

GLOBAL ECONOMIC CRISIS AND OPPORTUNITIES IN THE PACIFIC

By Ajay Chhibber

In their concluding statement after the Pacific Islands Forum meeting in Cairns, Pacific leaders declared a new determination to lift the development performance of the region.

"There is an urgent need for effective policy measures and practical responses in alleviating the adverse effects of the global economic crisis", the Forum communique said.

Coming from Pacific islands leaders, this was a timely and reassuring statement. Experience of Asia and other regions suggests that with strong political will and shared regional commitment, the stated objective of "building economic resilience in the Pacific" is achievable.

Unlike many Asian countries which have had at least a decade of strong economic growth, Pacific islands countries do not have the same ability to cushion the impact of the economic crisis. Some Pacific Islands countries such as Papua New Guinea, Vanuatu, Samoa and the Solomon Islands have benefitted from high growth over the period 2003-2008.

But this growth needs to be sustained through better resource management and improved policies. In fact, not only in terms of per capita income but also on broader measures of human development, Pacific islands are lagging behind the countries confronting similar development constraints.

Even where growth is occurring, the full benefits are not translating into improved human development outcomes because of ineffective delivery of services. Better governance and more effective implementation of government programmes and aid are needed.

Comparison between human development trends in three most populous Pacific nations (Papua New Guinea, Solomon Islands and Fiji) and three landlocked Asian countries (Bhutan, Laos and Mongolia) helps to illustrate this argument.

Bhutan and Laos have similar population sizes with Fiji and PNG respectively and, less than a generation ago were among most impoverished countries in the world.

As the chart shows, since then, the two landlocked nations achieved strong improvements in their Human Development Index (HDI)—a composite measure of opportunities for education, healthcare, income and gender empowerment.

Having in 1991 lower HDI than any of the Pacific countries, by 2009 both countries have

overtaken PNG and Solomon Islands and seem to be on track for more progress in the years to come.

Mongolia, one of the poorest countries in the former communist bloc, has successfully managed the challenges of its transition period and nowadays enjoys a level of human development comparable to that of Fiji.

The story of strong human development advancement in Bhutan, Laos and Mongolia suggests that there is nothing inevitable about anaemic human development trajectories.

It is clear that countries that have a strong human development track record are those that address structural problems and prioritise expenditure towards the most crucial objectives, particularly those around basic health, education,

With limited macroeconomic policy options, most Pacific countries will need to seriously consider structural reforms as their best choice to deal with the impacts of the economic crisis.

A drive towards reform that targets improvements to economic efficiency and the effectiveness of budget expenditure could yield significant benefits.

The creation of a better private sector environment for small and micro-enterprises would help to offset the job losses and declines in remittances that are resulting from the global downturn.

Strengthening aid effectiveness should also be high on the list of priority strategies for governments.

Further, as for Asia, it is even more critical that the crisis be seen as an opportunity to reset the Pacific towards environmentally sustainable, "clean and green" growth.

The demonstrated improvements in growth rates, incomes and progress towards MDG targets shown by many Pacific islands countries before the onset of the current crisis provides confidence that, given appropriate policy responses, the region can emerge from its current downturn and get on the path to sustained recovery.

Global trends and recent data suggesting that the recession may be easing show Asia emerging progressively as a global center of economic gravity.

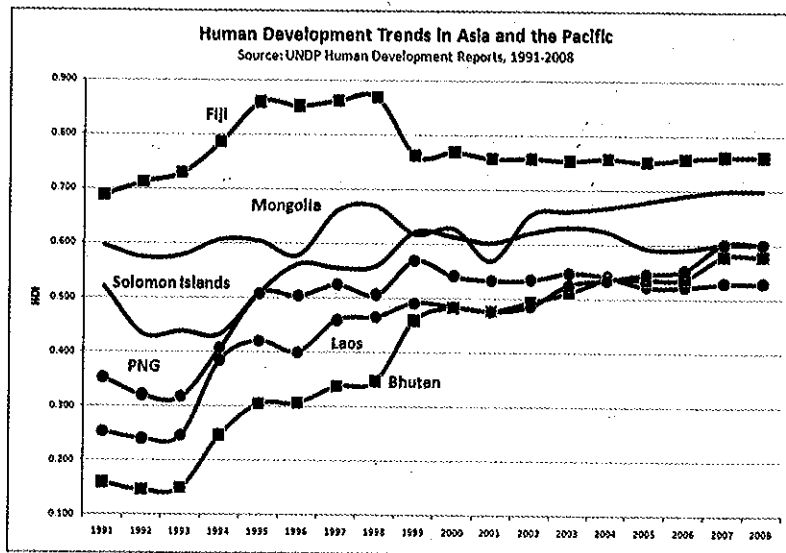
Due to their proximity and the potential for strengthening of ties with Asia, the Pacific can only benefit from this trend.

Australia and New Zealand, with which Pacific economies have close links, also play a key role as one of the most significant trading partners for the Pacific and an important source provider for Asian countries.

The Pacific islands countries must now look at ways to exploit these opportunities and it is encouraging to see that the leaders have committed stronger action.

Pacific-UN conference on the Global Economic Crisis and its Human Development Impacts, to be hosted by Vanuatu in February 2010, will support that action by enabling debate about specific policy solutions tailored to the needs of the Pacific countries and taking into account best practices from within and outside of the region. [E]

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law and order and the maintenance of national economic infrastructure.

No doubt their proximity to very rapidly growing large Asian economies has been a benefit. Bhutan has benefited from aid from India and its very long-term power contracts. But it has used aid very wisely and effectively.

Laos has also benefitted from being between rapidly growing China and South-East Asia, and Mongolia has also seen benefits from its links with China and Russia.

But all these countries have made sizeable and effective social investments as well. Such investments, accompanied by strong partnership between governments, civil society and the private sector, would help secure Millennium Development Goals (MDGs) and reduce the risk of conflict.

Policy responses will also need to be grounded in gender equality and a human rights perspective to ensure that women as well as men can benefit from employment creation and investments in social infrastructure.