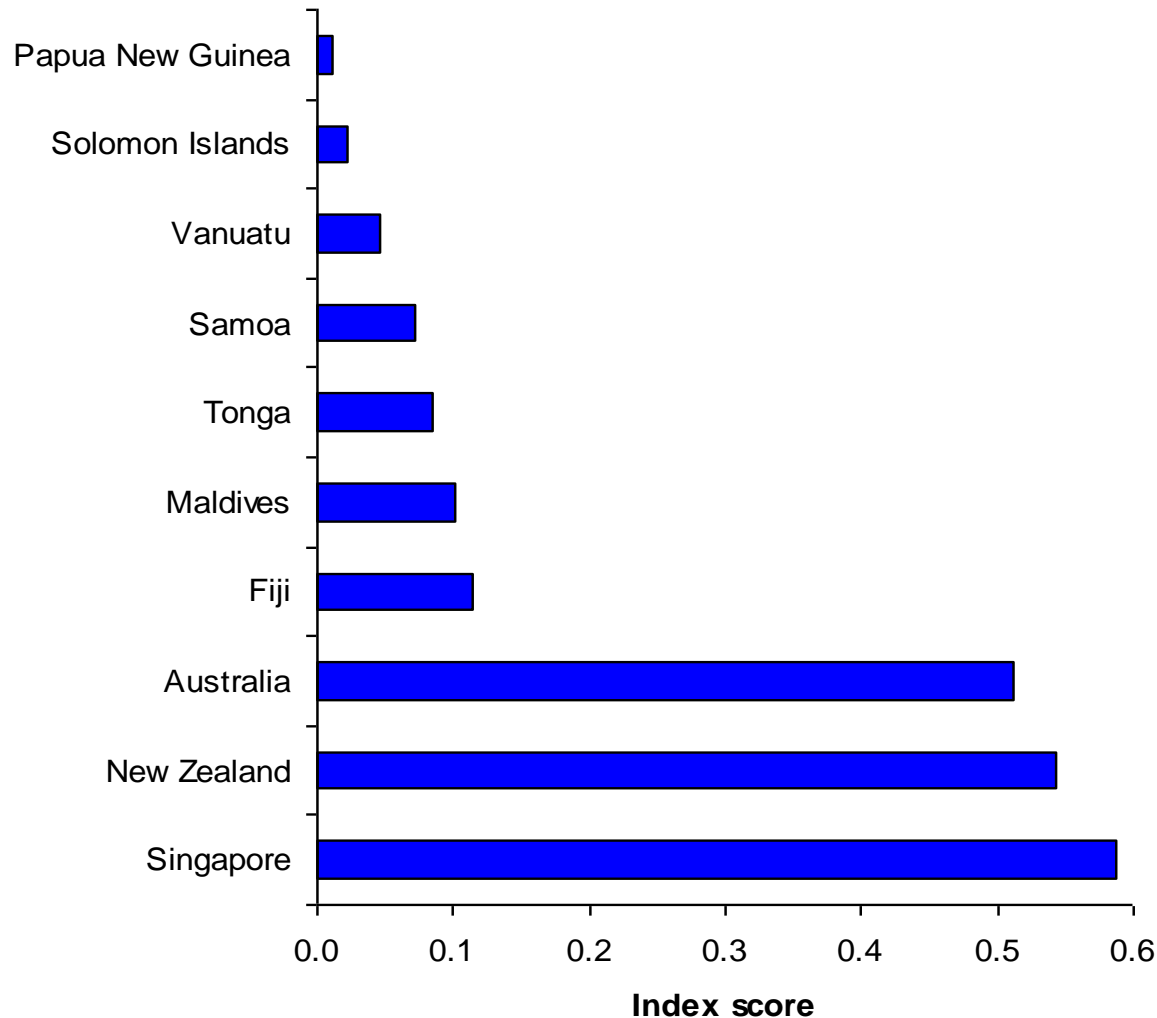
- **Macroeconomic imbalances:**
 - ▶ large trade and current account surpluses in Asian countries financing consumption and investment in the US
 - ▶ Pacific region stands to benefit from rebalancing of Asian growth towards domestic consumption (e.g. tourism)
- **Socio-economic imbalances and development gaps:**
 - ▶ uneven socioeconomic development with still 950 million people in the region living on less than US\$ 1.25 a day
 - ▶ large gaps in infrastructure development between countries
- **Growing ecological imbalances:**
 - ▶ deforestation, increased risk of water stress, unsustainable energy use and a rapid growth in carbon emissions.

Macroeconomic imbalances – Asian trade surpluses and American trade deficits



Continuing wide development gaps

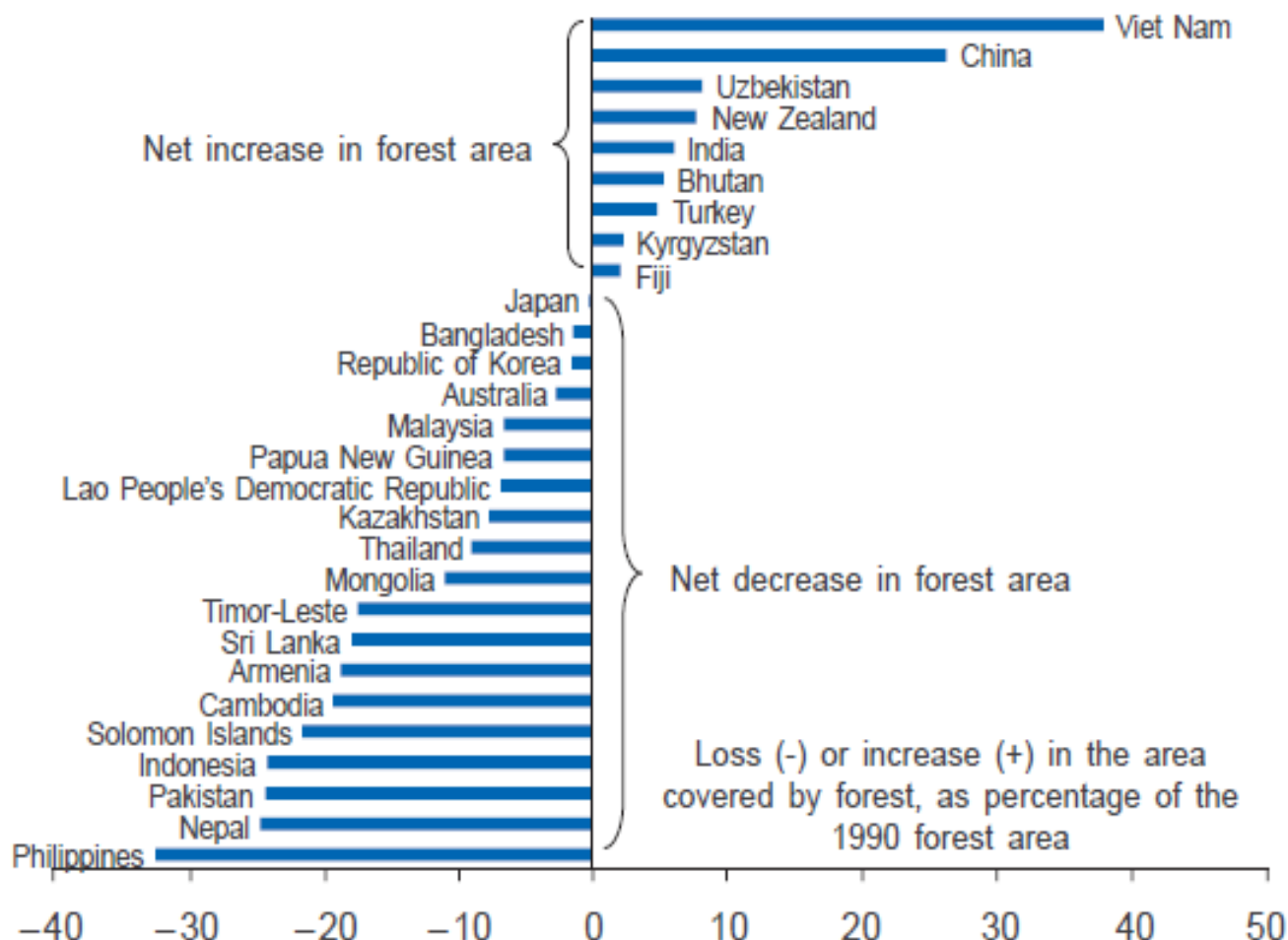
Infrastructure Composite Scores in Asia-Pacific, 2007



An attempt to narrow the considerable gaps in the levels of infrastructure development between more developed countries and the poorest countries in the region provides an avenue for generating additional aggregate demand while making growth more inclusive.

Ecological imbalances

Net loss or increase in forest area between 1990 and 2005



Notes: Forest is determined both by the presence of trees and the absence of other predominant land uses. The trees should reach a minimum height of 5 metres (m) in situ. Areas under reforestation that have not yet reached but are expected to reach a canopy cover of 10% and a tree height of 5 m are included, as are temporarily unstocked areas, resulting from human intervention or natural causes, which are expected to regenerate.

Source: ESCAP, based on data from United Nations Statistical Division, *Millennium Development Goals Database*.

A five pronged regional policy agenda for inclusive and sustainable growth

- 1. Strengthening social protection**
- 2. Promoting agricultural and rural development: fostering a second green revolution**
- 3. Supporting new engines of growth: green innovations**
- 4. Enhancing financial inclusion**
- 5. Evolving a regional framework for cooperative action.**

Evolving a regional framework for cooperative action

- Evolving a broader framework for regional economic integration
- Developing regional transportation networks and improving trade facilitation
- Strengthening ICT connectivity
- Developing a regional financial architecture for crisis management and narrowing the development gaps.

Vinaka vakalevu

Electronic copies of the *Survey* are available at
<http://www.unescap.org/survey2010>