

A VISION FOR THE PACIFIC ISLANDS IN THE 21ST CENTURY

AND

SOME CHALLENGES FOR PACIFIC ISLAND LEADERS

Good afternoon.

This afternoon I want to concentrate on the Pacific Island countries themselves. You have been invited here for this program because you are seen as being the future leaders of this region. You more than any other generation of your people can influence the fundamentals that the Pacific region will operate with over the next 30 – 40 years.

The world is currently undergoing a once in a generation economic boom, largely driven by China. Commodity prices are soaring, and global markets are at record levels.

These factors are driving investment, particularly into resource rich countries of which there are several in our region.

Are the Pacific Island countries getting their fair share of new investment?
And if not, what can they do to create an environment where investors are prepared to put their money?

Some things are hard or impossible to change:-

Where your country happens to be located, its proximity to local markets, abundance of natural resources, whether it has a strong domestic base on which to leverage.

But one thing that all countries can do is to create a welcoming and investor friendly environment supported by strong and good political governance.

Today, I want to challenge you to address some significant issues that profoundly affect the way business is conducted in the region, but before I do, I would like to do a little vision setting and make some suggestions on what the Pacific could look like in 30 or 40 years time.

Let's first look at what we have today. The Pacific, which with a bit of poetic license, stretches from East Timor in the west to French Polynesia in the East and covers the broad groupings of Melanesia, Polynesia and Micronesia to the north. The Pacific Islands are spread over about a third of the planet. Apart from PNG (with a population of nearly 6m), it is made up of dozens of small island states. While the Melanesian countries have vast natural resources, which are scarcer in the other countries, all countries, including the relatively wealthy French territories rely on aid or handouts to balance their books.

The countries closest to Australia have earned the dubious distinction of being part of the Arc of Instability. The independent countries are only 30 – 40 years old. Outside the French territories, which receive assistance from Paris, their economies struggle, wealth is spread unevenly and human resource indicators are unfavourable. Their isolation and small scale bring obstacles to the sort of growth that they need to provide jobs for burgeoning populations with sustained high birth rates.

There is no doubt that Pacific Island countries have enormous obstacles to overcome, but it is possible for them to do a lot better and I believe that with good leadership, they can all markedly improve their standard of living and build an environment that caters for all their people and where opportunities for their citizens are comparable with other parts of the world.

I am a strong believer in setting goals, or if you like painting a vision of where we would like to be if we considered ourselves successful. We know where we are now, but what could things look like in 30 or 40 years time?

We could set ourselves goals around just about anything. What sort of society do we want to live in? What is important to us? Is it lifting our standard of living? Do we include health indicators, wealth, education, mix of population? How important is maintaining our unique cultures?

If it were up to me, I would aim for a peaceful region, where opportunities like

education and health care are available to everyone, where jobs or access to them are available for all school leavers, where a larger proportion of the population is in the formal sector, including viable agriculture in the provinces. Where aid is redundant, but instead, the island states are part of an integrated regional economic zone where skill transfers in and out of the countries is normal and expected.

My vision of this integrated regional economic zone which would include Australia and New Zealand, would be like an expanded CER such as currently exists between Australia and New Zealand.

In my vision, this integrated regional economic zone features free movement of goods, people and other services, harmonised and integrated customs and quarantine standards and possibly co-ordinated fiscal policy. Somewhere out there in my vision I see perhaps the evolution of a common currency and maybe even the Pacific Islands Forum would evolve into a Pacific regional parliament.

Can this vision be realised? I believe that it can. But you, as the next generation of leaders, will help determine whether or not it turns into reality.

It is highly unlikely that when the European Coal and Steel Community (ECSC) was established by six European countries in 1951, that it was foreseen how a European Economic Community would evolve over fifty years.

While a Pacific Economic Community would clearly be much smaller and different to the EU, there can be no doubt that a vision for such an economic community, including Australia and New Zealand, to evolve over the next 30 to fifty years will produce a better outcome than the aid relationship of the last thirty years.

But before this happens, many things need to change, the challenges that I set out today are not exhaustive, but are important and will make a difference to what our future holds for all of us. Indeed if the Pacific Island countries want to change the relationship between Australia, New Zealand and other donor countries, then these challenges need to be met and a start needs to be made now.

1. Governance.

The first challenge that I want to discuss is governance. Governance can relate to the corporate sector or how countries are run or political governance. Good corporate governance flows out of good political governance.

Speaking to the United Nations in New York on 16 th September 2005, the Prime Minister of Australia, Mr. Howard, said:

“Genuine and sustained poverty alleviation will only occur in an environment of good governance, private

sector growth and respect for private property ownership.”

What do we mean by good political governance?

The background paper for the recent Pacific 20/20 project written by Cedric Saldanha gives a definition of political governance essentially being about managing the state, establishing a practice of accountability to the people, and promoting a sense of nationhood. It includes the process of electing leaders to office, the interface between the political and bureaucratic arms of government, the strength of oversight bodies such as judiciary and the ombudsman and the role of civil society in influencing the quality of governance.

There have been suggestions that the local culture inhibits good governance in the Pacific and that the processes pushed by donor countries do not take into account the cultural norms of local traditions.

At the Prime Minister’s Summit on Corporate Governance held in Fiji last year, the Fiji Prime Minister Mr Qarase stated of the region:-

“In the South Pacific various models of authority and governance, usually centred on hierarchical and communal social structures, sustained societies for some three thousand years.

When independence came, mostly in the 1970's, the former colonies were faced with huge challenges in conceiving democratic, constitutional governments and spurring development.

Democracy was an unknown creature, at odds with the traditional ways. Development under colonialism had been minimal.

All of this, produced by the cycles of culture and history, is about corporate governance in its widest and universal sense – people coming together and working together for a common purpose. This is often to do with self-interest or a particular objective. It also relates to the overall betterment of society and national ambition”.

Dr. John Carver, a US expert on governance, put it more simply when he said:-

“Like good traffic laws, (corporate governance codes) can impose rules of the road such as stop signs, traffic signals and speed limits. But even the best traffic laws do not produce excellent drivers”.

In the Pacific, Samoa is generally recognised as being at the forefront of reform and good political governance and I'd like to draw on a few quotes from a lecture given by Hon.Misa Telefoni Retzlaff, Deputy Prime Minister and then Minister of Finance for Samoa, at Georgetown University in 2002.

“Good governance in any country, is only as good as the weakest link, in any of its component parts.

The success of any good governance is directly related to a nation's leaders level of integrity.

This can only be achieved if the socio-political situation of the country is conducive to producing leaders of integrity. If the seeds of corruption are endemic in a society, it will take time and strong resolution to assert a new culture of honesty.

Strong leaders in a country can overcome the governance problems created by weak systems, but the strongest systems can be completely undermined when the leaders are dishonest.

Accountability and transparency are greatly encouraged by leaders of integrity. The reason is quite simple: being honest, they have nothing to fear from complete and full disclosure, for it always confirms their honesty.”

The reason that governance, both political and corporate is so important is the effect it has on the ability of a country to attract investment, particularly foreign direct investment (FDI). Generally, the Pacific struggles with this aspect. Persistent instability in some countries, weak parliaments and governments, corruption and the failure or inability of civil society to challenge wrongdoings have resulted in limited investment and growth.

A recent McKinsey survey in the US showed that investors will in fact pay a premium averaging about 11% to invest in a country or company with good corporate governance. Obviously these are long term investors looking for value stocks, not your quick raiders in search of fast growth, but frankly, those long term investors are the only ones worth having in a developing country faced with a sometimes volatile market.

On the flipside, the survey also showed that investors often demand a premium when investing in countries with a poor record of corporate governance.

Most fund managers, when assessing the possibility of investment in countries, such as Fiji, look first at political risk and then at the context for investment: workable exchange requirements and a legal and regulatory environment which not only encourages their involvement, but keeps their investment targets honest. (Address by Ted Kunkel to PM's Summit on Corporate Governance – Fiji 2005).

If the Pacific Island countries are to take their place as part of an integrated regional economic zone then a significant improvement in political and corporate governance needs to take place.

2. Management v. Leadership

The next challenge is about management and leadership. There is a big difference between management and leadership. Management

is about getting predictable results by overseeing the efforts of others, usually through previously laid down and accepted standards or rules.

Leadership on the other hand, is about vision setting, direction and alignment of resources to achieve out performance.

In my day-to day working life, I see a lot of management, some good, some not so good, but it is less common to see outstanding leadership. So how do you go about being a good leader?

Some people say that leaders are born not made, but I think that we can all learn to be good leaders. It entails being able to get onto the balcony rather than mixing it on the dance floor. Being able to see the business or organisation in its component parts, see what others are doing, what are the trends, strengths, weaknesses etc.

It means setting goals, making hard decisions about what needs to change. Perhaps it is the direction of the business or organisation, maybe it is the key people or systems and processes.

It is also about aligning your resources to achieve these goals. It is about putting in human resource systems that support an environment where your most important asset, your people feel motivated to help you achieve the optimal outcomes.

Sir James Gobbo former Governor of Victoria once said “... *that ultimate success in community leadership will only be achieved if it stimulates participation by others who*

are also to be seen as in their own way, leaders and not merely helpers”.

3. Equal opportunity

The third challenge is about creating equal opportunity. What I mean by this is, that more people in the Pacific need to share in the wealth and growth opportunities that development has brought to the region.

There is clear evidence in the Pacific Islands that not everyone is benefiting from the boom in mineral prices or the growth in tourism. By their nature these industries tend to be located in specific areas and many of the landowners have struck good deals and many jobs have been created in those areas.

However, governments have had little success in providing services to people outside of these “wealthier” areas. Things like disposable income, education, roads and healthcare have not improved at the same rate and indeed in many countries have gone backwards.

It is obvious that much of the instability and discontent has started and been fed by uneducated people in the outlying disadvantaged areas of Pacific Island countries. Washington Sy Sip, a prominent Philippino lawyer said to me many years ago *“that if you want to avoid instability, you need to get the average GDP up over USD2,000. Only when people have a vested interest in the status quo, are they reluctant to cause insurrection or violent uprising.”*

People in these disadvantaged areas are not interested in sophisticated government policies or international trade, they just want a better life and to share in the prosperity that they often see in other parts of their countries.

This is one of the reasons that people have flooded into cities like Port Moresby and Suva causing huge social problems.

Putting effort into improving the lot of people in outlying areas will pave the way for more stability and subsequent growth and prosperity.

4. Labour markets

One of the biggest challenges for any Pacific country is job creation. All countries in the region are growing their populations at a higher rate than they are growing their job markets.

There are a some things that can be done. Attracting more foreign investment, but this will be easier once all the fundamentals are right. Looking at setting up industries that do not require subsidies or large tax concessions. For example, the recent growth of back office processing companies in Fiji has much more potential than the textile, clothing and footwear factories that started up after the 1987 coup and which require tax concessions and tariff protection from Australia and other countries. While these industries helped for a decade or so, WTO requirements and the emergence of cheap labour from China has seen them go into decline.

Industries like back office processing, on the other hand, take advantage of Fiji's geographical position, time zone and abundance of well educated school leavers.

However, even if Pacific countries do a lot better in job creation, they will still have difficulties in placing all the school leavers that they are producing.

Opening up labour markets in the region, including those of Australia and New Zealand seems the only way that Pacific countries will ever be able to cope without incurring massive social dislocation.

There has been much said about Pacific guest workers in Australia and I strongly believe that this needs to be considered and a plan drawn up for at least a trial. Australia has a shortage of skilled and unskilled workers particularly in the agricultural and mining sectors. Conversely the Pacific Island countries have a youth bulge and large unemployment. The resulting jobs and remittances would do much to improve the lot of Pacific Island countries.

Remittances have always been important in the Polynesian countries, but now Fiji has joined them with remittances now second to tourism as an export earner. It is estimated that total cash remittances to Pacific Island countries could be as high as USD500m pa and this does not include other forms of remittances such as second hand clothing and other goods.

At the same time Pacific Island countries should be doing all they can to retain

or attract skilled workers in the region. This includes recruiting former islanders who have sought their fortune overseas and expatriates. There is a mistaken belief in the islands about expatriates' effect on labour markets, but expatriates don't take jobs, they create them and there is empirical evidence to support this.

5. Resources

My last challenge today is about resources. Proper management of resources is essential if Pacific Island countries are going to attract investment and build sustainable growth. The Melanesian countries in particular, have an abundance of natural resources, minerals and forestry and most countries have significant fish resources in their vast sovereign waters. In addition there is huge potential for agricultural expansion.

All of these industries require a rethink on how land is utilised in the region. There are some who deplore anything that will dilute the unique cultures of various Pacific islands, but if the people of the region are going to share in growth and receive a fair share of the rewards of living in a prosperous economy, then thought needs to be given to serious land reform.

The recently published *Pacific 20/20* study usefully examines this problem.

Much of the land in the Pacific being used for commercial development is Government held or customary land made available under a formal registration and lease system. In some countries like Fiji and the Cook Islands where leasehold land is well documented and there is a history of recourse, the land can be pledged as security and/or developed, but in other countries, the leasehold situation is not clear and/or unable to be exercised. Many small, usually indigenous owned businesses find it difficult to secure borrowing against their land. Often the land is communally owned which is a barrier to pledging it as security. This is particularly so in PNG and the Solomons, where many projects have run into trouble. Having said that, there are many examples in the mining sector, where problems have been minimal and landowners have reaped substantial royalty payments.

While there are some success stories, most of the available land in the Pacific Island countries is under-utilised and significant economic benefit remains to be unlocked.

Ratu Sir Lala Sukuna, that great Fijian statesman, said in 1936 – “ *If other communities are poor, then we too remain poor: if they prosper, we also will prosper.*

But if we obstruct people from using our lands, following the laggards, there will be no prosperity. Strife will overtake us and before we realise the position, we will be faced with a situation beyond our control and certainly not to our liking.

I have stressed it once and I will do so again. We the leaders must take guard

on two points, restrain the hasty and inspire the weak”.

Have we listened to his wise words. None of these things will happen if we leave the Pacific as a living museum.

While opening up under-utilised land is essential for growth and to share wealth more evenly, there needs to be careful management of resources in the region. They are not infinite and a balance needs to be achieved so that they last for the benefit of future generations.

Summary

In summary, if we in the Pacific, are going to live the sort of lives that we aspire to, then these challenges need to be met. In 30 or 40 years time, many other developing countries and regions will have moved on. Some won't have. Which group do we want to be in?

I invite you to share my vision, to think beyond the present and far into the future and above all, to take your countries on the ride toward s a happy and peaceful life with a standard of living comparable to first world countries, in a region where health care is a right not a privilege, jobs are plentiful for our children because we are in full economic partnership with our

former colonial masters, Australia and New Zealand.

The choice is yours. What are you going to do differently when you return from this program?

Vinaka vaka levu.